Master trusts: Coming together

Gill Wadsworth explores the current spate of consolidation within the master trust sector

Summary

• Regulatory reform is driving UK master trust market to shrink to a predicted handful of providers.
• Concerns exist over whether market consolidation will lead to lower service levels for members.
• Trustees urged to focus on value rather than cost when evaluating the master trust market.

The ever-decreasing pool of UK master trusts shrank yet further this July with the acquisition of National Pension Trust from XPS Pensions Group by SEI Investments in a deal worth £425 million.

The purchase continues the well-publicised consolidation trend in the master trust sector, which has contracted considerably following the imposition of greater governance requirements by The Pensions Regulator (TPR).

The master trust authorisation regime introduced in 2018 demands those running such schemes are fit and proper; financially sustainable and supported by the funder; have adequate systems and processes in place; and have a continuity strategy.

In the years succeeding the rules, is the number of master trusts fell from 90 pre-regime to 36 at the last count.

Sackers partner and pension lawyer, Helen Ball, says: "We helped some master trusts to wind up in the period following authorisation because they knew they weren't designed to operate under that regime. Those that remain made a conscious decision to be authorised because they either see some profit to be made, or they were an industry-wide scheme with non-associated employers and they didn't really have a choice."

Looking to the potential for profit, TPR figures show that the assets under management for the sector have rocketed from £52.78 billion for the years 2020 to 2021 to £105.3 billion in the year 2022 to 2023, while membership has shot up from 18.8 million people to almost 24 million over the same period.

Figures from administrator Go Pensions covering the first six months of 2023 reveal 5,000 new employers have moved into DC master trusts, bringing with them over a million new members.

Skills, capability and culture

This growth is set to continue as the Mansion House package of reforms and consultations focus on whether trustees have the 'skills, capability and culture' to comply with their duties and legal obligations, which may lead them to conclude that members are better served by the economies of scale boasted by the master trusts.

Zedra managing director, Kim Nash, says: "If employers want the best outcomes for their members, they need a scheme that is able to offer a strong investment proposition and a communications and engagement strategy that genuinely supports the entire journey at retirement options."

Nash continues: "The cost of doing that in-house can be high and trustees may not get the best experience for their members. Also, smaller schemes typically can't offer drawdown and pension freedoms. Master trusts offer an affordable solution."

All signs point to the UK emulating the Australian DC market, which is dominated by a handful of super funds.

Hymans Robertson master trust lead, Alison Leslie, says: "The drive for size and scale in the UK is similar to what we've seen in more mature markets elsewhere. The Australian market gives a tried and tested example of where master trusts have done well and, while it will take some time, the UK will follow suit. Maybe in 15 years' time we might reach 25 master trusts, which will likely drop to a very small number."

But as the number of employers seek to move their DC schemes increases while simultaneously the number of master trusts dwindles, there are questions to be asked about the potential impact on the quality and cost of the services available.

A white paper from Master Trust Atlas, which was subject to an acquisition by SEI in 2021, states: "Competition *[among master trusts]* is fierce as providers seek to scale quickly. For example, offering conversion terms that are driven by deal fever and do not consider the potential long-term effect

of such terms on scheme members and the employer. The danger here lies in price becoming the only determinant of value, which can quickly result in a commodified business and a race to the bottom with unsustainable cost bases."

Leslie agrees, noting: "As more players leave the market, there is the risk of a herding instinct where every provider moves towards the middle *[rather than improving]*."

However, she argues that with enough competitors in the sector, there would still be a desire to innovate and deliver decent member outcomes.

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Quality without quantity

It is critical then that where schemes are subject to a bid from a master trust, incumbent trustees and employers focus on the merits of the service offering rather than be wooed by an attractive price.

The Financial Conduct Authority and TPR's joint Value for Money framework announced in July following an industry consultation will, they say, help to protect members from falling into cheap but poorly designed schemes.

The new approach will require all DC schemes, including master trusts, to publish metrics across three key areas: Investment performance, cost and charges and quality of services, including factors such as scheme administration and member communication.

A TPR spokesperson tells *Pensions Age*: "As consolidation continues at pace in the DC sector, our position is clear: No saver should be in a poorly performing scheme that does not offer value for money. The Value for Money framework enables comparisons on value to be made across the market, driving up standards."

The spokesperson adds: "In addition, master trusts are required to be authorised and supervised, which means demonstrating that they meet high standards across their people, processes and financial position on an ongoing basis."

Ball notes that value for money, alongside the Mansion House focus on trustees' duty of care, means master trusts will be under to pressure to maintain standards. Part of that pressure will be making sure firms are adequately equipped with the requisite skills and expertise to meet the needs of the diverse needs of millions of individual members.

Standard Life head of master trusts, Donna Walsh, says: "Any master trust that is growing, whether that is organically or through acquisitions, needs to have resourcing plans in place well in advance and across the entire business. As a provider, we want to grow and to do so safely, maintaining excellent service levels to members."

Getting personal

The ability of such multi-billion-pound operations to offer members any meaningful degree of personalised service is another consideration for single employer scheme trustees when weighing up the master trust offerings.

Nash says: "Trustees in a standalone scheme knew their members closely, which means master trusts increasingly are having to think about the different segments of their membership and tailor communication to different age cohorts for example."

Technology will play an ever-more important role in helping master trusts engage with individuals.

For example, Walsh says Standard Life is "already using dynamic, automated communications based on what we

know about the member and actions taken to date. This dynamic messaging is also used in the member dashboard and mobile app, including personalised videos".

"We are now taking this to the next level. For example, if you know that somebody has looked at our investment hub, we will use this information to effectively engage with them next in a way that is helpful, non-intrusive and empowers the member," she adds.

As the number of master trusts falls, concerns about corresponding declines in service appear – as yet – to be unfounded. Efforts to ensure providers are held to account and assessed on their efficacy rather than their price should continue to drive innovation and divert a race to the bottom.

The proposed Mansion House reforms – if they come to pass – may drive consolidation in the master trust market even more quickly, but they should also afford members greater protection and ensure their best interests remain front and centre of trustees' minds.

Written by Gill Wadsworth, a freelance journalist

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