



# **SCOTTISH FRIENDLY GOVERNANCE ADVISORY ARRANGEMENT ("THE GAA")**

## **MEASURING VALUE FOR MONEY FOR MEMBERS**

June 2021

# 1 BACKGROUND

---

## Introduction

In order to ensure that the service delivered is consistent with the views and opinions of the GAA, we have produced this paper and set out our approach for assessing the measuring Value for Money (For Members) (VfM). This was following the completion of an overarching review document agreed to by the GAA as the structure for this VfM review and which is summarised in this paper.

We have identified different areas of the arrangements offered by Scottish Friendly (the Firm) and overseen by the GAA (referred to as the "Plans") and identified some success criteria and VfM measures. The Financial Conduct Authority (FCA) rightly focuses attention on member charges and investments and we have reflected this in our VfM register attached to this document.

This paper covers a range of potential in scope activities for the assessment of VfM since VfM cannot be confined to investment strategy, charging and performance without relating these outcomes to the needs, behaviours and profiles of the membership. Consideration of the Policyholders is vital and it was noted in feedback from the FCA, that our previous GAA report was 'readable' but had shortcomings in terms of some content. The GAA feels strongly the VfM should support a 'readable' document and so greater detail has been included to reflect the helpful comments made by the FCA.

Challenges identified from this report will be made to the Firm, added to the challenges register and progressed over the coming year. This is a dynamic document and reviewed at each GAA meeting as well as being owned by the Chair of the GAA for interim progression monitoring.

Finally, the GAA note the terms of Reference (ToR) and confirm the operation of the GAA is in line with the ToR. These are monitored at each meeting and reviewed formally annually to ensure they remain current and reflect the work completed by the GAA.

## Pandemic

The Pandemic has clearly impacted policyholders during the year and also the service received. In the VfM assessment appropriate commentary has been added to reflect the specific circumstances and challenges faced.

## Legislation

The requirement that relates to VfM is summarised below<sup>1</sup>.

### **Assessment of charges and transaction costs**

The GAA must, at intervals of no more than one year – calculate the charges and transaction costs (so far as they are able to do so) borne by members of the Plan, and assess the extent to which those charges and transaction costs represent good value for members.

In addition, the FCA has provided guidance at the following link:

<https://www.handbook.fca.org.uk/handbook/COBS/19/5.html>

Further, there are strong parallels with the VfM assessments that have taken place in the trust based occupational DC pension world, where the Pensions Regulator has provided a guide to value for money:

<http://www.thepensionsregulator.gov.uk/GAAs/value-for-money-in-your-dc-scheme.aspx>

---

<sup>1</sup> The regulations refer to value for 'members' but in this report we use, for consistency, value for 'money for members' throughout

## What is Value for Money (VFM)?

VFM in some ways is simple but other a complex concept. It may be interpreted in many different ways. In its simplest form, it is the determination of whether the cost of a service is fair in relation to the range and quality of the services being provided. It is not an exercise in determining the cheapest cost for a service. The GAA feels that some areas can be over engineered and so lose sight of the rightful aims in a sea of detailed information that the Policy holder will struggle to navigate.

The Pensions Regulator defines VFM as, *'A scheme offers value for money (VFM) where the costs and charges deducted from members' pots or contributions (the costs of membership) provide good value in relation to the benefits and services provided (the benefits of membership), when compared to other options available in the market. It does not necessarily mean low cost, provided higher costs can be justified by improved benefits.'*

The GAA focuses on the charges deducted from member contributions and, as a minimum, VFM should be assessed and measured in relation to these charges. However, GAAs can consider VFM in a more holistic way and include Governance, Design Administration Communication as well as costs and investments.

### The principles of successful assessment of VFM

Assessing VFM requires an assessment of absolute cost and relative cost taking into account the scope, quality, frequency and fitness for purpose of a service. This drives a need to review the components of a service and to be able to collect reliable and appropriate management information from the suppliers in terms of delivery and outcomes.

Over the year the GAA has been gathering detailed information on all aspects of the arrangements. There have been numerous challenges to the Firm which have been documented and will be disclosed as part of the annual report. The Firm has been supportive in providing the requested information.

