

**Value for money.** Delivering for Aegon's  
workplace pension customers



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Appendix 1 – Value for money principles

Appendix 2 – Current members of Aegon's IGC

# Chairman's statement



I am pleased to share with you the third annual report from Aegon's Independent Governance Committee.

Over the last 12 months, our IGC has worked with Aegon UK (referred to as Aegon), challenging it to build on the progress made in previous years, while focussing in greater detail on some specific areas where we believed further value could be delivered. I'd like to highlight some of the key developments since our last report.

In year 3 we introduced an additional value for money principle covering the security of customer information and money. This was an area identified as being key to customers during the cross-industry consumer research carried out last year by the consultancy firm NMG, in conjunction with other IGC's and providers, so we now explicitly consider this in our work. As a reminder the research output highlighted four aspects as key to customers:

**Support** – 'Help me in making good decisions about my pension'

**Product** – 'My pension money, how it is invested and the return I get'

**Charges** – 'Clear, simple and good value approach to charges'

**Security** – 'Safeguards to protect my money'

We continue to refer back to this customer feedback to ensure our IGC and Aegon are delivering in the areas of most importance to you.

To help us assess value for money, Aegon provides us with extensive information. We carried out a thorough review of our value for money 'dashboard' and the improvements made here give us greater confidence that we have a comprehensive picture of Aegon's performance in the key areas of value for money.

In early 2018 Aegon completed a major initiative, its Review of Workplace Pensions programme, which ensured over 575,000 customers will not be charged more than 0.75% of their fund value each year, or £7.50 per £1,000 of fund. This annual 'charge cap' of 0.75% applies to all members who are paying contributions to an active workplace scheme, unless they explicitly choose to invest in more specialist and costly funds. It was important to us that Aegon delivered on this as it is a key way of ensuring value for money and we have been monitoring carefully the implementation of this programme.

**“We continue to refer back to this customer feedback to ensure our IGC and Aegon are delivering in the areas of most importance to you.”**

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**“The conclusion of our IGC is that Aegon takes seriously the need to offer value for money to workplace pension scheme members and is delivering value for money.”**

We are pleased that Aegon agreed to a new approach to offering better value for money to those customers who have stopped contributing and have left a small pot invested. This was an issue we asked Aegon to investigate. Our IGC was particularly concerned that this group should be offered better value for money and Aegon agreed to include these in the group it will consider for its ‘upgrade’ programme. The upgrade programme has continued over the last year with many more individuals benefitting from a move to a modern digital proposition with simpler and lower charges.

We were pleased that on 20 September 2017 the FCA announced it had decided upon an industry-wide way of calculating transaction costs within investment funds. Transaction costs are the costs incurred by the funds in the process of buying and selling investments. They are charged to the fund, so are paid for by customers invested in those funds. From 3 January 2018, fund managers have had to begin collecting this information and will provide it to us in the coming months in an agreed format. We will then be able to provide you with a full analysis of the value for money of fund level transaction costs against the returns the fund manager has achieved. This year’s report only partly addresses this because the new rules have only recently been introduced but we will consider this as a key focus next year.

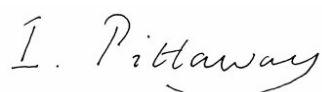
The conclusion of our IGC is that Aegon takes seriously the need to offer value for money to workplace pension scheme members and is delivering value for money. Over the next year we will continue to challenge Aegon to make further improvements in certain areas, which are summarised below and set out in more detail in this report.

The areas of most interest to us going forward are:

- The interaction between transaction costs and the performance of the funds in which workplace pension members invest. This will help us assess whether all costs, including transaction costs are reasonable and deliver value for money.
- The evolution of customer requirements and ensuring we maintain a complete picture of Aegon’s performance in all the key areas of value for money.
- The outcome of the customer research initiatives Aegon is involved in and how it acts on the findings for the benefit of you, Aegon’s customers.

I would like to express my thanks to my fellow IGC members and to the Aegon employees for their ongoing support on our IGC activities and their collaboration in responding to our challenges.

As always we are very keen to hear from Aegon’s customers, to understand your needs and opinions, and to drive a better outcome for all Aegon’s workplace customers. You can share these by emailing us at [igc@aegon.co.uk](mailto:igc@aegon.co.uk).



**Ian Pittaway**  
Chairman of Aegon’s  
Independent Governance Committee

# 1. Challenging Aegon to meet our value for money principles

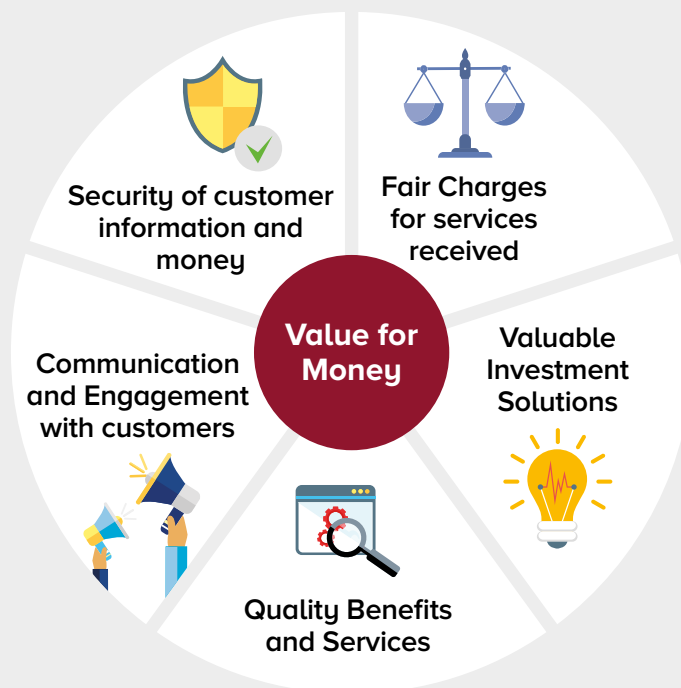
In previous years, our IGC has explained our value for money principles which we challenge Aegon to follow. We regularly review these principles and this year, after listening to feedback from workplace customers, we added a specific principle covering the security of customer information and money.

The other value for money principles we have reported on in previous years remain as important as ever and we are keen to ensure that all areas are reported on and measured effectively. We list our principles in Appendix 1.











As in previous years, we closely monitor how well Aegon is doing against those principles using a value for money 'dashboard'. Each time the IGC meets we carry out a review of this dashboard and Aegon has made a number of improvements to it. We are confident we have a comprehensive picture of performance each quarter, allowing us to better assess value for money.

We regularly review each principle and its key performance measures and report on the overall position for year 3 on the next page. A green rating is where Aegon is meeting the targets we have set, an amber rating is within an acceptable range but where we require action to be taken to improve and a red rating highlights an area where performance is not acceptable and immediate action is required.

