Annual Report

for Standard Life Workplace Personal Pensions

2015 – 2016

INDEPENDENT
GOVERNANCE COMMITTEE

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Dear Plan Member

I chair Standard Life's Independent Governance Committee (IGC). As the name implies, we are an independent body responsible for overseeing the governance of Standard Life's workplace personal pension plans. These amount to 1.3 million individual member contracts across 30,593 schemes, with total assets of £24 billion.[1]

We have just produced our first annual report. As the full report runs to over 40 pages, there is an executive summary. The report explains the work we have completed in our first year.

We have also reviewed both the older and newer-style pension products provided by Standard Life, to see whether they offer value for money at the range of prices paid by members.

The report gives more details, including the way that we defined 'value for money' and how we assessed whether Standard Life's pension schemes provided it. In summary, we conclude that Standard Life does provide value for money. Irrespective of our conclusions on value for money, members should note that adequate contributions are needed throughout the lifetime of pension saving to achieve a suitable level of income in retirement.

All of the major UK workplace personal pensions providers have Independent Governance Committees, known as IGCs. This follows the Office of Fair Trading's report on the industry in 2013. Like any IGC, our duty is to act solely in the interests of members, and to independently review and challenge the provider, in our case Standard Life. Our most important duty is to review Standard Life's products to see whether members are receiving value for money.

We have also had another important task. In 2014, a committee known as the Independent Project Board examined the charges of UK workplace pensions schemes. It published the results of this examination, known as the 'legacy audit', in December 2014. In June 2015, Standard Life responded by proposing changes to its older-style pension plans. The IGC reviewed these proposals, discussed them with Standard Life and challenged them where necessary.

We have now agreed a revised set of proposals, and are currently working together on an implementation plan which the IGC will monitor. When the proposals are implemented in November 2016, 145,593 current members and 69,659 former members[2] will see the costs of their pension plans go down. No member will be charged more than 1.00% a year unless they choose to pay for ongoing financial advice or to invest in more expensive options.

If you are unsure of which type of pension plan you have with Standard Life (and therefore how you are affected by this review) please refer to your plan documentation, or phone Standard Life on **0345 60 60 075**.

Thank you for reading this report. You can also find it online at **www.standardlife.co.uk/igc**
If you would like to contact the IGC you can email us from the IGC home page **www.standardlife.co.uk/igc**
We would also welcome your specific feedback on the report via our short online questionnaire.

Rene Poisson
IGC Chair

1,2. Information correct as at 31 December 2015 (source: Standard Life)

Summary Report

1. How we operate

The IGC's work is governed by a Terms of Reference document **www.standardlife.co.uk/igc** This was written jointly by the IGC and Standard Life, and is based on requirements set by Standard Life's regulator – the Financial Conduct Authority (FCA). If the IGC is not satisfied with Standard Life's products or proposals, we will challenge them. We may also discuss our concerns with the FCA, and write to members.

The IGC is made up of five people. Four of them are independent of Standard Life, and were appointed from the open market using a recruitment agency. The fifth is employed by Standard Life, but is contractually required to ignore Standard Life's interests when acting as a member of the IGC (**see Appendix 1**).

The IGC intends to meet at least four times a year, and more if necessary to fulfil its duties. In the year to 29 March 2016, the IGC met on 18 separate occasions.

2. Our core focus in 2015

2.1 THE LEGACY AUDIT

In 2013, the Office of Fair Trading studied the pensions market. One result was that in 2014, a committee known as the Independent Project Board, or IPB, examined the charges of some UK workplace pension schemes using as its benchmark a 1.00% total charges test. This examination is known as the"legacy audit". The IPB's full report can be found at **https://www.fca.org.uk/static/documents/defined-contribution-workplace-pensions-ipb.pdf**
In 2001, Standard Life had carried out a review of pension charges, as a result, over 80% of members already experienced a single annual management charge of less than 1.00%.

IGCs were created in April 2015. The Standard Life IGC reviewed the IPB report, and then asked the company to do an updated and more complete analysis of how many members were paying ongoing annual charges of more than 1.00% of their savings.

Standard Life reported that, at 31 December 2015, some 176,881 current members of workplace personal pension schemes (and an additional 89,803 former members) were paying over 1.00%. It identified four separate reasons for this, one or more of which might apply to any member: investment in a Standard Life specified default fund carrying a charge above 1.00% (typically 1.02%); exit charges; charges to recoup upfront or ongoing commission paid to their adviser; and/or, a specific investment decision by the individual member to use a fund with a higher charge (**Appendix 4 of the main report**).

The IGC discussed these findings with Standard Life, and the company agreed to make changes to the charges for Standard Life specified default funds. Once these have been made, no current or former member will effectively pay more than 1.00% a year for a Standard Life default fund which formerly had a charge of up to 1.02% and the average charge across relevant workplace schemes is expected to be 0.70%.

Where current charges are over 1.00% and one reason is that Standard Life is recouping commission previously paid to an adviser, Standard Life will cap the total cost at 1.00%.

These measures taken togetherwill benefit 145,593 current members of schemes, and 69,659 former members.

For those members who previously chose a more expensive investment option and/or pay for ongoing financial advice, we have agreed two further actions:

- Standard Life will write to one or more of: (i) the adviser; (ii) the employer's governance committee; and/or (iii) the individual member. It will tell them that they are in a higher charge fund, and remind them that they should consider whether that is still appropriate for them.

- Where members are paying charges above 1.00% because they receive advice, and Standard Life collects and passes those additional fees to the adviser, each member's agreement will be refreshed so that members only pay charges above 1.00% if they wish to receive ongoing advice.

Standard Life will need to make some significant systems changes before it can complete these actions. The IGC has agreed an implementation plan with Standard Life, to be completed by 1 November 2016.

As a result of all these changes, from 1 November 2016, none of the 176,881 current (or 89,803 former) members paying more than 1.00% as at 31 December 2015 will continue to do so, unless they have elected to remain in a more expensive investment option or to continue paying for ongoing financial advice. The same applies to all members who joined any of the affected plans after 31 December 2015.

2.2 EXIT CHARGES

With some older-style products, when a member wants to access their funds before the end date stated in their policy contract, they may have to pay exit charges. As the provider's initial costs are spread over the full life of the policy, an early exit means that some costs would otherwise not be recovered. Exit charges are intended to recover those costs. We have discussed the justification and level of exit charges with Standard Life.

We were also aware of various consultations taking place on the proper treatment of exit charges. As those consultations had not finished by 31 December 2015, the IGC reached an interim agreement with Standard Life that no member aged 55 or over who wishes to exit a policy will pay a charge of more than 5.00% of their plan value.

Standard Life has 2.6m pension policies, including workplace personal pensions, trust based schemes and individual pension plans. Of those, as at 31 December 2015, some 17,000 members overall, of whom 6,597 members were 55 or above, would have experienced a charge of greater than 5.00% if they had exited at that date. Of those 17,000, 1,201 individuals were members of workplace schemes within the scope of the IGC, of whom 170 were aged 55 or over and eligible to access their pensions.

I am pleased to tell you that Standard Life implemented the cap on exit charges from 13 January 2016. This applies to any of the 17,000 policyholders reaching the age of 55, and taking benefits before their selected pension age.

The IGC notes that on 19 January 2016, The Chancellor made a statement on future legislative action to be taken by the FCA. Our agreement with Standard Life provides that should any future regulatory or legislative actions result in a different level of cap, the 5.00% applicable to Standard Life plans will only be reduced.

2.3 DEFAULT INVESTMENTS

If a member does not actively decide to invest in any particular fund, their contributions are put into funds known as "default investments". Standard Life's newer-style products offer four alternative families of default investments. Three of these are risk-managed funds: MyFolio Managed, Active Plus and Passive Plus. Each of these can offer differing risk levels and has a modern lifestyle profile suited for the new pension freedoms. The fourth option is the more traditional Managed Fund, which offers a lifestyle profile targeted at buying an annuity (a guaranteed lifetime income).

Standard Life's older-style products provide a smaller set of default strategies; two variants of the With Profits Fund and the Managed Fund or a blend of the With Profits and Managed Funds. Only the Managed Fund has a lifestyle profile.

We have considered whether these strategies are still relevant and appropriate for members. The IGC believes that, subject to the matters raised below, the current default strategies are designed and executed in the interests of the relevant members, and that their aims and objectives are clearly stated.

2.3.1 CONCERN RAISED WITH STANDARD LIFE

The IGC is concerned that the older style default strategies either do not have a lifestyle design, or that their design remains targeted at annuity purchase despite the introduction of the pension freedoms. We have asked Standard Life to amend the default strategies to match the profiles incorporated in its current pension products.

2.3.1a STANDARD LIFE'S RESPONSE

"Standard Life is aware of and acknowledges the issues in relation to people still invested in lifestyle strategies targeted towards annuity purchase. The contracts we have in place do not allow Standard Life to take investment decisions (either redirecting future contributions or switching existing funds) on members' behalf. However, we are in agreement that this action will be in the best interests of the majority of members so we are actively engaging with both the FCA and DWP to find a solution to this problem that will allow providers to move members into more appropriate solutions and hope to be able to agree a way forward soon.

In the meantime, we have started a programme of communications with relevant members to ensure they are aware of their options to initiate their own investment switches, should they wish to do so."

2.3.2 FURTHER CONCERNS RAISED WITH STANDARD LIFE

The IGC acknowledges the primary role of the With Profits Committee in relation to the governance of the With Profits products, but has raised two concerns with Standard Life in relation to the With Profits Fund.

1. While we acknowledge that the With Profits offerings are complex, and that the "simplified" member document complies with regulatory guidance, we believe further work can, and should, be undertaken to improve this document.
2. Our second concern is connected to the guarantees that apply when a member wants to access a With Profits investment before the contractual maturity date. We believe that communications on this subject should be changed to reflect the current practices adopted since the introduction of the new pension freedoms.

2.3.2a STANDARD LIFE'S RESPONSE

"Our aim is to make all communications for members as clear and helpful as possible. A number of changes have already been made to try and improve the information we provide on With Profits. However, we will review the various communications that are issued for members when investing, during service and when they come to take benefits in light of the IGC's concerns and taking account of pension freedoms and any changes to regulations."

2.3.3 IGC'S RESPONSE

We recognise that, given the nature of the contract Standard Life has with each individual plan member, Standard Life has no legal right to unilaterally change these historic products; indeed, doing so might not be in members' best interests particularly in the case of With Profits policies. The IGC notes the actions Standard Life intends to take to address this issue and to review the member communications for the With Profits fund and will follow progress closely in 2016/17.

2.4 REVIEW OF INVESTMENT STRATEGIES

The IGC has reviewed Standard Life's governance and reporting processes. We wanted to be sure that the default strategy and other investment strategies are managed in members' interests and regularly reviewed to ensure that continues to be the case.

Standard Life offers around 300 non-default investment options and different lifestyle profiles. We decided to review the default strategies first, and will carry out a more detailed review of the wider range in 2016/17.

The IGC is satisfied that Standard Life regularly reviews all of its investment strategies (both default and non-default), to ensure that the characteristics and net performance are aligned with members' interests. We are also satisfied that action is taken if governance or performance concerns arise.

2.5 CORE TRANSACTION PROCESSING

Standard Life has a large and experienced pension team, based in Edinburgh. It is responsible for the administration of all workplace schemes and plans.

The IGC has reviewed the way that Standard Life processes the core transactions (such as investment of contributions) which arise during pension administration. We are satisfied that on balance this is done promptly and accurately. We believe this is because automation and straight through processing are used extensively, and the people in the administration teams have many years of experience.

2.6 CHARGES BORNE BY MEMBERS

All auto enrolment pension schemes have to meet a set of standards, including a 0.75% charge cap on default funds. They are known as Qualifying Workplace Pension Schemes, or QWPS.

The IGC has reviewed the application of the charge cap, and the adequacy of the control process that Standard Life uses to ensure compliance. The controls have operated since April 2015 and appear effective, and we will review the process in more detail during 2016/17.

For non-QWPS schemes, from 1 November 2016, charges for default funds will not exceed 1.00% (other than in respect of any costs for With Profit guarantees).

The IGC is satisfied that the range and distribution of charges and discounts is reasonable across different products and sizes of scheme.

2.7 DIRECT AND INDIRECT COSTS

In addition to the direct charges discussed above, funds to which members' contributions are paid also incur indirect "transaction costs". These are costs which fund managers pay for research on different investment opportunities, and when buying or selling the assets that make up the fund. These costs are not currently disclosed, but are reflected in the net investment returns of the funds.

IGCs have been tasked with monitoring the level of transaction costs for different funds as part of their assessment of the Value for Money (VfM) that scheme members receive. At the moment, it is very difficult to judge these indirect costs, not least because there is no standard approach to calculating or benchmarking them. We have discussed this with Standard Life (who support benchmarking), with other IGC chairs, and with potential providers of benchmarking services. However, the information we need to make meaningful comparisons is not currently available.

