Royal London Independent Governance Committee

ANNUAL REPORT 2015

ROYAL LONDON'S INDEPENDENT GOVERNANCE COMMITTEE presents its first Annual Report.

CONTENTS

Personal introduction from the Chairman **01**

1.0 Summary **02**

2.0 Overview of workplace pensions **03**

3.0 Assessing value for money **03**

4.0 Consideration of the interests of customers and access to their views **08**

5.0 Interaction between the IGC and Royal London **08**

6.0 The nature of the IGC **09**

Appendix 1 Summary information and statistics **11**

Appendix 2 Royal London response to RLIGC recommendations: Changes made by Royal London to increase value for money **14**

Appendix 3 Glossary of certain terms **15**

PERSONAL INTRODUCTION FROM THE CHAIRMAN

In February last year I was invited by Royal London to chair a new independent governance committee (IGC) to be effective from April 2015. The industry regulator, the Financial Conduct Authority (FCA), had advised all companies within the Pension Industry to set up IGCs in order to ensure Pension providers routinely give value for money for all of their workplace pension customers.

One of the objectives of the IGC is to produce an annual report for customers, clearly highlighting the scope and scale of the work undertaken by the committee and the support the committee has received from the pension provider, in this case Royal London, in pursuit of identifying value for money.

I am pleased to submit this inaugural annual report and in so doing fulfil one of the IGC's initial objectives. On behalf of the committee I would like to offer our thanks to the many Royal London employees who have worked tirelessly in support of the Royal London IGC.

Phil Green
Chairman
2nd March 2016

1.0 SUMMARY

Individuals are increasingly asked to take control of their pension savings, with more workers being automatically enrolled into a pension arrangement by their employers. This makes independent monitoring of such pension schemes very important.

As a result, all companies that provide workplace pensions in the UK, such as Royal London, are required by the rules of the Financial Conduct Authority (FCA) to establish an IGC, or to make similar arrangements. The IGC must provide an annual report which considers whether value for money is being provided and makes recommendations on this.

This is the first Annual Report of the Royal London IGC (RLIGC), which is tasked with assessing whether Royal London's workplace pensions provide customers with value for money. The Report focuses on the committee's key activities from its formation in April 2015 to 31 December 2015. These include:

- Developing a set of principles to assess whether Royal London's workplace pensions give value for money.
- Applying those principles to the assessment of Royal London's workplace pensions.
- Reviewing the member-borne charges applicable to Royal London's workplace pensions.
- Reviewing the available information on transaction costs.
- Reviewing the overall efficiency of investment and operations.
- Ensuring the views of customers are taken into account and that the breadth of such information received by Royal London and the IGC is improved where necessary.
- Considering benchmarking exercises to help Royal London and the IGC to continue to assess value for money in the future.
- Agreeing a plan of action to address any issues arising from our findings, including immediate steps and future actions.

After completing this work and in consideration of the changes that Royal London has agreed to make, RLIGC has concluded that overall Royal London is delivering value for money to its customers through its workplace pensions.

There were some areas where value for money for customers can be improved. These have been set out in this report, along with details of a plan of action to improve the value being provided to customers. We will monitor Royal London's implementation of these changes and report on progress in future Annual Reports.

We do not see this as a one-off exercise and we will expect Royal London to regularly evaluate and develop its proposition to its workplace customers.

We have written this report in language that we hope customers will understand. In some places we have had to use technical terms, for which we have provided a Glossary in Appendix 3. These are written in <u>**bold**</u> and underlined in the report.

2.0 OVERVIEW OF WORKPLACE PENSIONS

As of 31 December 2015, Royal London had 577,000 workplace pension customer plans covered by the remit of this IGC, since they meet the definition of a 'relevant scheme' as defined by the FCA. These workplace pensions come from 17,400 workplace pension schemes (or 'groupings of customer pension plans') and represent £5.7bn of customer investments.

Royal London has been providing solutions for the workplace pensions market for many years and continues to take on new workplace pensions business. Therefore, Royal London has many different pension contracts (as listed in Appendix 1). However, only the 'Retirement Solutions' pension product range is currently available for new employers. As of 31 December 2015, approximately 89% of Royal London's workplace pension plans were from this Retirement Solutions range.

The Retirement Solutions range can be used by employers for the purpose of meeting the Government's Automatic Enrolment requirements to establish a workplace pension arrangement for employees. These requirements are in the process of being rolled out across the UK (starting with the largest employers progressing down to the smallest), with all employers due to meet the requirements by early 2018. Royal London provides support to new and existing employers with its Retirement Solutions contract to help them meet their initial and ongoing automatic enrolment obligations.

The majority of Royal London's current active workplace schemes will become subject to the Automatic Enrolment requirements between now and early 2018. Over the same period these schemes will become subject to the **charge cap**. Currently, there are 46% of schemes already meeting the requirements of the charge cap, including schemes for employers yet to reach their **staging dates**.

