

Sun Life Assurance Company of Canada (U.K.) Limited

Section 172(1) statement

The company ceased selling new individual life and pensions business in 2001. Its principal activity is to provide services to individual life, pensions and annuity customers through its outsource service providers which provide policy administration, investment administration and actuarial services as well as certain fund managers who manage customers' and shareholder funds.

The company's strategy is to manage the existing book of life and pension business in a controlled and prudent manner focusing on customer outcomes, financial discipline, employee talent and culture, and digital data and analytics.

The Board has identified that, in addition to the company's ultimate shareholder, its key stakeholders are its customers, employees, key suppliers, regulators, the environment and the local community. Table A below describes why each of these stakeholders is important to the company and how the company engages with them.

The Board has reviewed how it has considered Section 172(1) of the 2006 Companies Act requirements in pursuit of the success of the company when making decisions during 2020. The Board recognises that the success of the company is dependent on considering the interests of those stakeholders. Table B describes the key decisions made during 2020 and how these decisions affected or took account of the interests of those stakeholders. Where their interests were not aligned, the table describes how decisions were made to balance those interests appropriately.

2020 has been a particularly challenging year as a result of the world-wide outbreak of the Covid-19 pandemic and its effect on all stakeholders. The company's Crisis Management Team has been convened and meets regularly to minimise the effects of the pandemic on all its stakeholders. In particular the welfare of its employees and those of its policy administration suppliers ("OSPs") have been monitored carefully, as has the impact of the pandemic on customers. The key responses have been captured below in Table B.

The Board itself has not been able to meet face to face since January 2020 but instead has adapted to meeting virtually by video conference. Agendas have been amended slightly to ensure the best possible use of time. The Board does not consider that Covid-19 has affected its decision making or its ability to challenge management to ensure the stakeholders are identified and considered in pursuit of the company's success.

Table A Our Stakeholders - why they are important and how we engage with them

Customers	
Why they matter to the company	How the company is engaging
<p>Customers are the driving force in the company and their service is its principal activity.</p> <p>Good service, value for money and good outcomes from their contracts matter to the company's customers. Their delivery is embedded in the company's culture and central to the company's strategy.</p>	<p>Whilst management and the Board are responsible for delivering good customer outcomes, the role of the company's Customer Advocate is key.</p> <p>The Customer Advocate, whose role is to champion the customer, oversees and challenges management and the OSPs to take account of customers in their decision making and to be proactive on behalf of the customer.</p> <p>The Customer Advocate has direct access to the Board and the With-Profits Committee and reports to both quarterly.</p> <p>The company engages with customers to keep them informed about their policies and options to enable them to make informed decisions.</p> <p>Customers are invited to provide feedback through different channels, including completing bi-annual engagement surveys and taking part in customer focus groups, although this has not been possible in 2020 because of Covid-19 restrictions. The results of the last survey of 2020 has indicated that 96.8% (96.3% in 2019) of customers were satisfied or very satisfied with the outcome of the call they made to the company. The 2020 survey also showed that 98.6% (97.9% in 2019) of the customers surveyed were happy to recommend the company to others.</p> <p>All information received from customers, including complaint statistics, is collated to allow the Customer Advocate to produce customer outcome metrics, which are monitored and reported monthly to senior management and quarterly to the Board and the With-Profits Committee. This helps the company to provide a customer-focused service and deliver good customer outcomes.</p> <p>Examples of the company's engagement with its customers in 2020 are:</p> <ul style="list-style-type: none"> • Continuing to refresh customer letters and correspondence to help customers make informed decisions. • Continuing the development of the company's approach, through the OSPs, to identify, record and assist vulnerable customers. The company has added more information to its website and used the company's annual benefit statements to encourage customers to tell us about any vulnerabilities they face and to set up an arrangement for us to speak with someone else on their behalf if necessary. The company also provided further training to the OSP employees by an external specialist and for the company's employees to ensure the internal culture remains supportive. The implementation in 2020 of further advanced tracing of in-force policyholders with whom the company has lost contact on the book of business administered by one of the OSPs (some of which has been postponed due to Covid-19). • The company has also commenced a programme to trace previous customers who still have unclaimed money with us. The current activity is focused on With-Profits customers. • Customer communications also continue to reinforce the need to remain vigilant as criminals view the Covid-19 pandemic as an opportunity to take advantage of the vulnerable. • Introduction of a fund information hub in association with FE fundinfo (UK) Limited to enable customers to access clear fund information easily through the company website. It is anticipated that this will also reduce calls to the OSPs' customer service centres.

