5.1

Annual Report

for Standard Life Workplace Personal Pensions

2017 – 2018

INDEPENDENT
GOVERNANCE COMMITTEE

Contents

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Dear Plan Policyholder

I chair Standard Life's Independent Governance Committee (IGC). We are an independent body and oversee the governance of Standard Life's Workplace personal pension plans, covering over:

2.1 million
individual policies for current and former policyholders in
31,244
employer arrangements, with total assets under management (AUM) of
£41.1 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 policyholders, and to independently review and challenge Standard Life.

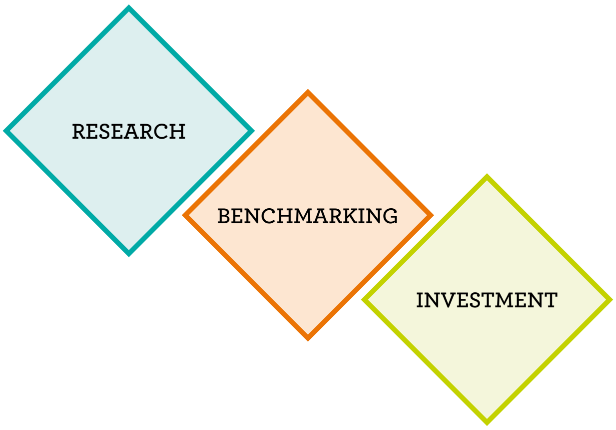
Our most important duty is to review Standard Life's products to see whether they are capable of providing policyholders with Value for Money (Vfm).

We have just produced our third Annual Report. The full report runs to 88 pages plus Appendices, so we also provide a summary report. Both of the reports are attached. They explain the work we have completed in our third year.

1. Information correct as at 31 December 2017 (source: Standard Life)

In addition to our ongoing monitoring of the VfM provided by Standard Life, we have carried out three significant pieces of new work, which we cover in these reports.

The first was research to follow up last year's syndicated work conducted by NMG a well known market research group. Three IGCs and their providers retained NMG to carry out further work on how best to engage with you and your employers to increase the likelihood that you will gain as much benefit as possible from your pension policy. The IGC is pleased to see that some of the insights from this research are already being incorporated into the websites and communications which will be delivered to you in 2018.



The second was a benchmarking exercise conducted on behalf of a syndicate of seven providers and their IGCs to assess relative performance across a wide range of investment and non-investment measures. The first year's draft results were received shortly before this report was finalised and our preliminary review has raised some concerns as to the consistency of data provided by different providers. Notwithstanding these concerns, the report has been useful in helping the IGC prioritise its discussions with Standard Life. Your IGC will pursue these areas and encourage Standard Life to make further improvements in 2018. We hope this exercise will be repeated in following years.

The third was a new analysis of the 174 funds and 179 Default Strategies, made available by Standard Life. It built on the process described in our last report, amended to reflect changes in the design of modern Default Strategies.

This report also sets out how we assessed VfM, and incorporated the results of these pieces of work into our assessment of whether or not Standard Life's pensions policies provide VfM.

As widely reported in the press, Standard Life merged with Aberdeen Asset Management on 14 August 2017, making it one of the world's largest investment companies. Standard Life Aberdeen plc is both a FTSE 100 and Fortune Global 500 company.

While there is a significant amount of work to integrate the two companies, the IGC believes this is largely a function of bringing together the two asset management businesses, Aberdeen Asset Management and Standard Life Investments. The savings business, which administers the workplace pensions within the IGC's remit, was largely unaffected by the merger with Aberdeen Asset Management and is still under the Standard Life brand.

The IGC will continue to monitor progress of the integration work as part of its regular meeting agendas with the company.

As this report was being finalised, Standard Life announced the proposed sale of its insurance company to Phoenix Life. As part of this deal Standard Life would become a 19.99% shareholder in Phoenix. The Workplace pensions which the IGC oversees are part of the insurance business being sold, although the proposal is that Standard Life will maintain its brand, distribution and marketing oversight for all its Workplace pension customers. In addition, Phoenix has committed to maintaining the administration functions in Edinburgh.

The overall proposal is subject to regulatory and other approvals but the intent is that it will complete in the second half of 2018. The IGC intends to maintain its planned activities for 2018/19 pending the outcome of this transaction and expects to report to you on those activities in 2019.

If you are unsure of which type of pension plan you have with Standard Life (and therefore how you are affected by the work of the IGC) please refer to your plan documentation, or phone Standard Life on 0345 266 5833.

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.

https://www.standardlife.co.uk/c1/independent-governance-committee.page

Thank you for reading this report.

Rene Poisson
IGC Chair

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Policyholder's 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 Independent Governance Committee (IGC). The objective was to achieve better Value for Money (VfM) for Workplace contract pension savers after an earlier Office of Fair Trading review had decided market competition was not working well enough.

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 VfM; and, where we think they do not, challenge Standard Life. Our authority for this is set out in a Terms of Reference document, based on the FCA's rules (see **Appendix 3 of the main report**).

If we are not satisfied with Standard Life's products, proposals or their response to concerns we raise, we are authorised to escalate those matters to the Standard Life Board; 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 27th March 2018, the IGC met on nine separate occasions.

2. Who are we?

Standard Life's Independent Governance Committee (IGC) has five members. Four are independent of Standard Life, and were appointed after an open market search, using a market-leading recruitment firm. Once appointed as Chair, I was involved in reviewing a long list of candidates and interviewing prospective independent members. In selecting prospective candidates, my objective was to identify a wide range of relevant knowledge and experience as well as a demonstrated ability to provide robust challenge both to Standard Life and other members of the IGC. We interviewed candidates with actuarial, operational, investment, governance, consumer advocacy, legal and pensions expertise. While it was not possible to include all these skills within such a small committee,

I am satisfied that the IGC, as formed, brings a wide range of relevant knowledge and understanding to its work.

The fifth member is employed by Standard Life. He 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 did we do in our first two years

3.1 POLICY CHARGES

The IGC has focused on the charges paid by you on your pension savings. When we commenced our work, of the 1,300,000 policies we examined, 266,684 or 20.51% paid policy charges in excess of 1% for a variety of reasons[2].

As a result of our discussions with Standard Life, those of you paying charges of over 1% per year (and in some cases in excess of 3%) had the charges you paid reduced to a maximum of 1% unless you reconfirmed your decision to pay a financial adviser for advice as part of your charges.

At the end of 2016, out of 1,995,338 active and deferred members, 45,227 of you were paying charges in excess of 1% because you had selected a more expensive fund option. Standard Life wrote to you in October 2016 and again in August 2017, prompting you to reconsider whether those options remained the right choice for you.

As at the end of 2017, of the 2,150,598[3] of you paying charges as active or deferred policyholders, 57,715 or 2.68% paid in excess of 1%. 57,387 of you pay over 1% because you have chosen more expensive funds; a further 152 of you pay over 1% because you have chosen to pay for advice from an IFA; and 176 of you pay over 1% because of your decision to pay both for financial advice and more expensive investment options.

3.2 EXIT CHARGES

When the IGC began its work in 2015, Standard Life had some 2.6 million pension policies (of which 1.3 million were within scope for the IGC). Some 17,000 policies (1,201 within scope for the IGC) were potentially subject to exit charges in excess of 5%[4] of the value of the fund.

As a result of our discussions with Standard Life, charges for all 17,000 policies were capped at 5% from 13 January 2016 and subsequently reduced to 1% as at 15 February 2017.

3.3 DEFAULT STRATEGY EVALUATION AND DESIGN

The IGC, with the help of its advisers at Redington, developed a methodology for assessing the effectiveness and value of the 179 Standard Life and employer-developed lifestyle strategies and the 174 investment funds used in the construction of those strategies.

As a result of that work and our discussions with Standard Life during 2015 and 2016, a small number of employer bespoke strategies have been closed. More importantly, Standard Life agreed with the IGC's concern that the majority of employer-designed strategies were no longer appropriate because few policyholders purchased annuities. As a result, during 2017 most of those strategies were reconstructed to better reflect policyholders' decisions. The impact is set out in 4.2.1 below.

Total number of policyholders – **2,150.598**

Total number of policyholders paying over 1% – **57,715**

2. As at 31.12.15 – source Standard Life
3. As of 31.12.17 – source Standard Life
4. As at 31.12.15 – source Standard Life

3.4 SERVICE AND ACCESSIBILITY

The IGC has spent considerable time reviewing the service you receive from Standard Life across the full range of transactions you might need to make; as well as considering how easy and convenient it is for you to interact with Standard Life by way of phone, mail or internet. While we believe the service as a whole is robust and delivers well, we have discussed with Standard Life a number of concerns which are set out in our previous reports. These include the 9am-5pm opening hours for telephone access, the ease of access to digital transactions, the range of these, and the speed of transaction processing where that is not an automated straight through transaction.

This has resulted in Standard Life agreeing a number of improvements to the service. Some were implemented in 2017, while others are scheduled for later in 2018/19 (see below).

4. What have we done in 2017/18

4.1 YOUR COSTS

In our last report, we told you that the audit of the Charge Cap process (which we had asked for) had identified some flaws. These could lead to minor overcharging on contributions in the first month of a new policy. During 2017, adjustments were made to over 90% of the policies which had been overcharged. The remainder (which require adjustments of less than £1.00) will be adjusted next year, after a new system is introduced that will allow changes to be made in an automated and cost-effective manner.

The IGC also requested a review of the mechanism used to cap exit charges (see above). A sample of the total population found a small number of plans for which the mechanism had failed to properly apply the reduced charges. We have challenged Standard Life to review all plans to ensure the reduction in exit charges is applied, in accordance with Standard Life policies and have been assured that this will take place during 2018.

The IGC has again sought to review the transaction costs taken within the investment funds used in your policies. We have received costs calculated in accordance with the requirements set out by the FCA. However, the FCA methodology will not produce full cost information prior to January 2019. We have requested and received 'compliant' figures only. These costs are shown in **Appendix 12** of the main report. We expect to be able to benchmark these costs once all pension providers can publish on a consistent basis using the FCA methodology.

4.2 YOUR INVESTMENTS

During 2017, many IGC initiatives of the last two years have resulted in substantive changes to the investments used for your policies.

4.2.1 765,000 of you are invested in older style strategies which assume you will purchase an annuity at retirement. Standard Life has amended the investments used in the last 10 years of the policy to make the strategy more suitable for those choosing cash or drawdown at retirement. This will immediately benefit 65,000 of you with £600 million invested who are within 10 years of retirement and a further 700,000 (£14.2bn AUM) who are currently more than 10 years from retirement.

The IGC also asked Standard Life to write to employers who had specified a Default Strategy targeting an annuity. 59 employers have agreed to change their default to a Standard Life core profile. As a result of these changes, a further 34,300 policyholders are invested in a more modern default strategy.

During 2018, Standard Life expects to modify 135,000 further policies pursuant to scheme rule changes.

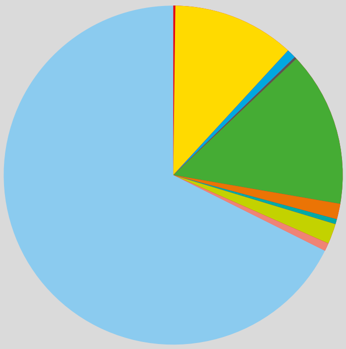
4.2.2 Last year, as part of testing the investment strategies available to you, the IGC identified two strategies which in our view did not provide their investors with VfM. One has now been closed and its policyholders transferred to a new strategy; the second has closed to new members and will be modified to improve the VfM, subject to the scheme rule changes expected in 2018.

In our last report we identified eight Default Strategies chosen by 53 employers that used a single fund. We concluded that these did not provide VfM. During 2017 Standard Life has engaged with the relevant employers and their advisers to seek their support for change. It expects to write to those invested in these strategies during the first half of 2018 to offer you the opportunity to move to a more appropriate investment design.

Last year we told you that "The short-term performance of the growth component of Standard Life's risk-based strategies had suffered" and that the IGC would "continue to monitor performance during 2017". This year the IGC has expanded the way in which we test the investment strategies available to you. We also review current investment performance every quarter for the 10 core funds and the next 30 largest funds by AUM (representing 68% of the value of all policies within the scope of the IGC).

Short-term performance has improved over the last year, and we are satisfied that other than in respect of the issues highlighted above, the Default Investment Strategies available to policyholders have been designed in your interests and provide VfM.

Top IGC insured funds by Workplace AUM, excluding With Profits and Bespoke Trust Based Funds



- Standard Life Active Plus II Pension Fund – £34m (AUM)
- Standard Life Active Plus III Pension Fund – £1,952m (AUM)
- Standard Life Active Plus IV Pension Fund – £149m (AUM)
- Standard Life Passive Plus II Pension Fund – £35m (AUM)
- Standard Life Passive Plus III Pension Fund – £2,476m (AUM)
- Standard Life Passive Plus IV Pension Fund – £247m (AUM)
- Standard Life MyFolio Managed II Pension Fund – £81m (AUM)
- Standard Life MyFolio Managed III Pension Fund – £324m (AUM)
- Standard Life Managed IV Pension Fund – £127m (AUM)
- Standard Life Managed Pension Fund – £11,335m (AUM)

4.2.3 During 2017 I met with Share Action, Client Earth and a small number of Standard Life policyholders to discuss the approach to Environmental Social and Governance issues (ESG). The IGC is pleased to note their recognition of the overall quality of our 2016/17 report (https://shareaction.org/wp-content/uploads/2018/02/PolicyReport-IGCRankingFINAL.pdf). A detailed note of the areas discussed can be found at **Appendix 14 of the main report**. While responsibility for ESG is primarily that of Standard Life and the managers to whom they delegate investment decisions, the IGC would be happy to hear your views.

You can email us from the IGC web page at https://www.standardlife.co.uk/c1/independent-governance-committee.page

5. Your service from Standard Life

5.1 SERVICE TIMELINESS AND ACCURACY

In our last report we highlighted a significant decline in the speed of completing transactions which could not be managed by straight through processing. Standard Life highlighted a number of contributory factors including volumes after the EU referendum vote, new recruitment and training and, in particular, unforeseen problems introducing new systems. Standard Life told us that *"We are confident that the steps we have taken will improve our position."*

Standard Life has also introduced a new approach to testing the accuracy of transactions. This does not enable the IGC to compare 2017 results with those for 2015 and 2016, but we have received assurance from Standard Life that they *"don't believe service accuracy has reduced when comparing 2017 to 2016."*

The IGC has closely monitored developments over the last 12 months and is satisfied that the steps previously taken together with further process improvements during 2017 have significantly improved transaction timeliness.

We expect that improvement to continue into 2018, and will continue to keep timeliness and accuracy under review.

5.2 OPERATING HOURS AND CONTACT CHANNELS

In our last two reports we have challenged Standard Life to improve your ability to deal with them at a time and in a way that suits your needs. As a result, a number of improvements have been agreed and are being introduced. In particular, improvements have been made to enable you to access the website more easily; secure messaging is being introduced to allow you to ask for what you require at any time, with a 24-hour turnaround for a response; and, telephone access hours will be extended from 9am-5pm to 8am-6pm, allowing contact outside of normal office hours for those of you unable to contact Standard Life while at work.

6. Your preferences

Last year, together with other providers of similar pension products, we retained NMG, a well known research organisation, to help us understand how Standard Life could best engage with you to help you get the most out of your pension policy. This year, a smaller group asked NMG to carry out further work. The results, together with those of a large study conducted by Standard Life that covered 3,000 pension policyholders, are being used to improve your plans.

These improvements include:

a new on-line customer dashboard that is easier to access, is pre-populated with your data and allows you to find the information you need more easily;

a redesigned and easier to understand short form annual benefit statement (to be rolled out over 2018/19);

a revised mobile app and improved tools to help you understand the impact of increasing contributions;

new retirement sections with calculators and guidance to help you understand your options.

The IGC is engaging with Standard Life to agree how to test whether these developments are being used and are benefiting you as policyholders.

7. Other matters

The issues of data security and the protection of personal information have grown in importance over the last few years. The IGC has received in-depth presentations from Standard Life's Chief Information Security Officer (CISO) and from the team ensuring that Standard Life will be compliant with the new General Data Protection Regulation (GDPR) applying from 25 May 2018.

The IGC has received assurances that all necessary resources are available to the CISO and the GDPR teams to discharge their responsibilities.

8. Looking forward

During 2018/19, the IGC will be continuing its work monitoring the everyday investment and operational components of your pension policies. We intend to develop our scope, and look at the introduction of the new system capabilities of the Pension Transformation Project. This will deliver many of the elements of more modern pension policies to those continuing in older products.

We have confirmation from Standard Life that they will support the IGC in holding a meeting for policyholders during 2018. Details of the meeting and how to register to attend will be posted on the IGC website and publicised more generally once available.

9. Our conclusions

The IGC notes that the challenges Standard Life faced in 2016 have been largely addressed and that recent performance shows marked improvement.

The IGC has concluded overall that Standard Life's various Workplace Personal Pension products continue to offer policyholders VfM; are of good quality; benefit from well-designed investment solutions; have good administration and governance; and have comprehensive policyholder support and communications materials, which continue to evolve to deliver a better service to policyholders.

IGC
27 March 2018

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Main Report

1. Introduction

This is the third 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 year has seen the IGC's work evolve. In our first two years we were substantially focused on legacy charges, investment and the development of a methodology for assessing Value for Money (VfM) based on the provisions of COBS 19.5. This year we have begun to build on those foundations, and consider in more detail the holistic VfM provided to a policyholder. This encompasses everything from the accessibility of the provider (whether digitally, by phone, mobile or other technology) the clarity of communications, the quality of support, the experience delivered to policyholders and the value added components of the bundled offerings.

This report covers the period 27 March 2017 to 27 March 2018.

2. Actions arising from the 2017 report

2.1 FURTHER ACTIONS ARISING FROM THE LEGACY AUDIT REVIEW

In our second Annual Report, we provided an analysis of those policyholders paying charges in excess of 1% prior to the actions agreed with Standard Life as part of the Legacy Audit, and of the 51,432 policyholders who by reason of their choice of fund or commission would continue to pay in excess of 1% after those actions were completed.

The report also set out how that number had been affected by the communications sent out by Standard Life. While that showed that only 330 policyholders would voluntarily continue to pay higher commission, some 45,227 policyholders had continued to invest in higher charge funds despite receiving the communications.

The IGC asked Standard Life to conduct a second mailing to all policyholders invested in higher charge funds to seek to ensure that in doing so they were making an informed choice to remain in those funds. Those mailings were conducted in the third quarter of 2017; at 31 December 2017, 57,715 policyholders were invested in higher charge funds..

While the IGC cannot be certain that those remaining in higher charge funds have actively chosen to do so, it considers that little benefit would be realised from a further round of correspondence.

In respect of those who have elected to invest in higher charge funds since last year, the IGC understands that they will have made an individual choice to do so and cannot be automatically enrolled into those funds.

2.2 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." The IGC continued to press Standard Life for a response to this challenge and in 2016 were advised that:

"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."

Trials were run to test extending both the telephone and web chat services available beyond the existing 9am-5pm time slots.

Standard Life has agreed to extend the telephone service opening hours from 8am to 6pm, and expects this to go live at the end of March 2018. On reviewing the results from the trial period, Standard Life has decided to maintain the current opening hours for web chat of 9am to 5pm, pending the introduction of further improvements to the web chat proposition later in 2018.

During 2017, Standard Life introduced an improved "secure messaging" service that allows policyholders to contact Standard Life at a time and place that suits them, either through their Smartphone (via the SL App) or online through the Customer Dashboard.

This service was piloted for Workplace policyholders with five Trust-based schemes covering 48,660 members and four Contract-based schemes covering 20,504 policyholders in early 2018. Standard Life plans to roll the secure message service out to all Workplace schemes during Q1 and Q2 2018.

This will be supported by a suite of communications including microsites and individual policyholder mailings to raise awareness and encourage adoption of these enhanced ways to interact with Standard Life.

IGC COMMENT:

These changes will provide alternative channels and extended hours, making it more convenient for over two million Workplace customers to contact Standard Life, transact or access their pension savings. The IGC will review the impact of these changes and consider further challenge regarding extension of access to help policyholders engage with their pension policies.

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2.3 CHALLENGES ARISING FROM OUR REVIEW OF INVESTMENT OFFERINGS

2.3.1 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. In our second report we outlined both some specific exercises undertaken by Standard Life, as well as two more widely applicable strategies that were under consideration: changes to the Annuity Fund and changes to Scheme rules.

The IGC is pleased to note that Standard Life has made significant progress in addressing our concerns.

2.3.1a) The restructure of the Annuity Purchase Fund described in our last report was approved and actioned in December 2017. The fund is used in the glide-path of some 610 lifestyle profiles. The restructure moves the fund to a Universal rather than Annuity end point, better reflecting policyholder behaviour since pension freedoms were introduced. This will better match these profiles to demonstrated policyholder behaviours and immediately affects some 65,000 savers with about £600 million invested in the fund. The changes will eventually benefit a further 700,000 current policyholders with more than 10 years to retirement.

The restructure, which covered Contract and Trust-based Workplace pensions, required a complex communications exercise with 5,438 employers, 484 trustee bodies and 16,146 self-select customers. A further 58,730 customers received communications explaining the changes and what steps they should take if they wished to continue to target annuity purchase.

2.3.1b) During 2017, Standard Life progressed consideration of scheme rule amendments to provide the legal power to review and change profiles. Progress on this was delayed by the work on the Annuity Purchase Fund. External legal advice is now being sought and, subject to a successful conclusion of the required internal governance procedures in H1 2018, Standard Life expects to be able to modify the five sets of Scheme rules over the course of 2018.

2.3.1c) During early 2017, Standard Life wrote to 59 employers whose unadvised Qualifying Workplace Pension Schemes (QWPS) targeted annuity purchase, and where remedial action had yet to be agreed. From May 2017, the Default Strategy for all new policyholders of those schemes was changed to the Active Plus III Universal profile. As a result, as at 31 December 2017, 2,300 new policyholders (£1.5 million AUM) are invested in the new profile.

Existing policyholders (32,000 policyholders (£352 million AUM)) were also converted to a Universal profile as part of the Annuity Purchase Fund restructure in December 2017.

2.3.2 ISSUES ON TWO SPECIFIC EMPLOYER OFFERINGS

Our 2017 report noted that in relation to two employer bespoke Default Strategies, we had asked Standard Life "to discuss with the relevant employer/Employee Benefit Consultant (EBC) whether some modifications to the strategy should be considered" given our concern as to whether these strategies provided VfM for the relevant policyholders.

The first employer has now closed the strategy of concern, moved the scheme default to a core Standard Life product and transferred the existing 153 policyholders (£3.3m AUM) to the new Default Strategy.

The second employer has moved to a QWPS with a different provider, leaving 127 policyholders with £3.1m AUM in the strategy. Subject to the completion of the Scheme rule changes discussed above, Standard Life will move these policyholders to a core Standard Life Default Strategy.

2.3.3 SINGLE FUND STRATEGIES – SPECIFIC AND QUASI DEFAULTS

In 2017, the IGC noted its concern that eight Default Strategies invested in a single fund through the life of the plan did not provide VfM due to the lack of any form of lifestyle profile. The IGC asked Standard Life to write to the relevant employers/EBCs to raise these concerns.

The IGC subsequently agreed to Standard Life's request to delay the single fund communication exercise until later in 2017, due to the need to focus on the higher priority Annuity Purchase Fund restructure described above.

Standard Life intends to write to all scheme policyholders in relation to their single fund investment in the first half of 2018. To prepare for this, Standard Life wrote to the 53 employers who have selected one of the eight "single fund" strategies for their Workplace scheme in December 2017. The objective was to ensure that the employer was aware of the situation and to engage them prior to direct contact being made with their current or former employees. To support this exercise, proactive outbound calls were made to the 43 of the 53 employers who are currently making contributions to a Workplace scheme with Standard Life. This includes a subset of 27 employers who have selected Standard Life as the provider of their QWPS scheme (2,300 policyholders and £59 million AUM).

To date there has been successful engagement with 31 employers out of the 53. Standard Life will actively work with employers where they request Standard Life to progress a specific solution for their policyholders or alternatively will write to prompt policyholders about their single fund investment and the availability of their scheme's current default.