**Appropriate scope** – we have identified the areas below as necessary for the assessment of VFM and posed relevant questions for the GAA to consider in the light of the costs of each element of the Firm's activities. This is driven by COBS 19.5 but also the GAA's own views on what really is VFM.

- **Governance** – are we confident that there are adequate controls of the Firm's activities and risks and do we believe that Firm is set up to deliver good outcomes for the members? Is the management culture conducive to targeting good member outcomes? Are we meeting our own objectives as set out in the GAA's terms of reference?
- **Design** – Are the Plans fit for purpose? Are they meeting the agreed objectives and are they appropriate and understandable to members? We have incorporated this area into Governance in the VFM register that follows.
- **Investment** – do the funds offered within the Plans present sufficient or too much choice to members? Are the funds and default options within the Plans performing well in relation to other similar funds or an appropriate benchmark? Are the charges compliant and fair in relation to the outcomes and when considered against available market data? Our assessments should also include a focus on Environmental Social and Governance (ESG) principals
- **Administration** – is the service reliable, timely and accurate? Is the service accessible to members and accountable? Are the GAA provided with sufficient detail to assess and challenge as needed?
- **Communications** – are communications with members sufficient and understandable? Does the GAA believe the communications allow a member to members make choices and plans for retirement? Do they support members in making choices?
- **Costs** – can we identify all the costs of the Plans? Are these reasonable in relation to the range and quality of the services and the outcomes? Is the GAA provided with sufficient detail to assess and challenge as needed.

## 2 OUR PROCESS

---

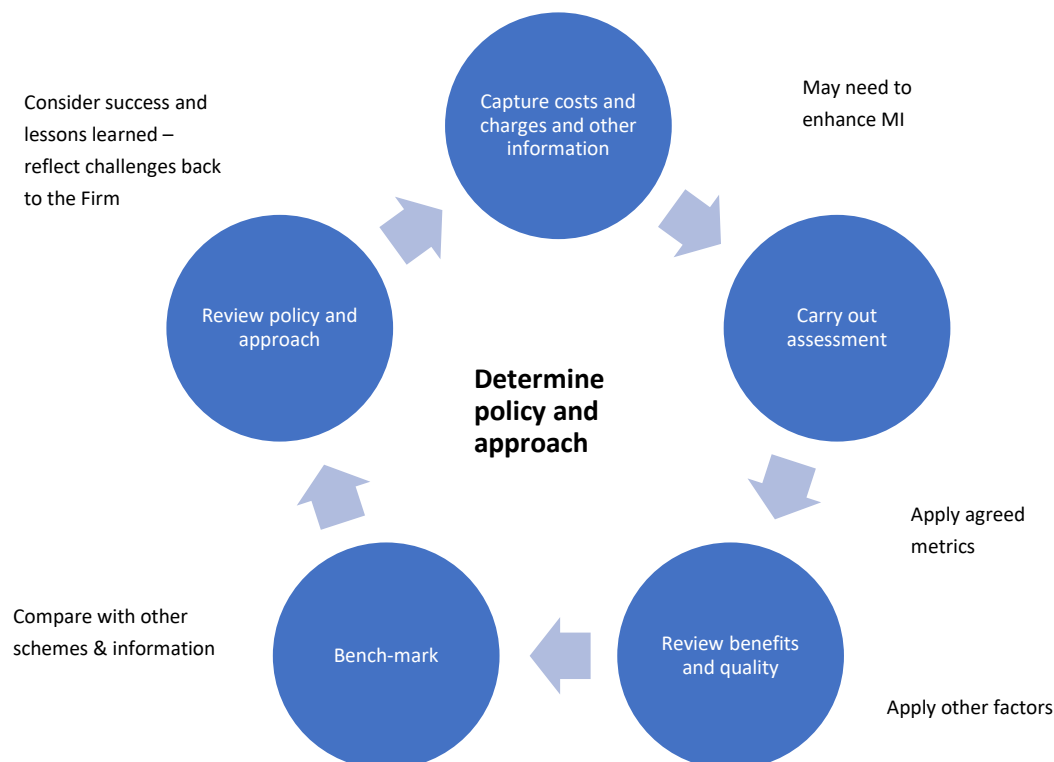
### A cyclical approach

In order to satisfy regulatory requirements and to demonstrate good governance, we believe the GAA needs to be able to demonstrate due process which includes:

- careful consideration and determination of what constitutes value for money including a review of available guidance against the features of the arrangements
- identification and capture of all relevant information; and
- a clear view of success criteria and how to measure or evidence same.

