

ANNUAL REPORT FOR STANDARD LIFE WORKPLACE PERSONAL PENSIONS 2019/2020

Annual Report

for Standard Life Workplace Personal Pensions
2019/2020







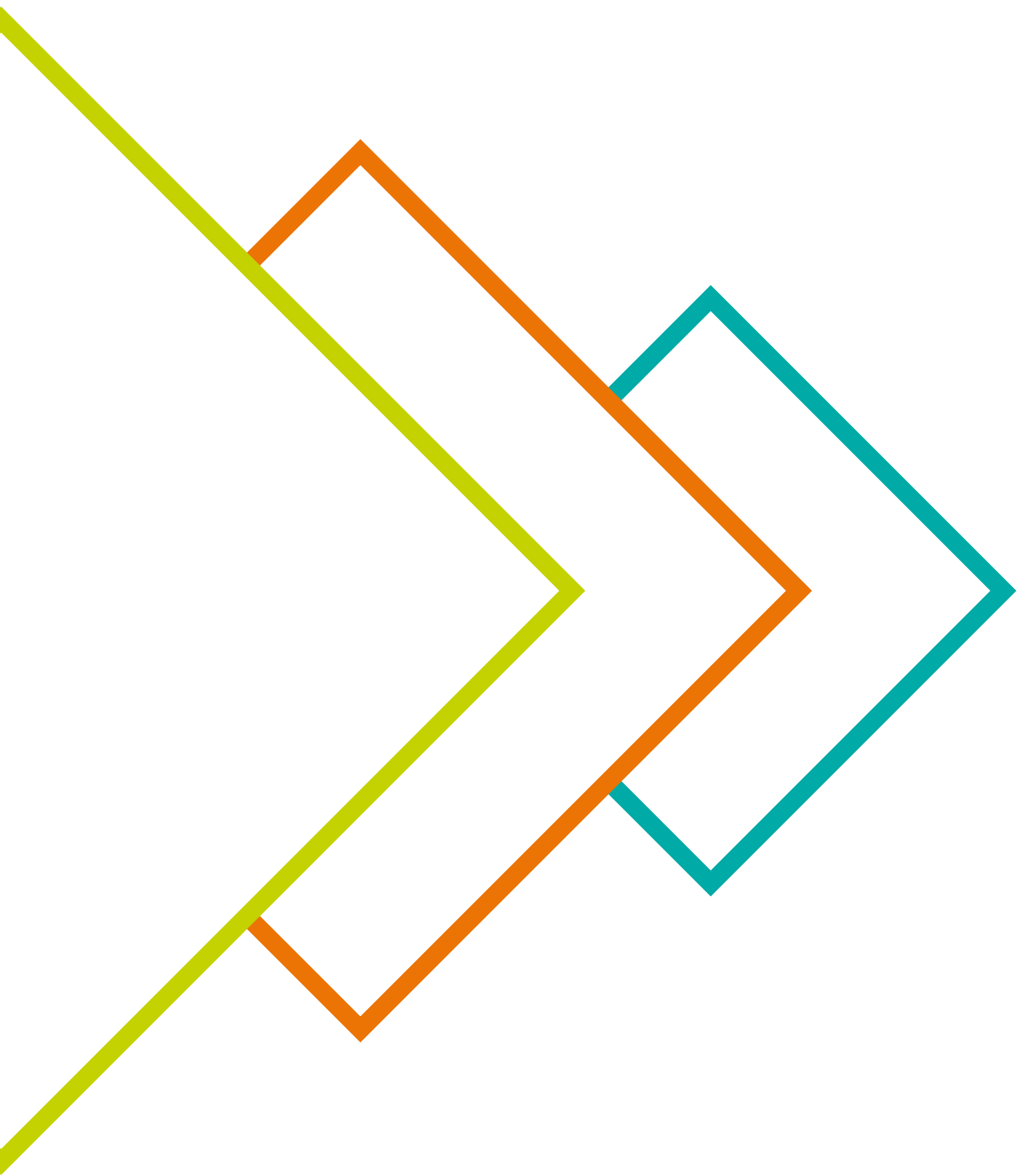
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Main Report

A. Member Summary

Welcome to this, the 2019/2020 member summary report of the Standard Life Independent Governance Committee (“IGC”).

This report is relevant to you if you hold a pension plan through any of the workplace pension schemes that are run by Standard Life Assurance Limited (“Standard Life”). If you are unsure of which pension plan you have with Standard Life (and therefore the extent to which this report applies to you), please refer to your plan documentation or phone Standard Life on 0345 266 5833.

The IGC is here solely for you. Our role is to act only in your interest, assessing the value for money that you are receiving from your workplace pension, and challenging Standard Life where we feel that it could be doing more for you.

This report is only a brief summary of what we have done on your behalf over the last year and what we think of the value for money that you are receiving. More detail on the work of the IGC can be found in our full report. If you have any questions or comments on the approach we have taken and the priorities we have set, please get in touch with us. You can email us at igc@thephoenixgroup.com. We are always pleased to hear from the pension scheme members that we represent.

IGC MEMBERSHIP

Following the acquisition of Standard Life by the Phoenix Group in 2018, there have been some changes to the membership of the IGC, including the Chair of the Committee. However, our purpose has not changed and we remain focused on holding Standard Life to account for the value for money it provides to you. A list of the current members of the Standard Life IGC as well as brief bios can be found on the IGC website.

VALUE FOR MONEY – HOW WE ASSESS IT

Assessing value for money is not just about what something costs. We also look at the quality of what you get in return and how it compares with similar alternatives. That is why our value for money assessment takes into account a number of different aspects of your workplace pension experience, to form a holistic view of the value for money that Standard Life is providing.

During 2019, we have developed our approach to assessing value for money. It now covers the following seven areas:

- Investments;
- Customer Service;
- Customer Communications and Engagement;
- Risk and Governance;
- Costs and Charges;
- Management Culture; and
- The extent to which Environment, Social and Governance (ESG) considerations drive activity across Standard Life, particularly in how your money is invested.

All seven areas are assessed on a Red/Amber/Green scale, where:

- Green signifies: no material issues found;
- Amber signifies: some concerns found that affect some members; and
- Red signifies: major concerns found – i.e. some concerns that affect a large number of members or more significant concerns that affect some members.

More detail on our value for money assessment can be found in section D of our full annual report.

VALUE FOR MONEY – OUR CONCLUSIONS

The IGC has concluded that Standard Life continues to offer value for money to members of its various workplace personal pension plans. During 2019, we have noted improvements in both the design and performance of the core default fund solutions in which many of you are invested. Customer service has also improved and we note ongoing enhancements to the way in which Standard Life communicates with you. We hope that these improvements will make it easier for you to engage with your retirement savings and make more informed choices about your future.

LOOKING FORWARD – MAKING THE MOST OF YOUR PENSION

How big your pension pot will be when you decide to start using the money depends on four things:

- how much is paid into it (by you and/or your employer);
- how much is taken out in charges by Standard Life or through other costs that get deducted from your investments;
- how well the funds in which your pension pot is invested perform; and
- how much investment risk is taken by the funds you selected.

Our value for money work on your behalf focuses on the second, third and fourth points above, as these are the areas where we have the most influence. For example, we monitor the levels of costs and charges that are taken out of your pension pot, and challenge Standard Life where we feel that these are too high compared to what you get in return. Similarly, we review the performance of the funds in which workplace customers can invest their pensions in, and challenge Standard Life where we feel that the performance is not good enough and/or improvements are not being made quickly enough. We also review the design of the default fund options that many of you are offered as part of your workplace scheme.

However, it is up to you to decide how much you save in your pension, and what investment funds you want your pension pot to be invested in. These are very important issues, and your IGC would encourage you to think about the following questions:

- If you are still contributing to your pension plan, are you contributing enough to enable you to have the sort of lifestyle in retirement that you would like? The Standard Life website includes a calculator to help you decide how much retirement income you might need.

- If you are no longer contributing to your Standard Life pension plan, perhaps because you have changed employer and are now a member of a different workplace arrangement, could you get a better deal by transferring this pot to the pension plan that you are currently contributing to? (We are not saying that this is definitely the case. However, it may be to your advantage to compare the different plans and see if one is clearly better for you at this time.)
- When did you last think about the investment strategy that applies to your pension pot? Details of what funds your pension pot is invested in can be found on your annual statement or online if you have registered for this service. Details of your funds' objectives, their performance and the amount of risk being taken with your investments can also be found online.

Your IGC is here solely for you. We are always pleased to hear from the customers we represent. Do please let us know what you think on any matter covered by this report. You can contact us by email at igc@thephoenixgroup.com.

COVID-19

At the time of writing (March 2020), the spread of Covid-19 is having significant impacts on financial markets and all aspects of everyday life. The IGC have been briefed on the steps being taken by Standard Life to address these issues:

- We have been assured of Standard Life's continuing financial strength, in large part due to the risk mitigation measures that were already in place.
- We have been very impressed at the speed of planning and implementation of new operational processes, in order that all possible steps are taken to ensure at least the most important needs of customers (particularly the payment of benefits) can be met in even very extreme scenarios of potential Covid-19 impact.

We have welcomed the articles posted on the Standard Life website to help customers understand some of the things they might want to consider in this period of investment uncertainty.

While no-one can tell the extent of the virus, the IGC is confident that Standard Life is as well placed as anyone could expect - if not, better placed - to meet the key needs of customers in the coming months. We wish Standard Life and its customers well through this difficult time.

B. Introduction from the Chair

Welcome to this, the fifth annual report of the Standard Life Independent Governance Committee (“IGC”). This report concerns the workplace personal pension plans provided by Standard Life Assurance Limited (“Standard Life”) and what the IGC thinks of the Value for Money (“VfM”) that their holders are receiving.

As at 31st December 2019, the scope of the IGC encompassed:

- 2.4m workplace personal pension plan holders; and
- £46.3bn of their pension savings.

There are two other companies within the Phoenix Group that also provide workplace personal pension plans, Phoenix Life Limited and Phoenix Life Assurance Limited (together “Phoenix”), which have their own IGC. As signalled in last year’s report, the membership of the Phoenix and Standard Life IGCs was aligned in April 2019, with the members selected from the two existing committees. Details of the process followed and the individuals selected can be found in Section C.

While some of the members may have changed, the role of the committee remains the same – to act solely in the interests of Standard Life workplace personal plan holders and assess the value for money that they are receiving from their workplace pension.

There are other pension customers of Standard Life who are not within the remit of the IGC – predominantly holders of individual pension plans, rather than workplace arrangements, and also members of the Standard Life DC Master Trust and other trust-based arrangements. For that reason, in what follows, we will often refer to “in-scope plan holders” to make this distinction clear. Depending on the context, we also use the term “member” interchangeably with “plan holder”, to reflect the fact that customers are within our scope because of their membership of a workplace pension arrangement.

PURPOSE AND STRUCTURE OF THE REPORT

IGCs also have a role in promoting effective competition across the pensions market in the interests of customers, through the publication of their annual reports. The Financial Conduct Authority (FCA) has recently (in their policy statement PS19/30) confirmed that it supports an approach that involves IGCs publishing “two reports; a short report aimed at members and a longer report for other audiences and members who want more detail.”

In previous years, the Standard Life IGC has followed the “two reports” approach, and we continue to do so, particularly as this will be more suited to the additional reporting requirements that are being introduced for IGCs (see below).

Thus, this year’s report takes the form of a two-page summary that is aimed predominantly at in-scope members, with the rest of the report accessible to members, but covering much more detail than we would expect most members to be interested in. Given the current focus within the industry on short and accessible annual pension statements, we felt it was important to keep the IGC Member Summary to just a few pages. We are keen to hear from readers whether they think we have got the balance right between length and transparency, as we see this shorter summary as having great potential in helping promote greater engagement across our in-scope plan holders.

We are also keen to hear readers’ views on whether the rest of the report meets their needs or whether there is other information that they would like us to include going forward. We are pleased to support external scrutiny of our work and wider comparisons of value for money relative to other providers. However, we are also conscious that time spent writing additional material for external audiences should not unduly detract from time spent promoting the interests of in-scope customers within Standard Life. We hope we have got the balance right – please let us know if you think otherwise! We can be contacted at igc@thephoenixgroup.com.

ALIGNED APPROACH TO VALUE FOR MONEY ASSESSMENT

It was important to the IGC that the alignment of its membership did not result in a loss of momentum in the committee's work. Thus, an early priority was to ensure that each committee member received sufficient training in the previous work of the IGC they were joining, as well as the detail of the pension products and processes of the associated provider. These early, very intense, training sessions have been followed up over the year with several more "deep dive" days into particular issues (e.g. investment proposition design and delivery; the detailed working of the 13 different With-Profits funds across Phoenix and Standard Life). These sessions have enabled the IGC to recognise the depth of customer focus across the range of relevant provider activities, but also to identify a number of areas where we felt more action or analysis was appropriate (as the more detailed sections which follow in this report demonstrate). The IGC is grateful to Phoenix and Standard Life for the significant effort made to ensure these events met our needs. Through these events, we have been equipped to continue our key role of offering informed and robust challenge to the VfM that Phoenix and Standard Life are delivering.

Another early priority was to develop a consistent approach to value for money assessment across the Phoenix and Standard Life in-scope business, building upon the best of the previous approaches of the two IGCs. The resulting model is described in Section D of this report. The IGC recognises that there is no single measure that can fully encapsulate all relevant aspects of value for money, both historic and forward-looking. Assigning numerical scores even to quite a narrow range of related activities can involve significant discretion and subjectivity. Nevertheless, how such scores change from year to year can be helpful in highlighting and evidencing trends and improvements (or deterioration) over time. However, not everything that requires monitoring and challenge requires to be scored. Thus, the value for money approach that we have used this year combines some of the detailed quantitative scoring elements previously used by the Standard Life IGC (and now extends it to the Phoenix in-scope business) but still retains much of the qualitative "RAG" assessments used previously by the Phoenix IGC and that we feel are better suited to some areas of value for money, even if the assignment of a particular

RAG status is, by definition, a rather broad-brush exercise.

The results of this year's assessment of value for money are set out in the Member Summary at the start of our report (and will be made available to members separately), with the associated evidence and commentary presented in the detailed sections that form the rest of this report.

In a nutshell, the IGC believes that Standard Life contract-based workplace pension plans continue to offer value for money.

The more detailed assessment highlights a number of areas where we have seen improvements over the position last year. The IGC welcomes the tangible results of the customer-focus that we sense in our interactions with Standard Life (and other Phoenix Group) personnel, irrespective of their level of seniority. Of course, there are still areas where the IGC is challenging Standard Life on the extent of improvements being worked on or on the pace of implementation. However, while we would expect future work on the areas challenged by us to result in improvements to customer experiences and outcomes, we do not consider this to be indicative of current failure to provide value for money.

INDUSTRY BENCHMARKING

The IGC believes that it is very important, when assessing value for money, to compare what other providers deliver and at what price. For several years, at the request of the IGC, Standard Life has taken part in various industry benchmarking exercises designed to support the work of IGCs. We have found these very valuable in evidencing the relative performance of our provider, compared to others in the industry. Indeed, some of the most valuable comparisons have been on how customer satisfaction scores of in-scope members compare with those seen in other providers and in other industries.

We are keen that such benchmarking exercises continue to be run, and would encourage other providers and their IGCs to join the existing benchmarking syndicate – the larger the research base, the more insightful the results are likely to be, and hence more influential in identifying areas where customer outcomes should be improved further.

(Furthermore, as we are also members of the Phoenix IGC, we are keen to extend industry benchmarking to the Phoenix in-scope pension plans and have been working with other providers and interested parties to set up an appropriate exercise. We are grateful that Phoenix has not only agreed to share the cost of such a programme, but has been actively participating in the development discussions along with us.)

One particular area of existing comparative data that is worthy of mention here concerns investment transaction costs. A consideration of these has been within the scope of IGCs since they were set up in April 2015. Because of challenges in getting all the necessary data, the FCA introduced provisions in January 2018 to require fund managers to provide the necessary information, on a prescribed basis, on request.

The IGC is disappointed that it has taken nearly two years for us to get to the place where we have transaction cost information on close to 100% of the funds within our scope. We are also disappointed that, for a large proportion of the funds that use underlying collectives, while we now have the total transaction costs, we do not have the necessary breakdown to enable us to monitor the appropriateness of any anti-dilution levies applied by the collective. (See Section I for more detail.)

The IGC is keen to stress that our disappointment is not with Standard Life (or the wider Phoenix Group) – we know that they have worked hard on our behalf to get us the information that we need. The IGC also recognises that building the necessary infrastructure to provide the data required was not a trivial exercise for fund management firms. Nevertheless, we would have thought that two years was a sufficient period of time to complete the necessary developments. We will continue to encourage Standard Life to keep the pressure on the fund managers that they use in order that complete transaction cost reporting is in place soon.

In terms of what conclusions can be drawn from the information we now have on a regular basis, the IGC is pleased to note that, in the main, the levels of transaction costs we are seeing are not out of line with what we were expecting or with comparable data from across the industry. Where the transaction costs for certain funds are higher than expected, investigations have confirmed that there are good reasons for the costs incurred, that they are typically one-off in nature, and not indicative of poor ongoing value for money.

INCREASING IGC RESPONSIBILITIES

There are a number of important new responsibilities that the FCA is introducing into the scope of IGCs, including:

- reviewing the provider's policy, and its implementation, on how Environmental, Social and Governance (ESG) considerations and other key risks are included in investment decisions;
- assessing the value for money of any investment pathways options offered to non-advised customers;
- reviewing the extent to which communications to in-scope customers are fit for purpose and appropriate to the relevant customers; and
- publication of additional information on the additional costs and charges that apply to in-scope customers' pension pots.

We have played an active part in the consultation process behind the various developments – for example, our response to the FCA's consultation paper CP19/10 (regarding cost and charges publication and disclosure) is available on our website, as is our response to CP19/15 (regarding extending the IGC remit to investment pathways and policy oversight concerning ESG and other material matters).

Now that the relevant Policy Statements have been issued and the corresponding FCA rules and guidance finalised and published, we are working closely with Standard Life to ensure that we have the necessary resources and opportunities to use these new responsibilities to the benefit of in-scope customers and other relevant stakeholders.

Particular areas of preparation that may be of interest to readers include:

- In anticipation of the new requirements around the adequacy and implementation of ESG and other material risk policies, we have significantly increased the strength of our scrutiny of Standard Life's approaches to ESG and wider investment sustainability and stewardship issues in this year's report, as can be seen from the commentary in section K of this report.
- In anticipation of the role we are to play in assessing the value for money of the investment pathways that will be offered to Standard Life non-advised customers as a way of taking benefits from their pension plans from 1 August 2020, we have set out what we expect to see and the criteria we will use to assess it, in advance of the launch of the pathways. At the time of writing, we are in the process of finalising the timetable for our review, to ensure that the IGC has sufficient time for what it needs to do, and also that the provider has sufficient time to take on board our comments and any changes that we recommend.
- In anticipation of the role we are to play in publishing additional costs and charges information in 2021, we are making available detailed transaction cost information on our website, and are already working with Standard Life to decide how best the publication of scheme cost and charges data required by the FCA can be achieved in a form that enables customers and other stakeholders to access the information that they need.

Perhaps the most significant addition to the responsibilities of IGCs is the inclusion of the following consideration in the list of matters that, at a minimum, an IGC is required to assess:

“whether the communications to relevant policyholders are fit for purpose and properly take into account the relevant policyholders’ characteristics, needs and objectives”.
FCA COBS 19.5.5R(2)(f)

The IGC has always included customer communications in its assessment of value for money. However, the phrases “fit for purpose” and “properly take into account” are capable of very wide interpretation, and their introduction into the regulatory expectations of IGCs could prove very significant in raising the bar of what constitutes value for money. For example, is a document fit for purpose if it is not sufficiently engaging as to encourage readership by a significant proportion of scheme members, even if it contains all the right information? The IGC has already started discussing such questions with Standard Life and will report further on the topic in due course.

LOOKING FORWARD

VfM is not static: what customers need and expect changes over time, as does what is available elsewhere in the marketplace (in terms of both costs and services). It can also be informed by customer service developments in other markets, particularly in the way digital channels are embraced to enhance customer experience. Going forward, the IGC will continue to maintain awareness of relevant market developments, and ensure that Standard Life does the same, in order that the customer experience of in-scope plan holders keeps pace with (if not leads) improvements elsewhere.

We also have a full programme ahead of us to ensure that we meet the new regulatory obligations upon us and, in particular, play our part in ensuring that the UK financial services industry embraces its climate change responsibilities. The different sections of the report that follow give many examples of what we intend to do – and also give a flavour of the important improvements that Standard Life are already working on for the benefit of customers. Our Terms of Reference are in the process of being updated to reflect the new requirements, and these will be published on the IGC website once approved.

We look forward to the results of the FCA's current review of IGC effectiveness across the industry, which is due to be completed in Q2 of this year. As an IGC, we already go beyond the minimum requirements set out in the FCA's Conduct of Business Sourcebook ("COBS") in what we investigate for our in-scope plan holders. Nevertheless, we welcome this external comparison of our work, informed as it is by an extensive data request and a number of in-depth interviews with IGC members and Phoenix Group staff, and look forward to implementing whatever best practice improvements the review suggests.

We also await the results of the joint work by the Pensions Regulator ("TPR") and FCA on articulating a definition of "value for money" and the development of common principles and standards in this area. The current FCA approach set out in COBS 19 allows us to stretch the concept of value for money quite far, to the benefit of in-scope members. However, we recognise that there could be advantages in a more consistent approach across the whole of the pensions arena (i.e. trust-based and contract-based), and look forward to incorporating the regulators' thinking in our value for money assessment framework in due course.

Internally, we expect some further changes in the membership of the IGC, partly as a consequence of established succession planning arrangements, but also as a consequence of the proposed acquisition of ReAssure by the Phoenix Group and what steps they might take to integrate the governance across the combined businesses. Any changes to the IGC composition will be published on the IGC website.

However, one thing that will not change is the focus of the IGC on our in-scope plan holders and the important work that we do to promote their interests and challenge the value for money that they receive.

We are also keen to do what we can to help increase the level of engagement between customers and their pension. What customers get from their pension pot depends on how much they save, what investment strategy is followed, and what costs and charges apply. While we can oversee the quality and value of what Standard Life provides, many key decisions are up to the customer, such as: how much to save, and in which pension scheme; whether to combine pots with different providers; and whether to take more or less investment risk. Increasing member engagement is a challenge not just for Standard Life, but across the

pensions industry. We look forward to contributing to the industry developments on this important issue.

Thank you for reading our report. We welcome feedback on any aspect of our work and reporting. You can get in touch with us at igc@thephoenixgroup.com.

COVID-19

The bulk of this report was written in February 2020, before the Coronavirus threat ramped up in the UK, with such significant impacts on investment markets and the ability of people to mix socially and attend workplaces.

The IGC have been briefed on the steps being taken across the Phoenix Group and its outsourced service providers to address these issues:

- We have been assured of the group's continuing financial strength, in large part due to the risk mitigation measures that were already in place.
- We have been very impressed at the speed of planning and implementation of new operational processes in order that all possible steps are taken to ensure at least the most important needs of customers (particularly the payment of benefits) can be met in even very extreme scenarios of potential Covid-19 impact.

We have welcomed the articles posted on the Standard Life and Phoenix Life websites to help customers understand some of the things they might want to consider in this period of investment uncertainty.

While no-one can tell the extent of the virus, the IGC is confident that Phoenix and Standard Life are as well placed as anyone could expect - if not, better placed - to meet the key needs of customers in the coming months. We acknowledge and commend them for their customer focus and concern for staff in these unprecedented times. We wish everyone at Phoenix and Standard Life, as well as all of their customers, well for the challenges that lie ahead.

C. IGC membership, experience and independence

As mentioned in last year's IGC report, following Phoenix Group's acquisition of Standard Life Assurance Limited in 2018, the Boards of Phoenix and Standard Life decided to align the membership of their respective IGCs in order to have a consistent approach to value for money assessment across all the contract-based workplace pensions business within the Phoenix Group. This was in line with the established Phoenix practice for governance committees – and was consistent with what had been done regarding IGC membership following the 2016 acquisition of Abbey Life by Phoenix Group.

The first step in the alignment was the selection of the committee chair, through a process led by an external governance expert. This took place in Q1 2019, resulting in the appointment of the previous Phoenix IGC chair, Dr David Hare, to chair the aligned IGC with effect from April 2019.

The other Committee members were selected, in conjunction with David, from the members of the previous Phoenix and Standard Life IGCs in order to achieve an appropriate combination of:

- detailed knowledge of the various blocks of pensions business within the scope of the IGCs;
- understanding of the IGC history and what outstanding issues were still needing to be addressed; and
- relevant industry knowledge of the contract world, and also the wider pensions landscape in the UK and how it is evolving;

along with:

- a strong focus on customers and the outcomes they receive; and
- unquestioned independence of approach and mindset.

At the request of the Chair, it was agreed that the IGC would have six members initially, four of whom would be Independent Members and two of whom would be Phoenix Group employees (one from the Phoenix-branded business and one from Standard Life).

The individuals selected were:

Independent Members:

- Ingrid Kirby, an experienced investment professional and pension scheme trustee who had been an Independent Member of the Standard Life IGC since 2015;
- Sheila Gunn, an experienced non-executive director with a legal background who had been an Independent Member of the Phoenix IGC since 2015; and
- Mike Christophers, an experienced insurance expert with a pensions and actuarial background who had been an Independent Member of the Phoenix IGC since 2017 and, before that, had been an Independent Member of the Abbey Life IGC from 2015.

Employee Members:

- Michael Craig, an experienced actuary with over 30 years' experience within Standard Life who had been an Employee Member of the Standard Life IGC since 2015; and
- Mike Pennell, an experienced actuary with almost 30 years' experience within the Phoenix Group who had been an Employee Member of the Phoenix IGC since 2015.