Further information regarding the size and mixture of Royal London's workplace pensions is set out in Appendix 1.

3.0 ASSESSING VALUE FOR MONEY

3.1 Set of principles

A set of principles was developed to assess the value for money that customers receive from their Royal London workplace pension. These principles were developed in line with FCA requirements and with the benefit of analysis into customer requirements and feedback. These principles recognise that value for money is not simply about the level of charges associated with workplace pensions. Factors such as the quality of administration and the nature of the services provided have also been taken into account within the principles. We also recognise that the implications of action taken by the IGC and Royal London may be more complex in the case of a mutual organisation that is owned by its customers (those customers with an entitlement to a share of Royal London's profits). We have expanded on the implications for these customers later in our report.

The following summarises the principles by which we assessed value for money:

- Ongoing charges must continue to offer value for money.
- Communication with customers must be clear, timely and helpful.
- Workplace pension contracts should be regularly reviewed for their continued relevance, given the changing needs of customers.
- Any deduction from the face value of a pension on exit must be fair and be designed to recoup any unrecovered costs incurred by Royal London caused by the early exit of the customer.
- Any assessment of value for money should make allowance for the need for some cross-subsidies (explained further in section 3.5) between workplace pension plans.
- The assessment also needs to consider the impact on Royal London of the costs of establishing new workplace pensions and the need to hold **regulatory capital**.

3.2 Investment strategies for default funds

All IGCs are required to assess whether the investment strategies for default funds (that is, the funds into which customers' investments are placed unless they specifically select another fund) are designed and implemented in the interests of customers and include clear statements of the funds' aims and objectives.

To help carry out this assessment, the RLIGC regularly reviewed the work of Royal London's Investment Advisory Committee (IAC), which plays a key role in overseeing Royal London's investment strategy for all its workplace pension customers (not just default funds). This committee operates independently from the investment manager (Royal London Asset Management), which undertakes the day-to-day management of the funds. Further information on the IAC can be found at www.royallondon.com/iac. The minutes of the IAC are made publicly available and can be found at www.royallondon.com/IACminutes on the Royal London website.

The cost of the technical input and overall governance provided by the IAC is included in the overall charges paid by Royal London customers. This means that customers benefit from a strategic review and oversight of all the funds to a degree that would be difficult to achieve on their own.

Royal London offers a range of default investment options to its workplace pension customers so an employer and its investment adviser can select the most appropriate one for its workforce. As of 31 December 2015, there were 15 default options available, and, in aggregate, these funds accounted for 23% of the total workplace pension funds under management.

We found the aims and objectives of the default options to be clear and these details and other information are shown in fact sheets that are available to customers online.

One of the changes in pensions introduced by the Government in April 2015 was to give customers greater choice in how to use the proceeds of their pensions and removed the need for them to buy an **annuity**. These changes in law are often referred to as 'the Pension Freedoms'. Royal London has actively reviewed whether the investment strategies of its default funds remain appropriate in light of these changes. We are satisfied with the results of this review by Royal London. The investment strategies for default options have been designed with input from a leading risk analysis consultancy, Moody's Analytics, which also provides ongoing support to the governance process.

Overall, we have concluded that the investment strategies for default options are designed and executed in the interests of customers and include clear statements of the funds' aims and objectives.

(Further information regarding the numbers of customers invested in default options is included in Appendix 1.)

3.3 Reviews of investment strategies and performance

We also analysed the work of Royal London's committees to assess whether Royal London regularly reviews the characteristics and investment performance of all relevant funds (not just default options) to ensure they are aligned with customers' interests.

To do this, we examined supporting documents and carried out face-to-face discussions with members of the IAC, and Royal London's Investment Committee.

One example of the IAC's work is the review and oversight of the multi-asset default investment products offered by Royal London as part of its Governed range. This would be difficult for a customer to replicate by making alternative investment choices themselves.

We are satisfied that there is an active review of all relevant options, with appropriate action being taken when necessary.

3.4 Processing of financial transactions

All IGCs must assess whether the important financial transactions involved with investing a customer's pension are processed promptly and accurately. This includes receipts of contributions, investment allocations, payment of benefits and allocation of charges.

We regularly received key management information and reporting from Royal London about its performance with regards to these transactions, as well as copies of internal audits and other reviews. Royal London has confirmed that it has provided us with all relevant information on such transactions.

We noted in the first few weeks after the April 2015 Pension Freedoms changes that the service standard provided by Royal London did not meet the level it expects to be able to deliver to its customers in some areas. This was due to the significant increase in customer contact and requests from members to access their pension. RLIGC identified this failing as a short-term issue and we were encouraged by Royal London's immediate actions implemented to return the service to the level its customers expect.

