ANNUAL REPORT

2017

ROYAL LONDON

INDEPENDENT GOVERNANCE COMMITTEE

CONTENTS

Personal Introduction from the Chair

As the Chair of Royal London's Independent Governance Committee (IGC) I am pleased to present my third report to you, a workplace customer of Royal London. The IGC exists solely to act in your interests and our main job is to consider the value for money being delivered to you by Royal London.

You will notice that this report is in a different format and tone from the previous two. The changes are based on research we asked to be carried out into how we could make our report better for our most important reader - you. My thanks to those of you who provided feedback and I hope the changes help make reading this report a better experience. I would welcome your feedback on whether this new approach is helpful to you. You can contact me at royallondonIGC@royallondon.com

While I would encourage you to read the whole report, feedback shows that for those who are short of time, a "Quick Summary" should include the main points of the report up front. That section also provides a guide to what is in each of the other sections of the report. This should be helpful if you have a specific area of interest.

During 2017 we continued to focus our effort on the key areas which have a bearing on value and the likely outcome you get at retirement. We also followed up on areas we highlighted in last year's report as needing attention. Royal London continued to offer value to its workplace customers and have developed what is offered to you in a number of ways. In particular I would like to highlight:

- A carefully implemented change to the nature of the most commonly used default investment strategy;
- An increased emphasis on understanding workplace customer engagement needs, leading to planned improvements in the way Royal London communicates with you each year;
- An improved process and support material to help you, and your adviser if you have one, to plan for your retirement.

These developments, and a number of others, are explored in more detail in the report.

I have now served as Chair of the IGC for three years, starting with the launch of the IGC in April 2015. During this time, I believe significant improvements have been made to the value for money workplace customers get from Royal London. The Committee is also functioning as it should, it is supported well and has individuals with the right balance of skills to cover all the key areas of work. I have therefore decided that it would be appropriate for me to step down from my role later in 2018.

I'd like to thank my fellow members of the IGC for their diligent work, not just during the committee meetings but in the many hours working outside of this to ensure we cover all the required ground. I am also extremely grateful to the key employees of Royal London who have supported the IGC well over the past three years.

The committee and I spent significant time each year meeting staff and sampling first-hand the service Royal London delivers. I would like to thank all of them for engaging with us. Meeting with the staff and seeing the passion they bring to serving customers has been a defining experience of my time in this role.

During my time I believe the IGC has helped ensure focus on the needs of workplace customers, brought greater understanding on what customers' value, overseen the implementation of significant charge reductions and also key quality developments. I think the IGC can be proud of the start it has made.

Please let me know if you have any questions or comments on the content of this report, via our dedicated mailbox royallondonIGC@royallondon.com.

Phil Green
Chair, Royal London IGC

1. A quick summary

Our job is to make sure you're getting value for money from your pension with Royal London. During the year we've monitored what Royal London has done to improve the service and benefits you receive. We've also checked your money is being invested well, including reviewing the costs involved. Overall, we're satisfied Royal London is providing value for money on your pension. There's a very small number of policies sold many years ago where we've challenged Royal London to reduce charges or make other changes to ensure our value principles are met. Royal London has committed to doing this. This section of our report sets out our key findings, and explains where in the report you can read more about them.

The Royal London Independent Governance Committee (IGC) exists to make sure you're getting value for money on your pension. The majority of us are totally **independent** from Royal London, and we all act solely in your interests. Section 2 explains why we were set up, who we are, and how we work with Royal London.

During 2017 Royal London made improvements in how it manages your pension, which we set out in Section 3. That section also explains some changes in regulation that were introduced.

As we explain in Section 4, value for money is more than just the level of charges. Each year we review how we measure value and we've made some minor changes to the principles we use. This is explained in Section 4.

During 2017 there have been no major changes to how Royal London charges you for managing your pension. In Section 5 we explain a small number of older policies were looked at again to ensure they're providing value for money. Royal London have committed to making changes to these contracts. We also explain the importance of ProfitShare, a unique feature that can improve the growth of your pension fund.

We've reviewed and are satisfied with the way Royal London invests your money. The **default** strategy, where most members are invested, has delivered strong returns while taking a balanced level of risk. Details of the investment performance are shown in Section 6, while in Section 7 we show the costs involved in investing your money.

During the year we keep a close watch on the quality of service that Royal London gives to you. We asked Royal London to improve the speed with which it provides annual statements, and also to make sure your money is invested as soon as possible. Section 8 gives more details on this work.

Royal London is making improvements in how it explains your pension performance. Most of these have been delivered in 2017 with further improvements scheduled in 2018. This is very important to us, as we explain in Section 9.

We've given Royal London a rating on all seven of our value for money principles, with Section 10 showing five green and two amber ratings. Overall, we're satisfied Royal London is continuing to provide value for money to its workplace pension customers.

Certain words in the rest of this report are in **bold and underlined like this** when they are used. You'll find a full definition of those words in the Glossary (Appendix 5).

We'd appreciate any feedback or questions you have and if you'd like to get in touch you can do so by emailing us at royallondonIGC@royallondon.com.

2. The Royal London Independent Governance Committee (IGC)

Our job is to work for you, customers within a Royal London workplace pension scheme, to ensure they offer you value for money. To do this, we have a mix of people with a range of experience across pensions, investments and customer service. The majority of us are completely independent of Royal London. This section describes who we are and how we work.

2.1 WHO WE ARE AND WHAT WE DO

We were set up in April 2015, when new rules were introduced, meaning that all workplace pension providers, like Royal London, needed to have an Independent Governance Committee (IGC).

Our duty is to you, customers with a workplace pension scheme run by Royal London. We're here to look after your best interests, as set out in our terms of reference (what we have to do and how we can do it). You can view our terms of reference at any time, by visiting www.royallondon.com/igc.

The IGC currently has six members: four (including the Chair) don't work for Royal London. The other two members are executives of Royal London. When they are acting as IGC members they're required to consider the interests of workplace customers alone.

We regularly review the skills and experience needed to carry out our responsibilities effectively. We added another independent member in 2016. Because of this, we decided not to make any changes in 2017.

This is our third annual report and describes the work we did in 2017.

Independent members of the IGC are active in industry forums that look to improve IGCs across the industry - with the ultimate aim of improving customer outcomes.

We had five formal meetings in 2017. We also held extra technical meetings to discuss some points in more detail, as well as a two-day workshop with Royal London staff to review their plans to improve their communication with customers and to talk in detail about their service and administration.

We worked closely with other key governance committees Royal London already has. We worked closely with the Customer Standards Committee and Investment Advisory Committee to make sure there's no duplication or gaps in our work. Working closely with other Committees within the Royal London governance framework, helped make sure no time is wasted and nothing important missed.

We created written reports after each of our formal meetings, which were presented at Royal London's board meetings.

We have a duty to raise any areas of concern to the Royal London board. No issues needed to be raised with the board in 2017.

We describe how the IGC was formed and the reasons for its current composition in Appendix 4. This also contains brief details of each of our current six members

"Our duty is to you, customers with a workplace pension scheme run by Royal London. We're here to look after your best interests."

3. A review of 2017

We've worked on a number of aspects of your pension during 2017. In addition to considering all the matters that we are required to do by the FCA, we've used research findings to focus on how Royal London can improve its communication with you, and help you increase your understanding of your pension. We've also reviewed various ways in which Royal London has improved the overall package of benefits included in its workplace pension plan. This section describes recent changes introduced by Royal London, and other changes in the wider pension market.

3.1 THE KEY THINGS WE DID

Our work in 2017 covered all the areas the FCA Rules needed us to look at. We also looked at several other key things we felt were important. We told you about our intention to look at these topics in our previous report. Our major areas of work were:

- More analysis of the appropriateness of charges on some long-standing pension plans - see Section 5.
- Looking at the controls around various default investment strategies that are in place - see Section 6.
- Assessing the transaction costs involved in the investment of your funds - see Section 7.
- Administration standards - see Section 8.
- Improving communication between Royal London and yourself (including acting on feedback from customer research) - see Section 9.

The result of this work forms some of our overall assessment of value for money. We describe how we approach value for money in Section 4, with our overall conclusions set out in Section 10.

3.2 WHAT HAS ROYAL LONDON DONE TO MAKE THINGS BETTER FOR YOU?

During the year Royal London has acted in seven key areas to make sure you're looked after and to provide better value. Here's some of the key work we've noted this year:

Help when you're nearing retirement

This year, Royal London carried out a lot of research to understand what customers need when getting closer to retirement. This research was used to change the way they communicate with you. You can read more about this in Section 8.

"Royal London has acted in seven key areas to make sure you're looked after and to provide better value."

Best price for income drawdown

You can often get lower charges by being part of a workplace pension, rather than having an individual pension. However, not all workplace pensions offer the full range of options now available under Pension Freedoms. Royal London wanted to make sure that if you wanted to take advantage of the Pension Freedoms, through a product called income drawdown, you didn't pay more if you had to move to an individual pension in order to use this option.

As a result, workplace customers who move to Royal London's income drawdown product will get the lower of the workplace pension charge or the charge they'd be able to get for the new product.

Non-advised drawdown

There are some existing Royal London workplace customers who can't afford or don't want to take advice when they come to take their money out of their workplace pension.

While Royal London always highlight the importance of professional advice, it's important all customers get the support they need and are able to access all the options available under Pension Freedoms.

Royal London therefore created a process to support these customers and provide them with the option to take out an income drawdown product, without having to take advice. This is known as non-advised drawdown. We think the combination of personal support, an ongoing engagement process to alert customers if they're likely to run out of money and a range of online tools should be valuable for these customers.

Adviser review service

Royal London provided evidence, based on independent research by a leading firm of consultants, to us about the value professional financial advice can bring to you. They want to help advisers make their services as efficient and affordable as possible, so more of you can afford their services and can get good value advice. To help with this, Royal London reviewed the way customer information is made available to advisers and how it's presented; this included a pre-prepared review information pack. The new documentation is very clear and is designed to help you get involved with your pension. This is a big improvement in the clarity and usefulness of information.

New renewal statements

The IGC has always held strong opinions that getting customers involved in their pension was a priority - we shared this with Royal London and stressed to them we wanted to see improvements in this area. We believe the annual statement can play a key part in this. Royal London therefore carried out a fundamental review of their approach to annual statements as the current document is very transactional and not particularly engaging. Royal London has completed the customer research, concept design, and testing. They're now building the infrastructure to deliver the new statement. Like the adviser review service, this will be a significant improvement in the way Royal London communicates and engages with you.

> *"The work Royal London has done will significantly improve the way they communicate with you."*

Putting workers back into a pension scheme

The rules for automatic enrolment mean that employers must put employees back into a pension scheme even if they've previously opted out. This is known as re-enrolment and has to be done every three years.

Royal London worked on developing support to help employers and employees when they were to be re-enrolled into their workplace scheme. This involved creating new communications, coupled with hands on support to make sure everything goes as smoothly as possible. It's really important that this is done well as there will be a big increase in the number of schemes going through this process over the next few years. The IGC support all initiatives that encourage as many new workplace pension customers as possible to save for their futures including retirement. We therefore appreciate the proactive approach Royal London is taking with re-enrolment of workers.

Helping employers and employees when contributions need to increase

By law, the minimum levels of contribution that employers and employees have to pay into a workplace pension are going to increase. This will happen in April 2018 and again in April 2019. This is known as "phasing".

Royal London have a large number of employers who chose to set contribution levels above the minimum, but will still change contribution levels in a similar way to phasing.

Phasing could be quite confusing to employees so it's important this is made as easy as possible and communicated well. We don't want employees to opt out due to lack of understanding or simply because their contributions are going up.