It would be considered good governance practice to develop a policy which captures the above elements and determines the frequency and method of monitoring VFM. The process used in this assessment we believe satisfies this but can be expanded as needed to review further material as needed.

### VFM cycle



## Scoring scheme

For the purpose of this assessment, we have used a straight forward scoring system to assess the value for money for members with the Plan.

Good	5	4	3	2	1	Poor
------	---	---	---	---	---	------

5 = Exceeding expectations, market leading

4 = Slightly exceeding expectations

3 = Meeting expectations

2 = Slightly below expectations

1 = Not meeting expectations, area of concern

## Potential use of specific ratios

It is also possible to extend our assessment of VFM to include specific ratios, such as:

- cost per member: determined by dividing the overall running cost of the arrangements with the total membership number.
- Investment cost per member: determined by dividing the overall cost of investment management with the total number of invested members.
- Administration cost per members: determined by dividing the total cost of administration with the total number of members.
- Governance costs per member: determined by dividing the total cost of GAA activities, support and advice with the total number of members.

This is not an exact science but will give an indication of changes in costs in relation to the arrangements as a whole and also for specific areas of activity. Such changes can then be investigated in terms of rationale and thus appropriateness. In addition, these are the kind of metrics that can be more easily compared with other schemes outside Scottish Friendly.

At this stage it has been agreed not to extend the analysis, particularly during the 2020/2021 pandemic, but it will be considered in future years.

**SCOTTISH FRIENDLY Arrangements – including ex Mobius ; ex Canada Life and Scottish Friendly own arrangements**

**Assessment of Value for Money for the year ended 31 December 2020**

Score	Application criteria
1	Not meeting expectations, area of concern
2	Slightly below expectations
3	Meeting expectations
4	Slightly exceeding expectations
5	Exceeding expectations, market leading

Activity	Assessment Criteria	Measures	Outcomes	Actions	Comments	Initial Assessment Rating
<b>Overall</b>	Detailed Vfm report	GAA assessment SLA performance	Review of success against objectives Report from the Firm	Guidance from independent members and other Board members	Points to the arrangements meeting a VFM assessment with areas for improvement	3
<b>Governance</b>	<b>Good Administration reports</b> - no qualifications, no critical recommendations, meeting SLAs and ensuring SLAs are appropriate challenging the Firm to keep under review	Review by GAA of information provided by the Firm  Separate meetings with administrator in particular related to service and communications on which the GAA has to form a view	Good engagement  Some poor service below SLA challenged and recovery plans implemented linked very closely to the Pandemic	Challenges made and concerns Highlighted	The administration performance directly impacts members and the Firm , whilst understanding the pandemic, needed to improve performance. This has come through in the last part of 2020.  The best performing areas were related to payments including Deaths and Maturities at over 90% which it was agreed was a major priority in SLA management.	2

