Contents

Introduction 4
About this report 6
Mercer 10
Industry themes 12

Providers
Aegon 16
Aviva 22
Legal & General 26
Royal London 30
Scottish Widows 34
Standard Life 40
Hargreaves Lansdown (a case study) 44

Appendices
Appendix 1: NMG – broad market opinion (adviser sentiment) 48
Appendix 2: high level statistics 52
Appendix 3: Darwin fund range 60
Appendix 4: default fund performance 62
Appendix 5: access to savings 70

References 72
Acknowledgements 72
About Thomsons Online Benefits 73
About the Thomsons consulting team 74
About the author 75
Introduction

Jack Curzon
Consulting Director

Welcome to the Thomsons 2019 Pension Provider Report, our annual review of the UK group pension provider market.

I am delighted to introduce this year’s Pension Provider report, which showcases our annual review of the UK Group Pension provider industry.

Over the past 12 months the term financial wellbeing has been uttered more than ever and has shot up the list of priorities for many of our clients.

Before this term becomes overused it’s important to understand the significance of the current landscape; employees increasingly require and expect support from their employers around their personal financial circumstances. It may seem contradictory to introduce this report by stating that pensions are not the beginning or end of the financial wellbeing journey, but they of course play the biggest part in our employee benefit industry.

As a nation we are becoming more cognisant of pensions, especially with the auto-enrolment legislation educating the population on how we must start saving for retirement as early as possible and ultimately contribute as much as we can afford to.

Right now there is plenty of focus on additional financial products, however, whilst the market is high growth it is still very much immature and we must not lose focus on the long-term goal of retirement. We know through established health and wellbeing strategies that the solution to employees’ health needs is not a medical scheme in isolation. It is so much more than that and involves multiple offerings working together to address diverse employee requirements. The exact same approach should also be applied in the finance space.

The providers and products emerging in the market are exciting but we must also leverage processes and technology to deliver the right outcomes. This is especially relevant in the absence of provider-led products. For instance, if you ask employees why they do not contribute more to their pension scheme they often than not give you an answer alluding to other costs in life getting in the way, such as moving house, planning for large costs, student loan payments etc... these are personal needs and there are no products or providers in place to resolve.

This is where technology saves the day. When I cast my mind back 19 years ago to the founding of Thomsons and our desire to disrupt the market in facilitating online pensions enrolment – our drive to improve the market has not changed. We still want the best outcomes for our clients and their employees that crucially want to achieve this through technology.

It is this technology that will facilitate further changes in years to come, as we seek those positive financial outcomes for employees across the spectrum of their individual financial needs. As consumers we expect an experience fitting the technology in our hands, yet do not always receive this from each area of our benefit packages. This has to change and will take time, but what we are not doing is distancing from the need to save for retirement. If strategy is delivered correctly, we should enable employees to meet their personal financial goals around debt, savings and investments – at the same time as contributing to their retirement.

Backed up by our colleagues in Mercer Marsh Benefits (MMB), we have never been in a better position to deliver market leading overall solutions for our clients and our prospects, not just in high growth innovative areas but also for the staple themes which you will be spending the most money on.

It is no surprise that pensions are the biggest benefit spend for organisations and indeed will be in the top overall spend behind remuneration and location. Our attention may be split on other approaches but pensions are not going anywhere, governance and provider management are as important as ever – when was the last time you reviewed yours?

We hope you enjoy this year’s report. If you have any questions or feedback please get in touch with your usual Thomsons contact or email us at connect@thomsons.com.

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Click here to follow us on Twitter
It’s remarkable to consider that £133bn(1) will flow to colleagues, speaking to providers and sifting out the relevant. However, now that staging has taken a back-seat for many employers as they have wrestled with their new-found responsibilities. There is a need to get to grips with the legal requirements, to improve member experience and outcomes.

In our experience, typically around 90% of members invest in the scheme default fund. We also refer to the terms and conditions of the pension scheme as well as the existing trust administrators, in order to cater for all requirements.

For those providers that offer both options, the terms and key features can be very similar. Given that the majority of our consultancy clients are using a GPP, along with additional DarwinTM, is the global market leader for benefits administration. It is notable that providers of contract-based pension schemes also now offer Master Trusts, as well as the existing trust administrators, in order to cater for all requirements.

Wider feedback might include issues experienced through platform upgrades or notable features identified within the latest release of financial results.

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The purpose of this section is to address any topical themes that may impact on the direction of travel for the provider. This might include updates on merger and acquisition activity, and some of the knock-on implications for pension members, or might include some wider feedback on market perceptions of the provider.

Proposition

This section covers the core components of the provider’s product(– what it does and how it compares to our view of what is required.

Most providers on our panel are now able to offer access to Group Personal Pensions (GPPs), Group Self-Invested Personal Pensions (GSIPPs), Own Trust, Master Trusts and even Investment Only (IO) options. With the exception of IO, these products have become more homogenous with regard to the experience delivered to members, but our consulting team can advise clients on the most suitable product to meet their needs.

One of the aims of providers in recent years has been to position themselves to be able to offer the suite of products. Typically, as far as our panel is concerned, this has been achieved by acquisition rather than the launch of new products. This is important to note, as behind the scenes there is the need to achieve system integration and some products have better reputations for service and connectivity than others.

This section also provides insight into whether a product is gaining traction in the market and therefore considers key metrics such as market share, number of schemes, number of members and whether the product offers a clearly identifiable Unique Selling Point (USP).

Furthermore, we also discuss member experience in the key touch points with the provider and consider access to apps, the user interface (UI), user experience (UX) and quality of benefit statements and other provider communications. (Retirement experience is considered separately).

Therefore, our review focuses on the key elements of responsibility for providers within this symbiotic arrangement and includes the following:

• Context.
• Proposition.
• Connectivity to Darwin, service & administration.
• Investment. Default Funds.
• Retirement Journey.
• Development Potential.

Connecting to Darwin, service & administration

This of course is of critical importance, as better connectivity equates better member experience. In addition, service levels are also heavily dependent upon a provider’s technological capabilities and whilst some are excelling in this area, others have work to do.

The best providers will deliver live fund value feeds into Darwin, along with notifications of member fund choices and retirement age changes. They will also deliver certain governance data fields in a useable member format, rather than a more simplistic scheme-level brochure.

Furthermore, the best providers will deliver excellent relationship support, with fast turnaround times, along with the highest attention to compliance, processes and best practice.

Given that one of the providers’ key responsibilities is to collect and invest the contributions, the system capabilities for contribution uploads, new/joiner uploads and leaver notifications bears considerable scrutiny by our administration team. These views are shared in detail within the appendices.

Significant weighting in this category is applied to the views of our own administration team, as this can have considerable impact on both client and member experience. However, in order to provide an element of balance to this view and to ensure that we do not overlook wider market considerations, we work with our trusted partner, NMG Consulting.

NMG provides a specialist and global view on the asset management, wealth, insurance and reinsurance markets. The application of proprietary research enables NMG to produce considered opinions that are in turn used by financial institutions to help shape strategy and influence change. For our purposes, the view of key metrics across the pension industry are very valuable and some of these insights are shared in the appendices.

Investment: default funds

In our experience, typically around 90% of members invest in the scheme default fund, or more accurately the default investment approach (which typically utilizes different funds and applies an automatic de-risking programme to help prepare members for retirement). Whilst details of the self-select range of each provider are included in the appendices, our report focuses on the default investment options.

Following the introduction of auto-enrolment in 2012 and the ‘retirement freedoms’ legislation in 2015, there has been much focus on controlling volatility and investing in appropriate assets as members draw closer to their selected retirement age.
Retirement journey

When members reach the point of withdrawal, it is important that the provider can both facilitate their requirements and support the decision-making process.

Since 2015, members have enjoyed much greater freedom in how they manage their income in retirement, but they also need to make a decision between encashing, taking an annuity, and remaining invested whilst withdrawing an income. For many, this will not be an easy choice, especially where advice is not being taken.

Beyond this primary decision lies the choice about how much income to draw and the very real concern about taking too much, too soon. In addition, not all providers will facilitate a direct withdrawal from the plan and members will be required to prefer out and navigate different charging structures and other restrictions.

The best providers offer comprehensive support, from concise case studies to online chat and full telephone support. In addition, some will enable members to retain their scheme annuity management charge (AMC), will apply no additional charges or restrictions and will allow the whole process to be transacted online.

Some will insist on a transfer into a separate product. This can be viewed as a disadvantage, given the need to endure a transfer process and the application of a different charging structure (often a sliding-scale based on the value of the assets held). However, on the other side of the coin, members gain access to a specialist income withdrawal product, with complementary investment options, as opposed to using a product which has been adapted (and behind the scenes may be held together with sticky tape). Furthermore, from a governance perspective (assuming a member transfers all their assets into the new plan), the employer is relieved of responsibility.

Where the average age of a scheme is relatively high, there is plenty of food for thought under this category and the access to savings section in the appendix provides a high-level comparison between the different products.

Development potential

Development is often driven by necessity, but it still requires plenty of cash! Providers therefore need a robust financial position, with strong cash generation capabilities and the board’s support to be bold and to innovate.

In essence, a strong financial position delivers the ability for a provider to invest in its proposition, increase scale and ultimately increase and retain assets under management. In principle, this should also deliver better member experience, providing that market competition is not constrained by the emergence of a small number of supersized participants.

A strong financial position should also mean that a provider makes strategic acquisitions, rather than being acquired. While of course this is not a given, it can be an indicator of future stability and this is an important consideration for employers when deciding where to place their scheme.

Alongside our own industry experience, we apply input from world-renowned credit ratings agency Moody’s Investors Service. Whilst Moody’s produces financial strength ratings, the key information is delivered within its published research, which includes influential metrics such as distribution and diversification strengths, credit strengths and weaknesses, product strengths and weaknesses, potential for cash generation and risks to ratings.

Providers are frequently acquiring InsurTechs to help boost specific areas of their propositions. e.g. Aviva has invested into Neos and Wealthify, L&G entered a partnership with Smart Pension and Standard Life Aberdeen announced a joint venture with Virgin Money (which signed a contract with 10Futurer Technologies).

It’s no surprise then that capital investment in InsurTech start-ups and scale-ups reached $3.2bn worldwide in 2018, which doubled the 2017 investment. Venture capitalists and insurers currently are increasing their appetite for the opportunity and are investing in companies that are either perceived as a threat or which offer enhancement opportunities.

Within this section we comment about where providers are currently at, their vision for the future and the value that they place upon digital and overall member experience.

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Mercer

Roger Breeden
Partner

Are pensions having an identity crisis?

The humble defined contribution pension plan can be forgiven for feeling like it’s a washing machine at the moment. There’s a lot going on as shown in the graphic (opposite page, top).

So where does this leave an employer looking to do the best for their employees? There’s much talk these days about ‘engagement,’ ‘moments that matter’ and ‘behavioural science’. All good points but at Mercer we believe success for pensions in the workplace means doing something for the employee that puts their pension in the context of their overall finances; otherwise it’s pretty useless asking people to contribute if their pension in the context of their wider financial picture is irrelevant.

If your employees are confident that they have control over day to day finances and can cope with an emergency they will start to think about the longer term and make decisions around how much they need to save to provide security in later life. That’s when the pension becomes more meaningful and moves on from being simply a way of complying with employment regulations to something that is viewed as a benefit and part of their long-term plan.

To achieve this the pension has to deliver on three counts (see diagram below):

- Provide consistently good and stable returns.
- Be fully responsive to digital technology.
- Provide a link to advice.

Whilst it is great to put employees in control, we know that people in general are not good at investing. The employee needs to have a clear and well-managed investment plan before and after retirement. For an increasing number of employees, environmental and social factors are becoming more important.

At Mercer we are constantly challenging ourselves to meet the needs of our clients and bring innovative ways of putting the pension at the heart of their overall reward and benefits programmes while treating the employee as a customer.

We welcome the increasing focus on ESG in this report. Mercer has advised investors on all aspects of ESG factors since 2004, and our investment beliefs state that ESG factors can have a material impact on long-term risk and return outcomes. Together these inform the way we manage Mercer SmartPath™ within the Mercer Master Trust and other delegated pension scheme investment services.

Mercer is serving more clients

Mercer Marsh Benefits (MMB) is a worldwide combination of Mercer and Marsh employee benefit capabilities bringing the best of both organisations. Back in December 2016, Mercer acquired Thomsons Online Benefits, in order to combine a world class consulting and technology proposition for our clients. More recently, on 1 April 2019 we also welcomed colleagues from JLT, expanding our capacity to serve more clients, both large and small, across all sectors of the economy.

Our benefits professionals are deeply knowledgeable about their local markets and global consistency is delivered through the application of technology. We allow our clients to access our services in the way that suits them, whether that’s through a consulting led approach to pensions and financial wellbeing or delegated using the Mercer Master Trust harnessing links to Darwin.

MMB and Mercer offer a full range of financial wellness consulting along with education and financial planning advice that covers everything from basic budgeting skills and money management through to annual/lifetime allowance, retirement decisions and beyond. These services are available online, offline and over the phone and in addition we offer individual advice.

Ultimately, our global scale, local expertise, technology and wide product range through the providers that we partner with, enables us to cater to a multitude of client needs.
Industry themes

Kevin Brendling
Lead Technical Pensions Consultant

Introduction
Before delving into the nitty gritty of each provider’s proposition, it’s worth taking a moment to shed some light on some of the key themes impacting on the pensions industry.

