Independent Governance Committee (IGC)

Annual Report 2017/18

ReAssure

Zahir Fazal, Chairman
Independent Governance Committee

Dear member

Welcome to my third Annual Report as Chair of the ReAssure Independent Governance Committee (IGC). We provide independent oversight over ReAssure's workplace personal pension plans and act solely in the interests of customers, to help ensure ReAssure are delivering value for money.

I have now served as Chair of the ReAssure IGC for three years, so thought it would be helpful to reflect on what we have achieved over this term, whilst also updating you on the ongoing progress made during the last twelve months. In particular, the actions taken to deliver value for money and evaluating how effective this has been in improving outcomes for customers.

ReAssure's business model is to grow through acquiring products from different originating firms. Our assessment has therefore considered a wide variety of legacy charging structures, whilst also incorporating new blocks of acquired workplace pensions into our remit.

Value for money means different things to different people, but we have been clear that we want to see a fair balance between costs verses benefits.

We agreed actions with ReAssure last year to cap ongoing charges on accumulation units at 1% p.a., delivering outcomes for members consistent with what the government's Independent Review Board wanted the industry to achieve. ReAssure has demonstrated that this has been successfully implemented, taking effect from January 2017.

We have been evaluating the impact this charge cap has had on individual members. In this report we share a number of illustrative examples (customer personas) which are representative of the IGC member population as a whole. These personas illustrate how projected values for ReAssure's workplace pension customers might look both before and after the charge reductions. These examples evidence the actual improvements to customers and the positive increase to the future value of your policies, helping members to achieve a better retirement. »

New communications improving member understanding and engagement.

As part of our programme of work on member interaction and engagement, we continue to issue annual communications promoting the new low-cost funds and alternative product options ReAssure have made available. These give all pension policyholders options to further reduce their regular ongoing charges to below 1% p.a.

I would strongly encourage all members to consider the new low cost funds and alternative product options – these can help reduce the ongoing charges on your policy to below 1% p.a.

I reported on our value for money assessment in respect of the with-profits workplace pension policies in last year's report. These continue to deliver good returns to members, in excess of that delivered by a comparable unit-linked policy with a 1% p.a. charge benchmark.

We recognise that value for money goes beyond just the fair assessment of charges. This year we have increased our ongoing focus on other priorities, such as the quality of benefits and services received, investment performance, the security of your pension pot, and the effectiveness of ReAssure's customer communications. All these topics are covered in more detail in the report.

The IGC has visited ReAssure's offices in Telford to get first-hand visibility of its customer services, listening to customer calls in their contact centre. We were impressed with the enthusiasm and quality of staff interactions, professionally responding to customers' needs. We receive regular detailed updates from ReAssure on its relevant initiatives and the key performance indicators used to measure customer outcomes. Policies acquired from Guardian have been successfully integrated onto ReAssure's systems, whilst maintaining both core service metrics and strong customer satisfaction scores.

The IGC has continued to challenge ReAssure on the importance of improving member understanding and engagement. Over the last 12 months, ReAssure has undertaken a full review of all their communications to review how they meet customers' information needs at key points in the product lifecycle, to help support you in making well-informed decisions. In particular, we were pleased to see enhancements implemented to explain policy features, benefits and all associated charges more clearly in monetary terms. We have also been keen to see positive examples of how ReAssure identify and handle vulnerable customers – someone who, due to their personal circumstances, is especially susceptible to detriment, particularly when a firm is not acting with appropriate levels of care.

We continue to receive detailed information to monitor fund performance, with appropriate governance benchmarks to detect and trigger actions where underperformance occurs. We have had a keen interest in items placed on the watchlist and have had regular updates on ReAssure's work to restructure their unit-linked funds. This aims to produce better returns and to provide greater scale so charges should reduce over time. ReAssure has completed this reorganisation for two thirds of our IGC policyholders in 2017, with the remainder being completed in 2018.

I am pleased to report that our IGC has continued with its original five individuals throughout the three year term, the majority of whom (myself included as Chair) are independent. We are working well as a team and I am confident that collectively we have a good balance of skills and expertise to make »

Evaluating the impact of our charge cap to assess improvements to individual member outcomes.

Overall we remain satisfied that ReAssure is delivering value for money.

appropriate judgements. The IGC feel it is important to assess our progress against the actions taking place in the wider industry and have attended regular meetings with other IGCs to understand and learn from our peers. We believe our value for money principles and assessment remain appropriate.

Looking forward, some particular areas of focus in the year ahead will be:

- **Continuing to review and assess transaction cost data, using the FCA's new standard methodology**
- **Monitoring ReAssure's proposition for lifestyling, in a post pension flexibility world**
- **Assessing the effectiveness of customer communications and the levels of customer engagement**
- **Look more at environment, social & governance factors (ESG) to measure the sustainability and ethical impact of investment decisions on the world in which members live**
- **Integration of future acquisitions, following the announcement in January 2018 that ReAssure has agreed to purchase policies from Legal and General. These remain under the remit of the existing Legal and General IGC, until the policies are integrated into ReAssure in mid-2019.**

Overall we remain satisfied that ReAssure is delivering value for money and can see significant customer benefits from the progress made over the first 3 years.

I would like to express my thanks to all those within ReAssure who have assisted the IGC, providing open and transparent information, analysis and responses to our many challenges. We will continue to champion value for money to help improve the retirement outcomes for all our workplace pension customers.

We greatly appreciate all the contact we have had with ReAssure customers.

We are here to represent your interests and want to hear your views, so please get in touch:

- **You can use the link to the IGC on the ReAssure website, www.reassure.co.uk; or**
- **Write to me via ReAssure Limited, Windsor House, Ironmasters Way, Telford, Shropshire TF2 4NB**

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Monitoring customer outcomes

An important focus for this year has been to monitor and assess the impact of reducing ongoing charges on individual member outcomes.

ReAssure has identified a number of illustrative examples (customer personas) which are representative of the IGC member population as a whole.

These personas illustrate how projected values for ReAssure's workplace pension customers might look before and after the charge reductions.

Georgina, 38 — 20% rise

1% cap on workplace pensions.

Georgina has an ex-GAN Flexible Pension Plan:

- She wants to retire at 60
- Her current pension pot is worth £2,000
- Georgina pays £10 into her pension pot each month

Her projected pension pot at age 60 is:

- Before the cap on future charges = £3,500
- After the cap on future charges = £4,200

Boosts Georgina's projected pension by £700 (20%).