Royal London have created new communications and introduced a support team to help make sure that employers and employees get all the information they need to help them through the change. We also saw details of the support and communications they created to help professional advisers. This should help make sure that only those who have positively decided that they want to opt out when contributions go up do so.

The data section at the back of this report (Appendix 1) shows how the workplace pensions business run by Royal London has changed over the last year. It's worth mentioning the following things that have changed:

- Over 94% of Royal London's workplace customers are in its most modern type of arrangement.
- Opt out rates remain low – less than 1 in every 12 customers chose to opt out of their workplace plan.
- Average charges for workplace customers continue to fall.
- The vast majority of customers face no exit charges and where they do, the average charge continues to fall.

3.3 REGULATORY DEVELOPMENTS

Exit charges

An important change in workplace pensions was the regulator's introduction of a cap on the exit charge that could be made by pension providers such as Royal London. This cap came into effect on 31 March 2017 and limits the exit charge to a maximum of 1% of the value of the policy where you're aged 55 or older at the time of exit.

There's no regulatory cap for exits at younger ages.

"This cap came into effect on 31 March 2017 and limits the exit charge to a maximum of 1% of the value of the policy where the customer's aged 55 or older at the time of exit."

Exit charges are only used by Royal London on some older pension arrangements which were sold before 2001. Exit charges don't apply to the Retirement Solutions range of products that have been used for new business since 2001.

We discussed with Royal London whether the value for money principles set out in Section 4 of this report means that they should also go beyond the regulatory requirement by introducing a voluntary cap on exit charges of 1% on other exits. This is covered in Section 5.2.

Industry developments around understanding value for money

The FCA has said they'll introduce new rules for asset managers to help them consider whether they're offering value for money to their clients. These were set out in Consultation Paper CP17/18.

We've looked at the aspects of value for money the FCA lists in this paper (economies of scale, fees and charges, share classes, quality of service and transparency) and we're satisfied that our value for money principles set out in Section 4 don't need to be amended to reflect these points.

Transaction costs

In September 2017, the FCA introduced new rules, meaning that from January 2018, asset managers need to provide the IGC with the transaction costs for investing funds, in a certain format. We've already been getting this information from Royal London's asset managers and set out a summary of these costs in our report last year. We comment more on transaction costs in Section 7 of this report.

Environmental, Social and Governance aspects of investments

There's been an increasing interest in the Environmental, Social and Governance ("ESG") aspects of investment. A report from the Law Commission has suggested that the FCA Rules governing the work of IGCs should be amended to look at how providers like Royal London consider ESG when investing your money. We look at this in Section 6 of this report.

4. Value for money

When we assess value for money, we consider a wide range of aspects of your policy with Royal London - including charges, investment strategy and performance, and the quality of service. This section of the report sets out what we consider to be important, and why.

4.1 OUR FRAMEWORK TO ASSESS VALUE FOR MONEY

We consider value for money to be more complex than simply the charges made on a workplace pension. The table over the page sets out the seven principles we use in assessing how Royal London's doing.

We regularly review these principles based on developments in the wider financial services market. For example, the suggested value for money principles the FCA's introducing for asset managers.

We've also considered the results of Royal London's engagement with their customers. As a result of this, we've made some changes to the principles around exit charges and investment returns from those set out in our previous reports.

For each principle, we give some examples of action taken in 2017 to improve value for money. Previous reports have given examples of action taken in 2015 and 2016.

"We consider value for money to be more complex than simply the charges made on a workplace pension."

	REGULAR REVIEWS	APPROPRIATE ONGOING CHARGES	FAIR EXIT CHARGES	BALANCED CHARGING	APPROPRIATE INVESTMENT RETURNS	CLEAR COMMUNICATION	EFFECTIVE SERVICE
PRINCIPLES	Workplace pension contracts should be regularly reviewed to make sure they continue to meet the changing needs of customers in the long-term savings market. This includes consideration of: a. The changing market environment. b. The customer experience taking account of different customers' needs. c. Any inappropriate results or potential results for customers.	Ongoing charges must continue to offer value for money. Benefits and services will be considered in light of what customers view as important and how Royal London delivers against them.	Any deduction from the value of a pension on exit: a. For people over 55, must meet the requirements of the legal cap on exit charges, b. If the cap doesn't apply, any charge must be fair and designed to recoup no more than any costs incurred by Royal London caused by the early exit of the customer.	Any assessment of value for money should allow for the need for some cross-subsidies between workplace pension plans where appropriate and in the interest of customers.	Investment returns should be appropriate for the level of risk a customer has taken. The return should also be measured in relation to the expectation set with the customer.	Communication with customers must be clear, timely and designed to meet the needs of the customer, which may change over time.	The service provided by Royal London should make it easy for customers to manage their pension and engage with them effectively when they need help.
WHAT IT MEANS IN PRACTICE	We review the contracts at each of our formal meetings, and receive detailed data from Royal London about charges, overall performance and product and market developments. The experience of the committee and our engagement with industry forums and the FCA mean we're well placed to understand the changes in the market that can affect workplace customers. As discussed in Section 6, the design of the Lifestyle default fund has been amended to reflect changes in the market.	We describe the overall nature of Royal London's charges in Section 5. In particular, we describe our work on certain older contracts. We've received regular updates on how Royal London's developing its products and services for workplace customers and how they're supporting employers and advisers to help them support their staff and clients. Employers are particularly important in ensuring that workplace schemes work well for staff.	These only apply to certain older contracts sold before 2001 and have been significantly reduced since the IGC first started work in April 2015. Where exit charges remain, we're satisfied that they're based on these "value for money" principles. Section 5.2 of this report provides more detail.	Royal London has a charging structure based on the number of employees in the workplace scheme, the level of contributions and other factors which indicate the likely costs of running the scheme and likely returns through the charge it levies. In practice, this means that customers with smaller funds will benefit from a lower charge than if they'd had an equivalent individual plan. Members pay more towards the running costs as their funds grow. This is particularly true for Royal London's modern contracts which have a single AMC charge structure.	When we look at investment returns for a fund, we consider the level of risk the fund's designed to accept - and whether customers are aware of the risks they're accepting. We also look at the reasons for the returns over a certain period of time. Section 6 describes the work we've carried out to review the various strategies used by Royal London, and the actual performance achieved.	As discussed in Section 9, improvements are being made in this area.	Contributions received should be invested without delay, benefits should be paid quickly, annual statements supplied in good time and customer requests for managing their policy should be dealt with quickly and accurately. When customers have questions or need help, they should get the support they need. We've a number of measures in place so we can monitor this. Section 8 sets out various improvements Royal London made during 2017 to improve their overall service.

After considering each of these principles in the following sections of this report we sum up our views in Section 10.

5. Charges on your plan

For plans sold since 2001 charges tend to be straightforward and we're satisfied that these are fair. The way charges are taken for workplace pension plans sold before 2001 is more complicated. This was a market feature and often reflected that commission to sell pensions had to be paid to advisers. We regularly review all charges and check they're still good value for money. The IGC identified that the charges on a very small number of policies should be improved. We continue to address this with Royal London and expect improvements to be implemented in 2018.

5.1. WORKPLACE PENSIONS SOLD SINCE 2001

Since 2001 Royal London has been actively marketing a single product range called Retirement Solutions. This product range has a charge, expressed as a percentage of the money in the pension pot. This is known as the Annual Management Charge (AMC).

This percentage isn't the same for all schemes. The price takes into account things like the level of contribution, number of workers and how often an employee is expected to change jobs.

Also, there are no charges taken from the contributions before they're invested, no explicit bid/offer spread, no monthly policy fee and no charge is made on exit.

Appendix 1 shows the change in the average AMC on Royal London's workplace pension plans. The data shows that average charges continue to reduce.

We're satisfied product charges are being made in line with our value for money principles.

"Charges are being made in line with our value for money principles."

5.2 EXIT CHARGES ON PRODUCTS SOLD BEFORE TO APRIL 2001

We regularly press Royal London to reconsider exit charges on older pension plans with a view to further reducing such charges. In 2015 and 2016, significant improvements were made.

In Appendix 4 of last year's report we set out Royal London's reason for keeping a small number of these exit charges. We also asked Royal London to investigate and report whether they could reduce the remaining exit charges on products sold prior to April 2001 further, while staying in line with our value for money principles.

Royal London has carried out these investigations and we've reviewed the results. Our conclusions are the remaining potential exit charges on certain older pension products are necessary to comply with the "balanced charging" part of our value for money framework. Essentially, taking into account the practical and legal implications of making further reductions in exit charges, the benefit would be outweighed by the cost.

We also make sure any remaining exit charges are designed not to produce a profit to Royal London.

Royal London's commitments to remove exit charges in certain circumstances have reduced the number of exit charges being taken.

The regular information pack we receive from Royal London shows the number of cases where exit charges are applied to these older-style contracts. It also shows the range of the charge. These have been reducing in number and size since the IGC came into place. Where exit charges apply, average charges have reduced by nearly 13% over this period. Exit charges applied to only 1.4% of settlements or transfers from Royal London in 2017.

In addition, we reviewed a sample of individual cases to make sure the value for money principle, as agreed with Royal London, is being adhered to when calculating the exit charges. We're satisfied with the results of this review.

5.3 OTHER CHARGES ON PENSIONS NO LONGER SOLD

We've continued to monitor all charges on Royal London's workplace pensions. We're committed to the principle that the impact of charges can be no more than 1%p.a. on your money, after allowing for the recovery of commission.

Some of Royal London's older contracts can have several types of charge, in addition to the exit charges discussed in Section 5.2. For example, a deduction from each contribution, a bid/offer spread, a monthly fee and an AMC.

In our previous reports we explained how, in response to our requests, Royal London had implemented a wide package of improvements on these contracts. These included:

a. removing plan fees on workplace pensions that were no longer receiving contributions,
b. removing some exit charges,
c. increasing the level of fairness in more complex charging structures, and
d. improving how the loyalty bonus structure works in some products.

These changes lead to big improvements in many workplace pension arrangements. However, on some older arrangements, we noted charges could still result in an overall charge of more than 1%p.a. As a result of auto enrolment staging, these employers were expected to move to more modern and lower charging contracts, which would have solved the issue.

As this hasn't happened in all cases, Royal London is working on an efficient method of amending the small number of policies, which are no longer marketed, to make sure the impact of charges is always 1% p.a. or below allowing for the cost of commission.

They've committed to reducing charges on these plans in 2018. The IGC will monitor this during the year.

5.4 THE VALUE OF EMPLOYER CONTRIBUTIONS

We've explained how we monitor whether the overall effect of charges is no greater than 1% p.a. excluding the cost of commission. We also consider whether each component of the charging structure is fair. One component we looked at in detail was the allowance, in some older products, for the cost of commission paid or payable to advisers.

We understand in the past, these commissions were necessary to encourage employers to set up workplace pensions, and make contributions. This is because there was no obligation for employers to set up a workplace pension.

We wanted to make sure any additional charge on your pension to help pay for this commission was more than outweighed by the employer contribution paid into your pension. You wouldn't have received this money from the employer if the pension scheme hadn't been set up.

We asked Royal London to assess the additional cost of higher charges in these older schemes (largely because of the commission) and compare this to the value of the employer contribution typically received. This work showed the value of employer's contributions is significantly more than the effect of any higher charges on these plans compared to that on more modern arrangements.

This analysis helped us conclude that employees in these older schemes with potentially higher charges than on modern contracts were still receiving value for money on their pension, because of the additional funds from the employer.

Appendix 1 shows the average contribution rate in automatic enrolment qualifying schemes and those not being used for automatic enrolment. It shows the average contribution rate from the employer to plans set up before employers were required to have a scheme are higher than on newer arrangements set up to meet the government's auto-enrolment requirements.

As auto-enrolment phasing pushes up contribution levels in future, we hope the average contribution rate returns to the previous level.

