

Independent Governance Committee

Report: 2016

A note from the chairman of the Independent Governance Committee

Welcome to the first report of the Hargreaves Lansdown Independent Governance Committee (“IGC”). We have been charged with assessing the value for money and fitness for purpose of the workplace pension arrangements operated by Hargreaves Lansdown.

I am pleased to have been appointed as the IGC chair and appreciate the support of the rest of the IGC who have many years of pension experience and have provided energy, enthusiasm and thoughtful interventions.

The IGC also thank the numerous people at Hargreaves Lansdown who have answered our searching questions and provided the evidence to support the analysis required to reach our conclusions. The business has been open and transparent in support of the IGC.

I hope you enjoy reading our report.

David Grimes
Chairman

1. EXECUTIVE SUMMARY

Hargreaves Lansdown operates a single workplace pension scheme that is used by 288 employers and 59,407 members - with £1.49 billion assets under administration. The IGC report assesses whether the various component parts of the Hargreaves Lansdown service represent good value for money.

The IGC has considered the concept of “value for money” in the context of the services offered, including:

- Robust and detailed investment research into active and passive investment funds, resulting in a choice of default funds that are periodically reviewed by investment specialists;
- A cash default option, overseen by an Independent Non-Executive Director as “client champion” with responsibility for representing the interests of its Self-Invested Personal Pension (SIPP) clients, where they hold their assets in cash;
- Access to a wide range of investment instruments, further supported by detailed investment research and a comprehensive website service;
- Prompt and accurate processing of core financial transactions; and
- Charges that are within the range permitted by legislation.

The IGC has worked to understand how Hargreaves Lansdown supports delivery of pensions in the workplace and noted evidence of strong communications and proactive engagement with both employers and members, supported by helpdesks and employer-branded websites. The IGC is satisfied that the quality of the communications produced by Hargreaves Lansdown supports good member outcomes through helping members to make informed decisions.

Hargreaves Lansdown seeks regular feedback from members. This has indicated no areas of concern about the service and the committee has seen evidence of changes to communications to reflect the points raised. Levels of complaints are low and do not indicate systemic issues within the workplace pension scheme provided by Hargreaves Lansdown.

The IGC has concluded that processes are in place to enable good member outcomes, the offering is simple and the business is not constrained by complex historical charging structures. Whilst there is more work to be done by the industry with regards to the disclosure and comparison of transaction charges, given all of the above **the IGC believes members are receiving value for money from the workplace pension arrangements offered by Hargreaves Lansdown.**

2. INTRODUCTION

Hargreaves Lansdown provides a workplace pension scheme which is a Self-Invested Personal Pension (SIPP) distributed under the Corporate Vantage brand operated by Hargreaves Lansdown Asset Management Ltd. Corporate Vantage was established in July 2010. As at 31 Dec 2015, there were 288 employers using the platform, encompassing 59,407 members and £1.49 billion assets under administration.

Corporate Vantage operates a simple, straightforward workplace saving scheme with a clear and transparent charging structure: there are no “legacy” charging arrangements, such as policy fees, initial unit charges or higher charges for members who no longer contribute.

The IGC was established on 1st April 2015. It has a duty to protect the interests of members of workplace SIPPs. As a minimum, the IGC has a duty to:

- act solely in the interests of workplace pension scheme members;
- operate independently from Hargreaves Lansdown, in accordance with the IGC’s Terms of Reference;
- assure itself that core financial transactions are processed promptly and accurately; and
- assess and, where necessary, challenge Hargreaves Lansdown on whether these workplace pension schemes provide value for money for members.

The IGC will make an annual report available to members on how the schemes have performed.

The period of this report covers 1st April 2015 to 31st March 2016.

The workplace pension scheme covered by this report is provided by Hargreaves Lansdown to employers to satisfy the requirements of auto-enrolment legislation. All such schemes are managed on the Corporate Vantage platform.

You can find a copy of the IGC Terms of Reference and further information on members of the IGC online at www.hl.co.uk/company-pensions/igc.

3. VALUE FOR MONEY

When the committee was formed in April 2015, it set out to assess objectively the various component parts of the Hargreaves Lansdown service proposition and whether they collectively represent good value for money. The committee recognises that value for money is subjective and can consist of several factors, including price, quality and service.

During the first year, the IGC considered the ongoing value for money for members by assessing:

- 3.1 that the default investment strategies available for selection are suitable and meet the likely requirements of members who do not make active investment choices;
- 3.2 that Hargreaves Lansdown regularly reviews the characteristics and net performance of the default investment strategies, to ensure these are aligned with the interests of members;
- 3.3 that core scheme financial transactions are processed promptly and accurately;
- 3.4 the levels of charges borne by members;
- 3.5 the direct and indirect costs incurred as a result of managing and investing, and activities in connection with the managing and investing of members' pension savings, including transaction costs; and
- 3.6 the full range of services available to scheme members.