The IGC wishes to thank those previous members of the Phoenix and Standard Life IGCs who left the Committee last April at the point of alignment:

- Rene Poisson, Independent Chair of the Standard Life IGC since 2015;
- Craig Baker, Employee Member of the Phoenix IGC since 2015;
- Richard Butcher, Independent Member of the Standard Life IGC since 2015; and
- Roger Mattingly, Independent Member of the Standard Life IGC since 2015.

More details on each of the current IGC members can be found in Appendix 1.

INDEPENDENCE

All the members of the IGC take their independence very seriously. At the time of their appointment, each Independent Member of the IGC satisfied the FCA independence criteria set out in COBS 19.5.12G. Any additional external appointment being considered by a Committee member is subject to prior approval by the other Committee members as well as the Phoenix Group, with approval only granted if all parties are satisfied as to the continuing independence of the member concerned and their ongoing capacity to meet all the obligations of their IGC role. At the start of each of our regular IGC meetings, the IGC members ask each other whether there are any new considerations that might affect their independence.

In addition, both Employee Members were provided with side letters to their employment contract which made it clear that, when acting on the IGC, they must act solely in the interests of the in-scope plan holders and put aside the commercial interests of the Phoenix Group.

COMPETENCE

As described above, and in more detail in Appendix 1, across all its members, the IGC has considerable experience in investments, pensions and the type of long-term insurance products that form the business within the IGC's scope. Thus, the IGC believes it is well-placed to carry out its important value for money assessment role on behalf of the in-scope members and act in their interests.

In order to ensure that this remains the case, the IGC maintains a record of the relevant training that each committee member undertakes (either specially for their IGC work, or as part of their wider professional obligations and activity), and which is subject to regular review. In addition, where it is felt that all members of the IGC would benefit from further training on a particular topic, an appropriate training session is arranged.

POTENTIAL CHANGES IN MEMBERSHIP

In July 2019, Michael Craig retired from his employment with Standard Life. He has remained a valued member of the IGC but, in due course, is expecting to be replaced on the IGC by a current employee of the Phoenix Group. A skills analysis process is underway in order to identify a shortlist of potential internal candidates from which the selection of a successor will be made in due course.

Other changes in IGC composition are also likely. The intention is, at some point, to move back to a five-person Committee, but the timing of this will depend on the workload expected of the IGC, the succession planning which is already in place, and the approach Phoenix chooses to take regarding the integration of the ReAssure business into the existing Phoenix governance arrangements. Details of any changes to the IGC composition will be published on the IGC website.

D. Assessing Value for Money

D1 DESCRIPTION OF THE VALUE FOR MONEY FRAMEWORK

Following the alignment of the membership of the Phoenix and Standard Life IGCs in April 2019, the IGC has developed a value for money framework that builds on the best of the previous two approaches, creating a consistent approach across the various books of in-scope business.

AREAS ASSESSED

The value for money framework covers the following seven areas:

- Investments;
- Customer Service;
- Customer Communications and Engagement;
- Risk and Governance;
- Costs and Charges;
- Management Culture; and
- Application of ESG Principles to Investments.

The first four are analogous to the four categories previously used by the pre-aligned Standard Life IGC, and also include many of the aspects that the previous Phoenix IGC approach considered.

Two of the other three areas (“Costs and Charges” and “Management Culture”) were already explicit components within the value for money framework used by the previous Phoenix IGC, and were present in the work of the Standard Life IGC, even if not separately assessed.

Investment ESG factors were also considered by both IGCs in the past, but not with the same level of prominence as this year. The IGC feels that it is now appropriate, particularly in light of the potential new regulatory responsibilities in this regard, for Investment ESG to become an additional component of the value for money framework.

The IGC also feels that, given that both Phoenix and Standard Life make available all the Pensions Freedoms options to workplace pension scheme members when they are approaching that part of the pension journey, it is not necessary to keep singling out “Accessing

your pension” as a component of the value for money framework, as was the case under the previous Phoenix IGC approach. Rather, it is better to assess provider performance in this regard through the relevant sub-areas within the Customer Service and Customer Communications and Engagement categories.

SCORING STANDARD LIFE PERFORMANCE

The ‘scoring’ approach used this year is a combination of what the two previous IGCs used to arrive at an overall assessment of value for money. Each of the seven value for money performance areas is separately assessed, and the scores then combined to give an overall value for money score.

In arriving at the performance ratings for each performance area, the IGC has reviewed lots of different information, including regular management information packs that are produced within Phoenix and Standard Life, and specially-produced information packs containing the results of detailed investigations that we request. We also get the opportunity to meet relevant Phoenix and Standard Life senior managers and meet some of the staff who answer customer calls and listen to them at work. We value these opportunities to question and challenge them on any aspects of performance that we feel it is important to raise.

We recognise that assessing value for money is not an exact science because some aspects are more difficult to measure than others and individual customers value things differently. Nevertheless, we try to be as objective and fact-based as possible. In order to make it easier to understand what we consider is reasonable value for money, we have set out in Appendix 2 a brief description of what we are looking for in each of the areas listed above.

ASSESSING EACH OF THE SEVEN PERFORMANCE AREAS:

For each of the first four value for money areas, Standard Life performance is rated on a numerical scale (from 0 to 3) across a number of sub-areas, based on the evidence provided to the IGC, as well as on our

own knowledge of the workplace pension market. The sub-areas are broadly the same as those used by the previous Standard Life IGC, but with some changes in order to reflect the nature of the wider book of business across the Phoenix Group.

By using the same or similar sets of sub-areas as before, we are able to continue with the historic trend analysis that the previous Standard Life IGC was developing. Extending the approach to the Phoenix business adds more precision to the value for money analysis previously carried out for this business. It also enables comparisons to be drawn across the various books of business in the different companies within the Phoenix Group and highlights areas where internal best practice could be further shared.

The scoring was the same as that used by the previous Standard Life IGC, namely:

- 0 NOT OFFERED
- 1 BASIC STANDARD
- 2 BEYOND BASIC
- 3 AREA OF STRENGTH

The scores for individual sub-areas are then summed and converted into a percentage score for each of the four areas.

The other three areas are not currently scored in such a granular way – although the assessment is similarly rigorous and wide-ranging. Rather, the IGC feels that it is sufficient to assign a performance rating using a colour-based scale as follows:

- Green – no material concerns;
- Amber – some material concerns found that affect some members; and
- Red – major concerns found – i.e. material concerns that affect a large number of members, or very material concerns that affect some members.

Where the IGC feels that performance is adequate for now, but could and should be better in the future, we give performance ratings such as “Green with a hint of Amber” and “Amber with a hint of Green”, depending on how far we feel things should be improved.

To enable comparison with the other three areas, the percentage scores for each of the first four areas are converted into RAG assessments, as follows:

- Green – 75% or above
- Amber/Green – 61% - 74%
- Amber – 40% - 60%
- Red/Amber – 31% - 39%
- Red – 30% or less

ARRIVING AT AN OVERALL VALUE FOR MONEY SCORE

The first step is to express each of the RAG performance assessments in a numerical score as follows:

- 4 GREEN RATING
- 3 AMBER/GREEN RATING
(INCLUDING “HINTS OF” RATINGS)
- 2 AMBER RATING
- 1 RED/AMBER RATING

The scores for each performance area are then combined together to give an overall value for money score. We continue to view some of the performance areas as more important than others, in terms of their impact on what members ultimately receive from their pension pot and the value for money that this represents. As a result, our overall value for money assessment gives more weight to some of the performance areas than others. We do not just add up the individual performance area ratings to get an overall score. Rather, we multiply the ratings with an appropriate weighting, as follows:

- Investments – weighting 5;
- Customer Service – weighting 4;
- Customer Communications and Engagement – weighting 4;
- Risk and Governance – weighting 3;
- Costs and Charges – weighting 3;
- Management Culture – weighting 2; and
- Application of ESG Principles to Investments – weighting 3.

We then add up the weighted scores in order to get an overall value for money rating (out of a maximum possible score of 100).

D2 STATEMENT OF THIS YEAR'S VFM ASSESSMENT BY THE IGC

The IGC has concluded that Standard Life continues to offer value for money to members of its various workplace personal pension plans. The performance area ratings and resulting overall value for money score that the IGC would give Standard Life this year for the business within our scope are shown in the following table:

Performance Area	Score (out of 4)	Weighting	Contribution to overall score	RAG
Investments	4	5	20	Green
Customer Service	4	4	16	Green
Customer Communications and Engagement	3	4	12	Green with a hint of Amber
Risk and Governance	4	3	12	Green
Costs and Charges	4	4	16	Green
Management Culture	4	2	8	Green
Application of Environmental, Social and Governance Principles to Investment	3	3	9	Amber with a hint of Green
Overall Total			93%	

The remaining sections of this report cover each of the performance areas in turn and set out the detail of what the IGC has reviewed and the conclusions we drew. The following bullet points give a flavour of what we thought concerning each performance area.

INVESTMENTS

Value for money was scored 38 out of 45 (84%, up from 67% last year), which corresponds to a GREEN rating, due to:

- Better investment returns, both in absolute and relative terms
- Improved suitability of defaults due to changes made during the year
- Extended investment governance as a result of the integration of Standard Life into the Phoenix Group.

CUSTOMER SERVICE

Value for money was scored 28 out of 36 (i.e. 78%, up from 75% last year), which corresponds to a GREEN rating, due to:

- Continued improvement in the timeliness and accuracy of service delivery by Standard Life during 2019
- Standard Life's continued focus on enhancing its servicing approach to vulnerable customers
- How Standard Life performance ranked relative to other participants in two independent benchmarking studies

CUSTOMER COMMUNICATIONS AND ENGAGEMENT

Value for money was scored 26 out of 36 (i.e. 72%, down from 78% last year), which corresponds to a GREEN with a hint of AMBER rating, due to:

- Standard Life has recognised the market gap in the availability of affordable advice, particularly at the point of retirement, and are trialling an online advice service to address this
- Standard Life has a good range of channels through which to collect customer data, hear the voice of the customer and respond to negative customer comment
- Although statistics of customer satisfaction with communications are strong, there are lower levels of satisfaction from customers that they have the information they need to make decisions on their pension and investments.

RISK AND GOVERNANCE

Value for money was scored 16 out of 21 (i.e. 76%, with comment relative to last year), which corresponds to a GREEN rating, due to:

- Standard Life's continued financial strength
- Investment in data and cyber security
- A robust process to prevent scams

COSTS AND CHARGES

Value for money was rated GREEN (new rating category this year), due to:

- Ongoing charges still represent reasonable value for money – 78% of members are paying 0.75% per year or less, and almost all others no more than 1% per year.
- Where members pay more than 1% per year, this is for other benefits or services which also represent reasonable value for money in general. (The IGC will continue to monitor Standard Life's position on the 117 plans that have death in service benefit, including its review of the level of charges for this benefit.)
- Transaction costs seem reasonable and in line with those seen elsewhere in the market. However, the IGC has been disappointed at the time it has taken in order to give us a full picture of this important area



MANAGEMENT CULTURE

Value for money was rated GREEN (new rating category this year), due to:

- Initiatives to improve customer outcomes
- Evidence of acting responsibly
- Management responsiveness to IGC requests and challenges

APPLICATION OF ESG PRINCIPLES TO INVESTMENTS

Value for money was rated AMBER with a hint of GREEN (new rating category this year), due to:

- IGC disappointment at lack of visibility of how ESG considerations impact in-scope members' funds, despite repeated requests from the IGC, but countered by
- Development of Group-wide Sustainability and Responsible Investment initiatives that are starting to address many of the IGC's concerns

E. Investments

KEY MESSAGES

Investment VfM improved in 2019 due to:

- **Better investment returns, both in absolute and relative terms**
- **Improved suitability of defaults due to changes made during the year**
- **Extended investment governance as a result of the integration of Standard Life into the Phoenix Group**

INVESTMENT – WHAT ARE WE LOOKING FOR?

Investment quality in Value for Money is delivered when:

- funds are well-managed and governed in order to meet investor expectations; and
- default funds have the propensity to deliver sufficient returns on retirement savings over the medium/longer term, taking an appropriate level of risk, to provide a decent outcome in retirement.

Although VfM is a forward-looking measure, we review past performance to validate our assessment: in absolute terms, and vs benchmark, vs peer groups where appropriate and, over the very long term, vs inflation.

The above revised statement on Value for Money reflects the alignment of the Standard Life IGC with the Phoenix IGC in order to encompass the entire scope of workplace business across the enlarged group.

We look at past performance in various ways:

- by looking at absolute returns, as this is what ultimately contributes to the pot that members are saving for retirement;
- against the benchmark that has been set for the fund, because that is the appropriate measure to assess how the fund manager has performed against the fund's objective;
- against an appropriate peer group, because that indicates the opportunity set that the member (or their employer) could have obtained by choosing a similar fund; and
- against inflation over the very long term, where data is available, to understand how investments have grown in real terms over market cycles.

We also consider Standard Life's investment governance processes, particularly in relation to default funds, to ensure that solutions remain suitable for members.

The sub-areas that we score within this performance area are listed in Appendix 2. All references to CPI refer to the Consumer Price Index.

WHAT DID WE FIND?

During 2019/20, we found better investment returns, both in absolute and relative terms.*

ABSOLUTE RETURNS

Investment markets were much stronger in 2019 than 2018, and this led to much better absolute returns over the year for the key Standard Life defaults, ranging from 8.9% for the lower risk defaults to 15.2% for the Managed Fund in which members have over £15bn invested. Although absolute returns do not tell us anything about how good a fund manager is, or Standard Life's oversight of them, it is important to remember that it is absolute returns that ultimately build member's pots for retirement.

* All returns quoted are net of standard fund charges unless otherwise stated. For the range of charges members actually pay, please see Section I.

RETURNS RELATIVE TO BENCHMARK

To assess how good a job fund managers have done, we look at fund performance vs their stated benchmarks. This relative performance also improved over the year, with a clear majority of the reduced number of funds which were still behind benchmark over three and five years showing a marked improvement over 12 months, including the Global Absolute Return Strategies ("GARS") Pension Fund over which the IGC has previously expressed concerns in previous reports.

The IGC and Standard Life again engaged Redington to repeat the external validation they have provided to the IGC in previous years, and this improvement was also reflected in their backward-looking fund review. Although 63 funds out of 172 analysed were initially flagged for further investigation, this revealed that 48 had only failed the 'corridor' approach, most during the extraordinary market conditions experienced in Q4 2018 (Redington's analysis is always based on three years to end September), and that many of the funds which failed the three-year performance test had, during the year, removed the GARS exposure which had historically been a major drag on performance. However, one externally-advised bespoke fund which failed all tests last year, and was reported to be under review, subsequently decided to stick with its two absolute return funds, and has failed again this year. We will continue to monitor the performance of this fund closely, and also the performance of funds that have removed GARS, to

ensure that performance does improve. Otherwise, the three funds that Redington highlighted for continued underperformance were already being monitored closely by the Standard Life Investment Solutions team and performance in 2019 has been better (For further details on the Redington process and for 2019 results, please see Appendix 4).

"The reduced number of funds which were still behind benchmark over three and five years show a marked improvement over 12 months, including the Global Absolute Return Strategies (GARS) Pension Fund."

RETURNS RELATIVE TO PEERS

This year the IGC has increased its focus on performance vs peers beyond those funds which have a clear peer-group based objective. This is because, even though it is an imperfect comparator, where a fund manager has been given a different objective (such as meeting or beating an index benchmark, for instance) it is still a valid indicator of a fund's position vs a similar opportunity set that a member could in theory have chosen instead. Ideally one would want to look at the longest period for which data is available, reflecting the fact that investment may well be over many decades, although recognising that data quality may not be as good over the longer term due to gaps in the record, survivorship bias, or sectoral changes etc.

Summary (Proportion of overall fund range in each Quartile) All data to 31 December 2019	Quartile rankings				
	5 Year	10 Year	15 Year	20 Year	25 Year
Standard Life - Quartile Summary (% of Ranked funds in each quartile over stated periods)					
Quartile 1	30%	27%	39%	0%	0%
Quartile 2	26%	27%	32%	0%	0%
Quartile 3	21%	24%	11%	0%	0%
Quartile 4	23%	23%	18%	0%	0%
TOTAL number of ranked funds (Note - due to rounding, quartile percentages may not total 100%)	281	143	56	0	0
Where funds are in ABI Unclassified and ABI Specialist sectors performance ranking of these funds as a whole is inappropriate given the diverse nature of the sector constituents. Values below show the percentage of SLAL IGC Unit Linked Insured Funds which are either Unclassified or Specialist.					
Unranked or historic pricing not available (% of total number of funds which are unranked) (Where fund does not have pricing history for period due to 'pricing gaps' these have been included in the 'unranked' total & percentage numbers)	39%	9%	7%	100%	100%
Total number of funds in scope	457	157	60	19	14

Where quartile ranking is blank, launch date is outside of required date range or historical pricing not available in the market

Quartile rankings, ABI Pension Sector and launch date: FE Fund Info. The rankings range from 1 to 4, with 1 representing those funds within the top 25% of sector and 4 those funds within the lowest 25% of their sector. Where funds are in the ABI Unclassified and Specialist sector, Quartile rankings are not appropriate due to the diverse nature of their components. All other information: Standard Life

Our first results show that, over five, ten, and 15 years, more than 50% of Standard Life's ranked funds were in the first or second quartile of the relevant ABI sector. This is encouraging, but it should be noted that none of the more modern risk-based defaults are ranked (because they are 'unclassified') which means that, for the most recent five-year period, nearly 40% are not reported. We will work with Standard Life to see what further peer comparisons could reasonably be made going forward for these. For the key defaults we continue to plot five-year annualised volatility and annualised returns against notional blends of bonds/equities. Although 2019 was a better year than 2018, the charts show a further deterioration after the slippage seen last year (see Appendix 4 'Annualised volatility vs annualised returns') as the five-year periods still include the poor results seen in 2016 and 2018, and 2019 did not make up for the loss of the better performance seen back in 2014. However, the Sharpe/Sortino ratios for the two most popular key defaults vs competitors clearly demonstrate the recent improvement of Active Plus III (Appendix 4), as well as the consistent performance of Passive Plus III.

RETURNS RELATIVE TO INFLATION

Following on from last year's look back at returns over the last 25 years up to retirement for the Managed Fund/Active Plus III (which therefore includes the glidepath de-risking to retirement), we have repeated the exercise and confirmed that the strategy achieved a return of CPI+3.8% pa up to 2019 (Appendix 4 'Managed fund performance over 25 years'). This, and the more explicit focus on targeting CPI+ returns for the revised

and new default strategies (see below), prompted us to consider how all Standard Life funds (both defaults, and those available for self-select) had performed vs CPI since launch. Although this is of limited value over the shorter term, and many of the modern defaults do not yet have a ten-year history, we are reassured that the initial analysis shows fund returns exceeding inflation over all available periods, bar understandable exceptions such as cash and deposit funds, or those with explicit guarantees, and most by a clear margin. The Managed Fund, the default with the longest history, has exceeded CPI by 4.6% pa over 15 years.

With-Profit fund performance is excluded from the above analysis, because the outcomes members receive are not solely based on the performance of the underlying asset pools, due to smoothing, bonuses declared, any guarantees pertaining, and any deductions associated with guarantees. However, we do monitor the performance of the underlying asset pools, and note the asset mix within them. Here too improvements in performance were seen over 2019.

Also shown are the five-year returns to 2019, and the proportion of each fund invested in growth assets such as equities and property. The lower proportion invested in growth assets for the Pension With-Profits Fund is due to the fact that members benefit from an investment growth rate guarantee of 4% provided they hold their funds until retirement.

"The Managed Fund has exceeded CPI by 4.6% pa over 15 years."

With Profit Fund	Products	Calendar returns		Five year returns	2019 Growth Assets %
		2019 %pa	2018 %pa	2019 %pa	
Pension With-Profits Fund	GPPP	7.1	-1.6	3.8	27
Other Pension Unitised With-Profits Funds ⁶	GPPOne GPPFlex GPPLE	11.7	-5.1	5.8	72
Stakeholder With-Profits Fund	Group Stakeholder Corporate Stakeholder	15.9	-7.9	6.6	68
Stakeholder With-Profits 2006 Fund	Group Stakeholder Corporate Stakeholder	15.8	-7.9	6.6	68

Returns shown gross of fees
Source: Standard Life

Further information on our overall appraisal of these and other with-profit funds in which members may be invested, please see Appendix 5.

IMPROVED SUITABILITY OF DEFAULTS DUE TO CHANGES MADE DURING THE YEAR

Redington's initial forward-looking analysis of all 176 default strategies only flagged ten for further investigation this year. As seven of these were risk based I or V funds which would never be used as a default, and three had only flagged due to charges before scheme discounts/charge capping were taken into account, none required further action. However, although none of the nine remaining fund-only 'profiles' were flagged this year, it was also noted that one of the two schemes using bespoke funds as qualifying defaults had recently introduced a new Standard Life Universal default, and the other is under review by a newly-appointed adviser. This is a markedly better position than we saw in the early years of Redington's analysis, and reflects the engagement with employers and advisers that was subsequently undertaken by Standard Life.

STANDARD LIFE-DESIGNED DEFAULTS

As previously reported, the review undertaken by Standard Life of the key Passive Plus and Active Plus defaults in 2018 to target an explicit CPI+ return to facilitate a decent income replacement ratio resulted in changes to the strategic asset mixes to remove GARS and increase equity content. The resultant asset transitions were undertaken in six equal tranches between August and December 2019. As the IGC had previously challenged whether the composition of these funds was still appropriate back in 2017/2018, we are pleased to see the completion of these changes. It is too early to evaluate their effect, but we note that Standard Life plans to conduct an effectiveness review in 2020, and we look forward to seeing the results of that.

CLIENT-DESIGNED DEFAULTS

Also during 2019, we saw the vast majority of client (ie Employer) bespoke defaults removing GARS from their strategies following the disappointing performance seen in recent years. Time will tell whether performance will be enhanced as a result, but we are more comfortable that the changes have been made, not least because a reduction in complexity is likely to aid member understanding of how they are invested.

SWITCHING ANNUITY-TARGETING DEFAULTS FOLLOWING SCHEME RULE CHANGES

A significant improvement in suitability seen in 2019 was as a result of Standard Life's "Better Investment Outcomes" programme to deal with those defaults that had continued to target annuity purchase at retirement (even though member behaviour following the introduction of Pension Freedoms in 2015 suggests that very few members will actually do so), because the Scheme Rules required members to undertake their own switches. Following legal advice, Standard Life changed the Scheme Rules across their range of pension products in late 2018/early 2019, and in 2019 started engaging with Employers to switch members either into the current Universal default or another fund that does not assume any particular behaviour at retirement. This is a complex process that always needed to be phased in order to consult with Employers and members appropriately, and manage the resultant transitions, with over 180 Schemes needing to be switched in 75 tranches (with tranches arranged such that all members in a Scheme, and all in the same profile, are switched at the same time). At the time of writing last year's report, we had hoped that around 40% of members might have been switched in 2019, with the remainder being switched in 2020. In the event, although 49% of members (some 64,000) had received their switch letters by year end, this proved optimistic, and at year end only 26% of members had been switched, with the other 23% being switched in Q1 2020. It is still planned to complete switches for the remaining 66,000 by the end of this year. Once this programme has been completed, as a result of this and previous initiatives, no members should remain in an annuity-targeting profile unless they have specifically chosen to do so. This will be welcomed by the IGC, as it has been a long and complicated process which started with the introduction of Pension Freedoms in 2015.

OTHER INITIATIVES

The Better Retirement Outcomes programme has been given priority in 2019 over the plan for Standard Life's Investment Proposition Forum to engage with members whose fund choices might appear unsuitable, as analysis focusing on particularly low/high risk funds suggested that the number of members potentially at risk of having made inappropriate choices was relatively modest. However, 40,000 members will be written to this year starting in Q2 2020.

Standard Life also added a new default in October 2019 to increase choice for employers and members. Passive Core Universal is both simpler and lower cost than the existing offerings, whilst still aiming for good outcomes in terms of income replacement and de-risking towards retirement. We were kept well-informed of Standard Life's intentions and rationale prior to launch, and welcome this development as evidence that default strategies are designed with members' interests in mind.

We will consider this new default from a VFM perspective in next year's report, once members have started to invest.

"We have seen that default strategies are designed with members' interests in mind."

EXTENDED INVESTMENT GOVERNANCE AS THE RESULT OF THE INTEGRATION OF STANDARD LIFE INTO THE PHOENIX GROUP

Following the completion of the 2018 transaction in which Standard Life became part of the Phoenix Group, 2019 has seen considerable progress in integrating systems and processes. In investment governance terms, this has resulted in an increase in overall resource, with a greater clarity of focus. The Investment Office has taken charge of Strategic Asset Allocation ("SAA") decisions and fund manager engagement, and the Investment Solutions team has taken responsibility for unit-linked performance and governance reporting across the entire Group as well as the wider unit-linked proposition. The Investment Office has also taken responsibility for overseeing the SAAs, as well as mandate and manager selection for the underlying asset pools of the with-profits funds and recommending any changes in strategy required. We are pleased to see this alignment of process and the increased visibility and consistency that it brings.

These developments have facilitated an increase in both the breadth and depth of the management information presented to the IGC, as reflected in the new performance indicators referenced above. An increasing number of reports cover the entire fund range available to workplace clients across the Group (800 plus funds in total), while providing better context in terms of Assets under Management and member numbers within the IGC's scope. We have already been able to establish a common VFM framework as a result, and we expect to see greater alignment in process which will allow further refinement over time.

HOW DOES STANDARD LIFE COMPARE WITH OTHER PENSION PROVIDERS?

The above quartile analysis of Standard Life fund performance against Association of British Insurers (ABI) sectors provides some comparative analysis against other funds available for pension fund investment, but not the key defaults. We have limited like-for-like comparisons for these.