The UK insurance market
Traditionally it has been insurance companies that have ruled the roost when it comes to contract-based pension products. Whilst this is changing with smaller, more nimble, FinTechs entering the market, they continue to dominate market share.

However, as highlighted in our 2018 report, the market has been shrinking through merger & acquisition (M&A) activity. In recent years we have lost Friends Life and Zurich, while Standard Life has outsourced the administration of its workplace pensions to Phoenix, historically known as a closed book consolidator but now seeking to adopt a growth strategy as a life consolidator.

One of the sources of challenge has been the general direction of travel is likely to be higher interest rates in developed economies in the coming years, the pace of monetary policy normalisation may already be starting to slow in response to lower global growth forecasts.

The environment for UK insurers, and some of the largest pension providers, is therefore set to remain challenging and naturally this impacts development potential and resource.

Tech disrupters
History is littered with companies that failed to innovate and ultimately failed. In fact, 88% of the Fortune 500 firms that existed in 1955 are gone (1). Some years ago we would all have been familiar with high street names such as Blockbuster and yet in 2010 it filed for bankruptcy, after rejecting the opportunity to buy Netflix just 10 years earlier.

I wonder which insurance companies that we all know and love today will not be with us, say 10 years from now? Those that survive will likely attribute a sizable part of that success to their technology spend, which consumers are becoming more demanding of.

Imagine rolling out a new pension scheme today and expecting everyone to complete a paper form and post it back. Would employees feel valued? I dare say they wouldn’t.

However, it’s not enough to just invest in some tech. The digital world is evolving rapidly and what looks ground-breaking today may not be tomorrow. Providers therefore need deep pockets to mitigate these movements and need to collaborate with others (InsurTechs) to meet their goals. We are seeing this happen, with providers now giving their start-ups the option to bid for the right to develop new product enhancements.

In addition to these exciting developments, providers must retain a strong focus on the broader and bolder aspects of administering pension schemes. In a nutshell, they must deliver on the essentials - e.g. robust processes for receiving and applying contributions and for paying out benefits at the other end.

Master trust authorisation
The introduction of auto-enrolment naturally increased the need to set up new pension arrangements. For employers who wanted to stick with a trust-based approach, Master Trust became their auto-enrolment solution, causing many smaller companies to enter the market.

In response to this swell of activity, the Government introduced a stricter authorisation and ongoing supervision regime for Master Trusts as part of the Pension Act 2017. This Act gave Master Trust providers six months from 1 October 2018 to apply for authorisation from the Pension Regulator (TPR) in order to continue to operate.

To achieve authorisation, the Master Trust must demonstrate that it meets certain criteria, as determined by TPR, and must pay a substantial fee to apply. If the Master Trust is not authorised then they will be required to exit the market and be wound up.

Given the risks of not making the grade, it is no surprise that Master Trust providers took their time to make their submissions and that only a few have been authorised so far, with some being granted an extension. It is also no surprise that 44 decided to exit the market and at 31 March three have been authorised with 27 pending approval.

The authorisation submission for the Mercer Master Trust was made ahead of the deadline and we fully anticipate that approval will be granted.

Secondary auto-enrolment market
Note that ‘staging dates’ have given way to ‘duties start dates’ (all employers in existence prior to 1 October 2017 had staging dates and new employers since then now have duties dates) and contribution levels have reached a steady-state (April 2019), the legislative burden for employers has reduced somewhat (at least for the immediate future).

After the introduction of the auto-enrolment legislation in 2012 (primary market), and the enrolment of 10 million members, there was a sense that employers may have stayed with the provider they were with, instead of reviewing the market, as they grappled with their newfound responsibilities.

The prospect of trying to move a new auto-enrolment scheme, in response to issues with service and administration (some providers were initially overwhelmed by the demand), was less than desirable during the first few years but the expectation is that employers will be more willing to review the market now that the dust has settled.

Furthermore, whilst the provider should be regularly reviewed through annual governance, it makes sense to perform an annual review every three to five years, and for many mid-sized companies this would now be an appropriate time to do this. This has been termed the secondary auto-enrolment market.

So, is it a myth, or are providers witnessing a significant increase in terms requests? Well, Aura for one has reported that enquiries at the end of 2018 were up 80% on the same point in the previous year (2).
Of course, whilst this market spells opportunity, it also equals risk for providers – i.e. that they will lose schemes, rather than gain schemes. More than ever it’s tremendously important for providers that they look after their schemes and demonstrate strong levels of care and overall service – to employers, but also to advisers.

Dashboard

The pension dashboard dream has been knocking around for many years now and is essentially a means of synchronising all of a member’s key pension details in one place. This will be a good outcome for members, but it requires a lot of pulling together across a wide universe of pension providers.

Back in 2016 the Government said it would ensure the industry designed, funded and launched a pension dashboard by 2019. This is intended to be a free service (for members) and will need to pull together fund values, fund choices and other essential details from 44,000 UK pension schemes in the UK, with around 22m members.

Public sector arrangements will also be included, as will the State Pension, which should deliver greater certainty of retirement wealth for members.

This will clearly be a significant technological challenge, which will also need to take into account member security and data cleansing requirements. However, schemes will be compelled to feed their data to dashboards and this will be introduced on a phased basis, with the largest schemes going first.

According to the Association of British Insurers (ABI) savers have lost track of over 1.6m pension pots with a collective value of £20bn. The Government has now given the green light for Dashboards to proceed and the first are due to enter the market later this year.

However, one note of caution is that legislation will be required to compel schemes to comply. Given the all-consuming impact of Brexit, it is not clear when this will be introduced. Without the guarantee of the necessary data, will providers want to build a dashboard just yet and run the risk of launching early without being able to offer the full benefit? Possibly not, so it will be interesting to see how this progresses.

Work place pensions: our experience

One emerging and disappointing trend has been the apparent shift in focus between the levels of service that providers are willing to allocate to members versus that delivered to advisers. Whilst we welcome the enhanced focus on driving member engagement, there is a growing sense that advisers and their requirements are being marginalised in the pursuit of assets under management.

To some extent this reveals the direction of travel for the market, which through technological advancement is becoming a more self-serve culture, with members taking control of their retirement income planning (disadvantage from taking advice due to the perception of high associated cost) and transacting non-advised transfers online.

In recent months our observation has been that providers are riding their development spend piggy-back to enhance their member journeys and the adviser experience is being pushed to one side. As a result, while improved functionality is required for administrative and service needs, there is a waiting list, and all the while the squeeze on personnel resource is being felt more acutely.

The time to replace and train staff is exposing a lack of quality control, and new and improved systems (whilst welcomed) are taking time to bed-in and to weed out the gremlins. The impact is to stretch our own SLAs and we require providers to recognise the need to better support their distributors.

Identifying what successful looks like

The providers currently on our panel are there because of their market share, their commitment to digital development and our overall assessment of their respective propositions. However, for us, continued success in a shrinking and transitioning market will rely on the following:

• Connectivity to Darwin.
• Out-developing their rivals in the race to deliver high quality member experience (digital development), but also a commitment to the needs of advisers.
• Scale and asset management capabilities.
• Investment offering.
• Strong service capabilities.
• Product flexibility – GPP & Master Trust
• Other key features – e.g. open banking and financial wellness capabilities.

With some new options in the market, and some long-established providers looking to invest more competitively in their connectivity capabilities, providers should be aware that a continuing position on our panel is not guaranteed and has to be earned, in order to best meet the needs of our clients.

So, now that we’ve equipped you with an outline of the report, some wealth insights and industry themes, it’s time to dive into the provider reviews.

£££
Aegon

Kevin Brendling
Lead Technical Pensions Consultant

Proposition

Aegon holds 2,522 schemes, with 742,000 members, across its ARC and Compass group pension products (market share not disclosed). To compete in the UK DC pensions market, it is essential to offer product options and the acquisition of BlackRock’s DC business filed in the missing pieces of the puzzle, adding Master Trust and Own Trust to the existing GPP and Group SIPP options. In addition, it also supplies an Investment Only Platform, which some of its peers also offer.

As a result, Aegon has decided to outsource the Universe GPP to Atos, a global outsourcing business and leader in digital transformation (which Aegon has a long-standing relationship with). Atos is not a closed-book consolidator and will invest £10m+ over the next 5 years (of the 15 year contract) to deliver better functionality and better member experience. Cost synergies will not be sacrificed, and £200k staff will be brought over to Atos, whilst remaining in the existing Edinburgh office. It is important to state therefore that this is not a sale from Aegon to Atos and Scottish Equitable (the insurer behind the brand name of Aegon) will still retain responsibility and will continue to own the policies. The plan is to implement this move between April 2019 and 2021.

By contrast ARC is Aegon’s prized possession and this digital platform offers better member experience through its more modern user interface (UI). We would also now rate its governance capabilities above that of the Universe GPP, with improvements realised in accessibility to member-level data.

The real movement of the scales will come, however, when the Single Sign-On (SSO) link between Darwin and ARC becomes a reality. This link will effectively deliver live fund values and choices into Darwin and will enable members to transact fund switches plus access their pension fund set up with drawdown on ARC. Effectively, the introduction of SSO may also be a red in the coffee for a GPP product that has moved beyond its best days - unless Atos can successfully resurrect it.

However, we now also have to consider the Target Plan GPP, where it seems Aegon is currently investing a lot of development resource (more on this later). This product is more suitable for larger schemes (assets of £10m+) and offers BlackRock’s Lifepath default fund solution. In addition, Target Plan will gain Aegon’s latest features this year (e.g. a fully online drawdown journey) and will benefit from the new user interface (UI) being developed for ARC. So, plenty of food for thought here!

Connectivity to Darwin, service and administration

Aegon’s long-established relationship with BlackRock has ensured that the world’s largest asset manager (by AUM) gets plenty of exposure through Aegon’s products. For pension members this is no bad thing, given that such economies of scale drive down costs and the fund manager is naturally very present within Aegon’s Workplace Target range.

It is no surprise then that under the Target Plan GPP (acquired from BlackRock) that the BlackRock Lifepath solution is the default fund. This approach is charged at 8 basis points, a little higher than other Aegon defaults, but this reflects the more comprehensive profile (which spans 40 years before retirement and 20 years after) which invests into a relatively wide range of assets and supports members through retirement (rather than leaving them to it as they journey through retirement).

Turning our attention back to the Universe GPP and ARC though, the Workplace Target range delivers a relatively simplistic range of 10 options, which are neatly arranged into different retirement targets, risk levels and additional options, such as multi-manager or ethical.

The Growth Tracker (Flexible target) is the most appropriate default lifestyle to review for our existing clients. This passively managed, low-cost solution is priced at just 5 basis points and members are initially invested into Aegon’s Growth Tracker fund. Essentially this is a 75% equity/25% bond fund, managed by BlackRock – nothing terribly exciting and very little protection from the scenario where equities and bonds experience a synchronised downturn.

In a change to how we report on the performance of default growth funds (the fund utilised in the growth phase of a default lifestyle programme) we have this year split the funds into five groups, with the top fund(s) ranked in group five.

Investment: default funds

Whilst we have no direct experience with Target Plan at present, Aegon’s own NPS scores reflect an 18 point higher score for Target Plan compared to the Universe GPP.

Key Points

- Aegon’s Universe GPP is moving to global outsourcer Atos from April 2019. Atos will inject £10m of much needed development resource into the product.
- ARC continues to be the largest UK platform and some upgrades have been introduced this last year.
- A new User Interface (UI) is being introduced to the front of ARC and Target Plan, which will incorporate Retinestudy and support for other areas of financial wellness.

Context

One year on and Aegon remains the leader in the UK platform market, following the acquisition of BlackRock’s Defined Contribution pensions book and Cofunds (IA and GIA products. This bold move increased Aegon’s UK platform assets under management from £15bn in Q2 2018 to a substantial £57bn in Q4 2018. However, this was a considerable chunk of the platform pie that Aegon took on and inevitably it has not all been plain sailing.

The BlackRock migration was relatively straightforward (compared to the Cofunds project) with 340 employers, 500,000 members and £5bn of assets transferred, although Aegon’s internal controls and monitoring did identify a unit pricing issue which occurred in July 2018. The appropriate fix was implemented and a remediation project is underway.

Of course, whilst such issues should not be overlooked, they are not unique to Aegon and other providers have experienced similar issues with their own migration exercises in the past – which Aegon took on and inevitably it has not all been plain sailing.

The appropriate fix was implemented and a remediation project is underway.

Both of these products have SSO capability and Target Plan also has contract-enquiry capability. We anticipate that testing on SSO to ARC will commence in the coming months, so watch this space!

Regarding service and administration, our experience is concentrated on the Universe GPP and there has been no significant improvement over a number of metrics that we measure against. Having said this, Aegon reports that the Universe GPP Net Promoter Score (NPS) has increased from 40 to 58 against 42 of the Universe GPP and 34 of ARC.

When we consider the growth of Aegon’s Workplace Target range, this is a very positive increase, as this is a new product in its own right.

However, one point to note is that Aegon is now going to launch some of its own funds (which will be OEICs) and this will provide the freedom to incorporate ESG in future. In the short-term there does not appear to be the appetite to build a badged ESG default solution just yet, but naturally there is now growing interest under Aegon’s trust-based products and we know that BlackRock’s CEO is a firm advocate of ESG, with plans to double the size of his Stewardship team. Therefore, we would anticipate that BlackRock will provide a solution either through Lifepath or a new fund(s) at some point.

NMG’s independent ratings for operations would appear to concur with this opinion, although the ratings focus on the provider as whole (rather than being product specific) and there may be some contagion impact from the Cofunds re-platforming exercise.