Activity	Assessment Criteria	Measures	Outcomes	Actions	Comments	Initial Assessment Rating
	<b>Good level of awareness</b> of member behaviour – GAAs regularly review DC experience and activity at meetings	Evidence of active review  Evidence of change following review  Survey of members completed	Minutes of meetings  Copies of MI  Actions re change	Training  Professional advice  Review of survey material	We note that the arrangements have a good spread of representation and strong professional skills in the independent GAAs  Greater understanding of member behaviours will be a challenge that needs to be raised with the Firm	2
	<b>GAA qualifications</b> (Experience and other relevant qualifications)	Evidence of professional qualifications	The independent GAA members have all completed their PMI Accredited Professional Trustee in good standing certification	Ongoing professional development  Training log via professional institutes for independent GAA members	All independent GAA members have confirmed their qualifications	5
	<b>GAA Effectiveness</b>	Carry out self assessment	Gap analysis to identify any potential shortcomings	To be implemented in 2021 as new members of the GAA and time needed to assess effectiveness	This should have been in place as an annual review process. The comments from the FCA here were appreciated	3
	<b>Good levels of compliance</b> – GAAs have good understanding and knowledge of the arrangements, they receive updates and reports regularly and there is a good balance of skills on the board and representation	Evidence of information and regular meetings properly minuted.  Independent GAAs exercise particular skills  Reports on compliance	Meeting packs with relevant papers  Minutes of meetings  Annual Business Plan  GAA challenges documented	Document production  Ongoing monitoring	No compliance breaches noted  Evidence of training and actions posts reviews would improve this rating	4

Activity	Assessment Criteria	Measures	Outcomes	Actions	Comments	Initial Assessment Rating
<b>Design</b>	<b>Contributions</b> – timely payment/deduction of contributions and investment of contributions	Payments are not in breach of the payment date within the payment schedule  Contributions invested within one week of contributions paid	Late payment of payroll contributions is monitored and compliance reported in administration reports  Monthly contributions are deducted and invested within 2-3 weeks	Review contribution remittance process	Contribution remittance is generally very efficient,	2
	<b>Contribution Structure</b> – the structure of contributions is reasonable and provides sufficient member choice for Firms own scheme (Other schemes not in scope as set by their own employers)	Member choice available  Contributions significantly ahead of AE minima  Simple to understand	Will lead to better member outcomes	Periodical review by the Employer	Overall a good level of contributions offered either gross or net of fees/costs – in fact this highlights the blunt instrument that costs assessment is.	3
	<b>Flexibilities</b> – plan benefit design is generous and offers some of the new flexibilities	Plan offers some of the new flexibilities  MI from the Firm on outcomes	The Plan offers UFPLS as well as an annuity on retirement	Monitor take up rates to understand the needs and wants of members at retirement	Plan offers usual options at retirement but no drawdown	2
	<b>Satisfied members</b> – low levels of complaint or expressed disappointment	No. of complaints as % of membership or cases.  Reports on no. and nature of complaints	Complaints targets:  Less than 0.5% of membership	Investigation required as low level reported but not always quantified so until quantified is below expectations  Formal feedback from suppliers	Percentage of complaints relative to membership population is very low	4



Activity	Assessment Criteria	Measures	Outcomes	Actions	Comments	Initial Assessment Rating
	<b>Vulnerable Customers</b>	Ensuring a vulnerable customer policy is in place, is reasonable and is regularly reviewed by the Firm	Provision of updated policy annually as a minimum	None as received	Policy last updated 15/12/20 and shared with GAA	3
<b>Investment</b>	<b>Default investment funds</b>  Charging structures reasonable and compliant  Charges are transparent and easily available to members	Absolute charges as percentages of contributions invested  MI showing links between asset distribution and performance with membership profile in relation to lifestyle/default strategies and self-select funds  Charge cap on default investment funds	Default investment funds incur less than a 0.75% annual charge  Charge structure should be transparent and communicated to members	Review and monitoring of investment fund charges	The investment charges are detailed on the Firm's website  Evidence that any higher fee level produces added value returns should be sought to support use of higher cost funds	2
	<b>Investment activity</b>  Good investment performance  Choice of funds meets members requirements  Members have access to information to understand risk and at appropriate ages  Asset allocation and tactical asset management reflects membership profile and demonstrates added value  Default funds where appropriate are reasonably priced and appropriate to members' attitude to risk	MI From fund managers including percentage returns compared with relevant agreed targets, objectives and benchmarks  Range and level of transaction costs  Assessment of performance in relation to overall investment strategy (not just underlying funds)	The GAAs monitor the performance of all of the funds and receive regular reports from their investment advisors detailing the funds performance against their target	Regular review of the investment funds and charges levied against those funds	Members have access to the information pertaining to the investment funds and the asset allocation reflects membership profile and demonstrates added value	3

