

# Pension funds risk landscape in 2020

► **Judith Hetherington reflects on how attitudes to risk have changed during 2020, and what UK schemes are doing about governance**

2020 has been a turbulent year for many. As the nation moved into lockdown in March 2020, many service providers to pension schemes had to change their operations more rapidly than expected. Trustees had to get used to holding meeting with their advisers virtually. Scheme members thought more about what they could be doing with their pension pots, while fraudsters were thinking about how they could access their money and data. All these factors present challenges to pension schemes, and trustees now more than ever, need to make sure that they have strong governance in place to protect their members' funds.

Crowe's fourth edition of the *Governance and Risk Management Report* considers the changes to governance and operations of UK pension schemes in light of the effect of Covid-19 on working practices of pension schemes in the short and medium term.

Judith Hetherington, partner at Crowe, answers some key questions that have been highlighted by the survey's findings.

**Cybercrime has been recently promoted by the government as part of their awareness drive around pensions, how aware are trustees of their cybercrime vulnerabilities?**

Overall 22 per cent of schemes admitted that they had not identified the key operations, IT systems and information

flows vulnerable to cybercrime. It's a significant number, when we see that the respondents also ranked cybercrime as the biggest risk to their schemes. If we consider too, that 42 per cent of the schemes also said that they do not have access to specialist skills, that would help them to identify and investigate a cybercrime vulnerability, it highlights an area that needs to be addressed, and that trustees should not hesitate in getting the appropriate advice in.

**So if a number of schemes don't have access to the correct skills to tackle cyber risks, how are cyber risks being managed?**

Twenty-five per cent of schemes do not have an adequate cybercrime breach plan in place. A robust cybercrime breach plan should cover five key areas; restoration process, investigation process, external communication, reporting process and how to contain the breach.

We were surprised to see that 59 per cent of trustees have not taken part in cybercrime scenario-based training. The picture between schemes of different sizes is mixed, with large schemes tending to do better on both points due to the additional resources available to them. We encourage trustees to put this type of training in place. It will not only provide the trustees with valuable insight into the overall process of dealing with a cyber-attack, but will also highlight areas of the cybercrime breach plan that are not fit for purpose.

**Have trustees been asking their administrators what they are doing to counter fraud?**

Generally, instances of fraud have been increasing, and our report on *The Extent and Nature of Pensions Fraud* highlights where fraudsters target pension schemes, for not just their large sums of money but also their data. While we saw quick response from administrators when the national lockdown came into effect on March 2020, the move to home working presented an opportunity for some to take advantage of being outside the office environment for unscrupulous means. Trustees have not necessarily been asking their administrators about key areas which can be vulnerable to fraud in a home working environment.

**What assurances are trustees getting about their administrators processes?**

Our survey responses revealed that 50 per cent of schemes have not received any assurance over fraud prevention procedures for member payments and vetting of new staff. This is a concerning number, when considering how much of the workforce are working from home.

Over 40 per cent of responses confirmed that they are aware of changes to their administrator's procedures such as training staff, authorisation and review of the calculation of member benefits and the authorisation of the payment of expenses. However, 59 per cent of respondents confirmed that they do not have third party assessment of the scheme controls and procedures. Trustees should consider how they can gain assurance over the changes that have occurred and, where the procedures haven't changed, are they still fit for purpose?

**Are trustees utilising risk appetite as a tool to identify risks?**

Risk appetite is the amount and type of risk that the pension scheme is willing to take in order to meet its strategic objectives. Only 50 per cent of trustees are using risk appetite to help prioritise/



mitigate specific risks, which is the same as the results for 2018. We were surprised to see this reduction, but this may have been due to the effect of Covid-19 on the scheme in 2020. In these riskier times, it is imperative to consider risk appetite and tolerance, as this method can assist in highlighting the areas for trustees to focus on.

### What are the latest trends in the top risks facing DB and DC schemes?

This year saw a marked change in scheme's attitude to risks. Trustees of

DB schemes ranked cybercrime as their biggest risk, compared to last year where it was employer covenant risks. Trustees of DC schemes are concerned with ensuring that members are making the right choices at retirement. For both types of schemes, the risk of errors in the administration of the scheme has dropped down in the ranking as an area of focus for trustees. Given the potential risk at administrators with the majority of their workforce working remotely, we were surprised that it had fallen so low on trustees' rankings this year.

#### ► About Crowe

Crowe is a national audit, tax, advisory and risk firm with global reach and local expertise. We are an independent member of Crowe Global, the eighth largest accounting network in the world. With exceptional knowledge of the business environment, our professionals share one commitment, to deliver excellence.

We are trusted by thousands of clients for our specialist advice, our ability to make smart decisions and our readiness to provide lasting value. Our broad technical expertise and deep market knowledge means we are well placed to offer insight and pragmatic advice to all the organisations and individuals with whom we work. Close working relationships are at the heart of our effective service delivery.

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### How can Crowe help schemes with their governance and risk management?

Our pensions internal audit service provides assurance that appropriate policies, procedures and controls are in place to mitigate key pension scheme risks as part of good scheme governance and supports the latest '21st Century Trusteeship' initiative and Codes of Practice issued by The Pensions Regulator.

With the expanding regulatory requirements on trustees to take ownership of risk management of their schemes, having good systems in place is vital to insure compliance.

We help and support trustees by evaluating pension scheme governance arrangements, including risk management, policies and practices.



► Written by Crowe partner, Judith Hetherington

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