# Independent Governance Committee

# 2017 annual report

For members of Aviva UK Life and Friends Life workplace pension schemes

# Message from the Committee Chair

## This report is for members of Aviva UK Life and Friends Life workplace pension schemes.

Friends Life became part of the Aviva Group in 2015. The Independent Governance Committees which previously oversaw Aviva UK Life and Friends Life were aligned in May 2016 to cover the combined defined contribution workplace pensions business of Aviva UK Life and Friends Life.

Welcome to the 2017 Independent Governance Committee (IGC) annual report which has been produced for members of both Aviva UK Life and Friends Life workplace pension schemes.

In this report we will summarise what the IGC has focused on since the publication of the last Aviva UK Life and Friends Life reports, and provide our view on whether your Aviva UK Life or Friends Life workplace pension is providing you with value for money.

Throughout the rest of this report the Aviva UK Life and Friends Life contract based workplace pensions schemes will be referred to together as 'Aviva'. Where we are only referring to one specific company, we will refer to either Aviva UK Life or Friends Life, as appropriate.

We are responsible for ensuring Aviva is delivering Value for Money (VfM) to **28,000 workplace pension schemes** with over **3 million members**. This includes **45 different pension products** with over **£50 billion of savings** invested on behalf of scheme members.

Our priority is to challenge and assess Aviva on the VfM your workplace pension provides you with. Our role is to continuously assess VfM, and in 2016 we focused on:

- **Assessing Aviva against our VfM framework**

  Our view is that the majority of scheme members are receiving value for money and we have seen good performance and clear progress in the areas we cover. We have overseen implementation of the actions Aviva committed to take in 2016, which has resulted in over 60,000 active scheme members benefiting from lower charges. However, around 100,000 scheme members in older products, typically people who have left employment at the employer who provided them with a workplace pension scheme (often referred to as 'leavers' or 'deferred members'), are still paying charges in excess of 1% each year.

  Work is ongoing to improve outcomes for these members. The committee has reviewed Aviva's analysis and proposals for 2017 in relation to reducing charges; these actions have been agreed. The committee has expressed its concern that, while the improvements are welcome, they are taking a long time to implement and the committee has therefore urged Aviva to make the agreed improvements as quickly as possible.

- **Assessing Aviva's responses to proposed regulatory changes including those impacting early exit fees and investment transaction charges**

  We believe that members will have more confidence in their workplace pension if they can see that the charges they pay are clear and fair. We have analysed the key points of Aviva's responses to government consultations and have had very constructive discussions with them. At the time of writing this report not all of the final regulatory details are known, particularly around transaction costs. However, we will continue to engage with Aviva to ensure that the new regulatory requirements are implemented fully, promptly and fairly across all schemes. Indeed, these areas are a focus in our 2017 work plan.

- **Re-assessing default funds provided by Aviva**

  The performance and nature of default funds is very important as the vast majority of scheme members are invested in them. Scheme members who are auto-enrolled will have their contributions invested in these funds and will remain invested in them unless they select otherwise. We have assessed the suitability of these funds and the end-to-end governance around them. We are satisfied that they are suitable for the types of members investing in them. The funds are achieving growth with managed volatility, which is in line with their objectives.

- **Progressing the key items we highlighted in our last reports**

  We identified 10 topics (combined from the previous Aviva UK Life and Friends Life IGC reports) which we committed to progress with Aviva in 2016. A number of these have now been completed and satisfactory progress has been made on others. Some of the topics have been impacted by regulatory timescales and we are expecting Aviva to complete these later in 2017. We will also be re-assessing the changes already made to ensure they are benefiting members as planned. If we identify any further actions which we believe should be taken to further benefit members, we will raise these with Aviva.

- **Ensuring Independent Project Board (IPB) commitments are being delivered**

  Both Aviva UK Life and Friends Life made commitments and we have been monitoring their progress in delivering these. Following the IPB audit Friends Life committed to reviewing the charges applying to scheme leavers, with approximately 100,000 scheme leavers having now been reviewed. We can report that around 27,000 members will have their charges reduced from April 2017, giving them a Reduction in Yield of 1% or less. A further 32,000 members will have their charges reduced by the end of June, with the remaining members having charges reduced by the end of this year. Once these changes are introduced we will re-assess these members to ensure the changes are having the desired impact of benefiting members by reducing charges.

- **Listening to your views**

  During the year, Aviva and a number of other workplace pension providers from across the industry took part in a joint research project. As part of this research over 19,000 members of Aviva workplace pensions were invited to take part in a survey exploring VfM, what it means to them, and whether they believe they are receiving value from their workplace pension. The vast majority of members who responded rated Aviva highly and indicated that they do believe they are receiving value for money. As a committee, we have analysed the full results and have identified several underlying themes and trends which we have agreed with Aviva will be followed up in 2017. We have also received feedback from employers who have governance committees and have attended customer listening sessions and what we've seen and heard will be considered and progressed further in 2017.

## Our VfM assessment

Taking into consideration the above assessments and also a number of other factors such as the quality of customer service and communications provided to you, our views are that:

- Aviva is providing VfM for the majority of their workplace pension members;
- Members in older products do not currently benefit from all of the features available to members in newer products; and
- Some members in older products are currently paying charges which we consider to be above an acceptable level.

We have agreed with Aviva that some changes should be made to address the level of charges some members are paying. While we are satisfied that the approach we have agreed with Aviva will result in impacted members paying lower charges, we felt the need to raise our concerns to Aviva at the amount of time it has taken to review these policies and provide a firm commitment.

## Our next steps

Throughout 2017 and into 2018 we will continue assessing VfM and will also focus on the items below. Please be aware this list isn't exhaustive and we expect it to evolve as the results of regulatory consultations become clear. We also expect our priorities to change as we undertake more member research and get a greater understanding of what you value and consider important. We recognise that VfM expectations and standards are constantly evolving and we will continue to challenge Aviva in this area.

In summary we will:

- Continue to assess the suitability of the investment funds Aviva makes available to you while reviewing the governance controls and processes in place to manage these.
- Ensure Aviva delivers on their commitments regarding charges and the implementation of new regulatory requirements.
- Engage with intermediary partners, including employee benefit consultants and corporate advisers, to further understand the processes they go through when designing bespoke default funds for schemes to ensure these are, and remain, suitable.
- Continue to assess changes Aviva makes to products to support developments such as pension freedoms by engaging with Aviva on product improvements.
- Continue to monitor the quality of service and administration Aviva provides. In particular we will be looking for them to provide evidence that service improvements are making things better for you.
- Assess the impacts of their communications to see if they are helping you to understand your pension, how it works and the options you have.

I hope you find this report useful. We would value your feedback, good or bad.

We raise any thoughts, concerns and ideas you have directly with Aviva and will always respond to you with answers. You can contact us at **IGC@aviva.com** All of your communication with us will be treated in confidence.

With thanks,

I. S. Dhingra

**Inderpreet Singh Dhingra**
Independent Chair – Aviva IGC

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# Assessing Value for Money

When considering whether VfM is being provided we use the following framework as a guide. Broadly speaking, if Aviva demonstrates good and consistent performance in these areas, then this is a good indication to us that you are receiving VfM.

