

Summary

- Increasing complexity of trusteeship, alongside tougher regulations against mismanagement of pension schemes, is leading to greater numbers of professional trustees.
- Lay trustees, who are still in control of vast swathes of pension scheme assets, can gain new accreditations that are closer to professional standards.
- Viewpoints diverge on benefits for the industry and pension scheme members through greater professionalism of trustees going forward.



Lay to rest: Members' interests at centre of professional trustee debate

▶ The growth of professional trusteeship represents a profound change in the sector, calling into question the long-term future of lay trustees. Andy Knaggs looks at what this means for the pensions industry

What implications could this increasing professionalism have for the future of the pensions sector? What might the sector gain or lose in the process?

The general trend towards more professional standards of trusteeship was signposted in a recent report by the business consultancy LCP, which analyses 13 professional trustee firms, and finds that the majority of assets are concentrated in three major professional trustee firms. It finds that 44 per cent of the UK's DB and DC schemes have a professional trustee, with one in three of these schemes being administered under a professional corporate sole trustee (PCST) arrangement.

"UK pension schemes are heading towards endgame and there is increased regulation from The Pensions Regulator (TPR)," explains LCP head of strategic pensions relationships, Nathalie Sims. "A combination of the volatile economic environment and Covid has increased pressure on making decisions in a remote environment. Many trustee boards are also struggling to find suitable member

nominated trustees and employer nominated trustees.

"Lay trustee boards are finding themselves in difficult situations as constantly changing regulation increases the pressure on those boards to decipher what those changes mean for them and how they can work with them. A professional trustee with expertise gained with other pension schemes can help in those situations."

However, while the Association of Member Nominated Trustees (AMNT) accepts that there is an increasing presence of professional trustees within pension scheme management, with all of these reasons contributing to that growth, the association also points out that its members still wield great influence.

Its co-chair, Janice Turner, points out that AMNT members represent £1 trillion worth of scheme assets, while PCSTs represent £400 billion, and she is not shy of evoking a controversial figure in articulating why that is important: "AMNT believes that pension schemes are governed best with proper

Recent legislation and regulation of pension scheme governance (for example, the Pension Schemes Act 2021) includes severe penalties and even potentially imprisonment for malpractice. The job of trustee is therefore becoming more risky, more complex and more time-consuming. As a result, industry qualifications and accreditations are regularly updated to help increase the expertise of lay trustees.

It all points towards a rebalancing of pension scheme trusteeship, towards greater professionalism and professionalisation, including the increased use of professional trustees.



representation of scheme members on the boards. Remember Maxwell. MNTs were brought into being in order to protect members' interests."

Professional trustees do not have "skin in the game", she adds: "Their retirement will not suffer if they make poor decisions, whereas member nominated trustees will."

Intimate connection

Indeed, there is a great deal of support and appreciation for the job that lay trustees do from some in the professional trustee field. PLSA chair and managing director of professional trustee company PTL, Richard Butcher, speaks effusively of his experience working alongside lay trustees, and of the particular ingredient that they bring to the governance of

pension schemes.

"Lay trustees bring a lot to the table, and I enjoy working with them," he says. "They bring the intimate connection between a scheme's members and its governance. They work for the company whose scheme it is, so they know the people, and that's a useful source of knowledge. They might bring the indiscreet disclosures that could be really useful. They can give us colour that we would not get from the dry documents we have been given. If we lose that colour, we might perhaps have slightly less chance of being optimum in our decision making."

Accredited professional trustees, meanwhile, are expected to attain and maintain high standards of professional competence, and apply their wide knowledge and expertise to the benefit of

the schemes in which they are involved.

"They bring increased efficiency of process, governance and decision-making," says ITS trustee director, Akash Rooprai. "They are able to run schemes in a more commercial fashion, and engage more effectively with advisers, as they speak the same language as those advisers. Ultimately, all these benefits contribute to the end goal of better outcomes for members."

Lincoln Pensions director, Luke Hartley, goes further, saying: "It is not just inevitable that there will be increased reliance on professional trustees, but also that we will start to see a wider range of specialist skills in professional trustees, for example restructuring experts, litigators or former regulatory staff that can be drawn upon in certain scenarios."

▶ New accreditation extends lay trustee expertise

In July of this year, the Pensions Management Institute (PMI) announced that it had accredited its first lay trustee through a brand-new scheme intended to enable lay trustees to demonstrate a high degree of competence in best practice decision-making and the ability to navigate the complexities of modern scheme governance. Derbyshire (LGPS) Pension Board employee representative, Neil Calvert, was the first to gain this accreditation.

For this, applicants must complete TPR's Trustee Toolkit and both parts of the PMI's Certificate of Pension Trusteeship.

"What we are looking to do is provide clear metrics that lay trustees, like professional trustees, are taking their responsibilities very seriously, and doing things that demonstrate that they are competent, take the role seriously and will be effective in their role," says PMI director of policy and external affairs, Tim Middleton.

"What the regulator expects of trustee boards is that they have enough technical understanding that they are able to challenge their advisers, rather than being led by the nose by actuaries and benefit consultants; that if they think something is inappropriate, they have the confidence to challenge it. Unfortunately, it's relatively rare and TPR would like to see an improvement in this."

PMI says that the exams and toolkit are the same for professional and lay trustees, but professional trustees are additionally required to complete a 'fit and proper' test on application, as well as provide two references. On an ongoing basis, they are also required to complete 25 hours' CPD, as opposed to 15 for lay trustees.

While the development of this accreditation is broadly welcomed, including by the AMNT, some observers do have their reservations. PLSA chair, Richard Butcher, has a concern that the accreditation might actually put people off becoming a lay trustee. "If it becomes the norm that they have to do this exam, will it cause less people to want to do it? We also have to be careful not to muddy the water between lay and professional trustees, that there remains a clear line of liability. Professionals should stand behind our actions and inactions, and the liability should not be as great for a lay trustee."

This would seem to be a clear benefit of the concentration of pension scheme management into a small number of professional trustee firms, but there are lines here that arguably should not be crossed, for example with trustees providing actuarial services. "We have a very clear conflicts policy at the Association of Professional Pension Trustees (APPT)," said APPT chair of the council, Nita Tinn. "Many do have a background in things like being an actuary, but as a professional trustee they are not giving advice, they are taking advice. It's totally against the standards set by APPT."

Implications

Of course, opinions on whether the growing influence of professional trustees

is an altogether positive trend for the pensions sector going forward are always shaped by perspective. While Dalriada Trustees professional trustee, Paul Tinslay, says "the implications for this trend are very positive, in particular for improving value for members and delivering good member outcomes", adding that improved exam, accreditation structures and codes of practice will "increase trust in our industry", the AMNT has a different view.

With regards to shareholder activism, Turner observes that the increased use of professional trustees may result in "serious implications for stewardship of assets invested on behalf of UK savers", adding: "AMNT has fought very hard for the right of pension schemes to adopt a stewardship policy and use it to direct the voting of their assets."

She says that AMNT's ongoing comparisons between AMNT's Red Line Voting policy and those of asset managers indicate that the financial services industry lags behind the AMNT's own stewardship policies used by lay trustees and that the growing influence of professional trustees may result in "the dominance of a conservative outlook that does not reflect the level of members' concerns with current [*sustainable investing*] issues".

The growth in professional trusteeship is there for all to see, and its influence – whether you consider it positive, negative or neutral – is sure to remain a talking point.

▶ Written by Andy Knaggs, a freelance journalist