Summary

- The Pensions Regulator has been shifting toward a more prudential regulatory model in the past year, focusing on long-term risk management, sustainability, and deeper engagement with larger, consolidated pension schemes.
- Key developments include the regulation of professional trustees, new master trust oversight, the implementation of the DB Funding Code, and collaboration with the Financial Conduct Authority on frameworks like value for money – all signalling a broader, more proactive supervisory role.
- Industry response is mixed, with some welcoming greater clarity and engagement, while others caution that increased oversight could stifle innovation unless carefully balanced with flexibility and practical implementation.

Shifting gears

As the pensions landscape consolidates and evolves, Paige Perrin examines how The Pensions Regulator is adapting its role by shifting toward a more 'prudential' style of regulation. But what does this mean for the industry, and how is it reshaping relationships between the regulators, pension schemes, and trustees?

The pensions industry is undergoing significant change. For the past couple of years, the sector has been consolidating, with larger, more complex pension schemes dominating the landscape. The Pensions Regulator (TPR) has therefore adjusted its regulatory approach to keep pace.

In November last year, TPR announced a strategic shift toward a more 'prudential' approach. The regulator's new focus emphasises risk management and long-term sustainability, rather than just compliance and oversight.

"Our mission is, of course, to make sure that those fewer, larger schemes are well-run. We're going to protect savers' outcomes, enhance the market, and encourage innovation," says TPR interim director of DC and master trust supervision, Sam Grutchfield.

Changing relationships

This change also coincides with the "rapid" acceleration in the scale of workplace pension schemes and the government's push toward fewer, more robust schemes.

Chancellor, Rachel Reeves, underscored the need for this shift in her maiden Mansion House speech, outlining reforms aimed at ensuring that these larger schemes can better serve savers while contributing to UK economic growth.

But while the shift is clear, reactions from the industry have been mixed. Some have welcomed TPR's more proactive, engaged stance, while others have raised concerns about the practical implications of this new approach.

The dynamic between regulators and the industry is being monitored, with industry leaders questioning whether TPR's new approach will truly foster innovation without stifling flexibility.

One significant change from TPR's revised regulatory strategy involves increased oversight of professional trustees. Research from Isio revealed that the 10 largest professional trustee firms are now responsible for £1 trillion of pension scheme assets and these 10 firms alone manage over 2,400 pension schemes.

This growing prominence has prompted TPR to take a closer look at how these trustees are supervised.

Many in the industry see this change as a necessary step, with LCP partner and head of strategic pensions relationships, Nathalie Sims, saying this will "change the way professional trustees interact with TPR, sponsors and advisers".

Association of Professional Pension Trustees (APPT) deputy chair, Vassos Vassou, adds that it "seems sensible" TPR should closely monitor the work of professional trustees given it has become "more prominent" over the recent years, with more schemes using them.

"Demonstrating best practice is something professional trustee firms have been crying out for, for example, to better understand which sole corporate trustee models are preferred by TPR or best practice when conducting selection exercises to appoint professional trustees," Sims explains.

However, the move has not been entirely without friction. Broadstone head of policy, David Brooks, notes that while TPR's intervention in this area is necessary, the regulator "probably doesn't have the teeth" to address all concerns, leaving some doubts about the effectiveness of its new regulatory approach.

In addition to the change in regulatory approach for professional trustees, the regulator also announced it would be changing the supervision and regulation of the DC market to make master trusts the "gold standard" in pension provision.

Standard Life head of master trust, Donna Walsh, says Standard Life is "very supportive" of this move, but notes that "more clarity is needed" on what changes to day-to-day supervision will actually look like.

Brooks also raises concerns that in the DC space, two regulators, the Financial Conduct Authority (FCA) and TPR, are responsible for different types of DC arrangements, which can lead to inconsistencies in regulation and regulatory burden.

However, he says with the general policy preference for master trusts, which fall under TPR's regulation, TPR will "likely remain an important regulator" in the DC pensions landscape.

On the other hand, Grutchfield emphasises that one of the advantages of TPR's new approach is the reduction in regulatory burden.

"We're going to have increasing engagement with schemes and experts while streamlining our processes," he says. This new strategy includes only requesting information directly relevant to regulatory activities, aiming to enhance efficiency.

Walsh supports a productivity-focused lens and urges TPR to work with the Department for Work and Pensions (DWP) to identify and remove regulations that offer limited value to members.

Additionally, Walsh calls for greater alignment between TPR and the FCA, especially on overlapping issues such as decumulation, the charge cap, and fit and proper assessments.