5.5 THE IMPORTANCE OF PROFITSHARE

A unique feature of Royal London's workplace pension contracts is ProfitShare. All plans sold since 1 July 2001 could be eligible to receive a share of Royal London's profits.

ProfitShare for 2016 was 0.18%. This was paid on the value of the retirement savings held at 1 April 2017. This year Royal London has again declared a ProfitShare of 0.18%.

ProfitShare increased the value of each eligible pension policy in 2017. ProfitShare could be seen to represent a material level of additional investment return in your plan.

We consider any such increase to the pension plan as an important part of value for money and we're extremely supportive of Royal London's ProfitShare initiative.

5.6 CONCLUSIONS ON CHARGES

Having considered the points set out above, we're satisfied the charges on Royal London's workplace pension contracts offer value for money.

The headline charges on some older contracts were higher, however we're satisfied customers are still receiving value for money.

6. Investment strategy and returns on your money

We work closely with other parts of Royal London's framework of governance to review how Royal London invests your money. We do this both in terms of how a strategy is selected and how effective this has been in getting good rates of return commensurate with the risk taken. This assessment looks at different time periods as results for a single year in isolation can be misleading. We're satisfied that Royal London is investing your money well.

6.1 HOW WE WORK WITH ROYAL LONDON'S GOVERNANCE ARRANGEMENTS

We continue to review the work of Royal London's Investment Advisory Committee (IAC). They play a key role in overseeing Royal London's investment strategy and performance for all workplace pension customers.

We have regular discussions with the IAC chair (who's also independent of Royal London) and attend IAC meetings to assess first-hand the oversight the IAC delivers.

These discussions and meetings cover investment strategy, performance and risk taken over the short, medium and long term. The IAC operates independently of Royal London Asset Management (RLAM), who undertakes the day-to-day management of the funds.

You can find more information on the IAC here[1] and minutes of their meetings here[2]

Following changes in the Royal London Group, a new committee was set up in June 2017. This committee was set up to make sure a consistent process is used for reviewing investment performance and the selection of fund managers for all funds offered by Royal London. It's called the Investment Performance Committee (IPC).

Having a number of different committees gives each the chance to concentrate on their own area of expertise. The IAC and IPC cover a range of investment issues affecting Royal London's customer's savings, investments and pension arrangements - while our area of interest is only workplace pensions, but including all aspects not just investment.

On request the IAC and IPC provide us with detailed information on any investment aspect of Royal London's workplace pensions. In 2017, we requested more information on the investment strategy for the "lifestyle" default fund and asked if it was still appropriate as fewer people are taking annuities at retirement. You'll find more information on this in Section 6.3.

The IGC will continue to work with the IAC as well as the IPC throughout 2018.

1. www.royallondon.com/iac
2. www.royallondon.com/IACminutes

6.2 AN OVERVIEW OF ROYAL LONDON'S INVESTMENT RANGE

Royal London manages its investments through a tiered hierarchy of funds, which we explain in this section.

The bottom tier is a range of "building block" funds with clear and transparent investment objectives, guidelines and restrictions. They normally just invest in a single type of asset such as UK Equity or Property. Although you can invest in them directly, for workplace pensions they're mainly used to create the second tier of funds.

These building block funds are held in different proportions across a range of Governed Portfolios. These Governed Portfolios form the second tier of funds. Each Governed Portfolio has a different strategy and hence a different mix of assets. Performance across these Governed Portfolios is reviewed regularly.

You'll find a summary of these reviews posted on line here[3].

Finally, there are three groups of "lifestyle" strategies. These make up the third tier of Royal London's investment range. These aim to provide the optimum strategy depending on whether the proceeds of the pension policy are intended to be taken as cash, annuity or drawdown.

For each of the three options, there are five different strategies, each with varying levels of risk. For each of these levels of risk an active or passive investment strategy can be selected.

As a result of these options there are 30 different "lifestyle" strategies available. A customer investing in one of these strategies will have a varying mix of the Governed Portfolios at any one time depending on how close to retirement they are.

6.3 INVESTMENT STRATEGIES FOR DEFAULT FUNDS INCLUDING CHANGES TO STRATEGIES DURING 2017

Royal London has a range of default investment options which can be selected by the employer or adviser. These are defined by risk profile and target outcome e.g. cash, annuity or drawdown. Where the adviser or employer doesn't wish to make a decision around the default investment, Royal London will automatically make the Balanced Lifestyle Strategy (Annuity) available as the default. Details of this strategy are set out here[4].

We found the aims and objectives of each of the default options to be clear. Each strategy aims to give above inflation growth in the value of the pension pot taking into account the level of risk taken. Risk is measured as a volatility target and we're satisfied that the level of risk taken for each default strategy is appropriate and that returns are in line with the level of risk taken.

"We found the aims and objectives of each of the default options to be clear."

3. www.royallondon.com/governedrange

4. adviser.royallondon.com/investmentdefault

6.4 REVIEW OF DEFAULT STRATEGIES ESTABLISHED BY OTHERS

Less than 3% of workplace pension schemes have been set up using employer or adviser designed default strategies. Demand for this type of default has fallen since 2016, when just over 4% of AE schemes designed their own default strategy.

In last year's report, we explained we're satisfied Royal London is making sure that employers and advisers continue to make sure the default fund is right for the employees.

However, we asked Royal London to look at this area again in 2017. We're pleased now as a result of IGC recommendations, Royal London reminds advisers and employers of the default fund's objectives and their responsibilities every three years, in line with guidelines from the Department of Work and Pensions.

In addition to all the above, we've received more detail on how fund factsheets and other communications are created. Overall we're satisfied Royal London are giving customers a clear explanation of these default strategies.

6.5 CONSIDERATION OF ENVIRONMENTAL, SOCIAL AND GOVERNANCE MATTERS

In the Law Commission's 2017 report it was suggested the FCA Rules for the work of IGCs should be extended to include environmental, social and governance (ESG) matters.

Royal London already lets an employer set up an ethical/sustainable default fund if they wish, and indeed during 2017 Royal London created such a default fund for two employers to ensure it was available for employees who wanted to meet certain ESG requirements.

We also noted that if a customer wants to invest in a certain manner then Royal London has funds that meet sustainable or ethical requirements. These can be selected instead of the default fund.

We also looked at the general approach taken by Royal London to ESG matters at present, shown on their website here[5]. We note that Royal London has a set of standards in place for Responsible Investment which it uses to measure fund managers. This includes demonstrating how ESG and stewardship are integrated into their procurement, internal governance and investment processes. Around 98% of Royal London's pension assets are invested with Fund Managers who achieve 'Advanced' or 'Intermediate' status.

We've highlighted ESG matters as an area of focus for us in the coming year.

5. adviser.royallondon.com/responsibleinvestment

6.6 INVESTMENT PERFORMANCE

The following table sets out the returns achieved on the Balanced Lifestyle Strategy.

		ANNUALISED RETURNS (%)		
		1 YEAR	3 YEARS	5 YEARS
15 YEARS TO RETIREMENT	Performance	9.62	9.38	10.68
	Benchmark	9.33	9.36	10.20
	Difference	0.29	0.02	0.48
10 YEARS TO RETIREMENT	Performance	8.28	8.44	9.67
	Benchmark	7.99	8.35	9.18
	Difference	0.29	0.09	0.46
5 YEARS TO RETIREMENT	Performance	5.74	6.39	7.11
	Benchmark	5.37	5.96	6.60
	Difference	0.37	0.43	0.51

Source: Lipper, bid to bid, as at 31.12.2017, Royal London, as at 31.12.2017. All performance figures shown have been calculated net of a 1% annual management charge. In practice customers will have some of this charge rebated to reflect the actual terms of their particular scheme. Care should be taken when comparing performance as not all providers will include their total charge in their figures.

We looked at the portfolios within the default strategy and established they'd performed well over one, three and five year periods. These results show consistency of return over the long term which is essential in pension investment.

The performance of the underlying assets in the portfolios has also been strong. These figures are shown in Appendix 3. The exception to this is the performance of Property over the shorter term. This is due to a higher cash holding within the fund during the period causing a performance drag. We challenged Royal London's plans to improve this area of performance.

They shared their pipeline of property purchases with us and we're satisfied they're appropriate and will reduce cash levels going forward. We'll monitor the implementation and results of their proposals in 2018.

Royal London has also addressed the poor performance issues detailed in last year's report. The poorer performing assets - such as the RLP Global Managed fund - have improved substantially against benchmark. This is a result of strong relative performance from the European and UK mid and small cap holdings within the funds and new exposure to Emerging market equities.

As this default strategy has been available for five years, we're now able to include five year performance figures.

You'll find more detailed performance data and comments on key underlying funds and default funds in Appendix 3 or by visiting Royal London's website www.royallondon.com/fundcentre.

6.7 OTHER ISSUES: RISK AND TRANSACTION COSTS

When considering the results set out in Section 6.6 it's important to consider the level of risk commensurate with the return within the fund and remember that the investment returns shown are after all transaction costs are met.

You'll find more information on transaction costs in Section 7.

6.8 WHERE FURTHER INFORMATION IS AVAILABLE

Royal London's website has a lot of detail on the funds and performance.

Factsheets for each default strategy and underlying funds can be downloaded here[6] and details of performance (the last five years and longer) here[7].

6.9 CONCLUSIONS ON INVESTMENT STRATEGY AND RETURNS

All portfolios are now outperforming their benchmark over 1, 3 and 5 years. The asset allocation process made a positive contribution to performance over the course of 2017 with relative returns benefitting from the overweight position in equities at the expense of short and medium-dated bonds and cash. The positive performance was down to the following factors below:

- Active UK holdings within RLP Global Managed fund, specifically in the Small and Mid-Cap equity space
- Overweight tactical asset allocation to equities
- Fixed interest performance

In last year's annual report we highlighted that performance had been below benchmark over the 1 year period in 2016. We're now satisfied that short term performance issue highlighted has now been resolved.

6.10 HOW BENCHMARKS ARE CALCULATED

Each Governed Portfolio has a benchmark asset allocation which reflects its risk profile and investment timeframe. We review the benchmark regularly to ensure it remains suitable.

We measure the performance of each Governed Portfolio against a mix of market indices in the same proportions as the benchmark asset allocations. In other words we measure performance against a benchmark that matches its risk profile.

6. www.royallondon.com/fundprices 7. www.royallondon.com/fundinformation

7. Transaction costs

The investment returns shown in **Section 6** already allow for the effect of costs incurred when investing your money. We want to make sure Royal London is managing your investments as efficiently as possible; this section explains the work we've carried out on investment transaction costs.

We received all the information we asked for and we're satisfied with the results.

7.1 HOW ARE TRANSACTION COSTS MEASURED?

Transactions costs for investments reflect the different costs in buying, selling and managing your investments over and above the AMC of the policy. The impact of these costs is already shown in the investment returns, Section 6. However, we also consider the transactions costs in isolation to see how effective the fund manager has been in buying and selling at the best possible price. This analysis also shows how some of the unavoidable costs in buying and selling investments (such as taxes and stamp duty) affect the overall return.

Some costs are easy to measure such as taxes, commissions to brokers and legal fees. These are called the explicit costs.

The total transaction cost is also affected by implicit costs. These are the effects of changes in market prices in the time between when an order is received to buy or sell an investment and when the transaction is carried out. Measuring this can be difficult for certain assets such as bonds and property, as it can be difficult to get reliable market prices for these assets.

Our last report, which you can see here[8] explained our approach to measuring transaction costs.

In September 2017, the FCA set out final rules on how fund managers should measure these costs and give this information to IGCs. These rules came into effect on 3 January 2018.

The approach set out by the FCA is broadly in line with the approach we used in our 2017 report and we retained this for our work during 2017.