The IGC met with representatives from Royal London's Investment Operations Committee to scrutinise the controls that Royal London has in place to ensure appropriate governance of its investments. As part of this work we reviewed how Royal London addressed an issue that had arisen on the **unit pricing** of one of its funds, in particular to ensure that customers did not suffer as a result. Royal London has communicated with the customers affected and explained any corrective action.

Despite the findings mentioned above, we are satisfied that core scheme financial transactions were processed promptly and accurately.

3.5 The level of charges

The committee assessed the level of charges experienced by workplace pension customers, and the impact this had on the value for money of the pension plans.

Royal London's workplace pensions have charges based on the different characteristics of employees and employers, rather than offering a single price for all schemes and members. Those characteristics include levels of contribution, the number of employees and employee turnover rates.

This ensures that the actual cost of providing workplace pensions for each employer and its employees is taken into account. In contrast, a single-price approach for all schemes is partly calculated to include the anticipated different costs from scheme to scheme – what is known as **cross-subsidy** between pension arrangements.

Having examined the charges for workplace pension customers carefully, we found that in certain older products that are no longer marketed to employers, value for money could be improved by making a number of changes.

Royal London agreed that changes should be made to the charging structures of these products during 2016, and these are detailed in the agreed implementation plan. We will be monitoring progress against this plan. The main changes will be:

- The removal of a policy fee on certain workplace pensions that are no longer receiving contributions. This is of particular benefit to customers with smaller pension fund values.
- The removal of the exit charges that apply when a customer moves their pension from Royal London in certain contracts in certain circumstances.
- Increasing the overall level of fairness in some of the more complex charging structures.
- Improving how the loyalty bonus structure works on some product designs.

In aggregate, these changes are expected to positively affect 27,100 existing workplace pension customers, which amounts to approximately 42% of the total number of legacy workplace pension customer policies (Appendix 2 provides additional details on these and other agreed changes). None of the remaining legacy workplace pension customer policies are adversely affected.

We urged Royal London to prioritise the changes which have the largest effect on customer outcomes within our first term of operation. Royal London is therefore making the first two changes (described as Change 1 and Change 2 in Appendix 2) as of 1 April 2016. The remaining changes will be made effective from September 2016.

Royal London is a mutual organisation and has no external shareholders. Its profits are shared with its qualifying with-profits policyholders. As these changes will result in lower profits they were considered by Royal London's With Profits Committee prior to approval by Royal London's Board. The With Profits Committee is responsible for ensuring the fair treatment of with-profits customers and it considered the changes RLIGC recommended to be appropriate. The cost of these changes is estimated to be in excess of £15m which represents a reduction in the charges of Royal London's **legacy workplace pension contracts** of over 20%.

Further information regarding the average annual management charge across all Royal London workplace pensions is included in Appendix 1.

3.6 Transaction costs and other direct and indirect costs

In 2015, the Government and the FCA issued a call for evidence from the industry on the subject of transaction costs. Royal London voluntarily supplied information to the FCA in this respect and the FCA's response to the industry generally is expected later in 2016. In the interim while we await clarity on any standardised principles and methods of assessment of transaction costs we have been developing our own principles with which to assess these costs. These are shown on the next page.

We consider the work on developing a greater understanding of transaction costs and measuring their value as 'on a journey'. Therefore we expect that these principles (set out in the table below) will evolve as we continue to work with Royal London and as regulatory and industry thinking develops.

Principle area	Description	Status
Relevant and in the Customer Interest	• Any trading or associated cost should be undertaken or incurred in the interest of the customer • The information supplied provides an informed view for IGC to fully understand the costs and charges associated with Workplace Pensions	Green
Reasonable and transparent	• Transaction costs should be reasonable relative to the return and objectives of the fund • Transaction costs should be separately identifiable from the Annual Management Charge (AMC) or other administration costs of the product provider	Green
Proportionate	• The information on cost should be sufficient to ascertain whether the transaction costs could have a significant impact on investment returns • The cost of obtaining the information should not be disproportionate to the likely significance or impact on return	Green
Measurable and controlled	• Information supplied should be clear, measurable, verifiable and have appropriate controls around the expected outcomes	Green
Common standards and benchmarking	• The information supplied should meet common standards developed and agreed by industry bodies and the regulator • The information should be capable of being benchmarked against peer funds and providers	Red Note 1

Note 1: We believe as a point of principle that common standards and appropriate benchmarking should be established for use within the industry. The description of this principle status as red is not a failing on the part of Royal London. It reflects that, during 2015, common standards (and hence the ability to effectively benchmark) were not available.

We assessed both the direct costs of managing and investing the relevant workplace pension funds. This covers costs experienced by the underlying funds, which the pension funds invest in, and matches Financial Reporting Standard 102 (a regulatory reporting standard that the underlying funds must meet). It currently does not cover indirect costs (such as bond spreads or market impact), which require estimated data and could potentially be misleading until a standard approach is agreed by the industry.

