

ISSUED 24 DECEMBER 2020

PROVIDER SECTOR
B&CE

FINANCIAL STRENGTH ASSESSMENT

Analysis by **AKG Financial Analytics Ltd**
Accessible • Comparative • Independent

AKG



ABOUT THIS FINANCIAL STRENGTH ASSESSMENT

This AKG report and the analysis and ratings contained within it provide assessment of financial strength and associated considerations. Financial Strength is focused on the ability of a company to deliver ongoing operational capability in the interest of its customers and in line with their fairly held expectations. AKG's perspective in the assessment of financial strength is wholly that of a customer of a product or service. From that foundation, this analysis is specifically designed to inform financial advisers and assist in their required understanding of a company's operational financial strength.

Given the underlying customer perspective, the financial strength of companies needs to be focused at an operational level (i.e. the elements and functions of an organisation which operate to specifically deliver and manage a proposition or service to the customer), specifically on the company that is effecting the product or service that a customer is selecting. This is important, because from the customer's perspective it is that company that needs to survive in a form that maintains the requisite operational characteristics to meet their fairly held requirements. And it is thus at this level that the selection needs of the customers' advisers must be met. This contrasts to credit rating, which will be undertaken at group or parent company level where investment or debt placement etc. is made.

Further details on how analysis is undertaken is provided at the end of this report and may also be obtained from AKG.



TABLE OF CONTENTS

Rating & Assessment Commentary	3
Ratings.....	3
Summary.....	3
Commentary.....	3
Group & Parental Context	6
Background.....	6
Group Structure (simplified).....	7
Company Analysis: B&CE Financial Services Ltd	8
Basic Information.....	8
Operations.....	9
Strategy.....	10
Key Company Financial Data.....	12
Guide	16
Introduction.....	16
Rating Definitions.....	16
About AKG.....	19



CONTACT INFORMATION

AKG Financial Analytics Ltd, Anderton House, 92 South Street, Dorking, Surrey, RH4 2EW
Tel: +44 (0) 1306 876439 Email: akg@akg.co.uk Web: www.akg.co.uk

Rating & Assessment Commentary



RATINGS

Overall Financial Strength



Additional Financial Strength and Supporting Ratings

	Non Profit Financial Strength	Unit Linked Financial Strength	With Profits Financial Strength	Service	Image & Strategy	Business Performance
B&CE Financial Services Ltd	■	■	■	★★★★★	★★★★	★★★★



SUMMARY

- A not-for-profit organisation over 75 years old, B&CE group (B&CE) continues to focus on delivering simple, straightforward services and benefits to members
- B&CE has been creating and providing financial products for construction workers and others throughout this time, and now has over 6 million members
- The People's Pension launched in 2011, administered by B&CE Financial Services Ltd (B&CEFSL), the group widening its target market from the construction industry to support auto-enrolment more widely
- The scheme continues to progress well, with funds/assets under administration (AUA) of over £12bn as at November 2020, but in the last financial year was not generating sufficient income to fully meet operating costs
- B&CEFSL therefore made a loss of £17.3m after tax in the year to March 2020, which included a £9.9m write down of capitalised development costs
- The B&CE group has previously provided capital to cover losses in B&CEFSL while The People's Pension builds sufficient scale
- Insurance subsidiary B&CE Insurance Ltd (B&CEIL) is now a much smaller part of the group with much reduced solvency requirements (below the Solvency II threshold) and there is potential for its removal to further simplify the group
- Group capital management remains strong after this significant de-risking, notwithstanding an additional requirement to hold £20m cash in relation to The People's Pension master trust authorisation



COMMENTARY

Financial Strength Ratings

B&CE Financial Services Ltd

Historically, B&CEFSL was a relatively small component of the overall group. However, since the launch of The People's Pension the company now plays a key role as the administrator of this and receives the majority of associated administration fees. B&CEFSL accounts for a significant proportion (over 98%) of total group revenue and is therefore a strategically important part of the group, but has been loss making as it continues to invest in staff and systems to support the growing pension business. Profit continues to be expected within the next few years as the business matures and

grows AUM. This remains crucial from a financial strength perspective, due to the group structure and the ongoing diminishment of the contribution to revenue from the group's insurance company B&CEIL.

Given the year end of March, the impact of COVID-19 had begun to be felt within the 2020 financial accounts. This included the significant stock market volatility in Q1 2020 calendar year hitting B&CE's year end AUA and beginning to filter in to performance. B&CE considers it likely that The People's Pension revenue stream will experience short and medium-term disruption because of COVID-19 related economic shock and the impact on employment levels resulting in lower contributions into the scheme. However, over the longer term it expects growth to continue.

B&CE's capital requirements have continued to reduce significantly with the ongoing transfer of remaining EasyBuild members to The People's Pension and de-risking of the investment portfolio, with a greater proportion of the group's investments being held as cash or other short-term fixed interest assets. The Solvency II SCR fell from by over £9m, to £9.5m, and Own Funds increased by over £9m to £71.4m. Consequently, group Solvency II SCR coverage ratio increased to 750% as at March 2020, well in excess of the group's own minimum target level of 150%.