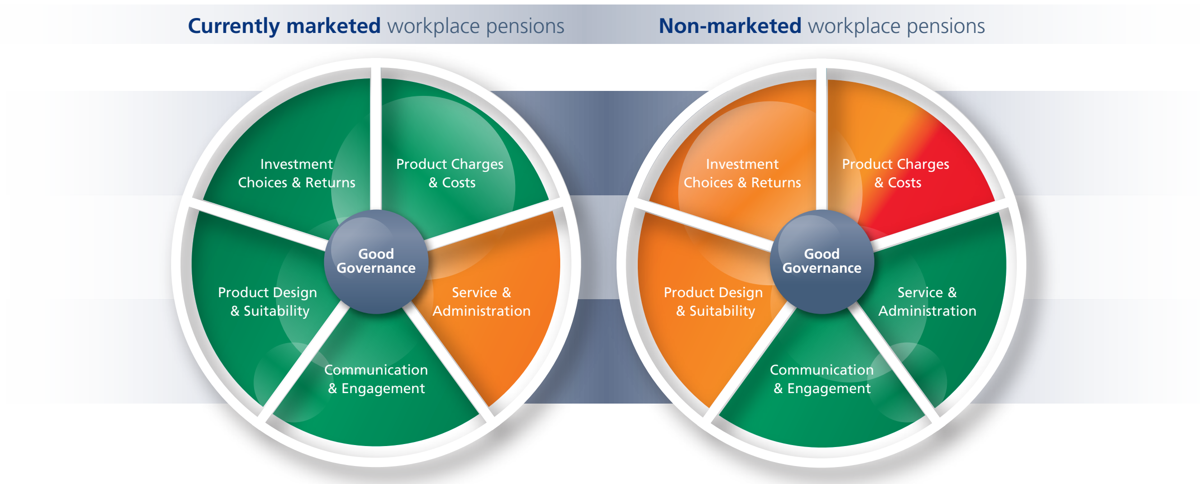
Our view is that the majority of you are receiving VfM from your Aviva workplace pension.

VfM can vary between pension products, so we have split our assessment into two categories: currently marketed workplace pensions and non-marketed workplace pensions.

### What we mean by currently marketed and non-marketed workplace pensions

Currently marketed workplace pensions refer to the product you would receive today if your employer arranged their workplace pension scheme through Aviva. These are newer products, designed to meet the auto-enrolment duties. Non-marketed workplace pensions are older products which Aviva no longer provides to employers looking to set up their workplace pension scheme with Aviva.

We believe it is important to assess these separately as although our VfM measures are applied to both currently-marketed and non-marketed workplace pensions equally, the results of the assessment do differ and we want to make these differences clear to you.




**Assessed as good** – no areas of significant concern identified

**Assessed as fair** – some areas of concern identified, with action being taken

**Assessed as poor** – some areas of concern identified with actions not agreed or agreed but not yet delivered

For context, around 88% of scheme members are in currently marketed workplace pensions.

# Product charges and costs

The amount you pay in charges and costs will greatly impact the size of your pension pot when you come to take your pension. When assessing charges and costs we particularly considered whether they are:

- Clear and fair;
- In line with market expectations; and
- Comply with pension regulations.

We are satisfied that for Aviva's currently marketed workplace pensions the answer to these considerations is yes. For some older products our view is that further changes are required as some of these products have charges, particularly for members who have stopped paying into their pension, which are above what we consider to be an acceptable level. When considering what an acceptable level is we have used the 1% Reduction in Yield (RIY) measure determined by the IPB.

Put simply, RIY is a way of expressing the effect the total charges on a pension policy will have on its potential rate of growth, for example: let's say that your pension policy has a projected investment return (or 'yield') of 4% a year. If all the charges on your policy brought its projected return down to 3%, it would have a RIY of 1%.

## Areas we have assessed as good

**Charge cap** – All pensions being used for auto-enrolment fully comply with the regulatory charge cap of 0.75% per year. We have had oversight of the processes Aviva has in place to monitor these charges to ensure ongoing compliance and 0.75% is the maximum charge that a member will pay if investing in their employer's default fund. In reality, many members are paying below this level.

**Pricing practices** – We have assessed the processes and controls Aviva follows for setting and reviewing pension scheme and fund charges. Our conclusion is that these processes are suitable and the measures used are fair and not excessive.

**Early exit charges** – During 2016 the Financial Conduct Authority announced a review into charges which members pay if they choose to cancel their policy early. Aviva subsequently announced in March 2016 that they would be voluntarily capping exit charges at 5% to ensure these didn't act as a barrier to people aged 55 or over accessing their pension. Following changes in legislation, these charges will be limited to 1% for those over age 55 from April 2017 and Aviva will comply with this requirement. While the vast majority of Aviva workplace pension products do not have any early exit charges, we have asked Aviva to keep exit charges under review as we have noted that some other providers have indicated they intend to remove exit charges altogether.

**Existing product charge guarantees** – Over 250,000 members who are in a number of older non-marketed workplace pensions products are covered by existing charge guarantees which limit the amount of charges they pay. These charge guarantees are either regulatory-based or were introduced by the pension provider at the time and limits the maximum administration charge to 1% each year. Some members in products covered by the provider guarantee may be paying charges over 1% each year if they had intentionally chosen to invest in funds or selected features with additional charges which take their total charges above 1%.

## Areas which require further attention

**Charges and costs applied to older (non-marketed) pensions** – We recognise that around 100,000 scheme leavers (sometimes referred to as deferred members) in older products are currently paying charges which we consider to be above an acceptable level. Friends Life committed to reviewing these members' pension policies last year and following the completion of this review, Aviva will be:

**a.** Removing policy fees on impacted policies to achieve a 1% RIY or less; and/or

**b.** Increasing allocation rates to 100% where needed to achieve the 1% target

Work has now commenced and around 27,000 members will shortly have their charges reduced. A further 32,000 members will have their charges reduced by the end of June, with the remaining members having charges reduced by the end of this year. We have further agreed with Aviva that they will monitor any policies which fall outside of a. and b. and charges will be assessed when members exit, applying a policy uplift if necessary. The reasons why some members' pension policies fall outside of the above include additional features, such as loyalty bonuses, which when combined with any action the member takes (for example remaining to policy maturity or transferring out) may impact the member's overall charge.

# Service and administration

When assessing the quality of service and administration Aviva provides to you we have paid close attention to:

- Your feedback;
- Aviva's progress against their key measures; and
- What has been done, and what is planned, to improve the service you receive.

Overall service and administration across all workplace pensions is good but we have seen instances where some Friends Life members received very poor service following a transfer from one computer system to another. Aviva informed us of these issues and we monitored the approach they took, and the progress they made in rectifying this. Our particular focus was on ensuring appropriate action was taken to ensure no members were disadvantaged.

## Areas we have assessed as good

**Your feedback** – Has generally been positive and we have reviewed Aviva's progress in respect of their Net Promoter Score, Customer Satisfaction and Ease of doing business targets where these are measured, which have all shown improvement. This feedback is particularly important to us as it comes directly from you and helps us to understand the experiences you have (good and bad) when dealing with Aviva. The targets around these measures are set by Aviva and we are expecting to see further progress in 2017.

**Service** – As mentioned earlier, we are aware that some of you received very poor service in the period following the introduction of a new computer system. We were pleased to note that Aviva put in place a recovery plan to rectify this, and service is now beginning to improve. We will continue to monitor how service levels are progressing across all Aviva's workplace pensions. The customer teams have been structured more around your needs with the aim of being able to help you first time, without the need to pass you to another person or write to you.