We applaud the efforts of the Syndicated Benchmarking Project (Phase 2), which benchmarked Standard Life's top three defaults against those of four other providers using a standardised methodology similar to that used internally. Although these results are only to 2018, and the value of the exercise would be enhanced if there were more participants and funds considered, this does start to give us a picture of where Standard Life's solutions sit vs peers. Standard Life's three default strategies scored well in the forward-looking assessment that was part of this benchmarking.

We are aware that various market commentators have compared short-term performance results across industry defaults, which have shown Standard Life's risk-based defaults underperforming others. However, the better performers appear to have higher equity content which benefits them when markets are strong, but they are likely to be more volatile over time. It is unclear which approach will prove more suitable in the long term, thereby boosting members' confidence and their inclination to save. We are encouraged by Standard Life's careful consideration of such matters and their willingness to adapt to changing circumstances.

CONCLUSION

There is ample evidence that investment quality has improved over the year, looking at all the measures of fund performance considered, the evidence of ongoing review and actions taken by Standard Life, and the increase in governance resource and scope. We are encouraged by the progress made this year, and look for continuing good performance going forward.

This year's matrix assessment produced a score of 38 out of 45 (84%) against last year's score of 24 out of 36, which is 67%. Although the matrix has seen some additional aspects considered as a result of the alignment of the two IGCs, with some aspects previously considered as Investment now considered elsewhere, we are satisfied that this good result is comparable and provides an appropriate basis for future assessments. This equates to a RAG rating of Green.

"Investment quality has improved over the year."



F. Customer Service

KEY MESSAGES

Investment VfM improved in 2019 due to:

- The IGC notes continued improvement in the **timeliness and accuracy of service delivery by Standard Life during 2019**
- **Standard Life continues to focus on enhancing its servicing approach to vulnerable customers**
- **The IGC has been assisted in its VfM assessment through Standard Life's participation in two independent benchmarking studies**

WHAT ARE WE LOOKING FOR?

Our assessment of customer service focuses on what service levels Standard Life has as targets, its performance against those targets and what steps are taken if performance falls below those levels. We know that meeting of targets does not necessarily result in good customer service so we also look at the overall experience a customer has when interacting with Standard Life. This includes how the provider approaches vulnerable customers and deals with complaints. We look for signs of innovation and improvement over time and that these are driven in a customer-centric way. This includes expanding the range of digital services and self-service transaction capability available to customers. Finally we recognise that value for money associated with customer service goes hand in hand with customer communication and engagement (which we consider as a separate area of our VfM assessment).

The IGC's primary responsibility in respect of customer service under the FCA's regulations is to determine *"whether core scheme financial transactions are processed promptly and accurately"*¹. In practice, the IGC looks at much more than this in its assessment of VfM:

- We also review "end-to-end" customer experience (i.e. how long it takes for a customer, from first asking for something to happen, for the issue to be finally resolved – for death claims, for example, this can be very significantly longer than the "process death claim" workflow item).
- In order to get a deeper understanding of the customer experience, the IGC now receives an annual review of actual cases which the in-house servicing team at Standard Life has dealt with over the course of the previous 12 months. This is a new initiative introduced during 2019 and follows a similar approach to that of the Phoenix IGC in previous years. The review looks at every interaction the customer had in order to achieve what they wanted to happen, and the reasons why (if relevant), the internal turnaround target has been missed. The results are scrutinised by the IGC, along with any management actions/improvements that are taken in response to the findings.
- The IGC also listens to customer calls from time to time – pre-recorded and selected by Standard Life for us to hear, but also "real time" when we visit the in-house servicing team. For example, in December 2019 the IGC visited Standard Life House and sat in on a number of customer calls.
- The IGC also monitors complaint levels, topics complained about, and what Standard Life is doing in response. We also track complaint overturn rates of cases referred to the Financial Ombudsman Service ("FOS").
- The IGC also takes a keen interest in the strategy that Standard Life and the wider Phoenix Group follows in relation to its servicing approach and proposition. We monitor Standard Life's performance in the customer service management information pack that is produced quarterly and also the progress of any key development projects that affect the service experience of customers.

In terms of reviewing potential outliers, the IGC looks out for particular sub-groups of customers for whom the overall Standard Life service proposition may not represent value for money, or where particular customer needs and preferences could be better met. For example, we regularly review Standard Life's approach to "Vulnerable Customers" to ensure that it meets the needs of those for whom "mainstream processes" are not appropriate.

WHAT DID WE FIND DURING 2019/20?

(A) Service Timeliness in 2019

During 2019, Standard Life dealt with 19.4 million transactions, a 0.4% increase on 2018 (19.3m).

The vast majority (i.e. >90%) were processed on an automated Straight Through Processing ("STP") basis and 92.2% of all transactions were completed within one working day (2018: 92.3%). (See Appendix 7)

For many years, Standard Life has had a target to complete 90% of all non-STP transactions within 10 working days, the 10 days being exclusive of time outside of Standard Life's control. This is the basis of Standard Life's reporting to clients and other governance committees. However, as reported in the 2018/19 report, following challenge by the IGC, Standard Life introduced a secondary set of internal measures which vary by transaction type and against which performance reporting is provided to the IGC each quarter. Following the publication of last year's report, the IGC has been made aware of at least one client request that the servicing performance of their scheme also includes these secondary measures. To date, our understanding is that Standard Life is still considering this request. The IGC believes that a wider publication of these additional performance measures would be helpful to clients and their advisers.

In 2019, performance against the primary (10 days 90%) standard for non-STP transactions averaged 97.3%, an improvement on both 2018 when it averaged 93.4%, and also on 2017 (89.1%). As a percentage of all transactions, 99.7% were completed within 10 days (2018: 99.4%; 2017: 99.2%).

¹ FCA Conduct of Business Sourcebook 19.5.5 R 2 (c)

Timeliness in respect of Transfer Out transactions improved significantly – from 77% in 2018 to 98% in 2019. When measured against the secondary target of 5 days, 95% of Transfer Out transactions were completed within target. This improvement in performance was aided by the recruitment of additional staff to help meet a rise in demand volumes (caused by increased consolidation activity in the market).

Settlement of death claims was the only transaction where turnaround times did not meet the 10 day service target. The completion rate of 54% was, however, an improvement on previous years' performance (2018: 47%; 2017: 48%). In fact, the average turnaround time during 2019 for Standard Life to settle a death claim was 18 days (2018: 28 days) following date of notification, with 28% (2018: 32%) of cases continuing to take longer than 20 days to complete.

During 2019, Standard Life has continued to take a more focused approach in dealing with cases which have been outstanding for significantly longer than 10 days. In total, there were 9,328 non-STP transactions completed over 10 days in 2019, representing a 40% improvement relative to 2018 (15,635) and a 77% improvement on 2017 (40,888). (See Appendix 7)

Telephony performance was generally stable throughout 2019. Internal targets (in terms of response times and drop-off rates) were generally met and any short term performance challenges were quickly resolved. (See Appendix 7)

The IGC has been made aware of planned improvements to the following processes, due to come into effect from March 2020, and which should improve customers' experience.

- Pension consolidation journey: Standard Life is planning the roll out of an optimised transfer system to reduce the length of time customers have to wait for their pension consolidation to take place. As a result the waiting time will decrease by two days per transaction.
- Fund price updates: the latest fund prices are to be made available to customers during peak hours (9am-5pm) so that customers can see the most up to date information.

The IGC is pleased to note the timeliness of the service provided by Standard Life during 2019 and the ongoing improvements planned for 2020.

(B) Service Accuracy

In 2017, Standard Life introduced a new measurement methodology for reporting service accuracy. The performance reporting during 2019 has continued to be done using this methodology and therefore has enabled the IGC to make a comparison with the two previous years.

In the 12 months to 31 December 2019, Standard Life reported "right first time" accuracy in processing "new monies" (incorporating Regular Contributions, Ad hoc and Single Contributions and Transfers In) of 97.5% (2018: 95.2%; 2017: 92.1%) for transactions not processed on an STP basis. There was a 97.6% (2018: 97.4%; 2017: 98.4%) accuracy level for processing fund switches and 97.9% (2018: 96.9%; 2017: 94.8%) accuracy for processing "monies out" (covering Transfers Out, Retirement Claims and Death Settlements). See Appendix 7 for more detail.

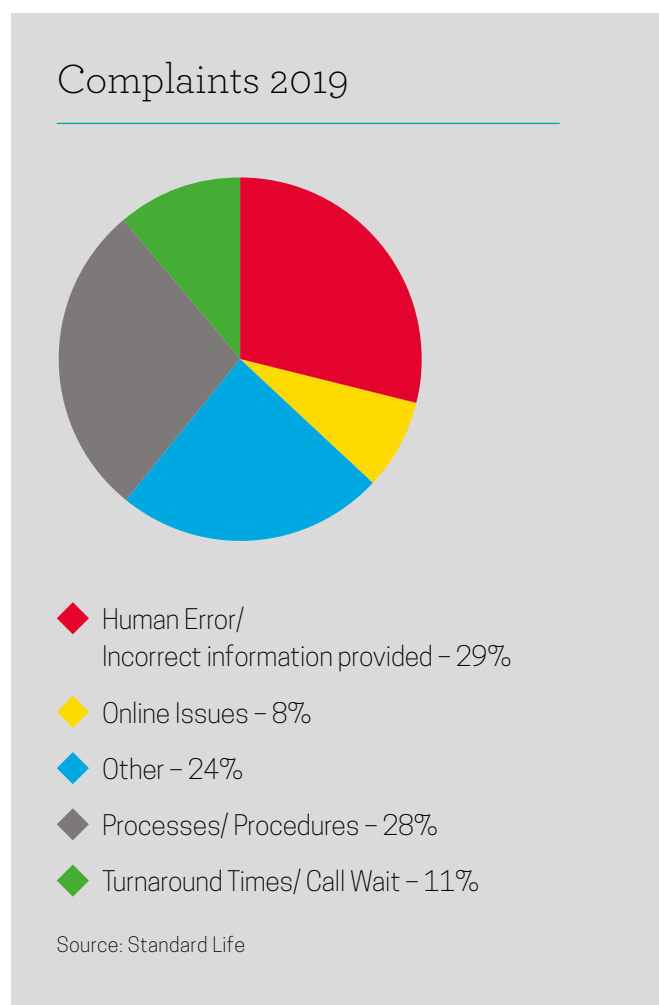
The approach taken by Standard Life to correct any inaccuracies remains unchanged from that reported in previous reports. In particular, Standard Life makes any corrections necessary to ensure that a customer suffers no detriment. For example, if there is any delay or inaccuracy in processing within 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 customer 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. customer, employer, adviser, solicitor or other authorised individual, the date of receipt within Standard Life will apply. In other words, Standard Life will not assume responsibility for the third party's delay. The IGC is supportive of the approach taken by Standard Life to ensure that customers are not disadvantaged through internal delays or errors. We note, however, Standard Life's dependency on other third parties to ensure that transactions are processed accurately and without undue delay.

(C) Complaint Handling

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. 2019 was therefore the third full year in which the new basis applied.

During 2019, Standard Life received a total of 1,010 complaints from customers saving in a workplace personal pension plan. The overall complaint volumes for 2019 were down by 23% compared with 2018 (1,320) and returned to similar levels experienced in 2017 (1,068), partly as a result of the more favourable investment returns enjoyed by customers during 2019.

The most common reasons for complaint among customers during 2019 are set out in the chart below.



The main reasons for complaint remain similar to those highlighted in previous years' reports, 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. These complaints continue to make up a significant proportion 68% (2018: 69%; 2017: 44%) of overall complaint volumes.

The in-house Customer Relations team within Standard Life 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.

Of the 1,010 complaints received during 2019, 453 (45%) were upheld by Standard Life and 557 (55%) were rejected. The equivalent percentages in the two previous years were 54% (2018) / 62% (2017) upheld and 46% (2018) / 38% (2017) rejected. A total of five complaints were referred to FOS during 2019 (compared with eight in 2018 and two in 2017). Three of these complaints were subsequently declined by FOS; one was withdrawn while one has yet to have a final decision made by the Ombudsman. Standard Life reviews all FOS overturns to consider whether any changes in stance or processes are required.

Based on information published by FOS for all of Standard Life's life and pension products for the six months to 30 June 2019², the Ombudsman agreed with Standard Life's assessment in 85% (2018: 88%; 2017: 76%) of cases. The industry average for the life and pension complaints category is 78% (2018: 70%; 2017: 74%).

"The overall complaint volumes for 2019 were down by 23% compared with 2018."

² Most recent information available at the time of writing

(D) Vulnerable Customers

In our 2018/19 report, we noted how Standard Life was responding to the needs of customers who may find it more difficult to achieve good outcomes due to their background, circumstances or underlying conditions, whether short or long term (Vulnerable Customers). Since then, Standard Life has continued to evolve its vulnerable customer strategy and, in June 2019, commissioned the Money Advice Trust to undertake an independent audit of their policy and practices in supporting vulnerable customers. The outcomes that Standard Life is seeking to achieve for vulnerable customers are as follows:

- to support all engagements and interactions with customers in vulnerable circumstances with the right support at the right time;
- to raise awareness of all the support that Standard Life can offer customers in vulnerable circumstances;
- to reinforce Standard Life's reputation as a responsible organisation that treats customers fairly;
- to improve colleague confidence, knowledge and understanding on customer vulnerability; and
- to support not just customer but other 'connected' parties, e.g. family members, beneficiaries and carers.

In July 2019, the FCA published guidance for providers on the fair treatment of vulnerable customers³. This included, as an example of best practice, an initiative within Standard Life where service staff were given the opportunity to experience first-hand what it feels like to experience different types of physical impairment e.g. tunnel vision, hearing difficulty, sight loss.

Standard Life (and the wider Phoenix Group) also participates in the ABI's Vulnerable Consumer working group to share best practice across the life and pensions industry, which the IGC welcomes in terms of demonstrating industry leadership in this important area.

“Continued focus on the needs of vulnerable customers”

HOW DOES STANDARD LIFE COMPARE WITH OTHER PENSION PROVIDERS?

Standard Life participated in two benchmarking exercises during 2019. The first, undertaken by Redington, covered five of the main elements which the IGCs of the five participating pension providers take into consideration when assessing VfM, namely: engagement, investment, access, service and charges. This was followed up by the benchmarking survey undertaken by the Institute of Customer Service (“ICS”) and focused on the levels of customer satisfaction in relation to the service offered by Standard Life, along with those of the other five pension providers which participated. The ICS were also able to benchmark the scores of the participating providers relative to a national benchmark of customer satisfaction published by the ICS covering all industry sectors, including utilities, insurance, banking as well as non-financial service companies.

In terms of the timeliness and quality of the processing of core financial transactions, Standard Life's performance appears to be broadly in line with the four other providers participating in the Redington survey. The survey did, however, lend further weight to the appropriateness of having internal targets which are specific to the nature of the transaction rather than a general (10 day) target for all transactions. This is particularly true for death claims where the average (mean) turnaround time for the participating providers, including Standard Life, to deal with such transactions was significantly higher than 10 days. We also noted from this survey that there remains scope for Standard Life to continue to improve its performance in respect of non-STP transactions, particularly in relation to transfers (in and out) and death claims.

³ GC19/3: Guidance for firms on the fair treatment of vulnerable customers (July 2019)

On the broader measures of customer satisfaction as identified by the ICS benchmarking survey, Standard Life performed as well as or better than other providers in a number of areas, including dealing with the customer's requirement "right first time". Satisfaction levels in relation to the speed and quality of handling complaints were, however, significantly below average both in relation to the other participating pension providers and ICS's national benchmark scores. These results were based on a relatively small sample size (723) of "self-selecting" customers and the corresponding results from the Redington survey were more nuanced. For example, it would appear that Standard Life had fewer complaints per 1,000 plans (including those not classed as "reportable" to the FCA) than other providers and were able to deal with approximately half of these within three days. However, for those complaints which took longer than three days to resolve, Standard Life's performance appeared to be significantly poorer (in terms of turnaround time) than other providers. The ICS survey would seem to support this view, and the IGC takes comfort that Standard Life seem to be taking the feedback seriously (as reflected in the quote from management which is reproduced in the section below.)

Both the Redington and ICS surveys referred to (transactional) Net Promoter Scores ("NPS"), an industry-wide measure which allows customers to record their level of satisfaction with and recommendation of the provider. Both surveys suggested that customers' satisfaction with Standard Life was broadly in line with that of other pension providers' customers.

WHAT ARE OUR CONCLUSIONS IN RELATION TO VALUE FOR MONEY?

Based on the management information that is produced quarterly by Standard Life, and supported by the independent benchmarking studies undertaken by Redington and the ICS, 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 customers are not disadvantaged as a result of processing delays or inaccuracies.

In our 2017/18 annual report, the IGC noted Standard Life's introduction of process changes in response to IGC concerns regarding the extended time periods experienced by some death benefit claimants. We were, therefore, pleased to see that the process changes made over the past two years by Standard Life appear to be having some positive impact: the proportion of death claims completed within target has risen versus 2018 and, most importantly (given that for death claims Standard Life is dependent upon third parties providing information in a timely manner), the total elapsed time experienced by claimants has continued to drop significantly. (See Appendix 7)

The volume of complaints during 2019 was down on 2018 and 2017, and continues to remain low (<0.04%) relative to the number of customers and the number of transactions processed. Customer complaints appear to be treated fairly. However, we do note the findings from the two benchmarking studies and would encourage Standard Life to consider what additional measures could be taken to improve the speed of those complaints which take longer than three days to resolve and which may help to improve overall levels of customer satisfaction in any similar benchmarking exercises that may be undertaken in future.



In the interim, below is management's response to the challenge raised by the IGC in respect of complaint handling:

“How we handle complaints is of great importance to us, and there are a number of measures we have in place to ensure we’re reaching fair outcomes for our customers. Looking at the most recent FOS published statistics; we had 17% of cases overturned within the Phoenix Group (the Standard Life rate was 15%) against an industry average of 22%. This is a key measure of how firms handle complaints and Standard Life has consistently been above the industry average. We know that resolving issues quickly is important to our customers and have focussed on this in 2019, with 60% of service related complaints resolved within 3 days of receipt. We are always looking at ways to improve how we handle complaints therefore we will take time to review the verbatim comments from the 26 customers who responded to the complaint questions (in the ICS survey), and will look to ensure the feedback provided is considered and implemented where appropriate”.

In terms of vulnerable customer issues, the IGC has monitored the development of Standard Life's "Helping Hand" initiatives and how effective their implementation has been. This included the IGC listening to customer calls, including with vulnerable customers, during the IGC's visit to Standard Life House in December 2019. This followed a presentation to the IGC in November 2019 on Standard Life's approach to vulnerable customers and how it is being made consistent across the Phoenix group. The IGC takes comfort from the external influences and advice that were being taken on board. We were particularly pleased to hear of the external recognition that Standard Life had received, in winning the CCA's "most effective vulnerability strategy" award in November 2019⁴. We were also encouraged by the results of the independent assessment undertaken in July 2019 by the Money Advice Trust. In particular, "the importance of supporting customers in vulnerable circumstances" appears to have been embraced by Standard Life colleagues across all levels of the business.

Appendix 2 sets out the criteria taken into consideration by the IGC in its assessment of VfM, including in respect of customer service. Notwithstanding the opportunities for further improvements in the service offering, the performance during 2019 and the ongoing investment by Standard Life in its service proposition, has led the IGC to determine an overall score for customer service of 28 out of 36, or 78% (2018: 27, or 75%), which we equate to an overall rating of Green.

⁴ See www.cca-global.com

G. Customer Communications and Engagement

KEY MESSAGES

- **Standard Life has recognised the market gap in the availability of affordable advice, particularly at the point of retirement, and are trialling an online advice service to address this**
- **Standard Life has a good range of channels through which to collect customer data, hear the voice of the customer, and respond to negative customer comment**
- **However, although statistics of customer satisfaction with communications are strong, there are lower levels of satisfaction from customers regarding the information they need to make decisions on their pension and investments**

WHAT ARE WE LOOKING FOR?

We consider that keeping in touch with customers is fundamental, so we look at 'goneaway' rates and what Standard Life is doing to lower these rates as a measure of how well Standard Life does in this regard. Beyond this, and as a minimum, we expect customer communications to be compliant with regulations, and look for communications to be timely, clear, and jargon-free. We look for continuous improvement by Standard Life over time, and for evidence that Standard Life is increasingly enabling members to engage with their pension by the quality of communications they receive, being able to call Standard Life for help, and being able to find information and guidance tools online. We also look at how Standard Life gets feedback from members and how it responds.

During 2019, we listened to customer calls, examined examples of customer feedback and independent surveys, and asked for updates on developments to annual statements and the enhancement of Standard Life's digital offering. Unless otherwise stated, the survey results and feedback are from customers across all of Standard Life, and not just those within the scope of the IGC. The following explains the outcome of our work in this area.

WHAT DID WE FIND?

The IGC has championed the need for Standard Life to engage with its IGC customers. We look for evidence that Standard Life has communicated with customers at appropriate times, and evidence that they have sought and listened to the customers' views about Standard Life, the quality of Standard Life's engagement with them as customers, and the customers' ease of understanding Standard Life communications.

Last year we outlined the various channels Standard Life would be using to engage with customers, and their identification of 'moments that matter' when particular engagement would happen. These include the welcome email to a new customer, the sending of more information after contributions into the plan have started, 'milestone communications' to customers both on particular birthdays (49, 54, 59, 64 and 69) and in the period leading up to the policyholder's Notional Retirement Date (NRD), at 24/18/1 month prior to NRD.

Over the last year, we have looked carefully at the execution and outcome of Standard Life's efforts to engage with customers. We have been pleased to see that Standard Life has followed through on its commitments to engage more with customers, by enhancing its online offering and the support it offers in the lead up to retirement. We have also noted the significant efforts that have been made to gather as much information as possible, in order to gain greater insight into what customers need, think and feel.

INCREASED ENGAGEMENT

Through channels such as mailings and call handler guidance to customers, Standard Life has been encouraging customers to think about their pensions and choices, and plan ahead for their retirement. This has resulted in the evidence we have seen of increased engagement, particularly online, between Standard Life and its customers:

- in the 12 months to 31 December 2019, 22% of customers have interacted with Standard Life, either digitally or by phone, showing an increase of 1.7% year on year;
- the number of digitally enabled customers (registered online) reached 24% by end December, 2019, an increase of 2% from June 2019; and
- through particular campaigns with employers, there has been a 34% uplift in registrations by customers using Standard Life's online capability, and an uplift of 24% in customers logging in to their account through the mobile app.

VOICE OF THE CUSTOMER PROGRAMME

We have seen Standard Life's use of different methods to obtain feedback from customers, and evidence of Standard Life's efforts to respond, as part of its work to improve the customer experience and engagement:

Transactional and interaction feedback:

- Standard Life has continued to use a tool called 'Rant and Rave', which is a short survey to collect feedback from customers on specific interactions when a customer calls.

EVIDENCE SEEN BY IGC

We have seen an example of a call where the customer felt frustrated that their question had not been answered and left this feedback on 'Rant and Rave'. The customer was called back immediately, and their query answered in a way that the customer understood and that enabled them to make a decision on action. The learning points on handling this call were passed on to the call handler to assist them in answering future calls.

- There are online digital transaction surveys, allowing customers to give an instant response rating on a particular web page or to provide a more considered review of an online customer transaction

EVIDENCE SEEN BY IGC

We have seen an example of feedback from a customer who had difficulty accessing the investment performance part of the website, and who could not find a phone number to call for assistance. Standard Life took a number of actions: it called the customer, immediately gave the relevant feedback to the team working on the website and supplied the customer with the phone number of Standard Life's dedicated support team.

- There are 'end-of-journey' surveys after a customer has completed a consolidation of their pension or retired.

EVIDENCE SEEN BY IGC

A number of customers who wished to complete their retirement application online had to stop the online journey because they were using a tablet. As a result of this feedback, Standard Life prioritised a development which enabled the retirement journey to be completed online by customers using tablets, simplifying the process for future customers making this journey.

Tracking studies

- An online survey ('Quest'), which takes approximately ten minutes to complete, is sent out by email to 50,000 Standard Life customers on a quarterly basis, and is completed by approximately 5,000 customer's each quarter. The survey captures a customer's feelings, in a quantitative manner, regarding Standard Life's communications, customer service and digital proposition, and brand. This survey also allows questions to be asked of customers, such as the type of information customers want within the pre-retirement phase, or customers' opinions of ethical and responsible investing. The latest Quest survey results to 31 December 2019 in respect of Communications and Engagement up to are detailed on page 32.

- In January 2019, a new annual online survey was sent out via email, called Customer Outcomes. It was sent to 50,000 Standard Life customers (including IGC customers) and completed in full by approximately 5,000 customers. This survey seeks to give Standard Life greater insight into customers' understanding of the options they have, how they invest their pension and how long their pension will last. This survey allows Standard Life to monitor and break down trends in customer understanding of their pension and outcomes by customer segments, giving clearer focus on how Standard Life can better engage and support different groups of customers. Further detail is given under "Building customer knowledge" below.

WHAT HAS BEEN DONE WITH THE INFORMATION COLLECTED?

Standard Life has holistically analysed information from all the sources. This analysis has helpfully identified **three key customer insight themes** to be prioritised over 2020, each theme aimed at increasing customer engagement. These themes are:

- feeling valued and satisfied as a customer;
- communications; and
- building customer knowledge.

In each of these themes, the information gathered highlighted areas where improvement is required. We are pleased to see that some actions have been taken and next steps identified.

FEELING VALUED AND SATISFIED AS A CUSTOMER

The feedback collected from customers in the *Quest* survey showed that while 85% of customers rate their satisfaction of Standard Life as 'good' or 'excellent', fewer customers specifically associate a feeling of 'care' or 'support' with the business. To address this, Standard Life has established a feedback system within the Voice of the Customer Programme to ensure that customers submitting low customer satisfaction scores following a call or digital interaction are contacted and their concerns dealt with swiftly. Any systemic issues are then addressed to improve the customer experience going forward. Throughout 2020, we will continue to look for evidence of these measures and their outcome for customers, and the steps taken by Standard Life to ensure all customer groups feel adequately supported to reach the best outcome for them.

