Annual Report

for Standard Life Workplace Personal Pensions

2016 – 2017

INDEPENDENT
GOVERNANCE COMMITTEE

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Dear Plan Member

I chair Standard Life's Independent Governance Committee (IGC). We are an independent body responsible for overseeing the governance of Standard Life's Workplace personal pension plans. This represents two million individual policies for current and former members of 32,183 employer arrangements, with total assets of £36.3 billion.[1]

All of the major UK Workplace personal pensions providers have Independent Governance Committees. Our duty is to act solely in the interests of members, and to independently review and challenge Standard Life. Our most important duty is to review Standard Life's products to see whether they are capable of providing policyholders with Value for Money ("Value").

We have just produced our second Annual Report, a copy of which is attached. The full report runs to 67 pages including Appendices, so we also provide a member report. The report explains the work we have undertaken in our second year.

Last year we agreed a number of actions for Standard Life to complete by November 2016, to improve the Value you receive. These were completed as agreed. We estimated that, once implemented, 215,252 of the 266,684 members of relevant Workplace personal pension plans previously paying over 1.00% in charges[2], would pay 1.00% or less for their pensions. Furthermore none of the remaining 51,432 members would pay more than 1.00% a year unless they chose to do so, either by paying for on-going financial advice or by investing in more expensive investment options. This year we have monitored the implementation of those changes and report on the outcomes.

In addition to our on-going monitoring of the Value provided by Standard Life, we have carried out two significant pieces of work, which we cover in this report. The first is a review of the Value provided by the 178 different Default Strategies chosen by employers, and their advisers (including those offered by Standard Life as core offerings) and the 170 investment funds used in those strategies; the second is an extensive piece of cross industry market research to understand what policyholders generally consider to be their key requirements for Value and a subset of that research to understand what Standard Life policyholders consider important for Value.

The report gives more detail on both of these pieces of work, including the way that we defined 'Value' and how we incorporated the results of these into our assessment of whether or not Standard Life's pensions policies provide Value.

As this report was finalised, Standard Life and Aberdeen Asset Management announced their plans to merge. Details at this point are restricted to the headline facts, but the IGC will monitor the progress of the proposed merger, its impact on the funds and service available to policyholders and its impact on the Value delivered as the details become clearer during 2017.

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

If you would like to contact the IGC in relation to the report or anything else, you can email us from the IGC home page www.standardlife.co.uk/igc

Thank you for reading this report.

Rene Poisson
IGC Chair

1. Information correct as at 31 December 2016 (source: Standard Life)
2. Information correct as at 31 December 2015 (source: Standard Life)

Member Report

1. Why an Independent Governance Committee?

In 2015 the Financial Conduct Authority (FCA) required Standard Life and similar Workplace pension providers to appoint an IGC. This was to help pension savers receive better Value after an earlier Office of Fair Trading review had decided market competition was not sufficiently effective.

The Committee must have at least five members, a majority of whom must be independent of Standard Life. We must review how Standard Life provides Workplace pensions; assess whether those pensions represent Value; and, challenge Standard Life where we think they do not provide Value. Our authority to do this is set out in our Terms of Reference (see Appendix 3), written jointly by the IGC and Standard Life, and based on the FCA's rules.

If we are not satisfied with Standard Life's products, proposals or response to concerns we raise with them, we will escalate those matters to the Standard Life Board and may also discuss our concerns with the FCA, or write to you.

The IGC intends to meet at least four times a year. In the year to 27 March 2017, the IGC met on 12 separate occasions.

2. Who are we?

Standard Life's Independent Governance Committee (IGC) is made up of five people. Four are independent of Standard Life, and were appointed from the open market. The fifth is employed by Standard Life, but is required to ignore Standard Life's interests when acting as a member of the IGC. Our names and backgrounds can be found in Appendix 2 of the main report.

3. What have we done in □□□□/□□□□

YOUR COSTS

Last year we told you that we had agreed a number of changes to lower the costs of older so-called legacy products. We have monitored Standard Life's delivery of those changes. They were completed by 1 November 2016, and as a result, the number of you paying over 1.00% a year for your pension plan has reduced from 266,684 as at 31 December 2015 to 45,557 as at 31 December 2016. Those still paying over 1.00% are doing so because they have chosen more expensive investment options or in a few cases have agreed to pay extra commission to their adviser (in return for additional services).

In our 2015/16 report, we agreed a preliminary reduction in exit charges (because the FCA was expected to announce new rules). These are charges which Standard Life was entitled to deduct on some products where the saver wished to end the contract earlier than originally agreed. In November 2016, the FCA announced an exit charge capped at 1.00% effective from 1 April 2017. We asked Standard Life to implement this change ahead of 1 April which they did from 15 February 2017.

YOUR INVESTMENTS

Many of you joined your Workplace pension plan before the Government's 2015 pensions changes (the pensions freedoms). Those changes give you more choice in how you use your pension savings but the investment strategies used by older products may not be designed to best meet those new options. It has proved difficult to engage with savers to upgrade their investment choices, so Standard Life has been working with employers, the FCA and others to try to upgrade these older fund options. We are encouraging Standard Life to introduce changes and expect a number of these to become effective during 2017.

Most of you have invested your pension contributions in a pre-prepared investment plan offered by Standard Life, or designed by your employer with the help of advisers. This is called a Default Plan or Default Strategy. We have identified 178 different Default Strategies (including those designed by Standard Life) using 170 different investment funds which are invested in by over a million of you.

We have reviewed these strategies with the help of Redington, a specialist independent investment consultancy. We are satisfied that most Default Strategies and the funds they use provide Value. We have concerns in relation to two strategies and a small number of funds and have asked Standard Life to contact the employers who specified the strategy or fund to discuss changes to improve Value.

We have also raised concerns with Standard Life that many of the employer-designed strategies use designs which pre-date the pensions freedoms. We have asked Standard Life to engage with employers to seek confirmation that they have considered this; and; either that they remain satisfied that the strategy is appropriate for their employees, or that; they will modify the strategy.

We have challenged Standard Life over poorer investment performance in 2016. 2016 was a year of political and economic surprises that hurt investment performance. The IGC recognises that investment performance should be judged over periods longer than one year and will review performance closely, over 2017/18, to satisfy ourselves that our Value judgement remains appropriate.

YOUR SERVICE FROM STANDARD LIFE

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

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

Over 98% of your transactions are processed automatically on a same day basis. For the other more complicated transactions, Standard Life aims to complete over 90% within 10 days. We are concerned that this target was missed during the second half of 2016 due to a number of factors including teething problems with a new IT system. The IGC has challenged Standard Life and been assured that: the problems are being resolved, service will return to prior levels during 2017 and no one will suffer financially as a result of these problems. We will continue to monitor their progress.

We challenged Standard Life to extend the times at which you can contact them by telephone. They have told us they will trial an extended hours service from April 2017.

YOUR PREFERENCES

The IGC values your views. We have attended retirement roadshows run by Standard Life, we have an email mailbox available to you on the Standard Life website [https://www.standardlife.co.uk/c1/independent-governance-committee.page] and we asked you to complete a survey attached to last year's report. Very few of you contacted us through these channels. Therefore in 2016 we participated in a market research project with 10 other providers to understand what Workplace pension savers care about most and, in particular what Standard Life savers value most. We were delighted to get responses from 3,138 of you. You can read more about the results in our main report; you can be sure that we will use the results in our evaluation of Standard Life's Workplace pension products.

OUR CONCLUSIONS

We continue to believe that Standard Life's various Workplace personal pension products are of good quality. Notwithstanding the challenges Standard Life has experienced in 2016, the Workplace pension products have well-designed investment solutions; good administration and governance; and comprehensive member support and communications materials.

We have again reviewed the charges that savers pay for both older legacy products and the more modern Qualifying Workplace Pension Scheme (QWPS) products. As we explained above, no one invested in a legacy Workplace personal pension scheme default strategy need pay more than 1.00% a year.

Plan charges for a Default Fund in a QWPS are capped at 0.75%. If an employer with a small scheme wishes to offer a Standard Life QWPS, but would not otherwise be offered one for 0.75%, they can do so by paying an employer fee of £100 per month.

We have considered whether legacy products are more profitable for Standard Life than QWPS products. If you compare smaller Workplace plans without scale discounts, the legacy products are less profitable than a modern QWPS scheme paying the employer charge.

The IGC has concluded that both the modern QWPS products and the legacy schemes continue to provide savers with Value.

IGC
March 2017

Main Report

1. Introduction

This is the second Annual Report of the Standard Life Independent Governance Committee ("IGC") and sets out how the IGC has met the governance obligations laid down by the Financial Conduct Authority ("FCA").

The IGC recognises the importance of good governance by Standard Life as the provider of Workplace pension plans 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.

We explain the background to the creation of IGCs in Appendix 1; the membership of the Standard Life IGC and the process by which it was appointed in Appendix 2; the IGC's Terms of reference in Appendix 3; and, the scope of the business and products overseen by the IGC in Appendix 4 of this report.

This report covers the period 30 March 2016 to date of publication.

2. Actions arising from the □□□□report

2.1 IMPLEMENTATION OF ACTIONS ARISING FROM THE LEGACY AUDIT REVIEW

In our 2016 report, we outlined four possible reasons why an individual policyholder might experience ongoing charges over 1.00% per annum:

1. The policyholder was invested in a core Standard Life fund where additional expenses resulted in a total charge of between 1.01 – 1.02%;
2. The policyholder had invested in a GFRP scheme where adviser commissions resulted in total plan charges exceeding 1.00%;
3. The policyholder had invested in a plan providing an adviser with a higher than normal level of commission; and/or
4. The policyholder had elected to invest in a higher-cost fund.

Standard Life agreed to implement a number of changes by November 2016. These would result in none of the 266,684 current and former members of Workplace personal pension arrangements paying over 1.00% as at 31st December 2015, and no member (joining a scheme thereafter), paying charges greater than 1.00% unless they actively chose to pay for ongoing financial advice or continued to invest in higher cost funds (see Appendix 5).

The IGC has monitored these actions during 2016/17.

To implement the changes, Standard Life reviewed over 2,050,000 policies across its entire book of pension business (including arrangements not within the scope of the IGC). 408,316 policyholder letters were issued as part of this exercise and other communications were sent to 21,024 scheme employers and 14,368 contacts at adviser firms who had employees or customers within the scope of the mailing exercise.

The changes to address reason one above have been implemented by a monthly process that applies an incremental discount to any plan that would otherwise breach the 1.00% ceiling. 261,753 plans in total (including those for individuals invested in higher charging funds) benefitted from 31 October 2016 and letters were issued by 16 December 2016 to all affected policyholders informing them of their lower fees. These actions also benefitted 19,196 policyholders with pension policies outside the remit of the IGC. The number of policies benefiting will change from month to month.

Where the charge exceeded 1.00% under two or three above, Standard Life wrote to the adviser notifying them of a reduction in commission to cap plan charges at 1.00% and requiring them to seek explicit policyholder consent for higher commission to be paid. Only 150 out of 68,555 policyholders (0.22%) provided such consent. A further 48 policyholders agreed to replace all future commission payments with an explicitly agreed Adviser Charge. All commission payment changes were effective from 31 October 2016.

Standard Life has confirmed that legacy plans will no longer allow enhanced commission and that any commission type other than fund-based renewal commission can no longer be elected on new plans. Furthermore, new entrants to legacy plans will have any fund-based renewal commission capped to ensure that the plan charge does not exceed 1.00%.

52,900 legacy plans will have the incremental amount of higher than normal commission removed. For modern GFRP plans, 442 plans will no longer pay adviser fees; 408 plans will no longer pay commission on regular payments; 23,799 plans will have Fund Based Renewal Commission reduced or stopped; and 370 plans will benefit from a combination of the above. All affected policyholders have received letters explaining the changes.

68,517 current and former members of Workplace personal pension arrangements where the charge exceeded 1.00% under four above received letters reminding them to review their choices and that less expensive fund options are available. Annual Benefit Statements have also been amended to remind policyholders of their options.

After taking into account all of the above actions, the number of policyholders paying in excess of 1.00% after 31st October 2016 reduced to 45,557[3]. 99% of these were due to the member's decision to continue investing in higher charge funds, the remainder were due to agreed higher commission (see Appendix 6).

The IGC has asked Standard Life to conduct a second mailing to all policyholders invested in the higher charge funds to seek to ensure that those remaining in these funds intend to do so.

As outlined in our 2016 report, Standard Life agreed to reduce exit charges as at 13th January 2016 and to reduce them further as required by the FCA and DWP consultation from 31 March 2017. The IGC challenged Standard Life to implement the system changes as early as possible ahead of 31 March 2017. As a result, exit charges were reduced from 5.00% to the FCA mandated 1.00% from 15 February 2017. This covered all pension plans, including those outside the scope of the IGC.

The IGC also challenged Standard Life to ensure that those seeking to exit in the run up to 31 March 2017 were made aware that exit charges would shortly reduce.

In response, Standard Life advised that it would not be practical to identify customers terminating their plans in advance of the earlier date of 15th February, given the automated nature of the process; and, that by bringing the date forward by six weeks, the risk of someone settling just days ahead of the statutory 31 March deadline had in their view been removed. However, they have agreed with the IGC to consider on the merits any complaints from members who believe they were not adequately informed, and will share details of these cases with the IGC.

As outlined in our 2015/16 Annual Report, employers who had yet to reach their staging date by 6 April 2015 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.

3. Estimate as at 31 December 2016 (source: Standard Life)

10,751 employers are eligible for an upgrade to a modern product as part of their staging process. 2,110 (20%) have selected Standard Life as their QWPS provider; 4,078 (38%) have asked Standard Life for a quotation; and, a further 1,199 (11%) have selected another provider for their QWPS. The remaining 3,364 (31%) employers have not indicated their intentions.

The IGC will continue to monitor progress during 2017. We will review both the number of policyholders remaining in legacy products and the Value they receive, as the initial auto-enrolment process reaches its conclusion.

2.2 IMPACT OF POLICYHOLDER COMMUNICATIONS FROM THE LEGACY AUDIT REVIEW

Following the mailings to policyholders outlined in 2.1 there were 11,579 telephone calls into Standard Life's Customer Operations area including complaints from 29 policyholders, seven of which were in respect of the charges or commission payments deducted from their plan. A further 1,040 policyholders with pension assets totalling £47million chose to terminate their plans with Standard Life and transfer their savings to another provider.

As outlined above, policyholders with plan charges in excess of 1.00% reduced from 266,684 at 31 December 2015 to 45,557 at 31 December 2016, a reduction from some 15% to 2.30% of policies and 4.00% of assets (see Appendix 6).

2.3 IMPROVING POLICYHOLDER ACCESS

In our first report, the IGC challenged Standard Life on the access available to policyholders who wish to contact Standard Life by telephone. We said "The service support offered by Standard Life is of a good standard, but the IGC challenge 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."

THE IGC HAS CONTINUED TO PRESS STANDARD LIFE FOR A RESPONSE TO THIS CHALLENGE AND HAVE NOW BEEN ADVISED AS FOLLOWS:

"In terms of extending the hours when we can be reached, the costs have been assessed and are significant. In addition, practical implications are substantial and wide reaching – particularly making changes to staff Terms and Conditions, enabling support from IT operations and extending the hours of building support. As a result, the service we offer needs to be valued by policyholders. It is not yet clear whether policyholders would value a general services offering in evenings/at weekends, or if the priority is the ability to transact e.g. pay in money, take money out.

We are committed to delivering a service that best fits policyholder needs. In order to design a service that fits, we are conducting a number of insight gathering initiatives. We expect to start trialling an extended hours' service – the design of which will be determined by insight – by the end of Q1 2017. Changes will be made on an iterative basis, to ensure the existing service to policyholders is understood and maintained throughout any change."

IGC COMMENT:

The IGC welcomes Standard Life's commitment to trial an extended hours service by the end of Q1 2017 and will review progress as part of our ongoing assessment of Value.

2.4 THE CHALLENGE OF MOVING POLICYHOLDERS TO MORE MODERN OFFERINGS

In our first report, we wrote: "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's response identified the legal and regulatory constraints preventing the company from transferring policyholders to products with a more modern design, despite its belief that policyholders would be better served by such a move.

Our report continued "The IGC has asked Standard Life to engage with 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."

This is all the more important now, given the evidence that of those retiring with a Standard Life plan only some 5.00% by number are choosing to buy annuities.