The group will drop out of Solvency II reporting requirements over the next few years given B&CEIL (currently at 330% SCR cover in isolation with a much reduced SCR) is expected to fall below the Solvency II reporting threshold and the wider business has now moved away from the need for a life company, to the extent that B&CEIL could be removed to simplify the overall group. Solvency will remain important for the remaining group and subsidiaries nonetheless, given there is a new capital requirement for the group, not related to any Solvency II requirements, to hold at least £20m in cash and cash equivalents at all times as part of the master trust authorisation of The People's Pension. Including this within the overall capital requirement led to a SCR coverage ratio of 241% as at 31 March 2020.

Service Rating

B&CE sets itself a requirement to deliver service excellence as part of an approach which espouses an ability to make things easier for its customers. As well as the requirement to continue to build scale over the coming years, B&CE is committed to continue to deliver the highest level of service despite the increase in customer numbers.

In this respect B&CE has continued to invest in systems and staff to support the demand for its auto-enrolment solution (notwithstanding a restructure and loss of some group staff in October 2019) and despite continuing to attract a relatively large share of the market it has maintained good customer service levels and very low levels of complaints from its scheme members and employers. It receives positive Net Promoter Scores from employer customers and advisers, and appears to be well received and regarded in industry awards. Its own Customer Satisfaction Survey found that 72% [2019: 73%] of members that had interacted with The People's Pension scheme were satisfied with the service they received and 3% [6%] were dissatisfied.

Response to the COVID-19 pandemic was positive, by initially reallocating resource to prioritise key financial transactions (contributions), member communications and support for vulnerable members, while deprioritising some other aspects of member support. Limited furloughing was put in place and matters quickly returned to normal business operating levels with around two-thirds of the workforce working from home as at September 2020.

Image & Strategy Rating

As a not-for-profit business, B&CE group states its business model is designed to optimise the ability to invest in its sole focus of delivering services and benefits to members. This has seen it develop a number of insurance and pension products over the years, although its main focus for the foreseeable future is on B&CEFSL and its administration of The People's Pension. It offers a small number of other financial products, and will need to continue to manage its legacy products nonetheless (legacy schemes still serve 1.1 million customers) - although the financial impact of these continues to reduce.

B&CE expects The People's Pension to continue growing and delivering a rising income stream over the long term. The scheme was granted master trust authorisation from The Pensions Regulator in 2019, and wider adoption of this flagship pension product by employers and their employees is crucial to the future success of B&CE, to create the scale which will ultimately enable B&CE to maintain profits to reinvest and provide members with an affordable and valued offering. In this respect, it has introduced an annual charge of £2.50 as part of wider fee structure changes in 2020, which B&CE expects to improve the fee income stability.

B&CE is targeting lower costs and better efficiencies in terms of its administrative functions by investment in digital systems as well as staff, and as mentioned previously, in October 2019 implemented a planned restructure of many of its

departments, with a view to creating greater operational efficiencies, and 41 employees (6.4% of the workforce at the time) departed the group.

A decision was made in June 2020 to withdraw from the occupational health market, with B&CE stopping work on system development and closing its scheme, CBH (Constructing Better Health).

Ongoing brand strategy and overall development by B&CE looks to reinforce and leverage a position of trust amongst its client base and alongside adjacent proposition development, to deliver a wider proposition in an often historically underserved market segment. Consolidation in the auto enrolment market is also an important environmental factor for the business and one for which it has strategic and operational capability in place. B&CE is likely to be a net beneficiary of this consolidation phase.

Business Performance Rating

The People's Pension has grown to become one of the largest private sector master trust pension schemes in the UK with over 5.4m members and £12bn of AUA as at 30 November 2020. The costs of B&CEFSL administering the scheme continue to exceed the income derived from it, so there have been losses at an operational level for several years.

In 2020 year end losses increased further as, on top of usual administration expenses, the business incurred an impairment of £9.9m. This was in respect of capitalised development costs written off - the business stopped working on new development projects effectively valuing the development work at nil. Losses after tax increased from £7.1m in 2019 to £17.3m which also included a provision of £1.2m for contract termination costs.

Whilst the economic impact of COVID-19 is likely to have a short to medium term dulling effect on income, B&CE expects growth in the long term and does not expect to see underlying costs continue to rise, therefore it has confidence the business is returning to profit.

The company's balance sheet remained positive in terms of total equity (net assets) of £21.1m [2019: £38.4m], albeit losses reduced further the deficit on the Profit & Loss account, now at £43.9m [£26.7m]. The prior year investment of £20m by parent company People's Financial Services Ltd (PFSL) helped to absorb the loss and allowed the business to maintain capital and liquidity.

Insurance subsidiary B&CEIL's significance continued to diminish following the transfer of the members of the EasyBuild Scheme to The People's Pension. PBT fell from £1.4m to £1.0m. A dividend payment of £25m was paid by B&CEIL, achieved through a reduction in share capital of £25m; notwithstanding this, Solvency II financial strength was improved at 330% [2019: 266%] as the SCR was significantly reduced following the transfer out of remaining EasyBuild members. A large proportion of investments were moved into cash which de-risked the portfolio and this limited the impact that COVID-19 had on equity investments.

Overall therefore the group reported a consolidated loss before tax for the year of £26.0m [2019: £15.8m loss] with the main variances from previous year being:

- Management fees totalled £37m for the year [2019: £27.1m] - as mentioned above, the increase due to income from growth in AUM in The People's Pension
- Revenue from the insurance business decreased slightly to £1.0m [£1.1m]
- Miscellaneous net income decreased to £1.4m [£2.3m] primarily due to £0.7m less in sign up fees as less employers signing up to use The People's Pension
- Net operating expenses increased to £57.7m [£48.9m] including B&CEFSL's £9.9m write-off, and £1.2m provision mentioned above
- Gains from financial instruments totalled £1.9m [£2.2m].

