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Pensions Aspects

WWW.PENSIONS-PMI.ORG.UK

Pensions get smart

Pensions administration, innovation and technology

IS THE INTERNET OF THINGS ANOTHER HOAX?

GETTING SMART ABOUT DB PENSIONS: TRENDS IN TECHNOLOGY

ESG: HAVE TRUSTEES REACHED PEAK REGULATORY EMISSIONS?

Pensions Management Institute
ACHIEVING PENSIONS EXCELLENCE

GMP EQUALISATION SEMINAR

MONDAY 2 DECEMBER 2019

9.00 –16.00

**Eversheds Sutherland, 1 Wood Street,
London EC2V 7WS United Kingdom**

As we approach the 30th anniversary of the Barber judgement, the legal and technical obstacles to GMP equalisation continue to frustrate efforts to resolve this problem. This seminar will consider the latest thinking about this issue, and will offer some suggestions at how resolution might finally be achieved.

Topics of discussion include:

History of GMP equalisation
What is wrong with GMP conversion?
Equalisation options
Buyout complications and transfers
More to come...

For more information, or to register for this event, please email events@pensions-pmi.org.uk or call 0207 392 7427

Members
£60.00 (+VAT)

Non-members
£90.00 (+VAT)

Features

Is the Internet of Things another hoax?	12
The pensions dashboard: putting the consumer and clean data in the design driving seat	14
Getting smart about DB pensions: trends in technology	16
Implementing the CMA Orders	18
DC members at retirement is the best outcome	20
The future of trusteeship and governance	22
Barnett Waddingham's latest hot topic for Pension Administration	24
ESG: have trustees reached peak regulatory emissions?	25
Month in pensions: Actuarial Top developments in pensions over summer	26
Spotlight on trustees	27
Contingency planning	34
Battling the risks	36

Regulars

Editorial	04
Lifelong learning	06
Membership update	08
News from the regions	10

Events 09

Services Directory 39

Appointments 43

Contacts

HEAD OFFICE
The Pensions Management Institute, Floor 20,
Tower 42, 25 Old Broad Street, London EC2N 1HQ
T: +44 (0)20 7247 1452

MEMBERSHIP T: +44 (0)20 7392 7410
E: membership@pensions-pmi.org.uk

QUALIFICATIONS/TRUSTEES T: +44 (0)20 7392 7400
E: qualifications@pensions-pmi.org.uk

COMMERCIAL DEVELOPMENT T: +44 (0)20 7392 7425
E: marketing@pensions-pmi.org.uk

FINANCE T: +44 (0)20 7392 7430
E: accounts@pensions-pmi.org.uk

Pensions Aspects team

MEDIA ENQUIRIES T: 0207 392 7425 **E:** media@pensions-pmi.org.uk

EDITORIAL Megan Taylor **T:** +44 (0)20 7392 7428 **E:** MTaylor@pensions-pmi.org.uk

CORPORATE/DISPLAY ADVERTISING T: +44 (0)207 392 7427 **E:** TRastegar@pensions-pmi.org.uk

RECRUITMENT ADVERTISING T: +44 (0)20 8405 6412 **E:** adam@insidecareers.co.uk

SERVICES DIRECTORY T:+44 (0)20 8405 6412 **E:** adam@insidecareers.co.uk

DESIGN sjw **SJW Branding & Communications T:** +44 (0)1732 455555 **E:** welcome@sjwbranding.com

PRINT MPS Marketing Services LTD T: +44 (0)1275 474354 **E:** Enquiries@mpsukltd.com

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WORLD LAND TRUST™

Pensions and Technology

a partnership made in heaven?

The PMI is focusing on technology at one of our major flagship events, the PensTech and Administration Summit on 7 November. Fintech is currently a buzz word within pensions but what does it all really mean and what can it do for members, trustees and scheme sponsors?

I was lucky to attend an FCA/TPR hosted TechSprint where pension geeks and technology nerds got together alongside academics for a couple of days. We worked in teams of about ten to solve problems using technology. Within each team there was a variety of skill sets including machine learning and behavioural sciences. At the end of two days, each team presented its solutions. Whilst rough and ready, it was truly amazing what could be achieved in a short space of time, and importantly, but often forgotten, that different areas of expertise are needed to create solutions.

Technology can deliver efficiencies in administration and be used to engage and empower members. Complexity of legislation and scheme histories together with dodgy data and, in some instances, reservations by Trustee boards over whether using technology is appropriate for the members, has hampered our industry's ability to make full use of its power. Some interactive websites for pension schemes are not cost effective but as economies of scale improve, these tools can be harnessed for the good of the members. Today, administration providers are making use of robotics to carry out administration tasks. One provider stated that it currently has robotics in place that do 20% of the transactional work it carries out. Another uses robotics and complex algorithms to carry out bulk transactions and segmentation of the membership for personalisation of messages from the scheme.

However, technology isn't just about pimping up your administration platform or adding fancy modelling tools to your member website. It is part of a bigger picture of how we can combine the different technologies used to deliver pensions and work better together. How can we use the data we have accumulated over the years to greater effect? Technologies needed to deliver a holistic solution are starting to work together, for example, the Via Nova project allowed administration systems to send transactional information to and from investment administration systems. We have seen single and bulk DC transfers made easier through a trusted gateway and a number of administration platforms have integrated with asset and liability modelling systems for trustees to see funding levels. Although these initiatives are great, we need more, and we will see this when pensions dashboard comes along. Blockchain and its potential use needs to be considered but we must understand what it is and what it can do. If it does come into play in the world of pensions, we need to know what it can deliver, if it is cost effective and, given the complexity, if it would work for one or all parts of the industry. Hopefully the penultimate session for the PensTech and Administration Summit on Blockchain and AI will help enlighten us. So watch this space!

See overleaf for information on the PensTech and Administration Summit.

By Lesley Carline, PMI President

PENS-TECH

ADMIN SUMMIT

7 NOVEMBER 2019

LEONARDO ROYAL HOTEL LONDON CITY

events@pensions-pmi.org.uk

SPEAKERS INCLUDE

Jo Hill
Executive Director of Strategy
The Pensions Regulator

Giannis Waymouth
Partner
Norton Rose Fulbright

Angela Pober
Implementation Director
Dashboard Delivery Group

TOPICS OF DISCUSSION

- / Administrative challenges during de-risking exercises
- / What are your admin providers doing to source the next generation of administrator?
- / GDPR: Are you inadvertently breaching the rules?
- / Can technology help deal with scams / fraud?
- / A case study: how online portals / technology can help with getting data up to speed for wind-ups and PPF assessments?
- / GMP equalisation – what should you be doing?
- / Serving the Dashboard
- / How can AI, robotics and Blockchain increase admin efficiency & reduce costs?

MEMBERS

	Ticket Price	Expiry Date
Tier 3	£300+VAT	18 Oct 2019
Last-minute	£350+VAT	7 Nov 2019

NON-MEMBERS

	Ticket Price	Expiry Date
Tier 3	£400+VAT	18 Oct 2019
Last-minute	£450+VAT	7 Nov 2019

If you are interested in exhibiting at this event, contact Tannaz Rastegar on **trastegar@pensions-pmi.org.uk**

#PENSTECH

The Pensions Management Institute is recruiting for tutors, markers and verifiers

Internal & external verifiers wanted

Are you an associate or fellow PMI member? Recently retired or on a career break? Are you a peripatetic assessor or internal verifier? Or an experienced & D unit-qualified pensions administrator?

For more information or if you are interested in becoming a verifier, please contact Keith Hoodless, Director of Lifelong learning KHoodless@pensions-pmi.org.uk. You will be required to complete an expression of interest form (see **https://tinyurl.com/pmiapplication**) and have the skills and qualifications required.

If successful, a training day will be arranged by the PMI for you to attend.

Extra sittings to be held for the following PMI exams:

- **Monday 4th November**
  10:00-12:00 (RPC) / 13:00-14:30 (DC Gov) / 15:00-16:30 (APT)
- **Thursday 7th November**
  10:00-12:00 (RPC) / 13:00-14:30 (DC GOV) / 15:00-16:30 (APT)
- **Friday 8th November**
  10:00-12:00 (RPC) / 13:00-14:30 (DC GOV) / 15:00-16:30 (APT)

BECOME A PMI TUTOR OR MARKER

Are you an associate of the PMI? Have you passed the Advanced Diploma? Or do you have more than 3+ years experience in pensions?

- **Develop your experience and understanding of a subject**
- **Build confidence explaining concepts**
- **Increase ability to manage your own learning and personal development**
- **Progress the career of someone in the pensions industry**
- **Earn additional income and CPD**

PMI is recruiting tutors to mark assignments and provide feedback, primarily for the ADRP units, with around 10 learners allocated to each tutor.

If you are interested, please complete the application form **https://tinyurl.com/pmiapplication** or email Vanessa Jackson, Manager of Lifelong Learning **vjackson@pensions-pmi.org.uk** or call Keith Hoodless, Director of Lifelong Learning, on **0207 392 7405.** Please indicate the module you would be happy to tutor.

BECOME A MEMBER OF

THE PMI COMMITTEE

All PMI qualifications are overseen by a dedicated Committee made up of industry professionals who are specialized in each qualification area the Committee looks after.

The PMI Committee serves to:

POOL KNOWLEDGE, SKILLS AND EXPERIENCE
to resolve problems and make critical decisions

ASSIST WITH IMPROVED COMMUNICATION
between the different facets of the organisation

BRING TOGETHER PEOPLE
from different organisations/companies to promote mutual understanding, teamwork and cooperation

IMPROVE MOTIVATION,
allowing members an opportunity to express themselves and provide a sense of belonging to something that is making a real difference in people's academic careers

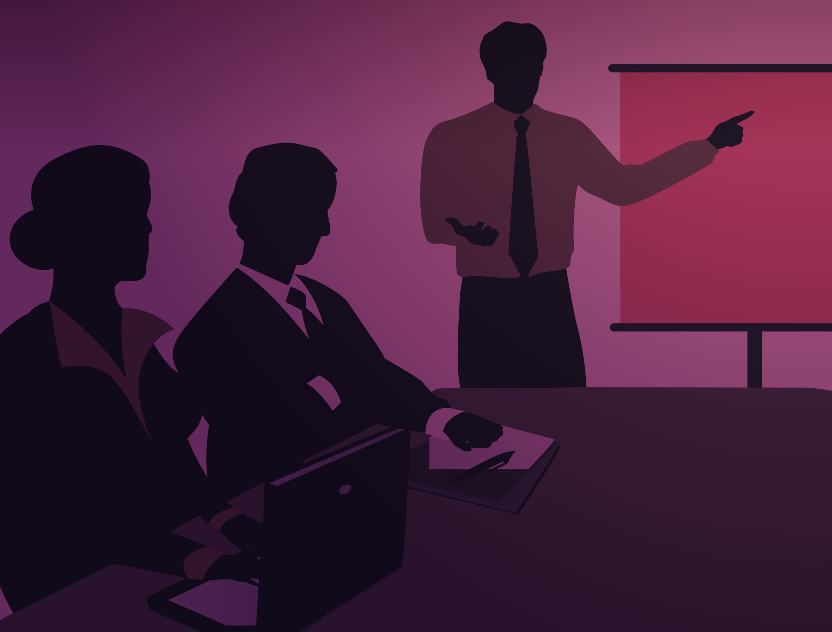
AID EXECUTIVE DEVELOPMENT:
Participation in committee meetings provides opportunity for learning through experience

SUPPORT DEMOCRATIC MANAGEMENT:
Group authority makes for diffusion of power and democratic leadership.