As a reminder, our key principles cover:



The following sets out our view of the overall position for our key principles and gives an example of some of the key measures we consider:

Principle	Overall RAG status	Key examples
<b>Fair Charges for services received</b> 		<ul style="list-style-type: none"> <li>94% of customers have an annual charge of 1% or lower with concrete plans to increase this to 98%</li> <li>The number of workplace customers leaving Aegon was 13% lower than expected over the last 12 months</li> </ul>
<b>Valuable Investment Solutions</b> 		<ul style="list-style-type: none"> <li>Clear evidence of strong governance of investment funds provided by Aegon</li> <li>The targets for the most important funds have been achieved</li> <li>The Aegon Workplace Default fund had a 10.7% return over the last 12 months – quartile 2 performance</li> </ul>
<b>Quality Benefits and Services</b> 		<ul style="list-style-type: none"> <li>Improving Customer Satisfaction with NPS rising from +11 to +33 over 2017 (detailed in section 4)</li> <li>Low number of customer complaints on all interactions: 1.7 for every 1,000 interactions</li> <li>89% of customer requests resolved at the first time of asking</li> <li>Some improvement required in the time taken to complete customer service requests</li> </ul>
<b>Communication and Engagement with customers</b> 		<ul style="list-style-type: none"> <li>Number of customers who cannot be traced has reduced from 7% down to 3.9%</li> <li>83% employee engagement score in the largest customer contact area (explained in section 4)</li> </ul>
<b>Security of customer information and money</b> 		<ul style="list-style-type: none"> <li>Financially strong company</li> <li>Strong evidence of controls in place to maximise the security of Aegon systems – regular third party reviews, close monitoring of data security, annual penetration tests, regular phishing tests</li> <li>Strong evidence of controls in place to protect customers' money – Suspicious Activity Reports, regular updates on potential fraud activity and due diligence carried out on potential pension scams</li> </ul>

In the next five sections we summarise our findings under each of the broader value for money heading in our principles.

We continue to challenge Aegon on a range of topics. Some of these continue from previous years where we want to ensure improvements are sustained and embedded. Others focus on areas we feel need particular attention and in places, as would be expected in our third year, we go into greater detail. The key challenges we have made are detailed in each of the following sections.



## 2. Fair charge for services received

The cross-industry research carried out last year confirmed that a good return on money remains the top priority of customers. In this section we explore one key element of a good return which is the charge customers pay from their pension fund.

We continue to receive regular detailed progress updates on Aegon's key initiatives to deliver value for money. These include moving customers to its modern digital platform (its 'upgrade' programme) and ensuring all customers are benefitting from the Government's restrictions on charges within workplace pensions (its Review of Workplace Pensions or RWP programme).

We explained these in detail in our previous reports, which can be accessed via the following link [www.aegon.co.uk/about-aegon/independent-governance-committee.html](http://www.aegon.co.uk/about-aegon/independent-governance-committee.html).

At each of our meetings over the last 12 months we have challenged Aegon on the timelines and delivery of these programmes, and based on the evidence provided we are satisfied with progress.

Aegon achieved a significant milestone this year when it completed its RWP programme on time. 575,000 customers have benefitted from the changes made and will not be charged more than 0.75% of their fund value each year, or £7.50 per £1,000 of fund. This annual 'charge cap' of 0.75% applies to all members who are paying contributions to an active workplace scheme, unless they explicitly choose to invest in more specialist and costly funds.

The Upgrade programme continues to move as many customer policies as possible to the modern digital platform, but only where it does not negatively impact the customer or their pension.

One concern we have highlighted in previous reports is the value for money received by those who stop paying contributions to Aegon and leave behind a small pot, sometimes of only a few hundred pounds. We requested this be investigated and we were pleased that Aegon agreed to extend the scope of the Upgrade programme to include customers who have small fund values. As a result, Aegon will upgrade these customers to the new platform where it is in the customer's interest to do so. This will ensure these members who are upgraded clearly receive value for money.



Listening to  
customer  
feedback

**“Clear, simple  
and good value  
approach to  
charges”**

**“Aegon achieved  
a significant  
milestone this  
year when it  
completed its  
RWP programme  
on time. 575,000  
customers have  
benefitted from  
the changes made  
and will not be  
charged more than  
0.75% of their fund  
value each year, or  
£7.50 per £1,000  
of fund.”**

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**“We were pleased that Aegon agreed to extend the scope of the Upgrade programme to include customers who have small fund values. As a result, Aegon will upgrade these customers to the new platform where it is in the customer’s interest to do so.”**

We are aware that the Upgrade programme runs until the end of 2019 and we will continue to monitor the timeline for completing these Upgrades, challenging Aegon to accelerate its plans where appropriate.

As highlighted in last year’s report there is a group of customers who are not part of the Upgrade programme. During 2017 Aegon carried out a full product and pricing review which covered these customers and shared the outcome with us. Their conclusion was that customers who are excluded from Upgrade due to having valuable benefits such as guarantees, which they would lose if moved, are receiving value for money in their current arrangement.



We continue to assess the material from these reviews and the Aegon conclusion that these customers are receiving value for money. We are encouraged by Aegon’s communication plan to write to customers with higher ongoing charges urging them to seek financial advice to assess if their current plan remains appropriate in light of their individual circumstances and the availability of lower cost alternatives. We will review the outcome during 2018.

We are encouraged by the progress made and keen to ensure workplace customers can take advantage of lower cost products if they choose to do so.

To date Aegon has ensured that over 1.2m customers, covering 94% of the customers the IGC is responsible for, have an annual charge of 1% or less. The plans outlined to the IGC show this figure rising to 98% on completion of the Upgrade programme. The IGC will review the value for money assessment carried out by Aegon on the remaining 2% and report our findings next year.



Throughout the year we have challenged Aegon on the following topics relating to fair charge for services received:

 Topic	 IGC's challenge	 Aegon's response / action	 What this means to customers
Upgrade programme progress	Is upgrade progressing to the timeline you shared with us?	Regular updates have demonstrated progress to plan	Over 360,000 workplace customers have been upgraded to a modern digital proposition with simpler and lower charges
Customers opting out of the Upgrade process	Detail the level of customers opting out of Upgrade and clarify the action Aegon then takes	Regular updates show less than 2.5 customers in every 100 choose to opt out and are asked why they have turned down the opportunity to move to a lower cost solution	Customers who choose not to Upgrade are given adequate opportunity to review that decision
Review of Workplace Pensions (RWP) programme progress	Is the RWP programme progressing to timeline?	Regular updates have demonstrated this programme has completed on time	Over 575,000 customer now have their charges capped at no more than 0.75% of their fund each year
Treatment of customers not in the above programmes	By Q4 2017, detail who is not included and how you ensure value for money	Shared the findings of the Product and Pricing Review on these customers and explained reasons why these customer continue to receive value for money	IGC will review the findings to determine if customers not offered upgrade have benefits and charges which offer value for money
Customers with small funds	By Q2 2017, demonstrate what you are doing to ensure they receive value for money	Aegon has extended the scope of their Upgrade programme, which runs to end 2019, to include this population	Customers with small funds, who are eligible for upgrade, will see their charges reduce at the point of upgrade
Customers leaving Aegon	Do customers believe they are receiving value for money with Aegon? Show us the level and trends in the numbers of people transferring their savings away from Aegon	This information has been added to the value for money dashboard for review quarterly. Results show a reduction in the number of people transferring away.	Reassurance that there is no evidence of poor value for money, based on the number of customers leaving Aegon



### 3. Valuable investment solutions



“My pension money, how it is invested and the return I get”

“We are encouraged by the rigour of the MIC’s analysis and the fact that the performance rating of key funds is part of how the Aegon UK’s Board assesses how well it is doing as a business.”