We are pleased that Standard Life has recognised our concerns; has conducted a number of exercises during 2016 to test how to engage with members with policies inconsistent with more modern products; has a number of actions in progress; and has, further plans for 2017 that address this issue (see below).

- 35,509 non-advised policyholders in Annuity Profiled Lifestyle Strategies were mailed to remind them of their current position and allow them to consider switching to a Universal profile. 12% (a high response rate for a mailing) chose to switch. However, there can be no assurance that the remaining 88% made a positive decision to remain in an annuity profile.
- New wording has been added to Annual Benefit Statements and further enhancements are planned to prompt policyholders to review their choices.
- Standard Life has been running a trial process "click and switch" with six large employers who have put in place modern products for new employees or for ongoing contributions from current employees. The process uses email and is run in collaboration with the employer. It provides policyholders with information and allows them to request or decline a switch of their already invested assets.

  The trial resulted in 30% of policyholders (£195m of assets) switching to more modern investment solutions with only 2.50% of policyholders actively choosing not to switch. While an encouraging response rate, concern must remain that the 67.50% of silent recipients continue in less than optimal strategies. In addition, given that 62%[4] of policyholders have yet to provide email addresses, this is not a universally applicable process.

  During the first quarter of 2017, Standard Life will implement changes to the letter sent to policyholders prior to their plan entering the lifestyle glide path, to remind them and prompt them to change to an alternative design if appropriate for them.

Standard Life has also sought to actively engage with both DWP and the FCA to seek a more overarching solution to this problem. It is disappointing that it seems unlikely that any legislative provisions will be forthcoming.

ADDITIONAL STRATEGIES UNDER CONSIDERATION

A further three strategies have been discussed with the IGC for potential implementation during 2017 subject to no objection from the FCA and approval by Standard Life's board.

These are:

1. Upgrade of default investments for new policyholders

   Workplace arrangements with a traditional lifestyle profile as the default are to be upgraded to a modern "Universal" Strategic Lifestyle Profile (SLP). The SLP will become the default investment for contributions in respect of all new policyholders who do not make an active investment choice.

   Standard Life will make the proposed change unless the employer sponsor chooses to take advice to support the ongoing use of the current default solution for their Workplace arrangement.

   We understand that this proposal has received the necessary internal approvals for relevant Workplace arrangements with no active adviser and implementation is expected during Q2 2017. At the time of writing, internal approvals are in the process of being sought to allow implementation for relevant Workplace arrangements with an adviser in Q3 2017.

2. Restructure of the Annuity Purchase Fund

   Many traditional lifestyle profiles use the Standard Life Annuity Purchase Fund at the end point of the glide path as the "annuity matching" component.

4. As at 30 September 2016 (Source: Standard Life)

Given the very small proportion of Standard Life policyholders now choosing to purchase an annuity (see Appendix 10a), Standard Life is proposing to change the investment objective of the Annuity Purchase fund so that it no longer invests wholly in fixed interest assets but has a multi-asset "Universal" design instead. The aim is to target a broader mix of assets more appropriate for policyholders regardless of the choice of retirement option that they make.

Policyholders will be contacted about the proposed change and those who have made an active decision to invest in the Annuity Purchase fund or who now plan to purchase an annuity at retirement will be offered a replacement "annuity" fund (or profile) with the same objective and asset mix as their previous fund choice. There will be no increase in plan charges as a result of this change.

This proposal is going through Standard Life's internal governance procedures. If approved, implementation is expected to occur during the second half of 2017.

3. Change of Scheme Rules

The third potential strategy identified by Standard Life is to amend the Scheme Rules that apply to most Workplace personal pension plans giving Standard Life the power to make changes to lifestyle profiles in certain circumstances. The amendments to Scheme Rules would be followed by changes to policy terms and conditions.

This would be a material change to the responsibility being assumed by Standard Life and will take longer to implement given the scale of the exercise. If implemented, it would be an effective means of upgrading policyholders currently in a traditional lifestyle profile to an investment solution that more appropriately reflects customers' retirement needs.

This proposal is in the early stages of Standard Life's internal governance process. As such, implementation is unlikely before late 2017 or early 2018.

IGC COMMENT

The IGC welcomes the three actions proposed by Standard Life as a means of securing better retirement outcomes for policyholders. The IGC acknowledges both the risks associated with making these changes to policyholders' pension plans (including the likelihood that some policyholders may experience an increase in absolute investment risk) and the importance therefore of the communication to policyholders of those changes. Notwithstanding these risks, the IGC supports the view that the actions are justifiable, because the current investment arrangements risk poorer outcomes for the majority, and the changes will improve Value for the majority of policyholders.

2.5 DEVELOPMENTS TO WITH PROFITS DOCUMENTATION

In our first report, we raised a concern with Standard Life in relation to With Profits documentation. We said: "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."

The FCA announced a regulatory change in late 2016 removing the obligation to provide the standardised disclosure. The FCA made the provision of that document optional but re-emphasised the obligation to ensure that consumers had information that was "clear and not misleading".

Standard Life has confirmed that they will redesign these documents over the first half of 2017, and will seek the views of the IGC on the documents and wider communications.

2.6 REVIEW OF SERVICE LEVEL AGREEMENTS

In our 2015/16 report, the IGC challenged Standard Life on the uniform 10-day turnaround servicing target set for different customer transactions. We said:

"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."

An excerpt from Standard Life's response to this challenge is set out below.

"REVIEW OF COMPLETION TIMES

When reviewing current completion times, we quantified that across Customer Operations (all products including Workplace) we deal with 140 different demand types covering 134 different products...

NEXT STEPS

Having gathered information and insight, we recognise that there is a need to develop an enhanced range of measures, and that multiple measures per demand type are required to better evidence plan holder experience and appropriate execution of key tasks within a process.

As we use our workflow system to prioritise requests and direct customer enquiries to the right people at the right time, and to measure our performance, this work was scheduled to take place after the final release of the new workflow system in the summer of 2016.

Due to unexpected IT issues arising from this final release, the work to develop new timeliness measures was delayed; however this work is now underway. Key milestones for this review are:

- End Q1 – identify key demands and agree a phased implementation of a revised suite of timeliness measures
- Q2 – review and make any further changes based on any learns
- Q3/Q4 – roll out revised suite to other products and processes

We will keep the IGC updated with how this work progresses throughout H1 2017."

IGC COMMENT

The IGC welcomes Standard Life's recognition of the need to develop a range of measures that vary by transaction type to provide better evidence of the actual service quality experienced by policyholders. The IGC recognises that 2016 has been a challenging period due to a combination of customer demand and teething problems with new IT Systems. We will continue to monitor the implementation of the actions set out by Standard Life as well as their operational effectiveness as part of our ongoing assessment of Value.

2.7 REVIEW OF THE CHARGE CAP MECHANISM

In our first report we explained that Standard Life designed the core scheme charges for Qualifying Workplace Pension Schemes ("QWPS") to comply with the charge cap by granting any QWPS scheme a scheme discount such that the maximum charge was 0.75%. In addition, a capping control was operated which added further discount, if required, to ensure that the 0.75% ceiling was not exceeded in any month due to fluctuations in additional expenses.

We asked Standard Life to undertake an audit of the charge cap process to provide comfort that these processes were operating as intended. It has become clear that in some circumstances the 0.75% charge cap could be breached in the first month in which a member joins a Standard Life scheme.

For an employee on national average earnings contributing 10% in a Good to Go plan operating at the charge cap, the maximum by which the charge cap could have been exceeded was less than £0.10[5]. For a policyholder contributing at the maximum annual allowance of £40,000 into a scheme where the member pays 0.40% after scheme discount, the maximum by which the charge cap could have been exceeded was less than £1.70[6].

This process flaw was corrected on 13th September 2016 for all new contributions. Notwithstanding the de-minimis impact, Standard Life expects to have refunded any excess charges for those who joined plans between 6th April 2015 and 12th of September 2016 by the end of the first quarter 2017.

The IGC has discussed with Standard Life's senior management our concern that this was not reported to the IGC when originally identified and have received assurances that similar disclosures will be made promptly.

5. Assumes scheme discount of 0.35% and contribution of £230 paid in first month of joining scheme.
6. Assumes scheme discount of 0.6% and contribution of £3,333 paid in first month of joining scheme.

3. New IGC activities during □□□□/□□

3.1 ENGAGEMENT WITH POLICYHOLDERS

Gaining a better understanding of the views of policyholders has been one of several major initiatives during our second year. We have always recognised the need to obtain and understand the views of policyholders who rely on Standard Life for their retirement savings and trialled a number of approaches to gaining policyholder input in 2015/16. These included attendance at retirement roadshows, and the creation of an IGC web page which describes the IGC and allows policyholders and other interested parties to contact the IGC directly. The first Annual Report was published on the web page together with a survey which policyholders were asked to complete. Regretably, policyholders made very limited use of these channels.

While the numbers are not statistically significant, those who did respond to the Annual Report seemed broadly satisfied with the report and content. They felt the IGC should focus on investment performance, costs and charges, and looked for more action to move policyholders from old style defaults without requiring individual consent.

We have continued with attendance at retirement roadshows and meetings with Employee Benefit Consultants and Corporate Advisers, but given the difficulty in persuading policyholders to pro-actively contact the IGC, with the assistance of Standard Life, we championed a cross-market research exercise.

A large group of providers was invited to sponsor and participate in the market research; 11 including Standard Life agreed to do so. This allowed the IGC to understand the views of Standard Life policyholders, and for their views to be compared with those of other providers' customers.

A number of providers were unwilling for full results to be published and also required restrictions on the disclosure each IGC could provide in their Annual Report as to survey details and how their provider ranked in the survey. We note that Standard Life was content for there to be full disclosure. After discussion with Standard Life we decided that even with these limitations, participation was still valuable. We hope that in future exercises these limitations will be dropped.

After an open tender process, NMG Consulting was selected to deliver the research. NMG Consulting is a member of the Market Research Society and abides by its Code of Conduct, which ensures that the research is both impartial and confidential. The research process is shown at Appendix 8.1 and further details of the research methodology and results can be found in Section 3.2 and appendices 8.2-8.6.

Less specific and indirect feedback has also been available to the IGC via Standard Life's in-house feedback mechanisms, described in our first report including the "Rant and Rave" tool; On-line policyholder feedback on their experience; the Customer Online Community; and Complaints.

One criticism the IGC has of the Rant and Rave methodology is that the call handler selects which customers are offered the opportunity to provide feedback. Standard Life has acknowledged that, while a number of control measures are in place, there is a risk of distortion of the overall satisfaction scores. The IGC understand that further management actions are being considered to reduce any such possible distortion.

Standard Life commissions research into customers' views and behaviours on various aspects of Standard Life's propositions. A recent example shared with the IGC was a March 2016 survey of 165 customers on the service expectations that they have of Standard Life. Standard Life also uses a customer community to test new items of literature. During 2016, this group has tested:

(i) A revised wake up letter for those customers approaching retirement
(ii) A revised annual statement issued to all pension customers
(iii) The legacy audit letters (arising from the actions agreed with the IGC)

These sources and the NMG research outlined below have helped the IGC to improve its understanding of the services and features that policyholders value, and their relative importance. We will incorporate this in our methodology for the assessment of Value going forward.

The NMG research provides insight into Standard Life policyholders' perception of Value. We will engage with Standard Life to focus on those elements of the results that demonstrate a relatively weaker perception by policyholders of the Standard Life proposition. We hope the research will be repeated in future years to assess Standard Life's progress on all constituents of Value.

3.2 POLICYHOLDER RESEARCH ON VALUE

The research was conducted in two phases, a qualitative phase to identify the key attributes and attitudes of members and a quantitative phase to test those propositions across a substantial population of policyholders of the provider firms (see Appendix 8.1).

3.2.1 THE QUALITATIVE RESEARCH

Two full day workshops were held in Reading and Leeds with a total of 46 policyholders of Workplace plans from nine of the eleven participating providers. Observers from some IGCs (including Standard Life) and provider firms were in attendance. The morning session allowed policyholders to discuss their views on pensions and Value in small groups in an unprompted manner. The afternoon sessions focused on prompted hypotheses and descriptions of possible Value factors allowing policyholders to articulate their ideas of a Value Workplace pension proposition.

From the workshops, NMG defined 23 potential Value attributes for testing in the quantitative survey. Appendix 8.2 shows the 23 attributes and how they ranked in the subsequent quantitative survey results.

3.2.2 THE QUANTITATIVE RESEARCH

In order to achieve a statistically significant response of at least 500 policyholders per provider, providers were asked to identify 10,000 policyholders to be contacted by email. Where a provider could deliver a greater number and differentiate legacy and current products, this was also encouraged. The survey was emailed to 190,000 policyholders and had a qualified response of 13,742, a sufficient take up rate to be statistically significant.

Nine of the eleven providers achieved higher than 500 responses and in the case of Standard Life responses were received from 3,138 policyholders. This has provided insight into what customers in general value and has provided specific insight into the views of those holding policies with Standard Life.

3.2.3 RANKING OF THE VALUE ATTRIBUTES

From the responses, NMG identify seven attributes most strongly identified as representing Value with a further three stronger than average attributes. The remaining 13 attributes rank significantly lower (see Appendix 8.2).

Of the ten most important attributes, two – tax relief and scale of employer contribution – are not determined by the provider. One – a guarantee of return of contributions – could be, and historically was, offered by providers in With Profits policies.

3.2.4 AGGREGATE RESEARCH FINDINGS

The majority of policyholders across all age cohorts and fund sizes perceive their Workplace pension to be important for their retirement income.

While many of the Value attributes vary in their importance for individual policyholders depending on the age, gender or fund size of the respondent, there is clear consensus across all cohorts that good return on money (NMG interpret this to be size of pot at retirement rather than investment rate of return) and controls and safeguards are the most important attributes.

High value is also placed on having a reputable and financially strong provider, flexibility on how to take pension income, accurate administration and reporting, clear communications and access to a range of funds. There is also interest in guarantees of return of contributions although it is unlikely that respondents understand the cost of such guarantees (see Appendix 8.2 for the full ranking). Male and female respondents had similar preferences although women were more focused on guarantees and communication and less on the range of funds.

Policyholders appear most satisfied with "contribution and transfer processes"; "retirement income options"; "provider reputation"; and, the "fund range available". More importantly policyholders were least satisfied with "good return on my money"; "clear and understandable communications"; "charges in line with the market average"; and, "email updates".

The qualitative research, when compared with the results of the quantitative survey, underlined the lack of understanding amongst policyholders, and the Value that they gained from even quite limited amounts of well presented information. This communication gap is both a challenge and a real opportunity for the industry to improve member engagement and outcomes.

Slides comparing the results from the qualitative and quantitative phases, the overall satisfaction and Value for money results, the benchmarking of attributes comparing all respondents and legacy scheme respondents and sample make up data can be found at Appendices 8.3-8.6.

3.2.5 STANDARD LIFE RESEARCH FINDINGS

The overall response rate for the Standard Life sample was broadly equivalent to the aggregate provider response rate. The Standard Life respondents tended to be younger, have smaller fund balances than average and a slightly larger female weighting than the aggregate survey population (see Appendix 8.6). We believe that this is primarily due to Standard Life's significant auto enrolment population.

Standard Life policyholders' responses as to which of the 23 Value attributes were most important were broadly consistent with the aggregate sample, although there was some variation in sub-segments of the Standard Life sample. There were however substantial differences in the sample populations of the different providers, which makes it difficult to establish relative strengths and weaknesses across providers (see Appendix 8.6).

For Standard Life responses were received from a sufficiently large number of policyholders to allow segmented analysis by fund balance, work status (full/part time/deferred/retired), gender, age, legacy and modern products.

The IGC has had further analysis conducted by NMG to allow segmented analysis on an equal weighted basis across the total survey results to assist us in identifying more accurately relative strengths and weaknesses in the Standard Life offering versus the market as a whole.

We are not permitted to provide relative scoring results for Standard Life, but it is interesting to note that within the sample, satisfaction with Value and the various attributes increases by age and size of fund balance. This may be because those policyholders have a longer experience of Standard Life than the new auto-enrolled policyholders who will tend to be younger and have smaller fund balances.

OVERALL CONCLUSIONS

The aggregate results of the survey provide a consistent view of what respondents considered the most important attributes in establishing Value. The results also provide a baseline against which future performance by the industry both at an aggregate and individual level can be judged.

At an industry level the results are very tightly clustered and limited insight can be gained from the relative ranking within those clustered results. However, the overall level of these results identifies a need for the industry as a whole to improve both the Value perceived by policyholders and their understanding of what is being provided.

