End of the 'one-stop shop'

Garry Wake reveals some often-overlooked disadvantages to using one provider for both administration and actuarial work

Many trustee boards have historically favoured a 'one-stop shop' approach to appointing service providers. The argument goes that with operational teams working closely together, trustees can benefit from shared technology, reduced costs, improved quality and more efficient processes – but how true are these claims?

The actuarial/administration relationship is the most commonly-cited example of where the benefits of a one-stop shop are maximised. While nobody would question the importance of a productive relationship between these two parties, the benefits of having the same provider fulfil both functions are much more questionable. In fact, some compelling disadvantages are often ignored.

Technology is a good example. The nirvana of a fully-integrated administration and valuation system is rare. For the overwhelming majority, the data transfer method is identical for all parties, regardless of whether they work for the same company or if data is being exchanged externally.

In fact, having an independent actuary and administrator often results in more robust and transparent reporting on data quality, efficiency and calculation accuracy. Neither party benefits from accepting inaccuracies and there is a greater obligation to report any misgivings about data quality or procedural failings directly to trustees.

But what about knowledge sharing? Surely appointing the same company for both roles means knowledge can be shared more easily and the provider will have a clearer vision of a trustee board's aims? On the surface, this is a logical and compelling argument. However, achieving optimum interaction in a multi-disciplinary team environment is extremely challenging. Administration and actuarial teams rarely work side-by-side in the physical sense and each function has its own training, management and operational targets. This often results in internal relationships no closer than those with people in an external organisation.

In the modern working environment, it doesn't matter if you are picking up the phone to discuss a client issue with someone who works on the next floor, or in the next country. What matters most is the willingness to cooperate in the common interests of the client, and the tools and training an organisation gives its personnel to achieve this.

So, what about cost savings? Well, in the short term, costs are likely to be lower for smaller schemes (fewer than 1,000 members), as consultancies initially discount the overall basket of services to attract full service contracts. More shockingly, administration has also been used as a loss-leader, with the service being given away at low costs so that more lucrative consulting and actuarial contracts can be won. Whilst this might seem like the deal of the century at the time, it unavoidably leads to costs rising after the contract has been secured or quality being sacrificed.

Understanding a provider's target market is also important. Trustees may not appreciate that many multi-disciplinary consultancies have different target markets across each business division. A small client with relatively complex funding, sponsor and de-risking requirements is likely to be a highly attractive proposition for most consultants and actuaries, but is unlikely to be of interest to many administrators as it lacks the essential ingredient of scale; and what qualifies as the optimum client size varies significantly across providers.

Pension administration, just like actuarial services, has become, to the benefit of trustees and members, a highly specialised function. Consumers of pension services have realised that they can reduce costs, improve quality and get expert advice from a selection of specialist organisations who are more closely aligned to their individual service requirements. Professional trustees have been the first to capitalise on this approach with most single-service appointment opportunities being driven from this sector. Equally, trustees are quite rightly no longer accepting a mediated administration service and compliance updates from their consultants or actuaries, and are demanding a direct working relationship with their administrator.

Trustees need decide what their priorities are in terms of buying a service, but they also need to be realistic about the business realities of providing a range of highly-specialised technical services. The decision for trustees is, how much are you willing sacrifice for the convenience of a single point of contact?

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