For more information or if you are interested in joining the PMI committee, please contact Keith Hoodless, Director of Lifelong learning **KHoodless@pensions-pmi.org.uk**.

Responsibilities of the Examiners' Committee include:

- **PREPARING EXAMINATION QUESTION PAPERS**
  twice per year, ensuring syllabus content is adhered to in each set of examination papers
- **ANNUAL REVIEW AND DEVELOPMENT**
  of the examinations question bank against the study material
- **ONGOING REVIEW AND MAINTENANCE OF QUESTIONS**
  for the examinations question bank plus specific question papers to be used in private sittings
- **REVIEWING CANDIDATES' RESULTS**
  and agreeing final results
- **PREPARING AN EXAMINERS' REPORT**
  after each examination series



When, why and where does the Committee meet?

The dates of the meetings are appropriate to examination sittings in order to review the question papers prior to the examination(s) and to review the results; potentially more than one examination will be included in the Committee discussions.

The Committees normally meet between four and five times a year and meetings are generally held at the PMI office in London.

Membership update

2019 – 20 Membership Renewal Subscriptions

Your membership renewal was due on **1 September 2019** and subscription renewal notices have been sent out to all members. To avoid any disruption to your membership services please make your payment now. If you have not received your renewal notice contact the Membership Department at membership@pensions-pmi.org.uk or on 0207 392 7410/7414.

A late payment fee of £35 has been applied to all outstanding membership subscriptions.

Nisha Sessions: Your Membership Matters

Do you have some questions about your membership or your membership benefits? Is there a membership activity that you think we should be offering? Why not pop in to see Nisha at the PMI office and we can work together to take this forward. In our free one-to-one drop-in sessions, you have an opportunity to talk to Nisha who will address your membership enquiries. Contact Nisha on 0207 392 7410 to book your slot now.

Certificate Membership

Certificate membership is open to those who have completed one of our qualifications at the Certificate Level – for more information please see the PMI's website. We are pleased to announce that the following people have been elected to Certificate Membership and can now use the designatory initials 'CertPMI':

Tina Champion
Charlotte Dalsgaard-Sigsworth
Rebecca Hall
Tom Hobson
Lorraine McGuinness
William Perry
Paul Roberts
Joanna Sweetland
William Perry
Paul Roberts
Charlotte Scott
Andrew Wilkes

Affiliate Membership Subscription for 2019/20 is £80

Affiliate memberships are due for renewal on the **1 November 2019**; subscription renewal notices have been sent out to all Affiliate members. If you have not received your renewal notice please contact the Membership Department at **membership@pensions-pmi.org.uk** or on 0207 392 7410/ 7414.

Membership Information

For more information on membership fees, fees for letter of good standing requests and other membership information, please visit https://www.pensions-pmi.org.uk/membership/

Continuing Professional Development (CPD)

Fellows and Associates are reminded that meeting the PMI CPD requirement is compulsory (except where retired/non-working). Under our CPD Scheme, PMI members are required to record at least 25 hours during the year. Please log on to the website and update your CPD record. Fellow and Associate members with outstanding CPD have been notified to complete and submit their CPD to the PMI Membership Department. Failure to comply will result in the withdrawal of your designatory initials FPMI and APMI.

PMI Fellowship Network 5th Anniversary Party (PMI Fellows only)

The PMI Fellowship Network will be celebrating its 5th anniversary on Thursday, 21 November 2019 from 17:00 – 19.30 at Sackers, London.

PMI Membership Upgrade Waiver

The Board has decided to allow all future qualifiers after each exam to upgrade their membership without the appropriate election fee. The invitation to upgrade letter will be posted together with your results indicating a three-month window period in which to upgrade your membership. Members wishing to upgrade after the end of the waiver period will be required to undertake the usual process which requires the upgrade fee plus the annual subscription at the appropriate rate. For further details contact the Membership Department at membership@pensions-pmi.org.uk or on 020 7392 7410/7414.

Diploma Membership

Diploma membership is open to those who have completed one of our qualifications at the Diploma Level – for more information please see the PMI's website. We are pleased to announce that the following people have now been elected to Diploma Membership and can now use the designatory initials 'DipPMI':

Michael Clarke
Laura Francis
Carl Wilkes

Associate Membership

Associate membership is open to those who have completed the Advanced Diploma in Retirement Provision qualification – for more information please see the PMI's website. We are pleased to announce that the following members have been elected to Associate Membership and can now use the designatory initials 'APMI':

Jill Brignall
Derek Hutchinson
Simon Magee
James Walters

DC WORKPLACE SYMPOSIUM19

THURSDAY 10 OCTOBER 2019

DC? Do come!

There's still time to book your place at our annual DC Workplace Symposium on 10 October. This year we'll be visiting the Leonardo Royal Hotel London City for the day. We would love to have you join us for a packed programme on a variety of DC-related hot topics. We'll be tackling tricky issues such as costs and charges transparency and asking whether there's still a place for CDC in the UK pensions landscape. In a new session, our innovation panel will be discussing the latest developments in ESG, engagement and customer servicing. And what DC Symposium would be complete without the musings of the Pensions Regulator on Master Trusts and other aspects of DC regulation?

Whether you are a trustee, scheme secretary, a student or just making sure your CPD is up to date, this is an ideal opportunity to broaden your knowledge of DC and expand your personal network.

Venue: Leonardo Royal Hotel London City, 8-14 Cooper's Row, London, EC3N 2BQ

Members: £120.00 + VAT

Non-members: £220.00 + VAT

Trustee roundtable: How best to manage longevity risk

Wednesday 30 October (4.00-5.30pm)

PMI, Floor 20, Tower 42, 25 Old Broad Street, London EC2N 1HQ

Sponsored by Alternative Risk Management and Barnett Waddingham.

Free to attend for PMI trustees. Roundtable will be followed by drinks and networking.

PensTech & Admin Summit

Thursday 7 November 2019

Leonardo Royal Hotel

This is a must attend event for in-house pension scheme professionals, pension trustees and finance directors who want to keep up-to-date with the latest best practices, meet with other professionals in the industry, stay on top of trends and find solutions to some of the industry's most challenging issues.

Members: £350 + VAT
Non-members: £450 + VAT

GMP Equalisation Workshop

Monday 2 December 2019

Half day workshop on GMP Equalisation.

Members: £60 + VAT
Non-members: £90 + VAT

To register for an event visit:
www.pensions-pmi.org.uk/events/
Contact us: **events@pensions-pmi.org.uk** or **02073927427** for sponsorship, exhibition enquiries or bookings.

News from the regions

[Midlands]

Our Annual Dinner will be on the evening of 22 October at the Council Houses in Birmingham , with guest speaker Paul Lewis from BBC's 'Money Box'. If you would like to notify us of your intention to reserve a place(s) please email pmimidlandsadmin@barnett-waddingham.co.uk

[London]

Our full programme of events including details of our next business meeting and, of course, our annual quiz will be issued shortly, so it's time to start swotting up on your general knowledge! Stay in touch via our LinkedIn Group - https://www.linkedin.com/groups/2854184 - to be the first to know about our events. We also extend a welcome to our newest member of the PMI London Group Committee, Niamh Hamlyn. Niamh is a Senior Associate at Travers Smith and will be helping to put together this year's programme of business meetings. We look forward to continuing to grow our membership and to seeing you all at future events.

[South West]

Our autumn seminar will take place in the morning of Tuesday 26 November at TLT Solicitors in central Bristol; details of the speakers and how to book will be published in the November edition of Pension Aspects. If you wish to be added to our distribution list to receive the booking information for this seminar and other forthcoming regional events please contact David Saunders - david.saunders@willistowerswatson.com

[Scotland]

PMI Scotland is running a lunch time (11.30 - 14.00) event in conjunction with Scriba on 21 November 2019 on the future of trusteeship and the running of pension schemes.
Location: Barnett Waddingham, 163 West George Street, Glasgow, G2 2JJ
Speakers from Scriba, Dalriada and Barnett Waddingham.
This free event will focus on the future of trusteeship and the running of pension schemes (both DB & DC), in light of the Regulator's recent consultation.
If you would like more information or you want to attend, please register interest by e-mailing Abbey McCowan abbey.mccowan@barnett-waddingham.co.uk

[Eastern]

Our next event will be an afternoon seminar on Tuesday 5 November 2019 at Aviva in Norwich, starting with a buffet lunch at 12pm. Our topics/speakers are expected to be as follows:

- Club Vita mortality experience – Hymans Robertson
- 'Make My Money Matter' project – Joe Craig, Quietroom
- DC schemes from a legal aspect – Alex Rush, Stephenson Harwood
- Post Authorisation – what is next for master trusts and the occupational pension scheme market? – Paul Budgen, Smart Pension

Our officers remain as last year except our treasurer, Barry Gostling, who has left the committee and handed over this role to his colleague at Ensors, Zoe McLaughlin. If you wish to be added to our distribution list, please contact Susan Eldridge at susan.eldridge@aviva.com

[Southern]

Our programme of events for 2019/20 will be published shortly, so please note the following dates for your diary:
Wednesday 13 November 2019 / Wednesday 5 February 2020
Thursday 19 March 2020 / Tuesday 23 June 2020
All the above meetings start at 18:00 with PMI CPD Accreditation of 1½ hours.
Our half-day seminar date is Wednesday 13 May 2020. Further details will follow once the venue and subject matter have been confirmed.

[North West]

The dates for our forthcoming seminars are shown below. Details on these events will be confirmed in due course.
5 February 2020 / 4 March 2020
8 April 2020 / 6 May 2020
These evening seminars have a 5pm start for coffee, with the talk starting formally at 5:30pm and normally end by 6:30pm.
The seminars are held at Eversheds Sutherland (Eversheds House, 70 Great Bridgewater Street, Manchester, M1 5ES).
We will be holding our half day conference on Thursday 7 November 2019. For more information and to complete the registration form, email angela.brown@farrsight.com

Is the Internet of Things another hoax? / The pensions dashboard: putting the consumer and clean data in the design driving seat / Getting smart about DB pensions: trends in technology

Pensions get smart

Pensions administration, innovation and technology

Continue reading on pages 12-17...

Is the Internet of Things another hoax?

By Girish Menezes, Head of Administration, Premier Pensions and Member of the PMI Advisory Council

93% of all UK households have internet access, according to the ONS. 87% of all adults access the internet daily. And 54% of over 65s have shopped online this year.

The era of smartphones combined with the power of superfast fibre and emerging 5G is transforming the country. We have never been more interconnected. It all started out with the Internet of Documents - the ability to access a variety of information via link directories like Yahoo and AOL. However, our virtual and physical worlds are now perpetually connected, including with people, across applications and via an array of smart devices. You can see who is ringing your front doorbell halfway across the world, warm your car seats while brushing your teeth and even look inside your fridge while in the office as you do some last minute food shopping.

The Internet of Things (IoT) is here and many of us use it every single day. It will make us more efficient, reduce our costs, improve our experience as customers and boost our productivity. However, will it ever pull the world of pensions into its vortex, or will we be the ones who got away?

A quick look at how IoT has transformed the world of banking and finance will help us appreciate why it is being touted as the next big thing and is in fact being called the 'Internet of Everything'.

We are already connecting our finances through an ever growing number of smart and dumb devices: credit cards, ATMs, mobile apps, tap-to-pay mobile phones, card readers and smart watches. We can tap our smartwatch on a reader to pay for a tube ticket, buy a bottle of water out of an unmanned gym kiosk, hire a bicycle on the streets of London and even use biometric ID verification to access our bank via telephone and mobile apps. A number of banks have integrated with Alexa and Amazon Echo to offer voice banking features. You can check your balance, be notified of pending bills or check mortgage rates.