Sanjay, 57 — 3.45% increase

Has an ex-Crown Director's Investment Programme.

- He wants to retire at age 65
- His current pension pot is worth £82,872
- He pays £100 (gross) into his pension pot each month
- Sanjay took proactive action to switch into ReAssure new low cost funds

Sanjay's projected pension pot at age 65 is:

- Before switching into our lower cost funds = £120,940
- After the new 1% charge cap was applied = £122,660 (£1,720 or a 1.4% increase)
- After switching into lower cost funds = £125,118
- Sanjay's projected value in retirement has increased by £4,178 or 3.45%

New low cost funds have a 0.65% AMC, with no Bid Offer Spread.

Penny, 55

9.6% increase

Has an ex-Gan Wealth Plan.

- She wants to retire at age 65
- Her current pension pot is worth £32,388.98
- She no longer makes any contributions into her pension pot
- Penny takes proactive action to transfer product into ReAssure's Retirement Account

Penny's projected pension pot at age 65 is:

- Before transferring into an alternative policy = £47,943.60
- After transferring into the Retirement Account = £52,543.38
- Penny's projected value in retirement has increased by £4,599.78 or 9.6%

Retirement Account has 0.65% AMC, no policy fee or Bid Offer Spread. This option worked for Penny as her original policy had no exit penalty and she did not give up any valuable protection benefits.

John, 50

1.2% increase

Has an ex-HSBC Executive Personal Pension Plan.

- He wants to retire at age 65
- His current pension pot is worth £304,504
- He pays £1,495 into his pension pot each month

John's projected pension pot at age 65 is:

- Before the 1% charge cap was applied = £903,181
- After the new 1% charge cap was applied = £914,363
- John's projected value in retirement has increased by £11,182 or 1.2%

John is making high regular premiums into his policy, with 15 years until retirement.

Julian, 50

5.6% increase

Switching to lower cost funds.

Julian has an ex-Crown Retirement Savings Account:

- His current pension pot is worth £86,000
- He pays £2,308 (gross) into his pension pot each year

His projected pension pot at age 65 is:

- Before switching into our lower cost funds = £196,000
- After switching into lower cost funds = £207,000
- Julian's projected value in retirement has increased by £11,000 or 5.6%

Low cost funds have an 0.65% AMC, with no Bid Offer Spread.

Kelly, 71

0.6% increase

Has an ex-Crown Director's Investment Programme.

- She wants to retire at age 75, so has a short duration to her retirement
- Her current pension pot is worth £839,280
- She no longer makes any contributions into her policy

Kelly's projected pension pot at age 75 is:

- Before the 1% charge cap was applied = £975,882
- After the new 1% charge cap was applied = £981,831
- Her projected value in retirement has increased by £5,949 or 0.6%

Kelly has a large pension pot, is no longer making contributions and has a short duration to retirement.

Shana, 62

1.3% increase

Has an ex-Gan Executive Wealth Plan.

- She wants to retire at age 65
- Her current pension pot is worth £33,556
- She pays £40 into her pension pot each month

Shana's projected pension pot at age 65 is:

- Before the 1% charge cap was applied = £37,847
- After the new 1% charge cap was applied = £38,346

Shana's projected value in retirement has increased by £499 or 1.3%.

Karl, 61

70.4% increase

Has a ex-Gan Wealth Plan.

- He wants to retire at age 75
- His current pension pot is worth £1,080
- He no longer makes any contributions into his pension pot

Karl's projected pension pot at age 75 is:

- Before the 1% charge cap was applied = £1,093
- After the new 1% charge cap was applied = £1,862
- Karl's projected value in retirement has increased by £768 or 70.4%

Karl has a very small pension pot and is no longer paying contributions. Charge cap helps protect small pots from being eroded by charges.

Our background and the members we look after.

Originally founded in 1963, ReAssure is a life and pensions company which has over 2.3 million owned policies and looks after investments of £44bn for its customers.

* This excludes the recent acquisition from Legal & General (see page 11).

ReAssure's business model is to grow through acquiring products from different originating firms. This has presented us with some interesting challenges, as we worked with ReAssure to assess the wide variety of legacy charging structures. We have also successfully incorporated some new blocks of acquired workplace pensions into our remit.

How the IGC scope has increased	April 2015	April 2018
Members	13,732	55,682
Small Schemes	6,152	14,589
Assets Under Management	£327.5m	£1,001m

- In August 2015 ReAssure integrated 55,000 workplace pension policies acquired from HSBC Life (UK)
- In December 2016 ReAssure integrated 2,300 workplace pensions following acquisition of Guardian

There are currently 39 different products in IGC's scope, nine of which are with-profits. These include policies originating from Crown Financial Management, National Mutual, GE Life, Gan Life and Pensions, HSBC Life (UK) and Guardian.

- 93.8% of pension schemes invest in unit-linked or unitised with-profits policies, with the remainder being conventional with-profits policies
- 1.5% of schemes are open to new members
- 17% of members made contributions in 2017

Acquisition of policies from Legal and General

- In January 2018, ReAssure announced the acquisition of an additional 1.1 million in force policies from Legal and General. Increasing ReAssure's total assets under management to approximately £77 billion
- We understand this will include approximately another ~85,000 workplace pensions
- These will remain under the remit of the existing Legal and General IGC, until these policies are integrated into ReAssure in mid-2019. As a result they will not form part of this report. Although the conclusion is still a little way off, both ReAssure and Legal & General have stated commitment to achieving a smooth and effective transition

Financial security

We recognise that financial security is an important part of value for money, ensuring appropriate safeguards are in place to protect your pension savings. ReAssure provides quarterly reports to the Prudential Regulation Authority (PRA) to demonstrate its financial strength, holding a good solvency buffer in excess of the capital requirements. Your pension savings are invested in your selected funds and ring-fenced from company assets, to provide protection for members. ReAssure is also an authorised company and a member of the Financial Services Compensation Scheme (FSCS). The FSCS protects consumers should an authorised financial firm go bust. This means that in the unlikely event that ReAssure were ever unable to pay out your accumulated pot of money, the FSCS can pay compensation up to 100% of the claim amount.

Products had been initially priced to deliver a positive return.

Assessing value for money

1. **Absolute value for money test – when the product was sold, would it reasonably have been expected to deliver a positive net value for members in aggregate?**

   ReAssure's Profit Test – does the product charging structure give a reasonable split of economic returns between customers and the firm?

