

Unlocking the full potential of pension trustee boards

➤ Aon senior consultant, Andy Nichols, looks at how trustees are unlocking the benefits of diversity, equity and inclusion (DEI) by focusing on representation, promoting fairness and equity within systems and processes and creating an inclusive environment where individual trustees feel valued and empowered to contribute, leading to better decision making and better outcomes for members

Many pension schemes are strengthening their diversity, equity and inclusion (DEI) policies. Beyond regulatory compliance and what just 'feels like the right thing to do', they are recognising the value of a truly diverse and inclusive approach and are increasing their efforts to foster a culture to improve their effectiveness as a board.

Aon's 2023/24 *Global Pension Risk Survey* revealed that the most common area of DEI that schemes had considered was the composition of its trustee board and conducting a review of it, with 70 per cent of schemes reporting they have already done this or are planning to do so. This is a great place for trustees to start, but to continue to unlock the value of DEI for boards, it is important to consider more broadly how to foster a truly inclusive environment.

To understand the collective diversity of a trustee board involves going beyond the obvious and visible characteristics and gaining deeper insights into the behavioural differences, experiences and key skills of the individual trustees and

then ensuring that the board has a broad mix of skills and perspectives.

There are various techniques available to secure a diverse mix of people on the board and to understand the key skills and experience so that these are utilised to the best effect. This approach will not only maximise the effectiveness of the board but will help prepare it to maintain this success in the future through more informed succession planning.

Attracting diverse individuals

A key challenge for schemes is to encourage a wide range of individuals to come forward as candidates for member-nominated trustee (MNT) roles. However, creating a rich talent pool of candidates from different backgrounds and with different experiences to take up the role of an MNT is the first fundamental step to improving board diversity. The role of an MNT, in particular, can provide schemes with greater opportunity for accessing a broader population than company nominated trustee (CNT) roles, for example pensioner members.

Our experience at Aon shows that with a shift in approach, trustees can overcome this challenge. Focusing MNT communications on the support available to MNTs, the role advisers play in providing expert advice and the ongoing training and development available can create excitement about the role and broaden out the candidates who then express interest in becoming an MNT.

It is also crucial to emphasise the real value of diverse backgrounds and experience when it comes to board membership. Not coming from the same background or having experienced the same life as others on the board should not discourage members from wanting to join. Instead, schemes should ensure that this is viewed as an opportunity to bring a fresh perspective to decision making and new energy to the board.

A similar approach may be taken for CNTs by working with the employer so that they understand the composition of the board and understand how new CNTs can complement the collective skills and experience of the board.

Using skills to the best effect

While attracting a range of different people to the role of trustee is important, there is much more to be done than simply filling board positions. Rather than focusing solely on who is on the board, schemes should look beyond this and consider what each trustee offers and ensure that everyone's potential is fully realised.

When looking at the full board, skills and diversity assessments will both help identify a trustee's strengths and weaknesses and potential skills gaps collectively. Acknowledgment of key skills and experience should be used to focus on getting the best from each board member.

People work in different ways, and these assessments help ensure you do not have too many similar or conflicting behaviours on the board. For example, having too many quiet individuals who

are reluctant to speak initially, or an excess of 'devil's advocates' can slow down the board's progress.

Assessing trustees' skills allows boards to align roles with key expertise, creating a more cohesive, efficient and effective board. Individual trustees may be more comfortable working in areas where they feel competent and confident, allowing their strengths to be fully utilised and valued or they may be looking for opportunities to stretch outside their comfort zone and seek new experiences and build new skills. Understanding this, helps to keep trustees engaged and motivated while reducing the risk of frustration and disengagement.

Ongoing training

Training is essential throughout a trustee's journey. Whether a new trustee is learning the role or an experienced trustee is updating their knowledge to meet regulatory standards, ongoing training should be provided.

Once skill gaps are identified, training can be tailored to enhance specific areas. For example, trustees with limited financial expertise might receive specialised training in pension scheme funding or actuarial analysis, while others could benefit from training in governance best practices, legal obligations or stakeholder communication. This targeted approach ensures that trustees are well-equipped to contribute effectively across all areas of decision-making.

Support in role

As boards improve their collective range of skills and experience, it is important to consider the ongoing support offered to trustees. This will be key in ensuring that all trustees have equal opportunity



to contribute and add value to the board and will ensure that trustees remain engaged and are able to bring their best and authentic selves to the role.

The existence of any barriers for trustees should be considered and addressed. For example, access to technology, support for those working in a board environment for the first time and the ability to attend meetings in person. By breaking down any barriers, schemes open the door to a wider range of experience and skillsets.

A robust trustee induction programme and ongoing mentoring relationships will also provide valuable support to new trustees.

Succession planning

Succession planning is also vital – assessments can help identify current skill gaps and allow schemes to consider these gaps when recruiting new members for the future, ensuring the board remains diverse, well-rounded and effective.

Considering the length of tenure of individual trustees may also provide opportunities for reviewing the diversity of the board. For example, the best composition may include a third of experienced trustees with deep knowledge of the scheme, a third of trustees with two to three years of experience who are established in the

role of trustee, and a third of new trustees. This strikes the balance of having the appropriate experience and expertise but with the fresh perspectives and energy of new trustees, while supporting stable succession planning and providing regular opportunities for reviewing collective skills and experience.

Implementing changes

Embedding changes to the board to unlock the benefits of DEI will take time

and may begin as an aspiration.

But, as new trustees are recruited to the board using the approaches set out above, the composition of the board will become more diverse, improving the range of skills and experience available on the board.

It is important that schemes do not treat DEI as a separate topic but ensure it is integrated into daily operations and decision-making, creating a more inclusive culture where it becomes a natural part of how they function.

There are a range of options available to schemes to improve board diversity. Schemes do not need to implement them all – they can pick and choose the appropriate techniques based on their circumstances, but all with the aim of driving forward change to fully benefit from DEI in the future.

You can download a copy of Aon's Global Pension Risk Survey 2023/24 at www.aon.com/gprs2023.



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