Employees of the company and of the OSPs (the OSP teams)	
Why they matter to the company	How the company is engaging
<p>The company considers that the engagement and retention of employees and the OSP teams is imperative to its success.</p> <p>Talent and culture are considered to be fundamental assets of the business.</p> <p>Employees and the OSP teams provide management and administration services for the day-to-day running of the company and the implementation of strategic initiatives including direct customer contact through the call centres.</p>	<p>The welfare of employees and the OSP teams has been paramount in the Board and management's response to the Covid-19 pandemic.</p> <p>The work of the Crisis Management Team and management has been to ensure that:</p> <ul style="list-style-type: none"> • A communication plan has been designed to keep employees well informed about progress against its objectives as well as what the company is doing to support them when working from home. • A culture of open and honest communication is maintained to ensure employees are regularly kept apprised of the company's strategy and how it is likely to affect them. • Covid-19 check in surveys have been undertaken by the worldwide group and the results for the UK monitored and responded to appropriately. The results of the Covid-19 check in surveys indicate that employees believe that they are at least as productive, if not more so, and generally believe that they have been kept well informed and supported throughout the crisis. • Three days extra holiday have been given to all employees and many social events and competitions organised virtually, designed to maintain morale. <p>Employees are incentivised to take account of stakeholders (primarily customers and the ultimate shareholder) in their day to day work and the annual incentive plan set for them ensures that their objectives are consistent with the company's strategy set out in the opening paragraphs of this statement.</p> <p>Employee forums are used frequently to ensure that the employee voice is heard. The Board and senior managers engaged with three employee focus groups representing 20% of all employees to assist in the definition of the company's culture for consideration by the Board.</p> <p>The company continues to develop its approach to diversity and an executive sponsor has been appointed this year to lead the Diversity and Inclusion agenda. An advisory employee forum is making significant contributions to the strategy and plan being developed for approval by the Board.</p> <p>The successful performance of the company is regularly celebrated and employees are incentivised to encourage focus on all aspects of the company's strategy. The achievement of good outcomes for customers is also a key element of the OSP customer facing teams' role profiles.</p> <p>The Board receives regular reports from the Head of Human Resources and other management information, such as the results of employee engagement surveys.</p>

Suppliers	
Why they matter to the company	How the company is engaging
<p>The company has a number of suppliers, including its OSPs, fund managers, as well as some services which are provided by the ultimate shareholder.</p> <p>Suppliers are key to the implementation of the company's strategy and to the quality of service provided to customers.</p> <p>Collaborative engagement and a fair and balanced contractual relationship is important for the company's suppliers and assists management to ensure that all parties' interests are considered.</p>	<p>Supplier engagement is continuous throughout the business relationship. The company has comprehensive contractual arrangements in place with its key suppliers but prefers to take a collaborative approach to managing relationships through governance forums. These forums monitor the services provided and measure the health of the business relationships.</p> <p>Engagement with suppliers has increased as a result of the Covid-19 pandemic, particularly with the OSPs which have direct contact with customers. In addition, as a result of the decision in 2017 to consolidate two of the OSP suppliers to one, engagement with each has increased substantially and a programme of work is ongoing to ensure a timely and successful transition.</p> <p>As a result of the government lock-down from 24 March, the OSPs rapidly transitioned to a largely working from home model, a decision supported by the company. The company and the OSPs are continuing to maintain a hybrid working model with employees working from home where they are able to do so.</p> <p>Management conducts annual fund manager evaluations which incorporate both a systematic quantitative review of performance, along with identifying qualitative factors that may affect future performance or provide an unacceptable risk to the company and its stakeholders.</p>

Regulators	
Why they matter to the company	How the company is engaging
<p>The company's key regulators in the UK are the Prudential Regulation Authority ("PRA") and the Financial Conduct Authority ("FCA"). The company is authorised by the PRA and regulated by both the PRA and the FCA. The company also has a 'passport' that enables it to provide financial products or services in the European Economic Area.</p> <p>The regulators prescribe how the company should act to achieve their statutory objectives and maintain on-going compliance with regulatory threshold conditions.</p>	<p>The company engages with its regulators in an open, transparent and cooperative way, disclosing matters to them where they would reasonably expect to be notified. The company achieves this through three key mechanisms:</p> <ol style="list-style-type: none"> 1. The timely submission of regular reports and returns as specified by the regulators; 2. Tailored updates to regulators on matters where they would reasonably expect to be notified; and 3. Management and, where requested, the Board, meet the PRA on an annual basis to discuss the strategy, risks and performance. <p>Examples of the company's engagement with its regulators in 2020 are:</p> <ul style="list-style-type: none"> • Contingency planning for the end of the transitional phase of the UK's withdrawal from the European Union. • Responding to requests for information on Covid-19. • Engagement to seek approval for consolidating the senior management functions of risk and compliance.