Financial services companies in turn are monitoring us via this network of information and devices. Insurance companies can insure us based on our driving patterns. Wearable sensors track employees in high risk areas in real-time to warn of potential threats and decrease fraud related to workplace accidents. Insurance companies are even exploring security, CO_2 and moisture sensors for homes to limit their risk exposure.

On the positive side, IoT offers us an experience that is instant, contextual and provides insight. On the downside, we increasingly worry about security, privacy and control. The recent concerns around Amazon employees having access to recordings that could include violent, sexual or criminal behaviour is a good example of the repercussions of this interconnected world.

What can we learn from how IoT is being leveraged already to make some informed decisions on investment directions within the world of pensions?

The Pensions Dashboard is an excellent example of how IoT can be leveraged to add value within the industry.

The ability to pull together information across multiple pension arrangements, slice it in several ways and convert it into actionable intelligence is precisely the purpose behind IoT. However, this needs to be within a secure open standard environment, where data needs to be able to be channelled across multiple devices and manipulated into usable formats by a variety of organisations based on individual choice, and within legal

parameters. Artificial Intelligence, immersive environments, gamification and analytics takes this experience to the next level.

The Pensions IoT needs access to clean core data: contribution rates, investment choices and personal assets under management. Only then can one leverage tools to make informed decisions, consolidate pots (virtually or physically), sweep funds to an arrangement with a better annual management charge (AMC), and access decision support frameworks.

A smartphone app is always interesting. However, in the world of IoT we need to be able to access our pensions via our watches, Alexa or a kiosk in the office. Why be paid a pension when we can make micro payments via a pensions virtual card on your smartphone? We all have our salaries credited to our personal bank accounts. Why not have our pension contributions credited to a personal pensions account? Addresses should be updated across multiple providers in real-time, as should data from death registers. Biometric ID verification will clamp down on fraud and remove the necessity for putting birth certificates, passports and driving licences in the post.

However, should we be thinking wider than merely pensions? Given the trusted relationship we have across our membership, could we connect to the extended IoT to create supernormal value for our members?

Other savings and retirement tools: better value ISAs, savings bonds and child trust funds?

Insurance products: Private medical, critical illness and income protection?

Discounted services: mobile phones, broadband, gas and electricity?

Retirement support: meals on wheels, online home visits and access to carers?

The Internet of Things can already transform the world of pensions. However, we cannot escape from the fact that until we clean our data and open this up within a secure open architecture network of applications and devices, our options are limited. This could create a clear bifurcation into the haves and have nots.

On the one hand we have the brand new Master Trusts sitting on new technology platforms and current data. Many of them are pushing ahead exploring the world of IoT. The current government looks keen to push these players into opening up their networks within a secure environment to enable value added services to members.

However, many DB arrangements and legacy DC schemes are focused on a near term buy-out, too crippled with large deficits to consider investing in data and technology-enhancing projects or are just out-of-touch with this emerging reality. It may well be the pragmatic approach to provide these schemes either with a carve-out or a minimum set of conditions they need to fulfil. On the other hand, there may be challengers who will find ways to achieve the required ends in a cost effective manner – with a little legislative help from the Pensions Regulator and the Pensions Minister.

In the Internet of Things, transparency, speed, flexibility and innovation will flourish. We will have to embrace it or get out of the way. It is not a hoax. In fact, it is already here.

The Pensions dashboard: putting the consumer and clean data in the design driving seat

By Steve Ackland, CEO, AiM Ltd

If someone asked what you would like to see in a pensions dashboard, how confident would you be that in one sitting you could describe exactly what it was you wanted?

If you are anything like me then that is pretty difficult - and I do this sort of analysis for a living! Sure, you can set out the key, high level things you think should be there, but the real detail and features to make a dashboard easy to use I would argue arise largely from 'muscle memory' – that is navigating screens and resources in a way that feels comfortable, familiar and compares well to the systems and apps you are already using.

And yet some IT systems still overlook the user in the forefront of the design process. If you design in isolation you do so at your own peril, potentially creating a system that consumers can't relate to. Take the lead from the big social network providers who provide platforms and spend millions of dollars annually finding out and making the customer journey and content absolutely right. Now, we are not suggesting that the pensions dashboard is in the same league as tech giants like Google, Facebook or Amazon, but the same principles - or what we call 'golden rules' (more on those below) - should apply for launching a successful product, enrolling consumers and ensuring the pensions dashboard remains relevant and useful. In other words, the pensions dashboard needs to be a sustainable social information system just like the others we all use.

Pensions dashboard design must originate with the consumer

Success of any social information system involves providing a platform that is free at point of use and offers a really useful service which can be scaled and evolved. As it attracts increasing membership as a result of its prime offering, members can be surveyed on what else they would like to see and receive, to keep the platform fresh and relevant.

Pension dashboard design therefore needs to originate with the consumer and work backwards. IT software engineers and even pensions professionals are not always the best people to get the design absolutely right for consumers. Validation of design can only come from the consumers.

AiM is a software solution developer and we have built and deployed a number of solutions into the pension marketplace – so we are a Pensions Technology (PenTech) organisation. Part of our business is to build and deploy consumer web portals, so we have a great deal of experience in what constitutes a successful platform servicing different and sometimes disparate consumer communities.

Pensions dashboard development though will involve a greater degree of design handling and can be likened to a balancing act – as it must appeal to all UK demographics, different ages, those at different stages in their careers, those with and without pensions/finance knowledge; and yet must also be simple without underplaying pension rules' complexity.

The Money and Pensions Service (MaPS) - sponsored by the Department of Work and Pensions (DWP) - has been assigned the responsibility of managing this balancing act, defining the requirements of both commercial and non-commercial pension dashboards to meet the objectives of increases in pension awareness, encourage retirement savings and perhaps, in due course, provide online access to retirement options. MaPS will also set the standards and regulatory controls required for dashboards in the light of design variables, common data standards and security protection - making sure each dashboard developed appeals to consumers and industry stakeholders.

"10 golden rules of pensions dashboard design"

AiM has already built a fully working pensions dashboard which has received positive feedback from a range of different stakeholder groups consulted. And when I say fully working, I hasten to add that the user interface is just one part of the technical solution required. When we talk of a 'pensions dashboard' we actually mean the following components:

- User interface, which displays a consumer's pension information
- IAM which authenticates/secures a consumer's ID at login
- A high performing API allowing a dashboard to connect to the tens of thousands of scheme systems simultaneously

The API can also allow feeds from other pension-related services or organisations that in due course may prove to be of use or interest to consumers.

I mentioned earlier that our experience in consumer web portal design has helped us to create 10 golden rules, and these should also be applied for a successful dashboard development:

1. Consumer-first design
2. Persona-driven, with content and language to appeal to all consumer demographics
3. Different pension views allowing the consumer to choose the display and information relevant to them
4. Support consumers with disabilities
5. Information returned with minimal delay once the consumer enters a request
6. Use of soft incentives to encourage use and loyalty of the pensions dashboard
7. Desktop, laptop, mobile enabled
8. Secure and scalable
9. Compliant with industry and regulatory standards
10. Data presented to the consumer is clean, accurate, up-to-date, consistent and complete.

Clean pension data is a prerequisite to a successful pensions dashboard

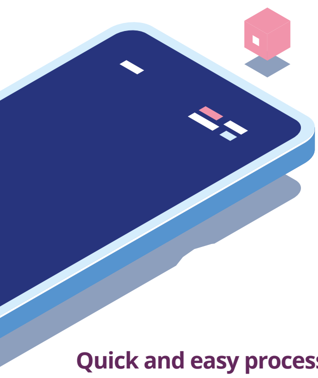
The need for clean pension data is in fact the critical prerequisite for a successful pensions dashboard. Pensions information that is inaccurate or incomplete will at best be a quick way to lose the trust and interest of its consumers, and at worst may mislead consumers into following retirement options that are wholly disadvantageous to them. Agencies and thought leaders in the pensions industry such as the PMI, DWP and The Pensions Regulator are promoting the need for pension records to be clean and compliant in readiness for the dashboard.

And in that sense the dashboard has an important dual purpose. If it cannot only improve awareness and savings of pensions for consumers, but also ensure that data hygiene becomes a key housekeeping process across the whole industry rather than a series of one-off projects, then a true social information system and service will have been delivered.

By David Davison, Owner, Mantle Hosting Limited

Getting smart about DB pensions

TRENDS IN TECHNOLOGY



When man first went to the moon the Apollo Lunar Module had a state-of-the art computer. The phone in your pocket is now more powerful. Smartphone usage has grown exponentially, and the way people consume services is fast changing. With increased online activity comes a rise in how consumers expect things to work. Ease of use and immediacy of response are prerequisites for a good service.

Quick and easy processing

A friend's car broke down recently and he was telling me he'd used an app on his phone to report it. The geo location function found the car and he had immediate confirmation that the report was logged. He could have phoned, but the app was quicker. The lesson is that if you make services easy people will use them.

I also now buy my rail tickets using an app and a couple of months back I switched bank account to a startup called Starling.

The sign-up process was a revelation in terms of how fast technology is advancing. I downloaded the app, took a photo of my driving licence using the phone camera and recorded a selfie. Seconds later I got confirmation that my account was approved.

> You may be thinking, "well he's a techie and that's not how most people do things." Wrong on both counts. I'm in my mid-fifties and by no means an early adopter.

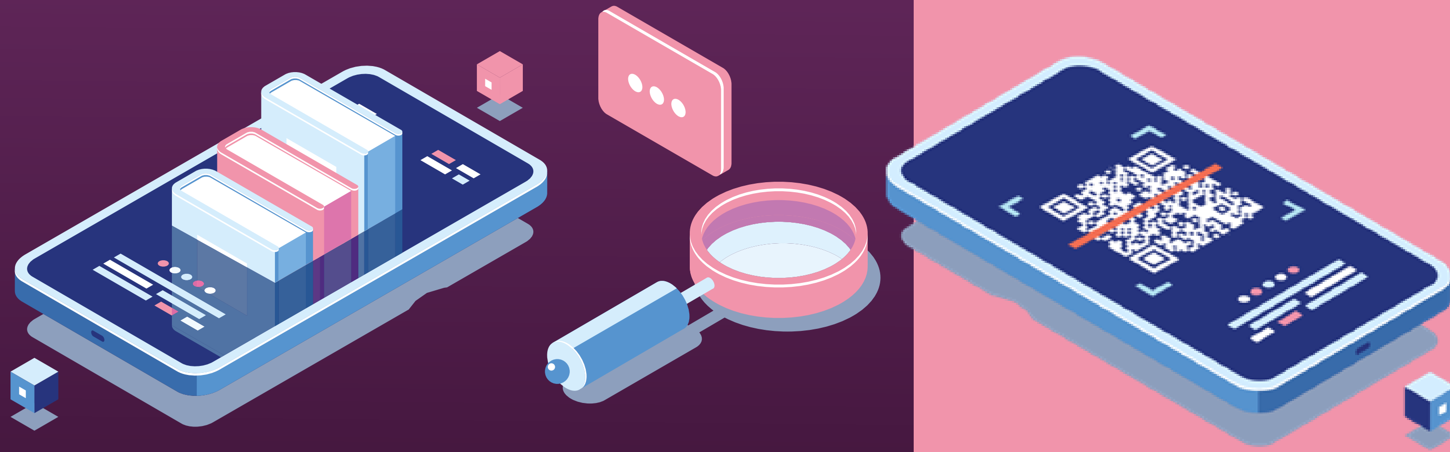
Smart thinking

The Ofcom 2019 UK Communications Market Report shows that the smartphone has now overtaken the laptop as the preferred way of accessing the Internet - 78% to 63%. Smartphone ownership among the 45-65 age group is fast catching up with the youngsters.

