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PRUDENTIAL INDEPENDENT GOVERNANCE REPORT 2019

The fourth Prudential Independent Governance Committee (IGC) report considers the investment performance and transaction costs across £5.3 billion of funds under management in Prudential's workplace pensions in 2018. The IGC, representing 215,000 members, also highlights the need to get more of them taking notice of their pension savings, with Chairman Lawrence Churchill reiterating it as a 'central challenge for the whole pensions industry'.

IGC's primarily review the value for money of defined contribution (DC) workplace pension schemes, independently of the product provider. This has been a requirement of the Financial Conduct Authority (FCA) since April 2015.

The focus on Prudential's 'default' strategy highlighted that the £1.9 billion Prudential Dynamic Growth Fund IV had performed better than the IGC had expected, with annualised returns of 8.83% over a 3-year period after charges. The £287 million Prudential Dynamic Growth Fund II, which also forms part of the default strategy, also bettered expectations with annualised returns of 7.23% after charges over the same period. The IGC benchmark for growth is 3% above inflation per year after charges. These two funds have produced returns in excess of inflation of 6.56% and 4.96% respectively over 3 years. The IGC has worked with Prudential and employers to make all default strategies compatible with 'Pension Freedoms', introduced in the 2015 Budget, as promised when reporting last year.

Following its challenge that the range of investment choice was too wide for members, 40 funds were closed in 2018 as options simplified and those failing the IGC's 'value for money' tests were eliminated. It was noted that investment markets were particularly volatile in 2018 and greater costs could be expected as more asset allocation changes took place. However, the IGC was pleased to report the principal fund of the flagship default strategy experienced transaction costs of only 0.03% compared to the estimated 0.07% reported last year. Citing Prudential's figures 'low by international standards', almost 97% of funds were found to incur transaction costs of less than 0.2%, receiving a 'green' rating from the IGC. The most frequent annual management charge (AMC) experienced by members was less than 0.5%.

In 2018 Prudential redesigned communications, including annual benefit statements, and processes to help members better understand the investment options available and how these might suit their own retirement needs. The IGC report itself includes case studies, so that members can see the potential growth values and costs associated with different levels of pension investment, and a questions and answers section and guide to jargon at the end.

Lawrence Churchill, CBE, Chairman of Prudential's Independent Governance Committee, said:

"There are some signs that members are taking more notice of their pension savings but there is much more to do here. Pension scheme communication and engagement remain the most difficult areas to get traction across the industry. The recent FCA review cited that only 52% of consumers read their annual pension statement. It also highlighted that the prospect of individuals not having adequate income in retirement is a central challenge for the whole industry.

"Our key focus in 2018 has been on the most popular investment choices of the members and the costs associated with investing in them. We have demonstrated that transaction costs had a negligible effect on net investment returns – an important finding given the level of concern across the industry".

Roddy Thomson, Chief Operating Officer, M&GPrudential, said:

"One of our core aims is to make investing for retirement as easy and secure for people as possible and we work closely with the IGC to continually improve member outcomes. Prudential works hard to ensure we consistently provide value for money, a broad range of investment options, clear and understandable communications and, thanks to significant investment in our transformation programme, greatly improved and accessible customer services.

"We will continue to support the IGC in its objectives both with financial resources and people. We firmly believe in educating and informing pension scheme members about their pension savings and we will continue to help scheme members understand the importance of saving and how this can help achieve the retirement they desire".

ENDS

Notes to editors

Lawrence Churchill

Lawrence has devoted his life to making financial services work for everyone.
As well as being CEO of three insurance groups, Lawrence chaired the Raising Standards Quality Mark Scheme for the Association of British Insurers, and was a board member of the Personal Investment Authority and of the Financial Ombudsman Service. Totally independent, the FOS deals with complaints against financial firms.
To protect pensions when an employer goes bust, Lawrence set up the Pension Protection Fund for the UK Government. He was also a board member of the Board for Actuarial Standards – setting technical and communication standards for actuaries. More recently, Lawrence set up NEST for the UK Government to give people on modest incomes a pension provider specifically designed for them and also chaired the Financial Services Compensation Scheme, which protects policyholders if a financial services firm become insolvent.
Lawrence is currently Chairman of Clara Pensions Ltd and of the Pensions Policy Institute.

Picture attached Lawrence Churchill, Chairman of Prudential Independent Governance Committee.

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