As we explained last year, a significant weakness in the FCA prescribed methodology is the challenge it presents in measuring the implicit costs, particularly for certain types of asset.

In addition, the methodology will result in volatile results reported from year to year as the size of the implicit items, and whether they're negative or positive, will vary year by year as market prices go up or down.

"We also consider the transaction costs in isolation as it gives a measure of how effective the fund manager has been."

8. www.royallondon.com/Documents/Members/IGC_Report.pdf

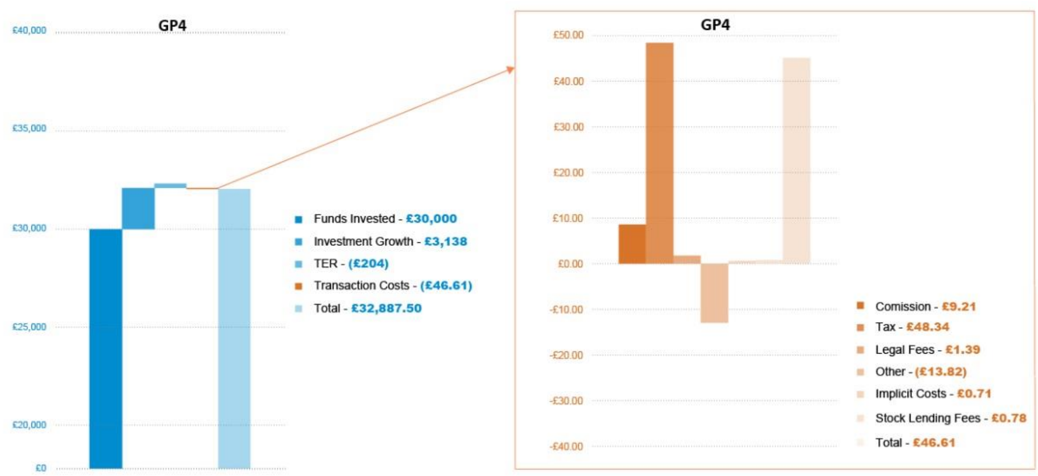
7.2 WHAT WERE THE TRANSACTION COSTS IN 2017?

The tables below show the transaction costs in 2016 and 2017 for the three most widely used Governed Portfolios (details for some of the most important building block funds are shown in Appendix 2).

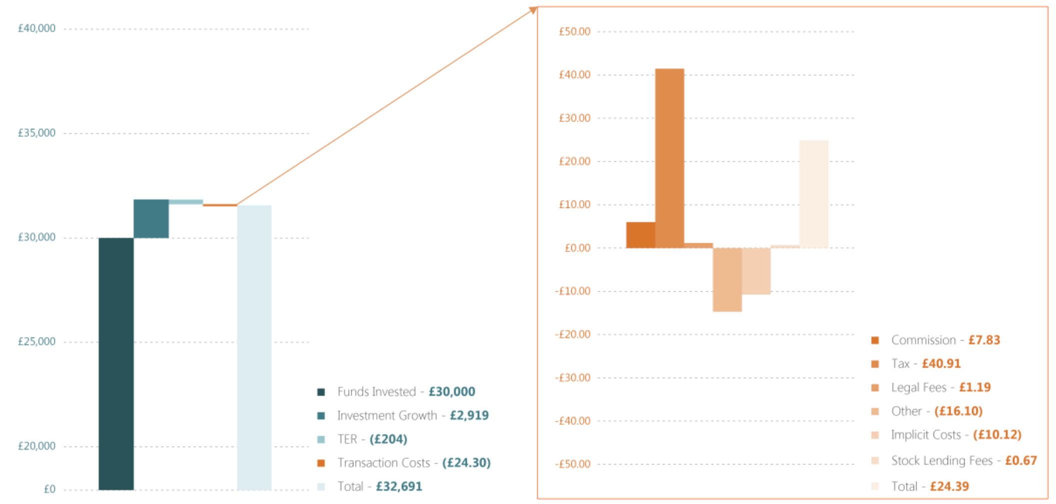
		COMMISSION	TAX	LEGAL FEES	OTHER	IMPLICIT COSTS	STOCK LENDING FEES	TOTAL
2016	Governed Portfolio 4	0.029%	0.150%	0.006%	-0.014%	-0.089%	0.003%	0.083%
	Governed Portfolio 5	0.024%	0.127%	0.005%	-0.012%	-0.123%	0.002%	0.024%
	Governed Portfolio 6	0.018%	0.098%	0.004%	-0.006%	-0.146%	0.001%	-0.030%
2017	Governed Portfolio 4	0.031%	0.161%	0.005%	-0.046%	0.002%	0.003%	0.155%
	Governed Portfolio 5	0.026%	0.136%	0.004%	-0.054%	-0.034%	0.002%	0.081%
	Governed Portfolio 6	0.020%	0.105%	0.003%	-0.065%	-0.113%	0.002%	-0.048%

The following graphs show a breakdown of the total transaction costs for 2017 and how they compare to the investment return and explicit charge on the fund. These are for a typical pension policy that had a value of £30,000 at the start of 2017.

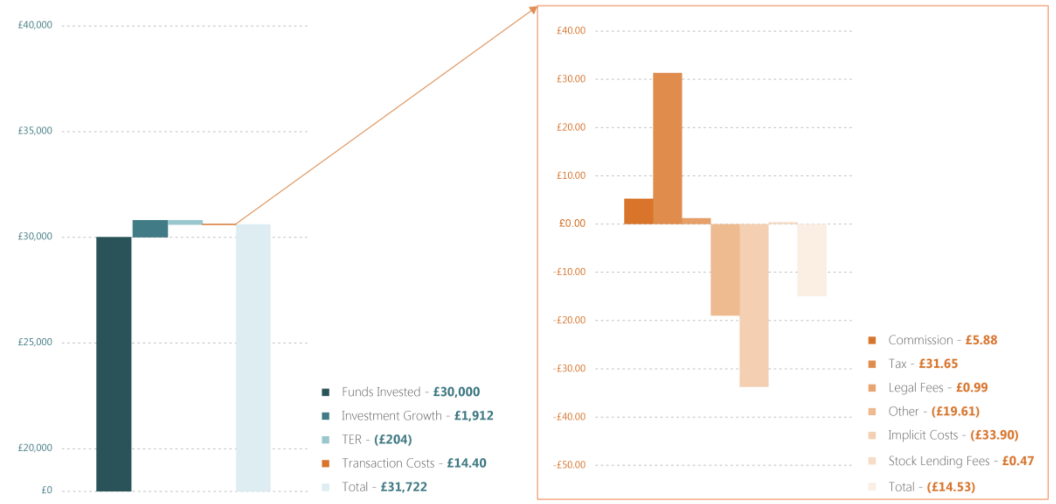
GP4



GP5



GP6



For information we have also included the transaction costs relating to the funds held as a scheme default by customers in Royal London's Consumer division. This can be found in Appendix 2.

7.3 INTERPRETING THE RESULTS

When looking at these figures it's important to think about the type of the fund. For example we'd expect an equity fund to have lower transaction costs than for a property fund, and an actively managed fund to have higher transaction costs than one which is passive.

The IGC asked for and obtained all the transaction cost information we see as appropriate. The level of detail given goes beyond that required by the FCA methodology and splits out implicit and explicit costs and also shows how these are made up. This is important as some of these costs are within the control of Royal London while some aren't. Clearly the explicit costs, with the exception of tax, are within the control of Royal London.

We believe it's important for us to assess the reasonableness or otherwise of the reported transaction costs on your behalf. During 2017 we engaged with Royal London Asset Management, other asset managers external to Royal London Group and the Investment Association as well as other market practitioners to try and establish the development of a benchmark for transaction costs. This engagement will continue in 2018 with a view to drawing conclusions and potential solutions for presentation in our 2018 IGC report.

7.4 CONCLUSIONS ON TRANSACTION COSTS

There's currently no industry-wide comparison service available when looking at these costs for equivalent funds. Royal London has worked closely with us to make sure we know what the costs are and the controls put in place to ensure the best execution of investment transactions for you. Royal London has:

- provided the information we need on transaction costs
- set up a Best Execution Review Group to assess these costs and controls
- attended monthly calls with an independent representative from the IGC
- given answers to our questions on what the costs are and why

We urge the industry to work together to help develop benchmarking for transaction costs on similar funds to be established, we recognise this isn't something Royal London can achieve on their own.

Transaction costs in 2017 increased compared to 2016. The main reasons for this are:

- Implicit costs producing less income for the fund – Implicit costs worked in Royal London's customers' favour in 2016, and although they still produced income for the portfolios in 2017, it wasn't quite at the same level as 2016. As previously mentioned in section 7.1, the methodology used for reporting on implicit costs can produce volatile and therefore unpredictable results.
- Increased Commodity costs due to increase in trading – More trading took place within the Commodity fund in 2017 than 2016. This is partly down to the fund only being launched in mid-2016, meaning there's a greater reporting period for 2017.

Having considered the transaction costs, controls and oversight Royal London has in place, we believe the transaction costs for the relevant portfolios are reasonable.

"We believe the transaction costs for the relevant portfolios are reasonable."

8. Quality of service

The quality of service you receive from Royal London is extremely important. In this section we explain how we've monitored and reviewed this service and highlight where improvements should be made. We also explain how you can tell us your views.

8.1 THE IMPORTANCE OF A QUALITY SERVICE

In this section we've looked at Royal London's administration and support.

We've examined Royal London's service and whether we think it's of good quality to you. We know from research and our own experience that good service really matters to customers.

You'll see from Section 8.6 that Royal London regularly collects feedback and ratings from customers and allows us to get direct access to this information. Throughout 2017 we've seen all the key ratings improve.

Due to the importance we place on service, seeing data on customer service from Royal London wasn't enough. We wanted to get a feel for how their service is being delivered.

Royal London organised a two day customer service and engagement workshop in Edinburgh for the independent IGC members. This gave us an insight into the developing engagement programme, the chance to meet key customer service representatives and see first-hand the service Royal London delivers to customers. What came across to us was the commitment of the front-line staff to give a high quality service.

The IGC are now better informed on how customers are supported and we're satisfied with how service is currently being delivered.

We've reviewed Royal London's plans for maintaining and developing their service to workplace customers in the coming year. We'll monitor progress in 2018.

In Section 9 we talk about how Royal London communicates with you through annual statements and other pension material.

8.2 ENROLMENT

Setting up a pension should be fairly easy and you should get a good experience. It's the first opportunity you have to begin to understand your pension savings and build a relationship with your pension provider.

We've looked at Royal London's process for setting up member plans and communicating with customers. We found the processes work well and are easy to understand, while the initial communication with members is good. Royal London clearly put a lot of effort into this part of the pension plan.

They also provide significant support to employers. Their administration system helps employers with enrolment and the ongoing support of their workers. Royal London also provides a number of other services to employers to help them provide a good experience for employees. You'll find more information on some of these services in the sections below.

We believe the employer plays a key part in the pension arrangement process and can have a big impact on how you feel about your pension and how you engage with it. We asked Royal London to take part in some employers' research to find out their views on pensions.

You'll find more detail in in Section 8.6.

8.3 INVESTMENT OF CONTRIBUTIONS

Royal London has been successful in attracting a considerable amount of new business (as shown in Appendix 1). During 2017, the information Royal London gave us, showed there was an increasing number of payment instructions from employers with information missing – these are called un-matched contributions.

We asked Royal London to give us more information on how they dealt with these payments.

We're satisfied the processes adopted by Royal London meant that customers would not miss out by any delay in investing their contributions. This is because Royal London makes sure the pension account grows as if the contributions had been in the fund from the day Royal London received the money.

Royal London also allocated additional resource during 2017 to reduce the amount of un-matched contributions. By the end of 2017 the amount of contributions waiting to be matched was back down to a very low and expected level.