The group expects the future income from The People's Pension to be sufficient to meet this additional expenditure and return the company and group to profit. This will be assisted by the changes to fee structure implemented in 2020 with a rebate of the management charge where a member has more than £3,000 in their fund and an additional flat £2.50 annual fee payable by all members of the scheme which will help to generate a stable underlying fee income.

Group & Parental Context



BACKGROUND

B&CE is a not-for-profit organisation, established in 1942, which operates for the benefit of its members and their dependants. B&CE is the UK's largest provider of financial benefits to the construction industry's employers and employees. B&CE offers workplace pensions, employee accident cover and employee life cover to over 6 million members (including legacy products), for over 90,000 employers. AUA of schemes and products administered by the group are now more than £12bn as at November 2020.

Its flagship product is The People's Pension, available to both construction and non-construction employers. It was the first master trust to achieve voluntary master trust assurance, in September 2014. In August 2019, it was granted master trust authorisation from The Pensions Regulator. People's Financial Services Ltd (PFSL) is the named provider of the pension scheme, with all day to day administration carried out by B&CEFSL. Both are wholly owned subsidiaries of B&CE Holdings Ltd (B&CEHL).

B&CEHL is the group's parent company. Its name was changed from Building and Civil Engineering Holidays Scheme Management Ltd in April 2016, to better reflect its role and the group's business. B&CEHL is a limited by guarantee company controlled by the following industrial parties which nominate the members of B&CEHL in accordance with the articles of association: Unite, GMB, Build UK, Civil Engineering Contractors Association, Federation of Master Builders, National Federation of Builders, and Scottish Building Federation. B&CEHL is also the administrator to The Building and Civil Engineering Charitable Trust.

Following a group restructure on 1 April 2017, PFSL became the holding company for B&CEFSL and B&CEIL, with B&CEHL remaining the ultimate parent company. This new structure was to enable the group to have a single regulated board overseeing the strategy for the financial services businesses.

B&CEFSL acts as a distributor of, and administrator for, pensions, accident and death insurance, and a range of financial welfare products, and as the administrator of The People's Pension it is the focus of this report.

B&CEIL is a provider of life assurance, pensions and accident insurance, established in 1995.

The People's Pension Trustee Ltd (TPPTL) acts as the corporate trustee of The People's Pension Scheme, overseeing its operation with a fiduciary duty to act in the interests of its members. In particular TPPTL has a remit of safeguarding the Scheme's funds and ensuring that the Scheme delivers good value for members. The Board of TPPTL consists solely of independent directors with expertise in pensions/financial services.

The Building and Civil Engineering Charitable Trust was launched in 1991, offering financial assistance to construction workers and their families who are suffering hardship, principally to ease the financial distress that illness or changes to domestic circumstances can cause. The Trust is funded by B&CE which distributes a proportion of its surpluses to the charity.

In April 2016, B&CE had acquired CBH (Constructing Better Health) from the Construction Skills Certification Scheme. CBH was a national not-for-profit scheme dedicated to improving the standard of occupational health management in the construction industry. B&CE was planning to develop a new integrated occupational health solution for the construction industry, through a new subsidiary of B&CEHL called People's Health Ltd (PHL). However, the system has proved difficult to build and with the additional impact of COVID-19 a decision was made in June 2020 to withdraw from the occupational health market and end work on the replacement system, closing CBH and PHL.



GROUP STRUCTURE (SIMPLIFIED)



Key:
..... Subject of this Assessment

Company Analysis: B&CE Financial Services Ltd



BASIC INFORMATION

Company Type

Pension Administrator

Ownership & Control

Immediate parent: People's Financial Services Ltd

Ultimately owned and controlled by: B&CE Holdings Ltd

Year Established

1987

Country of Registration

UK

Head Office

Manor Royal, Crawley, West Sussex, RH10 9QP

Contact

www.thepeoplespension.co.uk/contact-us/

www.bandce.co.uk/contact-us/

Key Personnel

Role	Name
Group Chief Executive Officer	P I Heath-Lay
Group Chief Operating Officer	T J Weller
Group Chief Finance Officer	S M Hunter
Group Chief Strategy & Innovation Officer	D Brown
Group Chief Sales & Marketing Officer	R Porter
Group Director of People	Z Wright
Group Director of Business Assurance	M W Phillips
Group Director of Change	C Jones
Group Director of Policy and External Affairs	G McClymont
Group Chief Investment Officer	N Aspinall
Group Director of IT	D Redbond
Group Director of Marketing	S Beale
Group Director of Strategic Delivery	M Plant
Group Director of Customer Services	K Martin

Company Background

B&CEFSL's principal activity is to administer financial products on behalf of B&CE. It was appointed scheme administrator of The People's Pension by TPPTL on 18 December 2012, and receives the majority of the annual management charge paid by members.

B&CEFSL is also the appointed administrator and registrar of the TUTMAN B&CE Contracted-out Pension Scheme (B&CECOPS) and an employee life cover scheme, the Employee Life Cover (ELC) from B&CE, both of which are exclusive to the construction industry. With effect from 1 April 2015, B&CEFSL took on the administration of the EasyBuild stakeholder pension scheme and with effect from 1 April 2016, the administration of all of B&CE's other pension schemes and insurance products, which had previously been administered elsewhere in the B&CE group.