**Communications** – The top 10 customer demands (the things you contact Aviva most about) have been redesigned to reduce the amount of paper sent out and a lot of pensios jargon has been removed and replaced with plain English. This is a programme of continuous improvement, and more will be done in 2017.

## Areas which require further attention

**Timing & Consistency** – Changing the way things are done will take time and although we accept that not all members will benefit from changes at the same time, we have advised Aviva we would like:

- Consistent Management Information, including the same customer satisfaction measures, being used for all the pension products in our remit.
- Clear plans showing what changes will be delivered and when, and why these changes will lead to you being provided with better service.
- Commitment that members in older products, or who have products on older computer systems, are not left behind in developments.

# Communication and engagement

When assessing the communications Aviva sends you we have focused on:

- The overall relevance and need for issuing the communication;
- Whether the language used is clear and jargon free; and
- The medium used, including telephone, email and letter.

In 2017, we have decided to expand communications to include 'engagement'. This means we will focus on the impact created as a result of the information you receive from Aviva, be it in writing or online. This includes whether it helps you understand more about the pension product you have and how this helps your decision making.

## Areas we have assessed as good

**Written communications** – Communications that we have seen and assessed, which range from pension product literature through to examples of personalised correspondence, we consider to be simple, clear and informative.

**Communicating in a way which works for you** Where possible Aviva communicates with you in the way in which you have requested, including telephone, in writing, by email and online. The types of communications do vary depending on your needs. The communications we have seen and assessed are simple, clear and informative.

**Financial education** – The range of communications and information Aviva provides through financial education and seminars in the workplace is good. We have spoken to the team which delivers these and have seen good examples of what they can do, as well as seeing some very good member and employer feedback.

In 2015/2016 over 2,000 scheme member feedback forms were completed following workplace seminars with over 91% of members answering "Yes" to the question "Do you feel motivated to take action?" This is a good indication that members are more likely to engage with their pension once they've had a clear explanation of the importance and benefits of pensions.

**Online guidance** – Aviva is enhancing their online pensions system which aims to improve the way you control and manage your pension. This includes a range of planning tools which we consider to be simple, effective and helpful when planning for your retirement. Aviva is also supporting an industry-led 'Pension Dashboard' which, once available, will allow you to see all your pension information and valuations, including those with other pension providers, in one place.

## Areas which require further attention

**Turning information into engagement** – Simply showing information online and providing access to financial planning tools doesn't necessarily mean scheme members are taking an interest in their pensions and saving adequately for retirement. Our challenge to Aviva is for them to demonstrate that the information they make available is helpful to scheme members and encourages them to engage in considering and planning their retirement. We are expecting Aviva to develop further initiatives to address this challenge.

**Pensions jargon** – The vast majority of information that we have seen we consider to be simple, clear and informative. Some of your feedback suggests that some literature still contains too much jargon or is too detailed and we are concerned some members will be put off by this. We have asked Aviva to further review their literature to ensure it's written with you in mind.

**Non-digital** – We consider digital and online financial tools to be a good thing but we are aware that many members do not want to use these. We have asked Aviva to continue to consider what they can do for these members to ensure they can also access important information which helps them engage with their pension.

# Product design and suitability

When assessing the overall design and suitability of Aviva's workplace pension products we have considered:

- The options you have when taking benefits;
- The features provided to you as part of the product; and
- What checks Aviva performs to ensure products are (and remain) suitable.

Our view is that this varies considerably by product type. Members in some of the newer currently marketed products benefit from features such as flexible drawdown (pension freedoms), which are not so readily available under older non-marketed products.

## Areas we have assessed as good

**Products changing to meet your needs** – Aviva's currently-marketed pension products offer access to pension freedoms with a number of other products currently being updated through 2017.

**Changes to Aviva-provided default funds** – The majority of Aviva-designed default funds, particularly those designed for auto-enrolment, have been changed so that different outcomes can be targeted in the run-up to retirement.

**Suitability & Governance** – All products, irrespective of their age, are covered by Aviva's internal governance processes and are subject to regular reviews to assess appropriateness and quality. We have reviewed these processes and are satisfied they help ensure products remain suitable for your needs.

**Vulnerable customer policy** – We have reviewed the vulnerable customer policy which Aviva has introduced. This includes enhanced processes to help ensure vulnerable and potentially vulnerable members receive the upmost care and have their interests protected when dealing with Aviva. In our view, this policy fully meets, and often exceeds the regulatory requirements.

## Areas which require further attention

**Timing & Consistency** – We accept that updating pension products and modernising systems will take Aviva some time to implement. We also accept that not all members will benefit from these changes at the same time. Nevertheless Aviva is aware that we would like to see:

- Clear and timely plans showing what changes will be delivered and when, and the number of members who will benefit from these changes.
- A firm commitment that those members in older products, or who have products on older computer systems, will not be left behind in future developments.

# Investment choices and returns

When assessing the VfM you receive from the overall investment fund choices Aviva make available to you, and the investment returns you receive from the funds you are invested in, we have considered:

- The end-to-end governance processes used for selecting and managing the funds;
- The performance and appropriateness of default funds provided by Aviva; and
- The costs, especially transaction costs, applicable to funds you invest in.

## What we have assessed as good

**Governance** – We have reassessed Aviva's fund governance processes and controls and have seen good examples where Aviva has removed underperforming funds or replaced funds with more appropriate ones. These processes apply to all funds irrespective of pension product type and product age.

**Fund range** – The range and types of investment funds available to you is also generally good. This does vary considerably depending on the age of your pension product, with members in newer products having a significantly wider range of investment funds to choose from.

**Performance of Aviva's default funds** – We have been monitoring the performance of the default funds Aviva uses for auto-enrolment. If you are invested in one of the default funds then as you get closer to your retirement date, your money is automatically moved into lower risk funds. This is done to help reduce the risks to the value of your fund from market shocks and inflation, while continuing to offer the prospect of some investment growth.

When assessing the VfM default funds provide, we considered:

- The overall level of investment return these funds are providing you with; and
- Whether they are performing as per their design (often referred to as their objective)

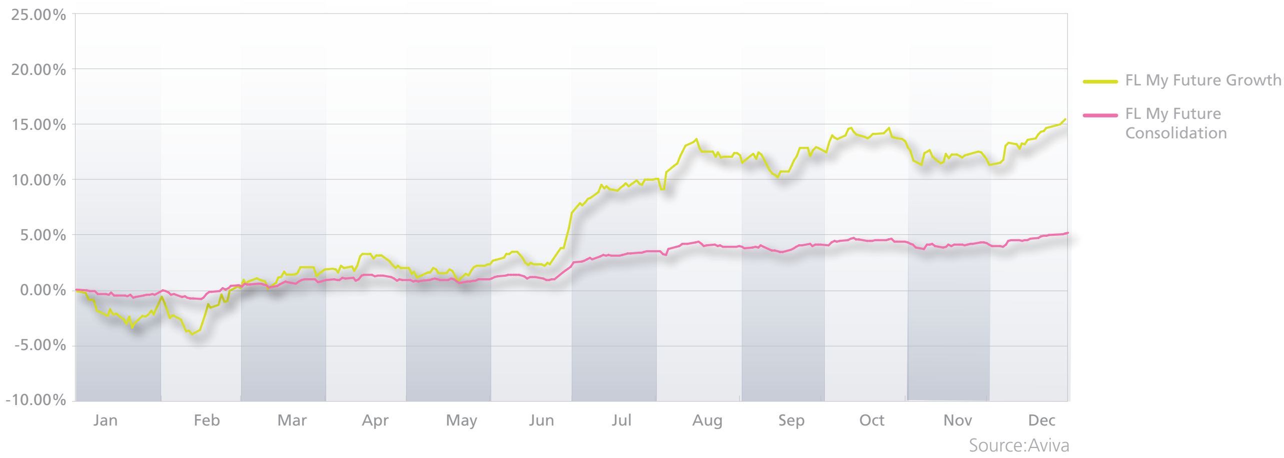
## Default funds – investment returns

Graphs **A** and **B** below show the overall performance of the main funds used in the Aviva Future Focus and Friends Life My Future default fund.