In the absence of this information, the IGC has reviewed Standard Life's processes for managing such costs and compared this with some limited external data. On this basis, we were satisfied that Standard Life takes steps to control the costs which affect members' returns and that the indirect costs experienced by members do not appear to be excessive. Due to the limited data available, when considering VfM we focused on net investment returns relative to charges.

The IGC considered the investment returns, after charges, of the main funds used in investment default strategies, and concluded that no VfM issues arise.

The IGC intends to review this more fully in future, as more industry-wide data becomes available.

2.8 OTHER SERVICES AND COMMUNICATIONS

An important element of Standard Life's pension offering is its support services and communication materials. These are designed to tell members about their pension plan, and the steps they should take to achieve their retirement goals.

The IGC has reviewed these materials, listened to calls from members and their advisers to the Customer Operations team and looked at how they affect members' experiences, both online and offline. Although there is currently little hard evidence that they improve engagement among members, we are persuaded that it is good to inform and educate members throughout their pension savings journey. This is particularly important as members approach their retirement and wish to take advantage of the new pension freedoms.

Based on the IGC's broader industry knowledge, Standard Life appears to do more than most providers in this important area.

In 2016 we will look further at the engagement support that Standard Life offers. We will consider the VfM of that support, the impact on members' behaviour, and the extent to which members take up the support services on offer.

3. Value for Money

3.1 HOW WE HAVE ASSESSED VALUE FOR MONEY

The FCA requires us to assess Standard Life's current and historic workplace pension products to see whether they provide VfM. It has given some limited guidance on what IGCs should include in their assessments, but has left it up to each one to decide how to go about the task.

We tested each product using a framework developed by a group of IGC chairs, (see Appendix 6 of the main report) and our own 'Value for Money matrix' (see Appendix 7 of the main report). We focused on four core elements: quality (service and investment); risk (investment and governance); relevance (including member feedback, where this was available); and cost.

In future, we hope to benchmark these elements against other providers' offerings. To do that, however, we need benchmarking reports that cover the whole industry and use consistent measures; so that we can compare them with each other. At the moment, these do not exist. So for this report we have made our judgements based on limited third party analysis and personal experience.

3.2 WHAT CONCLUSIONS HAVE WE REACHED ON STANDARD LIFE'S VALUE FOR MONEY?

We believe that Standard Life's various workplace personal pension products are of good quality. They have well-designed investment solutions; good administration and governance; and comprehensive member support and communications materials.

We have reviewed the charges that members pay for both historic and more modern QWPS products. All are offered at a range of charges, depending on the size of the workplace scheme and, in some cases, the value of the member's investments. The range reflects economies of scale which make it more efficient to administer larger schemes and which Standard Life passes on as a discount to those larger schemes.

In considering whether the older style schemes offer their members VfM, we assumed that the management actions agreed will be implemented. We also reviewed the range of charges for modern QWPS and the legacy products, and considered whether legacy products were more profitable for Standard Life.

As we explained above, from November 2016, no member invested in a workplace personal pension scheme's default strategy will pay more than 1.00% a year. Many, 85%, will pay less as a result of scale discounts.

Member charges for a default fund in a QWPS are capped at 0.75%. Some employers want to offer a Standard Life QWPS, but run schemes that are not sufficiently large for Standard Life to be willing to operate a plan within the charge cap. In such cases, Standard Life will provide a QWPS scheme if the employer pays a fee of £100 per month. We understand that a number of other providers have a similar approach.

Our conclusion is that if you compare smaller schemes of both types without scale discounts, the legacy products are less profitable for Standard Life than a modern QWPS scheme after taking into account the employer charge.

The IGC has concluded that at the revised price points, both the modern QWPS products and the legacy schemes provide members with VfM.

IGC
March 2016

Main Report

1. Introduction

This is the first Annual Report of the Standard Life Independent Governance Committee (IGC) and it explains how the IGC has set about meeting the governance obligations laid down by the Financial Conduct Authority (FCA).

IGCs were created as a response to the market review undertaken in 2013 by the Office of Fair Trading (OFT). That review identified that competition was not having the expected impact in improving value for members in workplace pension schemes and that change was required to ensure that they received Value for Money (VfM).

The IGC recognises the importance of good governance by Standard Life as the provider of workplace pension schemes and the importance of independent oversight of that governance. This Annual Report reflects the findings of the IGC as a whole, although it is the responsibility of the Chair to ensure its production.

The IGC would like to thank the members of staff at Standard Life who assisted with the provision of the extensive analysis and other information needed for our work.

This report covers the period 6 April 2015 to point of publication.

2. Background

IGCs were introduced as a result of new pension regulation, which came into effect on 6 April 2015, and which followed a market review by the OFT. Most providers of workplace personal pension schemes are required to establish an IGC to represent members' interests and assess the VfM provided by that provider's workplace personal pension products.

The primary purpose of IGCs is to seek to ensure that VfM is received on an ongoing basis by relevant policyholders in workplace personal pension schemes. They are required to act solely in the interests of those policyholders and to focus in particular, although not exclusively, on:

- Default investment strategies
- Investment governance arrangements
- Core financial transactions
- Charges
- Direct and indirect costs.

The OFT market review resulted in an audit of all workplace pension schemes established prior to April 2001 as well as more recently established schemes. This was overseen by an Independent Project Board (IPB) set up by the Association of British Insurers (ABI) and chaired by Carol Sergeant. The IPB's brief was to review schemes where members might incur a Reduction in Yield greater than 1.00% – referred to as the "Legacy Audit."
https://www.fca.org.uk/static/documents/definedcontribution-workplace-pensions-ipb.pdf

The IPB published its findings in December 2014. This set out the actions to be taken by pension providers and governance bodies, including IGCs, by 31 December 2015. The IPB sent each provider a report, which on a specific set of assumptions estimated the number of policyholders potentially at risk of charges in excess of 1.00% per year and who might therefore not receive VfM. A summary of the Standard Life IPB data can be found at **Appendix 3**.

The main purpose of the IGC is to assess the VfM provided to current and former members of Standard Life's workplace personal pension schemes. In doing so, the IGC takes into account the prospective future outcomes that these policyholders can reasonably expect as a result of their membership of the scheme. The IGC considers the value provided to policyholders up to the point at which they encash their pension savings, secure a regular income or start to draw down on their savings.

The IGC also has responsibility for reviewing and challenging the proposals advanced by Standard Life to address the issues raised by the IPB report. For workplace personal pension plans, the IGC needed to agree both the proposals and an implementation plan by 31 December 2015 (assuming the proposals to be suitable for approval); and for individual pension plans to oversee a sampling exercise by 30 June 2015. This has represented a substantial part of the IGC's work during this first year.

The IGC is not responsible for providing an oversight function once members have retired or taken advantage of the new pension freedoms (either with Standard Life or another provider). Furthermore, the IGC has no remit over workplace occupational pension schemes (usually established under trust) which are the responsibility of the relevant scheme trustees.

The IGC also has no responsibility for the investigation of individual complaints or considering compensation for, or remediation of, historic matters.

3. The Standard Life workplace pension business

Standard Life has provided workplace pension arrangements for many years. The early propositions took the form of With Profits insurance plans but have evolved over the years to incorporate a range of different investment options and product features. Most plans have a single bundled fund management charge. A few plans have additional charges, mainly to recoup the commission payments paid up front to the scheme adviser. In some cases charges may be deducted for continuing commissions paid to advisers providing ongoing advice.

The IGC considers current and former members of workplace schemes who are or have previously been saving in one or more of the following products (other than in a trustee governed scheme) to be relevant policyholders:

NEWER-STYLE PRODUCTS

- Group Self Invested Personal Pension (GSIPP)
- Group Flexible Retirement Plan – Good to Go
- Group Flexible Retirement Plan (GFRP)

OLDER-STYLE PRODUCTS

- Group Personal Pension (GPPP)
- Group Personal Pension One (GPPOne)
- Group Personal Pension Flex (GPPFlex)
- Group Personal Pension for Large Employers (GPPLE)
- Group Stakeholder Pension (GSHP)
- Corporate Stakeholder Pension (CSHP)

4. Standard Life's IGC

Standard Life established its IGC in April 2015 in accordance with the regulatory requirements after conducting a robust recruitment process. An Executive Search agency was employed to identify candidates to chair the Committee and a longer list of potential candidates for membership of the IGC.

The IGC is required to have a minimum of five members, the majority of whom (including the Chair) must be independent of the provider. Standard Life's IGC has five members of whom four are independent of Standard Life. After appointing the Chair, and after discussion of the range of skills and experience required for the IGC, Standard Life in consultation with the Chair, appointed the three further independent members.

The independent members have no affiliation with the Standard Life group of companies or any material business relationships (direct or indirect) with any Standard Life company (other than in the case of two members who are directors of the Standard Life Master Trust Company the responsibilities of which largely mirror those of the IGC).

The Standard Life representative member is an experienced manager and pension scheme trustee and does not hold an executive position within the UK business. Furthermore he has been provided with a side letter to his contract which makes it clear that he must act solely in the interests of relevant policyholders and put aside the commercial interests of Standard Life and any duties he owes to Standard Life shareholders when acting on the IGC.

Both the IGC members and Standard Life consider this independent majority to be the optimal combination to fulfil the IGC's terms of reference while still benefiting from access to corporate knowledge and an understanding of the complex history of workplace pension schemes and charging structures.

The five individuals who are members of Standard Life's IGC have many years of experience in pensions and related industries and are familiar with many of the issues that are faced by IGCs through their previous trustee and other business experience. Their identity and experience are set out in **Appendix 1**.

5. Activities during our first year

5.1 ESTABLISHMENT OF THE IGC

An initial task was to determine how the IGC should operate and fulfil its obligations. This included negotiation of the Terms of Reference (**see Appendix 2**), agreeing conflicts and escalation policies and the appointment of lawyers for the IGC as well as considering the appointment of other independent advisers to the committee.

The IGC engaged with representatives of Standard Life to agree the information and analysis that the committee required to undertake their VfM assessment and to fulfil their obligations in relation to the legacy audit. This formed the basis of the IGC's review activity for the year.

The IGC intends to meet at least four times a year, and more if necessary to fulfil its duties. In the year to 29 March 2016, the IGC met on 18 separate occasions. We expect that fewer meetings will be needed in future years.

5.2 ENGAGEMENT WITH MEMBERS

The IGC recognises the importance of understanding the views of members who are relying on Standard Life for their retirement savings. The IGC is trialling a number of approaches to gaining member input.

An IGC web page has been established to explain the nature and purpose of the IGC with a facility to enable policyholders and other interested parties to contact the IGC directly **https://www.standardlife.co.uk/c1/independent-governance-committee.page**

The IGC has also engaged with Standard Life to publicise the existence of the IGC via its social media channel and discuss the possible inclusion of material in benefit statements and other direct policyholder communications.

The IGC recognises that this in itself may not prompt policyholders to contact the IGC and has therefore engaged with policyholders directly by IGC attendance at a number of workplace seminars and retirement roadshows. The IGC has also discussed with Standard

Life the commissioning of research with representative groups of policyholders from different workplace schemes. This will be undertaken during the course of 2016. There has also been direct contact with some of the larger employers to understand their perspectives.

Less specific and indirect feedback has also been available to the IGC via Standard Life's in-house feedback mechanisms. These include the following:

"Rant and Rave"; a tool used by Standard Life to survey a sample of policyholders who call the customer helpline. Policyholders are asked a number of questions including whether they would recommend Standard Life to friends and family; how easy it was to get what they wanted and how helpful they found the member of staff. This data is collated to give transactional Net Promoter Scores (NPS), as well as other measures of customer satisfaction. Standard Life also collects verbatim comments from customers to provide further colour to the feedback.

On-line; policyholders accessing the on-line customer dashboard can leave feedback on their experience which is used to improve the design of the on-line proposition.

Customer Online Community; over 2,000 of Standard Life's UK customers participate in an on-line forum and provide feedback on their experiences of Standard Life.

Complaints; these are reviewed to inform management action to improve customer service and experience.

Research; Standard Life commissions research into customers' views and behaviours. Relevant examples have included qualitative and quantitative research into savers' changing behaviour at retirement and behavioural traits used to improve the design of investment default solutions.

Over time, these channels and research results will help the IGC build up an understanding of which services and features policyholders value and their relative importance in any assessment of VfM. For the purposes of this first annual report, the IGC has used the direct feedback received together with its own judgment to assess the value of those ancillary services offered by Standard Life and that are designed to improve the retirement outcomes experienced by policyholders.

5.3 PRIORITISATION OF ACTIVITIES

Given the breadth of the IGC's remit, the scale of the Standard Life workplace pension business and, the FCA deadlines for agreeing Standard Life's proposals and supporting implementation plan in relation to the legacy audit, the IGC decided that it needed to prioritise its activities and adopt a pragmatic approach in developing its work plan for 2015 and 2016.

