

# **Royal Insurance Group Pension Scheme**

## **Statement of Investment Principles – April 2023**

### **1. Introduction**

- 1.1 The trustee of the Royal Insurance Group Pension Scheme (“the Scheme”), RIGPS Pension Trustee Limited (“the Trustee”), in its capacity as trustee of the Scheme has drawn up this Statement of Investment Principles (“the Statement”) to comply with the requirements of the Pensions Act 1995 (“the Act”) and subsequent legislation. The Statement is intended to affirm the investment principles that govern decisions about the Scheme’s investments. As required under the Act, the Trustee has taken appropriate written advice from its investment advisers.
- 1.2 In preparing this Statement, the Trustee has consulted the sponsoring company of the Scheme (Royal & Sun Alliance Insurance Limited) (“Sponsoring Company”) to ascertain whether there are any material issues about which the Trustee should be aware in agreeing the Scheme’s investment arrangements. Notwithstanding, it is noted that, the ultimate power and responsibility for deciding investment policy lies with the Trustee.

### **2. Scheme Governance**

- 2.1 The Trustee is responsible for the overall investment arrangements of the Scheme and has delegated specific responsibilities to its Investment Sub Committee (“ISC”). All decisions of the ISC will be recorded in committee minutes and made available to the Trustee, along with a summarised report at the following Trustee meeting.
- 2.2 The role and responsibilities for the ISC are covered in the Terms of Reference for the ISC.
- 2.3 The ISC has a documented business plan which sets out the Scheme’s expected activities and aspirations for the year and is updated regularly.

### **3. Legal Duty and Investment Objective**

- 3.1 The Trustee has a legal duty to invest the Scheme’s assets in the best interests of the members and beneficiaries of the Scheme, and in the case of a potential conflict of interest, in the sole interests of the members and beneficiaries. This will principally mean maximising the chances that the benefits to which the Scheme’s members and beneficiaries are entitled under the Scheme’s governing documentation being paid in full.

### **4. Investment Strategy**

- 4.1 In February 2023, the Trustee purchased a number of bulk annuity policies (“buy-in policies”) with Pension Insurance Corporation (“PIC”) which, together with a pre-existing longevity swap with Rothesay Life, are designed to closely fund all members’ defined benefit payments as they fall due.
- 4.2 The Trustee retains overall responsibility for reviewing the ongoing operation of and risks associated with the buy-in policies and longevity swap (together the “insurance policies”).

This includes, but is not limited to, the insurers' ongoing credit quality and the timeliness and accuracy of payments made to the Scheme.

4.3 A number of investments were retained in the Scheme at the point of purchasing the buy-in policies ("residual assets"). With one exception, these assets have all been disposed of since the transaction. The one remaining asset, a long lease property holding, is in the process of being redeemed with the expectation that this will be completed shortly. With this being the case, the remainder of this Statement is drafted assuming this holding has already been redeemed and so doesn't outline, for example, how the ISC chose and monitor investment managers.

4.4 Any surplus assets held following the purchase of the buy-in policies, over and above the one remaining residual asset outlined above, will be invested in cash or money market funds. Any balances held will be to cover short term liquidity needs and so are expected to be small.

## 5. **Risk Management and Measurement**

5.1 The key risk to the Scheme is that the value of assets is insufficient relative to the value of the liabilities. This is called solvency risk and ultimately could lead to there being insufficient assets to secure all benefits.

5.2 There are many other individual risk factors which have the potential to contribute to solvency risk. Due to the complex and interrelated nature of these risks, the Trustee considers these in a qualitative rather than a quantitative manner in accordance with regulatory requirements.

5.3 In practice, these risks are minimised through the execution of the insurance policies which mean that benefit payments are met as they fall due; and the laws that regulate the insurers and provide protection for policyholders, including being eligible for compensation from the Financial Services Compensation Scheme ("FSCS").

5.4 As the Trustee retains overall responsibility for ensuring member benefits are met, its primary risk focus is on the credit quality of the insurers and their ability to meet their obligation under the insurance policies they have written. The Trustee measures and monitors this risk through professional covenant, actuarial and legal advice and through the terms of the buy-in policies.

5.5 The risk that the Sponsoring Company is unable to continue to support the Scheme has very significantly reduced having entered into the buy-in policies. To the extent this risk remains, the Trustee manages this by assessing the creditworthiness of the Sponsoring Company and the size of any potential future pension liability relative to the financial strength of the Sponsoring Company. Advice is also taken from a specialist covenant advisor in this regard.