"We're satisfied the processes adopted by Royal London meant that customers would not miss out by any delay in investing their contributions."

8.4 OTHER REGULAR ADMINISTRATION

We spend a lot of time getting to know the quality of the service you receive by:

- reviewing data on service standards every quarter,
- meeting with the Group Customer Service Director, key management representatives and front-line staff
- seeing unfiltered customer feedback on the service that has been given (see Section 8.6)

From what we see, the quality of service given to customers is very good.

Last year we were concerned about the Royal London's commitment to continue to take on a lot of new workplace business as this could have impacted badly on customer service. We reviewed the resources Royal London allocated to customer service.

We did see a drop in the level of service in certain key indicators, but then witnessed a rapid improvement and overall customer service remained robust in 2017.

For example, in last year's report we challenged Royal London on the length of time it was taking to issue renewal statements and flagged this as an area we would be looking for improvement. We're pleased to say that this is now much better and is in line with what we expect. Overall, in 2017 there has been a reduction of 62.5% in the number of scheme renewals (which produce the member statements) that remain outstanding after 3 months.

8.5 PAYING BENEFITS AND PROVIDING SUPPORT WHEN YOU REACH RETIREMENT

The support offered to you by your workplace pensions' provider at the time you're starting to take your benefits is very important. You need support and guidance to understand the options available to you and the steps you need to take.

We looked at the processes, communications and support provided by Royal London.

In previous years we thought the processes and support customers receive is good. However, following customer research we flagged the need to make their communication material clearer to customers. This was noted in last year's report.

This year, Royal London has made changes on the back of our suggestions by improving their engagement with customers and improving their retirement communication packs.

You'll find more information on these improvements in Section 9.2.

The IGC know Royal London is keen to highlight the importance and value of getting professional advice to its customers. For those customers who can't get professional advice, Royal London makes sure customers get the information and guidance they need from their customer service team or point them in the direction of Pension Wise.

8.6 HOW WE RECEIVE YOUR VIEWS

We receive information on what you think of Royal London in a number of different ways as shown in this diagram:

Royal London regularly collects feedback from customers. It's used to calculate a "Net Promoter Score" (NPS) as well as "Ease" and "Resolution" scores. These measures are used to determine customers' satisfaction with the service they receive. Throughout 2017 we've seen all three scores improve.

Workplace customers can leave comments as part of a telephone survey, which gives us a context for the score. These scores and comments are available for review through an online portal. Royal London and the independent members of the IGC monitor this regularly.

Having this direct access gives us added reassurance that workplace customers are generally satisfied with the quality of service they receive. It also helps Royal London gather customer views and provide a better understanding of workplace customer needs. Royal London also set up and monitored a mailbox on our behalf, allowing customers and any other interested parties to get in touch with us direct.

There was one failure this year in passing correspondence to us from this mailbox within the agreed timeframes. However, this was dealt with and resolved quickly, and we're satisfied with the process change Royal London made on the back of this.

We're always looking for feedback and are happy to answer your questions. You can email us at royallondonIGC@royallondon.com.

8.7 CONCLUSIONS ON SERVICE

It's clear quality service plays a key part of Royal London's customers' offering. Everything we've seen supports our view that the quality of service provided by Royal London is high, with a very dedicated and enthusiastic staff. Royal London is committed to continuing to improve the service delivered to customers.

We'll continue to monitor the quality of service they provide you on a regular basis - it's an important part of building customer engagement and trust.

"Its clear quality service plays a key part of Royal London's customer offering. Everything we've seen supports the view that the quality of service provided by Royal London is high."

9. Communication between Royal London and its members

Royal London has made improvements in how it communicates with you. Some of these have been implemented already and more changes are due in 2018. Here we explain what these changes are and why they're important.

9.1 THE ANNUAL STATEMENT PROVIDED BY ROYAL LONDON

The annual statement given to you is a great opportunity to inform and engage you. We know from the research we carried out in 2016 that customer engagement needs to improve. The annual statement can be a very important communication in helping you toward meeting your ultimate retirement needs.

In last year's report we explained this was an area Royal London needed to focus on in 2017 and, with this feedback, they set up a group specifically to work on this.

Early in the year, the focus was to understand what customers want, challenging the normal look and feel of annual statements and creating and testing examples.

Royal London kept us up to date with the development of the new annual statement and we had workshops to discuss our ideas.

Later in the year Royal London tested example statements with customers, refined their proposals and started to build the new style of statements on their systems.

As a result of this work, the focus changed from producing a simple statement to creating something customers understand, makes them aware of the value of their pension pot and retirement needs, and wanting to engage with their provider.

Royal London will complete the work on this during 2018 with workplace pension customers benefiting from this new style of communication in the second quarter of 2018.

You can see the improvements made from the current statement to the new ones ate appendix 6.

"We know from research we carried out in 2016 that customer engagement needs to improve."

9.2 SUPPORT WHEN YOU GET CLOSER TO RETIREMENT

In our last report, we made clear that Royal London had to take make improvements in how it educates and engages with you.

With more freedom and choice now available to you as you approach retirement, we felt this was a key area for improvement. We have therefore been working closely with Royal London in 2017 to help make sure you can make informed financial decisions when the time comes.

Royal London has carried out research to get insight into the type of information you would find most valuable and engaging when approaching retirement.

Using the findings of this research, Royal London made proposals to radically change how it engages with you as you approach retirement. This included giving you more time to understand all your retirement options, and creating an entirely new range of retirement communications. Royal London then met with independent members of the IGC to discuss their plans and listen to our thoughts.

Taking the customer insight and IGC feedback on board, Royal London has shaped a new retirement journey for its customers. It's chosen to notably extend the length of its conversation with customers and will now send you a yearly communication, starting five years before your chosen retirement age.

We're satisfied that the content, structure and design of these new retirement communications will help you engage with your retirement planning, while making it easier for you to make better financial decisions.

In our view, these changes will help you make more informed decisions when you come to access your retirement savings. We'll be monitoring how effective these changes are once they have been introduced, and making recommendations for any further improvements.

"Taking the customer insight and IGC feedback on board, Royal London has shaped a new retirement journey for its customers"

9.3 CONCLUSIONS ON COMMUNICATION

Having asked Royal London to make progress on the way it communicates and engages with you we feel steady progress is being made.

Significant effort has gone into understanding your needs to allow the development of clear and engaging communications. In particular there's been a big improvement in the communication material and support available to you. The annual statement has also seen a marked change in quality and value, but delivery will come during 2018.

We'll monitor the delivery of this in the coming year and will work with Royal London in pursuit of further improvement.

10. Conclusions on value for money

We've summarised our work detailed in previous sections in the table below. A short conclusion of our findings is given against each of the seven values for money principles set out in **Section 4**. Each principle has been given a red, amber or green rating. Five of the ratings are Green, two Amber and none Red.

	REGULAR REVIEWS	APPROPRIATE ONGOING CHARGES	FAIR EXIT CHARGES	BALANCED CHARGING	APPROPRIATE INVESTMENT RETURNS	CLEAR COMMUNICATION	EFFECTIVE SERVICE
PRINCIPLES	Workplace pension contracts should be regularly reviewed to make sure they continue to meet the changing needs of customers in the long-term savings market. This includes consideration of: a. The changing market environment. b. The customer experience taking account of different customers' needs. c. Any inappropriate results or potential results for customers.	Ongoing charges must continue to offer value for money. Benefits and services will be considered in light of what customers view as important and how Royal London delivers against them.	Any deduction from the value of a pension on exit: a. For people over 55, must meet the requirements of the legal cap on exit charges, b. If the cap doesn't apply, any charge must be fair and designed to recoup no more than any costs incurred by Royal London caused by the early exit of the customer.	Any assessment of value for money should allow for the need for some cross-subsidies between workplace pension plans where appropriate and in the interest of customers.	Investment returns should be appropriate for the level of risk a customer has taken. The return should also be measured in relation to the expectation set with the customer.	Communication with customers must be clear, timely and designed to meet the needs of the customer, which may change over time.	The service provided by Royal London should make it easy for customers to manage their pension and engage with them effectively when they need help.
CONCLUSION AND RATING	We're satisfied Royal London has a robust process to ensure all its products, including those no longer sold but still being used, remain relevant - with changes being made where appropriate.	We're satisfied the charges levied are fair compared to the benefits being provided. There's a small number of plans on which we want to see charges reduced. Certainty about the plans that would remain in this situation only came at the end of staging so we'll expect to see this work complete during 2018.	We agree with Royal London that there's a need for exit charges on some older plans to recoup the cost of commission paid. Royal London should consider if there's a way to act to further reduce remaining exit charges in a way that wouldn't cause legal issues or interfere with the principles we've agreed.	We're satisfied the structure of charges is appropriate.	Investment returns have improved, when compared to the benchmark and we're satisfied with the overall performance and level of risk being taken.	There's been considerable improvement in retirement communication and the annual statements for individual pension business. The annual statement is yet to be rolled-out for workplace pension customers.	Based on our discussions with management, the service data and customer feedback we've seen, we're satisfied Royal London continues to provide good customer service.
SCORE:	**GREEN**	**GREEN**	**AMBER**	**GREEN**	**GREEN**	**AMBER**	**GREEN**

Overall, we're satisfied Royal London is continuing to provide value for money to its workplace pension customers. In 2018 we expect to concentrate on the areas shown below. This is in addition to our regular work required to evidence delivery against our value for money principles and the work set out in our Terms of Reference (which cover the FCA Rules).

Our expected key areas of focus in 2018, over and above our normal work, include:

- Monitoring the implementation of the planned communication and engagement developments and pressing Royal London for continuous improvement in this area.
- Scrutinising how Royal London incorporates Environmental, Social and Governance considerations in relation to investment
- Participating in industry efforts to effectively benchmark transaction costs
- Monitoring the implementation of a reduction in charges for the specific set of customers mentioned in Section 5.2 and 5.3 of this report
- Considering the merits of benchmarking investment performance against peers
- Investigating how Royal London can help to educate workplace customers toward saving appropriately for their later life.

We've ensured that the material included in this report covers the required content of our annual report, as set out in the FCA Rules and our Terms of reference. You can read our terms of reference here www.royallondon.com/igc

APPENDIX 1

Summary information and statistics

The information below summarises the scale of the changes to the size and mixture of Royal London's workplace pensions during 2017.

Workplace personal pension schemes

The number of employers with Royal London workplace personal pension schemes has increased significantly during the period. The figures show the combined number of schemes administered through Royal London's Intermediary and Consumer Divisions.

	31/12/15	31/12/16	31/12/17	CHANGE
Total number of schemes	17,399	22,038	25,569	16%
Schemes subject to 0.75% charge cap	5,014	12,047	17,790	48%

Workplace personal pension plans

The number of Royal London workplace personal pension plans held by customers jumped noticeably during the period. The figures show the combined number of plans administered by Royal London's Intermediary and Consumer Divisions.

