Zurich Independent
Governance Committee

Chair's report 2017/18

April 2018

1. Chair's summary

Summary of the year's activity

The IGC's main task is to ascertain whether the members of the pension schemes within their remit receive **'value for money'** from their product provider.

The past year has seen important changes in the way the Zurich Independent Governance Committee (IGC) approaches the governance of Zurich's workplace occupational pensions business:

- the IGC now assesses Zurich's activities against the value for money principles we have established, from two perspectives:
  - by a comparison of the value for money received by members, relative to other providers in the industry; and
  - by reference to how members themselves view value, as shown in our research;
- our extensive consumer research was completed in the first quarter of 2017 and the IGC then developed its value for money principles from it;
- these value for money principles are fundamental to the way we are now carrying out our assessment on behalf of members. We were pleased when the validity of the research, already independently peer reviewed, was recognised by the Market Research Society's annual award for financial services research;
- as envisaged last year, the bulk of this report now comprises our assessment of Zurich's alignment with the value for money principles.

Our research showed that satisfactory performance against industry competitors does not necessarily lead to value as seen by members. They perceive value mainly in terms of whether the outcome from their scheme membership matches their expectations.

This leaves a complex task to arrive at a sound view of Zurich's alignment with the value for money principles. We believe the best way to do this is by considering separately 'comparison with the industry' and an assessment from the point of view expressed by members. The latter may appear a harsh test for Zurich, because the factors which limit the extent to which we think the 'member lifestyle expectations' are met, reflect mainly industry, rather than Zurich specific, issues.

In particular, they reflect the fact that the product provider is only one of the influences, and often the most distant, involved in the task of achieving a match between a member's expectations and likely outcome. The employer, first and foremost, and an employee benefit consultant or similar adviser, are usually much closer and sometimes even prevent providers, such as Zurich, being able to engage with members effectively.

Our view of Value for Money

The most pertinent test for Zurich, viewed simply as a product provider, is against its peers in the industry. From that perspective, the results of our first assessment, against the value for money principles, are summarised in the table below, using a 'Red/Amber/Green' (RAG) rating method. In some cases our assessment falls between two ratings, for reasons explained in the body of the report:

Principle	RAG rating against current industry practice
1 – Compliance with rules	Green
2 – Service standards	Amber
3.1 – Enabling Customers	Amber
3.2 – Investment Management	Green
4 – Comparison with Competitors	Green / Amber
5 – Efficiency and costs	Amber

If we did not have all the information needed to satisfy a definite 'Green' view, we have assigned an 'Amber' rating. It is described in the text where this is the case. It does not necessarily mean that Zurich is not performing well in that respect.

RED = assessed as poor – some areas of concern identified with actions not agreed or agreed but not yet delivered.

AMBER = assessed as fair – some areas of concern identified, with action being taken.

GREEN = assessed as good – no areas of significant concern identified.

From the harsher test, drawn from our research, of matching members' expectations to their likely outcomes, the industry issues, to which Zurich is not an exception, give rise to a different picture:

Principle	RAG rating against member view from research
1 – Compliance with rules	Green
2 – Service standards	Amber / Red
3.1 – Enabling Customers	Red
3.2 – Investment Management	Green
4 – Comparison with Competitors	Amber
5 – Efficiency and costs	Amber

If we did not have all the information needed to satisfy a definite 'Green' view, we have assigned an 'Amber' rating. It is described in the text where this is the case. It does not necessarily mean that Zurich is not performing well in that respect.

To a member, it does not matter, of course, whether the issues are industry wide or specific to their provider. The IGC believes that product providers should aspire to overcome them, as Zurich has by, for instance, taking a leading role in the development of the 'Pensions Dashboard'.

Our overall assessment

Drawing the two pictures together to arrive at an overall assessment is not straightforward; especially as some of the work required is at an early stage and Zurich's relevant pensions business is of two broad types: 'Modern' schemes, generally open to new members, and 'lines closed to new business'. We are at a different stage in assessing each:

'Modern' schemes: the IGC believes that Zurich's 'Modern' workplace schemes represent value for money compared to the current marketplace. On the relevant criteria, those most recently written (by Sterling ISA Managers Limited ("SIML")) appear strongest, even though our analysis is not yet sufficiently granular to differentiate with sufficient confidence to publish opinions below the level of 'Modern' schemes overall.

However, against the higher bar set by the expectations of members, identified in our research last year, there are some significant gaps, even in 'Modern' schemes.

Schemes in 'lines closed to new business': while further action has been taken by Zurich to improve the value for money offered by these schemes, more evidence is needed, across a broader range of factors, for a satisfactory market comparison. The same, or more challenging, gaps are evident in hitting the higher bar of members' expectations.

The IGC is encouraged that Zurich is committed and willing to work with us to further this work in the year to come.

More details of our assessment are set out in Section 2 of this report. Definitions of 'Modern' schemes and schemes in 'lines closed to new business' along with other key terms are included in Appendix 1.

Transfer of the 'Modern' business to Scottish Widows

During the year, the work of the IGC has progressed whilst Zurich was negotiating and agreeing to the acquisition of a material part of Zurich's workplace pensions and savings business by Scottish Widows, part of the Lloyds Banking Group plc. The whole of the 'Modern' block of business is due to transfer, partly in 2018 and partly in 2019, subject to the time needed to complete regulatory requirements.

Whilst the changes resulting from this acquisition will have an increasing impact on the IGC's focus, until schemes transfer, they remain under the IGC's scrutiny. Eventually, the schemes within the 'lines closed to new business' are due to become the sole focus of the IGC, but for the period of this report, the whole portfolio has been our concern.

New member of the IGC

I am very pleased to welcome Mark Thompson to the IGC, following the departure of Virginia Holmes last year, as previously reported. Mark has a wealth of experience in investment for pension funds. This has already been brought to bear on behalf of members as the IGC implements its new ways of working and addresses the challenges ahead.

Mark's appointment maintains the unique approach of Zurich towards their IGC, which is the only one comprised solely of independent members. The views we come to are entirely our own.

Laurie Edmans CBE
Chair, Zurich Independent Governance Committee

A summary of this year's report, intended to be more accessible to scheme members than the full report, yet convey the key messages, is also available at **https://www.zurich.co.uk/en/about-us/independent-governance-committee**.

2. Assessing value for money

The background to the IGC's current assessment against 'value for money' principles

The IGC's main task is to ascertain whether the members of the pension schemes within their remit receive 'value for money' from their product provider.

Last year, in our second report, we explained that we had recently concluded a major year-long study into what scheme members themselves, as opposed to the industry or commentators, believe constitutes 'value for money'. This research was undertaken on a testing, academically peer-reviewed basis, and went further than the solely opinion-based research usually employed, by giving a modest amount of education to respondents before assessing their views. This was essential, because research based solely on uninformed opinions fails to achieve the engagement with members needed for them to be confident judges of whether what they are getting represents value.

Member-based value for money principles

From that research we developed the comprehensive set of member-based value for money principles, set out, with the underlying logic, in our last report (and repeated in Appendix 2, so that it can be seen how we derived the yardsticks we are using). We are confident, as a result of the peer reviews, reaction from external commentators and from the fact that the Market Research Society gave the project their annual award for financial services, that the research and the value for money principles constitute a sound basis from which to work.