At the individual provider level, your IGC has identified some features on which we will challenge Standard Life to improve on these first year results.

3.3 WIDER INDUSTRY BENCHMARKING

In our first report, we explained that, "in future we hope to benchmark these elements (VfM) against other providers' offerings. To do that however, we need benchmarking reports that cover the whole industry and use consistent measures..." Your IGC had hoped that the market research exercise outlined above would be part of an integrated and wide-reaching benchmarking exercise to meet that objective.

The IGC challenged Standard Life in September 2016 as to their position on a more comprehensive benchmarking exercise. Their response made clear that they supported such an exercise, and detailed the steps they had taken to seek a consensus that such an exercise should be undertaken. It concludes:

"Despite our efforts, the wider benchmarking piece is unlikely to deliver in 2016 as only a few other IGCs and providers agree this is a priority in the short term. Our intent is to continue to try to develop this commitment from other providers and implement it thereafter."

We continue to believe that without transparent benchmarking the effectiveness of efforts to improve Value will be more limited than otherwise. We hope that other IGCs will join in our efforts to advance this exercise.

3.4 REVIEW OF SCHEME SPECIFIC DEFAULT PROFILES

In our first Annual Report, we outlined our approach to evaluating Value and reviewed the Default Profiles with a particular focus on the Core Profiles provided by Standard Life. Given the large number of Default Profiles and the funds used to create them, it was not possible in our first year to evaluate the investment content of all the Default Profiles.

There are some 106 unique Employer Default or "Deemed Default" Lifestyle Profiles created by individual employers with the help of their Employee Benefit Consultants (EBCs) or Independent Financial Advisers (IFAs). This rises to 178 when including the Standard Life Core Profiles reviewed last year. Over 1.1m individual policies, (56% of total Workplace personal pension plans) invest in these Profiles. The Profiles are constructed using 170 different investment funds (See Appendices 9.1 and 9.2), and hold assets in excess of £10.5bn (c29% of the total assets attributable to Workplace personal pension plans).

Historically, the most popular funds used by policyholders were in-house Balanced Managed Funds and With Profits funds. As at 31st December 2016, c£15bn (40%) of assets was invested in these more traditional funds.

The remaining assets are held across the range of 300+ funds available on the Standard Life platform.

The IGC identified five questions against which to test these Default Strategies and assess whether the investment components had the propensity to deliver a good retirement outcome and represent Value. The objective was to identify those funds or strategies that required further investigation and possibly modification, rather than to identify the top ranking strategies. We asked:

- Do the underlying fund components have the potential to provide adequate growth?
- Does the strategy deliver adequate risk and volatility management?
- Is the strategy and glide path appropriate for the anticipated end point?
- Is the solution future-proofed i.e. capable of adapting to future legislative change?
- Are the charges appropriate for the expected levels of risk and return?

To assist us in developing a methodology to assess the Value of both the underlying funds and the strategies that used them, the IGC decided to retain an external adviser. Four organisations were invited to tender. The successful candidate was Redington, an independent investment consultancy.

The IGC worked with Redington, and members of Standard Life's Investment Solutions team to develop a two-stage approach; first evaluating the underlying funds and thereafter testing each strategy (see Appendix 9.3).

This methodology was designed to utilise a combination of Standard Life analytics and governance processes, third party sources (Moody's Analytics and Finex) and Redington analysis and oversight. As part of developing the methodology, the IGC benefitted from Redington's review of the Standard Life Fund Governance (RAG) process as well as Standard Life's Lifestyle Profile Triennial Review tool and process output.

Firstly, the fund analysis sought to identify specific issues that could prevent a strategy from meeting our Value test. This might include any of the following:

- Active funds delivering significant and sustained underperformance;
- Passive funds with significant tracking errors;

- Closet tracker funds priced as actively managed funds; and,
- Passive funds with high (for passive) charges.

For fund assessment, a dual performance assessment and scoring approach was developed (see Appendix 9.4). The result of the fund assessment showing the number of funds flagged for further review can be found at Appendix 9.5a and 9.5b.

In addition to the fund analysis, other investment elements of the lifestyle strategies were also assessed. This analysis focused on identifying strategies that might not provide Value because:

- The strategy construction was not suitable and/or not structured in line with a modern default (e.g. to take account of the mix of the employer's workforce and/ or actual employee behaviour);
- The strategy's fees (based on a proxy) were disproportionately high;
- The strategy was not structured to meet its pre-determined objective (i.e. annuity, drawdown, cash or universal); and/or
- The strategy was providing a lower return than would be expected for the level of risk being taken.

For the wider strategy assessment, a scoring approach was developed that looked at each strategy, and its components, at three distinct stages or 'slices':

- Growth phase
- De-risking phase
- At retirement point (a policyholder's normal retirement date or NRD)

See Appendices 9.6 and 9.7 for further detail of the strategy assessment.

If either a fund or a strategy failed to meet a hurdle score it was flagged for further investigation by Standard Life, Redington and the IGC. This was to establish whether the reasons for the failure of the fund or strategy raised Value concerns. If so, the IGC raised its concerns with Standard Life directly to discuss how these might be addressed (see Appendix 9.3). It should be emphasised that the scoring methodology was designed to flag up funds or strategies that required further investigation, not to reach a conclusion as to Value (See Appendix 9.5b for the number of funds flagged for further review).

This is important because as an example, a significant number of Standard Life and other funds were flagged for further investigation as they under-performed in 2016. This was typically as a result of investment managers positioning their funds in anticipation of expected interest rate rises and the EU referendum vote. In many cases however, after further review, these funds were found to have satisfactory longer term performance and raise no current cause for concern.

There were however a small number of funds that the IGC decided to raise with Standard Life. The IGC has suggested to Standard Life that two of these funds may not be suitable for inclusion in a Default Strategy and that three other funds should be reconsidered during 2017 after further review.

STRATEGY RESULTS

29 strategies were flagged for further analysis (see Appendix 9.8 for the heat maps showing those flagged at each stage). Of these, eight were single fund defaults without any lifestyle profiling; thirteen were cash balance end point strategies (not currently utilised as a default by any employer); four were annuity strategies flagged for reasons other than their designated end point; three were Universal profile strategies; and, one was a drawdown strategy.

In most of the cases, the strategies were flagged as expensive (based on the aggregate of the proxy prices of the underlying funds). After further review, most passed once specific scheme discounts or charge cap pricing was used in the analysis.

In relation to two of the strategies the IGC has asked Standard Life to discuss with the relevant employer/ Employee Benefit Consultant (EBC) whether some modifications to the strategy should be considered.

IGC CONCLUSIONS

The IGC has serious concerns that many employer-specified Default Strategies, in some cases long established, continue to target an annuity end point for their employees. This is notwithstanding the evidence to date of policyholder behaviour since pension freedoms. While the IGC cannot establish whether or not this end point remains appropriate for the relevant employer's scheme, we are concerned that employers and their advisers may have given insufficient consideration to this issue.

The IGC has requested Standard Life to write to all EBCs and employers whose Default Strategy targets an annuity end point asking them to confirm that such a strategy remains appropriate for their members and suggesting that even if they are satisfied, they should offer policyholders alternatives more suited should they wish to access benefits other than by way of annuity.

The IGC also notes that there are eight Default Strategies offered by Standard Life that are delivered by way of a single fund without any form of lifestyle profile. These funds are used by a total of 4,877 policyholders across 54 arrangements. The IGC does not consider that such an approach is likely to deliver Value; it has recommended that Standard Life withdraw the availability of such offerings to any new employer and ask any employer/policyholder utilising such a strategy to review their position and consider moving to an alternative strategy.

The IGC has also asked Standard Life to engage with a further two employers to review whether the strategy they offer their employees should be amended to improve the Value available to their employees.

STANDARD LIFE RESPONSE

"Standard Life shares the IGC's concern about annuity targeting lifestyle profiles and we are taking a number of actions to engage with employers and their advisers on this matter.

Employers who have a QWPS Default in place that targets annuity purchase are typically those schemes that staged prior to pension freedoms being introduced in April 2015. For non-advised employers with a Standard Life designed annuity targeting QWPS Default, we are writing to these employers during Q1 2017 to advise them that we will be automatically upgrading their Default to the Standard Life Active Plus III Universal Strategic Lifestyle Profile in Q2 2017 for new members. This will be followed by an exercise later in the year to make existing members aware of the new option and offer them the chance to switch. Should employers wish to retain an annuity targeting default for new members, they will need to seek advice to establish the appropriateness for their scheme. The same exercise will be carried out later on in the year for advised employers who have put in place a Standard Life designed QWPS Default Profile that targets annuity purchase.

Where employers have an adviser designed QWPS Default Profile that targets annuity purchase, and where this was put in place after April 2015, we have asked for confirmation that the employer has received advice in relation to the appropriateness of this design for the scheme membership as part of the launch process. For schemes that put in place adviser designed annuity targeting QWPS Defaults prior to April 2015, a number of these schemes have already taken action to either update the glide path design or make alternative options available for members. For those that have yet to take action, we will contact the employers and their advisers to prompt them to review their profile design in light of the changes in behaviour we have observed across Standard Life's whole book of business. While an adviser designed QWPS Default remains in place, the nature of these arrangements means that the responsibility for assessing the ongoing suitability of these profiles for the scheme membership rests with the employer and their adviser.

Policyholders in all of these schemes currently have access to the Standard Life designed Strategic Lifestyle Profiles (SLPs) so can access profiles that offer alternative glide paths.

Where employers have existing members invested in annuity targeting lifestyle profiles that were previously offered as the promoted or "low involvement" option for that scheme, we are proposing to take a number of actions that will result in policyholders moving from an annuity targeting to a "Universal" glide path design – either by restructuring their assets or switching them to an alternative profile – and make them aware of the more modern solutions available to them. These proposals are currently going through internal governance processes.

For the eight single fund solutions, these are either options that were historically offered as the promoted or "low involvement" option for a legacy scheme – typically prior to lifestyle profiles being introduced – or options that have been classified as "Deemed Defaults" when the employer reached their staging date. (These single fund options were not available for employers for use as a QWPS Default). Standard Life will write to existing members of legacy schemes who are invested in the funds to make them aware that alternative options are available.

We will be engaging with the further two employers in relation to their current QWPS Default strategies and will inform the IGC of the outcome."

3.5 ADDED VALUE SERVICES – THE EVIDENCE FOR VALUE

In our first report, we highlighted that the level of additional support on offer from Standard Life reflected the positioning of their products as a higher added Value proposition with a focus on delivering good outcomes for policyholders.

Over the past 12 months, the IGC has sought further evidence of the efficacy and cost effectiveness of these additional support services in relation to the impact on customer behaviour and retirement outcomes.

The IGC notes that over 220,000 individuals have joined a Standard Life Workplace personal pension scheme during 2016, the vast majority by automatic enrolment.

We have seen evidence that Standard Life has continued to invest in improving its digital capability as it seeks to enhance the experience of policyholders and help individuals to achieve better savings outcomes.

A number of pilot exercises have been trialled with a small sub-set of Standard Life's clients.

Among the new initiatives have been the following:

- A Pension Booster tool – an online tool to encourage policyholders to save more into their pension
- Live Well trials – finding ways to enhance the impact of Standard Life's engagement activity at key points in the policyholder journey
- Click and switch – providing policyholders with an on-line process to switch into new investment solutions designed for the pension freedom environment
- Employer-sponsored tailored engagement programmes facilitated by 56° (Standard Life's communications consultancy) and informed by the scheme-specific diagnostics delivered by a new "scheme analyser" tool
- Trials of "save more tomorrow"– auto-escalation of policyholder contributions with 3 employers using the Lifelens' employee benefits platform.

The results of these various trials were mixed. The most successful was the "click and switch" trials where switch rates ranged from 26% to 59% among the 13,014 policyholders of the six participating employers who took part in the trial. Conversely, fewer than 5.00% of eligible employees chose to take advantage of the "save more tomorrow" opportunity piloted by three employer sponsors.

Outside of the trial environment, Standard Life launched a new on-line dashboard for all pension customers and continued to make enhancements to its digital journeys. As at December 2016, more than 577,000 pension customers (individual and workplace) had registered for on-line services with 391,358 having logged onto their pension dashboard in the previous six months.

The criteria for measuring the longer-term effectiveness of these initiatives are yet to be finalised. However, impact on contribution levels, as the primary determinant of retirement outcome, is one such measure that the IGC will seek to monitor. As Standard Life does not generally hold salary data for individual policyholders, it is difficult to determine how average contribution rates (as a percentage of salary) or income-replacement ratios are changing over time. We are, however, able to track changes in contribution amounts. The following changes have been observed over a 12 month period from June 2015 to June 2016[7]:

- Contribution levels have increased by more than 10% for 22% of Workplace policyholders;
- Contribution levels have remained broadly unchanged (except for salary inflation) for 78% of Workplace policyholders.

3.6 THE RETIREMENT JOURNEY

As discussed in Appendix 1, the IGC is not responsible for providing an oversight function once policyholders have retired or taken advantage of the new pension freedoms (either with Standard Life or another provider).

The IGC does however consider that the processes and support leading up to the policyholder decision as to how to access benefits is an important component of

7. Trends based on expected contribution schedules with employer sponsors.

the Value assessment and can materially impact the policyholder's retirement outcome. In this regard, the IGC notes the FCA's thematic review of historic sales of annuities and that Standard Life has announced that it has made a provision of £175 million and is working with the FCA to provide affected customers with appropriate redress.

We now have data from Standard Life covering the period from April 2015, when the pension freedoms were first introduced, to December 2016 showing how customer behaviour has changed over the past 21 months.

Since the introduction of the pensions freedoms in April 2015, customers appear to have demonstrated largely understandable behaviour based on pension pot size. Furthermore, consistent trends in customer behaviour are beginning to emerge (see Appendix 10).

Annuity purchase continues to be the least popular option (at least initially) with only 5% of retiring customers selecting this option. Four out of five Standard Life customers who have purchased an annuity have taken advantage of the open market option.

The proportion of customers fully encashing their pension plans has levelled off at around 30% of retiring customers, with an average pot size of £12,500.

Approximately 25% of retiring customers have chosen to set up a drawdown plan with Standard Life. Of these, 27% (6.75% of the total) have set up a regular income under their drawdown plan. The average pot size for this group is £81,500. The remaining 73% (18.25% of the total) have selected a single withdrawal, typically the tax free cash entitlement, from their plan and have deferred taking any further action. It is unclear whether this represents an intention to stay in drawdown or is simply a deferral of the decision as to whether or not to buy an annuity.

The remaining 40% of retiring customers have chosen to transfer to another provider – presumably to access pension freedoms in some form, although we cannot identify what outcomes they chose.

The IGC has spent time reviewing both the pre-access information and communications provided to policyholders as well as the tools, delivery channels, costs and choices available to support them as they make their decision. The IGC notes changes made by Standard Life to the wake up retirement packs that are issued to policyholders in the six months prior to their selected retirement date and considers these to be a worthwhile improvement.

Standard Life continues to host roadshow events across the UK for policyholders who are approaching retirement and have shared their plans for changes to those events in 2017. During 2016, there were 16 events attended by approximately 1,500 policyholders. IGC members have attended a number of these events during which we have had an opportunity to meet policyholders and hear first-hand their views and experiences. We understand from our conversations as well as the feedback forms collected that the overwhelming majority of those attending found the sessions very useful and that their expectations of the event were met or exceeded.

The IGC notes that some policyholders who are approaching retirement can access additional telephone support from Standard Life's qualified retirement experts at no extra cost.

Standard Life uses two measures of customer satisfaction. The "Net promoter score" (NPS) measures the extent to which the customer would recommend Standard Life to friends and family. The "nEasy" score; reflects how easy customers find it to deal with Standard Life. The average customer satisfaction scores for the phone element of the retirement journey experience over the period 1st January to 31st December 2016 were NPS +56 and nEasy +55 for drawdown and NPS +52 and nEasy +49 for annuity purchase. (See Appendix 10b for the monthly scores for 2016).

4. Value assessment

The IGC has extended the framework first deployed when assessing Value in the 2015/16 report. The original framework identified a need to focus on: Quality; Risk; Relevance (including policyholder engagement); and Cost (see Appendix 13).

The IGC has also worked with Standard Life and Redington (see Sections 3.3 and 3.4 above); to develop a methodology for identifying investment funds or solutions that may not be providing policyholders with Value, and then conducting further analysis. The results have been incorporated into the original Value framework to make an overall assessment of Value.