Royal London provided us with information about the transaction costs applicable to its most popular investment funds, in which the majority of customers are invested. We understand from Royal London that obtaining transaction cost information from certain investment managers has been difficult. We understand that similar problems have been experienced by other workplace pension providers. Where possible we have supported Royal London in its requests to these managers.

We are not aware of any issues that would concern us in terms of the costs of managing and investing workplace pension funds. Based on the data we have seen to date we consider the transaction costs to be reasonable for the nature of the investments offered by Royal London.

We continue to develop our own principles and measures for evaluating transaction costs until such time as industry and regulatory standards are available. We will expect Royal London to adopt any emerging common standards and provide information to RLIGC on the agreed basis.

The RLIGC will continue to engage with the industry and regulator to press the case for common standards that can be applied and benchmarked effectively.

3.7 Other considerations on value for money

In addition to the work already described, the RLIGC has considered the following features of Royal London's business in our overall assessment of value for money:

1. The RLIGC noted the unique and positive step Royal London has taken to improve the value provided to workplace pension policyholders through an initiative known as ProfitShare. To ensure more of its customers can feel the benefit of being part of a mutual organisation, from 1 January 2016, Royal London has widened the scope of its with-profits business to include **unit linked** pension policies purchased by customers from 1 July 2001. This means that workplace pension customers can now share in Royal London's profits. In good years, Royal London aims to award these customers with between 0.15% and 0.25% of the value of retirement savings invested. This is in addition to formal investment returns. We view this as a significant benefit which will apply to the vast majority of Royal London's workplace pension customers. Further information on ProfitShare can be found at RoyalLondon.com/profitshare

2. Royal London is seeking new business in the workplace pensions market. Coupled with a demonstrable approach to fairness, this means that the charges for new business reflect the different circumstances of each scheme and the work needed to support it. This can result in some schemes being charged less than the maximum allowed for default funds.

3. Wherever possible, Royal London delivers the same level of service for its older workplace pensions that are no longer marketed to new employers (its 'legacy business') as it does for customers of its currently available product range.

4. The quality of Royal London's service is such that some smaller employers are willing to pay a fee (paid by the employer not customers) to offer Royal London pensions to their employees and access Royal London's tools and service.

5. The charge cap on auto-enrolment workplace pensions from April 2015 (or later staging date) and the ban on adviser commission from April 2016 have created an anomaly. Financial advisers who had agreed this remuneration method with their clients may rightly expect that commission will continue until the commission ban comes into effect, but the charge cap meant that Royal London could not charge the customer for the cost of this advice. To support financial advisers and allow their advice to employers and customers to continue (where such ongoing services have been agreed) Royal London committed to continuing to pay commission to advisers until April 2016 on some types of business – even if it could no longer charge the customer for it.

6. We have also considered the specific questions for IGCs that were set out in the report of the Independent Project Board (the 'IPB Report'). As a result, work carried out by Royal London and us has led to the planned changes (described previously), and to future work on transaction costs and potential benchmarking exercises. The RLIGC will continue to oversee the implementation of the plan agreed in response to the IPB Report and will hold Royal London to account regarding the changes it has committed to.

7. We have investigated how Royal London manages the workplace pensions of customers who leave their employers. These customers are provided with an individual plan that retains the charge associated with the scheme without any increase. We are satisfied that such customers receive good value for money, as charges are likely to be lower than if they were to take out an equivalent policy as an individual.

8. We have reviewed the data provided by Royal London on the level of contributions to their schemes. As the level of contribution paid in is a major factor in customers achieving their retirement goals, we considered this to be an important aspect of overall value for money of the workplace pension plans. We noted that both the employer and employee average contribution rates to Royal London's schemes are higher than the minimum required by the automatic enrolment regulations.

4.0 CONSIDERATION OF THE INTERESTS OF CUSTOMERS AND ACCESS TO THEIR VIEWS

The RLIGC has taken into account the interests and views of customers, using input from customer surveys and from direct observation of how Royal London interacts with them on the telephone.

In addition, we contributed to a wider project within Royal London that aims to increase the company's understanding of what customers value. This will also increase the information available to us directly from customers in the future, although we were satisfied with the existing arrangements.

In 2015, we attended a training session at which videos of customers' comments were reviewed. We also listened to calls made by customers and their advisers to the workplace pensions customer service area. We also monitored the management information that Royal London receives on customer feedback.

We paid particular attention to how Royal London has implemented the pension freedom changes of April 2015. Royal London did not put in place any barriers to prevent customers from benefiting from the new freedom of choice regarding how to use the proceeds of their pensions.

We also examined the service that workplace pension customers receive, the customer service measures available, how these are monitored and, where necessary, acted on internally. This has reassured us that customer interests are clearly considered.

We also examined the work of Royal London's Customer Standards Committee, which is an internal executive committee with responsibility for ensuring customer interests are considered in the design, implementation and administration of all products. This is in addition to the work of the IAC. We were satisfied that the work of that committee, supported by the regular management information supplied to us, ensures that customers' interests and views are appropriately considered.