Below are examples of the interactions that Standard Life has had with employers:

- Employer P – The default for new policyholders has been changed to the Standard Life Active Plus III Universal Strategic Lifestyle Profile. For existing policyholders, the adviser to the scheme has confirmed the ongoing suitability of the single fund strategy. As the asset mix of the new default for this scheme is similar to the asset mix of the single fund, and the adviser of this scheme is also available to provide advice to individual policyholders, Standard Life has proposed that no further action is taken for this scheme. The IGC accepts this view.
- Employers Z and S – these schemes use the Standard Life Managed Fund and the Standard Life MyFolio Managed III Fund as their auto-enrolment defaults respectively. Standard Life has written to these employers to ask them if they wish to review the default investment for their scheme. As at 29 January 2018, the adviser to Employer Z had confirmed to Standard Life that he was supportive of making a change to the QWPS default and was preparing his advice recommendation for discussion with the employer. In contrast, Employer S had yet to respond to Standard Life's communication.

Where an active scheme has a single fund quasi default (16 schemes, 520 policyholders and circa £9 million AUM), or the scheme is no longer active and is paid-up (ten schemes, 300 policyholders and circa £8 million AUM), Standard Life is proposing to make Direct Offers to policyholders.

Where the scheme is being used for auto-enrolment purposes (i.e. for the 27 employers mentioned above), the Direct Offer will be to switch the policyholders' funds into the scheme default. Where the scheme is not being used for auto-enrolment, Standard Life is proposing to offer Standard Life Active Plus III Universal Strategic Lifestyle Profile as an alternative option. These Direct Offer proposals are currently going through Standard Life's internal approval processes. Once approved, communications will be issued initially to employers and then affected policyholders during H1 2018.

Standard Life has agreed to provide the IGC with regular progress updates, including the responses from policyholders on receipt of these mailings.

2.3.4 INVESTMENT PERFORMANCE

In our 2017 report, the IGC noted the poorer investment performance exhibited by the core Standard Life offerings during 2016, and commented that if that performance were to continue, it might have a detrimental impact on the IGC's assessment of VfM.

This year we have developed a quarterly investment performance monitoring process to supplement the RAG and FAR processes described in our previous reports and operated by the Standard Life governance team. While those processes have a performance element, they do not distinguish between out-performance and under-performance as long as the performance falls within the expected range for each strategy.

The enhanced monitoring process provides this distinction by adding relative performance flags to the regular quarterly reporting on the 10 core funds and the next 30 largest funds by AuM . This allows closer monitoring of developments in between the annual Redington VfM reviews.

Relative three-year annualised performance ranges (by strategy), which align with Redington's annual performance scores, have been mapped to quarterly ratings. These are calculated and reported for the most recent four quarters, along with three-year fund volatility and that of benchmark comparators. Any funds that flag Amber or Red are then further investigated for underlying causes by the governance team and the results reported to the IGC.

Performance has improved during the last 12 months; the core offerings used for default savings (Active Plus III and Passive Plus III) have performed in line with what would be expected (see **Appendix 5(a)**).

Comparison of the Standard Life offerings with those of other large providers is difficult because of the very different nature of the offerings. Standard Life is unusual in targeting performance at given risk levels to deliver a smoother investment experience to policyholders rather than targeting return in and of itself.

Thus, over the last few years, in a period of exuberant stock market returns and very low volatility, Standard Life's absolute returns have compared unfavourably with the default funds of many of their major competitors. However, if one analyses those same competitors' funds using industry standard measures of return for given levels of risk (Sharpe and Sortino), Standard Life's core default funds can be seen to perform well (See **Appendices 6(a) and 6(b)**).

Our review of the Standard Life Core Default offerings has caused us to ask four questions:

- Is a risk-based objective appropriate as a VfM Default Strategy?
- Is the way in which Standard Life implements risk-based objectives appropriate?
- If yes, do the current offerings target the right level of risk to optimise VfM?
- If no, how should the strategies be modified to improve the VfM delivered to policyholders?

IS A RISK-BASED OBJECTIVE APPROPRIATE AS A VFM DEFAULT STRATEGY?

Traditional Default Strategies have tended to be designed with a long growth phase emphasizing equity assets, followed by a glide-path over a decade or more de-risking to an annuity endpoint. In many cases these were funded on either a low or non-contributory basis. With the advent of auto-enrolment, pension freedoms and the requirement for higher contributions by savers, these designs have become less appropriate, as discussed in our previous Annual Reports.

While savers have significant risk-taking capacity in the early years of their savings journey, there is a wealth of independent research suggesting that individuals are risk averse and likely to be unduly affected by short-term experience and cognitive biases. This research is supported both by Standard Life's analysis of the behaviour of its customers and by Nest's research[5] which underpinned the design of its Default Strategy and the use of a low-risk Foundation stage.

It is clear that if auto-enrolled savers are to achieve meaningful outcomes, contribution rates well in excess of auto-enrolment minimums will be needed. Therefore, strategies which reduce the propensity to disengage in periods of market instability can add value.

The IGC concludes that the use of risk-based objectives in Default Strategy construction is reasonable, well supported by a broad range of academic and practical research and capable of retaining savers' engagement in periods of market turbulence.

IS THE WAY STANDARD LIFE IMPLEMENTS RISK-BASED STRATEGIES APPROPRIATE?

Standard Life implements its risk-based strategies using broadly diversified portfolios that incorporate different proportions of managed volatility products as part of the investment basket for each of the Active and Passive Plus risk-based strategies. For risk level 3, the most commonly selected default portfolio, some 14% of the portfolio is currently made up of such strategies.

Volatility management can be delivered in a number of ways. Historically, portfolios used an equity bond mix; more recently, managers have developed a plethora of multi-asset funds utilising varying strategies for blending assets to deliver a less correlated set of risks. However, experience suggests that in severe downturns such as 2008 the correlation between some traditional assets often found in defaults has been higher than expected and diversification benefits have not been realised.

To address this risk, Standard Life has chosen to deliver risk diversification by accessing return sources outside traditional asset classes, and seeks returns from interest rate, currency, inflation, volatility and relative-value positions in addition to broad asset diversification. The objective is both to lessen correlation with the traditional asset classes used and to potentially access positive returns in periods of falling markets. Standard Life acknowledges that there is a higher cost to this approach.

The IGC notes that while many of the components of the current strategies have been available for some time, the My Folio strategies have only been offered since October 2010 and the Active and Passive Plus strategies since March 2012.

5 "Default Fund Suitability" – Investit [November 2011]

These strategies have therefore not been tested through a period of significant market decline. However, if we extrapolate the performance of the components through a number of market events, including the 2008 crisis, this does appear to be a credible approach to delivering effective volatility reduction in downturns. (See **Appendix 5b**.)

DO THE CURRENT OFFERINGS TARGET AN APPROPRIATE LEVEL OF RISK TO OPTIMISE VFM?

The IGC understands both the intellectual argument for Standard Life's approach to Default Strategy construction and the way in which it is implemented in practice. In the IGC's view, the actual and the opportunity costs inherent in this approach make it important that the right levels of risk targeting are chosen to capture adequate upside returns and minimise the costs of the approach, both in the early periods of the policyholder's engagement and in later periods when investment returns (both positive and negative) have the greatest impact. This also needs consideration when drawdown is the chosen method for decumulation and investment returns will remain important for a significant period post formal retirement.

While the IGC has no reason to challenge the current strategy construction, we consider that this area is worthy of further analysis and that it is arguable that the levels of risk targeted by the Default Strategies could be further refined to improve VfM.

COULD THE RISK TARGETING BE ADJUSTED TO IMPROVE THE VFM DELIVERED TO POLICYHOLDERS?

The IGC is conscious that any change needs to be carefully considered, especially given the prolonged bull market we have experienced, the possibility of less favourable market conditions to come and the impact on policyholders' engagement if downside risk materialises.

This issue is further complicated by the simultaneous impact on policyholders of the rise in auto-enrolment contributions in 2018.

The IGC has challenged Standard Life to consider whether the structure and objectives of the current offerings might be improved, and intends to engage further with Standard Life in 2018/19.

2.4 DEVELOPMENTS TO WITH PROFITS DOCUMENTATION

In our first Annual Report, the IGC raised a concern that the With Profits documentation was too complex for policyholders to understand. We recognised that the With Profits Committee have primary responsibility for the With Profits offerings, but challenged Standard Life to review and revise the documents to make them more understandable.

During 2017 the documents were redesigned by Standard Life, with advice from the With Profits Committee, to produce a guide which explains how unitised With Profits operate with links to a fuller technical document and video.

The document was customer tested as part of its development, and the IGC was able to review and provide comments. It will be published in Q2 2018.

2.5 REVIEW OF SERVICE LEVELS AND TARGET TURNAROUND LEVELS

In our second Annual Report, the IGC identified a significant deterioration in the timeliness of reported service levels for those transactions which could not be completed on a Straight Through Processing (STP) basis. These transactions only constituted some 1.6% of total transaction volumes.

The IGC also challenged the appropriateness of a single service level target of completing 90% of non-STP transactions and enquiries within a ten-day period, given the very different activities and the different level of third party involvement in those transactions.

A number of reasons had been identified for the deterioration in 2016/17 of non-STP service levels, including increased policyholder activity following pension freedoms and the EU Referendum. The most significant, however, appeared to be multiple technical problems following the introduction of a new workflow system.

During 2017, the IGC has noted a considerable improvement in turnaround times as the technical problems have been resolved; as Standard Life has introduced some process changes in how a number of these activities such as bereavements are handled; and as enhanced management oversight of work queues, work flows and associated service level agreements take effect. The impact of these actions can be found at **Appendix 11**.

IGC COMMENT

It is pleasing to note that Standard Life has resolved the teething problems of the new workflow system and that the benefits of that system are beginning to flow through in an improved service to customers.

During 2017/18, the IGC has benefited from the attendance of senior management at each quarterly meeting at which operational metrics are reviewed, as well as from management information that has further evolved to assist with our review of progress.

Looking to the future, the IGC will now receive more granular reporting of individual types of transaction and timelines, and will continue to challenge management to further improve the customer experience.

2.6 REVIEW OF THE CHARGE CAP MECHANISM

In our 2017 report, the IGC reported that our requested audit of the charge cap process had identified a process flaw that could result in minor overcharging on a new policyholder's first monthly contribution. This issue was reported to the FCA. The flaw was corrected in September 2016 for all policyholders joining after that date. There were 359,588 policyholders who required remediation. Most could be automatically processed but 114,077 required a manual process. There remain 35,799 policyholders where the amounts potentially due are less than £1.00 and the costs of manual remediation are some £200.00 per case. The IGC has accepted Standard Life's proposal that these last cases should be addressed when the Pensions Transformation Programme (described in Section 4.4) delivers new systems capabilities allowing a more automated solution beginning in 2019.

2.7 REVIEW OF THE IMPLEMENTATION OF THE EXIT CHARGES CAP

Following our agreement with Standard Life that exit charges would be capped from February 2017, Standard Life agreed that its internal audit team would review the implementation of the process changes to ensure compliance.

The audit team also extracted and analysed a sub-population of 161 terminated plans, of which three plans had exit charges greater than 1% (1.04%, 1.08% and 1.72%, to be precise) with no manual adjustment applied.

Work is underway to remediate the latter two plans and put customers in the position they should have been in had the cap been correctly applied at 1%. The sum of money involved in relation to the customer with the 1.04% charge was less than Standard Life's policy minimum for remediation (£10), and no further action was taken.

As a consequence of these audit findings, management has taken action to improve processes and controls for applying the cap to early exit charges. Customer Operations will monitor the effectiveness of these improvements over the course of H1 2018, and will report on the performance of the processes and controls as part of their control self-assessment.

The IGC remains concerned that there may be a number of policyholders whose plans were not part of the sampling exercise and who may have incurred exit charges in excess of the 1% cap. The IGC has therefore requested that a review be undertaken during 2018 of all plans not included within the scope of the original audit and remediation made where necessary. Standard Life has agreed to do this.

2.8 REVIEW OF LEGACY SCHEME 1% CHARGE CAP

In our first Annual Report, we reported on our agreement with Standard Life that by November 2016 no legacy pension customer would pay in excess of 1% per annum unless either; (i) they selected higher price fund offerings, or (ii) they specifically agreed to pay commission to their adviser (see 2.1 above).

System changes to implement this change were made but it was subsequently discovered that as a result of incorrect coding, there was the possibility that an incorrect adjustment had been applied to policies between 24 August and 23 September 2016. Corrected code was subsequently applied that ensured the November deadline was met.

Policies with charges processed between 24 and 26 August and policies which terminated between 24 August and 23 September 2016 may have received an incorrect adjustment. Standard Life's usual process is to remediate all customer policies using an automated process, and where this cannot be done, apply manual adjustments for those affected by more than £10. In this instance, it reduced this limit from £10 to £1, and the 18,284 customer policies affected by £1 or more were remediated.

2.9 LEGACY SCHEMES

As outlined in both our prior reports, Standard Life provided an opportunity for all employers who had not reached their staging date for auto-enrolment by 6 April 2015 to upgrade their legacy schemes to a modern QWPS-compliant scheme benefiting legacy assets as well as future contributions.

Despite strenuous efforts to engage with employers including paper mailings, emails and online messaging, over 4,000 employers have not responded at all. A further 2,131 have confirmed their staging date and some have asked for a quote for a QWPS-compliant scheme, but none have advised Standard Life of their proposed course of action.

All employers reached their staging date by 1 February 2018. Standard Life will cease to offer the upgrade option by 30 June 2018. If there was no further change to the position as at 29 January 2018 this would result in 17,981 legacy schemes, 347,381 policyholders and £9.35 billion of assets remaining in paid up legacy offerings with charges capped at 1% as agreed with Standard Life.

Once the final position is clear, the IGC intends to discuss with Standard Life what alternative options could be made available to policyholders in such legacy arrangements.

3. New IGC activities during 2017/18

3.1 FURTHER CUSTOMER ENGAGEMENT RESEARCH

In our 2017 report, we detailed research done by a group of Providers and their IGC's which was conducted by NMG. We noted that the research "underlined the lack of understanding amongst policyholders and the VfM that they gained from even quite limited amounts of well presented information."

The IGC also challenged Standard Life to demonstrate how it will encourage policyholder engagement.
We asked three "exam" questions:

(i) What do policyholders need to stimulate engagement?
(ii) What is the best way to deliver this requirement and how does it change over the policyholder journey?
(iii) How will Standard Life test the outcomes of actions taken and any consequential increase in policyholder engagement?

Two major pieces of new work have been undertaken this year.

3.2 STANDARD LIFE'S RESPONSE TO THE CHALLENGE OF POLICYHOLDER ENGAGEMENT

Standard Life has reorganised its approach: it has consolidated the insight and research team with the marketing team, and made research a key part of the planning development and delivery process.

In response to our first question, as well as supporting the NMG research and extending its scope on a bespoke basis, Standard Life commissioned a large-scale quantitative study in August 2017. The study was designed to explore policyholders' attitudes towards (and their understanding of) a range of factors during the retirement savings journey and into retirement itself. The sample comprised 3,000 pension savers, of whom 1,000 were customers of Standard Life. The sample covered a range of ages, household incomes and pension pot sizes.

5.1

The main findings of the research were as follows:

- Around 15% of pension savers do not know who their pension provider is. There is a strong correlation between not knowing one's provider and savers' knowledge of pensions and the choices that are available to them to improve their retirement outcomes.
- Peace of mind and fear of not having enough money in retirement is a stronger motivator for saving into a pension than either the favourable tax treatment or the boost from employer contributions.
- Uncertainty about what the future holds is a barrier to active planning – for all savers other than those close to retirement.
- Contributions are more often driven by what is perceived by savers as affordable or what their employer suggests rather than what will be sufficient to provide an adequate income in retirement. This is particularly so for younger savers and those who are automatically enrolled into a Workplace scheme.
- An engaging annual statement is essential in communicating with policyholders – approximately 80% of those surveyed recalled receiving an annual statement compared with just 47% who recalled receiving an initial welcome pack.
- Pension savers do not see their provider as the key source of information and guidance. Around half of those surveyed claimed they would seek financial advice if they needed help. [See figure below].
- These findings are consistent with those identified by NMG referred to previously.

The research identified known barriers such as perceived complexity, lack of ownership (the pension comes as part of the employment package), constant changes by Government and negative press (often DB-related and thus not relevant) as well as competing financial priorities and the behavioural bias towards immediate rather than future gratification.

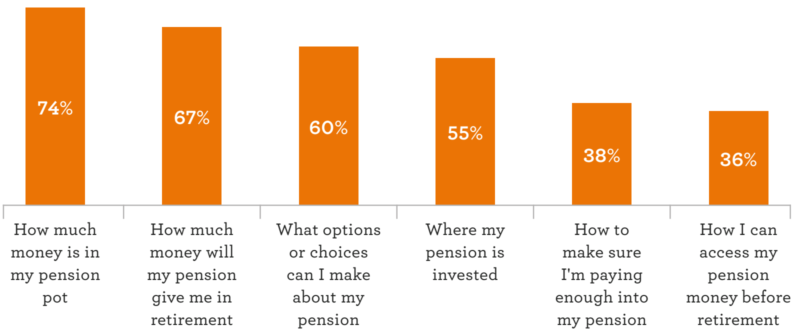
However, it also identified key areas where improved education and communication has the potential to improve policyholder engagement. 40% of respondents were unaware of the tax relief on contributions and the impact on their savings; 27% failed to appreciate that their employer made contributions; and, 75% of those under 45 had no appreciation of the effect of compound growth and therefore the value of early contributions.

Standard Life's research-driven approach has led to a number of new developments in 2017, including:

- a newly designed customer dashboard, which is easier for the member to access and use. Navigation and pre-population of the dashboard with member data have also been improved
- a redesigned short form benefit statement, to be rolled out progressively in 2018/2019
- a revised mobile app

Pension providers not thought of as go-to place for information

- Consumers more likely to think of an adviser or their employer for information than their pension provider
- But a desire claimed for information from providers



- Even though only a third thought of pension provider as the 'go to' there is a strong desire for more information from them.
- Currently only the annual statement stands out in most people's memories as coming from their provider. For many this is regarded well.
- Younger people in particular look to their employer for guidance on how much to pay and trust the default fund option.

- new Retirement journeys incorporating two new tools: a calculator to help members understand what they can get in retirement under pension freedoms (used 199,369 times in 2017) and a retirement pathfinder to help members understand their options on how to take their benefits (used 69,914 times in 2017). By way of comparison, the "Ontrack" online planning tool, which was available to members of Workplace schemes from 2010 to 2015, had only 22,123 unique users over its lifetime, and only 20% of these users used the tool more than once.

Early results are promising. Policyholders are increasingly both registering for and using online access. 637,530 policyholders have registered and used the online system as of December 31 2017. 482,000 unique users accessed the app and dashboards over 6 million times in 2017, with around half of dashboard users being members of workplace schemes. Simplifying the registration process has resulted in an increase in the success rate for those seeking to register for online access (87.7% success in December 2017 versus 27.2% in December 2016).

New features such as the "guidance shelf" nudge policyholders to take action. Early results demonstrate that it has grown engagement. Since initial launch to "Good to Go" customers, use of the pension booster tool has grown by over 100 %. During 2017, just under 31,000 people accessed the pension booster tool with 21% of all users, and 44% of Workplace members, choosing to click through to the make a payment page. This tool will be rolled out to more Workplace members during 2018.

Further "click and switch" trials were also carried out during 2017. Switch rates ranged from 43% to 62% among the 6,331 members of the six participating employers.

The IGC has challenged Standard Life to develop metrics to demonstrate what impact, if any, these investments in member tools and experience is having. Standard Life will develop a quarterly scorecard that will be shared with the IGC to track changes in engagement levels over time. This will be informed by an annual survey of customers as well as other indicators of engagement, including response rates to particular campaigns or trials that have been carried out over the period, in a similar way to other initiatives such as the "click and switch" trials referred to above. Other measures which are expected to inform the scorecard include usage of online tools, journey completion rates, and actions taken by customers in response to the "essential communications" that will form part of Standard Life's contact strategy with policyholders. Not all of the required data is currently available. It will be developed during 2018.

The IGC welcomes Standard Life's response to our challenge, the early developments arising from the research and the commitment to developing the metrics to evaluate the success of these initiatives. The IGC will continue to challenge Standard Life to incorporate the insights from the NMG research and the other work undertaken by Standard Life into their digital platform, education and communication materials to maximise the engagement opportunity.

We intend to review the continuing developments, and look for evidence of increasing policyholder engagement as a key part of our VfM review in future years.

3.3 NMG FURTHER RESEARCH

Following the original NMG research, Standard Life, two other providers and their IGCs commissioned NMG to carry out further research on the barriers and opportunities to policyholder engagement from both a policyholder and employer perspective. They also asked the company to carry out a follow up exercise with participants from the workshops undertaken in 2016.

As the research was undertaken for a subset of three providers and their IGCs and is proprietary, the results remain confidential. The research identified a number of elements required for a successful engagement strategy, including elements making it more likely that employers support the engagement process and that employees not only become engaged but remain engaged.

Some results confirmed other Standard Life research and suggested actions already in development at Standard Life; other results will be incorporated into further research and developments in 2018 and beyond and will be used by the IGC to review those developments.

3.4 SYNDICATED BENCHMARKING RESEARCH

Standard Life and the IGC participated with 6 other providers and their IGCs in a first phase benchmarking exercise during late 2017/early 2018 conducted by Redington. The IGC has had the opportunity to review an early and incomplete draft of the benchmarking research as it applies to Standard Life prior to finalising this report. Our early review has raised some concerns as to the accuracy and comparability of the data submitted by the various providers, and we have raised those concerns with Redington.

Notwithstanding those concerns, the IGC has found the initial results helpful in developing its thoughts on a work programme for 2018/19 and is eager to see this initial study built on during 2018.

We welcome the commitment of Standard Life and other providers in commencing this work, and recognise the difficulty that exists in extracting information and data on a comparable basis from a variety of providers with multiple systems offering products targeted at differing market segments. We believe that more needs to be done to provide comparable and comprehensive benchmarking, and intend to participate fully in that work.

3.5 INVESTMENT REVIEW

During 2016/17, the IGC, together with its adviser Redington, developed a methodology to assess performance at both individual fund and strategy levels for the core Standard Life offerings as well as the other funds and strategies available to Workplace customers. That methodology was described in last year's report. It was designed to flag funds and strategies for further analysis where a VfM issue might exist but, importantly, it does not definitively identify a VfM issue.

This year we have further developed the assessment methodology to test those funds which have a target for which there is no investable benchmark (for example CPI or cash plus targets), and to provide a more granular analysis better suited to the flexible uses policyholders are making of their pension savings by testing strategies at four points during their life rather than the previous three. Details of the revised methodology can be found at **Appendix 8**.

3.5.1 RESULTS FOR 2017

This year's review covered 174 funds and 179 Standard Life and client bespoke lifestyle strategies. 61 funds and 18 strategies were flagged for further investigation. Of those flagged, most were flagged for one of three main reasons: (i) a period of poor performance in the first half of 2016; (ii) unusually low volatility which raised the question as to whether the relevant fund was a closet tracker; or, (iii) a performance period of less than three years.

The performance issues of 2016 were discussed in our last report. The funds flagged for performance issues over three years (See **Appendix 9a**) were more closely analysed and in almost all cases have demonstrated that they flagged due to 2016 performance. More recent performance has improved and allows us to conclude that they present no immediate cause for concern. As discussed in 2.3.4 above, the IGC now conducts quarterly monitoring of the 10 core funds and the next 30 largest funds by AuM used by policyholders and will continue to keep performance under review.

Those funds flagged for apparently low relative volatility have been further analysed. The IGC is advised and accepts that these results are the result of the unusually low volatility of 2016/2017 markets rather than of fund managers clustering around the benchmark index.

The IGC is concerned that one fund does not represent VfM. The fund was used in one of the two client bespoke strategies we raised concerns about last year. That strategy has now been closed and all policyholders transferred out of the underlying funds including this fund. Standard Life are reviewing the fund as part of their normal governance processes as there remain a number of policyholders (including 640 in Workplace schemes) who have selected that fund on a self-select basis. The IGC has asked to be kept abreast of that review.

Of the 18 strategies that were flagged under the methodology, eight were single fund strategies identified last year. These are the subject of the communications exercise discussed in Section 2.3.3. A further eight were existing Standard Life profiles, none of which are currently used as scheme Default Strategies. Four of these were flagged for being too low risk (nb: Standard Life does not allow schemes to elect these profiles as a scheme default) and the remaining four are higher risk and cost profiles which could be used if a sufficiently large scheme discount was available to make them QWPS-compliant. If delivered within the charge cap, no VfM issue would arise.

Two client bespoke strategies were flagged as appearing to be inefficient (high cost) strategies. On review and taking into consideration the scheme discounts enjoyed by those two schemes, the IGC was satisfied that the scheme defaults provided VfM.

