Summary
• Master trusts now have until 31 March 2019 to apply to be authorised by The Pensions Regulator.
• Schemes have had six months to voluntarily pre-apply in order to receive regulator feedback, but TPR is still delivering clarification around certain points.
• In defined benefit land, master trusts are increasingly being used as a consolidation vehicle for schemes.
• Popularity and innovation of the DB master trust vehicle is increasing. However, a lack of regulatory framework means that some providers could face issues down the line.

Brought to heel

With defined contribution master trust providers now invited to apply for authorisation, Theo Andrew explores how they have been brought to heel, how The Pensions Regulator has been chasing its tail and what it could mean for defined benefit master trusts

You wouldn't think about owning a puppy without giving it some degree of training. However innocent and well intentioned they may seem, in allowing them create their own boundaries they will inevitably stretch yours and bad habits will set in.

It is precisely these bad habits that The Pensions Regulator (TPR) is attempting to train out of master trusts through its incoming authorisation regime, which as of 1 October 2018, has been open to all those looking to obey the new master trust marketplace.

From the consultation period, which started in March of this year, through to the regulator's readiness review aimed at giving detailed feedback for applying providers, it has been a learning process for both the regulator and industry, as it attempts to keep providers on a leash.

For the most part, it has had the desired effect. According to TPR's latest figures, around 30 master trusts are exiting or are expected to exit the market, meaning that there are 58 schemes that will apply for authorisation over the coming months, not a far cry from the 56 predicted by the Department for Work and Pensions back in March.

On the flip side we have the different breed of defined benefit master trusts. With consolidation the next best thing to hit the pensions industry, be it super or collective, the DB master trust vehicle is quietly whirring away in the background, ready to be utilised. However, currently without a master to whip it into shape, the future regulatory regime for this consolidation vehicle has yet to be constructed.

Path to authorisation

As the path to authorisation reaches its final phases, it is clear that it has been just as much a learning curve for The Pensions Regulator as it has for the industry. Having never delivered anything of this nature and with high standards to set, it was never going to be a walk in the park.

For Salvus Master Trust founder, Steve Goddard, one of the main issues has been resourcing for both them and the regulator, but he also has concerns around the master trusts exiting the market, and asks the question, 'what happens if they can't find a home?'.

"It may be that we see a blackout on consolidation as people look to minimise the impact on authorisation. This would certainly be an unexpected consequence," he says.

This has followed calls from within the industry to name those master trusts who have been forced to wind up and exit the market, and explaining their reasoning for doing so.

Hymans Robertson senior consultant, Sharon Bellingham, explains: "Whilst it is undeniably important to understand which providers will indeed be exiting the market, it is also just as important that this information is shared at the right time.

"That right time is likely to vary from provider to provider once a clear solution and plan of action has been put in place. It is vital that the consumer feels protected and informed throughout this process without causing any undue or unnecessary fears."

As well as those who are exiting the market, issues have also been raised about those who are set to be authorised. Timing here is also crucial.

This is probably a point where the regulator can't win. Under current plans, TPR is set to announce authorised trusts in batches, "based broadly on when they are filed to us", according to a TPR spokesperson.

ITS client director, Dianne Day, says there will be a competitive advantage to those who are authorised first, describing a "tension in the air, like you are at the beginning of a competitive race".

Despite this, Willis Towers Watson DC master trust Lifesight, head of proposition development, David Bird, believes that this is in part convenient for the regulator, as although the window for authorisation is now open, he questions readiness to handle submissions from the get go.

"The window is open and we are still getting stuff from them, which makes life quite hard really. I'm sure they don't want people to apply at the beginning anyway so I'm sure they're quite happy with that," Bird says.

If there was any evidence needed that TPR is still learning throughout the process, its very own non-executive chair said he is still unsure on how confident he can be when it comes to the process succeeding.