2. **Current market equivalent comparison – how do the charges compare to policies available in today's market, using the equivalent benchmark of 1% p.a?**

3. **A balance of cost versus benefits – subjective review of soft benefits, such as ReAssure's service, communications, long-term financial security and governance.**

Outcomes can be adversely affected by member behaviour, in particular the impact of paying small amounts and ceasing contributions in the early years.

Charges

In our first Annual Report we reflected on the findings from our assessment of charges:

- **ReAssure was able to demonstrate that products had been priced to deliver a positive return at outset.**
- **85% of ReAssure's workplace pension policies already had an ongoing regular charge of 1% p.a. or less. This compares reasonably with current market equivalents.**

  Our ongoing focus for these members has been ReAssure's work to enhance communications, fund performance and the proposition to support members with ongoing policy management to achieve a good retirement outcome.
- **ReAssure also has a wide range of older products and those sold in the 1980s and early 1990s showed a higher absolute level of charge. Some of these charges were often offset by increased allocation rates. Many older products also include initial units to cover set up and distribution charges that have no, or a restricted, value on exiting the policy.**

Annual Management Charge (AMC)	The average ongoing AMC was less than 1% but some are materially higher, up to 1.94%. Generally, higher charge funds are more specialist in nature and were actively selected by a small proportion of members.
Bid Offer Spread	Some legacy policies have a Bid Offer Spread of up to 5%, although in some cases increased allocation rates apply to help offset this. A large proportion (80% by member count) are not paying regular ongoing premiums, so are not being affected by this charge.
Policy Fees	Some legacy policies contain a Monthly Policy/Service Fee. This is on average £2.00 per month, but ranges from £1.00 per month to the highest at £5.40 per month. Policy fees are no longer common on modern plans and can significantly affect legacy plans with small values where contributions ceased to be paid early in the policy life.

- **ReAssure undertook some benchmarking to compare this against today's market and the equivalent benchmark of 1% p.a.**

Satisfying our value for money charge principle

We agreed a number of actions with ReAssure to improve customer outcomes. These have now been fully implemented:

- **For unit-linked workplace pensions, we agreed to cap future regular ongoing charges on accumulation units at 1% p.a. This was implemented with effect from 1st January 2017 and excludes the impact of initial units and any additional charges incurred on externally managed funds**

ReAssure did not include Initial units as these are in essence designed to recoup historic initial expenses actually incurred (rather than cover current ongoing costs). Our value for money analysis included the impact of initial units and demonstrated that in aggregate the presence of such charges did not undermine the economic rationale of the products. These units do have a value on death, so this structure provides an additional benefit to customers over the typical alternative in place for products of that heritage e.g. a nil allocation period structure to cover such costs.

The IGC has reflected on the regulatory guidance in respect of workplace pensions, especially the Government's Independent Project Board (IPB) methodology, and is content that the charge cap being applied by ReAssure is consistent with the outcomes that the IPB wanted the industry to achieve.

A few customers have chosen to invest in externally managed funds. These typically have additional charges that will continue to be incurred.

- **ReAssure has provided analysis to show that for a typical policy (i.e. one that invests in the managed fund) the actions taken will remove the negative outcome of small pots being significantly eroded by charges when a customer is not engaged**
- **For members wishing to access their pension benefits, you should also be aware that a 1% cap has been applied to exit charges from age 55**
- **Guardian had removed the monthly service charge from paid-up policies with effect from October 2015. To strengthen this position further, additional action was taken on a further 71 policies, where the regular ongoing charges remained marginally over 1%. These members continue to pay contributions, so the ongoing monthly service charge was removed on these 71 policies, backdated to take effect from 1st January 2017**

Capped ongoing charges on accumulation units at 1% p.a.

With profits

There are a small proportion of policies within the IGC scope that are invested in the with-profits fund.

This comprises of 721 Schemes, with 1,698 members and approximately £32m assets under management. Over 98% of these members are no longer making contributions.

- **Last year we completed our value for money assessment in respect of the with-profits workplace pension policies**

  ReAssure demonstrated that these are delivering good returns to members, which are in excess of that delivered by a comparable unit-linked policy with a 1% p.a. charge benchmark
- **Assessment of value for money shows maturity pay-outs from the with-profits funds are in the top quartile for sample policies**
- **No Market Value Adjustment has been applied to policies on early retirement or transfer for over five years**

Whilst there have been some one-off estate distributions during this period, there is no reason to believe that this will not continue to be the case in the future.

This assessment was further supported by some market comparison benchmarking against other with-profits funds, to compare both the level of expenses charged to the fund as well as how well the fund has performed in terms of returns to policyholders. In terms of the former, it should be noted that the assessment was of the total charged to the fund, not the amounts charged to individual policies.

- **Expenses were compared within the following categories: maintenance expenses, investment expenses, exceptional expenses and acquisition expenses. These compare favourably, as ReAssure has a fixed expense agreement for per policy expenses with investment expenses charged at cost**
- **We compared the pay-outs made on ReAssure's with-profits funds against a sample pension policy and life policy respectively. Pay-outs are typically within the top quartile with no pay-outs below the second quartile. The level of estate distribution represents a key differentiator**

Based on these findings, the IGC remains satisfied that these with-profits workplace pensions provide value for money. »

Satisfied with-profits workplace pensions provide value for money.

Transaction costs

One of the IGC responsibilities is to review the total level of costs, including taxes, incurred when trading or maintaining the underlying investments. Trading costs currently include such items as stamp duty and dealing commission, while administration costs primarily include investment management and custodian fees.

A key challenge for all IGCs has been that until now, there was no regulatory requirement on Fund Managers to disclose this information in a standard way across the industry. To address this and assist IGCs, the Financial Conduct Authority (FCA) has been doing a lot of work on the definition and calculation approach for transaction costs. As an IGC, we were keen to include some assessment in advance of any regulations coming into force and factored these into our overall assessment of the impact of charges. For example:

- **For each product assessment, we considered the Investment Management Charges (IMC) for three different funds (based on weighting in that product), so we could get a feel for the range and impact of these costs on overall value for money**
- **On the Guardian policies, assessment allowed for estimated additional costs of up to 0.05%, which relate to the costs of managing the fund and include some types of custody and transaction costs**

On 20th September 2017 the FCA finalised its new rules and guidance (the publication of FCA paper PS17/20), which requires Fund Managers to disclose transaction costs using a standardised method of calculation. This has introduced what the FCA calls 'slippage costs' – the difference between the 'arrival price' (the value of the asset immediately before the order to transact entered the market) and the 'execution price' (the amount received in the accounting system following the transaction). Slippage cost seeks to capture the loss of value when an investment is bought or sold. It combines explicit costs such as brokerage commission and transaction taxes, with implicit market costs.