OPERATIONS

Governance System and Structure

The B&CE group is committed to strong governance. In 2014, The People's Pension was the first master trust to achieve the first level of voluntary assurance under the Institute of Chartered Accountants in England and Wales' (ICAEW) assurance framework for master trusts. This is an independent assessment which demonstrates the strength of the scheme's governance and administration standards. The Institute of Chartered Accountants in England and Wales (ICAEW) developed the framework in partnership with The Pensions Regulator (TPR) to help employers identify high quality pension schemes. The People's Pension has since gone on to achieve the second level of voluntary master trust assurance and is now also on TPR's master trust list.

The transfer of pension savings from the EasyBuild Stakeholder Pension Scheme to The People's Pension was supported by the EasyBuild Independent Governance Committee (IGC).

During the COVID-19 the business can point to a close supportive relationship with TPR.

Risk Management

B&CE states that its risk management process is closely aligned to its strategy. The process facilitates the identification of risks through workshops and interviews with managers and senior managers. Risks that can seriously affect its ability to achieve strategic objectives, performance or reputation are maintained in the Group or business unit risk registers.

Risks are assessed to determine the potential impact and likelihood of occurrence, after taking into account key controls and mitigating factors. Additional mitigating actions are identified and agreed with the relevant business owners.

Risks are managed at group level or within the business unit on an ongoing basis, with follow up and challenge by the Risk Management function throughout the year. At the group level each risk has an executive owner. The CEO has overall accountability for the control and management of risk. The group board has overall responsibility for risk management.

The content of the Group Risk Register is considered and discussed through regular meetings with senior management and reviewed by the Executive Committee and the B&CEHL board.

The key risks that B&CEFSL is exposed to are strategic, operational and conduct risk. The company is also exposed to financial risks including market, credit and liquidity risk.

Alongside many of its peers, the business has also prioritised Cyber Risk in recent years.

Administration

As well as building scale, B&CE remains committed to continuing to deliver the highest level of service alongside increasing customer numbers, and it has continued to fund resourcing over the last financial period to make sure standards stay high.

Employers can apply online for The People's Pension, where there is enhanced self-service functionality and increasing straight through processing. The Adviser Centre provides intermediaries with an online toolkit as well as the ability to access and service their schemes with The People's Pension. In addition to call and email servicing communication channels, B&CE has introduced online webchat functionality for members.

B&CE's digital transformation continues to target reductions in the level of manual intervention required for administration and servicing tasks, improving operational efficiency with specific focus on reducing the cost of servicing whilst maintaining service levels. This greater digitalisation will also assist in cost effective acquisitions from other providers who might be seeking to exit the auto enrolment market.

The directors of B&CE acknowledge that some of its infrastructure / technology was not immediately aligned to meet the challenges of COVID-19 working, but that it was able to upgrade where required relatively swiftly. This included the implementation of a new VPN telephony system during 2020.

Cross training has also been completed to support growth spikes, with all Employer Relationship Managers now also trained for implementation activity, when required.

B&CE is targeting lower costs and better efficiencies in terms of its administrative functions by investment in digital systems as well as staff, and as mentioned previously, in October 2019 implemented a planned restructure of many of its departments, with a view to creating greater operational efficiencies, and 41 employees (6.4% of the workforce at the time) departed the group.

Benchmarks

All B&CE staff work to rigorous service level agreements (SLAs) to ensure that high levels of service are maintained. B&CE reports that it continues to receive complaints from only a fraction of a percent of its member and employer customers.

Over the years for its products and service B&CE has received numerous accolades. The People's Pension is the flagship product and has most recently won the following:

- Best Master Trust at the Corporate Adviser Awards 2019
- Master Trust Offering of the Year at the Pensions Age Awards 2019
- Multi-Employer DC Provider of the Year at the Pensions expert Pension and Investment Provider Awards 2019

It also has current accreditation with various organisations:

- Investors in People - Silver (until 2022)
- Defaqto 5 Star Rating for Workplace Pension 2020
- Corporate member of the Plain Language Commission
- Corporate member of Pensions Administration Standards Association

Outsourcing

Outsourcing contracts are in place in respect of investment management with Legal & General Investment Management (LGIM), State Street Global Advisors Ltd (SSGA) and Northern Trust for The People's Pension and EasyBuild. The Trustees of these pension schemes receive investment advice from Bamett Waddingham. HSBC Global Asset Management (UK) Ltd is also a listed Investment Manager.

The B&CE group also has agreements with CMS Cameron McKenna Nabarro Olswang LLP in respect of legal advice, Grant Thornton for tax advice, OAC for actuarial services for general insurance, Hymans Robertson for administration and actuarial services, and Deloitte MCS is the group's outsourced actuarial function.



STRATEGY

Market Positioning

As a not-for-profit organisation, B&CE states that its core values - Creating Simplicity, Showing Compassion and Keeping Promises - drives everything it does. B&CE also states that it exists for one simple reason: 'To make a better life possible for everyone who needs us', and that its priority is to keep delivering high quality service and support to its customers, while growing and innovating for the future.

The advent of automatic enrolment presented both a challenge and an opportunity for B&CE. The group felt that it was well placed to continue to specialise in workplace pensions and that in addition to continuing to serve the needs of the construction industry it also needed to broaden its appeal to the wider market in order to gain scale so as to be competitive compared to other schemes operating in the automatic enrolment market. The People's Pension has become B&CE's flagship proposition and proving to be popular although yet to be profitable in its own right.