### Graph A – Fund Performance of main funds used in Aviva defaults (Jan – Dec 2016)


DAF is an abbreviation of Diversified Assets Fund.
The above graph shows the annual performance of the funds shown in the key for the period 1/1/2016 - 31/12/2016.
The performance quoted is an illustration of the fund performance with the scheme charges applied.
Please be aware that past performance is not a guide to future returns.

### Graph B – Fund Performance of main funds used in Friends Life defaults (Jan – Dec 2016)




The above graph shows the annual performance of the funds shown in the key for the period 1/1/2016 - 31/12/2016.
The performance quoted is an illustration of the fund performance with the scheme charges applied.
Please be aware that past performance is not a guide to future returns.

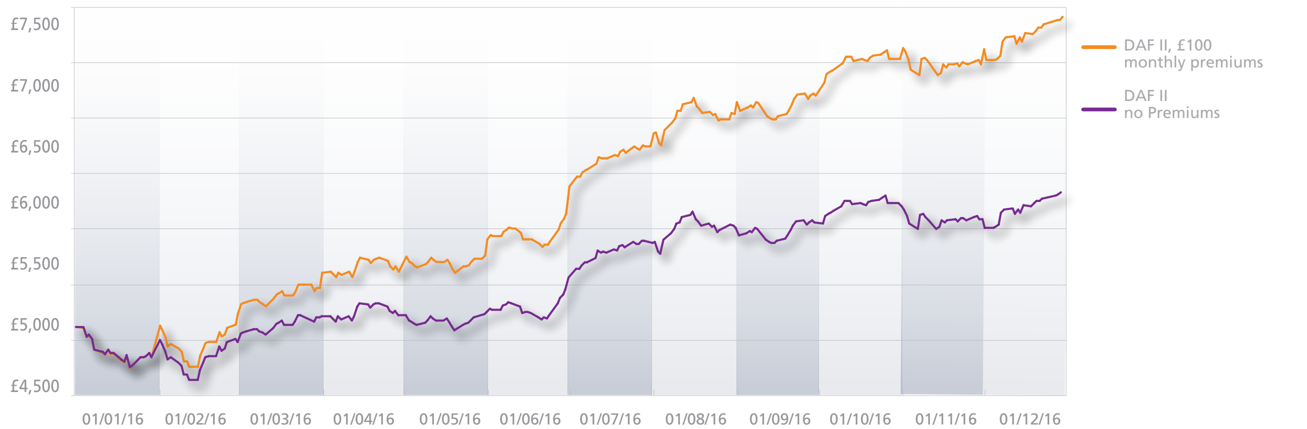
As an example of what these performance graphs mean, assume a scheme member has a charge of 0.75% each year and an existing pension fund of £5,000.

**DAF II (Graph C):** if they paid no further contributions into their pension then at the end of the year their fund value would be £5839 (purple line). This is an increase of £839 which demonstrates 16.8% growth. If they were paying £100 each month then their fund value would be £7,168 (orange line).

**My Future Growth (Graph D):** if they paid no further contributions into their pension then at the end of the year their fund value would be £5976 (pink line). This is an increase of £976 which demonstrates 19.5% growth. If they were paying £100 each month then their fund value would be £7,314 (green line).

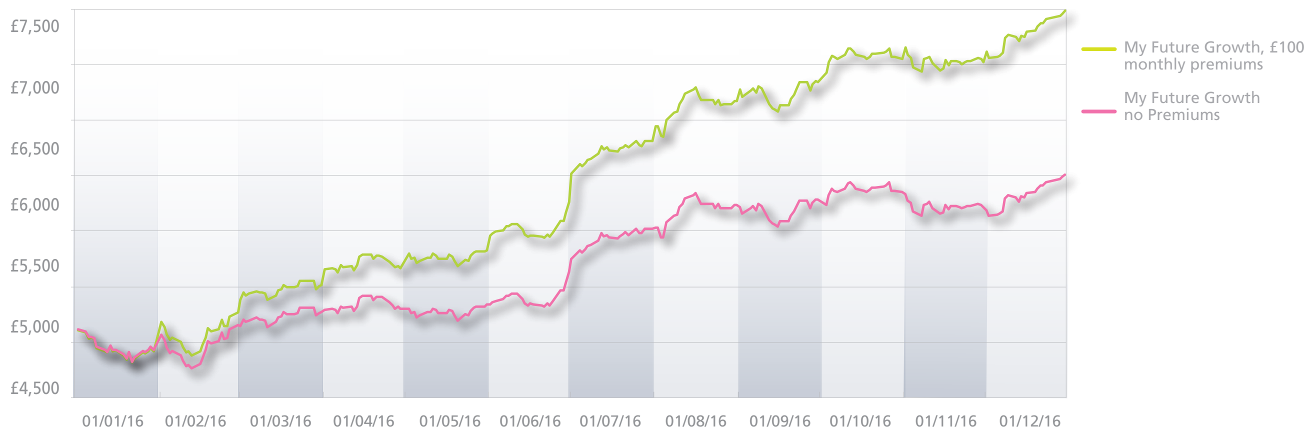
When looking at any of the graphs included in this report please be aware that past performance is not a guide to future performance. The value of the fund is not guaranteed and may fall as well as rise. You may not get back the original amount invested.