Another key element of a good return is the performance of the investment fund in which customers are investing their money in. It is critical that these funds are designed to meet customer needs and are closely monitored to check if the fund objectives and performance are in line with expectations.

As an IGC we continue to pay close attention to the range of investment funds offered and when this range might be changed, particularly default funds where 78% of Aegon’s workplace customers are invested. Our role here as a minimum is to assess whether default funds are designed and managed in the interests of customers and have clear statements of aims and objectives.

Throughout the last 12 months Aegon has provided us with the information we have requested on the design of these funds, how they meet the needs of customers generally and whether regulatory or market developments have caused any changes to be made.

We also monitor how Aegon reviews fund performance and specifically the performance of a number of key funds where workplace customers are typically invested. The sections on fund governance and fund performance provide more information on this.

#### Fund governance

Our role as your IGC is to ensure that Aegon delivers value for money for its workplace pension customers. A key part of that role is to understand how Aegon monitors and governs the investment funds it makes available to customers, assessing whether the objective and performance of funds is regularly reviewed and whether changes are made when necessary.

Aegon’s investment governance is based on its ‘fund promise’ for customers. We agree this promise is appropriate and we hold Aegon to account in delivering, as shown in our challenges log later.

#### Aegon’s Fund Promise

- We aim to offer high quality funds which **meet customer objectives**
- We **monitor funds** to check if they perform as expected
- We **take action** if funds don’t meet expectations
- We give customers the **facts they need** to make decisions

Aegon’s Management Investment Committee (MIC) is responsible for the ongoing governance of all Aegon pension funds. Chaired by Aegon’s Chief Financial Officer, it draws its membership from a number of the most senior roles in Aegon including the Chief Executive Officer, Chief Risk Officer and Chief Distribution and Marketing Officer. It meets monthly and its remit covers all of Aegon’s pension funds with a particular focus on default funds.

At each IGC meeting, Aegon’s Investment Director updates the Committee on the performance of Aegon’s pension funds. We are encouraged by the rigour of the MIC’s analysis and the fact that the performance rating of key funds is part of how the Aegon UK’s Board assesses how well it is doing as a business. The IGC receives selected MIC meeting papers on key issues.

During 2017, the MIC considered a wide range of topics and agreed the fund actions noted below:

Fund	Action
<b>Aegon Core Risk Portfolios</b>	Removal of investments in property
<b>Scottish Equitable Retirement fund</b>	Change to benchmark against which performance is compared
<b>Scottish Equitable PIMCO Unconstrained Bond</b>	Closed this fund
<b>Scottish Equitable Select Reserve</b>	Change to investment objective

The Aegon website has a specific section on fund governance where you can find updates on fund developments and its commitment about monitoring its funds:  
<https://www.aegon.co.uk/about-aegon/investments/fund-governance.html>

## Investment Performance

Aegon's pension funds achieved good gains for investors with its own default fund, which invests in a range of equity and bond markets, growing by over 10% for the year. Many of Aegon's default options are "passive" funds which means the fund simply buys every equity or bond listed on the underlying markets in which the fund invests. The benefits of this approach are that it provides a low cost way of gaining market exposure and clarity of the funds' underlying investments.

We are satisfied that Aegon has strong fund governance in place via the MIC, which has confirmed these funds are meeting their objectives. This is backed up with strong performance over the last 12 months of the five largest Aegon funds used as defaults, which performed largely above or in line with their objective when compared to the relevant benchmark, as you can see below:

Fund	2017 performance		Comments
	Fund	Benchmark	
<b>Universal Lifestyle Collection (ARC)</b>	10.1%	9.6%	The fund is designed to achieve performance close to the average of its sector and it had a positive 2017 finishing ahead of average.
<b>Growth Tracker (Flexible target) (ARC)</b>	10.7%	10.7%	The fund is a passive option investing in a range of equity and bond markets. The aim is to achieve a return close to the benchmark.
<b>Balanced Lifestyle (ARC)</b>	11.1%	9.6%	The fund aims to achieve performance ahead of the sector average and it comfortably achieved this in 2017.
<b>Aegon Default Equity and Bond Lifestyle (ARC)</b>	10.7%	9.6%	Aegon's own default, a passive option investing in a range of equity and bond markets. The aim is to achieve a return close to the benchmark
<b>Aegon 50/50 Global Equity Index Lifestyle (ARC)</b>	14.0%	14.3%	A passive fund investing in UK and Overseas equities with the aim of achieving a return close to its benchmark.

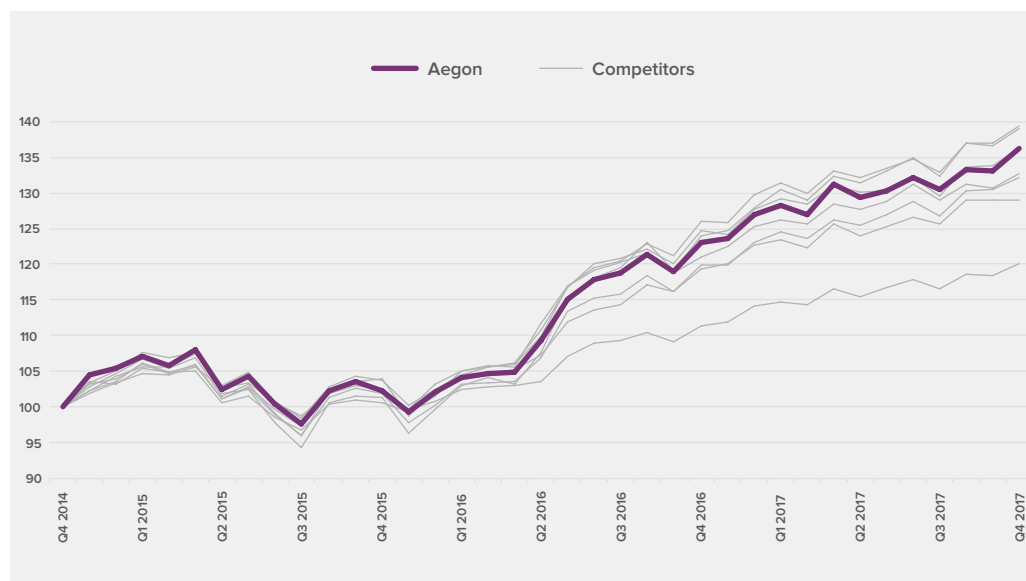
Source: Performance to 31 December 2017, Aegon fund prices for fund performance, Morningstar Direct for benchmark returns. All figures are net of fees.

