



Professional trustees: A need for greater scrutiny?

Summary

- Pensions Minister, Paul Maynard, has ruled out mandatory accreditation of professional trustees for the time being, despite steep increases in the number of professional trustees.
- The current regime around accreditation for professional trustees is voluntary, but some argue that it should be mandated.
- Industry experts believe a trustee register would provide transparency for the industry but could hinder diversity within trusteeship.

The professional trustee ecosystem has seen rapid market growth in recent years. This increase in professional trusteeship has brought their regulation to the forefront of discussion; further enhanced by the Mansion House reforms in July of last year on trustee capability, the final General Code's comments on professional trustees, and more people generally considering professional trusteeship as a career path.

Furthermore, the Department for Work and Pensions (DWP) and The Pensions Regulator (TPR) launched a combined call for evidence on trusteeship in November last year, and various professional trustee research studies have been conducted by industry firms, such as Hymans Robertson, Isio, and Lane Clark & Peacock over the past six months.

Speaking last month at the Pensions Age Spring Conference, Pensions Minister, Paul Maynard, explained the government is "not yet going down the

Paige Perrin explores the current voluntary requirements around professional trustees and whether closer monitoring is needed

mandatory path" regarding accreditation of professional trustees, and that discussions with the Financial Conduct Authority have "indicated that voluntary registers and upskilling seem to be the next best step forward".

"There may be a point, and I'm speculating here, that once that works its way through the system, there may seem to be a need for a mandatory register at some point. I don't think we are there yet. But equally, we are seeing more professional trustees emerging. We need to keep an eye on it," Maynard said.

It seems that the increasing presence of professional trustees has led to a surge in conversations around whether the current voluntary regulation is sufficient, and if it should be mandatory instead.

According to research by Isio's *Professional Independent Trustee Survey* last month, professional trusteeship increased by 16 per cent in 2023, marking the fourth consecutive year of double-digit growth.

"The industry and firms have continued to grow – 10 per cent more people and clients, and around 16 per cent higher in revenue," Isio partner, Mike Smedley, says. "There is plenty of new regulation affecting pension schemes, which impacts all trustees but there isn't a distinction between the responsibilities of a professional trustee and any other trustee, so there is no additional layer of regulation."

Present qualifications

This growth begs the question of what regulations are currently in place. There is a voluntary register for trustees by TPR and two voluntary accreditations offered, one by the Pensions Management Institute (PMI) and one by the Association of Professional Pension Trustees (APPT), with no current plans to join forces.

Although the accreditations are voluntary, PMI director of policy and external affairs, Tim Middleton, notes that approximately 80 per cent of professional trustees are accredited.

Despite the substantial uptake in voluntary accreditations, both the PMI and the APPT have discussed the need for mandatory accreditation for professional trustees.

Middleton says there are currently no plans for mandatory accreditation, despite serious conversations around the topic. "We've discussed this with TPR and the DWP," he says. "It would seem at one point this was being given very serious consideration. It is something they have seemed to have rowed back on more recently." Middleton argues that if there were any serious instances of rogue professional trustee firms then "the government would once again seriously consider making at least an accreditation and a more formal regulatory structure mandatory for all professional trustees".

An APPT spokesperson adds to

this: “APPT has argued for mandatory accreditation of professional trustees for a number of years and will continue to do so. We believe the government should outline a forward plan to achieve this and ideally seek to have a professional trustee on every trustee board in due course.”

Similarly, industry experts also have views about the current TPR voluntary trustee register. Middleton emphasises the increased control TPR would have if the register was mandatory: “It would allow them to collect the kind of data they really need for effective enforcement and to ensure proper governance is going on throughout the UK pension schemes. There’s no good reason for it not to be mandatory.”

Dalriada Trustees managing director, Chris Roberts, also welcomes the transparency a trustee register would bring: “You should be able to click up and check the trustee you’re talking to is on there. Transparency in financial markets is key and it should be simple.”

But Zedra managing director, Kim Nash, says she would be “cautious” if the level of investment put into maintaining a mandatory register of trustees would be “best placed” in the other areas TPR could influence.

So why is it important to regulate trustees and what difference would it make if accreditation was mandated?

Importance of regulation

It can be argued that tighter regulation is needed, as currently an unaccredited individual can label themselves as a professional trustee. “Whilst many of these individuals may be fully capable, there must be a concern that a few may fall short of the standards the industry has set,” an APPT spokesperson says.

Roberts stresses the importance of regulating trustees and believes “it would be absurd that an individual who is looking after hundreds of billions of pounds and thousands of members was not required to meet some kind of bar”.

He states that professional trustees

are adding a new dynamic and he would like to see a higher bar of entry for the qualifications, but acknowledges how much hard work has gone into this already. “I do expect for it to become more about having the right professional trustee rather than having a professional trustee,” Roberts explains.

Nash stresses the difficulty of testing soft skills through the current accreditations, although she recognises PMI’s efforts with its soft skills exam. However, she believes they didn’t introduce any stricter requirements than Zedra already had in place.

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“It’s much easier to test someone’s technical knowledge and ability – multiple choice questioning around your ability to bring people together is quite difficult to identify,” she explains.

Middleton emphasises the importance of ‘clear blue water’ between qualifications for lay trustees and professional trustees. He says the PMI “has suggested to the TPR that *[the regulator’s]* Trustee Knowledge and Understanding (TKU) requirements have been in force now for 18 years and haven’t been subject to any revision. They certainly need more revision and the standard that’s expected should be higher – that’s applicable to all trustees, not just professionals.”

However, Smedley raises concerns of what mandatory accreditation would do for trustee diversity. “No-one wants blanket changes that inadvertently reduce diversity in the trustee market,” he states.

Hymans Robertson head of governance consulting, Laura Andrikopoulos, agrees, commenting:

“Any mandatory regulation must strike the balance between ensuring a high standard amongst professional trustees whilst not excluding some highly capable and effective trustees due to inadvertent consequences of various rules.”

Andrikopoulos gives the example that narrow requirements on qualifications or operational requirements could make it difficult for sole traders or very small firms of trustees to operate.

Looking ahead

Whilst steps are being taken to hold professional trustees to account through voluntary means, what is ahead, and would mandatory regulation hinder or facilitate better professional trusteeship?

The APPT says it is “looking to work with TPR in adding new, relevant, updated modules to its toolkit in the period ahead” and its accredited members are being required from 2024 to undertake an annual reflective discussion.

Increased regulation is welcomed by Zedra, Nash says, but warns of being “mindful that it is additive. We need to improve governance processes rather than just creating burdens or a box-ticking exercise. It needs to be something that’s genuinely adding value”.

Roberts adds that he would like to see PMI and the APPT work together to create a central register of accredited trustees to make it clear who is accredited across both bodies. “Interaction, information sharing and development between those two bodies is important,” he states.

Middleton concludes that the PMI monitors the changes and discussion around this topic, stating: “We track those discussions very closely and if any significant changes were introduced, our range of qualifications would be adapted accordingly. Things change all the time. The initiatives that government introduce regarding trusteeship are constantly being reviewed and considered.”

 **Written by Paige Perrin**