The IGC focused initially on the results of the legacy audit and the need to agree an implementation plan with Standard Life to meet the deadlines of 30 June and 31 December 2015 prescribed by the IPB.

The IGC's next priority was to consider the ongoing VfM provided to policyholders by the Relevant Schemes[3]. In this review, the IGC focused on the Default investment offerings of the schemes recognising that the majority of policyholders (69%) and assets (64%) were invested in those offerings. The IGC intends to review the wider fund range offered (over 300 funds and lifestyle profiles) in future reports.

The committee has also undertaken an initial assessment of Standard Life's compliance with the pension freedoms and charges measures introduced by the 2014 Pensions Act and which came into effect on 6 April 2015.

5.4 LEGACY AUDIT REVIEW

In 2001, Standard Life carried out a review of pension charges. As a result, over 80% of members already experienced a single annual management charge of less than 1.00%. In the Legacy Audit, the IPB identified 251,339 members of Standard Life workplace schemes (including those set up under trust) with total plan charges potentially exceeding 1.00%[4] and therefore "at risk" of receiving poor VfM (**see Appendix 3**).

Prior to the establishment of the IGC in April 2015, Standard Life had initiated a further re-pricing exercise for active members of Qualifying Workplace Pension Schemes (QWPS). This was to ensure that workplace members had access to a default arrangement, which complied with the new charges measures, including the 0.75% cap, which came into effect on 6 April 2015.

3. See Glossary in Appendix 2 for definition of Relevant Scheme
4. This excludes the cost of any guarantees offered under With Profits plans or the additional costs of providing life assurance or waiver of premium benefits

Employers who had yet to reach their staging date were given the opportunity to upgrade to a modern pension product with Standard Life which met the requirements of QWPS. This was to ensure that workplace members had access to a default arrangement, which complied with the new charges measures, including the 0.75% cap, which came into effect on 6 April 2015. Going forward, members also have the option to transfer their existing pension savings with Standard Life across to the new QWPS.

A more granular policyholder level analysis produced at the request of the IGC identified that using 31 December 2015 data, adjusted for the impact of those schemes that had become a QWPS between 1 April 2014 and 31 December 2015 (and excluding schemes set up under trust), 176,881 current members and 89,803 former members of workplace personal pension schemes experienced charges in excess of 1.00% (**see Appendix 4 – Table A**).

5.4.1 STANDARD LIFE PROPOSALS FOR ACTION IN RESPONSE TO THE LEGACY AUDIT

In June 2015, Standard Life presented to the IGC on its proposed management actions in relation to the IPB's findings.

Standard Life highlighted that 83% of their workplace policyholders had charges at or below the 1.00% threshold set within the scope of the IPB's legacy charge audit. They acknowledged, however, that some customers of legacy pension schemes were at risk of experiencing charges above this threshold. These included the following categories of policyholder:

(i) Members of legacy schemes with initial unit charges and who may incur an exit charge should they wish to access their pension savings before the selected retirement date;

(ii) Members of legacy schemes where higher than normal levels of commission had been paid to the scheme adviser or where ongoing commission was being paid by the member through Standard Life;

(iii) Members of legacy schemes invested in the core default offerings (typically the Managed Fund or a blend including the Managed Fund); and,

(iv) Members of legacy schemes who had elected to invest in higher charge funds.

Standard Life's proposed response in respect of each of the above categories of policyholder was as follows:

(i) Any exit charge on taking benefits from age 55 to be limited so that it does not exceed 10% of a policyholder's fund;

(ii) On-going trail commission or additional fund-based commission resulting in plan charges above 1.00% to cease with a corresponding reduction to the on-going charge (unless evidence of on-going advice and policyholder consent is provided).

However, there were a number of other scenarios where high charges / exit charges applied where Standard Life proposed taking no action. These were as follows:

(a) Plans where the effective default is the Managed Fund or other core fund and total plan charges are 1.02% (usually as a result of additional expenses) marginally above the 1.00% threshold set by the IPB in gathering data to assess VfM.

(b) Plans where the high charges are a consequence of fund selection by the policyholder rather than the scheme-level charge for the default fund offering.

(c) GFRP plans where an exit charge applies in respect of funded initial commission.

(d) GFRP plans where adviser commission charges take total on-going plan charges above 1.00%.

5.4.2 IGC CONSIDERATION OF LEGACY AUDIT REMEDIATION PROPOSAL

After submitting more than 50 follow-up questions to Standard Life, the IGC responded to Standard Life on 10 October 2015.

In its response, the IGC expressed its view that urgent action was required where any policyholder is experiencing or might experience charges in excess of 1.00% based on the IPB methodology. Specifically, the IGC recommended that Standard Life should implement the following steps:

1. Put in place arrangements (whether by scheme discount, AMC reduction or otherwise) such that those invested in any of the core funds and blends including With Profits do not incur a reduction in yield greater than 1.00% (other than in respect of guarantees).

2. For those policyholders whose plans have commission paid at higher than normal levels, reduce the future commission charges to normal levels such that no policyholder will suffer a reduction in yield greater than 1.00% other than by virtue of a deliberate decision to continue to invest in a higher priced fund;
3. Write to all policyholders who have invested in higher charging funds – providing them with an opportunity to review whether their choice of fund remained appropriate for their needs and providing them with the ability to switch to alternative funds if they wished to do so (at no cost other than the costs normally associated with switching).

In making those recommendations, the IGC made clear to Standard Life that it was not at that stage reaching any conclusions as to whether 1.00% might constitute an appropriate VfM measure for these plans. Rather, this was the IPB metric and the IGC would give further consideration to VfM as part of its wider 2015/16 work plan (see 5.5 below).

The IGC did not consider the proposal in respect of exit charges to be acceptable. The IGC deferred expressing a definitive view on what level, if any, might be appropriate in relation to plans with exit charges, pending the outcome of the FCA / HM Treasury consultation on this matter. This was on the assumption that the consultations would conclude prior to 31 December 2015. In the event, they did not reach a conclusion prior to 31 December and consequently revised proposals were put forward for consideration by the IGC. (See 5.4.3 and 5.4.4 below.). The Chancellor subsequently made a statement on 19 January 2016 on future legislative action in relation to Exit Charges.

5.4.3 STANDARD LIFE RESPONSE

In light of the IGC's recommendations, on 18 November 2015 Standard Life made a number of revisions to the initial proposals as follows:

(i) Policyholders invested in any of Standard Life's core fund range, which have additional expenses that result in total plan charges of 1.01% or 1.02%, to receive an additional discount, which ensures that total charges do not exceed 1.00%. This action would benefit 115,339 current and 46,015 former members of workplace personal pension schemes within the "at risk" category. (**See Appendix 4 – Table B**).

(ii) Members of legacy schemes who incur charges in excess of 1.00% because of higher than normal levels of commission to have their plan charges on core funds capped at 1.00%. This proposal to apply to former members of such legacy schemes as well as active members.

Former members of GFRP schemes where total charges on core Standard Life funds exceed 1.00% as a result of adviser commission to have their plan charges capped at 1.00%. Standard Life's proposal includes current and former members of GFRP schemes (250) who have some or all of their pension holdings in self-invested assets (which will have been selected by the policyholder, usually having taken advice from a financial adviser).

These proposals would benefit a further 30,254 current and 23,644 former members of workplace personal pension schemes within the "at risk" category. (**See Appendix 4 – Table C**).

(iii) Standard Life further proposed a communications exercise with members of workplace personal pension schemes who are invested in higher charging funds with average plan charges exceeding 1.00% after taking into account the management actions in (i)-(ii) above. Affected members would receive one or more communications (either directly from Standard Life or via their adviser and/or employer) prompting them to review the funds they hold and check that their investment strategy remains appropriate. This would affect up to 52,000 members within the "at risk" category.

Standard Life also proposed the following actions in respect of policyholders who might incur an exit charge on accessing the new pension freedoms:

(iv) Any exit charge on taking benefits from age 55 to be limited so that it does not exceed 5.00% of a member's fund.

No further action was proposed in respect of the 9,400 members with exit charges less than 5.00% or the c700 GFRP members where an exit charge (of up to 5.00%) applies in respect of commission payments made to their adviser.

As a result of these proposals, the universe of policyholders potentially at risk of suffering a reduction in yield in excess of 1.00% reduced to fewer than 52,000. (**See Appendix 4 – Table C**).

5.4.4 IGC QUESTIONS

The IGC raised some further questions, challenges and issues of clarification on 24 November 2015, 1 December 2015 and 8 December 2015; as a result of which Standard Life confirmed that:

(i) The proposal will ensure that the current charges on the Managed Fund (and other funds with a 1.02% charge) will reduce to 1.00%, i.e. no member will be paying more than 1.00% for a core Standard Life fund.;

(ii) Where plan charges exceed 1.00% as a consequence of higher than normal levels of commission then these will be capped at 1.00%. The cap in charges will also apply to former members of such legacy schemes who were moved to an individual plan on leaving their employer. Furthermore, any ongoing commission payments to an adviser that relate to the additional plan charge above 1.00% will also cease, unless evidence of policyholder consent is received by Standard Life in response to the planned communication exercise;

(iii) Plan charges in respect of non-QWPS arrangements will be treated on the same basis as those for QWPS. Consequently, for any non-QWPS GFRPs or former members of GFRP, any fund-based commission payments will be reduced to ensure total charges on core Standard Life funds do not exceed 1.00%;

(iv) Policyholders currently invested on a "self-select" basis in a fund where the charges are higher than 1.00% will receive one or more communications from Standard Life (or, where agreed, the employer sponsor or the scheme adviser) prompting policyholders to review the funds they hold and check that their investment strategy remains appropriate.

There are c250 GFRP policyholders with "self-invested" assets (e.g. mutual funds, direct holdings in stocks and shares etc) who also hold some insured funds with charges in excess of 1.00%. Given the nature of the investments held it will not be practical for Standard Life to determine the individual's overall reduction in yield and whether it exceeds 1.00%. Standard Life considered it reasonable to infer that these individuals were sufficiently confident to be making their own investment decisions or had received individual advice. Consequently they proposed to exclude these individuals from any communication exercise relating to charges. Following further discussion with Standard Life, the communication programme will now also include these GFRP policyholders.

Following this clarification of Standard Life's proposals, the IGC concluded that the universe of members potentially at risk of suffering a reduction in yield in excess of 1.00%, other than because of individual investment and advice choices by the policyholder, reduced to zero.

The IGC confirmed to Standard Life on 8 December 2015 that it was content with these revised proposals subject to: its ongoing assessment of the VfM provided to policyholders; an agreed and timely implementation plan; and any further regulatory guidance or legislation in respect of the treatment of exit charges. Standard Life has chosen to apply these changes to other workplace pension customers beyond the scope of this IGC, and the IGC acknowledges this commitment.

The agreed implementation plan and timetable can be found at **Appendix 5**.

5.4.5 EXIT CHARGES

Standard Life has 2.6m pension policies, including workplace personal pensions, trust based schemes and individual pension plans. Of those, as at 31 December 2015, some 17,000 policyholders overall, of whom 6,597 are 55 or above, would have experienced a charge of greater than 5.00% if they had exited at that date. Of those 17,000, 1,201 individuals were members of workplace schemes within the scope of the IGC, of whom 170 were aged 55 or over and eligible to access their pensions.

Standard Life implemented the cap on exit charges from 13 January 2016. This applies to any of the 17,000 policyholders reaching the age of 55, and taking benefits before their selected pension age.

Standard Life also confirmed that any revision to the 5.00% cap on exit charges proposed for legacy workplace schemes, as a result of future legislative or regulatory action, would only be downwards.

5.5 VALUE FOR MONEY

A key function of the IGC is to assess the VfM of relevant schemes, raising concerns, where necessary, and reporting on the VfM of the relevant schemes operated by Standard Life. To do so, the IGC first had to determine a framework for defining "Value for Money", recognising the subjective nature of the concept and that no single definition can apply in all circumstances. Standard Life's IGC Chair has, along with the Chairs of a number of other IGCs, produced a framework document that has been shared with the FCA and formed part of the basis for the IGC's assessment of the VfM provided to members of Standard Life schemes.

The framework identifies a need to focus on: Quality; Risk; Relevance (including member engagement); and Cost. This is backed up by 10 framework statements, which are intended to assist the IGC in its analysis of VfM (**See Appendix 6**).