However, some developments on ARC have led to some upgrades on our scoring system, such as a workaround to enable the retrieval of member level governance data, and we find that administration support is generally better under ARC. In addition, there has been no notable contribution upload issues or new employer submission issues under this product.

Aegon’s Workplace Target range; the Workplace Target platform market, following the acquisition of BlackRock’s Defined Contribution pensions book and Cofunds (IA and GIA products. This bold move increased Aegon’s UK platform assets under management from £15bn in Q2 2018 to a substantial £57bn in Q4 2018. However, this was a considerable chunk of the platform pie that Aegon took on and inevitably it has not all been plain sailing.

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On our five year annualised measure of returns, the Aegon Growth Tracker marginally outperformed our go-to benchmark (a gross of charges basis) for such funds. This performance was ranked in group two on our chart, along with the Aegon Universal Balanced Collection which has been a widely used fund in the past.

The five-year figure of course incorporates the user environment for equities and bonds in 2018 and over this period it was beneficial to be diversified into alternative assets, such as direct UK property. Some of the fund’s peers were therefore able to reduce losses by half, relative to this fund.

Of course some consideration should also be awarded to the level of risk taken to generate these returns and Aegon’s Growth Tracker performed within reasonable tolerances, but the level of return per unit of risk taken was ranked at the lower end of the spectrum.

To a certain extent you get what you pay for and the Aegon Growth Tracker is not designed to reach for the stars – it also does not charge as much funds with more lofty ambitions. However, some grumbles remain unresolved.

The key issue for us remains one of transparency; once members draw closer to their selected retirement date, they are placed into Aegon’s target-dated multi asset fund, which is a less than imaginative fund (although it performed relatively well, compared to peers in 2018). However, the real issue for us remains that members and government committees alike have a restricted view of this fund’s asset allocation and performance – because neither are published.

Whilst we sympathise with the reasons behind this decision (namely that a target-dated fund such as this does not have a static asset allocation), we believe it to be fundamentally wrong that members are invested into a fund they have no sight of.

We know that Aegon are looking at this, and thankfully we now have some assurance that we can gain the insight that we require. However, these are the types of issues that Independent Governance Committees (IGCs) should be identifying.

Turning to its ESG credentials, Aegon is of course a signatory to the UN Principles of Responsible Investment (as are all its peers) and it has used its influence to vote against the board in 24% of resolutions.

In terms of ‘ESG’ options, Aegon is very much focused on Ethical funds, providing a 16 ‘ethical’ options. Whilst Ethical is perhaps easier for members to comprehend, relative to a true ESG option, it would be good to see a wider range of options here. However, where an Ethical default is required, the Ethical Managed Lifestyle would meet our criteria (subject to a full performance review).

Retirement journey

For pension schemes on Darwin, much of the member experience aspects are already in good hands. However, the provider’s ability to delight members comes under greater scrutiny in retirement when members prepare to withdraw their benefits, or at least start to investigate their options.

This has been a strong area for Aegon in the past, with its dedicated RetireFiedy product which showcases Aegon’s investment in digital. This innovative approach applies some excellent tools to help members explore their retirement needs (e.g. the retirement needs calculator) and to model different avenues of drawing an income (or ‘wage after work’ as Aegon will term it in future).

It seems that Aegon has been doing a lot of listening, both directly from members and intermediaries, but also through its Customer Panel app, which encourages members to engage with their scheme and to feedback their views on personal finance, saving and retirement. This is a ‘great idea’.

Whilst the RetireFiedy name will fade away (apparently members have been confused by the branding), the valuable retirement scoring system is going nowhere and will be enhanced within the new UK Experience (UKX being introduced to the front of ARC and Target Plan). Furthermore, its scope will widen into other areas of financial wellness.

It is a good move for members who may struggle to understand what they need and what they can afford in retirement and Aegon will start nudging people to prepare much earlier (from age 45) to give them more time to prepare if necessary.

Where additional support is required beyond the current helpline and online chatbots and FAQs, there is Aegon Assist. This is only available for the ARC and Master Trust Product at present, but it will be rolled out to the Target Plan GPP in future and the high NPS scores (+91) will show that there is a need for this type of service, where the Aegon representative stays with the member from the beginning to the end of the process.

It’s also worth a mention at this point that Aegon has been reviewing its communications to members and has enlisted the help of behavioral specialists, Covery. Improved processes, wording and imagery have all been introduced to improve member experience.

On the transactional side, Aegon has also responded to feedback about the fund switch process on ARC, where character limitation has caused fund names to be blown up, thereby causing confusion. As a result, fund switches will now be transacted through the new front-end, and in the short-term this switch functionality will be introduced to the existing UI, RetireFiedy.

For Unisure GPP members wishing to see Dreddown, they are required to transfer to ARC (or Target Plan). The same £75pa charge for using Dreddown remains with Aegon, which is contrary to the position of a number of its peers, but members already on ARC are not required to transfer and will retain their discounted scheme annual management charge, even when they have left employment.

What’s more, those with Target Plan will gain access to a fully online drawdown journey, with signature box, from the end of Q1 this year. This will also be added to ARC in future and Aegon is ticking lots of boxes in this category – with more to come!

Development potential

This segues nicely into Aegon’s development roadmap, which was perhaps delayed back in 2018 due to the recession-sapping requirements of its migration projects.

Before jumping straight into the future plans though, it’s important to first consider Aegon’s commitment to the UK pensions market and its overall financial position, which will drive its capability to introduce the updates that it envisages.

On the first point, Aegon is clearly committed to the UK platform sector and its workplace proposition accounts for 60% of its UK income and 80% of new members (Aegon’s 2018 Absolute research). As with all platforms, the thrust for assets under management is a key driver of development potential and the provider will be eying the price of a retirement income market currently valued at £384bn+ and set to grow.

Aegon is not alone in its platform strategy to grow by acquisition and to offload its more capital-intensive operations and it seems in some regards to be following in the footsteps of Standard Life, albeit that there are some key differences.

The overall approach seems to be working though, as Aegon has managed to offset the earnings lost through the sale of its UK annuity business in 2016 and the next step will now be the lift and shift of its old GPP product, which I highlighted earlier.

Moody’s has continued to hold Aegon N.V.’s A3 Stable long-term rating and in its latest credit opinion (January 2019) again cited the importance of its global reach and the fact that the G-20 Financial Stability Board has previously identified Aegon as one of the new systemically important insurers. The report also identified that the operations in the UK and Netherlands were profitable over 2017/18 although one-off costs of £182 million impacted the bottom line for the UK.

Aegon’s new look, integrated annual report details that pre-tax underlying earnings reduced marginally from £2,160m in 2017 to £2,074m in 2018, but return on equity increased from 9.3% to 10.2%. In addition, its Solvency II capital position increased from 201% to 215% and the outsourcing of the GPP product will reportedly save Aegon £350m per year.

So, what does all this mean? Does Aegon have cash on the hip or not? Well, whilst there is not a set figure, we’re told that the development spend will amount to tens of £millions over the next few years. There are also some notable developments in the pipeline for ARC and Target plan, as detailed below:
• Workplace app – this was an unexpected announcement, but also one that we welcome. The ability to access your pension via your device can only help to drive engagement and better outcomes. However, a note of caution – initially members will not be able to transact and this will simply be for information only. Nevertheless, a step in the right direction from Aegon and after its launch on Target Plan, it will be rolled out to other products.

• Personalised Video Content – this has become a popular form of communication and Aegon, like some of its peers, is introducing a segmented approach to meet the needs of 10 identified member categories. One aspect that may need a little more work is the visual characterisation. There is a balance to strike here between using simplistic ideograms and creating something that feels childlike. This is difficult to achieve, and of course also takes into account personal taste, but providers need to be careful not to dumb down.

• Payroll GIA – Aegon also plans to introduce a payroll enabled General Investment Account on ARC next year, which will add another degree of flexibility to its workplace proposition and utilises its Cofunds acquisition.

So, some good developments for Aegon members to look forward to. It would, however, be remiss of us not to mention another important development for 2019 and this involves two more migration exercises.

Aegon will no doubt have learnt a lot from its 2018 experiences and the 2019 exercises should be less troublesome. The first is for the £8bn transfer of Nationwide’s Investor Portfolio Service to ARC, which is due to take place in H1.

The second is a little more worrisome for us. At present there is ARC1 for workplace and ARC2, which was created separately to provide some contagion protection from the 2018 migration exercises. However, at some point this must become a single platform again and ARC1 will need to migrate to ARC2 once Aegon are satisfied it’s stable!

Whilst this will undoubtedly be a nervous moment for Aegon, it is important to note that the 2018 issues were the result of new online journeys which failed and resulted in processes and support staff being overwhelmed by the flood of queries. All things being equal, this should be a relatively simple case of picking up ARC1 and gently putting it down in ARC2. Famous last words? Time will tell.

Thomsons Online Benefits Comment

Aegon continues to be something of a mixed bag for Thomsons. There have undoubtedly been issues for its platform (not unique to Aegon) and the moving of the GPP to Atos this year brings with it a sense of trepidation, as do the other migration exercises detailed above.

However, Aegon have been listening and we are seeing the realisation of some of the potential that we spoke about last year. For example, some elements of ARC have improved and RetireReady will evolve to include other aspects of financial wellbeing. Furthermore, Target Plan may offer a viable solution to the old GPP product and would potentially deliver better member experience and a fully online drawdown solution.

We note Aegon’s commitment to the UK pensions market and the development roadmap for ARC and Target Plan, with the planned introduction of the Workplace app in Q4 (which attracts some kudos), and can see that Aegon is taking steps forward.

With the biggest migration exercises out of the way, we look forward to seeing greater development of Aegon’s workplace suite over the year ahead.
The fact is that some of Aviva’s rivals have seen more positive share price movement in recent years and Aviva’s increasing dividend payments (6.5p, 6.0p for 2018 vs 5.6p for L&G) suggests that the stock is undervalued. This may be attributed to a lack of confidence in Aviva’s care insurance business, along with some notable losses in the Canadian operation, resulting from higher claims.

The CEO’s decision to join the board of BlackRock, in addition to other pursuits, aroused concerns about his commitment to the role, and the much publicised preference share debate in 2018 not only cost Aviva money, but also attracted wide-spread criticism from the city. Ironcally the announcement of his departure actually increased the share price, despite the uncertain environment and the unknown intentions of his replacement.

However, despite these distractions, Aviva’s Life & Pensions business (the part we’re most interested in) boasts an A3 financial strength rating and has been transitioning away from its roots as a traditional insurer and is accelerating its digital capabilities. Its multi-discounting platform, the MyAviva app, and its ability to harness granular-level data for the benefit of improved member experience, is making it a formidable force in the market.

The early move to acquire Friends Life delivered a key advantage over some of its rivals, allowing it to integrate and develop its propositions, before the competition had even started. The trouble is that perhaps investors don’t fully appreciate what Aviva has achieved on the front. Perhaps Aviva needs to get better at telling its story, to shout it from the rooftops, or perhaps investors are attributing greater weighting to other aspects?

Proposition

In total Aviva holds 26,000 schemes, with 3.6m members. According to Broadoak’s independent data, Aviva holds 28% of the DC market, 33% of the contract market and 63% of the large scheme contract market (averaging 21.8% of the group pension market). This marks an increase on its position at the same stage last year.

The UK’s largest insurer offers what is now the competitive workplace suite of Group Personal Pension, Group SIPP, Master Trust and Own Trust products.

There are two GPP products with Designer and NGP (the old Friends Life option) to choose from and in our view Designer remains the far stronger product. Having said this, the look and feel of these is becoming more closely aligned for members accessing through the MyAviva app, but there remain some key differences with Designer offering superior processes, functionality and fund range.

Designer is the more robust product, and our go-to option, where the majority of members will rely on the default fund or require a standard range of ‘insured’ funds. For larger schemes where more members will require the functionality to make their own investment trades, My Money may be more appropriate.

My Money was initially built as a Group SIPP solution under Friends Life and its product range was ordered to incorporate trust-based options. These products, which include Master Trust, are connected to Darwin via a Single-Sign-On (SSO) link.

All of these products can also be accessed via the MyAviva app, which is a stand-out feature of Aviva’s overall proposition. Members access via touch and face ID technology and the UI is engaging, with clear menu icons and a clean approach, which makes it easy to navigate around different products. In addition, the ‘offers’ icon draws attention to certain discounts including Wealthly – Aviva’s new ISA product.

The app continues to grow and develop and it facilitates Aviva’s multi-line discount strategy which enables members to see other Aviva products (such as car insurance) on one dashboard and to potentially benefit from cost savings. (Such savings can also be achieved for employers who hold more than one product with Aviva).

The app also enables members to transact fund switches and to check their contribution history and support is delivered via Live Chat or alternatively the call centre which is open 7 days a week.

There is also now an online transfer-in function, which includes the appropriate risk warnings (see you’ll expect) and a simple workflow for members to transition through. The use of automation and straight through processing to Origo has halved turnaround times and 25% of Designer members are now using this process. Other providers have been slower to develop an app, but are now accelerating their efforts and are catching up fast. However, Aviva continues to lead the way for now and we think it’s great that there will soon be an SSO link into Darwin – a first for Aviva!

