

A long-term affair with a key person

✓ Paul Sturgess explores the risks of relying too much on the knowledge of long-standing team members



For those of you hoping this article's title might lead to stories of an illicit encounter, I apologise – my focus is to highlight the importance of scheme knowledge held by personnel at every level.

Pension schemes by their nature are complex, long-term affairs, taking account of the provenance of the sponsoring employer with the various twists and turns of corporate disposals/acquisitions, as well as the complex regulatory journey. This means understanding scheme requirements involves more than just a good understanding of tax and pension rules and regulations. It needs some historical context. I have often heard pensions professionals talk about schemes as though they are homogenous – after all a retirement is just a calculation operating under a common tax environment. This would be fine were it not for the fact that a tax regime is often the only thing individual schemes really have in common.

The issue however goes deeper, encompassing lower level operational

resources where people undertake tasks to deliver specific objectives. The net result is that schemes are reliant on several subject matter experts (SMEs) to keep the machine turning. It is the risk of this reliance that trustees, sponsors and providers need to be alert to.

Any good risk management framework will feature key-person risk, but I would counsel against stopping there. Key-person risk does not necessarily sit solely with the obvious senior resources such as pension managers or directors, but flows to those sitting within providers and in-house functions, including roles relatively junior in nature. These are the people who know why a particular item of data or transaction was processed, in a particular way, on a particular day.

It is common these days to talk about the importance of data and our industry is beginning to wake up to this, but it is less common to hear focus on lower level processes and their data flows. Where processes are documented effectively at a detailed level, this isn't an issue, but how often is this the case? In fact, within

large organisations, there will likely be instances where different teams of people do the same things in different ways.

A classic scenario is when a scheme changes administrator, or an employer gets subsumed into another corporate. These events lead to a changing of the guard and the risk of lost knowledge. Sometimes a new broom is what is required, but that broom is most effective if it knows which furniture to move – people still retain critical knowledge in their heads rather than it being documented. This doesn't mean they're trying to leverage their knowledge power – more often it's they're too busy doing their day jobs to take the time out to document it. After all, they know how to do it, so they think they do not need the benefit of the documented process.

Trustees and providers need to look beyond high-level, key-person risk and make sure their providers/teams understand the detailed level of exactly who the key person risk is centred around, understanding what procedures are documented and to close any gaps.

Now I hear you say 'this is just PASA on a mission to make sure the world recognises the importance of high-quality administration'. There may be some truth in that, but I am also highlighting this as someone who has seen these risks play out and have an understanding of the procedural and administrative infrastructure schemes and members depend on.

So unlike an illicit encounter – my advice is, document everything! Capture and share every bit of information about what that key person knows and how they do what they do – I promise it won't come back to haunt you!

✉ Written by PASA's Membership and Funding Committee chair, Paul Sturgess