

# ANNUAL REPORT

## 2019

ROYAL LONDON

INDEPENDENT  
GOVERNANCE  
COMMITTEE

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# A quick summary

## Section 1 – A review of 2019

- We reviewed the on-going changes made by Royal London to its workplace pension product.
- We analysed the regular Management Information pack provided to us.
- We reviewed the way Royal London manages your money.
- We vetted the quality of service being delivered.
- We checked Royal London is taking your views on board.
- We assessed the value for money you are receiving.
- We monitored the latest workplace developments outside Royal London.

## Section 2 – How we assess value for money

- For the purposes of assessing Royal London's value for money during 2019 we have maintained our existing framework.
- This includes a wide range of measures, based on our experience of Royal London's business and on what you have told us is important to you.
- For 2020 we will widen and deepen our framework to allow for the increased scope of our work.
- We have advised Royal London of the additional information we will need to complete this enhanced assessment of value.

## Section 3 – Listening to you

- Royal London continues to explore different ways of getting your views on your pension.
- We, and Royal London, want all the research to be capable of leading to changes for the better for workplace customers. The research is well coordinated and conducted in line with required best practice.

- We have been given the opportunity to input into what is researched and how this is carried out.
- We have made sure people from different age groups, employer sizes, industries and pot sizes were included in the research.
- We will make recommendations for change or improvement where we feel it is necessary.

## Section 4 – Charges on your plan

- The charges on Royal London workplace pension plans continue to fall. This year it is not as a result of specific action we requested but rather due to the balance of new plans and older plans changing.
- Royal London has improved how it communicates the charges to continuation plan members through a new annual statement. Continuation plans are those where customers decide to keep their former workplace plan with Royal London on an individual basis.
- The **ProfitShare** feature is a key element of value for money as Royal London aim to boost your retirement savings by adding a share of profits to your plan each year. **ProfitShare** was launched in 2017 and has paid out each year since then.
- Overall we consider the remaining variety and scale of charges are in line with our value for money principles.

## Section 5 – Investment strategy – how Royal London invests your money

- Royal London continues to operate a coherent approach to its default investment strategy.
- Different sets of external specialist consultants have been used to design and verify the strategy.
- There is a robust system of governance in place.
- We are satisfied that the default, and other strategies, are sound.

## Section 6 – Responsible investment

- There is growing regulatory, market and public concern to ensure that customer monies are invested in a responsible way.
- The Financial Conduct Authority (FCA) have issued new rules which will require Independent Governance Committees (IGC) like us to report on their firm's policies on environmental, social and governance (ESG), member concerns and stewardship, for the products that IGCs oversee. These rules come into effect from April 2020. We will be required to report on these matters in line with the new rules from next year's report.
- In advance of these new requirements, we have been reviewing Royal London's ESG policies and strategy for the last two reporting periods.
- Royal London continues to state that they are committed to being a responsible investor and published policies on Responsible Investment and Climate Change in 2019.
- Royal London has signed up to the UN Principles of Responsible Investment as an asset owner. We are supportive of their plans to set best practice guidelines for their asset managers and to monitor progress against this.
- Customer research in 2019 showed that most Royal London customers think that incorporating ESG might mean a compromise in return, despite the academic research that reaches a different conclusion. We have asked Royal London to find ways to improve the communication around this topic.

## Section 7 – Investment returns and transaction costs

- Investment performance for all workplace pension customers was above their target in 2019.

- Returns over three and five years and since launch were also above target for all the relevant portfolios.
- The returns have also been good in absolute terms.
- The respected Corporate Adviser publication produced external research on default investment strategy performance and Royal London produced appropriate returns on a risk adjusted basis.
- Transaction costs are slightly lower than they were in 2018. This is due to increased efficiency when trading.
- Royal London has enhanced its work in ensuring best execution of investment transactions during the year.

## Section 8 – Quality of service

- We monitor service standards, customer complaints and feedback on your behalf.
- Service levels are good and customers believe Royal London are becoming easier to deal with year on year.
- Royal London introduced a new initiative to measure customer experience with favourable results.
- Our data shows that some customers can still wait a considerable time for their annual statement. We want this to improve.
- Complaints from workplace customers to Royal London are low and continue to fall.
- Royal London continues to evolve the service they offer to you and your employer. We believe the quality of Royal London's service contributes positively towards value for money.

## Section 9 – Communications and engagement

- The planned changes we described in last year's report have been made.
- Royal London recognises that there are a number of different parties who can influence your engagement in your pension, including your employer and any adviser involved in your workplace pension scheme. Royal London has continued to make improvements in how it communicates with you and all parties involved in your workplace pension scheme.
- Royal London has continued to make good progress on the work it is undertaking to engage you with your pension. The developments they have introduced this year are welcome and we are starting to see positive signs of the impact these are having on employee action.
- There is still additional work needed. We have discussed the plans Royal London has for future improvements and will monitor these in the coming year.
- We will also be required to expand our work around how Royal London communicates with you, and other customers, as part of the new rules on ESG topics which we discuss elsewhere in the report.

## Section 10 – Vulnerable customers

Royal London has:

- An appropriate policy in place covering this important subject.
- Partnered with The Money Advice Trust to help develop their training approach.
- Developed a new customer vulnerability recording solution.
- Hired a dedicated Vulnerable Customer Manager to lead their approach.

## Section 11 – Conclusions on value for money

- We have again used a Red, Amber, Green ranking system to give our assessment of how Royal London are tracking against our value for money principles.
- The majority (5 out of 7) of these are green.
- Investment performance has moved from Amber in 2018 to Green this year.
- We have moved Communications from Green to Amber this year due to a tightening of our stance on all Royal London's workplace communications. Royal London has made improvements in a number of areas and we want to ensure the best quality of communications is offered to all workplace customers in a timely manner. This includes its older workplace customers whose plan type is no longer actively marketed.
- Overall we consider that Royal London continues to offer workplace customers value for money.
- We will continue to monitor this on your behalf and ensure Royal London continues to meet its commitments.

## Personal Introduction from the Chair

I am delighted to present the Royal London Independent Governance Committee (IGC) report for 2019, my second as Chairman of the IGC. It has been a busy year for the IGC but I am pleased to report that, overall, we are satisfied Royal London is continuing to provide ‘Value for Money’ to its workplace pension customers (see [section 11](#) for further detail on our assessment).

The purpose of the IGC is to assess the ongoing Value for Money provided by Royal London to workplace pension customers. The Committee is independent and acts solely in the interests of workplace pension customers.

There are five members of the Committee; three independent and two company members. You can read more about us and our backgrounds at [Appendix 1](#). We were pleased to welcome Catherine Read to the IGC as a company appointed member at the end of 2019. Catherine is Chief Operating Officer for Royal London Asset Management and I am delighted that the Committee will have the benefit of her knowledge and frontline experience with the investment proposition.

Royal London has seen significant changes at the senior management level in 2019 including a new Chairman (Kevin Parry) being appointed in January and a new Group CEO (Barry O’Dwyer) being appointed at the end of September. The positive engagement I have had with both Kevin and Barry has given me confidence that Royal London continues to respect and value the independence of the IGC and recognise the important role we undertake on behalf of workplace pension customers. We have also built on our links with other Royal London Governance Committee’s during the year (including the With Profits Committee and the Investment Advisory Committee), working collaboratively and sharing information and thinking where appropriate.

In assessing Value for Money the Committee has considered a broad range of areas during the year. Areas of particular focus have included changes made by Royal London in how it communicates with workplace pension customers, improvements in customer service (including in the treatment of vulnerable customers) and the efficiency of investment management and operations. We have been pleased to note the progress made in these areas.

From an investment perspective the IGC also received regular updates on Royal London’s approach to Environmental, Social and Governance (ESG) issues including Climate Change. We will have even greater focus on this in 2020 as this becomes one of the additional matters formally brought within our remit from April 2020.



At the end of 2019 the IGC supported Royal London in responding to an FCA information request to review the effectiveness of IGCs. We look forward to receiving the outcome of this review.

At the end of 2019 the FCA also published its Policy Statement setting out the extended remit that will apply to all IGCs from April 2020. The IGC is currently working to review its composition, Terms of Reference and business plans to ensure we are able to evolve to meet these new challenges. You can expect to see the outcome of this in our report next year.

Since we prepared this report, our global as well as our local environment has changed dramatically. The World Health Organisation has now declared a pandemic and we are all now taking appropriate precautions to safeguard ourselves, our families and all those around us. The spread of COVID19 virus is not only affecting our health and social norms, it is also having a dramatic impact on investment markets because of the consequential impact on the UK and global economies. The figures for investment performance quoted in our report are generally to 31 December 2019 and we will assess how Royal London has managed the disruption since that date in our next report. In the meantime you can be assured that the IGC is fully aware of the steps Royal London are taking to safeguard your interests as policy holders as well as their staff as far as possible.

If you have any suggestions to improve our report or the work we do, you can contact us via our dedicated mailbox [royallondonIGC@royallondon.com](mailto:royallondonIGC@royallondon.com). We will also be present at Royal London's Annual General Meeting on 3rd June so please look out for more details on that from Royal London in due course and we look forward to meeting some of you then.

Finally, I would like to thank my fellow IGC members and Royal London for the support received during 2019.

A handwritten signature in black ink, appearing to read 'Peter Dorward', written in a cursive style.

**Peter Dorward**  
**Chair, Royal London IGC**

# A review of 2019

## SUMMARY

In this section we outline the main activities we have worked on during the year, and key internal and external events.

To assess whether Royal London is providing you with value for money, we:

- » Reviewed the on-going changes made by Royal London to its workplace pension product.
- » Analysed the regular Management Information pack provided to us.
- » Reviewed the way Royal London manages your money.
- » Vetted the quality of service being delivered.
- » Checked Royal London is taking your views on board.
- » Assessed the value for money you are receiving.
- » Monitored the latest workplace developments outside Royal London.

## 1.1 Review of changes made during 2019

Royal London continues to make changes to how it manages your pension and how it communicates with you. We reviewed the following changes made during the year:

- The launch of a **mobile app** to allow easy access to information on your pension plan.
- The introduction of a "case manager" role to improve how Royal London manages queries from customers, employers and advisors.
- The roll-out of a suite of new publications for employers and employees including a Scheme Governance Report and a Quarterly Employer newsletter.
- Various enhancements to how payments are made and policies administered.
- New videos and podcasts to help you understand how your funds are being invested and managed.
- Improvements in how the particular needs of Vulnerable Customers are allowed for.

In addition to those implemented changes, we monitored the progress being made by Royal London in the following areas:

- Understanding your views on the role environmental, social and governance (ESG) issues should play in the investment of your pension. We also check how Royal London's work in responding to ESG issues is developing.
- How Royal London ensures it is buying and selling investments in the most cost effective way.

We are keen to ensure changes have made, or will make, a positive difference to you. We have asked Royal London to provide research information and post implementation data from key initiatives and enhancement projects. The information supplied has been included in the relevant sections of the report.

## 1.2 Key points from the regular Management Information pack

Each quarter we receive a detailed Management Information pack from Royal London covering their performance across a variety of agreed areas. We review this to ensure Royal London are maintaining agreed standards. The pack contains both internal performance measures and customer perceptions of Royal London's performance. The pack is also used to monitor charges and investment performance.

We challenge Royal London where there is evidence of any adverse trends and have commented on any material issues in the relevant sections of the report.

## 1.3 On-going scrutiny of Royal London's investments

During 2019 we widened our regular work scrutinising how Royal London invests your money. This includes more detailed analysis of the underlying reasons for its investment performance including analysing the respective contributions of their strategic and tactical asset allocations. The results of this work are set out in [sections 5](#) and [7](#).

Royal London has also continued to develop its work on ESG issues and we have been monitoring its progress in this area. This is discussed in [section 6](#).

We also continue to monitor the effectiveness of investment transaction controls. This is described in [section 7](#).

## 1.4 Quality of service

In [section 8](#) of the Report, we provide details of how we monitor the quality of the service you receive from Royal London. In summary we are satisfied with how Royal London administers your pension. During 2019 we have challenged Royal London to improve in certain areas and we have been satisfied with the subsequent actions taken. Details of our

challenges and the year-end service position are included in [section 8](#).

## 1.5 Listening to your views

We share Royal London's desire to make sure that your views on your workplace pension and on Royal London are heard. During 2019 further research was carried out by Royal London to deepen its knowledge of what is important to you, and we summarise the key points from this, and other research in [section 3](#).

## 1.6 Value for money framework

The nature of workplace pensions continues to evolve, and as a result during 2019 we reviewed our framework we use to assess value for money to ensure it continues to be appropriate in the light of emerging research and changes in the market. For the purpose of assessing Royal London's performance during 2019 our existing framework set out in [section 2](#) remains appropriate. To reflect our wider range of responsibilities for 2020, discussed later in the report, and to increase the ease of measuring Royal London's performance over time, we have provided Royal London with a wider set of both quantitative and qualitative measures which we will use to inform our comments in future reports.

## 1.7 Variety of customers across Royal London

We monitor value for money for all Royal London workplace pension customers. The vast majority of these (1,242,380 out of 1,271,947 plan holders as at 31 December 2019) are managed by what Royal London terms its "Intermediary" business. The remainder are in its Legacy business. The two portfolios are administered on different systems and this affects the nature of the management information we described in [section 1.2](#) above. For simplicity and clarity in this report, the graphs and other data refers to the workplace business within the Intermediary business. Where there are any significant differences in how

Royal London manages the business, or in the results of our Value for Money framework, we make explicit reference to such differences in the report. We do receive regular management information and updates from all parts of Royal London which have workplace customers and the value for money ratings we have provided reflect our overall view.

## 1.8 Other developments

### Brexit

The way that Royal London administers your workplace pension is unlikely to change as a result of Brexit. For investments, Royal London have been investing across a mix of assets that will perform well in a range of different scenarios rather than positioning for one particular outcome. We are reassured by the actions taken by Royal London given the continued significant uncertainty around the nature of the relationship the UK will have with the EU after the end of 2020.

### Increased scope of our work

At the end of 2019 the Financial Conduct Authority (FCA) confirmed that from April 2020 it will require our formal Terms of Reference to be extended to include:

- A new duty for us to consider and report on Royal London's policies on environmental, social and governance (ESG) issues, member concerns and stewardship, for the products that we oversee.
- A new duty for us to oversee the value for money of investment pathway solutions for pension drawdown. These pathway solutions are primarily aimed at non-advised individuals taking account of how they intend to use their retirement pot and will be designed to target specific customer retirement objectives. The regulations specify four objectives covering different circumstances. They are:

- **Option 1:** I have no plans to touch my money in the next five years.
- **Option 2:** I plan to use my money to set up a guaranteed income (annuity) within the next five years.
- **Option 3:** I plan to start taking my money as a long-term income within the next five years.
- **Option 4:** I plan to take out all my money within the next five years.

We have been anticipating the new duties in respect of ESG matters and therefore during 2019 we increased our knowledge of Royal London's strategy on this topic including their policies and practices. We also attended a number of industry-wide conferences and workshops to hear from experts in this field. Our report next year will set out our conclusions on these matters.

More detail covering our new obligations on investment pathways will be included in our report covering 2020.

### Senior changes within Royal London

During 2019 Royal London appointed a new Chairman, Kevin Parry, and a new Chief Executive, Barry O'Dwyer. To ensure that these changes did not affect our work assessing the value for money of your workplace products the IGC chair, Peter Dorward, held regular productive meetings with Kevin Parry in addition to the more formal channels of communication between the IGC and Royal London. In addition, Julius Pursaill completed his term of office as Chair of the Investment Advisory Committee (IAC, whose role is described in [section 5](#)) and our Chair held meetings with the new IAC Chair, Candia Kingston, to ensure we continue to work effectively with the IAC.