While we are pleased to see positive customer feedback, we are most pleased to see evidence of Standard Life demonstrating a determination to get beneath these results and focus on the small percentage in each area who have expressed dissatisfaction – to find out why they are dissatisfied and how this can be improved.

Communications

We have been provided with feedback from customers of workplace pension schemes for the period ending 31 December 2019 as follows:

Call experience rated good or excellent	90%
Extremely easy, or easy to achieve what they wanted from a call	86%
Online transaction rated good or excellent	95%
Extremely easy, or easy to transfer a pension in	89%
Retirement journey, rated excellent or good	90%

In addition, the *Quest* survey provided the following results:

	Total across all life stages	
	30 June 2019	31 Dec 2019
Quality of service when you call us	84.6%	83.5%
Quality of email communication	78.0%	78.5%
Quality of communications sent to me by post	76.5%	76.6%

We are pleased to see these results, showing that many customers are satisfied with the quality of the communications they have with Standard Life. We have also looked behind these results, particularly in call handling; we sat alongside the Standard Life call handling staff as they answered calls from a range of customers; in addition, we listened to recordings from a random sample of callers, with differing requests and background circumstances. Through this call-listening, we have seen evidence of professionalism, empathy and efficiency of call handlers. In each call we considered, the customer's enquiry was progressed appropriately and the customer was satisfied with the outcome.

We have seen evidence of the following positive actions and outcomes during 2019 to improve communication and engagement with customers:

- Standard Life 'milestone communications', informing customers of their options in the lead-up to retirement, have led to significant uplifts in customers engaging digitally with their pensions at these life-stages.
- Standard Life has gained the agreement of additional employers to issuing Standard Life's MoneyPlus blog to individuals in the employer's workplace pension scheme. This is a monthly email communication providing articles and case studies on various topics relating to these individuals' pensions and investments, and each email is tailored to the stage the individual is at on their pension journey.
- Standard Life has enhanced their new annual benefit statement which contains content that is easier to read, clearer in layout and clearer in driving a call to action. This initially is being rolled out to customers with a Group Flexible Retirement Plan. We understand that Standard Life is considering options to extend rollout to other IGC customers later in 2020, and we will monitor the progress of this.
- Standard Life has delivered employer-endorsed communications and campaigns (see section below on 'Ready to Go Campaigns') within the workplace, in the form of posters, leaflets and webinars on a number of key pension-related topics, such as a financial health check or beneficiaries.

Standard Life is currently testing new, innovative ways to engage its customers through personalised videos, to be issued to customers with their annual statements. These personalised videos are designed to reinforce some of the key messages contained in the annual statement, and aim to optimise video as a channel of engagement. This initiative is currently being tested. During 2020, we will watch to see the effectiveness of this innovation and the extent to which it is implemented.

Despite all of this, while there are good levels of satisfaction with communications customers receive from Standard Life by email and direct mail, *Quest* also highlighted a more concerning statistic:

	30 June 2019	31 Dec 2019
Satisfaction with the information provided to make decisions on my pensions and investments	59.9%	63.0%

This shows that many customers consider that there is a barrier to their ability to understand communications sent to them, which can result in them choosing not to engage with Standard Life. Over 2020, we will watch carefully for evidence of deeper analysis by Standard Life, from the Customer Outcomes survey, of which communications sent by it can be improved and how, and the steps taken to implement improvements for particular segments of its customer base.

BUILDING CUSTOMER KNOWLEDGE

Through the Customer Outcomes survey, we have seen evidence of Standard Life seeking to discover customers' understanding of pensions and investments. The 2019 results show that a large proportion of customers have a good basic understanding of the choices and actions they can take to improve their long-term outcomes with their pension. However, the survey results also identify which groups of customers find it more difficult to understand key aspects of their pension, for example around investments. The Customer Outcomes survey pulls back the overlay of the good customer satisfaction statistics and asks questions of customers about their awareness of the following:

- the basics of a pension
- what options they have regarding their pension, both in the accumulation phase and the decumulation phase
- their knowledge of how much they have and how often they review this
- how they are invested
- how they can pass their money on in the event of death.

The results of this survey have highlighted for Standard Life the segments of their customers who have lower understanding and awareness, and for whom more could be done to help those customers understand their pension and what they need to be thinking about. During 2020, we will be looking for evidence of Standard Life using these insights to identify the areas of greatest need in building customer knowledge and at the actions taken to address this need.

DIGITAL EXPERIENCE

Standard Life considers that the digital channel is a core part of customer engagement and has encouraged more customers to use this. The statistics provided in the section above headed "Increased Engagement" on the increase in customers digitally enabled and digitally transacting are evidence of improving levels of engagement. In addition, the Quest survey results show good levels of customer satisfaction throughout 2019 with the online services provided:

	30 June 2019	31 Dec 2019
Quality of online services	82.8%	83.2%

During 2019, we have also seen the following enhancements to Standard Life's digital experience through:

- **mobile app enhancements** which now include pension value changes over time, daily fund price changes, increased functionality to update contact details, the implementation of clearer net charges for Standard Life's flagship workplace pension product, and push notifications from the app to indicate that a new message from Standard Life has been received.
- **transformed online investment switch journey** a guided journey with customers being given the option 'help me do it', which gives them a range of lifestyle profiles from which to choose, or 'let me do it' which gives more confident investors a wider fund choice. It provides explanations up front about what will happen and the timescale for completion, as well as highlighting the fund performance comparison and summary. This enhancement to the online switching process, as well as increasing availability to workplace customers, has seen a positive trend in customers actively engaging with their investment choices.

- **24/7 access to the customer dashboard** - customers can now log in whenever it's convenient to them, 24/7, to an online customer dashboard, where they can access their pension information and make changes to their pension pot.

Looking forward to 2020, Standard Life has indicated to us that it intends to personalise (based on life stage and level of pension savings) the tiles displayed on the homepage of the dashboard for each customer. The intention is that this will provide to each customer the broader range of actions they can take online and provide tailored access to guidance, based on their circumstances. We will watch carefully the introduction of this change and look for evidence of improved customer experience.

CUSTOMER INTERACTIONS

Standard Life recognises that there are four different phases of a customer's pension journey with them:

1. starting out – customers in the early part of their pensions savings journey;
2. growth – customers in the later stage of accumulation of their pension savings;
3. preparation – customers entering the final stage of accumulation; and
4. retiring – customers who have semi or fully retired.

Over the 12 months to 31 December 2019, evidence has been collected of the types of interactions from customers in all phases, which serves as another 'engagement indicator':

- overall, customers interacting has increased to 22.2%, which is a 1.9% increase from June 2019, with growth seen across customers at all stages of their journey, from new customers to retiring customers;
- inbound calls have seen a decrease to 22.1%, a drop of 1.6% from June 2019, as the number of digitally enabled members grows;
- digitally enabled members have increased to 24.1%, an increase of 1.9% since June 2019. This is driven by customers within the 'preparation' and 'retiring' phases;
- accessing the customer dashboard has seen a slight increase, to 67.5%, driven by more customers within the 'starting out', 'growth' and 'preparation' phases;

- mobile app usage has seen an increase to 15.5%, as the number of app users within the preparation and retiring phases increases; and
- secure messaging offers a secure message service outside office hours, with the commitment of a quick reply (typically one working day). Secure messaging is still relatively new and, whilst usage is low in comparison to other channels, Standard Life is seeing increases across all customer segments, in particular those in the earlier life stages.

There has also been careful analysis of the actions customers themselves have taken, such as:

- online registrations remain consistent since June 2019. However, as data has demonstrated that digitally-enabled customers are more engaged with their pension, leading to a better customer outcome, we are pleased to see that Standard Life has indicated that, over the next 12 months, they aim to increase online registration rates by making digital adoption a key call to action for customers within new communications;
- updating beneficiary details, which is a further indication of customer engagement, has seen a slight decline from June 2019. Standard Life have indicated that, in 2020, they will look at how they can increase these numbers through various customer touchpoints, including communications, to emphasise to customers the need to assign a beneficiary in order to pass their pension on to their loved ones, and highlighting their ability to do this with ease online. We will monitor the actions that Standard Life propose on this and the effect of these actions; and
- updating of contact details and notional retirement dates remains consistent since June 2019. In 2020, Standard Life aims to encourage customers to review these details.

During 2020, we will watch carefully to see whether proposed actions are implemented and look for evidence of improvements in customer engagement as a result of these actions.

EMPLOYER ENDORSED CAMPAIGNS (‘READY TO GO’)

Another initiative Standard Life is taking to drive customer engagement with its pensions is through its ‘Ready to Go’ campaigns – essentially a campaign prepared by Standard Life for employers to use with their employees in the workplace, reminding employees to engage with their pension, with a clear call to action. During 2019, 612 Ready to Go campaigns were sent to over 150 employers. The campaigns covered topics such as:

- *‘building awareness and understanding’;*
- *‘welcome to Standard Life’;*
- *‘manage your pension online’; and*
- *‘bringing your pensions together’.*

All Ready to Go campaigns are ordered by the employer and rely upon the employer to distribute the content of the pack within their workplace. As Standard Life cannot control how a campaign is executed and which material is utilised, it is difficult to track the precise effect of the campaign. However, these campaigns are not normally used in isolation but are accompanied by a communications plan, including webinars, face-to-face meetings, MoneyPlus blogs, and emails.

In 2019, one employer used a ‘Ready to Go’ campaign as part of a pension consultation exercise to close a final salary pension scheme. The employer had ten days of face-to-face support between July and August 2019, including presentations across sites and a live webinar. The following occurred:

- in May, the first campaign called *‘Take steps towards the future you want’* saw a 67% uplift in customer dashboard registrations, a 36% uplift in mobile app logins, and a retirement tool uplift of 47%;
- in June, the second campaign called *‘Manage your pension online’* saw a 221% uplift in customer dashboard registrations and a 40% uplift in mobile app logins, and a retirement tool uplift of 76%; and
- in July, the third campaign, called *‘Providing for your loved ones’* saw an uplift of 41% of customers identifying their beneficiaries to their pension savings in the event of their death.

This evidence shows the benefit that these campaigns can bring to customer engagement with their pension, recognising however that Standard Life is a step removed from the distribution of the Ready to Go material.

Standard Life has confirmed its continued commitment to using these campaigns and has indicated that, during 2020, it will:

1. continue to track the progress of the Ready to Go campaigns through roll-out to additional employers, as part of a communications plan to establish 'best practice' principles;
2. introduce to Ready to Go campaigns a new animated video to promote annual benefit statements; and
3. progress with the creation of a number of animated videos, to be made available by Q2 2020 on the topics of: 'the mobile app', 'how your pension works', 'investments explained', 'retirement options' and 'getting online and using online tools.'

During 2020, we will look for evidence that these developments result in increased customer engagement.

DIGITAL SUPPORT AT RETIREMENT

During 2019, we have seen Standard Life put particular emphasis on the redesign of the retirement pages on Standard Life's general website, and on the provision of retirement planning guides on the secure customer website. The outputs from this work have been:

- customers can now click on five new sections within the new Pensions & Retirement tab on Standard Life's general website, covering: Pension Basics; Saving for Retirement; Ways To Take Your Money; Managing Your Money In Retirement; and Financial Advice;
- a summary of this content has been created in the form of new guides on the secure customer website, which help customers take action or signpost additional support available, for example from Pension Wise; and
- before any of these changes were launched, they were tested with customers, to ensure the content was i) easy to find and ii) easy to read and iii) clear in narrative and consistent, helping them understand pensions and their retirement options.

The new content went live on both the Standard Life general site and the secure customer site in June 2019 and, in the first four months, there were 34,830 unique page views on the guides. During 2020, we will look for evidence of improved customer experience through Standard Life's improvements of navigation to the new pages, and the building of a landing page for the retirement planning section. Standard Life have also let us know about other steps they will take during 2020 to support the customers at retirement, to improve the level of guidance available at retirement:

- for those customer's making their first enquiries about retirement, Standard Life proposes to develop its system to make it fully responsive for customers using their mobile phone or tablet, to ensure customers have a seamless experience to better their outcome through a simplified journey; and
- changes will be made to existing drawdown quotes and a new full encashment illustration will be issued to customers, to give them greater information at the point of withdrawal. The Standard Life online system will provide appropriate information depending on whether this is the customer's first request for information or if they are returning to the site as part of their retirement journey. This improved level of information should enable the customer to make an informed decision regarding the consequences of drawdown and full encashment.

DIGITAL RETIREMENT ADVICE

The introduction of Pension Freedoms, and the ongoing transition from DB arrangements to DC arrangements, has placed more responsibility on the customer when making decisions about their retirement savings. Standard Life currently ensures the benefits of advice are signposted to customers, along with the options to access further support, such as Pensionwise, an advisor, or Standard Life's advice partner 1825, which is part of Standard Life Aberdeen (SLA).

Standard Life are trialling an online advice service to address the market gap in the availability of affordable advice, particularly at the point of retirement.

During 2020, we will look to Standard Life to update us on its progress with SLA on the online retirement advice solution for the benefit of customers. We will also look for evidence that Standard Life:

- has given customers a choice of how to access support, both from the service offered by SLA and independent sources (i.e. Pensionwise);
- ensures that customers who use SLA's 1825 and the digital retirement advice solution have access to high quality financial advice at a price that represents value for money; and
- has developed an understanding of where this offer of retirement advice is best placed in their customer journeys as part of a wider support strategy for customers at retirement.

FILLING THE GUIDANCE GAP

However, the market gap in affordable advice at the point of retirement is not the only gap that Standard Life has identified. Standard Life has advised that during 2020, it will use its digital platform to give customers more information, at other phases in the customer's pension journey. Standard Life has announced its intention to introduce the following:

- in its online dashboard, the customer will see a new tab detailing the charges and discounts on their pension investments. This will give customers instant access to this information; and
- the addition of the risk rating of customer's fund choices within the mobile app. Standard Life believes that, by adding this detail within the app, customers will be assisted in their understanding of the overall risk they are taking and be more aware of the options that are available to them.

During 2020, we will watch the introduction of these changes, looking for evidence that the changes are easy to understand and accessible, and improve the availability of information to customers.

GONEAWAYS

Throughout 2019, Standard Life has looked to establish a more effective and comprehensive way to trace customers with whom Standard Life has lost contact, because they no longer hold the correct customer

address ('goneaways'). To aid this, Standard Life has constructed a detailed action log report which is kept under regular review. From 2018, Standard Life has seen a 20% decrease in the number of goneaways, which now stands at less than 7%. We are aware that Standard Life is exploring a new course of action to drive a further decrease in these rates. This action will utilise a new IT build to identify goneaways more swiftly. During 2020, we are looking to see what actions Standard Life takes to improve performance in this area and what evidence there is of further decrease in the percentage of goneaway customers.

CONCLUSION

Over 2019, we have seen evidence that Standard Life has sought diligently to hear the voice of the customer, and from the information gathered, drive improvements to communications and engagement. The statistics show increased customer engagement, particularly through the digital channels. Work has also been commenced to address the industry-wide gap of access to affordable advice, particularly at the point of retirement, which will continue to be a significant project over 2020. Overall, there is a considerable programme of ongoing monitoring and new developments, all aimed at driving greater customer engagement.

While this is encouraging, Standard Life must also address the feedback that there are lower levels of satisfaction among customers that they have the information they require to make decisions on their pensions. Standard Life must use the intelligence it has gathered on the various segments of their customers; for those customers who consider that the current communications do not give them the information they need to make decisions and steps must be taken to find ways of utilising the communication channels to enhance understanding and engagement. This, together with the work to address the gap in the availability of affordable advice, are key challenges for 2020.

Recognising both the achievements over the last year, and the challenges to be addressed in the year ahead, we would award Standard Life in this area a score of 26 out of 36, or 72%. This is equivalent to a RAG rating of Green with a hint of Amber.

H. Risk and Governance

KEY MESSAGES

- **Throughout 2019, Standard Life has continued to maintain good financial strength**
- **Standard Life continues to invest in data and cyber security**
- **Standard Life has a robust process to prevent scams**

WHAT ARE WE LOOKING FOR?

It is an important element of value for money that Standard Life is able to demonstrate robust governance arrangements supporting effective management of its risks. This supports security for scheme members, both for their money invested and the personal information Standard Life holds on them. In 2019, the IGC has focused particularly on the security of members' personal information, the financial strength and security of Phoenix Group as a workplace pension provider, and projects to improve overall value for money for members. It is also important that Standard Life continues to meet the various associated regulatory requirements.

WHAT WE LOOKED AT

We reviewed the reports and management information on governance and controls presented by Standard Life to their Customer and Risk Committees and Board. We also requested that any issues which might impact members be reported to the IGC. What we found is set out below.

RISK & GOVERNANCE

The IGC has continued to monitor the position in respect of regulatory compliance and has been pleased to note that there have been no significant regulatory issues affecting workplace pension members over the last year. Standard Life has a programme of risk review, compliance and internal audit activity. This programme has not highlighted any issues of note impacting workplace members.

FINANCIAL STRENGTH

The financial strength of Phoenix Group is important in order to provide confidence that the expectations of scheme members can be met. Phoenix Group reported at 31 December 2019 that it had £3.1 billion above the capital required under regulatory solvency requirements for insurance companies. Another way of looking at this is that Phoenix Group holds 141% of the capital required by the Bank of England rules. These figures give the IGC assurance that the financial position of Phoenix Group remains strong and members' funds are secure.

DATA SECURITY

The IGC has received detailed presentations as to how Standard Life manages risks to customer data security. The IGC has noted a reorganisation of the Phoenix Group team that monitors risk and a strengthening of skills and capacity in the team who provide assurance and oversight in respect of Information Security, Cyber, Data Protection and Financial Crime risk.

There has also been an increase in the profile of these risk areas within the Group. This has included recruitment of a Head of Information Security and Technology Risk Assurance, who has extensive external experience and associated qualifications. We understand that further team recruitment is underway. Considerable investment continues to be made to ensure the control environment is in line with best practice in the insurance industry.

The IGC understands that further assurance activity is planned for mid-2020 as part of the Annual Cyber Assessment, using the Information Security Forum industry benchmarking tool. It is important that continued efforts are made in this area, in order to address the ever-increasing sophistication of potential cyber-attacks. The IGC has been kept informed of the progress made by Standard Life in its efforts to prevent attacks.

Member transactions undergo thorough identity verification before they are concluded, especially where funds are being paid out. Recently the IGC was notified of a case within the Group where a member's funds were subject to a potential fraud from an external source. The IGC was pleased to note that the security processes had warned of the attack and thus there was no risk that the member's funds would be paid out to the wrong person.

Mandatory staff training is provided to ensure awareness of the required processes. The IGC has noted the significant growth in transactions via digital channels, and Standard Life has confirmed the appropriateness of controls for those channels which have been the subject of assurance activity by the Standard Life financial crime team. The IGC will continue to challenge Standard Life to provide evidence of continuous enhancement to data security controls.

SCAMMING

Unfortunately, a number of members of workplace schemes in the UK have been the subject of fraudulent attacks, leading to loss of their funds. Standard Life has a robust process in place that seeks to ensure that its workplace members are, in so far as is possible, protected against such attacks. One of the key concerns is when members are encouraged by unscrupulous individuals to take their funds in cash and reinvest in what turn out to be unregulated and loss-making schemes.

In 2020, we will look for evidence that Standard Life has kept this area under close review. We are pleased to see that Standard Life is actively engaged in wider industry consumer education and loss prevention activity.

PROJECTS

When Standard Life has significant projects that potentially impact workplace members, the IGC receives regular reports on these to make sure that service or outcomes to members continue to give value for money. Two main projects and one smaller project are relevant this year.

As we reported in previous years' reports, control measures were put in place by Standard Life in April 2015 to ensure that no member of a workplace auto enrolment scheme would be charged more than 0.75% a year. Despite these controls, there were some members who continued to be subject to ongoing charges in excess of 0.75%. During 2016/17, this was rectified for all members for whom the overcharge was more than £1. However, there remained some members' plans where an overcharge of less than £1 had been incurred. During 2019, Standard Life undertook further analysis to determine how such members' plans could be rectified cost-effectively. Management has subsequently advised the IGC that they have been unable to identify a cost-effective solution and, as the impact on members' retirement benefits is not material, intend to take no further action in respect of these members. The IGC has accepted the rationale for this.

In July 2019, the FCA announced the conclusion of its enforcement review into Standard Life's historic non-advised annuity sales. Standard Life has focussed on putting right the issues identified and is confident that robust controls are in place across the Group to deliver good customer outcomes that should ensure that this does not happen again. The review of past annuity sales is now substantively complete, including the payment of redress where due.

In our 2018/19 report, the IGC reported that a major project to upgrade Standard Life's pension administration systems had been put on hold following the acquisition by Phoenix Group. We have subsequently been informed that Phoenix Group intends to extend its partnership with a large international services company to meet the future needs of its workplace clients, customers and their advisers.

In February 2019, the IGC visited the partner's principal offices in the UK and were enthusiastic about some of the service improvements which could be offered to members in the future. As this programme progresses, strong governance procedures are being put in place to prevent degradation of service whilst the changes are implemented. These changes will take a while to implement and the IGC will continue to monitor progress.

PRODUCTS

There are a range of different products through which members have invested. Standard Life carries out regular reviews of any risks and issues on these products to ensure that they continue to provide appropriate outcomes to members and would discuss any substantial concerns raised with the IGC. The IGC also independently reviews for the products the investment funds available and their performance (see Section E), service delivery to members (see Section F), as well as costs and charges (see Section I) as part of our opinion-forming work on Value for Money.

CONCLUSION

Using the value for money scoring framework as set out in Section 4, the IGC has determined a score of 16 out of 21, or 76%, for Standard Life's performance in this area. This equates to an overall RAG rating of Green.



I. Costs and Charges

KEY MESSAGES

- **Ongoing charges still represent reasonable value for money – 78% members are paying 0.75% per year or less, and almost all others no more than 1% per year**
- **Where members pay more than 1% per year, this is for other benefits or services which also represent reasonable value for money in general. We will continue to monitor Standard Life's position on the 117 plans that have death in service benefit, including its review of the level of charges for this benefit**
- **Transaction costs seem reasonable and in line with those seen elsewhere in the market**

WHAT ARE WE LOOKING FOR?

A number of costs and charges may apply to members' plans and include:

- charges deducted from plans on an ongoing basis ('ongoing charges'); and
- costs of buying and selling the investments within the plan (called 'transaction costs').

Some members may have other benefits or services on their plan – certain guarantees that apply to with-profits investments; protection benefits (e.g. life insurance or waiver of contribution cover); where members have specialist investments; or advice from an adviser. Members typically pay extra for these benefits through 'other charges'. Finally there may be an 'exit charge' deducted from the value of a plan if it is transferred to another provider.

In the current environment we think ongoing charges of a maximum of 1% per year offers reasonable value for money, but will keep this under review.

The disclosure of transaction costs is an evolving area and we review the information we have against what we have seen in previous years, against data we are starting to see disclosed by other firms, and by expert judgement, to see if transaction costs look reasonable.

Where members pay other charges for other benefits and services then we consider this to be reasonable provided members know that they are paying those other charges, understand (and still need) the benefits or services, and receive adequate communications. We also look to see that these other charges are reviewed periodically to ensure that they remain appropriate.

We are concerned if we feel that exit charges are excessive.

ONGOING CHARGES

Ongoing charges are in line with what we have seen and agreed were reasonable in previous years. 78% of members (including former members) are now paying less than or equal to 0.75% per year (up from 77% of members the previous year). 0.75% per year is the maximum charge for schemes used for auto-enrolment, with many paying less as a result of discounts on the charge agreed with individual employers and/or due to the size of the plan value. No one is paying more than 1% per year in ongoing charges, other than where they are receiving other benefits or services – see below – and we currently consider this to be reasonable value for money. A full breakdown is provided in Appendix 3.

We have not concluded that 1% per year will always represent reasonable value for money but will keep this under review over time.

OTHER CHARGES

Appendix 3 also shows the number of members who are paying more than 1% per year as a result of additional charges made to cover commission payments to advisers, or because of a more bespoke fund choice, or both. The number (and percentage) of members paying additional charges for these reasons has fallen slightly during the year.

In last year's report we noted that, as of January 2019, 165 members had integrated death in service ("DIS") insurance cover as a protection benefit with their plans. DIS cover pays out a lump sum if the member dies during the term and the cost of the benefit is met by cashing in part of the fund value each month. We noted that, in some cases, particularly for older lives where the cost of DIS cover becomes higher, the cost of the DIS cover can exceed the amount of new pension contributions received, so that the value of the plan available for retirement benefits can be reduced. It is important to note that this is not necessarily bad value for money as members may still value the DIS cover they have.

Standard Life wrote to all of these customers early in 2019 to highlight the cover they have, the charges made and their options. 27% of members responded, with 55% of those members deciding to continue cover and 45% deciding to cancel. However, 73% of members did not respond. As of February 2020, there are 117 members with DIS cover, and Standard Life is intending to write to those members again in the first half of 2020. Standard Life is also introducing a standard mailing to members when the cost of their DIS cover reaches 80% of their regular pension contribution.

Some members may be able to get cover elsewhere at a lower cost, but this may not necessarily be the case – for example, for members who are now in poorer health. It is therefore important that members consider their options carefully. If members continue to value and therefore maintain their DIS cover, it is important that the cost represents value for money and we intend to monitor how Standard Life assesses the cost of DIS cover during 2020.