The IGC is aware of a number of views and opinions put forward over the past 12 months in relation to Value by industry commentators, regulators and other IGCs. One such contribution to the debate was a report published in May 2016 by the Pensions Policy Institute entitled "VfM in DC Workplace Pensions"

The report's key conclusions are that while there is no single definition of Value the following three outcomes are likely to be viewed by policyholders as positive indicators of Value:

- The value of the policyholder's pension pot (at retirement)
- The security of the policyholder's pension pot
- The trust the policyholder has in the pension scheme

These conclusions are largely supported by the results of the market research conducted by NMG on behalf of providers and their IGCs. The NMG research, (see Sections 3.1 and 3.2 above); suggests that the most important determinants of Value from the perspective of the policyholder are that:

1. They receive a good return on their savings toward retirement
2. Controls and safeguards are in place which keep their savings secure.

An essential enabler to the delivery of these retirement outcomes is that policyholders have trust in the pension system as well as their provider. This is against a background where trust has been undermined in the past. There was some evidence of this trust gap during the qualitative sessions of the NMG research where concerns (more relevant to DB history) were voiced by participants about their DC plans.

4.1 FCA REQUIREMENTS

The IGC is also cognisant that the FCA in its Conduct of Business rules ("COBS") 19.5.5 2(a) to 2(e) identifies five elements that IGCs should consider in evaluating Value for money:

(a) That the default investment strategies are designed and executed in the interests of relevant policyholders and that default fund investments 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 changes that Standard Life or the IGC considers necessary;

(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.

The IGC's analysis of each of these five elements is set out below.

4.1.1 REVIEW OF THE DESIGN AND EXECUTION OF DEFAULT INVESTMENT STRATEGIES ("OFF THE SHELF" OPTIONS)

In our 2015/16 report, the IGC focused its review on the most popular investment solutions made available to policyholders as part of its "off the shelf" range of core "default" options. These included traditional With Profits and Managed Fund solutions for older style products and risk-based multi-asset funds for more modern products.

8. http://www.pensionspolicyinstitute.org.uk/publications/reports/value-for-money-in-dc-workplace-pensions

The IGC has again reviewed the suitability and appropriateness of these core default solutions utilising the additional information available from the outputs of the Redington methodology.

The short-term performance of the growth component of Standard Life's risk-based strategic lifestyle profiles has suffered as a result of the unexpected economic and political outcomes of 2016. Despite this, the strategies exceed the minimum thresholds for Value as calibrated under the Redington model and the IGC is of the opinion that they remain suitable for use as core default options. The IGC will continue to monitor performance during 2017 to satisfy itself that this continues to be the case.

The older-style products feature more traditional investment approaches in the design of the plan default. The use of Managed Funds is particularly common, typically as part of a lifestyle profile targeting the purchase of an annuity.

The Redington model has indicated that the core underlying Managed Fund components of the strategies meet the minimum threshold for Value. However, these profiles are typically less suitable for policyholders who do not purchase an annuity at retirement. For this reason, the model flags them for further scrutiny by the IGC.

With profits funds, which were also a popular choice for policyholders in older-style products, have been excluded from the Redington assessment due to their unique nature. The IGC notes the recent performance of the three main variants of With Profits fund available to policyholders within the remit of the IGC was:

These funds do not form part of a lifestyle profile but benefit from smoothing of volatility in returns and in some cases investment unit price growth rate guarantees ranging from 0.00% to 4.00% per year.

The IGC is aware of its responsibilities in relation to With Profits funds and will continue to work in conjunction with the With Profits Committee to seek to ensure that policyholders continue to receive Value from their With Profits investments.

IGC CONCLUSIONS

Subject to the matters set out below, the IGC considers the Default Investment Strategies to have been designed in the interests of relevant policyholders, with clear statements of aims and objectives.

Notwithstanding recent short-term performance issues, the IGC is of the opinion that the modern risk-based Default Strategies are executed in accordance with their fund mandate and remain appropriate as core options. However, we have notified Standard Life that a continuation of the recent poor performance of the core funds may have a detrimental impact on the IGC's assessment of Value.

The IGC has also informed Standard Life that it does not consider Default Strategies consisting of a single investment offering through the entire strategy to provide Value; we have recommended that such offerings be withdrawn from new arrangements and that Standard Life should discuss possible modifications with employers currently utilising such arrangements.

With Profit Fund	Products	Quarterly Performance in period ending			
		31/12/2015	31/03/2016	30/06/2016	30/09/2016
Pension With Profits Fund	GPPP	0.4%	2.5%	3.9%	3.0%
Other pension unitised With Profits funds[9]	GPPP, GPPOne				
	GPPFlex				
	GPPLE	2.6%	0.8%	3.1%	5.2%
Stakeholder With Profits Fund	Group Stakeholder				
	Corporate Stakeholder	2.9%	0.8%	4.0%	7.7%

Source: Standard Life – "Heritage With Profits Fund Investment Report: UK Pension Business Q3 2016"

9. Covers the following unitised WP funds: Pension With Profits One Fund; Pension 2 With Profits 2 Fund; Pension Millenium With Profits Fund; Pension With Profits One 2006 Fund; Pension 2 With Profits 2 2006 Fund; Pension Millenium With Profits 2006 Fund.

The IGC notes the efforts made by Standard Life outlined in Section 2.3 above to minimise the risks to policyholders invested in traditional lifestyle profiles who do not intend to purchase an annuity on reaching retirement. We expect Standard Life to maintain its efforts in this respect. We will continue to review progress in moving policyholders' savings into assets more reflective of likely at retirement end points given customer behaviour since the introduction of the pension freedoms in April 2015.

4.1.2 REVIEW OF THE DESIGN AND EXECUTION OF DEFAULT INVESTMENT STRATEGIES ("SCHEME-SPECIFIC" OPTIONS)

As well as the "off the shelf" Default Investment Solutions covered above, Standard Life facilitates the use of "scheme-specific" Default Strategies that have been designed by employer sponsors on behalf of their respective workforces, typically with the help of an Investment Consultant, Corporate Adviser, IFA or EBC.

During the period of this report, the IGC has reviewed the suitability and appropriateness of 106 "Bespoke" Investment Strategies using the Redington methodology and investigated further those strategies flagged for review.

The review identified 87 bespoke strategies designed to target annuity purchase. A further six employer designed strategies were flagged for further investigation. For all six, concerns were raised about the cost/return characteristics of the underlying components of the strategy. In four cases, the strategy was also designed to target annuity purchase.

There are eight Workplace schemes where the core default is one or more funds outside of a lifestyle arrangement. None of the funds is a With Profits option with smoothing characteristics.

In addition, Redington reviewed three lifestyle profiles that were classed as "Deemed" Default Strategies on the basis of the percentage of individual scheme members invested. These were flagged for review as they targeted annuity purchase.

A further 72 Standard Life-designed lifestyle profiles were assessed by Redington. Of these, 20 target annuity purchase as their end point. The model identified two "universal" and thirteen "Lump sum" targeted profiles as requiring further investigation on the grounds of cost versus expected return relative to their primary objective. After further review, these profiles were passed subject to the general challenge on the need to be satisfied that an annuity targeted end point is appropriate for a given employer's arrangement.

IGC CONCLUSIONS

The IGC considers that the majority of scheme-specific Default Investment Strategies have been designed in the interests of relevant policyholders with clear statements of aims and objectives.

The IGC has requested Standard Life to engage with those employers where the IGC continues to have concerns as to the Value they offer to policyholders (see section 3.4 above).

The IGC has also requested Standard Life to engage with those employers whose Default Strategy targets an annuity end point to discuss whether these remain the most appropriate strategies for their employees.

In response, Standard Life has agreed a number of actions set out in 3.4 above, including communicating with those employers and policyholders who continue to use an annuity targeting lifestyle profile as their default strategy.

The IGC will review the results of these exercises during 2017/18.

4.1.3 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 the firm to ensure alignment with the interests of relevant policyholders and that the firm takes action to make any necessary changes".

Standard Life has an investment governance framework that ensures a regular and systematic review of the investment options available to members of Workplace personal pension plans. The framework is designed to ensure that investment strategies are managed in line with the expectations set with policyholders and with their stated investment objectives (which include the net performance of the underlying fund(s)), and that they continue to meet the needs of the customer groups they were designed for. There is also evidence of Standard Life addressing issues identified by the in-house governance function through making changes to investment strategies.

The in-house investment governance function has worked closely with Redington to develop the methodology referred to previously in this report. The objective has been to incorporate existing governance controls into the Redington methodology for maximum efficiency and efficacy.

Over the past 12 months, senior representatives from Standard Life's governance function have continued to regularly attend IGC meetings to highlight any findings or funds, which might provide cause for concern. The Standard Life team has been responsive to any requests from the IGC for additional information. A number of improvements to the clarity of the regular reporting have also been made at the request of the IGC.

The IGC has also received a copy of the latest internal audit review into Standard Life's fund governance processes and noted that while a small number of improvement findings have been identified, the core RAG and Fund Alignment Review processes (which the IGC covered on p18 in our first report) were both found to have a satisfactory control environment.

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 Standard Life governance processes used to review and, where appropriate, modify investment strategies. The IGC intends to continue to monitor the effectiveness of those processes in subsequent periods.

4.1.4 REVIEW OF ADMINISTRATION PROCESSES AND CORE FINANCIAL TRANSACTIONS

The IGC considers core financial transactions to include:

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

The IGC has met with management of the Edinburgh-based Customer Operations department and a representative from the area regularly attends IGC meetings to report on the administration performance over the previous quarter.

SERVICE TIMELINESS IN 2016

The IGC has observed a deterioration in the timeliness of reported service levels for those actions that cannot be completed as straight through processing (STP) transactions during 2016. Non-STP transactions constitute some 1.60% of all transactions (see Appendix 11a). The percentage of non-STP transactions that are completed within ten days has gone from 86% in Q4 2015, to 78% in Q4 2016. Additionally, non-STP transactions completed within twenty days has dropped from 97.8% in Q4 2015 to 94% in Q4 2016, and completions of non-STP transactions within thirty days fell from 99% to 98%.

This had been attributed in part to continuing elevated levels of customer activity post the introduction of the pension freedoms placing pressure on all aspects of Customer Operations. In addition, Standard Life was impacted by the aftermath of the EU referendum in June, particularly in managing the impact of the suspension of a number of property funds.

Members of the IGC met with the Managing Director of UK Customer Operations, to raise our concerns and to challenge the assertion that service standards would return to previous levels during the first half of 2017. He provided both a full and transparent explanation of the causes of the decline as well as a detailed explanation of the various actions being undertaken to restore previous service levels (see below). We have agreed that he will attend the IGC on a regular basis to ensure that the IGC is fully informed of any issues which may arise.

He explained that the main cause for a decline in service standards was a series of system outages experienced following the final implementation in July 2016 of a workflow management system that had been transitioned into customer operations over the previous 18 months. The introduction of this new workflow system is part of a modernisation programme, which also includes an upgrade in Interactive Voice Response (IVR) technology. These changes are intended to enhance customers' experience and improve efficiency.

The issues appear to arise from the complexity and interdependencies of the multiple underlying components within the new system which had not been identified in testing by the system vendor, contracted integration consultant or in house resources prior to final implementation. These issues have been diagnosed and are being resolved by Standard Life's in-house IT department and their outsource partners.

STANDARD LIFE RESPONSE:

"We acknowledge that within Customer Operations we faced challenges meeting our turnaround targets for non-straight through processing during 2016, and we would like to outline the action we are taking to improve our performance.

Where straight through processing is in place, such as joining, opting out and paying contributions, transactions are processed same day. Where there are delays in processing financial transactions, we always backdate or best price to ensure no financial impact to the policyholder. Customer feedback remains positive, quality assurance results are high and complaint volumes are low (we received complaints from less than 0.05% of policyholders).

However, there are a number of factors that impacted turnaround times during 2016:

AUTO-ENROLMENT

Our auto-enrolment proposition has seen the size of our Workplace pensions business double in terms of customer numbers over the last three years. During 2016 as well as supporting many new small firms set up a Workplace pension, we have also supported many of our larger clients through their first Cyclical Re-Enrolment. This has led to an increased volume of demand across all areas of customer servicing.

PENSIONS FREEDOM AND EU REFERENDUM

We have seen a significant increase in demand for more complex servicing – average call handling times have increased and mail enquires are more complicated. This was expected during 2015, however the higher volume and complexity of demand has become a "new normal" during 2016. This increase in demand was compounded by the initial reaction to the Brexit vote including subsequent Property Fund suspensions.

IT

In 2012 we committed to replacing our workflow system and a new technology, BPM, was selected. The new system enables us to route work more efficiently, embed key procedure and control steps, and provide us with the ability to increase automation. From 2014 the system was rolled out successfully across seven releases, however when the eighth and final release was implemented in July 2016 there were unexpected issues with stability and slow response times. Our IT teams engaged immediately with IBM and action was undertaken to investigate and address the root cause. We deployed a number of business continuity actions such as staggering the back office working day and prioritising core financial transactions.

In Q4 2016 a number of IT releases were implemented, and have successfully stabilised the system. We expect further releases this year to improve user experience and enable us to start harnessing more benefits from the new technology. A team will continue to support Customer Operations throughout 2017 to resolve any remaining issues.

RECRUITMENT

In 2016 we stepped up our recruitment programme with 143 new permanent members of staff. The recruitment process is rigorous and includes a competency based interview, role play and written exercise. All new staff must complete a full induction and 12 – 16 week process based training track. Anyone being trained on a new process is subject to 100% quality checking until they are signed off as fully competent. The first tranches of new staff are now fully embedded and as a result we expect to see an improvement in our work position during Q1 2017.

The average length of service in Customer Operations has now reduced to 13.8 years, and while we are sorry to see some of our more experienced staff leave, the Operation is really benefiting from the enthusiasm of new people.

INVESTMENT IN ONLINE SERVICES AND DIGITAL TECHNOLOGY

We have continued to improve and enhance our online service offering in 2016. Increased use of self-service will reduce the mail demand received into our administration teams, allowing our staff to focus on dealing with more complex demand. Our Retirement Journey and online Consolidation service are examples of this investment. In addition, we are now rolling out "Digital Contact Centre" technology which has enabled secure messaging, web chat and going forward co-browsing which will help us to better support customers online.

SUMMARY

2016 has been a challenging year of ongoing significant change in the external market, with events such as Brexit and Property fund suspensions, and the ongoing demand from auto-enrolment. This has led to additional complexity of demand within Customer Operations, but we have invested in new workflow capability, digital technology and increased recruitment while maintaining the quality of our work. We are confident that the steps we have taken will improve our position, and we have already seen wait times coming back within target for many of our processes."

SERVICE ACCURACY

Over the 12 month period to 31 December 2016, Standard Life reported "right first time" accuracy of transaction processing ranging from 93% to 100% (see Appendix 11b). 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.

Failure can arise for a number of reasons and the root causes are not always within Standard Life's control. The Operations team reviews exception cases and discusses 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, and 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 that 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.

During 2016 Standard Life achieved material improvements in the accuracy of the processing of new joiners and increments and in respect of incoming transfers of benefits. There was a 2.00% drop in accuracy of processing of regular contributions and death settlements (See Appendix 11 for details).

Standard Life has advised the IGC that a revised quality assurance framework is in the process of being embedded with the Operations team to improve risk management and overall quality control.

COMPLAINTS

During 2016, Standard Life received a total of 787 written and 37 verbal complaints from customers saving in a Workplace personal pension plan. The overall complaint volumes for 2016 were down 3.00% compared with 2015.

Since 1st July 2016, complaints have only been recorded (as a complaint) if they meet the full FCA definition of a complaint; as well as an expression of dissatisfaction, there now needs to be alleged material inconvenience, material distress or a financial loss. As such, the number of recorded complaints is lower than would have been the case prior to this FCA rule change.

However, the FCA also introduced another rule change from 1 July 2016 that required all complaints, including verbal complaints dealt with successfully by the call handler, to be reported to the FCA. (Previously, there was a requirement only to report written complaints and verbal complaints which were not resolved on the call). The net effect of both these rule changes is that the volume of reported complaints during H2 2016 increased by 6.00% compared with the equivalent six-month period in 2015.

The most common reasons for complaint among policyholders during 2016 were (i) the length of time taken to answer the phone (ii) the length of time taken to deal satisfactorily with the customer's demand and (iii) processing errors and/or inaccuracies in the information given to customers. These reasons make up approximately 70% of all of the complaints received.