"The main Aegon default funds delivered good returns compared to their peers in 2017. Aegon continues to monitor the investment performance of funds closely and keeps the IGC fully informed of any changes made to key funds."

- Colin Richardson

## Performance of Aegon's own default fund

With regard to its own default, we asked Aegon to compare its performance against the default funds of competitors in the workplace pensions market. While default funds differ in approach so don't all have the same performance objectives or benchmark, this allows us to assess whether Aegon is an outlier relative to others. Looking at performance to the end of 2017, we are satisfied that Aegon's performance is competitive:



The growth stage is of course not the only element to a default lifestyle fund with an equally key consideration being how the underlying investments change as investors get closer to retirement.

**What are “Lifestyle funds”?** Aegon believes it is important that as customers who have made no investment choice, so are default investors, approach retirement the investments which their fund holds are changed so that they better reflect their plans for how they may use their savings when they retire. Historically individuals would buy a guaranteed regular income at retirement, known as an annuity, but with increased pension freedoms people now have wider choices and can instead draw down regular income or take the full fund in one or more cash payments. If individuals make an alternative decision to buying an annuity then Aegon has a range of funds designed to move their investments accordingly. These are called lifestyle funds and Aegon offers a range of funds suitable for customers who are planning to buy an annuity (annuity target funds), or draw down regular income (flexible target funds) or take one or more cash payments (cash target funds).

The pension freedoms introduced in April 2015 mean it is more important than ever that individuals invested in a lifestyle fund consider whether it targets the outcome which they are most likely to follow at retirement. Historically, most lifestyle funds have assumed individuals will buy a guaranteed regular income at retirement through an annuity as this was common practice prior to 2015. We are aware that Aegon launched a range of funds in early 2016 that could be selected as a scheme default and include options where

the investment allocation at retirement is suited to fully encashing the pension fund or remaining invested and taking time to decide how to generate your retirement income.

The IGC has been discussing a review of Aegon's own default funds for some time in the context of the different ways in which customers may choose to generate retirement income. We have challenged Aegon for a new approach, more suited to remaining invested at expected retirement date, to be implemented as soon as feasible and are pleased that a new default fund will be launched later in the first half of 2018. It will be available to existing schemes and customers, as well as becoming the main default fund solution for new schemes. We will be assessing the smoothness of the implementation process later in 2018.

We are aware that Aegon is reviewing the letters sent to individuals at various stages as they approach retirement to ensure they help them understand their options, how their current fund works and what is available to them. One of our key areas of focus next year will be to review the effectiveness of the communications in helping customers to really understand their options and to highlight any areas we believe should be improved.

### Transaction costs

We noted in last year's report that the UK financial services regulator, the Financial Conduct Authority (FCA) had set out proposals for calculating transaction costs within a fund. These proposals became final regulations in September last year when the FCA set out requirements for fund managers on how the transaction costs must be calculated and requires fund managers to disclose them on request from a governance body such as an IGC. Aegon as provider must obtain this from the managers of the funds.

The regulations took effect from 3rd January 2018 meaning that the first formal disclosure of costs will be for those arising during the first quarter this year. Transaction costs will vary by fund depending on the type of asset in which it invests, how the fund is managed and its overall objective. A key part of our role will be to assess whether the transaction costs are reasonable and continue to deliver value for money. We have made a formal request under the new rules for transaction cost data and will assess and report back our findings in our 2019 report.

The timing of this report meant we could not include specific transaction costs, so we asked Aegon to let us have an estimate of 2017 costs for its own default fund. We are encouraged by the fact that these costs are less than 15p per £1,000 of fund, which is reasonable when compared to other fund related costs and the overall charge paid by members.





"The information on transaction costs provided to the IGC so far has not shown any unreasonable costs incurred. However the IGC is looking for full information from all investment managers using the method recently specified by the FCA for analysis for next year's report."

- Colin Richardson

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**"We have made a formal request under the new rules for transaction cost data and will assess and report back our findings in our 2019 report."**

Throughout the year we have challenged Aegon on the following topics relating to valuable investment solutions:

 Topic	 IGC's challenge	 Aegon's response / action	 What this means to customers
<b>Meeting customer objectives and monitoring performance of workplace default funds</b>	Provide ongoing information on the performance and monitoring of these funds	Investment Director provides regular detailed explanations to the IGC.	Customers who don't make their own investment choices are offered investment funds which are suitably designed and maintained
<b>Monitoring performance of workplace default funds</b>	By Q4 2017, demonstrate how the structure and performance of default funds offered by Aegon compares with competitors	Aegon carried out a peer review and shared the results with the IGC.	Aegon is offering investment funds which are structured and performing broadly in line with its peers
<b>Providing customers with the facts they need to make decisions - Investment 'transaction costs'</b>	Explain how you will deliver on our formal request for transaction cost data from end of Q1 2018	Aegon has shared how it will collect this data once fund managers are in a position to provide it, from Q1 2018.	When available this information will allow us to offer customers reassurance that fund managers are not running up excessive transaction costs which could mean investment returns suffer
<b>Providing customers with the facts they need to make decisions - Investment 'transaction costs'</b>	Provide indicative transaction costs in 2017 for default fund	As detailed above, Aegon has provided the IGC with indicative transaction costs for its own default fund in 2017	Transaction costs in this fund are not excessive
<b>Meeting customer objectives - lifestyle funds</b>	Provide us with your plans on lifestyle funds and communication to customers	A new default fund will be available to all customers in 2018. Existing customers can request a switch into it. For legal reasons, Aegon will not automatically make this switch on behalf of customers	Customers have the choice of whether to remain in the annuity target lifestyle fund or switch to a 'flexible target' or 'cash target' fund