As well as being the device of choice for most people there are other benefits in deploying services by means of a smartphone.

Recognise this? It's a QR code. If you want the detail on how they work point your camera phone at it and see what happens. Apple has had a scanner embedded in the camera for years and the rival Android operating system added this in 2019. QR codes are a great way to get people to content or sites. For example, you could use a QR code to take someone to a video or an app store for a download.

There are big benefits to getting customers onto apps. For one thing it opens an immediate line of communication. You can send notifications and prompt members into action. That's not to say that apps and online are a panacea; they aren't. Equally, we shouldn't ignore the fact that they are gaining currency.



The pension data problem

And so to defined benefit (DB) pensions. As a broad statement it's fair to say that DB administration systems and member self-serve has yet to hit this peak. Online portals, where they exist, lack the sort of capability members would expect from current financial services.

There are a number of reasons for this.

DB schemes started to take off in the fifties and sixties. Records were paper-based with some moving to mainframes and then onto PCs. The end point for many schemes was technology that was ok then, but not now.

Even more recent systems lack the ability to deliver data in real time to a member portal.

> **The best current systems may hold data and content on different platforms. That makes it very hard to wire up to a member-facing front end.**

The real killer for many schemes is the underlying data quality. Often it's only at the point of crystallisation that a thorough approach is taken to benefits calculation.

> **Data may be sitting across a number of systems and some calculations may not be automated.**

Self-serve solution

The holy grail for many schemes is a platform with all functions and calculations automated and a member-facing portal enabling self-serve. Administration costs would reduce and member engagement and satisfaction increase.

Clearly there is a degree of difficulty in getting there, but I also think there's a lack of awareness of what's possible. So, let's suspend disbelief for a moment and design a solution for today.

First we need an underlying platform that can serve benefit and Cash Equivalent Transfer Value (CETV) data in real time. They do exist. And with a unified approach to different tasks and calculations they can deliver timely and accurate benefits information.

The next element allows members to self-serve on a range of tasks from change of address to vesting and payment of benefits.

Obviously, the degree of difficulty and risk involved in these tasks is different. For the latter the real risk lies in ID verification: you don't want to pay a cash lump sum to the wrong person!

New online validation services are, however, gaining ground. A firm called Hooyu recently embedded their ID verification service for NatWest. It's probably more rigorous than traditional methods of ID verification and works in real time.

If you can get these elements working then the member interface is pretty straightforward, be it a web or app-based solution. Hybrid design means you can build one solution that works across all platforms.

Pocket pension portal

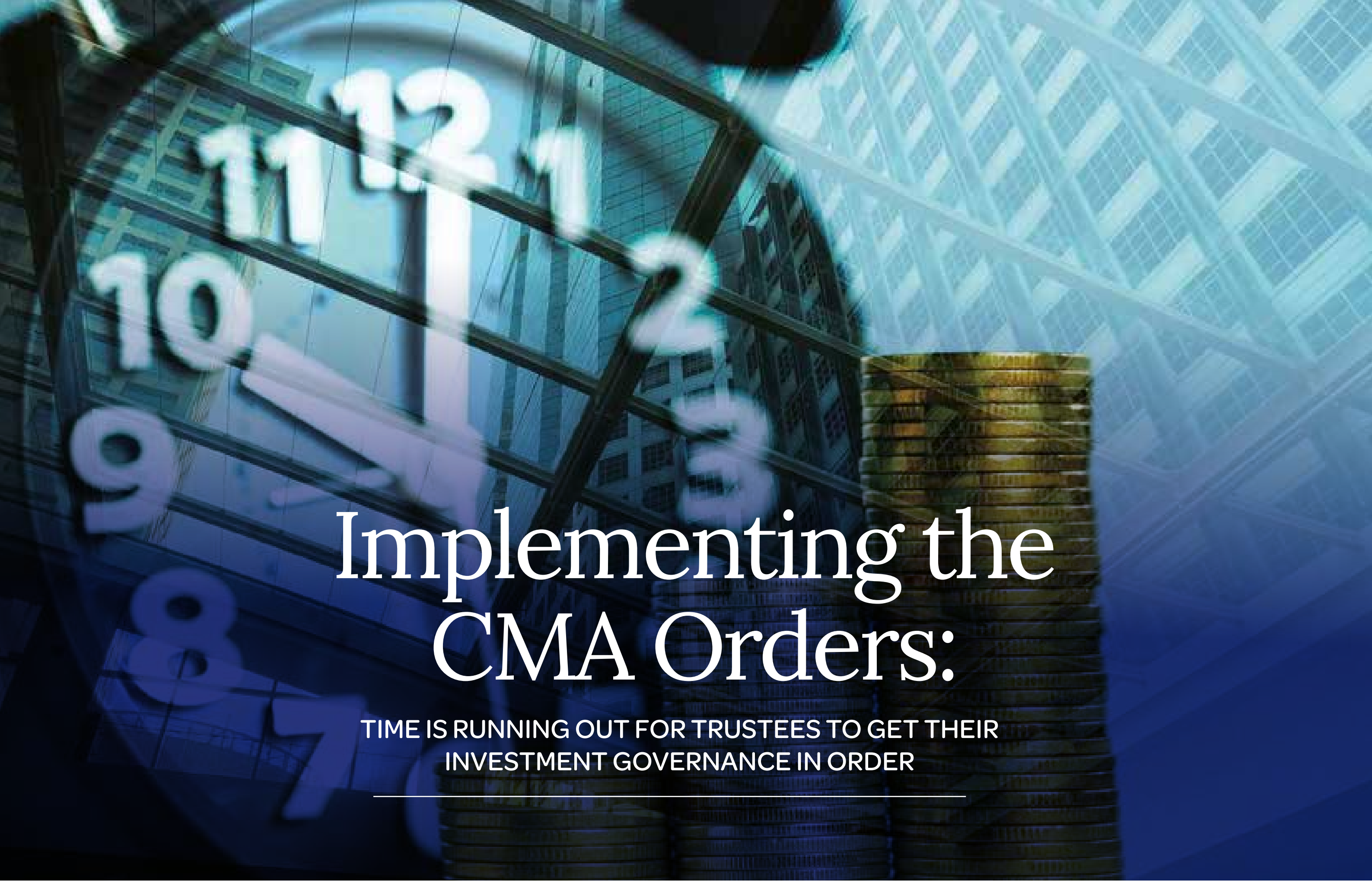
So, how about a pensions portal you can carry in your pocket?

Give members a QR code to find the app in an app store. They download the app onto their phone and complete the online ID verification. The great thing about phones is biometric recognition. Once logged in they can do it next time with fingerprint or facial recognition.

The possibilities?

- View benefits and TV in real time
- Update contact details
- Prompt members for their marital status and spouse's details
- Push the boat out and go for live chat
- Educate members on their scheme benefits and, where appropriate, their options were they to transfer
- Push notifications to members to prompt them into action and make it easy for them to draw their benefits

> **It's all feasible now and actually much closer to reality than you might think!**



Implementing the CMA Orders:

TIME IS RUNNING OUT FOR TRUSTEES TO GET THEIR INVESTMENT GOVERNANCE IN ORDER

The ultimate purpose for pension schemes is to pay out pensions to its members. Sounds simple enough but those familiar with pensions know it is anything but, particularly in the current economic and regulatory environment. While every single basis point counts, much focus has been on funding, compliance and benefits, but less on investments. This has been the poor neglected cousin which has resulted in trustees settling for mediocre investment arrangements.

The recent Competition and Markets Authority (CMA) Review shone the light on poor practices among fiduciary managers and investment consultants, particularly focusing on conflicts of interest, lack of comparable data on performance and cost transparency, and also highlighted the issue of pension schemes not challenging their providers; mainly because of the lack of information or tools to do so. The review was certainly necessary and well received by the pension industry, including IC Select, but was not far reaching or sufficient enough.

The review covered competition but did not touch on the equally important issue of improved governance. Yet research shows that good governance can add as much as 1% per annum to a scheme's investment returns which for many pension schemes is the difference between success and failure.

Investment is a complex area and our research indicates that trustees do not always understand what they should focus on and what they can delegate. Trustees that lack the skill or time to question the investment advice given should consider other methods of investment governance and should instead focus on an investment governance model that focuses upon high-level strategic decisions.

The 10 December 2019 deadline for setting objectives is fast approaching and there is a real concern that the provision of advice to pension schemes could come to a halt as many trustee boards seem to be asleep at the wheel.

This must be done before the deadline date or the investment advisor will no longer be able to provide the services it was appointed for, rendering the schemes ungovernable.

The Pensions Regulator's Guidance offers some help to trustee boards with pragmatic advice, which is welcome, but the challenge of getting the monitoring framework right remains. Developing the proposed scorecards to capture all aspects of the advice to be measured will take time to develop and that time is fast running out for the trustee boards.

However, fiduciary managers will have to significantly up their game in order to compete in a market that grows some 30% per year with margins of 20-30% and with an expected 500+ tenders in the coming years. Upping the game among fiduciary managers will have a positive knock-on effect on investment advisory consultants, which is still the predominant investment governance model for DB pension schemes in the UK.

Getting the investment governance framework right will be a win-win for all concerned.

Members will have confidence in their pension entitlements until they die, sponsors are more likely to save money both from the cost of accrual and deficit recovery contributions, and trustees will have done their job to the best of their ability in securing pension payments for the members.

Getting it wrong on the other hand will cost everyone involved dearly. In a worst case scenario, the pension scheme ends up in the Pension Protection Fund (PPF) and members do not get what they were promised or what they expected. Not to mention the reputational risks for both trustees and sponsors.

The maximum PPF pension is currently capped at £40,000 at the age of 65, which would be a significant hit for many but in particular senior executives.

Those who have yet to reach retirement age only receive 90% of what they were originally entitled to, and on top of that the annual inflationary increase will be restricted to CPI, which may be significantly lower than promised in the pension scheme rules. In this scenario trustees and sponsors alike risk ending up in front of a Select Committee and hauled over the coals by the press. If found negligent trustees can be jailed, fined, sued and debarred; a sure way to ruin a career and reputation if ever there was one.

If this sounds overly dramatic, the likes of BHS and Carillion in recent years should not be forgotten. Not forgetting the more run of the mill cases of below-bar investment governance which have left schemes poorly funded despite years of deficit recovery contribution by the sponsoring companies.

Trustees now need to act fast in order to achieve a positive outcome for the industry and ultimately for the members. It cannot be said often enough that 'what gets measured gets done!'

Good investment governance demands appropriate advice, expert monitoring, competitive tendering and transparency of costs. Furthermore, in accordance with the CMA Review, good governance demands that both fiduciary management and investment consultancy providers require oversight, otherwise how can you assess success and value for money?

This should always have been a necessity not a nicety but until recently this has proven difficult to achieve and implement. Now that the tools exist and independent third-party evaluators (TPE), such as IC Select, can shine the light on poor practices and help raise the bar on investment governance, there is no excuse not to use all means available to get it right and raise their game.

DB trustee boards are not lazy or stupid. For far too long they have simply been starved of the necessary information and insights into how to make the most effective investment decisions for their scheme-specific circumstances. This is changing for the better, but trustees and investment advisers all need to be on the ball.

Trustees of today should bear in mind that they will be judged by the standards of tomorrow and that they had better know the road they have chosen because unlike Alice in Wonderland, any road will NOT do!