We said that, having set the value for money principles in 2016/17, our major task for 2017/18 was to develop a means of monitoring Zurich's alignment with them. In this report, we give our first findings against them all. The standard we set ourselves is that any view we give has to be evidenced to a level that would satisfy the same level of rigour as was employed in developing the value for money principles. It is easier to find appropriate evidence to support a view on performance against some of these principles, than it is against others. Therefore, some of the findings are still 'work in progress'.

Comparisons against industry and against members' views

Over the last year or two, the industry has put considerable effort and resources into gathering comparative performance data for IGCs. Inevitably this data has mainly been on indicators that providers already monitor and on things that are easier to measure – 'hard criteria'. While these "hard" performance factors are important, they have two limitations:

1. they mainly throw light on how providers compare with one another, rather than how they compare with what members see as value; and
2. while they cover some of our value for money principles (for example regulatory compliance and service standards), they generally don't give sufficient attention to others (for example providing effective guidance and behavioural nudges that members say they want).

Overall view of value for money

Overall, although some of the evidence is still not fully developed, the IGC believes that Zurich's 'Modern' workplace schemes represent value for money compared to the market place on the 'hard criteria'. However, the test which we found members would apply sets a higher bar of whether the outcome from their scheme membership matches their expectations. Against this higher bar, there is a long way to go.

Further, whilst significant actions have been taken this year, in respect of the charging structures for schemes in 'lines closed to new business' within the IGC's remit, greater evidence is needed for a comprehensive market comparison for those product lines, bringing in other factors such as service standards and appropriateness of investment risk and reward. The demands of meeting the 'members' expectations' test is greater here, too.

This leaves us with quite a complex picture to explain how we have arrived at our current view of Zurich's alignment with the value for money principles. We therefore set out in this report our assessment on each principle, using a 'RAG rating' basis, both from a 'comparison with the industry' perspective, and in terms which reflect the members' views as drawn from our research. The latter may appear a harsh test for Zurich in certain respects, because the factors which limit the extent to which we think the 'member lifestyle expectations' are met, reflect mainly industry, rather than Zurich specific, issues.

In particular, they reflect the fact that the product provider is only one of the influences, and often the most distant, involved in the task of achieving a match between a member's expectations and likely outcome. The employer, first and foremost, and an employee benefit consultant or similar adviser, are usually much closer and sometimes even prevent providers such as Zurich being able to engage with members effectively.

From a member's perspective

But from the members' perspective, it does not matter whether the issues are industry wide or not. The fact is that the considerable majority of scheme members have little idea whether what and how they are saving is going to give them the lifestyle in retirement they expect. This is despite the considerable efforts of product providers like Zurich, who, as well as meeting statutory requirements for annual statements, makes most information readily available online or over the telephone. In particular, savings levels suggest, and research – both Zurich's and otherwise – make it clear, that members have little understanding of the level of contribution required in order to achieve a certain lifestyle. In many cases, there is over-optimism, making disappointment the likely result.

It would be cold comfort to a member to be told that he or she had been saving in a scheme with strong investment performance – in terms of both returns and volatility in line with expectations; sound administration; clear and compliant communications; and low and competitive charges; and had therefore received value for money – if their pension pot at retirement is well below that required to deliver the lifestyle they expected. Satisfactory performance on the 'hard criteria' is necessary, but not sufficient, for Zurich or for anyone else.

The IGC's ratings, as at March 2018, against the value for money principles

Looking first at a comparison against Zurich's peers within the industry:

Value for money principle	Rating against current industry practice
1 – Compliance with rules	Green
2 – Service standards	Amber
3.1 – Enabling Customers	Amber
3.2 – Investment Management	Green
4 – Comparison with Competitors	Green / Amber
5 – Efficiency and costs	Amber

If we did not have all the information needed to satisfy a definite 'Green' view, we have assigned an 'Amber' rating. It is described in the text where this is the case. It does not necessarily mean that Zurich is not performing well in that respect.

RED = assessed as poor – some areas of concern identified with actions not agreed or agreed but not yet delivered.

AMBER = assessed as fair – some areas of concern identified, with action being taken.

GREEN = assessed as good – no areas of significant concern identified.

And against the harsher test of members' view of value from our research:

Value for money principle	Rating against member view from research
1 – Compliance with rules	Green
2 – Service standards	Amber / Red
3.1 – Enabling Customers	Red
3.2 – Investment Management	Green
4 – Comparison with Competitors	Amber
5 – Efficiency and costs	Amber

If we did not have all the information needed to satisfy a definite 'Green' view, we have assigned an 'Amber' rating. It is described in the text where this is the case. It does not necessarily mean that Zurich is not performing well in that respect.

The ratings for each value for money principle have been based on a consideration of the following:

- **structure:** To what extent are indicators and good outcome aspiration levels for the principle agreed?
- **evidence:** Is up to date evidence about the indicators available?
- **performance:** How far does the evidence show that indicators are at good outcome aspiration levels?

In some cases, our assessment falls between two ratings, as described under the relevant principle.

We have considered whether we should make our assessments more granular by assigning ratings separately for 'Modern' schemes (and within that for Zurich Assurance Ltd ("ZAL") and SIML) and for schemes in 'lines closed to new business'. However:

- the evidence available is not currently sufficiently distinct to support separate sets of ratings, and
- the IGC believes that the most important ratings are those from the members' perspective.

Improving the evidence is a key task for 2018/19.

Considering each value for money principle in turn:

Principle 1 – Compliance with Rules

"A provider's product and services must meet all relevant regulatory and legal standards including those that require that providers are financially strong."

Rating:
Against current industry practice: Green. Against Member View: Green – we are confident in the assurance received from Zurich that it is complying with all relevant rules.

Evidence:
'Industry view': Based on the IGC's quarterly monitoring of Zurich's management information, including complaints and reports of any regulatory breaches.

'Member view': again, IGC regular management information.

Resolving the remaining issues arising from the Independent Project Board ("IPB") review of older defined contribution workplace pension schemes.

One aspect which has required, and continues to require, extensive attention concerns the actions taken by Zurich with regard to the management charges for 'lines closed to new business' within the IGC remit. The Financial Conduct Authority ("FCA") and Department for Work and Pensions require that they should either be at or below a reference point of 1% per annum (p.a.) Reduction in Yield (RIY), or there should be a clear rationale as to why any higher charges should be regarded as representing value for money.

In the course of the last twelve months Zurich has made further substantial reductions, following those already made at the instigation of the IGC, to management charges which remained above the 1% p.a. reference point. Following Zurich's interactions with the IGC and with the FCA those reductions now mean that:

- the vast majority of members face charges below 1% p.a. RIY;
- the maximum RIY faced by any member is 1.21% p.a., with the average for those members above the 1% p.a. reference point being 1.14% p.a.; and
- Zurich has started work to offer all of those members the opportunity to transfer to an appropriate fund with costs and charges of 1% p.a. or below.

An important aspect of this consideration for the IGC is the characteristics and performance of the managed funds in which such members are, in the great majority, invested. These have and continue to provide investment returns which have met or exceeded both their own and industry benchmarks over short, medium and longer terms. Further details are set out in Section 3.2 below. A judgement has to be made as to whether changing from these funds; – even into funds with similar objectives – is in the members' best interests, given the limited reduction in charges which could be achieved.