4. DEFAULT ARRANGEMENTS

Hargreaves Lansdown has undertaken a review of the default investment strategies offered in the period covered by this report. The current default fund range was considered along with alternative approaches.

Following the onset of automatic enrolment, Hargreaves Lansdown has concentrated on three default arrangements:

- An actively managed fund – currently Schroder Managed Balanced
- A passively managed fund – currently Blackrock Consensus 85; and
- Cash – through treasury services provided by Hargreaves Lansdown Asset Management Ltd

Cash is primarily used within the lifestyle process for members approaching their selected retirement age. Over a five year period members assets are disinvested from the default or other self-selected fund(s) and placed in cash.

Hargreaves Lansdown’s investment research team undertakes detailed research of a wide variety of the fund managers of active and passive investment funds. The Corporate Vantage service uses this comprehensive research capability in order to select what it considers to be the most appropriate option for the Corporate Vantage service default funds.

The IGC challenged the business to demonstrate how and why the default funds were selected. The research team meets on a 6-monthly basis to analyse and approve the continued use of the selected active and passive default funds. The research carried out includes qualitative analysis in the form of regular meetings with the fund managers, and quantitative performance and holdings data analysis. The IGC has reviewed the research methodology and is satisfied that the current active and passive fund options represent an acceptable combination of price, service and performance.

The IGC observed that there is a robust process in place to select and monitor the appropriateness of the default arrangement offered through discussions with the research team and by reviewing analysis provided. **The IGC is satisfied that there are no areas of concern in relation to default arrangements over the period.**

The IGC was pleased to note that Hargreaves Lansdown has appointed an Independent Non-Executive Director (NED) for the Group, as “client champion” with responsibility for representing the interests of its SIPP clients, where they hold their assets in cash. As part of this role, the NED ensures that HL makes appropriate decisions about the rate of interest it pays to its SIPP clients during its treasury management activities.

5. NON-DEFAULT INVESTMENT OPTIONS

In addition to the three default options, Corporate Vantage offers access to the full range of investments provided by the Vantage platform.

Hargreaves Lansdown conducts detailed investment research into hundreds of investment funds and refines this research down into a list of preferred funds. Key criteria are performance potential and competitive management charges. This provides the basis for the selection of the Adventurous, Balanced and Conservative funds (The 'ABC Funds') which are highlighted to members who may need guidance with making wider investment choices. Hargreaves Lansdown's investment research team meets on a 6-monthly basis to analyse and approve the continued use of the selected ABC funds.

Members also have access to a wide range of funds, which have gone through the same rigorous research processes, within the Wealth 150, the Master Portfolios and HL Portfolio Plus.

In addition to the above, members have the ability to self-select from an extensive investment universe encompassing over 2,000 funds, equities, investment trusts, exchange traded funds and bonds. The full investment range is detailed on the member website or via www.hl.co.uk.

The IGC spoke with Hargreaves Lansdown's research team at length and reviewed the literature available to members, and was satisfied that members are able to select from a range of funds that have been researched thoroughly and presented clearly.

Evidence of the utilisation of non-default arrangements can be seen in the number of members making alternative investment choices. **30% of members invest outside of the default arrangements and 45% of Hargreaves Lansdown's workplace pension scheme assets are outside of the default arrangements. This reflects the high level of member engagement.**

6. CORE FINANCIAL TRANSACTIONS

The following are defined as core financial transactions:

- investment of contributions;
- transfers-in from other pension arrangements;
- transfers of members' holdings between different investment funds available to members; and
- payments to, or in respect of, members.

The IGC has seen evidence that during the period covered by this report core financial transactions have been processed promptly and accurately, as supported by internal audit reports.

The only exception was an instance of persistently late contributions that had been identified and reported to the Pensions Regulator by Hargreaves Lansdown. The case is considered to be exceptional and due to failings by the client. This is not symptomatic of any systems failure on the part of Hargreaves Lansdown. The IGC is satisfied that the issue was identified and satisfactorily addressed by the scheme operator.

The IGC is satisfied there are no areas of concern in relation to core financial transactions.

7. CHARGES AND TRANSACTION COSTS

- 7.1 Where Hargreaves Lansdown has agreed that its workplace pension scheme can be used by the employer to meet its 'auto-enrolment duties', the charges are within the range permitted by legislation. The combination of the Hargreaves Lansdown platform charge and default arrangement charges are demonstrably within this range.
- 7.2 The charges applying to all investable options are fully disclosed on the members' website or via www.hl.co.uk.
- 7.3 The IGC is satisfied with Ongoing Charge Figure (OCF) costs disclosed by the default fund managers. Currently, there is no industry standard for measuring investment transaction costs within funds. These costs are incurred through a variety of charging structures that are not directly comparable. Hargreaves Lansdown will continue to discuss the subject of transaction costs with the default fund managers. The IGC has accepted this explanation and notes this is an industry wide issue for which developments are expected in the next 12 months. The IGC will continue to monitor this situation.

