

# The Trustee toolkit downloadable

## How a DC scheme works 2014

### Tutorial seven: Managing advisers and service providers

By the end of this tutorial you will better understand:

- ▶ the importance of putting in place internal controls to monitor advisers and service providers
- ▶ types of controls trustees can put in place to mitigate risks to good member outcomes from poor service
- ▶ what business continuity planning is

This tutorial is part of Scenario three.

#### Glossary

A detailed glossary of technical terms can be downloaded from the Resources tab when you log in at [www.trusteetoolkit.com](http://www.trusteetoolkit.com)

## Introduction

The Tutorial: 'Good member outcomes' introduced you to the risks that might affect the outcomes for a DC member. There is one risk applicable to this tutorial: member affected by poor service from advisers and service providers.

Other tutorials in this module have focused on the risks such as scheme transactional/admin errors that can arise on a defined contribution (DC) scheme because of failures by advisers or service providers. And the tutorial 'Member communications' focused on how effective member communications can help to mitigate the other risks covered in this module. However, in many cases, these communications can be provided in part or in full by an administrator or other service provider.

Although trustees can delegate work to other organisations, they remain responsible for their decisions or actions (with the exception of day-to-day investment decisions). This tutorial provides more information on how to manage the relationships with advisers and service providers in order to minimise the risks to members.

You will find more information in the Tutorials: 'Introducing advisers and service providers' and 'Appointing advisers and service providers' in the module 'The trustee's role'. You can also read the guide to scheme management skills at [www.tpr.gov.uk/skills](http://www.tpr.gov.uk/skills).



### Focus on the risk

Members may suffer losses if trustees delegate work to an organisation which fails to provide the agreed service. The trustees of the London Clockworks scheme are considering the risks to the scheme of various service failures. Which one of the controls listed would best mitigate the risks below?

Controls: accurately documented minutes, business continuity planning, robust contract

1. The administration staff are unable to access their office for three weeks due to a major fire
2. The administration staff take too long to respond to a time-limited annuity quotation so the member loses out financially
3. The trustees agreed to discuss value for members at the next meeting in three months time. The usual agenda is sent without this on it and so it is not looked at until six months later

Answers are at the back

# Mitigating the risk

The key way to mitigate the risk of members being affected by poor service from advisers or service providers is to put in place effective internal controls.

## Internal controls

Internal controls are defined in the legislation as:

- ▶ arrangements and procedures to be followed in the administration and management of the scheme
- ▶ systems and arrangements for monitoring that administration and management
- ▶ arrangements and procedures to be followed for the safe custody and security of the assets of the scheme

### Example control one

Check that the provider is receiving the information that they need to fulfil their role.

- ▶ Does the administrator report each quarter on how effectively the interface works with the employer?
- ▶ Is the administrator receiving information about joiners, leavers and contributions in a timely way so that scheme membership data is accurate?

### Example control two

Ensure that information from advisers is in an understandable format.

- ▶ Are there sections of the investment reports which the trustees do not understand?
- ▶ Would new trustees feel able to ask for information to be clarified?

### Example control three

Scrutinise and, where appropriate, challenge information and advice trustees receive.

- ▶ Do administrators attend at least part of the trustee meeting?
- ▶ If not, how can trustees query the administrator's report? Are alternative lines of communication in place?

### Example control four

Ensure that the basis for charging fees to members and/or the scheme is clearly understood and is appropriate.

- ▶ Are fees clearly documented and queried if they look wrong?
- ▶ Is it clear what benefits or services the scheme or members receive in return for the fees?
- ▶ Do you feel satisfied that the fees offer good value in relation to the services or benefits they provide?

### Example control five

Regularly monitor the performance of advisers and service providers.

- ▶ Do you assess the performance of advisers and service providers against documented targets, measures and/or objectives on a regular basis?
- ▶ Do you use management information to identify performance trends?
- ▶ If you identify poor performance do you take steps to address it?

### Example control six

Advisers are aware that they are accountable to the trustees for advice given.

- ▶ Sometimes, pension advisers give definite advice to trustees. On other occasions, they suggest options without a clear recommendation. If in doubt, do trustees ask the adviser to clarify what is advised and document it in the minutes?

### Example control seven

Ensure that the process the adviser has in place for dealing with complaints from trustees, members or other third parties is clear.

- ▶ Do trustees know how the administrator treats any gains and losses to investments through poor administration?
- ▶ Do trustees get told about all complaints made directly to (and settled by) the administrator?
- ▶ Could there be a systemic problem which the trustees do not know about?

### Master trusts

The trustees of an authorised master trust must be able to demonstrate that they have sufficient systems and processes in place for running the scheme, including processes for internal controls.

Further information can be found under the 'systems and processes' section of the Code of Practice 15 at <http://www.tpr.gov.uk/docs/code-15-authorisation-and-supervision-of-master-trusts.pdf>.

## The importance of good communication

Problems are less likely to happen if there is good regular communication between the trustees and their advisers and service providers.

## How can trustees reduce risks to members?

- ▶ By ensuring that advisers and service providers work to agreed plans and provide meaningful scheme specific reports in advance of meetings for trustees to read and consider.
- ▶ By arranging for key providers to attend trustee or sub-committee meetings. If costs are a problem then consider other solutions (eg the lawyer can dial in at a scheduled point towards the end of the agenda to answer questions so that issues can be raised and dealt with quickly).
- ▶ By agreeing a clear escalation route for trustees to ensure problems can be resolved quickly.