Activity	Assessment Criteria	Measures	Outcomes	Actions	Comments	Initial Assessment Rating
<b>Administration</b>	<p>Low levels of complaints from members and other parties</p> <p>Full compliance and no fines or compensatory payments</p> <p>Delivery of all required service level targets</p> <p>Accurate and timely information to members</p> <p>Good AAF audit reports</p> <p>Clear retirement letters</p>	<p>MI showing reasonable delivery of SLAs allowing for prioritisation in the pandemic</p> <p>Reported errors and omissions within acceptable levels</p> <p>Review of AAF reports</p> <p>Review of member communications</p>	<p>Measurement using MI from administration</p> <p>Qualitative assessment</p> <p>Percentage of complaints to membership size</p>	<p>Regular review of MI</p> <p>Internal controls</p> <p>Training</p>	<p>Governance report provides good MI on service levels – it does not deal with end to end processing</p> <p>Percentage of complaints relative to membership population is low</p> <p>The retirement process letters could benefit from a review (that may extend to other standard event letters)</p>	2
	<p><b>Benefit statements</b></p> <p>Produced and issued in a timely manner</p>	<p>Issue benefit statements within three months of the arrangements renewal dates</p>	<p>Qualitative assessment</p>		<p>Benefit statements are generated appropriately and issued</p>	3
	<p><b>Online facilities</b></p> <p>View retirement pot, units, up to date value, contribution histories</p> <p>Change or make one-off contributions</p> <p>Switch funds</p> <p>Change target retirement date</p> <p>Edit personal details</p> <p>Make choices at retirement</p> <p>Request crystallisation of funds/draw down/etc</p> <p>Nominate beneficiaries</p> <p>Access fund/scheme information</p> <p>Use modelling tools</p>	<p>MI on member activities split by type</p> <p>Members have access to sufficient information online</p>	<p>Express member activity as a percentage of overall membership</p> <p>Provide data in relation to specific populations</p>	<p>Continual investment in online facilities to accommodate the younger members</p>	<p>The Plan website has extensive facilities, relating to; switching investments, access to scheme information, and various modelling tools</p>	4

