Strong bonds

Laura Blows considers how those managing a pension scheme can obtain good working relationships with its providers and advisers

Summary

- The length of relationship between a pension scheme and its providers varies, but often lasts many years.
- Regular reviews and monitoring are recommend to ensure the relationship remains suitable for the scheme.
- There is arguably scope for more innovative products to be offered to pension schemes.
- Consolidation of providers does not seem to be detrimental to choice, with a breadth of smaller, niche suppliers available to schemes.
- Clear communication is essential to maintain positive working relationships.

No two relationships are the same. But no matter their nature or purpose, often the same tricks and tips can help improve any type of bond.

Pension schemes are no exception and often experience a mix of relationship styles with their providers.

Duration

According to Pasa chair, Kim Gubler, advisory relationships tend to be long standing. "Often there's no real notice period, but they are sticky relationships and tend to change only if there has been a corporate change in either the scheme sponsor or the firm – or if the firm's advice becomes out of kilter with the scheme," she explains.

In contrast, the employer covenant adviser may be hired on a one-off basis, and with lawyers and actuaries "you are buying into the grey hair experience", CEM Benchmarking client relationship manager, John Simmonds, says, "having them understand your needs and working with you face-to-face". While with fund managers "it is probably more black and white, less about the soft skills, as you pay a lot of money for them to beat benchmarks", he adds.

The nature of the relationship with the administrator may fall somewhere in between.

Admin contracts usually start at around three or five years, Gubler says, which then usually goes into a rolling contract, with some form of market review taking place between seven and 10 years.

Yet Aries Insight director, Ian Neale, suggests that the scheme/admin relationship can be the "most volatile", due to the ever-increasing focus on costs. "If a pension scheme is getting dissatisfied with the price or frequency of errors, they then tend to put it out to tender and accept the lowest price," he explains.

Moving administrators is a decision that should not be taken lightly, Dalriada Trustees senior professional trustee, Alison Stewart, warns, due to it being a big undertaking to change administrators, "so you want to try and fix the relationship before moving".

Monitoring

For those doing so, Simmonds recommends being very clear during the procurement process and onboarding what the schemes objectives are and what they want to achieve.

Once the relationship is established and ongoing, its long-term nature can provide many benefits for a scheme. For instance, Stewart highlights the importance of schemes having the "right fit" with their providers, especially for DB schemes looking towards the end game; "having that good partnership, as the scheme and provider will be working together toward that end goal. There may be bumps on the road, but a good provider relationship will help you overcome them."

The 'bumps' may also be within the relationship itself. As SPP president, James Riley says, "where we see problems most often is not understanding each other's expectations and the value in what each other provides".

To help avoid this, Gubler suggests making sure contracts are up to date and include the services you need and none that you don't. "Old contracts are a trustee's worst enemy," she warns.

Riley recommends holding informal reviews about a scheme's providers. "These can be simple desktop reviews on an annual basis, and then a rolling triennial review that is a bit more formal, or even going out to the market to see what it's like and what other providers are offering," he suggests.

However, Simmonds warns against regularly doing a formal tender, as "there is a risk of undermining the relationship if you went to tender every few years".

Gubler agrees that rolling internal assessment reviews are becoming more prevalent, where different suppliers are reviewed according to the scheme business plan.

"In the meantime, administrators tend to be measured on SLAs (or if problems arise, how often they are and how they're rectified). Few schemes have formal ongoing monitoring for other advisers. The firm often offers an annual review by a senior person where the client can discuss how the relationship is going, any problems arising and changes needed," she adds.

While Stewart believes it should be the providers themselves approaching the pension scheme manager or trustees with suggestions for improving processes, she also suggests that those managing the scheme keep an eye on what is out there in the market, in terms of new developments, to not become complacent with what is being offered.

"You should think about what other providers are offering, as it is the trustees' responsibility to keep abreast of industry developments," she says. "It doesn't need to be complex but can just be things like looking at how to streamline processes. Even if the provider relationship feels ok, it is still important to check and see what is out there on the market."

Innovation

Those that do so may not be happy with what they find. According to a survey conducted by Cushon (formerly Smarterly) in January this year, nearly 65 per cent of employers believe that existing pension providers are not doing enough to offer new, progressive products, with the same percentage of respondents stating that the UK pensions market is 'crying out' for fresh ideas.

Speaking at the time, Cushion head of proposition, Steve Watson, said: "Pensions legislation has changed dramatically in recent years, which combined with financial pressures has seen a move away from defined benefit (DB) to defined contribution (DC) schemes. But the products themselves have remained the same and there is very little innovation in the market.

"With employees now legally obliged to enrol their employees into a pension scheme, existing providers are under very little pressure to innovate. They still seek to compete on cost, of course, but with a captive audience, providers see no need to design ground-breaking products or offer outstanding levels of service – they know that there is ample business out there to share around."

This criticism feels unwarranted, according to Riley, as he notes that innovation is increasing with developments such as the dashboards, even if it does lag behind other sectors like online banking, which already offers dashboard-like services.

Neale would not place the blame for the arguably slow pace of innovation on the pensions industry, "as it is beholden to the pace of regulation and legislation. For instance, collective DC could be very important as an innovation but it still does not have the legislation in place yet for it to develop".

There is also a danger of trying to do too much and over-complicating things, which we have seen in the past for members, Simmonds warns, "so you need to be careful what you wish for with innovation, as complexity can overwhelm".

In defence of the industry, "there are definitely schemes and trustees that want innovation but I'm not sure that the majority actually do," Riley says. "If asked if they want more innovation I'm sure they will say yes but I'm not sure they are actually seeking that out from their providers."

Provider choice

Cushon's January survey also found that 63 per cent of employers would like to see a new disrupter enter the pensions market.

Stewart would "love to see a company like Amazon come into the market without that previous industry background, to see how they would approach things differently".

However, Riley finds that sponsors and trustees can be quite conservative about their appointments "but we are now seeing a trend where people are more willing to cast the net more widely amongst the market than they previously would have done, being more open minded towards smaller firms".

He expects new entrants to the market on the platform saving, auto-enrolment and dashboard sides, and less so in 'traditional' sectors such as actuarial services and administration.

For Riley, rather than the lack of 'disruptive competitors', a greater concern is provider consolidation, with its implications around the lack of choice and potential conflicts of interest.

"Corporate activity has been going on a while and I don't see it stopping, but market consolidation could eventually be a concern," Gubler says.

"At the moment we're seeing small and mid-sized firms upstreaming to fill gaps created by this M&A activity, which means there are still options. But small schemes coming to market with a single service could find their choices are limited. DB dominance in the UK market has meant disrupters haven't been able to gain enough of a foothold yet but as DC begins to take over, we could see FinTech firms eyeing up the pension sector."

Whether the relationship is with a provider large or small, for a short period of time or for many years, communication is fundamental.

For Neale, building relationships by actually picking up the phone and talking to each other can make a big difference, compared to just pinging across an impersonal email.

No matter the method in which it is done, the most important thing is having that conversation. As Gubler says: "Often relationships go wrong because a scheme's needs change, but the advice doesn't. So make sure your adviser knows your needs have changed. They can't read minds!"

Written by Laura Blows