By Donny Hay, Director, IC Select

By Niall Alexander, Head of DC, River and Mercantile Solutions

Delivering better incomes for DC members at retirement is the best outcome

Defined Contribution (DC) provision in the UK is evolving, with sophisticated investment strategies, communication tools to help drive engagement, and stronger processes to improve member experiences. The current narrative serves to develop strategies to 'get returns' and ensure members' pots 'grow over time', and it aims to do this at a low cost. It's time for a change: the focus should be on understanding the level of income members need at retirement and setting strategies that aim to help members achieve that level.

Rise of DC provision

The first company pension schemes were established in the 17th century for (then) quasi-government agencies, such as the Bank of England or the East India Company. One of the earliest private schemes was the Chartered Gas Light and Coke Company, which paid between 3/12 and 8/12 of annual salary on retirement. The motivations for pension schemes at that time are similar to the motivations today; to provide a retention tool for employees, and help people make ends meet at retirement[1]. As an industry, we have since worked out that trying to provide defined benefits (DB) at retirement is challenging due to the ongoing longevity costs and reliance on the sponsoring employer. Key to the shift in DC provision is reducing reliance on the sponsoring employer – instead of a system that looks to provide a guaranteed income, members can build up a pot of money which they can then use to buy an income, in some form, in retirement.

Pension freedoms

In simpler times, the default options targeted a final position of 75% annuity matching assets and 25% cash. Following the introduction of pension freedoms, we now need to consider all of the choices members might take at and during retirement; cash, drawdown, an annuity, or a combination thereof.

This choice has typically resulted in a shift in the 'default' final position across the DC landscape. Schemes have adopted a more flexible asset allocation at retirement – a one-size fits all (none) approach. The industry is focusing on driving better member outcomes by ensuring members have both choice of how to receive their benefits, as well as having the tools to help them understand their options.

Following the narrative

Whilst the current narrative has prevailed in terms of the flexibility and choice it provides, does this really drive better member outcomes? Many schemes have followed this investment narrative – create a default that allows members to take more risk earlier on and de-risk as they get closer to retirement, into an allocation at retirement that aims to allow them to pursue the wider retirement choices available.

The aim of this investment strategy is, therefore, to try and ensure members 'get returns' at the lowest cost. We still see many schemes invested heavily in passive global equity – if markets were to fall 20% and fund values fell 20%, this would be considered a success for the investment strategy.

While excessive risk management is not the answer either, it is important to be cognisant of what members need. For example, let's assume members are invested in a passive equity lifestyle that de-risked from 10 years away from retirement. Suppose a 55-year-old was planning to retire at the end of 2018 and was therefore invested 100% in passive equity.

In that case, because of investment returns in the 4th quarter of 2018, that member's pot would have fallen by around 10%[2]. If that person was planning to buy an annuity, then the income they would have received for the rest of their life would have also fallen by around 10%. The Dutch have a saying; "Friday is the day you work for your pension" (contribution rates are 20% in the Netherlands). In this case, every Friday morning our member has ever worked in their life has been wiped off by a poorly thought out investment strategy.

While there are a number of assumptions made for this 55-year-old, not all of which will apply to everyone, the fact that this situation has the potential to occur leads us to question whether members are getting good outcomes.

Helping trustees/employers identify members' needs. How is this done in practice?

Firstly, by understanding how the key levers that determine retirement savings interact, which means analysing contributions, time horizons and investment strategy. It is then important to define the key input – what income members need at retirement.

Australia adopts a 'basket of goods' approach, helpfully categorising expected retirement spending habits across a low, medium and high scale which in turn provides an income requirement at retirement. In the UK the Pensions and Lifetime Savings Association (PLSA) are working on something similar, putting outcomes in terms members can easily interpret, such as the quality of wine or frequency of holidays they would like in retirement.

The level of income needed at retirement to provide these outcomes should then be the first step when setting the investment strategy.

Schemes can build an investment strategy based on their own contribution rate. For example, a scheme contributing 20% of salary can probably afford to take less risk than one where contribution rates are 10%. Success of the pension scheme is then easier to measure. It can be based on the investment strategies' ability to keep pace with the return members need in order to achieve the level of income they are targeting at retirement.

It is important not to overlook the impact of consolidation, another key topic in the DC industry on all this. In reality, schemes with multiple employers, with a number of different contribution rates, all under the same investment approach, need to give careful consideration to meeting the needs of their members.

As a simple example, at current auto-enrolment rates, investment returns of between 5.5% and 8%[3] above inflation every year for the members' whole working lives would be needed to maintain the same standard of living at retirement. This level of return is unrealistic and highlights the importance of educating members of the need to make appropriate and sufficient contributions.

It's time to go back to basics, starting with the level of income needed by members at retirement. Setting clear, objective-based investment strategies around something as definable as that can help members achieve both that level of income and better outcomes.

1. Source: Pensions Archive Trust.
2. Source: MSCI (data for Q4 2018, run in July 2019), R&M Solutions, a division of River and Mercantile Investments Limited (calculations in July 2019). **These figures refer to the past and past performance is not a reliable indicator to future performance**
3. Source: R&M Solutions, a division of River and Mercantile Investments Limited (calculations in July 2019). **These figures refer to the past and past performance is not a reliable indicator of future results.**

The future of trusteeship and governance


Ben Picknett, Senior Consultant and Julia Land, Senior Adviser, Muse Advisory

In their current consultation, The Pensions Regulator (TPR) is moving further away from a one size fits all approach, towards one based on core trusteeship and governance standards for trustee boards to apply to their schemes and engage on with the employer. We welcome this as a direction of travel.

The consultation sets out 'where next' for trusteeship and governance: building on 21st Century Trusteeship; tackling poor performance for members via small defined contribution (DC) scheme consolidation; pushing for greater trustee diversity and use of professional trustees; posing questions about sole trusteeship; and suggesting the Regulator focuses on standards and education via a future Code of Practice with the pensions industry providing relevant guidance to trustees.

> In this article, we pick out areas that in our view still need some more thought or emphasis by TPR.

The chair's leadership role is central for the trustee and the board and there ought to be some clear expectations around this, including soft chairing skills. There is useful guidance in the professional trusteeship standards and in DC scheme guidance: the main tenets could be incorporated into the base trusteeship standards.

An **agreed trustee strategy with objectives, milestones,** and consideration of main risks is another area that could be better emphasised. Currently, the 21st Century standards talk of a business plan, which is generally viewed as a one-year (or at most a three year) planning tool for trustee boards. The business plan should be closely aligned to the longer-term strategy so that progress is monitored against agreed objectives and risk mitigations.

Schemes often report having problems finding new people to serve as trustees. Too much further **nudging from TPR** (e.g. via legislating on CPD) may have the unintended consequence of putting good people off, restricting rather than enhancing the pool of suitable people for the future.

More regular planning for **trustee appointments and managing succession** should be encouraged by TPR, with greater emphasis on engagement with the employer around the skills and time commitment needed, and on how to increase trustee diversity especially for open DC schemes. Deferred member trustees may be a relevant consideration as well, where conflicts and availability do not preclude this.

Experience shows that having agreed **terms of office and tenure** and a **remuneration policy**, applied sensibly, does help the board build and sustain good governance. There is a trend on trustee remuneration, reflecting the commitment, range of knowledge, trusteeship roles and chairing skills required.

> TPR should refresh the Trustee Toolkit to make the base level of knowledge required of trustees clearer, flagging changes and enabling regular trustee use. In parallel, trustee boards should set out their training policy, agreeing CPD requirements for their trustees, with higher standards and CPD for professionals.

Trustee boards should be encouraged to recognise and use the diversity they have, as well as looking to increase it.

Increasing trustee diversity is something the Regulator is keen on via gender, ethnicity and age. Diversity of background, experience and thinking styles help in decision making.

Trustee boards are often more diverse cognitively than first appearances may suggest. Good chairing, a robust decision framework, and trustee-only time can bring more of this to the table. So trustee boards should be encouraged to recognise and use the diversity they have, as well as looking to increase it.

TPR's engagement on it would most usefully be done via large schemes to consider with them how diversity is being practically worked on, and encourage sharing of experience via case studies.

Should it be mandatory for all boards to have a **professional trustee?** In our view, this should at most be subject to a 'comply or explain' approach under a future Code. It is also important to manage the governance risk of relying too much on a professional trustee, which may discourage others from contributing, becoming a self-fulfilling problem.

An unintended consequence of greater focus on professional trustees could be a loss of **skilled independent trustees.** For many of them, becoming a professional may not appeal. It's important to flag the positive role that a good independent trustee can play in the make-up of an effective trustee board.

A further consultation on a **modular Code of Practice** is anticipated from the Regulator as a welcome next step in its focus on governance standards. Reflecting Codes for regulated sectors outside of pensions, we hope such a Code can emphasise the base requirements expected of trustees, with the pensions industry developing guidance and case studies to help trustees use standards in relevant ways.

Administration

Barnett Waddingham's latest hot topic for Pension Administration

By Martin Fife, Pension Administration Team Leader, Barnett Waddingham

July has, amongst other things, seen a call for action on GMP equalisation and both the Financial Conduct Authority (FCA) and The Pensions Administration Standards Association (PASA) separately addressing concerns around pension transfers. Martin Fife of Barnett Waddingham reviews some of the issues impacting pension administration.

HMRC Pension Schemes Newsletter 112

HMRC has published Pension Schemes Newsletter 112 covering the usual range of topics. This edition includes:

- Annual allowance pension savings statements for the 2018/19 tax year must have been issued by 6 October 2019.
- A reminder that members exceeding the annual allowance and who do not have sufficient unused annual allowance to carry forward to cover the excess must declare this on their Self-Assessment tax return.

Call to action on GMP equalisation

The GMP Equalisation Working Group (GMPEWG), launched in January 2019, has urged a call to action on GMP equalisation. The GMPEWG's document identifies three initial areas for schemes to start working on now:

- Understanding and progressing GMP rectification.
- Reviewing the quality and availability of the data needed for GMP equalisation.
- Managing impacted transactions, such as transfer, trivial commutation and serious ill-health lump sum payments.

This will be followed up with a guidance paper later in the year on the relationship between GMP rectification and equalisation. The first version of full guidance documents for data, impacted transactions, methodology and tax.

FCA consultation

The FCA, has published Consultation Paper CP19/25 – Pension Transfer Advice: Contingent Charging and Other Proposed Changes. The proposed changes to the FCA Handbook address the FCA's concern that too many advisers are delivering poor advice due, in particular, to the practice of contingent charging, where advisers only get paid if the transfer goes ahead.

The overall intention is to reduce the number of individuals transferring, when it is not in their best interests. It is therefore proposing a package of measures, including a ban on contingent charging for defined benefit transfers and conversions, except in certain limited circumstances, and other changes.

PASA transfer guidance

The Pensions Administration Standards Association (PASA) has published its Defined Benefit Transfers: A Guide to Good Practice.

This is Part 1 of a series, which deals with more straightforward transfer cases. Part 2 is planned to follow towards the end of 2019 covering 'non-standard' or complex transfers.

The aim of the guidance is to:

- Improve the overall member experience through faster, safer transfers.
- Improve efficiency for administrators.
- Improve communications and transparency in the processing of transfers.

A key element of the guidance is the Transfer Template, which was designed by a group of industry representatives under the supervision of the FCA and TPR. This is to help improve the level of information provided by pension schemes to financial advisers and the quality of advice given by advisers on pension transfer cases.

It is noted that while the guidance is voluntary, PASA anticipates that the Pensions Ombudsman will reference it, as a source of good industry practice, when reviewing complaint cases.