These new rules came into effect from the 3rd January 2018 and build the foundations required for IGCs to fully assess these costs with firms from the first quarter of this year.

All ReAssure funds are externally managed, so in October 2017 ReAssure requested this information from their external Fund Managers on our behalf. We are disappointed that no information has yet been received, but have had regular updates from the project team initiated to collate this information. This has confirmed that Fund Managers have developed capabilities to calculate slippage costs and commenced collecting the data needed from 3rd January 2018.

- **The main Fund Managers used by ReAssure intend to report transaction costs each quarter, so we expect the first set of data to be available in April 2018**

Once all the required transaction cost data is available to us, we will work with ReAssure to complete our assessment of these costs and consider whether any further actions are necessary. This will be a key area we update you on next time. We will also consider how this data can be presented to you in a meaningful way. The Institutional Disclosure Working Group, set up by the FCA, is publishing a template which we will be reviewing.

Transaction costs incurred within a fund are mainly driven by the level of trading activity within the fund and are likely to vary from one year to another. This is therefore something we will be monitoring on an ongoing basis.

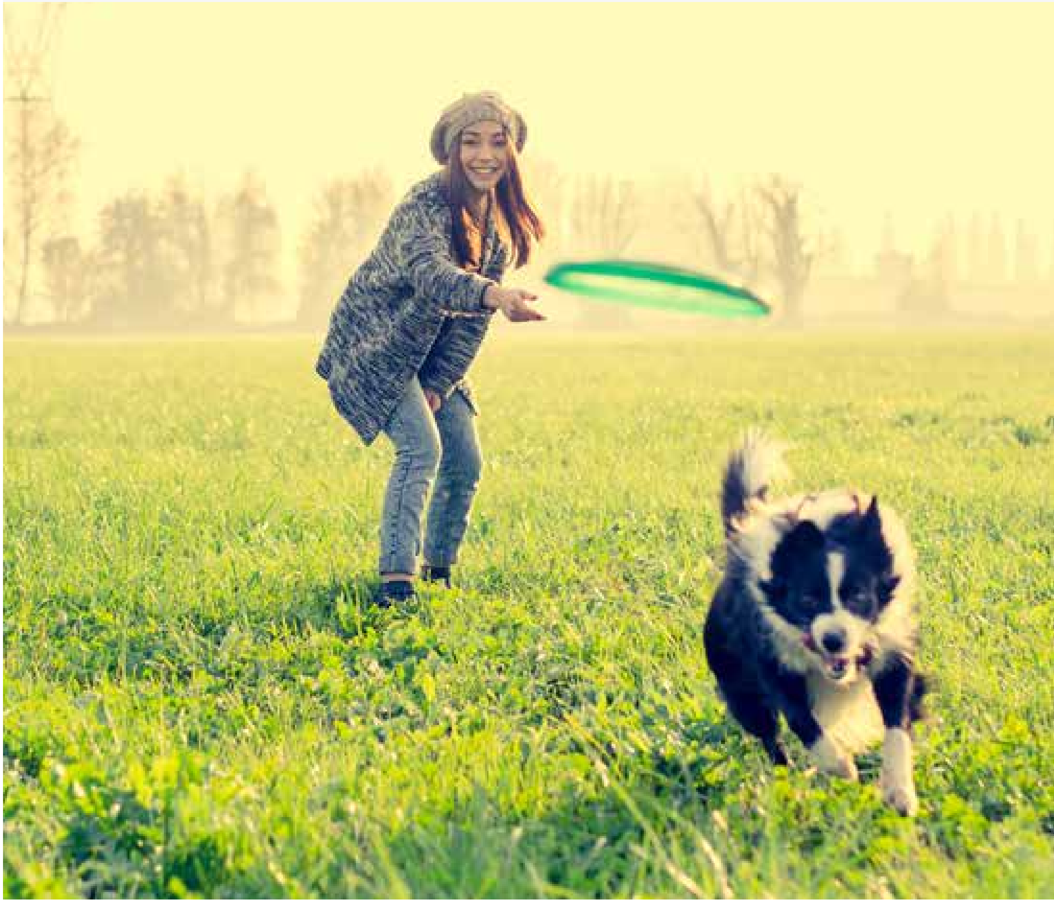
New FCA rules came into effect on 3rd January 2018 and Fund Managers have started collating this data.

Transactions Processing

The IGC continues to receive management information and reporting from ReAssure to confirm that important financial transactions, such as receipt of contributions, investment allocations, charges and the payment of benefits, have been processed promptly and accurately. There have been a minimal number of errors during this period, which have been investigated and corrected as set out in ReAssure's Unit Linked Guide.

Available via **www.reassure.co.uk**

Policy transactions are processed in a timely manner in line with Customer Services' service level standards. Any breaches due to delays or incorrect administration are logged and dealt with in agreed timescales. The identification, tracking and rectification of issues is completed through a well-governed process, including the establishment of root causes and trends, to help prevent future breaches. This is overseen by the Compliance function with appropriate monitoring and escalation in place, as necessary.



Some assessment of transaction costs in advance of new regulations coming into force.

New low cost funds and alternative product options.

Member interaction and engagement

The IGC continues to send out mailings to all our unit-linked workplace pension customers, actively encouraging you to consider the new options ReAssure has made available.

This initiative is designed to encourage you to engage with your pension plan and consider taking action that can help reduce the ongoing charges even further, below the 1% cap.

1) Three new funds offered on ReAssure's new business (Deposit, Corporate Bond and UK & Global Equity Tracker) have been made available to customers within their existing unit-linked pension product. These have an Annual Management Charge of 0.65% and no Bid Offer Spread

A. Customers can make a free switch from their existing accumulator funds into these three funds

B. One of the benefits of selecting this approach is that customers can reduce ongoing charges and retain existing valuable benefits (such as life cover, waiver, Guaranteed Annuity Rates and Employer Contributions). By staying in their existing policy, customers can also avoid exit charges

2) Where customers are in existing funds with an exact investment match to one of the new funds, the existing fund charge has been automatically reduced to 0.65%

3) Customers can also transfer their existing policy into ReAssure's low-cost Retirement Account which has an Annual Management Charge of 0.65%, with no Policy Fee or Bid Offer Spread. This product also enables access to pension flexibility from age 55

ReAssure are supporting members in evaluating whether any valuable benefits are likely to be lost as a result of this action

4) Customers who may benefit most from consolidation of policies (either with ReAssure or alternative providers) are also being encouraged to consider this

We have been monitoring customer response rates, but are disappointed that these remain very low. We asked ReAssure to survey a sample of members who received our targeted communications. This research has helped us to assess members' awareness of the charges on their policy, understand their intentions and the reasons behind them. These findings have been used to review and refine our messaging. We have now added a simple tick box reply slip for customers wishing to switch into the new low cost funds; alternatively you can do this by phoning the contact centre or via the ReAssure website. »

- **I would strongly encourage all unit linked polcyholders to consider the new low-cost funds and alternative product options, which can help further reduce the charges on your policy to below 1%.**

Online mailbox facility

We will be more effective as your IGC if interested members share their views with us. To enable this, ReAssure has set up an online mailbox facility on the IGC section of the ReAssure website for members to raise concerns directly with the IGC. We promote this to members in Annual Statements and have been pleased to see an increase in the number of members making use of this over the last 12 months.