B&CE states an intention to continue to work on its digital offering, to create further cost efficiencies in the business and to ensure that B&CE customers can engage when, where and how they want to. B&CE also says that it is looking to expand its product range to offer additional support and adjacent propositions to customers and their families. The People's Pension offers members additional guidance and advice options as they approach retirement through a partnership with LV.

B&CE's approach to distribution has evolved as the shape of employers coming through the auto enrolment staging process has changed. In terms of new business acquisition, targeting opportunities and building relationships with key market influencers in the SME market, including payroll providers, accountants and bookkeepers, has become a priority area.

Resourcing has been aligned, through a series of changes, to match market requirements. This has seen the implementation of a blended model with face to face support, as well as remote account managers and telephone marketing, matched to different distribution channel components. Targeted direct channel campaigns continue to be used to communicate with smaller employers and raise awareness of The People's Pension.

Retention of large and mid-sized schemes for employers who are already using The People's Pension is a key area. B&CE is also looking at opportunities to engage with employers, through their intermediaries, who may be considering the replacement of their existing auto enrolment provider.

Consolidation of schemes into The People's Pension is also a potential source of growth given market developments to this end, the strong position of B&CE and its systems investment.

The make-up of the business development team, the methods and channels being used to target new business and retain existing business have also changed to meet the evolving distribution requirements. To support this there has also been restructuring of the distribution and marketing function of B&CE. B&CE is also making more and more use of digital media and fulfilment within its routes to market.

B&CE is one of sixteen pension providers who have worked with the ABI on the Pensions Dashboard development project initiative and B&CE's Chief Executive Officer has been a member of the Steering Group.

Proposition

B&CEFSL's principal activity is to administer The People's Pension and other financial products. The company carries out administration for:

- The People's Pension - a multi-employer defined contribution occupational pension scheme
- TUTMAN B&CE Contracted-out Pension Scheme - an authorised unit trust and personal pension plan, for which B&CEFSL is also the registrar
- Employee Life Cover plan from B&CE - a death benefit only occupational pension scheme
- Building and Civil Engineering Benefits Scheme - a multi-employer defined benefit occupational pension scheme
- RapidCash Injury Insurance - a personal accident insurance product, which is closed to new members
- Employee Accident Cover - a group accident insurance product provided by B&CEIL
- B&CE Term Life - life insurance protection (also referred to previously as term assurance)
- B&CE Personal Accident Insurance - a personal accident insurance product

The administration of the Benefits Scheme and the insurance and assurance products began on 1 April 2016.

All of these products are available exclusively to construction employers and employees with the exception of The People's Pension, which is open to any employer.

EasyBuild closed to new members in September 2017, with new contributions since directed into The People's Pension (offering better value for money, with lower charges and a wider range of product features). The majority of EasyBuild existing pensions savings were transferred to The People's Pension in February 2018, with a small number of remaining pensions transferred in March 2020 and the EasyBuild scheme closed.

B&CEIL has now closed its RapidCash and Personal Accident Insurance products. The impact these closures will have on the group will be limited to a reduction in the capital requirements, without significantly impacting premiums received which are mainly for Employee Accident Cover.

The decision on how to invest the funds rests with the Trustees of each scheme. Barnett Waddingham is investment adviser to the Trustees. In September 2017, the group appointed Nico Aspinall as its first chief investment officer (CIO) in response to the expected growth in its funds under management. The CIO leads B&CE's investment management team and supports the board and trustees in developing investment strategy. The majority of investments are managed by SSGA. There is a Shariah Fund managed by HSBC Global Asset Management.

B&CEFSL is also the promotional and marketing arm of the group, distributing any products that are offered in partnership with other financial services providers.

The group is developing its strategic ambitions and these would appear to have significant potential to leverage its particular market position and try to foster trust for the delivery of a wide proposition set to a potentially underserved market segment.



KEY COMPANY FINANCIAL DATA

Last 3 reporting periods up to 31 March 2020

Capital Resources Disclosures

	Mar 18 £m	Mar 19 £m	Mar 20 £m
Available capital resources	61.1	62.8	71.4
Capital resources requirement (CRR)	19.7	19.8	29.5
Excess capital resources	41.4	43.0	41.9
CRR coverage ratio (%)	310	317	241

B&CEFSL is regulated by the FCA and its capital forms part of B&CE group's regulatory capital. B&CE group reports to the PRA and FCA under Solvency II, publishing a single group-wide SFCR for the purpose of reporting on the insurance subsidiary, B&CEIL.

B&CEHL is defined as the Insurance Holding Company, with B&CEFSL, CBH and PHL treated as Solvency II strategic investments for the purposes of the calculating the group's Solvency II asset valuation. Out of total Solvency II assets of £85.7m [2019: £100.2m], the value apportioned to B&CEFSL was a substantial element of this, at £29.3m [2019: £35.4m].

The group had a Solvency II SCR of £9.5m, reduced from £19.8m in 2019. The reduction in SCR reflects the significant reductions in market risk, counterparty risk and life underwriting risks in the year following the transfer of EasyBuild members out of B&CEIL and the de-risking of the group's investment assets. The capital requirement for residual undertakings (covering those in B&CEFSL, PHL, CBH and TPPTL) also reduced, from £7.8m to £6.7m, and now represents the largest segment driving the Solvency II SCR.

