

Maintaining good governance

Sue Austen explains how to create an action plan for better governance

All pension schemes need exemplary standards of governance. From trustee recruitment and engaging with savers, to delivering large-scale one-off projects such as GMP equalisation, there are many different aspects to effective, efficient scheme management. Maintaining good governance ensures that members' pension savings work hard, are kept safe and provide them with the outcomes needed at retirement.

Governance is the backbone of every scheme – whether it is defined benefit (DB) or defined contribution (DC) trust-based, master trust or group personal pension (GPP); managed by a third-party or an in-house executive team. The structure may differ, but the actions that schemes' governing bodies need to take in fulfilling their day-to-day activities and achieving long-term goals remain the same.

Here are nine steps that should be in every governing body's action plan. They will help to ensure the correct resources, skills, dynamics and operational efficiencies are in place to manage savers' pensions on their behalf.

Map out short-term projects and longer-term goals

Creating a roadmap for the future strategy will help governing bodies to identify their priorities and the risks and opportunities that are likely to have greatest impact – positive or negative – on their goals. This will help in building appropriate risk management, training plans and budgets. This roadmap can also help to identify the pace at which projects can be tackled, or what resources are required and where specialist skills from advisers or others might be needed

for a short-term project, or at a particular point in a longer-term exercise.

Match structure, operations and skills to the programme of work

Now that the activities have been mapped out, think about the skills and expertise that the governing board needs both day-to-day and to complete its long-term programme of work, and how best to align the sub-committee or working party structure to these activities. Also, agree how the day-to-day operations will work and who will oversee actions. Here a strong board secretary can be invaluable in driving actions forward and ensuring information is provided to the board at the right time to facilitate good decision-making. Governing bodies should identify which required skills are already available, and where there are gaps.

Launch recruitment exercises to fill gaps in board expertise and for succession planning

Once governing body members understand the skills and characteristics that the governing body will require for the future, they can use this as the basis to recruit people with the required traits and talents when they are needed. Succession planning should also form a part of this process. Governing bodies need to keep track of when tenures will finish, what this will mean in terms of future skills gaps and how they will nurture existing or new governing body members to replace the knowledge and experience of departing ones.

Rethink recruitment methods for member-nominated trustees (MNTs)

With a trustee board structure, driving better diversity of thought can mean

breaking the mould of how trusteeship is perceived and how trustees are recruited. Encouraging scheme members to put themselves forward as member-nominated trustees may mean rethinking recruitment processes and the language used to describe the role. Potential candidates may be deterred by advertisements that suggest they need to be an investment expert, or know everything there is to know about actuarial valuations. Trustees are not expected to know everything – but, crucially, they need to be confident in asking questions, be comfortable in a board role and happy to ask challenging questions that will hold the experts who support the scheme to account.

Recruitment advertisements can instead emphasise aspects of the role such as working in a team, or that they will be helping their colleagues gain better financial security in retirement. It is important to move away from tick-box evaluation of particular experiences, and make the role of trustees seem a more inspiring and a personal story. Rather than a text-based advertisement, it could also be helpful to record videos or create other materials that give potential candidates a more dynamic insight into the role of the trustee.

Create an inclusive board

Effective decision-making is crucial to good governance, and that means ensuring the board includes people with a variety of different views, experiences, cultures and thought processes. However, simply appointing individuals from a variety of backgrounds does not guarantee diversity of thought. It is also essential to ensure that everyone feels comfortable and confident in asking questions, putting across their views and contributing to discussions to make good quality decisions. Bringing different ways of thinking and valuing every individual for the contribution they can make is vital, and that means recognising the strengths that difference brings.



For example, one individual might feel at home with discussing high-level strategic overviews, whereas another may want to focus on intricate detail. Both of these approaches are fundamental to the success of projects but could be a cause of friction in a meeting. As part of good governance each board member must be able to recognise and respect the value of others' points of view – and this can also require additional training.

The same approach can be used equally successfully for governance committees.

Encourage sponsors to promote the benefits of pension board membership

Sponsors can also help encourage employees to apply for roles – whether as MNTs or employer-nominated representatives. Messaging from the scheme sponsor might focus on supporting employees who are ambitious and aiming to pursue a board-level career. Trusteeship is an excellent stepping-stone to understanding how a corporate board functions and how successful decisions are made. It is a great way of supporting people who want to advance their career within a company, to have a better understanding of financial information and to connect with other senior individuals who are already on the pension board. This also helps to introduce people onto the board who are at different stages in their career

and should support greater diversity of thought.

Look to the long term

Recruiting trustees does not just have to be about filling current vacancies – it can also be about nurturing individuals for the future. For example, promising candidates who are not successful in a MNT election could be excellent future prospects for board positions. This will enable the scheme to build a talent pool to support future appointments and other projects.

Think about other key people

Succession planning and maintaining the right balance of skills does not just apply to governing bodies. In-house pension schemes are also exposed to the risk of losing key people, such as managers, experienced administrators or investment specialists. Many DB schemes have become legacy arrangements with teams that are shrinking in size – but are still managing the pensions of thousands of people, as well as billions of pounds of assets under management. With shrinking teams, it becomes increasingly difficult to maintain the breadth of resources and skills that they might have done in the past and to have the flexibility to deal with additional projects alongside everyday business. Identifying which employees are a key person risk, and deciding when it is appropriate to

bring in additional expertise to handle ad hoc projects is also important.

Include advisers and other experts in plans

While governing body knowledge and experience are crucial to ongoing governance, there may also be occasions when the board needs to rely on external experts to support ad hoc projects. Boards can identify these pressure points in their roadmaps and use this as a basis for discussing needs with their current advisers and others in the market. That should include understanding costs, lead times and the scope of future work.

Analysing and documenting future scheme needs, identifying the skills and resources needed, encouraging diversity and inclusion within the governing body to help better decision-making and nurturing talent for the long term are all vital elements of governance for schemes of all types. By working closely with advisers, the sponsor and members, boards can be confident of maintaining robust management processes that will deliver good member outcomes over the long term.



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