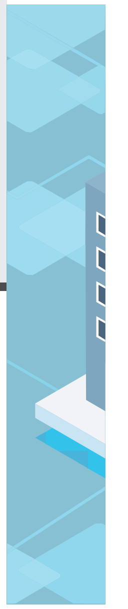
New year, new normal

2020 saw unprecedented change in the pensions industry, but as businesses begin to consider life post-Covid-19, Sophie Smith considers what changes are here to stay and what work is still needed

Summary

- The pandemic has accelerated a number of changes within the pensions industry, such as increased technology, and many are here to stay.
- Changes in remote working have had benefits for the industry and members alike, although pension professionals should be mindful of the potential risks facing them.
- More work is still needed to ensure that solutions are appropriate for the long term and there is an opportunity to make broader improvements.



As the pandemic first hit, one of the major issues faced by businesses around the world was how to handle the rapid shift to remote working. However, as Pensions Management Institute (PMI) director of policy and external affairs, Tim Middleton, explains, remote working has proved to be very successful and will likely be a permanent change. "This has seen no significant impact on productivity and the additional cost savings in office space and travel expenses have found favour with employers and trustee boards," he adds, stating that whilst there are downsides, the positives will surely see profound changes in the character of office culture.

Pensions Administration Standards Authority (Pasa) board director, Chris Tagg, agrees, stating that the collective perception that administration could not be done remotely has been dismissed, with a high service level delivered throughout the pandemic. Despite this, he predicts that the industry will likely revert to being a predominantly office-based role at some point during 2021. "The reasons for this are that I think it is becoming increasingly difficult in a remote environment to provide support and training to more junior members of the team – exposing them to new and more complex types of work is much more easily done if they can physically shadow a colleague or at least have them on hand to ask simple questions and receive simple answers," he explains. This is echoed by Middleton, who warns that employees will spend less time in an office, which is likely to create problems in inducting new staff and maintaining effective oversight over colleagues.

Pasa board director, David Pharo, also warns that any eventual return to the office will be dependent on external factors. "What is clear though is that the rate at which we return to offices will be impacted not just by a return to normal in society, but also to what extent the model (or parts of a model) are working effectively remotely," he explains, warning that a wholescale return to the office whilst social distancing remains a requirement would be impractical.

Keeping it virtual

These unprecedented shifts in working practices have already highlighted issues for some businesses, as Dalriada Trustees professional trustee, Paul Tinslay, notes that whilst some firms and schemes managed a seamless transition to remote working, others have struggled, primarily due to technology. Indeed, the pandemic has brought greater focus on technological solutions in all areas, and pensions is no different, as Middleton notes that almost all businesses have adapted to using video conferencing software and have enjoyed immediate benefits as a result. Tagg also states that lots of third-party administrators have accelerated developments in their processes, systems and controls as a result of the pandemic. "Lots of the innovations will be similar to those employed by other industries – around remote access to company networks and their resilience in the face of vastly increased usage, etc – so are not unique and should not present any specific cyber risks," he adds.

Taking on the risks

However, he warns that whilst in an office you are able to somewhat control atmosphere and environment, home working brings potential distractions, with others potentially overhearing sensitive conversations. "These shouldn't be great concerns," he clarifies, "but firms should be providing their administrators with appropriate guidance to manage these situations".

Mayer Brown pensions counsel, Beth Brown, adds that replacing face-to-face meetings with phone calls and Zoom meetings to discuss complex transaction and pension matters means it is more important than ever that pension professionals establish a clear understanding, and written record, of the trustee's and/or sponsoring employer's factual situation and the work they are to undertake. She continues: "Pension professionals should put in place up to date, accurately drafted engagement letters for their work setting out the scope of work to be undertaken and reflecting any categories of work for which the pension professional will not be responsible."

An increased use of technology can also lead to an increased cyber risk, and whilst Tinslay notes that most firms use secure services and email, which means the location of the user is not really an issue, he warns that those working from

home should still be provided with robust security access to systems that are regularly tested.

"The impact of a cyber-security breach cannot be underestimated by trustee boards," he stresses, highlighting that the ICO fined British Airways £20 million in October 2020 for a cyber security breach that occurred in 2018. Considering this, he argues that trustees need cyber-security risks identified, recorded, and effective controls in place, emphasising that incident management is more important than ever. "For example," he continues, "as with data protection, one activity trustee boards can undertake is a simulated cyber-security breach, ensuring that everyone involved is fully aware of the incident management procedures for the scheme and able to implement them without delay."

Adding to this, Brown suggests that schemes adopt policies setting out appropriate robust layered cyber defences, put in place rigorous and secure central electronic filing systems for all relevant documentation and ensure that hard copy documents are returned to their rightful filing place or disposed of securely.

She also recommends that they ensure the scheme's professional advisers and providers set out, and adhere to, carefully structured plans of supervision.

Making improvements

However, Middleton says that there is now a greater awareness of cyber risk, with boards devoting more time to considering this threat and how to address it.

In particular, he explains that trustee boards have adapted well, with many aspects of governance standards actually improving amid the changes to working practices over the past years, such as improved data security from the use of electronic board backs.

Indeed, Tinslay says that Dalriada Trustees, for instance, uses MS Teams as the foundation of its online e-governance solution, describing it as a "huge step forward in the development of good secure governance" and "inherently robust and secure" as all scheme documents are hosted with restricted access to certain areas for some users.

"We are able to run trustee meetings on this platform with a full audit trail of activity, decisions recorded and any changes agreed," he explains, noting that it is also flexible enough to accommodate trustees who prefer to receive written documents.

However, Tagg warns that longer term, there could be a focus on making sure any process improvements rolled out in response to lockdown are actually working and providing benefits to schemes. He explains: "There is always the temptation that when something is needed quickly a couple of corners might be cut. Trustees and particularly auditors might want to revisit some decisions and get extra comfort when there's more time available. We do need to be sure that, with increased online interaction, we are actually dealing with the people we think we are."

Despite this, Pharo stresses that the changes introduced to enable greater flexibility to members in providing paperwork and identify verification have improved member experience and should be built on further. Whilst Tagg agrees to an extent, stating that this has also been beneficial to scheme administration, with decision-making processes sped up, he clarifies that the gains may not be sustainable. "Sooner or later," he warns, "discretionary spend budgets are going to reappear and teams will be asked to do project work again, at which point greater collaboration across teams and the need to prioritise resource allocation will be detrimental to day-to-day admin... unless we get back into offices".

Tinslay, however, argues that the pandemic has accelerated the demand for, and delivery of, online self-serve capability, and that the pensions industry has some catching up to do in this area. "There's little doubt that member expectations around how they want to engage with their pension will continue to change as a result of the pandemic," he continues, emphasising that whilst firms reacted tactically to the problems arising from the pandemic, they may now be able to do even more.

"There is an opportunity now to fundamentally reappraise the business model for the future to deliver the best experience and value for all stakeholders, particularly pension members," he concludes.

Written by Sophie Smith