We are here to represent your views and interests, so would be delighted to hear from you:

- **You can use the link to the IGC on the ReAssure website, www.reassure.co.uk; or**
- **Write to me via ReAssure Limited, Windsor House, Ironmasters Way, Telford, Shropshire TF2 4NB**

Quality and timeliness of customer service

Ensuring our customers get a fair service is an important part of our value for money assessment. ReAssure presents us with detailed management information, with key performance indicators to track customer outcomes, such as the timeliness and quality of service, along with members' views.

- **During this period the IGC visited ReAssure's offices in Telford to get first-hand visibility of its customer services operations in action. We listened to customer calls in their contact centre and received detailed face-to-face presentations on the proposition, fund performance and initiatives. These visits proved very valuable and we were impressed with the quality of staff interactions to willingly respond to customers' needs in a timely, consistent and transparent manner**

ReAssure provides us with detailed complaint analysis and customer survey feedback on a regular basis to help us understand your frustrations and views.

- **Overall, complaint volumes remain minimal, with a noticeable reduction in any concerns relating to charges following implementation of the cap**
- **Customer satisfaction data shows that 87% of customers who responded are either "satisfied" or "very satisfied", suggesting service is generally meeting expectations**

Andrew Parker
Independent member, has been listening to customer calls into the Telford Contact Centre

Customer proposition and communications

We know how important good communications are in enabling customers to engage with their pension, which is vital in supporting customers achieve positive outcomes in retirement. ReAssure has a big initiative underway to transform customer communications.

Supported with face-to-face customer research to explore different options and assess how best to express complex matters, appropriate language and layout is used to help customer understanding.

- **ReAssure has reviewed all their communications to ensure that customers receive clear and timely information at regular intervals and at key points in the product lifecycle to enable informed decisions**
- **Most of the new letters started being used during the first quarter of 2018 and will more clearly explain policy features and benefits**
- **We were particularly pleased to see the enhancements made to show all associated charges in monetary terms**
- **The new Annual Statements also make employers' contributions clearer to members »**

Clearly explain policy features, benefits and all associated charges in monetary terms.

Supporting customers in making the right retirement decisions in an interactive and accessible way.

We have seen positive examples of how ReAssure is supporting vulnerable customers.

We will ask ReAssure to monitor how this affects customer behaviours and will keep promoting this to ensure it has a positive result.

ReAssure removed the concept of a pre-set retirement date. From age 55 they encourage customers to start engaging with their retirement planning, providing projections to multiple ages. This aligns communications with the way members behave, as only minimal numbers are retiring on the date they had originally selected many years ago.

This approach enables members to see what they can get if they retire at different dates, managing expectations and enabling them to make an informed choice to get the most from their retirement savings.

ReAssure provides an online Retirement Planning Toolkit and telephone support to help customers understand their different retirement options and assess how much income they will need. We are pleased to see this is supporting customers to make well-informed choices on how to get the most out of their retirement savings.

- **Supporting customers who choose to take their pension pot as a cash lump sum and helping them understand the risks and tax implications of doing so**
- **Leaving your money invested and making withdrawals when you need via the ReAssure Retirement Account or a flexi-access drawdown policy**
- **For members who want a guaranteed income in retirement, rather than selling their own annuity, ReAssure offers the option to take an annuity from a wide panel of the UK's best-known providers. This means that members get open-market equivalent outcomes, with access to both conventional and enhanced annuities, delivering consistent and strong outcomes**

ReAssure has a robust process of tracing customers with a gone-away address, which is being strengthened by introducing repeat tracing every two years. This helps reduce the risk that customers are unable to engage actively with their policy, as they are not receiving important communications.

Whilst ReAssure has a number of online tools to help pension customers, they do not currently provide an online customer portal, where members can securely log in to view policy information and perform basic administration. ReAssure has informed us that this is something they are currently developing and the IGC have asked to be kept informed of these developments during 2018. »

Someone who, due to their personal circumstances, is especially susceptible to detriment, particularly when a firm is not acting with appropriate levels of care.

Vulnerable customers

Another area we have been interested in understanding more about this year is ReAssure's identification and treatment of vulnerable customers.

- **Pension flexibility has added complexity to customers' decisions about when and how to access a pension, and which provider or investment options to choose. This makes it harder for vulnerable customers to make informed decisions**
- **More consumers will make decisions about investments and withdrawals into their 70s and 80s – increasing vulnerability as customers make difficult decision much later on in life**
- **Freedom and choice in pensions carries risks for all customers, not least the risk of running out of money, as well as the ongoing risk of fraud and scams. Vulnerable customers can be more susceptible to scams**
- **Subsequently there is a need for a focus on how vulnerable customers in the retirement market may have alternative experiences or require alternative means of support**

We have seen some positive examples of how ReAssure is supporting vulnerable customers. This has ranged from support to members diagnosed with a terminal illness, helping customers where English is not their first language to supporting customers who are suffering from mental illness. ReAssure has also forged closer ties with third party organisations in the advice and charity sector that they can sign-post customers to for expert help.

- **One area of particular interest to the IGC has been the strong controls and processes in place to help protect customers from scams**

Overall, we have been pleased to see evidence of increased awareness, appropriate escalations and fair handling.

Investment performance and monitoring

Giles Payne
Independent member, has experienced how well ReAssure's fund performance governance arrangements are working in practice.

Governance

ReAssure regularly presents us with detailed information to help us monitor and assess the characteristics and net performance of its unit-linked funds.

The majority of policyholder assets are managed between Kames, Aberdeen Asset Management (AAM) or HSBC Global Asset Management (HGAM). There are also a small number of external funds, managed by third parties.