Another important aspect to this issue is the significant challenge in executing a successful intervention to prompt members to implement changes to their pensions themselves. Our evidence from research and initial trials is that this is indeed problematic. The IGC is working closely with Zurich on the best ways to achieve this difficult task.

As a result, the IGC has said that it is content with Zurich's approach of offering members a lower cost alternative, provided that the process to communicate with members is closely monitored for its effectiveness and that further measures are taken in the event that it does not deliver satisfactory outcomes. The IGC will continue to challenge Zurich to ensure that:

- a simple offer is made to those with charges in excess of the 1% p.a. reference point to maximise the number who either take it up or who decide they prefer to carry on with their present fund (the IGC is looking for approximately 30% of such policyholders each year to have decided one way or the other);
- the ground be properly prepared to assist this;
- the exercise will be repeated annually for at least 5 years or until there is evidence that it is no longer reducing the population of people who have not made a positive decision;
- Zurich makes it clear what their plan will be if these actions do not engage consumers;
- Zurich will continue to investigate and propose alternative and complementary actions; and
- further action is taken at the end of 5 years for any members who then remain in products with charges above the reference level, other than those who have made a positive decision to do so.

On this basis, the IGC is prepared to assign a 'Green' rating for the year 2017/18, but if the measures fail to work, will reassess this. This consideration has taken up a significant proportion – we estimate around a quarter – of the IGC's time and discussions during the year and work will continue in 2018/19 as the IGC keeps Zurich's actions in this regard under close review.

Principle 2 – Service Standards

"A provider's businesses must do its best to provide products that meet consumers' reasonable expectations about customer service and which compare well not just within financial services markets, but also across product sectors."

Rating:
Against current industry practice: Amber. Against Member View: Amber/Red

The IGC regularly monitors Zurich's performance against the Service Level Agreement targets they set, and which are accepted in the market as reasonable, as regards the 'Modern' scheme business. These targets are generally met, although problems in meeting call answering standards have occurred more frequently than the IGC would expect. Early indications (from an independent cross-industry study being carried out for a number of major pensions providers, arranged by Sackers, a leading pensions law firm, using expert researchers) are that Zurich is generally performing as well or better than its rivals in most service areas, in the 'Modern' scheme business, but has shortfalls in some areas, notably complaints handling time.

We hope that the cross industry study should eventually provide service comparisons for 'lines closed to new business' as well, and we hope that it will also consider comparisons with service standards in products outside pensions – such as bank accounts, mortgages, etc. or even non-financial goods or services. We have seen Zurich's 'Net Promoter Score' research which shows, for the business as a whole, that it is not far off the pace set by Nationwide, which is a leader in the broader financial services sector.

Overall, service seems sound. But, as there have been some shortcomings in the 'Modern' scheme business and there is insufficient independent evidence regarding 'lines closed to new business' at present, it is not possible to make an assessment above 'Amber' from a current industry perspective.

However, our consumer research clearly shows that the comparators that count most for members were not with other financial services companies but with other sectors which are perceived as having higher standards – retailers and digital companies being cited most as examples. Consumers saw financial services companies generally as falling short of their expectations for service. Zurich, in common with its peers, appears to have work to do in order to reduce the gap between a comparison with like businesses and members' wider expectations. The fact that it is an industry issue doesn't mean it is not one for Zurich.

So we have arrived at a split assessment under the 'member view' heading: 'amber' against a financial services comparator and 'red' against non-financial services. This is in part due to the fact that we have not yet seen a good evidence base as to the actual and realistic expectations of members in this regard.

Evidence:
The chief source of independent evidence available to the IGC is the findings emerging from the cross-industry study which, is in its early days, but has some valuable comparative data already and we hope will provide a reliable source against which to assess performance.

The criteria for service against which the study uses are:

- customers' ability to complete administration tasks on line (i.e. self-service)
- automation of administration tasks;
- accuracy of administration tasks;
- administration service levels;
- speed of transfers;
- customer call wait times;
- complaints; and
- customer and client satisfaction.

Zurich's internal management information showing operational performance measures, such as the prompt processing of core scheme financial transactions, are also reviewed by the IGC each quarter.

The IGC also notes that Zurich's service performance is seen as meeting requirements in the views of Employee Benefit Consultants who review provider performance on behalf of employers.

Taken together, we believe these demonstrate that Zurich's levels of service are generally set at standards in line with wider industry practice. When any problems with service issues are identified through the control processes, by the IGC, proactive measures are taken by Zurich, which are then monitored by us.

A particular area of focus for improvement is in the handling of complaints. Action taken by Zurich has shown recent uplift in performance but has not yet achieved the service levels agreed. Call handling is the other area which has received particular attention, including IGC members 'listening in' to calls.

Principle 3 – Products and services must support high-quality outcomes

"A provider's product and services must support and facilitate high-quality outcomes for consumers, such as good contribution and investment decisions, whether through consumer choice or provider action on their behalf."

Two subsets of value attributes contribute towards assessment against this principle: principles 3.1 and 3.2.

Principle 3.1 – "Where consumers can optimise their own outcomes, providers should make interventions to help them take action for themselves."

Rating:
Against current industry practice: Amber. Against Member View: Red

Under this principle we consider mainly the alignment of members' likely outcomes with the lifestyle they expect to achieve as a result of their saving into a scheme.

Looked at from the point of view of members, this is the area where there is a generic industry problem, as most scheme members have little idea of what they can expect from their pensions or how to achieve it. Despite some laudable efforts to address this, which are in early stages in any event, Zurich is not an exception. Hence, the rating for Zurich against the 'member view' is 'Red'.

Relative to competitors, we consider, from the early results of the cross industry study and from other sources, that members of 'Modern' Zurich schemes are at no disadvantage to the industry generally, and possibly better served. However, we do not have sufficiently good comparative information regarding the effectiveness of communications with members of schemes in 'lines closed to new business' and we have some concerns about some communications that we have seen sent to them. Therefore the rating against current industry practice is 'Amber'

Evidence:
The IGC sees this as currently the greatest area of challenge for the industry in general, and for Zurich as one of the market participants. Our research shows the test which members believe should be applied is whether the outcome from their scheme membership meets what they expected.

Yet the response to Zurich's own mailings to members to encourage switching to more appropriate investment funds shows that, even where a communication is clear, understood and considered helpful enough to enable customers to make a decision, it does not lead them to, for example, switch funds without help.

The IGC welcomes proactive steps taken by Zurich to engage customers to facilitate high-quality outcomes. The deployment of new communications and tools for use of members, with assessment of the impact on member behaviour, are recognised by the IGC as the right kind of steps towards this goal, but evidence of their effectiveness is not yet clear.

The IGC continues to challenge Zurich to develop and measure the scale and effectiveness of its proactive engagement work better to evidence the value it is creating for members in this regard. The IGC believes that there is further work to develop and broaden this programme of proactive engagement with members to ensure that support is being offered where it is most needed and in a way that has the most beneficial impact for members.

In particular the IGC believes that additional work is needed to engage deferred members and to deliver better targeted and more engaging communications to members whose contracts are administered on older IT platforms.

Continued efforts are required by Zurich to marshal resources from across the organisation to bring all the expertise and learning together to be able to advance this body of work and to deliver what members really want.