Any written complaints or telephone complaints which are not resolved by the call handler 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 payments to be made to the customer.

During 2016, 61% of complaints were upheld. This represented an increase from 53% in 2015, primarily as a result of increased dissatisfaction about Standard Life's turnaround times and the inclusion of telephone complaints from 1 July 2016. 3.00% 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 2016[10], the Ombudsman agreed with Standard Life's assessment in 77% of cases. The industry average for the life and pensions complaints category is 70%.

IGC CONCLUSIONS

Based on the management information that has been made available by Standard Life, the IGC is satisfied that core financial transactions have generally been processed promptly and accurately. Where this is not the case, procedures are in place to ensure that policyholders are not disadvantaged as a result of processing delays or inaccuracies.

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

The IGC does, however, note a deterioration in service performance over 2016 as discussed above. The IGC will monitor the progress made by Standard Life in remedying the systems issues and will look to management to return to at least previous levels of service.

4.1.5 THE LEVEL OF CHARGES BORNE BY POLICYHOLDERS

All Workplace products have an annual management charge that 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").

In addition to the explicit charges outlined above, the funds in which policyholders' contributions are invested are subject to indirect "transaction" costs. (See section 4.1.6 below).

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, 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 plans, which are used for auto-enrolment, have a maximum TAFC of 0.75% where the pension savings are invested in the scheme's default arrangement.

The IGC has re-assessed the distribution of charges incurred by policyholders across different products and sizes of employer arrangements. We note that scheme discounts for all but the very largest employer arrangements (excluding "Good to Go" auto-enrolment employer arrangements) typically fall within a range from 0.00%-0.20%. 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 charges do not exceed the 0.75% charge cap. Employers with many thousands of employees and larger assets under administration receive the highest rebates reflective of the economies of scale that they bring to Standard Life.

10. Most recent information available at the time of writing.

IGC CONCLUSIONS

Prior to the implementation of the management actions set out in the 2015/16 IGC report, the distribution of charges paid by policyholders showed that approximately 67% of total policyholder assets incurred an effective TAFC of 0.75% or less and approximately 17% of total policyholder assets were levied charges in excess of 1.00%. This figure reduced to less than 5.00%[11] after the various management actions were implemented (see Appendix 6).

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

4.1.6 REVIEW OF DIRECT AND INDIRECT COSTS INCLUDING TRANSACTION COSTS

The IGC has again sought to review the implicit costs (direct and indirect) experienced by policyholders invested in Standard Life policies. These are fees paid to the investment managers and other service costs such as brokerage, dealing and custody incurred as part of the investment process.

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

In October 2016, the FCA issued a consultation paper on transaction cost disclosure setting out a proposal for consultation on the calculation methodology for reporting such costs. That consultation closed on 4 January 2017 and Standard Life expects a final requirement to be issued in Q2 2017. Therefore, as at the date of this report, there is still no agreed basis for reporting these costs.

The IGC has challenged Standard Life to provide more information on transactions costs for its entire fund range. Standard Life has previously estimated that an automated process to calculate transaction costs for the 300+ funds available to members of its Workplace plans would take a year and a seven-figure sum to deliver. It remains unwilling to make the necessary investment in automating the relevant systems and processes until a common industry-wide basis of calculation has been finalised.

Therefore for this year's report, the IGC has sought transaction cost information from Standard Life on the same basis as in our first report (see Appendix 12.1). In addition, Standard Life has been able to increase the number of funds and provide some further cost data for the Active Plus and Passive Plus range of Default Funds, as well as the Managed Fund used in many of the legacy default plans. The estimate of transaction costs has also been extended to include a small range of funds that are available to policyholders on a self-select basis. In total, the coverage represents approximately 41%[12] of total assets for all Workplace products. The cost information is for the calendar year 2015.

This analysis indicates that yearly transaction costs during 2015 for the core default funds fall within the range of 0.10% to 0.20%. There is a much greater spread of costs for the self-select funds, reflecting the variety in the type and style of additional funds offered by Standard Life (see Appendix 12.2).

Pending the availability of consistent industry wide data, the IGC has also reviewed the Standard Life processes for managing such costs. Standard Life Investments 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 returns; 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 also received some updated independent third party analysis[13] as to the costs and fees resulting from the investment process (equity only) over the four quarters to September 2016.

That report showed that SLI had lower trading costs than expected over three of the four quarterly periods reviewed and that the outlier was explained by a small number of large trades in volatile markets.

11. Source: Standard Life.
12. In aggregate, the AUM in these funds that can be readily attributed to all Workplace products (including those outside scope of IGC) totals c£14.8bn out of total Workplace assets of £36.4bn. Figures correct as at end September 2016. Source: Standard Life.
13. Analysis undertaken by Investment Technology Group (ITG).

IGC CONCLUSIONS

Progress has been slower in 2016 than the IGC would have liked. However, the IGC recognises and has some sympathy for the challenges faced by fund managers and providers in the absence of a common methodology and framework for calculating and disclosing transaction costs. Now that the FCA has consulted on its proposals, our hope is that a more meaningful set of comparative data will be available to review in our 2018 report although this will depend on the implementation deadlines set out in regulation/legislation and may only be possible in our 2019 report.

4.1.7 REVIEW OF OTHER VALUE CONSIDERATIONS

As described in section 3.5, Standard Life has trialled a number of engagement initiatives on a pilot basis with some of Standard Life's clients with varying measures of success.

The IGC notes that 26% of policyholders in open Workplace schemes have used the online calculators and tools that Standard Life makes available and a further 25% are aware of their existence. Mobile apps remain relatively unused with fewer than 10% of policyholders having utilised these; email updates from Standard Life were read by 20% of policyholders. The results are similar for policyholders in closed Workplace schemes.

IGC CONCLUSIONS

Based on the evidence available to the IGC during 2016, it remains too early to make a definitive determination on the Value that these initiatives provide. In particular, it remains to be proven that policyholders can be encouraged to increase contribution levels or switch their investments into solutions that are more appropriate for their retirement needs.

Furthermore, the engagement activity, while encouraging, has yet to be developed in a scalable manner which would have a meaningful impact on Standard Life's entire book of Workplace plans. This is something that the IGC hopes to see Standard Life make greater progress on during 2017.

More generally, the IGC has formed a view based on the NMG research that improvements can be made in the way in which Standard Life communicates with its policyholders.

4.2 RISK CONTROL FRAMEWORK

During 2016, the IGC has received an overview of the risk assurance function that supports the business to ensure that operational and financial risks are managed and controlled effectively. The risk function is further supplemented by an internal audit function that provides independent assurance over compliance.

The IGC has benefited from the oversight provided by both functions when making its assessment of the Value provided by Standard Life to Workplace personal pension customers.

The IGC will have access to a number of relevant internal audit reports to be carried out over the course of 2017. In particular we have asked the Chair of the Group Audit Committee to ensure that the implementation of the legacy pricing changes and exit charge changes outlined in this report receive internal audit scrutiny during 2017.

Source: NMG 'Value for Money' Study 2016.

5. Overall Conclusions

The IGC has concluded overall that Standard Life's various Workplace Personal Pension products (both new and older style) continue to offer policyholders Value; are of good quality; benefit from well-designed investment solutions; have good administration and governance; and have comprehensive member support and communications materials.

The IGC notes that 2016 has presented Standard Life with some significant challenges both on investment performance and operationally as they sought to implement major IT changes.

We do not consider the investment performance of a single year is an appropriate basis for changing our view as to the quality of the investment components of Standard Life's offerings; however, we have discussed with Standard Life the risk that future underperformance could threaten that view and will monitor performance closely during 2017/18.

Similarly, while we are concerned at the reduction in service quality seen in 2016, we recognise that the system enhancements once fully operational will be an improvement for members and that operations management made significant efforts through the use of overtime and incremental staffing to minimise the impact on members. We will monitor closely the promised return to better service levels during 2017/18.

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.

The IGC has reviewed the Value offered by the large number of default arrangements designed by employer sponsors and their advisers. We conclude (subject to our comments below) that the majority offer policyholders Value, are of good quality, benefit from well-designed investment solutions; have good administration and governance; and have comprehensive member support and communications materials.

In a few cases we believe individual schemes fall short in this respect and have agreed with Standard Life that they should engage with those employers and advisers to review those offerings. On a more general note, the IGC has concerns that a significant number of such offerings continue to target annuity purchase as the strategy end point and question whether that is consistent with demonstrated or likely future policyholder behaviour. We have asked Standard Life to engage with employers and consultants offering such schemes to discuss whether they should be modified.

The IGC is satisfied that the changes agreed with Standard Life as part of the Legacy Audit Review have been implemented on the basis agreed in our first report.

The IGC will continue to evaluate the Value 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 which should follow from the current FCA consultations.

IGC
March 2017

Appendix 1
Background to the creation of IGCs

IGCs were introduced as a result of pension legislation, which came into effect on 6 April 2015, and which followed a market review by the Office of Fair Trading. Most providers of Workplace personal pension plans are required to establish an IGC to represent policyholders' interests and assess the Value provided by that provider's Workplace personal pension products.

The OFT market review resulted in an audit of all Workplace pension plans established prior to April 2001 (referred to as the Legacy Audit), conducted by an Independent Project Board (IPB). The IPB's brief was to review plans where policyholders might incur a Reduction in Yield (broadly charges) greater than 1.00% per year.

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 Value.

The IGC had responsibility for reviewing and challenging the proposals advanced by Standard Life to address the issues raised by the IPB report and agreed a number of improvements which Standard Life committed to implement by November 2016. The IGC has monitored the implementation of the proposals details of which can be found in Section 5.1 and Appendix 4.

The primary purpose of IGCs is to seek to ensure that Value is received on an ongoing basis by relevant policyholders in Workplace personal defined contribution pension products. They are required to act solely in the interests of those policy holders and to focus in particular, although not exclusively, on:

- Default Investment Strategies
- Investment governance arrangements
- Core financial transactions
- Charges
- Direct and indirect costs

In doing so, the IGC takes into account the results (broadly fund size) that policyholders can reasonably expect as a result of their membership of, and contributions to, their pension policy. The IGC considers the Value provided to policyholders up to the point at which they encash (in full) their pension savings, secure a regular income or start to draw down on their savings.

Many members of Workplace personal pension arrangements, and in particular members of legacy arrangements, will be invested in whole or in part in With Profits policies. With Profits investments have unique features and managing them involves considerations that do not apply to other types of investment. All companies that provide With Profits investments are required by regulation to have special governance arrangements for them and Standard Life's arrangements include a With Profits Committee that provides independent oversight to protect the interests of With Profits investors.

For Workplace pension plan members whose investments include With Profits the proper management of the With Profits fund, for example in setting investment strategies and bonus rates, is a crucial component of the overall quality and Value of their pension arrangements. The IGC has therefore sought reassurance by liaising directly with the With Profits Committee to understand how it carries out its work and has engaged on specific issues with Standard Life's With Profits Actuary who frequently attends IGC meetings.

Other aspects of pension scheme arrangements, for example charges and service standards, affect policyholders in essentially the same way whether they are invested in With Profits or in other funds.

The IGC operates under Terms of Reference established by Standard Life and consistent with the rules established by the FCA. The Terms of Reference can be found at Appendix 2.

The IGC is not responsible for providing an oversight function once policyholders have taken advantage of the new pension freedoms or for remediation of historic matters. Workplace occupational pension arrangements established under trust are the responsibility of the relevant scheme trustees rather than the IGC.

Appendix 2
Standard Life's IGC

Standard Life established its IGC in April 2015 in accordance with regulatory requirements after conducting a robust recruitment process. 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.

The independent members have no prior 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 the responsibilities of which largely mirror those of the IGC.)

The Standard Life representative is an experienced manager and pension scheme trustee and does not hold an executive position within the 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. The independent members of the IGC are satisfied that the Standard Life representative continues to conduct himself on this basis.

Both the IGC members and Standard Life consider this significantly 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 plans and charging structures.

The five individuals who are members of Standard Life's IGC have many years of experience in the 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 below.

Meet the Committee Members

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 its Investment Committee, 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 the Managing Director of PTL. Richard joined PTL in 2008 and became Managing Director in 2010. Richard has been involved in pension scheme governance since 1985. PTL are appointed as chair of Standard Life's Master Trust board, and Richard acts as their representative. Richard is a Fellow of the Pensions Management Institute (PMI) and is on the PMI Council. He is chair of the Pensions and Lifetime Savings Association (PLSA) DC Council and sits on the PLSA board.

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 arrangements 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 a 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 a member of various industry groups including the Pensions Regulators' Stakeholder Advisory Panel, the PLSA's DB and DC Multi employer committees, the House of Commons Pensions Leadership Group and has been a member of several DWP Policy Engagement groups.

MICHAEL CRAIG

STANDARD LIFE REPRESENTATIVE

Michael is the Head of Product and Technical Consultancy at Standard Life and has over 30 years' experience of the UK Life and Pensions industry. He is currently a director of Standard Life Trustee Company Limited, and is a trustee of the Royal Blind and ABI pension arrangements.

Appendix 3
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 videoconference.

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 4
The Standard Life Workplace pension business

Standard Life has provided Workplace pension arrangements for many years. Initially these took the form of With Profits plans but evolved over the years to incorporate a range of different investment options and product features. Most have a single bundled fund management charge. A few plans have additional charges, mainly to recoup up front commission payments to the scheme adviser. In some cases charges are deducted for commissions paid to advisers providing ongoing advice. After implementation of the changes detailed in Section 5.1 the number of these is substantially reduced, see Appendix 6.

The IGC considers current and former members of Workplace pension arrangements who are, or have previously been, saving in one or more of the following products (other than in a Trustee governed arrangement) 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)

For details of number of Workplace plans and assets under management (AUA) see Appendix 6b.

Appendix 5
Standard Life policyholders paying >□.□□% charges as at □□.□□.□□

After the IPB report, Standard Life carried out an analysis of charges at member-level to get a more accurate picture of the numbers of members with charges in excess of 1.00%. At end 2015 there were 196,262 Workplace members (including those in Trust based Schemes) at risk of charges in excess of 1.00%.

Table A below sets out the number of Workplace members and former members of Workplace personal pension schemes (WPPs) at end 2015 with charges above 1.00% who 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

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 6
Legacy proposals implementation

APPENDIX 6.A

The tables below show the estimated number of members with total charges above 1.00% at 31 December 2016. The first table shows the split between current and former workplace members. The second table shows the numbers split by the type of higher charge (commission or fund choice or both).

Total charge	Estimated number of workplace personal pension members	Estimated number of former workplace personal pension members	Total
>1.48%	7,282	5,959	13,241
1.01% to 1.48%	18,833	13,483	32,316
	26,115	19,442	45,557

	Estimated number of workplace and former workplace personal pension members			
Total member charge	Higher commission but no higher charge funds	Higher commission and higher charge funds	Higher charge funds only	Total
>1.48%	103	140	12,998	13,241
1.01% to 1.48%	62	25	32,229	32,316
	165	165	45,227	45,557

This table shows the overall distribution of charges across the book of Workplace personal pension plans:

Total member charge	Number of members and former members of workplace personal pension schemes	Percentage	Assets (£m)	Percentage
>1.48%	13,241	0.70%	318	0.90%
1.01% to 1.48%	32,316	1.60%	1,129	3.10%
1.00% or lower	1,949,781	97.70%	34,846	96.00%
Total	1,995,338		36,293	

Source: Standard Life

The figures in the tables above, exclude self invested assets and those members and former members in drawdown.

APPENDIX 6.B

POLICY NUMBERS AND AUA FOR WORKPLACE PERSONAL PENSION PLANS

Current and Former Workplace Members	Policies 31/12/2015	Policies 31/12/2016	AUA (£m) 31/12/2015	AUA (£m) 31/12/2016
Newer Style Products				
Group Flexible Retirement Plan (GFRP) and Group Self Invested Personal Pension (GSIPP)	604,766	713,807	12,164	15,163
Group Flexible Retirement Plan – Good to Go	160,684	246,679	188	492
Older Style Products				
Group Personal Pension (GPPP)	485,685	485,169	10,052	10,698
Group Personal Pension One (GPPOne)	101,451	102,226	1,714	1,844
Group Personal Pension Flex (GPPFlex)	133,910	138,596	2,430	2,748
Group Personal Pension for Large Employers (GPPLE)	22,207	22,007	523	582
Group Stakeholder Pension (GSHP)	263,540	240,286	3,930	4,184
Corporate Stakeholder Pension (CSHP)	56,174	54,806	1,202	1,284
Totals (All Products)	1,828,417	2,003,576	32,203	36,995

Source: Standard Life. The figures in the table above, includes self invested assets and those members and former members in drawdown.