ESG: have trustees reached peak regulatory emissions?

By Emily Whitelock, Associate, Sackers

By the time this goes to print (figuratively speaking, for the environmentally-conscious amongst us), trustees will have recently updated their statements of investment principles (SIPs). And with a further wave of changes over the coming 12 months, in response to regulations published only in June, trustees are having to get to grips quickly with new terminology and new thinking in the way they deal with asset managers.

SIPs: more change on the horizon

By 1 October, trustees should already have drafted amendments to their SIPs covering their policies on "financially material considerations" (including environmental, social and corporate governance (ESG) factors, which covers climate change), non-financial matters, and stewardship (engagement with investment issues), as required under legislation introduced in 2018.

Under a second set of regulations made in June this year, before 1 October 2020 trustees will also need to provide additional information in their stewardship policy, and set out policies on their arrangements with asset managers. Trustees will in addition need to make an "implementation report" available to members, detailing how they have acted on the principles set out in the SIP and on their engagement activities (the requirements for which differ between DB and DC schemes).

The new content requirements are coupled with somewhat complicated timings for publication and compliance, which also depend on the dates of the scheme year and the type of arrangement. Trustees should therefore be speaking with their legal advisers as to the timetable they need to follow for their scheme.

An area of high pressure for trustees

Whilst many trustees say they consider ESG to be important to their scheme, the detailed analysis required to comply fully with the legislation has not made it easy for some to meet this October's deadline. Reviewing investment strategy requires trustees to have a good understanding of investment-related matters, to be able to engage with their advisers; reviewing strategy in the context of ESG, and the questions it requires to be asked of asset managers, necessitates specialist trustee knowledge and confidence in an area which has no simple answers.

In our recent survey[1], trustees and scheme managers cited lack of evidence of financial performance of investments and lack of time and resource to be able to consider ESG fully as the main barriers to achieving compliance. And whilst there does appear to be some trustee appetite for ESG, the speed with which trustees are being asked to act risks undermining the underlying purposes of the changes to the regulatory landscape – that is, encouraging longer-term investment focus, transparency and engagement. Survey respondents expressed concerns that ESG risks becoming perceived to be "a tick-box compliance matter". Indeed, only 13% of respondents said that they had actually made, or intended to make, material changes to their investment policies following their reviews.

In the coming months trustees will need to balance deadline-compliance with making meaningful changes to investment strategy and interactions with managers. For now, trustees should look to create careful business plans, allocating sufficient agenda time to SIP and ESG matters, to ensure they meet the challenges of the next 12 months.

[1] https://www.sackers.com/sackers-announce-results-of-esg-survey/

Actuarial

Top developments in pensions over summer

By David Everett, Partner, Lane Clark & Peacock

August was a very quiet month in pensions, with perhaps only three things of note happening.

1. MPs accuse the Government of complacency over cost transparency in the pensions industry

On 5 August Frank Field's Work and Pensions Committee published a hard-hitting report on its inquiry into pensions costs and transparency. The report acknowledges progress in various areas but concludes overall that it is 'unconvinced' that the industry will rise to the challenge of providing clear, transparent information to pension schemes about the costs and charges of investments without legislation requiring mandatory disclosure to a set format for both DC and DB schemes.

The report set out recommendations that went way beyond the pension costs and transparency agenda. They include matters such as the pensions dashboard, accessing DC pensions savings, tax relief on member contributions and FCA resourcing to combat pension scams.

It will be interesting to see what impact the report has on pension policy.

2. The Government moves closer to a complete rethink on the tapered annual allowance

This is wrapped up in the 7 August announcement that the Government will launch a consultation on replacing the 50:50 aspect of reforms to the NHS Pension Scheme that was part of the pension package proposed for senior clinicians in July.

HM Treasury is to review how the tapered annual allowance supports the delivery of public services such as the NHS. It has been reported that the findings of this review will emerge in the Budget and that any eventual reforms would be likely to apply across the whole public and private sectors.

This review is significant. Until now the hope in Government circles had been that the pensions tax crisis in the NHS could be resolved within the current pensions tax framework. It cannot. As this is morphing into a wider review of the tapered annual allowance, it seems that policy in this area is shifting, with the possibility of the taper either being scrapped or substantially modified in this year's Budget.

3. Changes to the Pensions Ombudsman to go ahead

On 8 August the Department for Work and Pensions (DWP) announced that a number of proposed changes to the operation of the Pensions Ombudsman's office are to go ahead.

The main change is the formalisation of an early resolution process, which the Ombudsman's office has been successfully running since the transfer of the Pensions Advisory Service's facility in March 2018. As this differs from the Ombudsman's traditional investigation and determination role, an appropriate regulatory framework needs to be built. Amongst other things, the Government intends that this early resolution process should be available at any stage, including before a pension scheme's formal internal dispute resolution process has been invoked, with the expectation that, in the majority of cases, this will be when it is used.

The other principal change is that an employer will be able to bring a complaint on behalf of itself to the Ombudsman in relation to the provider or administrator of its employees' group personal pension scheme.

This is good news on both counts and hopefully DWP can bring forward the necessary primary legislation in time for the Pensions Bill. Further changes will need to be set out in regulations.

Spotlight on trustees

By Kevin LeGrand, Member of PMI Policy and Public Affairs Committee

The second edition of PMI Pulse included the hot topic of professional trustees and whether every trustee board should be required to have one. This issue has come into sharp focus again in light of the Regulator's increasingly critical assessment of governance standards, particularly in respect of smaller schemes.

Responses were mixed. A small majority favoured the principle of compulsory professional trustees. However, there were concerns around how this could be achieved, recognising the currently insufficient number of professional trustees to meet such a demand.

Inevitably many respondents made the connection between this potential shortfall and the Regulator's focus on consolidation to reduce the overall number of schemes, which could provide a solution. Consolidation could also address the other main concern – cost. A number highlighted the cost of a professional on the board as an unwelcome additional burden.

Some queried the premise that a professional trustee would necessarily produce high governance standards, with concerns around diluting the benefits that lay trustees bring. We also asked for views on trustees' level of understanding of ESG issues. The responses are concerning, particularly the view that the new requirements for SIPs, aimed at increasing trustee understanding, will have limited effect.

Read on for more and see all results here: https://tinyurl.com/pmipulsesep19

Question 1: How satisfied have you been with the direction of pensions policy over the last 6 months?

Overall, respondents seemed satisfied, with 52% very or slightly satisfied. Nevertheless, several respondents felt that progress had been stifled by Brexit.

Question 2: How optimistic are you about the direction of pensions policy over the next 6 months?

Again, the responses mainly appear to indicate satisfaction with the direction of travel, with 35% very or slightly optimistic. From the 59% less satisfied, comments included:

"Lack of delivery of a pensions bill is holding up lots of innovation and decisions, so not necessarily the direction, but lack of progress"

"Unimportant issues will continue to dominate the short to medium term with countless hours wasted on GMP reconciliations when more vital areas such as member awareness and dashboards crawl slowly into the headlines".

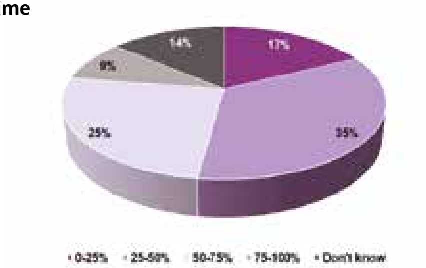
Question 3: Do you think the Pensions Regulator is currently focusing on the right areas?

27% said 'no' versus 19% in January. The overall level of support for the direction of travel will no doubt be seen as encouraging.

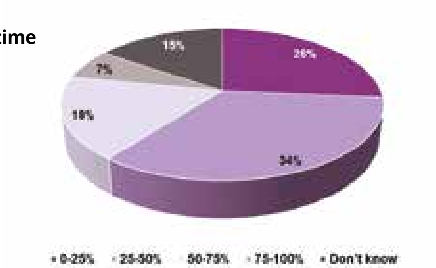
Question 4: What proportion of current Trust Based DC schemes do you think will transition into Master Trusts in: 5 years' time, 10 years' time, 15 years' time?

The responses present a mixed picture. Whilst a small number of respondents expect a large transition over time, the majority of responses suggest only limited movement, even over a 15 year time period.

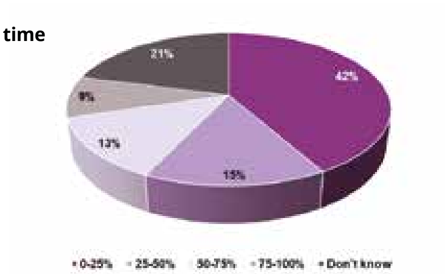
a) 5 years' time



b) 10 years' time



c) 15 years' time



Question 5: Should the Pensions Regulator introduce a requirement for all schemes to have a professional trustee?

Respondents were split, with 50% in favour versus 47% against. Judging by the number of comments on both sides, this issue generates considerable interest. Many questioned whether a professional trustee necessarily improves governance:

"They should focus on the competence and skills of the board as a whole - a professional trustee may be a good solution in many cases, provided they're the right one for the scheme... The importance and value of diligent, skilled, lay trusteeship... should not be downplayed"

"Some of the lay trustees I work with take their role very seriously, including ensuring that they have sufficient training. I would never want to discourage these trustees, who carry so much of the scheme's history with them".

Question 6: If the Pensions Regulator was to introduce the requirement that all schemes have an independent/professional trustee on the Board, does the professional trustee sector currently have the capacity to meet the expected demand?

A very clear response here. There seems to be little doubt that, without changes such as reducing the overall number of schemes or significantly increasing the number of professional trustees, any policy to impose professional trustees on all schemes would face significant practical challenges. Comments included:

"Demand will always expand to cope with moves in this direction however there is not sufficient expertise around currently to cover the shortfall..."

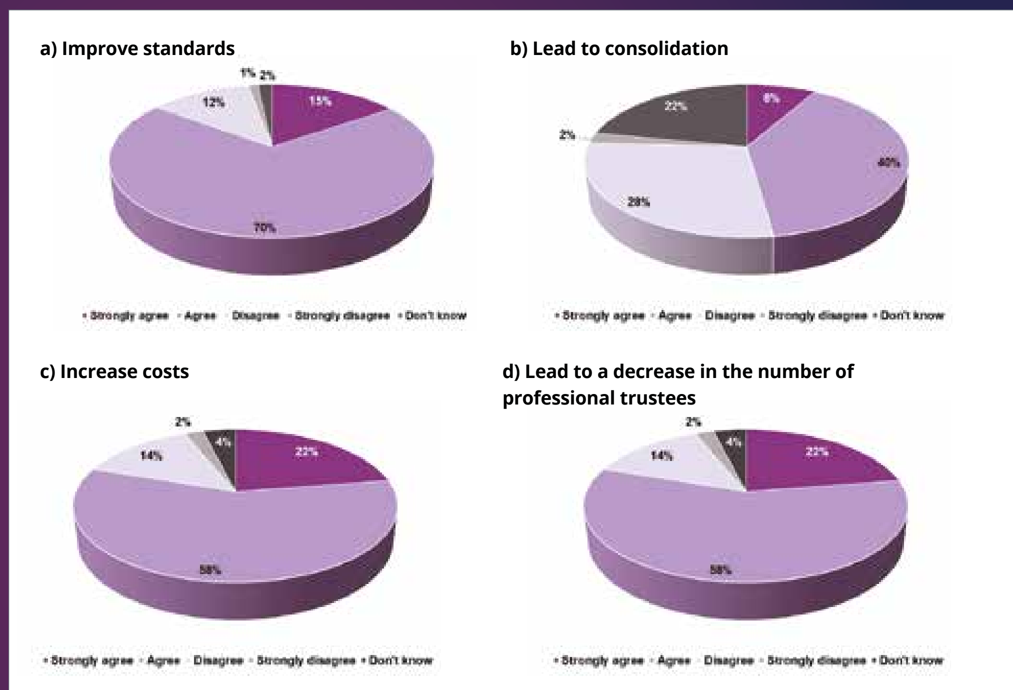
Question 7: When should the Pensions Regulator make it a requirement to have a professional trustee?

