Aviva Independent Governance Committee

2024 Summary report for the year to 31 December 2023

Summary report

This is a brief summary of our findings in relation to value for money. You can read more detail in our main report for each of the areas of our assessment.

We assess value for money for workplace pensions and Investment Pathways customers according to three main criteria specified in the FCA rules:

- The charges you pay for your Aviva workplace pension or Investment Pathway
- The performance of the main Aviva funds
- The service you receive, and the communications Aviva sends to you

In addition, we consider the policies Aviva has in place in relation to environmental, social and governance (ESG) matters.

Over the course of 2023, we continued to monitor Aviva's progress in reducing charges, which they agreed to do as a result of a challenge we raised in 2022.

We again participated in the Redington study, which benchmarks providers in areas such as costs and charges, service and investments, including ESG integration. Aviva performed well in each area. They remain competitive on charges, particularly for larger employer arrangements and also compared well against their peers in all areas of service.

Aviva continues to make progress in its challenging ambition to become a net zero provider by 2040. We are pleased to see further advancement in 2023 toward this goal and the 2030 interim targets of a 60% reduction of carbon emissions, but also note progress is being hampered by a lack of policymaker and government direction.

Costs and charges

Following our challenge in 2022, we are pleased to note Aviva has completed the exercise to cap charges for customers in older products. This means that over 260,000 of you have benefited from a reduction of around 0.25% per year to a maximum charge of 0.75% per year.

This exercise excluded customers choosing their own more expensive investments and those invested or with the ability to invest in a With Profits fund. Aviva has written to all customers with access to With Profits to remind them this investment option is available to them.

The mailing exercise is due to complete shortly, and we will be discussing the outcomes with Aviva and agreeing any next steps with them later this year. We will let you know the results of these discussions in next year's report.

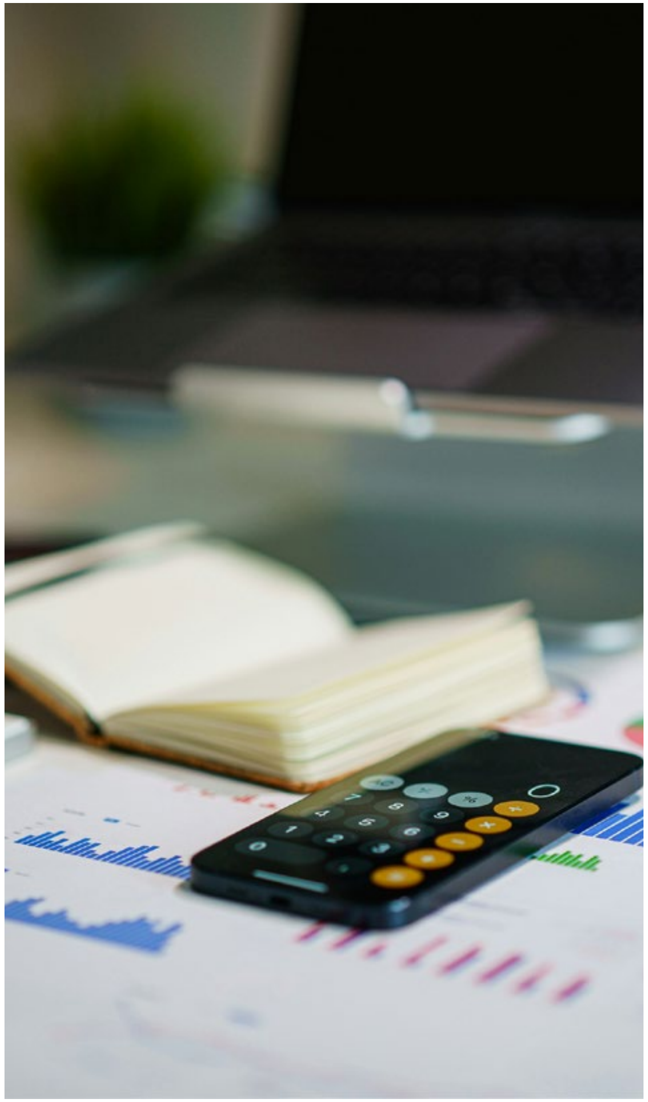
Overall, we remain happy that most customers continue to benefit from the auto-enrolment charge cap – many paying significantly less than the 0.75% a year. The Redington study confirmed Aviva remains competitive on charges, both for members saving for retirement and those taking out an Investment Pathway.

Our conclusion

It is clear that 90% of customers in newer products benefit from very competitive charges. While the charge cap for auto-enrolment schemes is 0.75% a year, the vast majority of you pay less. We are satisfied this represents good value for money.

A further 260,000 customers now benefit from a reduction in their annual charge. We are pleased Aviva implemented such a significant change, which improves value for customers and provides better outcomes in retirement.

We will work with Aviva over the next 12 months to understand if anything further needs to be done for those customers with access to With Profits who have not chosen to invest in With Profits funds.



Investment performance

2023 was a much more positive year for investment markets.