5.0 INTERACTION BETWEEN THE IGC AND ROYAL LONDON

The IGC met formally on five occasions between 1 April and 31 December 2015, with over 95% attendance from all IGC members. In addition, two training sessions were held as were a number of supplementary teleconferences. Committee members also actively participated in various industry forums that have been set up to discuss IGC matters, as well as holding meetings with the FCA and the Financial Services Consumer Panel. This activity ensured that the IGC was well informed about developments across the industry. Independent members also attended formal meetings of relevant internal governance committees and met extensively with key Royal London staff and management.

During our discussions we asked Royal London for a significant amount of information on its workplace pension schemes. Royal London has supplied all the information requested and provided access to the relevant subject matter experts.

During the year, our work and meetings focused on the key elements required to meet our terms of reference and to fulfil Royal London's regulatory requirements. We developed a good understanding of the costs and benefits associated with Royal London's different workplace pensions and how its customers viewed the quality of service.

This being the first year that the IGC has been in operation, we met with the Chairs of Royal London's other relevant committees, attended appropriate meetings when matters of importance for the IGC were discussed and reviewed their terms of reference and management information. This programme of work was to understand the governance procedures which Royal London already has in place to oversee and monitor workplace pensions and to provide value for money for customers.

The RLIGC produced written reports to Royal London's board following each of its formal meetings and presented these to the next board meeting. The RLIGC is required by its terms of reference to raise any areas of concern to the board.

The Royal London board was made aware of our views and concerns in connection with the existing charging structure and resultant value for money being provided to certain groups of customers. Our comments included our views on the risks of making or not making various potential alternative sets of changes to the current charging structures. The Royal London board approved a plan to make changes to improve the potential outcomes for these customers, and we are satisfied that these changes have addressed our concerns in the period covered by this report.

No other issues were formally raised to the board during 2015.

6.0 THE NATURE OF THE IGC

Since April 2015, every workplace pension provider has had to establish an IGC, or a similar arrangement, under FCA rules. Royal London's IGC was established with effect from April 2015.

6.1 Terms of reference

The scope of the committee covers assessing value for money for all of Royal London's relevant schemes and relevant customers. Relevant schemes and customers are defined by FCA regulations and are covered in more detail in the committee's terms of reference. The committee must report and escalate issues that are identified and provide annual reporting. In particular, the committee must act at all times solely in the interests of relevant customers. The full terms of reference for the committee can be found on Royal London's website here:

www.royallondon.com/igc

6.2 Structure and recruitment

The committee is made up of both Royal London employees and independent members not previously connected to Royal London. This brings a range of experience and skills to the committee. The majority of members are independent and an independent member chairs the committee.

Royal London carried out an open and transparent recruitment process for IGC members using a search firm to independently identify appropriate candidates.

The process to find the independent members was staggered, with the search focusing on the appointment of a chair first, so the person selected for that role could be involved in the recruitment of the other independent members of the committee. The experience and expertise of the committee members is provided later in this report and demonstrates that the IGC has the required complementary expertise and experience to fulfil its purpose.

All independent committee members were assessed to be independent of Royal London according to FCA rules (i.e. not having been employed by or received payment for a role by any Royal London Group company in the five years preceding their appointment, nor having had a material business relationship of any description with the firm or with another company within the firm's group, either directly or indirectly, within the three years prior to appointment). This assessment is reviewed at each committee meeting. Each independent member of the IGC has taken into account the FCA rules on independence above by considering those rules and being required to declare any reason why he or she may not be considered independent.

Furthermore, as part of the recruitment and interview process, people proposed as independent IGC members were deemed to be independent in character and judgement as required to fulfil the terms of reference for the IGC.

The two Royal London employee members of the committee are in no doubt that they are bound to act in accordance with the terms of reference of the IGC and must put aside the commercial interests of the firm when acting in their capacity as IGC members. Their contracts of employment have been updated to reflect this requirement.

The current members of the IGC are as follows:

Phil Green, Independent Chairman (appointed February 2015)
Phil has a broad range of experience in consumer-focused financial services in the UK and internationally. This includes 35 years in senior executive positions, predominantly with SunLife of Canada, AIG and Limra. He is currently the Non-Executive Director and Deputy Chairman of Wesleyan Assurance and Chairman of its With-Profits Committee.

David Gulland, Independent Member (appointed March 2015)
David has a broad range of experience across the UK Life Insurance sector, with 25 years' experience as a consultant, followed by senior executive roles within the Life Insurance industry. He was the Chief Executive of Marine & General Mutual until that organisation's merger into Scottish Friendly on 1 June 2015. He is also a Director, and is the current Treasurer, of Investment & Life Assurance Group, a trade body representing members of the Life Insurance and Wealth Management industries. He currently runs his own consultancy company.