## 4. Quality benefits and services



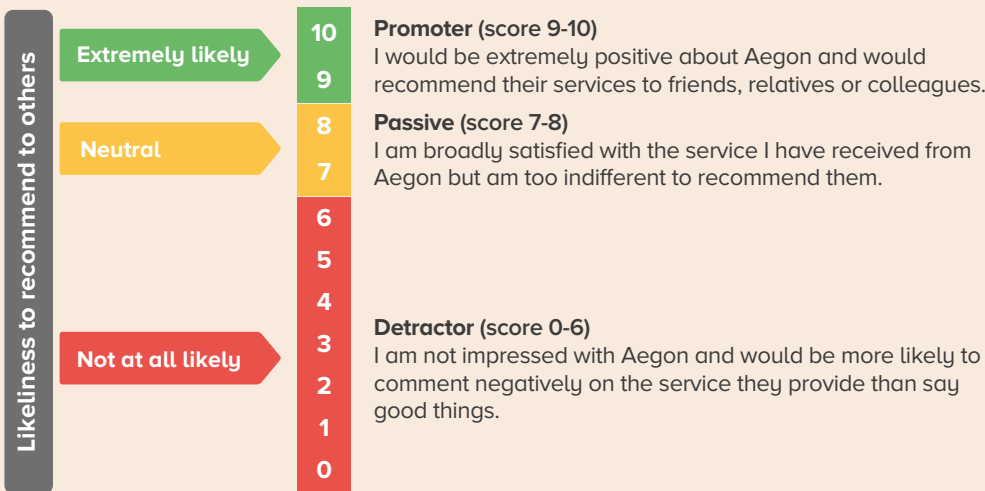
Aegon continues to provide us with a regular dashboard of information on how it is doing against the service standards it sets itself and has made a number of enhancements to this over the last 12 months. This includes information on customer calls, times to deliver key processes, service levels, complaints data and administration systems performance.

We challenged Aegon to ensure the service standards set and metrics assessed are in line with what its customers expect. Aegon responded positively to our challenge to include metrics which assess the suitability of products for customers, the quality of response to customers and a measure of customer effort required when interacting with Aegon.

We remain satisfied with the evidence provided by Aegon and its commitment to improving day to day customer service, but will continue to challenge to ensure it sustains performance and enhances its understanding of customer needs, in order to build better relationships and to use this information to enhance product development.

Aegon closely monitors its customer Net Promoter Scores to target areas of improvement to enhance the customer experience. There has been a significant improvement in these scores in the areas of service delivery over the last 12 months.

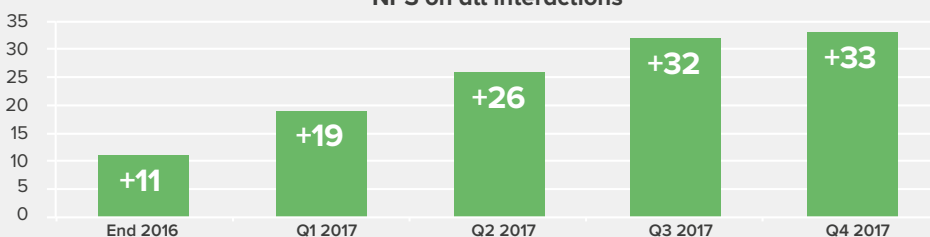
**What is a Net Promoter Score?** Net Promoter Score is a measure of how happy customers are with the services provided.



**NPS = % of Promoters - % of Detractors**

**We are pleased to see this positive and marked upward trend, although we know that such scores can vary very quickly and will continue to closely monitor how Aegon performs in this area.**

**NPS on all interactions**





“I am pleased to see a greater focus on customer satisfaction within Aegon through the measurement of, and improvement in, customer Net Promoter Scores. We will closely monitor how this and other key customer metrics develop through our Value for Money Dashboard”

- Doug Grant

In particular we were pleased to see Aegon act on customer feedback by introducing more efficient ways of dealing with customer requests. The evidence we have seen includes:

**NPS +40**

The launch of the online document store to improve accessibility customers have to key documents

**NPS +45**

Accepting requests for retirement quotes over the phone





**NPS +70**

Introducing a new telephony process which enables Aegon’s telephony teams to take claims/settlement queries over the phone creating a faster, more personal experience for customers

Based on customer feedback to Aegon, the indication is these initiatives have proven successful. We will continue to monitor progress over the next 12 months and challenge Aegon to identify further enhancements to improve customer outcomes.

Finally our experience across other industries has shown that where a company’s employees are less engaged this can lead to poor customer service. The level and trend in the Aegon employee engagement scores is a positive indication of improved customer service and going forward this is an area that the IGC will continue to track.

Throughout the year we have challenged Aegon on the following topics relating to quality benefits and services:

 Topic	 IGC's challenge	 Aegon's response / action	 What this means to customers
<b>Understanding and acting on customer needs</b>	Show us what activities Aegon is undertaking to understand and act on customer needs	Provided us with detailed evidence of how the customer is at the heart of its activities (examples outlined above)	Customers' service needs are understood and acted on
<b>How easy does a customer find it to deal with Aegon?</b>	By Q2 2017, explain how Aegon measures 'customer effort' and include this in the value for money dashboard	Shown how it assesses how easy certain activities are for customers. 73% of customers rated the Aegon contact centre as being 'very easy' to deal with.	Making sure customers find it easy to contact or access services from Aegon
<b>Employee engagement scores</b>	Detail the results of the annual Aegon employee survey to see how 'engaged' employees are	Provided the overall engagement scores, achieving 83% in the largest customer contact area, and the details underpinning these scores	Confidence employees are engaged which should lead to good customer service

## 5. Communication and engagement with customers

The research carried out last year confirmed the importance of engaging with customers using clear and understandable communication. This year, we have challenged Aegon to demonstrate the progress made with improving how they communicate and engage with customers, and asked that they provide us with evidence of how this will help deliver good retirement outcomes for customers.

As highlighted last year, we understand that Aegon's key priorities for workplace communications are:

- To track and understand the actions taken by those on its platform compared to those with older products
- To constantly review and improve communication based on learnings
- To encourage all customers to provide email addresses to improve customer contact
- To encourage employers to adopt the role of pension scheme 'ambassador' to encourage employee action

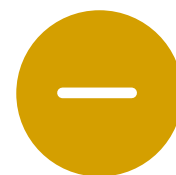
It is important to the IGC that communication is pitched at the right level to ensure key messages are clear and don't contain jargon.

Aegon has shared its approach to addressing this, using its regular customer panel to test communications to ensure these are clear, understandable and relevant for customers. Over 2017 they have:

- Conducted 9 specific communication tests covering topics such as tone of voice, transparency and vocabulary.
- Surveyed over 2,000 customers leading to changes to the layout, design and content within retirement planning communications
- Held 17 focus groups on how well customers understood communications, including whether images were helpful and whether they presented suitable support options and next steps if required
- Launched the Employee Academy for workplace pension members, increasing customer use of online tools from 14% to 28%
- Introduced a quarterly digital newsletter with educational and topical industry content for employers and a version for employees.

It is critical that companies like Aegon remain in close contact with their customers, otherwise they will not be able to engage with them and deliver the key messages members need to be aware of to protect and grow savings, nor understand their customers better by getting greater feedback. We are aware of the work carried out by Aegon during 2017 into tracing customers where the address held on the Aegon system was no longer correct. This was an area of concern to both the IGC and Aegon. We are pleased with the progress made in tracing over 80,000 customers and will continue to monitor the progress of this fundamentally important issue over the next year.

It is important to us that the activities Aegon is undertaking are leading to improved member engagement and outcomes.



