



Taming the Wild West

Richard Butcher navigates the master trust authorisation process

Perhaps it's a little unfair to describe the world of DC master trusts as a Wild West frontier. But only a little.

Auto-enrolment (AE) created a huge surge in demand for DC pension schemes. In the early days the prediction was that most of the new business would flow to insurers and their group personal pensions. However, everyone knew Nest would also do well out of it, principally because they would be the utility provider of last resort.

How wrong we were. I'm not sure which one appeared first (although I have a sneaking suspicion), but PTL picked up our first master trust appointment in 2010. From there they were popping up left, right and centre.

We won a lot of appointments and, as a result, we got even more approaches but it's fair to say they weren't all of the highest quality. It did become a little Wild West. In one case I asked to see a cashflow forecast. The response was "what's a cash flow forecast?" In another, the conversation began with the caller, who had a bit of the Arthur Daley about him, telling me he was going to make me

rich beyond my wildest dreams. We put off or turned away far more than the 15 we won.

Master trusts were set to become the new giants of the industry but their quality was not universally high.

The response to this, in a remarkable display of deferred barn door shutting, was master trust authorisation. Better, however, late than never.

As if to make up for their tardiness, the government rushed to describe, consult on and refine a set of tests that master trusts would have to pass. Before they'd even finished The Pensions Regulator described, consulted on and refined how they'd run the tests. Master trust authorisation landed in April 2018, dummy entries were submitted over the following summer, the application window opened on 1 October and closed again on 31 March this year. We're waiting to hear how this will all end, but end it must, no later than October.

Describing, implementing and working out how to apply has been a colossal learning curve for all parties, which we've all had to climb at break neck speed. It's no wonder, then, that it's a

little rough around the edges.

Don't get me wrong, authorisation is a robust process that will result in improved standards and better member outcomes. But its implementation has been a little hairy from time to time.

Firstly, the same rules apply to all: insurance-based, consultancy-based, for-profit, not-for-profit, semi-government-backed, mono or multi-line. The hole is square. Work out how you fit – it's not easy. A good example is capital adequacy as part of the business continuity plan. It's eminently sensible that trustee access to cash for operations on wind up should be guaranteed. If it's not, trustees risk not having the money they need to pay to wind up a trust. In the context of a well-capitalised, PRA-regulated insurer though, it seems a little unnecessary (the quantum of risk is the same, but the likelihood of needing it is vanishingly small).

Secondly, it was initially thought the process would be (a) apply and (b) outcome, but this morphed to (a) apply, (b) TPR triage, (c) seven-week meeting and (d) outcome. In reality it's been (a) apply, (b) triage, (c) lots of Q+A, (d) seven-week meeting, (e) more Q+A, possibly (f) another meeting, (g) more Q+A and (h) outcome. Only two master trusts, well three as L&G submitted applications for two, have made it so far [*at the time of writing*].

Systems and processes have had to be changed (and although with good intent, I'm not always sure for the better), re-documented and resubmitted and detailed anomalies identified and resolved (it turns out I did the Trustee Toolkit with a defunct personal email address. They couldn't find my record. I had to dig out the certificate and send a scan).

We will end up in a good place. The cowboys will be gone. But it has been a mammoth and complex task for all – applicants as well as TPR.

Written by PTL managing director Richard Butcher