INSIGHT

Time flies

4 MINUTE READ

Rosanne Corbett, Director, Muse Advisory

It has been nearly one year since the Pension Regulator's General Code of Practice came into force. At its heart lies the Effective Scheme of Governance (ESOG) and the Own Risk Assessment (ORA). We've partnered with many trustee boards and pensions managers over the last twelve months, reviewing their systems of governance and planning their approach to risk management within the ORA framework.

At the heart of all the discussions we've had with schemes is implementing the right policies, processes and controls to align long-term strategy and objectives with a more dynamic approach to risk. Critical thinking around the management of risks and making sure all risks are captured and known ensures governance remains fit for purpose.

I outline some of my observations as we've worked with schemes to ensure they comply with the General Code, and in most cases, go beyond compliance:

The real importance of a gap analysis

Having the right documents and processes in place is fundamental to supporting good governance. What makes governance effective though is how these are all brought together in a consistent way, with a flow of clear delegations so that roles and responsibilities are understood and reporting on those delegated activities is focused on what matters to the Trustee.

A common starting point for many schemes is to undertake a gap analysis to assess what policies and processes they have and don't have in place. However, it's important to highlight that this should not be a location finder exercise, as that doesn't tell you if they are fit for purpose. In our experience, there has been less focus on assessing if existing policies and processes are aligned and working well in practice and we believe this should be a key area of focus.

Trustees will need to assess how well their policies are being implemented through the underlying processes as part of the ORA, so doing this as part of the gap analysis makes most sense.

Why wait for the ORA to find that things aren't being done or decisions aren't being taken in the right way when some early probing now could unearth this? An example that crops up a lot is discretionary benefit processes not being updated, or agreed processes being buried in old minutes, Deeds of Amendment not being factored into processes and calculations being wrong. This isn't just a headache to resolve, it impacts members directly in some cases.

Similarly, documenting what's in people's heads as early as possible will help with your ongoing governance, as well as the ORA. Many trustees underestimate how much information is held in people's heads, thinking that the running of their scheme is documented when it's not.

Roles and responsibilities

Another important area is roles and responsibilities. We sometimes find that the tail wags the dog, with those doing the day-to-day work framing the conversations the Trustee Board has. This is because service providers give the information they think the Board wants to see, rather than being directed by the Board on what it needs to know. Without a clearly articulated and documented governance framework, and a clear view of objectives, as trustee boards change (sometimes wholesale) reliance is placed on those at an operational level. If the Scheme had the structure in place that remained steadfast regardless of Board composition, the Trustee could drive the conversation based on its objectives, its key risks and what matters most to it.

A common gap is having clear oversight over delegations. There will often be terms of reference in place where there are committees, but not necessarily a framework for what gets delegated down to the pensions support, providers and potentially advisers. Understanding everyone's role in how the scheme runs is really important if the Trustee is going to hold them to account. Knowing what the Trustee's expectations are for the services it receives from its advisers and providers (be they in-house or outsourced) is a fundamental starting point for managing their performance, which is a new requirement of the Code.

Taking the opportunity

The Code work is an opportunity to take stock and look forward. Governance arrangements can become unwieldy over time, with things being bolted on and added to as people come and go. We don't always have the time to take a step back and look at what is proportionate and right in the current circumstances, which will be different to, say, 10 years ago.

For smaller schemes, whose governance isn't documented as well as it could be, spending some time doing that now will only help future colleagues fulfil their oversight responsibilities and those who come to support the scheme in future do so in the best way.

The Muse approach is do the work required in the ORA as part of our ESOG and risk management work. You will not need to duplicate it or unpick things when you come to the ORA, as the evidence for the ORA will already be firmly in place.

Our biggest learning over the last twelve months is the misconception that this is work is just about having policies in place and that the gap analysis can be done in a few months and is a tick box exercise. TPR was right in the draft Single Code that this was a significant piece of work. Schemes that have just undertaken a location finder exercise are now realising that there's more work to do to know how the policies and processes are working in practice. And that's before considering risk management! (which we will do in our next article).