Investment: default funds

Certain areas of Aviva’s default fund offering came under pressure in 2018, as market conditions for equities and bonds deteriorated. The usually robust and reliable Aviva Mixed Investment 40-85 Shares Fund underperformed its benchmark, albeit marginally. However, it was also outperformed by its peers and this can be traced back to an asset allocation judgement call which went against the fund’s managers in the second quarter (Despite this momentary blip, we would expect this £20bn fund to bounce back and in Q3 2019 the fund had returned to its more customary position above its benchmark).

In contrast, Aviva’s newer and less constrained diversified assets fund (DAF) have performed strongly with DAF III delivering the best 5 year performance (8.7%pa) amongst a select group of peers.
In the retirement phase, DAF I was the best performer amongst a select group of peers in 2018, which can be attributed to the relative freedom imparted to its fund managers. The ability to invest beyond the constraints imposed on some of its rivals has enabled it to outperform. However, whilst some of the success of the DAFs has been due to a higher allocation to equity assets in recent years (reflecting relatively low volatility in markets) times are changing and the funds also need to adapt. We understand that the asset allocation of the DAFs will broaden in order to meet the demands of more volatile market conditions. This is a welcomed development and one that we have been keen to see implemented.

On an equally positive note, we have also been speaking to Aviva about its Environmental, Social and Governance (ESG) options. ESG marks a progression from ethical funds, which focused predominantly on negative screening — i.e. not investing in certain companies which produce conflict with ethical views. Instead, ESG is more focused on delivering strong returns by identifying companies in which to invest in ways which are better governed, socially conscious and sustainable.

This is another area where Aviva needs to shout a bit louder! With the global asset capabilities of Aviva Investors, which has £33bn £33bn of assets under management, Aviva boasts 40 years of heritage in this arena.

Whilst the providers on our panel are all now signed up to the UN Principles for Responsible Investment, Aviva Investors was an early adopter and one of the founding signatories back in 2006. It was also awarded an 8th ranking in the UN’s 2017 assessment of fund managers.

ESG principles are therefore woven into the fabric of the house view and Aviva is using its scale to implement change. In 2018 it used its influence to vote on 8,773 shareholder resolutions and voted against the board 24.8% of the time.

Aviva is doing some great things behind the scenes and offers a number of ethical, sustainable, green and ESG options across its platform and plans to launch some stewardship (ethical) lifestyles in H1.

Retirement journey

Preparation for retirement needs to start many years in advance and this is where Aviva can flex its digital muscle in the market. Data aggregation across its products means that Aviva can harness the power of data science through its segmentation model which categorises members into one of seven groups, depending on their characteristics.

Whilst one of the characters seems to have been borrowed from a certain DIY TV advertisement (sadly we are unable to publish a copy) it’s great that Aviva has used real people (or at least actors) relative to the trend of using cartoon-like characters, and this segmentation enables Aviva to better tailor its communications to help drive better member outcomes.

A new and exciting development to Aviva’s retirement forecasting tool will be the planned introduction in August of an appropriate minimum income level. Aviva has been working with some specialist organisations to introduce some context around the level of income that members need in retirement.

This is a great idea and will be used alongside nudging communications, annual benefit statements and one of the key aims of the current ESG status assessment of their savers versus retirement goals and Shape My Future, which will in time give members more control over how their scheme default fund can be tailored to their individual needs (still in development). So, better off with Aviva on this one — these different strategies will make a real difference when they all come together!

Once members get closer to the point of wanting to access their pension savings, they can gain valuations and other information they require through the fingerprint or facial recognition gateway on MyAviva. Members are supported through the usual channels along with online chat, which from personal experience can be highly effective.

Retirement options are displayed on MyAviva with a clean, sharp UI with a triad approach. The key methodology is to work alongside, with a breakdown of current values, and an option to reveal more detailed information. There is also the option to tick different options, in order to make a comparison between them, and tax information and calculations are also provided.

Members are also directed to the advice and guidance section to consider ‘eX’ which provides retirement planning and pension withdrawal tools. Then, at the end of the process there is a handy list of documents that members have not yet read and a reminder that all of the information has been deposited in pdf format in the member’s document section.

Finally, the member can call the provided number to speak to the quote team, who will talk through the member’s requirements, and things to be aware of, before prepopulating the information with the member and emailing/posting a copy to the member.

Until recently, members have been required to post a copy back with a wet signature. We would prefer there to be a fully online option and the secondary issue has been for members wanting to draw a regular income, but finding they are restricted to just six withdrawals per year, with each one requiring a wet signature. Quite simply this is a real drag and is out of kilter with Aviva’s digital prowess!

Happily, the good news is that Aviva has now introduced a monthly withdrawal function, with an online signature. This is a great result, to add to the existing advantages some peers have, i.e. that members are not required to transfer into another product and are not subject to additional charges or a different charging structure.

With Mark Wilson at the helm, Aviva became a leaner and more coherent business. Its cash generation increased year on year and capital also increased, with a Solvency II ratio of 204%. This enabled Aviva to pay off some expensive debt, increase its share dividend and initiate a share buyback.

However, one notable 2018 event, concerning capital, occurred in response to a European rule change which will no longer confer preference shares as regulatory capital from 2026. In response Aviva announced it would cancel £450m of these ‘irredeemable shares at par value’ which led to an investor revolt. Aviva was forced to roll back on its pledge and to pay compensation where investors had suffered loss. This was an unfortunate issue to say the least and likely contributed to the downfall of the CEO.

A further spoiler in the trio has been the Canadian operation, which was the only one out of Aviva’s eight markets to suffer loss (-£13m), as reported in the H1 2018 results. Aviva attributed this to bed weather (9,500 windstorm claims) and higher than expected claims in motor insurance. By the end of 2018, operating profit had improved to break even with 2017, but this remains considerably lower than in the preceding years.

Aviva Investors (AI) also had a challenging 2018, with quick asset allocations on £30bn assets under management (AUM) reduced whilst revenue was up 4%, poor market conditions and investment in its distribution capabilities hit the bottom line. Furthermore, AI chose to absorb costs arising from MiFID II, rather than passing those on to customers. Its absolute returns fund (AAM) also suffered with AUM reduced from £12bn to £10.3bn.

However, Aviva’s largest market, the UK, performed well with operating profit up 7% and the long-term savings part of the business compensated for challenges in general insurance, which were attributed to bad weather (‘the beast from the east!’). Overall, Aviva’s key profit metric, operating earnings per share (EPS) was up 7% to 58.4p in 2018 and its dividend increased by 9% to 30p.

So, Aviva is profitable and has a £12bn capital surplus. It therefore has the potential and the will to invest in its platform and products; and digital development is high on the agenda.

Aviva’s Digital First strategy is very clear about its aim — ‘to be a leader in digital and self-service in an industry dominated by complexity’. This translates as addressing pain points that members have traditionally experienced, which has resulted in the following products, tools and initiatives being introduced to help members:

- MyAviva app — this enables Aviva customers to review all their products in one place and enables members to transfer conveniently through their chosen device. It continues to evolve.

- Rewarding loyalty by offering multi product discounts — this discounting strategy is working — 69% of Aviva’s digital customers are likely to consider Aviva for other products, compared to 52% of non-digital customers. This discounting also applies to schemes — e.g. where a client has a health scheme with Aviva, a discount can potentially be obtained by placing the pension scheme with Aviva too.

- Retirement tools — Aviva will be launching a stochastic model that seeks to project more realistic minimum retirement income needs.

- Retirement modelling functionality which will enable members to adjust their lifestyle investment strategy to better meet their needs. This will mark a significant step forward in member experience when launched.

- ‘99 in 3’ — this is Aviva’s ambition to achieve 99% first point resolution with no process taking longer than 3 days, 3 clicks or 3 pages. This aspiration seeks to apply automation and digitisation to improve member experience.

- ‘Ask it once’ — this initiative was launched in 2017 and seeks to better use data so that members don’t have to repeat answers to questions that other parts of the business already know.

- Alexa — the Aviva skill links at MyAviva and (one set-up) allows members to obtain their pension value audibly, without logging into the app. This is achieved with the unique commitment that data will not be shared with Amazon and more functionality is being developed.

Thomsons Online

Benefits Comment

The market for workplace pensions continues to evolve and providers need to be more than just insurance companies in order to keep pace with the change.

Aviva has similar ambitions to our own, to change benefits, for good, and to provide value to clients and their members.

Aviva’s digital first strategy ticks a number of important boxes, but it is vital that the core areas in its pension proposition (service, administration, investment) retain the level of excellence that we have experienced in recent years, as its competitors vie for position.
Legal & General (L&G) is a long-standing purveyor of financial products, with a heritage stretching back to 1836. A FTSE 100 company, it has an enviable asset management arm (LGAM), which manages £1tn globally. This makes it a top 20 global asset manager and the largest in the UK.

The workplace pensions operation is housed within LGIM, which gives it access to tremendous scale and investment expertise and this is one asset manager that is ahead of the game in developing ESG solutions.

In fact, LG&G even has a dedicated site, its Future World blog, which delivers financial climate insights, shines a light on a variety of investment classes, explores the modelling tool and updates their fund value and contribution history, switch funds, explore the modelling tool and update their details. All the things you would expect and more.

Context

L&G is a relatively simple, does what it says on the tin, type of product. Or is it? It seems that L&G is now offering some bells and whistles, with a new app on the way, and the online experience has definitely progressed with regular upgrades coming through.

Proposition

We have an SSO link between Darwin and L&G; however, there have been some issues with functionality, which have happily now been resolved.

Unfortunately there remains a stalemate on introducing contract enquiry at present, something we hope can progress swiftly - as this is one significant box that we would like to see ticked.

Service and administration has also presented some challenges, with regard to general support and timescales with personnel. In addition, there has been an ongoing issue with L&G’s communications process which has issued updates to clients first and advisers second.

One prime example was the notification about a two week blackout period for new joiner and contribution uploads in November (due to a large-scale upgrade to L&G’s fund range), which clients were informed of ahead of advisers. Clearly this is not a sustainable approach for running a distribution model and L&G has been working to address this particular vexation.

NMG’s independent ratings for operations do not necessarily reflect our experience, with L&G actually scoring reasonably highly for operations. However, this is where a more localised assessment can deliver valuable insight for our clients.

Beyond these grumbles though, the new joiner and contribution processes are on the whole robust and L&G provides usable governance data, in our required format, albeit that delivery timescales are a little slower than with some peers. Having said this, we understand that L&G has invested in some self-governance data functionality and we look forward to the roll-out of this later in 2019.

Investment default funds

The magnitude of L&G’s assets under management gives it real teeth when it comes to influencing change and in 2017 it exercised this power in over 46,000 resolutions, where it voted against the board 15% of the time. This Active Ownership approach included supporting climate change resolutions in 95% of cases.

As mentioned at the start of this review, L&G ticks a number of important boxes for its default fund offerings and its dedication to highlighting alternative investment solutions such as ESG.

Many default funds were exposed for their relatively limited asset diversification in 2018 when equities plunged into negative territory and bonds struggled to generate a positive return. Despite the widely held understanding of the benefits of diversification, cost constraints within the pension charging cap and a decade of central bank stimulus (which encouraged fund managers to stick with the major asset classes) has resulted in limited divergence into alternative assets across default funds for contract-based schemes.

Since 2012, L&G has provided members with access to a genuine multi-asset fund, for just 13 basis points, on its generation three platform. The fund has a much lower allocation to typical equity classes than many of its peers but invests into more ‘こそ’ assets such as private equity, infrastructure and emerging market debt. These alternatives can be relatively expensive, which is where L&G’s scale and passive management expertise has proven valuable.

As a result of its diversified strategy, and lower allocation to equities, the Multi-Asset fund was able to halve losses in 2018, relative to a number of its peers, and in better periods of equity performance, the fund has still exceeded the go-to benchmark that the fund and its peers look to at least match.

For clients who wish to explore the possibility of an ESG-badged default fund, L&G is one of the few providers on our panel to offer a solution. This is L&G’s real USP in the workplace pensions market at present, because the Future World Fund is up and running, whilst some of its competitors deliberate on what they should do.

So, is Future World the real deal or is it pulling the wool over our eyes? Once you cut through, the fund manager speaks of factor-based tilts and other such jargon, the fund is seeking to achieve better risk-adjusted returns, by investing in companies which are future-proofed from climate change (e.g. low carbon), and to positively influence other aspects commensurate with a sustainable future.

To achieve these aims within a competitive cost, L&G knew it would need to harness its passive management experience, but of course

Kevin Brendling
Lead Technical Pensions Consultant

Key Points

- Increasing digital credentials
- The launch of L&G’s multi-product and transactional ‘One App’ is coming
- ESG solution – ‘Future World Multi-Asset Fund’
There's also the Future World Multi-Asset Fund, which in our view would make for a more appropriate default fund solution than its 100% equity big brother. This will in time become L&G's default, as it ticks all the important ABI Mixed Investment 40-85% Shares space – where competing default funds typically converge.

Whilst the Future World MAF was only launched in June 2018 (and therefore does not meet our minimum 3 year track record requirement), from a bird’s eye view of asset allocation, the fund looks almost identical to the more established MAF. However, under the surface the equity and bond holdings are invested in Future World funds. This is definitely one to watch, as we expect ESG to trump up the governance agenda for GPP schemes over this year and next.

Retirement journey

We have previously reflected on the notion that low average fund values (leading to a high level of encashment versus drawdown) have driven L&G to invest in other areas of its proposition, other than the retirement journey. The issue with this approach, whilst justifiable, is the inability to demonstrate to clients the provider’s ability to cater to different needs and schemes are typically placed for a number of years. Happily, L&G is now progressing in this area.