In summary, we do not anticipate that these senior changes within Royal London will result in any adverse approach to how Royal London manages your pension.

# Value for Money

## SUMMARY

In this section we describe the framework used to assess value for money, and how we settled on that framework.

In summary:

- » For the purposes of assessing Royal London's value for money during 2019 we have maintained our existing framework.
- » This includes a wide range of measures, based on our experience of Royal London's business and on what you have told us is important to you.
- » For 2020 we will widen and deepen our framework to allow for the increased scope of our work.
- » We have advised Royal London of the additional information we will need to complete this enhanced assessment of value and we expect to receive this in 2020.

## 2.1 Customer research

Ongoing research by Royal London continues to investigate what "value for money" means to its customers. The key findings from this ongoing work confirms previous results showing that customers consider value for money is more than just the charges or cost of a product. In particular items such as trustworthiness, overall quality of service and the clarity, transparency and nature of communications with the pension provider are all important factors. The results of this research were consistent with findings from previous research projects and our own view on value for money.

As a result we considered that, based on customer views, there was no pressing need for us to amend the framework we have been using for the last few years to assess Royal London's performance for 2019. Going forward, we will use the updated framework to provide you with even more insight into how Royal London is providing value for money and where they need to make some improvements.

## 2.2 Other considerations

In our report last year we mentioned that we were considering whether to explicitly include aspects of Responsible Investment and the treatment of **vulnerable customers** within the value for money framework. During our work in 2019 we concluded that these matters were already being considered within the existing areas of the framework and there was no need to add them as additional stand-alone items.

Our comments on Responsible Investment (or environmental, social and governance as this is regularly referred to) are set out in [section 6](#). In future years this section will include the conclusions of our work on our new areas of responsibility that are coming into force from April 2020.

Our conclusions on how Royal London allows for the particular needs of **vulnerable customers** are set out in [section 10](#) and have been considered when assessing Royal London's overall performance on communication and administration.

### 2.3 YouGov survey results

Our work on the underlying components of value for money has continued to be supplemented by survey data provided by **YouGov** Profiles (GB) (this is described in more detail in [section 3](#)). As shown in [section 3](#) this continues to show Royal London is viewed favourably by its customers. We find the information from this work useful in helping to identify:

- Any material movement in how Royal London is perceived by its workplace pension customers.
- Whether there is any significant difference between how Royal London is perceived by its customers compared to how customers of other companies perceive their pension provider.

This can help focus our discussions with Royal London during the year and, along with the more granular and detailed information from the Management Information pack, identify any remedial actions that we ask them to carry out.

### 2.4 Our framework to assess value for money

As a result of the work described above and our understanding of the market for workplace pensions we concluded that the existing framework to assess value for money set out below remains appropriate for 2019.

We will however be making changes to the framework for 2020 and have introduced more measures to support each area.

The framework we use to assess value for money is as follows. Note this is unchanged from last year:

Area	Principle
	Workplace pension contracts should be regularly reviewed to make sure they continue to meet the changing needs of customers in the long-term savings market. This includes consideration of:
<b>Regular reviews</b>	<ul style="list-style-type: none"> <li>• The changing market environment.</li> <li>• The customer experience taking account of different customers' needs.</li> <li>• Any inappropriate results or potential results for customers.</li> </ul>
	Ongoing charges must continue to offer value for money.
<b>Appropriate ongoing charges</b>	Benefits and services will be considered in light of what customers view as important and how Royal London delivers against them.
	Any deduction from the value of a pension on exit:
<b>Fair exit charges</b>	<ul style="list-style-type: none"> <li>• For people over 55, must meet the requirements of the legal cap on exit charges,</li> <li>• If the cap doesn't apply, any charge must be fair and designed to recoup no more than any costs incurred by Royal London caused by the early exit of the customer.</li> </ul>
<b>Balanced charging</b>	Any assessment of value for money should allow for the need for some cross-subsidies between workplace pension plans where appropriate and in the interest of customers.
	Investment returns should be appropriate for the level of risk a customer has taken.
<b>Appropriate investment returns</b>	The return should also be measured in relation to the expectation set with the customer.
<b>Clear communication</b>	Communication with customers must be clear, timely and designed to meet the needs of the customer, which may change over time.
<b>Effective service</b>	The service provided by Royal London should make it easy for customers to manage their pension and engage with them effectively when they need help.

## Listening to you

### SUMMARY

**In this section of the report we describe Royal London's approach to gathering regular customer feedback and how it is used to improve outcomes for you. Royal London also carries out other, focussed pieces of research throughout the year when it's necessary to gather your views and, where relevant, we've mentioned these throughout our report.**

**In summary:**

- » **Royal London continues to explore different ways of getting your views on your pension.**
- » **We, and Royal London, want all the research to be capable of leading to changes for the better for workplace customers. The research is well-coordinated and conducted in line with required best practice.**
- » **We have been given the opportunity to input into what is researched and how this is carried out.**
- » **We made sure people from different age groups, employer sizes, industries and pot sizes were included in the research.**
- » **We will make recommendations for change or improvement where we feel it's necessary.**

As we explained in the previous section, we consider Value for Money to be a wider concept than just charges on your plan and the investment returns achieved. We think that Royal London have to perform well not just in those areas, but also in the wider aspects of your pension that you value – such as the way Royal London communicates with you and how easy it is to deal with them. In order for us to understand what is important to you, Royal London have developed a comprehensive research programme which enables us to examine the quality and value of services provided and how they can be improved in the areas you value most.



### Customer Voice

- Post-contact surveys with customers and employers
- Regular proactive research with customer and financial advisers (customer relationship study)
- Complaints data
- Deep dive research in areas of interest
- Internal monitoring
- Bespoke research

This research programme has been built around Royal London's customer value statements, which represent the seven outcomes you said mattered most to you. By developing the research programme around these statements it enables us and Royal London to measure every aspect of service and value provided to you and your employer.

We provide more information on how Royal London is performing on these aspects of your pension throughout this report, including the research or data that supports our conclusions.

### 3.1 Main projects during the year

We continue to review your feedback on the service you receive from Royal London. We considered three key areas:

- **How easy you find Royal London to do business with.**
- **How well they resolve your enquiries.**
- **How likely you are to recommend Royal London.**

Royal London gathers customer opinion and feedback through various mechanisms and provides this information to us regularly. This year, Royal London put significant effort in to understanding your views on Environmental, Social and Governance (ESG) issues. This is an important topic, not just because our remit is being extended to include ESG but because the research shows it is becoming increasingly important to you. We cover the ESG research in [section 6](#).

Over the last three years Royal London has had over 18,000 responses to its workplace pension survey, which is completed at the end of inbound calls. The results of this survey give us confidence that workplace customers are happy with the service they are receiving as all scores are showing an upward trend over 2019.

The IGC also reviews the results from Royal London's regular customer relationship study. This research involves Royal London proactively contacting workplace pension members to ask a series of questions. Following our challenge to Royal London in 2018, the number of workplace pension customers that were contacted and took part in the relationship study in 2019 has been increased (439 in 2019, up by over 350% from the previous year).

#### Royal London's customer value statements

The company I can really trust and recommend

##### REPUTATION

Be fair and represent my interests

##### MEMBERSHIP

Involve and reward me

##### COMMUNICATE

Listen and talk my language

##### BE PERSONAL

Understand me and meet my needs

##### RESOLUTION

Take ownership and resolve my queries

##### PAY OUT

Pay me what I expect

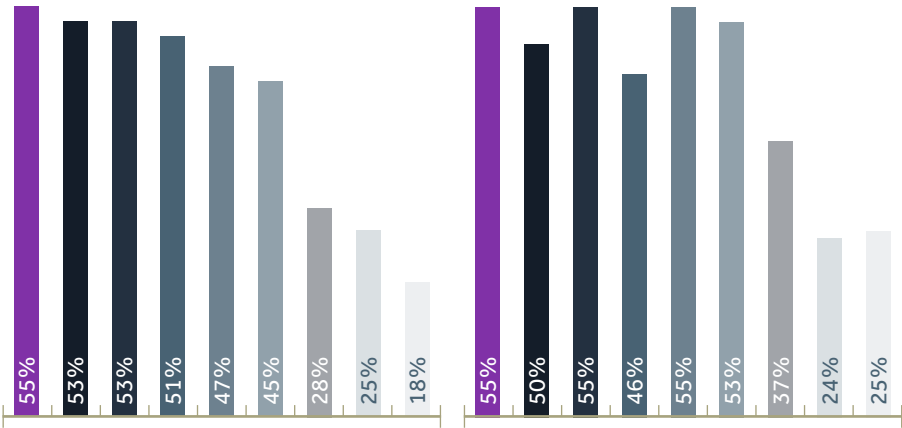
##### INVESTMENT

Look after my money

The 2019 study shows an increase in scores across the board, which suggests Royal London’s customers are more trusting and find Royal London easier to deal with than in 2018 and are also more likely to recommend Royal London.

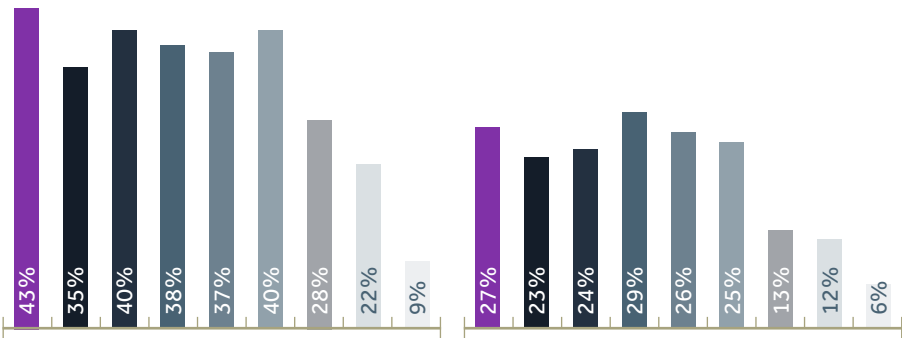
More detail on these survey and research projects and how they have informed our assessment of Royal London’s workplace pension is set out in the later sections of this report.

Based on the responses from company pension holders of each company giving positive responses to the following questions:



**Impression:**  
*Overall, of which of the following financial institutions do you have a positive impression?*

**Satisfaction:**  
*Of which of the following financial institutions would you say that you are a "satisfied customer"?*



**Recommend:**  
*Which of the following financial institutions would you recommend to a friend or colleague?*

**Value for Money:**  
*Which of the following financial institutions do you think represents good value for money? By that we don't mean "cheap", but that the brands offer a customer a lot in return for the price paid.*

**Source:** YouGov Profiles (GB), 52 weeks' of data ending 05/01/2020  
**Base sizes:** ● Royal London: 346 | ● Provider A: 324 | ● Provider B: 857 | ● Provider C: 1,054 | ● Provider D: 678 | ● Provider E: 585 | ● Provider F: 534 | ● Provider G: 144 | ● Provider H: 119.

### 3.2 How Royal London compares

At our prompting, Royal London has worked with **YouGov**, a global public opinion and data company, to review key information on UK workplace pension providers.

This involves using data from **YouGov** Profiles (GB)\* to look at the opinions of people who have workplace pensions with the main UK providers. Those who take part in **YouGov**'s surveys are asked a number of questions and we monitor the responses regularly.

This research provides us with useful benchmarks of how Royal London compares against other workplace pension providers for:

- The customer's overall impression of the pension provider.
- Their overall satisfaction with the pension provider.
- The likelihood they will recommend the pension provider to a friend or colleague.
- And the value for money provided.

The graph above provides a view of the scores for the key results from Royal London customers and the scores from eight other workplace pension provider's customers.

We have no concerns at this time as Royal London scores well in all areas, relative to their peers. We will continue to monitor customer perceptions into 2020.

### 3.3 Conclusion on research and insight

Having asked Royal London to increase the number of responses to the customer relationship study, we are pleased to have seen this happen and encourage Royal London to aim for a similar number of responses in future.

Royal London continues to make significant efforts to understand your views on the service you receive when you contact them.

Royal London also continues to provide workplace pension customers with a choice of contact methods. They recognise the importance of taking into account the way their customers would wish to be contacted by them and to get in touch. We will monitor Royal London's progress in this area as there remain challenges in being able to communicate in the most effective way. An example of this is the difficulty that is faced in obtaining e-mail addresses for workplace customers cost effectively. To that end, it would be very helpful if you could give Royal London an up to date e-mail address.

We will continue to monitor the things you told Royal London you expect them to improve, and ensure they keep asking you how they can support you to achieve your retirement goals. It is likely that further tailored research around your views on ESG will be required for example.

\*A segmentation and media planning tool providing rich, connected data from surveys and information gathered by YouGov

# Charges on your Plan

## SUMMARY

In this section we discuss charges on Royal London's workplace pension plans.

In summary:

- » The charges on Royal London workplace pension plans continue to fall. This year it is not as a result of specific action we requested but rather due to the balance of new plans and older plans changing.
- » Royal London has improved how it communicates the charges to continuation plan members through a new annual statement.
- » The ProfitShare feature is a key element of value for money as Royal London aim to boost your retirement savings by adding a share of profits to your plan each year. ProfitShare was launched in 2017 and has paid out each year since then.
- » Overall we consider the remaining variety and scale of charges are in line with our value for money principles.

## 4.1 Variety and scale of charges

The quarterly Management Information pack gives us regular analysis of the variety and scale of charges on Royal London's range of workplace pension products. We monitor both the general trends in average charges and the range of these charges, in particular the highest charge that was made during the period. We look at both on-going regular charges and exit charges to ensure we fully understand the charging structure.

The average AMC for Royal London's workplace plans is as follows:

Product charges				
These figures show the average annual management charge (AMC) applying to funds built up from the current and/or previous regular contributions across all Royal London's workplace pension plans (WPP), the average AMC for new members and for those who have left the employer and moved to their own plan (Continuation plans).				
Average AMC for:	2016	2017	2018	2019
All WPP plans	0.71%	0.69%	0.68%	0.67%
New members	0.65%	0.64%	0.63%	0.58%
Continuation plans	0.67%	0.69%	0.68%	0.67%

The vast majority of Royal London's workplace pension members are in modern, low charge products. Retirement Solutions is Royal London's most current contract and the only one which is actively marketed. The following table shows that most of Royal London's customers are in this contract and the proportion is growing year on year.

PRODUCT	31/12/2016	31/12/2017	31/12/2018	31/12/2019	% Change
RS GPP	643,700	849,748	1,004,360	1,167,172	+16%
RS SHR	61,800	66,437	71,512	75,208	+5%
Tal version 1 - 6	32,600	31,109	29,700	28,230	-5%
Tal GPP	1,600	1,527	1,429	1,337	-6%
CIS Group stakeholder	9,200	8,842	8,468	8,146	-4%
Phoenix Life GPP	18,200	17,490	16,915	16,250	-4%
Royal Liver	0	1,179	1,150	1,101	-4%

RS = Retirement Solutions, Tal = Talisman

There are additional charges on certain customer plans, set up prior to automatic enrolment and where the plan was not being used for automatic enrolment purposes. As explained in previous reports, Royal London agreed to reduce charges so that the ongoing charge would be no greater than the 1% annual management charge plus the cost of any outstanding or ongoing commission recovery. Following the implementation of the charge reductions set out in last year's report, we can confirm that all Royal London continues to meet this test. Royal London continue to believe that this approach represents a fair recovery of the capital costs associated with writing this business. The fair treatment of different generations of customers is central to the responsible way that a mutual insurance company is managed. We will review this fairness criteria on an annual basis.

We continue to be satisfied that the charges on Royal London's workplace pensions meet our requirements for value for money. We have been in discussion with Royal London on what action can be taken to reduce charges further in the coming years. We will provide you with further details in our next report.