These are subject to regular governance oversight from both ReAssure's Policyholder Investment Committee (PIC) and Board Investment Committee (BIC). These ReAssure committees oversee the investment of customer assets to ensure this is fair, compliant and in line with customers' reasonable expectations. Their terms of reference include reviewing historic performance figures, including volatility of returns relative to benchmarks.

The investment team provides extensive analysis to support healthy review, discussion and decision making, with detailed performance reports. Analysis compares investment performance against the market and applies governance benchmarks to detect and trigger actions where underperformance occurs. Giles Payne, one of our independent members, has attended a meeting to experience how well fund performance governance arrangements are working in practice. The IGC also receives the minutes for review and a verbal explanation of detailed performance information by a relevant specialist. We have had a keen interest in items placed on the watchlist, where performance of some unit-linked funds were assessed as not consistently meeting customer expectations or internal targets, and we have received regular updates to track progress against the agreed actions.

- **Members can select funds from a wide range available, which represent the major asset classes**
- **ReAssure allows its customers to switch funds free of charge, either online and over the phone to make this easier for members**
- **Fund information including descriptions, objectives, risks and performance are available online (via Morningstar), to help support greater customer engagement**

Environment, Social & Governance factors (ESG)

These are the three main factors used to measure the sustainability and ethical impact of investment decisions on the world in which members live and will retire into. ReAssure takes ESG seriously and has shared information on how and where they invest money, to ensure responsible investment of customers' money. Given the long term nature of pension investments, this is an area we would like to assess further over the next twelve months and would welcome members' views. »

2017 has seen strong fund performance.

Performance

In general, 2017 has followed on from the strong fund performance seen in 2016. By fund value, over 75% of our workplace pension investments remain within the Mixed Investment, Global Equities and UK Equities sector, which have provided strong returns for customers in 2017.

The two most popular funds for our workplace pension customers are the Global Equity Index Tracker and the ReAssure Managed Fund. These make up 16% and 10% of the IGC population respectively. These funds have performed well over both short term and long term measures:

		Calendar year performance				
Fund name	**% of IGC policies**	**2017**	**2016**	**2015**	**2014**	**2013**
Global Equity Index Tracker	16%	12%	22%	3%	6%	21%
Global Equity (Pens) ABI Sector	–	13%	23%	4%	7%	21%
ReAssure Managed Pension Standard	10%	10%	18%	2%	5%	13%
Mixed Investment 40-85% Shares (Pen) ABI Sector	–	9%	14%	2%	5%	14%

The Deposit and Money Market funds continue to reflect the low interest rate environment.

- For example: This is the equivalent of a policyholder investing £1,000 in ReAssure's Managed Pension Standard Fund on 1st January 2013 and having £1,550 after investment fees and charges on the 31st December 2017

ReAssure's unit linked funds are allocated to an Association of British Insurers (ABI) Sector. This allows both ReAssure and the IGC to compare performance across similar investment strategies and consider market competiveness. This industry benchmarking supports our assessment of relative performance against peers over a variety of time horizons and is used to help trigger actions where a fund is shown to be underperforming.

The ReAssure Managed fund sits within the second quartile over a three-year period, assessed against its ABI sector of "Mixed Investments, 40-85% Shares".

The Deposit and Money Market funds continue to reflect the low interest rate environment. We have challenged the impact these returns are having on customers who have remained in them for prolonged periods, which could be negative after charges. ReAssure has put messages on their website alerting customers to this risk and has reviewed the wording in the fund risk ratings and objectives. They have also mailed these customers encouraging them to review their long-term fund choice, so they can decide if these funds represent the most appropriate choice. Where these funds are used for short-term investments or to diversify an investment portfolio, they can perform an important role in aiming to protect the capital value of investments. »

Restructuring unit linked funds to improve customer outcomes and reduce charges over time.

Fund redesign overview

ReAssure regularly reviews their investment philosophy, taking into account current market conditions and the economic outlook to ensure it remains in customers' best interests. ReAssure has kept us informed of their ongoing work to restructure their unit-linked funds. In efficient markets, they will now track the market rather than actively choose individual company stocks. This aims to produce better returns and to provide greater scale, so that charges should reduce over time.

There are still some sectors where ReAssure believes active stock selection is in the customer's best interests and continues to adopt this strategy where it's the right thing to do. These include:

- Smaller or less efficient markets where ReAssure thinks it's in our customers' best interests to select individual company stocks or individual assets
- Specialist asset classes where it's not possible to invest across the market, such as investments in property

A strong focus for ReAssure following acquisitions is always on continuity of proposition. This has resulted in some duplication of fund mandates, so these are benefiting from some restructuring and simplification, tidying up fund objectives to ensure these remain clear and representative of actual practice.

In our latest update from ReAssure, they confirmed that they have completed this reorganisation for two thirds of our IGC customers during 2017, with the remainder on schedule for completion in 2018.

Lifestyling

Lifestyling is a process where the money invested in your pension is gradually moved out of riskier (but higher potential return) assets such as shares, into lower risk (but lower potential return) assets, such as cash deposit funds or bonds. Lifestyling strategies usually take effect around five years before selected retirement dates by members interested in preserving their existing pension savings.

Since the implementation of Pension Freedoms in April 2015, the majority of customers do not vest their pension at a retirement date selected many years before. Customers are typically making their mind up about when they will retire around 3–5 years before they retire. ReAssure is also seeing less than 10% of customers choosing to use their pension savings to purchase an annuity. As a result of this observed change in customer behaviour, ReAssure has been assessing if the current lifestyling options remain appropriate in a post Pension Freedoms marketplace.

- **ReAssure has updated their proposition to offer new lifestyling options that target the three most common retirement choices made by our customers. These are (a) full encashment, (b) tax free cash and transfer to drawdown or (c) tax free cash and purchase an annuity**
- **Where customers have already selected lifestyling, ReAssure will be writing to these customers encouraging them to assess if this still remains appropriate**

Default funds

ReAssure did a lot of analysis in our first year, to verify that no customers' money had been placed into specific funds by default. This means that members had to make an active investment choice from the range of funds available and were not automatically placed into a default fund. This position remains unchanged.

- **We have not seen any evidence to suggest that investment strategies are not designed and executed in the interests of members**
- **Clear statements of the funds' aims and objectives are provided**

Statement of IGC credentials

- **I am pleased to report that the IGC continues to be comprised of its original five individuals, the majority of whom (including the Chair) are independent**
- **We have continued to act solely in the interests of members, with any potential conflicts of interest considered in accordance with the ReAssure Conflict of Interest Policy, to ensure they do not interfere with our capacity to act independently of ReAssure**

Short biographies of each of the IGC members are in the appendix.

