

Royal London Independent Governance Committee

Annual Report 2023
At a glance



At a glance

As Chair of the Royal London Independent Governance Committee (IGC) I am pleased to present our 2023 report. This 'At a glance' section summarises our assessment of how Royal London performed against our value for money principles (contained in Appendix 1 of the full 2023 report). We also assess Royal London's environmental, social and governance (ESG) policies, referred to by Royal London as 'responsible investment and stewardship' policies – for further information please see page 18 of the full 2023 report.

If the IGC has significant concerns around the value for money being delivered, we can raise these with the Royal London Board. Should the IGC be dissatisfied with the response, there are several escalation options available, including reporting issues to the Financial Conduct Authority (FCA) or contacting customers or employers directly. No material concerns requiring escalation were identified in 2023.

We will continue to monitor the value being provided to all Workplace Pension and Investment Pathways customers and follow up on the commitments which Royal London has made to review and improve value, where appropriate.

Value for money

The IGC independently assesses the value for money that Royal London provides to its Workplace Pension and Investment Pathways customers. We receive regular reporting from Royal London and consider how Royal London is performing relative to other providers via a Comparison Study. Our value for money assessment focuses on three core factors:



Costs and charges



Investment performance



Customer service

We also assess Royal London's policies on responsible investment and stewardship.

Taking these factors into account, I can report that:

- the IGC is satisfied Royal London is providing value for money to Workplace Pension customers who are in its modern pension

product, known as Retirement Solutions. This covers nearly 98% of all Workplace Pension customers.

- it is less clear cut whether value is being provided to some longstanding Workplace Pension customers. Charges for these customers tend to be higher with more limited investment and service options available compared with Retirement Solutions. However, some contracts have valuable additional benefits and the lower charge products seen in the market may not be accessible by these schemes due to their small size. Royal London has now upgraded a number of these contracts to Retirement Solutions, and the upgrade project continues.
- the Investment Pathways proposition offers value for money to customers overall when we consider charges, investment and the quality of the service being provided. It may however be possible for customers with smaller pots to obtain a lower charge elsewhere in the market.
- the IGC is satisfied with Royal London's policies on responsible investment and stewardship.

Peter Dorward

Chair of the Royal London
Independent Governance Committee



Costs and charges

Workplace Pensions	2022	2023
Value for money principle		
Appropriate ongoing charges	●	●
Balanced charging	●	●
Fair exit charges	●	●

Investment Pathways	2022	2023
Value for money principle		
Appropriate ongoing charges	●	●
Balanced charging	●	●
Fair exit charges	●	●

The IGC rates Royal London against our value for money principles using the following criteria:

- Measures which have been delivered within an agreed range, where our expectations in terms of quality and delivery have been met in key areas.
- Delivery against our agreed measures is not as anticipated or the expected quality has not been achieved in some key areas. We have agreed with Royal London the actions and timelines to achieve a green rating (or future performance is expected to achieve a green rating).
- Areas in which we have provided a material challenge to Royal London (via its Board) and have been unable to agree a way forward.



- When we assess the overall value for money of charges, we take Royal London's ProfitShare scheme into account, as this can be considered as offsetting a portion of the charges. Overall, Royal London's charges are broadly in line with those of competitors featured in the Comparison Study.
- The charges on Royal London's Retirement Solutions contracts for Workplace Pension customers continue to be fair and appropriate considering the benefits provided. Royal London's charging information is readily accessible and available.
- The charges for Investment Pathways customers with smaller pots are at the higher end of those in the market. In response to our challenge on this point, Royal London has been reviewing the appropriateness of charges for customers across different pot sizes. While its initial review concluded that the charges are fair, it has been agreed to consider this further and we expect to receive an update in 2024.
- We found that Royal London's charges are appropriate when the costs of administering contracts are considered. We believe charges fall fairly between customer cohorts.
- As noted in previous reports, we believe some longstanding customers with Workplace Pensions may be able to achieve lower charges in certain circumstances. However, Royal London has started the process of upgrading some of these customers to its most modern pension contract, Retirement Solutions, and further migration will continue into 2024. We are receiving regular updates on the progress of this work.
- Exit charges were still applied to a small number of Workplace Pension products in 2023. As noted in our previous report, we have been discussing how to address these charges and can confirm that Royal London has agreed that all exit charges will be waived, effective from 1 April 2024. At the time of writing, we can confirm that this change has been implemented effectively.