Regulatory evolution

This regulatory evolution has already started to shift, with the work TPR and the FCA are doing on the value for money (VFM) framework.

Walsh says this collaboration should be viewed as a "very positive development," as it lessens the risk of regulatory arbitrage between contract-based and DC trust-based pensions.

VFM has been a big topic of focus for TPR and the FCA, with an industry consultation launched last August on the framework. The response to the consultation was mixed. The industry welcomed the direction of movement but

The other regulator – Financial Conduct Authority (FCA)

TPR is not the only regulator that is adapting its regulatory approach. The FCA set out its five-year policy in March, focused on improving consumer protection and enhancing financial support for savers. In particular, the policy emphasised a focus on targeted support to ensure individuals, especially those who do not currently access financial advice, are equipped with the support and information they need to make informed decisions about their financial future. In addition to this, the FCA outlined its four key priorities in its strategy: Becoming a smarter regulator, supporting sustained economic growth, helping consumers navigate their financial lives, and tackling financial crime.

raised several concerns, including that certain components of the framework were "overly complicated" and "inflexible".

A key concern was the proposed red, amber, green (RAG) assessment, which pension professionals said was "too blunt and severe" and under these proposals, "anything short of green is a failure".

However, in a recent podcast on the framework, TPR and FCA addressed this particular concern, with TPR interim director of policy and public affairs, Patrick Coyne, stating that the RAG rating preventing schemes getting better was not the intention of the framework and said the regulators are currently "looking hard at how to strike the balance" between improvement and accountability.

This comment suggests that TPR are listening to industry feedback and taking action instead of remaining rigid in its approach, indicating a willingness to adapt to better support pension schemes in their improvement efforts.

Both the FCA and TPR believe the implementation of the framework will drive long-term value and transparency, which should enable decision-makers to consider if investment return is generated in the "right way".

TPR is also outlining its expectations on significant issues, including pension dashboards, which it has released a new compliance and enforcement policy for.

In addition to this, TPR has recently published its digital, data and technology strategy that signals a broader push to modernise how the industry engages with technology – to meet regulatory expectations and to improve outcomes for savers.

Part of that modernisation includes the implementation of the new DB Funding Code. Just last month, TPR published its DB Annual Funding Statement, which saw the regulator provide clarification on the covenant and trustee's assessment of supportable risk, something trustees had been asking for.

"The regulator needs to understand and manage the bigger picture... without crushing creativity and valuable development or hampering government policy aspirations"

Innovation is another key pillar of TPR's evolving regulatory approach, with an innovation support service planned for launch in the summer of 2025.

Independent Governance Group head of policy and external affairs, Louise Davey, notes this desire for innovation will require close collaboration with the industry and at the right level, to make sure the objectives are clear and that the regulator understands the challenges.

"It's important that the policies and approaches to regulating the different players in the market do not hamper TPR's desire to see more innovation and the benefits it brings to members," she says.

Altogether, these developments reflect a regulator that is actively adjusting its methods to keep pace with a fast-evolving sector.

The bigger picture

However, many in the sector believe it is still "early days" for TPR's new supervisory approach. Walsh points out that the full impact of this approach will take time to become evident.

Davey notes that TPR's advisers are becoming more involved in supervisory conversations.

"I think that's something to be welcomed – it allows for far more granular and nuanced exchanges, which many trustees will welcome," she adds.

Brooks agrees that TPR's intent to engage more deeply is evident, particularly around the DB Funding Code. However, he warns that increased oversight must be handled carefully to avoid stifling the innovation TPR aims to promote.

"The regulator needs to understand and manage the bigger picture," he says. "Sensible risk controls and monitoring need to be put in place without crushing creativity and valuable development or hampering government policy aspirations."

LCP partner, Steve Webb, adds that the government's push for economic growth has noticeably shifted the "mood music" around regulation.

Both the FCA and TPR, he says, are now being asked to reduce burdens on business while promoting growth. He says that for TPR specifically, the challenge ahead lies in adapting to a world of DB surpluses and delivering a prompt, useful DB Funding Code that enables the safe extraction of those surpluses within a clear regulatory framework.

These developments point to a regulator that is evolving in both style and substance. TPR's move toward a more prudential style of regulation reflects the broader shifts in the pensions landscape.

The success of TPR's transformation will rely on its ability to balance valuable conversations with the industry, supporting flexibility and innovation, while maintaining effective regulatory oversight on behalf of savers.

Written by Paige Perrin