## 4.2 How charges are explained to you

In last year's report we explained how Royal London redesigned the annual statement that they send to you to try and make the charges, amongst other things, more transparent. This was rolled out to all

its current workplace customers in the last reporting year. This year Royal London have continued to increase the coverage of the enhanced renewal statement by including all customers continuation plans. This means that a further 500,000 customers will receive the improved statement.

## 4.3 ProfitShare

A unique feature of Royal London's workplace pension contracts is **ProfitShare**. All unit-linked policies sold since 1 July 2001 could be eligible to receive a share of Royal London's profits. Profit share has been declared on these plans now for three years. The level of **ProfitShare** for 2019 was 0.15% (0.18% for 2017 and 2018) which was paid on the retirement savings held at 1 April 2019.

Royal London has outlined the reason for the change in 2019 award in its Annual Report. The report can be found [here](#)\*.

We consider these increases to your pension plan as an important part of value for money and we remain extremely supportive of Royal London's **ProfitShare** initiative.

This feature also needs to be considered when making any comparisons of workplace pension benefit and changes across different providers.

\*[www.royallondon.com/annual-reports](http://www.royallondon.com/annual-reports)

# Investment Strategy

## SUMMARY

**In this section we explain how Royal London designs and implements its strategy when investing your money. A later section discusses the recent investment performance.**

**In summary:**

- » **Royal London continues to operate a coherent approach to its default investment strategy.**
- » **Different sets of external specialist consultants have been used to design and verify the strategy.**
- » **There is a robust system of governance in place.**
- » **We are satisfied that the default, and other strategies, are sound.**

## 5.1 How the investment strategy is designed

The majority (84%) of Royal London's workplace customers are in a default investment strategy. This default strategy is the investment workplace customers go into unless a choice is made to do something else. Customers can choose a different investment strategy or select from a range of individual funds offered by Royal London.

The default investment strategy is chosen by the employer and their advisers. The most common strategy is Balanced Lifestyle Strategy (Drawdown). This strategy uses a feature known as lifestyling to invest in a predefined mix of multi-asset portfolios (known as a Governed Portfolios) depending on where the customer is on their retirement journey. These terms are explained below and in appendix 2 which outlines how Royal London constructs its funds. It is important to understand how Governed Portfolios work and the performance delivered as over 85% of workplace customers are invested in the governed range.

The Governed Portfolios are managed using forward-looking risk measures. This is done by modelling thousands of different potential future investment outcomes. The models are updated every quarter so that future expectations are based on a combination of current market conditions, past history and expected future performance. A specialist external consultancy, Moody's Analytics, is used to provide these models and the simulations.

Each Governed Portfolio is then reviewed against its stated risk targets. These are monitored each quarter and reviewed by the Royal London Investment Advisory Committee ("IAC") and these papers are shared with us. If the results are outside their target range this is discussed at the IAC, potentially prompting changes to the strategic asset allocation.

The Lifestyle Strategies are then built up from the Governed Portfolios in a similar manner. Lifestyles work around the idea that when you are younger, with a longer period until retirement, it is sensible to have more of your money invested in assets with a higher potential for growth than when you are older and closer to retirement. When you have a longer period to retirement there is more time to ride out any dips in the market and as you get closer to retirement, the Lifestyle Strategy gradually moves your investments towards assets that are less exposed to the peaks and troughs of the market. The following table illustrates how the mix of assets within the Balanced Lifestyle Strategy (Drawdown) changes as you near retirement.

Risk category	Your lifestyle journey			
	15 years +	10 years	5 years	Retirement
Balanced	Governed Portfolio 4	Governed Portfolio 5	Governed Portfolio 6	Target Drawdown

The table highlights how the Balanced Lifestyle Strategy (Drawdown) moves through governed portfolios 4, 5 & 6 before moving to the target drawdown end point which is the Governed Retirement Income Portfolio 3 (GRIP 3).

As reported last year, we found the aims and objectives of each of the portfolios and strategies to be clear. Each strategy aims to give above inflation growth on the value of the pension pot, taking into account the level of risk taken. When investment risk is considered, variations in returns under different market conditions are assessed. After reviewing data, we are satisfied this was appropriate. The following section of this report gives information on the actual performance of these strategies.

## 5.2 Governance and controls over the strategies

During 2019 Royal London established a new Strategic Asset Allocation framework to ensure that the assumptions used are appropriate and reflect the characteristics of the Royal London funds and their view on investment markets. This process uses Royal London Asset Management's extensive research and knowledge to suggest alterations to the Moody's assumptions. (Royal London Asset Management or RLAM is a wholly owned company within the Royal London Group.) Moody's have advised this is general practice for firms using their assumptions and we agree that this is an improvement in the process. We have reviewed this process and are satisfied that there are appropriate checks and balances in the system.

During 2019 Royal London, as the workplace pension provider, has carried out a formal "arms-length" assessment of how RLAM has performed as an asset manager. We received copies of how this review was carried out and were satisfied with the process used and the conclusion for Royal London to continue to use RLAM for the majority of its investment requirements.

### 5.3 What funds and strategies are used by you

The vast majority of new schemes are set up using the Balanced Lifestyle Strategy (Drawdown) as the default arrangement. However, employers can decide to adopt alternative strategies, and you have the option of choosing from the wide range of funds offered by Royal London.

In some cases, employers do not use a Royal London default. In these circumstances the employer's adviser takes responsibility for the suitability of the investment. While we were comfortable that Royal London was making suitable checks to ensure advisers were managing their responsibilities, regular work is required to review this process to ensure it is being carried out effectively. Although we have no reason to be concerned that employers are not regularly talking to their advisors, we have asked Royal London to consider how more regular and efficient checks in this area can be put in place. We will monitor this and comment accordingly in our next report.

This is an example of where a holistic approach to workplace pensions combining the various roles and responsibilities of the employer, advisor and pension provider is important. We will continue to draw attention to any situation where we find that customer needs are not being considered.

# Responsible Investment

## SUMMARY

**In this section of the report we explain how Royal London is considering environmental, social and governance matters when investing your money. This is often called ESG or Responsible Investment.**

**In summary:**

- » **There is growing regulatory, market and public concern to ensure that customer monies are invested in a responsible way.**
- » **The Financial Conduct Authority have issued new rules which will require Independent Government Committees like us to report on their firm's policies on ESG, member concerns and stewardship, for the products that IGCs oversee. These rules come into effect from April 2020. We will be required to report on these issues in line with the new rules from next year's report.**
- » **In advance of these new requirements, we have been reviewing Royal London's ESG policies and strategy for the last two reporting periods in advance of these new rules.**
- » **Royal London continues to state they are committed to being a responsible investor and published policies on Responsible Investment and Climate Change in 2019.**
- » **Royal London have signed up to the UN Principles of Responsible Investment as an asset owner. We are supportive of their plans to set best practice guidelines for their asset managers and to monitor progress against this.**
- » **Customer research in 2019 showed that most Royal London customers think that incorporating ESG might mean a compromise in return, despite the academic research that reaches a different conclusion. We have asked Royal London to find ways to improve the communication around this topic.**

## 6.1 What is Responsible Investment?

Responsible Investment describes the commitment to invest customer money in a responsible way, to implement stewardship responsibilities through voting and company engagement and to take account of environmental, social and governance factors when making investment decisions. It was originally limited to "ethical investment" and involved avoiding investment in firms with certain negative criteria, such as tobacco firms or weapons manufacturers. Now, Responsible Investment is wider in scope and involves those who invest money on your behalf considering a range of issues such as how a firm is governed, its employment practices and how its activities may be contributing to, or affected by, climate change.

It is therefore important that Royal London monitors the ESG risks facing the businesses it invests in on behalf of customers. We will be reviewing how Royal London engages with these firms in the coming year.

In addition, both the Prudential Regulation Authority (PRA) and FCA now require insurance companies like Royal London to have a strategy towards climate change – covering how climate change could impact their business and their investments.

The new rules from the FCA that will apply from April 2020 will require us to consider how Royal London allows for your views on this topic. We will report on this next year.

## 6.2 Assessing Royal London's approach to Responsible Investment

Royal London has provided all the information we requested setting out their approach to Responsible Investment. In 2019 they have also provided updated information on their ESG strategy and their plans for the coming year. This is important as we will need to ensure both we and Royal London meet new rules set out by the regulator, the Financial Conduct Authority, in the coming year.

Royal London Asset Management continues to be well regarded in some aspects of Responsible Investment. It is currently rated Tier One by the Financial Reporting Council's assessment of its Stewardship Activities, and received an A rating for Strategy and Governance in the latest Principles for Responsible Investment (PRI) survey. This is a downgrade from A+ the year before and whilst RLAM increased their score in some areas, due to methodological changes in the PRI scoring methodology, this was not enough to maintain an A+ rating. We are aware that RLAM have significant plans to improve processes and resources across Responsible Investment and are comfortable with their direction of travel.

Royal London has signed up to the UN Principles of Responsible Investment as an asset owner this year. We are supportive of their plans to set best practice guidelines for their asset managers and to monitor progress against this. Royal London Asset Management has been signatories to these UN principles since 2008.

Royal London offers a range of sustainable and ethical funds and can support employers who wish to set up an ethical or sustainable default fund.

Where a member has specific ESG goals, Royal London has funds that meet sustainable or ethical requirements. It is very easy for them to switch out of the default fund into one of these specialist funds.

We note that Royal London has committed to enhancing the assessment of fund managers to make sure they meet best practice standards. If Royal London find that their standards are not being met they may decide to stop working with them. We will be monitoring the implementation of this commitment in practice in the coming year.

Royal London Asset Management (RLAM) exercises their stewardship responsibilities by voting at company meetings, and through engaging with companies on ESG issues. RLAM's voting policy and voting record is published online and is available [here](#)\*. In 2019 they voted on 15,665 resolutions and had 260 engagements with 175 companies. This is an increase in the number of engagements versus 2018.

This stewardship is important because RLAM and other large asset managers own substantial amount of the shares in large companies. Voting against certain motions put forward by the company is a way to hold these companies to account and make sure they are doing the right thing. Equally it is important for asset managers to engage with the management of these firms and to raise concerns where appropriate.

Royal London is committed to being a responsible investor. The following diagram illustrates how it is aligning with these principles:

\*[www.rlam-voting.co.uk/voting/](http://www.rlam-voting.co.uk/voting/)

Royal London activities are aligned to the six pillars of Responsible Investing as advocated by the United Nations (PRI)



#### Principle 1

We will incorporate ESG issues into investment analysis and decision making processes.

#### Principle 2

We will be active owners and incorporate ESG issues into our ownership policies and practices.

#### Principle 3

We will seek appropriate disclosure on ESG issues by the entities in which we invest

#### Principle 4

We will promote acceptance and implementation of the Principles within the investment industry.

#### Principle 5

We will work together to enhance our effectiveness in implementing the Principles.

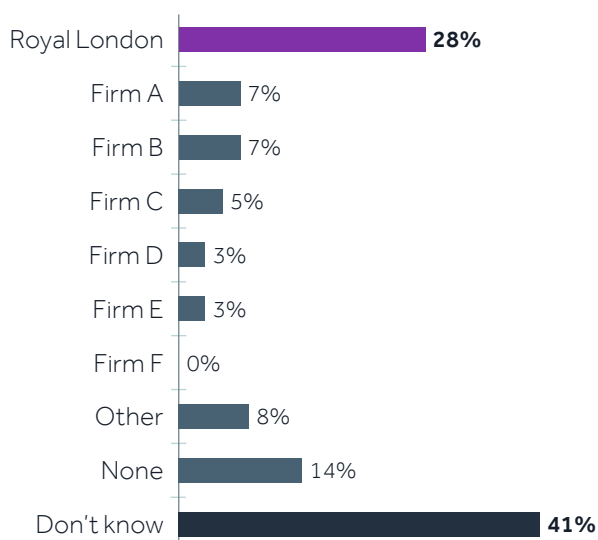
#### Principle 6

We will each report on our activities and progress towards implementing the Principles.

### 6.3 Royal London's research on ESG matters

In 2019 Royal London commissioned research with Financial Advisers focused on understanding current perceptions of and demand for responsible investing. We were interested in adviser perceptions of who they believe are market leaders in taking account of ESG in their investment processes and communications. The following graph demonstrates Royal London's strong position in this area relative to its peers:

**Q:** Which of these pension providers do you believe are market leaders in taking account of ESG in their investment processes and communicating this?



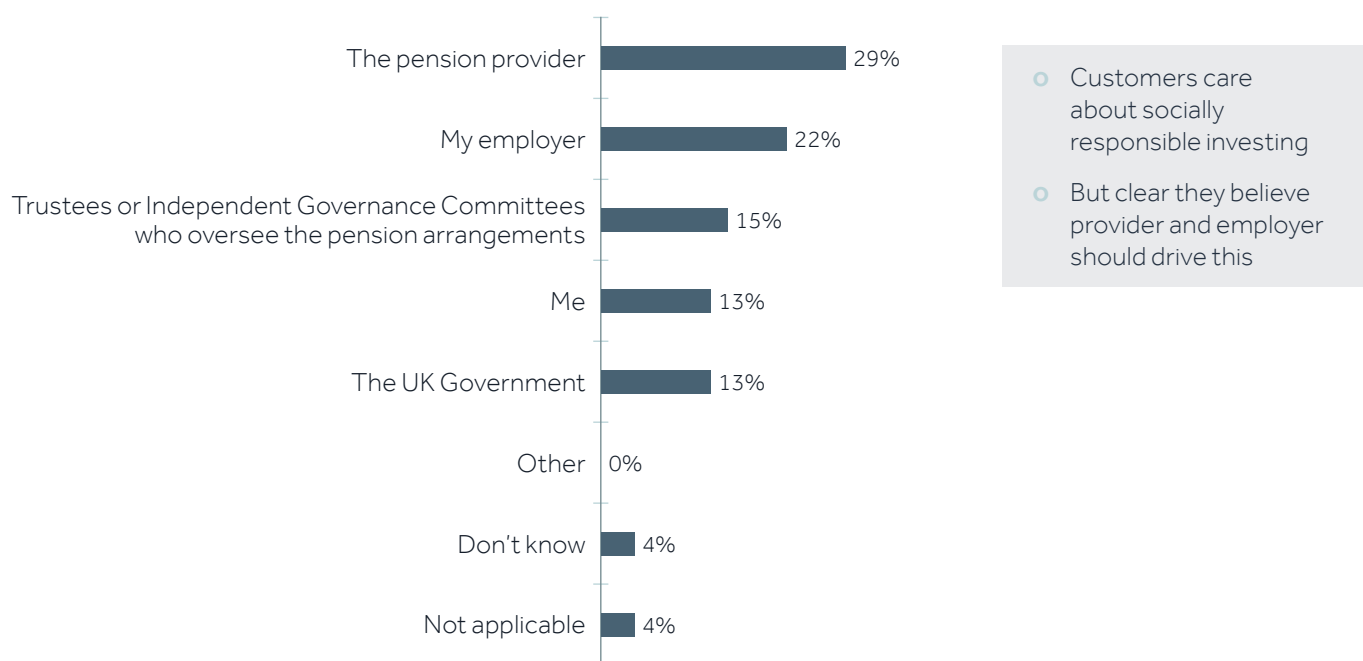
**Source:** NMG Consulting's Financial Adviser Omnibus  
**Base:** 166 advisers from NMG Consulting's Retail Adviser Database

In November 2019 Royal London also asked pension customers, including workplace customers, to give their thoughts on responsible investing. This was a repeat of the survey carried out in 2018 to track how opinion was changing. This showed that although acting in a socially responsible way is an important aspect of day to day decision making, this does not translate into investment decisions. We have asked Royal London to create clearer communication around this topic to improve understanding of the issues and the positive aspects of Responsible Investment.