There’s now a clearer online journey, with video case studies and drop-down menus to help educate members on their options and a retirement planning tool which predicts how long a member’s pension savings might last, based on different options.

L&G also offers different plug-ins to tailor to different needs, including a range of guidance & advice options from LV and the Smart Retirement Account, which provides a holistic view on retirement. This brings together different aspects of wealth and income needs and helps members to think about their retirement strategy, by weighing up terms of money to different needs – e.g. a flexible income pot or an income pot for beneficiaries. L&G is also in the process of building default funds with a more comprehensive approach to meeting retirement needs – we look forward to seeing these when they’re ready.

At present the drawdown journey starts with a paper application process, which L&G are keen to upgrade to an online process. This is coming in the not too distant future and the £250 fee for switching on drawdown functionality and the £250 fee for making withdrawals (which we have been critical of) have now been removed – good result!

Development potential

So, L&G is clearly investing in its proposition and this is made possible by its strong financial position. In 2018 LGIM became the first UK company to manage £1 trillion of assets and increased its operating profits by 10%, reporting strong growth across all of its businesses.

A solvency ratio of 188% (estimated at 193% on 4 March 2019) was also reported and the provider is in the process of offloading its closed savings book to Swiss Re, which impacts one million customers and amounts to £33bn of assets. According to CEO Nigel Wilson this action will “help to drive further earnings growth, by enabling L&G to focus on its successful market-leading businesses and to accelerate the scaling up of our growth businesses.”

So, it’s all rosy at L&G then? On the whole it does appear to be in a good place, with Moodys continuing to highlight the benefits of its brand strength and excellent product diversification, but one sting was its index funds business, which suffered £14.8bn in external net outflows during the year. Combined with the detrimental effect of market movements, this area of the business saw its total AUM drop from £340bn in 2018 to £310.2bn in 2019.

The group said these outflows reflected a ‘structural shift from our UK DB index business as our clients continued to de-risk and adopt their investment strategies’. It also included the loss of a £6bn mandate from one local government pension scheme.

Despite this, LGIM (which incorporates the Workbase pensions business) increased revenue from £85bn in 2017 to £84bn in 2018 and increased operating profit by 2% to £407m.

It has also been automating and simplifying its business through investment in data analytics and has been developing the digital experience for members – which is welcomed news.

To this end, it now has two digital hubs, with one positioned in hipster Shoreditch, and L&G is increasingly partnering with third parties to drive its proposition forward, by inviting FinTechs to bid for development projects.

Workbase, which is split between the administration and investment businesses, is profitable on both sides and there is now a pot of tens of millions of Emotions to spend on development.

- App – From early 2020 members will gain access to ‘OneTree’, which will bring together a host of L&G products and importantly it will be transactional.
- ISA – In addition, there is now a corporate payroll ISA (launched January 2019) and L&G has been upgrading the UK for members and increasing its use of video content.
- Governance Data – One particularly significant and shiny new tool is self-service data. Essentially this will enable members to determine the output of data, including heat-maps and other graphical interpretations. This will be rolled out to advisers in H2 2019 and we look forward to seeing what it can do.

Thomsons Online Benefits Comment

The connectivity box is half ticked with SSO, but we’d like to see contract enquire go live too. However, L&G’s investment in digital is starting to ameliorate its proposition, with significant enhancements made to member experience and a raft of upgrades on the horizon.

The growing interest in ESG and the increasing demand for responsible and sustainable investment has put L&G in a superior position to many of its peers. L&G was first out of the traps and born the risk of launching too early. Now, however, it is going to have a valuable track record when others haven’t even launched yet. For L&G’s sake, hopefully Future World and Future World Multi Asset will deliver!
Royal London

Jackie Lane
Pensions Consultant

Key Points
- Continuing to grow its proposition, recognised by increased market share.
- Improved digital service for members.
- Scoring reduced until connectivity to Darwin can be established. Thomson and RL are working together to explore options.

Context
Royal London (RL) continued to gain strength during 2018, with pre-tax operating profit increasing from £297m in 2017 to £319m. Assets Under Management (AUM) remained constant during 2018 due to the sale of its Channel Islands business and volatile market conditions, and as at 31 December 2018 totalled £114bn.

However, as in previous years, at the time of writing it remains difficult to provide a full assessment of RL, as Thomson has no schemes run through our pension consultancy service at present, albeit that there are Royal London schemes on Darwin.

Profit Share payments, a feature that is unique to RL, continue to be awarded with £150 million due to be paid to members in respect of 2018. Since its introduction in 2007, £142 million has now been paid to members and this effectively reduces the impact of product charges.

In the past, Royal London’s digital proposition has been lagging behind its peers, but following investment in technology, this is due to change during 2019. These developments may not make it as market leader, but it will certainly bring RL in line (perhaps even ahead) with the rest of the mainstream providers.

Royal London remains firmly committed to using the intermediary arena for distribution, although it does offer some direct to market services such as life assurance and funeral plans.

There is no doubt that RL is customer centric, an Implementation Manager is provided to all new clients who would work alongside their adviser to oversee any new scheme being set up. All clients are allocated to a dedicated service team, ensuring that any calls received are handled by a team that is familiar with that pension arrangement.

Proposition
Royal London’s feet remain planted in the Group Personal Pension (GPP) market space, and there are currently no plans to move into the Master Trust arena. The heart of the proposition is to provide support to corporate advisers and their clients. The typical client for Royal London is firmly in the SME market with 250 – 1,000 employees and the provider currently holds 18,900 schemes with 695,000 members and 9.1 market share.

At H1 2018 Royal London’s life and pensions new business remained positive at £1.1 billion, albeit that this marked a reduction in the 2017 figure of £2.02bn. The reason for this being employers who were assigned a staging date under Auto Enrolment in 2012 have now staged. RL is varying the opportunity to build on its market share, with the expectation that these employers may soon want to start reviewing their auto-enrolment provider. Especially if employers have selected a pension provider because they had to stage (perhaps with little thought) and they now want to look to provide a pension arrangement that offers more than a quick fix to meet auto-enrolment. There is no reason why RL cannot expand on this.

RL has recently overhauled the look of its annual benefit statements issued to pension plan members, and with some success. The statements are in a paper format and are stored online for members to view through their own online account. Although progress has been made by RL to improve its digital member experience, non-advised pension transfers still require the completion of paper forms.

Connectivity to Darwin, service and administration
Our consulting clients have no direct exposure to Royal London at present, which makes it difficult to provide a detailed critique of the service they offer. However, this should not be interpreted as a reason for the provider not to be considered in a provider review; in fact, the opposite is closer to the truth. RL continues to score very well in all of the four areas covered by NMG’s provider analysis; Product and Proposition, Relationship: Management, Operations and Online/Technology, in the whole the proposition is well received.

Interestingly, the recent report from the Royal London Independent Governance Committee included some charts from the YouGov workplace pensions survey, where members were asked questions about their perception of value for money. Royal London was compared to five of the main providers and came top for customer satisfaction.

Currently there is no established connectivity between Darwin and RL, which is a notable sticking point. However, we are encouraged by the provider’s renewed desire to build this functionality with us (and with others) and the understanding that this has become a necessity in the pursuit of increased market share.

Investment: default options
Royal London’s default fund offerings remain one of its biggest strengths, with 46 lifestyle strategies designed to cater for different risk profiles, active vs passive preferences and retirement income strategies.

These risk-rated lifestyle strategies are an innovative range of default options that allocate portfolios from the very successful Governed Range, which in Q1 2018 reached 1m investors. These portfolios are designed to help members de-risk their fund, with options to start or stop at any stage in the fund’s life cycle. The plans cater for all risk profiles and include automatic rebalancing, dynamic switching and on-going governance at no extra cost.

RL has demonstrated an ability to deliver consistently strong returns since its launch in 2009, and has been awarded numerous industry awards in recognition of its innovative and effective design, including the 2017 Corporate Adviser award for Ultimate Default Fund, with good prospects of a repeat for 2018.

Furthermore, on our current panel of default funds, Governed Portfolio 4 (the growth portfolio used in the Balanced solution) delivered the second highest risk-adjusted returns over the five years to 31 March 2019.

The portfolio has performed consistently well, aside for a small blip after the 2016 Brexit referendum, where an overweight property allocation (relative to the go-to benchmark) dragged on performance.

This issue aside, the portfolio is less tied to equities and bonds than some of its peers and the combination of both a strategic and tactical asset allocation strategy has been very successful, with the property allocation invested in direct UK property – which can deliver a relatively low correlation to equities.

In the de-risking phase of the 15 year drawdown lifestyle strategy, members are initially invested in the appropriate Governed Portfolios and then at the five years to retirement stage are transitioned into the Governed Retirement Income Portfolios (GRIPs), which are specifically designed for taking a regular income in retirement. GRIP 3 holds an expanded range of assets, relative to the growth portfolio, but with a naturally reduced exposure to growth assets and our comparison of de-risking funds (appendix) shows that this was one of the best performers during the challenges of 2018.

As for its ESG credentials, Royal London is a signatory to the UN PRI and in 2018 voted on 15,889 shareholder resolutions. It voted against management on 7% of occasions, against pay 27% of the time and against directors 9.5% of the time.

Its ESG fund range consists of one ethical fund and five sustainable investment funds, which are managed by Royal London Asset Management (by the team acquired from Co-operative Asset Management). These sustainable funds combine ESG principles and focus on long-term themes and trends (such as infrastructure or changing demographics), a valuation driven approach and low turnover, with companies typically retained for 3-5 years.

Amongst these, two funds would meet our default fund criteria (subject to a full performance review).

Retirement journey
Royal London will begin to write to plan members from five years before their selected retirement age, reminding the member of their options and providing them with illustrations of what their plan could provide, and in the example for flexible plan could provide income. Members are written to again as they approach their retirement age.

With regard to the support provided via its portal, RL has a penchant for engaging layouts and delivers lots of information online, with increasing video content and downloadable guides which cover tax implications and risks. In addition, advisers can also pre-order a drawdown summary for members to support 1-2-1 meetings and there is a paper breakdown which projects income sustainability.
RL’s Income Release function sits within the Pension Portfolio product and can be used by those members who wish to access their pension funds flexibly and requires a minimum fund value of £15,000 to be paid in, which compares favourably with some other providers. Although it is possible to move out of the GPP into the Income Release plan without advice, it is in an area that leaves RL behind the market, as other providers allow drawdown directly from existing GPP.

Where the GPP policy has been in place for less than 12 months, RL will also make a charge of £199 for moving funds into the Income Release plan. It is possible for this charge to be deducted from the member’s fund, although this charge appears excessive in relation to other providers and we would expect it to be withdrawn in time (as other providers have already done).

The Pension Portfolio applies a tiered charging structure, starting at 1% pa but with deductions based on the value of the core investments within the plan, with a maximum deduction of 0.65% for funds exceeding £656,000. However, the benefit for pension scheme members is that they can retain their scheme charge if this is lower!

Should a member wish to use the Income Release policy, this can be arranged by a phone call to RL, but it will still require the completion and return of paper forms to complete the process.

Development potential

As the only mutual provider on our panel (and the largest in the UK), RL is keen to point out that it has no need to worry about share price and dividend concerns and can instead grow its business in a more gradual and sustainable manner – i.e. it does not need to over-stretch itself to win business and this may in part explain how it keeps customers and advisers happy.

The development of its digital proposition is a welcome sight and a new app was soft launched in April, which will bring it into the same league as many of its peers. However, it will be for information only initially (with transactional upgrades to follow) and the continued use of paper processes for transfers, and some policy set-ups, leaves it behind the curve relative to its competitors, who are forging ahead with online member journeys.

Lots of digital enhancements are planned over the next two to three years and the introduction of ISAs and Corporate ISAs will help to bring Royal London in line with its competition, when considering alternative worksite savings.

Thomsons Online Benefits Comment

It is good to see that Royal London will be making some improvements to its proposition during 2019, which should help pave the way for schemes to be placed with it in the future. The mutual provider appears to be making moves into the secondary auto-enrolment market and there is no reason why this should not continue.

However, these improvements are simply bringing it in line with the rest of the market. We are yet to see anything truly innovative (beyond profit-share), something that delivers the ‘wow’ factor. The reliance on paper processes certainly rings true of their campaign “we’re so yesterday’.

Having said that, there is a lot to like about Royal London and NMG’s research ranks it as the most highly thought of provider on our panel, which reflects its heritage in servicing the needs of the corporate adviser market.

The desire to grow in the employee benefit consultancy market requires a different skillset in certain areas, but the core substance of the proposition is strong and whilst connectivity to Darwin is a box that is presently unticked, Royal London is eager to work with us to achieve this and is clearly sailing in the right direction.
Scottish Widows

Kevin Brendling
Lead Technical Pensions Consultant

Context

In the race to acquire and grow assets under management, the life and pensions subsidiary of the Lloyds Banking Group has a crucial advantage to offer members – online banking.

The financial wellness holy grail of having all your financial products in one place may still be some way into the future, but to have your bank account, workplace pensions, investments and life cover all in one place is much closer to hand and the forthcoming SSO link between Darwin and Scottish Widows will soon deliver this crucial step forward in member experience.

Over 2018 Scottish Widows ran a pilot which enabled 400,000 Scottish Widows pension members with a Lloyds bank account to access their pension via online banking. This helped to drive engagement and also the consolidation of smaller pots into Scottish Widows.

The next step in this progression will be to roll this out across the Lloyds banking app and then to Zurich pension members, upon completion of the API (VII) transfer to Lloyds – expected by 1 July 2019 (subject to High Court approval).

