**Summary**
- Implementing a trustee board effectiveness review can help improve the smooth running of the board and identify any risks/challenges.
- A review may be conducted through self-assessment or with external reviewers.
- A 'light-touch' review is recommended annually, with a more thorough review every three years.
- Trustee board effectiveness reviews are currently only implemented by a minority of schemes, but this is set to increase not least due to increased regulator attention.

# Time for reflection

**Laura Blows explores the benefits and practicalities of implementing regular trustee board effectiveness reviews**

Pension scheme trustees have such ever-increasing workloads that adding another task to the list, to navel gaze at how well they are achieving their goals, may seem like too much of a luxury. Yet regularly taking stock may actually save the board time in the long run.

### Trustee board effectiveness reviews

A trustee board effectiveness review may explore practicalities like the frequency of meetings and the organisation of papers. It can also look at the structure of the trustee board, such as the use of sub-committees, trustee skillsets and key person risk, and consider broader issues, for instance if there are any behavioural biases that occur when decision making.

All board members should be involved in the assessment, together with key support personnel, such as the scheme secretary and pensions manager, Dalriada professional trustee, Leanne Coomber, suggests. "It is also useful to ask advisers for their views from an outsiders' perspective," she adds.

### Process

The simplest way to start a trustee board effectiveness review is through self-assessment.

This can be a discussion instigated by the chair, but often involves answering a questionnaire – a template for this can be found on TPR's website, Coomber says. It will usually involve around a dozen questions that explore board effectiveness with a scaled scoring system and room for comments, ITS director, governance services, John Lovell, states.

"Many boards will find it most productive to have responses anonymised, as well as someone independent collating the results. They will then provide an average score for each question, alongside insights into any common themes emerging from the comments. Ultimately, the chair should own this process and commit to taking forward any actions, focusing on the areas with the lowest scored answers," he adds.

This self-assessment can be completed reasonably quickly, within a few weeks, Hymans Robertson head of governance consulting, Laura Andrikopoulos, suggests.

It is generally recommended that this 'light touch' assessment takes place annually, with a more in-depth review occurring every few years, or during a period of transition, such as a reduction in the number of trustees, a merger or the appointment of trustees.

This may involve the use of external reviewers, because, as Isio head of governance consulting, Claire Whittaker, says, "trustees reviewing themselves isn't just like marking their own homework, they also get to set the exam questions, come up with the answers and decide the pass mark. And if they get a poor grade, they may have little idea how to improve".

An external body will already know what the scheme should look at, she adds, as well as being able to 'benchmark' the scheme against other similar ones.

It may involve meeting observations, interviews, group exercises and scenario role playing, such as a cyber-attack or sponsor crisis, Andrikopoulos says.

Muse Advisory senior adviser, Julia Land, quotes one experienced chair, who recently said: "We want a review every three years to objectively hold up the mirror, done by an intelligent review team who have the emotional skill to engage well with us, tell us some things we may not know, that we will pay attention and listen to. We have a good board but we don't know all the answers."

According to Whittaker, a review really "should be continuous, kicking off with a detailed effectiveness review, then keeping the agreed actions front and centre of the business plan over the following year".

### Findings

The findings of the review will depend upon the scheme, but may commonly discover training needs, skills gaps, new objectives (eg improving engagement with the sponsor), positive and negative behaviour trends, and the need for contingency plans. Coomber gives the example that many schemes have not officially recorded a deputy chair, should the chair be unavailable at short notice. "This is a relatively easy and inexpensive item to record and a good point to evidence an effective trustee board", she says.

The need for structural changes, such as introduction of sub-committees or working groups to reduce the amount of detail required in board meetings and utilise different trustee skillsets more effectively, may also be discovered, Whittaker adds.

"Reviews will result in a range of findings," Lovell says. "These often concern practicalities, such as the timely circulation of papers, meeting frequency and timings, but will also include more material matters. For example, recommendations may be made around the need to refocus board discussions, the way advisers interact with the board, or how the chair manages meetings and ensures all board members are included in debate."

According to Land, a good review helps the board to take stock and agree 'what next' for the scheme.

