

# Trustee boards – what are they really like?

➤ **Aon Hewitt senior partner John Belgrove looks at the different characteristics of trustee boards and how behavioural biases can be avoided**

**H**ave you heard about ‘in-group bias’? It is a simple concept, but one that has powerful effects on people, societies and life in general. We recognise great diversity and complexity within an affinity group to which we belong. However, we easily label groups we are not part of with singular and simple descriptions of ‘what they are like’.

## So who knows what trustees are really like?

You do not have to look too far for assertion or rhetoric but is such perception fair? There is actually little formal research on the effectiveness of DB pension fund trustees, despite being responsible for £1.5 trillion of pension assets and the retirement outcomes of 11 million members. This was one of our starting points in creating a research partnership with Leeds University Business School (LUBS) to look at the trustee landscape in the UK, and further understand trustee decision-making. In the largest survey of its kind, LUBS surveyed 197 trustees, looking at different aspects of trustee governance including decision-making, financial literacy, attitudes to risk, and socio-demographics. Here we summarise the first set of results.

## What does the typical trustee board look like?

No surprises here. The average trustee is a 54 year-old male, with over 70 per cent of trustees aged 50 and above. Fewer than 1 in 5 trustees in our sample is a woman – mirroring the membership of

the Association of Member Nominated Trustees.

## Education vs experience?

Trustees appear to have both. The average trustee has been a trustee for 10 years and has a university degree. Moreover, 27 per cent have a Master’s Degree and 5 per cent have PhDs. They are a smart bunch with an especially high concentration of financial qualifications. That should be good, right? But actually, a diverse set of subject knowledge may be more valuable to a board.

Trustees exhibit a high level of financial literacy. We benchmarked trustees’ levels of understanding by assessing objective financial literacy – looking at factual awareness, and testing key concepts. Seventy-two per cent of DB trustees scored five out of five and 21 per cent scored four out of five in some standard tests. The majority of trustees understand diversification and on average, rank the risk of different asset classes correctly.

## Why does all this matter?

A room of the most qualified thinkers may not always arrive at the best outcome. Why? Because we are human and prone to behavioural biases like loss aversion, reputation and authority effects that mean the decisions we make are not always the most rational.

So how can we avoid these behavioural biases? Being aware of them is step one. One of the most prevalent is GroupThink – where members quickly herd towards the same views and

decisions, with no-one comfortable to play ‘devil’s advocate’. We have created the Aon Trustee Checklist to help with these common biases. You can read more about the Checklist, and download your own free copy at [aonhewitt.com/trusteechecklist](http://aonhewitt.com/trusteechecklist).

Looking at decisions from different perspectives helps mitigate some common traps. For example, the presence of women on corporate boards has been shown to help with monitoring and board process (Adams and Ferria, 2010). Age and type of experience/social background can also have a big impact.

Skills audits can be really useful to identify strengths and weaknesses and consider gaps when choosing new trustees. Using frameworks to consider multiple viewpoints and scenarios builds a more robust picture of the challenges we face.

## What next?

Aon started this research because we are committed to supporting trustees in achieving better outcomes for their schemes. It sees us working with Dr Iain Clacher at LUBS to launch the first major piece of academic research investigating what makes trustees tick. We will be releasing more information as we delve deeper into the topic during 2017.

## And finally...

In-group bias is powerful but not always fair. When we read or hear what this or that group are like, let’s also consider the authority and evidence behind the view. Finding comfort within affinity groups is also natural – I have many group affiliations and one of them is ‘investment consultants’ – and we all know what they are like, right?

*You can download a copy of the research at [aonhewitt.com/investment](http://aonhewitt.com/investment)*



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