Peter Dorward, Independent Member (appointed March 2015)
Peter has solid experience both in Life Insurance and institutional investments, having worked across a broad range of disciplines, including business leadership. He is now Managing Director of IC Select, a private limited company specialising in the evaluation of providers to UK pension funds. He currently holds two non-executive roles at the Citizens Advice Bureau – Chairman of the Board of Trustees, Central Borders, and Non-Executive Director, Scottish Borders Consortium.

Isobel Langton, CEO, Royal London Intermediary
Isobel is Royal London Intermediary's CEO and is a member of the Royal London Group's Executive Committee. Isobel has extensive experience in pensions having worked in a number of leadership roles for Irish Life and United Assurance Group (UAG) as well as with Royal London. These roles spanned customer service and business transformation prior to undertaking her current position.

Jon Macdonald, Chief Risk Officer, Royal London
Jon Macdonald was appointed to the Board of Royal London on 14 December 2012, having joined the Group in November 2012 as Group Risk Director. He was previously Group Chief Risk Officer for the RSA. He has held a number of senior risk and capital management roles at Prudential, PricewaterhouseCoopers, Aviva, Fox-Pitt Kelton, Swiss Re and Zurich and is a Fellow of the Institute of Actuaries.

6.3 Chairman's views on skills and effectiveness of the committee

Having undertaken an effectiveness review of the Committee at the start of 2016, as Chairman of the RLIGC, I am satisfied with the appropriateness of the skills and expertise of the current members and the support provided to the Committee during 2015. The Committee intends to build on this first year of activity and continue to serve its purpose and act in the interests of Royal London workplace pension customers.

APPENDIX 1 SUMMARY INFORMATION AND STATISTICS

The information below summarises the scale of the changes to the size and mixture of Royal London's workplace pensions in the period from the establishment of the Royal London IGC in April 2015 to the end of 2015.

Workplace personal pension schemes

The number of employers with Royal London workplace personal pension schemes has increased significantly during the period. The figures below show the combined number of schemes administered through Royal London's Intermediary and Consumer Divisions.

	1 April 2015	31 December 2015	Change
Total workplace pension schemes[1]	14,424	17,399	+ 21%
Workplace pension schemes subject to 0.75% charge cap[1]	n/a	5,014	n/a

1. Workplace personal pension schemes include group personal pension plans and group stakeholder pension plans, but exclude occupational pension schemes and executive pension plans.

Workplace personal pension plans

The number of Royal London workplace personal pension plans held by customers jumped noticeably during the period. The figures below show the combined number of plans administered by Royal London's Intermediary and Consumer Divisions.

	1 April 2015	31 December 2015	Change
Total workplace pension plans[2]	468,500	576,900	+ 23%
Workplace pension plans subject to 0.75% charge cap on default arrangement[3]	n/a	316,500	n/a

2. Includes individual plans set up for customers who left employment and are no longer members of their former employers' workplace schemes. Members with multiple plans are counted separately for each plan. Plan numbers are rounded to the nearest 100.
3. This is the number of plans within automatic enrolment and qualifying schemes. Individual members could still make an active choice to select investments that carry additional charges or pay for financial advice that could take the total charges above 0.75%.

The vast majority of Royal London's workplace pension members are in modern low-charge products.

Product	1 April 2015	31 December 2015	Change
Retirement Solutions Group Personal Pension Plan[4]	347,800	455,300	+ 31%
Retirement Solutions Stakeholder Pension Plan[4]	54,700	57,600	+ 5%
Talisman Group Pension Plan (versions 1-6)[4]	35,200	34,000	- 3%
Talisman Group Personal Pension Plan	1,800	1,700	- 6%
CIS Group Stakeholder Pension Plan	9,700	9,500	- 2%
Phoenix Life Group Stakeholder Pension Plan & Group Pension Plan[5]	19,300	18,800	- 3%
Total[6]	468,500	576,900	+ 23%

4. Includes members that have left service and have retained their own individual 'continuation' plan.
5. The number of members of the Phoenix Life Group Pension Plan is less than 100 members, so the figures have been amalgamated with the Stakeholder Pension Plan.
6. Figures rounded to nearest 100 members.

Nearly all new members since 1 April 2015 are invested in modern low-charge products.