The FCA in its Conduct of Business rules (COBS) 19.5.5 2(a) to 2(e) identifies five elements which IGCs should consider in evaluating VfM:

(a) That the default investment strategies are designed and executed in the interests of relevant policyholder and that default fund investment have clear statements of aims and objectives;

(b) Whether Standard Life:

  (i) regularly reviews the characteristics and net performance of investment strategies, to ensure these align with the interests of relevant policyholders, and

  (ii) is taking, or has taken, action to make any necessary changes;

(c) That core scheme financial transactions are processed promptly and accurately;

(d) The levels of charges borne by relevant policyholders;

(e) The direct and indirect costs incurred as a result of managing and investing, and activities in connection with the managing and investing, of relevant policyholders' pension savings, including transaction costs.

In addition to those matters covered by COBS 19.5.5 (2), the IGC has concluded that there are further elements of a provider's offerings which can improve the quality of policyholder outcomes and the presence or lack of which will impact the assessment of VfM. These are incorporated into a matrix of factors which builds upon and expands the elements identified in COBS 19.5.5(2) and against which the IGC has reviewed each of Standard Life's offerings (**see Appendix 7**).

5.5.1 REVIEW OF THE DESIGN AND EXECUTION OF DEFAULT INVESTMENT STRATEGIES

The Standard Life product range has deployed as the core "default" investment solution multi-asset funds of various types. Older products typically feature a With Profits fund, with differing levels of guarantee, and smoothing of returns or a balanced Managed fund with a "lifestyle" strategy to reduce volatility as members approach their selected retirement date.

More recent products have featured modern risk-based multi-asset funds, "Active Plus", "Passive Plus" and "My Folio Managed" each of which provides options for differing levels of risk appetite. These latest iterations of default solutions have been further enhanced during 2015 with the addition of a Universal lifestyle profile better suited to the new pension freedoms.

The IGC has reviewed the suitability and appropriateness of these core default options.

IGC CONCLUSIONS

The IGC considers that, other than in relation to the matters set out below, the default investment strategies have been designed in the interests of relevant policyholders with clear statements of aims and objectives.

IGC CHALLENGE

The IGC has raised a concern with Standard Life that the historic default strategies either do not have a lifestyle design or have a design which remains targeted at annuity purchase despite the introduction of the pension freedoms. We have asked Standard Life to amend these default strategies to match the lifestyle profiles incorporated in the current pension products.

STANDARD LIFE RESPONSE

"Standard Life is aware of and acknowledges the issues in relation to people still invested in lifestyle strategies targeted towards annuity purchase. The contracts we have in place do not allow Standard Life to take investment decisions (either redirecting future contributions or switching existing funds) on members' behalf. However, we are in agreement that this action will be in the best interests of the majority of members so we are actively engaging with both the FCA and DWP to find a solution to this problem that will allow providers to move members into more appropriate solutions and hope to be able to agree a way forward soon.

In the meantime, we have started a programme of communications with relevant members to ensure they are aware of their options to initiate their own investment switches, should they wish to do so."

IGC CHALLENGE

The IGC recognises the valuable work of the With Profits Committee in the independent governance of the With Profits products and its primary role in that regard but has raised two concerns with Standard Life in relation to the With Profits Funds.

We understand both the complexity of the With Profits offerings and that the "simplified" policyholder document is compliant with regulatory guidance. Nevertheless we believe further work can and should be undertaken to improve this document.

Secondly, we believe that With Profits scheme documents and communication materials should be modified to reflect current discretionary practice on the treatment of guarantees when a policyholder seeks to access their With Profits investment other than at the contractual maturity date as a result of the new pension freedoms

STANDARD LIFE RESPONSE

"Our aim is to make all communications for members as clear and helpful as possible. The complexities of With Profits investments can make it difficult to achieve this while meeting strict regulations governing the content that has to be included. However, Standard Life's regulator is currently consulting on possible changes to regulations that would give us greater freedom to tailor the main 'Understanding With Profits' guide to suit members' needs.

Our Understanding With Profits guide explains to new members how with profits investments work, including contractual guarantees and when they apply. Because it is written principally for those who are at the point of deciding how to invest, the guide has never been used to describe our current discretionary practice as our practice could change at any time in the future. Our main communication document around our discretionary practice is our 'Unitised With Profits Pension Payouts' document (WP110) which was updated in November 2015 to take account of our most recent changes. This is available from our main With Profits website and Adviserzone. We also added wording to our annual statements and retirement packs to take account of the changes to our practice.

In addition to this our Customer Operations team was given 'questions and answers' to help them field any queries from members regarding our discretionary practice when the changes were made in November 2015.

We will review the various communications that are issued for members when investing, during service and when they come to take benefits in light of the IGC's concerns and taking account of pensions freedoms and any changes to regulations."

THE IGC CONCLUSION

The IGC recognises the legal and regulatory challenges associated with making changes to investment solutions that may no longer be suitable or providing VfM without the explicit consent of individual policyholders. In the absence of further regulatory assistance, it is difficult for providers or IGCs to effect the changes to investment solutions that are likely to be in the long-term interests of policyholders.

This is a challenge that most providers of workplace personal pension plans will need to address, particularly given changing policyholder behaviour at retirement following the introduction of the pension freedoms in April 2015.

The IGC asks Standard Life to continue to engage with members, employers, regulators and legislators to seek solutions which would allow Standard Life to move policyholders in those older style products which either have no lifestyle component or have an older lifestyle design less suited to a post pension freedom world to a more modern design.

The IGC also notes Standard Life's commitment to further review the member communications and will consider the results of that review when available.

5.5.2 STANDARD LIFE'S REVIEW OF THE CHARACTERISTICS AND NET PERFORMANCE OF INVESTMENT STRATEGIES

The IGC is required to "assess whether the characteristics and net performance of investment strategies are regularly reviewed by Standard Life to ensure alignment with the interests of relevant policyholders and that the firm takes action to make any necessary changes".

Standard Life has in place an investment governance function that regularly and systematically reviews from two perspectives the investment options available to members of workplace personal pension plans. These reviews operate on a rolling quarterly basis with each of the individual funds available to scheme members reviewed at least annually.

The first review is a Red/Amber/Green (RAG) assessment (which assesses whether funds are performing in line with their objectives (including benchmarks). The RAG review covers all investment strategies on at least an annual basis. The largest funds and those used within the modern default solutions are reviewed at least quarterly with performance assessed against an efficient frontier of a comparable mix of underlying asset classes and/or a benchmark appropriate for the strategy.

The second type of review is a Fund Alignment Review (FAR) designed to test and ensure that the way funds have been described to policyholders is consistent with the way in which they are managed. The review frequency is the same as described above for the RAG review.

The same governance function within Standard Life has the responsibility for initiating and overseeing any remediation activity that may be required due to performance issues or where there is an actual or potential divergence in the way in which a fund is managed relative to the expectations that have been set with policyholders.

Recent examples of such actions have been the changes initiated by Standard Life to strategic lifestyle profiles in response to the pension freedoms, which came into force on 6 April 2015; an incorrect description in fund literature which led to a communications exercise to 70,000 customers and compensation where loss had been suffered; and, closure of a fund over manager concerns.

Representatives from Standard Life's governance function have attended regularly at IGC meetings to highlight any findings or funds, which might provide cause for concern. These representatives have also helped to provide the IGC with additional information regarding the direct and indirect costs of the core default investment options offered to members of workplace schemes.

The IGC has reviewed Standard Life's investment governance processes and has been informed that the most recent audit review rated the control environment as "effective" with a further review scheduled for later in 2016.

IGC CONCLUSIONS

Standard Life's internal governance function has reviewed the characteristics and net performance of default and non-default investment strategies offered through QWPS and non-QWPS policies in the period covered by this report.

The IGC is satisfied that there are no areas of concern in relation to the governance processes used by Standard Life to review and where appropriate modify investment strategies. The IGC intends to continue to monitor the effectiveness of those processes in subsequent periods.

5.5.3 REVIEW OF ADMINISTRATION PROCESSES AND CORE FINANCIAL TRANSACTIONS

Standard Life administers all relevant policies through a dedicated centre in Edinburgh. Organisational systems and processes within the administration centre are the same across all products whether new or older style products.

The core administration team is made up of some 1,500 staff with an average of 17 years' service with Standard Life. Standard Life consider service quality a key differentiating factor for their business and point to substantial investment including some 27,000 hours of structured training during 2015 in addition to on-the-job training that all staff receive.

Members of the IGC have met with management of the administration centre as well as many of the staff, IGC members have also had the opportunity to spend time with Customer Operations staff listening to calls to the helpline from members and advisers.

The IGC was impressed with both the levels of staff expertise and the commitment to the individual policyholder demonstrated at all levels. In common with other providers, Standard Life has experienced materially higher levels of demand in the administration centre (particularly in relation to the Pension Freedoms) during 2015. Standard Life has been able to substantially maintain service levels by redeploying experienced staff from other areas.

The IGC has reviewed the governance structure employed by Standard Life around its administration processes and has reviewed the regular Management Information produced by the business as well as some further information requested by the IGC. The IGC has also reviewed Standard Life's policy for the processing of core financial transactions, including the allocation of contributions, investment redirection or switching of units and the disinvestment of funds to settle a claim.

The IGC considers core financial transactions to include:

- The receipt of regular and ad-hoc contributions;
- The processing of fund switches
- The receipt of transfers in
- The payment of funds being transferred out
- The payment of benefits on death, retirement or exercise of the pension freedoms

Of the five categories of core financial transaction, the first two are primarily intended to be administered via Straight Through Processing (STP). For example, during the 12 month period to 31 December 2015, Standard Life processed almost 15 million regular contributions, 99.9% of which were administered automatically via STP.

Standard Life does not consider telephone, written or e-mail enquiries as STP. Where a policyholder phones Standard Life, the enquiry is generally dealt with by the Customer Operations Representative and the length and content of the call is recorded and measured as part of the overall performance management tracking system. Where it is not possible to answer the policyholder's enquiry over the phone, Standard Life creates a record and the turnaround time forms part of Standard Life's non-STP performance standard (see below). Any requests received by e-mail or letter also creates a record tracked as a non-STP transaction.

For those transactions not conducted via STP or one-stop telephony, Standard Life aims to complete 90% of transactions within a 10 day period. This target is not a formal Service Level Agreement, but is a key performance indicator across all non-STP processes combined. The measurement of processing time includes all time taken by Standard Life, in days, from receipt of the enquiry or instruction to the completion date. Standard Life does not include time taken by an external party within the measure. The intention is to record the policyholders' experience of Standard Life's timeliness and service, which for some transactions includes: collation of documentation; communicating with the policyholder or a third party to confirm requirements; and the actual processing of the transaction/release of the funds or information.

The IGC has questioned the appropriateness of having a uniform target across all non-STP transactions; recognising, for example, that dealing with death claims is more time consuming than settlement of other pension benefits which might require a tighter target. In response, Standard Life has indicated that they will review the measures in place for each process against the average completion time and identify any key pinch points that impact timescales. Any recommended changes arising from this review to processes or service standards will be considered by senior management within the Customer Operations function and reported back to the IGC.

The service level in respect of the 350,000 transactions during 2015 that fell outside of STP (representing < 3% of all transactions) fell below the target (at 88% completion within 10 working days). This was primarily due to the significant increase in customer demand arising from the introduction of the pension freedoms in April 2015.

While acknowledging the very small number (in proportionate terms) of contributions that are not allocated within the target 10 day period, the IGC has challenged Standard Life on the reasons for this given the regulatory requirement on employers and providers to allocate contributions on a timely and accurate basis. In response, Standard Life has indicated that the incidence of such cases is very low and the delays tend to be caused by issues with the sponsoring employer. One particular example given was of an employer which went into liquidation. Standard Life had to work with the liquidator over a period of months to secure the missing regular contributions not paid by the employer. Ultimately the liquidator provided the missing contributions which were then allocated to the members' plans on receipt.

Corrective, preventative and remedial action taken on non-STP processing completed outside of the target service level is reviewed by Standard Life and action taken by a number of areas within the administration centre, including: the Oversight Team within the Client Control Centre; the Operational departments; and Standard Life's Customer Experience team. Standard Life also publishes a Pensions Internal Control Statement which sets out the operational control framework around the provision of services.

SERVICE ACCURACY AND TIMELINESS

Over the nine month period to 30 September 2015, Standard Life reported "right first time" accuracy of transaction processing ranging from 90% to 99% (see table below). This is measured across all pension products and workplace pension schemes. An inaccuracy in processing means that (i) the correct process has not been followed and (ii) there was potentially an impact on the policyholder. Any errors are brought to the attention of the relevant Customer Operations Representative and Standard Life also make any corrections necessary to ensure there is no policyholder detriment.

Core Financial	Average Quality % (right first time accuracy)
Regular Contributions	97%
New Joiner & Increment Set-Up	90%
Investment Changes (Non – Lifestyle)	98%
Transfer of Benefits In	90%
Transfer of Benefits Out	99%
Retirement Settlement	98%
Death Settlement	95%

Source: Standard Life

Failure can arise for a number of reasons and the root causes are not always within Standard Life's control. The operations team review exception cases and discuss recommendations with senior Customer Operations Managers from each part of the operation on a monthly basis. The objective is to identify and review any risks or themes and to address any changes to systems, processes, training needs or potentially to introduce enhancements to the proposition.