The IGC members were carefully selected to ensure that, individually and collectively, we have the appropriate skills, knowledge and experience in relation to workplace personal pensions to be able to execute our duties, assess and make judgements on value for money. ReAssure determined that a key skillset related to the ability to act as independent “trustees” and thus external members were sourced from leading professional corporate trustee firms providing such skills to the well-established Defined Benefit Pension Scheme trustee market. An open and transparent recruitment process was implemented, which involved me, as the IGC Chair, in the appointment of other IGC members to ensure credibility and independence.

The two non-independent members were selected to bring valuable in-depth ReAssure policy-specific knowledge and understanding to the work of the Committee. They are bound to act in the interests of scheme members in their capacity as IGC members.

- **Membership has been reviewed and I am happy the independent IGC members continue to be independent and the balance of expertise is appropriate**
- **I do not consider that any member has subsequently taken on other responsibilities that compromise their independence**

Our IGC membership will be reviewed each year, with a cumulative maximum duration of ten years, to help ensure members continue to be able to challenge effectively.

Engagement with the ReAssure Board/FCA

Under the Terms of Reference of the IGC, we have a responsibility to raise and escalate any concerns relating to value for money. A clear escalation process has been put in place and documented. I am pleased to say that during this period the process of further escalation was not required. Any issues raised at the meetings of the IGC were appropriately addressed by management to the satisfaction of the Committee.

Overall we remain satisfied that ReAssure is delivering value for money and can see significant customer benefits from the progress made over the first three years.

We will continue to champion value for money to help improve the retirement outcomes for all our workplace pension customers.

Conclusion

This IGC report is for the twelve-month period up to 5 April 2018. The process of annual reports under the FCA requirements is ongoing and further annual reports will be provided.

- **We have worked hard with ReAssure to assess their wide range of workplace pension products and have implemented actions to ensure these continue to deliver value for money. We have been closely assessing the impact of the actions taken and are pleased to see good evidence that this is delivering significant improvements to the retirement outcomes our members receive. It is also providing a strong balance between unilateral action to cap charges to protect members' outcomes and continuing to offer modern options for all members, which enable them to choose what best meets their needs and circumstances**

Our work on transaction costs remains ongoing and once ReAssure has received the first quarter's data from fund managers in April, we will complete more analysis using the FCA's new standard methodology.

ReAssure has been very receptive to our many challenges and has implemented actions to help address value for money.

- **There has been a lot of focus on both fund performance and communications this year, which we see as important parts of our ongoing assessment. We look forward to seeing the positive effects these have over the next 12 months**

We greatly appreciate all the contact we have had with ReAssure customers.

We are here to represent your interests and want to hear your views, so please get in touch:

- **You can use the link to the IGC on the ReAssure website, www.reassure.co.uk; or**
- **Write to me via ReAssure Limited, Windsor House, Ironmasters Way, Telford, Shropshire TF2 4NB**

We have already started our planning for the 12 months ahead and look forward to understanding more about the workplace pensions ReAssure has acquired from Legal and General, ahead of integration in mid-2019. We will undertake more research to assess objectively what members value and what will increase understanding and engagement.

We also want to look at environment, social and governance factors (ESG) to measure the sustainability and ethical impact of investment decisions on the world in which members live.

- **Communications will continue to members, actively encouraging them to consider ReAssure's new low-cost funds and alternative product options**
- **Overall we remain satisfied that ReAssure is delivering value for money and can see significant customer benefits from the progress made over the first three years**

I would like to express my thanks to all those within ReAssure who have assisted the IGC, providing open and transparent information, analysis and responses to our many challenges. We will continue to champion value for money to help improve the retirement outcomes for all our workplace pension customers.

Appendix 1

Zahir Fazal, Chairman

Zahir is a Chartered Accountant and a Director of BESTrustees plc. His current appointments cover a wide range of pension schemes, both defined benefit and defined contribution, and diverse industry sectors. He has several appointments as Chair of Trustees and also chairs two Governance Committees for contract based pension arrangements. Prior to joining BESTrustees in June 2008, Zahir was a partner in a major accountancy practice, where he established their highly successful Pensions Group.

A Fellow of the Institute of Chartered Accountants, he is the immediate past Chairman of the Institute's Pensions Sub-Committee and has recently acted as Chairman of the Pensions Research Accountants Group. In these capacities, he has regular contact with the Department for Work and Pensions (DWP) and the Pensions Regulator on regulatory developments.

Giles Payne

Giles has over 30 years' experience in pensions, having worked for consultancies, an insurance company, an asset manager and now as an Independent Trustee. Before joining Capital Cranfield in January 2018 he worked as a trustee for HR Trustees Ltd. Prior to this he worked for ten years for Legal & General Investment Management as a client manager, looking after a range of schemes covering various investment mandates, including both defined benefit and defined contribution.

He was involved in the design and implementation of investment and communication strategies for defined contribution schemes. Before moving into investment management, Giles gained experience within pensions, including administration, legal documentation, technical training and consultancy, covering both defined benefits and defined contributions arrangements.

Andrew Parker

Andrew is involved in a number of pension trustee boards of varying sizes and complexity, in both defined benefit and defined contribution areas. He chairs several of these trustee boards. He joined Law Debenture from BT Group where he was a sponsor-nominated trustee director of the BT Pension Scheme (BTPS).

Andrew is a solicitor by training. He spent time in private practice in the City before joining BT Group where he worked in a variety of legal, regulatory and governance roles before becoming General Counsel of BTopenworld and subsequently BT Retail, and BT Group Company Secretary in 2008. He was a member of the London Stock Exchange Primary Markets Group (2008-2012), the All Parliamentary Corporate Governance Group, the GC100, and Chair of the Chief Legal Officers' Forum (2007-2010).

Andrew is a council member of the Association of Professional Pension Trustees.

Paul Parsons

Paul has worked in Management and Executive positions within the Customer Services and Information Technology functions of ReAssure and other group companies for the past 30 years. During that time he has contributed towards the implementation of the key business administration and system strategies of the company and played a key operational role in historic business acquisitions and migrations.

His current focus is to guide the development of future strategies, systems and processes to support growth within the business and provide strong customer outcomes. Paul has a Bachelor's degree in Economics and Accountancy from the University of Southampton.