Listening to customer feedback

**“Help me in making good decisions about my pension”**

**“We are pleased with the progress made in tracing over 80,000 customers and will continue to monitor the progress of this fundamentally important issue over the next year.”**

“It is important as Aegon continues to move forward with its customer engagement that it really understands its customers’ changing needs and preferences. This will enable Aegon to build better relationships with its customers and continue to move beyond addressing the important but transactional or operational issues to building long term understanding about the lives of their customers and what that will mean for their pension provision.”





- Jo Causon

One key area we were keen to explore further with Aegon was their use of customer ‘personas’ in improving the understanding of the customer base, for example by tailoring communications to improve customer engagement and achieve better outcomes. Aegon is currently testing their customer personas and we look forward to seeing how they are used to improve customer outcomes during 2018.

**What is a customer persona?** Based on analysis and research of real customers, Aegon has created a set of ‘personas’ or model people each of which brings together a set of characteristics and behaviours. These can then help companies like Aegon to develop their offerings to meet the needs of these model individuals. This includes considering customer by age, lifestage, current assets, preferred method of communication, risk profile and advice preferences.

The IGC continues to endorse Aegon’s focus on supporting employers to be ‘ambassadors’ of their workplace pension schemes. We are encouraged by the plans Aegon has shared with us on their sponsorship of research by the Confederation of British Industry (CBI) which will raise awareness among businesses of the benefits of providing workplace pensions and how to make the most of these for them and their employees. We explore this in further detail in section 7.

Throughout the year we have challenged Aegon on the following topics related to communication and engagement with customers and believe that progress has been made. However there are key areas where we need to see further improvement in order to move the status of this principle from amber to green, including making further reductions to the number of customers where the address held on the Aegon system is incorrect. We will continue to ensure Aegon does not focus solely on transactional or operational issues, but on building a better understanding of the customer:

 Topic	 IGC's challenge	 Aegon's response / action	 What this means to customers
<b>Aegon customer panel</b>	Explain how the Aegon customer panel works in practice and the activities undertaken to improve customer communications.	Provided full details of the workings of this panel and invited all IGC members to join.	Clearer and more helpful communications tested with customers
<b>Responding to customer feedback</b>	Show us examples of actions you've taken from wider customer feedback	Provided a range of examples which demonstrate Aegon encourages feedback and is taking action (examples outlined earlier)	Customer feedback is listened to and action taken
<b>Member research</b>	Provide us with details of the research activity which Aegon is involved with and how this will translate to action for workplace customers	Provided clear evidence of the action taken on the back of external research conducted last year and clarity on the additional research being undertaken (see section 7 for details)	Research leads to improvements for customers

## 6. Security of customer information and money



As advised in last year's report, one of the key findings of cross-industry customer research across UK customers with pension plans was that customers value knowing their pension funds are 'secure'. As a result, we introduced a new value for money principle in April 2017 covering the security of customer pension savings and data with Aegon. We had previously taken this into account in our general activities, but now allow for it explicitly.

In order to fully understand the security of your information and money we asked Aegon to run a series of sessions with the IGC covering the key areas of information security, financial crime and plans to comply with new rules, the General Data Protection Regulation (GDPR).

In each session we gained a better understanding of the security risks the industry faces and the measures and controls Aegon has in place to protect customer information and money.

We understand Aegon has the processes in place to maximise security and keep their employees regularly updated on threats and the action required to deal with them.

The threat of cyber-crime is a global concern and one which continues to evolve, so it is critical we regularly monitor the outcome of the controls Aegon has in place to protect you.

One example Aegon shared with us was the steps they have in place to identify pension scams where fraudster activity is designed to dupe customers into transferring their pension assets. We saw the variety of tactics used by 'scammers' including offering what they refer to as 'free pension reviews' or 'financial health checks' and promises of better returns. We also saw the controls Aegon has in place to monitor and act on these threats.

We asked Aegon to include key metrics on security within the Value for Money dashboard, which we review at each IGC meeting. We note that Aegon has intercepted a significant number of potential pension scams and carries out further examination before any activity can take place on any policies they believe are under threat of scams.

As we highlighted last year, your funds are held by a provider who is regulated by the Prudential Regulatory Authority, so is required to demonstrate financial strength, meaning your pension should be safe even if your employer were to have difficulties.

Overall we are satisfied with the controls Aegon has in place to keep your information and money secure and will continue to monitor this closely.







Listening to customer feedback

**“Safeguards to protect my money”**

**“Overall we are satisfied with the controls Aegon has in place to keep your information and money secure and will continue to monitor this closely.”**

Throughout the year we have challenged Aegon on the following topics relating to the security of customer information and money:

 Topic	 IGC's challenge	 Aegon's response / action	 What this means to customers
<b>Approach to protecting customer data and money</b>	We added security as a key principle and asked Aegon to provide details of the governance and processes in place to keep your data and money secure	Provided a detailed overview of their approach to Information Security and Financial Crime	Confidence that Aegon continues to take significant steps to have in place appropriate defences to maximise the security of your data and assets
<b>Demonstrating ongoing Financial Crime and Cyber Security measures are adequate</b>	Detail how key security measures are progressing, highlighting any trends or areas of concern	Provided regular updates demonstrating the steps taken to protect customers	The protection Aegon has in place continues to evolve to address the risk of cyber crime as far as is possible
<b>New European regulations on data protection (GDPR) inforce from May 2018</b>	Detail how Aegon has been preparing for GDPR and the challenges and issues which have arisen	Provided a detailed overview of their GDPR programme and committed to keep the IGC updated with progress	Confidence Aegon has strong controls in place to manage customer data in line with new regulatory requirements

## 7. Member research

We firmly believe any provider of workplace pensions must continually seek feedback from its customers, learn from this and take action. The research project we reported on last year, with other IGCs and providers, was a very important research initiative. Critically the results of the research must be translated into actions which genuinely improve customer outcomes.

We have challenged Aegon to act on the findings of that research and as we have explained in the previous sections we welcome the changes put in place and the positive impact this will have on customers.

There are numerous research programmes and opportunities to explore in the UK pensions market and it is critical that Aegon identifies and participates in those of most relevance to current and potential Aegon customers.

We acknowledge the key role employers play in ensuring workplace pensions are a success and look forward to the research initiatives Aegon has in place during Q1 2018 and working with Aegon to review the findings of this research.

There are two pieces of research in particular we believe will be of most benefit to workplace customers.

The introduction of auto-enrolment brought the requirement for all UK employers to provide a workplace pension for the first time. With auto-enrolment contributions for both employer and employees already set to rise until 2019, this is a good time to consider how businesses can make the most of their pensions investment.

Aegon is sponsoring a CBI research project around workplace pensions, looking at how to make the most of workplace pensions for both the business and its employees. The research will be used to produce a report, which will outline the benefits and offer practical suggestions based on real-life case studies on how to improve employee engagement as a way to unlocking these benefits.