Steps taken by Zurich:
It should be noted, though, that steps taken by Zurich are not insubstantial, and include a programme of targeted mailings and other activities to encourage members to take action to improve their outcomes through:

- consolidating their pension pots to obtain better value;
- transferring or making other changes to mitigate the impact of exit charges;
- selecting an investment strategy near retirement that reduces risk and lines up with their retirement money needs;
- launching and promoting a new retirement planner tool together with a series of retirement podcasts;

- encouraging members to ensure they are taking appropriate retirement benefits;
- workplace seminars to stimulate member engagement with their retirement finance planning and to make additional contributions where appropriate;
- enabling members to access information about their pension funds more conveniently via a telephone service rather than by post; and
- keeping members informed by text messages of progress when transferring their retirement fund to or away from Zurich.

Development and execution of a new process for direct input from members
It seems to us appropriate to consider, under this heading, the process by which we have carried out the requirement to gather direct input from members.

During 2015/16 and 2016/17 the extensive research project gave the IGC rich evidence of the views of members. In 2017/18 that input has formed the basis of our assessment of performance against the value for money principles.

The IGC has used Zurich's market research capability to obtain relevant direct input to the IGC through a review of other market research and consumer insight programmes commissioned by or available to Zurich.

A subgroup of the IGC is working with Zurich's Market Research and Consumer Insight team to understand Zurich's knowledge of member information needs and how this can be applied to improve communication and engagement with members. The research involved is extensive, from many sources, and has been considered from the aspect of each of the value for money principles.

IGC members have listened to inbound member calls to understand:

- the nature of their queries and concerns;
- the context for the member in which these enquires are couched; and
- the issues it raises and the ways in which Zurich is able to resolve matters for the member.

Members of the IGC have participated in meetings of Defined Contribution Scheme Governance committees to hear their views and respond to questions and concerns.

Principle 3.2 – Investment Management: "Where consumers are less able to optimise their own outcomes, providers should do the best possible job on their behalf."

Rating:
Against current industry practice: Green. Against Member View: Green

The key consideration for this principle is investment management.

For the 'Modern' book of business we have good assurance, based on our own review of internal and market data and the findings emerging from the cross industry study, to support our view of a 'Green' rating.

For members of schemes in 'lines closed to new business' work is not so advanced, although our review of the performance of the key managed fund, in which the considerable majority of the relevant members' funds are invested, shows satisfactory (generally considerably better than satisfactory) short, medium and long term performance net of charges against benchmarks. We will, in 2018/19, carry out more work to review appropriateness, especially looking at the ages of the members invested in it. This does not detract from our view that a 'Green' rating is also appropriate from a member view perspective.

We have also considered, under this heading, Zurich's approach to Environmental, Social and Governance (ESG) issues and the early information available regarding investmenttransaction costs.

Evidence:
Summary: 'Modern' Schemes: default investment strategies

Default investment strategies are, overwhelmingly, the most important consideration in the active schemes. The IGC has welcomed Zurich's continuing work in reviewing the quality and appropriateness of investment strategies provided to these schemes through its Investment Solutions Review Group. During the year, this has included:

- continuing to review the governance of the Zurich-designed default strategies and self-select investment funds;
- ensuring the investment choices available are aligned to member interests and all defaults have clear statements of aims and objectives;
- an extensive modelling study to review the appropriateness and effectiveness of both Zurich's own default investment strategies and those where the employer has selected a default strategy other than the Zurich-designed default; and
- discussions with employers and their employee benefit consultants, where the modelling review has raised challenges to the appropriateness of the default strategy in place and where necessary, ensuring changes are made.

The quality of the flagship Zurich passive lifestyle default strategy has been independently verified by the cross industry study as being suitable, meeting its objectives and providing returns expected for the level of risk being taken.

Summary: 'Lines closed to new business'

For members of schemes in 'lines closed to new business', investment in the Zurich Managed Fund is the strategy used predominantly. This fund has consistently outperformed both internal and industry fund sector benchmarks over the short and longer term. Zurich has also made new funds available to these members, to allow those nearing retirement to adopt different investment strategies to target their intended retirement needs – be they for immediate cash, a guaranteed income through retirement or draw down of funds as required over time.

Supporting evidence: 'Modern' schemes – Default Investment strategy

The introduction of Auto-Enrolment has placed a requirement on qualifying schemes to provide a 'default' investment strategy for those members who do not wish to make their own choice of strategy. By far the most commonly employed Zurich-designed default strategy employed in its schemes is the Passive Lifestyle Suite. This is a passively managed solution consisting of the Zurich Passive Interim Lifestyle (the default investment option) and three alternative Guided Lifestyles.

Each "Lifestyle strategy" incorporates:

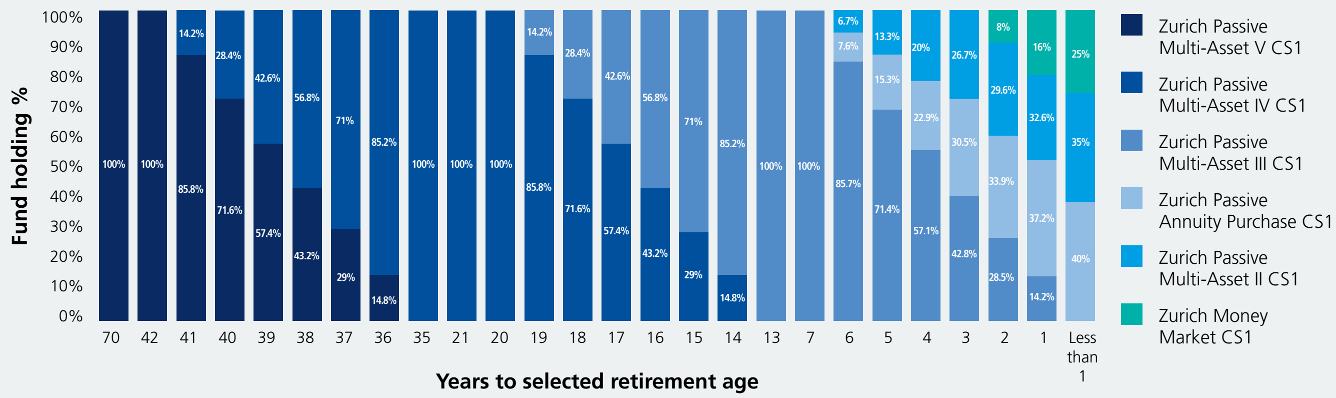
- **an accumulation phase:** which is the period from the point a member joins to the point when they are seven years from the selected retirement age; and
- **a de-risking phase:** which is the seven year period prior to the member's selected retirement age.

During the accumulation phase, the asset allocation for each of the four Lifestyles is identical. Three risk-profiled passive multi-asset funds form the basis of the strategy and act both as appropriate entry points for any member, whilst progressively de-risking the member's investments over time.

During the de-risking phase, the asset allocation for each of the four Lifestyles are different (there is a different "glidepath" for each during the period up to retirement), to reflect the different aims of each. During this period, the fund holdings will be gradually realigned to provide a balance of funds that reflects the member's selected retirement strategy. The glidepath through the different funds takes into account the overall risk profile of the underlying holdings, to ensure the risk being borne at each point is progressively reduced.

The following graph shows how a members fund is invested if they remain in the default option through both the accumulation and de-risking phases:

Zurich Passive Interim Lifestyle



Objective

This option is managed by Zurich to provide, in its opinion, a suitable investment solution from the point at which a member joins until the point at which he or she is sufficiently comfortable to make an investment decision – in particular once a member has a view regarding how he or she might wish to manage income in retirement.