During the year we held detailed discussions with Standard Life about the operation of the with-profits investments and the charges made for guarantees e.g. minimum rates of bonus added to certain plans. With-profits funds tend to issue a number of types of plan with different types of guarantee, with the investments of different plans being pooled together. Standard Life looks to operate the funds in a way that is fair to all plan holders. What we were keen to understand is whether charges deducted from the plan values of members of workplace pensions seem reasonable given the guaranteed benefits that those members will or are likely to receive – and that members are not paying charges that help or are likely to benefit other planholders significantly instead. Our conclusion is that the charges paid by members are reasonable given the guarantees provided and therefore represent value for money.

TRANSACTION COSTS

Background

Last year we reported that, following the introduction of new rules in January 2018, we had started to receive the majority of transaction cost information for most funds. However, we commented that there was incomplete coverage and some inconsistency in data provided to Standard Life from different fund managers. This, together with a lack of historic or industry benchmarking, made a meaningful assessment of transaction costs value for money difficult. We indicated that we expected this to develop as reporting becomes more mature, complete and consistent.

We have seen some further improvement this year. The industry's use of standard 'templates' means that transaction cost information is calculated, collected and passed to Standard Life in a more consistent way, making it easier to collate and report to us. Standard Life too has improved its processes. There has been a modest improvement in the regularity and speed with which the information gets to us, but the transaction costs we talk about in this report are based on information for the 12 months to the end of September 2019. It is currently taking at least three months for the information to be collated by and reviewed within Standard Life and reported to us, so information as at end of December 2019 is not available in time for this report.

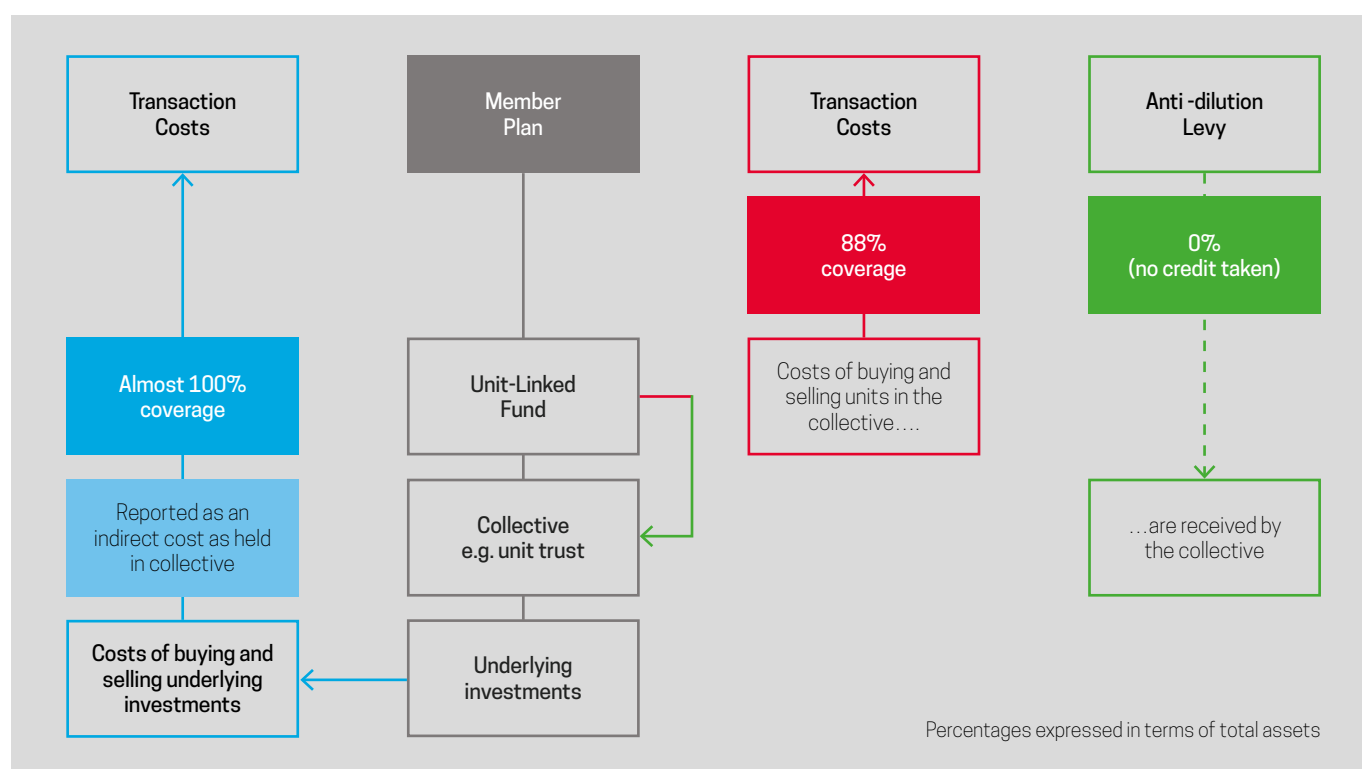
Completeness of Transaction Cost Information

We have information about transaction costs for most of the underlying investments and now expect to get this on a regular basis. Actual coverage is in fact almost 100% by value. This means that there was missing data for only two of the smallest funds (from a total of 544 funds)⁵.

In general members invest their plan in one or more unit-linked fund (and / or may also invest in With-Profits).

Whilst some unit-linked funds hold the underlying investments (such as stocks and shares) directly, in most cases, and as illustrated by the diagram, unit-linked funds invest in collective investment schemes such as unit trusts which in turn hold the underlying investments. This is illustrated by the black boxes in the diagram. Transaction costs of the collective investment schemes are generally reported to us as a total 'indirect cost' rather than with a breakdown of costs into different elements (such as explicit and implicit costs). These are represented by the blue boxes on the left of the diagram. Standard Life has processes to review the costs and challenge fund managers if costs appear excessive or out of line with what it expects.

When members invest more, or take benefits from their plans, Standard Life buys or sells units in the unit-linked fund(s) which in turn need to buy and sell units in the collective investment scheme. This can also incur transaction costs (represented by the red boxes in the diagram). We have information for 88% of these costs by value (and 59% by number of unit-linked funds). Whilst this is an improvement on last year, it is disappointing to still have this gap in information given the new rules have now been in place for over two years. Standard Life continues to source the missing information which relates to collective investment schemes managed by 36 different fund managers which demonstrates the further embedding required across the industry. That said, the costs incurred by the unit-linked fund are received by the collective investment scheme (called an 'anti-dilution levy' – the green boxes in the diagram) which serves to offset the impact of the costs on value for members. No credit has been taken for anti-dilution levies in the data set out in this report.



⁵ Of the two funds, one relates to a fund that was newly launched and for which transaction cost information has now been received but not in time for inclusion in this report. The other is managed by Argonaut and we understand is due to start providing the information shortly.

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

This table shows transaction costs for the main growth funds used within the main Standard Life “off the shelf” Lifestyle categories.

Fund code	Fund name	Fund average NAV (£bn)	Aggregate transaction costs 2019 (%)	Aggregate transaction costs 2018 (%)	Aggregate transaction costs 2017 (%)
FA	Standard Life Managed Pension Fund	21.8	0.122	0.042	0.100
DDNA	Standard Life Active Plus III Pension Fund	3.0	0.191	0.021	0.080
CCHD	Standard Life Passive Plus III Pension Fund	4.5	0.045	-0.032	0.020
W1	Standard Life Pension With-Profits Fund	N/A	0.096	0.061	N/A
W2	Standard Life Pension Inflation Plus Fund	N/A	0.006	0.000	N/A
W8	Standard Life Pension 2 With-Profits 2 2006 Fund	N/A	0.060	0.125	N/A
WA	Standard Life Pension With-Profits One Fund	N/A	0.060	0.125	N/A
WC	Standard Life Pension Millennium With-Profits Fund	N/A	0.060	0.125	N/A
WJ	Standard Life Pension With-Profits One 2006 Fund	N/A	0.060	0.125	N/A
WN	Standard Life Pension 2 With-Profits 2 2006 Fund	N/A	0.060	0.125	N/A
WQ	Standard Life Pension Millennium With-Profits 2006 Fund	N/A	0.060	0.125	N/A
AW	Stakeholder With-Profits Fund	N/A	0.096	0.071	N/A
BO	Stakeholder With-Profits 2006 Fund	N/A	0.095	0.076	N/A
AW	Corporate Stakeholder With-Profits Fund	N/A	0.096	0.071	N/A
BO	Corporate Stakeholder With-Profits 2006 Fund	N/A	0.095	0.076	N/A

Note: 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.

The values for 2019 are not directly comparable to 2018 in that the 2019 costs have a greater coverage of data and have been calculated using the slippage costs methodology which was not always the case for 2018. The table below provides a breakdown of 2019 transaction costs for the same funds.

Fund name	%Not obtained	Aggregate Transaction Costs 2019 (%)	Explicit Transaction Costs 2019 (%)	Implicit Transaction Costs 2019 (%)	Indirect Transaction Costs 2019 (%)
Standard Life Managed Pension Fund	0.00	0.122	0.00	-0.008	0.130
Standard Life Active Plus III Pension Fund	0.00	0.191	0.00	-0.020	0.211
Standard Life Passive Plus III Pension Fund	0.00	0.045	0.00	0.000	0.045
Standard Life Pension With-Profits Fund	0.00	0.096	0.00	0.012	0.084
Standard Life Pension Inflation Plus Fund	0.00	0.006	0.00	0.006	0.000
Standard Life Pension 2 With-Profits 2 2006 Fund	0.00	0.060	0.00	0.017	0.043
Standard Life Pension With-Profits One Fund	0.00	0.060	0.00	0.017	0.043
Standard Life Pension Millennium With-Profits Fund	0.00	0.060	0.00	0.017	0.043
Standard Life Pension With-Profits One 2006 Fund	0.00	0.060	0.00	0.017	0.043
Standard Life Pension 2 With-Profits 2 2006 Fund	0.00	0.060	0.00	0.017	0.043
Standard Life Pension Millennium With-Profits 2006 Fund	0.00	0.060	0.00	0.017	0.043
Stakeholder With-Profits Fund	0.00	0.096	0.00	0.009	0.087
Stakeholder With-Profits 2006 Fund	0.00	0.095	0.00	0.008	0.087
Corporate Stakeholder With-Profits Fund	0.00	0.096	0.00	0.009	0.087
Corporate Stakeholder With-Profits 2006 Fund	0.00	0.095	0.00	0.008	0.087

Transaction costs for all 544 unit-linked funds offered by Standard Life to members who are within the scope of the IGC are being made available on our section of the Standard Life website.

What industry benchmarking information we have is included as Appendix 6 and indicates that Standard Life transaction costs appear to be in line with typical market ranges.

WHAT'S NEXT?

We intend to further develop how transaction cost information is reported to us during 2020 and what more we can do to get assurance of the completeness and accuracy of the information, and assess value for money implications across a large number of funds – for instance by comparing transaction costs against those seen in prior periods and other industry-wide information as it becomes available. Of course, it should also be noted that a higher transaction cost is not necessarily bad value for money if it has resulted in a better investment return for members, or is due to a change in investment strategy designed to improve future returns.

Whilst we have published and reported on transaction costs in this report (and in previous reports), new regulations come into effect from April 2020 that require IGCs to publish transaction costs in more detail. This will include publication, within the annual report and/or online, of transaction costs for each scheme and each fund available within each of those schemes; example projections to illustrate the potential impact of transaction costs on plan values over time; and ensuring that individual members receive information on what transaction costs they are each paying.

We will be working with Standard Life to ensure this additional reporting is in place and is meaningful to members.

EXIT CHARGES

As we have reported previously, the majority of Standard Life plans have no exit charges and, where exit charges do apply, Standard Life agreed to cap them at a maximum of 1% plan value from early 2017. We consider this to be value for money.

OUR CONCLUSIONS

Ongoing charges still represent reasonable value for money – 78% of members are paying 0.75% per year or less, and almost all others no more than 1% per year. Where members pay more than 1% per year, this is for other benefits or services which also represent reasonable value for money in general. We will continue to monitor Standard Life's position on the 117 plans that have death in service benefit, including its review of the level of charges for this benefit.

Transaction cost information is more complete than we saw last year and processes to report this information to us are more embedded. From what we can see, the level of transaction costs appears reasonable and in line what we see elsewhere in the market.

Almost all members would have no exit charge if they were to transfer their plans to another provider and others are capped at 1% of the fund value.

Overall, the IGC has rated Standard Life's performance in this value for money area as GREEN.

SOME DEFINITIONS:

Explicit costs – are things like stamp duty (a tax paid when investments are bought) and fees paid to brokers who do the buying and selling

Implicit costs – are the difference between:

- the price the fund managers used by Standard Life expected to receive or pay when they decided to sell or buy an investment; and
- the price they actually got when the sale or purchase happened.

For example, if they expected to receive £1000 when they decided to sell but actually got £995, that would count as a £5 implicit cost. But if they actually received £1002 because the price had gone up, there would be a £2 benefit rather than a cost.

Indirect cost – when the underlying investments are held in underlying collective investment schemes such as unit trusts the costs of buying and selling are reported up as a single value called an indirect cost rather than with a breakdown of the costs into types of explicit cost and implicit costs.

Anti-Dilution Levy – when an investor buys or sells units in a collective investment scheme (such as a unit trust) the price the investor pays or receives is adjusted by an amount designed to protect other investors in the collective investment scheme suffering a loss as a result of costs that the scheme incurs in buying or selling underlying investments in response.

J. Management Culture

“Our assessment of management culture reflects the extent to which we see evidence that customers really are at the centre of the culture and business decision-making.”

It was not just IGC membership that was aligned across Standard Life and Phoenix last year. Management across the combined Phoenix and Standard Life businesses was aligned too. As a result, since April 2019, many of the operations behind the workplace pension business within the scope of the aligned IGC have been run as a single business. Of course, there are still some teams that focus just on Standard Life products and some that focus just on Phoenix products. However, sitting above is a common management structure that ensures resources are deployed appropriately and that priority issues for either Phoenix or Standard Life customers are addressed. Thus, it makes sense for this value for money performance area to be assessed at Phoenix Group level, with examples that illustrate the difference it makes for both Standard Life and Phoenix customers within the scope of the IGC.

WHAT ARE WE LOOKING FOR?

The Phoenix Group’s mission is to “improve outcomes for customers and deliver value for shareholders.” The IGC recognises that Phoenix wants to be a profitable Group. However, acting solely in members’ interests, our role as the IGC is to monitor closely what is done across the Phoenix and Standard Life workplace pension businesses so that we can be comfortable that shareholder profits do not come at the expense of value for money for members, or the improvements that we believe it is reasonable to expect. We look for evidence that Phoenix and Standard Life really have their customers at the heart of what they do.

To that end, we monitor:

- what is done to improve customer outcomes;
- what Phoenix Group does in response to its obligations as a major financial services provider to maintain high standards of behaviour and ensure its

customers’ money is invested responsibly; and

- how responsive Phoenix and Standard Life are to requests and challenge from the IGC.

WHAT WE HAVE SEEN

The IGC has rated Phoenix Group GREEN for this value for money performance area. The customer focus that the Phoenix IGC has seen in previous years is still clear to see – and the same is true when we look at Standard Life specifics, as we explain in what follows.

IMPROVING CUSTOMER OUTCOMES

In this year's reports we have described some of the Phoenix Group initiatives that have been taken in 2019 to improve customer outcomes, including:

- the increased use of digital/online options to improve the information available to members and what actions they can take in response;
- improvements in how the information in annual statements is presented, to make it easier to see the key points;
- increased focus on ensuring vulnerable customers are identified and given the help they need;
- efforts within Standard Life to ensure customers are in appropriate “lifestyle” options, even when this involves having to get scheme rules changed; and
- the development of the NPL Offer within Phoenix to provide a potential route for many customers to access Pension Freedoms options without losing out on the value of the guarantees that apply to their plan.

The IGC sees these developments as tangible evidence that Phoenix Group does “put its money where its mouth is” and invests shareholder money back into both the Standard Life and Phoenix business, for the benefit of customers. One of the areas that we see as particularly significant in terms of what it says about Phoenix Group, is the increased transparency being introduced around the charges and other costs taken from pension pots each year.

ACTING RESPONSIBLY

In Section K of this report we have described the approach that Phoenix and Standard Life take to ensuring that customer money is invested with appropriate regard to ESG considerations. While we are happy that appropriate standards are set by the Group for its investment managers, and can see evidence internally that it makes a difference in practice, we do think that the Phoenix Group could do more to describe the approach they follow, so that members can see for themselves the difference it is making to their pension pots. Last year, the Phoenix IGC made clear that it was looking for concrete progress towards this in 2019. Unfortunately, this did not happen to the extent that we were looking for – and that has been reflected in the value for money performance rating that we have allocated to both Phoenix and Standard Life in our reports.

However, we want to stress that we realise that ESG practices and expectations are developing across the industry, and recognise that the Phoenix Group is doing a lot behind the scenes to strengthen and co-ordinate activity in a large number of relevant areas. The recently published Phoenix Sustainability Report describes just how far the Group has come, and the IGC is confident that the particular issues around member communication will be addressed before too long.

Responsible behaviour is not just a matter of how pension funds are invested. How a provider runs its operations and considers its impact on society, its supply chain and the environment are important too – and can reveal a lot about the integrity of the organisation. The IGC has been pleased to see the steps that the Phoenix Group has taken to meet its aim of minimising its impact on the environment – including the ultimate removal of all single use plastic from Phoenix buildings. We have also been pleased to see what Phoenix and Standard Life are doing to contribute to the communities they operate within (through encouraging staff volunteering, for example) and also to help improve standards across the financial services marketplace as a whole (through, for example, holding leadership roles in key industry bodies). While such activity does not directly affect the value for money that members receive, the IGC sees it as a valuable indicator of the culture within Phoenix Group and the way it takes all its responsibilities seriously.

RESPONSIVENESS TO THE IGC

During 2019, the IGC has made a large number of requests and challenges to Phoenix and Standard Life, in addition to all the usual facts and figures we receive as “business as usual”. All requests have received willing and pragmatic responses. Where, occasionally, the IGC felt that it was taking too long to get what we were wanting, we have received effective support from the executive sponsor of IGC work within the Phoenix Group, and the situation has been addressed.

In addition, we have made several requests to Phoenix Group to fund external benchmarking work for us, including:

- extending the existing Standard Life investment performance analysis exercise (carried out by Redington) to key Phoenix funds; and
- enabling Phoenix to take part in a syndicate of IGCs and their providers that is attempting to set up a benchmarking syndicate for legacy business.

We appreciated the willingness of management to agree to the requests.

In all our dealings with Phoenix Group, whether it be on behalf of Standard Life or Phoenix customers within our scope, we can confirm that we have found management to be responsive and constructive. While some requests and challenges have taken longer to resolve than others, we have accepted the explanations where any delays have been experienced. There have been no situations where the ultimate response has been unsatisfactory, requiring us to escalate things to the FCA (as an IGC would be required to do if we were not satisfied with how the provider was responding to us).

OVERALL RATING

While there are a number of improvements to customer servicing and engagement still being developed – and more to be expected as technology and market standards develop – the IGC is confident that there is sufficient evidence of Phoenix Group’s commitment to its customers to rate this area of value for money GREEN for both Phoenix and Standard Life workplace personal pension plans.

K. Application of Environmental, Social and Governance Principles to Investments

KEY MESSAGES

- **Over the last year, Phoenix Group has made significant progress to embed ESG considerations (as part of wider “Sustainability” developments) into its business practices, particularly around investment of customer money**
- **In the past, the Phoenix Group has exercised stewardship governance over the investment funds used by IGC in-scope members largely by relying on the policies of the fund managers selected by the Phoenix Group. Steps are now being taken to more clearly articulate what Phoenix Group’s views are on ESG matters**
- **Recently there has been some improvement in the communications for Standard Life customers on both the approach to ESG, and how this is applied to their range of investment options. However, visibility to Phoenix customers remains extremely limited, as does the range of funds open to them if they wish to have various ethical filters applied to their pension savings**

WHAT ARE WE LOOKING FOR?

As mentioned in the Chair’s introduction in Section B above, the IGC will have a regulatory responsibility from 6 April 2020 to report on the policy and practices of Phoenix and Standard Life concerning ESG considerations and the extent to which the investment decisions that the providers make, and their wider business practices, reflect such important matters.

The role that financial institutions could play in helping to limit climate change is increasingly being discussed – by both regulators (like the Bank of England and the Financial Conduct Authority) and industry bodies. The new responsibilities for IGCs are just one part of a concerted effort to ensure the long-term savings and pensions industry responds effectively to these challenges.

In anticipation of these new responsibilities, we have increased the pressure on Phoenix Group to follow up previous requests from the IGC to do more to enable in-scope pension scheme members to see for themselves the difference that ESG is making to their pension pot. In previous years’ reports, we have noted how ESG considerations are taken into account in the process to select external fund managers, but we have been keen to see this more visible to plan holders and wider stakeholders.

We recognise that it makes sense for such initiatives to be taken forward across the whole Phoenix Group, in keeping with the “one business” management approach referred to earlier in this report. However, we are keen to see the impacts implemented consistently across both the Phoenix and Standard Life IGC in-scope business. In what follows, we refer to initiatives that apply to both Phoenix and Standard Life as “Phoenix Group”.

GOVERNANCE AND EXECUTIVE SPONSORSHIP

During 2019, the Phoenix Group CEO has taken on the role of “Sustainability Sponsor” across the whole group. A Head of Sustainability was subsequently appointed who now leads the overall ESG agenda for the group. To strengthen the resources allocated to ESG activities further, a number of “ESG Ambassadors” have also been appointed, with each aligned to key functions or activities across the wider business. Each Ambassador considers how ESG is relevant to their function in the short-, medium- and long-term, and owns a development plan for future activity within it.

A Sustainability Committee, chaired by the Head of Sustainability, meets regularly and reports directly through the Executive Committee to the Group CEO as Sustainability Sponsor and the Group Board. This committee has undertaken a materiality assessment facilitated by a third party and has launched a new Sustainability vision entitled “Committing to a Sustainable Future” with the following key commitments:

1. Deliver for our Customer
2. Foster Responsible Investment

3. Reduce our Environmental Impact
4. Be a Good Corporate Citizen.

In order to articulate and explain the journey so far, the Group's first Sustainability Report was released in March alongside the 2019 Annual Report and Accounts. This report outlines the sustainability vision and progress against these four areas of commitment and can be accessed at www.thephoenixgroup.com/sustainability.aspx.

The IGC has been kept informed of progress on these important developments, and received a number of updates on investment-related matters in particular. We have been impressed at the breadth of activities that have been pursued under the Sustainability agenda – even if we do have some concerns over the pace of progress on some of our investment-related expectations, as we explain below.

INDUSTRY PARTICIPATION AND COLLABORATION

The Phoenix Group has committed to becoming a signatory to the United Nations' Principles for Responsible Investment ("UNPRI") in 2020. Additionally, the Group will become a formal supporter of the Financial Stability Board's Task Force on Climate related Financial Disclosures ("TCFD") recommendations in 2020. The IGC supports these steps to align Phoenix Group practices and external reporting to these important international initiatives.

The IGC are also pleased to note that, over 2019, Phoenix have joined the following fora:

(a) Institutional Investors Group on Climate Change ("IIGCC")

The IIGCC is the European membership body for investor collaboration on climate change. Phoenix Group joined the IIGCC in 2019 and has been an active member contributing to various working groups and discussions of the Paris Aligned Investment Initiative programme.

(b) Green Finance Institute ("GFI")

The GFI was established in 2019, initially funded by HM Treasury, the Department for Business, Energy and Industrial Strategy and the City of London Corporation. Its purpose is to serve as a forum for public and private sector collaboration in green finance. The GFI is convening a coalition for the energy efficiency of

buildings and Phoenix Group is an active contributor to this coalition which is working to create a market for net-zero carbon, resilient buildings in the UK.

While alignment with these institutions is a positive step, potentially more significant is the practical impact their approach to ESG has on the governance policies and practices that impact Phoenix and Standard Life – in particular, the direct actions that impact the investment funds in which the pension pots of IGC in-scope members are invested.

HOW ARE ESG CONSIDERATIONS APPLIED TO THE INVESTMENTS WITHIN THE SCOPE OF THE IGC?

The investment funds made available to in-scope members are split into two broad categories.

- Firstly, there are options available where Phoenix and Standard Life link to funds already offered widely by external fund managers. Here Phoenix and Standard Life do not have discretion over how the money is managed or how ESG factors are taken into account.
- Secondly, there are funds where Phoenix and Standard Life does have discretion over how the funds are managed, and how ESG is taken into account. These funds will typically be managed by their strategic asset management partners (e.g. Aberdeen Standard Investments).

Through long-standing asset manager selection and monitoring processes, Phoenix Group has confirmed that all of the fund managers used for the second category of funds above are signatories to the UN PRI and commit to the UK Stewardship Code. Phoenix Group has also confirmed that these asset managers have the necessary resources and operational structures to embed ESG considerations into their investment and decision-making processes. The Phoenix and Standard Life approach to date has been to accept these approaches on the basis they meet appropriate standards, rather than to drive their own ESG agenda.

A Phoenix Group team reviews the existing capability of these asset managers for both how they embed ESG into their investment processes, and how they apply their Stewardship responsibilities in actively challenging and voting on various issues. Phoenix Group has also hired an external consultant to support the asset manager capability assessments and more detailed reports on ESG capability of managers are expected.

What this means in practice is that, for all funds actively managed by these fund managers, following Phoenix's discretionary requirements, ESG factors are already taken into consideration for every investment decision. Using the UN PRI's descriptions of the various approaches⁶, this is referred to as ESG factors being 'Integrated' into the investment processes. This 'Integrated' approach is applied to approximately £31bn of the Unit Linked £44bn AUM within the scope of the IGC. This does not mean that certain stocks or industries will be automatically ruled out of all funds, but more that the risks are understood and taken into account in the decision making process. Additionally, ESG considerations are also included into the Strategic Asset Allocation service that the asset manager offers Phoenix⁷.