You can read more about Royal London's Responsible Investment activity at [www.royallondon.com/about-us/responsible-investment](https://www.royallondon.com/about-us/responsible-investment)

Royal London also commissioned **YouGov** to carry out research with employees on what they want from their employer and where investing responsibly fits into their thinking. This provided us with a valuable source of information on what you were looking for, not just from a pension scheme, but from the overall benefits and policies perspective. It is clear to us from this research that interest in responsible investing issues is rising but that customers are not always taking account of environmental, social and governance issues when making investment decisions. The research finds that of those that would recommend their employer if they offered a better pension, 63% would find it valuable for their pension contributions to be automatically invested in a socially responsible way. We note however that the majority of people believe the responsibility for ensuring contributions are invested in a socially responsible way should lie with the pension provider or the employer, rather than the individual themselves. While only a little more believe it should be the responsibility of bodies such as ourselves and trustees, the new rules do require us to examine and report on Royal London's policy in this area.

**Q:** Which ONE, if any, of the following do you think should be primarily responsible for ensuring that workplace pension contributions are invested in an environmentally friendly and socially responsible way?



All figures, unless otherwise stated, are from YouGov Plc. Total sample size was 4,073 adults. Fieldwork was undertaken between 3rd and 11th September 2019. The survey was carried out online

## 6.4 Future regulatory requirements

In December the FCA published its rules on extending our remit to consider and report on Royal London's ESG issues, member concerns, and stewardship, for the products that IGCs oversee. These rules come into effect from April 2020. Although we have been reviewing Royal London's ESG policy as mentioned previously, these rules do require additional work to be done by us and sets out specific obligations on Royal London too. We have been in discussion with Royal London on the implications of these new rules to ensure we can meet our obligations. We expect to make changes to the membership of the IGC so that we are able to meet these new obligations in a way that is useful to you, the customer. We are also considering how we can most effectively challenge Royal London's work in this new area of our remit. Full details will be provided in our next report.

# Investment Returns and Transaction Costs

## SUMMARY

In this section we report on how Royal London has done in managing your money over the recent past.

In summary:

- » Investment performance for all workplace pension customers was above their target in 2019.
- » Returns over three and five years and since launch were also above target for all the relevant portfolios.
- » The returns have also been good in absolute terms.
- » The respected Corporate Adviser publication produced external research on default investment strategy performance and Royal London produced appropriate returns on a risk adjusted return basis.
- » Transaction costs are slightly lower than they were in 2018. This is due to increased efficiency when trading.
- » Royal London has enhanced its work in ensuring best execution of investment transactions during the year.

## 7.1 Actual performance

The performance of the portfolios which make up the Royal London workplace default strategy are shown in the table below.

For easy comparison with external data the performance figures assume a 1% annual management charge (AMC). The actual AMC on workplace pension assets is generally lower than this.

The figures also don't include any **ProfitShare** that has been added.

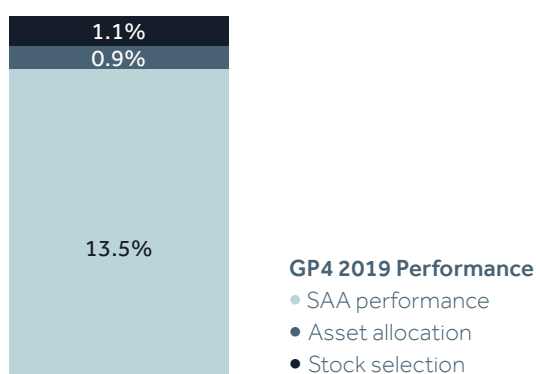
Portfolio Name	Percentage Change					Compound Annual Growth Rate (%)	
	31/12/18	31/12/17	31/12/16	31/12/15	31/12/14	3 Years	5 Years
	31/12/19	31/12/18	31/12/17	31/12/16	31/12/15		
	%Chg						
<b>Governed Portfolio 4</b>	15.52	-4.99	9.73	15.05	3.78	6.39	7.53
Composite benchmark	13.49	-4.43*	9.49	16.89	2.35	5.90	7.27
Difference	2.03	-0.56*	0.24	-1.84	1.43	0.49	0.26
<b>Governed Portfolio 5 (Drawdown)</b>	14.27	-4.29	8.38	14.24	3.08	5.83	6.89
Composite benchmark	12.22	-3.84	8.12	15.71	1.82	5.27	6.56
Difference	2.05	-0.45	0.26	-1.47	1.26	0.56	0.33
<b>Governed Portfolio 6 (Drawdown)</b>	10.90	-2.84	5.82	11.56	2.08	4.47	5.36
Composite benchmark	9.24	-2.61	5.44	11.91	0.91	3.91	4.84
Difference	1.66	-0.23	0.38	-0.35	1.17	0.56	0.52
<b>GRIP 3</b>	10.40	-2.83	7.87	12.40	1.63	4.98	5.73
Composite Benchmark	8.99	-2.88	5.57	12.86	0.48	3.77	4.85
Difference	1.41	0.02	2.30	-0.46	1.15	1.21	0.88

\* Note the figures were slightly different in last year's report. The composite benchmark figure stated as -4.40 and the difference of -0.59. This is due to the rebalancing of indices after the report was finalised.

We were pleased to note that for these portfolios Royal London performed better than the benchmark during 2019 and this out-performance carries through into the three and five year performance figures.

We are pleased to note that these portfolios have all outperformed their benchmarks in 2019. This outperformance has been delivered by Royal London via a combination of actively managing the underlying asset classes held in the portfolios and tactically allocating between those asset classes during the year.

Looking more closely at Governed Portfolio 4, it outperformed its benchmark by 2.03% in 2019 with 1.13% of this being driven by the active management of underlying asset classes and 0.90% by tactical asset allocation. While the portfolios were consistently overweight equities for 2019 a key Royal London strategy has been to tactically reduce portfolio allocations in equities after strong rallies and increase these again during dips.



The volatility of absolute returns year on year shows the importance of taking a long-term view of investment. We therefore monitor not only the yearly performance but also the performance over the three and five year horizons and since launch (covered in the following paragraphs).

We will continue to monitor Royal London's investment strategy closely during 2020.

## 7.2 Performance against what you were told

We think that it is important that Royal London monitors their actual investment performance against what it used when providing you with illustrations when you took out a plan. We recognise that these illustrations are governed by the rules set down by the regulators, but nonetheless these illustrations can influence what you expect to receive from Royal London and so they play a part in how you may view the value for money from your pension.

Every quarter, Royal London compares performance of the Governed Portfolios against the expected growth rates provided to you in illustrations and provides this information to us. We wanted this information to review the default funds which the majority of workplace customers are in and see how they are performing relative to the expectations set with you at outset. This table shows the position at 31 December 2019 and reflects the positive returns delivered during 2019.

## Performance against expectation set within client illustration

Lifestyle Point (Portfolio)	Annual Compound Real Return (%)			
	Target	1 year	3 year	Since Launch
>15 years from Retirement (GP 4)	1.3%	1.3%	3.9%	6.0%
10 years from Retirement (GP 5)	0.8%	1.8%	3.1%	5.6%
5 years from Retirement (GP 6)	-0.2%	1.1%	1.1%	3.6%
At Retirement (GRIP 3)	-0.2%	2.7%	1.7%	4.3%

1. Target returns are over and above an inflation target of 2.5%.
2. Term is the period to notional retirement date.
3. Annual Compound Real Return expresses the total return, after allowing for inflation, over the period (which may include some high and low results) as an equivalent uniform return.

As you can see in the above all portfolios have delivered returns over the rates that are used within your projections. We consider a real annual return (that is, over and above inflation) of 6% pa since launch of the fund is a good customer outcome in respect of customers who invest in this default portfolio (which is the majority of Royal London's workplace customers).

## 7.3 Comparisons against competitors

We asked Royal London to compare the performance of their key Governed Portfolios against broadly similar funds from their major competitors. Royal London provides data on performance and risk adjusted returns to a company called Corporate Adviser. They use this information to produce a quarterly report on providers' default strategies comparing both performance and risk-adjusted returns. The tables that follow provide this data which confirms that Royal London achieved appropriate returns for the level of risk taken.

The tables on pages 34 and 36 show annualised percentage for one, three and five years for all participating workplace pensions providers and the Corporate Adviser Index (CAPA Index) for an investor who has 30 years to Selected Pension Age (SPA)

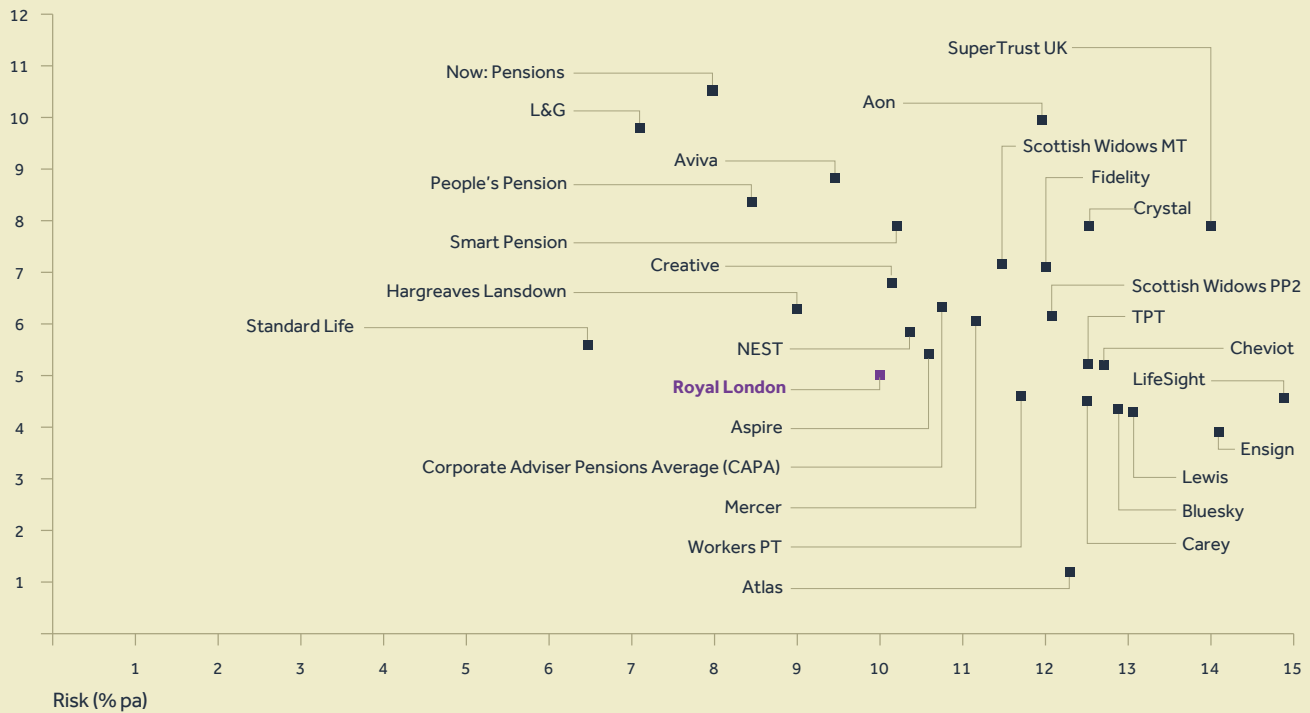
(page 34) and and an investor with five years to SPA (page 36). Both tables demonstrate to the IGC that Royal London's performance is, for one and five years around index and for three years slightly behind the index of returns. This is due to Royal London's strategy of holding an appropriate mix of assets, depending on time to retirement and the member's risk appetite. In these particular ranges, Royal London has less equity exposure than the competitors listed. Royal London's view is that members will benefit from this greater diversification over the longer term.

The first and second charts (page 35) combine the risk and relative return information for the same types of investor for each of the workplace pension providers and Royal London and demonstrates to the IGC that in both examples Royal London is taking the appropriate level of risk for the rate of return achieved.

Auto-enrolment default fund performance - investor 30 years to SPA.  Corporate Adviser Pensions Average (CAPA) data, to 30.9.19, annualised return (%)	INVESTOR 30 YEARS TO SPA		
	1-year	3-year	5-year
Aon Master Trust	9.95	11.12	-
Aspire	5.42	-	-
Atlas Master Trust	1.20	7.00	-
Aviva Master Trust & GPP	8.83	8.10	9.82
Bluesky Pensions	4.36	9.58	10.24
Carey Workplace Pension Trust	4.51	9.65	10.30
Cheviot Trust	5.20	9.30	9.30
Corporate Adviser Pensions Average (CAPA)	6.33	8.84	9.65
Creative Pension Trust	6.79	7.46	-
Crystal	7.90	-	-
Ensign	3.90	-	-
Fidelity Master Trust	7.10	7.10	-
Hargreaves Lansdown/BlackRock Consensus 85	6.28	7.62	8.63
L&G WorkSave Master Trust & GPP	9.80	7.10	9.00
LifeSight (WTW)	4.57	11.00	-
Mercer Master Trust	6.06	8.79	9.73
NEST	5.85	7.73	9.64
Now: Pensions	10.52	6.85	5.04
Royal London (Balanced Lifestyle Strategy (Target Drawdown))	5.02	7.37	8.87
Scottish Widows Master Trust	7.16	9.32	10.41
Scottish Widows Pension Portfolio Two Pension Series 2	6.16	8.55	9.81
Smart Pension	7.90	9.70	-
Standard Life Master Trust & GPP	5.60	6.07	6.52
SuperTrust UK	7.90	12.50	13.50
The Lewis Workplace Pension Trust	4.30	8.97	9.75
The People's Pension	8.37	8.76	10.06
TPT Retirement Solutions	5.22	9.89	9.38
Workers Pension Trust	4.60	9.20	9.80

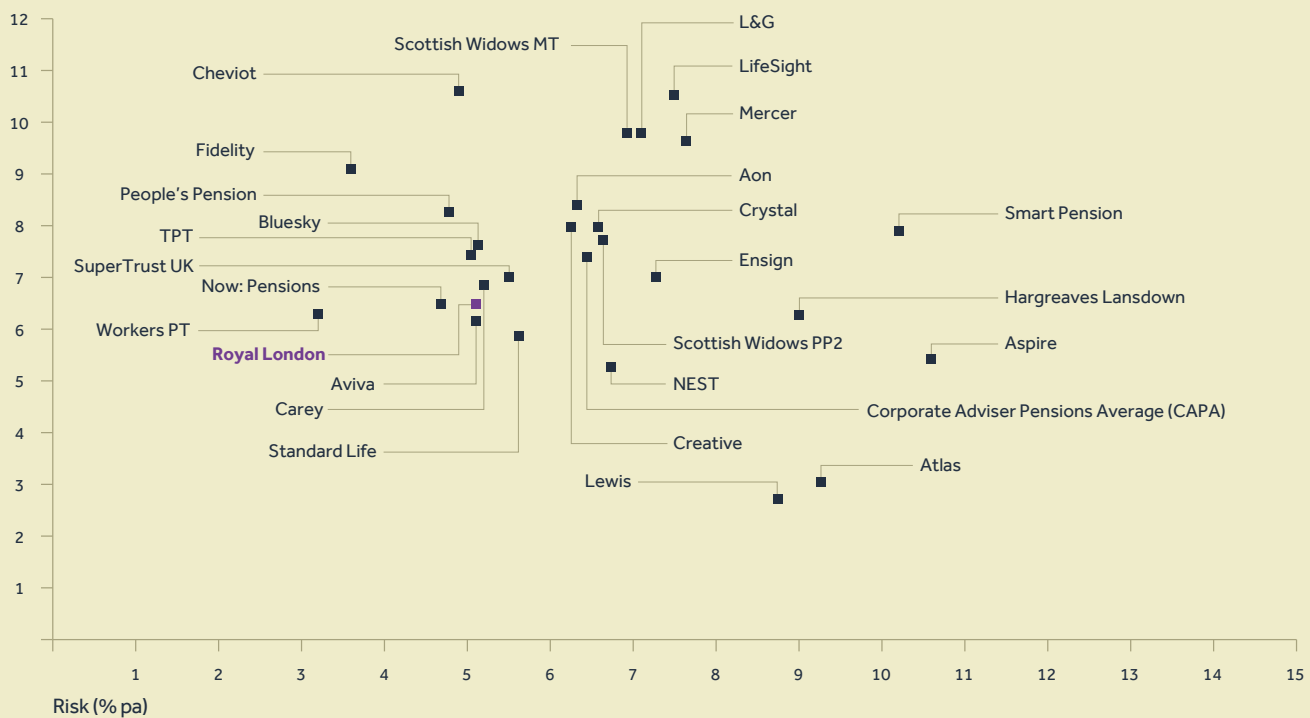
## 30 years from retirement, 1-year

Return (% pa)