Heat maps showing the distribution of results across the Growth, Early Derisking, Late Derisking and End point phases can be found in **Appendices 9b)-9e).**

3.5.2 MATTERS ARISING FROM THE REVIEW

The IGC has identified a number of items it wishes to consider during 2018

3.5.2.1) Are the funds or strategies 'self selected' by policyholders always appropriate?

While reviewing the findings from the Standard Life IGC's annual fund and strategy VfM assessment, the IGC noted that in a small number of cases and for relatively small levels of assets, the fund choices selected by policyholders raised questions as to whether the policyholder had made an appropriate choice.

It is acknowledged that the IGC and the provider will in the main have no knowledge of the personal circumstances of the policyholder, or of any wider investment and/or tax planning strategy being deployed by the policyholder. The IGC will discuss with Standard Life the practicality of building safeguards into the decision process to assist policyholders in making their decisions.

3.5.2.2) Single fund concentration

While reviewing the findings from the Standard Life IGC's annual fund and strategy VfM assessment, the IGC noted that a number of client bespoke strategies have sole fund concentration in one or more of the phases of the strategy. Where this concentration exists in the final stages of the strategy, the policyholder may be vulnerable to market and/or manager risk.

The IGC wishes to investigate these issues further in 2018 with a view to identifying if further action needs to be taken either explicitly by the IGC, or within the existing processes and controls of Standard Life to improve VfM.

3.6 WITH PROFITS

With Profits funds, 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:

With Profit Fund	Products	Quarterly Performance in period ending			
		31/12/2016	31/03/2017	30/06/2017	30/09/2017
Pension With Profits Fund	GPPP	-0.9%	1.7%	-0.2%	0.2%
Other pension unitised with profits funds[6]	GPPOne GPPFlex GPPLE	2.5%	3.1%	0.7%	1.5%
Stakeholder With Profits Fund	Group Stakeholder Corporate Stakeholder	3.2%	3.7%	0.3%	1.6%

Source: Standard Life – "Heritage With Profits Fund Investment Report: UK Pension Business Q3 2017"

These funds do not form part of a lifestyle profile but benefit from smoothing of volatility in returns and, in some cases, investment growth rate guarantees ranging from 0% to 4% per year. For example, GPPP policyholders investing in the Pension With Profits Fund benefit from a 4% unit growth rate guarantee provided they hold their plan until retirement. This guaranteed rate of return applies even if the yearly investment return on the underlying assets is below 4% (as was the case in the 12 month period ending 30 September 2017).

The differences in investment returns experienced by the different groups of With Profits policyholder reflect the asset mix of their underlying fund, the level of guarantees (if any) and, where applicable, the deductions made by Standard Life to cover the cost of guarantees.

During 2017, the IGC conducted a review of the mechanics of the With Profits funds and how Standard Life seeks to ensure that payouts remain fair across different types of product and between different generations of With Profits policyholders. Examples of the types of question and challenge raised by the IGC include the following:

- The fairness of the allocation of assets and returns to each policyholder/product group
- The appropriateness of the guarantee deduction framework that is deployed for UK, Irish and German With Profits policyholders and in particular
  - The appropriateness of the normal levels of guarantee deductions
  - The appropriateness of uniform adjustments to guarantee deductions as a mechanism by which all policyholder/product groups would participate in increases or reductions in guarantee costs arising in any one group.

The IGC recognises that the With Profits Committee (WPC) which is independent of Standard Life and whose sole purpose is the oversight of With Profits governance, has greater expertise than the IGC in With Profits issues.

The IGC has therefore sought and received assurance from the WPC that it is satisfied with the fairness of the charges, deductions and returns allocated to the different classes of With Profits policyholders.

While the IGC acknowledges the specific role and responsibilities of the WPC, we continue to take a close interest in the VfM received by policyholders from their With Profits investments and will continue to review that each year.

6 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.

3.7 TRANSACTION COSTS

In September 2017, the FCA published Policy Statement PS 17/20 – Transaction Cost Disclosure in Workplace Pensions. This sets out a prescribed methodology for calculating transaction costs incurred by fund managers when investing assets on behalf of pension savers. The FCA has stated that it expects providers and fund managers to calculate, disclose and report transaction costs on this methodology with effect from 3 January 2018. The IGC requested that Standard Life provide transaction cost data for all funds with effect from 3 January 2018.

Standard Life has provided transaction costs for all funds used within Default Strategies and for all standalone funds available within its workplace pension products, in line with the regulations (see **Appendix 12**).

However it has informed the IGC that it has been unable to access all the data required to provide full transaction costs given the wider industry challenges around the capturing and distribution of source data such as 'arrival prices'. Where data has not been provided by fund managers, the data has been accompanied with the appropriate explanations, in line with the regulations.

Given the gaps in the data provided, Standard Life has also provided transaction costs calculated using methodology to support the Packaged Retail Investment and Insurance-Based Products (PRIIPS) regulations (a similar but not identical regulatory requirement), which includes estimated data. This is in addition to the PS 17/20 figures and may prove useful when the IGC considers the VfM of transaction costs in 2018.

Further information is contained in Section 5.7 below.

3.8 THE RETIREMENT JOURNEY

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 notes that the FCA, in its Retirement Outcomes Review interim report, identifies an option that might be considered is "extending the role of Independent Governance Committees (IGCs) to ensure that decumulation products – including default investment pathways – are appropriate and provide value for money."

The IGC considers the current position unsatisfactory, in that the transition to decumulation no longer has the clear break point of traditional annuitisation; the issues determining outcomes and value are correspondingly more complex; and the processes and support leading up to the policyholder decision as to how to access benefits is an important component of the VfM assessment and will materially impact the policyholder's retirement outcome.

The IGC is supportive of independent oversight of governance for decumulation whether by the IGC or some other entity.

We now have data from Standard Life covering the period from April 2015, when the pension freedoms were first introduced, to December 2017 showing how customer behaviour has developed over the past 32 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 10a**).

Annuity purchase continues to be the least popular option, with only 4% of retiring customers selecting this option in 2017. The vast majority of Standard Life customers who have purchased an annuity have taken advantage of the open market option. The exceptions are generally those policyholders who have a guaranteed annuity option as part of their retirement plan.

The proportion of customers fully encashing their pension plans in 2017 has reduced slightly compared with 2016 and appears to have levelled off at around 27.5% of retiring customers. The average pot size of policyholders who fully encash their plans remains around £12,500.

In 2017, approximately 25% of retiring customers chose to set up a drawdown plan with Standard Life. Of these, 10% (2.5% of the total) have chosen a regular income (usually in conjunction with tax-free cash) under their drawdown plan. The average pot size for this group is £86,500 (including any tax-free cash). A further 22%

(5.5% of the total) have taken ad hoc withdrawals (again typically in conjunction with tax-free cash) from their plan. The remaining 68% (17% of the total) have selected a single withdrawal (typically of tax-free cash) from their plan and have deferred taking any further action.

Analysis of policyholders who only took tax-free cash in April 2015 shows that two-thirds of them have now taken subsequent withdrawals. Only a small proportion (c.5%) of these policyholders selected the Annuity Purchase Fund when moving to drawdown. As the Annuity Purchase Fund is presented as a ready-made investment option for customers who intend to buy an annuity in the next five years, this suggests that policyholders choosing to enter drawdown do not plan to purchase an annuity within that time. It remains unclear what the longer-term pattern of behaviour will be as annuity rates change and these policyholders reach more advanced years.

Approximately 44% of policyholders in 2017 chose to transfer to another provider - presumably to access pension freedoms in some form, although we cannot identify precisely what outcomes they chose.

3.8.1 CHANGES IN STANDARD LIFE'S RETIREMENT PROPOSITION

Standard Life has made a number of changes to its retirement proposition.

- Retirement events including roadshows and webinar pilot

Standard Life continued to host retirement events across the UK in 2017 for customers who are aged 50 or older to help support them in the run up to accessing their pension. The events are a key part of Standard Life's support proposition to customers as they approach retirement. Standard Life held 45 events in 2017 at a variety of venues throughout the UK. In total, 2,251 customers attended along with 693 guests. 98% of attendees rated the event as good or excellent. The topics of Estate planning, IHT, Wills and Powers of Attorney were included within the presentation. Additional support materials were also available for attendees to take home with them. 98% of customers said they were as or more confident about their retirement options having attended the event.

During 2017 Standard Life has also trialled a webinar version of the face-to-face retirement roadshows with a view to being able to deliver the content to a broader universe of policyholders. The event was 30 minutes long, consisting of a film presentation, a live poll and a Q&A session in which a panel of experts from Standard Life answered customer questions. Although the trial audience was relatively small (74 attendees) the results were positive. 98% of respondents thought the overall webinar experience was excellent or good and that the information was pitched at the right level. 86% of respondents either agreed or strongly agreed that they felt better informed and 84% of customers were either extremely interested or very interested in attending another webinar. Plans are in place for rolling them out for customers and employees that Standard Life is unable to reach with face-to-face events from April 2018.

Standard Life intends to continue to run face-to-face retirement events for customers with a retirement fund of £100k or more. They also plan to partner with a small number of employers to trial events in the workplace for their employees.

- Improvements to Standard Life's telephone retirement journey

In H2 2017 Standard Life introduced a new Retirement Priority Support telephony team. The objective of this team is to support customers who are taking their first drawdown from their plan and to ensure that they have all of the information needed to make their retirement decision. Enhancements made to the process mean that customers receive a more personalised and tailored experience. (See section 3.8.2 and **Appendix 14** for more detail).

- Improvements to online retirement journey

In November 2017 Standard Life began a trial of their online review for non-advised customers already in drawdown. The review includes: 1) an investment section to help customers review where they are currently invested and if this is still right for them, and 2) a sustainability section to help customers understand how long their money might last depending on the rate of their withdrawals. The review service will be promoted more widely on a "test and learn" basis during H1 2018.

- Changes made to telephone retirement journeys as a result of new vulnerable customer policy

All Standard Life staff are now fully trained on the vulnerable customer training programme. Standard Life's Vulnerable Customer Policy identifies customer groups who are at risk of detriment and are therefore likely to require additional support due to:

Comprehension – Mental capacity, low financial understanding, older age understanding such as dementia

Circumstance – Bereavement, divorce, illness, debt

Channel/Access – Hearing, sight, language barrier

Telephone consultants are able to identify customers who may need a helping hand due to any of the above, and offer call backs or adapt processes as and when required e.g. to transact in writing.

3.8.2 STANDARD LIFE'S RETIREMENT GUIDANCE PROPOSITION

Standard Life's Retirement Proposition is designed to provide policyholders with access to a free guided journey to access their money. This is done via an online journey that guides policyholders through all of the key considerations of moving into drawdown.

TRANSACTING ON THE PHONE

All policyholders can access their pension money over the phone with Standard Life. This is a two-step process.

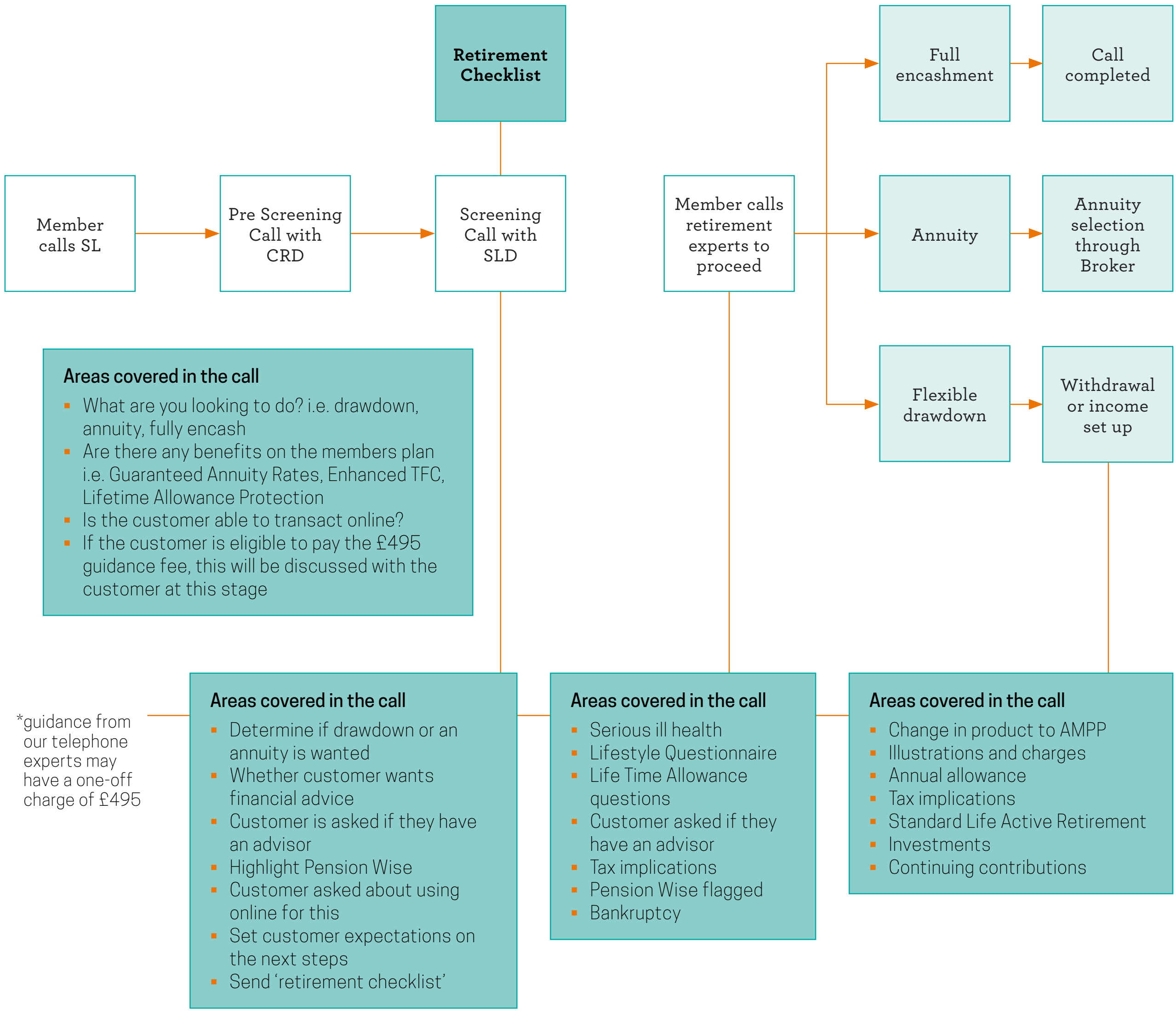
Stage 1 involves a screening call to verify the policyholder's identity, check their needs and the type of plan that they have, including whether they have any guaranteed or enhanced benefits. There is no fee at this stage, regardless of whether the policyholder decides to transact online or over the phone. The customer is sent an information pack which outlines the key things to think about prior to moving to Stage 2.

Stage 2 is the transaction step. Once the policyholder has reflected on the information Standard Life has sent them, they call Standard Life back and they are transferred to a specialist Retirement Consultant. If they wish to proceed to drawdown, the policyholder can transact using the online journey at no cost. If the policyholder chooses to purchase an annuity or fully encash their plan, no fee applies.

Where a policyholder seeks drawdown assistance, Standard Life will provide a full retirement telephone consultation via the Retirement Consultant. There is a one off flat fee of £495 for this. This fee is waived where a policyholder cannot access the guidance service provided online (for example, because they have an older legacy plan, or do not have internet access) or are considered vulnerable, including people who are not confident using online servicing.

The process is illustrated in the chart below:

TRANSACT: TELEPHONE GUIDANCE FROM OUR RETIREMENT EXPERTS



IGC COMMENT

The IGC is concerned that the fee may reflect a desire to discourage policyholders from seeking direct guidance rather than reflecting either cost to Standard Life or significant added value to the policyholder. The IGC is informed that relatively few policyholders are charged in practice, but is concerned that this is poor value for those charged and has challenged Standard Life to reconsider its practice in this area.

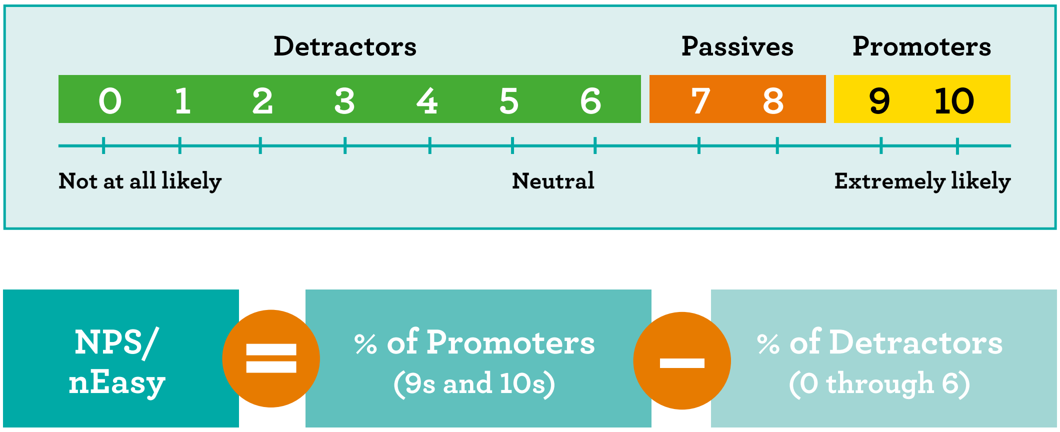
3.8.3 CUSTOMER SATISFACTION WITH STANDARD LIFE'S ONLINE AND TELEPHONE RETIREMENT JOURNEYS

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 (see table below).

Overall 2017 scores have generally increased, but a small decrease in nEasy & NPS in Feb/March/April affected overall scores for the year as Customer Operations staff dealt with a significant increase in demand volume experienced in the lead up to the Tax Year End. (See **Appendix 10b** for the monthly breakdown for 2017.)

The lower nEasy score compared with NPS for drawdown customers would suggest that this group of policyholders find Standard Life quite difficult to deal with but are willing to recommend Standard Life nevertheless. An analysis of the nEasy scores for policyholders choosing drawdown found that the following factors led to lower satisfaction scores:

- ease of telephone access
- the ease and length of the transaction / guidance process
- the time taken to facilitate the drawdown.



This is further reflected in the complaints analysis undertaken by the IGC (see section 5.5). The IGC considers that while policyholders might resent the length of the transaction/guidance process and the time needed to access drawdown, the importance of this transaction requires adequate time and thought on behalf of the policyholder. Changes to the opening hours for telephone access (see 2.2 above) should improve the ease of access.

The IGC notes changes made by Standard Life to the support available to policyholders contemplating how to take their benefits, including the revised dashboards tools and retirement journeys noted above. These represent worthwhile improvements in a developing market. The IGC will continue to look for evidence that these developments are being used by policyholders to achieve better outcomes.

3.9 OTHER VFM CONSIDERATIONS

As described in section 3.2, Standard Life continues to trial 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 the digital channels are gaining some traction, and that 26% of policyholders in an open Workplace scheme have used the online calculators and tools that Standard Life makes available, with a further 25% aware of their existence. While mobile apps currently remain relatively unused (fewer than 10% of policyholders have used these), the number of unique users has doubled over 2017 (from 13,000 in January to just under 30,000 in December) and is expected to continue to grow.

3.10 NON-ADVISED ANNUITY SALES REVIEW

The IGC notes that on 17 October 2016 Standard Life announced that "At the Financial Conduct Authority's (FCA's) request we carried out a review of our annuity sales process for groups of our non-advised customers. The outcome of that review showed that we did not always explain well enough that some of our customers may have been eligible for an enhanced annuity, and some customers may have lost out as a result. We are therefore conducting a past business review of in-scope annuity sales in the period 1 July 2008 to 31 May 2016… We expect the annuity review to be fully operational during 2018 and will start writing to affected customers at that time."

The IGC will consider the outcomes from this review as they emerge during 2018.

4. Other Considerations

4.1 EU GDPR

The EU General Data Protection Regulation (GDPR) is the most significant change to Data Protection legislation since the Data Protection Act 1998. The legislation will have a far-reaching impact for all organisations and parties which process an individual's personal data.

In terms of the IGC's remit in assessing VfM, Standard Life's capability to secure and protect customers' data is key to the "Risk Management" element of our VfM assessment.

This is a major change programme for Standard Life Aberdeen plc, with Executive and Board oversight. The programme is run centrally, with oversight and guidance provided by the Chief Information Security Office (CISO).

Responsibility for ensuring compliance within Standard Life and its associated business units sits with Eddy Reynolds, UK Marketing & Proposition Director. Michael Craig, Head of Product & Technical Consultancy, is acting as the Business Sponsor for the project implementation. Michael is also Standard Life's nominated member of the IGC; this conflict of interest has been declared and is being appropriately managed.

There are seven main work streams which all business units across the Standard Life Aberdeen group must deliver against. The work streams are as follows:

- Personal Data Inventory (PDI) – Standard Life has documented all the personal information that the company processes in relation to its customers and their dependants, the purpose(s) of processing this information to demonstrate the lawful basis under GDPR, who processes this information and where.

- Consent – Standard Life has identified from the PDI work stream that it will generally rely upon an individual's consent as the lawful basis for processing when marketing other products or services offered by Standard Life Aberdeen or selected external third parties. (This is information that is not considered necessary to issue to policyholders as part of the running of their Workplace pension scheme and/or supporting policyholder outcomes.) Where Standard Life relies on consent they must ensure that the capture, recording and usage of consent meets GDPR standards.
- 3rd party suppliers / contracts – Standard Life has undertaken a review and is in the process of updating all existing arrangements with third parties who process personal information on Standard Life's behalf.
- Privacy policy / Fair Processing Notice – Standard Life is updating the privacy notices issued to customers to comply with the individual's right to be provided with clear and concise information about what personal information is being collected and used by Standard Life and why.
- Individuals' Rights – Standard Life's existing processes and controls are being reviewed and, where necessary, updated to ensure they can respond to requests from individuals in line with their strengthened rights. As part of the updated Privacy Policy, Standard Life has stated that it will make it clearer to customers what their new and strengthened rights are and how to exercise them.
- Data Security and Breach Notification – Standard Life is currently ISO22301-certified for Business Continuity, and has plans to achieve ISO27001 and "Cyber Essentials Plus" security certification. Standard Life has carried out a further review of existing information (and cyber) security controls to ensure they can prevent, detect, investigate and (where any issue is determined to be material) report to the Information Commissioners' Office within the 72-hour statutory timescale under GDPR.
- Accountability and Governance – Standard Life is updating its Data Protection policy, controls and processes to ensure that it is able to meet all of its obligations under GDPR, as well as establishing the appropriate operating model to support ongoing compliance.

IGC ASSESSMENT

The IGC has engaged with the Standard Life teams responsible for implementing GDPR. We have had high-level briefings on the progress being made with each of the seven work streams mentioned above. We are advised that management are confident that Standard Life will meet their new obligations when the regulations come into effect on 25 May 2018.

Standard Life's Internal Audit Function is scheduled to undertake a review of Standard Life's compliance with the new data privacy regulations during the second half of 2018. The IGC will report on the findings in our 2018/19 Annual Report.

4.2 CYBER SECURITY

At the time of writing this report, the IGC had received an overview of Standard Life's cyber security measures from the Chief Information Security Officer (CISO) covering the Governance and Standards used, the Capabilities and Resources both internal and external available to the CISO, and the Multi-Layer Security Controls in operation. Standard Life's cyber security policy and standards are aligned with industry good practice and the UK Government's "Cyber Essentials" scheme. Standard Life is currently ISO22301-certified for Business Continuity and has plans in place for ISO27001. Other key security controls and practices include:

- Cyber security is a regular agenda item on Board and Executive meetings
- Regular updates to security strategy and programme designed to address specific risks quickly and to continue evolving Standard Life's sustainable cyber security capability
- Regular security testing to identify any vulnerability in systems and network that could be used against Standard Life
- Regular, independent assurance and benchmarking exercises across Standard Life Aberdeen's strategy and governance processes
- Dedicated Cyber Intelligence, Cyber Response and Financial Crime teams in place to effectively deal with emerging cyber threats and criminal campaigns.

4.3 ENVIRONMENT, SOCIAL & GOVERNANCE (ESG) CONSIDERATIONS

During 2017, the IGC received a small number of letters from groups of policyholders seeking IGC intervention in respect of ESG matters – in particular, identifying the absence of a low/no carbon default investment option. It is clear that these approaches were co-ordinated by special interest action groups, notably Share Action and Client Earth.

While it is not the role of the IGC to direct investment offerings (as opposed to testing what is offered for VfM), the IGC Chair met with the two organisations and a group of members selected by those organisations in September 2017 to discuss their concerns. The IGC asked both Standard Life and Aberdeen Standard Investments to attend and explain their approach to ESG as a core part of the investment design and product offerings.

