It's not you, it's me

The relationship between scheme advisers or consultants and trustees is at the heart of good scheme governance. Maggie Williams asks, are shifts in the consultant market and in the way that trustees work changing this partnership?

Summary

- Relationships between trustees and consultants are based on openness, honesty, and trust.
- Consultants will become more focused on implementation and less on training as professional trusteeship increases.
- Schemes may require more than one consultant to cover the specialisms they need.
- Technology has enabled a shift in the way that consultants and trustees work together.

Ongoing consolidation among pension consultants, such as AJ Gallagher's recent acquisition of Buck and Isio's purchase of Deloitte's pensions advisory services, means the number of consultancy options for trustees to choose between continues to shrink.

From a scheme perspective, the type of support and advice that trustees need is also changing with the rise of sole trustees for defined benefit (DB) schemes and professional trustees for both DB and defined contribution (DC) arrangements.

"Professional trustees change the dynamic within schemes, and consultants' service and delivery models are evolving to reflect that," says Hymans Robertson senior actuary, Patrick Bloomfield.

LCP partner, Helen Howell, adds that as the number of professional and sole trustees increases, "consultants will spend less time providing training and more time supporting and implementing decisions".

However, says WTW head of trustee consulting, Adam Boyes, the fundamental pillars of a good bond between a scheme and its advisers remain the same regardless of the type of trustees on the board: "Good relationships, from a consultancy perspective, are built on trust, transparency and openness with the trustee."

"Any trustee board needs clear advice and recommendations so we can make decisions," says Zedra Governance client director, Dan Richards. "If we can't do that, we are lost. That means regular open and honest feedback from trustees to their advisers and vice versa is vital, both formal and informal. Trustees need to be clear about what they want and to ask for help, talk it through and make sure there is clarity for everyone."

"For many trustees, it is the relationship with an individual person rather than the consultancy firm that matters," says Hymans Robertson partner and senior consultant, Rona Train. "All consultants should be able to carry out the role but it is often about an individual's approach and philosophy and how well they fit with the client scheme."

Richards adds that the nature of trustee and consultant communications has also changed. "Quarterly board-only trustee meetings don't happen as much any more, and there's been a shift to more regular catch ups."

Howell agrees: "We've all got so much better at using technology since 2020. Schemes now often meet virtually or in a hybrid way, and when they need to, rather than in line with the traditional quarterly cycle. Monitoring is much more up to date, using online tools, rather than a hard copy report that's already out of date. The result has been quicker decision making, with more recent information, and more nimble responses to emerging opportunities."

Different schemes, different priorities

While honesty and openness are at the heart of every relationship, different types of scheme will have varying requirements from their consultants.

In DB schemes, says Howell, the focus is increasingly on de-risking and long-term goals, managing strategic risk, climate change, and supporting members with retirement options such as selecting IFAs, and protecting against pension scams. De-risking in particular has put more of an emphasis on consultants' project management skills and the ability to collaborate with the scheme sponsor.

Richards adds that DB consultants' skillsets are likely to continue to grow in the future. "We have not yet seen what long-term self-sufficiency in a DB scheme looks like. That may require a different type of consultant or different expertise again."

The way that consultants work with DC schemes and the range of expertise that they need is also changing. "The biggest difference between DB and DC is that a consultant needs to be able to put themselves both in the shoes of the scheme, and those of the

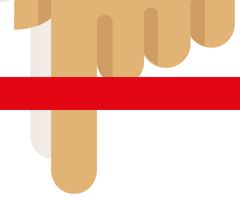
member. That could apply to designing communications, for example, and making sure they are suited to the membership," explains Capital Cranfield professional trustee, Allan Course.

"In the past many DC consultants were generalists, but this is changing now," says Train, adding that this reflects the growth of DC sections within hybrid DB/DC schemes, but also the rise of master trusts. "Master trusts will have in-house teams, so are likely to need specific specialisms to support them, such as Task Force on Climate-Related Financial Disclosures (TCFD) reporting or to advise on the use of illiquid assets. There is also often a three-way relationship now between the scheme funder, the master trust and the member, which consultants need to be able to support."