**Graph C - Performance of DAF II used in Future Focus 2 (Aviva UK Life).**




Source:Aviva

**Graph D - Performance of My Future Growth (Friends Life).**



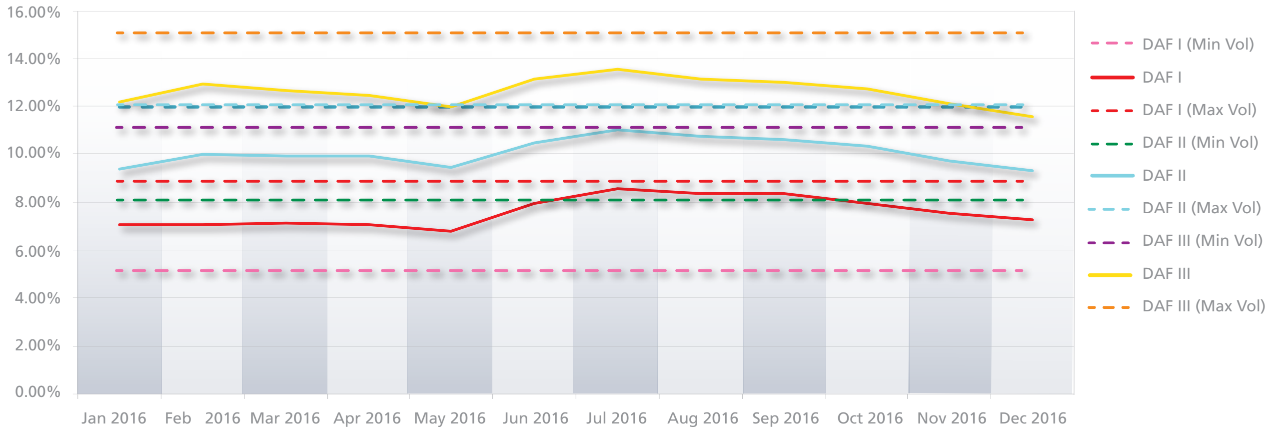

Source:Aviva

## Default funds – performance against objectives

Graphs **E** and **F** below show the performance of the main funds used in the default funds against their objectives. The overall objective of these defaults is to target a certain level of "volatility" which means the funds aim to reduce the variability of returns, and provide a smoother investment journey and avoid the ups and downs of sudden market movements.

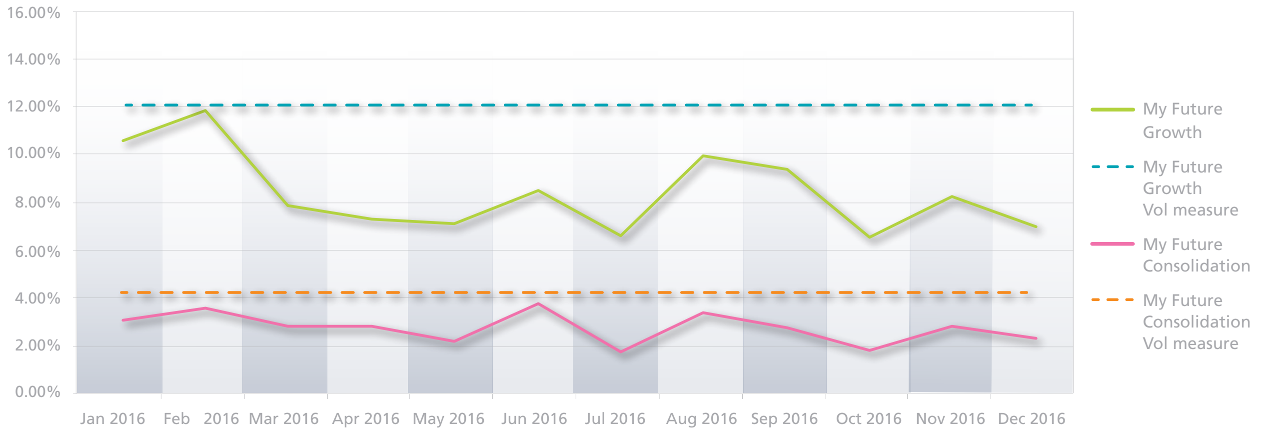
Having reviewed these funds we are satisfied that the default funds are performing well and are being managed in accordance with their objectives.

**Graph E - Aviva UK Life default fund performance against volitility targets**




Source:Aviva

**Graph F - Friends Life default fund performance against volitility targets**




Source:Aviva

**Environment, Social & Governance factors (ESG)** – ESG refers to the three main factors used in measuring the sustainability and ethical impact of an investment in a company or business. Our view is Aviva takes ESG and Responsible Investment very seriously in how and where they invest your money. We have seen good evidence of this and Aviva actively seek opinions, both yours and those of financial advisers, over ESG issues.

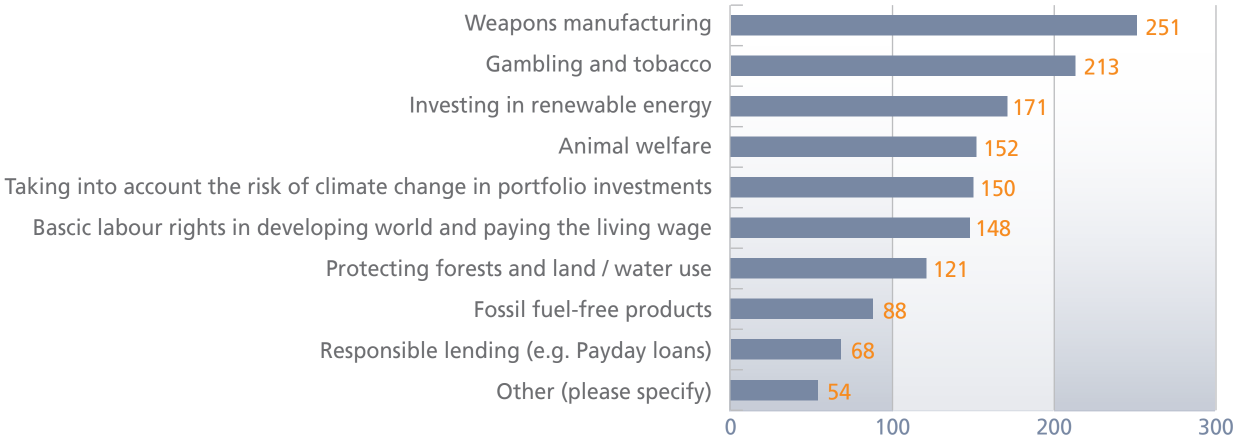
At the end of October Aviva carried out its annual Adviser Barometer survey. The survey was sent to around 15,000 intermediary partners with over 400 responding. The questions were proposed by an external consumer action group which Aviva works with, and were focussed on finding out what areas of responsible or ethical investing are most important to you.

Graph **G** shows the areas of responsibility of ethical investment important to customers based on this survey.

The survey was aimed at all pension products and not just those workplace pensions.

We will continue assessing Aviva's approach to ESG and we will be including additional ESG related questions when we carry out future member research.

**Graph G - Areas of responsible or ethical investment most important to customers. Source - Aviva**




Source:Aviva

## Areas which require further attention

**Investment Transaction Costs** – Transaction Costs is the term used to describe a number of costs, such as buying and selling shares, which can occur when you invest in a fund or funds. These costs are important because they impact the overall return you receive on your investment. At the moment there is no regulatory requirement for these costs to be disclosed to you. The Financial Conduct Authority (FCA) has expressed the need for all providers of pensions to disclose this information to help you understand more about the charges you pay. They have issued a consultation paper setting out what they believe is the most appropriate way of doing this.

Transaction cost disclosure is one of our main priorities. We have discussed with Aviva their response to the FCA consultation paper and we await further regulatory guidance. At that stage we will ask Aviva how they intend to implement the required changes and monitor their progress and compliance.

Before this consultation exercise we asked Aviva to provide us with an estimate of the transaction costs which apply to their most commonly used default funds, or the funds used in their defaults. These costs are shown below and are based on figures provided to Aviva by the fund manager (where appropriate).

| Aviva | Transaction Costs % |
|---|---|
| Diversified Assets Fund 1 | 0.006 |
| Diversified Assets Fund 2 | 0.002 |
| Diversified Assets Fund 3 | 0.007 |
| **Friends Life** | |
| My Future Growth | 0.005 |
| My Future Consolidation | 0.001 |
| My Future Annuity | 0.001 |

Source: Aviva. The estimated transaction costs for the Diversified Assets funds are for the period 1st July 2015 to 30th June 2016.