Aegon has also asked a third party to carry out research into the role workplace savings play in the overall financial picture of an employee's financial health, exploring which financial services employees would be happy to receive through the workplace. The research will also examine the employee perspective on workplace pensions and benefits, and their understanding of the benefits and value. Finally this will look at how providers can improve their communication with employees and the method by which employees prefer to receive these communications.

We look forward to reporting on the results and actions taken by Aegon in next year's report.

“Carrying out research to better understand the needs of employers and employees is a critical component of delivering value for money. We will continue to challenge Aegon to demonstrate how it seeks and acts on feedback from its workplace customers, to help them make good financial decisions.”

**- Paul Bucksey**

## 8. Aegon developments

Last year we told you about the two significant acquisitions Aegon had made and that we would continue to monitor the integration of the BlackRock Defined Contribution business and Cofunds into the Aegon business to check there is no impact on the plans Aegon has in place for workplace pension members.

As Cofunds has no workplace pensions our focus is on whether the work on integrating Cofunds impacts any other plans Aegon has for workplace pension members.

As we highlighted last year, the acquisition of BlackRock's Defined Contribution pensions business brings a new element to Aegon's workplace pensions offering as BlackRock has historically offered trust-based pensions including 'master trust' schemes, to larger employers, as well as contract based pensions. This acquisition has strengthened Aegon's position in the UK workplace market and we continue to explore carefully with Aegon if there are learnings to be taken from the BlackRock business to further enhance value for money in contract-based pensions.

The process of completing the legal transfer of 236,000 customers with over £15bn of assets, is underway. Aegon has informed us they are targeting completion of the required legal process (Part VII), together with system and fund integration in the second half of 2018.

We have been kept informed of the progress made by Aegon throughout 2017 and are satisfied there has been no adverse impact on the plans or services offered to existing workplace pension members.

**“We continue to explore carefully with Aegon if there are learnings to be taken from the BlackRock business to further enhance value for money in contract-based pensions.”**

## 9. Our contact with Aegon UK's customers

Contact us to give us your views

We believe it's vitally important to hear from you as customers of Aegon, and also from employers and advisers, to understand your thoughts on the value for money of Aegon's workplace pensions.

We have received a wide range of questions from you over the last 12 months. We consider each of these in detail and are always keen to help where we can. Having spent some time with employers who hold their scheme with Aegon it is clear to us that the requirements of employers and employees vary significantly, so if you do have a question for us or Aegon then please contact us using the details below.

### How to contact Aegon UK if your query is for them

You can do this by telephone on 03456 10 00 10, or in writing to Customer Services, Aegon, Edinburgh Park, Edinburgh, EH12 9SE.

### Contact us

Email us: [igc@aegon.co.uk](mailto:igc@aegon.co.uk)



## 10. Looking ahead – next steps

With our third year as an IGC drawing to a close, we are planning where our focus needs to be in year four.

One top priority will be to analyse in detail the interaction between transaction costs and the performance of the funds in which workplace pension members invest. This will help us assess whether transaction costs are reasonable and deliver value for money. We have made a formal request for transaction cost data, which investment fund managers now have a new obligation to provide on request, and will assess and report back on our findings in our 2019 report.

While we have made significant improvements to our value for money ‘dashboard’ we recognise that the needs of customers continue to evolve and as a result the way we monitor progress and the evidence we require will also need to evolve. We will continue to challenge ourselves and Aegon to make sure we maintain a complete picture of performance in all the key areas of value for money.

As highlighted in this report, Aegon is undertaking a number of research initiatives and we will take a close interest in the findings of these and the action Aegon takes on the feedback provided from each initiative.

We are keen to examine the outcome of a communication review being carried out by Aegon and how this is being used to improve customer communication and engagement. A practical example of how well Aegon communicates changes to its customers will be the launch of the new default fund we described earlier in the report. We look forward to reviewing the implementation of this fund and the quality and impact of the communications used by Aegon to help members decide on which investment ‘lifestyle’ fund is most suited to their needs. In addition we will continue to challenge Aegon to trace customers for whom they hold incorrect addresses on their systems, and to demonstrate how they will move the status of this communication principle from Amber to Green.

We will continue to explore the security of customer information and money, understanding the steps Aegon has taken to maximise security and how it implements the required changes to policies, procedures, contracts and governance to meet GDPR requirements.

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**“One top priority will be to analyse in detail the interaction between transaction costs and the performance of the funds in which workplace pension members invest. This will help us assess whether transaction costs are reasonable and deliver value for money.”**

## 11. Conclusion

Our third year as Aegon UK's IGC has seen us build on the foundations we created in the first two years. We are pleased with the outcome of the extensive review we carried out of our value for money 'dashboard' and the improvements Aegon has made which give us confidence that we have the information to assess if Aegon is delivering value for money to its customers. We will continue to review this.

**“Overall our conclusion is that Aegon is delivering value for money to workplace customers.”**

We have closely monitored the progress made by Aegon's key programmes, and are pleased to see the completion of one of these programmes, the Review of Workplace Pensions, which has helped deliver value for money to over 575,000 customers.

We acknowledge the progress made by the Aegon Upgrade programme and the complexity involved in moving customers to a modern digital proposition, and are pleased with the decision made by Aegon to extend the scope of this programme to include customers with low fund values. We will continue to challenge Aegon to find ways to increase the number of customers upgrading, where it is in the customers' best interest.

We welcome the level of detail Aegon shares with us on its Investment governance and plans, as well as the statistics on performance and the underlying reasons why funds perform as they do. Similarly we appreciate the level of detailed reporting Aegon has in place to monitor customer experience and the progress made to ensure standards are maintained.

The evolving nature of the pensions industry and wider world is seen most clearly in the way in which customers want to engage with their pension, with more customers looking for simple straightforward communications and processes and to make more use of digital engagement. This, together with pension freedoms, brings additional security concerns and we will continue to focus on the steps Aegon is taking to make pensions more accessible for customer while keeping them safe.

Overall our conclusion is that Aegon is delivering value for money to workplace customers.

We have a full agenda for our fourth year and look forward to ensuring all Aegon's workplace pension customers continue to receive value for money.

Finally, our role as an IGC is to act on behalf of customers of Aegon, to ensure its workplace pensions are providing value for money. It is critical that we hear your views and feedback. If you would like to contact us please do so by emailing [igc@aegon.co.uk](mailto:igc@aegon.co.uk)

# Appendix 1

## Value for Money Principles

Value for money will mean different things to different people and there is no simple definition. The Regulators like the FCA have deliberately not sought to define this. In all walks of life, you will have views on just how good the value for money you receive is. Our priority is to make sure the workplace personal pension products and services you receive from Aegon meet the benchmarks we've set for value for money as set out in our principles.

Pension schemes can have very different membership profiles, contribution levels and design features. All of this means rather than trying to have a single simple statement of value for money, we decided it was better to develop a set of principles covering all aspects. We can then apply these to different situations.