What can trustees do to make sure their relationship stays on track?

Getting consultant appointments right requires careful thought, says Course. "When engaging with a new consultant and firm, it's about finding out what they are like as an individual – is their style reserved, or informal? Will their approach complement that of the trustees? For example, I'd describe myself as a 'big picture' person, so my consultants need to bear that in mind and support me with the detail. Cognitive diversity is important."

From technology to TCFD reporting, the information needs and governance requirements of trustees has shifted significantly over the past five years

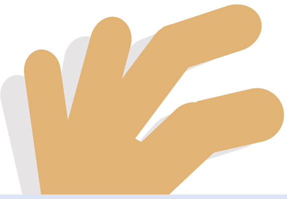


and will continue to evolve. Richards points out that it's also important to explore whether a consultant's skills fit with the scheme's needs. "Consultants will sometimes claim they are good at everything, but trustees need to be prepared to push back and make sure they are being completely open about their real areas of expertise."

"It's rare to have one adviser that covers everything now," Richards continues. "Schemes are more likely to have two or three specialists. Regulatory complexity, the rise of new relationships such as fiduciary management, and other specialisms such as GMP equalisation or de-risking mean that we're starting to see less generalist advisers and more specialists."

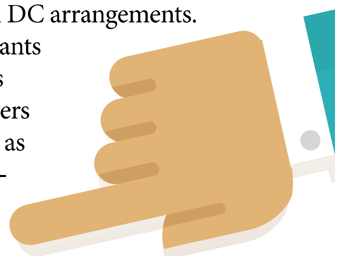
However, cautions Course, with many consultants offering additional services and functions that cause potential conflicts of interest, "we need to trust consultants not to cross-sell or add in additional extras to an assignment without proper consultation".

Boyes argues that the challenges of Covid-19 and subsequent economic and geopolitical crises have proved an acid test of the relationships between trustees and their advisers. "Schemes will have a greater understanding of whether their advisers were there for them when they needed them, how they have helped trustees overcome challenges and where the gaps between advisers may have opened up."



He predicts that over the next five years, "we will see a greater desire for advisers to collaborate and be joined-up, particularly to help with many schemes' improved funding positions, and requirements from new funding and investment regulations". That includes their relationships with other advisers, as well as with the trustee board itself. Projects such as de-risking require actuaries, lawyers, consultants and others to work together outside of trustee meetings in order to move projects forward for a scheme.

Regulatory complexity will continue to shape governance for all trustee boards, alongside scheme-specific projects such as de-risking for DB and value for money in DC arrangements. The role of consultants as advisers, experts and project managers will continue to be as important as ever – as will their underlying characteristics of openness, honesty and building trust.



Written by Maggie Williams, a freelance journalist

What to do if a relationship goes wrong

"Almost everyone will have had experience of a rough patch in a relationship with a scheme," says Hymans Robertson senior actuary and partner, Patrick Bloomfield. "How you handle that can be an opportunity in itself. It can be as case of listening to each other and addressing a problem, or of finding a different person who gels more effectively with the trustee. And sometimes even if a consultant has a wealth of knowledge and experience with a scheme, a new approach is beneficial, with a fresh pair of eyes."

"If there are concerns, I'd prefer to work with an adviser to improve the relationship – and also to flip the conversation around to ask if there is anything the scheme can do to help," says Richards. "Sometimes honest feedback is enough to help improve things. And if there is a complete breakdown, most consultancies have a client relationship function and can discuss this."

Monitoring the relationship is part of good governance from trustees' perspective. Capital Cranfield professional trustee, Allan Course, explains that his schemes use a questionnaire approach to assessing adviser performance, based around quality of service and advice, communications, reliability and client management.