Simon Thomlinson

Simon has over 25 years of experience in financial services in both mutual and proprietary organisations. He joined ReAssure in 2006 with the acquisition of the GE Life group of companies, where he was responsible for the development of individual pensions business. He sat on the Trustee Board of the defined benefit pension scheme, with particular focus on the terms on which schemes were merged.

Prior to that he was the Deputy Actuary for National Mutual Life. His initial focus within ReAssure was the transfer of the business into a single company. He was appointed Actuarial Function Holder of ReAssure in 2010, responsible for actuarial reporting and the transfer of successive acquisitions into ReAssure.

Appendix 2

Glossary of certain terms used in this report

Accumulation Units	Units with relatively low charges. For some unitised policies premiums for an initial period are allocated to capital units for the purpose of recovering the product provider's initial costs. After the initial period subsequent premiums are invested in accumulation units that have lower charges.
Annual Management Charge	The charge made over the year by product providers to cover the expenses associated with administering the pension plan. Although expressed as an annual percentage figure, the charge is usually taken from the fund daily.
Bid Offer Spread	The difference between the selling price and the purchase price for units of investment. The bid price is the price at which you can sell your shares, and the offer price is the price at which you can buy them. The offer price is usually higher than the bid price.
Conventional With-Profits Policies	A long-term investment policy that participates in the profits of the provider. The money you invest is pooled together with money from other people and invested in the insurance company's with-profits fund. Costs are deducted from the fund and what is left over (the profit) is available to be paid to the with-profits investors. It guarantees minimum amounts payable at certain dates and you get your share of the profits in the form of annual bonuses added to your policy. The company usually tries to avoid big changes in the size of the bonuses from one year to the next. It does this by holding back some of the profits from good years to boost the profits in bad years.
Conventional Annuity	Provides a known level of income throughout your lifetime, in return for a lump sum payment.
Default Funds	Funds into which customers' investments are placed unless they specifically select another fund.
Enhanced Annuity	An enhanced annuity pays out a higher level of guaranteed income based on health and lifestyle factors.
FCA	The Financial Conduct Authority.
Guaranteed Annuity Rates (GAR)	Also known as a Guaranteed Annuity Option (GAR). This is a guarantee to pay a minimum amount of retirement income, or use a minimum rate to work out how much retirement income will be paid. These guarantees were set when policies were taken out and are usually more generous than current market annuity rates.
In-Force Policies	Policies that are still live, i.e. not terminated, irrespective of whether premiums are still being paid.

Initial Units	Units that carry relatively high charges. For some unitised policies premiums for an initial period are allocated to initial units for the purpose of recovering the product provider's initial costs. After the initial period, subsequent premiums are invested in accumulation units that have lower charges.
Investment Management Charge	The charge made over the year by Fund Managers to cover the expenses associated with running the investment fund.
IPB	The Independent Project Board set up by the Office of Fair Trading to oversee the audit of workplace pensions.
Lifestyling	Lifestyling is a process where the money invested in your pension is gradually moved out of riskier (but higher potential return) assets, such as shares, into lower risk (but lower potential return) assets, such as cash deposit funds or bonds. Lifestyling strategies are usually considered around five years before retirement, by people interested in trying to help preserve their existing pension savings.
Market Value Adjustment / Reduction	A reduction made to the value of a with-profits fund if you cash in some or all of your with-profits investment before your selected pension age. MVAs help ensure a fair distribution. policyholders who cash in some or all of their with-profits investment before the end of the policy term do not disadvantage the remaining policyholders.
Member	ReAssure's workplace pension plan policyholders within the remit of the IGC.
Morningstar	Morningstar is an independent investment research company that ReAssure uses to provide detailed fund information on their website, e.g. performance, fund objectives and asset allocations.
OFT	Office of Fair Trading.
Paid-up Policies	A policy is made paid-up when a customer ceases to pay premiums before the end of the term but continues to hold the policy.
Passively Managed Funds	The fund closely tracks a market index. Passive management is the opposite of active management in which a Fund Manager attempts to beat the market with various investing strategies and buying/selling decisions.
Pensions Flexibility	A series of changes, which were made to pension tax rules in 2015 to give people increased access to their pension savings from age 55.
Policy Fee	A regular fee deducted from a policy to cover administration costs.

Policyholder Investment Committee (PIC)	A ReAssure governance committee who review and monitor fund performance.
Small Pots	A pension pot worth £10,000 or less. If you're eligible, you can take the entire pension arrangement as a cash lump from age 55. The first 25% is tax free, with the remaining 75% taxed as income.
Transaction Costs	Transaction costs are the charges or expenses incurred when trading or maintaining the underlying investments, including taxes. Trading costs currently include such items as stamp duty and dealing commission, while administration costs primarily include investment management and custodial fees.
Unitised With-Profits Policies	A with-profits investment is where premiums buy units in a with-profits fund. The value of the units increases in line with bonuses declared, either through the addition of units at a fixed price or through increases to the unit price.
Unit-Linked Policy	A policy giving access to a unit-linked fund. A unit-linked fund is a type of pooled investment where the premiums buy units in a fund of the investor's choice. The value of the policy is measured by the total value of the units allocated to it.
Value For Money	The balance of cost versus benefits.
Vulnerable Customers	Someone who, due to their personal circumstances, is especially susceptible to detriment, particularly when a firm is not acting with appropriate levels of care.
With-Profits Funds	A long-term investment policy that participates in the profits of the provider. It guarantees minimum amounts payable at certain points, such as death, and provides growth in the form of bonus payments. The policy is subject to smoothing of investment returns, which means that some profits are held back in years where investment performance is strong, and used to top up bonuses in years when performance is poorer. ReAssure has three with-profits funds: the National Mutual With-Profits Fund, the Windsor Life With-Profits Fund and the Guardian Assurance With-Profit Fund.
Workplace Pension Policies	Workplace personal pension schemes include personal pension schemes and stakeholder pension schemes that employers either use for automatic enrolment or make available to their employees. i.e. when employees join a personal pension scheme through the workplace, a contractual agreement is established directly between the scheme provider and the employee.

www.reassure.co.uk

Produced by Zahir Fazal, IGC Chairman, to reflect the opinions and findings of the Independent Governance Committee as a whole.

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ReAssure Limited
Registered Office: Windsor House, Telford Centre, Telford, Shropshire, TF3 4NB,
Registered in England No. 754167

Tel: 0800 073 1777
Fax: 0870 709 1111
Email: customers@reassure.co.uk