## Why is it important to resolve problems quickly?

- ▶ If a member's problem takes a long time to be resolved then the individual is likely to become increasingly angry. Achieving a quick resolution can often reduce the time spent on dealing with the complaint.
- ▶ Movements in the market can result in very significant losses if investment errors are not rectified quickly. The prompt escalation and resolution of an issue may save many thousands of pounds.

## Business continuity and disaster recovery

Anticipating major problems or 'worse case scenarios' is known as business continuity planning or disaster recovery planning. Take a look at the scenarios below. Could your scheme continue to run effectively in these situations?

### Scenario one

The administration staff are unable to access their office for two weeks because of a flood. Questions to ask yourself:

- ▶ Is there another office that they can use which enables them to carry on as normal?
- ▶ How long will it take to get the service running again?
- ▶ Do they have arrangements in place to deal with this?

### Scenario two

20% of the member data is lost due to problems with the IT systems. The last useable backup was done a week ago even though it should happen daily. Questions to ask yourself:

- ▶ Is it the administrator's policy that data is backed up regularly (say daily) and held offsite?
- ▶ What assurance do you have that these backups are happening?

## Scenario three

The external administrator goes into liquidation unexpectedly.

Questions to ask yourself:

- ▶ How often do you review the financial resources of the provider?
- ▶ How would you get access to the scheme information?

## Scenario four

There is a fire at the employer's head office and the files of some original members are held there. Question to ask yourself:

- ▶ Are paper files held in a fireproof cabinet?

## Scenario five

A major supplier is subject to a hostile takeover. Question to ask yourself:

- ▶ Could large numbers of key staff leave?

## Appointment reviews

As part of good internal controls, appointments of advisers should be reviewed from time to time even if trustees believe that the advisers are performing well. These regular reviews of advisers can be scheduled as part of a scheme's business plan.

Trustees should ensure that performance standards remain in line with industry good practice and that the service provides good value by collecting information and undertaking a value for members (VFM) assessment.

You can learn more about this by reading the guide to administration at [www.tpr.gov.uk/admin](http://www.tpr.gov.uk/admin).

Master trusts: We set out certain expectations for master trusts on disaster recovery testing, which is included under the 'systems and processes' authorisation criteria as part of our Code of Practice 15 at <http://www.tpr.gov.uk/docs/code-15-authorisation-and-supervision-of-master-trusts>.

You will find more information on this topic in the Tutorial: 'Value for members and charges' earlier in this module.

## Contract reviews

Trustees can use the opportunity of a review to reassess the terms of the contract. They may want:

- ▶ the provider to take on other responsibilities
- ▶ to check that the contract clearly reflects the way in which the supplier operates. Sometimes, the provider has already taken on extra responsibilities which have not been documented. Trustees are 'exposed' if contracts do not reflect what is actually happening
- ▶ to change or simplify the charging structure (eg arrangements with scheme administrators vary as to what is included in the annual charge and what is charged for as an extra fee)
- ▶ to amend the limits of liability
- ▶ to include or update 'get out' clauses for either party

You can learn more about this by reading the guide to scheme management skills at [www.tpr.gov.uk/skills](http://www.tpr.gov.uk/skills).

## Terminating contracts

After consideration, trustees sometimes choose to switch advisers or service providers in order to improve services.

### Future terminations

If you are intending to renew a contract, make sure that the contract clearly defines what would happen in the case of future termination. Switching administrators can be particularly difficult.

Some contracts do not clarify how the transition would happen and how much the ceding administrator would charge to deal with the transition or subsequent queries.

In many cases relationships between schemes and their administrators will run well and productively. However, this will not always be the case.

When appointing an administrator, it is important that it is clear what happens should trustees wish to terminate that administrator in the future. It is better to clarify this before a contract is signed, than at a later time once problems have occurred.

## Deciding to terminate

Trustees should factor any short-term risks, practical difficulties and costs to members into the decision.

For example:

- ▶ Will there be any period of time when members will be unable to obtain information about their funds or to retire because of this decision?
- ▶ Is this disruption outweighed by the advantages of the transfer to a new provider?
- ▶ Can the members be notified well in advance so that they can plan accordingly?

If you choose to switch your investment fund manager then there are other issues that you should consider.

You will find more information on this topic in the Tutorial: 'Managing performance' in the Module: 'Investment in a DC scheme'.



# Answers

## Focus on the risk

1. Business continuity planning 2. Robust contract 3. Accurately documented minutes

Anticipating major problems like fires or major systems failures is known as business continuity or disaster recovery planning. In this case the plan would describe how the administrators would continue normal operations in the event of their usual offices being unexpectedly unavailable.

It is important to detail upfront the services to be provided, and how the provider will interact with the members and trustees, in a robust contract. If the contract defines the required services clearly then the administrator will be required to carry out transactions in line with standards and timing stated in a Service Level Agreement. When errors occur, the individual will be reinstated to the position that they should have been in. Taking legal action if you have a contract which can be enforced will be a last resort and is rarely necessary.

Ensuring that decisions at trustee meetings are clearly minuted will mean that items are not missing from the agenda.