If there is any delay or inaccuracy in processing within Standard Life the original date of settlement will apply. For lengthy delays a "best price" basis will apply; this involves determining whether or not the policyholder has been financially disadvantaged as a result of the delay and using a fund price which ensures no disadvantage. If there is a delay or inaccuracy in processing due to an external party e.g. policyholder, employer, adviser, solicitor or other authorised individual, the date of receipt within Standard Life will apply. In other words Standard Life will not assume responsibility for a third party's delay.

COMPLAINTS

Standard Life's Pensions Internal Control Statement also sets out the complaints handling process.

During 2015, Standard Life received 6,832 written complaints and a further 15,390 verbal complaints. These covered all Standard Life contracts, including the workplace personal pension plans. The majority of telephone complaints are dealt with by the call handler during the call but where this is not the case, there is a requirement to record and report the complaint information to the FCA.

The number of FCA reported complaints during the first half of 2015 equated to 39 complaints per 100,000 policies in-force. Based on the limited number of industry providers who publish this information, Standard Life appears to receive proportionately fewer complaints from its customers compared with other providers.

A common cause of complaint among members of workplace personal pension schemes related to the pension freedoms which came into effect from April 2015. Other reasons for complaints were as follows:

- **Turnaround Times** – particularly in relation to delays experienced by policyholders wishing to access their pension savings under the pension freedoms.
- **Human Error** – mainly in relation to a failure to carry out instructions correctly or giving incorrect information to policyholders.
- **Auto Enrolment & Opting Out** – with complaints from some individuals who were unaware that they had been auto-enrolled into their employer's workplace scheme.
- **Call Wait Times** – customers were unhappy that they could not get through to Standard Life on the phone for "business as usual" processes or enquiries.
- **Failure in Process** – examples included incorrect application of claims process and call validation process not being followed for change of address.

Any written complaints or those which cannot be satisfactorily resolved by the call handler on the call are referred to a separate Customer Relations team within Standard Life. This team is tasked with making an impartial assessment of the complaint and recommending an appropriate course of action, including the amount of any compensation payment to be made to the customer.

During 2015, 53% of written complaints were upheld by the Customer Relations team during the year. This represented an increase from 45% in 2014, primarily as a result of pension freedoms complaints and a higher uphold rate across this type of complaint.

4% of Standard Life's complaints were referred to the Financial Ombudsman Service (FOS). Based on information published by FOS for the six month period to 30 June 2015, the Ombudsman agreed with Standard Life's assessment in 83% of cases. This is comparable with other leading pension providers.

IGC CONCLUSIONS

Based on the management information that has been made available by Standard Life, the IGC is satisfied that core financial transactions have been processed promptly and within acceptable limits of accuracy.

The volume of complaints appears low relative to the number of policyholders and the number of transactions processed.

Standard Life has confirmed to the IGC that regardless of the date of processing, providing all necessary supporting information has been received, transactions are processed in accordance with the contractual terms such that where there has been a delay at Standard Life, allocation of units is "backdated" appropriately to ensure the member is put in the position they would have been in had there not been any processing delays.

As such, the IGC is satisfied that there are no areas of concern in relation to core financial transactions.

The service support offered by Standard Life is of a good standard but the IGC has challenged Standard Life management to consider whether the current 9am-5pm weekday opening times for phone enquiries could be extended to make access easier for policyholders. Standard Life is considering the practicality and cost effectiveness of such a change.

5.5.4 THE LEVEL OF CHARGES BORNE BY POLICYHOLDERS

All workplace products have an annual management charge which is calculated as a percentage of the plan value. Additional expenses may also be deducted to cover the administration and custodian fees arising from the management of the funds. The sum of these charges is referred to by Standard Life as the Total Annual Fund Charge (TAFC) and includes all administration charges. No policyholders are charged a flat rate plan charge on top of the TAFC deducted from their plan.

The TAFC can vary depending upon the choice of funds where contributions are invested. As set out in section 5.4 covering the legacy audit, some of the Standard Life core funds have a TAFC of 1.01% or 1.02%.

As well as these core funds, Standard Life offers a wide range of other investment options from Standard Life Investments as well as a number of other investment managers. Many of these funds have higher management charges and additional expenses than those under the core fund range.

The actual charges incurred by policyholders may be higher or lower than the TAFC for the fund(s) in which the policyholder is invested. For example, if policyholders have an adviser then their total plan charges may include the cost of the adviser's commission or fees. Conversely, plan charges may be lower as a result of a discount negotiated by the sponsoring employer. Furthermore, any schemes which are used for auto-enrolment have a maximum TAFC of 0.75% in respect of any pension savings invested in the scheme's default investment arrangement.

The actual charges incurred by individual policyholders are disclosed by Standard Life in the Key Features documents for the plan when members first join their Workplace scheme. For all products the percentage charge is disclosed in the policyholder's yearly statement and for newer style products, the actual monetary charges incurred are also disclosed.

In addition to the explicit charges outlined above, the funds in which members' contributions are invested are subject to indirect "transaction" costs (see section 5.5.5).

The IGC has assessed the distribution of charges incurred by policyholders across different products and size of scheme. We note that scheme discounts for all but the very largest schemes (excluding "Good to Go" auto-enrolment schemes) typically fall within the range of 0%-0.2%. The auto-enrolment "Good to Go" proposition receives more generous discounts to reflect the fee paid by the employer and the requirement to ensure that total member borne charges do not exceed the 0.75% cap. Employers with many thousands of employees and larger assets under administration are able to command significantly higher discounts reflective of the economies of scale that they bring to Standard Life.

IGC CONCLUSIONS

The IGC has reviewed the application by Standard Life of the charge cap to assess compliance with the auto-enrolment regulations. Standard Life has designed the core scheme charges for QWPS to comply with the charge cap by granting any QWPS scheme a minimum scheme discount such that the maximum charge is 0.75%. To ensure that this charge is not exceeded in any month due to fluctuations in additional expenses, Standard Life run an additional capping control process which to the extent required applies a further discount to achieve the 0.75% level. The IGC has reviewed monthly Management Information demonstrating where such additional discounts have been applied. This process has been operated since April 2015 and the IGC will review the application of the process in more detail during 2016 and has requested that consideration be given by Standard Life to undertaking an audit of the charge cap process.

The IGC is satisfied that the range and distribution of charges and discounts is reasonable across different products and sizes of scheme.

5.5.5 REVIEW OF DIRECT AND INDIRECT COSTS INCLUDING TRANSACTION COSTS

The IGC has sought to review the costs experienced by policyholders invested in Standard Life policies. These are fees paid to the investment manager and other costs such as brokerage, dealing and custody incurred as part of the investment process.

It is currently very difficult to assess the direct and indirect costs experienced by policyholders which fall outside the bundled charge because, there is no consensus on those costs which should be disclosed; no common methodology for the calculation of those costs; and no common benchmarking process which would allow for valid cross market comparisons.

The IGC has held discussions with Standard Life (who are supportive of participating in industry wide benchmarking) as well as with other IGC Chairs and potential providers of benchmarking services. The IGC believes that for benchmarking to be effective, three core requirements need to be met: firstly, a common set of criteria for assessment agreed with regulators and legislators; secondly, a utility provider of benchmarking services (multiple providers will be costly and create confusion within the market); and thirdly, mandated participation by providers. Pending the availability of industry wide benchmarking, the IGC has reviewed the Standard Life processes for managing such costs.

Standard Life Investments (SLI) uses a number of processes and controls to manage the level of transaction costs within funds. All portfolio managers are required to assess costs of a trade against anticipated return; SLI's Global Supplier Management Team monitors the costs and performance of third party suppliers (custodians, fund accountants, transfer agents etc) and within SLI, a "box system" is used to aggregate and match off customer transactions to minimise unnecessary trading.

The IGC has been provided with some limited cost data for the Active and Passive Plus range of default funds and the Managed Fund. These funds account for 45% of total assets for newer style products and 47% of total assets for older style products. This initial analysis indicates that yearly transaction costs for these funds fall within the range of 0.1% to 0.2%.

The IGC has also received some third party analysis as to the costs and fees resulting from the investment process. As part of a triennial fee review process in late 2015, Standard Life Assurance Limited (SLAL) commissioned an investment fee benchmarking analysis from a major investment consultant to review whether the level of fees paid to SLI was reasonable relative to the terms which would likely be available from an independent investment manager in the open market. The review took into account the size and nature of the mandates being reviewed, differences which might exist across differing types of institutional investor and whether, where performance fees were present, the size and structure of the incentive was appropriate.

The IGC noted that across the book of business, SLAL enjoyed investment management fees from SLI at levels below the lower quartile of the consultant's insurance database and that no individual asset class had fees higher than the median of the database.

The IGC was also provided with two further third party reports. The first on industry dealing costs (equity only) as at mid-2015, which provided analysis of SLI's trading costs incurred against a modelled expected cost. That report showed that SLI had lower trading costs than anticipated over three of the four quarterly periods reviewed and that the outlier was explained by a small number of large value trades in volatile markets.

The second report reviewed Custody Fees experienced by 42 managers across 11 custodians and demonstrated that SLI ranked 16th best out of the 42 firms surveyed. The report also analysed Dealing costs across the same firms where again SLI ranked 16th.

IGC CONCLUSIONS

Having reviewed the detail of these reports, and subject to the general point discussed above on the limited data available and the difficulty of identifying all costs on a consistent cross provider basis, the IGC was satisfied that SLAL and, where relevant, SLI are controlling the costs impacting members' returns and that the costs experienced by members were reasonably competitive.

As part of its analysis, the IGC considered the net investment returns of the main funds used in investment default strategies.

The annualised returns shown after deduction of charges at the standard charge level are shown below. For With Profits funds these are for a member retiring on 1 February 2016, following Standard Life's most recent bonus declaration. For the other funds they are returns to 31 December 2015.

	5 years	10 years
With Profits (0% guarantee)	6.60% pa	5.50%
With Profits (4% guarantee)	4.00% pa	4.00%
Managed fund	5.51%pa	5.29%
Active Plus III	6.48%pa*	–
Passive Plus III	5.70%pa*	–

*Measured since launch in March 2012. Source: Financial Express

To December 2015, the growth in the Consumer Price Index (CPI) over five years was 1.92% pa and over 10 years, 2.43% pa. Source: https://www.ons.gov.uk

Returns are further enhanced where the charge cap or other scheme discounts apply.

The IGC considers that no VfM issues arise, given the low inflation environment in recent years.

This is an area of enquiry which the IGC intends to revisit as soon as the FCA and others specify what information should be supplied by investment management firms and how that information should be calculated.

5.5.6 REVIEW OF OTHER VALUE FOR MONEY CONSIDERATIONS

Standard Life has invested heavily in improvements in its digital capability and educational support materials as it seeks to enhance the experience of policyholders and help individuals to achieve better savings outcomes.

The support proposition from Standard Life includes:

- A non-secure website with general information, guides and calculators, fund information and various financial blogs and articles from in-house experts.
- iOS and Android mobile applications allowing members to view their pension savings and make additional ad-hoc contributions.
- A secure customer dashboard in which policyholders can view their pension savings and make various transactions on-line, including payment of additional contributions and changes to investment instructions.
- Retirement roadshows, workplace seminars and other invitational events.
- Telephone support and guidance service.
- Communication consultancy service (paid for by employer sponsors).

To engage and raise awareness of workplace pensions, Standard Life has created "Campaign in a Box" which is available to all employer sponsors. These are ready-made materials under a range of themes such as auto enrolment, going online and increasing contributions, that sponsors can order for use in their workplace. They include posters, flyers, and screensavers. These are made available by Standard Life at no additional cost to employers or policyholders.

While currently unable to measure the direct impact on member outcomes, Standard Life believes that the use of the engagement materials, in conjunction with making it as easy as possible for policyholders to take action, makes it more likely that policyholders will engage with their pension and take actions that support their future.

IGC CONCLUSIONS

The level of support on offer to policyholders reflects Standard Life's positioning of their workplace pension products as a higher added value proposition with a focus on delivering good outcomes for members.

The IGC is persuaded of the argument that, in a DC world, the retirement outcomes experienced by policyholders will be determined by:

(i) contributions made over the lifetime of pensions saving;
(ii) investment returns (net of charges and costs);
(iii) choices made by policyholders accessing their savings from age 55 onwards.

Given that much of the additional engagement activities and materials provided by Standard Life are designed to help policyholders make informed decisions in relation to each of the three considerations highlighted above, the IGC is generally supportive of the investments being made by Standard Life in this area. However, further analysis is required in future years to determine the cost effectiveness of these support services in light of the impact on member behaviour and their retirement outcomes.