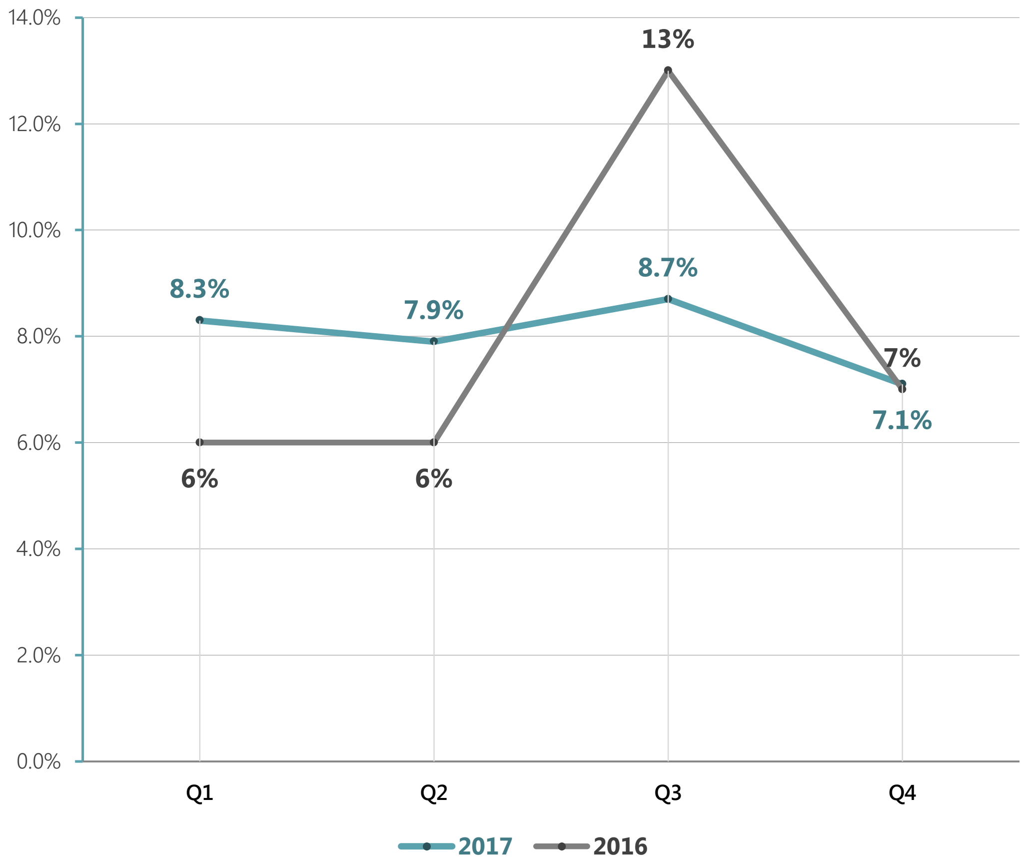
	31/12/15	31/12/16	31/12/17	CHANGE
Total number of plans	576,900	767,000	976,332	27%
Plans subject to 0.75% charge on default arrangement	316,500	469,700	609,735	30%

The vast majority of Royal London's workplace pension members are in modern low-charge products. Retirement Solutions is Royal London's most modern workplace contract and the only one which is actively marketed.

PRODUCT	31/12/15	31/12/16	31/12/17	CHANGE
Retirement Solutions Group Personal Pension Plan	455,300	643,700	849,748	32%
Retirement Solutions Stakeholder Pension Plan	57,600	61,800	66,437	8%
Talisman Group Pension Plan (versions 1-6)	34,000	32,600	31,109	-5%
Talisman Group Personal Pension Plan	1,700	1,600	1,527	-5%
CIS Group Stakeholder Pension Plan	9,500	9,200	8,842	-4%
Phoenix Life Group Stakeholder & Group Pension Plan	18,800	18,200	17,490	-4%
Royal Liver Stakeholder Pension	0	0	1,179	
TOTAL	576,900	767,100	976,332	27%

Automatic enrolment opt-out rates

The proportion of members that opted out of their employers automatic enrolment scheme with Royal London has been low during each quarter of 2017 and is as follows:



Data as at 31 December 2017:

Member investment choice

An increasing proportion of Royal London's workplace pension scheme members are investing their pension contributions in their scheme's default arrangement. For members of automatic enrolment schemes, this means the charges are capped at 0.75% a year.

	2015	2016	2017
Proportion of members invested in scheme default	82%	85%	88%

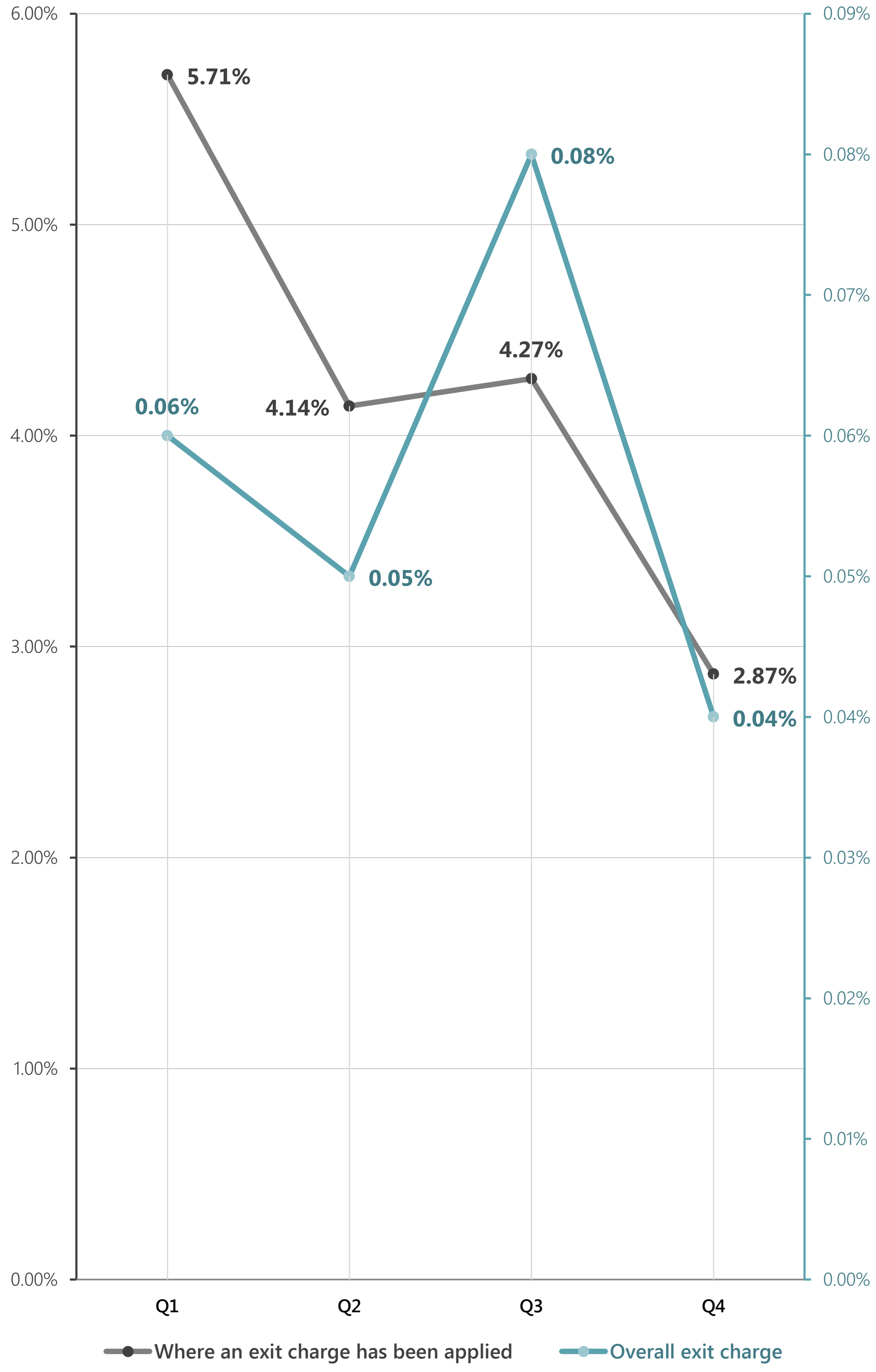
Product charges

These figures show the average annual management charge (AMC) applying to funds built up from the current and/or previous regular contributions across all Royal London's workplace pension plans (WPP), the average AMC for new members and for those who have left the employer and moved to their own plan (continuation plans).

Average AMC for:	2015	2016	2017
All WPP plans	0.74%	0.71%	0.69%
New members	0.69%	0.65%	0.64%
Continuation plans	0.68%	0.67%	0.64%

Average exit charges on transfers.

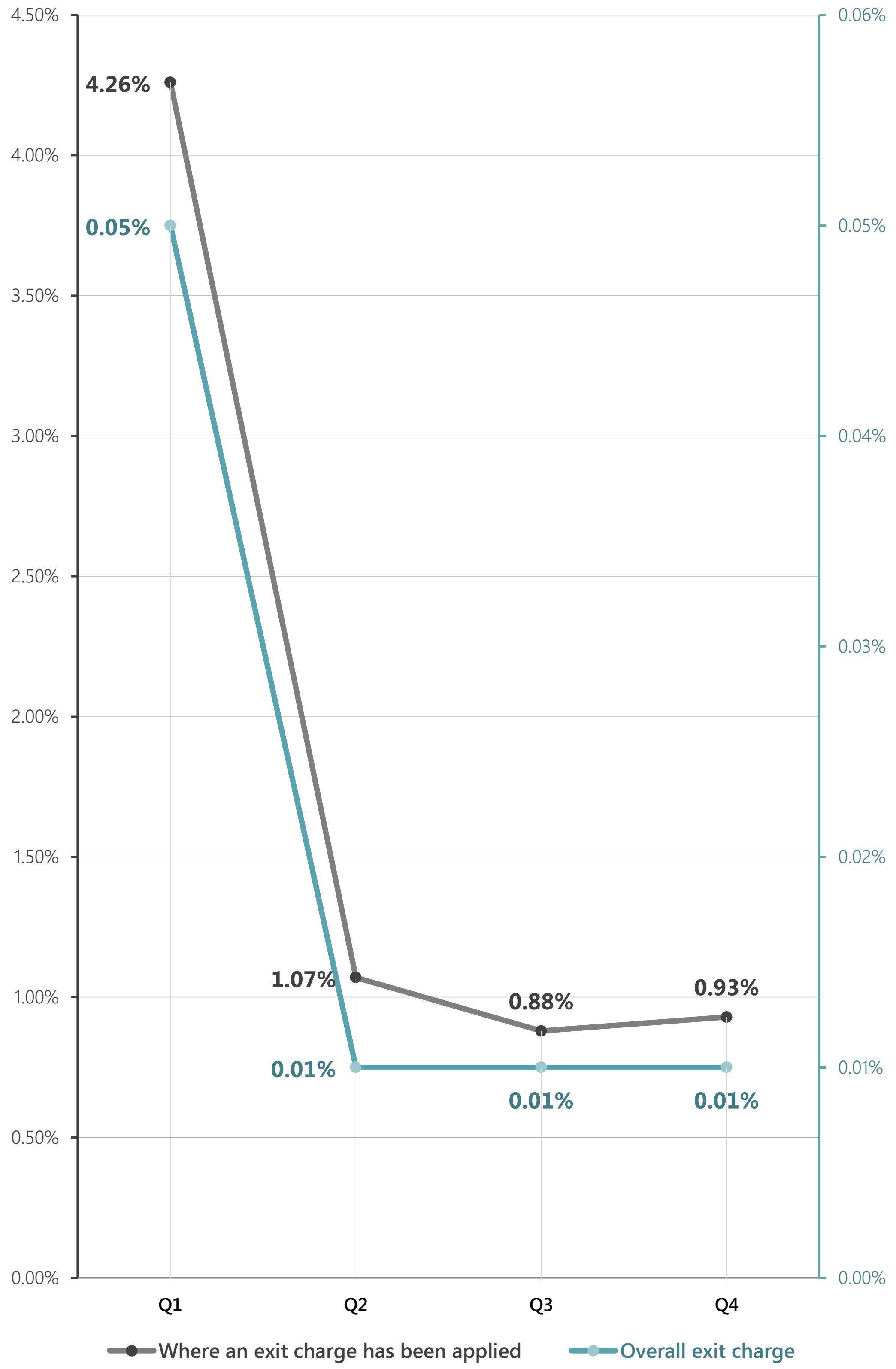
The vast majority of members transferring their pensions in the period had no exit charges. Where exit charges do apply, they continue to fall from an average of 5.7% in 2016 to 4.2% in 2017



Average exit charges on benefits being taken

As with transfers, nearly all members faced no exit charges for accessing their pension.