Looking beyond these discretionary funds, for in-scope members who invest in the vast majority of the external fund links offered particularly by Standard Life, but also to some extent by Phoenix, their pension pots are also managed by firms who are mostly signatories to the UN PRI.

For those members with more specific requirements for the principles that should be followed in the investment of their pots, there are investment options available, again using the PRI's definition of the various approaches, which are referred to as 'Screened' or 'Thematic' approaches. Funds managed in this way will exclude or include investments based on ethics and values, or be trying to achieve certain environmental or social outcomes. The amounts of money invested within the scope of the IGC in Screened and Thematic funds represent over £400m of the Unit Linked £44bn AUM within the scope of the IGC.

The IGC is pleased to see that some Screened and Thematic funds are available to customers, but we are keen to see the range widened. While to date there may have been limited pressure from customers for more of these choices, our discussions with clients and others in the industry suggest that it is only a matter of time before that demand increases.

HOW ARE THESE ESG CONSIDERATIONS COMMUNICATED TO CUSTOMERS?

Owing to the growing awareness and importance of Responsible Investment customers, Phoenix Group has regularly updated its website through 2019 to provide more information on the various terminologies, approaches to Responsible Investment and product offerings.

In addition, the Responsible Investing principles for assets where Phoenix Group can exercise influence were published in March 2020 and are accessible via a dedicated webpage to cover matters on Sustainability across the business, including Phoenix and Standard Life IGC in-scope members.

Separately, a Unit-Linked ESG policy that captures the initial expectations for fund managers managing Unit-Linked assets⁸ for Standard Life was issued in September 2019. That policy also signposts some of the activities that were aspirational at that time. While this is not as definitive as it could be, the IGC recognise that this is a 'first iteration' which will evolve through 2020 as the wider group philosophy is applied consistently.

However, the IGC is disappointed that the material on ESG was concentrated on the Standard Life website and not made available directly to Phoenix IGC in-scope customers. While we understand that there were ways that more experienced investors could have found out more about what was being done on ESG for Phoenix pension funds, the IGC is disappointed that, despite our requests for more to be done, it took until March 2020 for even a basic communication to be extended to the Phoenix customer website, in the form of the Responsible Investment principles and web links to the voting activity of the appointed managers.

⁶ <https://www.unpri.org/pri/an-introduction-to-responsible-investment/what-is-responsible-investment>

⁷ Presently Aberdeen Standard Investments offers the SAA service. ESG integration is currently limited to influencing the assumptions for returns and risks. Further info can be accessed via -<https://www.aberdeenstandard.com/en/uk/institutional/insights-thinking-aloud/article-page/strategic-asset-allocation-esgs-new-frontier>

⁸ https://library.standardlife.com/ESGPolicyDoc.pdf?_ga=2.183235878.1815700477.1580906951-493080788.1580906951

HOW DOES PHOENIX DISCHARGE ITS STEWARDSHIP RESPONSIBILITIES?

In addition to taking ESG factors into account in the way the funds are managed, Phoenix and Standard Life are both subject to new FCA regulations that require them to document their approach to Stewardship and the impact it makes in practice – for example, where voting and active engagement has helped to drive improved practices and governance within the companies that are invested in. Currently the Phoenix Group approach is similar to that for ESG – to review the Stewardship capability of its asset manager strategic partners for engagement and voting and, if it is of an appropriate standard, to allow the managers to act on their behalf. This approach has recently been documented on the Phoenix and Standard Life websites, and can be seen from these links:

<https://www.standardlife.co.uk/c1/funds/ethical-investments/stewardship.page>

<https://www.phoenixlife.co.uk/site-services/phoenix-lifes-approach-to-stewardship-and-engagement>

CLIMATE CHANGE

Phoenix Group recognises that Climate Change poses risks and opportunities to its investment portfolios, both in terms of physical and transition risk. Phoenix has started engagement with its asset managers to assess inclusion of climate change considerations within the (i) investment strategy and (ii) investment management processes.

Phoenix Group has submitted results of the climate change scenarios in respect of the 2019 Life Insurance Stress Test (“IST 2019”) exercise to the PRA. They are also reviewing and assessing response to the Discussion Paper titled ‘The 2021 biennial exploratory scenario on the financial risks from climate change.’

WHAT DOES THE IGC THINK?

As noted above, historically Phoenix and Standard Life have relied on the policies and approaches adopted by their fund managers who have been signatories to the UN PRI. However, as a long-term asset owner Phoenix Group has now committed to take a more proactive approach to Responsible Investment. The IGC welcomes this development.

We have monitored progress as the Group embarked on the journey in 2019 to develop and evolve its philosophy, setting out a high level commitment and the direction of travel to both internal and external stakeholders. The process included benchmarking against peers, discussions with leading consultants and following the guidance provided by the UN PRI. The IGC recognises that good progress has been made, not just in governance structures and project plans, but in what Phoenix Group actually does. For example:

- during 2019, outside of the Unit-linked business, Phoenix Group invested c£250m in sustainable opportunities within its annuity portfolios;
- Phoenix Group has started engagement with its asset managers to assess inclusion of climate change considerations within the (i) investment strategy and (ii) investment management processes; and
- Phoenix Group has submitted results of the climate change scenarios in respect of the 2019 Life Insurance Stress Test (IST 2019) exercise to the PRA. It is also reviewing and assessing response to the Discussion Paper titled ‘The 2021 biennial exploratory scenario on the financial risks from climate change.’

However, the IGC is disappointed that it has taken so long to respond to our previous requests for greater visibility of ESG and its impacts to in-scope customers investments. We also are keen to see a broader range of Screened and Thematic funds being considered for in-scope customer pension pots.

For these reasons, we have rated ESG investments considerations in this report as Amber, but with a hint of Green, reflecting the foundations that were being laid last year as part of the Sustainability developments and the fact that, recently, we have started to see the sort of improvements in communication about ESG that we have been looking for.

APPENDICES

Appendix 1

Meet the Committee Members

DAVID HARE INDEPENDENT CHAIR

David joined the Standard Life IGC as Independent Chair in April 2019, and has been the Independent Chair of the Phoenix IGC since 2015.

He has over 30 years of experience in the UK insurance industry. He qualified as an actuary in 1988 and has held various actuarial, marketing and financial risk management roles in a number of life insurers, including five years as Chief Actuary, UK & Europe at Standard Life. From 2012 to 2017, he was a partner at Deloitte, specialising in actuarial audit and review work, including providing Independent Expert reports to the Court on the policyholder impact of five different inter-company transfers of insurance business. Having retired from Deloitte, he now holds a number of non-executive roles with UK insurance companies.

David was President of the Institute and Faculty of Actuaries (IFoA) from June 2013 to June 2014. Prior to becoming the President-Elect of the IFoA in June 2012, he was a non-executive member of the then Board of Actuarial Standards of the Financial Reporting Council (from January 2010). He was a member of the Independent Project Board that oversaw the ABI's audit of the legacy pension schemes identified by the OFT in 2013 as being at risk of being poor value money, whose December 2014 report included a number of recommendations for IGCs to follow.



MICHAEL CRAIG EMPLOYEE MEMBER

Michael has been an Employee Member of the Standard Life IGC since 2015, and joined the Phoenix IGC as an Employee Member in April 2019.

He joined Standard Life as a trainee actuary in 1986 and has held a number of management positions during his career. Prior to his retirement in July 2019, he was the business sponsor for the Pensions Transformation Programme, a director of Standard Life Trustee Company Limited, and also the trustee chair of the ABI staff pension scheme.

In addition to his IGC role, Michael is the independent chair of the Royal Blind charity.



MIKE CHRISTOPHERS INDEPENDENT MEMBER

Mike joined the Standard Life IGC as an Independent Member in April 2019, and has been an Independent Member of the Phoenix IGC since 2017.

He has worked in the insurance industry with an involvement in pensions for over 40 years, both with insurance companies and employee benefit consultancies.

Mike was, until recently, Chair of Mobius Life (and remains on the Board of the holding company), a platform for occupational pension scheme assets, and a non-executive director of Forester Life. He was a partner of KPMG and led the development of their Insurance Consulting practice. Mike also served, until recently, on the boards of Lloyds Bank's insurance businesses, including Scottish Widows.



SHEILA GUNN INDEPENDENT MEMBER

Sheila joined the Standard Life IGC as an Independent Member in April 2019, and has been an Independent Member of the Phoenix IGC since 2015.

She is an experienced independent non-executive director. Sheila left private legal practice in 2009 to pursue a management career in industry and undertake non-executive appointments. Her first assignment was with Ignis Asset Management, to work on the merger of two asset management businesses within the Phoenix Group.

Sheila is currently Group Vice-Chair of the Wheatley Group and Chair of Wheatley Solutions. Her other non-executive appointments include the Accounts Commission, Scottish Building Society, Council of the Chartered Banker Institute and Lowther Homes Limited.



INGRID KIRBY INDEPENDENT MEMBER

Ingrid has been an Independent Member of the Standard Life IGC since 2015, and joined the Phoenix IGC as an Independent Member in April 2019.

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



MIKE PENNELL EMPLOYEE MEMBER

Mike joined the Standard Life IGC as an Employee Member in April 2019, and has been an Employee Member of the Phoenix IGC since 2015.

He is a qualified actuary who has been with the Phoenix Group for almost 30 years, having originally joined Britannic Assurance. His current role is focused on strategy and planning within the life companies of the Group and supporting various projects including those related to integrating businesses acquired by the Group.

Mike previously worked in Finance and was responsible for financial planning and forecasting. He also has experience in product development and a variety of projects including some of the Group's early acquisitions and restructuring activities and therefore has a broad experience across the business.



Appendix 2

Value for Money Additional Detail

VALUE FOR MONEY DESCRIPTORS

Investments

Investment quality in VfM is delivered when:

- funds are well-managed and governed in order to meet investor expectations; and
- default funds have the propensity to deliver sufficient returns on retirement savings over the medium/longer term, taking an appropriate level of risk, to provide a decent outcome in retirement.

Although VfM is a forward-looking measure, we review past performance to validate our assessment: in absolute terms, and vs benchmark, vs peer groups where appropriate and, over the very long term, vs inflation.

Customer Service

Our assessment of Customer Service focuses on what service levels are targetted, the performance against those targets, and what steps are taken if performance falls below those levels. We know that meeting targets does not necessarily result in good customer service, so we also look at the overall experience a customer has. This includes how the provider approaches vulnerable customers and deals with complaints. We look for signs of innovation and improvement over time and evidence that these are driven in a customer-centric way. This includes the expansion of the range of digital services and self-service transaction capability available to customers.

Customer Communications and Engagement

We consider that keeping in touch with customers is fundamental, so we look at 'goneaway rates' and how effective customer tracing activity proves to be. Beyond this, and as a minimum, we expect customer communications to be compliant with regulations, and look for communications to be timely, clear, sufficient and jargon-free. We look for continuous improvement over time and for evidence that customers are increasingly being enabled to engage with their pension by the quality of the communications that they receive, their ability to call the provider for help, and by being able to find information and guidance tools online. We also look at how customer feedback is obtained and responded to.

Risk and Governance

It is an important element of VfM that a pension provider is able to demonstrate robust governance arrangements that support effective management of its risks. This supports security for customers, both for their money invested and the personal information that is held about them. We also look for assurance that the provider continues to meet the various associated regulatory requirements.

Costs and Charges

In the current environment, we think ongoing charges of a maximum of 1% per annum offers reasonable value for money, but will keep this under review. We recognise that the disclosure of transaction costs is an evolving area. However, we review the information we have against what we have seen in previous years, against data that we are starting to see disclosed by other firms, and by expert judgement, to see if transaction costs look reasonable. Where members pay other charges for other benefits and services, then we consider this to be reasonable provided members know that they are paying those other charges, understand (and still need) the benefits or services, and receive adequate communications. We also look to see that these other charges are reviewed periodically to ensure that they remain appropriate. We are concerned if we feel that exit charges are excessive.

Management Culture

We recognise that pension providers want to be profitable. However, acting solely in members' interests, our role as the IGC is to monitor closely what is done, so that we can be comfortable that shareholder profits do not come at the expense of VfM for members, and the improvements that we believe it is reasonable to expect. We look for evidence that the provider really has its customers at the heart of what it does.

Application of ESG principles to Investment

This is an evolving area in which IGC responsibilities are soon to be extended. In the meantime, the IGC looks primarily at how clearly articulated are any ESG aims concerning how members' pension pots are invested, and how easy it is in practice for a member to see the impact of them.

VfM Category	Assessment Criteria
Customer Service	<ol style="list-style-type: none"> 1. Responsiveness to customer demand 2. Experience and expertise of staff 3. Easy access to phone support 4. Clarity of customer communications 5. Efficiency and scalability of operational capability 6. Quality and speed of processing of core financial transactions 7. Level of automation / straight through processing 8. Ease of transfer to another provider 9. Ease with which customers can engage with provider via different channels
Risk & Governance	<ol style="list-style-type: none"> 1. Funds governance 2. Management of operational risk and controls 3. Security of IT systems and controls 4. Financial strength and stability 5. Customer protection - covered by Financial Services Compensation Scheme 6. Independent assurance of provider controls 7. Actions to minimise risk of poor customer outcomes 8. Preventative measures to avoid pension scams
Customer Communications & Engagement	<ol style="list-style-type: none"> 1. Quality of retirement roadshows 2. Availability of Workplace seminars 3. Quality, access and relevance of digital experience 4. Clarity of yearly statements 5. Quality of education and support materials 6. Ability to view pension plan on-line 7. Ability to contribute / transact on-line 8. Ease of access to retirement freedoms 9. Access to guidance / advice 10. Relevance of customer messaging
Investments	<ol style="list-style-type: none"> 1. Defaults/key funds are designed and executed in the interests of members 2. 3rd party validation – outputs from Redington model 3. Performance of default/key funds (net of charges) - risk adjusted 4. Performance of default/key funds (net of charges) - to stated goals 5. Performance of default/key funds (net of charges) - relative to peers 6. Performance of default/key funds (net of charges) - relative to cash (over medium term) 7. Clarity of description of default/key funds 8. Suitability of default/key funds, including asset allocation and manager selection of funds 9. Regular review of default/key funds 10. Adaptability of default/key funds to changing circumstances 11. Range and suitability of additional fund choices 12. Mid-long term performance of With-Profits funds 13. Performance over the very long term (e.g. 25 years) 14. Governance of poor performing funds- including identification, communication of management actions, customer engagement (e.g. in switching out) etc 15. Governance of Lifestyling options- including ongoing suitability, communication to customers (of changes) etc

Key:

Basic standard – 1

Beyond basic – 2

Area of strength – 3

Appendix 3

Distribution of Member Charges

Table 1 shows the number of members with total charges above 1.00% per year at 31 December 2019 with the split between the current and former workplace members.

TABLE 1

Total member charge	Number of workplace personal pension members	Number of former workplace personal pension members	Total
>1.48%	7,844	6,127	13,971
1.01% to 1.48%	21,728	18,297	40,025
	29,572	24,424	53,996

It should be noted that this excludes the 117 members who are paying additional charges for death in service cover that we describe in the main body of the report.

Table 2 provides a breakdown of the total who are paying more than 1.00% per year by reason – those who pay additional charges to cover commission to an adviser, those who pay additional charges for specific higher charging fund choices, and those who pay extra for both reasons. The majority of those who pay additional charges do so because of choice of fund. The figures above exclude self-invested assets and those members and former members in drawdown.

TABLE 2

Total member charge	Higher commission but no higher charge funds	Higher commission and higher charge funds	Higher charge funds only	Total
>1.48%	87	107	13,777	13,971
1.01% to 1.48%	60	35	39,930	40,025
	147	142	53,707	53,996

Finally Table 3 gives the distribution of charges across the book of workplace personal pension plans i.e. the numbers who pay more and less than 1.00% per year.

TABLE 3

Total member charge	Number of workplace and former workplace personal pension members	Percentage	Assets (£m)	Percentage
>1.48%	13,971	0.6%	418	0.9%
1.01% to 1.48%	40,025	1.6%	1,745	3.8%
0.76% to 1.00%	470,585	19.3%	8,891	19.2%
<=0.75%	1,910,101	78.5%	35,282	76.1%
	2,434,682		46,336	

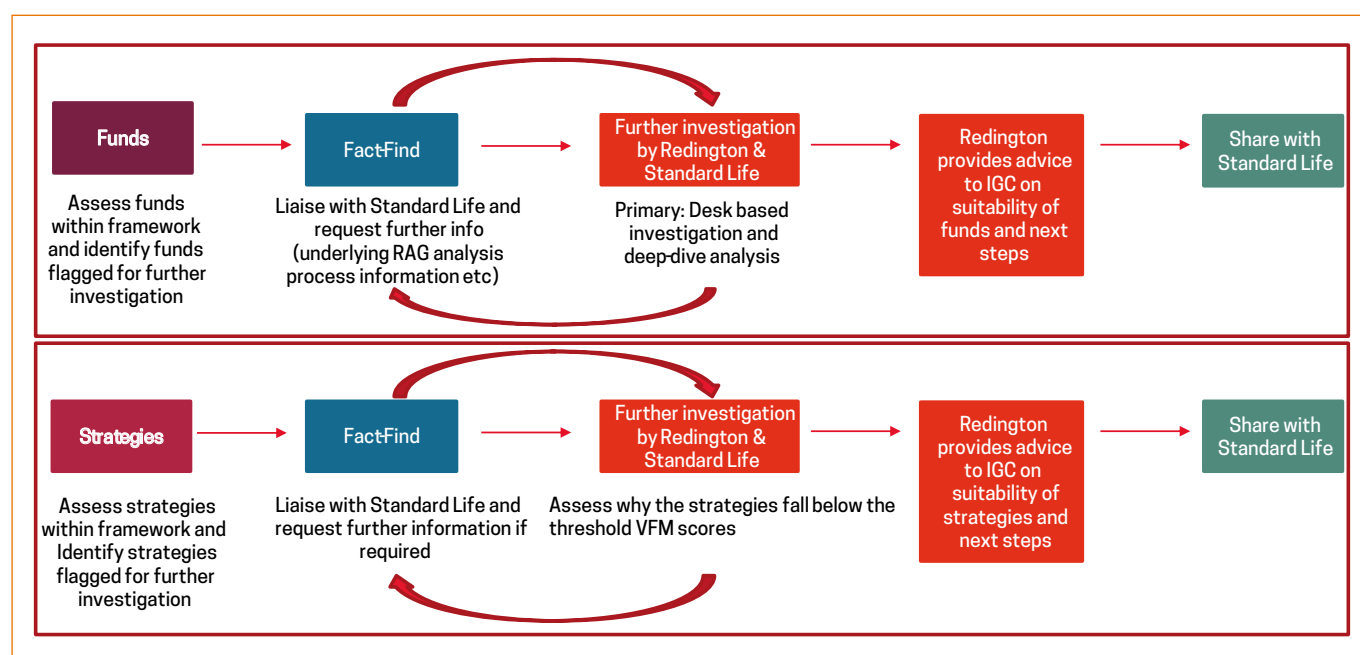
Appendix 4

Investment Performance (Unit Linked Funds)

4a

THE IGC/REDINGTON PROCESS

OVERALL METHODOLOGY



FUND METHODOLOGY

The IGC uses a dual fund performance assessment and scoring approach for each of the 170 funds. The first method is a simple three year analysis of historic returns (performance vs benchmark) and risk (tracking error vs benchmark); the second is a quarterly 'corridor' performance analysis (used by Standard Life) that, while more complex, addresses some of the issues of using a single period model.

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

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:

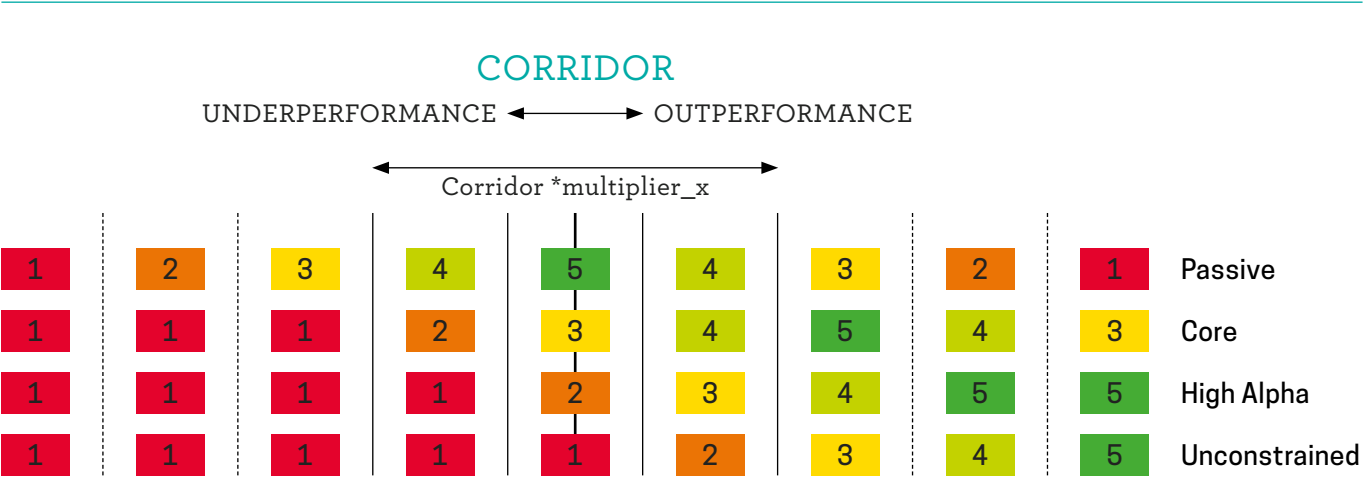
The three year out or underperformance vs benchmark, and three year tracking error figures are inputs to the analysis. They are inputs to the scoring matrix and create a score for each fund that determines those for further review.

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.

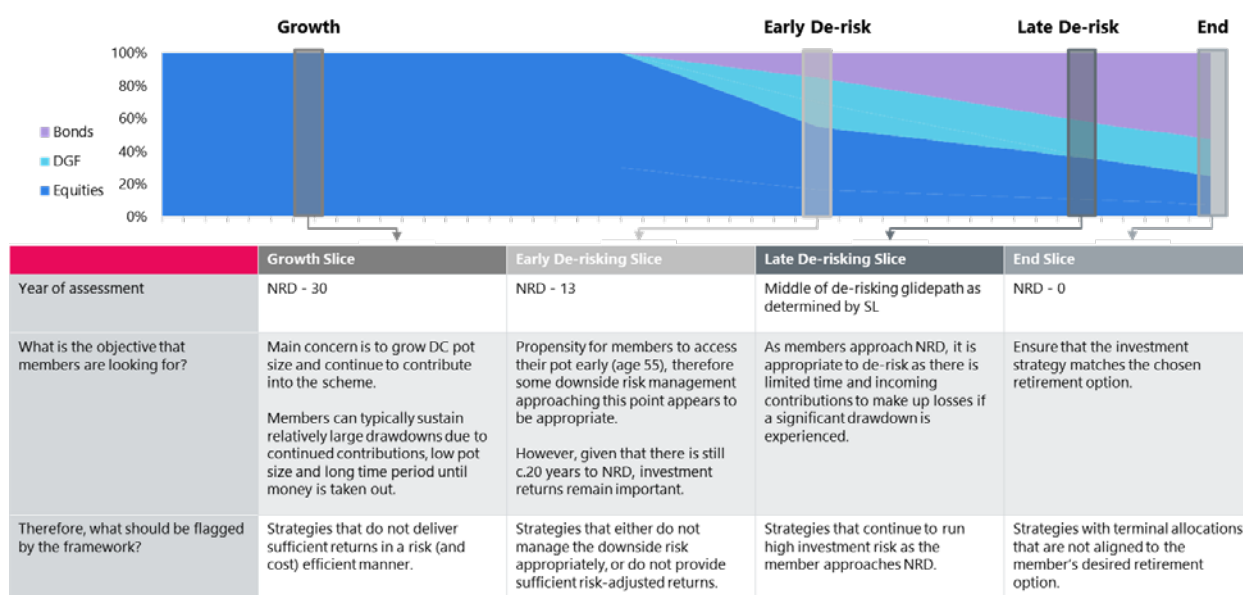
- The period chosen for comparison is three years, given this is the longest period most of the funds have available .
- Funds with less than one year history are excluded from the analysis.
- Funds with between one and three year history have been included via their quarterly scores being averaged, 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 2018.

DEFAULT STRATEGY METHODOLOGY

The strategy methodology adopted in 2017 and shown in the table below is that used for our last report. It is intended to reflect changes in default design and changes in member behaviour as to the timing and method of taking benefits.