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Investment

Workplace Pensions	2022	2023
Value for money principle		
Investment strategy	●	●
Appropriate investment returns	●	●

Investment Pathways	2022	2023
Value for money principle		
Investment strategy	●	●
Appropriate investment returns	●	●

- We focus primarily on the fund range in which the majority of Workplace Pension customers are invested. We believe the default strategy for this range is designed with clearly set aims and objectives and executed in the interests of customers.
- When assessing Royal London's investment strategy, we consider the types of funds it invests in, how those funds combine to create an appropriate level of risk and how that risk is managed for customers as they approach retirement. In our view the investment strategies adopted are appropriate for Royal London's Workplace Pension and Investment Pathways customers.
- We closely monitor the returns on investment for customers, considering the suitability of these returns in relation to the risk taken, and comparing them against benchmarks and competitor performance. We also consider Royal London's communication to customers in relation to investment matters. We believe that Royal London's investment proposition to

Workplace Pension and Investment Pathways customers continues to deliver appropriate value.

- Every quarter, Royal London's Investment Advisory Committee reviews the investment proposition and shares its findings with us. This, as well as our regular engagement with the Chair of the Investment Committee, supports us in our independent assessment of the appropriateness and value of Royal London's investment proposition, as it relates to customers within the IGC's remit. We believe that the governance Royal London provides across its investment proposition is very good and compares favourably with peers (as confirmed by the Comparison Study).

Responsible investment and stewardship

Environmental, social and governance (ESG)	2022
Principle	
Strategy and policy	●
Balanced costs	●
Integration and implementation	●
Communication	●
Customer views	●
Impact on default and self-select funds	●
Internal policy and delivery on ESG	●
External disclosure and reporting	●

- Expectations met across key areas and best practice being implemented
- Expectations met and best practice being implemented across many aspects but further work is required in some key areas
- Material action required to meet expectations and for best practice to be implemented

Environmental, social and governance (ESG)	2023
Principle	
Internal policy	●
Investment strategy	●
Investment solutions	●
Value for money	●
Communication and reporting	●

- We have undertaken a review of the principles used to assess Royal London's responsible investment and stewardship policies and refined the criteria for assessment. The principles have now been updated to consider the evolution of Royal London's approach to its policies and allow for better assessment and reporting.
- In our view, Royal London is performing well in respect of ESG as an integral part of its approach to responsible investment and stewardship.

- Our review of Royal London's investment philosophy and beliefs supports the view that responsible investment is seen as a high priority, and that its investment framework takes responsible investment into account. We have therefore rated both internal policy and investment strategy as green.
- We have rated investment solutions as amber. This principle covers the strength and suitability of investments used. In our view, this area is still a work in progress as the investment proposition evolves, and we are aware that Royal London intends to introduce more responsible investment factors to the asset selection process in future.
- We consider the costs and charges involved in delivering responsible investment for customers to be fair, and therefore have rated value for money as green.
- External reporting improved in 2023 and we now consider this to be generally strong. However, we will carefully monitor the evolving regulatory landscape concerning issues such as greenwashing, and their potential impact on communications with customers and other stakeholders. We have rated our assessment of communications and reporting as green this year.