Own Funds (excess of assets over liabilities) were £71.3m [2019: £62.8m] providing group SCR coverage ratio of 750% in 2020. The table above reflects the group position but also includes a further £20m solvency requirement not related to Solvency II; as part of the master trust authorisation of The People's Pension, the group is required to hold at least £20m in cash and cash equivalents (see below for more detail). This resulted in a total SCR coverage ratio figure of 241% as at 31 March 2020. This is still well in excess of the group's own minimum level of solvency, 150%, which it feels reflects the stable and relatively low-risk nature of the group's insurance risk through B&CEIL as the insurance provider.

On a standalone Solvency II basis, B&CEIL had Own Funds of £17.6m [2019: £23.3m], an SCR of £1.1m [£8.8m] and a coverage ratio of 1,599% [266%]. B&CEIL would be expected to fall below the Solvency II reporting threshold within the

next few years on current trajectory and so the group would drop out of Solvency II reporting requirements. Reflecting the reduction in its capital requirements, B&CEIL in November 2019 approved a capital reduction of £25m and at the same time approved a £25m dividend to PFSL; subsequently in December 2019 PFSL partially repaid £25m of its intercompany loan from B&CEHL.

As mentioned above, the master trust authorisation of The People's Pension requires the group to hold at least £20m in cash and cash equivalents. PFS and B&CEIL jointly provide a guarantee of £10m to The People's Pension in respect of the role of B&CEFSL as administrator. No security has been provided, although the guarantee requires at least £12m to be held in either cash, cash equivalent, bonds or equities; and B&CESFL is required to hold at least £8m in either cash, cash equivalent, bonds or equities. As at year end 2020, B&CEIL had cash and cash equivalents of £13.6m, and B&CEFSL had £18.3m.

Statement of Financial Position

	Mar 18 £m	Mar 19 £m	Mar 20 £m
Assets	36.7	46.5	32.5
Current liabilities	(11.3)	(6.9)	(11.2)
Long-term liabilities	0.0	(1.2)	0.0
Net assets	25.5	38.4	21.1

Statement of Changes in Equity

	Mar 18 £m	Mar 19 £m	Mar 20 £m
Equity at start of period	16.4	25.5	38.4
Movement due to:			
Share capital and premium	16.0	20.0	0.0
Retained earnings	(6.9)	(7.1)	(17.3)
Other	0.0	0.0	0.1
Equity at end of period	25.5	38.4	21.1

Total assets fell by 30% during the year following the full impairment of £9.9m intangible assets (capitalised development costs written off as the business strategised the upgrading of existing assets ahead of any current other projects) and the disinvestment of all financial instruments (a total of £20.5m divested, unit trusts mainly) in line with the risk profile reduction strategy. Net assets decreased overall by 45%.

B&CEFSL made a loss after tax of £17.3m during the year overall, driven by the £9.9m impairment and a related provision of £1.2m for contract termination costs. The remaining losses relate to The People's Pension of which B&CEFSL is the administrator and where, to date, the administration fees charged have been less than the costs of operating the scheme. Cash increased by £6.3m to £18.3m.

Historically losses have been covered predominantly by capital injections from B&CEHL funded by dividend payments from B&CEIL being reinvested in B&CEFSL; given The People's Pension growth expectations and a change in fee structure in 2020, a breakeven position is considered by the business to be close now, notwithstanding the current short term negative impact of COVID-19.

Income Statement

	Mar 18 £m	Mar 19 £m	Mar 20 £m
Revenue	31.0	29.6	38.9
Other operating income	0.2	0.3	0.6
Operating expenses	(38.6)	(37.2)	(56.7)
Operating profit (loss)	(7.4)	(7.4)	(17.2)
Other gains (losses)	0.0	0.1	0.1
Profit (loss) before taxation	(7.4)	(7.3)	(17.1)
Taxation	0.4	0.2	(0.2)
Profit (loss) after taxation	(6.9)	(7.1)	(17.3)
Other comprehensive income	0.0	0.0	0.1
Dividends	0.0	0.0	0.0
Retained profit (loss)	(7.0)	(7.1)	(17.3)

Financial Ratios

	Mar 18 %	Mar 19 %	Mar 20 %
Operating margin	(24)	(25)	(44)
Pre-tax profit margin	(24)	(25)	(44)
Employee costs as a % of revenue	54	64	59

For the year to March 2020, revenue was driven by a significant increase in The People's Pension administration management fees received, up from £21.6m in 2019 to £31.6m. This income was generated as a proportion of The People's Pension AUA, which increased significantly during the year from £6bn to over £8bn, and revenue followed suit. Throughout the year, the average monthly contributions to The People's Pension exceeded £250m.

Revenue was also received via the employer charge for new employers joining The People's Pension, which reduced from £1.9m to £1.3m as most employers have now automatically enrolled their employees in a workplace pension scheme and only new employers, or those looking to change provider, or members subject to re-enrolment, are joining The People's Pension.

The company continued to receive income from the administration of the B&CE Benefits Scheme (£3.1m) and registrar fees for the TUTMAN B&CE contracted out scheme (£1.6m), both at very similar levels to the prior year.

Operating costs increased significantly in 2020, by £19.5m to £56.7m. A large proportion of this related to the impairment £9.9m described previously. Administration expenses increased by £10.2m, including a £1.2m provision. The result was a loss of £17.3m for the year before tax [2019: loss £7.3m] and no dividend was paid [2019: nil].