Those who wish to see the requirement introduced seem in principle to be in favour of implementation sooner rather than later, with 50% indicating the requirement should be implemented within 5 years. However, as previously observed, these timescales could be severely hampered by supply considerations.

"The longer the timescale the more likely this will not happen. The appetite for more control can quickly dissipate particularly with a change in government".

Question 8: To what extent do you think the introduction of professional trustee standards will: Improve standards; Lead to consolidation; Increase costs; Lead to a decrease in the number of professional trustees?

Respondents agreed that the introduction of trustee standards will improve standards, increase costs and lead to a reduction in the number of professional trustees. Whether it would be expected also to lead to consolidation in the market is less clear.



Question 9: Are trustee boards sufficiently well informed about ESG issues?

Although not all bad news, the 43% 'no' response is of concern. This is an area of growing focus, for good reason. Expectations on trustees to be on top of the issue are already high and growing.

"We are only just starting to look at this seriously"

"Advisers are providing information to trustees; the issue is whether all trustees have or use their advisers appropriately".

Question 10: Will the new ESG/SIP requirements lead to a significant change in investment policy?

50% of respondents feel that the new requirements will not lead to significant change. Taken with the response to the previous question, this suggests that requiring trustees to increase their focus on such issues through more detailed documentation will not, by itself, be sufficient to force trustees to raise their game on ESG.

"It may over time, but my feeling is that in the short term the SIP will be revised to justify the status quo."

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Three key differences

between a buy-in and a buy-out and why their analysis needs to be different

By Jos Vermeulen, Head of Solution Design, Insight Investment

Buy-ins and buy-outs are typically undertaken by trustees of defined benefit schemes to help manage or reduce risk. While both buy-ins and buy-outs seek to reduce risk and secure member benefits, they differ fundamentally in three ways: their purpose, practicalities and potential investment impact. Consequently, the analysis you should conduct when you consider them needs to be different.

Purpose

An insurance buy-out is the destination point at which trustees and sponsors can be confident of securing all the members' benefits, i.e. an endgame solution.

An insurance buy-in is a potential investment option to help trustees move towards their endgame, which is usually a buy-out if choosing this option.

Practicalities

Under an insurance buy-out, trustees typically transfer all their assets and liabilities to an insurance company. The insurer takes on legal responsibility for fulfilling pension obligations to scheme members. The corporate sponsor divests all responsibility for the scheme, and scheme members become policyholders with the insurer. This allows the trustees to wind up the scheme, extinguishing all governance responsibilities.

Under an insurance buy-in, trustees typically transfer some of their assets to an insurance company in return for a cashflow stream that reflects the actual pension payments for a portion of the scheme membership (the members insured). The insurance company makes payments to the scheme, which in turn makes payments to the pensioners. The trustees retain the governance responsibility for managing the whole scheme, effectively making the buy-in an asset of the scheme.

Potential investment impact

Once a buy-out is complete, the pension scheme has wound up, and scheme members are individual policyholders with the insurer.

Following a buy-in, when looking at the notional portion of the members that have been insured, it can appear that there are no investment implications as their pension payments are matched exactly by the insurance contract (ignoring any governance costs incurred by the scheme for managing these member benefits). However, when looking at the scheme as a whole, there can be significant investment implications.

Buy-in transactions typically do not cover non-pensioners, and therefore the longer-dated and most risky liabilities typically remain uninsured. So, schemes may transfer disproportionately more assets than risks to the insurer. In addition, an insurance buy-in ties up a significant proportion of the scheme assets and cannot be reversed – this can reduce the ability to deal with unpredictable events.

The investment implications may be three-fold:

1. Impact on the return required from remaining assets
A buy-in typically leaves fewer assets under trustee control. Depending on the longer-term funding aspirations of the trustees, this could increase the return needed from the remaining assets, everything else being equal – meaning there may be a need to take on more investment risk. Additionally, in order to maintain a given liability hedge ratio, a portion of the remaining assets might have to be allocated to collateral. This could also push up the required return on the 'free' assets.

2. Impact on the time to achieve a full buy-out
The pursuit of higher returns following a buy-in increases the chance of negative returns, especially during times of market stress. The alternative – maintaining a lower return target – could lead to an increase in the time necessary to achieve a full buy-out.

3. Flexibility to deal with the unpredictable
Up to the point of a full buy-out there will always be risks affecting the assets or the liabilities that cannot be predicted or hedged. Examples could be poor short-term returns, transfer values forcing payments earlier than expected, or changes in legislation causing changes to benefits. The illiquid buy-in asset gives trustees less flexibility to deal with any setbacks.

The analysis when considering buy-outs and buy-ins needs to be different

An insurance buy-out is widely deemed the least-risk way to secure payments for all members' benefits, provided the insurer remains solvent. However, insurers need to comply with stringent regulatory restrictions on investments and will also be seeking to generate a profit. This means buy-outs are typically relatively expensive compared to other options.

The usual reason trustees would not pursue a buy-out is a scheme's inability to afford it. Another reason would be if the trustees believe an equivalent outcome could be achieved more cost effectively by adopting an investment strategy that incorporates techniques used by insurers, but without the regulatory and capital constraints insurance companies face.

When comparing an insurance buy-in to other options, trustees need to consider the impact on their certainty of achieving their target endgame. This involves considering the impact on a wider set of measures, such as the return required from remaining assets, the scheme's ability to hedge its liabilities, time to achieve the endgame target, and flexibility to deal with the unpredictable.

	Buy-out	Buy-in
Purpose	• Endgame solution	• One option on the path to the endgame
Practicalities	• Transfer all assets and liabilities • No further governance obligations	• Transfer some assets in return for a cashflow stream that reflects some liabilities • Retain all liability and governance obligations
Potential investment impact	• No further investment mis-match risk	• Asset that reduces the mis-match risk for a notional portion of the liabilities, but could increase the time to, and cost of, reaching the target endgame overall
Analysis required when comparing to other options	• Cost versus residual risk of managing liabilities	• Return required from remaining assets • Ability to hedge the remaining, or uninsured, liabilities • Time to achieve the target endgame • Flexibility to deal with unpredictable events

By Charles Counsell, Chief Executive, The Pensions Regulator

Our new approach

As part of our new approach to pension regulation, we are now proactively supervising significantly more schemes as we strive to be clearer, quicker and tougher. Why have we made this change? Our aim is to better manage risks which we identify in the pensions market, ranging from inadequately funded schemes to insufficient record-keeping.

We are doing this by targeting hundreds more schemes through new initiatives across a broad range of areas. We are also building far closer relationships with schemes of strategic importance, and our latest Compliance and Enforcement (C&E) Bulletin highlighted how what we call 'relationship supervision' is going.

To date we have been working with 35 public service (PS), defined benefit (DB) hybrid and defined contribution (DC) schemes, and we will be extending this supervision to beyond 100 schemes this financial year.

Relationship supervision enables us to have one-to-one contact with the trustees, managers and sponsoring employers of pension schemes.

> **It helps us to assess the risks that schemes are subject to, clearly outline what we expect and act quickly where we have concerns.**

Some schemes are chosen for supervision because of the risks they present or previous interactions we have had with them; others because they are of strategic importance to us.

One scheme featured in our C&E Bulletin highlights an attitude that we have heard from schemes: that they are wary of being selected for supervision. The word conjures up an idea of scrutiny and control. But in reality it is about advice, guidance and direction.

The chair of trustees and pensions director in this case expressed concerns about the value of engaging with us and the extra burden that supervision might place on the scheme. But they have since told us that it has been a positive learning experience.

The DC scheme historically had minimal dealings with TPR. Through our supervision, it was clear that while it was well run, we were able to offer a fresh set of eyes on a wide range of pensions issues, including suggesting putting in place succession planning for the chair of trustees and supporting the trustees in asking their external administrator for more detailed reporting.

Our new approach has also been noted by the industry. A survey by PwC found that eight out of 10 pension lawyers think TPR's new approach and use of powers is having an impact on their clients. This is up from three in 10 in 2017 and is in part due to active intervention from TPR.

So far, our supervision teams have mostly seen high standards and well-run schemes. It is important to stress that including a scheme in relationship supervision does not mean we believe it is failing to meet our expectations.

Relationship supervision is not only focused on schemes of strategic importance. It also involves more direct contact with large numbers of schemes, using data we hold to target them in relation to particular elements of governance and administration. We'll give clear direction about the standards that schemes are expected to meet and what the consequences of failing to meet those standards could be.

We have already begun to operate in this way. In relation to DB, we are initially looking at schemes where our data shows that deficit reduction contributions may not be proportionate against dividends paid to shareholders.

Our approach will be tailored to suit. We begin with dialogue, which leads to support and guidance and might move toward direction. If after this approach positive changes are not being made, we will move towards enforcement.

As well as relationship supervision, our new approach also includes event supervision, where our rapid response teams act quickly on reports of events which pose increased risks to schemes. This will generally involve events that affect the employer covenant supporting DB schemes, particularly corporate transactions or corporate distress.

We assess the impact of an event on a particular scheme and on our statutory objectives. Where we get involved, it is initially through the trustees as they are the first line of defence for savers and, if appropriate, we will engage directly with trustees, employers and other stakeholders to protect the interests of members.

This more front-footed approach was applied with the GKN / Melrose takeover, where we took the initiative and got involved much earlier than we would have previously.

It meant that much greater rigour could be applied and an outcome was reached with far less corporate anxiety and a better result for the pension scheme. Since the takeover took effect, we've continued to discuss the implementation of the agreed plans for the schemes with the trustees and with Melrose.

This is an approach we found beneficial for all parties concerned. Savers were protected, corporate entities learned, and we forged deeper and stronger relationships.

Where necessary, we will use our powers to prosecute people when they abuse their position and put savers at risk. We have used more of our powers, more often and been creative in using the law to protect savers.

We are testing our powers in the courts. We've prosecuted people for a range of offences such as fraud, making employer-related investments, computer misuse, and wilful noncompliance with automatic enrolment.

But we are not an enforcement-led regulator. We'd much rather organisations worked within the law, within our guidelines and with us.

We will not be complacent. As an organisation we will continue to adapt and change to meet the risks in the pensions landscape around us. Our new long-term strategy, published for consultation later this year, will build on TPR Future and ensure we continue to be the clear, quick and tough regulator that we have pledged to be as we put the protection of savers at the heart of regulation.

By Luke Hartley, Director, Lincoln Pensions

Contingency planning is a critical path for most schemes

While trustees' contingency planning has been a key facet of regulatory guidance for a number of years now, the release of the Pension Protection Fund's (PPF) 'Contingency Planning for Insolvency' in April this year renewed the industry's focus on this important topic. Prior to the PPF's guidance – which concentrates, understandably, on planning for insolvency – there was limited commentary on what effective contingency planning should consider, or how it may be undertaken.

TPR's 2019 annual funding statement called on trustees to establish and implement a clear strategy to reach 'long-term funding targets', often referred to as a journey plan. It is important to clearly differentiate these two concepts. While journey planning considers schemes' long-term route to full funding, contingency planning focuses on dealing with the vagaries encountered along the way – the flat tyre, the unexpected roadworks or the opportunistic shortcut. It sits alongside journey planning as part of a trustees' overall strategy to deliver member benefits.