Aviva's main default funds - My Future, My Future Focus and the Aviva Stewardship Default - all saw positive returns ranging from 9.8% to 14.2%. My Future Focus saw lower returns due in part to a reduced allocation to US equities. As a result, Aviva will be making changes to the asset allocation of My Future Focus. This includes introducing a Long-Term Growth fund, which takes more risk in the early years of a customer's journey in anticipation of improved investment returns.

Pensions are a long-term investment. Market fluctuations mean rises and falls in the value of your pension will happen often. Over the longer term, however, investment markets have been resilient.

Our conclusion

The My Future Focus Growth fund has delivered returns roughly equal to People's Pension, one of the largest comparable schemes. Both of these funds have had investment returns somewhat below NEST, another comparator arrangement, and NEST itself somewhat below My Future Growth. This reflects the pattern seen earlier in the investment section of our report and for the same reasons.

The My Future Focus Long Term Growth Fund (soon to be used in the higher growth phase up to 15 years before retirement) delivered returns closer to the NEST retirement funds.

These comparisons support our earlier conclusions that My Future has delivered good value for money over recent periods and My Future Focus has delivered reasonable value, even with lower investment returns. We will monitor how the changes to My Future Focus improve future returns.

Service

The Redington study this year showed Aviva in a positive light when compared to other providers. In most areas, they were at least equal to or better than their peers for the majority of transactions.

Although we have seen a slight increase in telephone call waiting times, they still remain within Aviva's target levels.

The key Redington findings were:

- Aviva's performance is high and comparable to previous years
- Aviva has the highest percentage of transactions meeting target timescales for death claims and is near the top for transfers out
- Aviva is towards the average for all other transactions

Customer feedback has been positive. Aviva achieved a TNPS score in the range 30-60 which the IGC previously set as a "very good" score.

Members of the IGC made site visits to Sheffield and Norwich. They listened to customer calls, learnt more about the extensive training provided to staff, and heard more about Aviva's approach to identifying and managing the needs of vulnerable customers.

The IGC has become aware of an issue where some pension products don't allow payment of death benefits to unmarried partners without a completed Nomination of Beneficiary form. Aviva has agreed to update the terms and conditions for around three million customers to rectify this. It is a reminder of the importance of completing and maintaining an up to date Nomination of Beneficiary, and we would encourage all customers to do this.

Our conclusion

We continue to believe customers receive a good value service from Aviva.

The independent research from Redington confirms Aviva remains equal to or ahead of its peers in terms of the speed and quality of the service it provides. This is consistent with the research received last year from Willis Towers Watson and the consistency over the two benchmarking research reports paints a strong picture.

This is a position maintained over both newer and older policies, although we will continue to be vigilant as to service levels across all types of policies. Customers' feedback remains positive. Nevertheless, we will continue to challenge Aviva to keep improving its service offering.

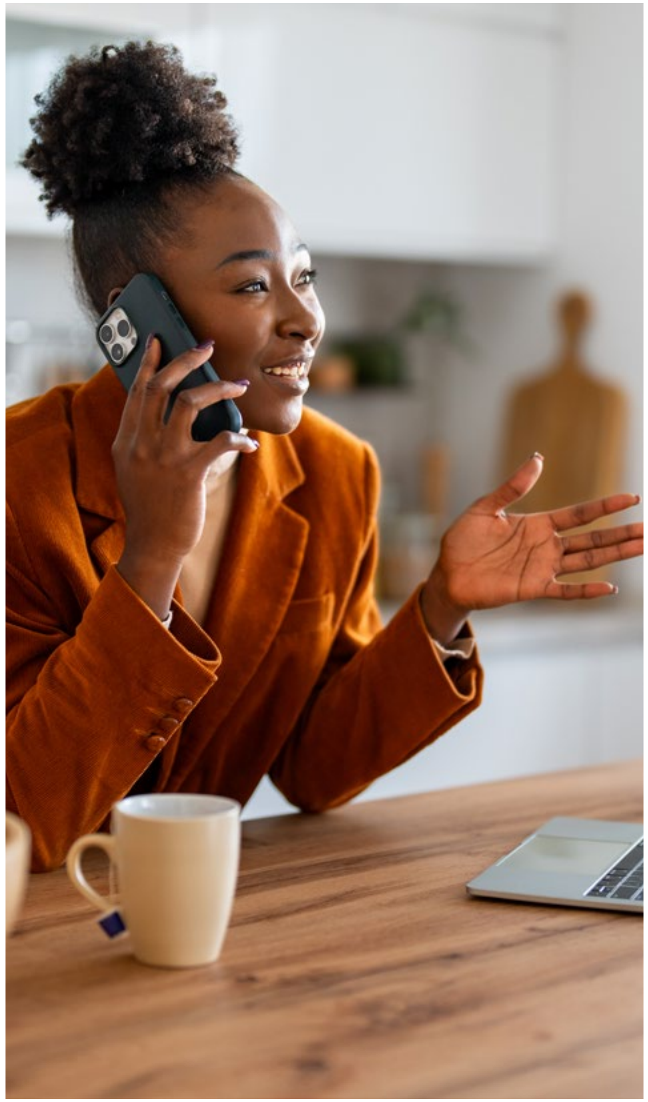
Communication and member engagement

We continue to believe that good, clear communications are important and we encourage you to engage more with Aviva. We've reviewed a selection of communications which Aviva send to you and have found them to be clear and well written. When asking you to take action, Aviva gives instructions well.