During the de-risking phase, the glidepaths will involve the automatic switching of holdings into a combination of some of the following four funds (depending on whether the member remains in the default option, as shown above, or selects one of the three guided lifestyles):

- Zurich Passive Multi Asset Fund I;
- Zurich Passive Multi Asset Fund II;
- Zurich Passive Annuity Purchase Fund, and
- Zurich Money Market Fund.

Thus, the Passive Lifestyle suite uses a total of seven investment funds as components of the lifestyle strategies. The performance of these seven investment funds is set out in the table below and shows the close tracking of their benchmarks[1].

Fund	1 year to 31/12/17 (%)		3 years (annualised) (%)	
	Performance	Benchmark	Performance	Benchmark
Passive Multi-Asset I	6.59	6.98	7.98	8.14
Passive Multi-Asset II	7.63	7.87	8.45	8.60
Passive Multi-Asset III	8.82	8.76	9.44	9.49
Passive Multi-Asset IV	10.93	10.91	11.69	11.71
Passive Multi-Asset V	12.74	12.87	13.32	13.33
Passive Annuity Purchase Fund	3.78	3.82	6.12	6.05
Money Market Fund	0.12	0.15	0.24	0.26

Source: Financial Express as at 01/01/2018.

Supporting evidence: 'Lines closed to new business' – managed fund performance

For the majority of the schemes in Zurich's closed product lines the most popular choice of investment strategy was direct investment into what is now the Zurich Managed AP Fund. This is an actively managed, multi-asset fund with a high proportion (up to 85%) of its funds invested in UK and overseas equities.

Performance for this fund and against the ABI Mixed Investments 40-85% Sector benchmark shows the sustained superior returns from this fund relative to its sector.

Fund	1 year to 31/12/17 (%)			3 years (annualised) (%)		
	Performance	Benchmark	Difference	Performance	Benchmark	Difference
Zurich Managed AP	10.31	9.22	+1.09	9.96	8.41	+1.55
	5 years (annualised) (%)			10 years (annualised) (%)		
	Performance	Benchmark	Difference	Performance	Benchmark	Difference
Zurich Managed AP	10.34	8.74	+1.60	6.68	5.46	+1.22

Source: Financial Express as at 31/12/2017.

Environmental, social and governance (ESG) policy

The IGC has considered, with Zurich, its current ESG approach.

Where Zurich offer an in-house designed active management solution within the 'Modern' schemes, and within 'lines closed to new business' where the main investment strategy is the managed fund, Zurich outsource fund management to third party fund managers on a discretionary basis.

Zurich look to ensure that the fund managers have an overall documented ESG policy setting out how they assess and monitor current or potential investments in relation to relevant long-term factors such as environmental, social and corporate governance issues and how this may be applied to different asset classes. Zurich also requests that the fund managers ensure that their investment professionals responsible for the mandates receive adequate training, access to relevant data and information, and apply due care and diligence to applying this process, including considering the extent to which the ESG factors generate investment risks or opportunities.

[1]The benchmarks used for comparison are (a) Zurich Multi-Assets Finds I to V: weighted composite, (b) Zurich Passive Annuity Purchase Fund: 50% iBoxx Sterling Non-Gilts All Maturities and 50% FTSE Actuaries UK Gilts Over 15 Years and (c) Money Market Fund: LIBOR LIBID GBP 1 week.

Transaction costs in context: Identifying better value investment

The IGC has reviewed the first examples of transaction costs data available to Zurich following new requirements set by the FCA. Work is continuing to ensure regulatory requirements are met, but all the processes and data are, as yet, not available pending the data feeds that will be put in place by the asset management industry over the next few months.

The table below shows a sample of transaction cost data received so far. This suggests that the transaction costs form a relatively small proportion of the overall costs for these types of investment solution but this has to be a tentative conclusion given the inconsistent and incomplete nature of the current dataset. These figures may well need revision when the transaction cost reporting requirements being introduced by the FCA are fully in place.

Sample of currently available transaction costs data for Zurich Managed Fund against active and passive alternatives

Fund	Investment style	Estimated transaction costs
Zurich Managed AP	Active	0.13%[2]
L&G Mixed Investment 40-85% I Acc	Active	0.07%
Schroder Managed Balanced Inst Acc	Active	0.13%
Aberdeen Multi Assets I Acc	Active	0.14%
Old Mutual Managed A Acc GBP	Active	0.06%
L&G UK Index Trust I Acc	Passive	0.00%
Aberdeen UK All Share Tracker A Acc	Passive	0.07%
iShares UK Equity (UK) A Acc	Passive	0.03%

Transaction costs are of two forms: 'explicit costs', such as brokerage fees and stamp duty; and 'implicit costs' which will begin to be measured by a method recently specified by the FCA. As an illustration of such costs, the current, early stage estimates for the Zurich Managed AP fund are:

Fund	Investment style	Estimated transaction costs
Zurich Managed AP	Active	0.13%
Split as follows:		
Brokerage Fees		0.03
Stamp Duty		0.02
Other Explicit		0.005
Implicit		0.07

The IGC is working with Zurich to develop a consistent 'scorecard' approach to assess all funds used to invest workplace pension savings. A key component of this approach is comparing the added investment return against benchmark with the total costs levied for that fund, including transaction costs.

This work is still in development and a number of challenges are being addressed, particularly in dealing with data presented by fund managers on inconsistent bases.

[2]Managed fund transaction costs have been collated from multiple sources. Around 80% of the assets within the Managed funds are managed by Columbia Threadneedle (CTI). Fund manager approaches to calculating the transaction costs are given below:

CTI: Explicit costs are based on a percentage of the end of period net asset value (NAV) for each discrete quarter. Implicit transaction costs have been estimated using a proxy fund, the Threadneedle Managed Equity Focussed Fund. Implicit costs have been estimated using ETF spreads (and therefore do not use slippage methodology).

Nikko & Schroders: PRIIPS slippage methodology; includes both explicit and implicit costs.

Blackrock: PRIIPS slippage methodology; includes both explicit and implicit costs. Sourced from MIFID II data.

Principle 4 – Comparison with competition

"A provider's product and service should be designed and priced so that they are reasonably in line with the rest of the market. Where they are, or become, less good providers should bring them into line within a reasonable period of time."

Rating:
Against current industry practice: For 'Modern' business: Green. For 'lines closed to new business': Amber. Against Member View: Amber

The information we have for 'Modern' schemes relative to competitors, as regards services provided, communications, charging levels etc., provides evidence that this business is actively competed, so that effective market pressure is brought to bear on the terms available to members. So this aspect is rated 'Green' for such schemes.

However, we do not yet have sufficient information on 'lines closed to new business', relative to competitors, to have drawn all the conclusions required with regard to this principle, so the rating against current industry practice is 'Amber' for such schemes

The combination of the two industry factors leads to a current rating against members' views of 'Amber'.

Evidence:
The IGC sees evidence that Zurich is delivering competitive propositions to 'Modern' schemes through the continued short listing and selection of Zurich's schemes by employers and their professional advisers when selecting providers for new schemes and also when existing schemes are put up for review or re-tender.