Statement of Cash Flows

	Mar 18 £m	Mar 19 £m	Mar 20 £m
Net cash generated from operating activities	(11.5)		
Net cash used in investing activities	4.0		
Net cash used in financing activities	16.0		
Net increase (decrease) in cash and cash equivalents	8.5	(4.4)	6.3
Cash and cash equivalents at end of period	16.4	12.0	18.3

Assets under Administration (AuA)

	Mar 18 £m	Mar 19 £m	Mar 20 £m
Assets at start of period	1,954	3,963	6,164
Inflows	2,034	2,020	3,239
Outflows	(68)	(148)	(243)
Net market and other movement	43	329	(740)
Assets at end of period	3,963	6,164	8,420
Growth rate (%)	103	56	37
Net inflows as % of opening AuA	104	51	53

The table above shows The People's Pension AuA only, and this was around £8.4bn as at 31 March 2020 [2019: £6.2bn] with £0.2bn of transfers in from other schemes [£0.2bn]. Average member contributions were over £250m a month in the financial year to March 2020. The scheme reported that its investment funds performed well over the year until the final quarter when COVID-19 significantly impacted asset values, resulting in a £740m negative return on investments (2019: £329m positive return).

Legacy schemes - the B&CE Benefits Scheme which B&CEFSL administers, and the TUTMAN B&CE Contracted-Out Pension Scheme where it is registrar - are both in run off with numbers and AUM reducing.

Guide



INTRODUCTION

For over 20 years AKG has particularly focused on the financial strength requirements of financial advisers, who when acting on behalf of their clients, need to ascertain a company's ability to deliver sustained provision.

From this customer perspective, the financial strength of companies needs to be focused at an operational level, specifically on the company that is effecting the product or service that a customer is selecting. This is important, because from the customer's perspective it is that company (not some higher corporate entity) that needs to survive in a form that maintains the requisite operational characteristics to meet their fairly held requirements. And it is thus at this level that the selection needs of the customers' advisers must be met.

It is also important to understand the sector approach (comparative peer groups) that is adopted in financial strength assessment and rating process.

At AKG, this is again driven by the end customer perspective and the fact that assessment is designed solely for this purpose, i.e. as a component in helping customers' advisers to select between comparable companies competing to deliver relevant products or services.

AKG's focus and approach has remained consistent over the years since it commenced assessment and rating support for the market. However, coverage, format and presentation has rightly evolved over this period, in line with the needs and expectations of assessment and rating users in the market. And AKG considers further changes on a continual basis.

Further details including an explanation of what is included in the assessment reports and coverage can be found online at <https://www.akg.co.uk/information/reports/provider>.

AKG's process for assessment and rating is to use a balanced scorecard of measures and comparative information, relevant to the companies contained within each peer group. This is gathered via Public Information only for non-participatory assessments and public information plus company interactions with companies for participatory assessments. Further details on AKG's process can be found at <https://www.akg.co.uk/information/reports>.

This includes further information on the different participatory and non-participatory basis and for companies wishing to learn more about participatory assessment AKG is pleased to outline this and welcomes contact.

This is a participatory assessment.



RATING DEFINITIONS

Overall Financial Strength Rating

The objective is to provide a simple indication of the general financial strength of a company from the perspective of those financial advisers who when acting on behalf of their clients need to ascertain a company's ability to deliver sustained operational provision of products or services.

The overall rating inherently reflects the mix of business within the company, since different types of customer or policyholder have different requirements and expectations, and the company may have particular strengths and weaknesses in respect of its key product or service areas. However, it also takes account of comparison across the sector in which it is assessed.

The rating takes into account those of the following criteria which are relevant (depending upon the company's mix of business in-force): capital and asset position, expense position and profitability, structure (and size) of funds within the company, parental strength (and likely attitude towards supporting the company), operational capability, management

strength and capability, strategic position and rationale, brand and image, typical fund performance achievements or product / service features, its operating environment and ability to withstand external forces.

Rating Scale	A	B+	B	B-	C	D	☐
	Superior	Very Strong	Strong	Satisfactory	Weak	Very Weak	Not applicable

With Profits Financial Strength Rating

The objective is to provide a simple indication of the with profits financial strength of a company, where it currently offers with profits business or has existing with profits business within it.

This is from the perspective of those financial advisers who when acting on behalf of their clients, for this product type, need to ascertain a company's ability to deliver sustained operational provision of with profits funds, products or propositions. Its comparison is with other companies within the assessment sector that offer or have with profits business.

The main criteria taken into account are: capital and asset position, expense position and profitability, the amount of with profits business in-force, parental strength (and likely attitude towards supporting the company), and image and strategy.

NOTE: More detailed analysis of with profits companies is included in AKG's UK Life Office With Profits Reports.

Rating Scale	★★★★★	★★★★	★★★	★★	★	☐
	Excellent	Very Good	Good	Adequate	Poor	Not Rated

Unit Linked Financial Strength Rating

The objective is to provide a simple indication of the unit linked financial strength of a company, where it currently offers unit linked business or has existing unit linked business within it. This is from the perspective of those financial advisers who when acting on behalf of their clients, for this product type, need to ascertain a company's ability to deliver sustained operational provision of unit linked products or propositions. Its comparison is with other companies within the assessment sector that offer or have unit linked business.

