

# Pensions Conference June 2013

## Pensions Governance – a Contrarian View

Antony Miller  
20-20 Trustees Ltd  
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# Agenda

- Case studies
- Survey
- Current pensions governance
- Regulator's governance focus
- Governance 1<sup>st</sup> principles
- Corporate governance & related law
- Governance & success
- Case for Trustees/MNTs
- Contrarian View
- Questions & Discussion

# Disclaimers

- My views
- Primarily based on SMEs
- Influenced by distressed / insolvent cases
- Will not be shared by all.....

# Case Studies

- Who knows best.....?
- What's really happening out there.....?
  - Smaller scheme experience

# Questions for you

- What proportion of Trustees are sufficiently experienced and knowledgeable to govern pension schemes:
  - 0 to 40%
  - 40% to 70%
  - 70% to 100%
- Should governance be delegated?
  - Yes
  - No

# Pensions Governance

- What does 'Pensions Governance' make us think of?
  - Scheme calendars
  - Risk matrices
  - Conflicts policies
  - Entertainment policies
  - Cash management
  - DC investment choice
  - Log of PA breaches
  - Complaints procedures
  - Advisor reviews?
  - SoIB
  - SoIP
  - SoFP
  - Flightpaths
  - Data quality
  - Meeting agendas and notes
  - Sub committees
  - Balance of powers docs?
  - Trustee reviews?

# Regulatory Focus

- Trustee Board Performance
  - Member communications
  - Risks to DC Schemes
  - Effective management of retirement processes
  - Regular reviews of investment strategy & performance
- Training plans
- Frequency of Board meetings
- Existence of sub committees
- Record keeping
- Monitoring of service standards

# Regulatory Focus

- How often does administrator join meetings?
- Engagement of advisors
- Conflicts of interest policy
- Risk register / internal controls
- Interaction with business & covenant review
- Communications with members (sponsor)
- Fund choice
- Scheme expenses

# Regulatory Survey

- Big schemes better governance
- Trustees now meet more often
- Toolkit is key source of knowledge
- Fewer trustee induction courses / formal training
- Member communications key strength of Boards
- Trustees concerned re charges

# The Purpose of Governance

- Define **roles and relationships between**
  - **those managing and owning organisations**
  - customers and
  - other stakeholders.
- Ensures that there is **appropriate focus on the goals**

Questions: Are members customers or owners?

Where do sponsors fit in?

What are the goals of a pension scheme?

# Corporate Governance Principles

- Rights and equitable treatment of shareholders
  - **Encourage shareholder engagement @ meetings**
- Interests of other stakeholders
  - creditors / insurers etc
- Roles and responsibilities of Board
  - **Skills & understanding - independence & commitment**
  - **Alignment of interests / incentivisation**
- Integrity & ethical behaviour
  - In **selection of Board members** / other actions
- Disclosure and transparency
  - Open communications, accountability and challenge

# Sarbanes-Oxley Act 2002

- Senior execs responsible for accuracy & completion of corporate financial reports
- **Independence on macro and micro scale**
  - regulator (PCAOB) and auditors
- Greater financial disclosure
- Conflicts of interest
- Fraud prevention (Enron, MCI)
  - **Fidelity insurance vs PI**

# Governance & Success

- Two recent studies in the US:
  - Quality of Board is key
  - Each Board needs at least one leader and visionary
  - Goals need to be set (but not too many)
  - Boards with shared vision & determination generally succeed
  - Quality Boards use robust support infrastructure
    - Delegation is positive
  - Appropriate incentivisation is needed at all levels