This API-driven, open-banking functionality is a key strength of Scottish Widows’ USP and in 2020, members with a Lloyds bank account will be able to access all of their pensions and other financial products (via desktop and the Lloyds app).

Beyond the immediate benefit of being able to access all of these products in one place, this should also help to drive member engagement and member outcomes across a number of financial products.

Proposition

In total, Scottish Widows holds 43,180 schemes, with 2.8m members (according to its own figures). These figures, which incorporate the schemes inherited from Zurich, reflect a considerable increase in its position on the same stage last year.

Whilst its market share position is currently unconfirmed, we estimate it to be around 20%.

The acquisition of the Zurich Corporate Savings business was a very necessary move for Scottish Widows, which broadened its product offering and naturally increased its market share.

The buzz around Master Trust, as companies look to add to their existing products, meant that Scottish Widows could extend its footprint by offering a more modern look and feel. This has given it a more modern look and feel.

The Scottish Widows Pension Investment Fund (PP2) returned 8.95% pa net, of interest assets, it has served members well. In each of the last three years, the scheme has come into play.

So, more luck than judgement then? Perhaps, but for a long-term investment strategy, with its extended de-risking strategy, a relatively low-cost approach and the underlying pension portfolios are compiled of simple, passively managed asset blocks and there is no doubt that this is a relatively low-cost approach.

The Scottish Widows Pension Investment Approaches (PIAs) are akin to the older pension members with a Lloyds bank account to access their pension via online banking. This helped to drive engagement and also the consolidation of smaller pots into Scottish Widows.

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Key Points

• Open banking and the delivery of a single customer view (bank account, pension and other financial products) in 2020.

• Robust GPP with facelift to member User Interface (UI).

• Excellent retirement portal, providing high quality support to members.

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Beyond the immediate benefit of being able to access all of these products in one place, this should also help to drive member engagement and member outcomes across a number of financial products.
What now though? The era of cheap money that fuelled markets is perhaps starting to fade and ESG is nipping up the agenda. So is it time for a rethink? Can this old dog learn some new tricks?

Starting with pure asset allocation, it is unlikely there will be any dramatic changes made to the PPIAs. We gather that the bias in UK fixed interest assets will start to reduce in favour of more global (hedged to Sterling) exposure to help protect against default risk in UK markets, but beyond that we don’t expect to see any other changes.

Scottish Widows has ruled out any allocation to UK commercial property (which can offer low correlation to equities), because of Brexit risk and perceived liquidity issues. Another popular asset class amongst peers in recent years has been emerging market debt, but alongside an 80% equity holding this would increase risk to an undesirable level for PP2. Therefore, the asset allocation is unlikely to change at all, along with an 80% equity holding this would see the asset allocation remain the same, with no major changes.

In fact, research of 2,000 pension members conducted by Lloyds (including 600 Scottish Widows members) generated some valuable take-away and backs this view. The results concluded that 81% felt a responsibility to do good, but also that most do not understand what ESG is. However, where ESG can be shown to maximise performance and fund stability, it should be adopted as standard practice.

In addition, the research also suggests that Ethical and Impact funds should not be adopted as a default solution, due to their subjectivity (of what should and shouldn’t be screened out) and the potential trade-off with performance. Respondents were clear that performance should not be compromised in favour of doing good.

At present, Scottish Widows has a limited range of ESG funds (under the GPP product), with an ethical equity fund, environmental equity option and responsible bond fund. While these funds would not meet our default fund criteria, it’s worth noting that after 1 July all Scottish Widows pension members will gain access to L&G’s Future World and Future World Multi-asset funds and, with BlackRock and Schroders now on board, we would anticipate some alternative options being made available in future.

As for its own ESG credentials, Scottish Widows is not a fund manager and we have therefore looked at State Street Global Advisers (SSGA), which holds the mandate for the Scottish Widows PPIA. In 2017 the fund manager voted in 158,000 meetings and voted against the board 13% of the time.

Development potential

First off, a bit of housekeeping; back in 2018 we raised some concerns about the provider’s poor return on capital (ROC) figures, which were reported at just 1.6% and which identified a less than positive trend over the previous four year period.

While Scottish Widows does have the might of one of the UK’s largest banks in its corner, like any business it still has to prove its worth and its ability to operate successfully in its market.

Moodys latest report (October 2018) delivered some encouraging news on this front, confirming that profitability had improved (in 2017), which was attributed to two factors. The first of these was a reflection of the provider’s expansion into higher margin businesses (bulk annuities and protection via IFAs) and the second was its inclusion in its parent’s drive to help Britain Prosper.

The Bank revealed a three year plan to better serve customers needs as an integrated financial services provider, which naturally will require greater digital investment. The goal is to pinch the 1 million new pension customers from the competition, by expanding into the financial planning and retirement market. This has to be good news for Scottish Widows.

Retirement journey

We continue to be big advocates of the Scottish Widows commitment to supporting members as they get to grips with their retirement needs. The retirement portal is an excellent source of information and guidance, because it doesn’t drop members into a sea of bewildering detail.

Instead, this dedicated portal provides valuable case studies, which are presented in an engaging manner, under headings such as Plan & Save and Get Ready. The layout itself highlights another tool in the Scottish Widows armory – the ability to deliver detailed and important information, without dumbing down (i.e. talking to retirees like it’s their first day at nursery).

There are also handy checklists, a host of different retirement calculators and tools and importantly the number to call in order to get the ball rolling. Alternatively, after answering a number of online questions, those who wish to receive small pots can now do so using a secure online form, which naturally provides the requisite warnings and requires an online signature (declaration tick-box).

For those who want to set up a regular income, one criticism might be the need to transfer into the Scottish Widows Retirement Account (with a sliding-scale charging structure). Whilst some might expect to be able to do everything online these days, this can be done easily enough over the phone and the advantage that members can then transact via a specialist product which was designed to pay income, as opposed to one which has been modified to achieve the same/similar outcome.

Interestingly the return on capital figure in 2017 increased to 10.5%. However, this would seem to be a case of some moving of the goal posts, with the UK’s ‘ring fencing’ reform requiring the largest banks to separate their retail banking operations (by January 2019). As a result, Scottish Widows Limited (previously Clerical Medical Investment Group) acquired the assets and liabilities of Scottish Widows Plc.

So, the historical record is not fully comparable, but Scottish Widows appears to be on the right tracks, reporting a net income of £899m million in 2017, with new business life and pension sales up by 12%. Whilst the advance into higher margin businesses only accounts for 15% of premiums, the contribution to earnings is expected to grow over time.

Rolling onto the 2018 results, Lloyds reported a net income of £1.99bn for Insurance & Wealth and 630,000 new customers, including a 45% increase in new business sales for life and pensions and an 87% (£526m) increase in new business income.

Whilst the leap in net income is primarily due to the Zurich acquisition, it would seem that profitability has been improving and that Scottish Widows remains integral to the plans of Lloyds and will benefit from the digital development plan.

So, as highlighted earlier, from the 1 July Scottish Widows can start to execute some of the pending advantages from the Zurich platform that is acquired. This includes a wider fund range and a new and improved Drawdown Journey. While 90% of GPP members rely on their scheme default fund, just 6% of members rely on the default under the Retirement Saver – a considerable difference between the two products. Once the Zurich funds become Scottish Widows funds, members in both products will gain access to a gated pyramid of fund options, with access set at employer level.
A further change will be the simplification of the way in which scheme pricing is packaged under the Retirement Saver.

Beyond these product upgrades though, Scottish Widows will then be able to focus on the ambition of the Bank to deliver customers with a single customer view of their banking, insurance and savings needs. In addition, features such as voice ID should also help to drive better member experience.

Lloyds is the largest digital bank in the UK, with 15.7m digitally active users (7), and is building its innovation pipeline and utilising the digital skills of FinTechs to accelerate transformation. The more customers who use this, the more data points Lloyds will have to help drive segmentation and to better understand customer needs – which conveniently is where the wealth proposition with Schroders will slot in.

Thomsons Online
Benefits Comment

Whilst Scottish Widows is not immune to some of the servicing issues that are being experienced with peers, the GPP product itself is solid and the future is bright within Lloyds open-banking and wealth management ambitions.

For members who wish to manage their banking and financial benefits within one place, that reality is now within touching distance and some Thomsons schemes have already been involved in a ground-breaking pilot to deliver this functionality.

Providing that it scales its resource appropriately, it should be onwards and upwards!
Standard Life

Jackie Lane
Pensions Consultant

Key Points
• Workplace pension proposition administered by Standard Life Assurance Ltd, which is now owned by the Phoenix Group.
• Target market is large, premium employers.
• Strong brand awareness and product base, with great online retirement journey.

Context
Standard Life Aberdeen plc (SLA) was formed in August 2017 following the merger of Standard Life and Aberdeen Asset Management. The group has maintained its headquarters in Scotland and with £550 billion in assets under management and administration (AUA) it is one of the largest asset managers in the UK.

The second part of the transformation saw SLA complete the sale of its insurance arm, Standard Life Assurance Ltd (SLAL), to the Phoenix Group on 31 August 2018. As part of the sale SLA retained its UK retail platforms and financial advice arm, and achieved its transition from insurer to a “fee-based capital light investment company.”

SLA formed a strategic partnership with Phoenix, which saw people, systems and technology move to the latter. Phoenix has retained the branding of Standard Life for its customers, and on the outside, it looks very much as though it’s business as usual, but there is the proverbial ‘fly in the ointment’ that has caused the industry to view the changes with caution. This came in the shape of Moody’s credit opinion.

On 1 October 2018 we saw Moody’s downgrade SLA’s rating to A2 with a stable outlook, and the reason given for the downgrade was the expectation that “SLA will have a weaker credit profile following the sale to Phoenix.” It also highlighted the execution risk for Phoenix, given that SLAL held larger assets (2.2x), and reported that Phoenix expected the integration to take two to four years to complete. However, whilst it was prudent to exercise caution at the time, we have since seen strong financial results from Phoenix and have seen the workplace pension proposition continue to develop. Furthermore we have not witnessed any notable adverse impact on the proposition and it’s important to note that Phoenix will only be able to use the well-known Standard Life brand if it sticks to its part of the bargain.

In a somewhat unique situation, this piece collectively reviews the different entities involved in the delivery of the workplace pension proposition.

Proposition
Since the sale to Phoenix, SLAL’s proposition has remained largely the same (although a number of enhancements are detailed later on), and its core group pension products remain the Group Flexible Retirement Plan (GFRP), its two Master Trusts and its Trust Based Pension (a bundled own trust solution). For the purpose of this review, we will focus on the GFRP.

SLAL’s target market continues to be at the upper end, with larger clients that deliver high levels of annual premium. To reflect its preference for this profile, SLAL looks to provide a premium service, with clients meeting certain criteria having a dedicated relationship manager that will work with the client and their adviser. There has been no change in its stance towards the SME market, which SLAL would consider only if the profile of the company met certain key metrics that made them especially attractive to the pricing model. Regardless of this, we would still include SLAL as part of our provider review process.

Member support is sold, with many tools and services options available to them, including online servicing and an app on both iOS and Android. Online servicing offers the usual retirement planning tools and will allow the ability to view fund values, consolidate pension pots and order retirement illustrations.

Transactions such as fund switching, updating personal details and, for some pension products, withdrawals from age 55, are also available through online servicing. The app’s features allow fund values to be viewed with limited ability to transact, but it aims to change this in line with a number of provider apps out there.

The delivery of such a premium service can come at a price with additional basis points being charged for the privilege. This can often be lost when third party software such as Darwin is being used, as the provider’s product is seen primarily as an asset management vehicle for the accumulation phase of a member’s retirement savings.

SLAL provides members with access to ISA and General Investment Accounts, which is becoming the norm when considering the larger pension providers, and without offering additional savings products would leave Standard Life struggling to compete in the larger scheme market.

Connectivity to Darwin, service and administration
Following the sale to Phoenix the expectation could have been that service levels would slip but, with a crossing over of staff and technology to Phoenix, it is reassuring to see that this has not happened. Indeed the recently issued 2018-2019 ITRC report concludes that the transition was well managed with no noticeable impact on the quality of overall service.

However, it is disappointing to see that there has been little change to the delivery of governance data, which can still take several weeks. In addition, the inclusion of a unique identifier would improve its usability potential.

SLAL scores mid-table in all of the four areas covered by NMGO’s provider analysis, Product and Proposition, Relationship Management, Operations and Online/Technology. The consistency in SLAL’s scores gives an indication that its service delivery offering is robust, but for a provider wanting to compete in the larger, premium client arena it falls behind its peers.

In our experience, support can be a little hit and miss and when queries can’t be immediately answered over the phone, it can take considerable time for an answer to be forthcoming.

Connectivity with Darwin is good, with contract enquiry and SSO options both available, albeit for a premium plus option to expand on this range if required.

The potential universe for default options is therefore considerable, but the flag option is the Standard Life Active Plus III Universal Strategic Lifestyle Profile (SLP). This is one of a number of risk-rated options which the provider launched in response to auto-enrolment and pension freedoms.

These SLPs are 10 year Lifestyle approaches which are focussed on controlling volatility, which is no bad thing. However, the environment (up until 2018) has not been kind and the more challenging conditions that these approaches were designed to navigate did not materialize until last year.

As a result, it has been invested more heavily in absolute return than it peers, and whilst it has delivered lower return, it has also generated significantly lower returns than the competition (as demonstrated in the risk/return chart in the appendices), which have noted more heavily on low-cost, passive equity and bond assets.