5.5.7 RISK CONTROL FRAMEWORK

The IGC has received an overview of the risk management framework that is embedded across the Standard Life group to manage and control operational and financial risks. The framework adopts a "3 lines of defence" model that is common to many FTSE 100 companies and is supported by an internal risk function which provides oversight and challenge to the business as well as an audit function which provides independent assurance over compliance.

The IGC has identified a number of areas where the audit function might in the future provide further assurance to the IGC in its overall assessment of VfM. These are to be considered by the Group Audit Committee of Standard Life as part of its overall rolling programme of quarterly audit activity.

6. OVERALL CONCLUSIONS

The IGC has concluded overall that Standard Life's various workplace personal pension products (both newer and older style) offer policyholders VfM; are of good quality; benefit from well-designed investment solutions; good administration and governance; and, comprehensive member support and communication materials.

The IGC is satisfied that the differences in pricing between modern QWPS and the legacy products are reasonable and that when comparing the aggregate cost of such products, schemes of equivalent scale achieve broadly similar price points and that Standard Life does not extract extra profit from legacy products.

In concluding that the legacy schemes offer members VfM, the IGC's assessment is predicated on the assumption that the management actions agreed with Standard Life are implemented by November 2016.

After the planned changes to charges the average charge on workplace pension schemes which are contract based is expected to be 0.70%. This figure is not weighted by value of assets and excludes deductions for guarantees on With Profit policies.

The IGC will also look more closely at the VfM offered by the wider range of investment options as well as default arrangements that have been designed by employer sponsors and / or scheme advisers during 2016/17.

The IGC will continue to evaluate the VfM provided by Standard Life as the market develops and as more comparative industry-wide data becomes available, particularly in relation to the increased transparency of charges and costs both direct and indirect.

IGC
March 2016

Meet the Committee Members

Appendix 1
IGC Biographies

Rene Poisson

INDEPENDENT COMMITTEE CHAIRMAN

Rene retired after a 30 year career with JP Morgan latterly as Managing Director and Senior Credit Officer for EMEA in September 2012. He has a number of non-executive appointments including as an Independent Director and Chair of the Remuneration Committee of the Universities Superannuation Scheme (USS), Chair of the JP Morgan UK Pension Plan and member of its Investment and Communication Committees, Chair of the Standard Life Independent Governance Committee, Director of the Standard Life Master Trust and Chair of the Advisory Committee of Five Arrows Credit Solutions.

Richard Butcher

INDEPENDENT MEMBER

Richard is managing director of PTL, the trustee of Standard Life's master trust scheme since its launch in 2012. Richard has worked in the pensions industry since 1985 for a variety of companies and is a trustee to a number of both DB and DC pension schemes. He is chair of the Pension and Lifetime Savings Association (PLSA) DC Council and sits as a non-executive director on the PLSA board, as well as being a fellow of the Pensions Management Institute and a member of the PMI Council. Richard acts as a governance committee member for several contract-based pension plans and as a pension scheme secretary. Before joining PTL in 2008, he ran his own independent trustee and consultancy business.

Ingrid Kirby

INDEPENDENT MEMBER

Ingrid is an independent trustee and investment specialist with Capital Cranfield Pension Trustees Ltd, after 30 years' experience of pension fund investment including 25 years working at Hermes Investment Management for the BT Pension Scheme and other third party clients. She now has a portfolio of trustee roles acting as Sole Trustee, Chair of Trustees, and Co-Trustee encompassing large and small DB/DC schemes in both commercial and not-for-profit organisations, bringing extensive and in-depth investment expertise to trustee boards and their Investment and DC sub-committees. She is a Fellow of the Chartered Institute for Securities & Investment and a member of the Association of Professional Pension Trustees.

Roger Mattingly

INDEPENDENT MEMBER

Roger is Immediate Past President of the Society of Pension Professionals having spent his entire career in the pensions industry. He has been a Director of PAN Trustees Limited since 2013 and is now its Managing Director. He served on the board of what was HSBC Actuaries and Consultants for over 20 years. He has been, and is, a member of various industry groups including the Pensions Regulator's Stakeholder Advisory Panel, the Pensions and Lifetime Savings Association DB and DC Multi employer committees, the House of Commons Pensions Leadership Group and several DWP Policy Engagement groups.
He is a Fellow of the Institute of Directors.

Michael Craig

STANDARD LIFE REPRESENTATIVE

Michael is the Head of Product and Technical Consultancy at Standard Life and has almost 30 years' experience of the UK Life and Pensions industry. Michael played a key role in a number of corporate initiatives, including the demutualisation of Standard Life, as well as major regulatory driven changes. He is currently a director of Standard Life Trustee Company Limited and trustee chair of the Royal Blind pension scheme.

Appendix 2
Terms of Reference

Independent Governance Committee

Standard Life Assurance Limited – Defined Contribution Workplace Personal Pensions

Constitution and Terms of Reference

1. ROLE AND DUTIES

The Committee's role is to advance the Financial Conduct Authority's (FCA) statutory objectives of securing an appropriate degree of protection for consumers by assessing the value for money of relevant schemes, raising concerns, where necessary, and reporting on the value for money of the relevant schemes operated by Standard Life Assurance Limited (SLAL). The Committee acts solely in the interests of scheme members by providing credible and effective challenge on the value for money of workplace personal pension schemes.

The Committee's key duties are:

- to act solely in the interests of relevant policyholders (both active and deferred members);
- to assess the ongoing value for money that relevant policyholders obtain from SLAL's relevant schemes;
- where the Committee finds problems with value for money, to raise concerns (as it sees fit) with the SLAL Board;
- after giving the Board an opportunity and time to address those concerns, to escalate any remaining concerns to the FCA, alert relevant scheme members and employers, and make its concerns public as it sees fit; and
- to produce an annual report by 5 April 2016 and annually thereafter.

2. MEMBERSHIP

2.1 The Committee shall consist of a minimum of five members, the majority of whom, including the Chairman, must be independent (as defined in COBS 19.5.11 and 19.5.12). Any Standard Life employee appointed to the Committee shall have a term in their contract of employment that they are free, in their capacity as a member of the Committee to act within these Terms of Reference and to do so solely in the interests of relevant policyholders.

2.2 Members of the Committee shall be approved by the Nomination and Governance Committee and the Chairman on the recommendation of the Chief Executive Officer and the UK & Europe Chief Executive and following an open and transparent recruitment process.

2.3 Where an independent Committee member is an individual, their appointment shall be for a fixed period of no longer than five years, which may be extended to a cumulative maximum of ten years. Where an independent Committee member is a corporate member, an individual must be appointed as their representative and the maximum period that they can act as that representative is ten years. Any vacancies that arise within the Committee should be filled as soon as possible and, in any event, within six months. The appointment and removal of a Committee member should involve the Chairman but, in the absence of a material breach of their contract for services, SLAL shall not remove a Committee member unless it receives a request to do so from the Chairman. Before submitting a request to remove a member, the Chairman shall consult the other members of the Committee.

3. COMMITTEE MEETINGS

3.1 The Committee shall meet quarterly although ad-hoc meetings can be held as necessary, if called/agreed by the chairman.

3.2 Any independent member of the Committee can be delegated Chairmanship of a meeting at the discretion of the Chairman.

3.3 The Secretary to the Committee shall be appointed by the Group Company Secretary.

3.4 Three members shall constitute a quorum for the Committee meetings, provided at least two are independent members. In the event that a Committee meeting is not quorate, decisions can only be proposed, with a further quorate meeting required for approval.

3.5 Meetings of the Committee may take place in person or by telephone or video conference.

3.6 Decisions of the Committee (with respect to the duties in section 6) shall require approval by a majority of its members participating in the relevant meeting.

3.7 Decisions of the Committee can be made by written agreement by all members of the Committee and such agreement may be given by electronic communication.

4. NOTICE OF MEETINGS

4.1 Meetings of the Committee shall be summoned by the Secretary at the request of any of its members, in each case with the agreement of the Chairman.

4.2 Adequate notice of each meeting confirming the venue, time and date together with an agenda of items to be discussed and supporting papers, shall be forwarded to each member of the Committee and any other person required to attend.

5. MINUTES OF MEETINGS

5.1 The Secretary shall minute the proceedings and resolutions of all meetings of the Committee.

5.2 Draft minutes of each Committee meeting shall be circulated as soon as practicable to all members of the Committee, the SLAL Board and the Standard Life plc Board after they have been approved by the Chair. The minutes shall be approved (with updates on previously agreed actions provided) at the following meeting of the Committee and re-circulated.

6. DUTIES

LEGACY AUDIT

BACKGROUND

6.1 The Independent Project Board (IPB) have written to the SLAL Board with data on schemes where members are potentially exposed to high charge impacts. The SLAL Board shall, by 30 June 2015, review the information and guidance provided by the IPB and then provide data, further analysis and the range of potential actions to the Committee along with the list of actions (including alternatives) that it proposes for evaluation by the Committee.

DUTIES OF THE COMMITTEE

6.2 The Committee shall then evaluate which combination of the actions identified by the SLAL Board under 6.1 best meet the needs of the relevant policyholders and make recommendations to the SLAL Board on which course of action will be most effective to ensure value for money for relevant policyholders; and have an implementation plan agreed with the SLAL Board and in place by 31 December 2015.

6.3 The Committee will oversee a sampling exercise of individual personal pension plans to identify any cases where relevant policyholders were previously in a workplace pension and may now be at risk of high charges. This exercise is to be agreed with the SLAL Board.

ONGOING DUTIES

6.4 The duties of the Committee are to:

6.4.1 act solely in the interests of relevant policyholders both individually and collectively. Where there is the potential for conflict between individual and collective interests, the Committee should manage this conflict effectively. The Committee is not required to deal directly with complaints from individual policyholders;

6.4.2 assess the ongoing value for money for relevant policyholders delivered by relevant schemes particularly, though not exclusively, through assessing:

(a) whether the default investment strategies within those schemes are designed and executed in the interests of relevant policyholders with a clear statement of aims and objectives;

(b) whether the characteristics and net performance of investment strategies are regularly reviewed by the firm to ensure alignment with the interests of relevant policyholders and the firm takes action to make any necessary changes;

(c) whether core scheme financial transactions are processed promptly and accurately;

(d) the levels of charges borne by relevant policyholders; and

(e) the direct and indirect costs incurred as a result of managing and investing, and activities in connection with the managing and investing of, the pension savings of relevant policyholders, including transaction costs.

6.4.3 raise with the SLAL Board any concerns it may have in relation to the value for money delivered to relevant policyholders by a relevant scheme.

6.5 If, having raised concerns with the SLAL Board about the value for money offered to relevant policyholders by a relevant scheme, and also making the Standard Life plc Board aware of any such concerns the Committee is not satisfied with the response of the SLAL Board, the Chairman may escalate concerns to the FCA if that would be appropriate. The Committee may also alert relevant policyholders and employers and make its concerns public.

LIAISON AND INTERACTION

6.6 The SLAL Board must take reasonable steps to address any concerns raised by the IGC under its terms of reference or provide written reasons to the IGC as to why it has decided to depart in any material way from any advice or recommendations made by the IGC to address any concerns it has raised;

6.7 Through the FCA significant-influence holder appointed under 8.2.5, the Committee will liaise and interact with the appropriate members of the UK & Europe Executive Team as well as the Board and the Standard Life plc Board and, in particular, will do so prior to communicating or making public any concerns to employers, pension scheme members or the FCA in terms of 6.5.

7. REPORTING RESPONSIBILITIES

7.1 The Chairman is responsible for the production of an annual report, which shall be made available publicly and which shall set out:

7.1.1 the Committee's opinion on the value for money delivered by relevant schemes, particularly against the matters listed under 6.4.2;

7.1.2 how the Committee has considered relevant policyholders' interests;

7.1.3 any concerns raised by the Committee with the SLAL Board and the response received to those concerns;

7.1.4 how the Committee has sufficient expertise, experience and independence to act in relevant policyholders' interests;

7.1.5 how each independent member of the Committee has taken account of COBS 19.5.12, together with confirmation that the Committee considers these members to be independent;

7.1.6 where the IGC is unable to obtain from SLAL, and ultimately from any other person providing relevant services, the information that it requires to assess the matters in 6.4.2, why the IGC has been unable to obtain the information and how it will take steps to be granted access to that information in future;

7.1.7 after consulting with a member who is an employee of a company in the Standard Life group of companies, the name of such a member unless there are reasons not to do so;

7.1.8 the arrangements put in place by SLAL to ensure that the views of relevant policyholders are directly represented to the Committee.

7.2. At least three working days prior to the release of the annual report, the Chairman will also make the Standard Life plc Board and SLAL Board aware of its content.