## 5 years from retirement, 1-year

Return (% pa)



Auto-enrolment default fund performance - investor 5 years to SPA.  Corporate Adviser Pensions Average (CAPA) data, to 30.9.19, annualised return (%)	INVESTOR 5 YEARS TO SPA		
	1-year	3-year	5-year
Aon Master Trust	8.40	6.81	6.35
Aspire	5.42	-	-
Atlas Master Trust	3.04	6.12	-
Aviva Master Trust & GPP	6.16	5.07	-
Bluesky Pensions	7.62	5.80	8.71
Carey Workplace Pension Trust	6.85	5.55	8.58
Cheviot Trust	10.60	6.00	8.60
Corporate Adviser Pensions Average (CAPA)	7.40	6.50	8.03
Creative Pension Trust	7.97	5.45	-
Crystal	7.97	7.45	-
Ensign	7.00	6.80	-
Fidelity	9.10	6.50	-
Hargreaves Lansdown/BlackRock Consensus 85	6.28	7.62	8.60
L&G WorkSave Master Trust & GPP	9.80	7.10	9.00
LifeSight (WTW)	10.52	8.39	-
Mercer Master Trust	9.63	8.70	-
NEST	5.27	6.26	8.29
Now: Pensions	6.49	4.22	3.12
Royal London (Balanced Lifestyle Strategy (Target Drawdown))	6.49	6.30	7.11
Salvus Master Trust	-	5.90	7.60
Scottish Widows Master Trust	9.80	7.83	9.16
Scottish Widows Pension Portfolio Two Pension Series 2	7.72	6.47	8.58
Smart Pension	7.90	9.70	-
Standard Life Master Trust & GPP	5.87	5.43	6.18
SuperTrust UK	7.00	6.60	8.90
The Lewis Workplace Pension Trust	2.72	6.03	6.57
The People's Pension	8.26	6.34	8.99
TPT Retirement Solutions	7.44	5.88	8.39
USS	-	7.50	-
Workers Pension Trust	6.30	4.10	-

7.4 Transaction costs

The following graphs show a breakdown of the total **transaction costs** for 2019 and how they compare to the investment return and explicit charge on the fund. These are for a typical pension policy that had a value of £30,000 at the start of 2019.

\*Please note the broken down Transaction Cost figures may not match the total shown due to rounding.



## 7.5 Conclusions on Transaction Costs

In appendix 3 we provide detail of **transaction costs** for both 2018 and 2019 for the main fund. Transaction costs for 2019 are lower than those reported in 2018. Implicit costs were slightly lower than they were in 2018, however the main driver of reduced costs comes from increased trading efficiency. This is a result of increased use of derivatives in the portfolios allowing for a reduction in **explicit costs** through the purchase of Index futures rather than the physical assets across Equity investments.

## 7.6 Best Execution

It is important for us to ensure Royal London buys and sells investments for their workplace customers in the most efficient way with minimal costs. This is known as best execution. Best execution requires investment managers to take all reasonable steps to obtain the best possible result when placing orders in the financial markets or getting others to do this on their behalf. In doing so, investment managers take into account a range of factors such as price, costs, speed, likelihood of execution and settlement, size, nature or any other consideration relevant to the execution of the order.

The delivery of best execution has a direct impact on investor returns so we consider best execution to be a core component of the quality of service provided. In particular we believe it is essential that Royal London establish and implement effective arrangements for complying with the best execution obligation and monitor the effectiveness of their execution policy.

We regularly assess Royal London arrangements to ensure they comply with the best execution obligation. In our last report we noted that Royal London operated a Best Execution Review Group to oversee the effectiveness of their execution process. The Best Execution Review Group provides us with regular updates.

The following enhancements were noted during the 2019 reporting period:

- Execution Management System (EMS) – Royal London introduced a new EMS provided by Trading Screen. The EMS provides improved functionality and data quality for trade analysis and best execution monitoring.
- Royal London had an active year engaging and consulting with the various trade associations, regulatory bodies and service providers to help ensure there are transparent, fair and efficient markets for customers.
- Royal London has advised that they believe increased transparency and availability of data in the marketplace will enhance their execution strategies in the future. We share this view.

Royal London recognises that their processes have to evolve to meet developing industry practices to ensure they continue to deliver the best possible results when executing client orders. The developments above are welcome and we are satisfied with the progress being made.

## 7.7 Investment returns for Legacy customers

The performance of the balanced risk multi-asset funds which make up the Royal London workplace default strategies are shown in the table below.

For easy comparison with external data the performance figures assume a 1% annual management charge (AMC). The actual AMC on workplace pension assets is generally lower than this.

The figures also don't include any **ProfitShare** that has been added.

Portfolio Name	Percentage Change					Compound Annual Growth Rate (%)	
	31/12/18	31/12/17	31/12/16	31/12/15	31/12/14	3 Years	5 Years
	31/12/19	31/12/18	31/12/17	31/12/16	31/12/15		
	%Chg						
<b>Royal London With-Profits Stakeholder Fund</b>	7.64	2.68	11.4	7.23	7.32	7.18	7.21
Comparator benchmark: ABI UK - Mixed Investment 40%-85% Shares	15.5	-6.15	9.56	13.39	2.37	5.9	6.63
Difference	-7.86	8.83	1.84	-6.16	4.95	1.28	0.58
<b>Royal London Stakeholder Managed Fund</b>	15.22	-5.72	9.28	14.85	2.45	5.89	6.91
Comparator benchmark: ABI UK - Mixed Investment 40%-85% Shares	15.5	-6.15	9.56	13.39	2.37	5.9	6.63
Difference	-0.28	0.43	-0.28	1.46	0.08	-0.01	0.28
<b>Royal Liver Stakeholder Managed Pension Fund</b>	17.22	-5.94	10.51	17.73	2.89	6.81	8.09
Comparator benchmark: ABI UK - Flexible Investment	17.28	-7.59	11.84	14.98	3.28	6.62	7.55
Difference	-0.06	1.65	-1.33	2.75	-0.39	0.19	0.54

Performance in the Royal London With-Profits Stakeholder Fund is smoothed, with the aim of delivering a more stable investment return than direct stock market investment. This is reflected in the performance of the fund compared to the comparator benchmark: 2019 performance was well below the comparator, but the 2018 performance was well above the comparator. The smoothing process aims to remove the extreme rise or fall in the value of the fund that would otherwise see its value rise and fall more in line with the comparator.

The volatility of absolute returns year on year shows the importance of taking a long-term view of investment. We therefore monitor not only the yearly performance but also the performance over the three and five year horizons and since launch.

We will continue to monitor Royal London's investment strategy closely during 2020.

# Quality of Service

## SUMMARY

In this section we describe how we monitor the service you receive from Royal London and the actions they have taken to make improvements.

In summary:

- » We monitor service standards, customer complaints and feedback on your behalf.
- » Service levels are good and you believe Royal London are becoming easier to deal with year on year.
- » Royal London introduced a new initiative to measure customer experience with favourable results.
- » Our data shows that some customers can still wait a considerable time for their annual statement. We want this to improve.
- » Complaints from workplace customers to Royal London are low and continue to fall.
- » Royal London continues to evolve the service they offer to you and your employer. We believe the quality of Royal London's service contributes positively towards value for money.

## 8.1 Results of regular monitoring

We receive quarterly data on the following aspects of customer service:

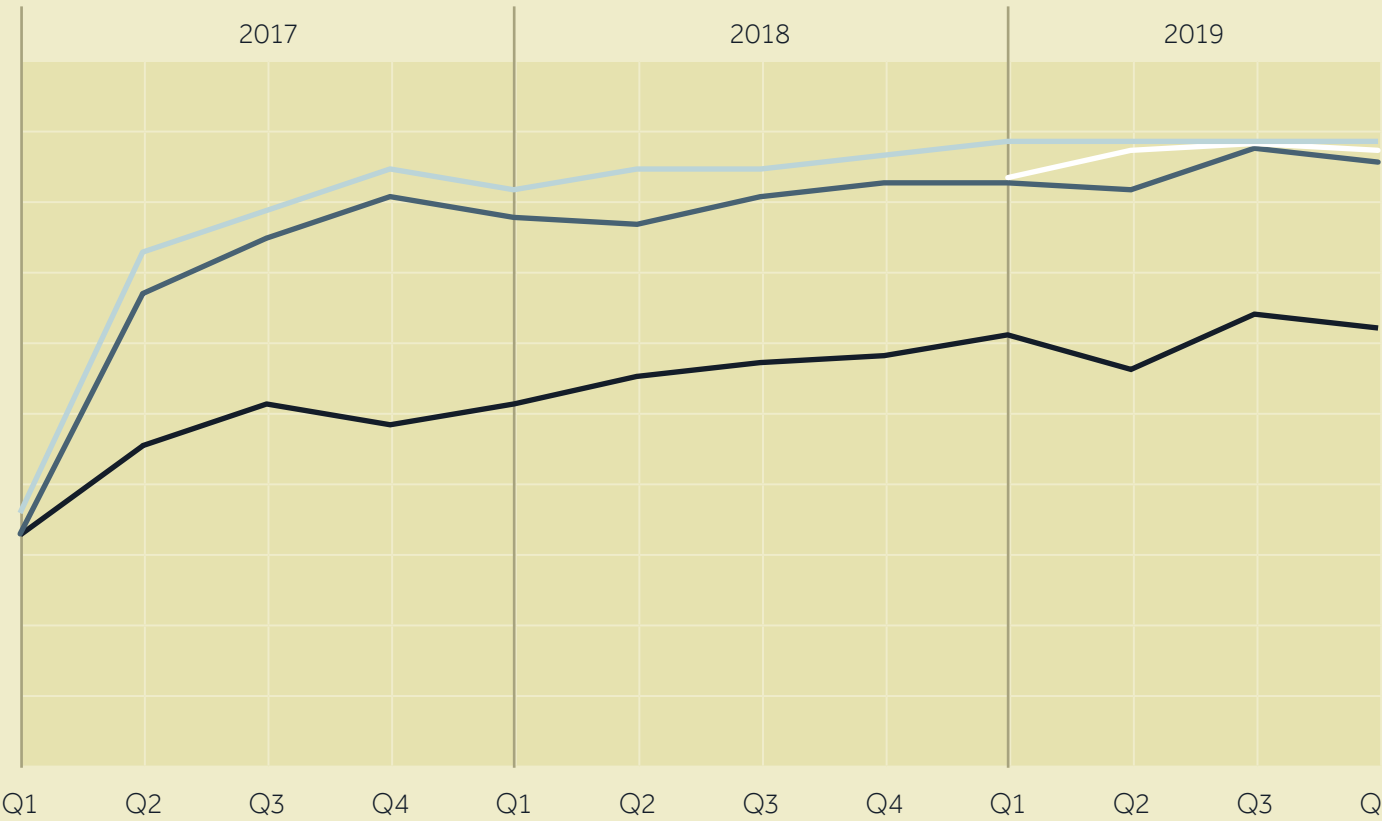
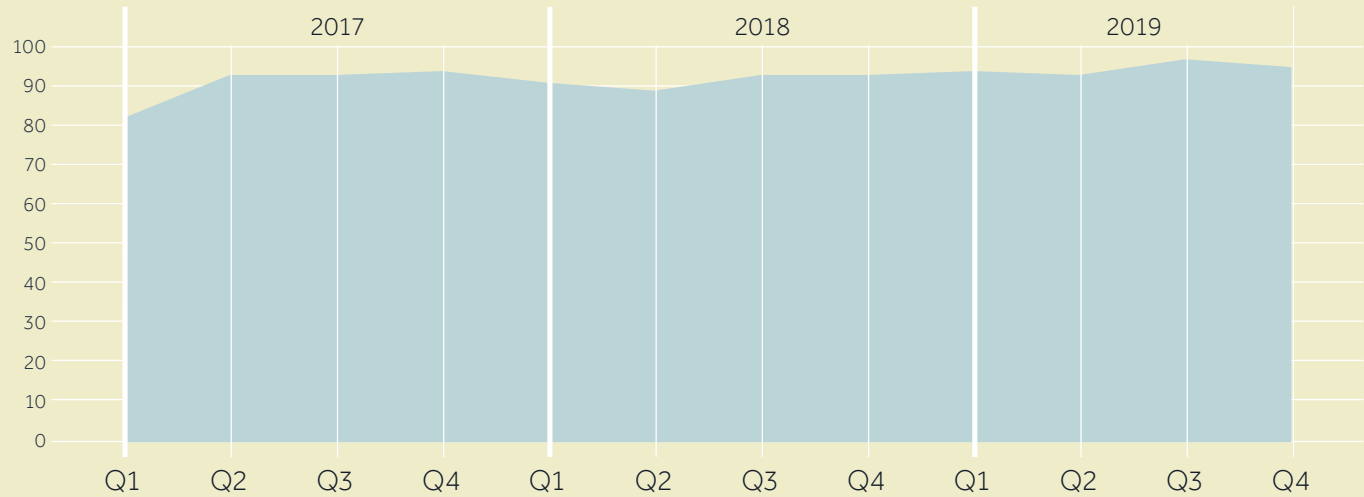
- **Members' joining experience.**
- **How annual statements are issued.**
- **How members' regular requests are processed.**
- **How telephone calls are managed.**
- **How payments are paid.**
- **Your views on the service received.**
- **The prompt and accurate investment of your money.**
- **The level of complaints made and their nature.**

In general, we are pleased with the results of this regular monitoring. Service levels are good overall and reflect the plan Royal London put into place during 2019 to maintain standards during busy periods.

The diagrams on page 42 illustrate some of the key results of this. We describe some of these later in this section. The key points to note from these graphs are:

- The measure that we consider overall, the Net Promoter Score (How likely it is that you would recommend us to a friend or colleague) showed a gradual increase over the year. While this measure is commonly adopted by firms, it is difficult to compare consistently with other financial institutions. This is because the score may be recorded in different parts of a customer process or contact type. Measuring this consistently within an organisation is important as it demonstrates progress or issues with meeting customer expectations.
- This year, Royal London introduced a new initiative to measure customer experience. We believe that this may prove a more useful measure of your opinion than net promoter score as some people struggle with the concept of saying they would recommend a company that they themselves did not select (which is largely the case for workplace pension customers).
- Despite some peaks and troughs in how quickly Royal London dealt with your calls, the overall ability of Royal London to meet your needs remained relatively stable during the year.

Service Levels - responding to customer queries - call answer rate



- Net Promoter Score (NPS): How likely is it that you would recommend us to a friend or colleague
- How easy would you say it was to deal with us today?
- To what extent do you agree or disagree that we were able to resolve all of your queries today?
- How was the Customer Experience you had today? (New)

## 8.2 Royal London's workplace complaints

The level of complaints from Royal London's workplace customers is low as you can see from this table:

	Qtr1	Qtr2	Qtr3	Qtr4
<b>2019</b>				
Complaints per 1000 policies	0.49	0.37	0.40	0.35
<b>2018</b>				
Complaints per 1000 policies	0.42	0.50	0.44	0.47

The number of complaints relating to workplace pension has therefore reduced significantly in the year compared to 2018. Complaint volumes initially peaked in the first quarter of 2019 with an increase in complaints relating to delays.