Appendix 7
Results of Policyholder communication exercise to move to more modern investment solutions

The following activity has taken place over 2016.

1. GLIDE PATH CUSTOMER MAILING

Standard Life has written to c36k non-advised customers who are within five years of NRD and are invested in a Standard Life designed traditional lifestyle profile that targets annuity purchase to remind them of what this profile is designed for and to prompt them to review their investment if they aren't planning on buying an annuity. The mailing included a tear off slip that customers could return if they wanted to switch into a lifestyle profile with a "Universal" glide path.

Around 12% of customers contacted chose to switch to another profile or fund.

2. ANNUAL STATEMENT PROMPTS

New wording has been added to annual statements prompting customers to review their investments in light of the new options available to them.

3. AUTO-SWITCHING LETTER

Customers invested in lifestyle profiles receive a letter three months before the glide path switching begins to remind them that they are in a profile and to let them know that they are about to enter the glide path so will see their investments change.

The content of this letter has been updated to prompt customers to review their investments in light of the new freedoms available to them and let them know that other investment options are now available that are aligned to different retirement options.

The implementation of this letter is expected to be Q1 2017.

4. 'CLICK AND SWITCH'

Employers who have put in place "pension freedom friendly" defaults for new members and, in some cases, new contributions are now looking to Standard Life to support them in exercises to move existing members out of older investment solutions into the new default.

To meet this need, Standard Life has developed an on-line Direct Offer process that they call "click and switch". It can be used on a client by client basis where Standard Life has email addresses for the scheme members or if the employer can provide these. The steps include emails from the employer and Standard Life and a mechanism for the member to record their decision online. The email to the member explains that their employer has put in place a new scheme default, why they have done this and asking them if they would like to find out more. Employees who click through to find out more are given additional information about the difference between their current investment and the new default and can then either click to switch or click to stay where they are. Employees who have not clicked to either switch or remain in their current investment solution, are sent reminders. At the end of that period, the employees who have selected to switch are bulk switched into the new default. Those who have not selected either option remain in their current investment solution. They can subsequently change their investment instruction online if they wish to do so.

During 2016, Standard Life worked with six large employers to carry out "click and switch" exercises that have resulted in over 5,000 members switching into their scheme's new default moving c£195m of assets. This equates to a take up rate of c30% of members with an average of 2.50% of members actively declining to switch.

Appendix 8
The Market research review

Appendix 8.1 - An in-depth qualitative and robust quantitative methodology

An initial in-depth qualitative phase to establish VfM attributes followed by robust quant research to assess relative attribute importance and provider performance

Stakeholder Workshop

NMG/ Working Group set-up workshop

Ensuring consensus on research approach, objectives and outcomes

PHASE 1 QUALITATIVE PHASE
Uncovering needs and factors of value for money

Extended deliberative consumer workshops

Member perspective of motivations, needs, perceptions and understanding, factors of important

2 large workshops – all day events, 23 attendees at each

Phase 1 deliverable – findings and implications presentation with syndicate group Agreement on quant Qnr

PHASE 2 QUANTITATIVE PHASE
Establish importance of VfM attributes and performance

Online study of workplace pension members

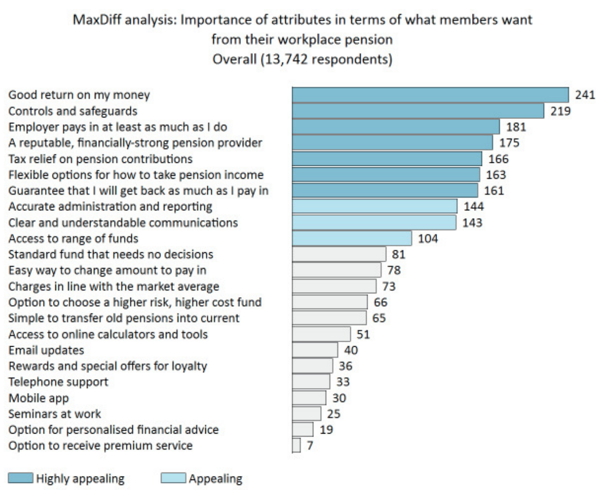
Member importance of attributes using stated and derived techniques and rating of providers

Large scale quantitative study for robust findings at overall, provider and segment level

Phase 2 deliverable – Group findings (derived importance & aggregate findings) and bespoke benchmarking to each Syndicate participant

Final Presentations – 1 to the group; 1 each to syndicate participants with tailored presentations of results

Appendix 8.2



Appendix 8.3i - Comparing responses across Qual and Quant streams reveals some areas with strong level of correlation…

Key attributes are aligned across qualitative and quantitative research findings

QUAL FINDINGS	QUANT FINDINGS
Belief that pensions are important	Stated high levels of interest in finance / investments generally (78% agree)
Low engagement but high desire to engage	Stated high levels of interest in finance / investments generally (78% agree)
'Good returns' are key to assessment of VfM	No. 1 attribute in MaxDiff
Security of pension provision is very important to members	'Controls and Safeguards' and 'Reputation of provider' rank 2nd and 4th respectively in MaxDiff
Price is considered less important than quality	Price is not a top 10 attribute – several attributes relating to quality of provision rank higher (albeit price is explicitly linked to returns)
(Clear communications) about matching employer contributions and tax relief rated highly once understood	Both attributes in top 5 (3 and 5)

nmg

Appendix 8.3ii - …while others do not align so well

Some aspects of VfM are only important once members fully understand the potential impact on their final outcome – this takes education and time

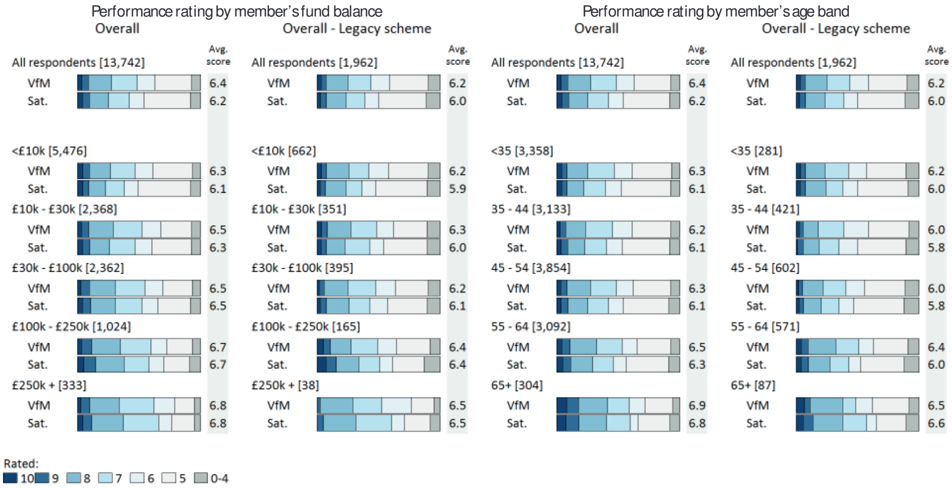
QUAL FINDINGS	QUANT FINDINGS
Members are prepared to pay more for a better quality experience	Minimal interest in a premium service – highlights need for member education for them to understand the potential value-add here
Support is important and influential to engagement (channel options and clear communications understood to be impactful in helping members maximise their final outcomes)	Clear communications in top 10 but channel options rated much less important – highlights the need for education to fully understand the role these types of communications can have on engagement and the final value of the pension pot
Wide fund choice not wanted – reduced choice (but still some choice) preferred	Fund choice is important (particularly to some segments)

Engaging with members will lead to a greater sense of empowerment and drivers will gain greater consideration

nmg

Appendix 8.4 - Performance benchmarking: Overall satisfaction and VfM

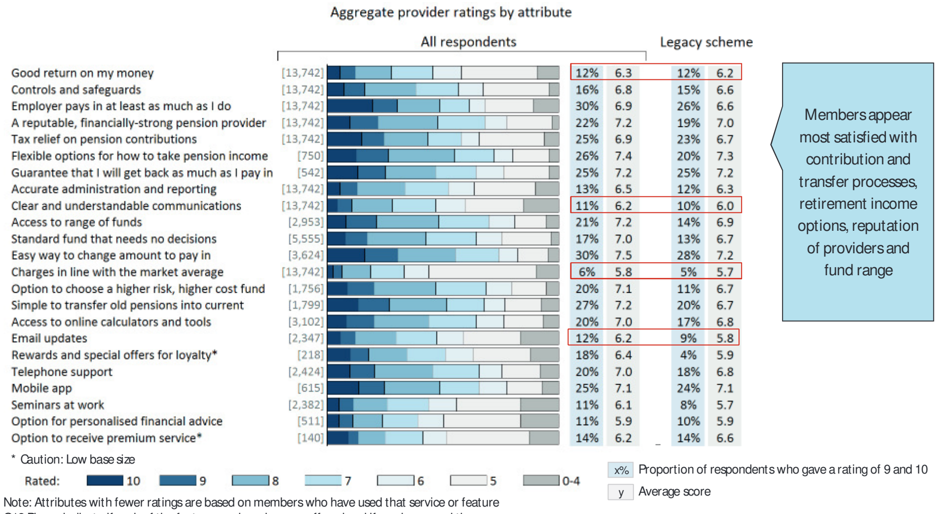
Aggregate ratings are slightly higher for VfM compared to satisfaction and ratings increase slightly with member fund balance and age. Ratings by legacy scheme members are lower across all segments



VfM = Value for money; Sat = Overall satisfaction
Q15 How satisfied are you with your overall experience with your workplace pension provided by <Provider> on overall 'value for money' to you considering how the pension is run and the services and features offered to you?
Q17 Please rate your workplace pension provided on overall 'value for money'

Appendix 8.5 - Performance benchmarking: All attributes

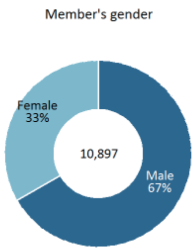
Amongst the top 10 attributes members are least satisfied with 'good returns' and 'clear and understandable communications'

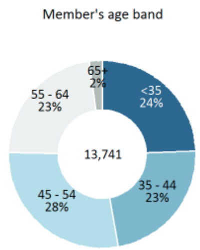


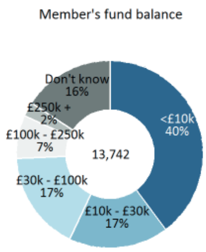
Note: Attributes with fewer ratings are based on members who have used that service or feature
Q13 Please indicate if each of the features and services are offered and if you have used them
Q16 How satisfied are you with the performance of your workplace pension provided by <Provider> on each of these features and services?

Appendix 8.6 - Respondent Profile

We achieved an outstanding 15,080 respondents and screened out 9% based on quality to achieve a total respondent base of 13,742







Members' gender	Min	Max	Standard Life
Male	57%	73%	65%
Female	27%	43%	35%

Age band	Min	Max	Standard Life
<35	9%	43%	32%
35 - 44	17%	28%	22%
45 - 54	19%	41%	26%
55 - 64	9%	34%	18%
65+	0%	7%	1%

Fund balance	Min	Max	Standard Life
<£10k	30%	51%	46%
£10k - £30k	8%	22%	15%
£30k - £100k	13%	23%	14%
£100k - £250k	5%	19%	6%
£250k +	0%	10%	2%

Notes:
1. Min / Max ranges are based on responses received from members of all participant companies
2. Respondents removed who: (a) finished the study in under 9 mins (1.3 x Std Dev), or (b) finished Q13 in under 1 minute (1.1 x Std Dev), or (c) finished the MaxDiff section in less than 3 minutes (1.1 x Std Dev)
3. Gender split of private sector workers is 59% male and 41% female
4. Member's fund balance shown is the response of the members
5. No quotas were set for gender / age / fund size. Therefore respondent profiles should in no way be taken as reflecting the actual make-up of each provider's book or sample size.

Appendix 9
Investment Value analysis

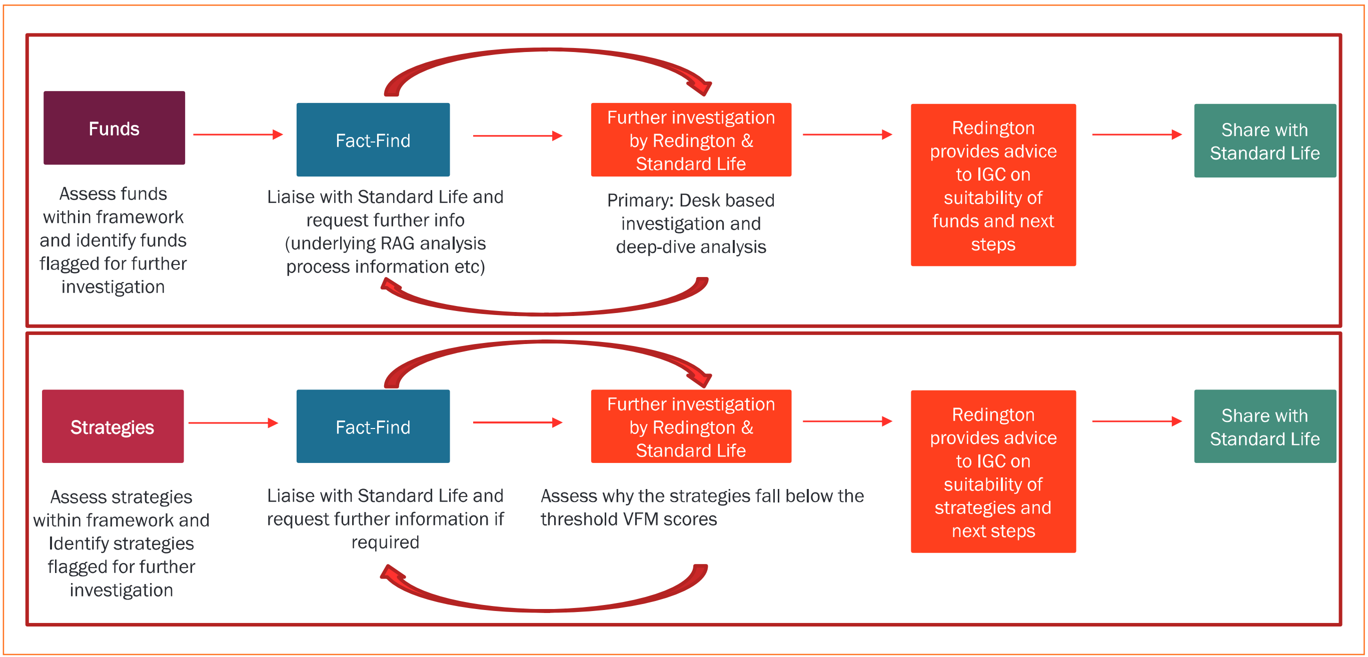
APPENDIX 9.1

Type of strategy	Annuity Target			Lump Sum Target			Drawdown Target			Universal			Fund only profile			Total			Grand Total
	Defaults	Deemed / Quasi Defaults	Additional	Defaults	Deemed / Quasi Defaults	Additional	Defaults	Deemed / Quasi Defaults	Additional	Defaults	Deemed / Quasi Defaults	Additional	Defaults	Deemed / Quasi Defaults	Additional	Defaults	Deemed / Quasi Defaults	Additional	
Bespoke designed default (non Standard Life Profile)	51	36	n/a	0	0	n/a	5	0	n/a	5	1	n/a	0	8	n/a	61	45	n/a	106
Standard Life Profile (SLP)	0	0	20	0	0	20	0	0	16	6	4	6	0	0	0	6	4	62	72
Total	51	36	20	0	0	20	5	0	16	11	5	6	0	8	0	67	49	62	178

APPENDIX 9.2

	Passive	Core	Unconstrained	High Alpha	Total
Money Market instrument	1	6	-	-	7
Bonds	11	11	-	-	22
Property	-	1	-	-	1
Multi Asset	-	29	-	2	31
UK Equity	3	1	-	-	4
Overseas Equity	14	6	1	1	22
Specialist	10	60	2	11	-
Total	39	114	3	14	170

APPENDIX 9.3



APPENDIX 9.4

FUND METHODOLOGY

The IGC chose to adopt a dual fund performance assessment and scoring approach for each of the 170 funds.