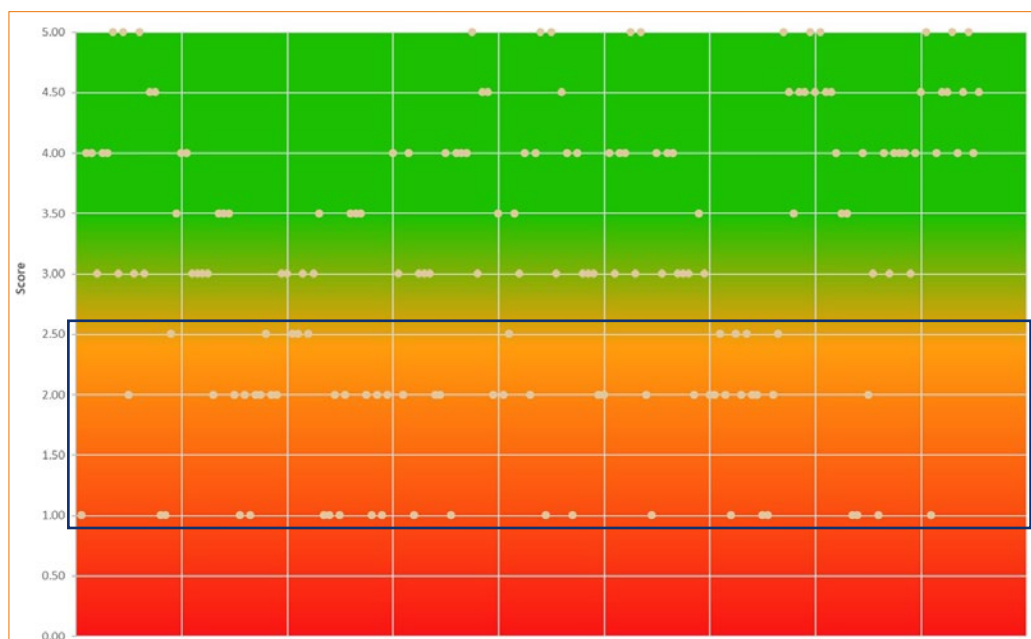
Strategy design is evolving from the traditional single derisking phase typified by an annuity end point to more sophisticated multi-stage derisking paths more suited to those members choosing cash or drawdown rather than annuity end points, or electing to access their benefits prior to their Notional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

To reflect these developments, the IGC uses a methodology which test strategies at four points of the member journey as illustrated below:



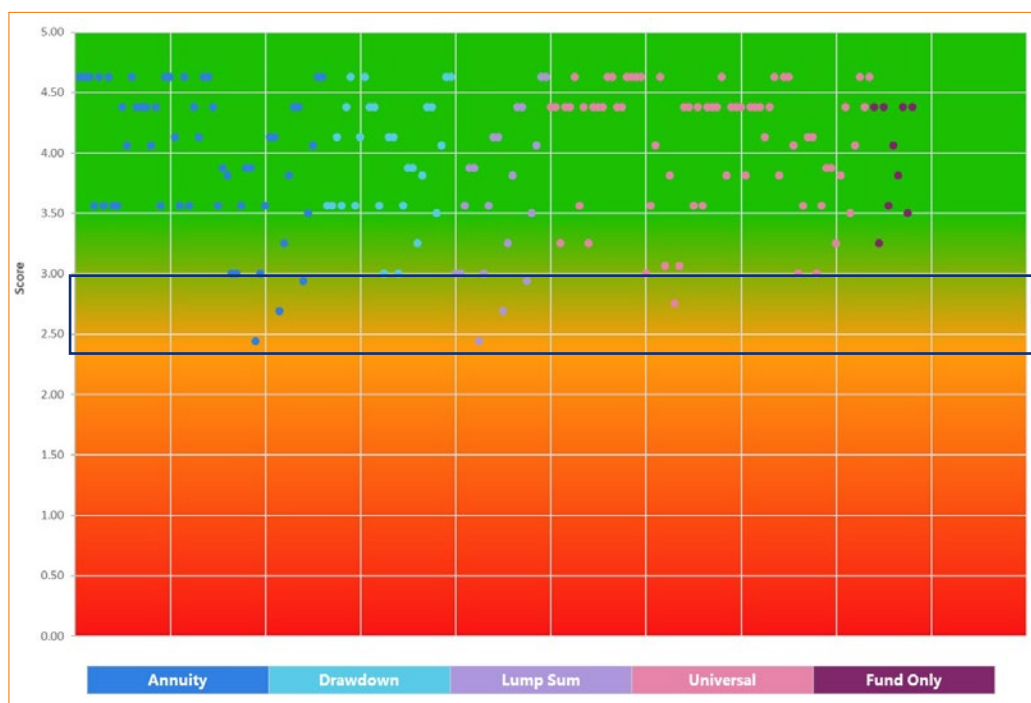
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REDINGTON BACKWARD LOOKING ASSESSMENT RESULTS



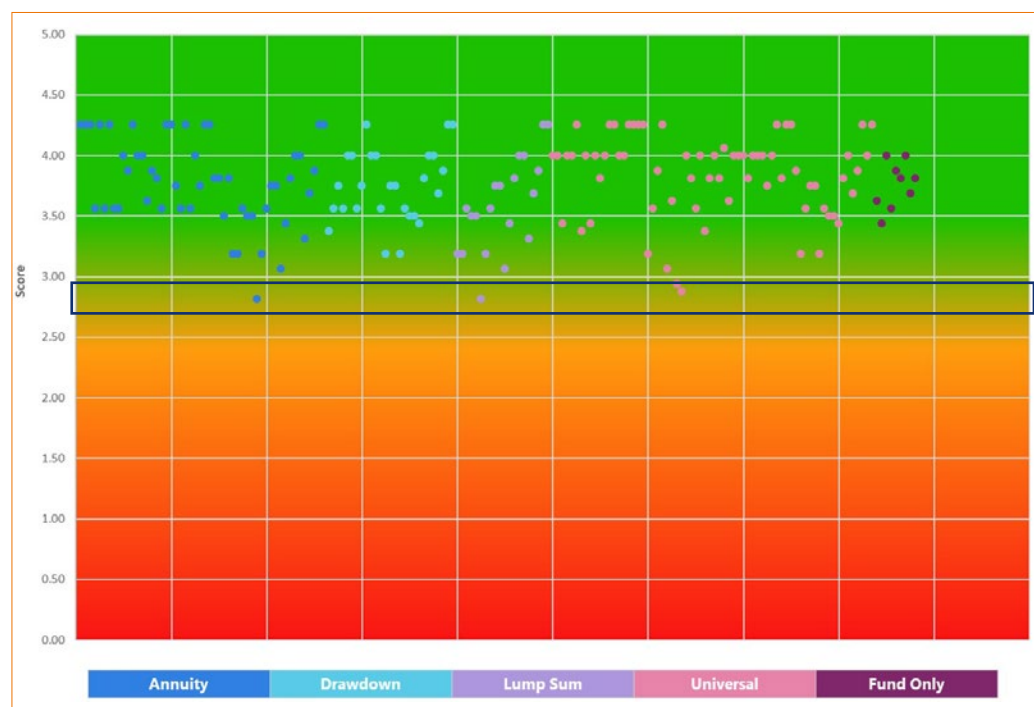
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REDINGTON FORWARD LOOKING RESULTS - GROWTH



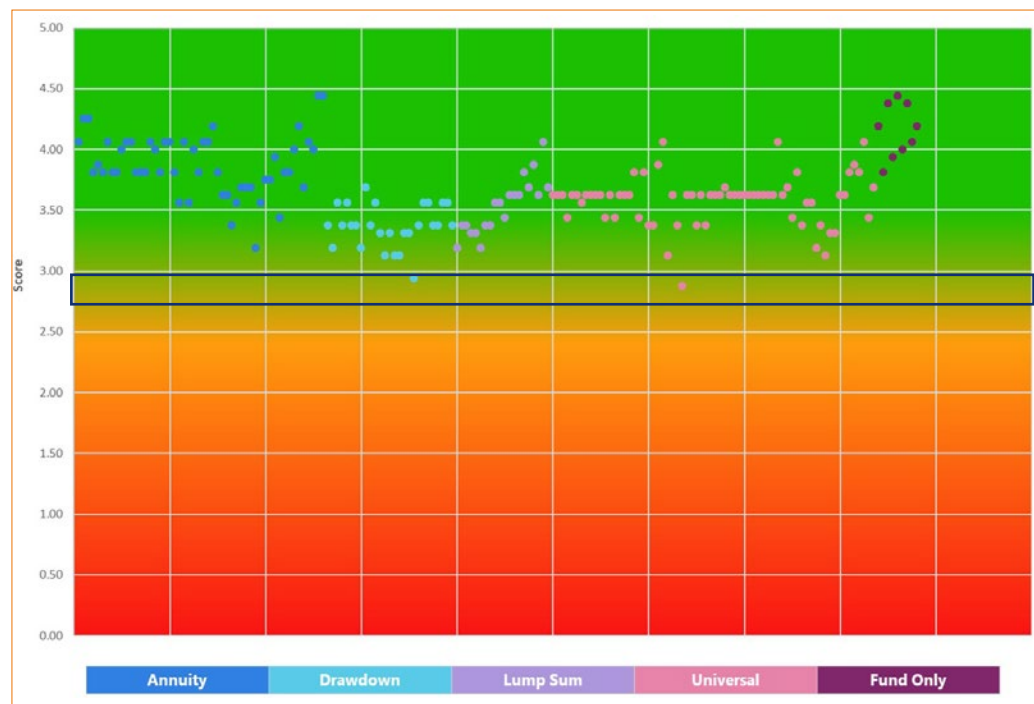
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REDINGTON FORWARD LOOKING RESULTS - EARLY DE-RISKING



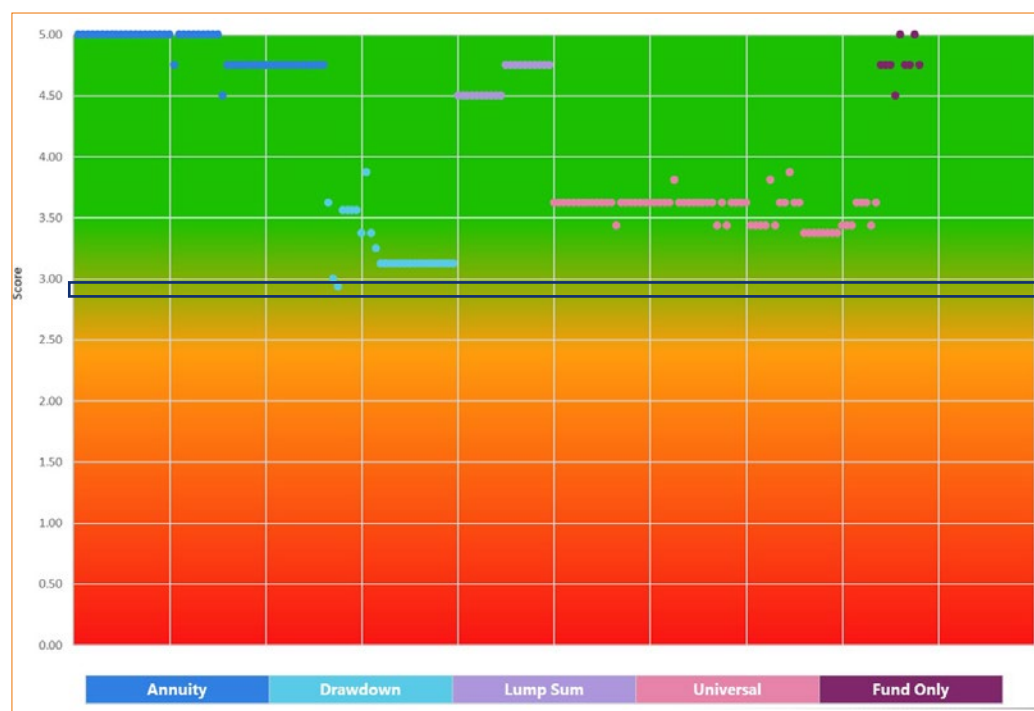
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REDINGTON FORWARD LOOKING RESULTS - LATE DE-RISKING



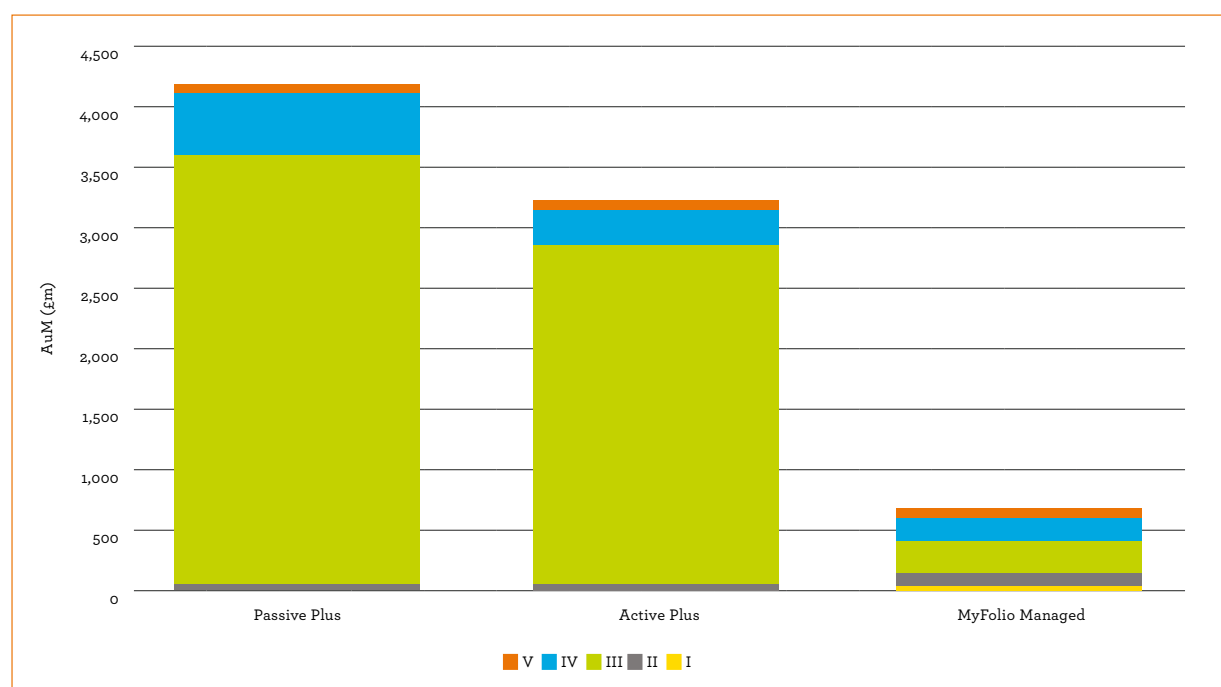
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REDINGTON FORWARD LOOKING RESULTS - END



4g

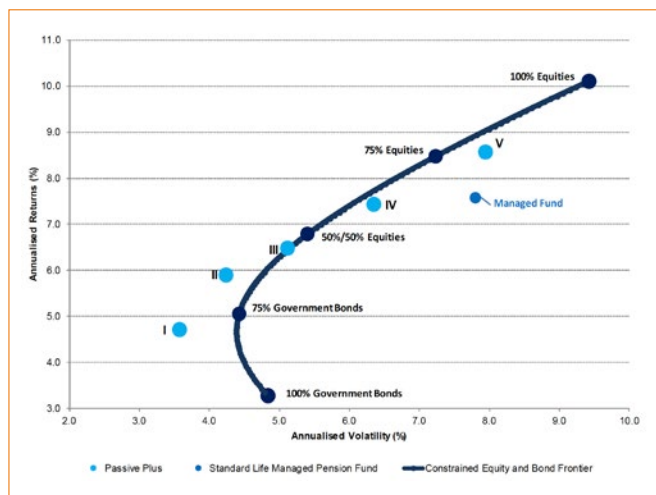
ASSETS UNDER MANAGEMENT KEY RISK-BASED FUNDS



Passive Plus	£4,194.0m
Active Plus	£3,199.2m
MyFolio Managed	£662.0m
Total AuM	£8,055.2m

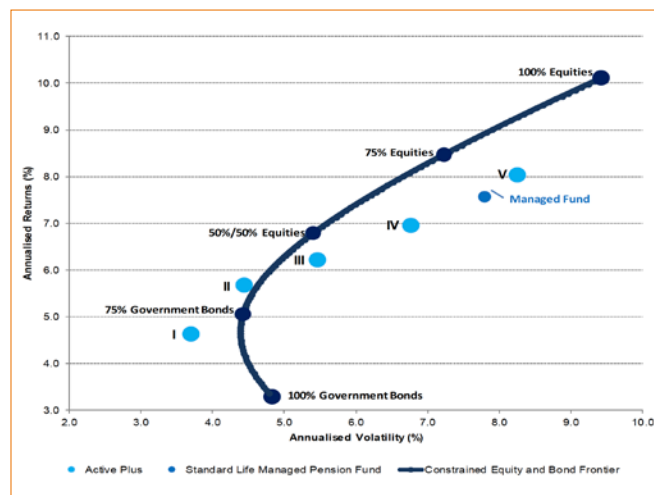
ANNUALISED VOLATILITY VS ANNUALISED RETURNS

PASSIVE PLUS



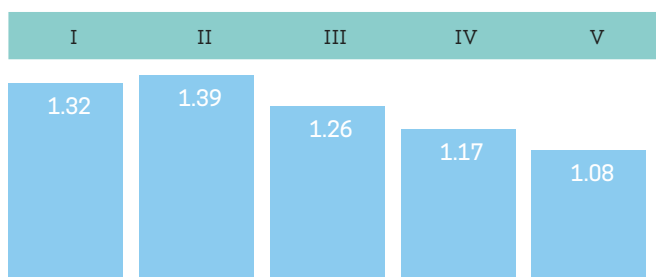
Fund	Annualised return	Annualised volatility
I	4.71	3.58
II	5.89	4.25
III	6.47	5.13
IV	7.42	6.36
V	8.56	7.95

ACTIVE PLUS

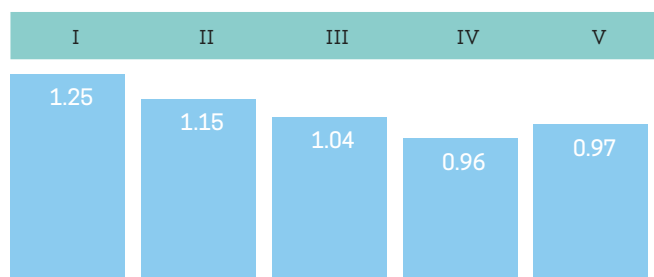


Fund	Annualised return	Annualised volatility
I	4.63	3.71
II	5.67	4.45
III	6.22	5.47
IV	6.94	6.77
V	8.03	8.26

RISK RETURN RATIO

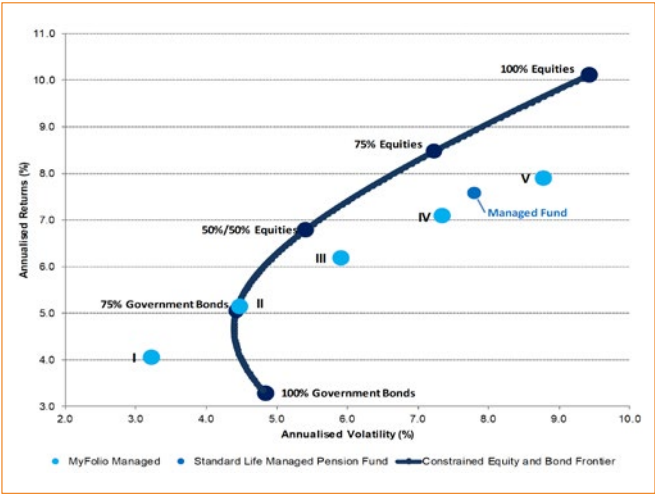


RISK RETURN RATIO



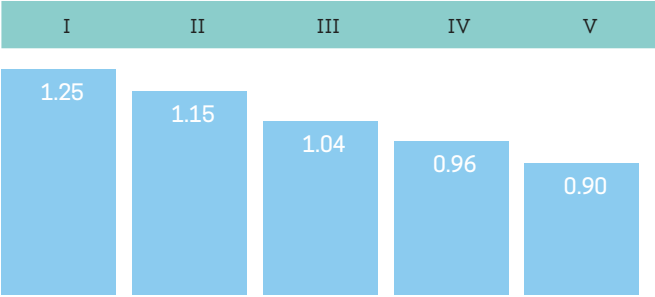
ANNUALISED VOLATILITY VS ANNUALISED RETURNS

MYFOLIO MANAGED



Fund	Annualised return	Annualised volatility
I	4.05	3.23
II	5.15	4.48
III	6.18	5.91
IV	7.08	7.35
V	7.89	8.78

RISK RETURN RATIO



Source:
Indices: FTSE All Share Index and ICE bofAML UK Gilts, MSCI AC World Index and ICE BofAML Global Government Index (EHedge:Source Thomson Reuters Eikon) Fund Returns and Volatility : Financial Express

Methodology:
All returns are Total Returns in GBP. Fund returns are gross of charges(net price series adjusted for AMC and Additional Expense) over a five year period. The 'Constrained Equity and Bond 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) to a 100% allocation to government bonds (split 50:50 UK and Global)and various possible combinations between.

4h

PERFORMANCE-ADJUSTED SHARPE/SORTINO RATIOS

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

	Dec-17	Jan-18	Feb-18	Mar-18	Apr-18	May-18	Jun-18	Jul-18	Aug-18	Sep-18	Oct-18	Nov-18	Dec-18	Jan-19	Feb-19	Mar-19	Apr-19	May-19	Jun-19	Jul-19	Aug-19	Sep-19	Oct-19	Nov-19	Dec-19
Active Plus III	1.07	0.95	0.74	0.52	0.64	0.66	0.89	0.91	1.18	1.33	0.78	0.72	0.51	0.89	0.87	0.90	0.96	0.83	0.95	0.92	0.76	0.77	0.64	0.78	0.74
Passive Plus III	1.16	1.01	0.84	0.64	0.74	0.79	1.06	1.10	1.39	1.55	1.03	0.97	0.76	1.09	1.09	1.11	1.17	1.05	1.08	1.06	0.91	0.91	0.76	0.90	0.83
Competitor fund 1	1.10	1.01	0.88	0.63	0.78	0.84	1.08	1.10	1.42	1.61	1.16	1.15	0.93	1.35	1.30	1.28	1.39	1.31	1.30	1.27	1.12	1.15	0.99	1.18	1.11
Competitor fund 2	1.26	1.05	1.00	0.81	0.95	1.01	1.32	1.37	1.61	1.74	1.32	1.33	1.16	1.40	1.34	1.29	1.34	1.35	1.32	1.28	1.15	1.12	0.96	1.19	1.14
Competitor fund 3	0.97	0.77	0.62	0.39	0.59	0.66	0.88	0.90	1.23	1.27	0.77	0.83	0.67	1.04	0.99	0.95	1.00	0.88	0.87	0.86	0.69	0.68	0.52	0.66	0.62
Competitor fund 4	1.24	1.12	0.93	0.69	0.86	0.89	1.17	1.15	1.49	1.67	1.13	1.05	0.77	1.15	1.11	1.11	1.22	1.05	1.10	1.07	0.87	0.89	0.70	0.84	0.78
Competitor fund 5	1.08	0.97	0.83	0.59	0.73	0.78	0.99	1.06	1.30	1.49	0.95	0.97	0.78	1.15	1.08	1.03	1.12	1.06	1.04	0.98	0.72	0.75	0.60	0.81	0.74
Competitor fund 6	1.08	0.99	0.82	0.59	0.74	0.79	1.06	1.12	1.43	1.55	1.05	1.06	0.86	1.19	1.18	1.17	1.26	1.18	1.13	1.12	0.83	0.87	0.67	0.84	0.75
Competitor fund 7	1.15	1.01	0.85	0.64	0.80	0.84	1.18	1.22	1.57	1.64	1.09	1.06	0.83	1.12	1.05	1.06	1.17	0.99	0.98	0.94	0.72	0.75	0.71	0.88	0.86
Competitor fund 8	1.05	1.04	0.74	0.60	0.67	0.68	0.86	0.87	1.49	1.54	1.05	1.20	1.13	1.68	1.64	1.62	1.64	1.49	1.50	1.43	1.35	1.37	1.34	1.42	1.40
Competitor fund 9	1.22	1.04	0.92	0.74	0.87	0.89	1.22	1.25	1.57	1.71	1.22	1.12	0.99	1.25	1.28	1.27	1.33	1.22	1.19	1.15	0.96	1.00	0.93	1.15	1.03

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

	Dec-17	Jan-18	Feb-18	Mar-18	Apr-18	May-18	Jun-18	Jul-18	Aug-18	Sep-18	Oct-18	Nov-18	Dec-18	Jan-19	Feb-19	Mar-19	Apr-19	May-19	Jun-19	Jul-19	Aug-19	Sep-19	Oct-19	Nov-19	Dec-19
Active Plus III	0.97	0.85	0.67	0.48	0.58	0.59	0.85	0.88	1.17	1.40	0.70	0.67	0.45	0.81	0.80	0.83	0.90	0.80	0.93	0.88	0.75	0.76	0.65	0.77	0.72
Passive Plus III	1.07	0.96	0.82	0.63	0.74	0.79	1.17	1.21	1.66	1.94	1.09	1.07	0.78	1.15	1.15	1.18	1.26	1.16	1.21	1.16	1.02	1.02	0.88	1.02	0.91
Competitor fund 1	1.10	1.00	0.90	0.64	0.78	0.84	1.18	1.20	1.60	1.94	1.23	1.22	0.92	1.41	1.35	1.32	1.45	1.41	1.40	1.28	1.17	1.21	1.06	1.25	1.14
Competitor fund 2	1.47	1.24	1.17	0.96	1.09	1.16	1.80	1.87	2.48	2.87	1.88	1.89	1.53	1.85	1.75	1.65	1.72	1.73	1.55	1.43	1.32	1.29	1.12	1.41	1.34
Competitor fund 3	0.90	0.73	0.61	0.38	0.58	0.65	0.94	0.97	1.44	1.50	0.80	0.86	0.66	1.08	1.03	0.98	1.04	0.95	0.91	0.91	0.73	0.73	0.56	0.71	0.66
Competitor fund 4	1.12	1.05	0.89	0.67	0.84	0.87	1.25	1.22	1.71	2.01	1.16	1.12	0.74	1.16	1.11	1.11	1.24	1.09	1.16	1.11	0.91	0.93	0.75	0.87	0.80
Competitor fund 5	1.07	0.96	0.84	0.60	0.72	0.77	1.05	1.13	1.42	1.73	0.94	0.97	0.74	1.12	1.05	0.99	1.09	1.03	1.00	0.88	0.65	0.68	0.56	0.74	0.66
Competitor fund 6	1.00	0.91	0.78	0.56	0.69	0.75	1.04	1.10	1.57	1.74	1.05	1.06	0.81	1.13	1.12	1.10	1.22	1.12	1.06	1.03	0.76	0.81	0.63	0.77	0.67
Competitor fund 7	1.09	0.98	0.83	0.64	0.78	0.83	1.35	1.40	1.99	2.14	1.17	1.14	0.82	1.13	1.04	1.05	1.12	0.95	0.94	0.87	0.67	0.70	0.69	0.84	0.82
Competitor fund 8	0.90	0.90	0.64	0.54	0.58	0.59	0.77	0.78	1.56	1.63	1.01	1.11	1.03	1.72	1.66	1.63	1.65	1.55	1.58	1.39	1.31	1.27	1.24	1.25	1.22
Competitor fund 9	1.25	1.09	0.99	0.80	0.93	0.96	1.51	1.56	2.23	2.60	1.53	1.46	1.22	1.56	1.59	1.59	1.66	1.57	1.49	1.37	1.17	1.22	1.17	1.44	1.24