The estimated transaction costs for the My Future funds are for the period 1st January to 31st December 2015.

These costs mainly include commissions and taxes such as stamp duty incurred by the underlying investments used in the default funds but do not include foreign exchange costs. They are based on Aviva's own calculation method and do not reflect the method proposed by the FCA.

We asked Aviva to re-calculate these costs based on the proposed FCA method. Aviva advised that once the data is available they will do so.

Based on the information available we are satisfied that the transaction costs are not excessive, however we will re-assess these costs once all the data is available and the regulatory calculation method is used. As an example of what these charges mean to you, if your pension fund is £20,000 and you are invested in one of these funds (say My Future Growth) which has transaction costs of 0.005% each year, then the cost to you relating to transaction costs would be £1 each year (this cost would already be reflected in the value of your pension fund).

**Research Costs** – Research costs are very important as some asset managers (who provide the underlying funds you invest in) charge the cost of carrying out research to the investment fund. These costs are important because the amount impacts the overall return you receive on your investment. We will be monitoring Aviva's response to the proposed regulation and any implications it has on your investments.

# Key items highlighted in the 2016 reports

In the 2016 Aviva UK Life and Friends Life IGC Annual Reports, both committees identified a number of items which we would be focussing on through 2016 and into 2017. Following the merging of the committees we agreed with Aviva that commitments made in these reports should be implemented for both Aviva UK Life and Friends Life members, where relevant.

## Items identified in the 2016 IGC Report for Aviva UK Life

### Completed

**Reviewing charges on Aviva UK Life's older workplace pensions** – These products have now been reviewed and we have no concerns in respect of the level of charges applied. This is partly due to some of the products having an internal product charge guarantee which limits the maximum administration charge to 1% a year and others being covered by the existing regulatory charge cap which applies to stakeholder pensions. Some of these products will also be impacted by the upcoming exit charge cap.

**Communicating with you –** We have looked at the education and support Aviva provides, their online developments and the quality of communications they issue and have no concerns. This is an area however that we will continue to assess to ensure the information they provide remains suitable.

### Progressing well

**Service improvements** – A number of important changes have been made to the way Aviva interacts with you in order to improve the quality of service provided. As well as continuously assessing the impact of these improvements we will also be looking at how these are applied to members in Friends Life workplace pensions.

**Adviser created default strategies** – We have re-assessed the governance and controls Aviva has in place and are satisfied these provide you with good levels of protection. In addition, we will be speaking to financial advisers to discuss how they go about assessing the suitability of the default funds they design.

### Needs further work

**Costs relating to investment related activities**
Following the closure of the FCA consultation in January 2017 we are awaiting publication of the Policy Statement setting out the rules which workplace pension providers and fund managers will need to implement. Once these are known we will monitor Aviva's progress in implementing and complying with these.

**Analysing and assessing other charges** – Our particular concern was in respect of the impact of early exit charges on members' pension pots. We assessed Aviva's position on this and acknowledge that new regulation will limit these charges to 1% for members over age 55. We will monitor Aviva's progress in implementing and complying with these rules and have asked them to keep this issue under review to see if further improvements can be made, for example removing charges altogether.

# Items identified in the 2016 IGC Report for Friends Life

## Completed

**Benchmark Value for Money framework** – The framework used by Aviva has been compared to those used by other providers and industry peers. Although different words have been used, the framework used to help assess VfM is very much in line with those used by other providers of workplace pensions.

**Communicate to scheme members not in their scheme default** – Scheme members who are not invested in their scheme's default fund(s) have been contacted to make them aware that these default funds exist and potentially provide lower charges. Aviva has confirmed that responses from members have been very low (around 4%) and we have now asked Aviva to explore other options in driving up the awareness of these funds.

## Progressing well

**Engaging with you** – Engaging with you to understand what you feel is important is one of our top priorities. We have made a start on this through the research we have carried out and intend to continue exploring other ways we can get your feedback and insight.

## Needs further work

**Scheme leavers** – Aviva is progressing the work relating to lowering the charges for those members who are currently paying charges that amount to a Reduction in Yield of more than 1% per year. We will continue to monitor Aviva's progress to ensure these changes are made quickly and members start to benefit from lower charges.

# Actions relating to the Independent Project Board (IPB) Review

Following the conclusion of the Independent Project Board review in 2015 both Aviva UK Life and Friends Life committed to taking action in respect of any members who may be paying charges which result in them having a Reduction in Yield (RIY) of 1% or more.

## Actions taken by Aviva UK Life

We agreed with Aviva UK Life they would write to the trustees of the pension schemes which failed the IPB's 1% RIY benchmark making them aware of the audit and stressing the need for them to ensure schemes are suitable for the members and provide VfM. These schemes covered around 3,700 members.

We subsequently agreed Aviva UK Life would write to the trustees of all their trust-based schemes and not just those which failed the IPB audit. Starting from February 2016 Aviva UK Life wrote to nearly 500 schemes covering approximately 7,500 members.

Since writing to the trustees Aviva UK Life has confirmed to us that the number of new members joining these schemes has significantly reduced and that there has been a substantial increase in the number of schemes being closed.

This is good progress and we have discussed with Aviva additional actions they can take in respect of the schemes where the trustees are yet to take action. Aviva has confirmed to us that they will be taking further action this year to ensure members in the remaining schemes are within the IPB's 1% RIY benchmark.

## Actions taken by Friends Life

In November 2015, Friends Life committed to carrying out a review in relation to how all pension customers receive fair value. This review was completed in December 2016 and focussed on:

- Around 800 members who were in scope of the original IPB report and still have a potential RIY above 1% per year after the removal of policy fees. (Over 8,000 policies have already been changed with members benefiting from lower charges).
- Around 220,000 scheme leavers (deferred members), across the various Friends Life workplace pension products, of which approximately 100,000 still require action to lower charges to give members a maximum RIY of 1%.

As a result of this review, and following our discussions with Aviva, they have agreed to:

**a.** Remove policy fees from around 89,000 impacted policies to achieve a 1% RIY or less; and/or

**b.** Increase allocation rates to 100% where needed to achieve the 1% target.

We have further agreed with Aviva that they will monitor any policies which fall outside of a. and b. and assess charges when members exit and apply a policy uplift if necessary. Some members' policies fall outside of a. and b. due to having additional features such as a loyalty bonus, which combined with any action the member takes (for example remain to policy maturity or transfer out) may impact the member's overall charge.

We have also asked Aviva to:

- Consider the removal of commission payments to advisers from older products where this impacts the members' charges. Where commission is removed, we have requested that the benefit is passed back to scheme members; and
- Look again at moving customers with small amounts of money in their pension fund into more modern products with lower charges.

These are with Aviva for consideration and we will be discussing this further with them later in 2017.

# Your views

As VfM money means different things to different people it's really important you let us know what it means to you, and also whether you believe you are receiving this from the workplace pension you have with Aviva.

We raise any thoughts, concerns and ideas you have directly with Aviva and will always respond to you with answers. You can contact us at **IGC@aviva.com** All of your communication with us will be treated in confidence.