As a starting point, a simple three year analysis of historic returns (performance vs benchmark) and risk (tracking error vs benchmark) has been used.

A quarterly "corridor" performance analysis (used by Standard Life) that, while more complex, addresses some of the issues of using a single period model is also used.

If a fund was flagged for attention using either approach, it was then investigated further to assess whether some remedial action was required. Both methodologies are explained below, however there are some shared principles that apply throughout the fund analysis which are:

CATEGORISATION: The analysis begins by recognising the different types of fund strategies being analysed and categorising them. The four distinct categories used are Passive, Active-Core, High Alpha, and Unconstrained.

This is a necessary step as the acceptable pattern of performance vs benchmark for each of these categories is obviously very different. For instance, a passive fund out-performing its benchmark significantly is a bad thing. But a high alpha fund doing the same thing would be a good thing. Using the same measurement for all fund strategies is therefore inappropriate.

SCORING MATRIX: Reflecting the nuances above, a matrix to score each category has been developed. This rewards passive funds for being close to the benchmark, but penalises them for diverging significantly away from it (either positively or negatively).

Actively managed core funds are rewarded for positive returns vs benchmark, but not for negative or significantly highly positive returns, as that would be an indication of the fund not doing what it is supposed to do.

High Alpha and Unconstrained strategies are rewarded for significantly positive returns and are penalised for being close to or under-performing the benchmark.

FLAGS: In addition to the scoring output, there are a small number of flags that are designed to capture very specific behaviours:

- High Alpha or Unconstrained funds that are "closet trackers"
- Trackers that do not track the benchmark

Funds demonstrating these behaviours are passed straight through to the list of funds to be investigated further, regardless of their overall or relative score.

Three year risk and returns:

The three year out or underperformance vs benchmark, and three year tracking error figures are inputs to the analysis. They are inputs to the scoring matrix and create a score for each fund that determines those for further review.

	Score	3 Year Relative Annual Performance		Tracking error	
		Lower Bound	Upper Bound	Lower Bound	Upper Bound
Passive	2	2.00%	No max	-	-
	4	0.50%	2.00%	-	-
	5	0.00%	0.50%	0.00%	1.00%
	4	-0.50%	0.00%	1.00%	2.00%
	3	-1.00%	0.00%	2.00%	3.00%
	2	-2.00%	-1.00%	3.00%	4.00%
	1	No min	-2.00%	4.00%	No max

	Score	3 Year Relative Annual Performance		Tracking error	
		Lower Bound	Upper Bound	Lower Bound	Upper Bound
High Alpha	2	-	-	0.00%	1.50%
	4	-	-	1.50%	3.00%
	5	3.00%	No max	3.00%	4.50%
	4	1.00%	3.00%	4.00%	6.00%
	3	-2.00%	1.00%	6.00%	7.50%
	2	-4.00%	-2.00%	7.50%	9.00%
	1	No min	-4.00%	9.00%	No max

	Score	Relative Performance		Tracking error	
		Lower Bound	Upper Bound	Lower Bound	Upper Bound
Unconstrained	2	-	-	0.00%	3.00%
	4	-	-	3.00%	6.00%
	5	4.00%	No max	6.00%	9.00%
	4	1.00%	4.00%	9.00%	12.00%
	3	-3.00%	1.00%	12.00%	15.00%
	2	-7.00%	-3.00%	15.00%	18.00%
	1	No min	-7.00%	18.00%	No max

	Score	Relative Performance		Tracking error	
		Lower Bound	Upper Bound	Lower Bound	Upper Bound
Core	2	-	-	0.00%	1.00%
	4	-	-	1.00%	2.00%
	5	2.00%	Max	2.00%	3.00%
	4	0.00%	2.00%	3.00%	4.00%
	3	-1.00%	0.00%	4.00%	5.00%
	2	-3.00%	-1.00%	5.00%	5.00%
	1	No min	-3.00%	6.00%	No max

The quarterly ‘corridor’ approach:

This analysis uses discrete quarterly periods over three years to analyse “how” the funds performed over that period. This helps demonstrate whether the funds are performing as expected through each distinct time period, not just if the fund has managed to get to an acceptable place at the end of the period.

For each fund its return above or below its benchmark each quarter for the last three years is captured. Depending on the strategy type (e.g. passive), the scoring matrix is then used to turn these returns into a score to allow for comparison.

The scoring for this approach uses three different tolerance levels around the benchmark that are described as a series of “corridors”.

CORRIDOR

UNDERPERFORMANCE ⟷ OUTPERFORMANCE

Corridor *multiplier_x

1	2	3	4	5	4	3	2	1	Passive
1	1	1	2	3	4	5	4	3	Core
1	1	1	1	2	3	4	5	5	High Alpha
1	1	1	1	1	2	3	4	5	Unconstrained

For instance, Passive funds should not deviate significantly from the benchmark, and should not periodically perform either positively or negatively beyond the first tolerance or “corridor”. The passive funds scoring matrix rewards passive funds within the first corridor, and penalises those that deviate significantly, i.e. into the second or third wider tolerance levels or “corridors”.

Conversely, High Alpha active funds are penalised if they are too close to the benchmark, and rewarded if they achieve positive returns within the outer tolerances or “corridors”.

The corridors and scores for each category can be calibrated to take into account market conditions and to allow more or less funds to pass or fail. The calibration used has been validated by Standard Life, Redington and the IGC.

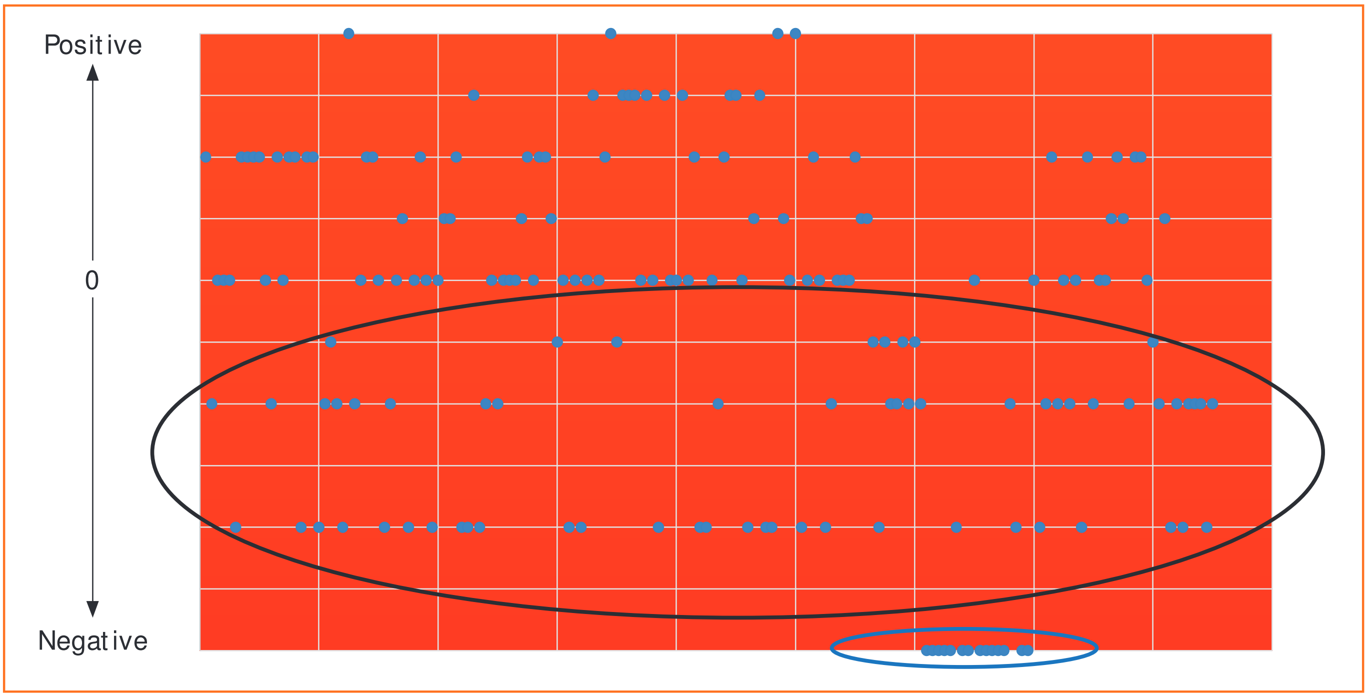
OTHER POINTS OF NOTE:

- Fund returns used are “gross” of charges
- Benchmark returns of indices are naturally gross of charges, and any peer group sector averages used as benchmarks have also been adjusted to be gross of charges, except where the impact was not material (less than 10% of a composite index)
- The comparator benchmarks for each fund have been captured from the fund management groups directly
- The period chosen for comparison is three years, given this is the longest period most of the funds have available
- Funds with less than one year history are excluded from the analysis
- Funds with between one and three year history have been included via their quarterly scores being averaged, and the overall numbers being annualised
- The performance data used has been sourced from Standard Life and Financial Express, and runs to the end of September 2016.

APPENDIX 9.5

FUND ANALYSIS

APPENDIX 9.5A – FUND ANALYSIS HEATMAP



APPENDIX 9.5B – FUNDS FLAGGED FOR FURTHER REVIEW

Outcome	Number of Funds
Passed both assessments	94
Excluded due to less than 1 year fund performance history	14
Total	108
Flagged for failing the 3 year relative assessment	11
Flagged for failing quarterly 'corridor' approach	39
Flagged for failing both assessments	12
Total	62

APPENDIX 9.6

STRATEGY METHODOLOGY

A Default Investment Strategy has many component parts, and can be analysed in many ways. Rather than exploring this issue from a technical or industry perspective, the IGC has reviewed strategies through the lens of the customer experience.

Further to this, the IGC recognises that when measuring Value of a strategy, something that appears to be Value within the growth phase may independently not be Value at the end point, or indeed throughout the glide path phase. So each strategy has been reviewed at each of these three stages, as well as from an overall perspective.

Using this approach, a framework has been developed that incorporates what the IGC has determined as the five key questions to determine Value of each strategy. MI has been developed for each of these questions, to assist the IGC decision making process. This high level framework is shown below:

The intent of the strategy scoring framework is to identify a list of strategies for investigation that may not be Value. The IGC then take this output, investigate the reasons for the strategy being highlighted and determines next steps where appropriate.

Further detail on the analysis performed is contained below:

APPROACH:

- The analysis begins by categorising the strategies by how the member is likely to take their benefits, e.g. annuity end point, drawdown end point, cash lump sum end point, and universal end point (where members are yet to decide).

- Each strategy is then reviewed at the beginning, middle and end of the glide path where the "beginning" is defined as 20 years out from retirement or the beginning of the glide path if the glide path length is less than 20 years in total. The "middle" is defined as five years out from retirement and the "end" is "at retirement".
- Historic fund analysis vs benchmark (see Appendix 7.1) is one of the inputs, but in the main the analysis focuses on output from Standard Life's stochastic model showing forward-looking return, risk and risk-adjusted returns for the member's portfolio at the "beginning", '"middle" and "end" of each strategy. The underlying asset returns series is provided by Moody's Analytics, and is generated from their Economic Scenario Generator (ESG) model. The underlying asset returns were reviewed and approved as reasonable by Redington.
- For each category of strategy (Annuity / Drawdown / Cash / Universal), a scoring matrix has been designed to reward the outcomes you would expect for each. As for the fund scoring matrix, the characteristics of a good Annuity Default Strategy are very different to that of a Drawdown Default Strategy, so the scoring is adapted for each.
- Other inputs include a review of the glide path design, the charges, end point suitability, the outcomes from Standard Life's own governance of both funds and strategies, and future proofing. "Future proofing" is where by virtue of the contract terms, a strategy can be adapted for future regulatory or propositional changes without seeking member permission.
- Standard Life's pricing operates on a bundled basis. This means a policyholder will experience one total charge that includes the fund management charges as well as a charge for other services. For example, administration, communications, at-retirement services etc. In order to estimate charges attributable to the investments only, Standard Life has developed a proxy methodology for establishing the investment cost component of the bundled charge for use in the Value exercise. Redington has reviewed the investment costs generated by the proxy process and has advised the IGC that the results appear reasonable and suitable for use in the assessment.
- Each factor being assessed has defined ranges for a scoring system on a scale of 1 – 5. In each stage (beginning, middle and end), the factors are weighted according to their relative importance in that stage.
- This data is displayed in heat maps to assist the IGC to identify strategies or underlying funds that are in need of further investigation.
- In addition a small number of "flags" are present that would lead to a strategy being flagged regardless of scoring, for instance if the assets used at retirement aren't suitable for the strategy type.

APPENDIX 9.7

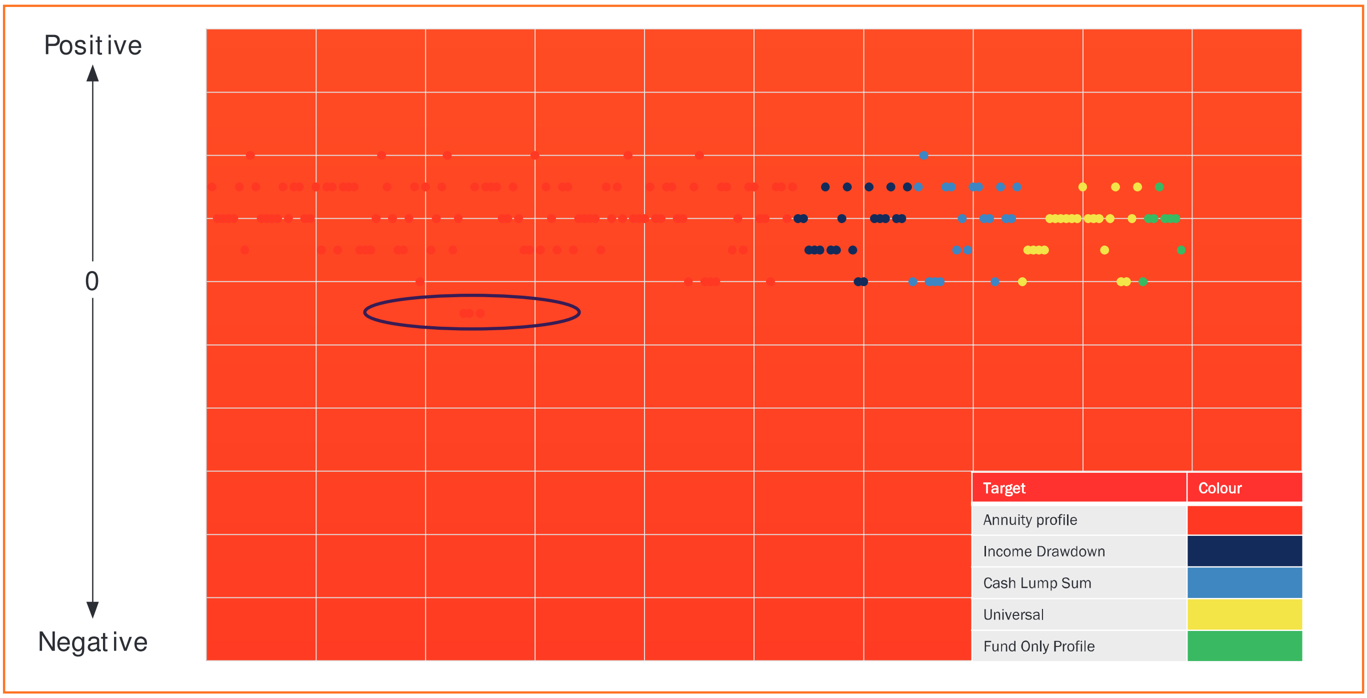
STRATEGY SCORING MATRIX

			Beginning	Middle	End	
Value For Money Category	Assessment Criteria	Purpose	20 Years from Normal Retirement Date	5 Years from Normal Retirement Date	0 Years from Normal Retirement Date	Total
Do they have potential to provide adequate growth and is there appropriate risk and volatility management?	1. Relative historical fund performance	Have the individual funds performed well over the last 3 years?				
	2. Overall strategy score for each slice – risk and return assumptions	Does the overall strategy have the propensity to deliver a suitable returns for its risk level?				
	Total					
	3. Risk level analysis (Moodys)	Is the risk taken appropriate for the growth phase of a default strategy?		N/A	N/A	
	4. Standard Life's Fund (RAG) Analysis	Is the fund manager's actual implementation consistent with its stated mandate?				
Is the strategy & glidepath appropriate?	5 Analysis of asset mix versus a typical end portfolio	Is the end point suitable to meet pre-defined objective?	N/A	N/A		
Is the solution future-proofed?	6. Has the contract been designed to allow future-proofing	To understand which contracts/policies have the ability to change the default without member consent.				
Combined overall assessment score per slice						
Total Aggregate score						