The Provider and Investment Manager responses are encapsulated in the document attached as **Appendix 14**.

4.4 PENSION TRANSFORMATION PROGRAMME

Standard Life's Pension Transformation Programme

A key priority for Standard Life during 2018 will be its "Pension Transformation Programme" whereby it intends to make preparations for an upgrade in 2019 of all pension plans (including those for which the IGC has responsibility) onto a single IT administration platform. This will be a two-year programme with the final plan upgrade targeted for completion by the end of 2019. This is primarily a modernisation of Standard Life's IT systems and supporting infrastructure, with policyholders maintaining their existing plan type and terms & conditions. There will, however, be some immediate benefits to policyholders, including:

- Simpler and more transparent plan-level charges – at the same or reduced levels from those currently incurred
- Re-designed annual benefit statements that allows policyholders to understand better how their plan is performing
- An improved digital offering that allows policyholders to check on their plan or make changes to their plan online.

The enhancements will be supportive of the Government's intent to deliver a Pensions Dashboard.

The IGC welcomes these developments, which should allow further improvements to both legacy and current policies over time. We will receive regular programme updates during 2018 and will review progress to ensure that VfM is maintained for policyholders. The IGC will report more fully on the programme in next year's Annual Report.

5. VfM Assessment

The IGC has continued to use the framework first deployed when assessing VfM 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 update the methodology for identifying investment funds or solutions that may not be providing policyholders with VfM. The results have once more been incorporated into the original framework to provide an overall VfM assessment.

This year's assessment has been further informed by the additional pieces of independent research undertaken by NMG, Standard Life and Redington respectively and referred to in sections 3.2, 3.3 and 3.4 above. This has provided the IGC with a wider perspective from which to make our assessment of the VfM offered by Standard Life.

5.1 FCA REQUIREMENTS

In its Conduct of Business Sourcebook (COBS) regulations the FCA identifies five elements that IGCs should consider in evaluating VfM (see **Appendix 7**). The IGC's analysis of each of these five elements is set out in the subsequent sections of this report.

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

The IGC has again reviewed the suitability and appropriateness of the core Default Solutions offered by Standard Life – which include traditional With Profits and Managed Fund solutions for older style products and risk-based multi-asset funds for more modern products. The updated Redington process indicates that the risk-based default solutions continue to meet or exceed our minimum threshold for VfM.

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. The updated Redington process has indicated that the core underlying Managed Fund components of the strategies continue to meet the minimum threshold for VfM.

Furthermore, these lifestyle profiles have benefited from the recent changes to the Annuity Purchase fund mentioned previously in section 2.4.

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. As noted previously these funds do not benefit from a lifestyle structure and as such do not meet more modern standards for Default Strategies; however, these funds smooth the policyholders' exposure to investment volatility and in many cases carry valuable guarantees protecting the policyholder from market downturns. These benefits depend upon the policyholder remaining invested to the maturity of the policy. The IGC has reviewed the structure and operation of the With Profits Fund and has received assurance from the With Profits Committee (see 3.6 above.)

IGC CONCLUSIONS

The design of Standard Life's risk-based default solutions is discussed in detail in section 2.4. Notwithstanding the potential for further design enhancements, the IGC considers that Standard Life's core default options for their modern products remain appropriate for the majority of Workplace policyholders.

The recent changes to the asset mix of the Annuity Purchase fund used within the Managed Fund Lifestyle Profiles means they remain an appropriate option for those policyholders with older-style products and who are unsure of their future retirement choices.

While the With Profits funds are not used in the construction of any current Default Strategies, they are a significant component of the legacy products still being utilised by many policyholders (231,566 policyholders and £2.82bn AUM). The IGC considers that in the circumstances and given the structure and benefits of such policies, it would be inappropriate to seek changes and they remain an acceptable component of those legacy products.

5.3 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/Employee Benefit Consultant or Corporate/ Financial Adviser.

During the period of this report, the IGC has reviewed the VFM offered by the 174 different funds which are deployed by different employers in their default options. The IGC has also assessed the suitability and appropriateness of 179 Investment Strategies and investigated further those strategies flagged for review.

The initial high-level results were as follows:

- Of the 174 funds, 68 were flagged by the Redington process as potentially not providing VfM and requiring further investigation.
- Of the 179 strategies, 18 were flagged by the Redington process as potentially not providing VfM. Eight were Standard Life strategies, of which four were risk level 1 strategies not available for use as QWPS Default Strategies, two were risk level 5 strategies not available for use as QWPS Default Strategies and two were risk level 4 strategies that if used in a QWPS default would by virtue of the application of the charge cap represent VfM.

Our more detailed findings and recommendations are set out below:

5.3.1 ANNUITY TARGETING STRATEGIES

Of the 103 annuity targeting strategies reviewed, three were identified as requiring further investigation. Of these, the first was also flagged up last year as relatively expensive on the basis of undiscounted bundled charge; however, as the policyholders' costs are subject to the charge cap the strategy meets the VfM test. The other two strategies are not available as QWPS defaults and have not been used by any customer on a self-select basis.

5.3.2 CASH LUMP SUM TARGETING STRATEGIES

Of the 20 cash targeting strategies reviewed, three were identified as requiring further investigation. All three were flagged in 2016. None would be available as a QWPS strategy, as Standard Life does not permit risk levels 1 or 5 to be utilised for that purpose. No customers have selected any of these strategies.

5.3.3 DRAWDOWN TARGETING STRATEGIES

Of the 25 drawdown strategies reviewed, two were identified as requiring further investigation. The first is used as a QWPS default and by virtue of the charge cap meets the VfM test; the second strategy has been selected by five policyholders (£650,000 AUM). It is unclear on what basis these policyholders have selected this option (see the IGC Conclusions below).

5.3.4 UNIVERSAL TARGETING STRATEGIES

Of the 23 universal strategies reviewed, two were identified as requiring further investigation. Both were flagged in 2016. In the case of one of the strategies, Standard Life had already engaged with the client following last year's findings; the strategy has now been closed and all policyholders have been transferred to a Standard Life core profile. The second is only used on a self-select basis by 1,021 policyholders (£20.1m AUM). It is unclear on what basis these policyholders have selected this option although 129 of the policyholders were members of a QWPS scheme (see the IGC Conclusions below).

5.3.5 FUND ONLY PROFILES

As in last year's report, there are eight Default Strategies which use a single fund as a default option for their Workplace policyholders. The IGC is of the view that this is not an appropriate approach for the vast majority of policyholders.

The IGC notes the action being taken by Standard Life to work with the relevant employers to achieve change while also communicating directly with policyholders. The IGC will review progress during 2018.

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.

5.1

A small number of strategies identified under Sections 5.3.1, 5.3.2, 5.3.3 and 5.3.4 above are not available for use as QWPS defaults and are at most used by a handful of policyholders. It is not clear to the IGC that these strategies have any obvious reason to remain in the range (other than to provide five risk levels for each category of strategy) and the IGC is concerned that there is a risk that policyholders might mistakenly choose them.

The IGC has challenged Standard Life to consider whether they wish to retain these options in the range and, if so, to consider additional safeguards in the materials available and the digital policyholder journeys to improve the likelihood that appropriate decisions are made by the policyholders.

As stated above, the IGC had requested Standard Life to engage with those employers where the IGC continues to have concerns as to the VfM their chosen strategy offers policyholders. The IGC will review the results of the various communications exercises during 2018/19.

5.4 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 internal investment governance team (independent of Aberdeen Standard Investments) which is charged inter alia with reviewing the performance of all investment managers including Aberdeen Standard Investments. They operate a framework that ensures a regular and systematic review of the investment options available to policyholders of Workplace personal pension plans. This 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.

In 2017, the IGC worked with that team to augment this process with a quarterly performance monitoring report described in section 2.3.4 to allow the early detection of any negative trends in performance. A number of improvements to the clarity of the regular reporting have also been made at the request of the IGC.

Over the past 12 months, senior representatives from Standard Life's governance function have continued to attend IGC meetings quarterly to highlight any findings or funds, which might provide cause for concern. The Standard Life team has been responsive to all requests from the IGC for additional information and has continued to work closely with Redington and the IGC to update the VfM methodology referred to previously in this report.

In December 2017, the IGC received an in-depth presentation on the performance of the flagship GARS fund. Although this fund is not used as a default option in its own right, it does form a significant proportion of the portfolio for the two main risk-based default options used by policyholders of Workplace schemes, Active Plus and Passive Plus.

The review covered five key areas:

1. The sources / causes of poorer recent performance
2. The size of the fund and any capacity constraints
3. The level of diversification within the fund
4. The impact of staff turnover
5. The achievability of the fund's target of LIBOR+5% over rolling three-year periods in current and future market conditions

The view of Standard Life's in-house governance team is that they have gathered sufficient evidence to satisfy themselves that the fund is being invested consistently with the expectations set to customers. As a result, the RAG status of the fund, which was Amber during 2016, has returned to Green throughout 2017.

Performance has demonstrated improvement over the last 12 months, although it is still below target. This has also been the experience of similar funds available from other providers, and may reflect the unusual nature of investment markets in this period.

The IGC discussed the performance of the GARS fund with the Head of the Multi-Asset and Macro team at Aberdeen Standard Investments (ASI), which is responsible for the management of GARS. It was acknowledged that the performance of the absolute return fund range, including GARS, is dependent upon (a) the accuracy of the forecasts of the future macro-economic and political environment and their implications for investment markets over the short to medium term and (b) the number, quality and success rate of the strategies that form the different absolute return portfolios. The poorer recent performance was due substantially to the first of these two dependencies.

The IGC was informed that the GARS performance target will remain unchanged and that ASI remains confident that the target can be achieved without increasing the fund's overall risk exposure. The IGC will continue to pay particular attention to the performance of this fund over 2018.

IGC CONCLUSIONS

Standard Life's internal governance function has reviewed the characteristics and net performance of Default and non-Default Investment Strategies offered on Standard Life's book of Workplace personal pension plans in the period covered by this report.

The IGC has also implemented a quarterly performance monitoring report during 2017 to allow early identification of any deterioration in performance in those funds/strategies used for the majority of the assets under management

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 will continue to monitor the performance of the core default options, including the performance of the underlying componentry.

5.5 REVIEW OF ADMINISTRATION PROCESSES AND CORE FINANCIAL TRANSACTIONS

As part of our assessment of VfM, the IGC reviews Standard Life's administration performance over the 12 months of the reporting period, particularly in respect of the processing of core financial transactions, including:

- 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 senior representative from the area regularly attends IGC meetings to report on the administration performance over the previous quarter.

5.5.1 SERVICE TIMELINESS IN 2017

There were 373,982 transactions during 2017 that were not processed on an automated Straight Through Processing (STP) basis. These constitute some 2.8% (2016: 1.6%) of all transactions (see **Appendix 11a**). Standard Life has an internal target to complete 90% of all such transactions within ten working days.

In 2017, performance against the ten days 90% target averaged 89%. Although falling short of the target, the percentage of non-STP transactions completed within ten days improved significantly compared with 2016, when it averaged just 81%.

Transactions where the turnaround times did not meet the service target included the processing of leavers from Workplace schemes (57% completed within ten working days) and the settlement of death claims (48%). This is a matter of some concern, even though it represents a significant improvement over 2016 when just 25% (leavers) and 32% (deaths) were completed within ten working days for the years as a whole.

The IGC notes that as a result of organisational and process changes in the third quarter of 2017, the proportion of leavers processed within ten days rose to 86% in the fourth quarter. In that quarter, 95% of aggregate non-STP transactions were completed within ten days. The Bereavement process has also been subject to a number of phased organisational and process changes during 2017. The impact of these can be seen in the table below. (Information covers all Workplace clients, including trust-based schemes).

Date Range by Product	Court of Demand	Average Demand Age	Average of E2E (Network Days)	Max SLA	Min SLA	% Complete Within SLA
Received prior to 6 March 2017	**2050**	**14**	**71**	**10**	**3**	**61%**
UK – Group LPAS Member	253	7	71	10	5	70%
UK – Group SIP Member	5	6	144	10	10	80%
UK – Group UA/CFM Member	1792	15	71	10	3	59%
Received between 6 March 2017 to 20 August 2017	**739**	**7**	**52**	**10**	**3**	**79%**
UK – Group LPAS Member	97	3	56	10	5	87%
UK – Group SIP Member	1	7	50	10	10	100%
UK – Group UA/CFM Member	641	7	51	10	3	77%
Received from 20 August 2017 to date	**454**	**4**	**24**	**10**	**3**	**89%**
UK – Group LPAS Member	57	3	22	10	5	95%
UK – Group UA/CFM Member	397	4	24	10	3	88%

1. Demand received prior to 6 March 2017 (before any tactical process improvements / change in management occurred)
2. Demand received between 6 March 2017 to 20 August 2017 (tactical process improvements implemented / further management changes implemented)
3. Demand received from 21 August 2017 (operational model changes)

The IGC has also noted that, following our discussions on Service timeliness, Standard Life has been more proactive in dealing with cases which have been outstanding for significantly longer than ten working days. In particular, Standard Life has introduced a focused approach to older case management, whereby each Operational Manager provides a regular update on their oldest customer enquiries. This approach is designed to highlight themes or trends and helps management to understand what is causing targets to be missed, so that improvements can be made.

OLDER CASE MANAGEMENT – COMPARISON WITH 2016

The table below shows the percentage reduction in the numbers of non-STP transactions completed over ten working days. In total, there were 30,894 fewer such transactions in 2017, representing a 44% improvement relative to 2016.

Days	Older Case Reduction 2017 v 2016
11-20	41%
21-50	55%
51-75	33%
76-100	38%
101-150	20%
151-200	44%
> 201	29%

Source: Standard Life

As well as the improvement in performance relative to 2016, there has been a quarter-on-quarter improvement throughout 2017. In particular, there were 14,122 transactions in Q1 2017 which were completed after ten working days. This reduced to 3,847 (a 73% reduction) in Q4 2017 out of a total number of transactions during the quarter of 4,277,993.

REVIEW OF SERVICE TARGETS

In 2016, the IGC challenged Standard Life to review its targets given our view that a uniform ten-day measure was inappropriate for transactions of very different types. In 2017, Standard Life has considered that challenge and provided the following response:

"In 2017, we've conducted a deeper review of the challenges raised by the IGC regarding why we operate a catch all metric of "90% within ten days" for all non-STP demands irrespective of type or nature.

…our reporting has been developed over time to provide an aggregated view of the percentage of demand completed within ten days ***irrespective of the demand specific service level****.*

For clarity, service levels are differentiated by demand and these have been configured into our BPM Stream Workflow Management System. Service levels, customer experience metrics, workflow management and speed to serve remain key areas of focus as part of our broader transformation agenda across 2018.

…we committed to review the demand categories which currently make up the IGC Service Report to ensure they're aligned appropriately and to provide a more granular level of detail in respect of the service performance against each of these.

The first aspect of this has been completed (see ***Appendix 11c****) and we've made a few minor changes to the alignment of demands. Our service level reporting will now be updated to reflect these. The intention is to integrate the revisions to the service measure report within a new proposed quarterly reporting format.*

In addition to the above, we're taking a deeper look through to see what the "actual" service performance is against each of these demands. This data is in the process of being prepared and once we have this, we will then determine if there are any which are consistently performing out-with the current SLA and make recommendations for change. We will aim to come to the IGC at the March 2018 committee meeting with a target for completion of this work".

After a difficult year in 2016, the IGC was pleased to observe a more consistent adherence to the targets for completion of the core financial transactions that cannot be completed on a fully "straight through" (STP) basis and the more focused approach on managing down the number of transactions exceeding the target and the length of time by which they remain outstanding. We continue to believe that an aggregate target is not helpful and will be reviewing the disaggregated performance by transaction type as we move into 2018.

5.5.2 SERVICE ACCURACY

In our 2016/17 report, the IGC noted that Standard Life was in the process of making a number of changes within the Customer Operations area. During 2017 Standard Life has implemented organisational design changes in structure as well as to the systems and methodology for collecting, managing and reporting measures of service quality. As a result, the "service accuracy" information reported to the IGC for this year's report is not directly comparable with that disclosed in 2016.

Based on the new measures and on a sample of the overall volume of transactions, in the 12 months to 31 December 2017, Standard Life reported "right first time" accuracy in processing "new monies" (incorporating Regular Contributions, Ad hoc and Single Contributions and Transfers in) of 92% for transactions not processed on an STP basis. This appears significantly down on the levels of accuracy reported in 2016, albeit on a different measurement basis. There was a 98% accuracy level for processing fund switches (unchanged from 2016) and a 95% accuracy for processing "monies out" (covering Transfers out, retirement claims and death settlements). "Monies in", was also down relative to 2016. (**Appendix 11b** provides a breakdown.)

The approach taken by Standard Life to correct any inaccuracies remains unchanged from that reported in our 2016/17 report. In particular, Standard Life makes any corrections necessary to ensure that no policyholder suffers detriment. For example, 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, i.e. Standard Life will not assume responsibility for the third party's delay.

Standard Life has explained the changes and provided the following assurance on service accuracy:

"In April 2017, we enhanced the approach to our quality checking to make it more thorough.

Prior to this, quality assurance was completed and reported by process / department. Our Quality Assurance review identified that our assessment approach should change, making it more thorough than previously. This new approach now includes further checks that relate to "conduct risk" and "customer outcome". The net effect of this change is that it made it more difficult for a case to pass.

We are unable to apply 2017 checks to 2016's results to obtain like-for-like figures, but we don't believe overall service accuracy has reduced when comparing 2017 to 2016."

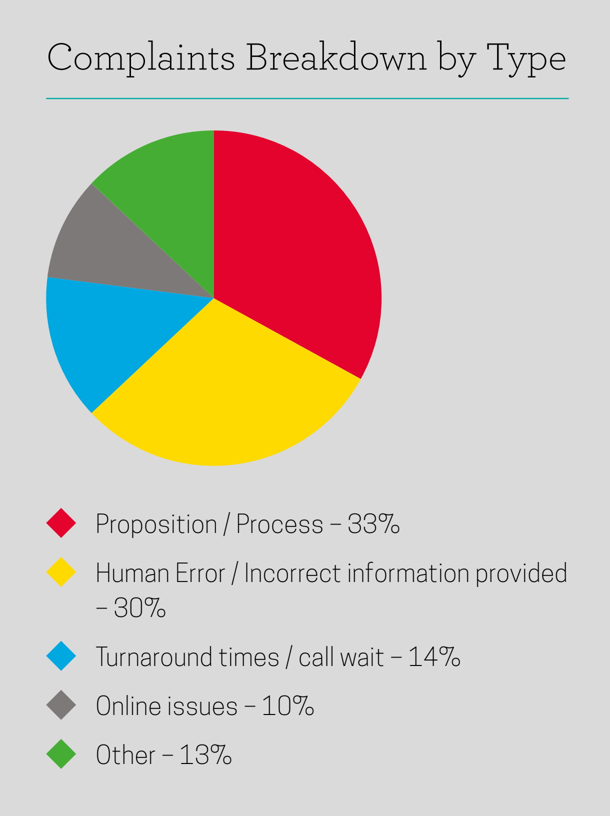
The IGC notes the change in measurement methodology and the assurance provided. It is unfortunate that we cannot identify better whether these statistics represent a deterioration in service or an improvement in reporting. The IGC has informed Standard Life that it wishes to receive such reporting going forward on a consistent basis to allow such analysis.

5.5.3 COMPLAINTS

During 2017, Standard Life received a total of 673 written complaints (2016: 787) and 395 verbal complaints (2016: 37) from customers saving in a Workplace personal pension plan. The overall complaint volumes for 2017 were up by 30% compared with 2016.

As stated in our 2016/17 report, from 1 July 2016 the basis of recording and reporting complaints was amended following a FCA rule change such that telephone complaints resolved during a call are now recorded as complaints. 2017 was the first full year in which the new basis applied. While the overall complaint volumes relative to the total population of Workplace personal pensions remains low (0.07%), it is disappointing to note the apparent increase in complaints in 2017.

The most common reasons for complaint among policyholders during 2017 are set out in the chart below:



The reasons highlighted in our 2016 report, namely (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 continue to make up a significant proportion (44%) of overall complaint volumes.

The IGC understands that the process for accessing some or all of the monies from their pension pot is a source of complaint for policyholders. To access drawdown, Workplace policyholders need to transfer their benefits to another plan – either with an IFA or on a non-advised basis with Standard Life. Some policyholders can find this frustrating and do not understand why they cannot take the money directly from their plan.

A related cause for complaint from some policyholders is difficulty with online access (e.g. to the online retirement journey) or inability to undertake certain transactions online (such as drawing down directly from their pension pot).

Notwithstanding any changes to the governance of post-retirement plans referred to in section 3.8, the IGC intends to review the "at retirement" experience of Workplace policyholders in more detail during 2018.

The processes for registering for the online Customer dashboard or dealing with requests from policyholders to update their passwords have been a common source of complaint historically. Standard Life has improved the processes for registering for and maintaining secure access to the online dashboard. In particular, the new registration process removes the need for activation codes allowing policyholders to set and update their own security details.

The remaining complaints relate to a range of other servicing and experience issues. The IGC will investigate the various types of complaint in more detail as part of our 2018 work plan.

In January 2018, the IGC received a presentation from representatives of the Customer Relations team in Standard Life who deal with complaint resolution. This included an overview of the procedures for dealing with written and verbal complaints and the approach to quality assurance.

The Customer Relations 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 2017, 662 out of the 1,068 complaints for the workplace pension products (62%) of complaints were upheld. This is a similar result to that reported in 2016 (61%). Two complaints were referred to the Financial Ombudsman (FOS). One of these complaints was declined and a decision is awaited on the other one.

Based on information published by FOS for all of Standard Life's life and pension products for the six months to 30 June 2017[7], the Ombudsman agreed with Standard Life's assessment in 76% (2016: 77%) of cases. The industry average for the life and pensions complaints category is 74% (2016: 70%).

5.1

STANDARD LIFE RESPONSE:

"On 30 June 2016 the FCA changed the rules related to complaint reporting to include any telephone complaints. Telephone complaints were previously not classed as reportable, but from this point forward had to be included.

At the same time we revisited our definition of complaints. The definition changed from 'any expression of dissatisfaction' to 'any one-off allegation of financial loss, material distress or material inconvenience'.

This means 2016 included H1 2016 based on the old rules and definition, with H2 2016 and the whole of 2017 based on the new rules and definition. The net impact of this meant that, on a broad like-for like basis, we would have expected the number of reported complaints to increase due to the change in rules (reflected in the actual numbers, 787 complaints in 2016 and 1,068 in 2017).

In summary, we do not believe we are seeing an increase in unhappy or dissatisfied customers. At the same time, we don't believe that complaints should be looked at in isolation or necessarily compared year-on-year. Our approach will continue to be to work to ensure the customer has a fair outcome and improve service by reviewing root causes and taking the appropriate corrective actions."

7 Most recent information available at the time of writing.

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, while up on 2016, continues to remain low relative to the number of policyholders and the number of transactions processed.

The IGC is pleased to note that, while slightly behind the internal targets, turnaround times have improved for most of the core financial transactions which are not processed straight through. While we note Standard Life's view that service accuracy has not declined, the apparent deterioration in service accuracy (albeit based on a different set of measures compared with 2016) does give us some concern and consequently this will be an area of increased focus for the IGC during 2018.

5.6 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 and implicit "transaction" costs. (See section 5.7 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 (see section 2.1 of the main report). 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.

8 Source: Standard Life.

The IGC has re-assessed the distribution of charges incurred by policyholders across different products and sizes of employer arrangements. There has been no material change in the distribution of scheme-level discounts offered by Standard Life compared with 2016. 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%-0.2%. The auto-enrolment "Good to Go" proposition receives more generous discounts to reflect the fee paid by the employer and the requirement to ensure that total 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.

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%. This figure reduced to 5%[8] after the various management actions were implemented during 2016/17.

Over the past 12 months, there has been an increase in the number of policyholders who have chosen on a self-select basis to invest in funds with total charges above 1% (up from 45,227 in 2016 to 57,387 in 2017). As a result, the proportion of assets subject to higher charges have increased slightly to 5.3% of the total AUM.

The IGC recognises that policyholders have a range in excess of 300 funds to select from, and some customers may prefer to select a higher charging fund that they consider to be more appropriate for their individual needs. The IGC also notes that 74% of Workplace personal pension policyholders (some 1.596m in total) are incurring charges at or below 0.75% per year (See **Appendix 4.1** for more detail).