Environment	
Why they matter to the company	How the company is engaging
<p>Environmental sustainability is becoming more prominent in the company's culture.</p> <p>The company is focused on ensuring it is resilient and sustainable for the long term, allowing it to continue to meet the needs of all its stakeholders.</p>	<p>Management receives reports from the company's Environmental Responsibility Working Group in order to manage, measure and reduce environmental impact and the Chief Risk Officer has the responsibility for 2020 of ensuring that climate change risk is appropriately considered by the company and its suppliers. Management has approved and followed a climate change risk management plan during 2020.</p> <p>The company has identified environmental champions to increase awareness of sustainability within their functions.</p> <p>The working from home model has brought with it various improvements such as less waste, a reduction in the use of paper, no corporate travel and a large reduction in fuel usage by employees no longer travelling to the office by car.</p>

Community	
Why it matters to the company	How the company is engaging
<p>The company believes that by actively supporting the communities in Hampshire, it can help build both a positive working environment and a positive reputation for the company.</p>	<p>The company operates a Brighter Life Community Programme. The programme supports individual employees' own fundraising efforts and those of the company by matching the money raised.</p> <p>Under the umbrella of the programme, there is a volunteering scheme that provides employees with time off to work with local charities or community groups, either individually or as a team. This has temporarily been suspended due to the impact of Covid-19. However, a number of employees have taken on challenges for their chosen charities, and their fundraising has been matched by the programme.</p> <p>Due to current Covid-19 pandemic, the company has not been able to hold events as per previous years. Additional budget of £100,000 was given to the programme to support local charities impacted by reduction in funds due to the Covid-19 crisis.</p> <p>Examples of the company's engagement with the wider community in 2020 are:</p> <ul style="list-style-type: none"> • Donations of £207,000 have been made to charitable organisations, of which £199,000 was to local charities. £57,000 of that has been donated to charities during the Covid-19 crisis where they have been facing reduced funding. • £5,000 was donated as part of the Voluntary Carbon Standards Project.

Ultimate Shareholder	
Why it matters to the company	How the company is engaging
<p>Decisions made by the Board must support and enhance the investment made by the ultimate shareholder in the company, subject to and balanced with the interests of the other stakeholders.</p> <p>The company benefits substantially from being a subsidiary of a multi-national group of companies with respect to the provision of, for example, enhanced cyber security, investment expertise and a strong risk management framework and culture.</p>	<ul style="list-style-type: none"> • An ultimate shareholder representative attends Board and committee meetings. • The ultimate shareholder group Chief Risk Officer shares the ultimate shareholder group risk management framework with the Board annually. • Most senior managers have either a direct or dotted reporting line to ultimate shareholder. • The ultimate shareholder Chief Executive Officer attends the Board annually and reports on the ultimate shareholder group strategy and financial results. • Sharing of information and collaboration at many levels ensures that there is a close and symbiotic relationship between company and ultimate shareholder management for the benefit of both organisations.

Table B Key decisions taken in 2020 and how they have affected our Stakeholders

Key decisions in 2020	Effect on Stakeholders
<p>The Board discussed the performance of its fund managers extensively throughout 2020 and in particular considered a proposal from management to transfer the investment management of customer fixed interest and index-linked funds from an existing provider to an ultimate shareholder group investment manager.</p>	<p>Customers The key benefits from a customer perspective were:</p> <ul style="list-style-type: none"> • A reduction in the investment management fees. • An expectation of improved performance. • Consolidation to an existing fund manager in order to keep future costs down as assets under management reduce. • Low or in some cases zero transition costs. • Unchanged mandate, investment guidelines and performance targets. • Stable investment management team. <p>Ultimate Shareholder This decision was also beneficial to the ultimate shareholder in that the new asset manager is part of the ultimate shareholder group.</p> <p>Supplier This decision means that a long held supplier relationship would be terminated. However the above customer benefits outweighed this detriment.</p>
<p>The Board has ensured that it has been updated by management throughout the year in relation to its responses to the Covid-19 pandemic and has encouraged management and its OSPs to be proactive in finding ways to minimise the effect of the pandemic and the changes in working practices on customers. For example:</p> <p>Recognising the difficulties in obtaining verified documentation and medical reports during this Covid-19 pandemic, some temporary process modifications to process requirements were approved. For example, temporary changes have been made to the verification and claim documentation requirements.</p>	<p>Customers</p> <ul style="list-style-type: none"> • Determining non-critical support and servicing activities which could be temporarily suspended to ensure their resources were focussed on priority tasks. • The identification of processes where rules could be refined to assist customers whilst maintaining appropriate controls. • Helping customers to retain policy benefits by applying premium holidays where not provided for within policy terms and conditions and paying premiums for up to three months where there was a risk of immediate loss of life cover. • Easier access to policy proceeds and efficient service despite the pandemic. <p>OSP team Ensuring that OSPs were able to transfer the majority of their operations to a working from home model for the call centre and back office employees.</p> <p>Regulators Regular communication ensured regulators were fully informed of all decisions / impacts.</p> <p>Ultimate Shareholder Small fraud risk for which mitigation is in place with no evidence of loss.</p>
<p>The decision was made in March 2020 to close the UK office except for key workers because of the Covid-19 pandemic in accordance with Government guidelines. Employees were asked to work from home to enable them to limit contact and infection.</p>	<p>Employees Welfare of employees.</p> <p>Ultimate Shareholder Potential drop in productivity (which proved unfounded) balanced against keeping the workforce safe.</p> <p>Customers Good customer outcomes maintained through safe and focussed employees and OSP teams.</p>
<p>As a result of Board challenge on whether employee medical benefits were appropriate and how employees are sharing in the success of the company, the outpatient limit on medical cover was removed and dental cover introduced.</p>	<p>Employees Enhanced benefits.</p> <p>Ultimate Shareholder Small increase in employee costs.</p>