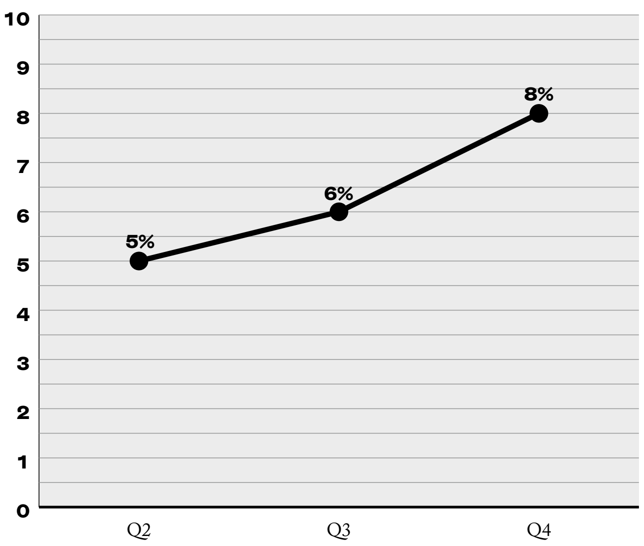
Product	New members
Retirement Solutions Group Personal Pension Plan	134,500
Retirement Solutions Stakeholder Pension Plan	4,700
Talisman Group Pension Plan (versions 1-6)	100
Talisman Group Personal Pension Plan	0[7]
CIS Group Stakeholder Pension Plan	100
Phoenix Life Group Stakeholder Pension Plan & Group Pension Plan	0
Total[8]	139,400

7. The Talisman Group Personal Pension Plan is closed to new members.
8. Figures rounded to the nearest 100 members.

Automatic enrolment opt-out rates

The proportion of members that opted out of the employers automatic enrolment schemes has been low during the period though has increased slightly during the fourth quarter of 2015.

Opt-out rates
%



Member investment choice

An increasing proportion of Royal London's workplace pension scheme members are investing their pension contributions in their scheme's default arrangement. For members of automatic enrolment schemes, this means the charges are capped at 0.75% a year.

	1 April 2015	31 December 2015	Change
Proportion of members invested in scheme default[9]	72%	82%	+ 10%

9. For most schemes, the default arrangement is a lifestyle strategy that 'de-risks' the members' pension plans by automatically switching into lower risk assets as the members approach their selected retirement ages. The figures relate specifically to Royal London Intermediary Pensions.

Product charges

The figures below 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, the average AMC for new members and scheme leavers and the average exit charge for those members taking their benefits or transferring to another pension plan.

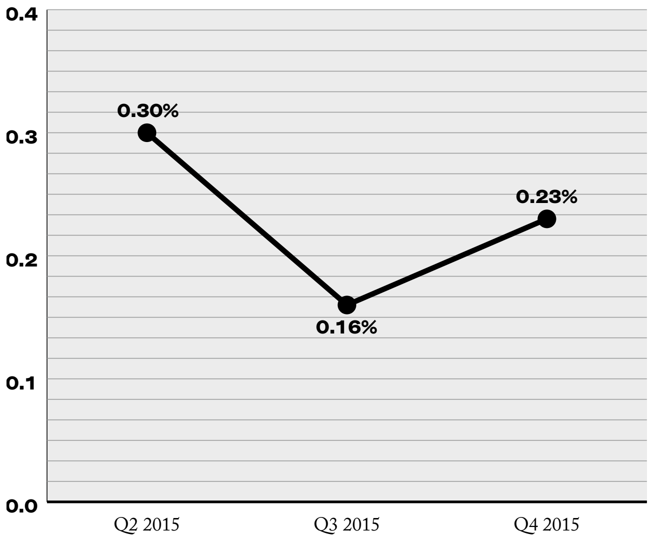
	31 December 2015
Average AMC for all workplace pension plans[10]	0.74%
Average AMC for new members[10, 11]	0.69%
Average AMC for scheme leavers[10, 11]	0.68%

10. All Royal London's workplace pension plans have an annual management charge. Some plans may also have additional charges, for example contribution-based charges, investment fund related charges and monetary member charges. These additional charges are not reflected in the figures above as they are not easily converted into an equivalent annual rate. Whether additional charges apply will depend on the specific product, the characteristics of the plan and the members' actions.
11. The figures for new members and scheme leavers are from quarter 4 2015.

The vast majority (97%) of members transferring their pensions in the period had no exit charges. Overall the average exit charges that applied across all transfers has reduced since April.

Average exit charges on transfers[12]

%

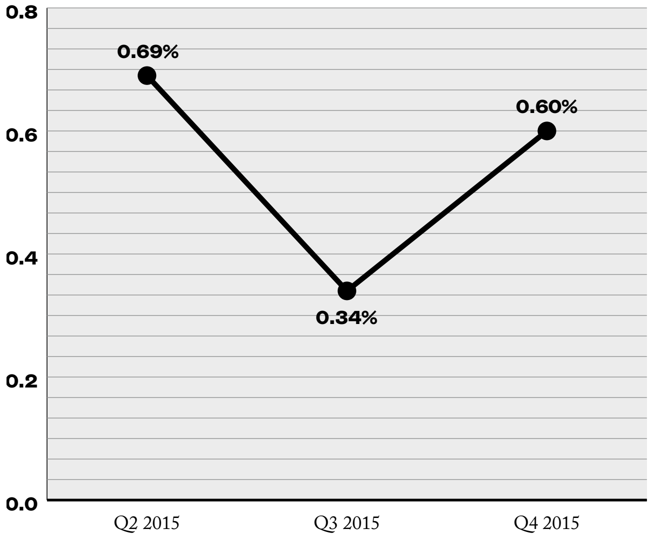


12. The figures are the averages across all transfers including those where no exit charges have been applied.

The impact of the pension freedom changes and members taking their pension benefits early has led to a small increase in the average exit charges applying to members accessing their Royal London workplace pensions. Note that as with transfers nearly all members (96%) faced no exit charges for accessing their pensions.