## Member research

One of the actions we have taken to understand your views is to undertake some survey-based research. Aviva and a number of other workplace pension providers took part in a joint research project under the supervision of both this committee and the IGCs which oversee other workplace pension providers.

As part of this research, around 19,000 members of Aviva's workplace pensions were invited to take part in a short online survey exploring VfM and what it meant to them. Within four weeks of the survey going live over 1,300 Aviva scheme members responded – thank you.

The survey was in two main parts:

- The first part was aimed at getting an understanding of how you view VfM. This involved asking you to rank 23 attributes* in order of importance to you.
- The second part of the survey explored VfM in more detail and asked you to rate Aviva UK Life on these attributes and on overall VfM satisfaction.

In order to help ensure both us and Aviva can take meaningful action we asked for the results to be split by currently marketed and non-marketed products.

*The 23 attributes were compiled in conjunction with an independent market research company which held two one-day workshops with members of the public. These workshops discussed the importance of pensions and peoples attitudes towards pensions and saving for retirement, with the outputs used to compile a list of 23 attributes.

Through the first part of the survey you told us the five most important things to you overall are:

- Receiving a **good return on my money**
- Having good **controls and safeguards** in place
- Having an **employer who pays in at least as much as you do**
- Being with **a reputable, financially-strong pension provider**
- Receiving **tax relief on pension contributions**

## Your views

Your responses to the second part of the survey are summarised below.

| Members in currently marketed workplace pensions | Members in non-marketed workplace pensions |
|---|---|
| The ratings you've given Aviva (based on your satisfaction) on the different attributes indicate you consider they are performing **strongly** in:<br>• Having good **controls and safeguards**<br>• Having **charges in line with the market average**<br>• Providing **accurate administration and reporting**<br>• Issuing **clear and understandable communications**<br>• Providing **access to online calculators and tools**<br>• Providing **access to mobile apps** | The ratings you've given Aviva (based on your satisfaction) on the different attributes indicate you consider they are performing **well** in:<br>• Providing **accurate administration and reporting**<br>• Issuing **clear and understandable communications**<br>• Having **charges in line with the market average** |
| The ratings you've given Aviva (based on your satisfaction) on the different attributes indicate you consider they are **below average** in:<br>• Having **flexible options for how to take pension income**<br>• Offering a **standard fund that needs no decisions**<br>• Providing **telephone support**<br>• Hosting **seminars at work** | The ratings you've given Aviva (based on your satisfaction) on the different attributes indicate you consider they are **below average** in:<br>• Receiving a **good return on my money**<br>• Having **controls and safeguards** |
| When asked how satisfied you are with your pension and the services and features offered to you, your answers indicate you consider Aviva is performing **strongly** in these areas. | When asked how satisfied you are with your pension and the services and features offered to you, your answers indicate you consider Aviva is **below average** in these areas |

As the proportion of members in non-marketed products included in the survey was quite low across Aviva's participants, and also across the full research project, it has not been possible to compare and rate every attribute on a like-for-like basis across currently marketed and non-marketed products.

## Taking these results forward

Having walked-through the detailed results with Aviva our main conclusions are:

- There is a very good fit between the model we use for assessing VfM and the attributes used and rated by you in this survey; and we will be using the results to help refine our model and measures we look at when assessing VfM.
- The results have further enhanced our opinion that there is a difference in the VfM received by a member of a currently marketed Aviva workplace pension and a non-marketed Aviva workplace pension – we have made it clear to Aviva that we do not expect to see a difference and will be encouraging Aviva to increase their efforts in respect of members in these products and schemes.
- The results are very insightful but do not provide all the answers. For example "(having) **charges in line with market average**" is rated significantly lower, in terms of overall importance by members, than "(receiving a) **good return on my money**" despite charges having a very significant impact on net investment returns. This means there is still a lot more work to do to help some members understand the relationship between the levels of charges they pay and the impact these have on the size of their pension pot.
- The ratings given to Aviva are not absolute. Where Aviva has achieved a rating which indicates they are performing strongly or well, this doesn't necessarily

mean they achieved a high score or even a good score, it simply means that you rated them highly on these attributes. Our view is that there is definitely room for improvement in all the areas you rated Aviva. They will be looking to use this insight when considering their proposition developments and carrying out further research across a wider group of scheme members.

## Employer research

We recognise that a number of employers have their own governance arrangement in place. In March 2016, Friends Life commissioned a survey directed at a number of employers who operate their own Governance Committee overseeing their workplace pension scheme. The survey concentrated on a number of topics with a focus on the key areas such as investments, service and communication. The survey was completed by a number of employers covering many thousands of members.

Generally, the survey showed a high level of satisfaction with all of the elements we measure in our VfM assessment, although a number of specific concerns were raised which we have asked Aviva to look at. The responses we received show members and their employers would like more:

- Information about the performance of the default funds (whether the fund has risen or fallen over time);
- Clearer statements of investment objectives, in simple terms;
- Simple, concise, accurate and timely communications using graphics where possible;
- More information online with the ability to obtain paper copies.

And they would like less:

- Jargon, compliance wording and complex pension wording;
- Downtime of the Aviva online service for maintenance.

The overall responses we have received backs-up a lot of what we have already raised and discussed with Aviva. We will continue discussing the best way to take this forward with Aviva to ensure they deliver what you have asked for.

We will continue to engage with employers to canvas their views and opinions. While we are here to represent members, we believe that employers can share valuable insight into the performance of Aviva and help us understand areas where further improvements can be made.

# Our final thoughts

In our view, Aviva is providing value for money for the majority of their workplace pension members.

The challenge we have set them for 2017 and into 2018, is to take the required actions, which in our opinion, will turn the areas where we have raised concerns from red or amber to green.

As VfM is a continuous assessment, we will also be monitoring the actions Aviva undertake to ensure that the VfM elements we have currently rated as green remain green, and also that we continue to improve on of VfM.

# About this Committee

The Independent Governance Committees which previously oversaw Aviva UK Life and Friends Life were aligned in May 2016 to cover the combined defined contribution workplace pensions business of Aviva UK Life and Friends Life.

## The purpose of the Independent Governance Committee

Simply put the purpose of the Committee is to:

- Create a strong voice to act solely in the interests of scheme members
- Provide independent challenge to, and oversight of Aviva, in respect of their workplace pensions
- Assess the ongoing value for money provided by workplace pension policies
- Publish an annual report of our work for the year
- Act on any concerns relating to value for money

## Acting solely in your interests

The IGC was designed to be independent of the workplace pension provider (Aviva in this case). We have powers and processes in place to ensure this:

- Clear and public Terms of Reference for the committee requiring us to act solely in the interests of scheme members.
- A committee composed of a majority of independent members.
- Independent members who are not remunerated or incentivised to act other than impartially.
- A requirement to monitor and report any conflicts of interest.
- The power to escalate matters to the Aviva Board, if required.
- The power to escalate and report matters directly to the Financial Conduct Authority, if required.
- An Annual report summarising our work and judgements.