For example, you may have a large fund, but someone else may have a very small fund. If you are both being charged the same percentage of fund each year, that may be excellent value for a small fund holder but less good for a large fund holder.

From customer research, we know workplace pension scheme members place a high value on 'security' of their money. We now include this in our principles.

We would like to stress that the principles are not set out to reflect any order of importance.

## The value for money principles we measure Aegon UK against

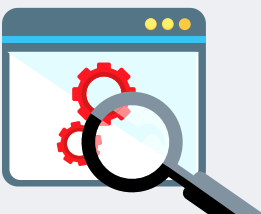


### Fair charge for services received

- ✓ The total charge customers pay while with Aegon represents good value against the nature and quality of benefits and services received.

### Valuable investment solutions

- ✓ Customers are offered a range of investment solutions which are governed and monitored appropriately.
- ✓ Default funds and investment strategies are actively monitored with changes made where necessary to ensure their characteristics and net performance continue to be aligned with the interests of relevant customers
- ✓ Fund transaction costs will be monitored to ensure they represent good value



### Quality benefits and services

- ✓ Benefits and services are developed in response to customer needs and demands
- ✓ Customer service and interactions are timely, accurate and customer focused

### Communication and engagement with customers

- ✓ Communications to customers are clear and straightforward, avoiding jargon, and designed to ensure customers understand the benefits they are receiving for the charges they pay
- ✓ Communications and supporting tools encourage customers to engage with their pension and support key decisions (e.g. investment decisions, retirement transition) to improve customer outcomes
- ✓ Changes, whether internal or external, which significantly affect customers are communicated in a clear and timely manner.



### Security of customer information and money

- ✓ Data and money provided to Aegon is held and managed securely

References to 'customers' refer to groups of similar customers rather than to individuals, and cover those within the scope of the IGC remit, namely relevant members of Defined Contribution workplace personal pension schemes.

Customers will receive value for money but will not all receive identical services nor will they all have identical charges. The pooling nature of insurance and pensions mean cross subsidies exist and are often required for practical reasons.

## Appendix 2

### Current members of Aegon's IGC

Aegon's IGC is chaired by Independent Trustee Limited, a wholly owned subsidiary of Sacker and Partners LLP, acting through Ian Pittaway as its nominated representative. Including the Chair, it is made up of five members; three independent members and two Aegon appointed members.



#### Independent chairman:

**Ian Pittaway, Senior Partner at Sacker and Partners LLP, nominated representative of Independent Trustee Limited.** Ian acts for a number of pension schemes as legal advisor and has gained extensive pensions law experience on a wide range of issues. This includes acting as an arbitrator and as an expert witness in court proceedings.

Ian is an expert on governance and often advises Trustee Boards on the most effective way to approach and take decisions. He is Chairman of his firm's independent trustee company and is chairman of trustees or independent trustee of a number of pension schemes. As independent chairman or trustee of several pension funds, he has gained a good appreciation of the issues faced by trustee boards from a client perspective. He is also a former Chairman of the Association of Professional Pension Trustees (APPT) and a former Chairman and Secretary of the Association of Pension Lawyers. Ian writes extensively for the pensions and national press, and lectures widely.



#### Independent member:

**Jo Causon – CEO of the Institute of Customer Service.** Jo brings with her a wealth of customer service experience from both commercial and not for profit organisations which extend beyond financial services. She has been the CEO of the Institute of Customer Service since 2009 which has enabled her to put customer service at the heart of business activities. This means that Jo works with a number of organisations across the FTSE100 and brings a unique insight into why customer experience is important and the needs and priorities of customers across all industry sectors. Jo therefore brings a broad customer view to the IGC.



#### Independent member:

**Colin Richardson, Client Director of Pitmans Trustees Ltd (PTL), nominated representative of PTL.** Colin is an actuary with 4 years of full-time pensions governance experience following more than 25 years of experience in pensions consultancy for trustees and companies. Colin brings experience in all areas of assessment of value for money in varied pension arrangements including the impact of investments and charges. As well as independent pension trustee appointments, Colin sits on BlackRock's IGC and on the PTL Governance Advisory Arrangement, which offers an alternative to an IGC for smaller providers running workplace personal pension schemes. Colin also acts on behalf of PTL as Trustee for a number of Master Trust pension arrangements. This gives a context to assist in the assessment of Aegon.



**Paul Bucksey – Managing Director, Head of Workplace, Aegon UK**

Paul has worked in pensions for over 20 years, and has held senior roles at BlackRock, Fidelity, Friends Life, IFG and PwC. Since joining Aegon from BlackRock in 2016, Paul has been responsible for the development, distribution and management of Aegon’s workplace investing propositions. In addition to the Aegon IGC, Paul also sits on the BlackRock IGC and is a Trustee of the BlackRock Master Trust.

Having worked for a number of pension providers and consulting firms, Paul has gained a high level of insight into the pensions industry, which he is able to use to help ensure that Aegon is giving you value for money.



**Dougy Grant – Managing Director, Existing Business, Aegon UK**

Dougy is a qualified actuary with nearly 20 years of experience within Aegon, holding leadership roles in finance, marketing, sales, operations, and general management. He has been in the role of Managing Director of Existing Business since 2016. Dougy chairs the Existing Business Management Committee, as well as various sub committees, and is a member of Aegon’s Customer Committee, which is responsible for ensuring good customer outcomes across all of Aegon’s customers.

Dougy brings a deep understanding of Aegon’s business, relevant operational experience, as well as a customer centric approach and a track record of improving customer outcomes.

## Experience and expertise

We have concluded that, through initial and ongoing assessment of our individual experience and expertise, we collectively have sufficient expertise, experience and independence to act in relevant policyholders' interests.

## Independence

The independent members of Aegon's IGC fulfil the FCA requirements to be demonstrably independent of Aegon. None are, or ever have been employees of Aegon UK or of a company within the Aegon group. None are or have been paid by them for any role other than as an IGC member. They have never had any material business relationship with any company within the Aegon group.

The corporate members, Independent Trustee Limited and Pitmans Trustees Limited, do not have any actual or potential conflicts of interest and neither do their nominated representatives.

In the interests of transparency, we should highlight that the Chair of the IGC, Independent Trustee Limited, is a wholly owned subsidiary of Sacker and Partners LLP which is appointed as conflict adviser to the Trustees of the BP Pension Fund. BP is also a pension scheme client of Aegon. In the opinion of Independent Trustee Limited and the IGC, no conflict arises between Sacker and Partners LLP's relationship with BP and Independent Trustee Limited's role as the Chair of Aegon's IGC.

The individual member, Jo Causon, considers herself to be independent in character and judgement.

The IGC can therefore confirm that it meets the independence requirement, taking into account the relevant Financial Conduct Authority guidance.

Aegon has confirmed it also regards its independent IGC members as meeting the independence requirements and will continue to review this, taking appropriate action if it considers that they are not.