Looking at the competitiveness of pricing within this, the cross industry study shows Zurich's charges for 'Modern' schemes as being below average amongst a peer group comprising around 80% of workplace pensions provision. Charges are always at or below 0.75% p.a. and more than 50% of the funds invested in these new schemes are below 0.50% p.a. It should be noted that Zurich specialises in schemes for larger employers and so will benefit from associated economies of scale.

The IGC welcomes the actions by Zurich to cap charges for 'lines closed to new business' that has resulted in around 26,000 members seeing their charges reduced. As noted earlier, it also welcomes the offer of suitable alternative contracts or funds at or below 1% p.a. RIY to those with costs and charges currently above 1% p.a.

The IGC is challenging Zurich further to demonstrate that it has robust mechanisms to ensure that members in schemes without advisers and 'lines closed to new business' continue to benefit from propositions and contract terms that are broadly in line with the wider market and that appropriate action is triggered should they fall below this level to ensure all members are treated fairly.

Principle 5 – Efficiency and costs

"Product and service charges should reflect, both now and over time, efficient operation and levels of costs (including a normal return on capital)."

Rating:
Against current industry practice: Amber. Against Member View: Amber

Our work so far shows us, as supported by the early findings from the cross industry study, that Zurich's passive default investment strategy charges for 'Modern' scheme business are relatively low. However, as noted above, we do not have full comparative data on products, services and charges for 'lines closed to new business' and, again as mentioned earlier, this business still has some outliers with charges slightly above an RIY of 1% p.a.

We have sought and received information on the return on capital achieved in respect of both 'Modern' and 'lines closed to new business' which, in neither case, appears unsatisfactory from a customer perspective. We will be looking to complement this information with data about supplier contracts, technology investment and other items relevant to Zurich's efficiency

We have, therefore, no reason to believe that Zurich's efficiency or costs are markedly different to others in the industry in a way which affects members in a relatively adverse manner. But consideration of this principle is too early in its development to come to a conclusion under either heading other than 'Amber'.

Evidence:
The IGC agrees with Zurich that assessing against this principle on a systematic basis is challenging and requires more in-depth analysis. In addition to examining ad-hoc data as it becomes available, the IGC is therefore working with Zurich to develop a more formal assessment approach to produce a better evidence base to assess value for money against this principle during 2018.

With the information currently to hand, we are broadly satisfied, based on market intelligence and trends, that this timetable, although longer than we would like, is unlikely to be to the detriment of members.

The IGC has also had information regarding the expected returns on capital employed in Zurich's unit-linked pensions business, via two different methods. We are early in our consideration of the import of the information but have not seen anything detrimental to members in the information received so far.

The IGC is currently exploring how Zurich's oversight of outsourced operations works to ensure:

- Service Level Agreements agreed at the outset of contracts are benchmarked; and
- The cost of services are confirmed as reasonable and reviewed to ensure they remain competitive.

Other matters considered by the IGC

During the course of the year, the IGC has also:

- Confirmed IGC members' independence against the guidance set out by the FCA (February 2018);
- Reviewed our Terms of Reference and made appropriate amendments (February 2018);
- Reviewed the on-going competence of committee members, including the current chair;
- Identified appropriate training needs (December 2017); and
- Scheduled an IGC effectiveness review in April 2018 to be completed by early summer 2018.

The IGC has kept the SIML and ZAL Boards appraised of its activities and progress on a quarterly basis. It has not escalated any issue formally to the Boards or to the FCA during the year.

More details about the IGC, its members and processes, including details of how to contact the IGC, are contained in Appendix 3.

3. Looking forward to 2018-19

Scottish Widows transaction: likely timetable and responsibilities

Our work during 2017/18 has been progressed alongside Zurich's negotiation and agreement to the acquisition of a material part of Zurich's workplace pensions and savings business by Scottish Widows, part of the Lloyds Banking Group plc. The changes resulting from this acquisition will have an impact on the IGC's focus for 2018-19 and increasingly, beyond that.

As a result of this acquisition, the majority of the members' contracts move to Scottish Widows and will be overseen by the relevant IGC. The acquisition is expected to partially close in April/May 2018, with subsequent completion and transfer of assets following the required regulatory and legal approvals, expected to be during 2019.

The Zurich IGC is putting in place plans to ensure that governance remains firmly in place during the transition for those members leaving our remit. It will also, when appropriate, re-examine its approach to the value for money principles and considering whether any re-assessment of its priorities are needed to ensure that remaining members, who will, ultimately, be those in 'lines closed to new business', are receiving value for money.

Priorities for 2018-19

During 2018/19, the IGC will:

- continue to embed evaluation against the value for money principles in Zurich's management and governance as the core of our activity, refining it as needed and requesting further information where there are any gaps;
- develop and refine the evaluation of investment management aspects, incorporating fully the evidence from the new transaction cost reporting regime;
- look to extend our review of service standards achieved to consider how these compare with those that members would see as relevant comparators outside of the sector;
- work with Zurich to understand further its policy with regard to monitoring how the fund managers it employs mitigate ESG risks in their investment process;
- ensure appropriate time and focus is applied to all of the schemes under its remit, including those due to transfer to Scottish Widows;
- ensure that members' value for money is not impacted adversely by the process of the Scottish Widows transaction and, as and when appropriate, work with the Scottish Widows IGC to ensure an orderly and successful handover of governance responsibilities to them;
- particular examples of areas for focus will include:
  - Developing robust and evidence comparison metrics to ensure contract terms and services remain competitive; and
  - Continuing efforts to re-connect with members who have lost contact with Zurich;
- continue to receive evidence on the progress of Zurich's actions in response to the IPB review of older defined contribution pension schemes; and
- continue to review its composition, terms of reference, the effectiveness of and processes for governance to ensure they remain fit for purpose.

2018/19 will see significant new challenges as the character and scale of Zurich's workplace pensions business starts to change.

We remain confident that the approach the IGC has taken to establish the members' view of value for money, together with the continued independence of all the IGC members, will be strong foundations from which to develop and evolve our approach as needed and to ensure that members receive value for money from their pension savings with Zurich.

Appendix 1: Glossary of terms

Member: An individual who has contributed and/or continues to contribute to a pension scheme.

Pension scheme: A way for an individual, or their employer, to save money for later in their life. The role of the IGC is specific to members of certain types of pension scheme – those which are contract based, defined contribution, workplace schemes. Where the term pension or pension scheme is used in this report, it refers to contract-based defined contribution workplace pension schemes. The meaning of these terms is set out below.

Contract based: A contract-based scheme is where an employer appoints a pension provider, such as Zurich, to run the plan. The members sign a contract with the provider who will be responsible for the operation of the scheme.

Defined contribution (DC): Defined contribution workplace pensions are a type of workplace pension plan where retirement benefits are based on how much the member and employer pay into the plan and the performance of the investments made with the money invested.

The benefits that a member receives at retirement depend on a number of factors including:

- how much has been paid in by and/or on behalf of the member,
- the length of time that it has been invested,
- how the investments have performed over this period and
- the charges taken.

Workplace pension scheme: Workplace pension schemes, or workplace pensions, are schemes that are set up by employers to provide their employees with a pension in later life.

'Modern' schemes: Schemes written under the Zurich Corporate Savings brand since 2000 with propositions benefiting from support from the Zurich current Corporate Savings administration platform or the previous Group defined contribution platform. These schemes are generally open to new members and are suitable for Automatic Enrolment.