"How confident can I be? I don't know, I don't have a crystal ball, I don't know how many schemes will eventually apply, I certainly don't know how many of those who apply will be rejected, and therefore forced into consolidation – that is to second guess the authorisation process."

There is however an underlying confidence to the regulator's work, and much of the industry has been impressed by its knowledge, given the huge task that they were faced with.

Another area of concern for schemes has been the feedback given to them after going through the readiness review.

While Boyle states that a "vast majority of master trusts" have very constructively engaged with them throughout the process, for some providers, the goalposts have been moved too often, to the point of becoming blurred.

Bird argues: "We went through the readiness review, which was a good exercise, and then they reissued all the application forms in quite a different format with some very different requests for information and clarification around what they want.

"I would say that the forms and clarity is much improved and will mean that we can be more certain about what they are asking for, but it's a little bit late to cover some of these things. Some of what they are asking for make us scratch our heads."

Overall however, Bird says that he has been pleased with the timing of their feedback and that Lifesight fully expects to apply during October. As for the rest, it's a case of watch this space over the next six months.

DB master trusts

In the on-trend world of consolidation, the idea of defined benefit master trusts aren't quite hitting the headlines like CDC or superfunds, but more, quietly getting on with it in the background.

Proponents of defined benefit master

trust would argue that its most attractive feature is that schemes are able to access this consolidation vehicle now, while the rest of the industry squabbles in the background about how to consolidate the legacy DB schemes.

The argument for consolidation certainly seems to be winning the day, with The Pension Superfund chief executive Luke Webster stating that he believes liabilities suitable for consolidation could amount to around £500 billion by 2023.

Despite this, there are positive signs within the industry that DB master trusts might be picking up some traction and CMS partner Keith Webster believes that innovation is the key.

"The newcomers to the market are trying something more innovative and it is an area of the market that I think is ripe for innovation. Not least because there is an awful lot of liabilities that are going to have to be run on for some time," he says.

TPT, which has been in the DB consolidation market for a while, knows how well the DB master trust model can work. Originally focused on the third sector, it is now setting its sights across all areas as it eyes opportunity for growth.

"The drivers towards consolidation are difficult to argue against, I was trying to get from the regulator a tally on how many trustees there are, my assumption is that it is going down year-on-year … I speak to many schemes who are struggling to retain trustees because they are retiring and where do you recruit from?"

Under a master trust model, the scheme would be governed by a single master trust board, responsible for "stewardship of all the assets and management and oversight of a common administration platform and set of advisers", an important pull in an time where it is becoming increasingly difficult to find new member-nominated trustees.

JLT Employee Benefits head of technical, John Wilson, believes that employers moving to master trusts is a matter of time, and says that this consolidation vehicle has a distinct advantage in requiring no new legislation to make it work.

He says: "The master trust pension scheme can offer an employer all the benefits of shared services and asset pooling, including economies of scale and investment outperformance. In addition, the scheme will be run by a single professional trustee board."

Perhaps one of the reasons the DB master trusts aren't getting the coverage that of superfunds are receiving is that they still have unanswered questions around member security and cost certainty.

As well as this, schemes should be wary of the current regulatory framework in which schemes are currently operating. If popularity increases, they could catch the eye of the regulator.

Keith Webster says: "As we have seen in the DC market, providers will have their schemes set up and a few years later the regulatory environment changes and they need authorisation. All of a sudden everything else is more expensive. It's quite difficult for a DB provider to see what the compliance is going to be a few years down the line as they take off.

"The more you set up the new providers appropriately the less regulatory concern there will be and therefore less risk of regulatory intervention."

As the regulator's new regime comes into practice for defined contribution master trusts, and the more that consolidation vehicles such as defined benefit master trusts start to grow, it could be those providers are left chasing TPR's tail.

It does however appear that the incoming authorisation regime is having the desired effect of consolidation in the DC space. To what degree this will be a smooth process remains to be seen.

Written by Theo Andrew