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Service

Workplace Pensions	2022	2023
Value for money principle		
Clear communication	●	●
Effective service	●	●
Regular reviews	●	●

Investment Pathways	2022	2023
Value for money principle		
Clear communication	●	●
Effective service	●	●
Regular reviews	●	●

- We found Royal London's communication and service delivery for Workplace Pension customers to be effective and appropriate. When compared with peers as part of the Comparison Study, Royal London demonstrated a strong responsiveness to customer enquiries and good levels of automation relative to other providers. The response time for processing manual transactions generally matched those of its peers.
- Across all key communications sent to Workplace Pension and Investment Pathways customers, the reading ease of Royal London's communications continues to be ranked amongst the best in the Comparison Study.
- The main area of communication that the IGC is keen to see more improvement in continues to be Royal London's ability to reach its Workplace Pension customers. This includes increasing the number of email addresses held and boosting registrations for its mobile app and online services. Digital engagement has improved over this last year and Royal London continues to work on refining the data management, automation, flexibility, targeting and relevance of its customer communications.
- We also consider the insight and management information available to assess the impact of Royal London's activities on improving customer outcomes. There is good evidence of intervention and improved outcomes for Investment Pathways customers – for example, through ensuring they remain in the right investment pathway and maintain a sustainable income for the future. There is less evidence available for Workplace Pension customers, and we will continue to monitor progress in this area.

- The overall service experience for Investment Pathways customers is comparatively good, however there have been periods of inconsistency when resources were under pressure. While Royal London took prompt actions to improve resources, its capacity could be increased through more digital adoption. This is important to meet customer demand for more digital services and can improve operational efficiency. In 2023, Royal London was more reliant than some of its competitors on paper-based processes for customers approaching retirement. Some improvements were made to digital capabilities during the year and more developments are expected to be delivered in 2024.
- Following actions taken by Royal London to improve the execution of its vulnerable customers policy, we acknowledge that the focus is on the right interventions for these customers. We have seen some progress in the number of vulnerable customers identified and supported. However, it is difficult to assess the effectiveness of these improvements given the preliminary nature of the data. We will monitor this closely in the year ahead.



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Looking forward

In addition to the aspects mentioned on the previous pages, the following are specific areas of focus for the IGC that we expect to provide further details on in our 2024 annual report:

Consumer Duty

The FCA's Consumer Duty requires firms, including Royal London, to be more proactive in the pursuit of good customer outcomes. Open products and services were required to comply with the new requirements by the end of July 2023 and you can find commentary on this in our full 2023 annual report. The deadline for closed books of business was the end of July 2024. The IGC has been kept up to date with action plans for longstanding customers in Royal London's closed book of business and we will be able to provide further updates in our 2024 annual report.

Guidance and support for customers

At the beginning of 2024, the FCA closed a consultation period where it had invited feedback on proposals aimed at examining the regulatory boundary between financial advice and other forms of support for customers (known as the 'Advice Guidance Boundary Review'). Unlike most other firms, Royal London does not offer financial advice to customers, either directly or through a partner, but does continue to promote and signpost the benefits of independent financial advice. Royal London's focus is on developing its digital capabilities and financial wellbeing service to provide financial guidance to customers at scale. The IGC will continue to monitor how Royal London's support for customers evolves in light of the regulatory changes expected to follow from the Advice Guidance Boundary Review.

Digital developments

As well as the development of online support for customers, the IGC will continue to monitor the enhancement of Royal London's digital capabilities – for strengthening internal operations and improving choice for customers in how they can receive their service. With the growth of digital options, including the use of artificial intelligence, the IGC recognises the need to balance the opportunities to improve operational efficiency through automation with the need to manage associated risks. The IGC will also continue to focus on the controls in place to protect Royal London customers and their data from the threat of cyber attacks.

Updates to value for money assessments

The FCA has been consulting on changes to the way in which IGCs conduct value for money assessments, including proposals to standardise metrics for measuring value for money and conducting comparison assessments. At the time of writing, a further consultation has been issued by the FCA. We will continue to work constructively with Royal London, regulators and with other IGCs and trustees where appropriate to ensure the new rules work in the best interests of customers.

Details of all IGC members can be found in Appendix 10 of the full 2023 report. I would like to thank my fellow IGC members and everyone involved with the IGC for their continued contribution and support to ensure the IGC is able to perform its important role effectively.

Peter Dorward
Chair of the Royal London
Independent Governance Committee

We are always looking to improve our reporting and welcome any feedback you have. You can contact us at [→ RoyalLondonIGC@royallondon.com](mailto:RoyalLondonIGC@royallondon.com).

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