The contingency plan, therefore, is about anticipating potential pitfalls or opportunities and putting a strategy in place to mitigate or take advantage of them. These may range from slight 'nudges' to realign the journey plan following a small funding shock, to major negotiations with the sponsor and other stakeholders around a high impact corporate event, or even taking advantage of a competitive insurance market to bring forward an intended annuity purchase.

Developing and implementing a contingency plan – A 4 step process

While many trustees and advisors recognise the need for contingency plans, the actual process of developing and implementing such plans is where existing guidance can fall down. We have developed a 4 step process that aims to provide a framework for trustees to develop and implement contingency plans, alongside sponsor and advisor support.

Step 1: Understand and document – where are we now?

The first stage on any journey is to understand the starting point. For a pension scheme, this will typically comprise a review of admin, legal, actuarial, investment and covenant positions and range from the basic – scheme and trustee details, current funding level or current investment strategy – to a more specialist assessment of the balance of powers between trustees and sponsor, split of liabilities between employers, projected contribution affordability or quality of member data.

Many trustees will not have all this information to hand, but good contingency planning requires a strong understanding of both the 'now' and the 'possible', making this additional information critical to a successful outcome.

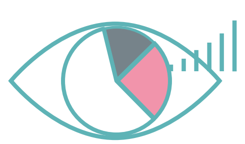
The output from stage 1 will be a positioning document – a summary of where we are right now across the above five areas and key aspects of governance.

Step 2: Plan and prepare

The second stage is to understand where the scheme is going and the challenges we may face along the way. We believe that the following elements should be considered:

1. A journey plan, representing the 'base case' plan to achieve full funding. Where are we going and how long will it take to get there? A clear journey plan is the foundation of any comprehensive contingency plan, providing a clear focus for any corrections that need to be made.
2. Scenario planning which should cover both foreseeable risks to the journey plan and major events that could impact the sponsor or funding levels. This can be loosely characterised as 'what keeps the trustees up at night' and should consider both likelihood and impact, as well as the extent to which mitigations are already in place.
3. An action plan for the Trustees' response to the risks identified, which should consider further mitigations that could proactively be put in place in discussions with the sponsor and a protocol to follow in the event of a major event. Such a protocol could include the establishment of sub-committees, the appointment of situational specialist advisors / trustees, communication plans or the enforcement of trustee powers and security.

The output from stage 2 would typically be a summary of key risks and mitigations, plus an action plan to address those risks should they occur. Trustees may also wish to negotiate additional protections at this stage.



Step 3: Monitor

The third stage is to monitor the five key elements underpinning the scheme, with particular focus on the highest impact risks identified at stage 2 and using predictive metrics where appropriate. As further risks are identified, they can be added to the risks and mitigations summary.

Some of the areas we would suggest monitoring would include:

- **Covenant** – changes to financial position and performance, corporate events, contingent assets
- **Investment** – asset performance, de-risking success
- **Funding** – funding level, cashflows, mortality
- **Legal** – legislative framework, TPR guidance
- **Admin** – progress with data cleanse, updates to trustee/scheme/member details

The output from stage 3 would be a monitoring plan highlighting how trustees expect to monitor each of the five key areas (e.g. frequency), with regular updates retained on file.

Step 4: Adjust

The final stage of any plan is to adjust it based on actual experience. Although a contingency plan should exist independently of the triennial valuation process, scheme valuations, nonetheless, offer a perfect opportunity to revisit contingency plans alongside the overall journey plan, including the ability to negotiate further with the sponsor.

In this way contingency plans can constantly be refined and improved as the scheme matures, the covenant changes and the regulatory environment evolves.

Ultimately, one of the key questions we are often asked about contingency plans is what trustees can do unilaterally, without having prior agreements with the sponsor.

We would emphasise that every trustee board has, at the very least, the ability to call valuations, control investment strategy and establish clear monitoring and reaction protocols. Many schemes have significantly more powers.

As a consequence, we believe contingency planning is on the critical path for most schemes and the approach outlined above can help trustees develop their own bespoke plan.

Battling the risks

By Sir Richard Sherriff, Partner and Co Founder of Strategia WorldWide

Pascal Hogenboom, Partner at Avida International and Strategia WorldWide

Paul Boerboom, Founding Partner of Avida International

Military commanders face ambiguous and fast-moving circumstances, which can change in rapid and unexpected ways. What can investors and pension funds learn from the military's approach to risk and crisis management?

Stakeholder management

In order to achieve the desired outcome, commanders have to take into account the views, needs and power of indigenous people, governments, international organisations, diplomats, government aid agencies, humanitarian organisations and non-governmental organisations – all of which have interests that are often conflicting.

> **Operations need to be subjected to the criterion: 'what impact will this have on the minds of the people, in the widest sense of the word?'**

This means commanders have learned to apply a stakeholder-centric campaign planning methodology and have developed a hard tested comprehensive risk management approach. But this complexity and the need for people-centric planning is not confined to the military world. Business too faces similar changes to the risk landscape and although investors and pension funds significantly improved their financial risk models since the 2008 financial crisis, the need for a more comprehensive and broader approach towards stakeholder management and risk is growing rapidly.

Agile governance

The complexity of recent military campaigns has demonstrated that security cannot be achieved solely through the application of military force. Security must be perceived by the people among whom operations are conducted, so there is a moral aspect too. Therefore, security is as dependent on agile governance as it is on adequately trained security forces, and on reconstruction and economic development. The military meets this challenge by avoiding silo mentality, opening its doors and developing the relationships, structures, culture and language to make it work.

> **The key principle which underpins everything is: whatever we do alone is not as important as what we can do together. This reflects the challenges faced by business in the 21st century.**

The business world is equally, if not more, complex. Take an average pension fund. They too must take account of the multitude of stakeholders who have an interest in what they do and manage their risks in a comprehensive way. However, stakeholder interests are often managed in a fragmented way and risk management is very much focussed on mitigating the risks of the last financial crisis and not so much the crises to come.

A similar integrated, multidisciplinary approach to that found on the battlefield is needed to ensure that boards properly understand the environment in which they are operating and are equipped with the mechanisms to ensure that risk is appropriately mitigated. How to meet this challenge?

Comprehensive approach

First, is the need for a deep and comprehensive understanding of the environment. Without understanding the economic, social, technological, ethical, media, political, legal, environmental and regulatory forces at work, you cannot derive the right tools, structures and proficiencies required.

Second, the importance of strategic leadership is as applicable in the boardroom as on the battlefield, because simple rules or principles of leadership and templates of decision-making do not necessarily serve one well in complex situations where there are no right answers, just limited choices between the least wrong ones. So, clarity of thought, vision and adaptability exemplify the strategic leader as much as resolution and determination. An ability to live with ambiguity and uncertainty, and, not least, a pragmatic capacity to take calculated risk for the longer term and greater benefit, distinguish the successful strategic leader from the tactical operator. Fundamentally, it is about being successful on two counts: strategy, or how to win a war, and tactics, or how to win a battle. And the words of the Chinese strategist Sun Tzu, written around 550 BC, are just as relevant to business as they are in the military:

> **"Strategy without tactics is the slowest route to victory. Tactics without strategy is the noise before defeat".**

Finally, successful execution of strategy depends on what the military call 'mission command', which means that subordinates must be empowered, supported and resourced – but they must also be accountable. In the military world, success is dependent on trusting the people on the ground to use their initiative. They can see what is happening and they can understand the risks, the challenges and the opportunities infinitely better than anyone sitting in a remote headquarters or head office. But they must use their initiative in line with the overall strategy. They must be crystal clear about the intent and what is to be achieved.

Translated into a pension fund or asset management environment this means that strategic leadership could mean bringing together the experts with risk management roles (financial, operational, business continuity, reputational, strategic etc.), empower them with the means to jointly operate, and trust them to deliver a comprehensive risk approach that can help the organisation to battle current and future risks.

War gaming and crisis management

'No plan survives the first enemy contact' is what military commanders know all too well. Although there is a lot of emphasis on planning and preparation of military missions, the need for scenario planning, war gaming and crisis management simulations is another hard learned lesson in the military world. People react more effectively to crises once they have experienced a crisis (simulation) before. It makes them more resilient, because they build up intellectual 'muscle memory' that will help them recognise a potential crisis and act effectively when a crisis occurs.

One could say that this obviously also applies for the business world, but remarkably few investors and pension funds spend real time on testing their strategies before executing them through war gaming and scenario planning and prepare their organisations for future crises by facilitating crisis management simulations. Clearly, business leaders are not facing an enemy in the same way that a military leader might. However, they will face crises, friction when executing strategies, and will need to keep stakeholders involved in times when reality catches up on the plan.

DC: lessons from master trusts

Trustees of defined contribution (DC) schemes face particular pressures, not least because of The Pension Regulator's (TPR) close focus on chairs' statements.

But if you're a DC trustee aiming at good governance, what pointers can you draw about future best practice? How should DC trustees be looking to improve into the 2020s?

Lessons can be learned from the authorisation process for DC master trusts. In some ways that process is unique to master trusts given their multi-employer nature. But master trusts will effectively form the bar against which single employer DC schemes should measure their governance, particularly for large or well-established schemes which are aiming for high standards.

So it's useful to look for a read across. The box on the right shows some examples – not comprehensive, but a strong starting point.

By Mark Baker, Partner, Pinsent Masons

Single employer DC schemes: lessons from master trust authorisation

1/ TPR isn't afraid to enforce rules and stick to them. In DC trusteeship there is more scope for TPR to create rigid expectations than in defined benefit (DB), where areas such as funding level and covenant vary between schemes. We have seen this happen with DC chairs' statements and aspects of master trust authorisation. It could follow in other areas, such as TPR's review of default funds. **Action: make sure you stay up-to-date on TPR's latest thinking, including any messages that TPR gives out behind the scenes.**

2/ Trustee independence is important. This is a central theme of master trust authorisation: TPR wants trustees to be empowered to make their own decisions. This prompts questions for single employer schemes too, e.g. the sometimes difficult question of how much power trustees have to determine their scheme's communications policy. **Action: consider whether you are content with your independence and the level of decision-making power you hold.**

3/ DC knowledge and understanding needs special attention. The master trust authorisation process has a strong emphasis on trustees demonstrating the right mix of skills and experience. For single employer DC schemes or sections this can't be taken for granted – many schemes have found this one of the hardest areas of the chair's statement to complete. **Action: consider compiling a skills matrix in a similar format to those used by master trusts.**

4/ Schemes should think about insolvency risk. A key focus of master trust authorisation is the risk of the provider becoming insolvent. Master trusts now have ring-fenced reserves to cover winding-up costs. Arguably this leaves a mismatch against single employer schemes which lack the same requirement. Time will tell whether The Department for Work and Pensions (DWP) explores a similar rule for all schemes. **Action: discuss whether to ask your employer to create a reserve voluntarily – some schemes might look at this even if they are in a minority.**

5/ Test your administrators. A vital area for all DC schemes, adopting a central role in master trust authorisation. Large single employer schemes might look at borrowing some of the headings from the first part of the master trust systems and processes questionnaire. **Action: look at the questions you ask your DC administrators as part of their regular reviews, and assess these carefully.**

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Contact Dianne Beer (DB)
dianne@abenefit2u.com
0207 243 3201 / 07747 800 740

Contact Tasha Davidson (TD)
tasha@abenefit2u.com
0208 274 2842 / 07958 958 626

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