Average exit charges on benefits being taken[13]

%



13. The figures are the averages across all plans where benefits were taken including those where no exit charges have been applied.

APPENDIX 2 ROYAL LONDON RESPONSE TO RLIGC RECOMMENDATIONS: CHANGES MADE BY ROYAL LONDON TO INCREASE VALUE FOR MONEY

Change 1

Contract terms for some products allow for the application of a member charge to plans that no longer receive regular contributions (a 'paid-up' plan). This can be detrimental to customers with smaller funds due to the charge being a fixed amount. Royal London has agreed to amend its terms so that a member charge is no longer applied when a member's plan is paid-up.

Using data as of 31 December 2015 Royal London estimates this change will benefit 24,100 customers who will experience a reduction in their charges. Further customers will benefit from this change in the future.

Change 2

There is a clause in one product that allows an exit charge to be avoided where individual customers move their money within three months of leaving their employer and the scheme. In reality, very few customers take advantage of this clause, leading us to believe the timescale may be unrealistic. We have agreed that Royal London will alter processes so that no exit penalty will be applied to this product when contributions to their plan have ceased on leaving employment, regardless of how long it takes a member to leave the scheme. Exit charges will continue to be applied in this product when contributions to their plan have ceased due to the employer ceasing all contributions to the scheme.

Using data as of 31 December 2015 Royal London estimates this change could benefit up to 18,100 customers, depending on when they access or transfer their plans.

Change 3

Although we were comfortable that some products applied a charge to recoup the cost of the commission paid to the financial adviser for advice (and for setting up the scheme), we found that, for certain products, some customers are continuing to pay a charge for commission after the cost of commission has been recovered. We proposed that Royal London amends the charging structure and terms and conditions to the effect that no charge is taken that is designed to recover the cost of commission from any plan where the plan has paid the appropriate share. We also agreed that charges when a policy exits, which relate to commission, will be designed only to recoup the cost of commission unrecovered. Royal London has agreed with this proposal and will make the necessary changes to the relevant contracts. Using data as of 31 December 2015 Royal London estimates this change could benefit up to 18,200 customers.

Change 4

For some products, a loyalty bonus is payable on monies that are invested within the member's plan; however, the bonus is capped at a specific rate after a number of years and so ceases to reward further loyalty. Royal London has agreed to extend the increases to loyalty bonus payments payable, for the relevant products, until the member's retirement date.

Using data as of 31 December 2015 this change has the potential to benefit up to 1,200 customers who are eligible for a loyalty bonus. It will also benefit other customers who may fall into this category in the future. Note that the potential benefit depends on the customer meeting the other appropriate terms and conditions for achieving a loyalty bonus.

Royal London will be advising customers with contracts that will be, or could potentially be, affected by the changes during the first quarter of 2016. Information about the availability of this report will also be communicated in this contact and will be provided again as part of the yearly member communications to relevant customers.

APPENDIX 3 GLOSSARY OF CERTAIN TERMS

Annuity – an agreed sum of money paid to someone at regular intervals, typically for the rest of their life, in return for a lump sum.

Charge cap – charges on workplace pensions used for auto-enrolment are subject to a maximum charge. This means policyholders in these schemes pay no more than 0.75% of the fund value in charges if they are invested in the default investment option.

Cross-subsidies – in this context is where a pricing policy of a product requires the charging of a higher price (to make higher profit) from one group of customers to offset expected or potential loss from another group of customers. This can be necessary because not all assumptions about size and length of contribution period and investment will be right.

Legacy workplace pension contract – contracts which are not our current take to market contract (Retirement Solutions) which were designed and only actively promoted prior to April 2001 and are not available as an automatic enrolment or qualifying scheme.

Regulatory capital – is the amount of capital a financial institution has to hold as required by its financial regulator.

Staging date – a date set in law by which an employer must meet their automatic enrolment duties. This date varies largely based on the size of the employer and their tax number.

Unit linked – a unit linked fund is a form of pooled investment, combining customers' money together to buy units in a single asset or group of assets. Units in the fund are allocated to each customer depending on the amount of money they have invested and the price of the units at the time they are bought.

Unit pricing – the price of a single unit of a fund. The underlying assets within a fund will influence how the price of a unit will fluctuate. The amount a price can go up or down by is dependent on the movement of the underlying assets within the fund.