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

5.7 REVIEW OF DIRECT AND INDIRECT COSTS INCLUDING TRANSACTION COSTS

In previous years' reports, we have highlighted the challenge of reporting on the transaction costs incurred as part of the investment process and which fall outside of the bundled charge that is disclosed to policyholders. In the absence of an industry agreed methodology, we have reported on an estimate of the transaction costs for the core default funds and a sample of other "self-select" funds where Standard Life has been able to provide meaningful information. In total, the coverage represented approximately 43% of total assets for all Workplace products.

In September 2017, the FCA published Policy Statement PS 17/20 – Transaction Cost Disclosure in Workplace Pensions. This sets out a prescribed methodology for calculating transaction costs incurred by fund managers when investing assets on behalf of pension savers. The FCA has stated that it expects providers, fund managers and IGCs to calculate, disclose and report transaction costs on this methodology with effect from 3 January 2018.

Delivering this regulatory change has been a sizeable undertaking for the industry, especially as it overlaps with the introduction of other new regulations in particular the Markets in Financial Instruments Directive (Mifid II) and the Packaged Retail Investment and Insurance-Based Products (PRIIPS) regulations which require similar disclosures. The IGC understands that the Standard Life group is managing these requirements through a single programme of work to benefit from re-useable capability where applicable.

Standard Life, and Aberdeen Standard Investments (ASI), who are performing the calculations on behalf of Standard Life, have informed the IGC that significant progress has been made in building the capability to deliver this requirement, and have provided transaction cost data for all funds used within Default Strategies and for all standalone funds available within its workplace pension products. Both parties are committed to full compliance by January 2019.

Standard Life has provided data on all funds, calculated using PS17/20 principles, to the IGC (see **Appendix 12**).

It should be noted, however, that there remain ongoing issues associated with gathering data and complying fully with the PS17/20 methodology which will be present throughout 2018, these are documented below.

Given the limited data provided by fund managers, Standard Life will also provide additional information based on the principles of the disclosure requirements affecting Packaged Retail Investment and Insurance-Based Products (PRIIPS) which came into effect on 1 January 2018. The proposed methodology is similar, but not identical, to that set out in PS17/20. The IGC recognise this information may prove useful when performing its VfM review during 2018.

The exceptions to the PS17/20 methodology and some of the ongoing industry issues to be tackled during 2018 are captured below.

- The regulations require an "arrival price" which is central to the calculation of the "slippage" cost. This needs to be gathered at the time of the transaction. Asset managers cannot retrospectively derive this data and it is currently unavailable for historical transactions. Where Standard Life has requested this data from fund managers and it has not been provided, the regulations stipulate it is left out of the calculation and this is made clear by providing explanatory wording. This is the approach Standard Life has adopted for "day 1". This cannot be avoided and is a known industry challenge expected to be resolved during 2018 as the new regulation becomes embedded.
- Due to the above data not being captured prior to the end of 2017, Standard Life understands that most transaction costs provided in 2018 will not contain complete arrival prices for a full 12-month period until January 2019. As data becomes available, Standard Life can phase this information into its calculations with completion anticipated in early 2019.
- As above, it is anticipated that arrival prices will become available during 2018, as they are required for both PRIIPs and PS17/20 transaction cost disclosure requirements. However the requirements for each regulation are slightly different. As such there may be further challenges during 2018 to overcome for providers, fund managers, and third party companies who have systems that manage the data provision, collation and calculation.

5.1

5.7.1 TRANSACTION COSTS FOR MANAGED, ACTIVE PLUS III, PASSIVE PLUS III AND WITH PROFITS PENSION FUNDS

The below tables include an extract of the transaction cost data provided by Standard Life. The data shown is for the main growth funds used within the main Standard Life designed Lifestyle strategies. The figures shown are calculated on a different basis to previous years, and also have their limitations, as described in 5.7 above. The lack of PS17/20 compliant data from external fund managers has meant the Passive Plus III and to a much lesser extent the Active Plus III figures are understated.

The three non-with profits funds shown below are 'fund of funds', and as in previous years the transaction costs for the underlying component funds have also been provided (see **Appendix 12**). All other funds used within default strategies and within the wider fund range will have their transaction costs published on the Standard Life IGC website in due course.

GENERAL PORTFOLIO INFORMATION

Fund Code	Fund Name	Fund Average NAV[7] (£bn)	Aggregate Transaction costs[4] (%)	Previous year(s) estimated figures 2016 (2015)
FA	Standard Life Managed Pension Fund	£22.7bn	0.100247	0.121 (0.104)
DDNA	Standard Life Active Plus III Pension Fund	£2.1bn	0.080240	0.178 (0.201)
CCHD	Standard Life Passive Plus III Pension Fund	£3.0bn	0.020827	0.159 (0.146)
W1	Standard Life Pension With Profits Fund	N/A	0.096454	N/A
W2	Standard Life Pension Inflation Plus Fund	N/A	0.000000	N/A
W8	Standard Life Pension 2 With Profits 2 Fund	N/A	0.120397	N/A
WA	Standard Life Pension With Profits One Fund	N/A	0.120397	N/A
WC	Standard Life Pension Millennium With Profits Fund	N/A	0.120397	N/A
WJ	Standard Life Pension With Profits One 2006 Fund	N/A	0.120397	N/A
WN	Standard Life Pension 2 With Profits 2 2006 Fund	N/A	0.120397	N/A
WQ	Standard Life Pension Millennium With Profits 2006 Fund	N/A	0.120397	N/A
AW	Stakeholder With Profits	N/A	0.102250	N/A
BO	Stakeholder With Profits 2006	N/A	0.091511	N/A
AW	Corporate Stakeholder With Profits	N/A	0.102250	N/A
BO	Corporate Stakeholder With Profits 2006	N/A	0.091511	N/A

TRANSACTION COST BREAKDOWN

Fund Code	% Not obtained[4]	Buy and sell TC's (%)	Lending and borrowing TC's (%)	Explicit transaction taxes (%)	Explicit fees and charges (%)	Implicit costs (%)	Indirect TC's (%)	Anti-dilution offset (%)	Securities lending and borrowing costs (%)
FA	0.00	0.100247	0.00	0.00	0.00	0.00	0.100247	0.00	0.00
DDNA	9.63	0.080240	0.00	0.00	0.00	0.00	0.080240	0.00	0.00
CCHD	70.95	0.020827	0.00	0.00	0.00	0.013144	0.007684	0.00	0.00
W1	0.00	0.096454	0.00	0.00	0.00	0.074685	0.021769	0.00	0.00
W2	0.00	0.000000	0.00	0.00	0.00	0.000000	0.000000	0.00	0.00
W8	0.00	0.120397	0.00	0.00	0.00	0.051454	0.068943	0.00	0.00
WA	0.00	0.120397	0.00	0.00	0.00	0.051454	0.068943	0.00	0.00
WC	0.00	0.120397	0.00	0.00	0.00	0.051454	0.068943	0.00	0.00
WJ	0.00	0.120397	0.00	0.00	0.00	0.051454	0.068943	0.00	0.00
WN	0.00	0.120397	0.00	0.00	0.00	0.051454	0.068943	0.00	0.00
WQ	0.00	0.120397	0.00	0.00	0.00	0.051454	0.068943	0.00	0.00
AW	0.00	0.102250	0.00	0.00	0.00	0.014562	0.087687	0.00	0.00
BO	0.00	0.091511	0.00	0.00	0.00	0.004244	0.087267	0.00	0.00

Notes:

1. Data provided by Aberdeen Standard Investments, from 1st Jan 2017 to 31st Dec 2017.
2. For all funds shown the portfolio issuer name is Standard Life Assurance Limited.
3. 'Administration charges' are shown within product literature, and are included within a bundled Total Annual Fund Charge (TAFC).
4. The regulations require an "arrival price" which is central to the calculation of "slippage" cost. Given this data has not been provided to Standard Life by any fund management group, including Aberdeen Standard Investments for the end of 2017, this has not been included in any of the calculations. This information will be phased into the calculations throughout 2018 and into early 2019.
5. As implicit transaction costs are not being reflected in the calculation, anti-dilution recovery values will not be deducted from the transaction cost. Anti-dilution recovery has both an explicit and implicit component in the spread.
6. Across the range of funds reported, data was available for all underlying funds managed entirely by Aberdeen Standard Investments. Data was unavailable for all underlying funds managed by external fund managers. Where data was unavailable, no data was used in calculation and such gaps have been left unfilled. This also applies to any 'white labelled' funds where the underlying manager is external to the group.
7. With Profits funds are based on a pooling concept whereby all of the assets of the Heritage With Profits Fund can be used to meet the liabilities of the Fund. The transaction cost we have disclosed for our With Profits customers is based on the notional fund to which they are allocated based on the level of guarantee within their policy. As this allocation is on a notional basis it means the total NAV of the allocated assets is not directly applicable to individual policies.

IGC CONCLUSIONS

The IGC welcomes the clarity now provided by the FCA following the publication of PS17/20. We recognise that there is frustration at the slow pace in which the fund management industry has prepared for these disclosure requirements. We do, however, have some sympathy with the view that the cost to make the necessary changes to data collection, systems and processes was only warranted once an industry-wide basis of calculation had been agreed. In the meantime, we are of the view that the approach to the calculation and disclosure of transaction costs adopted by Standard Life and the provision of additional PRIIPS based information represents a pragmatic solution to the current lack of "arrival price" and other data.

As at the date of this report it has not been possible to assess Transaction costs incurred across other Providers in the workplace pensions market. The IGC intends to do so as and when comparable data becomes available.

We expect transaction cost information to become fuller and more accurate during 2018. The IGC will review the developing information each quarter.

5.8 REVIEW OF OTHER VFM CONSIDERATIONS

As described in section 3.2, 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 an open Workplace scheme 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 a closed Workplace schemes.

IGC CONCLUSIONS

Based on the evidence available to the IGC, it remains too early to make a definitive determination on the VfM that these initiatives provide. However, the IGC is encouraged by the early development of metrics to test the impact of these initiatives on member behaviour and to develop scalable initiatives that can be deployed to the workplace book as a whole rather than to a few large employers.

The IGC intends to engage with Standard Life in developing and reviewing the metrics for assessing this impact during 2018.

6. Overall Conclusions

The IGC has concluded overall that Standard Life's various Workplace personal pension products continue to offer policyholders VfM; are of good quality; benefit from well-designed investment solutions; have good administration and governance; and have comprehensive policyholder support and communications materials which continue to evolve.

The IGC notes that the challenges Standard Life faced operationally in 2016 have been largely addressed and that recent performance shows substantial improvement.

In 2017 we noted that while "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…" we have discussed with Standard Life the risk that future underperformance could threaten that view and will monitor performance closely during 2017/18. Performance over the last year has demonstrated improvement and while we will continue to closely monitor performance as described above, we do not believe current performance threatens our assessment of VfM.

The IGC continues to be 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. However as noted in Section 2.9 above, in 2018/19 the IGC does intend to review the position of members who remain in legacy schemes once the final staging date has passed and the upgrade option closes.

The IGC has again reviewed the VfM offered by the large number of default arrangements designed by employer and their advisers. We conclude (subject to our comments below) that these offer policyholders VfM; are of good quality; benefit from well-designed investment solutions; have good administration and governance; and have comprehensive policyholder support and communications materials. The restructuring of the Annuity fund discussed in Section 2.3 has provided an effective means of modernising many of these arrangements without the need for individual policyholder consent.

We continue to have concerns on a small number of strategies but are satisfied that Standard Life is moving to address those concerns.

Looking forward to 2018/19, the IGC has a number of areas it wishes to consider many of which are identified in this report; in particular we intend:

- to review the investment propositions available to policyholders including the optimisation of risk levels targeted by the core default propositions, the information and guidance available to those policyholders choosing to self-select their investments, the relevance of five risk levels for all Default Strategies and the question of sole fund concentration; and
- to review the VfM in those schemes where members have not been afforded the opportunity to upgrade to more modern schemes due to their employers' choice of alternative arrangements.

The IGC wishes to place on record its appreciation of the level of resource and constructive engagement provided by Standard Life in assisting us to fulfil our duty to challenge Standard Life to improve the VfM provided to policyholders.

IGC
March 2018

5.1

APPENDICES

Appendix 1
Background

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 (OFT). Most providers of Workplace personal pension plans are required to establish an IGC to represent policyholders' interests and assess the VfM 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% 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% per year and who might therefore not receive VfM.

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 VfM 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 policyholders 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 VfM 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 policyholders of Workplace personal pension arrangements, and in particular policyholders 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 policyholders 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 VfM 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's Terms of Reference are set by Standard Life and are consistent with the regulations established by the FCA. The Terms of Reference can be found at **Appendix 3**.

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
IGC Members

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 were appointed using an external recruitment agency and following interviews with the Independent Chair. They 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 Co. Ltd the responsibilities of which largely mirror those of the IGC.)

In identifying potential candidates, candidates with experience in pension administration, investment, governance, legal, regulatory and large DC scheme design were interviewed. 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.

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.

Meet the Committee Members

5.1

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 Committees of Five Arrows Credit Solutions and Five Arrows Direct Lending.

RICHARD BUTCHER

INDEPENDENT MEMBER

Richard is Managing Director of PTL. Richard joined PTL in 2008 and he became Managing Director in 2010. Richard has been involved in pension scheme governance since 1985. PTL have also been appointed 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 Chair of the Pensions and Lifetime Savings Association (PLSA).

INGRID KIRBY

INDEPENDENT MEMBER

Ingrid is an independent trustee and investment specialist with Capital Cranfield Pension Trustees Ltd. She has 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

5.1

Independent Governance Committee

Standard Life Assurance Limited – Defined Contribution

Workplace Personal Pensions

Constitution and Terms of Reference

1. ROLE AND DUTIES

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

The Committee's key duties are:

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

2. MEMBERSHIP

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

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

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

3. COMMITTEE MEETINGS

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

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

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

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

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

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

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

4. NOTICE OF MEETINGS

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

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

5. MINUTES OF MEETINGS

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

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

6. DUTIES

LEGACY AUDIT

BACKGROUND

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

DUTIES OF THE COMMITTEE

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

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

ONGOING DUTIES

6.4 The duties of the Committee are to:

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

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

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

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

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

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

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

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

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

LIAISON AND INTERACTION

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

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

7. REPORTING RESPONSIBILITIES

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

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

7.1.2 how the Committee has considered relevant policyholders' interests;

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

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

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

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

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

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

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

8. AUTHORITY

8.1 The Committee is authorised by the SLAL Board:

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

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

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

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

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

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

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

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

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

8.2.4 making the terms of reference and the Annual Report of the IGC publicly available;

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

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

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

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

Glossary

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

Appendix 4

Scope of business/Products subject to IGC oversight

Standard Life has provided Workplace pension arrangements for many years.

The IGC considers current and former policyholders 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)

PRODUCTS, POLICIES AND ASSETS UNDER MANAGEMENT AS AT 31.12.2017

POLICY NUMBERS AND AUA FOR WORKPLACE PERSONAL PENSION PLANS

Current and former workplace members	Policies 31/12/16	Policies 31/12/16	AUA (£m) 31/12/16	AUA (£m) 31/12/17
Newer style products				
Group Flexible Retirement Plan (GFRP) and Group Self-Invested Personal Plan (GSIPP)	712,807	796,331	15,163	17,7956
Group Flexible Retirement Plan – Good to Go	246,679	332,353	492	891
Older style products				
Group Personal Pension (GPP)	485,169	482,114	10,698	11,164
Group Personal Pension One (GPPOne)	102,226	101,970	1,844	1,924
Group Personal Pension Flex (GPPFlex)	138,596	139,700	2,748	2,881
Group Personal Pension for Large Employers (GPPLE)	22,007	22,069	582	642
Group Stakeholder Pension (GSHP)	240,286	241,655	4,184	4,515
Corporate Stakeholder Pension (CSHP)	54,806	52,603	1,284	1,301
Total (All products)	**2,003,576**	**2,168,795**	**36,995**	**41,113**

The figures in the table above include self-invested assets and those members and former members in drawdown

APPENDIX 4.1

DISTRIBUTION OF MEMBER CHARGES

The tables below show the number of members with total charges above 1.00% at 31 December 2017. The first table shows the split between current and former workplace members. The second table shows the number split by the type of higher charge (commission or fund choice or both).

Total member charge	Estimated number of workplace personal pension members	Estimated number of former workplace personal pension members	Total
>1.48%	8,878	6,422	15,300
1.01% to 1.48%	23,455	18,960	42,415
	32,333	**25,382**	**57,715**

	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%	118	157	15,025	15,300
1.01% to 1.48%	34	19	42,362	42,415
	152	**176**	**57,387**	**57,715**

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

The table below shows the overall distribution of charges across the book of workplace personal pension plans.

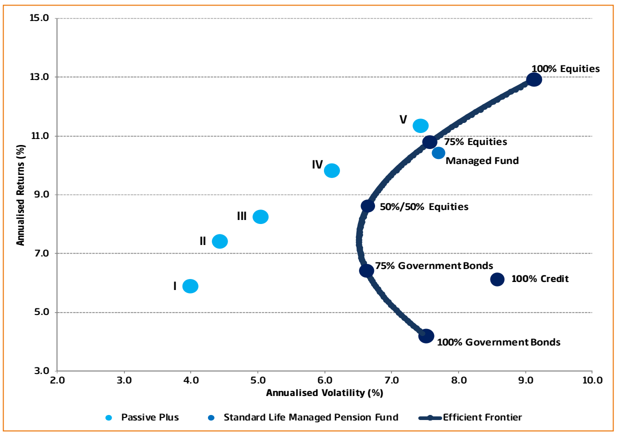
Total member charge	Number of members and former members of workplace personal pension schemes	Percentage	Assets (£m)	Percentage
>1.48%	15,300	0.7%	434	1.1%
1.01% to 1.48%	42,415	2.0%	1,685	4.2%
0.76% to 1.00%	496,262	23.1%	8,912	22.0%
<=0.75%	1,596,621	74.2%	29,564	72.8%
	2,150,598		**40,595**	

Appendix 5
Efficient Frontier and Performance Charts

APPENDIX 5A

EFFICIENT FRONTIER CHARTS

PASSIVE PLUS

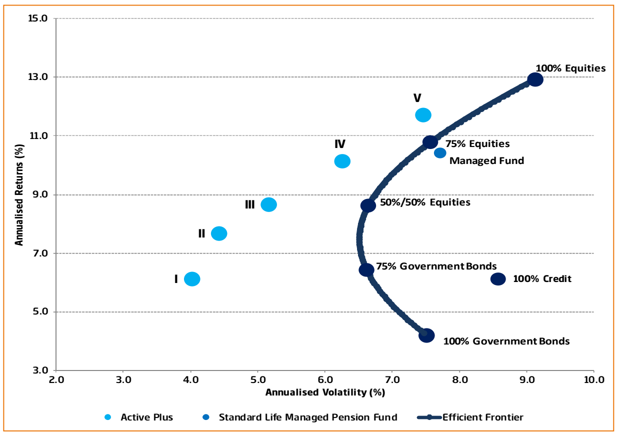


Fund	Annualised return	Annualised volatility
I	5.87	4.00
II	7.41	4.44
III	8.25	5.05
IV	9.81	6.11
V	11.34	7.44

RISK RETURN RATIO

I	II	III	IV	V
1.47	1.67	1.64	1.61	1.52

ACTIVE PLUS



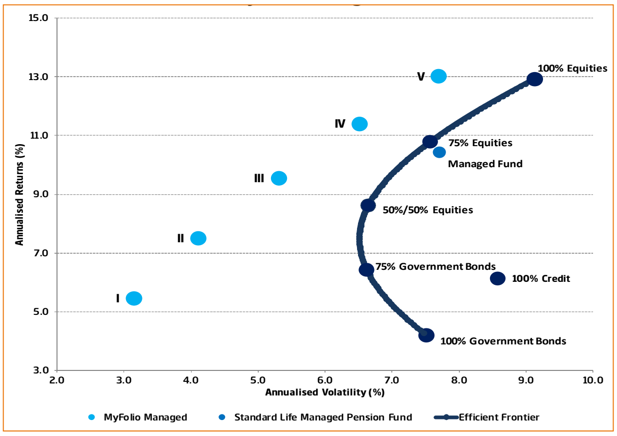
Fund	Annualised return	Annualised volatility
I	6.10	4.03
II	7.65	4.44
III	8.65	5.18
IV	10.12	6.27
V	11.71	7.47

RISK RETURN RATIO

I	II	III	IV	V
1.51	1.72	1.67	1.61	1.57

5.1

MYFOLIO MANAGED



Fund	Annualised return	Annualised volatility
I	5.44	3.16
II	7.49	4.12
III	9.53	5.32
IV	11.39	6.52
V	13.00	7.70

RISK RETURN RATIO

I	II	III	IV	V
1.72	1.82	1.79	1.75	1.69

Source:
Efficient frontier underlying indices; Thomson Reuters Eikon (allowing for 1% annual management charge from 31/12/12 to 31/12/17) Fund returns and volatility; Financial Express.

Time Period:
Annualised volatility v Annualised Return charts as well as the efficient frontier are shown for 5 years.

Methodology:
All returns calculated Total Return in GBP. Fund returns calculated on Series 4 (with AMC
and additional expenses added back).

The efficient frontier displays the historic risk and return characteristics of over 100 sample portfolios, ranging from 100% allocation to equities (split 50:50 UK and Global) at one end to a 100% allocation to government bonds (split 50:50 UK and Global) at the other and all possible combinations in between.

5.1

APPENDIX 5B

PERFORMANCE CHARTS

The table below illustrates a backtest of the effect of a range of historic market shocks on the performance of the MyFolio Managed range of multi-asset risk-based funds (which have a similar asset allocations to the other risk based fund ranges used in defaults such as Active Plus and Passive Plus) in comparison to a traditional portfolio with a simple market based asset allocation of 80% global equity (MSCI World Index) and 20% UK government bonds (FTSE British Government All Stocks Index).

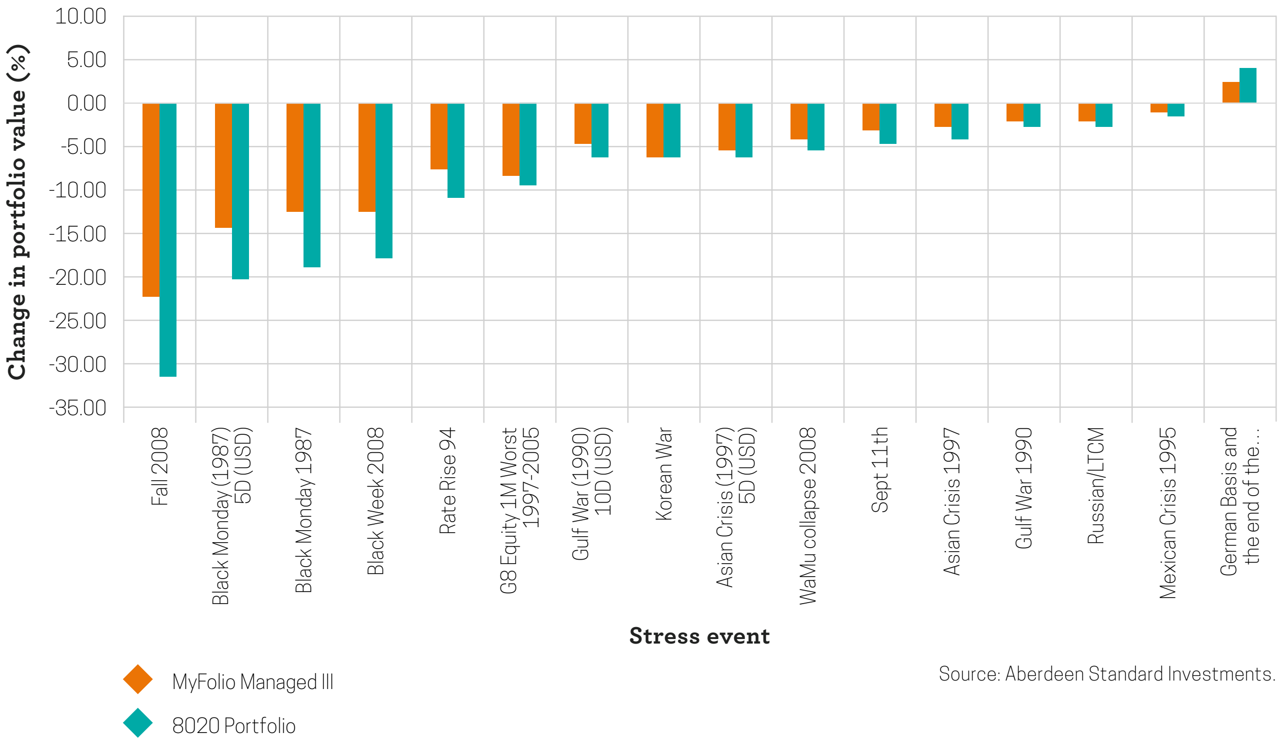
	I	II	III	IV	V	80% Equity / 20% Bond Portfolio
Equity Fall 2008	-10.06	-16.38	-22.30	-27.89	-30.96	-31.30
Black Monday (1987) 5 day (US$)	-6.85	-10.51	-13.94	-17.07	-18.95	-20.54
Black Monday 1987	-6.29	-9.59	-12.63	-15.35	-17.02	-17.87
Black Week 2008	-6.28	-9.74	-12.92	-15.74	-17.05	-17.09
Global Interest Rate Rise 1994	-6.02	-6.96	-7.76	-8.18	-8.42	-11.10
G8 Equity 1Month Worst 1997-2005	-2.41	-5.22	-8.03	-11.08	-12.71	-9.25
Gulf War (1990) 10 Day (US$)	-2.61	-3.80	-4.83	-5.72	-6.32	-6.96
Korean War	-4.68	-5.98	-7.12	-8.31	-8.92	-6.90
Asian Crisis (1997) 5 Day (US$)	-2.75	-4.16	-5.47	-6.82	-7.66	-6.70
WaMu collapse 2008	-1.65	-2.96	-4.11	-5.24	-6.09	-6.31
Sept 11th	-1.53	-2.45	-3.32	-4.14	-4.70	-4.69
Asian Crisis 1997	-1.26	-2.02	-2.75	-3.54	-4.10	-4.03
Gulf War 1990	-0.99	-1.46	-1.88	-2.26	-2.49	-2.73
Russian Oil Crisis/ Collapse of Long Term Capital Management	-0.79	-1.30	-1.79	-2.27	-2.58	-2.68
Mexican Crisis 1995	-0.69	-0.99	-1.19	-1.37	-1.51	-1.27
German Basis and the end of Longer-term Refinancing operations	-0.15	0.89	2.28	3.55	4.00	3.48

Source: Aberdeen Standard Investments.