8. AUTHORITY

8.1 The Committee is authorised by the SLAL Board:

8.1.1 co-ordinated through the secretary, to seek any information it requires from any employee or director of the Company in order to perform its duties;

8.1.2 co-ordinated through the secretary, to call on any employee to attend a meeting of the Committee as and when required;

8.1.3 to be provided with sufficient administrative and analytical support to fulfil its duties effectively and carry out its role independently;

8.1.4 make the decisions it deems appropriate concerning the carrying out of its responsibilities; and;

8.1.5 constitute sub-committees and taskforces, as appropriate. The constitution and terms of reference of such bodies shall be defined by the Committee.

8.2 The SLAL Board shall assist the IGC in the performance of its duties by:

8.2.1 taking reasonable steps to provide the IGC with all information that the IGC reasonably requests for the purposes of carrying out its duties;

8.2.2 providing the IGC with sufficient resources as are reasonably necessary to allow the IGC to carry out its role independently;

8.2.3 making arrangements to ensure that the views of relevant policyholders can be directly represented to the Committee;

8.2.4 making the terms of reference and the annual report of the IGC publicly available;

8.2.5 appointing an FCA significant-influence holder as the individual responsible for managing the relationship between SLAL and the Committee.

8.3 Any member of the Committee is authorised, after consultation with the Chairman, to obtain, at the Company's expense, such external legal or other independent professional advice as is necessary and proportionate, including from an independent investment adviser, on any matter falling within the Committee's terms of reference. The Chairman may do so without reference to the other members of the Committee.

8.4 The Committee is authorised to communicate any concerns regarding the value for money offered to members or the arrangements SLAL has in place to ensure that the views of members are represented to the Committee, to employers or pension scheme members or to the FCA or make them public, if it is not satisfied with the response from the SLAL Board to escalating its concerns.

8.5 The Committee will review regularly its performance and its Terms of Reference, which will be made public on the Committee's webpage, and recommend any appropriate changes to the Board and to the Standard Life plc Nomination and Governance Committee for approval. Changes to the Committee's Terms of Reference may be recommended by the Committee to improve the effectiveness of the Committee's performance.

Glossary

Board	The Board of Standard Life Assurance Limited.
Committee	The Independent Governance Committee.
Company	Standard Life Assurance Limited.
Legacy audit	An audit of high cost and legacy schemes carried out by the ABI and those of its members that provide workplace personal pensions, overseen by an independent project board and concluded in December 2014.
Relevant policyholder	A member of a relevant scheme who is or has been a worker entitled to have contributions paid by or on behalf of his employer in respect of that relevant scheme. 'Worker' has the same meaning as in section 88 of the Pensions Act 2008, that is, in summary, an individual who has entered into or works under (a) a contract of employment, or (b) any other contract by which the individual undertakes to do work or perform services personally for another party to the contract.
Relevant scheme	A personal pension scheme or stakeholder pension scheme in respect of which direct payment arrangements are, or have been, in place, under which contributions have been paid in respect of two or more employees of the same employer. 'Direct payment arrangements' has the same meaning as in section 111A of the Pension Schemes Act 1993, that is, arrangements under which contributions fall to be paid by or on behalf of the employer towards the scheme (a) on the employer's own account (but in respect of the employee); or (b) on behalf of the employee out of deductions from the employee's earnings.

Appendix 3
IPB Legacy audit – Standard Life specific analysis

The Independent Project Board Report (IPB) published its report, "Defined contribution workplace pensions: The audit of charges and benefits in legacy schemes" in December 2014.

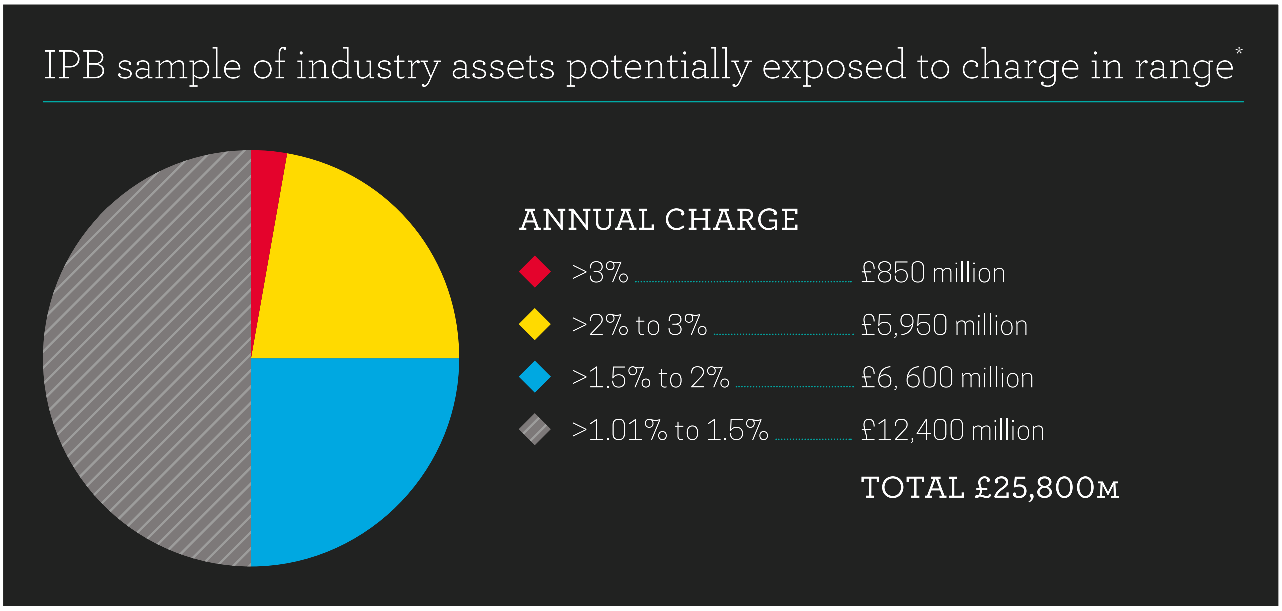
The IPB report identified £25.8bn of industry assets potentially at risk of poor VfM. The schemes identified as being at risk of providing poor VfM were those where the total member borne charges, assuming investment in the scheme's most popular fund (by value of assets), exceeded 1.00% per annum.

Schemes within scope of the IPB review were contract-based and trust-based bundled DC schemes which commenced:

- on or before 5 April 2001 or
- after 5 April 2001, where the scheme had multiple charge types or member charges exceeding 1.00% of any member's fund value in a given year.

Standard Life (SL) had less than 2% of industry assets where member borne charges were potentially above 1.5%. In most cases the charges on these schemes exceeded 1.5% because the most popular fund had relatively high charges – other funds with lower charges were available. SL had approximately 18% of industry assets where member borne charges were in the range 1.01% to 1.5%. More than 90% of SL's assets in this range had a charge of 1.02%, just above the IPB's 1.00% threshold. (1.02% is the total member borne charge on the Managed Fund, the most common fund.)

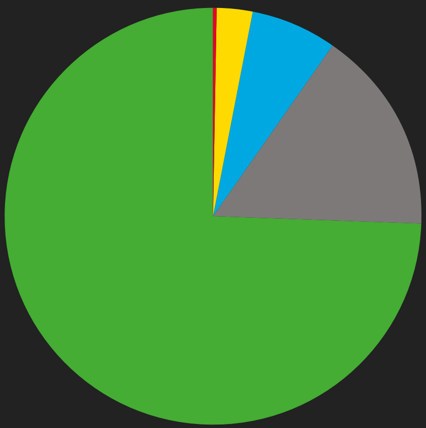
(I) IPB REPORT – ESTIMATED ASSETS AT RISK OF MEMBER BORNE CHARGES GREATER THAN 1.00%



[Data at 1 April 2014]

* The figures in this column were derived from the following information in the IPB report. "Around half the AUM with high charge impacts is potentially exposed to a RIY above 1.5% (£13.4bn out of £25.8bn). Within that, between £5.6bn and £8.0bn is potentially exposed to a RIY greater than 2%, and £0.8bn to £0.9bn to a RIY greater than 3%".

Estimated Standard Life assets potentially exposed to charge in range



ANNUAL CHARGE

Annual charge	Assets
>3%	£3 million
>2% to 3%	£70 million
>1.5% to 2%	£159 million
>1.03% to 1.5%	£392 million+
>1.01% to 1.02%	£1,833 million+
	TOTAL £2,458M

[Data at 1 April 2014]
+ Split estimated by Standard Life.

Annual charge	Number of members (inc. trust based pensions)	% of total*
> 3%	248	0.02%
2% to 3%	2,866	0.2%
1.5% to 2%	6,223	0.4%
1.03% to 1.50%	43,191+	2.9%
1.01% to 1.02%	198,811+	13.3%
1.00% or less	1,244,746	83.2%
Total membership of workplace pensions	1,496,085	

[Data at 1 April 2014]
+ Split estimated by Standard Life. *rounded

The IPB estimated that 251,339 SL workplace pension scheme members were at risk of charges in excess of 1.00%.

The IPB analysis was based on scheme-level data. The scheme level data did not necessarily reflect the charges that applied to all members of any particular scheme.

For example the assessment treated all members as having been invested in the same "default" fund (the most popular fund by value of assets held) when in reality many members invested in other funds. Overall the IPB figures provided a good estimate of the number of members subject to different levels of charges. However, the estimated charges in respect of any particular scheme will not necessarily be accurate for all members.

Appendix 4
Standard Life member level data

Standard Life carried out an analysis of charges at member-level to get a more accurate picture of the number of members with charges in excess of 1.00%. At the end of 2015 there were 196,262 workplace members (including those in trust based schemes) at risk of charges in excess of 1.00%.

The estimated number of members at risk of charges in excess of 1.00% had reduced since the IPB report primarily because many schemes had become Qualifying Workplace Pension Schemes (QWPS) in the period between 1 April 2014 and the end of 2015 with a resultant reduction in charges.

The scope of the IPB investigation included trust based pension schemes and excluded former members of workplace personal pension schemes. However, the IGC's remit excludes trust based schemes and includes such former members.

Table A sets out the number of workplace members and former members of workplace personal pension schemes (WPPs) at the end of 2015 with charges above 1.00% which are within the remit of the IGC, i.e. members and former members of WPPs.

TABLE A

NUMBER OF WORKPLACE AND FORMER WORKPLACE MEMBERS WITH CHARGES IN EXCESS OF 1.00%

Total member charge	Estimated number of workplace members	Estimated number of former members	Total
>1.50%	10,255	15,649	25,904
1.03% to 1.50%	49,249	28,139	77,388
1.01% to 1.02%	117,377	46,015	163,392
Total	**176,881**	**89,803**	**266,684**

[Data at 31 December 2015]

TABLE B

IMPACT OF AGREED MANAGEMENT ACTIONS NUMBER OF WORKPLACE AND FORMER WORKPLACE MEMBERS WITH CHARGES IN EXCESS OF 1.00% FOLLOWING APPLICATION OF 0.02% CHARGE REDUCTION

Total member charge	Estimated number of workplace members	Estimated number of former members	Total
>1.48%	10,255	15,649	25,904
1.01% to 1.48%	51,287	28,139	79,426
Total	**61,542**	**43,788**	**105,330**

TABLE C

NUMBER OF WORKPLACE AND FORMER WORKPLACE MEMBERS WITH CHARGES IN EXCESS OF 1.00% FOLLOWING APPLICATION OF 0.02% CHARGE REDUCTION AND REDUCTION IN CHARGES FOR COMMISSION TO RECEIVE COMMUNICATION ABOUT THEIR SELECTION OF FUND OR PAYMENT OF COMMISSION FOR ONGOING ADVICE

Total member charge	Estimated number of workplace members with higher charging funds	Estimated number of former members with higher charging funds	Total
>1.48%	9,758	8,543	18,301
1.01% to 1.48%	21,530	11,601	33,131
Total	**31,288**	**20,144**	**51,432**

Appendix 5
Implementation Plan and Timetable

The timeline below outlines the key milestones that form the implementation plan for the agreed actions arising from the legacy audit.

January 2016

Implementation of 5% cap on exit charges

February 2016

Completion of detailed feasibility analysis of changes to underlying system changes and processes required to support agreed legacy audit actions

April – September 2016

Communication of changes to legacy plan charges to advisers, employer sponsors and affected policyholders (scheme members and former scheme members)

Communication to policyholders, employers and advisers in respect of individuals who have selected higher charging funds or are paying commission for ongoing advice

May – September 2016

Regular updates on response/reaction to communications issued and update on solution development against plan

July 2016

Deadline for individual policyholders to agree to continue with adviser remuneration arrangements which result in plan charges exceeding 1.00%

October 2016

Implementation of agreed legacy audit actions:

- Reduce core fund charges to 1.00%
- Reduce / remove adviser commission charges
- Facilitate policyholder requests to switch funds

1 November 2016

Deadline for implementation

Appendix 6
Value for Money Framework

Evaluation of Value for Money –
A Practical Framework for IGCs

Introduction:

This paper has been produced by the Chairs of seven Independent Governance Committees (IGCs) to assist IGCs and their equivalent as they seek to assess Value for Money (VfM). While not intended to be prescriptive, the authors believe that some degree of consistency across IGCs is desirable. To this end, and recognizing that IGCs will encounter fact-specific circumstances when engaging with individual providers, the paper proposes a high level framework whose elements could be used to frame the detailed VfM assessment that a provider's governance group is required to carry out.