'Lines closed to new business': Schemes written mostly under the Allied Dunbar and Eagle Star brands from 1988 – 2005 and supported by a range of older administration platforms. All schemes were closed to new members as of May 2017 and are not suitable for Automatic Enrolment. (In our 2016/17 report, these were referred to as 'legacy business'.)

Closed schemes: Where there are either no active contributors to the scheme, or where membership is closed to new entrants.

Value for money: Value for money is a term used to assess the utility derived from a product or service. Value for money is based on the purchase price, the efficiency and the effectiveness of the product or service.

Reduction in yield (RIY): RIY describes the effect that charges have on customers' investments. For example, total charges in a year that represent a 1% p.a. RIY mean that the value of the customer's pot has been reduced by 1% p.a. after investment returns have been taken into account. The expression is used in particular where the charges on a product are not a simple annual management charge percentage.

Zurich: Zurich is one of the world's largest insurance groups. Zurich's mission is to help its customers understand and protect themselves from risk. In the UK, there are two Zurich companies which provide pension schemes: Zurich Assurance Ltd (ZAL) and Sterling ISA Managers Limited (SIML). The Zurich Independent Governance Committee acts on behalf of members of contract-based defined contribution workplace pension schemes provided by both ZAL and SIML.

Consumer research: Consumer research is a form of market research in which the needs and opinions of consumers are identified, especially with regard to a particular product or service

'Freedom and Choice': 'Freedom and Choice' refers to the pension legislation introduced in the 2014 Budget. The 'Freedom and Choice' legislation gave people much greater freedom over how they access their pension savings.

Regulator/Regulation: A regulator is a person or body that supervises a particular industry or business activity. Regulation refers to principles, rules or law which are issued by regulators and are designed to control or govern conduct within a particular industry or business activity.

Financial Conduct Authority: The Financial Conduct Authority (FCA) is an independent body which is responsible for regulating financial markets. Its aim is to make sure that financial markets work well so that consumers get a fair deal.

Independent Project Board: The Independent Project Board (IPB) was responsible for overseeing the review of the industry which focused on charges and benefits in older defined contribution workplace pension schemes.

Default investment strategies: Workplace pension schemes which are eligible for automatic enrolment are required to provide an investment solution for those consumers who do not wish to make their own investment decisions. The default investment strategy for each scheme is required to meet the needs of the members in that scheme.

Automatic enrolment: Automatic enrolment is a Government initiative to help more people save for later life through a pension scheme at work. Automatic enrolment has made it a legal requirement for employers to enrol their employees into a pension scheme if certain conditions are met.

Glidepath: the approach taken to the asset allocation for a scheme member's funds as he or she approaches retirement. Generally a process in which, as the member gets closer to retirement, assets might be moved from riskier (equity-type) assets towards those where downside risk is reduced or measures taken to reduce volatility in the size of the member's pensions pot. Alternative 'glidepaths' may be taken according to how the member is most likely to draw on, or take, his or her pot.

Pensions Dashboard: the 'Pensions dashboard' is an industry/Government initiative intended to enable savers to see all their pension pots, including State Pensions, in one place

Appendix 2: The IGC's value for money principles

During 2016/17, the IGC developed a set of value for money principles against which it can assess Zurich's workplace pensions. Rather than adopting a set of criteria developed by Zurich management, or by others in the industry, we wanted to allow pension consumers to have their voice and to tell us what is important to them.

We achieved this through a comprehensive and in-depth programme of research with a representative sample of people in workplace pension schemes. The findings of the research have been crucial in helping us understand what customers think value for money means in relation to workplace pensions and what the different trade-offs between quality and cost are for customers, who have been informed of the consequences. This has informed our thinking about our assessments of value for money including our thinking on costs and charges.

We then integrated this with our own experience, the views of other experts including regulators and economists. This led us to define **five broad principles** that need to be considered and measured in order to reach objective conclusions about the value for money that customers receive.

The principles are generic and could apply to any provider. However, our remit is Zurich's products and services, so we are applying them specifically in that context:

Principle 1: *A provider's product and services must meet all relevant regulatory and legal standards including those that require that providers are financially strong.*

Our research shows (and other research confirms) that consumers insist that these features be in place. However, our work also shows that these features do not by themselves, constitute value for money.

Principle 2: *A provider's businesses must do its best to provide products that meet consumers' reasonable expectations about customer service and which compare well not just within financial services markets, but also across product sectors.*

Our research shows that consumers expect, largely based on their experience with other markets, some things to be part of the product proposition as a matter of course. This includes, but will not be limited to, rapid processing of transactions and access to their account data in real time.

We think that the first two principles are conditions that must be met before value for money can be determined.

Principle 3: *A provider's product and services must support and facilitate high-quality outcomes for consumers, such as good contribution and investment decisions, whether through consumer choice or provider action on their behalf.*

Our research confirmed that consumers ultimately value outcomes, and shows that – once they have actually taken in a quite modest amount of information – consumers perceive value in those product attributes that they see will help to deliver better outcomes. The analysis we conducted allowed us to compare the values of different attributes with each other and with the level of charges. Analysis of costs suggests consumers value some attributes at more than they cost to provide – these are the attributes that unambiguously provide value for money.

There are two subsets of attributes here, where the principle requires somewhat different things from the provider:

Principle 3.1: *Where consumers can optimise their own outcomes, providers should make interventions to help them take action for themselves.*

The research showed that consumers value good personalised information, and other interventions (such as reminders of retirement dates, drawdown options and combining pots) which prompt members to do the best thing for themselves in terms of contributions. It also showed that different subsets of consumers value different communications channels: providers need to support them in line with those preferences.

Principle 3.2: *Where consumers are less able to optimise their own outcomes, providers should do the best possible job on their behalf.*

The key element in this group is delivering investment returns. Different customers have different levels of risk appetite but many value others making investment decisions on their behalf. Therefore the process for selecting default investment strategies is of critical importance as is conveying to consumers that they are designed for people like them (our research suggests that the word 'default' leads to consumers not valuing this feature). The research showed that consumers see little difference in value between different options as to who should make investment decisions – themselves, or someone for them – though older consumers and/or those with bigger pots have marginally more interest in being actively involved themselves.

Principle 4: *A provider's product and service should be designed and priced so that they are reasonably in line with the rest of the market. Where they are, or become, less good, providers should bring them into line within a reasonable period of time.*

This principle does not emerge from research but from the competitive market logic that a product can only provide value for money if a consumer cannot do better by switching to an available alternative. In the workplace Defined Contribution market it can have strong implications for the members of schemes in closed product lines in particular.

Principle 5: *Product and service charges should reflect, both now and over time, efficient operation and levels of costs (including a normal return on capital).*

While the research shows that members want to be sure that providers are doing the best possible job for them with respect to product attributes (which they can see), the research does not try to get their views about costs (which they can't). In addition to members' views, we will therefore continue to take an interest in the provider's technology, costs and efficiency.

What do they mean for members?

In assessing Zurich against these value for money principles, we believe that we will be reflecting both the views of expert market commentators and the people that matter; customers of Zurich. Although our work measuring against these principles is progressing, there is much more to be done to ensure that when examining the costs and charges borne by customers they deliver to the full set of principles outlined above.