The graph below shows for the same stress scenarios as the table above providing a comparison between the traditional simple portfolio (80% global equity and 20% UK government bond) and the default risk level III (using the MyFolio Managed III fund) which employs a more broadly diversified strategic asset allocation with exposure to a wider range of asset classes (including UK and overseas equity, absolute return strategies, property, high yield, UK and global corporate bonds, UK and global government bonds). Risk level III is used for this comparison as it most closely matches the core default strategies offered by Standard Life for QWPS schemes.

The MyFolio Managed III fund benefits from the extra diversification when tested against historic market shocks in 14 of the 16 periods tested with the largest benefits coming when the market is under the greatest stresses (i.e. suffers the largest falls). In the two worst stress periods (fall in 2008 and black Monday in 1987). In these periods the MyFolio fund outperforms the traditional approach by 9.01% and 6.61% respectively.

In two of the stress periods the traditional portfolio outperforms but in one this is so marginal as to be considered neutral (0.23%) and in the other (German Basis and the end of the LTRO Effect) both portfolios produced a positive return with the traditional portfolio rising by 3.48% versus 2.28% for the risk level III fund.



Source: Aberdeen Standard Investments.

Appendix 6
Performance Adjusted Sharpe and Sortino Ratios

APPENDIX 6A

PERFORMANCE ADJUSTED SHARPE RATIOS

COMPETITOR ANALYSIS – CUMULATIVE 3 YEAR RISK ADJUSTED PERFORMANCE – SHARPE RATIO

	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	Jan-17	Feb-17	Mar-17	Apr-17	May-17	Jun-17	Jul-17	Aug-17	Sep-17
Active Plus III	1.30	1.42	1.40	1.34	0.97	0.94	0.95	0.93	0.87	1.16	1.16	1.41	1.36	1.28	1.20	1.27	1.41	1.39	1.48	1.44	1.46	1.38	1.40	1.36	1.32
Passive Plus III	1.12	1.26	1.24	1.16	0.86	0.82	0.84	0.81	0.76	1.18	1.18	1.45	1.44	1.36	1.29	1.40	1.51	1.52	1.57	1.51	1.50	1.46	1.47	1.44	1.38
Competitor fund 1								0.46	0.42	0.80	0.83	1.06	1.08	0.94	0.93	1.03	1.23	1.21	1.27	1.23	1.22	1.20	1.22	1.18	1.18
Competitor fund 2	0.54	0.75	0.76	0.69	0.40	0.46	0.52	0.49	0.53	0.88	1.00	1.14	1.13	1.11	1.09	1.23	1.31	1.33	1.38	1.32	1.31	1.28	1.31	1.28	1.22
Competitor fund 3					0.68	0.58	0.67	0.66	0.64	0.98	0.99	1.24	1.20	1.10	1.02	1.19	1.26	1.26	1.34	1.27	1.28	1.27	1.32	1.30	1.27
Competitor fund 4	0.77	0.94	0.90	0.87	0.46	0.48	0.47	0.51	0.50	0.85	0.85	1.07	1.12	1.10	1.07	1.15	1.26	1.23	1.26	1.14	1.16	1.10	1.15	1.09	1.06
Competitor fund 5							0.25	0.27	0.18	0.57	0.61	0.78	0.80	0.77	0.72	0.86	0.97	0.96	1.02	0.94	0.93	0.94	0.94	0.92	0.91
Competitor fund 6	0.70	0.84	0.81	0.72	0.51	0.51	0.58	0.53	0.59	1.01	1.07	1.33	1.32	1.24	1.20	1.32	1.44	1.45	1.46	1.41	1.40	1.36	1.37	1.35	1.34
Competitor fund 7	1.07	1.21	1.23	1.19	0.80	0.80	0.80	0.78	0.73	1.00	1.00	1.18	1.19	1.15	1.11	1.18	1.33	1.29	1.37	1.27	1.31	1.26	1.28	1.23	1.22
Competitor fund 8	0.68	0.86	0.83	0.77	0.37	0.43	0.47	0.47	0.36	0.69	0.74	0.89	0.88	0.86	0.78	0.89	0.99	0.98	1.08	1.01	1.01	1.01	1.03	1.02	1.00
Competitor fund 9								0.63	0.63	0.94	0.96	1.14	1.07	0.97	0.92	0.96	1.20	1.21	1.21	1.19	1.10	1.04	1.06	0.95	1.03

APPENDIX 6B

PERFORMANCE ADJUSTED SORTINO RATIOS

COMPETITOR ANALYSIS – CUMULATIVE 3 YEAR RISK ADJUSTED PERFORMANCE – SORTINO RATIO

	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	Jan-17	Feb-17	Mar-17	Apr-17	May-17	Jun-17	Jul-17	Aug-17	Sep-17
Active Plus III	1.28	1.45	1.43	1.43	0.99	0.96	0.97	0.94	0.88	1.21	1.25	1.47	1.42	1.29	1.20	1.29	1.37	1.35	1.37	1.39	1.42	1.34	1.37	1.32	1.27
Passive Plus III	0.94	1.10	1.08	1.06	0.78	0.74	0.76	0.73	0.69	1.13	1.14	1.37	1.36	1.24	1.17	1.30	1.34	1.36	1.40	1.42	1.42	1.38	1.38	1.35	1.28
Competitor fund1								0.47	0.43	0.88	0.93	1.19	1.21	1.02	1.01	1.08	1.28	1.25	1.25	1.27	1.25	1.23	1.25	1.20	1.19
Competitor fund2	0.49	0.75	0.76	0.71	0.40	0.47	0.54	0.51	0.53	0.92	1.12	1.24	1.23	1.20	1.17	1.28	1.31	1.35	1.32	1.33	1.31	1.29	1.31	1.28	1.21
Competitor fund3					0.74	0.62	0.73	0.72	0.70	1.12	1.15	1.44	1.40	1.24	1.13	1.31	1.40	1.39	1.42	1.40	1.45	1.41	1.41	1.37	1.34
Competitor fund4	0.88	1.07	1.02	0.98	0.47	0.48	0.47	0.51	0.51	0.91	0.91	1.13	1.14	1.11	1.07	1.17	1.30	1.25	1.23	1.15	1.17	1.11	1.11	1.05	1.02
Competitor fund5							0.24	0.26	0.18	0.60	0.67	0.84	0.86	0.82	0.76	0.89	0.99	0.96	0.98	0.95	0.94	0.94	0.95	0.92	0.91
Competitor fund6	0.68	0.85	0.82	0.75	0.53	0.53	0.62	0.57	0.63	1.23	1.34	1.71	1.69	1.55	1.49	1.57	1.66	1.67	1.68	1.69	1.67	1.63	1.64	1.60	1.59
Competitor fund7	1.04	1.23	1.25	1.25	0.80	0.80	0.80	0.78	0.72	1.00	0.99	1.14	1.14	1.08	1.04	1.12	1.23	1.16	1.17	1.15	1.19	1.14	1.16	1.11	1.10
Competitor fund8	0.65	0.88	0.85	0.82	0.36	0.42	0.47	0.47	0.37	0.73	0.83	0.97	0.96	0.93	0.82	0.96	1.04	1.02	1.08	1.05	1.06	1.06	1.08	1.06	1.04
Competitor fund9								0.53	0.53	0.81	0.83	0.95	0.93	0.82	0.81	0.85	1.06	1.07	1.07	1.10	0.98	0.96	0.99	0.92	0.95

Appendix 7
FCA's Conduct of Business Rule Requirements

In its Conduct of Business rules (COBS) 19.5.5 2(a) to 2(e) the FCA 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 the provider:

(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 the provider or the IGC considers necessary;

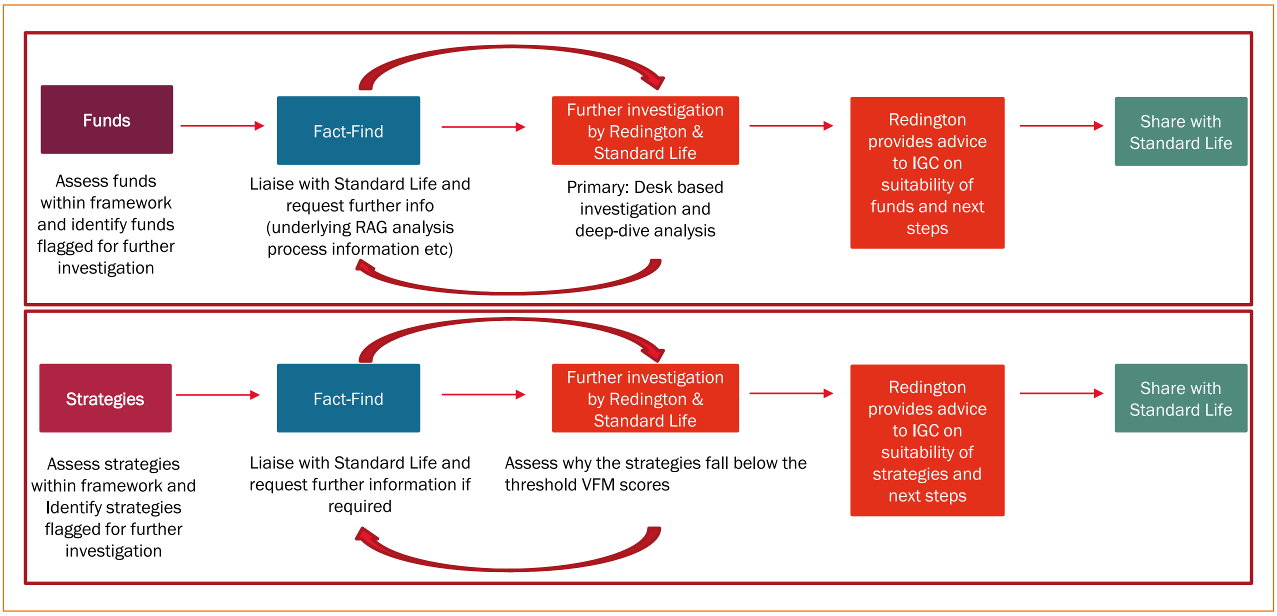
(c) That core scheme financial transactions are processed promptly and accurately;

(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.

Appendix 8
The IGC/Redington process

APPENDIX 8.1
OVERALL METHODOLOGY



APPENDIX 8.2
REVISED FUND METHODOLOGY

In 2016, the IGC chose to adopt a dual fund performance assessment and scoring approach for each of the 170 funds assessed in 2016 and has maintained that approach for the 179 funds assessed in 2017 with the following changes:

For those funds with non-investable benchmarks (such as CPI or cash+ targets) the funds are compared against their stated benchmarks; the corridor test described below is not used as those funds would be expected to deviate from the benchmark over the short term. An absolute cap on volatility was tested to assess whether the manager was taking too much or too little risk in seeking to meet their target benchmark.

For all other funds the analysis remains that as a starting point, a simple three-year analysis of historic returns (performance vs benchmark) and risk (tracking error vs benchmark) is used.

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

If a fund is flagged for attention using either approach, it is then investigated further to assess whether some remedial action might be 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 return:

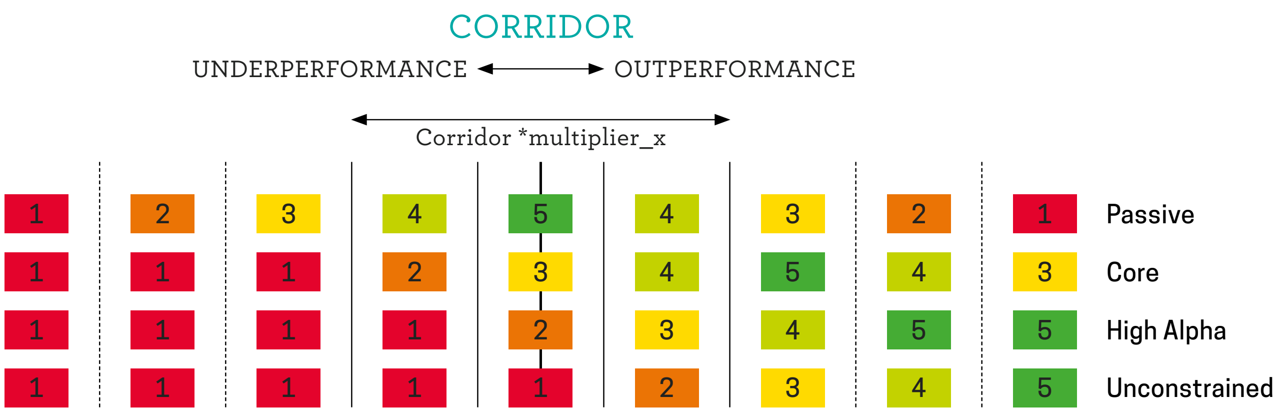
The three year out or underperformance vs benchmark, and three year tracking error figures are inputs to the analysis. They are inputs to the scoring matrix and create a score for each fund that determines those for further review.

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".



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 2017.

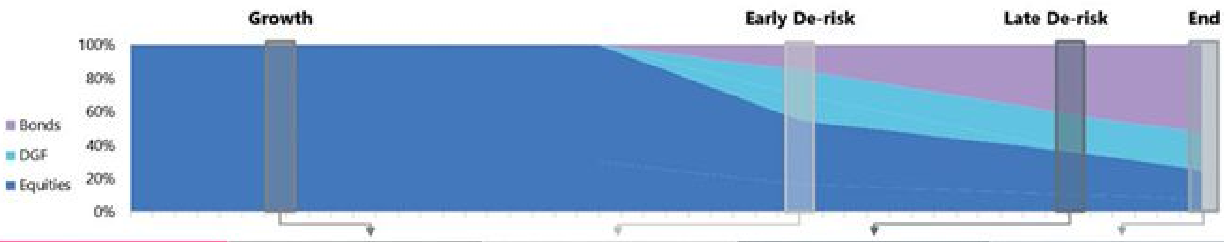
APPENDIX 8.3

REVISED STRATEGY METHODOLOGY

The strategy methodology adopted in 2016 has also been reviewed and modified in the light of evidence both of changing default design and changing member behaviour in the timing and method of taking their benefits.

Strategy design has begun to evolve from the traditional single derisking phase typified by an annuity end point to more sophisticated multi stage derisking paths better suited to those members choosing cash or drawdown rather than annuity end points or electing to access their benefits prior to their Notional Retirement Date while continuing to work.

To reflect these developments, the IGC agreed a methodology change to include an extra test point (slice) as illustrated below:

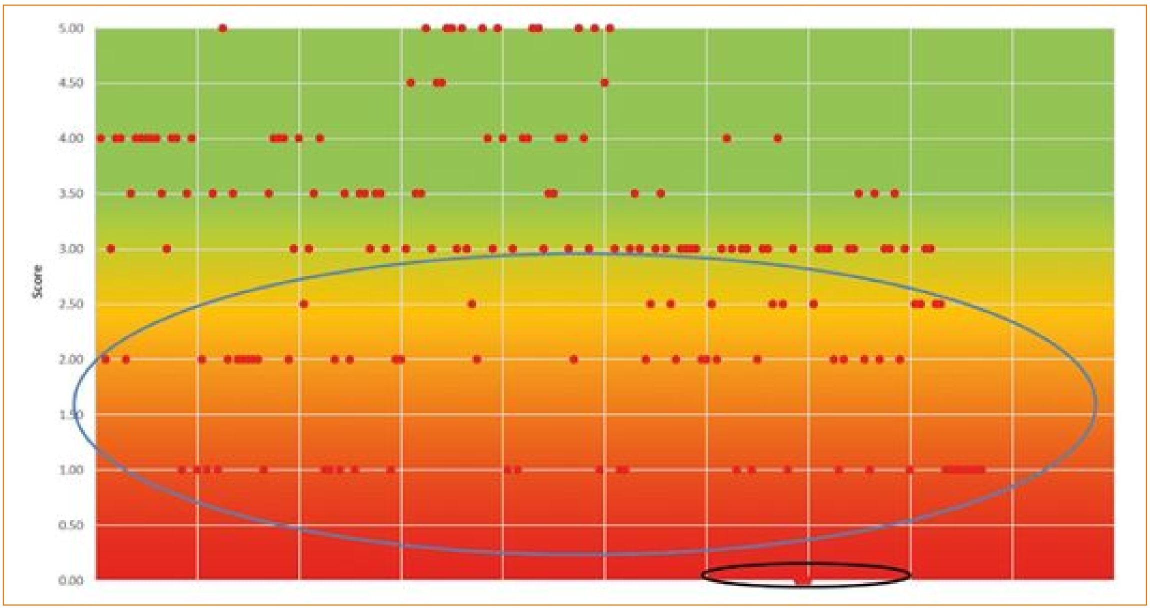


	Growth Slice	Early De-risking Slice	Late De-risking Slice	End Slice
Year of assessment	NRD - 30	NRD - 13	Middle of de-risking glidepath as determined by SL	NRD - 0
What is the objective that members are looking for?	Main concern is to grow DC pot size and continue to contribute into the scheme. Members can typically sustain relatively large drawdowns due to continued contributions, low pot size and long time period until money is taken out.	Propensity for members to access their pot early (age 55), therefore some downside risk management approaching this point appears to be appropriate. However, given that there is still c.20 years to NRD, investment returns remain important.	As members approach NRD, it is appropriate to de-risk as there is limited time and incoming contributions to make up losses if a significant drawdown is experienced.	Ensure that the investment strategy matches the chosen retirement option.
Therefore, what should be flagged by the framework?	Strategies that do not deliver sufficient returns in a risk (and cost) efficient manner.	Strategies that either do not manage the downside risk appropriately, or do not provide sufficient risk-adjusted returns.	Strategies that continue to run high investment risk as the member approaches NRD.	Strategies with terminal allocations that are not aligned to the member's desired retirement option.

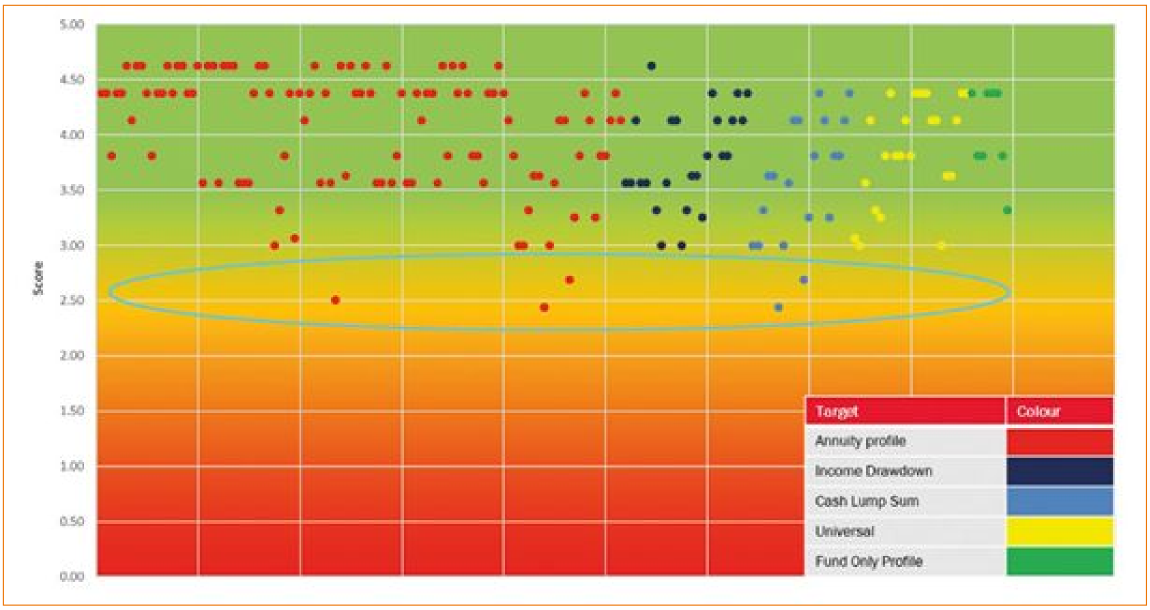
5.1

Appendix 9
Redington Results for 2017

APPENDIX 9A)
FUND ANALYSIS RESULTS

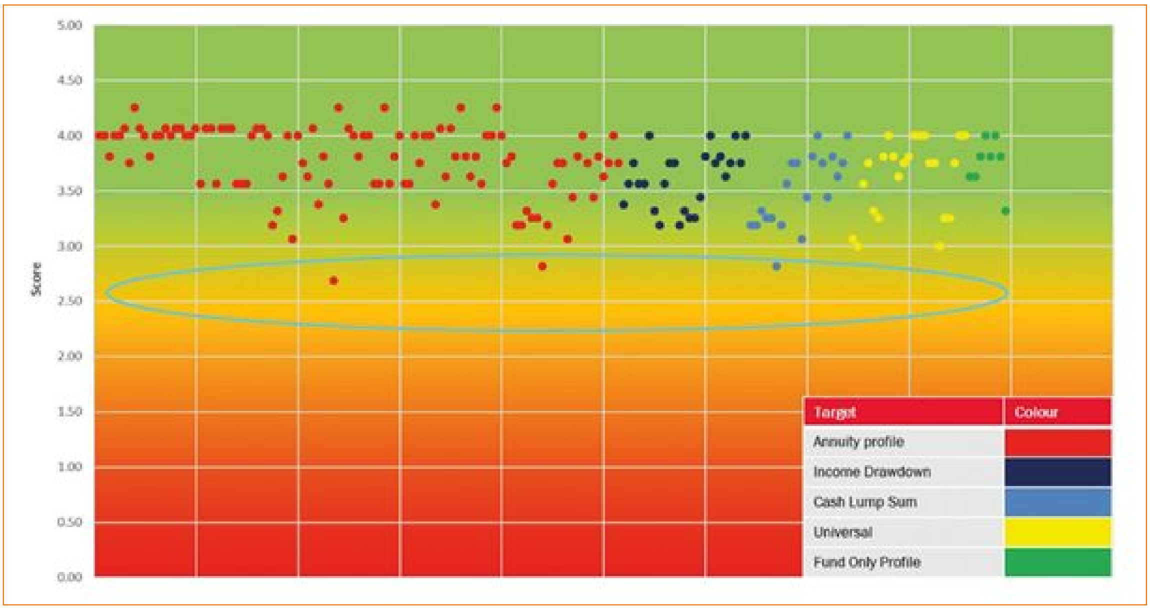


APPENDIX 9B)
STRATEGY GROWTH PHASE RESULTS



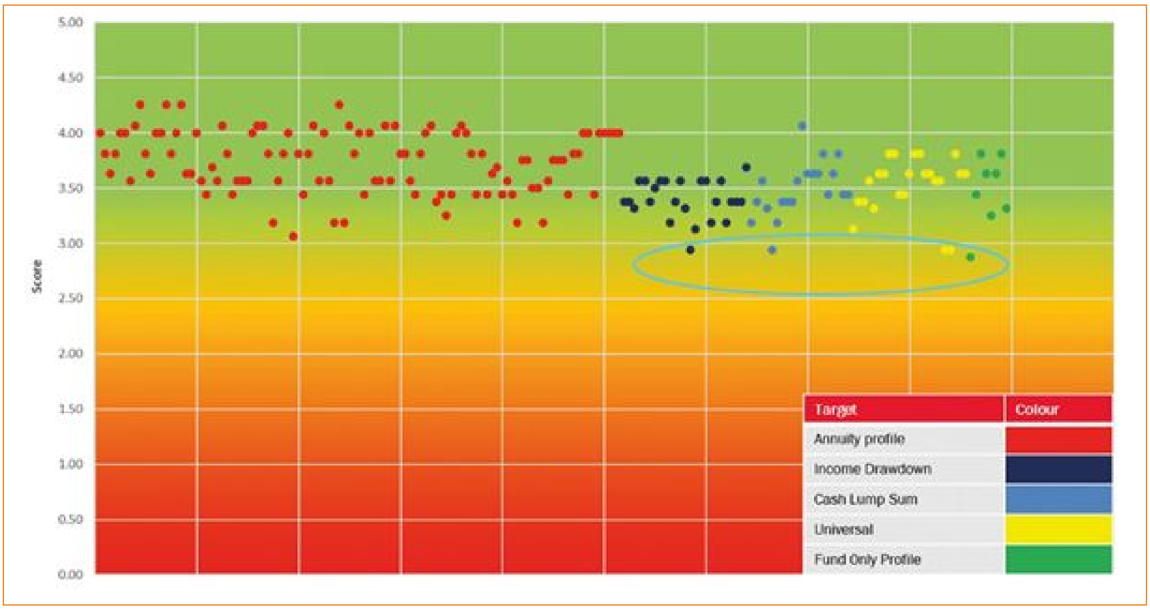
APPENDIX 9C)