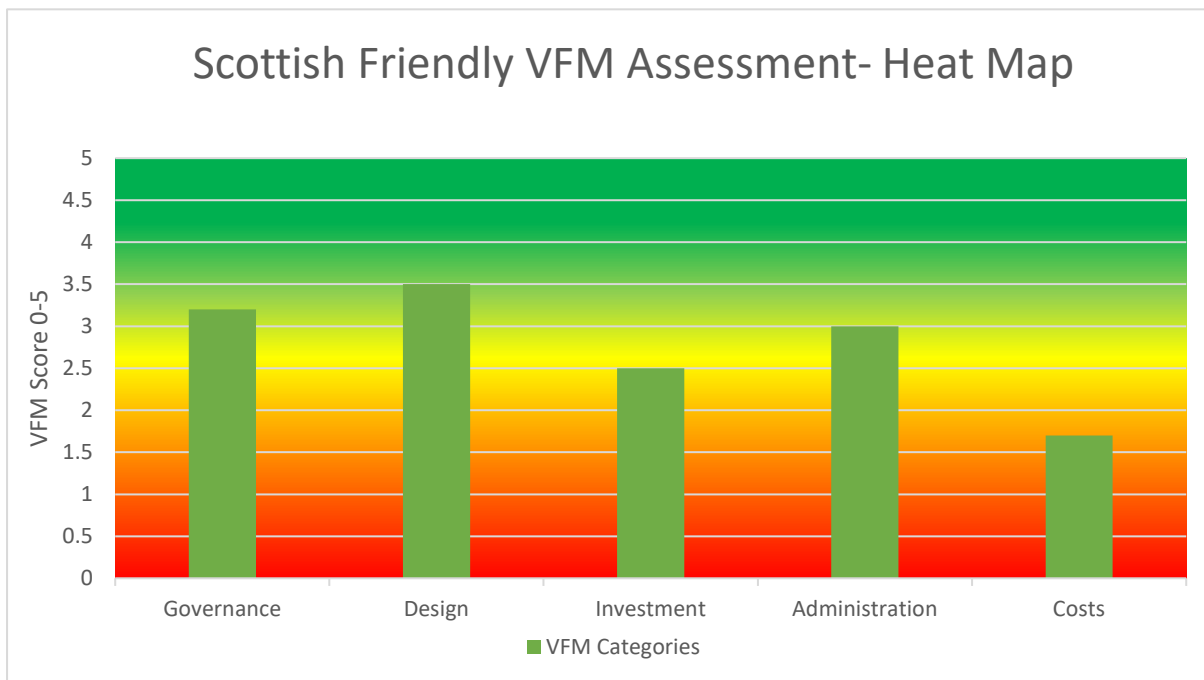
Activity	Assessment Criteria	Measures	Outcomes	Actions	Comments	Initial Assessment Rating
<b>Costs</b>	<b>Investment Charges</b>	Default funds comply with the charge cap and are reasonable in respect of the level of return provided  Benchmarking is in place to assess against the market where such comparable data is available	Charges are both compliant but also VFM against a benchmark and having accounted for the totality of service.	Consider a review of the charge structure on the investment funds	Benchmarking will be key as whilst there is a belief these are VFM more evidence externally benchmarked would be needed to support this	1
	<b>All other costs as related to Members</b>	Total costs are reasonable in relation to the services provide by the Plan	Besides from the AMC and transaction charges no other charges are incurred by members	No further actions are required beyond that identified in the previous section	None	2
	<b>Costs at retirement</b>	Charge incurred to member is reasonable for services provided	Considerable information and guidance is made available to members at retirement. The option of advice is available to members but it is unclear if this is paid for or not	Consider review of the 'at retirement' process offered by the arrangements	In terms of member experience it would be useful to have surveyed members in the retirement process to assess member perception	2

# 4 CONCLUSIONS

Based on our review we believe that the Plan offers value for money for members based on our interpretation of the Regulator’s VFM definition by evaluating the Plan’s governance, design, administration, investment, communications, and costs.

There were certain aspects of our review that we were unable to make an effective assessment given the documents we have had at our disposal. However, this is only applicable to a minority of the assessment areas and does not prevent us from making an effective evaluation of the Plan’s VFM. These will lead to new challenges that will be documented in the Key challenges document which will be appended to the GAA annual report

As detailed above, we used a scoring system of 1-5, ranging from ‘not relevant or absent’ to ‘exceeds expectation’, in order to assess each aspect of the Plan’s VFM. The heat map below highlights the key strengths and sets the basis of our evaluation.



Although the Plans offered by the Firm, in our assessment, offer value for money for members, the GAA believes there are a number of areas that merit attention by the Firm. In particular challenging the Firm to review ex-CL fees and also “level up” communications material across Aegon and the Firm.

It is noted this has been a difficult year for the Firm due to the Pandemic and the sad death in April 2021 of the Chief Executive Jim Galbraith.

## Next Steps

In any review such as this, areas for attention are identified. The next steps should be to review these and agree an action plan that is appropriate to the Plan. These should be added to the Key Challenges documentation and monitored at least quarterly with challenges back to the Firm.

# **5 LIST OF SCOTTISH FRIENDLY DEFINED CONTRIBUTION PLAN DOCUMENTS REVIEWED AS PART OF THIS PROCESS**

---

FCS Thematic Review letter 24<sup>th</sup> June 2020

COBS 19.5 Independent Governance Committees and publication and disclosure of costs and charges

PS19/30 IGC extension of Remit

PS20/2 Publishing and disclosing costs and charges to workplace pension scheme members and amendments to COBS 19.8

Administration reports for the year from Aegon and Scottish Life covering the Ex Mobius , ex Canada Life and Scottish Life Own fund arrangements

Investment reports covering all underlying funds, lifestyling and benchmark analysis and charges

Annual Business Plan

GAA Challenges document