Where **exit charges** do apply, they continue to fall from an average of 7.8% in 2016 to 1.8% in 2017.

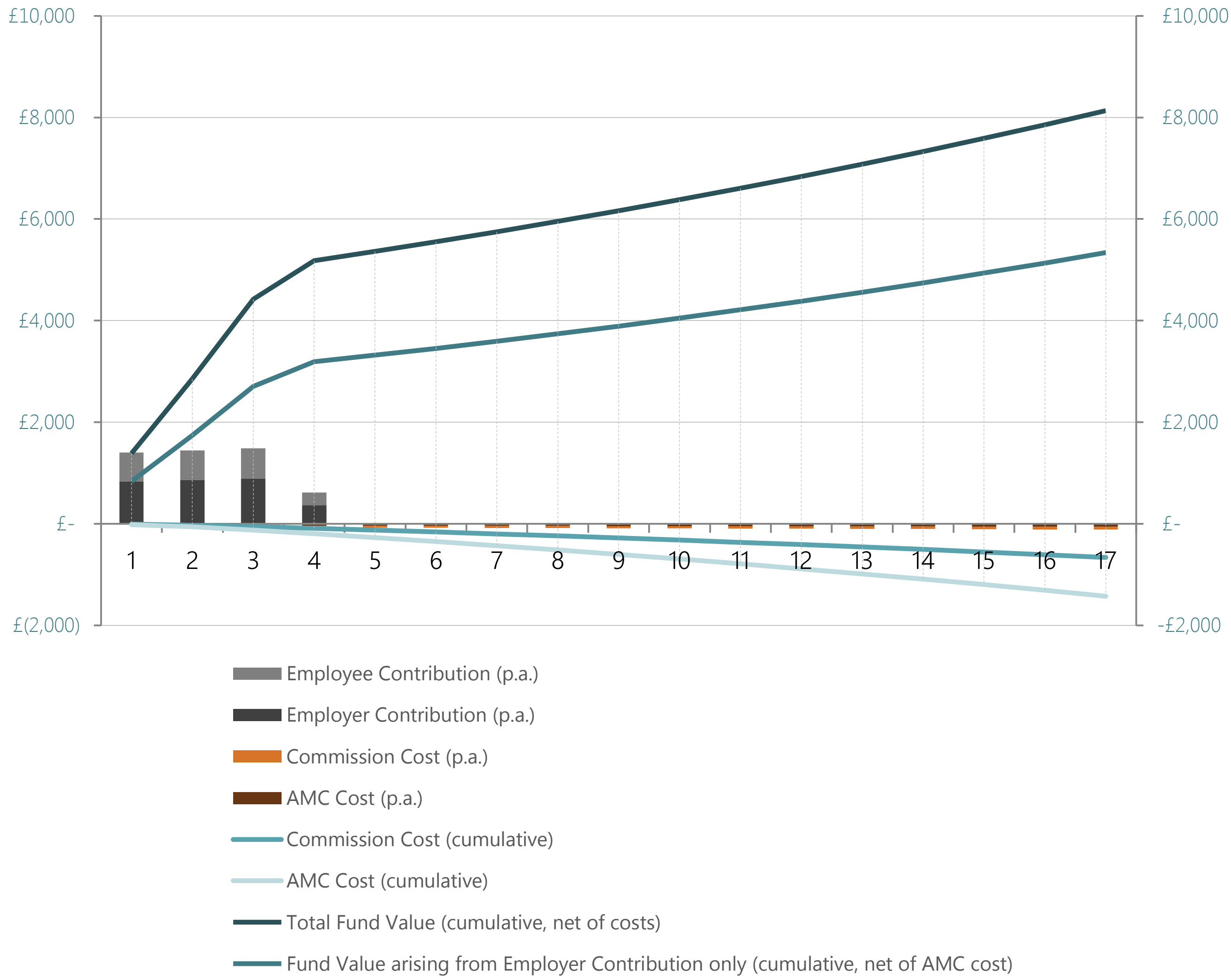


Average contribution rate – Automatic Enrolment (AE) qualifying versus non qualifying schemes

SCHEME STATUS	Number of plans	AVERAGE employee contribution %	AVERAGE employer contribution %	AVERAGE total contribution %
AE/qualifying scheme	608,780	1.9	4.2	6.1
Non-AE/QS	10,028	2.4	5.6	7.9
Total	618,808	1.9	4.2	6.1

Employer contributions - comparison of commission cost and value of employer contribution

The graph below shows the projected cost of commission for a typical member in an older workplace contract type which is not available for automatic enrolment. Contributions are paid for approximately 3.5 years. The graph also projects the value of the employer contributions. This shows the value of the employer contribution is significantly greater than the commission cost. You will see from the graph that the cost of commission was £650 and the value of the resulting employer contribution was £5500 net of the AMC cost.



APPENDIX 2

Transaction Costs

	Commission	Tax	Legal Fees	Other	Implicit Costs	Stock Lending Fees	Total
2016							
Governed Portfolio 1	0.026%	0.142%	0.006%	-0.010%	-0.090%	0.002%	0.075%
Governed Portfolio 2	0.019%	0.104%	0.004%	-0.009%	-0.160%	0.002%	-0.040%
Governed Portfolio 3	0.007%	0.041%	0.002%	-0.003%	-0.151%	0.001%	-0.103%
Governed Portfolio 4	0.029%	0.150%	0.006%	-0.014%	-0.089%	0.003%	0.083%
Governed Portfolio 5	0.024%	0.127%	0.005%	-0.012%	-0.123%	0.002%	0.024%
Governed Portfolio 6	0.018%	0.098%	0.004%	-0.006%	-0.146%	0.001%	-0.030%
Governed Portfolio 7	0.029%	0.141%	0.005%	-0.018%	-0.075%	0.003%	0.085%
Governed Portfolio 8	0.027%	0.136%	0.005%	-0.016%	-0.102%	0.003%	0.053%
Governed Portfolio 9	0.017%	0.090%	0.003%	-0.010%	-0.132%	0.002%	-0.030%
2017							
Governed Portfolio 1	0.028%	0.152%	0.005%	-0.055%	-0.034%	0.002%	0.099%
Governed Portfolio 2	0.021%	0.112%	0.003%	-0.066%	-0.082%	0.002%	-0.010%
Governed Portfolio 3	0.009%	0.043%	0.001%	-0.077%	-0.162%	0.001%	-0.184%
Governed Portfolio 4	0.031%	0.161%	0.005%	-0.046%	0.002%	0.003%	0.155%
Governed Portfolio 5	0.026%	0.136%	0.004%	-0.054%	-0.034%	0.002%	0.081%
Governed Portfolio 6	0.020%	0.105%	0.003%	-0.065%	-0.113%	0.002%	-0.048%
Governed Portfolio 7	0.031%	0.152%	0.004%	-0.045%	0.023%	0.003%	0.167%
Governed Portfolio 8	0.029%	0.146%	0.004%	-0.047%	0.003%	0.003%	0.137%
Governed Portfolio 9	0.020%	0.096%	0.003%	-0.063%	-0.083%	0.002%	-0.025%
RLP Global Managed	0.019%	0.061%	N/A	-0.063%	0.022%	0.004%	0.043%
RLP Property	0.092%	0.685%	0.026%	0.015%	0.000%	N/A	0.818%
RLP Global High Yield	0.001%	N/A	N/A	0.000%	0.129%	0.000%	0.130%
RLP Medium (10yr) Corporate Bond	N/A	N/A	N/A	-0.205%	-0.013%	0.000%	-0.218%
RLP Medium (10yr) Gilt	N/A	N/A	N/A	-0.039%	-0.032%	0.003%	-0.069%
RLP Medium (10yr) Index Linked	N/A	N/A	N/A	-0.066%	-1.084%	0.000%	-1.150%
RLP Commodity	0.040%	N/A	N/A	0.061%	0.108%	N/A	0.209%
RLP Deposit	N/A	N/A	N/A	-0.003%	-0.002%	0.000%	-0.005%

Property tends to have the highest transaction costs. This is due to the cost of purchasing the actual buildings rather than investing in Property stocks. Purchasing Property direct has additional costs including Stamp Duty, which averages around 4% per purchase.

Property tends to have low correlation with other asset classes which makes it ideal for multi asset investing, and rental income will generally provide a secure income stream for portfolios.

Overall costs - breakdown by type

Portfolio Name	Commission	Tax	Legal Fees	Other	Implicit Costs	Stock Lending Fees	Total	2017 Performance
Royal London Stakeholder Managed Fund	0.016%	0.031%	0.000%	-0.024%	-0.073%	0.003%	-0.047%	9.3%
Royal London With-Profits Stakeholder Fund	0.036%	0.037%	0.000%	-0.013%	0.028%	0.000%	0.088%	11.4%

Stakeholder Managed

With Profits Stakeholder

APPENDIX 3

Investment Returns

Balanced lifestyle strategy

This strategy aims to deliver above inflation growth in the value of the fund and income at retirement, assuming 25% is taken in cash and 75% is used to purchase an annuity. The strategy aims to invest with a level of risk consistent with a balanced risk attitude. Note that the end-point for this strategy has changed in February 2018 to assume that the customer will go to drawdown. The end-point for this is now Governed Retirement Income Portfolio 3. This is a portfolio of funds designed for customers who are taking an income. For more information see www.royallondon.com/balanced-lifestyle-strategy

Performance at 31 December 2017:

Past performance is not a guide to the future. Prices can fall as well as rise meaning you may not get back the value of your original investment. Investment returns may fluctuate and are not guaranteed.

	Percentage Change					Compound Annual Growth Rate (%)		Launch
	31/12/2016 31/12/2017	31/12/2015 31/12/2016	31/12/2014 31/12/2015	31/12/2013 31/12/2014	31/12/2012 31/12/2013			12/01/2009 31/12/2017
Portfolio Name	%Chg	%Chg	%Chg	%Chg	%Chg	3 years	5 years	%Chg
Governed Portfolio 1	8.09	14.26	3.14	9.60	14.21	8.39	9.77	127.38
Composite Benchmark	7.92	15.91	1.86	9.68	11.92	8.40	9.35	126.59
Difference	0.17	-1.65	1.28	-0.08	2.29	-0.01	0.42	0.79
Governed Portfolio 2	6.67	12.76	2.64	8.92	11.41	7.27	8.42	114.86
Composite Benchmark	6.36	13.66	1.51	9.09	9.36	7.06	7.92	111.75
Difference	0.31	-0.90	1.13	-0.17	2.05	0.21	0.50	3.11
Governed Portfolio 3	3.19	8.30	1.52	6.07	5.01	4.29	4.79	71.22
Composite Benchmark	2.94	8.06	0.39	6.77	3.47	3.74	4.29	65.11
Difference	0.25	0.24	1.13	-0.70	1.54	0.55	0.50	6.11
Governed Portfolio 4	9.62	15.08	3.77	8.28	17.22	9.38	10.68	138.08
Composite Benchmark	9.33	16.89	2.35	8.26	14.77	9.36	10.20	138.35
Difference	0.29	-1.81	1.42	0.02	2.45	0.02	0.48	-0.27
Governed Portfolio 5	8.20	13.97	3.17	8.40	14.33	8.35	9.53	128.15
Composite Benchmark	7.88	15.16	1.92	8.42	12.01	8.18	8.98	125.20
Difference	0.32	-1.19	1.25	-0.02	2.32	0.17	0.55	2.95
Governed Portfolio 6	5.28	10.30	2.18	6.29	8.44	5.86	6.46	89.74
Composite Benchmark	4.84	10.41	0.94	6.86	6.60	5.32	5.88	83.03
Difference	0.44	-0.11	1.24	-0.57	1.84	0.54	0.58	6.71
Governed Portfolio 7	10.39	15.90	4.28	6.99	20.66	10.08	11.48	148.66
Composite Benchmark	10.57	17.66	2.94	6.61	18.28	10.21	11.04	150.76
Difference	-0.18	-1.76	1.34	0.38	2.38	-0.13	0.44	-2.10
Governed Portfolio 8	9.78	15.28	3.64	7.43	17.54	9.45	10.61	140.13
Composite Benchmark	9.38	16.74	2.34	7.31	15.28	9.32	10.08	138.75
Difference	0.40	-1.46	1.30	0.12	2.26	0.13	0.53	1.38
Governed Portfolio 9	6.57	11.99	2.44	6.11	11.44	6.92	7.65	102.76
Composite Benchmark	6.11	12.50	1.19	6.35	9.55	6.50	7.07	98.26
Difference	0.46	-0.51	1.25	-0.24	1.89	0.42	0.58	4.50

Source: Lipper, bid to bid, as at 31.12.2017, Royal London, as at 31.12.2017. All performance figures shown have been calculated net of a 1% annual management charge. All performance figures shown have been calculated net of a 1% annual management charge. In practice customers will have some of this charge rebated to reflect the actual terms of their particular scheme. Other providers may set out past performance using a different methodology on charges and so care must be taken in comparing results.