EARLY DERISKING PHASE RESULTS



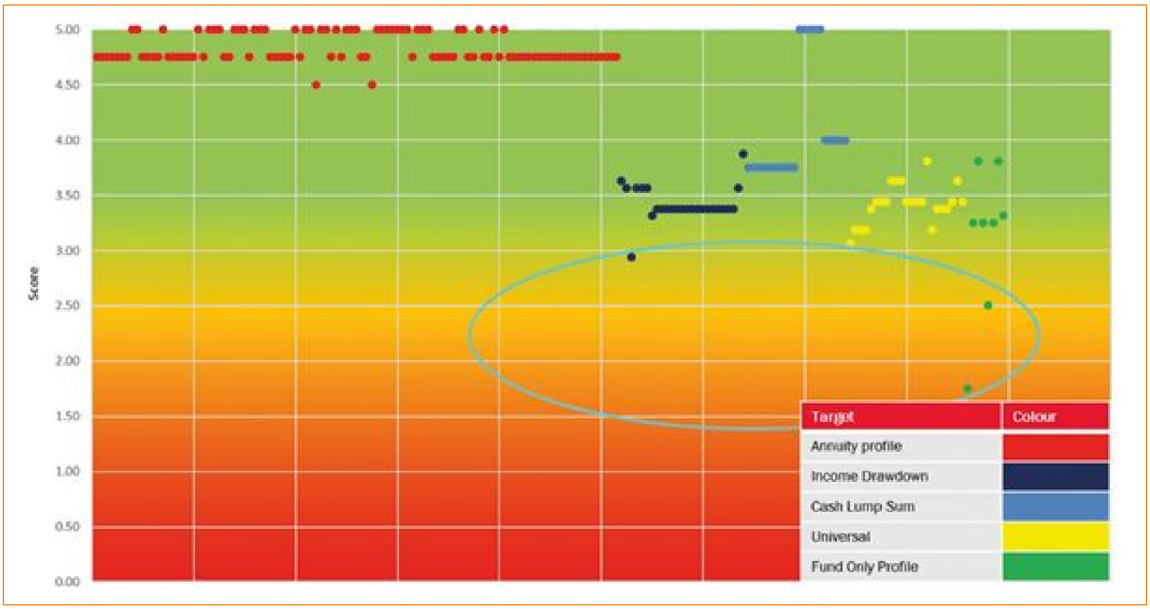
APPENDIX 9D)

LATE DERISKING PHASE RESULTS



APPENDIX 9E)

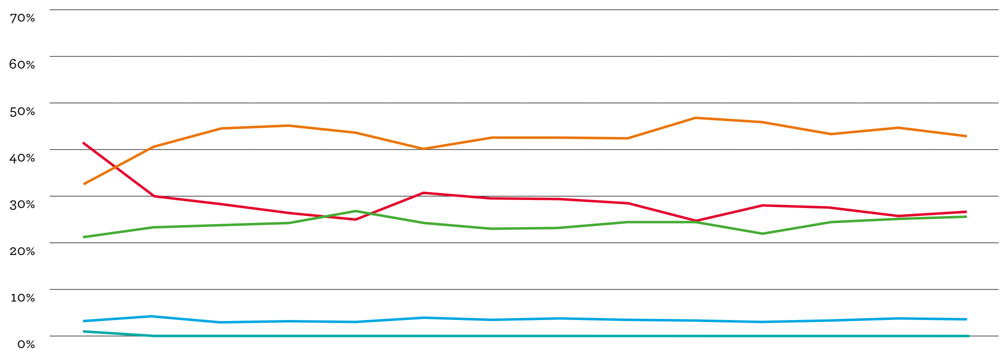
END POINT RESULTS



Appendix 10
Customer Behaviour and Satisfaction Statistics

APPENDIX 10A)

OVERALL CUSTOMER BEHAVIOUR



	2015 avg	2016 avg	Jan 17	Feb 17	Mar 17	Apr 17	May 17	Jun 17	Jul 17	Aug 17	Sep 17	Oct 17	Nov 17	Dec 17
OMO Annuity	4%	5%	3%	4%	4%	4%	4%	4%	4%	4%	3%	4%	4%	4%
Full Encashment and Triviality	41%	31%	28%	26%	25%	30%	30%	30%	28%	25%	28%	27%	26%	27%
Internal Xfer (inc to AMPP)	22%	23%	24%	25%	27%	24%	23%	24%	25%	24%	22%	25%	25%	26%
External Xfer	33%	41%	44%	45%	44%	41%	43%	42%	43%	47%	46%	43%	45%	43%
SL Annuity	1%	1%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%

APPENDIX 10B

NPS AND NEASY SCORES

NPS	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	2017 Average
Drawdown	59	50	56	58	68	58	62	60	63	63	69	70	62
Annuity	63	14	32	28	46	47	55	52	54	52	52	73	48
Online Retirement	38	34	40	47	60	50	50	65	54	60	52	51	50

nEasy	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	2017 Average
Drawdown	38	35	41	44	50	46	52	51	54	59	59	59	50
Annuity	50	8	23	21	63	47	49	47	58	55	70	73	48
Online Retirement	31	34	24	44	52	36	53	47	37	51	51	39	42

Source: Standard Life

Appendix 11
Transaction Volumes and Performance

APPENDIX 11A)

	Percentage of Total Core Financial Transactions					Total (2017)
Core Financial Transaction	Same Day	Next Day	2 to 5 days	6 to 10 Days	Over 10 Days	
Regular Contributions	90.1%	5.5%	3.1%	0.4%	0.9%	10,947,516
Ad hoc Contributions	94.0%	2.4%	1.4%	0.8%	1.3%	76,569
Single Contributions	86.1%	4.9%	3.2%	1.8%	4.0%	19,095
Transfers In	89.8%	2.4%	3.7%	1.8%	2.3%	16,319
Fund Switches	99.5%	0.0%	0.1%	0.1%	0.3%	2,162,187
Transfers Out	63.1%	10.4%	23.1%	2.4%	1.1%	52,170
Retirements	40.2%	51.2%	6.6%	1.2%	0.8%	20,183
Death Settlements*	11.4%	4.7%	11.9%	10.5%	61.5%	1,685
Total	**91.5%**	**4.7%**	**2.7%**	**0.4%**	**0.8%**	**13,295,724**

Source: Standard Life.
*The measurement of death settlement is notification of date of death to final settlement date.

CORE TRANSACTIONS NOT PROCESSED “STRAIGHT THROUGH”

Process	Total Processed Non – STP	Total No. Processed within 10 working days	% within 10 working days
Contributions Allocated (excluding online payments)	8,284	8,107	97.86%
Allocate Transfer of Benefits In	16,076	13,346	83.02%
Information Requests Issued	173,671	157,504	90.69%
Updates to Records	128,838	112,115	87.02%
Leavers Processed	5,482	3,130	57.10%
Change or Switch Investments	17,110	16,975	99.21%
Pay Transfer of Benefits Out	17,164	16,112	93.87%
Pay Benefits on Retirement	5,198	4,904	94.34%
Pay Benefits on Death	2,159	1,034	47.89%
Total	**373,982**	**333,227**	**89.10%**

Source: Standard Life

APPENDIX 11B)

Core Financial Transaction	Average Quality % (Accuracy)	
	2016	**2017***
Regular Contributions	95%	92%
New Joiner & Increment Set-Up	96%	
Transfer of Benefits In	100% (external) 99% (internal)	
Investment Changes (Non – Lifestyle)	98%	98%
Transfer of Benefits Out	100% (external) 99% (internal)	95%
Retirement Settlement	99%	
Death Settlement	93%	

Source: Standard Life
* Figures for 2017 are not directly comparable with those from 2016 due to the introduction of a new reporting system and additional quality checking considerations.

APPENDIX 11C)

PROPOSED SERVICE LEVEL TARGETS

Demand no./ Category	Demand No.	Demand Type	Proposed Service Level Target (days)
1. Contributions Allocated	1.1.	Process Regular Scheme Payments	10
	1.2.	Top Up	5
2. Transfer In			10
3. Provide Information	3.1.	General Information	10
	3.2.	Provide Retirement Quote	5
4. Update Records	4.1.	General Updates (5 Day SLT)	5
	4.2.	Set Up Plan	10
	4.3.	General Updates (10 Days SLT)	10
	4.4.	Change My Normal Retirement Date	10
	4.5.	Group Pension Zone Manual Updates*	10
	4.6.	Legal Miscellaneous	10
	4.7.	Set Up My Scheme	40
5. Fund Switch/Redirection			3
6. Leaver			10
7. Short Service Refund			10
8. Retirement	8.1.	Orchestration Administration	20
	8.2.	Orchestration Request	5
	8.3.	Process Health Claim	15
	8.4.	Settlement Retirement Benefits	5
9. Transfer Out			10
10. Death Settlement			10

* Group Pension Zone is Standard Life's extranet platform used by employers and administration to add new joiners, pay contributions and maintain records.

Appendix 12
Transaction Costs for the Managed, Active Plus III and Passive Plus III Pension Funds, and their underlying components

5.1

The transaction costs for each of the Managed, Active Plus III and Passive Plus III funds, are shown below alongside the transaction costs of their underlying component funds.

I. MANAGED PENSION FUND

GENERAL PORTFOLIO INFORMATION

Fund Code	Fund Name	Fund Average NAV (£bn) (Weight %)	**Aggregate Transaction costs[4] (%)**
FA	**Managed Pension Fund**	**£22.7bn**	**0.100247**
AAGE	European Equity (managed funds) Internal Asset Fund	14.8%	0.076442
DDFK	North American Equity (managed funds) Internal Asset Fund	17.6%	0.040617
EEGK	UK Equity (managed funds) Internal Asset Fund	29.0%	0.152583
FC	Standard Life UK Smaller Companies Pension Fund	0.9%	0.173884
FJ	Standard Life Japanese Equity Pension Fund	7.0%	0.076515
G9	Standard Life Global Bond Pension Fund	7.3%	0.001228
GM	Standard Life Managed Pension Asset Fund	10.3%	0.200273
GW	Standard Life Pooled Property 2 Pension Fund	0.5%	0.112866
HD	Standard Life UK Gilt Pension Fund	2.3%	0.001270
HH	Standard Life Corporate Bond Pension Fund	4.7%	0.000289
HL	Standard Life Emerging Markets Pension Fund	3.4%	0.229151
HS	Standard Life Pooled Property Pension Fund	1.1%	0.388459
KMBA	Standard Life Active Higher Interest Pension Fund	0.8%	0.000000
RQ	SL SLI UK Equity Unconstrained Pension Fund	0.4%	0.520676

Notes:
1. Data provided by Aberdeen Standard Investments, from 1st Jan 2017 to 31st Dec 2017.
2. For all funds shown the portfolio issuer name is Standard Life Assurance Limited.
3. 'Administration charges' are shown within product literature, and are included within a bundled Total Annual Fund Charge (TAFC).
4. The regulations require an "arrival price" which is central to the calculation of "slippage" cost. Given this data has not been provided to Standard Life by any fund management groups for the end of 2017, this has not been included in any of the calculations. This information will be phased into the calculations throughout 2018 and into early 2019.
5. As implicit transaction costs are not being reflected in the calculation, anti-dilution recovery values will not be deducted from the transaction cost. Anti-dilution recovery has both an explicit and implicit component in the spread.
6. Across the range of funds reported, data was available for all underlying funds managed entirely by Aberdeen Standard Investments. Data was unavailable for all underlying funds managed by external fund managers. Where data was unavailable, no data was used in calculation and such gaps have been left unfilled. This also applies to any 'white labelled' funds where the underlying manager is external to the group.

TRANSACTION COST BREAKDOWN

Fund Code	% Not obtained	Buy and sell TC's (%)	Lending and borrowing TC's (%)	Explicit transaction taxes (%)	Explicit fees and charges (%)	Implicit costs (%)	Indirect TC's (%)	Anti-dilution offset (%)	Securities lending and borrowing costs (%)
FA	**0**	**0.100247**	**0.000000**	**0.000000**	**0.000000**	**0.000000**	**0.100247**	**0.000000**	**0.000000**
AAGE	0	0.076442	0.000000	0.025304	0.051138	0.000000	0.000000	0.000000	0.000000
DDFK	0	0.040617	0.000000	0.000000	0.040617	0.000000	0.000000	0.000000	0.000000
EEGK	0	0.152583	0.000000	0.106619	0.045964	0.000000	0.000000	0.000000	0.000000
FC	0	0.173884	0.000000	0.097684	0.076200	0.000000	0.000000	0.000000	0.000000
FJ	0	0.076515	0.000000	0.000000	0.068112	0.001094	0.007309	0.000000	0.000000
G9	0	0.001228	0.000000	0.000000	0.001228	0.000000	0.000000	0.000000	0.000000
GM	0	0.200273	0.000000	0.053646	0.053585	-0.001112	0.094155	0.000000	0.000000
GW	0	0.112866	0.000000	0.008340	0.098821	0.000000	0.000000	0.000000	0.000000
HD	0	0.001270	0.000000	0.000000	0.001270	0.000000	0.000000	0.000000	0.000000
HH	0	0.000289	0.000000	0.000000	0.000091	0.000197	0.000001	0.000000	0.000000
HL	0	0.229151	0.000000	0.015271	0.128065	0.000000	0.085815	0.000000	0.000000
HS	0	0.388459	0.000000	0.208254	0.180205	0.000000	0.000000	0.000000	0.000000
KMBA	0	0.000000	0.000000	0.000000	0.000000	0.000000	0.000000	0.000000	0.000000
RQ	0	0.520676	0.000000	0.000000	0.000000	0.173018	0.347658	0.000000	0.000000

Notes:

1. Data provided by Aberdeen Standard Investments, from 1st Jan 2017 to 31st Dec 2017.
2. For all funds shown the portfolio issuer name is Standard Life Assurance Limited.
3. 'Administration charges' are shown within product literature, and are included within a bundled Total Annual Fund Charge (TAFC).
4. The regulations require an "arrival price" which is central to the calculation of "slippage" cost. Given this data has not been provided to Standard Life by any fund management groups for the end of 2017, this has not been included in any of the calculations. This information will be phased into the calculations throughout 2018 and into early 2019.
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II. ACTIVE PLUS III PENSION FUND

GENERAL PORTFOLIO INFORMATION

Fund Code	Fund Name	Fund Average NAV (£bn) (Weight %)	Aggregate Transaction costs[4] (%)
DDNA	**Active Plus III Pension Fund**	**£2.1bn**	**0.080240[7]**
2I	SL SLI Global Absolute Return Strategies Pension Fund	13.6%	0.156002
AAGE	European Equity (managed funds) Internal Asset Fund	7.5%	0.076442
AAJP[6]	SL Global Property Securities Asset Fund	2.1%	0.000000
ACAK	Standard Life Emerging Market Local Currency Debt Fund	0.3%	0.379541
BBKL[6]	SL Vanguard UK Short-Term Investment Grade Bond Index Pension Fund	9.6%	0.090875
DDCK	SL SLI Global High Yield Bond Pension Fund	3.0%	0.125074
DDFK	North American Equity (managed funds) Internal Asset Fund	14.4%	0.040617
EEGK	UK Equity (managed funds) Internal Asset Fund	13.7%	0.152583
FC	Standard Life UK Smaller Companies Pension Fund	0.3%	0.173884
FJ	Standard Life Japanese Equity Pension Fund	6.1%	0.076515
FY	Standard Life Asia Pacific ex Japan Equity Pension Fund	3.7%	0.194231
GS	Standard Life Money Market Pension Fund	3.8%	0.000000
HD	Standard Life UK Gilt Pension Fund	4.3%	0.001270
HH	Standard Life Corporate Bond Pension Fund	8.5%	0.000289
HL	Standard Life Emerging Markets Pension Fund	4.1%	0.229151
HS	Standard Life Pooled Property Pension Fund	5.0%	0.388459

Notes:
1. Data provided by Aberdeen Standard Investments, from 1st Jan 2017 to 31st Dec 2017.
2. For all funds shown the portfolio issuer name is Standard Life Assurance Limited.
3. 'Administration charges' are shown within product literature, and are included within a bundled Total Annual Fund Charge (TAFC).
4. The regulations require an "arrival price" which is central to the calculation of "slippage" cost. Given this data has not been provided to Standard Life by any fund management groups for the end of 2017, this has not been included in any of the calculations. This information will be phased into the calculations throughout 2018 and into early 2019.
5. As implicit transaction costs are not being reflected in the calculation, anti-dilution recovery values will not be deducted from the transaction cost. Anti-dilution recovery has both an explicit and implicit component in the spread.
6. Across the range of funds reported, data was available for all underlying funds managed entirely by Aberdeen Standard Investments. Data was unavailable for all underlying funds managed by external fund managers. Where data was unavailable, no data was used in calculation and such gaps have been left unfilled. This also applies to any 'white labelled' funds where the underlying manager is external to the group.
7. The lack of PS17/20 compliant data from external fund managers has meant the Passive Plus III, and to a much lesser extent the Active Plus III, Pension Funds data is potentially understated.

5.1

TRANSACTION COST BREAKDOWN

Fund Code	% Not obtained	Buy and sell TC's (%)	Lending and borrowing TC's (%)	Explicit transaction taxes (%)	Explicit fees and charges (%)	Implicit costs (%)	Indirect TC's (%)	Anti-dilution offset (%)	Securities lending and borrowing costs (%)
DDNA	**9.630000**	**0.080240**	**0.000000**	**0.000000**	**0.000000**	**0.000000**	**0.080240**	**0.000000**	**0.000000**
2I	0	0.156002	0.000000	0.000000	0.000000	0.079047	0.076955	0.000000	0.000000
AAGE	0	0.076442	0.000000	0.025304	0.051138	0.000000	0.000000	0.000000	0.000000
AAJP[6]	100	0.000000	0.000000	0.000000	0.000000	0.000000	0.000000	0.000000	0.000000
ACAK	0	0.379541	0.000000	0.000000	0.000000	0.379541	0.000000	0.000000	0.000000
BBKL[6]	100	0.090875	0.000000	0.000000	0.090875	0.000000	0.000000	0.000000	0.000000
DDCK	0	0.125074	0.000000	0.000000	0.000000	0.125074	0.000000	0.000000	0.000000
DDFK	0	0.040617	0.000000	0.000000	0.040617	0.000000	0.000000	0.000000	0.000000
EEGK	0	0.152583	0.000000	0.106619	0.045964	0.000000	0.000000	0.000000	0.000000
FC	0	0.173884	0.000000	0.097684	0.076200	0.000000	0.000000	0.000000	0.000000
FJ	0	0.076515	0.000000	0.000000	0.068112	0.001094	0.007309	0.000000	0.000000
FY	0	0.194231	0.000000	0.000000	0.000000	0.001163	0.193068	0.000000	0.000000
GS	0	0.000000	0.000000	0.000000	0.000000	0.000000	0.000000	0.000000	0.000000
HD	0	0.001270	0.000000	0.000000	0.001270	0.000000	0.000000	0.000000	0.000000
HH	0	0.000289	0.000000	0.000000	0.000091	0.000197	0.000001	0.000000	0.000000
HL	0	0.229151	0.000000	0.015271	0.128065	0.000000	0.085815	0.000000	0.000000
HS	0	0.388459	0.000000	0.208254	0.180205	0.000000	0.000000	0.000000	0.000000

Notes:
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4. The regulations require an "arrival price" which is central to the calculation of "slippage" cost. Given this data has not been provided to Standard Life by any fund management groups for the end of 2017, this has not been included in any of the calculations. This information will be phased into the calculations throughout 2018 and into early 2019.
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7. The lack of PS17/20 compliant data from external fund managers has meant the Passive Plus III, and to a much lesser extent the Active Plus III, Pension Funds data is potentially understated.

5.1

III. PASSIVE PLUS III PENSION FUND

GENERAL PORTFOLIO INFORMATION

Fund Code	Fund Name	Fund Average NAV (£bn) (Weight %)	Aggregate Transaction costs[4] (%)
CCHD	**Passive Plus III Pension Fund**	**£3.0bn**	**0.020827[7]**
GS	Standard Life Money Market Pension Fund	4.1%	0.000000
FM	Standard Life Property Pension Fund	6.3%	0.000595
DDCK	SL SLI Global High Yield Bond Pension Fund	2.8%	0.125074
BBKL[6]	SL Vanguard UK Short-Term Investment Grade Bond Index Pension Fund	10.8%	0.090875
AAJP[6]	SL Global Property Securities Asset Fund	2.0%	0.000000
NNPG[6]	SL Vanguard Japan Stock Index Pension Fund	4.1%	0.000000
NNNG[6]	SL Vanguard UK Government Bond Index Pension Fund	4.9%	0.000000
KKHC	SL SLI Global Absolute Return Strategies (Passive Plus) Pension Fund	13.9%	0.030000
GGMJ[6]	SL Vanguard US Equity Pension Fund	13.2%	0.000000
GGGA[6]	SL Vanguard UK Inflation Linked Gilt Index Pension Fund	0.0%	0.000000
BFDG[6]	SL Vanguard Pacific ex Japan Stock Index Pension Fund	3.3%	0.000000
BFCK[6]	SL Vanguard FTSE UK All Share Index Pension Fund	14.9%	0.000000
BFAJ[6]	SL Vanguard FTSE Developed Europe ex UK Pension Fund	5.7%	0.000000
BFAE[6]	SL Vanguard UK Investment Grade Bond Index Pension Fund	10.8%	0.000000
BFAD[6]	SL Vanguard Emerging Markets Stock Index Pension Fund	3.3%	0.000000

Notes:
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4. The regulations require an "arrival price" which is central to the calculation of "slippage" cost. Given this data has not been provided to Standard Life by any fund management groups for the end of 2017, this has not been included in any of the calculations. This information will be phased into the calculations throughout 2018 and into early 2019.
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7. The lack of PS17/20 compliant data from external fund managers has meant the Passive Plus III, and to a much lesser extent the Active Plus III, Pension Funds data is potentially understated.