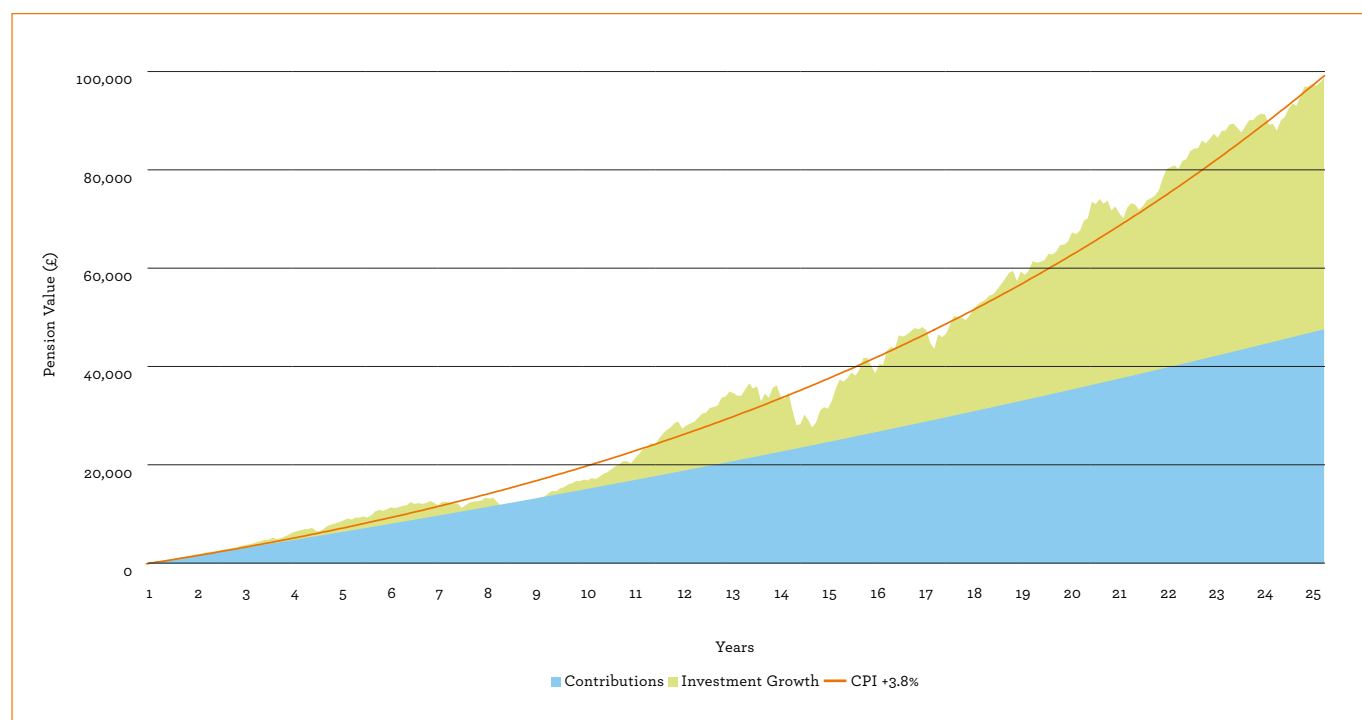
Source:

FE Fund Info FinXL 05/02/2020.

Methodology:

All returns calculated Gross income reinvested

MANAGED FUND PERFORMANCE OVER 25 YEARS



Annualised adjusted performance over a 25 year investment period*

Profile 1 - 4Bal moving into Active Plus III Universal	5.8%
Profile 2 - 4BAL	5.9%
CPI +3.8%	5.8%

*Performance adjusted to reflect 0.75% charge cap for default investment strategies

Source: FE Fund Info FinXL 04/02/2020 with performance shown for the period 31/12/1994 - 31/12/2019.

Appendix 5

Investment Performance (With-Profits Funds)

STANDARD LIFE WITH-PROFITS REVIEW

KEY MESSAGES

- **Those members with funds invested in with-profits funds continue to receive value for money at the point they retire with improved investment returns or with the benefit from guarantees**

WHAT ARE WE LOOKING FOR?

- Are the underlying funds invested successfully?
- Are the charges for expenses and with-profits guarantees reasonable?
- Is smoothing operating appropriately?
- Are the payouts fair?

WHAT DID WE FIND IN 2019?

Overall we consider members retiring with benefits from the with-profits funds are receiving value for money.

The operation of the Standard Life with-profits funds is independently reviewed by the Standard Life with-profits Committee to ensure that With-Profits members' interests are protected and payouts are fair. (More details can be found at <https://www.standardlife.co.uk/c1/funds/with-profits-overview.page>.)

We did not seek to duplicate the work done by this committee.

The Investment section of this report (Section E and Appendix 4) sets out the investment returns on the assets underlying with-profits members' funds.

The investment returns are the key driver of the payout a member receives from a with-profits fund. In addition, the impact of guarantees (if any), charges for expenses or guarantees, smoothing and estate distribution determine the actual payouts. We consider each of these factors.

FACTORS AFFECTING THE OUTCOMES

In addition to looking at investment returns, we consider other factors impacting the eventual benefits paid.

We looked at the charges which are deducted from these funds – see Section I. No deductions for expenses exceed 1% per annum, while many members pay considerably less. In addition to the expense charges, those members in the Pension With-Profits Fund with a 4% guaranteed growth rate (generally on contributions made before 2001) have a charge of 0.75% per annum deducted. Those members with funds subject to a 0% guaranteed growth rate (contributions made since 2001) have a charge of 0.15% deducted.

As part of a 'deep dive' session the IGC held with Standard Life about the with-profits members we challenged, in particular, the deduction made for the 0% guarantee and consider that the response given by Standard Life satisfactorily explained this charge as being in aggregate value for money. The IGC will continue to monitor these guarantee charges.

In addition to the impact of these charges on members, payouts on retirement are smoothed to ensure that if there has been a recent significant fall in the underlying asset values as a member approaches retirement then this will have a less detrimental impact on the payout. The counter to this is that, if there has been a recent significant rise in the underlying asset values, the full impact of the rise will not be reflected in the payout. Standard Life demonstrated to the IGC that this smoothing operation had operated fairly over the past 20 years.

Standard Life was a mutual insurance company until 2006. Such companies had no shareholders. At the time of demutualisation, there was a small amount of capital, known as the estate, held in the with-profits funds for the benefit of the then policyholders. This is being gradually distributed as additions to payments as such members retire. The addition to benefits is reviewed by the With-Profits Committee. This is currently a small additional benefit of up to 2.5% of the final payout.

When a member with investment in a with-profits fund retires, the payout is either:

- i) the fund that the member has accumulated with bonus and estate additions reflecting the underlying investment returns less the charges for expenses and guarantees (if any) and smoothed as described above; or
- ii) the fund accumulated with the guaranteed additions.

The IGC thus monitors the underlying investment returns, the charges, the smoothing and the operation of the guarantees to satisfy ourselves that members receive value for money.

CASHING IN

Guarantees normally apply at the customer's selected retirement date or on death. However, Standard Life currently applies guaranteed terms to any claim on or after age 55 unless the customer is known not to be taking their retirement benefits. For example, if before age 55 a member takes a transfer to another provider, they do not receive the guarantees that would apply on retirement. The IGC is in discussion with Standard Life to ensure that we are satisfied that all members are receiving value for money.

THE RETURN ON THE INVESTMENTS IN THE WITH-PROFITS FUNDS

With-Profits Fund (WPF)	Pension With-Profits Fund GPPP	Other Pension Unitised With-Profits Funds GPPOne, GPPFlex, GPPLE	Stakeholder With-Profits Fund Group and Corporate Stakeholder	Stakeholder With-Profits 2006 Fund Group and Corporate Stakeholder
2019	7.1%	11.7%	15.9%	15.8%
2018	-1.6%	-5.1%	-7.9%	-7.9%
2017	3.4%	7.9%	9.9%	9.8%
2016	8.8%	12.2%	16.6%	16.5%
2015	1.7%	3.2%	0.8%	0.9%
5 YR (2019)	3.8%	5.8%	6.6%	6.6%

Returns shown gross of fees
Source: Standard Life

2019 ASSET MIXES OF THE WITH-PROFITS FUNDS

With-Profits Fund (WPF)	Pension With-Profits Fund GPPP	Other Pension Unitised With-Profits Funds GPPOne, GPPFlex, GPPLE	Stakeholder With-Profits Fund Group and Corporate Stakeholder	Stakeholder With-Profits 2006 Fund Group and Corporate Stakeholder
Company Shares (Equities)	23%	58%	68%	68%
Property	3%	12%	0%	0%
Other Growth Assets (including Hedge Funds)	1%	2%	0%	0%
Total Growth Assets	27%	72%	68%	68%
Fixed Interest Stocks - issued by the government (gilts)				
Fixed Interest Stocks - other (including corporate bonds)	73%	28%	32%	32%
Cash				
Total Fixed Interest and Cash Assets	73%	28%	32%	32%
Total Assets	100%	100%	100%	100%

Appendix 6

Transaction Costs

TRANSACTION COST - BENCHMARKING

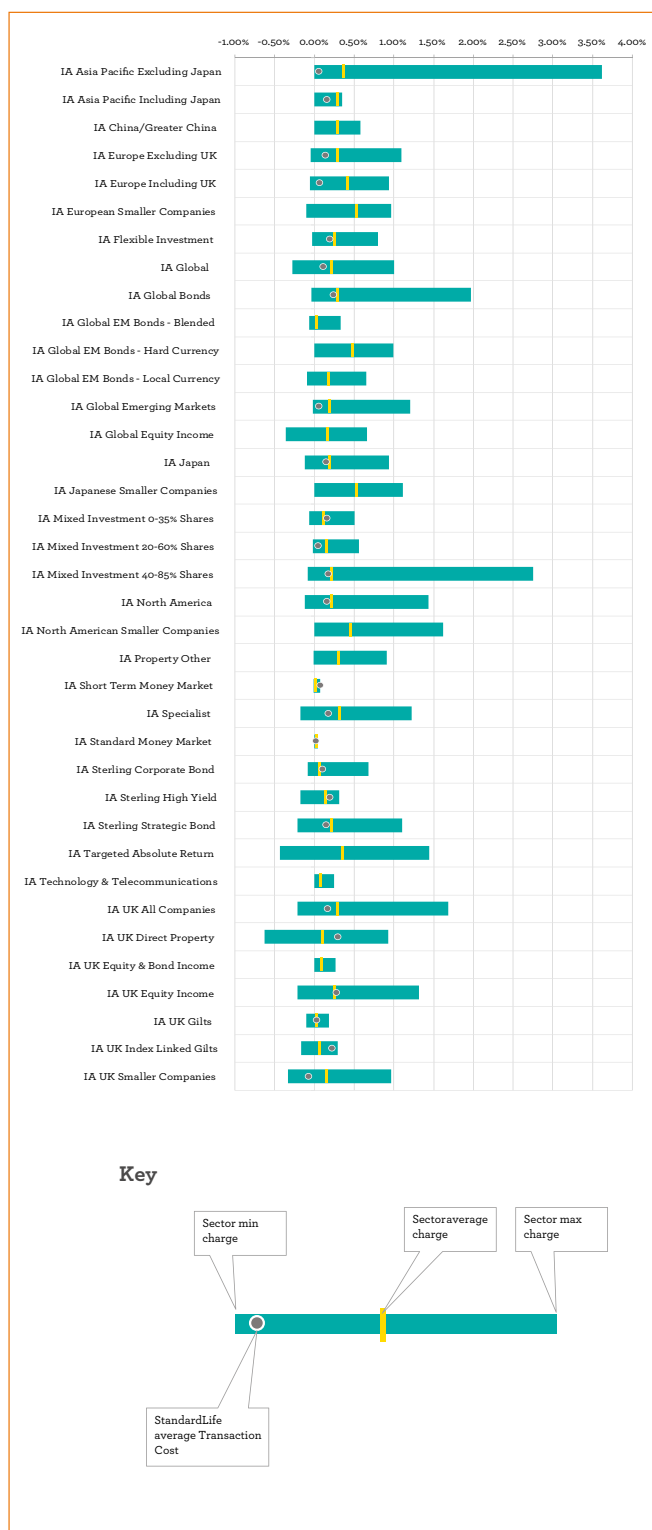
The chart illustrates that Standard Life transaction costs relative to those of other companies in the market are within normal market ranges for funds with a similar strategy, albeit that market participants may use a range of different interpretations and methodologies.

Methodology

The chart shows the range of transaction costs being reported in the Investment Association ("IA") sectors. Each bar demonstrates the minimum, maximum and average transaction cost reported for each IA sector. The average Standard Life insured fund transaction cost has been overlaid for comparison purposes. Insured funds have been aligned to IA sectors based on their respective ABI sector. Where no average is shown there is either no comparable ABI sector or no Standard Life fund within scope in that sector.

Source:

IA ranges source FE Fund Info DCPT service as at 30 Sep 2019. ©Financial Express Limited ("FE"). All rights reserved. The compilation of data contained herein is the copyright of FE. Whilst reasonable care has been taken in the compilation of the data it is not warranted to be accurate or complete and has been drawn by FE from sources which are also not warranted to be accurate and complete.



Appendix 7

Customer Service and Satisfaction Statistics

CUSTOMER SERVICE MEASURES

In this appendix, we give a more detailed breakdown of some of the performance measures which the IGC has used to determine its value for money assessment as set out in section F of this report. The tables and graphs below cover the following:

- 7a The speed with which all Core Financial Transactions affecting IGC customers were processed during 2019
- 7b The speed with which “non-automated” transactions were processed during 2019
- 7c How effective Standard Life has been at clearing up “non-automated” transactions which have taken more than ten days to process.
- 7d & 7e The performance of Standard Life’s telephony teams during 2019 in answering customers calls
- 7f A sample of the quality of the service provided to all pension customers during 2019 and how this has compared to previous years

7a CORE FINANCIAL TRANSACTIONS

The table below shows the speed of processing by Standard Life of the core financial transactions during 2019.

Core Financial Transaction	Percentage of Total Core Financial Transactions 2019					Number of Core Financial Transactions 2019					
	Same Day	Next Day	2 to 5 days	6 to 10 Days	Over 10 Days	Same Day	Next Day	2 to 5 days	6 to 10 Days	Over 10 Days	Total
Regular Contributions	91.1%	5.9%	2.6%	0.1%	0.3%	14,826,391	960,368	422,926	22,275	49,458	16,281,418
Ad hoc Contributions	96.1%	1.8%	0.6%	0.2%	1.3%	120,060	2,196	753	324	1,600	124,933
Single Contributions	91.0%	3.5%	3.1%	1.5%	0.9%	23,459	894	797	390	249	25,789
Transfers In	93.8%	2.9%	1.9%	0.8%	0.6%	20,779	635	423	175	145	22,157
Fund Switches	99.72%	0.04%	0.1%	0.04%	0.1%	2,820,334	1,109	2,603	1,007	3,012	2,828,065
Transfers Out	64.4%	15.7%	18.4%	0.9%	0.6%	42,649	10,445	12,186	598	396	66,274
Retirements	33.3%	45.1%	18.2%	2.1%	1.3%	9,216	12,504	5,046	591	364	27,721
Deaths*	3.9%	2.4%	8.8%	14.8%	70.1%	74	45	167	280	1,326	1,892
Total	92.2%	5.1%	2.3%	0.1%	0.3%	17,862,962	988,196	444,901	25,640	56,550	19,378,249

Source: Standard Life

*The measurement of death settlement is date of death to final settlement date.

7b CORE FINANCIAL TRANSACTIONS NOT PROCESSED “STRAIGHT THROUGH”

The table below shows Standard Life’s performance in relation to core financial transactions which were unable to be processed on automated basis. The table shows the performance for 2019 and the two previous years for comparison.

Demand	Total Cases Completed 2019*	% Within 10 Working Days 2019*	Total Cases Completed 2018	% Within 10 Working Days 2018	Total Cases Completed 2017	% Within 10 Working Days 2017
Contributions Allocated (excluding online payments)	15,438	99.46%	4,974	97.13%	8,284	97.86%
Allocate Transfer of Benefits In	27,160	93.86%	15,459	82.82%	16,076	83.02%
Information Requests Issued	78,153	96.73%	67,344	96.64%	173,671	90.69%
Updates to Records	138,313	97.93%	101,506	95.60%	128,838	87.02%
Leavers Processed (not online)	4,040	97.10%	4,646	93.82%	5,482	57.10%
Change or Switch Investments (not online)	24,374	99.67%	18,069	99.38%	17,110	99.21%
Pay Transfer of Benefits Out	50,017	98.75%	18,139	77.57%	17,164	93.87%
Pay Benefits on Retirement	10,395	99.04%	5,627	94.37%	5,198	94.34%
Pay Benefits on Death	2,709	54.41%	2,523	47.48%	2,159	47.89%
Total	350,599	97.34%	238,287	93.44%	373,982	89.10%

Source: Standard Life

*The figures for 2019 include processing completed for all workplace plan holders including leavers from non-legacy products. Leavers from non-legacy products were not taken into consideration prior to 2019 due to the availability of the data (i.e. management information systems were updated for 2019.)

7c NON-AUTOMATED DEMAND OLDEST CASES 2018 V 2019

The table below shows how many transactions took longer than 10 days for Standard Life to process during 2019 and how this compares with 2018.

Days	11 to 20	21 to 50	51 to 75	76 to 100	101 to 150	151 to 200	>200	Total
2019 Total Processed	6,408	2,422	276	120	77	5	20	9,328
2018 Total Processed	11,741	3,229	359	115	65	18	108	15,635
Change 2018 Versus 2019	-45%	-25%	-23%	4%	18%	-72%	-81%	-40%

Source: Standard Life

Key points

There has been an overall 40% reduction in non-automated cases (9,328 vs 15,635) taking longer than ten days.

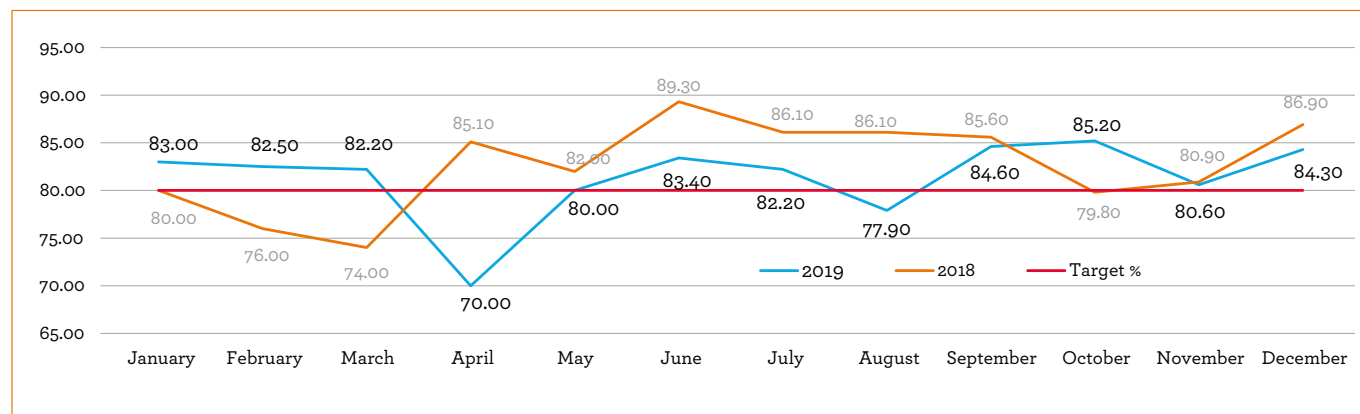
The non-automated demand results for 2019 include those plan holders who are ex-workplace leavers from non-legacy products.

Most day ranges show a significant reduction in volumes of older cases or a small increase due to the small volumes.

There has been a slight deterioration in percentage terms (69% in 2019 vs 75% in 2018) in terms of claims processed within 11-20 days. There has been an 81% reduction in volumes taking over 200 days, which primarily reflects a large reduction in the number of death claims taking longer than 200 days to process

7d CALLS ANSWERED

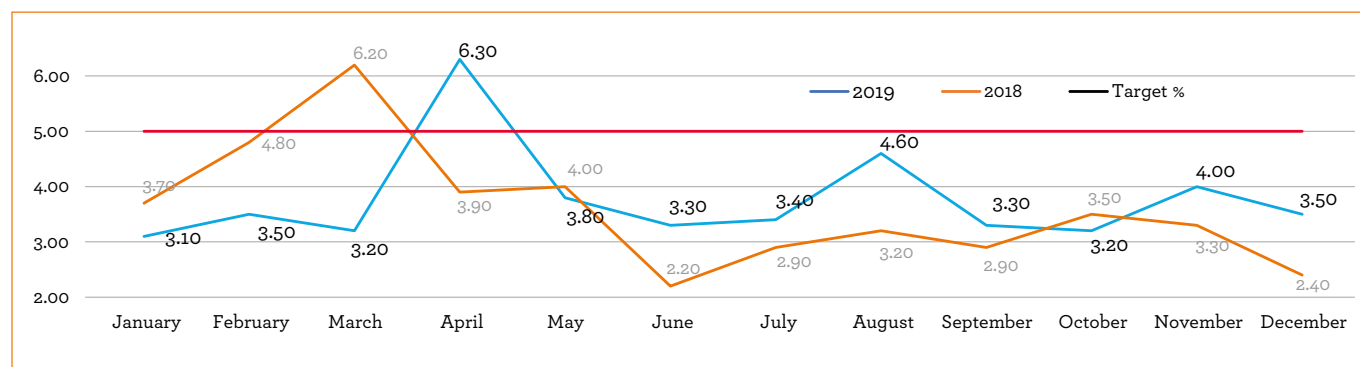
The graph below shows the percentage of calls answered within 120 seconds throughout 2019 versus 2018. Standard Life's internal target is to answer 80% of all calls within 120 seconds. Relative to 2018, response rates were lower in seven out of 12 months during 2019. However, the internal target was met in ten out of 12 months (compared with nine out of 12 months during 2018). The performance reported reflects Standard Life's responsiveness to all pension customer enquiries, including those outside of the scope of the IGC.



Source: Standard Life

7e CALLS ABANDONED

The graph below shows the percentage of calls abandoned after 20 seconds throughout 2019 versus 2018. Standard Life's internal target is to ensure no more than 5% of all calls are abandoned after 20 seconds. Relative to 2018, the percentage of calls abandoned was higher in eight out of 12 months during 2019. The internal target was met in 11 out of 12 months (as was the case in 2018). The performance reported reflects Standard Life's responsiveness to all pension customer enquiries, including those outside of the scope of the IGC.



Source: Standard Life

7f SERVICE QUALITY

The graph below shows the percentage of calls answered within 120 Seconds throughout 2019 versus 2018. Standard Life's internal target is to answer 80% of all calls within 120 seconds. Relative to 2018, response rates were lower in 7 out of 12 months during 2019. However, the internal target was met in 10 out of 12 months (compared with 9 out of 12 months during 2018). The performance reported reflects Standard Life's responsiveness to all pension customer enquiries, including those outside of the scope of the IGC.

Core Financial Transaction	Quality Sample Size 2019	Quality Results 2019%	Quality Sample Size 2018	Quality Results 2018%	Quality Sample Size 2017	Quality Results 2017%
Regular Contributions*1	7,322	97.5%	5,112	95.19%	1,826	92.06%
Ad-Hoc Contributions*1						
Single Contributions*1						
Transfers In*1						
Fund Switches*2	5,396	97.6%	3,370	97.39%	3,425	98.42%
Transfers Out*3	4,338	97.9%	5,005	96.88%	4,400	94.80%
Retirements *3						
Death Settlements*3						

Source: Standard Life

Definitions

- The sample and results include transactions in respect of pension business outside of the IGC's remit, including non-Workplace. The management of processing for non-Straight Through Processing Contribution Payment, Transfer In and general administration changes are completed in Customer Operations Workplace Administration teams.
- The sample and results cover all fund switches completed in Standard Life's Trades team, including those for customers outside of the IGC's remit.
- The sample and results cover all money out processing completed in Standard Life's Money Out and Life Events team, including those for customers outside of the IGC's remit.

General Notes

- The results show the cases passing with no errors – this includes errors related to conduct and those errors impacting plan holder experience.
- The error may not necessarily be significant and could relate to internal protocols only e.g. housekeeping.
- The quality sample size is dependent on a number of factors e.g. volumes in/ out, process controls and risk and automation.
- The sample size is determined using an established process and quality framework

Conclusion

Conclusion: The results indicate improved accuracy achieved by Standard Life across all core financial transactions during 2019 relative to 2018. Similarly, there were significant improvements in accuracy relative to 2017 with the exception of fund switches; albeit an additional 1,971 cases were sampled in 2019 (a 58% increase relative to 2017).

NOTES

This image shows a full page of primary-ruled notebook paper. It features multiple sets of horizontal lines across the entire page. Each set consists of three lines: a solid top line, a dashed middle line, and a solid bottom line. The lines are evenly spaced and extend from the left margin to the right edge of the page. There are no margins, text, or other markings on the paper.

NOTES

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