She gives the example of a board review helping one scheme be able to secure a buyout more swiftly, by increasing the board's focus on readiness to transact, resulting in it working more robustly with the sponsor and getting scheme data cleaned up.

## Challenges

Despite the benefits a trustee board effectiveness review can provide, research from Willis Towers Watson in June 2021 found only half of pension trustee boards reviewed their effectiveness annually, with just 29 per cent of boards currently using some form of external validation to independently review their effectiveness.

"In my experience, most larger schemes with assets over £1 billion will conduct board effectiveness reviews regularly," Lovell says. "It is also common for smaller schemes, although they will naturally tend to have smaller governance budgets, meaning the practice becomes less consistent."

Cost is often a key concern preventing trustee board effectiveness reviews, despite "a good review paying for itself in terms of improving governance and outcomes for members", Whittaker states.

Timing is another factor, she acknowledges, with boards wanting to wait until appointments are filled and projects are finished, "but we all know that there is no such thing as a quiet moment in pensions".

Another reason for the lack of reviews may be that one has been conducted previously, but no actions implemented, "causing faith to be lost in the process", Lovell suggests.

It just being a tick-box exercise is a concern of PTL managing director, Richard Butcher; the risk that a trustee board may simply have their consultant write a paper to be signed off by the board.

"*[Trustee board reviews]* are rising up the agenda, but my concern is that it won't be given proper consideration by some trustee boards," he adds.

Andrikopoulos does not feel this is a cause for concern – or at least not yet.

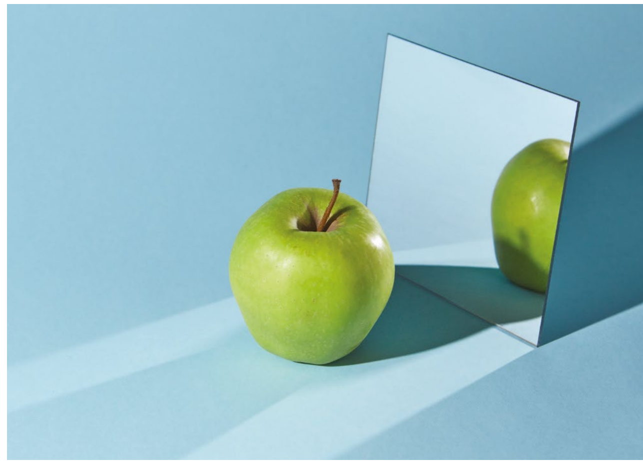
"Box-ticking is a more of a risk once *[board reviews]* become more established. It is still relatively new for a lot of trustee boards, so I find the trustees doing it enjoy getting a chance to reflect," she explains.

## Increasing focus

Trustee board effectiveness reviews may well become more established soon, not least because a recent survey from Hymans Robertson found that trustee confidence in their scheme's effectiveness declined over the past year, with 100 per cent of trustees agreeing that there is room for improvement, compared to only 10 per cent in the previous year.

Butcher considers trustee board effectiveness reviews to stem from the regulator's requirement that DC master trusts implement reviews as part of its systems and processes, and spreading out from there, while Andrikopoulos attributes it to an increasing professionalism of trustee boards.

Coomber highlights that the Pensions Act 2004 (as updated by Statutory Instrument 2018/1103) requires trustees to operate an effective system of governance. "An important part of an effective system of governance is to be able to evidence that the trustee board itself is effective," she explains.



"The Statutory Instrument also requires schemes with 100 members or more to produce an own risk assessment (ORA), including how the trustees have assessed the effectiveness of their risk-management system.

"The law requires that the ORA must be prepared at intervals of not more than three years, although in the draft of the new code, TPR is indicating the ORA will be required annually."

According to Lovell, "while we are all gaining a better understanding of what the ORA will look like, the operation and effectiveness of the board itself is fundamental to the 'effective system of governance' that it assesses. This means it would be logical for the trustee board to carry out some form of self-review at regular intervals for it to complete the ORA."

However, as Land reminds, "a review should be designed to assist the board to identify or confirm its strengths and gaps, ways to make smooth progress for the scheme and keep risks to that progress on the radar.

"It's not something to fear and it isn't a test."

**Written by Laura Blows**