### Pension transfer complaints

There was an increase in complaints about delays transferring pensions in during 2019 compared to the previous year. This is mainly due to very high volumes of these requests as more people are choosing to transfer their previous pensions to Royal London. This increased volume was largely when customers' were transferring savings without seeking professional advice. While Royal London continue to stress the importance of professional advice when transferring a pension, they have developed their communications and processes to make it simpler for the customer should they wish to proceed without an adviser. It is clear that there are circumstances where it would be uneconomical to pay for advice, particularly where the transferring pot is small.

To manage the increased demand for this service effectively, Royal London are recruiting more people and are carrying out training on this within the current Customer Service team. We have also been provided with details of a review done to identify improvements and streamline the current process.

### Data protection complaints

There was also an increase in complaints in the second half of the year relating to data protection issues, specifically the issue of documentation to incorrect customers. This was caused by a printing error and the relevant authorities were informed as required in a timely manner.

We note however, the overall level of workplace customer complaints is very low per transaction. On average the number of upheld complaints was 0.14% per transaction throughout the year.

Royal London's complaints team work closely with the Group Customer Service management team to analyse the root cause of complaints and discuss any required action to address any area of concern.

Royal London continue to focus on:

- Improving staff planning processes during busy times.
- Acting earlier to respond to staff leaving customer facing roles, often as a result of internal promotion.
- Multi-skill staff so they are able to resolve a wider range of your enquiries.

Actions taken to address these include:

- The use of enhanced planning tools.
- Proactive recruitment in line with and ahead of staff leaving Royal London.
- Creating an Academy for new staff supported by accredited coaches.
- Consistent upskilling in line with customer demand/needs.

While we are provided with details of these programmes with Royal London and have regular access to their management team to challenge their plans, it is important we see results in the way

customers perceive the service Royal London deliver. We are pleased to see from the key data shown previously that increasingly Royal London's customers find them easy to deal with and are satisfied with how the firm deals with enquiries.

### 8.3 Introduction of case managers

In order to provide a more dedicated and tailored service to its workplace customers, Royal London Intermediary have implemented the concept of case management to its largest 3000 workplace pension schemes. Each of these schemes have now been given an experienced named contact who is responsible for the proactive management and relationship building with the employer and/or adviser. The intention is that these case managers will be able to provide enhanced service to the employer (and yourself) through building up a detailed knowledge of their needs and processes. It is intended that this proactive and dedicated engagement will result in improved employer and member engagement as well as delivering a more efficient service.

This approach would appear to us to have merit. As this is a relatively recent development, we have asked Royal London to keep us informed of progress and evidence of the difference being made to you and your employer.

### 8.4 Unallocated funds

We reported last year that Royal London has been working with your employers to make sure that payments into your plan are processed and invested as efficiently as possible. This work was needed because sometimes Royal London was not being provided with all the information it required first time to allocate the payments to the right investment fund and the right individual on time. This work has continued through 2019 to help employers with their duties. Despite this the unallocated premiums have continued to rise. This is partly due to the significant rise in the new workplace business Royal London has

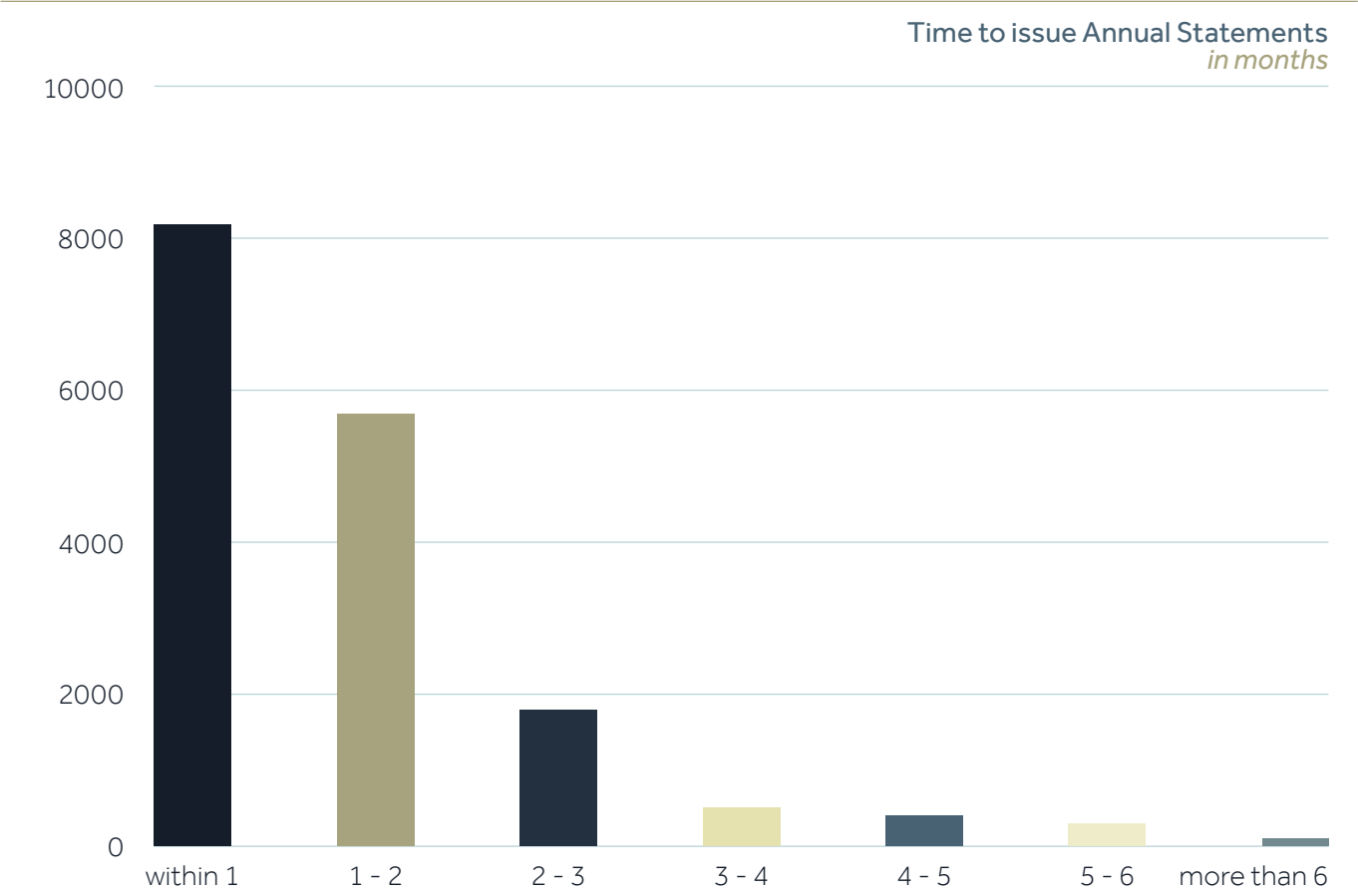
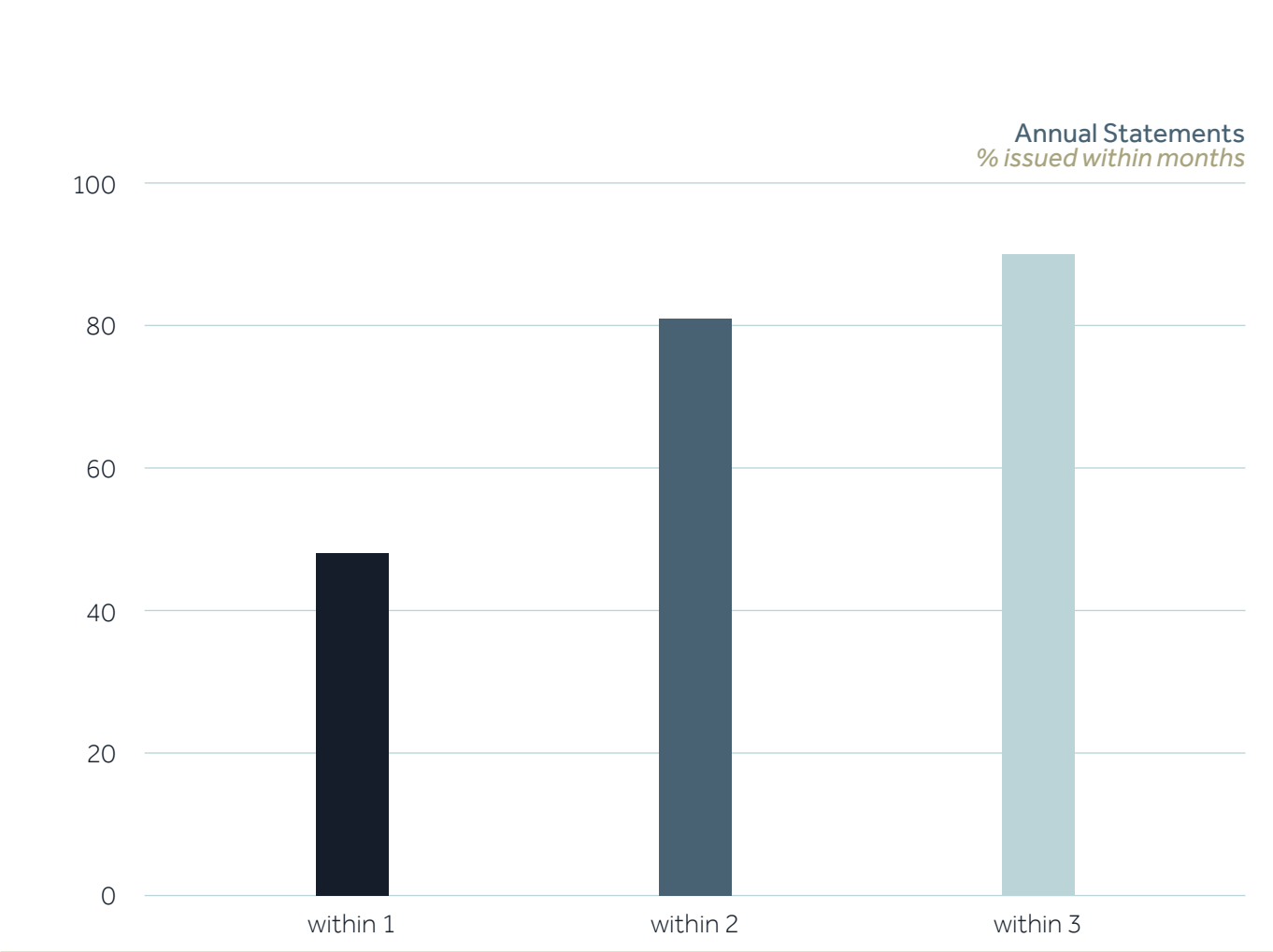
secured over the year. We have also been advised of an internal system error which has impacted on the unallocated items and the respective annual statements – we have asked Royal London to provide plans to rectify the affected policies.

While customers do not lose out from any delay in allocation since Royal London takes the **out of market risk** (we explain this in the [Glossary Section](#)) it is important that Royal London continues to make improvements in this area. This should include enhanced training to employers and improved processes to ensure that fewer premiums are provided without clear instructions. Those that are sent over without the correct information should also be dealt with more swiftly. Royal London have advised us of positive and proactive changes which have been made to its service model which should mean this can happen effectively in the coming year. We will be monitoring this to ensure the expected improvements happen as anticipated.

### 8.5 Yearly Pension Statement

In last year's report we noted the significant improvements made to both the quality and timeliness of the yearly pension statement for all Retirement Solutions customer who make up the majority of their workplace customers. This year, further enhancements were made by rolling out the new statements to those with continuation plans with Royal London (continuation plans are when a customer leaves a job, but wishes to carry on paying into their plan). This is an important development as the number of these continues to rise There are now almost 500,000 continuation plans as at 31st December 2019.

Royal London previously made enhancements to processes which resulted in the more timely issue of the annual statements which members receive. While there is normally a rise in the number of annual statements remaining to be issued after peak scheme renewal period (April) we expect the number to fall



significantly by year end. The number of annual statements outstanding has increased this year due to an increasing volume of employers not supplying updated salary information and Royal London's system not automatically completing the renewal process on a no change basis. The graphs on page 45 shows that Royal London issue the majority (91%) of member statements within three months of scheme renewal. This does mean that some members are still waiting for their statement longer than necessary.

We have asked Royal London to set out its plans in this area in three respects:

- How Royal London intend to impress upon the employer the importance of supplying up to date salary information. This is important as it helps ensure, for example, that the member is receiving the right information on their projection of benefits.
- That the renewal system processes no change renewals effectively where it is clear that no salary updates will be provided for the current year.
- To prioritise the fix of a technical issue which has been identified which has been holding up a small proportion of renewals for a significant period

## 8.6 Legacy Division Workplace Customers

While the majority of Royal London's workplace customers are administered by Royal London's Intermediary Division, around 26,000 are looked after by their Legacy Division. Although the proportion of the workplace customers is small, we do still monitor the value for money being provided to these customers on an ongoing basis. As you will see from the information in **section 4**, charges for all customers in Legacy Division are 1% or below. Royal London recognised more could be done to improve the experience, particularly in relation to communications

and engagement and made significant changes to these over the last few years. However, we also believe further work needs to be done to do a comparative analysis to ensuring that Legacy workplace pension customers receive a comparable experience to the workplace pension suite which is being actively marketed by Royal London Intermediary. Royal London are conducting a review that will compare value for money metrics across its workplace customers and assess this against Intermediary Division propositions. This work will be complete in the coming year and we will monitor the results and share findings in next year's report.

In 2019 Royal London made the following improvements to enhance the experience of legacy customers:

- Simplifying Legacy technology infrastructure, consolidating funds and making process and product enhancements.
- Made changes to annual member statements for all legacy workplace pension customers.
- All customers now get communications about their plans and retirement choices at age 50 and every five years until they take their benefits.
- Reviewed existing retirement communications to customers. The new communications are significantly simplified, clearer and consistent.

We will monitor the improvements Royal London Legacy Division have made this year to ensure they add value and to monitor their commitments for the coming year.

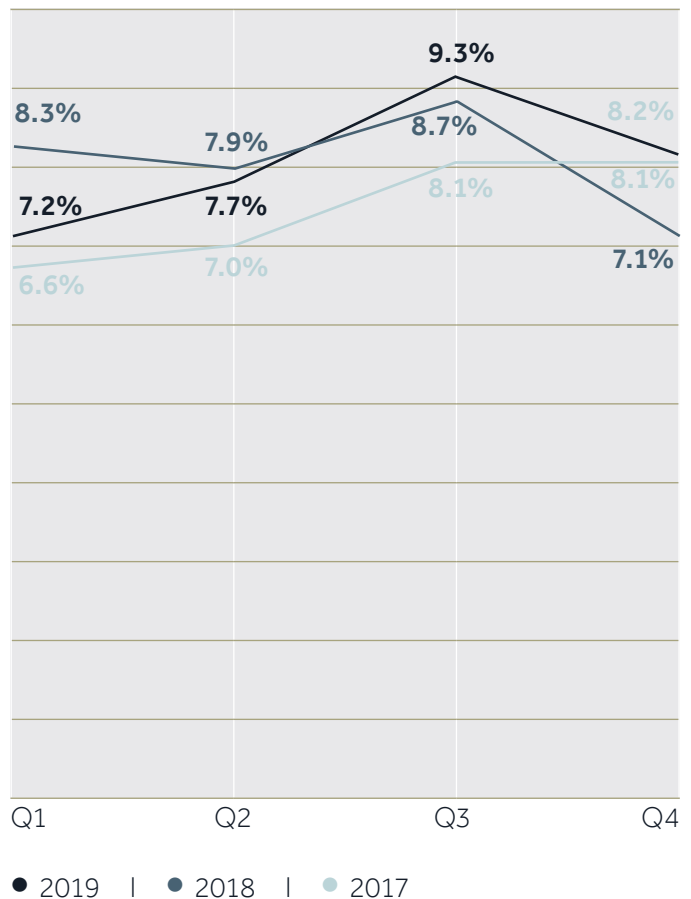
## 8.7 Treatment of tax

The pensions industry has two main ways in which you can receive tax relief on your contributions. Royal London continues to mainly provide what is called Relief at Source. This is beneficial to lower-paid customers since they can receive the effect of tax relief even if they are not liable to income tax. This aspect is becoming increasingly important as the gap between the earnings limits for auto-enrolment and income tax continues to widen. This issue is receiving significant attention from Regulators, Government and consumer groups.