Measuring Zurich's products and services against these principles

Applying these value for money principles is not simple because:

- these are principles and not rules, so we are working with the Zurich executive to ensure best efforts are being made or planned;
- in this market 'good outcomes' are long term in nature, and require that, ideally, consumers choose in the light of full information, including understanding the situation they are likely to face in later life; and
- due to the way in which the market works many key decisions, including the type of scheme itself, and investment and contribution options available to members, are made by the employer, usually with the support of an adviser. These important influences shape much of what is possible for 'active' members of schemes, but disappear or diminish for members who leave that employment.

We have therefore focused on proxies that can be monitored in the short to medium term, such as:

Principle 1 – Compliance with rules.

- regular quarterly monitoring of management information, and
- IGC engagement with the FCA and other regulators.

Principle 2 – Service standards.

- quarterly monitoring of appropriate measures;
- IGC engagement with scheme Governance Committees and members;
- 'hard factors' benchmarking; and
- comparison against standards in other relevant sectors (e.g. other aspects of financial services).

Principle 3.1 – Value attributes – enabling customers.

Whether appropriate effort is being made to educate and inform people:

- whether the provider is making best efforts to enable members to optimise their own outcomes, where they can:
  - for example, is the provider delivering or facilitating prompts which have the desired impact on behaviour;
- whether these efforts are working to deliver good outcomes for those who are at or near retirement;

Principle 3.2 – Value attributes – investment management.

- quarterly review of investment strategies, their execution and results, especially default investment strategies;
- are those strategies delivering at or above relevant benchmarks, relative to the risks being run and/or what was promised in the short term;
- establishing measures for, and monitoring of, transaction costs;

Principle 4 – Comparison with competition.

- market knowledge and reports;
- 'hard factors' benchmarking; and

Principle 5 – Efficiency and costs.

- through appropriately timed one-off studies and annual review of market intelligence and trends (we do not anticipate that performance against this factor will vary significantly over short time periods, relative to other providers).

Appendix 3 – IGC membership, terms of reference and meetings

The Zurich Independent Governance Committee is wholly independent. At the February 2018 quarterly meeting, members were measured against the guidance on independence set out by the Financial Conduct Authority and the firm confirmed their independence. Notification of interests and independence is under constant review and members are required to communicate any changes with immediate effect.

You can contact the IGC directly by using the email address **independentgovernancecommittee@zurich.co.uk** or you can write to the IGC at the following address: The Zurich IGC Chair, The Grange, Bishops Cleeve, Cheltenham, GL52 8XX.

Profiles of IGC members

Laurie Edmans CBE, Chairman: Laurie has wide experience in leading pensions and life assurance businesses and was a founder board member of NEST, of the Pensions Regulator and of the Money Advice Service. He chairs the defined contribution pension plan for Trinity Mirror plc. He was appointed CBE in 2006 for services to pensions reform.

Anna Bradley: Anna is a long-standing consumer advocate. Anna worked at Which? for many years, and is a former CEO of The National Consumer Council. Anna also chairs, or has chaired, consumer oversight bodies in a variety of other sectors, including payments, water, telecoms and health.

Ken Hogg: Ken is an actuary with more than two decades of executive experience in the life insurance industry. Ken was also formerly a Director of the Insurance Sector at the Financial Services Authority – the predecessor of the Financial Conduct Authority.

Robert Laslett CBE: Robert brings extensive regulatory experience to the IGC, as a previous director at the Office of Fair Trading and of the Department for Work and Pensions, where he was also Chief Economist for Pensions. Robert is also a member of the Civil Aviation Authority Consumer Panel.

Mark Thompson: Mark brings thirty years of investment management experience to the IGC and is the Chief Investment Officer of HSBC Bank Pension Trust (UK) Limited. Mark previously held a number of senior investment roles at Prudential / M&G Investments and was also a Trustee of the Prudential's UK Pensions Scheme.

In recruiting and assessing the continued ability of the IGC to do its job effectively, we seek the mix of skills and experience to cover the areas in which we have to make opinions. We also try to ensure diversity in background and approach, as well as the experience of working with boards and other senior stakeholders, so as to make our debate informed, robust and challenging.

The way in which our members match up to these criteria is set out below:

Criteria	L M Edmans (Chair)	A Bradley	K D Hogg	R A Laslett	M A Thompson
Independent of Zurich	✓	✓	✓	✓	✓
Experience of Holding firms to account	✓	✓	✓	✓	✓
Consumer/competition interests		✓		✓	
Regulatory experience	✓	✓	✓	✓	
Investment Expertise &/or responsibility	✓		✓		✓
Actuarial Expertise			✓		
Senior Pensions Management: industry &/or State	✓		✓	✓	✓

IGC Terms of reference in 2017/18 and core role requirements

The full Terms of Reference of the committee can be seen on the IGC webpage by clicking on https://www.zurich.co.uk/en/about-us/independent-governance-committee

The IGC has the following core role requirements

- the IGC will act solely in the interests of relevant policyholders;
- the IGC will assess the ongoing value for money for relevant policyholders delivered by relevant schemes;
- the IGC will raise with the firm's governing body any concerns it may have in relation to the value for money offered to relevant policyholders delivered by a relevant scheme;
- the IGC will escalate concerns as appropriate where the firm has not, in the IGC's opinion, addressed those concerns satisfactorily or at all; and
- the Chair of the IGC will be responsible for the production of an annual report.

In assessing the ongoing value for money above the IGC will consider:

- whether default investment strategies within those schemes:
  - are designed and executed in the interests of relevant policyholders; and
  - have clear statements of aims and objectives;
- whether the characteristics and net performance of investment strategies are regularly reviewed by the firm to ensure alignment with the interests of relevant policyholders and that the firm takes action to make any necessary changes;
- whether core scheme financial transactions are processed promptly and accurately;
- the levels of charges borne by relevant policyholders; and
- the direct and indirect costs incurred as a result of managing and investing, and activities in connection with the managing and investing of, the pension savings of relevant policyholders, including transaction costs.

We reviewed our Terms of Reference formally at the February 2018 IGC meeting.

Our meetings

During 2017/18, the IGC met regularly for structured quarterly monitoring and review meetings, four further 'deep dive' sessions to develop, explore and challenge on issues in greater depth and also for other ad-hoc meetings. The committee often met or conferred without Zurich management present.

Details of the meetings and agendas are available on the Zurich IGC webpage at **https://www.zurich.co.uk/en/about-us/independent-governance-committee**.

The structured quarterly meetings have been organised around examining the five value for money principles and then dealing with other matters relevant to the IGCs Terms of Reference.

'Deep dive' sessions have been used to explore with Zurich's management, how they propose to obtain, analyse and present evidence of the Zurich's performance against the value for money principles – with each session dealing with 2 principles in detail on a rolling basis.

The work from these sessions has then built into the Zurich's quarterly monitoring and review reports, strengthening the evidence base and depth of understanding of the IGC of Zurich's performance in delivering value for money. This new way of working has placed the IGC in a stronger position to focus its efforts on considering performance against the value for money principles and forming a robust opinion on the extent to which this is delivering value for money to members.

A summary of this report, intended to be more accessible to scheme members than the full report, yet convey the key messages, is also available at **https://www.zurich.co.uk/en/about-us/independent-governance-committee**.

Policyholders can contact the IGC directly by using the email address:
independentgovernancecommittee@zurich.co.uk

Or you can write to the IGC at the following address: Zurich IGC Chairman, The Grange, Bishops Cleeve, Cheltenham, GL52 8XX

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