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PRUDENTIAL'S INDEPENDENT GOVERNANCE COMMITTEE REPORTS PROGRESS ACROSS VALUE FOR MONEY MATRIX IN 2017

- **Successful removal of all complex charging structures across Prudential's workplace pensions**
- **Default investment strategies continue to outperform IGC's targets**
- **Fund range simplification underway and all default funds to be compatible with Pension Freedoms by August 2018**

Prudential's Independent Governance Committee (IGC) has published its third annual report highlighting the actions taken during 2017 to deliver increased Value for Money (VfM) for Prudential workplace pension customers.

The report, which covers Prudential's contract-based defined contribution workplace pension schemes, highlights the areas identified by the IGC in relation to VfM – charges, investment performance and strategies, service standards and communications and engagement – and concludes that as a result of the actions taken in 2017 many members are receiving even better value for money from their pension savings with Prudential.

Charges

By the end of 2017, the ICG, working together with Prudential, successfully removed all complex charging structures. This includes the elimination of monthly administration fees, the removal of initial charges for individual pension members who were formerly in a contract-based workplace pension and the closure of four high charging funds, with a further nine to close in the first half of 2018.

As a result of these changes the IGC can confirm that all members, no matter how small their pension pot, are being charged less than the reference points used by Prudential's IGC.

Investment performance and strategies

2017 was another good year for pension investment. In absolute terms, Prudential's own default fund, Prudential Dynamic Growth IV, delivered returns in excess of the IGC's long-term target of

Consumer Price Index plus three per cent. In relative terms, compared to similar funds in the market, its performance beat the ABI benchmark.

The IGC also increased its scrutiny of the largest employer pension schemes who choose their own default funds. With the exception of one fund, which will be removed as a fund choice for Prudential workplace pension members in 2018, all default funds performed in excess of the IGC's target.

In 2016, the IGC reported that a large number of default investment strategies were not yet consistent with Pension Freedoms introduced by the Government in 2015, and that some smaller schemes did not have sufficient asset diversification in their strategies. During 2017 the IGC put in place a programme to remedy this issue and by August 2018 all default funds will be structured to allow for Pension Freedoms.

With a total of 129 funds available for Prudential workplace pension members to invest in, the IGC regards this as too many and has concluded that there is little sign of customer demand for many of these funds. In the last 18 months 23 funds have closed and Prudential has committed to further rationalising its fund range during 2018.

Another area of focus in 2017 was the charges for guarantees and smoothing for the £1.2 billion of funds under IGC's remit invested in with-profits funds. As a result of its investigation, the IGC has concluded that the charges for guarantees are less than could be supported theoretically and that if these were excluded all of the with-profits funds are charging one per cent or less for investment, which is in line with the IGC reference point for unit linked funds.

Service standards

The IGC continued to monitor service standards in 2017 across seven areas such as new business, claims, customer service and lost call rate. With the exception of the speed at which calls are answered, all of the other six areas identified consistently reported above the targets set.

Communications and engagement

In 2017 there were a number of initiatives to understand customer needs better and improve the language and tone of written communications.

These included conducting research, along with other providers, into customers' needs and values and conducting seminars with employers of all sizes on barriers to member engagement. Fundamentally, it has been recognised that there is a need to change social attitudes to encourage people to take appropriate savings decisions at the right time and that there is no quick fix to this issue.

Improving member communications and engagement has been identified in previous IGC reports as a multi-year project for Prudential and this will continue to be a focus for the IGC in 2018.

Lawrence Churchill CBE, Chair of Prudential's Independent Governance Committee, said: "I'm pleased to report excellent progress on the programme of improvements set out at the start of 2017. In particular charges have been lowered for all members, investment performance has been strong across almost all funds and there is a plan in place for all funds open to Prudential workplace pension members to allow for Pension Freedoms by August 2018.

"Value for money from Prudential is now undoubtedly much better than it was three years ago but the fact remains that the major factor in how much a member can take out of their pension is how much they put in. Working with Prudential and across the industry, our aim is to further simplify workplace pensions, communicate with members in a straightforward way and ultimately encourage them to feel more comfortable with their retirement plans."

Clare Bousfield, CEO Insurance at Prudential UK & Europe, said: "2017 was another productive year for Prudential, working with the IGC, to improve outcomes for workplace pension members. Progress has been made in a number of areas including charges and investment strategies which will increase the Value for Money our members receive. However, there's work still to be done, in particular around communications and member engagement, and in the year ahead we will take positive steps to further improve members' experience of saving for their retirement with Prudential."

Focus for 2018

With all member-borne charges now less than or equal to the IGC reference points, in 2018 the IGC will focus on analysing transaction costs using the FCA methodology, which came into force in January 2018, and challenge any areas which raise questions on VfM.

In addition to monitoring the transition of default funds to be compatible with Pension Freedoms by August 2018, and the reduction in the number of fund options available to members, the IGC will begin research into potential improvements to default fund glide path design, acknowledging customers' desire for flexibility when they start drawing their pension.

From a service and engagement perspective, the IGC will continue to sponsor research and pilot actions with employers to improve levels of engagement with members and to work with Prudential to explore what can be done to provide information and guidance to members to help align savings habits and desired retirement lifestyle, using the information available.

-ENDS-

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Notes to Editors:

A copy of the Prudential IGC Report on workplace pensions is available at: www.pru.co.uk/employers/autoenrolment/pru-igc/

Prudential's IGC

The Prudential IGC has three independent members and two members from Prudential. It is chaired by Lawrence Churchill CBE. Biographies for each of the members, indicating their qualifications for their roles, can be found in Appendix 2 of the IGC's report on workplace pensions.

Prudential's workplace pension schemes

There are nine contract-based defined contribution workplace pension schemes operated by Prudential. Two of the nine schemes remain open to new employers and are available for auto-enrolment

The IGC's remit also extends to cover individual pension members who were previously part of a workplace scheme.

About M&G Prudential

Prudential UK is part of M&G Prudential, the UK and European savings and investment business of Prudential plc and was formed in August 2017 from the merger of M&G Investments and Prudential's UK and European businesses. Managing £337 billion of assets with more than 7 million customers, it brings together two of the most trusted brands in the UK financial services sector.