TRANSACTION COST BREAKDOWN

Fund Code	% Not obtained	Buy and sell TC's (%)	Lending and borrowing TC's (%)	Explicit transaction taxes (%)	Explicit fees and charges (%)	Implicit costs (%)	Indirect TC's (%)	Anti-dilution offset (%)	Securities lending and borrowing costs (%)
CCHD	**70.95**	**0.020827**	**0.000000**	**0.000000**	**0.000000**	**0.013144**	**0.007684**	**0.000000**	**0.000000**
GS	0	0.000000	0.000000	0.000000	0.000000	0.000000	0.000000	0.000000	0.000000
FM	0	0.000595	0.000000	0.000000	0.000000	0.000000	0.000595	0.000000	0.000000
DDCK	0	0.125074	0.000000	0.000000	0.000000	0.125074	0.000000	0.000000	0.000000
BBKL[6]	100	0.090875	0.000000	0.000000	0.090875	0.000000	0.000000	0.000000	0.000000
AAJP[6]	100	0.000000	0.000000	0.000000	0.000000	0.000000	0.000000	0.000000	0.000000
NNPG[6]	100	0.000000	0.000000	0.000000	0.000000	0.000000	0.000000	0.000000	0.000000
NNNG[6]	100	0.000000	0.000000	0.000000	0.000000	0.000000	0.000000	0.000000	0.000000
KKHC	0	0.030000	0.000000	0.000000	0.000000	-0.047286	0.077286	0.000000	0.000000
GGMJ[6]	100	0.000000	0.000000	0.000000	0.000000	0.000000	0.000000	0.000000	0.000000
GGGA[6]	100	0.000000	0.000000	0.000000	0.000000	0.000000	0.000000	0.000000	0.000000
BFDG[6]	100	0.000000	0.000000	0.000000	0.000000	0.000000	0.000000	0.000000	0.000000
BFCK[6]	100	0.000000	0.000000	0.000000	0.000000	0.000000	0.000000	0.000000	0.000000
BFAJ[6]	100	0.000000	0.000000	0.000000	0.000000	0.000000	0.000000	0.000000	0.000000
BFAE[6]	100	0.000000	0.000000	0.000000	0.000000	0.000000	0.000000	0.000000	0.000000
BFAD[6]	100	0.000000	0.000000	0.000000	0.000000	0.000000	0.000000	0.000000	0.000000

Notes:
1. Data provided by Aberdeen Standard Investments, from 1st Jan 2017 to 31st Dec 2017.
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3. 'Administration charges' are shown within product literature, and are included within a bundled Total Annual Fund Charge (TAFC).
4. The regulations require an "arrival price" which is central to the calculation of "slippage" cost. Given this data has not been provided to Standard Life by any fund management groups for the end of 2017, this has not been included in any of the calculations. This information will be phased into the calculations throughout 2018 and into early 2019.
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7. The lack of PS17/20 compliant data from external fund managers has meant the Passive Plus III, and to a much lesser extent the Active Plus III, Pension Funds data is potentially understated.

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Appendix 13
Value for Money 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 policyholders' 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 policyholders. 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 and Redington benchmarking referred to in the main 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 research and benchmarking exercises. 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.

As in our 2016/17 report, the scores under the section on Investment Quality section were informed by the outputs from the (updated) Redington methodology described elsewhere in this report.

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

In general, scores have improved across the range of available workplace products versus the scores for 2016/17.

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

Appendix 14
Environmental, Social and Governance (ESG) factors within Standard Life's Investment Proposition

The following note (provided by Standard Life) encapsulates the overview provided in the meeting referred to in Section 4.3 of this report and is intended to provide a brief overview of Standard Life's approach to environmental, social and governance (ESG) issues within the investment range and an indication as to any additional activity and/or developments which may be under consider in the immediate future.

CURRENT POSITION

We take our responsibilities and obligations seriously and always strive to ensure that we do our best for our customers and clients whether they are individuals saving with Standard Life directly, through an adviser or as members of corporate DC pension schemes. We are committed to ensuring that we contribute to society, look after the world around us and continue to grow in a sustainable manner. Our sustainability strategy includes amongst its priorities operating as a responsible business and investing responsibly.

As part of this commitment we believe that incorporating environmental, social and governance (ESG) considerations can help enhance value and therefore improve outcomes for customers in the long term.

Standard Life does not manage investment portfolios directly but, rather, offer a range of investment funds managed by specialist investment managers. This range of investment options includes:

- Standard Life insured "internal" funds, which are unit-linked funds managed directly on our behalf by Aberdeen Standard Investments (ASI) under a mandate set by Standard Life.
- External fund links (EFLs), which are Standard Life unit-linked funds which provide a direct link to one or more Collective Investment Schemes (CIS) managed by third party asset managers or insured funds managed by other providers (re-insured funds).
- Mutual Funds, which are CIS (such as unit trusts or other open ended investment funds)

However, we believe it is important that, where possible and practical, the managers of funds available on our platform take ESG issues into account within their investment process.

In engaging with the managers of the funds on our platform regarding ESG standards we adopt a pragmatic approach, which reflects the extent to which we have influence over the investment philosophies and processes adopted by managers in each of the categories identified above.

INTERNAL INSURED FUNDS

We apply the highest standards to our internal insured funds, and work in very close partnership with ASI regarding all aspects of their management.

Responsibility for investment decisions and how ESG factors apply to them is delegated to ASI as investment manager to the funds. As part of their award-winning approach to ESG, which is fully integrated within their investment philosophy and process across asset classes, ASI seek constructive dialogue with investee companies about ESG topics and use their influence to encourage best-practice, with a view to protecting and enhancing value in the long term. Specifically, their materiality focused approach includes the following:

- Assessment and understanding of the governance factors that are important to investment decision making

- Consideration of investee company policies and practices on ESG matters throughout the investment process
- Improvement of shareholder value through constructive engagement on ESG issues with investee companies
- Contribution to the development of principles and standards of corporate governance, corporate responsibility and stewardship
- High levels of transparency and communication
- Holding boards and companies to account through effective use of the votes attached to shareholdings.

ASI is a signatory to the UK Stewardship Code for institutional investors and the UN-supported Principles for Responsible Investment. In addition, they are active participants in various industry bodies including the Investment Association, the Investor Forum, the International Corporate Governance Network and the Asian Corporate Governance Association.

We believe the approach to ESG integration adopted by ASI historically is industry leading and is fully aligned with our own preferred standards for asset managers.

The recent merger between Aberdeen Asset Management and Standard Life may result in some future changes to the approach adopted as the two businesses come together. We were already aware of Aberdeen Asset Managements' ESG capability but have nonetheless reviewed their policies and are monitoring developments as the merger of the asset management businesses progresses. The two ESG teams have come together under Euan Sterling, previously Head of Stewardship and ESG Investment at Standard Life Investments, and we are confident that the merger will be additive in terms of resource, expertise and capability, to an area which was already an area of strength for the manager of our internal funds.

EXTERNAL FUND LINKS AND MUTUAL FUNDS

For external fund links and the mutual funds we make available via our various platforms (either funds selected by Standard Life for inclusion in our range or, more often, as the result of a request by a client in order to construct their own investment solution such as a bespoke scheme default) we have less direct influence over the approach to ESG adopted by the managers. However, we encourage fund managers to comply with some basic minimum standards.

As a minimum, Standard Life believe that asset managers should be able to articulate their approach to ESG issues and how this is integrated within their investment process and to provide full, clear and frank responses to the ESG related questions we include as part of the regular manager due diligence we carry out – typically once a year.

FURTHER DEVELOPMENTS

We believe that ESG is an area where we will continue to see change, and as such we will continue to review and evolve our approach where required in order to ensure that we protect the interests of our customers and remain in a position to deliver good outcomes in the long term.

For example, we are working on developing policy standards which will clearly articulate Standard Life's position with regards ESG, formalise our expectations of investment managers both within and external to the Standard Life Aberdeen Group and describe the approach we take to engaging with managers in this regard.

In addition, we have been active in raising and discussing ESG issues with our customers through our Moneyplus blog and press articles (e.g. **http://www.standardlife.co.uk/c1/news-and-blog/earth-day-2016/** or **http://www.standardlife.co.uk/c1/news-and-blog/money-millennials-morals/**).

We believe interest in ESG factors is likely to increase and we may begin to see more demand from customers for more information and insight in this area. As such there may be opportunities to enhance communications further – particularly among younger 'millennial' customers.

Finally, we have historically engaged with third party asset managers on a range of ESG issues as part of our regular review of our relationships. As we further develop our policies and processes in this area, we intend to look at how we might cover a wider range of topics with third party managers and consider what information (if any) might help customers, advisers, employers and/or other interested parties where required.

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5.1

Dear Plan Policyholder

I chair Standard Life's Independent Governance Committee (IGC). We are an independent body and oversee the governance of Standard Life's Workplace personal pension plans, covering over:

2.1 million

individual policies for current and former policyholders in

31,244

employer arrangements, with total assets under management (AUM) of

£41.1 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 policyholders, and to independently review and challenge Standard Life.

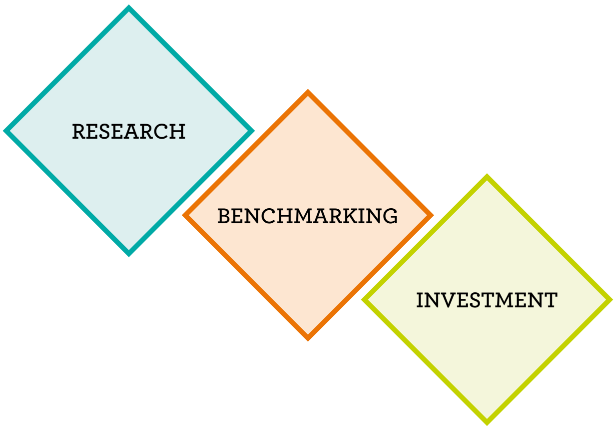
Our most important duty is to review Standard Life's products to see whether they are capable of providing policyholders with Value for Money (Vfm).

We have just produced our third Annual Report. The full report runs to 88 pages plus Appendices, so we also provide a summary report. Both of the reports are attached. They explain the work we have completed in our third year.

1. Information correct as at 31 December 2017 (source: Standard Life)

In addition to our ongoing monitoring of the VfM provided by Standard Life, we have carried out three significant pieces of new work, which we cover in these reports.

The first was research to follow up last year's syndicated work conducted by NMG a well known market research group. Three IGCs and their providers retained NMG to carry out further work on how best to engage with you and your employers to increase the likelihood that you will gain as much benefit as possible from your pension policy. The IGC is pleased to see that some of the insights from this research are already being incorporated into the websites and communications which will be delivered to you in 2018.



The second was a benchmarking exercise conducted on behalf of a syndicate of seven providers and their IGCs to assess relative performance across a wide range of investment and non-investment measures. The first year's draft results were received shortly before this report was finalised and our preliminary review has raised some concerns as to the consistency of data provided by different providers. Notwithstanding these concerns, the report has been useful in helping the IGC prioritise its discussions with Standard Life. Your IGC will pursue these areas and encourage Standard Life to make further improvements in 2018. We hope this exercise will be repeated in following years.

The third was a new analysis of the 174 funds and 179 Default Strategies, made available by Standard Life. It built on the process described in our last report, amended to reflect changes in the design of modern Default Strategies.

This report also sets out how we assessed VfM, and incorporated the results of these pieces of work into our assessment of whether or not Standard Life's pensions policies provide VfM.

As widely reported in the press, Standard Life merged with Aberdeen Asset Management on 14 August 2017, making it one of the world's largest investment companies. Standard Life Aberdeen plc is both a FTSE 100 and Fortune Global 500 company.

While there is a significant amount of work to integrate the two companies, the IGC believes this is largely a function of bringing together the two asset management businesses, Aberdeen Asset Management and Standard Life Investments. The savings business, which administers the workplace pensions within the IGC's remit, was largely unaffected by the merger with Aberdeen Asset Management and is still under the Standard Life brand.

The IGC will continue to monitor progress of the integration work as part of its regular meeting agendas with the company.

As this report was being finalised, Standard Life announced the proposed sale of its insurance company to Phoenix Life. As part of this deal Standard Life would become a 19.99% shareholder in Phoenix. The Workplace pensions which the IGC oversees are part of the insurance business being sold, although the proposal is that Standard Life will maintain its brand, distribution and marketing oversight for all its Workplace pension customers. In addition, Phoenix has committed to maintaining the administration functions in Edinburgh.

The overall proposal is subject to regulatory and other approvals but the intent is that it will complete in the second half of 2018. The IGC intends to maintain its planned activities for 2018/19 pending the outcome of this transaction and expects to report to you on those activities in 2019.

If you are unsure of which type of pension plan you have with Standard Life (and therefore how you are affected by the work of the IGC) please refer to your plan documentation, or phone Standard Life on 0345 266 5833.

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.

https://www.standardlife.co.uk/c1/independent-governance-committee.page

Thank you for reading this report.

Rene Poisson

Rene Poisson
IGC Chair

5.1

Policyholder's 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 Independent Governance Committee (IGC). The objective was to achieve better Value for Money (VfM) for Workplace contract pension savers after an earlier Office of Fair Trading review had decided market competition was not working well enough.

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 VfM; and, where we think they do not, challenge Standard Life. Our authority for this is set out in a Terms of Reference document, based on the FCA's rules (see **Appendix 3 of the main report**).

If we are not satisfied with Standard Life's products, proposals or their response to concerns we raise, we are authorised to escalate those matters to the Standard Life Board; 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 27th March 2018, the IGC met on nine separate occasions.

2. Who are we?

Standard Life's Independent Governance Committee (IGC) has five members. Four are independent of Standard Life, and were appointed after an open market search, using a market-leading recruitment firm. Once appointed as Chair, I was involved in reviewing a long list of candidates and interviewing prospective independent members. In selecting prospective candidates, my objective was to identify a wide range of relevant knowledge and experience as well as a demonstrated ability to provide robust challenge both to Standard Life and other members of the IGC. We interviewed candidates with actuarial, operational, investment, governance, consumer advocacy, legal and pensions expertise. While it was not possible to include all these skills within such a small committee,

I am satisfied that the IGC, as formed, brings a wide range of relevant knowledge and understanding to its work.

The fifth member is employed by Standard Life. He 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 did we do in our first two years

3.1 POLICY CHARGES

The IGC has focused on the charges paid by you on your pension savings. When we commenced our work, of the 1,300,000 policies we examined, 266,684 or 20.51% paid policy charges in excess of 1% for a variety of reasons[2].

As a result of our discussions with Standard Life, those of you paying charges of over 1% per year (and in some cases in excess of 3%) had the charges you paid reduced to a maximum of 1% unless you reconfirmed your decision to pay a financial adviser for advice as part of your charges.

At the end of 2016, out of 1,995,338 active and deferred members, 45,227 of you were paying charges in excess of 1% because you had selected a more expensive fund option. Standard Life wrote to you in October 2016 and again in August 2017, prompting you to reconsider whether those options remained the right choice for you.

As at the end of 2017, of the 2,150,598[3] of you paying charges as active or deferred policyholders, 57,715 or 2.68% paid in excess of 1%. 57,387 of you pay over 1% because you have chosen more expensive funds; a further 152 of you pay over 1% because you have chosen to pay for advice from an IFA; and 176 of you pay over 1% because of your decision to pay both for financial advice and more expensive investment options.

3.2 EXIT CHARGES

When the IGC began its work in 2015, Standard Life had some 2.6 million pension policies (of which 1.3 million were within scope for the IGC). Some 17,000 policies (1,201 within scope for the IGC) were potentially subject to exit charges in excess of 5%[4] of the value of the fund.

As a result of our discussions with Standard Life, charges for all 17,000 policies were capped at 5% from 13 January 2016 and subsequently reduced to 1% as at 15 February 2017.

3.3 DEFAULT STRATEGY EVALUATION AND DESIGN

The IGC, with the help of its advisers at Redington, developed a methodology for assessing the effectiveness and value of the 179 Standard Life and employer-developed lifestyle strategies and the 174 investment funds used in the construction of those strategies.

As a result of that work and our discussions with Standard Life during 2015 and 2016, a small number of employer bespoke strategies have been closed. More importantly, Standard Life agreed with the IGC's concern that the majority of employer-designed strategies were no longer appropriate because few policyholders purchased annuities. As a result, during 2017 most of those strategies were reconstructed to better reflect policyholders' decisions. The impact is set out in 4.2.1 below.

Total number of policyholders – **2,150.598**
Total number of policyholders paying over 1% – **57,715**

2. As at 31.12.15 – source Standard Life
3. As of 31.12.17 – source Standard Life
4. As at 31.12.15 – source Standard Life

3.4 SERVICE AND ACCESSIBILITY

The IGC has spent considerable time reviewing the service you receive from Standard Life across the full range of transactions you might need to make; as well as considering how easy and convenient it is for you to interact with Standard Life by way of phone, mail or internet. While we believe the service as a whole is robust and delivers well, we have discussed with Standard Life a number of concerns which are set out in our previous reports. These include the 9am-5pm opening hours for telephone access, the ease of access to digital transactions, the range of these, and the speed of transaction processing where that is not an automated straight through transaction.

This has resulted in Standard Life agreeing a number of improvements to the service. Some were implemented in 2017, while others are scheduled for later in 2018/19 (see below).

4. What have we done in 2017/18

4.1 YOUR COSTS

In our last report, we told you that the audit of the Charge Cap process (which we had asked for) had identified some flaws. These could lead to minor overcharging on contributions in the first month of a new policy. During 2017, adjustments were made to over 90% of the policies which had been overcharged. The remainder (which require adjustments of less than £1.00) will be adjusted next year, after a new system is introduced that will allow changes to be made in an automated and cost-effective manner.

The IGC also requested a review of the mechanism used to cap exit charges (see above). A sample of the total population found a small number of plans for which the mechanism had failed to properly apply the reduced charges. We have challenged Standard Life to review all plans to ensure the reduction in exit charges is applied, in accordance with Standard Life policies and have been assured that this will take place during 2018.

The IGC has again sought to review the transaction costs taken within the investment funds used in your policies. We have received costs calculated in accordance with the requirements set out by the FCA. However, the FCA methodology will not produce full cost information prior to January 2019. We have requested and received 'compliant' figures only. These costs are shown in **Appendix 12** of the main report. We expect to be able to benchmark these costs once all pension providers can publish on a consistent basis using the FCA methodology.

4.2 YOUR INVESTMENTS

During 2017, many IGC initiatives of the last two years have resulted in substantive changes to the investments used for your policies.

4.2.1 765,000 of you are invested in older style strategies which assume you will purchase an annuity at retirement. Standard Life has amended the investments used in the last 10 years of the policy to make the strategy more suitable for those choosing cash or drawdown at retirement. This will immediately benefit 65,000 of you with £600 million invested who are within 10 years of retirement and a further 700,000 (£14.2bn AUM) who are currently more than 10 years from retirement.

The IGC also asked Standard Life to write to employers who had specified a Default Strategy targeting an annuity. 59 employers have agreed to change their default to a Standard Life core profile. As a result of these changes, a further 34,300 policyholders are invested in a more modern default strategy.

During 2018, Standard Life expects to modify 135,000 further policies pursuant to scheme rule changes.

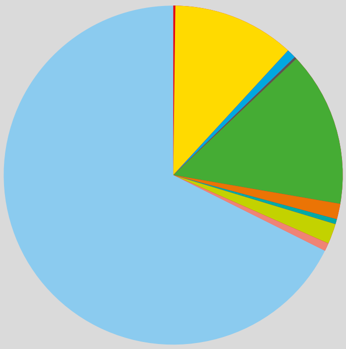
4.2.2 Last year, as part of testing the investment strategies available to you, the IGC identified two strategies which in our view did not provide their investors with VfM. One has now been closed and its policyholders transferred to a new strategy; the second has closed to new members and will be modified to improve the VfM, subject to the scheme rule changes expected in 2018.

In our last report we identified eight Default Strategies chosen by 53 employers that used a single fund. We concluded that these did not provide VfM. During 2017 Standard Life has engaged with the relevant employers and their advisers to seek their support for change. It expects to write to those invested in these strategies during the first half of 2018 to offer you the opportunity to move to a more appropriate investment design.

Last year we told you that “The short-term performance of the growth component of Standard Life’s risk-based strategies had suffered” and that the IGC would “continue to monitor performance during 2017”. This year the IGC has expanded the way in which we test the investment strategies available to you. We also review current investment performance every quarter for the 10 core funds and the next 30 largest funds by AUM (representing 68% of the value of all policies within the scope of the IGC).

Short-term performance has improved over the last year, and we are satisfied that other than in respect of the issues highlighted above, the Default Investment Strategies available to policyholders have been designed in your interests and provide VfM.

Top IGC insured funds by Workplace AUM, excluding With Profits and Bespoke Trust Based Funds



- Standard Life Active Plus II Pension Fund – £34m (AUM)
- Standard Life Active Plus III Pension Fund – £1,952m (AUM)
- Standard Life Active Plus IV Pension Fund – £149m (AUM)
- Standard Life Passive Plus II Pension Fund – £35m (AUM)
- Standard Life Passive Plus III Pension Fund – £2,476m (AUM)
- Standard Life Passive Plus IV Pension Fund – £247m (AUM)
- Standard Life MyFolio Managed II Pension Fund – £81m (AUM)
- Standard Life MyFolio Managed III Pension Fund – £324m (AUM)
- Standard Life Managed IV Pension Fund – £127m (AUM)
- Standard Life Managed Pension Fund – £11,335m (AUM)

4.2.3 During 2017 I met with Share Action, Client Earth and a small number of Standard Life policyholders to discuss the approach to Environmental Social and Governance issues (ESG). The IGC is pleased to note their recognition of the overall quality of our 2016/17 report (https://shareaction.org/wp-content/uploads/2018/02/PolicyReport-IGCRankingFINAL.pdf). A detailed note of the areas discussed can be found at **Appendix 14 of the main report**. While responsibility for ESG is primarily that of Standard Life and the managers to whom they delegate investment decisions, the IGC would be happy to hear your views.

You can email us from the IGC web page at https://www.standardlife.co.uk/c1/independent-governance-committee.page

5. Your service from Standard Life

5.1 SERVICE TIMELINESS AND ACCURACY

In our last report we highlighted a significant decline in the speed of completing transactions which could not be managed by straight through processing. Standard Life highlighted a number of contributory factors including volumes after the EU referendum vote, new recruitment and training and, in particular, unforeseen problems introducing new systems. Standard Life told us that *"We are confident that the steps we have taken will improve our position."*

Standard Life has also introduced a new approach to testing the accuracy of transactions. This does not enable the IGC to compare 2017 results with those for 2015 and 2016, but we have received assurance from Standard Life that they *"don't believe service accuracy has reduced when comparing 2017 to 2016."*

The IGC has closely monitored developments over the last 12 months and is satisfied that the steps previously taken together with further process improvements during 2017 have significantly improved transaction timeliness.

We expect that improvement to continue into 2018, and will continue to keep timeliness and accuracy under review.

5.2 OPERATING HOURS AND CONTACT CHANNELS

In our last two reports we have challenged Standard Life to improve your ability to deal with them at a time and in a way that suits your needs. As a result, a number of improvements have been agreed and are being introduced. In particular, improvements have been made to enable you to access the website more easily; secure messaging is being introduced to allow you to ask for what you require at any time, with a 24-hour turnaround for a response; and, telephone access hours will be extended from 9am-5pm to 8am-6pm, allowing contact outside of normal office hours for those of you unable to contact Standard Life while at work.

6. Your preferences

Last year, together with other providers of similar pension products, we retained NMG, a well known research organisation, to help us understand how Standard Life could best engage with you to help you get the most out of your pension policy. This year, a smaller group asked NMG to carry out further work. The results, together with those of a large study conducted by Standard Life that covered 3,000 pension policyholders, are being used to improve your plans.

These improvements include:

a new on-line customer dashboard that is easier to access, is pre-populated with your data and allows you to find the information you need more easily;

a redesigned and easier to understand short form annual benefit statement (to be rolled out over 2018/19);

a revised mobile app and improved tools to help you understand the impact of increasing contributions;

new retirement sections with calculators and guidance to help you understand your options.

The IGC is engaging with Standard Life to agree how to test whether these developments are being used and are benefiting you as policyholders.

5.1

7. Other matters

The issues of data security and the protection of personal information have grown in importance over the last few years. The IGC has received in-depth presentations from Standard Life's Chief Information Security Officer (CISO) and from the team ensuring that Standard Life will be compliant with the new General Data Protection Regulation (GDPR) applying from 25 May 2018.

The IGC has received assurances that all necessary resources are available to the CISO and the GDPR teams to discharge their responsibilities.

8. Looking forward

During 2018/19, the IGC will be continuing its work monitoring the everyday investment and operational components of your pension policies. We intend to develop our scope, and look at the introduction of the new system capabilities of the Pension Transformation Project. This will deliver many of the elements of more modern pension policies to those continuing in older products.

We have confirmation from Standard Life that they will support the IGC in holding a meeting for policyholders during 2018. Details of the meeting and how to register to attend will be posted on the IGC website and publicised more generally once available.

9. Our conclusions

The IGC notes that the challenges Standard Life faced in 2016 have been largely addressed and that recent performance shows marked improvement.

The IGC has concluded overall that Standard Life's various Workplace Personal Pension products continue to offer policyholders VfM; are of good quality; benefit from well-designed investment solutions; have good administration and governance; and have comprehensive policyholder support and communications materials, which continue to evolve to deliver a better service to policyholders.

IGC
27 March 2018