GARS (Standard Life’s Global Absolute Return Strategies fund) has been the source of the absolute return allocation and its issues have been well documented, from fears around whether it was getting too big, to concerns about its complexity and lack of transparency. Once a £40bn fund it is now a £10bn fund and recently Guy Stern, the lead manager of the fund, has stepped down as part of a team-wide restructuring. In response to these issues, and more widely for the absolute return sector, we have recently been informed that the ‘active plus’ and ‘passive plus’ fund range will cease to invest in absolute return.

This is welcomed news, although the timing is questionable given that we have recently entered a more volatile period for markets - the very conditions where absolute return is designed to thrive. However, given the bad news around GARS, this has to be seen as a positive step forward. Furthermore, the fund has remained strongly invested in low-cost, passive equity and bond assets.

As you might expect with a prominent asset manager, pension members have access to a huge variety of investment choices. There are currently around 350 options to choose from on Darwin and this includes 80 lifestyle options with different active and passive variants. There is also the option to expand on this range if required.

Investment: default options
As you might expect with a prominent asset manager, pension members have access to a huge variety of investment choices. There are currently around 350 options to choose from on Darwin and this includes 80 lifestyle options with different active and passive variants. There is also the option to expand on this range if required.
Development potential

SLAL owns the corporate pensions business and therefore the policies of pension members. In turn, SLAL is owned by Phoenix. However, in terms of development potential, SLA and SLAL share joint responsibility for the development roadmap (although costs will not necessarily be shared 50/50). We therefore need to give consideration to the financial strength and cash generation capabilities of the different entities.

Market conditions in 2018 were challenging for asset managers and SLA experienced a testing year with falls in assets and profitability. The market for actively managed funds continues to face stiff competition from low cost index and exchange-traded funds (ETFs), and the share price of SLA fell significantly in 2018.

However, it still has significant scale with £55bn of assets under management and its Elevate and Wrap platforms (which offer over 5,000 in-house and third party mutual funds) are growing and attracted net inflows of £4.2bn. Despite the conditions, adjusted pre-tax profit for 2018 was down just 2% on the previous year (on a pro forma basis) and the profit from its 19.9% stake in Phoenix was one notable benefit.

On the whole, Moody’s reports that SLA’s ‘financial flexibility is good’, and its brand strength and position in the drawdown market bodies well as the need for retirement products increases. In 2018 Moody’s retained its A3, stable outlook rating.

Phoenix does not subscribe to Moody’s, but does subscribe to Fitch. The Fitch insurer financial strength rating range for Phoenix (excluding SLAJ) is A+ strong (equivalent to A1 under Moody’s), with a stable outlook, which should provide some reassurance for members.

Phoenix Group is the largest life and pensions consolidator in Europe and holds £226bn in assets under management, with 10m policies. Pre-tax operating profits increased from £388m in 2017 to £708m in 2018 and its solvency II coverage ratio increased from 147% to 167%.

Cash generation, which can in part be attributed to cost synergies, also increased from £633m to £664m and Phoenix has set a target of £600–£700m for 2019.

SLAL should benefit from the growth in auto-enrolment contribution increases and, following the completion of its integration projects, we look forward to seeing new developments to online experience for members and advisers alike.

In 2018 SLAL delivered a number of enhancements to its proposition, some of which are detailed below:

- Extended its opening hours from 9–5 to 8–6 for all workplace customers.
- Finger print, PIN and facial recognition access applied to its mobile app.
- New voice recognition technology applied to improve the telephone experience.

More recently the app has received upgrades which include a view of daily fund price changes, charges information in £ and % terms and a comparison of how the fund value has changed over time.

Other improvements include recognition of the need to provide retirement support earlier. As people will typically start to plan in advance of a significant birthday, Standard Life will now contact members at age 49 rather than 50 – a good move.

In addition, Standard Life is enhancing its retirement proposition to offer an In-Scheme Drewdown feature on its DC Master Trust plan, which will enable the members to draw an income from their existing plan. This avoids the need for members to transfer their plan to an AAPP, which is the current solution. There is no timescale on this development at present, but it’s interesting to note the trajectory, and we hope that this development will in time be adopted for GFRP members too.

Phimmo’s, the phoenix that rises from the ashes? It is clearly in the interest of all parties to ensure that it does and the combination of scale, brand strength and product range certainly provides a good starting point.

SLAL offers a robust pension proposition with strong brand awareness and a great online retirement journey. However, the focus appears to be primarily on larger corporates, which may leave it in a precarious position.

Even larger corporations will want to see that their pension arrangements provide value for money to both the employer and employee. Furthermore, by concentrating on larger employers, SLAL might miss out on the gains that could be made from the emerging secondary auto-enrolment market, and the contraction of the number of Master Trusts available.

With the continuing development of online servicing and third party software, which gives an improved ability to self-serve to the employer and employee, it becomes harder to see how SLAL will identify itself as a premium service provider, by demonstrating sufficient value in changing additional basis points over other pension providers.

Will SLAL be the phoenix that rises from the ashes? It is clearly in the interest of all parties to ensure that it does and the combination of scale, brand strength and product range certainly provides a good starting point.
Hargreaves Lansdown –
A case study

Kevin Brendling
Lead Technical Pensions Consultant

Hargreaves Lansdown (HL) is likely best known for its online investment platform, rather than its pension product (Group SIPP) and it’s not currently on our panel. So, why are we here?

Well, never ones to be dictated to by convention, we’ve been in discussion with HL for some time. We applied the dice app, the quality feel of the member communications and of course the investment experience, which caters to the needs of over one million customers.

HL has been slowly looking to increase its market share in the group pensions arena and there are certainly some big ticks in its proposition box. However, we have a chicken and egg scenario – we went HL to develop the necessary connectivity with Darwin (to delegate opt-out responsibilities under auto-enrolment), but HL requires a sound business case to do so.

We therefore thought – why not provide our clients with some insight into what HL has to offer. So here you go – a window into the HL Group SIPP.

Context

HL is listed in the top 100 UK companies by market capitalisation and it runs one of the largest direct-to-consumer investment platforms in the UK. The platform, which operates out of its Bristol base, with 1,300 staff, has been going for 35 years and manages £16bn of assets for its customers.

Its success can be pinned on its engaging and expert help (via age

HL is also growing quickly, doubling its customer base in the last five years, and its app has been downloaded over 150,000 times. The popularity of the app has soared since fingerprint and facial recognition, amongst other upgrades, were delivered in 2017. Members can use the app to do the following:

- Researching Shares, Funds & Bonds
- Trading; buying and selling
- Topping-up and Withdrawing money
- Seeing and using linked accounts
- Non-advised transfers can also be transacted, this must be done via the platform, or can be done via phone or by post.

Non-advised transfers can also be transacted, this must be done via the platform, or can be done via phone or by post.

Connectivity to Darwin, service and administration

The ability for a pension provider’s software to connect to our own is naturally a high-level priority and one which we hope HL will be able to meet in the future.

As we have no direct experience of service levels and administrative capabilities, we must rely on the opinion of others to fill in the gaps. HL reports that 93% of its clients rate its service as good, very good or excellent. This is further supported by a net promoter score of 56 and it’s not unusual to hear the words excellent and service used together when describing HL.

This focus on service arguably reflects a contrasting strategy with other providers, who may take more of a ‘ruth to the bottom’ approach to pricing. We would therefore expect HL to be sufficiently resourced, as it grows, to maintain its premium service status.

Investment: default funds

As you would expect, there are a number of investment options, featuring some of the big hitters – Baillie Gifford, BlackRock and Newton, which compete in the go-to-sector for pension defaults.

HL has also been keen to aggregate fund managers LinkFund Share. There are two funds on the platform, Global and UK equity, managed by Nick Train and Michael Lindell. Both are actively managed and have strong track records, displaying successful stock picking history, although it should also be noted that these funds now own 11% of HL, which might make some uncomfortable.

However, this concern aside, a more pressing issue has been that HL has so far stuck with a cash-targeted default fund solution. This includes a five year lifestyle profile, but our concern would be for members who reach their selected retirement age and then take no action, thereby remaining invested in an asset class which is struggling to keep pace with inflation. This is an important hygiene factor as we understand that new options are to be introduced later this year – more on this in a bit.

With regard to ESG options, the focus here is more skewed towards Ethical and there are currently 17 options to choose from, including equity, corporate bond and cautious managed options. The Kames Ethical Equity fund makes it onto the Wealth 50 list.

There are other funds to consider too, including the Eden Tree Army fund, which are managed on a socially responsible basis, and there is the Hermes Global Equity ESG fund which invests in global equities with favourable ESG characteristics.

With regard to HL’s own corporate and social responsibility credentials, it is listed in the FTSE4Good Index and more detail can be found here.

Retirement journey

Given that asset accumulation is undoubtedly the primary aim for HL, it would not have been a surprise to find a lacklustre approach to discussing the different retirement options. However, it’s pleasing to behold a clean layout of options and the ease of comparison between secure, flexible and part secure income.

There is then the option to expand into a greater depth of detail, including reasons for considering each option and the potential downsides.

Importantly, members are also informed that they can choose more than one option – to mix and match.

Given that the product is a SIPP, those that want to utilise Drawdown are well catered for, with HL being one of the largest Drawdown providers in the UK. Members are not required to transfer into a separate product and can request an illustration online.
The Drawdown calculator is also well worth a mention, as it requires minimal input and displays three potential outcomes based on pre-set investment growth levels, which are compared to average life-expectancy in the resulting chart. These growth rates can be altered via a slider bar, as can the life expectancy. This visual representation of likely income versus required income is a great tool for delivering members with some context about their retirement planning. In addition, there is a drawdown guide to help ensure that members are well informed about drawdown risks, but also how to manage their account.

Members seeking guidance are directed to PensionWise and those requiring advice are given the option to speak to the HL team (6 days a week, including evenings). One-off or regular advice options are available and once ready to commit to a decision, members are provided with a number to call. At present this is a paper application process, but there plans to deliver an online journey in July 2020.

There is one notable advantage that HL can deliver for Drawdown users, relative to insurance companies, and that is through the structural differences in the type of fund. HL uses open ended investment companies (OEICs), which distribute income, but life funds are only structured for accumulation (income is automatically reinvested). This is an important distinction, because capital values are more volatile than income (the dividends that companies pay to shareholders). With HL, members have the option (where relevant) to draw on just the income, which can be advantageous when markets fall.

For those who want to purchase an annuity, HL was the first in the UK to allow individuals to add medical details online to instantly see if they qualified for an enhanced rate. Last year, 56% qualified for an enhanced annuity.

**Development potential**

HL is a profitable business, reporting net new business of £7.6bn for 2018 and pre-tax profits of £292.4m. It also owns around 39% of the platform market and its scale and ability to generate cash has supported investment in customer care and other aspects of its proposition.

In 2018 HL spent £160m on developments, which included HL Workplace enhancements, and a similar figure is being invested in 2019 on further additions and optimisations to its proposition. Some of the notable development plans for Workplace include the following:

- New lifestyle options are currently slated for a Q3/4-2019 launch. This will cover 3 options for members and can be retroactively fitted to schemes (at scheme level, but members can also build their own bespoke lifestyle).
- They are:
  1. Target Cash - Derisks to 100% cash gradually over 5 years
  2. Target Annuity Purchase - Derisks to 75% long dated gilt funds and 25% cash gradually over 5 years. Purpose is to prepare the client for buying an annuity at retirement.
  3. Target Drawdown - Reduces from 100% invested to 75% invested gradually over 5 years. The remaining 25% is left as cash. Allow members to take their tax-free lump sum and to have an initial cash buffer amount available to fund initial income payments.
- In 2018 HL launched Active Savings, which enables members to pick and mix savings products from UK banks and building societies. Customers have already invested £400m.
- Digital automation of existing paper-based transactions, including online Drawdown journey due for delivery in July 2020.

**Thomsons Online Benefits Comment**

HL is a successful FTSE 100 business, with ambitions to spend tens of £millions over the next 3-5 years to deliver a best in class service on its award winning investment platform. The popular app, considerable fund range and accompanying education pieces are all key drivers in the proposition box and the relative high levels of engagement between members and its workplace pension offering are notable.