APPENDIX 4

The Committee

In January 2015, Royal London appointed an executive search company to identify a suitable candidate to chair the soon to be formed IGC. The profile of the candidate included extensive financial services experience at senior levels with a detailed understanding of pension needs, pension products, governance, customer outcomes and customer engagement.

Having 38 years in financial services both in the UK and internationally, together with experience chairing a With Profits Committee and an Investment Committee for another Life and Pensions Company, I was appointed Chair of the RLIGC.

My first task as Chair was to work with Royal London and the executive search company to identify and appoint the committee members.

Seeking skills complimentary to mine, and to cover the major areas an IGC was required to focus on such as expertise and experience in product design, administration, financial accounting, investment, actuarial science and importantly customer service, led to the appointment of Peter Dorward and David Gulland as Independent Members.

In selecting the most appropriate executive members for the IGC, I decided upon Chief Risk Officer John MacDonald as his role within the Royal London includes all aspects of Risk and Governance. Jon also chairs the Royal London Customer Standards Committee which the IGC liaises with routinely. The Chief Executive Officer of Royal London Intermediary, Isobel Langton, was also selected to join the IGC as an executive member. Her previous experience of heading all of Royal London's customer service and leadership of business transformation programmes, in addition to being responsible for Royal London's workplace pensions, made her an ideal addition to the committee. Jon is a member of the Royal London board and Isobel is a member of Royal London's Executive Committee.

The collective skills and experience of the IGC members has proven to be invaluable in addressing the many challenges in the constant pursuit of fairness and value for money for workplace pension customers.

To further strengthen the effectiveness of the IGC, in 2016 Royal London agreed with my request to appoint a Royal London pension customer to the IGC.

Royal London wrote to all its pensions customers asking those who would like to serve on the IGC to provide their CV. I interviewed a short list of talented respondents and selected Myles Edwards due in part to his business experiences but also his empathy with pension customers.

Each year I lead an effectiveness review of the committee to ensure it continues to have the right balance of skill and commitment.

I am pleased to report my opinion is that the IGC continues to meet the high standards required of it.

Phil Green
Chair, Royal London IGC

Biographies

PHIL GREEN, INDEPENDENT CHAIRMAN

Phil has a broad range of experience in consumer-focused financial services in the UK and internationally. This includes 38 years in senior executive positions, predominantly with SunLife of Canada, AIG and Limra. He is currently the Senior Independent Director and Deputy Chairman of Wesleyan Assurance and Chairman of its With-Profits and Investment Committees.

DAVID GULLAND, INDEPENDENT MEMBER

David has a broad range of experience across the UK life insurance sector, with 25 years' experience as a consultant, followed by senior executive roles within the life insurance industry - including Managing Director of RGA UK and Chief Executive of Marine & General Mutual. He is currently a Director of PG Mutual, the Investment & Life Assurance Group and a member of the Compliance Committee of the Funeral Planning Authority.

PETER DORWARD, INDEPENDENT MEMBER

Peter has solid experience both in life insurance and institutional investments, having worked across a broad range of disciplines, including business leadership. He is now Managing Director of IC Select, a private limited company specialising in the evaluation of providers to UK pension funds. He currently holds two non-executive roles at the Citizens Advice Bureau – Chairman of the Board of Trustees, Central Borders, and Non-Executive Director, Scottish Borders Consortium.

MYLES EDWARDS, INDEPENDENT MEMBER

Myles is a pension planholder, and therefore a member, of Royal London. Although this was a primary reason why he was appointed to the IGC, Myles brings significant experience and expertise built up during his 28 years working in financial services. Myles has a broad range of skills in product design, marketing and customer engagement and it is this wider customer focus which, along with being a Royal London customer, which makes him an ideal member of the IGC. He has also been Executive Director at Age UK Enterprises and Foresters Friendly Society for over 12 years responsible for product design, marketing and communications.

ISOBEL LANGTON, CHIEF EXECUTIVE OFFICER, ROYAL LONDON INTERMEDIARY

Isobel is the CEO of Royal London's intermediary business. Isobel's background is steeped in life and pensions. Having worked for Irish Life in a number of roles in the UK, she joined Royal London shortly after it acquired United Assurance Group (UAG) where she was responsible for integrating customer service for all of Royal London and UAG. As a member of the leadership team Isobel focused on customer experience and Business Transformation initiatives. In June 2012 Isobel was appointed Group Customer Services Director before becoming CEO of Royal London Intermediary in 2014.

JON MACDONALD, GROUP RISK DIRECTOR, ROYAL LONDON

Jon Macdonald was appointed to the Board on 14 December 2012 having joined the Group in November 2012 as Group Risk Director. He was previously Group Chief Risk Officer for both RSA and Prudential. He has held a number of senior risk and capital management roles at PwC, Aviva, Fox-Pitt Kelton, Swiss Re and Zurich and is a fellow of the Institute of Actuaries.

APPENDIX 5

Glossary

Actively managed fund

Active management is the use of a human element to actively manage a fund invests in. Active managers rely on analytical research, forecasts, and their own judgment and experience in making investment decisions on what securities to buy, hold and sell.

Cross-subsidies

In this context is where a pricing policy of a product requires the charging of a higher price (or to make higher profit) from one group of customers to offset expected or potential loss from another group of customers. This can be necessary because not all assumptions about size and length of contribution period and investment will be right.

Default

The option, fund or strategy into which you are put in the absence of a specific selection by you, your employer or adviser.

Default investment strategy

A default investment strategy is the investment strategy that all members who do not wish to make a specific investment choice will be placed in. These can differ from scheme to scheme based on the requirements of the employer and their advisers.

Ease Score

The "Ease" score measures how easy Royal London is to deal with. Customers are asked, on a scale of 0 and 10 (0 being not at all likely and 10 is extremely likely), "How easy would you say it was to deal with us today?" The "Ease" score is calculated as the percentage of customers who score 9 or 10.

Environmental, Social and Governance

The Environmental, Social and Governance (ESG) Criteria is a set of standards for a company's operations that socially conscious investors use to screen investments. Environmental criteria look at how a company performs as a steward of the natural environment. Social criteria examine how a company manages relationships with its employees, suppliers, customers and the communities where it operates. Governance deals with a company's leadership, executive pay, audits and internal controls, and shareholder rights.

Explicit bid/offer spread

The bid/offer spread is the difference between the buying and selling price of units in a fund. The bid/offer spread is a set percentage e.g. 5%. It is essentially another type of charge that can be taken to meet costs or provide profit.

Exit Charge

A deduction made from a workplace pension's value taken when the pension pot is either transferred to another pension provider, or is used to buy another type of benefit.

Implicit costs and market impact

When the fund manager is instructed to carry out a transaction it is important to do this at the best price possible. The available price may vary with the size of the sale or purchase, and it may also be possible to get different prices from various counter parties. Further, the actual price can vary between the time the order was made and when the transaction is actually carried out. The implicit costs and market impact item we have shown seeks to capture the impact of all of these features. The measurement of this item is of varying complexity depending on the nature of theasset – being more complex when robust independent market prices are not readily available at all times (for example property) and more straightforward for other more liquid assets (for example equities of major UK listed companies). Since prices can move up or down in the period between receiving instruction and implementation, it is possible for this item to be negative, that is it can increase overall investment returns rather than reduce them.

Independent

When used to describe members of the IGC, independent means an individual has not been employed by or receiving payment for a role by any Royal London Group company in the five years preceding their appointment, nor had a material business relationship of any description with Royal London or with another company within the Royal London group, either directly or indirectly, within the three years prior to appointment.

Net promoter score

Net Promoter Score (NPS) measures how likely a customer is to recommend Royal London.

Passive investment strategy

A passive management is the opposite of active management where the fund's managers attempt to beat the market with various investing strategies and buying/selling decisions of a portfolio's securities. Instead the fund aims to track or to mimic the performance of an externally specified index e.g. the FTSE100 and there is no active management of the fund.

Pension Freedoms

This term is used to refer to changes the Government introduced in April 2015 which mean you no longer have to purchase an annuity with your defined contribution pension pot. While you can still purchase an annuity, you can also now leave the pension pot invested untouched. Take an adjustable income (Flexi Access Drawdown), take cash in chunks (Uncrystallised Funds Pension Lump Sum), or cash in the one go or a combination of these.

Pension Wise

Pension Wise is the Government's free, impartial retirement guidance service that's open to everyone seeking information about how they can turn their pension fund into a retirement income.

Phasing

Under automatic enrolment, minimum pension contributions are required to increase over time. This happens on set dates. The next increase is in 6/4/18 to a minimum of 2% from the employer and 3% from the member. Minimum contributions will increase again on 6/4/19 to 3% from the employer and 4% from the member. That is the last of the currently planned increases to minimum contributions. Note your pension scheme may require contributions above the minimum to help you build up your pension pot faster.

Policy fee

Is a regular (often monthly) fee charged to the funds of the policy. It is normally a set fee but it can vary based on the contract terms.

Resolution Score

This score measures how well Royal London dealt with customer queries. Customers are asked, on a scale of 0 and 10 (0 is not at all likely and 10 is extremely likely), "To what extent do you agree or disagree that we were able to resolve all of your queries today?" The "Resolution" score is calculated as the percentage of customers who score 9 or 10.

Staging date

A date set in law by which an employer must meet their automatic enrolment duties. This date varies largely based on the size of the employer and their tax number.

TER (Total Expense Ratio)

This is a measure of the total cost of a fund to the investor. Total costs can include various fees (purchase, redemption, auditing) and other expenses. The TER is calculated by dividing the total annual cost by the fund's total assets averaged over that year, and is expressed as a percentage.

Transaction costs

When Investments are made in financial securities there are costs incurred in buying, selling and holding these assets. The IGC are given information on these costs and we take a view on whether Royal London is managing these costs and the customer is getting value from them.

Volatility

Volatility is the rate at which the price of a fund increases or decreases for a given set of returns. Volatility is measured by calculating the standard deviation of the returns over a given period of time. It shows the range to which the price of a fund may increase or decrease.

APPENDIX 6

Royal London set up a project to improve customer engagement through the annual statement. This has resulted in a change from a 6 page document to a 4 page document which is significantly more engaging. Workplace customers will see the new statement in Mid-2018.