8. QUALITATIVE VALUE FOR MONEY ASSESSMENT

The IGC has spent considerable time understanding the business model Hargreaves Lansdown uses to support pension provision in the workplace savings market. The following areas were of interest.

8.1 Communications

Hargreaves Lansdown provides support to members and employers through a variety of media.

The onsite communications team delivers presentations and conducts individual meetings with members. Pension presentations range from helping members understand pensions through to detailed seminars on legislative changes and complex subjects such as the Tapered Annual Allowance. An example presentation was observed by the IGC and it was noted that over **700 presentations and 9,300 individual meetings had been conducted in the year ending February 2016** (the latter representing 21% of the active membership).

The members' helpdesk provides telephone support. This was reviewed by the IGC who listened to a random sample of calls on the member helpdesk by observing how calls were handled, how they were documented and how they were followed up with members. **The IGC agreed that the telephone support provided to scheme members was excellent.**

The majority of Corporate Vantage workplace pension schemes are provided with a branded website. Members can review and change their investments online, plus there is a wide range of pension guides and interactive calculators to assist with members' pension forecasting.

Hargreaves Lansdown works closely with the governance teams of workplace pension scheme clients, with the majority of the schemes having a dedicated pension consultant. **They conducted over 190 governance meetings in the year ending February 2016.** These discussions focus on the membership profile and needs and drive the communications strategy for each scheme. **Overall the IGC is satisfied that the quality of the communications produced by Hargreaves Lansdown supports good member outcomes through helping members to make informed decisions.**

8.2 Member Feedback

A member feedback survey has been undertaken for each of the past two years and the results compared. Both good and constructive feedback was given; the surveys indicated no areas of concern.

In response to this feedback, communications have been altered and in some instances reduced in volume to reflect the requirements of members of workplace pension schemes and how they may differ from individual Hargreaves Lansdown clients.

8.3 Complaints

Hargreaves Lansdown operates a standard 5 working day complaint response. Complaint volumes appear to be low, with only four complaints relating to workplace pension schemes. One of these complaints was upheld. Whilst complaints are a matter for the business, the IGC has noted these and has received confirmation that they do not indicate systemic issues within the workplace pension scheme provided by Hargreaves Lansdown.

8.4 External awards

Hargreaves Lansdown has won various awards over the past few years.

2016

- Pension Provider of the Year – Pensions Age
- Best At-Retirement Solution – Corporate Adviser

2015

- Workplace Pension Provider of the Year – Workplace Savings & Benefits
- Gold Standard Award for Group Pensions

2014

- Technology Innovation of the Year – Professional Pensions
- Workplace Pension Provider of the Year – Workplace Savings & Benefits
- Gold Standard Award for Group Pensions Pension
- Adviser of the Year – Corporate Adviser

Whilst the awarding bodies will have their own selection criteria, both the range and consistency give further context to a qualitative assessment of value for money for members.

9. LEGACY BUSINESS

There is no legacy business. All members are on the current Hargreaves Lansdown platform and charges. The business is not constrained by an old book of business with complex charges and significant surrender penalties.

10. MEMBER REPRESENTATION

The IGC is required to consider members' interests. To support this, Hargreaves Lansdown has put in place the following arrangements to be used by members who would like to make representation to the IGC:

Email: IGC@hl.co.uk

Or by writing to;

FAO: IGC
Freepost, HARGREAVES LANSDOWN

11. CONCLUSION

The IGC has considered all the key areas as set out in the report. The default strategies and funds were considered in detail. Evidence was obtained to support the research underpinning the defaults, the communication of the defaults and the underlying processes needed to ensure accurate allocation and investment of contributions by or on behalf of scheme members. The wider support given to members beyond just the default were analysed. **The IGC found a robust structure supporting members. There is a high level of member engagement compared with other arrangements in the marketplace and the IGC see this as a good thing.**

The offering is simple and the business is not constrained by complex historical charging structures with processes in place to enable good member outcomes.

There is more work to be done in the area of the disclosure and comparison of transaction charges. There has been wider consultation within the fund management industry on this. We cannot solve this in isolation and await developments on this over the coming year. There will undoubtedly be more to say in the IGC report next year.

Given all of the above the IGC believes members are getting value for money from the workplace pension arrangements offered by Hargreaves Lansdown.

The IGC would like to thank the internal audit team, the investment research team and numerous employees at Hargreaves Lansdown who have taken the time to explain things and answer our questions.