In a contracting market for larger contract-based pension schemes, HL offers something different and whilst we are not in a position to comment comprehensively on all aspects, it continues to provide much food for thought.
Appendix 1

NMG – broad market opinion
(Adviser sentiment)

NMG ratings (broad sample)

Aegon

Aviva

L&G

Royal London

Scottish Widows

Standard Life

Product & Proposition
Relationships Management
Operations
Online / Technology
Product & Proposition

Relationship Management
## Appendix 2

### High level statistics

<table>
<thead>
<tr>
<th>Provider Survey</th>
<th>Aegon (ARC &amp; Target Plan)</th>
<th>Aviva (Designer, My Money, NGP)</th>
<th>L&amp;G</th>
<th>Royal London</th>
<th>Scottish Widows</th>
<th>Standard Life</th>
</tr>
</thead>
<tbody>
<tr>
<td>Group Schemes</td>
<td>2,522</td>
<td>26,040</td>
<td>14,640</td>
<td>18,900</td>
<td>43,180 (incl legacy/ closed)</td>
<td>37,300</td>
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<tr>
<td>Members (total)</td>
<td>742,000</td>
<td>3,668,000</td>
<td>3,204,000</td>
<td>695,000</td>
<td>2,880,000</td>
<td>1,961,000</td>
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<tr>
<td>% of Group Pensions Market</td>
<td>Not disclosed</td>
<td>22%</td>
<td>16%</td>
<td>9%</td>
<td>18% (pre Zurich)</td>
<td>Not disclosed</td>
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<tr>
<td>Pension AUM</td>
<td>£14bn</td>
<td>£57bn</td>
<td>£33bn</td>
<td>£32bn</td>
<td>£52bn</td>
<td>£37bn</td>
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</tbody>
</table>

Approximate Av Fund Size

- Aegon: £17,000/£23,000 (dependent upon product)
- Aviva: £15,200
- L&G: £10,000
- Royal London: £25,000
- Scottish Widows: £15,000/£24,000 (dependent upon product)
- Standard Life: £18,800

**Source:** Providers, via Mercer Questionnaire. Figures reported at Q1 2019.
<table>
<thead>
<tr>
<th>Financials</th>
<th>Aegon N.V</th>
<th>Aviva Life &amp; Pensions</th>
<th>LGIM (L&amp;G Plc)</th>
<th>Royal London</th>
<th>Scottish Widows</th>
<th>Phoenix (Standard Life Assurance Ltd)</th>
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<tr>
<td>Moodys Rating</td>
<td>A3</td>
<td>Aa3</td>
<td>A2</td>
<td>A2</td>
<td>A2</td>
<td>Fitch: A+ (equivalent to Moodys A1)</td>
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<td>Moodys Outlook</td>
<td>Stable</td>
<td>Stable</td>
<td>Stable (L&amp;G Plc)</td>
<td>Stable</td>
<td>Stable</td>
<td>Stable</td>
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<tr>
<td>Total Assets (2018)</td>
<td>€316bn</td>
<td>£345bn (Aviva Plc)</td>
<td>£1 trillion</td>
<td>£114bn</td>
<td>£797bn (Lloyds Bank)</td>
<td>£226bn</td>
</tr>
<tr>
<td>Pre-tax income (2018)</td>
<td>€2,074m</td>
<td>£3,116m (operating profit, plc)</td>
<td>£407m (operating profit)</td>
<td>£396m</td>
<td>£1,998m (Lloyds Bank Insurance &amp; Wealth)</td>
<td>£708m</td>
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<tr>
<td>Capital Cover (2018)</td>
<td>211%</td>
<td>204% (plc)</td>
<td>188% (L&amp;G Plc)</td>
<td>202%</td>
<td>165%</td>
<td>167%</td>
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</table>

Source: Moodys, Fitch & Providers. Figures reported at Q1 2019. Moody’s rating scale can be found [here](#).
<table>
<thead>
<tr>
<th>Products Offered</th>
<th>Aegon</th>
<th>Aviva</th>
<th>L&amp;G</th>
<th>Royal London</th>
<th>Scottish Widows</th>
<th>Standard Life</th>
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<td>GPP</td>
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<td>ARC</td>
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<td>✓</td>
<td>✗</td>
<td>(Zurich)</td>
<td>✓</td>
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<td></td>
<td>(no payroll deduction)</td>
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<tr>
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<td>✓</td>
<td>✓</td>
<td>✗</td>
<td>✗</td>
<td>✓</td>
</tr>
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</table>

Source: Thomson and Providers
## Appendix 3

### Darwin fund range

<table>
<thead>
<tr>
<th></th>
<th>Aegon GPP/ARC</th>
<th>Aviva Designer GPP</th>
<th>L&amp;G Worksave</th>
<th>Royal London GPP</th>
<th>Scottish Widows GPP</th>
<th>Standard Life GFRP</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Default Fund</strong></td>
<td>Aegon (BlackRock) Default Equity &amp; Bond Fund</td>
<td>Aviva Future Focus II Drawdown Lifestyle</td>
<td>L&amp;G Multi Asset Fund</td>
<td>Royal London Balanced Lifestyle (Drawdown)</td>
<td>Scottish Widows Balanced PIA (Drawdown)</td>
<td>Standard Life Active Plus III Universal SLP</td>
</tr>
<tr>
<td><strong>Number of Self-Select Funds</strong></td>
<td>235</td>
<td>230</td>
<td>76</td>
<td>50</td>
<td>150</td>
<td>290</td>
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<tr>
<td><strong>Number of Packaged Lifestyles</strong></td>
<td>27</td>
<td>17</td>
<td>52</td>
<td>15</td>
<td>18</td>
<td>78</td>
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<tr>
<td><strong>Number of ESG badged Default Fund Options</strong></td>
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<td>n/a</td>
<td>• L&amp;G Future World Multi-Asset</td>
<td>n/a</td>
<td>n/a</td>
<td>n/a</td>
</tr>
</tbody>
</table>
| **Investing for Good: Options** | 6 Ethical | • 1 Ecology  
• 3 Ethical  
• 6 Sustainable / ESG  
• 3 Responsible | • 2 Climate / ESG  
• 3 Ethical  
• 2 Responsible | • 1 Ethical  
• 5 Sustainable | • Ethical  
• Environmental  
• 4 Ethical  
• 3 Responsible |
| **Investing for Good Options Which Meet TOB Default Criteria (growth fund)** | Ethical Managed Lifestyle | • Lion Trust Sustainable Future Managed | • (Future World and Future World MAF have <3yr track record) | • RLP Sustainable World Trust, <3yr track record | n/a | • SL Ethical UK Fund |
| **% Times Provider has challenged Board (Source: Corporate Adviser)** | 24% | 24.8% | 13% | 7% vs management, 27% vs pay, 9.5% vs directors | 13% | 13.7% |
| **UN PRI Signatory Date** | Jan 2011 | April 2006 | Sept 2010 | June 2008 | May 2012 (SSgA) | Dec 2007 |

Source: Thomson and Providers
Appendix 4

Default fund performance

10 year gross returns for ‘progressive’ growth funds to 31.03.19

Please note that fund values can go down as well as up and past performance is no guarantee of future returns.

Source: Morningstar Direct and Thomson

Typical GPP default funds
Please note that fund values can go down as well as up and past performance is no guarantee of future returns.

Source: Morningstar Direct and Thomsons
Typical defaults in retirement: 2018 asset allocation and returns
Risk/return chart: 5yr pa, 31.03.19, gross returns

Please note that fund values can go down as well as up and past performance is no guarantee of future returns.

Source: Morningstar Direct and Thomsons
## Appendix 5
### Access to savings

<table>
<thead>
<tr>
<th>Aegon</th>
<th>Aviva Designer</th>
<th>L&amp;G Worksave</th>
<th>Royal London</th>
<th>Scottish Widows GPP</th>
<th>Standard Life GFRP</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Access Direct from Plan?</strong>&lt;br&gt;Yes (limited GPP options, or transfer to ARC)</td>
<td>Yes</td>
<td>Yes</td>
<td>No, transfer to Portfolio</td>
<td>No, transfer to Retirement Account</td>
<td>No, transfer to AMPP (but all done online)</td>
</tr>
<tr>
<td><strong>Withdrawal process</strong>&lt;br&gt;GPP: Paperwork ARC: Online/ paper (fully online process coming for ARC, already online for Target Plan)</td>
<td>Telephone/ Email Full cash &lt; £30k Online (confirmed)</td>
<td>Paperwork to set up/ online to manage income</td>
<td>Paperwork</td>
<td>Telephone Full cash &lt; £30k Online</td>
<td>Online</td>
</tr>
<tr>
<td><strong>Flexi-Access Drawdown (FAD)?</strong>&lt;br&gt;ARC only</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
</tr>
<tr>
<td><strong>Regular Income FAD Payments</strong>&lt;br&gt;ARC only</td>
<td>Yes (see below)</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
</tr>
<tr>
<td><strong>UFPLS?</strong>&lt;br&gt;ARC Only</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
</tr>
<tr>
<td><strong>Full encashment?</strong>&lt;br&gt;Yes</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
</tr>
</tbody>
</table>

| **Restrictions**<br>GPP: Max 2 UFPLS<br>ARC: No max for UFPLS<br>£75pa charge for Drawdown on ARC, no minimum withdrawal | Was 6 withdrawals pa, now no restriction. (A phone call is required when taking additional withdrawals) | Minimum £100pm for FAD | Minimum £25pm for FAD, £199 charge to access Income Release (but only if member has less than 12 months in the scheme) | Unlimited FAD withdrawals, £5,000 min for UFPLS | None |

Source: Thomsions
References

(1) https://www.aegon.co.uk/content/dam/ukpaw/documents/CBI-pension-engagement-report.pdf
(5) https://www.moneymarketing.co.uk/content/dam/moneymarketing-dam/news/aegon-40m-so-far/

Shareholder voting comparisons sourced from Corporate Adviser Intelligence.

Acknowledgements

Our research for this review was collected over a period of time, both from direct questioning of the providers in the market to the scrutinising of their literature, online experience, office visits and general day-to-day experience. We enlisted the assistance of analytical specialists in different fields and sought input from key stakeholders within our business, with the aim of providing a fair and rounded view of each proposition.

We therefore thank the following for their contributions:

• The corporate pension providers reviewed in this report;
• Thomsons Consulting Team;
• Mercer & MMB;
• NMG Consulting;
• Moody’s Investor Service;
• Morningstar Direct.

Thomsons Online Benefits is a SaaS provider of global employee benefits and employee engagement software. It is a wholly owned subsidiary of Mercer, a global consulting leader in advancing health, wealth and career. Mercer is a wholly owned subsidiary of Marsh & McLennan Companies (NYSE: MMC).

Thomson’s award-winning platform, Darwin™, is the global market leader for automated employee benefits administration. With over 2 million lives on Darwin™, it connects employees with their benefits in over 101 countries and 32 languages. By using the right combination of editions, Darwin™ provides a tailored solution to meet a variety of employee benefit and reward needs, including employee engagement, managing risk, controlling costs and streamlining benefits administration. Its ability to constantly evolve and cater for shifting workforce needs has made it the provider of choice for eight of the world’s top ten technology companies.

Thomsons has received 118 industry awards, including the prestigious Brandon Hall Group gold award for Best Advance in Rewards and Recognition Technology in 2015 and the latest, Most Effective Use of Benefits Technology at the Employee Benefits Awards 2017 for our work with Bristol Myers Squibb. Mercer and Thomsons combine world-class consulting and broking with innovative technology, driving transformation in the way that benefits are designed, communicated and administered.
About the Thomsons consulting team

Jack Curzon
Consulting Director
jack.curzon@thomsons.com

Quoted simply, we are the enablers of Darwin and provide our clients and prospects with the guidance and advice they need to ensure their benefit offering is compelling and compliant.

Benefits are at the heart of Darwin and through our expertise we provide clients with technical support across retirement, financial wellness, health and wellbeing, communications and scheme design. We are truly different in the market - we work with prospects and clients alike and provide award winning market leading consulting services all closely aligned to Darwin.

The pension team is led by Head of Pensions Operations, Helen Hillman, and Principle Pension Consultant, David Croker, with Senior Pension Development Consultant, Alex Shaw, heading up prospect development.

Our Pensions team provides an ongoing Governance service to clients, where we strive to ensure all of our clients comply with ever changing UK pensions and auto enrolment legislation. Our specialist pension consultants act as the ‘point of call’ for all pension matters and are a safe pair of hands to ensure that employers can be doing the best for their employees whilst achieving value for the pension benefit spend.

The Pension Guidance team drives employee engagement by educating employees about their pension and wider benefits package. The Guidance service includes one to one consultations, presentations, webinars and even benefit fairs.

This is a great opportunity to give you some insight into our wider consulting department areas.

Health and Wellbeing (led by David Bourne – Head of Health and Wellbeing):
Our health and wellbeing team drive better employee outcomes through the expert placement and consulting around health and protection benefits. Our consultants aim to support your business with developing an overall wellbeing approach, catering for employees at any stage in their personal journey.

Scheme Design (led by Drini Zerka – Head of Scheme Design):
Our Scheme Design service enables you to transform your benefits through a management consulting based methodology. We collect information in order to make meaningful recommendations and to deliver your objectives. Whether your objectives are to cut benefits cost, offer competitor benefits, lead the market, or engage, recruit and retain talent, our experienced team of consultants can help. Our Scheme Design team can support on all areas of benefits such as financial, health, protection, lifestyle and culture.

Provider Management (led by John Pascoc – Head of Propositions):
Our unique provider management team are constantly assessing the market to review existing benefits and launch the best schemes available. Our approach is to find the most suitable products to meet client needs. We seek to develop unique solutions with providers which we know will increase employee engagement.

Communications team (led by Vicky Edwards – Head of Communications):
The ‘Comms’ team is passionate about creating clear, compelling and effective benefit communication strategies for our clients and some of this creativity is showcased within this report. Our team is made up of experienced consultants and talented designers, who collaborate on each project to bring your benefits to life and engage employees with their benefits offering through the most innovative and powerful methods.

I hope that you have found this year’s report useful and should you have any questions, please do get in touch with myself or the team.

Kevin Brendling is Lead Technical Pensions Consultant at Thomsons Online Benefits. He has over 15 years of experience in the pensions industry, including time at HSBC Actuaries & Consultants Ltd and JLT Benefit Solutions.

Kevin’s day-to-day role involves researching the pension provider market and managing provider relationships, but also delivering pension provider and investment recommendations to our clients. In addition he runs our investment committee and contributes regular thought leadership pieces.

This year’s report has once again reminded me of how much things continue to change in the world of pensions and I am always grateful to be supported by great colleagues in our consulting team, with special thanks to Jackie Lane, Pension Consultant, and Ben Harrison, Senior Creative Designer.

About the author

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