5.6 Should there be a material change in the Scheme's circumstances, the Trustee, will review whether the investment arrangements should be altered, to the extent this is possible.

## **6. Day-to-Day Management of the Assets**

6.1 The Scheme's assets were sold or transferred to PIC to fund the premium payment for the buy-in transactions. The insurers invest the assets underlying the Scheme's buy-in policies, with the Trustee having no ability and not seeking to influence how these are managed day-to-day.

6.2 With assets, other than the buy-in policies, having been disposed of, the policies the Trustee previously had in place and considerations around how the Scheme's assets are to be managed and monitored are no longer relevant.

## **7. Cash Requirements**

7.1 The Trustee's primary focus, following the recent buy-in transactions, is on ensuring that the cashflows payable under the buy-in policies are of the right value and received when they are due.

## **8. Environmental, Social, Governance (ESG) matters (including climate change)**

8.1 The Trustee believes that environmental, social and corporate governance ("ESG") issues, including climate change risks, are likely to be financially material to the Scheme's investment time horizon. Ensuring that the Scheme effectively reflects these issues in its investment process should therefore support the delivery of the pension promise to beneficiaries. The Trustee sets the Scheme's policy on ESG risks, but delegates responsibility for the implementation of this to the ISC.

8.2 PIC's approach to ESG and climate change was an important factor in their selection as the Scheme's buy-in provider. On an ongoing basis, however, it is recognised that the ability of the Trustee to directly influence PIC's behaviour will be limited. That said, PIC's approach to ESG and climate change will form part of the Trustee's monitoring and ongoing assessment of PIC, to the extent this is practical, and should it be deemed appropriate, concerns will be raised.

8.3 The Trustee does not take into account non-financial matters (i.e. the ethical and other non-financial views of members and beneficiaries) in setting its investment policy.

## **9. Stewardship**

9.1 The Trustee sets the Scheme's policy on stewardship including the exercise of voting rights and engagement activities. The Trustee believes that good stewardship can enhance long-term portfolio performance, and is therefore in the best interests of the Scheme's beneficiaries and aligned with fiduciary duty and can be an effective means of helping to manage the Scheme's ESG risks (including climate change). The ISC has been given delegated responsibility to implement the Trustee's policy.

9.2 PIC's approach to stewardship was reviewed as part of their selection as the Scheme's buy-in provider. On an ongoing basis, however, the Trustee believes it has limited scope to influence the ongoing stewardship and corporate governance activities of PIC. That said, PIC's approach to stewardship will form part of the Trustee's monitoring and ongoing

assessment of PIC, to the extent this is practical, and should it be deemed appropriate, concerns will be raised.

## **10. Monitoring and Reporting**

- 10.1 The Trustee's primary focus, with advice from its professional covenant advisor, is the monitoring of the financial position of the insurers, in particular PIC.
- 10.2 With all residual assets having been sold or redeemed the ISC no longer has a need to hold regular meetings with the investment managers.
- 10.3 The Scheme's longevity swap is collateralised daily and the ISC recognises the importance of ensuring these arrangements continue to operate effectively.
- 10.4 The Trustee provides an implementation statement within its annual report. The implementation statement will set out how it has acted on the principles within this Statement and will provide details of the stewardship, engagement and voting undertaken with regards to the Scheme's investments.

## **11. Company Consultation**

- 11.1 The Trustee has consulted with the Sponsoring Company in formulating the Scheme's investment strategy and in formulating this Statement.
- 11.2 The Trustee will consult the Company prior to any material changes in investment arrangements.

## **12. AVC Arrangements**

- 12.1 The Scheme's AVC arrangement provides for benefits to be accrued both on a money purchase basis, with the value of members' funds being determined by the value of accumulated contributions adjusted for investment returns net of charges, and on a with profits basis. In selecting appropriate investments, the Trustee is aware of the need to provide a range of investment options, which broadly satisfy the risk profiles of all members.

## **13. Review of this Statement**

- 13.1 The Trustee will review this Statement, with input from the ISC, at least once every three years and without delay after any significant change in investment policy. Any change to this Statement will only be made after having obtained and considered the written advice of someone who the Trustee reasonably believes to be qualified by their ability in and practical experience of financial matters and to have the appropriate knowledge and experience of the management of Scheme's investments and having consulted the Sponsoring Employer.