Key decisions in 2020	Effect on Stakeholders
<p>An annual report is provided to the Board for discussion around culture which captures quantitative and qualitative data to describe culture.</p> <p>During 2020, the Board has supported the concise definition of the company culture presented to it by management and which the Board believes properly reflects the actual culture the Board observes within the organisation.</p>	<p>Ultimate Shareholder The definition of the company's culture and the metrics which support it are useful for the ultimate shareholder to measure the health of the business and therefore its investment.</p> <p>Employees This will assist in maintaining a good culture and successful working environment which retains and attracts employees.</p> <p>Regulator The definition and monitoring of metrics to measure culture is in line with regulatory guidance.</p>
<p>The Board ensured that it formally approved the employee Annual Incentive Plan structure and challenged the proposed performance measures to ensure that company customer outcomes affect the performance award for all employees.</p>	<p>Employees Customer outcome measures impact the remuneration of all UK employees.</p> <p>Ultimate Shareholder A minor change to the ultimate shareholder's remuneration structure was made to accommodate this.</p> <p>Regulator The employee incentive plan is designed to encourage customer centric behaviours in employees.</p>
<p>During the year the Board approved a dividend of £66m.</p>	<p>Customers The amount of the dividend was determined by the company's excess capital over and above the Board approved risk appetite threshold of 145% solvency ratio, which maintains financial strength in order for the company to meet its obligations to customers as they fall due. The dividend proposal came under additional scrutiny as a consequence of the potential economic effects of the Covid-19 pandemic. In particular, the Board took a forward looking view based on the Own Risk Solvency Assessment and Long Term Business Plan and considered possible, but unlikely, future events that could impair solvency coverage.</p> <p>Ultimate Shareholder Strong performance within risk appetite and a good return on their investment.</p> <p>Regulator The regulator was kept informed and offered no objection.</p>
<p>At the Board's request, a climate change risk management item was added to the Board training agenda in 2020.</p> <p>The Board also approved the incorporation of sustainability into its strategic ambition to be "one of the best managers of a closed life and pensions book in the UK" and management has developed a set of metrics so that progress can be monitored quarterly.</p> <p>A Shareholder Engagement Statement has been developed and approved by the Board, which details how the company is a responsible investor.</p>	<p>Environment The company's responses to environmental issues are developing and will gain momentum and be implemented over the coming years.</p> <p>Ultimate Shareholder The development and implementation of these strategies and policies could increase operating costs but the ultimate shareholder has already published its Sustainability Policy and is encouraging all subsidiaries to take this risk seriously.</p> <p>Employees Employee surveys show the environment and climate change are important issues for employees. Action on this topic helps support the attraction, engagement and retention of employees.</p>
<p>The Board made a decision in 2017 to consolidate the two main policy administration suppliers. During 2020 it has overseen the project to assist in its implementation during 2021.</p>	<p>Customers The continuation of excellent levels of service and the capability to improve customer outcomes in the future, for example enhanced digital solutions; enhanced stability of service by moving to a strategic platform.</p> <p>Ultimate Shareholder Long term stability with a variable cost solution which mitigates long term risk as the size of the book diminishes. Reduction of the risks associated with the use of multiple systems which are no longer optimal with the move to a strategic platform.</p>