Royal London has implemented the required systems and processes to manage the different tax arrangements between Scotland and the rest of the UK.

## 8.8 Members opting-out of the pension scheme

Customers have the option to opt out of being enrolled into their pension scheme and And the IGC consider a low opt out rate to be important. We therefore regularly monitor the opt out rate from Royal London's workplace pension schemes. The rates for 2019 are as follows:



This year there was a significant increase in the minimum level of employee contribution (required by auto-enrolment legislation). Although there was a slight increase in the opt out rate in Q3 compared to the same quarter the previous year, by the year end the opt out rate had returned to previous levels. Royal London also provided information to customers to ensure they were well informed about the upcoming changes in contribution rates and supported employers through this process. This is important as the minimum level of contribution from the employer also increased in April 2019. It is important to ensure the contribution level increased as expected.

# Communications and engagement

## SUMMARY

**In this section we review the steps Royal London has taken to improve how it communicates with you and how it intends to make further improvements.**

**In summary:**

- » The planned changes we described in last year's report have been made.
- » Royal London recognises that there are a number of different parties who can influence your engagement in your pension, including your employer and any adviser involved in your workplace pension scheme. Royal London has continued to make improvements in how it communicates with you and all parties involved in your workplace pension scheme.
- » Royal London has continued to make good progress on the work it is undertaking to engage you with your pension. The developments they have introduced this year are welcome and we are starting to see positive signs of the impact these are having on employee action.
- » There is still additional work needed. We have discussed the plans Royal London has for future improvements and will monitor these in the coming year.
- » We will also be required to expand our work around how Royal London communicates with you, and other customers, as part of the new rules on ESG topics which we discussed elsewhere in the report.

## 9.1 Mobile app launch

In our report last year, we outlined how Royal London was going to introduce a new mobile app for customers. This was launched in March 2019 and Royal London has undertaken ongoing customer research since launch. They listened to our input when initially developing the app and have made various improvements to the functions and usability throughout the year, based on feedback from users. As at December 2019 there were more than 30,000 users of the app and there had been almost 1 million interactions since launch. Although this represents a small proportion of the total workplace customers we are satisfied with this initial level of take-up of the new communication tool.



The app allows you to keep track of your workplace pension, giving you all the main information you need. Royal London have plans to continue to develop the app in 2020, including providing you with additional information about your pension and starting to proactively communicate with you via the app. We believe these developments have the potential to really improve your engagement with your pension.

## 9.2 Digital Communications

Digital communications have an increasingly important role to play in effective member engagement. Royal London have taken a number of steps this year, in addition to the launch of their mobile app, to improve what they offer. The membership newsletter, delivered by e-mail, which was launched by Royal London last year has been enhanced this year. They have introduced a range of helpful online content including videos and articles to make this communication more engaging. A good example of this is the market updates that they now offer. These are monthly video updates that keep you up to date with their current views on the investment market and are designed to help you keep a closer eye on your investments.

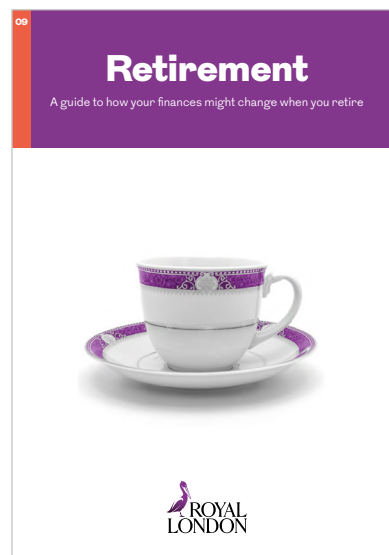
Royal London have also made it easier to do things with your pension online. This now includes making a single contribution and letting them know who you would want to pass your benefits to if you were to die.

## 9.3 Financial Education

Significant steps have been taken this year to improve the amount of information provided on broader financial education. We believe this is important to workplace customers, particularly those brought in to pension savings for the first time through automatic enrolment. These developments include:



- Podcast series that provides you with an opportunity to listen to independent experts who bring financial matters to life.



- Good with your money guides that are designed to give you information and guidance on a wide range of issues to help you make the most of your money. This includes topics such as budgeting and how to cut your bills.

Royal London will continue to evolve and develop this in 2020 with plans for webinars on a range of topics.

## 9.4 Information and communication to employers

Employers are a trusted source of communication for members of workplace pensions and it is important for you that Royal London make the most of this relationship.

Since introducing the employer newsletter, Royal London has increased their reach and now use this to engage with over 19,000 employers. Their emails are well received generally and get above market average open rates. In 2019 employers have reviewed their content over 20,000 times. Engaging with employers is a really good way to get content out to members, and it is through these channels Royal London launched their mobile app as well as materials about how members can make the most of the tax relief available on pension savings.

Royal London are continuing to develop the support they offer employers through their newsletter and the employer hub. We understand that this will be a key part of how they launch their engagement toolkit and range of additional materials for employers to use with their employees. We have therefore planned to study this aspect of their pension offering in more detail during 2020 so that we can be sure it is focused on your needs as customers as well as assisting employers with their obligations and priorities.

As noted in the Quality of Service section of the report, Royal London has appointed case managers to over 3,000 of their existing schemes. We believe this will give employers the ability to run their pension schemes more effectively, improve communication and enable employers to make the most of the engagement materials Royal London has to offer, for the benefit of their employees. In turn this should increase the level of customer

engagement. We have challenged Royal London to set out their road map (and targeted improved customer outcomes) for the customer experience and engaging communications they intend to deliver over the medium term and their plans to fulfil a quite ambitious promise. We will continue to challenge Royal London to make sure they continue to enhance the communication and engagement experience they deliver to you through 2020 and report on the improved outcomes delivered.

## 9.5 Customers leaving their employer and staying with Royal London

When workplace customers leave their employer, Royal London offer to move their plan to a Retirement Solutions Plan with Royal London, transfer it to a provider selected by the customer or to or provide a continuation plan with the same charges and terms offered by the workplace scheme. The continuation plan is provided by default if the customer does not choose one of the other options. We have reviewed the communications, process and value being provided to customers when they leave the employer scheme. We found that while the options offered and concept of the continuation option on same terms is sound, we believe the communications to the customer could be improved. Royal London has committed to providing additional information and their proposals around continuation options to us in the next period.

## Vulnerable Customers

### SUMMARY

**This section explains how Royal London has considered the particular needs of vulnerable customers, and its plans to increase its service to them.**

**In summary, Royal London has:**

- » **An appropriate policy in place covering this important subject.**
- » **Partnered with The Money Advice Trust to help develop their training approach.**
- » **Developed a new customer vulnerability recording solution.**
- » **Hired a dedicated Vulnerable Customer Manager to lead their approach.**

We asked Royal London to explain to us how the particular needs of Vulnerable Customers were being catered for when designing and administering their workplace pensions. Our work in this area was supported by one of our Committee, Paul Gallagher, who is Life and Pensions Risk Director and who has overall responsibility for this topic within Royal London.

Royal London explained to us that following on from the work done with Huntswood (an independent firm) to help benchmark Royal London's approach compared to that of other providers, they have acted on the areas identified to further improve their service to Vulnerable Customers.

Royal London has recruited a dedicated Vulnerable Customer Manager to oversee and coordinate the delivery of the **vulnerable customer** strategy. This is helping create a focal point for ongoing development activity.

A solution for more effectively recording vulnerability has been developed and is now live. Royal London had previously explained to us that they had identified this as an internal difficulty. The various systems used across Royal London made it difficult to record vulnerability once and automatically add this information across all systems. The new system allows employees to record customer vulnerability and the additional support a customer requires. This information is now easily accessible for employees on an overarching system to help support customers on any future calls. This allows Royal London to record vulnerability once and for the information to be more easily shared for future interactions. This is now being rolled out on a phased basis.

Royal London has established a group of Vulnerable Customer Specialists to make up a dedicated Vulnerable Customer Team which support their operational areas. The team is a combination of customer service consultants, team leaders and

members of the senior leadership team. Specific in depth training will be provided to this group on an ongoing basis. This will include training with external charities and selected pressure groups.

In relation to their approach to training, Royal London have partnered with industry experts The Money Advice Trust (MAT) to develop face to face training for all of their customer facing employees. Recording vulnerability on the new system is being incorporated into the training approach with focus being on identifying the signs of vulnerability, encouraging an environment of open disclosure and subsequently recording vulnerability.

MAT has also developed two computer based training modules on behalf of Royal London which will focus on the consideration of **vulnerable customers** from a customer facing and non-customer facing employee perspective. This new training will be rolled out in 2020.

In addition to these initiatives, we were informed that the Customer Standards Committee (an internal governance committee within Royal London) agreed and had oversight of other key activities to continue to improve Royal London's services to **vulnerable customers**. These include:

- Improving processes for alternative format communications
- Developing further Management Information to gauge the success of initiatives and focus attention on further areas of improvement
- Reviewing the approach to lapses and support for customers who require help with budgeting, benefits and debt type needs
- Improving the accessibility standards on Royal London websites

Royal London reran the **vulnerable customer** self-assessment it originally carried out in 2018 using the Huntswood approach. For most of the outcomes there was an increase in the self-assessment score with improvements in 5 areas out of 10 and an overall improvement in average/total score from 5.7 to 6.3. Only one area showed a decrease in score (tailored approach) – when Royal London scored this the first time it focussed on processes around traditional vulnerabilities (hearing and visual impairment) and scored 6.0 but their overall focus in this area has raised awareness of the need to broaden this (hence the slight decrease in score to 5.6) – actions around this are part of Royal London's overall plan for **vulnerable customers**.

We reviewed the FCA document GC19/3: Fair treatment of vulnerable consumers, that was published on 23 July 2019 and can be found on their website. The guidance consultation outlines ways in which firms can best identify, manage and monitor vulnerable consumers through good and poor practice examples.

Royal London carried out an initial gap analysis and are making progress in delivering the majority of the requirements. However, there were some areas Royal London believed further work is required to meet the FCAs expectations:

- Deeper consideration of **vulnerable customers** when designing and reviewing products including more expansive use of customer insight
- More consideration of reasonable adjustments to existing processes to provide **vulnerable customers** with more tailored services
- Exploring the ability to appointed third party/ trusted friend to carry out some functions for **vulnerable customers** when needed
- Continued development of management information around **vulnerable customers**

Royal London will carry out more analysis of the options around these items and incorporate any new gaps into their existing plan. Royal London are also refreshing the **vulnerable customer** self-assessment using the Huntswood tool previously used. Progress has been made but given the draft guidance published by the FCA Royal London is aware that expectations around treatment of **vulnerable customers** continue to rise. The results of this and progress against the plan will be regularly presented to us in 2020. In addition to this we have agreed that one of our non-executive IGC Members, Myles Edwards, will engage more closely with Royal London's **vulnerable customer** developments throughout 2020.

Overall, considering the current position, the additional actions already taken and the plans for the future, we were satisfied with how Royal London are progressing their approach to helping **vulnerable customers**.

We will continue to receive updates on this work during 2020 and will report on progress in our next annual report.

# Conclusions on Value for Money

## SUMMARY

In summary we conclude that:

- » The default investment strategies have clear statements of their aims and objectives and are designed and executed in your interests. In addition all other relevant investment strategies are regularly reviewed by Royal London to check that their characteristics and net performance are aligned with your interests, with Royal London taking appropriate remedial action where necessary (see section 5).
- » Royal London is making good progress on Responsible Investment (see section 6),
- » The actual investment performance, both before and after relevant investment costs, including transaction costs, are good (see section 7).
- » All core financial transactions are processed promptly and accurately (see section 8).
- » The charges on your policy are consistent with our views on value for money (see section 4).
- » Based on our wider framework for assessing value for money we have allocated Royal London a majority of Green scores (see table on page []).
- » Investment performance has moved from Amber in 2018 to Green this year.
- » We have moved Communications from Green to Amber this year due to a tightening of our stance on all Royal London's workplace communications. Royal London has made improvements in a number of areas and we want to ensure the best quality of communication is offered to all workplace customers in a timely manner. This includes its older workplace customers whose plan type is no longer actively marketed.
- » Overall we consider that Royal London continues to offer workplace customers value for money.
- » We will continue to monitor this on your behalf and ensure Royal London continues to meet its commitments.

In addition to considering the specific areas that we are required to investigate by regulation, we have also assessed Royal London's value for money against our framework set out in [section 2](#).

As we explained in that section, for 2020 we will be using a slightly amended version with more quantitative and qualitative measures but for the purposes of this report we are satisfied that we are giving sufficient attention to both **vulnerable customers** and Responsible Investment.

The following table sets out our summary comments based on the work in this report together with a red, amber or green rating. The ratings we gave in last year's report are also shown.

Area	Summary comments	Previous score	Current score
<b>Regular reviews</b>	We are satisfied with how Royal London continues to review its products and seeks ways to improve them.	●	●
<b>Appropriate ongoing charges</b>	We are satisfied the charges levied are fair compared to the benefits being provided.	●	●
<b>Fair exit charges</b>	The issue around exit charges for a very small number of older products remains. The resolution of this depends on wider projects within Royal London. We are satisfied that this is the right course of action but will retain our Amber rating until it is addressed.	●	●
<b>Balanced charging</b>	We are satisfied the structure of charges is appropriate.	●	●
<b>Appropriate investment returns</b>	The good performance over 2019 has resulted in good performance over the longer time periods that we consider are more appropriate for assessing investment returns.	●	●
<b>Clear communication</b>	We have been impressed by the work carried out by Royal London to improve their communications with you. We have changed our rating this year due to a tightening of our stance on Royal London's workplace communications. As Royal London has made improvements in a number of areas and we want to ensure the best quality of communications is offered to all workplace customers in a timely manner. This includes its older workplace customers whose plan type is no longer actively marketed.	●	●
<b>Effective service</b>	We are satisfied with the overall service that you have been receiving during the year. Several key projects have been carried out and the improvements have been measured and are satisfactory.	●	●

Overall, we are satisfied Royal London is continuing to provide value for money to its workplace pension customers.

We have a duty to raise any areas of concern to the Board of Royal London. No issues were escalated to the Board in 2019. We did however provide an update on our work and findings to the board after each quarterly IGC meeting. Our Chair has also met with the new Chair and Chief Executive of Royal London to ensure we continue to receive the support from Royal London that we need to carry out our work for you.

For the rest of 2020 we will continue to monitor the aspects of value for money we have set out in this report but also work on the new requirements from the FCA, covering ESG and investment pathways for non-advised drawdown customers that will come into force during the year. This may mean that our report next year will be in a materially different style and format.

Finally, if you would like to contact us please do so at [RoyalLondonIGC@royallondon.com](mailto:RoyalLondonIGC@royallondon.com) or come to talk to us at Royal London's AGM on 5 June. We welcome your comments.