## How the Committee is, and remains, independent of Aviva

The IGC consists of five members with the majority, including myself being independent of Aviva. I'm satisfied we fulfil the definition of being independent as specified by the Financial Conduct Authority and I confirm that I, and my fellow independent members:

- Are not currently employees of Aviva and are not paid for other roles in the Company
- Have not been employees of Aviva within the previous five years
- Have not had a material business relationship with Aviva within the previous five years

## The committee members

**Inderpreet S Dhingra (independent chairman)**
Inder is a non-executive director, independent pension trustee and an experienced senior executive from the financial services industry. He serves as a director of Law Debenture, representing them on the trustee boards of a number of both large and small pension schemes including as chair of investment committees. His expertise includes strong governance, investment strategy and risk management across both DB and DC schemes.

Inder's career has spanned financial services, business, academia and engineering. Before joining Law Debenture he spent two decades working in banking covering treasury, finance, risk management, pensions and insurance. His last role at Lloyds Banking Group was as Senior Executive with group-wide responsibility for market and liquidity risk and prior to that as Managing Director at Nomura International plc.

His education includes an MBA from Cranfield and PhD from Cambridge University.

**Steve Carrodus (independent member)**
Steve is a director of Pitmans Trustees Limited (PTL) and has over 40 years' experience in the pensions industry having been involved in the trusteeship and governance of pension schemes since 1991. Steve has substantial experience of defined contribution pension schemes and has worked for a number of major pension consulting firms. Steve is also an independent member of another Independent Governance Committee.

**Marcia Campbell (independent member)**
Marcia is an independent non-executive director with over 25 years' experience in the financial services industry, encompassing strategy, IT, operations and international development. She is currently on the Board of Canada Life, Sainsbury's Bank; CNP Assurances, (France's leading life assurer), Woodford Investment Management and Murray International Trust, a FTSE 250 Investment Trust.

The main part of her executive career was with Standard Life plc, where, latterly, she was a member of the Group Executive Committee responsible for group operations and CEO Asia Pacific.

**Robert Talbut (independent member)** – Robert served as Executive Director and Chief Investment Officer for Royal London for 10 years between 2004 and 2014, developing an investment team which delivered outstanding investment performance during his time there. In all he has over 30 years' of asset management and insurance experience.

Robert has represented the industry with regulators and policymakers on topics such as market structure, corporate governance and company engagement, and until recently chaired the investment committee for the Association of British Insurers and the Asset Management Committee of the Investment Association. He now sits on the board of three investment trusts, an asset manager and provides trustee and advisory work in the insurance and charity sectors.

**Colin Williams (Aviva-nominated member)**
Colin joined AXA, which subsequently became part of Friends Life, in October 2009 as Sales and Marketing Director for Corporate Benefits. Following the Aviva acquisition of Friends Life Colin was appointed Managing Director for Workplace Pensions, responsible for defining, developing and managing the sales and marketing strategy and creating innovative and market leading propositions to respond to the changing corporate savings market

**Craig Hunter (Aviva nominated Member) – Craig stepped down from the committee in January 2017.** We are currently considering options for replacing Craig, and are discussing with Aviva the most appropriate candidates.

# Jargon Buster

**Auto-enrolment/Auto-enrolled**
From October 2012, all employers have been required to offer a workplace pension scheme and automatically enrol eligible workers into it. This is known as auto-enrolment.

**Allocation rate**
This is a term which describes the amount of your pension contribution invested in to your pension. For example if you pay £100 each month and your allocation rate is 95% this means that £95 is invested in your pension and £5 is taken in charges. The allocation rate you received depends on the age of the pension product you have and how long you have been paying into it. The majority of currently-marketed pensions have allocation rates of 100%.

**Charges**
Are levied on scheme members with the most common charge often referred to as the "annual management charge" (AMC). This is the price you pay for holding the product and is usually expressed as a % per year. E.g. if you are invested in a fund with an AMC of 0.75% then this means that you'll pay 75p a year for every £100 invested in it. Other types of charges may also apply, especially on older products.

**Charge cap**
Is the maximum charge that can be applied to a default fund. A charge-cap of 0.75% per year was introduced in from April 2015.

**Commission**
Means payments (sales commission) that are deducted from your pension plan and paid to financial advisers.

**Costs**
Are typically related to investment related activities carried out by fund managers. These costs are not explicitly levied on you (i.e. they are not included in the AMC) but they are included in the net returns achieved by fund managers.

**Customer Satisfaction (CSAT)**
This is one of the measures Aviva uses to gauge customer satisfaction. The question used to help determine this is "How satisfied are you with the service you received from Aviva?" The scoring uses a 0-10 scale. All customers scoring between 0-6 are classed as detractors and 7-10 are classed as promoter. The CSAT score is calculated by subtracting detractors from promoters.

**Default fund(s)**
Scheme members who do not choose a particular investment fund or funds have their money invested in a default fund. The default fund will usually consist of a small number of funds which in combination, are sometimes referred to as a strategy.

**Deferred members (scheme leavers, leavers)**
This is where a scheme member has left their employer and their pension plan is no longer part of their former employer's workplace pension scheme.

**Ease of doing business**
This is another measure Aviva uses to gauge customer satisfaction. The question used to help determine this is 'based on your recent experience, how easy was it to achieve what you wanted to on this occasion?' Aviva's 'Ease' score is calculated by taking all customers who scored 0-6 and subtracting this from the customers who scored 7-10.

**Financial Conduct Authority (FCA)**
The FCA regulates financial firms providing services to consumers and maintains the integrity of the UK's financial markets. It focuses on the regulations of conduct by both retail and wholesale financial services firms.

**Loyalty Bonuses**
These can take many forms and depend on the type of pension you have. Loyalty bonuses are usually paid upon your pension maturity date and provide you with some additional benefit which increases the value of your pension pot.

**Net Promoter Score (NPS)**
NPS or Transactional Net Promoter Score (TNPS) is a measure Aviva uses to gauge customer satisfaction. The question used to help determine this is 'Based on your most recent experience how likely is it that you would recommend Aviva to a friend or colleague please use a scale of 0-10 where 0 is not at all likely and 10 is very likely'. The TNPS score is the number of customers who have given a score between 9 and 10 minus the number of customers that have given a score between 0-6. Scores between 7 and 8 are classed as passive and are not included in the TNPS score.

**Pension Freedoms**
Pension freedoms, sometimes referred to as 'pension flexibilities' were introduced by the Chancellor in his 2015 spring budget and give you more choice over how you take an income from your pension.

**Policy fees**
This described a charge which may be taken from your pension each month to cover the cost of administration.

**Reduction in Yield (RIY)**
Put simply, it's a way of expressing the effect the total charges on a pension policy will have on its potential rate of growth. It's a handy tool for comparing the cost of one policy with another. Here's an example: Let's say that your pension policy has a projected investment return (or 'yield') of 4% a year. If all the charges on that policy brought its projected return down to 3%, it would have a 'reduction in yield' of 1%.

**Scheme member**
Essentially this is you, as you are a member of the workplace pension scheme.

**Stakeholder pension schemes**
These were introduced in 2001. Originally the maximum annual charge was 1.0% of the fund value each year. Since 2005 this has increased to 1.5% of the fund value for each year until the 10th year and 1% thereafter. The actual charge members pay is determined on the terms agreed by their employer and the pension scheme provider.

**Transaction Costs**
This is the term used to describe a number of costs which can occur when you invest in a fund or funds. These costs are important because the level of them impacts the overall return you receive on your investment.

**Workplace pension scheme**
This is the type of pension which your employer, or if you are a deferred member, your previous employer, has set up and which you are a member of.

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