

### Summary

- Every DB scheme is different, but there are some principles that can guide the selection of new advisers and providers, including aligning the scope of services and expertise required with the aims of the scheme.
- Efforts should be made to ensure that the selection is not overly influenced by a slick presentation.
- Third-party support may be helpful in determining when a new appointment is needed, how wide the search should be, shortlisting and assessing operational and technical capabilities prior to a selection decision.
- Within budgetary constraints, value is more important than price.
- Do not underestimate the amount of work and resources required for an effective selection process.

## Making good choices

**▶ A majority of DB schemes may be closed to new members or future accrual, but these schemes will still need to appoint new advisers and service providers for decades to come. David Adams looks at how trustees can find the right firms and individuals to fill these roles and deliver the best value services to scheme members**

Every defined benefit (DB) scheme is different, but there are some principles that can be applied to the process of selecting any new adviser or key service provider. Above all, says Capital Cranfield head of sole trusteeship, Harus Rai, who has also worked as an independent trustee for 12 years, the process must be aligned with the needs of the scheme. “Why are you looking to review the provider?” he asks. “Is this process going to add value to the members and beneficiaries?”

A majority of DB schemes are on the smaller side; about 60 per cent hold assets of less than £100 million, including 40 per cent that hold less than £20 million. Smaller schemes are more constrained in terms of the resources they are able to dedicate to adviser/provider selection processes, but the expense and effort entailed in finding and appointing new advisers and providers can deliver significant benefits.

Regular benchmarking can help determine when a change is needed. PwC pensions director, Emma Morton,

admits this is not always straightforward – it can be difficult to compare like with like when it comes to administrators’ offerings, for example – but suggests asking other advisers, or the trustees of other schemes, for informal assistance and advice when trying to assess the quality of the service the scheme is receiving.

Trustees need to think strategically about what a change of provider or adviser should bring to the governance and operation of the scheme. “Think not just about what you need now, but what might fit for the next five years,” says Independent Trustee Services (ITS) director of governance services, John Lovell.

The next decision is how widely to cast the net. A third party can play a useful role in helping to decide who to approach and how to compile a shortlist of candidates – a lawyer, consultant,

independent professional trustee, or a procurement firm, hired on a project basis.

Smaller schemes are more likely to consider using bundled services than are larger schemes, but the scheme’s requirements and practical capabilities of a provider should be driving this decision. “If you bundle services it can be more efficient, because the interfaces between service lines are managed by the provider,” says Pi Pension Trustees associate and independent trustee, Lynn Pointon. “But how joined up are the service lines within a business? There’s no big advantage if the administration and actuarial services are completely separate, for example.”

### Diverse advisers

Morton suggests that trustees should also consider how diverse a set of advisers the scheme will have. “There’s a lot of

conversation around making sure you've got diverse views and experience on the trustee board, but I'm not seeing that so much when it comes to appointing advisers," she says. "Look at the board to identify where the gaps are. You don't want everyone to be looking at things from the same perspective."

Lovell suggests trustees might use a 'pre-qualification' stage, where they consult an external expert who knows the market and/or by sending a questionnaire to potential candidates in order to decide which should actually receive the RFP document, which should be based on the scheme's requirements. He says trustees should be "totally open and transparent about the services you want and any complexities you may have in your model, so people are aware of that and can quote appropriately".

He says providers should also be asked to provide transparency. "At shortlist, get their terms and conditions, looking at things like liability caps – their liability when service is poor – termination provision and indemnity clauses. Use that part of the process to negotiate some key terms while you've got some competitive tension."

Identifying and mitigating potential conflicts of interest is also important. Again, external expertise may be helpful, says Buck UK managing director, David Piltz. "They're not always required, but in scenarios such as potential conflicts third-party evaluators provide a good degree of comfort and independence," he explains.

Once the shortlist is complete, trustees need to investigate the capabilities, working methods and culture of candidates, ideally before the formal presentation stage, in order to avoid the decision being overly influenced by a slick presentation.

"Have conversations with them, get them in front of the trustees, get them into a training session," says Hymans Robertson partner, Patrick Bloomfield. "Try and get lay trustees along to conference sessions or webinars hosted

by the firms. It all helps to build up a picture."

Muse Advisory director, Barry Mack, suggests organising a mock trustee meeting, where candidates might be asked how they would respond to a scenario the scheme has experienced or might experience. "That can be a good way to test out who you want to work with; seeing how they would react in a certain set of circumstances," he says. He thinks it would be a good idea for the whole trustee board to get involved, as a way to get buy-in from the whole board for the eventual selection decision.

In many cases it will be necessary to try to interrogate claims made for a provider's technology, but Bloomfield warns trustees to be realistic about their own technical expertise. Again, turning to external expertise may be useful here.

### Value, not cost

There is also the question of cost. It is important to be clear about exactly what the trustees would expect to be included in the price. Make it clear to candidates if cost is a very important issue, but for most advisory and provider roles pricing is not usually the key differentiator.

"Cost should not be a barrier to value," says Rai. "You have to ask, 'If we're going to pay a little bit more, is that going to add value for the members?' If you can justify it, go for the one that adds the most value."

References can also inform selection decisions. Bloomfield recommends asking for a referee who can describe how a candidate performed when something went wrong. But in many cases the most important issue is the compatibility of a candidate firm and the trustees on a personal and cultural basis.

Lovell says trustees should ensure they actually meet the people they will have to work with, not just salespeople and client relationship managers. "You can't do site visits at the moment, but you can do this through a Teams or Zoom call," he says.

Piltz recommends setting up at least one informal meeting before the

presentation. "Meet them on their own, so they feel comfortable about speaking freely," he says.

When it comes to the final, more formal phase of the process, Aon principal, William Parry, suggests that some sort of scorecard may be useful. "You can overcomplicate this, but having an idea about how important are fees, how important is performance, how important is the level of resource within their modelling team, if you're appointing an actuary – if you do that first you'll stay truer to your own priorities and beliefs, rather than being swayed by the smartest suit," he says.

Lovell agrees, but adds: "Don't be a slave to that – does this provider fit with your ways of working?"

Rai recalls an occasion when he and fellow trustees of a £300 million DB scheme were selecting a new actuary and there was little to choose between the last couple of candidates. "I remember my co-trustee said, 'If we had to go into a fight, who would we want on our side?' It was a subtle way to differentiate between them. We were able to say it would be this person – and we were proved right.

"So that's about trusting your gut. But it's only once you've made an appointment and you're working with them and build that personal relationship that you really start to see how well it works."

One last element to remember is the need to provide feedback to unsuccessful firms. As Piltz says, taking the time to do this reflects well on the scheme and its sponsor. It also ultimately contributes to the effectiveness of every service provider or adviser.

But above all, says Lovell, never underestimate the amount of work required to complete the selection process properly and get maximum value out of a new appointment. "There's more work to this than meets the eye," he warns. "Preparation is key."

 **Written by David Adams, a freelance journalist**