Members of the Committee joined some of the education seminars run by Aviva, finding them to be of high quality and receiving very positive feedback from customers. The seminars also result in higher engagement levels, for example, increased online registrations and beneficiary nominations following attendance. They remain free to join and we would encourage more employees to attend if offered the opportunity and for more employers to make their employees aware of them.

Our conclusion

We believe Aviva's communications are good. We are supportive of the financial seminars Aviva runs and the retirement preparation review offering. More information and support is available to customers digitally than ever before, but we believe Aviva needs to do still more to promote customer engagement. We will challenge Aviva to show that the enhanced digital offering is driving up greater levels of engagement.



Environmental, social and governance (ESG) considerations

In addition to the three core elements of value covered elsewhere, the FCA asks the IGC to comment on:

- the adequacy and quality of Aviva's policies in relation to both ESG financial and non-financial matters
- the adequacy of Aviva's policy in relation to stewardship
- how these policies are taken into account and implemented by Aviva in investment strategy and decision making.

In 2021, Aviva set the most challenging net zero ambition among its peers: to become net zero for its own operations and supply chain as well as shareholder and customer investments (including your pension) by 2040. This is a decade earlier than the industry average.

When Aviva set this ambition, it expected more positive changes to the global policy environment – such as forcing polluters to pay and encouraging investment in the UK's renewable infrastructure. However, there has been slow policy progress, despite Aviva's engagement with governments and other global institutions.

Aviva's My Future Focus default fund remains one of the UK's best with regards to ESG integration. Integration into the My Future default has been slower, but we are pleased to see Aviva met the targets set in 2022 for increased allocation. We challenged Aviva to go further last year, and it confirmed its intention to move closer to 100% integration in 2023 and good progress was made. We will continue to monitor progress in this area while ensuring we seek the optimum financial outcome for customers.

Aviva has voting control for its own funds and for funds managed by BlackRock, leveraging their new "Voting Choice" program. Aviva's support for ESG shareholder proposals has reduced this year, in line with the broader industry trend. Given Aviva's accelerated net zero ambitions, the committee will monitor this activity next year.

We also continue to monitor the integration of ESG into Aviva's My Future default, and we're seeing good progress. 61% of all assets are now invested in ESG and carbon optimised funds, and 71% for those in the growth phase more than ten years before retirement age.

Our conclusion

Aviva is under no illusion that a transition to a net zero carbon business will be easy. The IGC will work closely with Aviva's leadership and ESG team to understand how they are overcoming the challenges. However, we note that all providers have a long way to go if they are to protect beneficiary outcomes over the long-term.

The IGC considers the policies to be of high quality.

We rate Aviva highly in this area of our assessment; its policies and ambitions are strong and the IGC is supportive of this. If Aviva can deliver on those policies and ambitions while ensuring good financial outcomes for its customers, it will continue to stand apart from and ahead of others.

Investment Pathways

Aviva offers a range of Investment Pathways which were introduced in 2021 for non-advised members entering retirement, including those offered by Mercer for their own customers.

The four Pathways are:

Pathway 1	For customers who have no plans to touch their money in the next five years
Pathway 2	For customers who plan to use their money to set up a guaranteed income (annuity) within the next five years
Pathway 3	For customers who plan to start taking their money as a long-term income within the next five years
Pathway 4	For customers who plan to take out all of their money within the next five years

Pathways were included in the Redington study which considered charges, service, investment performance and communications. Although it continues to be difficult to compare pathway charges, the Redington study supports the Isio review findings of last year that Aviva's and Mercer's charges are well within the range of other providers. Because of this, we have again concluded that Aviva is competitive in the marketplace.

We again note the very diverse investment mix of Pathways between providers which is not surprising. The differences in asset allocation adopted by providers stems from the fact that the descriptors of the pathways as defined by the FCA are not precise. These differences across all four pathways have led to a wide range of investment returns over the 12 months to 31 December 2023, but similar returns over the three-year period.

Pathways are still in their infancy, and until longer term investment performance is available, it is a challenge to understand if the asset allocation for Aviva and Mercer is appropriate. However, at this stage we are happy that the Pathways are appropriately designed and that they offer good value.

We have raised a concern with Aviva over the cost of Investment Pathway 4 (members looking to take their Pathway as cash). Aviva charges the same for all four Pathways, while many other providers charge less for Pathway 4. They are due to respond to our concern shortly.

Our conclusion

We continue to believe Aviva and Mercer Pathways are appropriately designed and well serviced and the charges paid by customers offer good value.

Investment returns have improved for all four pathways and each showed positive returns over 2023 and we feel this offers good value.

Thank you for reading

Aviva Independent Governance Committee (IGC) 2024

Contact us at IGC@aviva.com