# Case for Trustees / MNTs

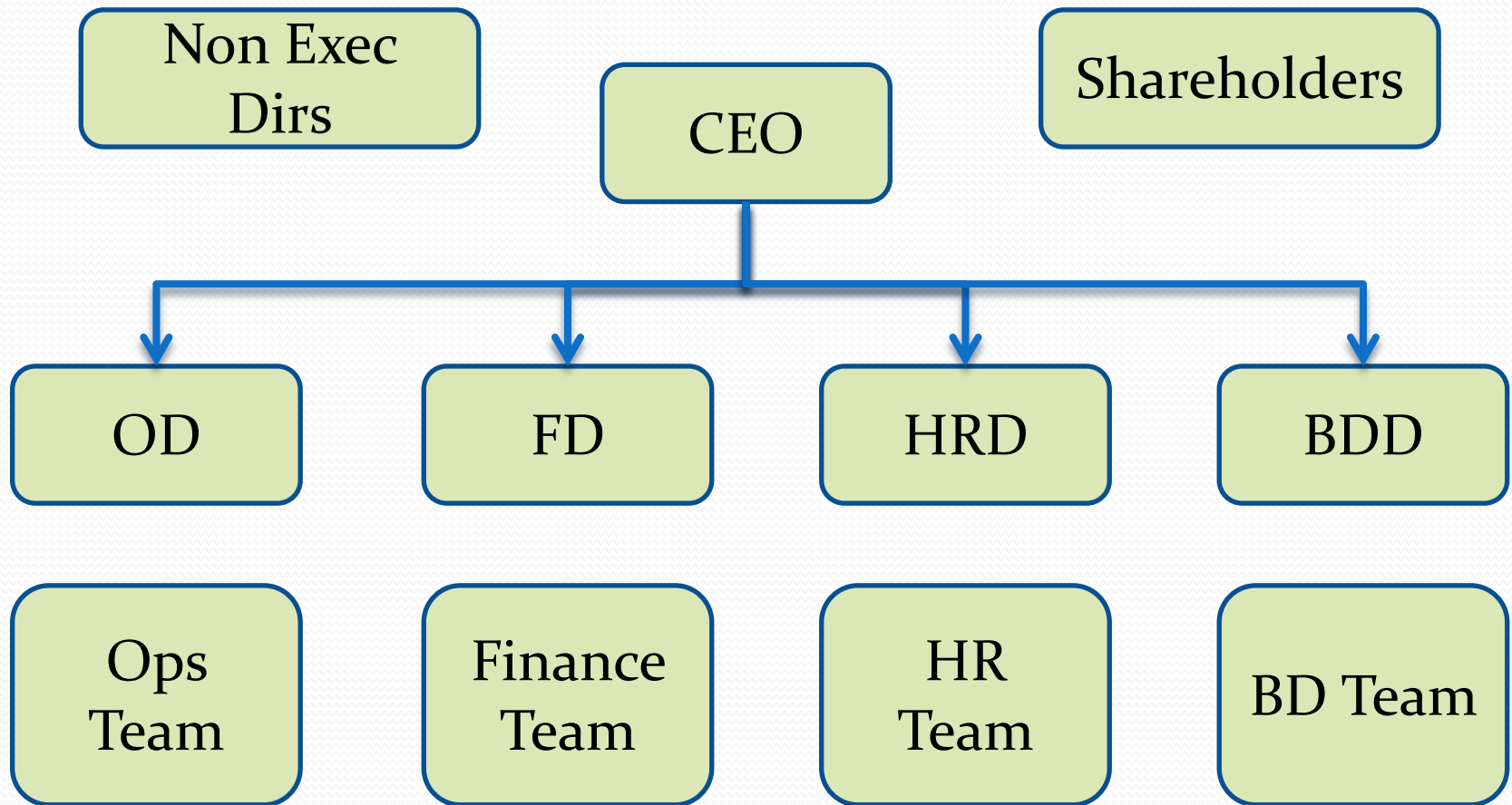
- Case study
  - Distressed scheme
- Who is better at governance?
  - Professional Trustee
  - Sponsor CEO
  - MNT
- MNT legislation
  - Political or valuable?
- MNT education
  - Worthwhile or inefficient?
- Conflicts
  - Manageable or not?

# Contrarian View

- Trustees struggle with Scheme management
  - Led to excessive tPR involvement and legislation
- Replace by more knowledgeable / experienced Boards
  - Don't necessarily need pensions knowledge
- CEO appoints remainder of Board
  - With appropriate skill sets
  - Delegate day to day roles
  - Members can veto
- Goals set that recognise role and rights of sponsors
- Incentivise Boards to achieve goals
  - Results based bonuses

# Contrarian View

- Yearly (or more frequent) AGMs
  - Member powers to influence board remuneration
- Reduce regulation / red tape
  - enable Boards to be more creative
- Regulator involvement restricted
  - fraud / breaches of law
- Regulator should be free of conflict
- First step – working party from industry.....



# Any Questions

