

# Trustee board effectiveness

## Is your scheme meeting the expected standards of 21<sup>st</sup> Century Trusteeship?

October 2018



### **The Pensions Regulator (TPR) research (September 2018) emphasises again the need for schemes of all sizes to raise standards of governance and trusteeship to deliver good outcomes for members.**

The research shows mixed results. Smaller schemes tend to display poorer governance standards and generally score lower than larger schemes on their trustees' adherence to the DB code.

On average DB schemes met six out of a possible eight expectations but smaller schemes performed worse than large schemes across all expectations. DC schemes generally performed worse than DB schemes. Only 9% of DC schemes met all nine of the key expectations. Some key statistics from the TPR research are set out below.

### **TPR has stated that it will be actively targeting schemes that are less likely to be meeting the governance standards it expects.**

#### **01 Good governance**

Make sure you get the basics right. TPR says 'Failing to get these basic legal duties right is likely to be a sign of wider failings. We pay closer attention to schemes that we believe pose a greater risk'.

#### **02 Roles and responsibilities – 85% DB/79% DC**

schemes have an appropriate process to monitor delegated activities but in our experience there are not always clear roles and responsibilities, leading to overlap and inefficiencies, or to operational gaps.

#### **03 Clear purpose and strategy – 74% DB/37% DC**

schemes meet the standards for a clear business plan with strategic objectives.

#### **04 Trustee training – 92% DB/47% DC**

schemes have training and development plans in place. Only 86% of smaller DB schemes have training and development plans in place. Whilst this was found to be the most common expectation to be met by DB scheme trustees, in our experience this is still an area for improvement, with scope for more targeted and personalized development plans linked to the scheme's objectives and business plan.

#### **05 Skills and experience – 58% DB/46% DC**

schemes have a documented policy to assess the fitness and propriety of new trustees. This was disappointingly found to be the least common expectation to be met by DB schemes, not least as 'fitness and propriety' is a legal requirement.

#### **06 Advisers and service providers – 81% DC**

schemes have a good understanding of their service providers (not assessed for DB schemes) but in our experience many schemes do not have a policy for how often they will review the performance of their advisers.

#### **07 Managing risk – 84% DB/34% DC**

schemes have a risk register. However, KPMG experience is that few schemes have the required standards of internal controls in place.

#### **08 Managing conflicts of interest – 67% DB/32% DC**

schemes have both a conflicts of interest policy and register of interests. This was a particular area highlighted by TPR and we can expect more focus on this in the future.

#### **09 Meetings and decision making – 79% DB/26% DC**

scheme trustee boards meet at least quarterly. Fewer than half of small DB schemes held board meetings at least quarterly.

#### **10 Value for members – 41% DC**

schemes research members' characteristics, preferences and needs when assessing default investment strategies and VfM. We are aware of very few DB schemes that have a policy for how they will consider VfM.

### **Turn over to understand more about what TPR expectations are in these areas.**

#### **Find out more/take a board effectiveness review.**

If you'd like to find out more about our work in this area, what other trustee boards are doing or how you can run a board effectiveness review that covers all the key areas of governance in an independent, anonymous, efficient and easy way then, contact us using the details below or speak to your usual KPMG consultant.

## Here are some of the Regulator's expectations:

### 01 Good governance

Spend time/resources on governance.

Have motivated, knowledgeable, skilled trustees in place.

Have the right structures and processes to enable effective, timely decisions and risk management, and to provide clear scheme objectives.

Understand that 'delaying a decision may have the same effect as deciding not to act'.

### 02 Roles and responsibilities

Focus on strategic issues and consider delegating some activities/decisions.

Document how delegated decisions are made, escalated and reported to the board, who does this, and how.

Have controls in place to monitor delegated activities.

Have clear, documented and monitored contractual terms, terms of reference, tables of accountabilities/delegated responsibilities, and service level agreements.

### 03 Clear purpose and strategy

Develop and regularly review a scheme business plan which needs to cover:

- Clear, long-term goals and interim objectives around key areas of focus.
- How you propose to meet these.
- How you will measure and monitor progress.

Evaluate progress against the business plan at each board meeting and update the plan.

Consider the priorities in the plan. Can certain activities be delegated to free up the trustees' time and enable the board to take more of a strategic, proactive approach.

### 04 Trustee training

Trustees are legally required to have relevant knowledge and understanding of pension and trust law and key scheme documents.

Complete regular evaluation of training needs.

Identify gaps in knowledge and understanding by carrying out self and board evaluations.

Link training plans with your scheme's business plan.

### 05 Skills and experience

Review board performance and effectiveness annually referring to business plan objectives.

Establish and maintain a clear policy for assessing the fitness and propriety of individuals appointed to the trustee board. Typically this would include asking for evidence of any qualifications as well as their individual financial probity

### 06 Advisers and service providers

Agree and set clear criteria when selecting advisers.

Monitor adviser performance and review contract terms.

Scrutinise advice.

### 07 Managing risk

Regularly review/update the risk register documenting risks rated by likelihood against impact (at least quarterly).

Establish mitigation strategies to manage risks and review controls regularly to ensure they remain effective.

Continually review exposure to new and emerging risks.

Carry out detailed analysis of risk management framework annually.

### 08 Managing conflicts of interest

Have a conflicts of interest policy documenting the trustees approach to identifying, monitoring and managing conflicts if they arise.

Have a register of interests for recording conflicts that is reviewed at each meeting.

Have the policy reviewed by a legal adviser periodically, to pick up scheme-specific issues.

Outline approaches to adviser conflicts and review advisers' conflicts policies.

### 09 Meetings and decision making

Agendas should be circulated two weeks in advance.

Important topics should be covered at each meeting.

The Chair should effectively lead, demonstrate decision-making skills, and encourage open, constructive debate.

Trustees should arrive fully briefed and prepared to discuss each item.

Boards should meet regularly enough to maintain effective oversight and control (usually at least quarterly).

### 10 Value for members

*For DC schemes*, trustees must produce a Value for Members (VFM) assessment and include findings in an annual Chair statement.

*For DB schemes*, tPR strongly recommends that trustees assess value for members.

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