# Appendices

## APPENDIX 1 IGC CHANGES AND MEMBERSHIP

Peter Dorward was appointed Chair of the IGC in June 2018, having previously been an independent member of the Committee. 2019 was therefore Peter's first full year as Chair of the IGC.

Jon Macdonald (previously Royal London's Group Risk Director) left Royal London on 26 April 2019 and resigned from his membership of the IGC on the same date, after 4 years as a member. Elizabeth Boardall (head of Customer Engagement Communications in Royal London's legacy team) filled the role of non-independent member from 27 June 2019 – 4 October 2019. Cat Read was then appointed to replace Elizabeth as a non-independent member of the IGC on 10 December 2019. Cat joined Royal London in 2013 and is currently Chief Operating Officer for Royal London Asset Management. Her expertise will positively contribute to the work of the IGC, particularly given the extended remit from 6 April 2020.

The current membership of the IGC is as follows:

**Peter Dorward** – Independent Chair

**Myles Edwards** – Independent Member

**David Gulland** – Independent Member

**Cat Read** – Royal London

**Paul Gallagher** – Royal London.

Full details of our members, as well as an explanation of our role and responsibilities, is set out at [royallondon.com/igc](https://royallondon.com/igc).



**Peter Dorward**  
**Independent Chair**

Peter has over 40 years' experience in life assurance, pensions and institutional investments in the UK and overseas. He is now Managing Director of IC Select, a consulting firm specialising in providing investment governance support for defined benefit pension fund Trustee Boards. He holds an MBA from Edinburgh Business School, Heriot Watt University, Edinburgh.



**David Gulland**  
**Independent Member**

David has a broad range of experience across the UK life insurance sector, with 25 years' experience as an actuarial consultant, followed by senior executive roles within the life insurance industry - including Managing Director of RGA UK and Chief Executive of Marine & General Mutual. He is currently a Director and Chair of the Risk and Conduct Committee at Hodge Life, a Director and Chair of the Audit and Risk Committee of PG Mutual, the Chair of Scottish Friendly's With Profit Committee and a member of the Compliance Committee of the Funeral Planning Authority.



**Paul Gallagher**  
**Life And Pensions**  
**Risk Director**  
**Royal London**

Paul has over 30 years' experience within the Financial Services industry and over 15 years' experience in Life, Pensions and Asset Management Companies. He has a broad range of experience in various functions including Operations, Finance, IT and has specialised in Risk, Compliance and Audit for the last 20 years. Previous companies include Aegon, Capita, Resolution and RBS Insurance. His current role in Royal London is Life and Pensions Risk Director.

## The current members of the Committee are:



**Myles Edwards**  
**Independent Member**

Myles is a pension planholder, and therefore a member, of Royal London. Although this was a primary reason in his appointment to the IGC, Myles brings significant experience and expertise built up during his 28 years working in financial services. Myles has a broad range of skills in product design, marketing and customer engagement and it is this wider customer focus which, along with being a Royal London customer, which makes him an ideal member of the IGC. He has also been Executive Director at Age UK Enterprises and Foresters Friendly Society for over 12 years responsible for product design, marketing and communications.



**Catherine Read**  
**Chief Operating Officer**  
**Royal London**  
**Asset Management**

Catherine has 18 years' experience in Financial Services. She was appointed to the Board of Royal London Asset Management Limited (RLAM) in January 2018, having joined the RLAM Executive as the Chief Operating Officer. She was previously the Royal London Group Audit Director for five years. Catherine is a Chartered Accountant and joined Royal London from PriceWaterhouseCoopers LLP where she was a Director within the Insurance and Asset Management Risk Assurance Services practice.

## APPENDIX 2 AN OVERVIEW OF ROYAL LONDON'S INVESTMENT FUNDS

Royal London manages its investments through a tiered hierarchy of funds.

The bottom tier is a range of "building block" funds with clear and transparent investment objectives, guidelines and restrictions. They normally just invest in a single type of asset such as UK Equity or Property. Although you can invest in them directly, for workplace pensions they're mainly used to create the second tier of funds.

These building block funds are held in different proportions across a range of Governed Portfolios. These Governed Portfolios form the second tier of funds. Each Governed Portfolio has a different strategy and hence a different mix of assets. Performance across these Governed Portfolios is reviewed regularly. You'll find a summary of these reviews posted on line [here](#)<sup>1</sup>.

Finally, there are three groups of "lifestyle" strategies. These make up the third tier of Royal London's investment range. These aim to provide the optimum strategy depending on whether the proceeds of the pension policy are intended to be taken as cash, annuity or drawdown.

For each of the three options, there are five different strategies, each with varying levels of risk. For each of these levels of risk an active or **passive investment strategy** can be selected.

As a result of these options there are 30 different "lifestyle" strategies available. A customer investing in one of these strategies will have a varying mix of the Governed Portfolios at any one time depending on how close to retirement they are.

Where the adviser or employer doesn't wish to make a decision around the default investment, Royal London will automatically make the Balanced Lifestyle Strategy (Drawdown) available as the default. Details of this strategy are set out [here](#)<sup>2</sup>.

1. <http://www.royallondon.com/governedrange>

2. <https://www.royallondon.com/strategyfactsheets/strategyfactsheet.asp?InvestmentType=F&strategyid=404680>

## APPENDIX 3 TRANSACTION COSTS

<b>OVERALL COSTS BREAKDOWN BY TYPE</b> Governed Range	Commission	Tax	Legal Fees	Other	Implicit Costs	Stock Lending Fees	Total
<b>2019</b>							
Governed Portfolio 1	0.020%	0.085%	0.003%	-0.030%	-0.021%	0.002%	0.058%
Governed Portfolio 2	0.015%	0.062%	0.002%	-0.022%	-0.084%	0.002%	-0.026%
Governed Portfolio 3	0.006%	0.024%	0.001%	-0.011%	-0.096%	0.001%	-0.074%
Governed Portfolio 4	0.021%	0.088%	0.003%	-0.015%	0.004%	0.002%	0.104%
Governed Portfolio 5	0.018%	0.075%	0.003%	-0.016%	-0.037%	0.002%	0.045%
Governed Portfolio 6	0.014%	0.060%	0.002%	-0.009%	-0.067%	0.002%	0.001%
Governed Portfolio 7	0.021%	0.080%	0.003%	-0.009%	0.019%	0.002%	0.117%
Governed Portfolio 8	0.020%	0.078%	0.003%	-0.011%	-0.001%	0.002%	0.091%
Governed Portfolio 9	0.013%	0.052%	0.002%	-0.010%	-0.047%	0.002%	0.012%
<b>2018</b>							
Governed Portfolio 1	0.027%	0.135%	0.005%	-0.043%	-0.031%	0.006%	0.100%
Governed Portfolio 2	0.021%	0.099%	0.004%	-0.043%	-0.061%	0.005%	0.025%
Governed Portfolio 3	0.009%	0.039%	0.001%	-0.025%	-0.043%	0.002%	-0.016%
Governed Portfolio 4	0.029%	0.143%	0.005%	-0.038%	0.006%	0.008%	0.152%
Governed Portfolio 5	0.025%	0.121%	0.004%	-0.039%	-0.021%	0.006%	0.097%
Governed Portfolio 6	0.020%	0.094%	0.004%	-0.025%	-0.029%	0.004%	0.067%
Governed Portfolio 7	0.028%	0.134%	0.004%	-0.040%	0.028%	0.009%	0.163%
Governed Portfolio 8	0.027%	0.129%	0.004%	-0.039%	0.009%	0.008%	0.139%
Governed Portfolio 9	0.018%	0.085%	0.003%	-0.031%	-0.015%	0.005%	0.066%
<b>DIFFERENCE</b>							
Governed Portfolio 1	-0.008%	-0.050%	-0.002%	0.013%	0.010%	-0.004%	-0.042%
Governed Portfolio 2	-0.006%	-0.038%	-0.001%	0.021%	-0.023%	-0.003%	-0.050%
Governed Portfolio 3	-0.003%	-0.014%	-0.001%	0.014%	-0.053%	-0.001%	-0.058%
Governed Portfolio 4	-0.008%	-0.055%	-0.002%	0.023%	-0.001%	-0.005%	-0.049%
Governed Portfolio 5	-0.007%	-0.046%	-0.002%	0.024%	-0.016%	-0.004%	-0.051%
Governed Portfolio 6	-0.006%	-0.034%	-0.001%	0.016%	-0.038%	-0.002%	-0.066%
Governed Portfolio 7	-0.007%	-0.054%	-0.002%	0.030%	-0.008%	-0.007%	-0.047%
Governed Portfolio 8	-0.007%	-0.051%	-0.002%	0.028%	-0.010%	-0.006%	-0.048%
Governed Portfolio 9	-0.005%	-0.034%	-0.001%	0.021%	-0.032%	-0.003%	-0.054%

Property tends to have the highest **transaction costs**. This is due to the cost of purchasing the actual buildings rather than investing in Property stocks. Purchasing Property direct has additional costs including Stamp Duty, which averages around 4% per purchase.

Property tends to have low correlation with other asset classes which makes it ideal for multi asset investing, and rental income will generally provide a secure income stream for portfolios.

<b>OVERALL COSTS BREAKDOWN BY TYPE</b> Governed Range	Commission	Tax	Legal Fees	Other	Implicit Costs	Stock Lending Fees	Total
RLP Global Managed	0.012%	0.021%	N/A	-0.016%	0.022%	0.003%	0.042%
RLP Property	0.069%	0.423%	0.018%	0.012%	0.000%	N/A	0.523%
RLP Global High Yield	0.000%	N/A	N/A	-0.021%	0.114%	N/A	0.093%
RLP Medium (10yr) Corporate Bond	N/A	N/A	N/A	-0.112%	0.016%	0.000%	-0.095%
RLP Medium (10yr) Gilt	N/A	N/A	N/A	-0.071%	-0.186%	0.005%	-0.251%
RLP Medium (10yr) Index Linked	N/A	N/A	N/A	-0.018%	-0.895%	0.002%	-0.911%
RLP Commodity	0.023%	N/A	N/A	0.035%	0.036%	N/A	0.094%
RLP Deposit	N/A	N/A	N/A	0.000%	-0.004%	N/A	-0.004%
RL Stakeholder Managed Fund	0.006%	0.016%	0.000%	-0.016%	-0.091%	0.003%	-0.082%
RL With-Profits Stakeholder Fund	0.023%	0.067%	0.000%	-0.004%	0.035%	0.001%	0.122%

#### Stakeholder Managed



#### With Profits Stakeholder



## APPENDIX 4 ROYAL LONDON'S UNITED NATIONS PRINCIPLES FOR RESPONSIBLE INVESTMENT

### Summary Scorecard

AUM	Module Name	Your Score	<div> <div></div> <div> Your Score </div> <div></div> <div> Median Score </div> </div>
	01.Strategy & Governance	A	<div> <div></div> <div>A</div> </div>
Direct & Active Ownership Modules			
10-50%	10. Listed Equity - Incorporation	A	<div> <div></div> <div>B</div> </div>
10-50%	11. Listed Equity - Active Ownership	A	<div> <div></div> <div>B</div> </div>
10-50%	12. Fixed Income - SSA	A	<div> <div></div> <div>B</div> </div>
<10%	13. Fixed Income - Corporate Financial	A	<div> <div></div> <div>B</div> </div>
10-50%	14. Fixed Income - Corporate Non-Financial	A	<div> <div></div> <div>B</div> </div>
10-50%	15. Fixed Income - Securitised	A	<div> <div></div> <div>C</div> </div>
<10%	17. Property	A	<div> <div></div> <div>B</div> </div>

## APPENDIX 5 ADDITIONAL INFORMATION ON BEST EXECUTION

In addition to the information provided in section, Royal London has carried out other work which we see as important steps in improving investment transaction execution for Royal London's customers. This is technical in nature so has been included here in a glossary rather than in the main body of the report.

**- Alternative liquidity providers:** During the period a number of flow traders were taken on. For example Jane Street Group, LLC was introduced as a new trading party. The Company is a quantitative trading firm focusing on financial products such as exchange-traded funds. The expansion of ETF's in the industry has positioned them as an alternative liquidity source for the underlying securities, equity and bonds, where they can offer very competitive pricing. Royal London has advised they continuously monitor and access new entrants into the market.

**- Peer to peer trading** in fixed income credit continued to increase with more than 143 secondary trades, with a total value of €401m, and average saving equivalent to 31 euro cents a trade, equating to €1.2m saving across all trades.

- The counterparty list has been expanded for ETF, Futures, FX and the FI space, these were targeted and strategic additions, to gain greater access to liquidity and provide challenge to existing counterparties.

## APPENDIX 6 GLOSSARY

### Actively managed

Active management is the use of a human element to actively manage an investment fund. Active managers rely on analytical research, forecasts, and their own judgment and experience in making investment decisions on what securities to buy, hold and sell.

### Balanced Lifestyle Strategy (Drawdown)

Balanced Lifestyle Strategy (Drawdown) is Royal London's default investment strategy designed for pension investors. The default strategy is where your money is invested if you don't choose a different investment fund or strategy.

### Explicit costs

Those costs, such as tax and broker commission, where there is both a readily identifiable source and basis for the cost. These are more simple to quantify.

### Implicit costs

When the fund manager is instructed to carry out a transaction it is important to do this at the best price possible. The available price may vary with the size of the sale or purchase, and it may also be possible to get different prices from various buyers/sellers. The actual price can vary between the time the order was made and when the transaction is actually carried out. The **implicit costs** we have shown seeks to capture the impact of all of these features. The measurement of this item is of varying complexity depending on the nature of the asset – being more complex when robust independent market prices are not readily available at all times (for example property) and more straightforward for other more liquid assets (for example equities of major UK listed companies). Since prices can move up or down in the period between receiving instruction and implementation, it is possible for this item to be negative, that is it can increase overall investment returns rather than reduce them.

### Investor in Customers Organisation

Investor in Customers is an independent customer experience agency with more than 10 years of improving customer service skills and bettering businesses.

### OTC Derivatives

Over-the-counter (OTC) derivatives are contracts that are traded (and privately negotiated) directly between two parties, without going through an exchange or other intermediary.

## Out of Market Risk

Out of Market Risk is when a member transfers their pension savings from one provider to another. During this time, the money is not invested therefore could potentially miss out on growth or losses if the market moves during the period.

## Passive investment strategy

A passive management is the opposite of active management where the fund's managers attempt to beat the market with various investing strategies and buying/selling decisions of a portfolio's securities. Instead the fund aims to track or to mimic the performance of an externally specified index e.g. the FTSE100 and there is no active management of the fund.

## Pensions Dashboard

Pensions Dashboard(s) are a Government and industry initiative that should let you see all of your pension pots all together - in an online place that you can choose. It is expected that the first Dashboards will launch at the end of 2019.

## ProfitShare

Royal London is a mutual, which means we're owned by their members. As such they we believe customers should share in their success.

Royal London aims to boost your retirement savings by adding a share of profits to your plan each year. They call this **ProfitShare**.

## Stochastic modelling

Stochastic modelling is a technique used to understand a range of possible outcomes in investment markets

## TER (Total Expense Ratio)

This is a measure of the total cost of a fund to the investor. Total costs can include various fees (purchase, redemption, auditing) and other expenses. The **TER** is calculated by dividing the total annual cost by the fund's total assets averaged over that year, and is expressed as a percentage.

## Transaction costs

When Investments are made in financial securities there are costs incurred in buying, selling and holding these assets. The IGC are given information on these costs and we take a view on whether Royal London is managing these costs and the customer is getting value from them.

## Vulnerable customer

A vulnerable consumer is someone who, due to their personal circumstances, is especially susceptible to detriment, particularly when a firm is not acting with appropriate levels of care.

## YouGov

**YouGov** is a global public opinion and data company specialising in market research through online methods

