Industry Update

21st Century Trusteeship and Governance

The Regulator has recognised that recent and ongoing changes in the pensions industry require a more robust and higher standard of Trusteeship than in the past.

The discussion paper recently issued by the Regulator "21st Century Trusteeship and Governance" is intended to drive up governance standards in DB schemes. The paper focuses on board competence, key scheme roles, governance structures, decision-making and effective business planning. Further details can be found on response to its discussion paper.

The paper suggests that employers should carry out a full review of governance procedures and ensure that their pension schemes' trustee boards are 'fit and proper for their purpose'.

The risks of not acting

The Regulator intends to impose fines where evidence of poor Trusteeship and Governance is found. Other action could include the forced removal of poorly performing trustees and their replacement with good ones.

What else is likely to change?

The Regulator's current requirement is for DC schemes to provide an annual governance statement from the chair of the trustees. It is likely that a similar requirement may be imposed on DB schemes, even where the schemes' valuations, recovery plans and employers' covenants are sound. In this event, the trustee boards of DB schemes will have to plan for closer scrutiny of their overall governance plans.

In addition, the Regulator is pressing for higher standards from all people and bodies involved with pension schemes. These higher standards will encompass:

- effective business planning – including recruitment and succession;
- sound decision-making processes and governance structures;
- improved competence of trustee boards, involving training and competence, skills and knowledge with ongoing reviews and assessment;
- clear definition of roles, responsibilities and accountabilities of all parties associated with the pension scheme. This will include all trustees (including appointed professionals), advisers, scheme managers, employers and scheme secretaries.

Details of the Regulator's push for higher standards can be found in its know how guides for DC schemes.

Trustee Consolidation

The Regulator is keen to see schemes merge their trustee activities with those of other schemes, particularly where trustees are aware of their own inadequacies and wish to benefit from a wider and better-qualified group of trustees.

The Work and Pensions Select Committee actively supports this view – see its Report on DB schemes and is likely to work more closely with the Regulator to further this aim.

Where full trustee consolidation proves difficult or impractical, other options may be considered. These could include common investment funds, shared service platforms and consolidated trustee boards. Each of these could prove easier and less expensive than a full scheme merger.

Spring 2017 and beyond…

Trustees can expect to see the imminent introduction of a targeted education programme which will aim to raise trustees' standards. The first step, the issue of guidance on investment governance, will be followed by an improved website streamlining much of the guidance already in place and adding a number of new features which may include:

- check lists and governance templates,
- examples of best practice and case studies.

How will these changes affect my scheme?

Many of the changes will have a greater impact on smaller schemes but even larger, well-established schemes will be presented with new requirements and changes to the way their schemes are monitored and supervised, including all governance processes.

Whilst many of the forthcoming changes and requirements have yet to be clarified, all Trustees should now consider undertaking a full review of their governance procedures.

If you would like to discuss this further, please get in touch with your usual contact at Cartwright.

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