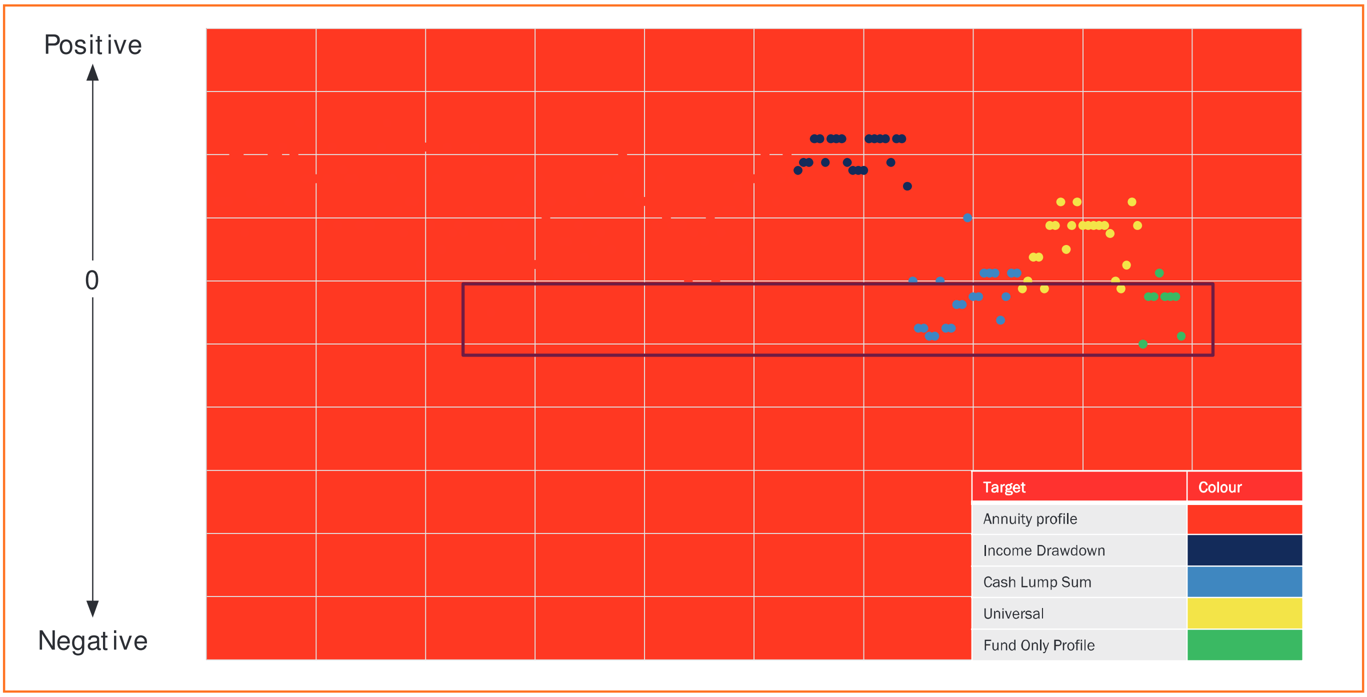
APPENDIX 9.8

STRATEGY SCORING BY STAGE

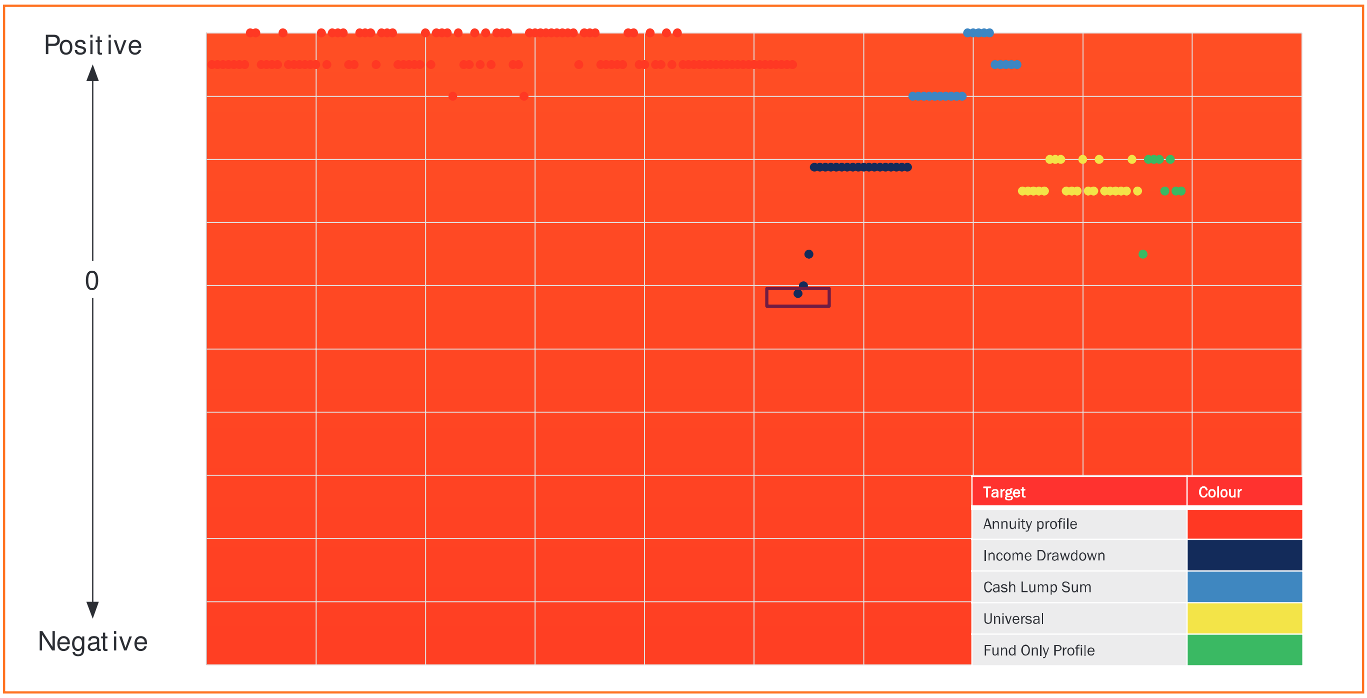
BEGINNING



MIDDLE



END

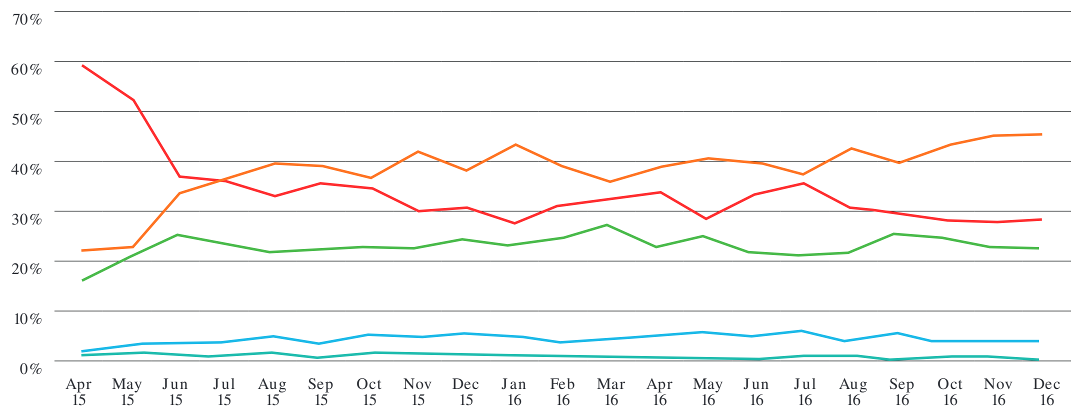


Positive
0
Negative
Target
Colour
Annuity profile
Income Drawdown
Cash Lump Sum
Universal
Fund Only Profile

Appendix 10
Customer behaviour and satisfaction statistics

APPENDIX 10 A

OVERALL CUSTOMER BEHAVIOUR



	Apr 15	May 15	Jun 15	Jul 15	Aug 15	Sep 15	Oct 15	Nov 15	Dec 15	Jan 16	Feb 16	Mar 16	Apr 16	May 16	Jun 16	Jul 16	Aug 16	Sep 16	Oct 16	Nov 16	Dec 16
OMO Annuity	2%	3%	3%	4%	5%	3%	5%	5%	6%	5%	4%	4%	5%	5%	5%	6%	4%	5%	4%	4%	4%
Full Encashment and Triviality	59%	53%	37%	36%	33%	35%	35%	30%	30%	28%	31%	32%	34%	29%	33%	35%	31%	29%	28%	28%	28%
Internal Xfer (inc to AMPP)	16%	21%	25%	23%	21%	22%	23%	23%	24%	23%	25%	27%	23%	25%	22%	21%	22%	25%	25%	23%	23%
External Xfer	22%	22%	33%	36%	39%	39%	37%	42%	39%	43%	39%	36%	38%	40%	40%	37%	43%	40%	43%	45%	45%
SL Annuity	1%	1%	1%	1%	1%	1%	1%	1%	1%	1%	1%	1%	1%	1%	0%	1%	1%	1%	1%	1%	0%

APPENDIX 10B

NPS and nEasy Scores

(I) TELEPHONE JOURNEY – DRAWDOWN

	NPS: Would you recommend SL products and services to family and friends	nEasy: How easy was it to get what you needed today
January 2016	58	62
February 2016	62	66
March 2016	41	52
April 2016	50	49
May 2016	46	54
June 2016	57	54
July 2016	58	55
August 2016	55	50
September 2016	63	64
October 2016	62	56
November 2016	61	46
December 2016	58	47

(II) TELEPHONE JOURNEY – ANNUITY PURCHASE

	NPS: Would you recommend SL products and services to family and friends	nEasy: How easy was it to get what you needed today
January 2016	75	73
February 2016	50	50
March 2016	26	20
April 2016	33	50
May 2016	43	56
June 2016	48	37
July 2016	54	50
August 2016	31	42
September 2016	60	62
October 2016	76	60
November 2016	65	49
December 2016	65	43

Source: Standard Life

Appendix 11
Transaction volumes and performance

APPENDIX 11A

Core Financial Transaction	No. Processed	No. Processed STP	No. Processed Non-STP	%Processed STP (Day 0)	%Processed through Exception/ Non STP	Average Quality Checking %[*4]
Allocate Regular Contributions[*1]	9,865,695	9,815,108	50,587	99.50%	0.50%	95.44%
Allocate Ad-hoc/Single Contributions[*1]	34,205	34,034[*2]	171[*2]	99.50%[*2]	0.50%[*2]	
Allocate Transfer of Benefits In[*3]	68,840	N/A	68,840	0.00%	100%	100%[*5]
Pay Transfer of Benefits Out[*3]	27,632	N/A	37,632	0.00%	100%	100%[*5]
Pay Benefits on Retirement[*3]	11,708	N/A N/A	11,708	0.00%	100%	99.56%
Pay Benefits on Death[*3]	1,471		1,471	0.00%	100%	92.80%
Total All Transactions	10,009,551	9,849,142	160,409	98.40%	1.60%	96.81%[*6]

Source: Standard Life

APPENDIX 11B

Core Financial Transaction	Average Quality %(Accuracy)	
	1/1/2015 to 30/9/2015	1/1/2016 to 31/12/2016
Regular Contributions	97%	95%
New Joiner & Increment Set-Up	90%	96%
Investment Changes (Non – Lifestyle)	98%	98%
Transfer of Benefits In	90%	(external) 100% (internal) 99%
Transfer of Benefits Out	99%	(external) 100% (internal) 99%
Retirement Settlement	98%	99%
Death Settlement	95%	93%

Source: Standard Life

Appendix 12
Transaction costs

APPENDIX 12.1

METHODOLOGY

The information in this report is based on the same "best endeavours" manual calculation approach for each transaction cost category included that was used in the 2015/16 report. The approach adopted differs from the proposed 'slippage cost' methodology in the FCA's consultation paper. As a result, the transaction cost information provided will need to be re-stated once a fully automated solution is available and if a different standard definition and methodology is adopted industry-wide in future.

The transaction cost figures included in this report are based on data provided by Standard Life Investments for the full 2015 calendar year and information published by Vanguard for some of their funds. Transaction costs have been manually calculated on a month-by-month basis and then aggregated to provide a total bps figure for the calendar year.

For the Vanguard funds, some of the information available has been calculated over different periods (e.g. three-year averages) and Standard Life has made some adjustments to this data to try to better align it with the methodology used for internally managed funds. As a result, the figures shown over the page for the Vanguard funds are reconcilable to, but not directly comparable with, published information on Vanguard's own web site. This is for a number of reasons. In particular, as Standard Life does not have data on the actual value of transactions arising in the Vanguard funds, broker commission costs have been calculated by assuming that the published spread costs apply to the total fund AUM so this element of the calculated values will be overstated for both the Vanguard and Passive Plus funds in the table below.

Where the funds included in the scope of this paper are "fund of funds", the costs have been calculated on a full "look through" basis by calculating the transaction cost elements for each of the underlying fund components and then rolling up the totals based on the proportionate investment in each fund. The methodology has allowed for changes in allocations between underlying funds over the course of the calendar year.

Due to the "best endeavours" nature of these calculations, they have not previously been published or shared by Standard Life.

APPENDIX 12.2

FUNDS INCLUDED IN TRANSACTION COST ANALYSIS

Fund Name	Total transaction costs calculated (bps) – 2015	Total transaction costs calculate (bps) – 2014
Standard Life Managed Pension Fund	12.10	10.40
Standard Life Active Plus I Pension Fund	14.80	18.00
Standard Life Active Plus II Pension Fund	16.00	18.80
Standard Life Active Plus III Pension Fund	17.80	20.10
Standard Life Active Plus IV Pension Fund	18.00	18.40
Standard Life Active Plus V Pension Fund	15.60	15.90
Standard Life Passive Plus I Pension Fund	17.40	16.10
Standard Life Passive Plus II Pension Fund	16.70	15.40
Standard Life Passive Plus III Pension Fund	15.90	14.60
Standard Life Passive Plus IV Pension Fund	13.30	12.20
Standard Life Passive Plus V Pension Fund	11.30	9.90
Standard Life European Equity Pension Fund	15.40	Not available
Standard Life Japanese Equity Pension Fund	5.50	Not available
Standard Life North American Equity Pension Fund	6.00	Not available
Standard Life Index Linked Bond Pension Fund	14.50	Not available
Standard Life Global Bond Pension	3.60	Not available
Standard Life UK Gilt Pension Fund	8.40	Not available
Standard Life Corporate Bond Pension Fund	15.40	Not available
Standard Life Property Pension Fund	10.80	Not available
SL Vanguard Emerging Markets Stock Index Pension Fund	9.50	Not available
SL Vanguard Investment Grade Bond Index Fund	42.00	Not available
SL Vanguard UK Short-Term Inv Grade Bond Index Pn	26.80	Not available
SL Vanguard FTSE Developed Europe ex UK Pension Fund	4.00	Not available
SL Vanguard FTSE UK All Share Index Pension Fund	5.50	Not available
SL Vanguard Pacific ExJapan Stock Index Pens Fund	11.00	Not available
SL Vanguard UK Inflation Linked Gilt Index Pension Fund	17.00	Not available
SL Vanguard UK Government Bond Index Fund	6.00	Not available
SL Vanguard Japan Stock Index Pension Fund	8.50	Not available

Appendix 13
Value 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. A review of the weightings was undertaken by the IGC in light of the relative importance of attributes expressed by customers participating in the NMG research referred to in section 3.2 of the report. While there are arguments for making changes, the IGC felt that on balance the current weightings were not inconsistent with the insights provided from the NMG research. The IGC were also conscious of the need to avoid masking a deterioration (or improvement) in one or more categories as a consequence of changing the relative weightings.

The scores under the section on Investment Quality section were informed for the first time by the outputs from the Redington methodology described elsewhere in this report.

Based on this scoring methodology, Standard Life's products were scored between 6 and 7 out of 10. These scores were then compared with the plan charges incurred by policyholders as part of the Value assessment.

In general, scores have fallen compared with the previous year's assessment largely due to the deterioration in service performance and the issues with short-term investment performance that are detailed in the report.

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 funds
	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