



New power dynamics

▣ The empowering and evolving relationship between trustees and consultants

▣ Summary

- The power dynamic between trustees and consultants has irrevocably changed, with the former more empowered and less reliant on the latter.
- The rise of professional trustees has helped empower trustees, while calling into question the need (and expense) of consultants.
- Concerns are growing about the blurred lines between trustees and consultants.
- All parties must work together and more collaboratively to help the industry adjust to a new way of working together, where consultants aren't the only ones with the knowledge and/or power.

Traditionally, the roles of trustees and consultants were distinctly separate. The former were tasked with overseeing their scheme and ensuring members' benefits were assured, while the latter provided expertise and guidance to help oversee challenges in the process. However, the

lines between these roles are becoming blurred, with LCP partner and head of strategic relationships, Nathalie Sims, pointing out the landscape is "shifting".

"Pensions regulation is becoming more complex, and trustees are becoming more sophisticated in their knowledge of the underlying scheme

issues," says Sims. "This rapid change has resulted in some trustee firms having set up specialised teams to access providers directly or leveraging personal relationships they have built over time outside of their consultant relationships. This is particularly prominent with asset management firms and bulk annuity providers who are now engaging directly with trustees, often without their consultants."

Aon partner, Susan Hoare, has also noticed that "in more recent times there has been an increase in the sophistication in how trustees approach provider reviews".

Trustees are now far more likely to employ a specialist firm to help them select a provider, she explains.

"We are encouraged by the increase in sophistication and more robust approach taken to provider reviews.

Having a formal structured process for provider reviews is more likely to result in trustees selecting the right partner for their scheme,” Hoare adds.

These relationships aren't just being influenced by changes in the pensions industry in general, but long-running partnerships are naturally reaching their conclusion for many schemes. Reflecting on what he has seen first-hand, Irwin Mitchell pensions solicitor, Michael White, says many trustees have traditionally been reluctant to change consultants but that this was now changing.

“The trustee generation who forged the relationships is retiring at pace and a younger set of trustees wants to create its own contacts and relationships,” explains White. “Consultants are becoming even more investment-savvy and spend even more time in looking after their key clients, trying to retain clients this way.”

This is leading to traditional roles being challenged and the potential for risks, with various stakeholders' responsibilities less defined as a result. According to Zedra managing director, Kim Nash, there are “potential dangers”

should the line between these roles blur.

“For a scheme to meet its objectives, trustees and consultants need to work collaboratively (along with the employer and their advisers) to take action when needed and implement changes needed to actively manage risks within a scheme,” says Nash, who advocates greater transparency and clarity. “The relationship between trustees and consultants needs to be clear with each party having a distinct role and understanding of their remit.”

The rise of professional trustees

The emergence of professional trustees has seen greater market knowledge, sophistication and expertise brought to this role, to some extent challenging the value proposition of consultants. The pensions industry is a small world, and Hymans Robertson DB governance consulting lead, Laura Andrikopoulos, points out that many professional trustees will have formerly worked as consultants.

“Trustees are more likely to run tender exercises or have market contacts than they would have previously and so naturally, have less need to draw on

the expertise of their consultants on such matters,” says Andrikopoulos. “To an extent, it means that there is less for consultants to do, given that the professional trustee firm may have resources from their own firm to draw upon to do tasks that were previously done by consultants.”

Although this can threaten the viability of some relationships for consultants, and the clear revenue ramifications this brings, professional trustees can bring benefits to schemes in general. Here, Cartwright consultant, Rob Chandler, points out that productivity has been strengthened as a result and that this can bring much-needed objectivity to some arrangements.

“With the introduction of professional trustees and also more targeted legislation, there has been a shift in trustees truly understanding their obligation to ‘do right’ by all parties, which has been assisted by the consultants being able to provide proactive advice and best solutions to benefit all, rather than appearing to just be selling themselves,” says Chandler. With both parties having a higher level



of industry expertise, he explains this can lead to better dialogues being enabled to target more efficient solutions.

“With the rise of professional trustees and more recently sole trustees, all parties need to fully understand their roles and each party have the trust of the other, for their advice to be challenged to the betterment of all services and beneficiaries,” adds Chandler. “With the level of expertise rising within the industry, solutions do need to be challenged where there’s creep on solutions provided by trustees which would historically have fallen solely within the responsibilities of the consultants.”

Professional trustees are having other impacts on the space. Their popularity has increased, and LCP has found evidence of this threatening concentration risk as a result. In the firm’s recent LCP *SoleMates* survey, it found that 90 per cent of assets with professional trustees are concentrated among the five largest professional trustee firms. This, along with the fact professional trustees are increasingly branching out into other services such as governance-



type propositions originally offered by consultants, has prompted The Pensions Regulator (TPR) to review the space.

“Whilst this has been beneficial to the industry in terms of relieving capacity constraints, it has blurred the lines between advisers and trustees,” says Sims of professional trustees’ expanding toolkits. “We expect the outcome of [the TPR] review to be published in due course but are likely going to see some guidance on what ‘good’ looks like, especially when it comes to sole trustee models and non-trustee offerings.”

“Where does the pension trustee role end and the consultancy or professional advice start?”

Such clarity is needed with the pensions industry still adjusting to a changing landscape, with White saying both trustees’ and consultants’ roles have become more opaque. With some professional trustees legally qualified to advise on investment, actuarial and legal matters this can lead to a potentially confusing overlap, according to White.

“Where does the pension trustee role end and the consultancy or professional advice start?” poses White. “More awkward still is where the professional trustee and the scheme’s consultants disagree. Nonetheless, the professional trustee holds a fundamentally different role than the consultant’s, and trustees recognise the value of retaining separate consultants.”

The future of trustees’ and consultants’ new relationship

It is clear that the relationship between trustees and consultants has fundamentally changed, and the once-established power dynamics have become increasingly challenged. Trustees no longer have to rely on consultants, and this is a challenge for the latter.

As a result, it is up to consultants to adapt in order to remain a valuable and worthwhile expense for pension schemes. According to Sims, this ironically means consultants will need to work closer with the very parties that are challenging their presence.

“The only way this can evolve is through collaboration between consultants and professional trustees with clear and open communication to ensure best outcomes in the industry,” says Sims. “For example, one of the areas we continue to evolve together with a number of professional trustee firms is on sole trustee offerings – we see professional trustee firms continuously evolving their propositions in this space to incorporate efficiencies and LCP have joined this trend, by building customised technology to support efficiencies.”

In agreement is Chandler, who argues that collaboration over competition is a more mutually advantageous approach. Pointing out the declining DB industry, Chandler says the level of expertise still needs to remain strong and endgames – also rising in popularity – must be managed effectively. As such, he says roles and responsibilities need to be clearly identified for trustees and consultants for the benefit of both parties.

“Having both parties free to challenge each other, can only be a benefit to all parties and ultimately the members of the schemes,” says Chandler. “These challenges, and an efficient working relationship, will be especially relevant as pension provisions in the UK goes through significant changes over the next decade.

“Trustees will need to ensure that their consultants keep up with these changes and can bring their best ideas forward for discussions, on topics that may fall outside of the realm, experience and knowledge of the trustees.”

Written by Jon Yarker, a freelance journalist