The main criteria taken into account are: capital and asset position, expense position and profitability, structure (and size) of funds within the company, parental strength (and likely attitude towards supporting the company), operational capability, management strength and capability, strategic position and rationale, brand and image, typical fund performance achievements or product / service features, its operating environment and ability to withstand external forces.

Rating Scale	★★★★★	★★★★	★★★	★★	★	☐
	Excellent	Very Good	Good	Adequate	Poor	Not Rated

Non Profit Financial Strength Rating

The objective is to provide a simple indication of the non profit financial strength of a company, where it currently offers or has existing products and propositions such as term assurance and annuities. This focuses on the company's ability to deliver sustained operational provision of such non profit products or propositions. Its comparison is with other companies within the assessment sector that offer or have non profit business.

The main criteria taken into account are: capital and asset position, expense position and profitability, structure (and size) of funds within the company, parental strength (and likely attitude towards supporting the company), operational capability, management strength and capability, strategic position and rationale, brand and image, product / service features, its operating environment and ability to withstand external forces.

Rating Scale	★★★★★	★★★★	★★★	★★	★	☐
	Excellent	Very Good	Good	Adequate	Poor	Not Rated

Service Rating

The objective is to assess the quality of the organisation's service to the intermediary market in respect of the brand concerned.

Criteria taken into account include: performance in surveys, awards and benchmarking exercises (external and internal), the organisation's philosophy, service charters, the extent of investments designed to improve service, and feedback from intermediaries.

Rating Scale	★★★★★	★★★★	★★★	★★	★	☐
	Excellent	Very Good	Good	Adequate	Poor	Not Rated

Image & Strategy Rating

The objective is to assess the effectiveness of the means by which the organisation currently positions itself to distribute its products for the brand concerned and the plans it has to maintain and/or develop its position.

Criteria taken into account include: overall trends in the company's market share position, brand visibility and reputation, feedback from intermediaries and industry commentators, and AKG's view of the company's general strategy.

Rating Scale	★★★★★	★★★★	★★★	★★	★	☐
	Excellent	Very Good	Good	Adequate	Poor	Not Rated

Business Performance Rating

This review is an assessment of how the company and the brand has fared against its peers, and how it is perceived externally. Effectively this is how it has performed recently in the market. Whilst it will include performance indicators from the most recent available statutory reporting (report and accounts and SFCRs in the case of insurance companies, for example) it will also draw on other recent key performance elements before and after such disclosure, up to the point at which the assessment is undertaken.

Criteria taken into account include: increase/decrease in market shares, expense containment, publicity good or bad, press or market commentary, regulatory fines, and competitive position.

Rating Scale	★★★★★	★★★★	★★★	★★	★	☐
	Excellent	Very Good	Good	Adequate	Poor	Not Rated

AKG is an independent organisation. Originally established as an actuarial consultancy AKG has, for over 20 years, specialised in the provision of assessment, ratings, information and market assistance to the financial services industry.

As the market has evolved over this period, the range of entities considered by AKG has expanded. Consequently, AKG has brought additional skill sets into its operations. This has meant the inclusion of accounting, corporate finance, IT and market intelligence experience, alongside actuarial resources, to deliver an expanded professional capability.

Today AKG's core purpose is in the provision of financial analysis and review services to support the wider financial services sector and its customers.

© AKG Financial Analytics Ltd (AKG) 2020

This report is issued as at a certain date, and it remains AKG's current assessment with current ratings until it is superseded by a subsequently issued report or subsequently issued ratings (at which point the newly issued report or ratings should be used), or until AKG ceases to make such a report or ratings available.

The report contains assessment based on available information at the date as shown on the report's cover and in its page footer. This includes prior regulatory data which may have an earlier date associated with it, but the report also takes into account all relevant events and information, available to and considered by AKG, which have occurred prior to this stated cover and footer date. Events and information subsequent to this date are not covered within it, but AKG continually monitors and reviews such events and information and where individually or in aggregate such events or information give rise to rating revision an updated report under an updated date is issued as soon as possible.

All rights reserved. This report is protected by copyright. This report and the data/information contained herein is provided on a single site multi user basis. It may therefore be utilised by a number of individuals within a location. If provided in paper form this may be as part of a physical library arrangement, but copying is prohibited under copyright. If provided in electronic form, this may be by means of a shared server environment, but copying or installation onto more than one computer is prohibited under copyright. Printing from electronic form is permitted for own (single location) use only and multiple printing for onward distribution is prohibited under copyright. Further distribution and uses of the report, either in its entirety or part thereof, may be permitted by separate agreement, under licence. Please contact AKG in this regard or with any questions: akg@akg.co.uk, Tel +44 (0) 1306 876439. AKG has made every effort to ensure the accuracy of the content of this report and to ensure that the information contained is as current as possible at the date of issue, but AKG (inclusive of its directors, officers, staff and shareholders and any affiliated third parties) cannot accept any liability to any party in respect of, or resulting from, errors or omissions. AKG information, comments and opinion, as expressed in the form of its analysis and ratings, do not establish or seek to establish suitability in any individual regard and AKG does not provide, explicitly or implicitly, through this report and its content, or any other assessment, rating or commentary, any form of investment advice or fiduciary service.



AKG Financial Analytics Ltd
Anderton House,
92 South Street,
Dorking,
Surrey
RH4 2EW

Tel: +44 (0) 1306 876439
Email: akg@akg.co.uk
Web: www.akg.co.uk
© AKG Financial Analytics Ltd 2020

AKG