The authors have taken input from a number of other IGC Chairs and interested parties. They have also been mindful of what the IPB said in their report of December 2014, the FCA rules in COBS 19.5.5 R (2) and the six key elements identified by The Pensions Regulator.

The paper has been discussed with colleagues at the FCA who are considering what additional commentary they might supply to IGCs and their equivalent in due course.

IPB Report – preamble to Recommendations:

"There is no simple, 'one size fits all' charge structure that will ensure that all savers get value for money all of the time… value for money will depend on savers' decisions and behaviours, and also the important qualitative factors set out by the OFT, including governance, investment performance and transaction costs, and communication with savers. That is why governance arrangements are being strengthened via IGCs and increased requirements for trustees, to ensure that savers' interests can be appropriately safeguarded by people best placed to make these qualitative judgements."

COBS 19.5.5 R (2):

"The IGC will assess the ongoing value for money for relevant policyholders delivered by relevant schemes particularly, though not exclusively, through assessing:

(a) Whether the firm's default investment strategies are designed in the interests of relevant policyholders with a clear statement of aims, objective and structure appropriate for those relevant policyholders;
(b) Whether the characteristics and net performance of investment strategies are regularly reviewed by the firm to ensure alignment with the interests of relevant policyholders and action taken to make any necessary changes;
(c) Whether core scheme financial transactions are processed promptly and accurately;
(d) The level of charges borne by relevant policyholders; and
(e) The direct and indirect costs incurred in relation to transactions and other activities in managing and investing the pension savings of relevant policyholders."

TPR six key elements:

The Pensions Regulator lists the following six key elements which affect the outcomes experience by members:

- Appropriate contribution decisions
- Appropriate investment decisions
- Appropriate decumulation decisions
- Protection of Assets
- Efficient and Effective administration
- Value for Money

1. VALUE IS MORE THAN JUST COST

VfM has been defined (by the National Audit Office) as "The optimum combination of whole-life costs and quality".

However, the identification of "optimum" is theoretical given the lack of perfect information about what is available and at what price, and because the qualitative elements of the proposition are not amenable to mathematical optimization.

Nevertheless, an assessment of VfM must take account of the quality of the particular pension proposition as well as its cost and consider how that compares to what is available for equivalent schemes from providers in the marketplace (including, where appropriate, what the IGC's provider might be offering to other equivalent schemes).

IGCs should test VfM against (i) Quality – all benefits and services delivered, including range of investment options available and any default options in place; (ii) Risk – both investment and service risk; (iii) Relevance – whether the benefits and services delivered are in the member's interests (in increasing the probability of a good outcome whether or not explicitly valued by the member); and, (iv) Cost – both explicit and implicit, recognising the impact of scale (and expected scale) on market prices.

2. ASSESSING QUALITY NEEDS TO CONSIDER ALL ELEMENTS OF THE PROPOSITION THAT CAN MATERIALLY IMPACT MEMBER OUTCOMES

In assessing whether a product can deliver good outcomes the IGC should consider all of the elements which can impact member outcomes and give priority to those elements most significantly impacting those outcomes

Providers will bring different propositions to market offering different levels of service and flexibility. Such elements may include inter alia investment elements such as varying default structures, other investment options, investing styles and targeted levels of investment performance; premium flexibility and size and frequency of payment; service functionality and customer contact options provided, whether web enabled or via a customer service centre; the provision of guidance and/or advice; service standards targeted and performance against these; quality of communications, education and engagement materials; availability of in person presentations; and ease of access to understandable and sufficient information.

While some of these elements are capable of tangible measurement and numerical analysis, some are not and, particularly for the latter, informed qualitative judgement will play an important role in the VfM assessment.

That judgement may be informed by customer feedback and, where available, measurement of the effectiveness of those elements the provider wishes to assert as relevant to the VfM assessment.

3. ASSESSING RELEVANCE NEEDS TO CONSIDER THE NEEDS OF THE MEMBER BASE AND THE EXTENT TO WHICH THESE ARE REFLECTED IN THE MEMBER FEEDBACK THE IGC RECEIVES

The rules relating to IGCs reflect the importance of customer views being represented directly to the appropriate IGC. These may prove particularly helpful to IGCs in the VfM assessment of proposition features whose provision gives rise to significant costs to members.

While customer views will be influential, they should not necessarily be considered to be conclusive as to VfM. There may well be elements of a proposition which can contribute significantly to good outcomes for customers, the value of which may not be fully appreciated by such customers.

Some of the features of a particular proposition may be of more relevance to some groups or cohorts of members than others (e.g. retirement roadshows; more sophisticated investment choices). In considering the VfM of the whole proposition, the lack of customer comments about a particular proposition feature need not imply that it is not relevant.

4. ASSESSING COST IS PRIMARILY A RELATIVE ASSESSMENT, WITH RESEARCH AND JUDGEMENT REQUIRED TO ASSESS WHAT ARE EQUIVALENT COMPARATORS TO USE

VfM should be viewed primarily in the light of what price is available in the market for schemes of equivalent type (i.e. size, scale, premium flows) offering an equivalent proposition.

Perfect information about what is available in the market will rarely be available and it is likely that VfM can exist at a range of prices for a given proposition.

Consequently, in considering the VfM of a particular provider's proposition, the IGC needs to form a view on the extent to which the charges borne by a member fall within the reasonable range of pricing for the outcomes that can be reasonably expected from that proposition (the VfM Range).

In particular, while in the future it is expected that IGCs will have access to consistent, cross-market, data on Transaction Costs, until such time as that is available, IGCs can review, relative to appropriate benchmarks, the net investment returns provided to members after all costs have been allowed for.

In assessing VfM, the amount of charges deducted from a member's pension fund is more important than how the charges might be, or might have been, presented for historic marketing purposes.

5. VFM IS FORWARD-LOOKING AND CAN CHANGE OVER TIME

At any point in time, in assessing whether or not a particular proposition continues to provide VfM, the IGC needs to form a view on the extent to which the ongoing charges to be borne by a member continue to fall within the reasonable range of pricing (as now reflected in the market) for the outcomes that can, at that point in time, be reasonably expected to be experienced.

Thus, IGCs will need to decide whether the price of entry to equivalent schemes is relevant to the assessment of ongoing VfM for existing members.

6. VFM IS PRIMARILY CONCERNED WITH ANTICIPATED OUTCOMES AT RETIREMENT

The ultimate objective of a pension savings arrangement is to provide financial security in retirement.

As a consequence, it is the likely ultimate outcome, rather than intermediate results, that should be the most significant component of the VfM assessment of a particular pension scheme.

Nevertheless, a VfM pension scheme may still not provide financial security in retirement for every member. Outcomes can only be tested against what is contributed, rather than what should have been contributed by the member to give a reasonable chance of meeting their expectations of wealth in retirement.

Thus, in assessing the VfM of any proposition, the primary aspect for IGCs is whether the proposition has the capacity to provide an outcome that meets the objective in whole or in part.

7. CROSS-SUBSIDIES INEVITABLY EXIST BOTH WITHIN AND BETWEEN SCHEMES

The existence of an element of cross-subsidy does not of itself raise concerns as to VfM so long as the particular scheme remains VfM within Framework Element 4.

In a flat basis point charging design, for example, those with larger investment values (typically long stay members) subsidise those in the early years of membership and who leave early, but may well have benefited from such cross-subsidy in the early years of their pension scheme membership.

Notwithstanding significant scheme discounts which may be available to larger schemes with stronger cash flows, such schemes can make access to a specific plan design possible for smaller schemes for whom such provision would otherwise not be economically attractive for providers.

Contract designs that involve less cross-subsidy (for example, historic designs that levied upfront charges such as reduced investment allocation or other variants) can also lead to poorer intermediate outcomes for those who do not remain active members of the scheme until retirement.

8. DIFFERENT CONTRACT DESIGNS CAN LEAD TO DIFFERENT INTERMEDIATE CONSEQUENCES, NOT ALL OF WHICH ARE WITHIN SCOPE FOR IGCS

Where contract designs incorporate "front end loaded" charges (through, for example, zero allocation periods or some forms of initial units), members who leave the scheme within a relatively short period are likely to receive poorer VfM than those remaining until retirement.

IGCs are not required to review the appropriateness nor seek to have remediated the historic charges borne by members prior to 6th April 2015. They are, however, required to consider the impact of charges on VfM for the member for post 6th April 2015 periods.

Thus, for existing members, the VfM assessment should take as its starting point the economic value of members' investments as at 6th April 2015 and consider whether the charges to be taken thereafter (including in respect of further contributions) fall within the VfM range.

For the avoidance of doubt, the economic value should reflect the member's realisable value and contract conditions, in other words the amount due to the member after all deductions and charges which would be suffered if the member sought to transfer their investments to another provider.

9. MEMBERS' INTERESTS INCLUDE THE STABILITY AND ONGOING EXISTENCE OF PROVIDERS

Good outcomes require members to make sufficient contributions over their entire working life. A member's propensity to save will be enhanced by their engagement with and confidence in their provider and its future ability to provide a good service across the entirety of the components of a scheme.

The members' interests are also served by providers' being able to make sufficient returns to attract capital into the provision of pension schemes and the ongoing development of attractive innovative saver propositions.

10. THE PROFITABILITY (OR LACK THEREOF) OF A PROVIDER'S WORKPLACE PENSION PROPOSITION IS NOT A PRIMARY INDICATOR AS TO WHETHER THAT PROPOSITION REPRESENTS VFM

If profitability is created by the provider's efficiency in delivering the proposition and the cost to the member is within the VfM Range, it is not for the IGC to advocate an even better VfM for the member at the cost of a lower return on capital for the provider.

However, to the extent that the level of profitability reflects historic charging practices which result in a proposition the pricing of which (going forward from now) no longer falls within the VfM Range, the IGC should recommend changes notwithstanding the impact on provider profitability.

The lack of sufficient profitability, if caused by provider inefficiencies, is not a basis for accepting that the proposition constitutes VfM.

August 2015

Appendix 7
Value for money evaluation matrix

An assessment of Standard Life's capability and performance in each of the categories outlined in the table below was undertaken by the IGC for each of Standard Life's
newer-style and legacy products.

A score of 0-3 was allocated to each category feature based on the evidence provided by Standard Life and individual IGC members' knowledge of the workplace market. The scoring criteria were as follows:

0 NOT OFFERED

1 BASIC STANDARD

2 BEYOND BASIC

3 AREA OF STRENGTH

The scores for each category were weighted to reflect the IGC's view of the relative importance to the outcomes experienced by members. In this year's assessment, the weightings allocated were 20% each for Service Quality, Risk Management and Relevance with a 40% weighting given to Investment Quality.

Based on this scoring methodology, Standard Life's products were awarded scores between 7 and 8 out of 10. These overall scores were then compared with the plan charges incurred by policyholders as part of the VfM assessment.

The methodology and evaluation will continue to evolve as more industry-wide information becomes available.

Category	Tested feature
Service quality	Responsiveness to customer demand Relevant Experience and expertise of staff Easy access to phone support Easy access to online support (webchat etc.) Clarity of customer communications Efficiency and scalability of operational capability Quality and speed of processing of core financial transactions Level of automation / straight through processing Ease of transfer by an individual to another provider Ease with which customers can contact via different channels Member satisfaction Complaints handling
Risk management (operational and financial)	Management of operational risk and controls Security of IT systems and controls Financial strength and stability Customer protection – covered by Financial Services Compensation Scheme plus other steps Independent assurance of provider controls Control Framework to minimise risk of product failings leading to poor customer outcomes Preventative measures to avoid pension scams
Relevance (member engagement)	Quality of retirement roadshows Availability of workplace seminars Quality, access and relevance of digital experience Clarity of yearly statements Quality of education and support materials Ability to view pension plan on-line Ability to contribute / transact on-line Availability of choices at retirement Ease of access to retirement freedoms Access to guidance Relevance of customer messaging Member satisfaction
Investment quality	Default Investment strategies are designed and executed in the interests of members Performance of default funds (net of charges) – risk adjusted Performance of default funds (net of charges) – to stated goals Performance of default funds (net of charges) – relative to peers Performance of default funds (net of charges) – relative to cash (over medium term) Clarity of description of default funds Suitability of default fund Regularity and quality of default fund reviews Adaptability of default funds to changing circumstances Range and suitability of additional fund choices Ease of access to additional fund options Fund governance

Notes