

Pensions Perspectives

The rise of professional corporate sole trusteeship:

the industry view

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Ross
Trustees



Introduction

We are pleased to present the results of our first survey which captures the market's view on the role and growing relevance of the professional corporate sole trustee (PCST) model.

We received responses from 13 pensions consultancies who, between them, advise over 5,000 pension schemes. I would like to take this opportunity to personally thank all of the firms who took time to complete the survey and for providing us with their feedback. The results have been illuminating and the contents of the report will no doubt highlight why there is still plenty to consider under the PCST model.

The survey's findings show a broad endorsement of the PCST model, albeit where the scheme and employer dynamics are appropriate, with the majority of respondents feeling its wider adoption is having a positive impact on the pensions industry. We would echo this view and see schemes benefit from sole trusteeship on a daily basis.

Implementing a PCST will not suit all schemes and their stakeholders, and we see the benefits of the co-trustee model. However, the current climate of increased financial as well as regulatory pressures means that organisations are now, more than ever, assessing whether their trustee model supports the governance of their schemes.

Having experienced first-hand the growing demand for outside expertise to manage a multitude of risks and scenarios, it is no stretch of the imagination to say that the time has come where the PCST model, where it complies with the Code of Practice, will increasingly come into its own.

Weighing up the prospects for 2022, the likelihood of further adoption may mean firms pause to consider how their propositions could, or should, develop. It would take a brave 'sole' to predict exactly how the year will unfold. It is, however, fair to say with confidence that financial volatility, regulatory scrutiny, stringent legislation and sponsor distress are all likely to play a continuing role in prompting firms to assess if and how a move to a PCST model can help manage risk and deliver efficiencies.

I am very happy to discuss any aspect of this report with you and look forward to receiving thoughts and comments in due course.

Shehzad Ahmad
Trustee Director & Professional
Corporate Sole Trusteeship Lead

Key findings

76%

of firms feel that greater adoption of the PCST model is having a positive impact on the pensions industry, including 15% who feel the impact is very positive

38%

of consultancies predict 'significant' growth in demand for PCST appointments in 2022

Swift and efficient decision-making is seen as the key benefit in the current climate

Narrow majority of firms say PCST model has influenced their product portfolio

Expertise, quality and track record are regarded as key attributes of good professional trustees



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The advisory landscape

Our research took in views from thirteen major consultancy firms, who between them provide professional advice and services to over 5,000 company pension schemes. An estimated one in ten of these schemes currently operate a PCST model.

The majority of PCST appointments involve schemes with fewer than £100m of assets under management. Almost two in three (62%) advisory firms identified this section of the market as the biggest source of PCST appointments. One in three (31%) firms see schemes with assets under management in the £100m-£499m bracket as the most active segment and only one firm is busiest with schemes with AUM of £500m-£999m.

When it comes to service provision, the breadth and variety of schemes that have adopted a PCST model means 83% of advisers are offering both bundled and unbundled services to clients within their portfolio where a PCST is in place. Two of the consultancies surveyed provide unbundled services only.

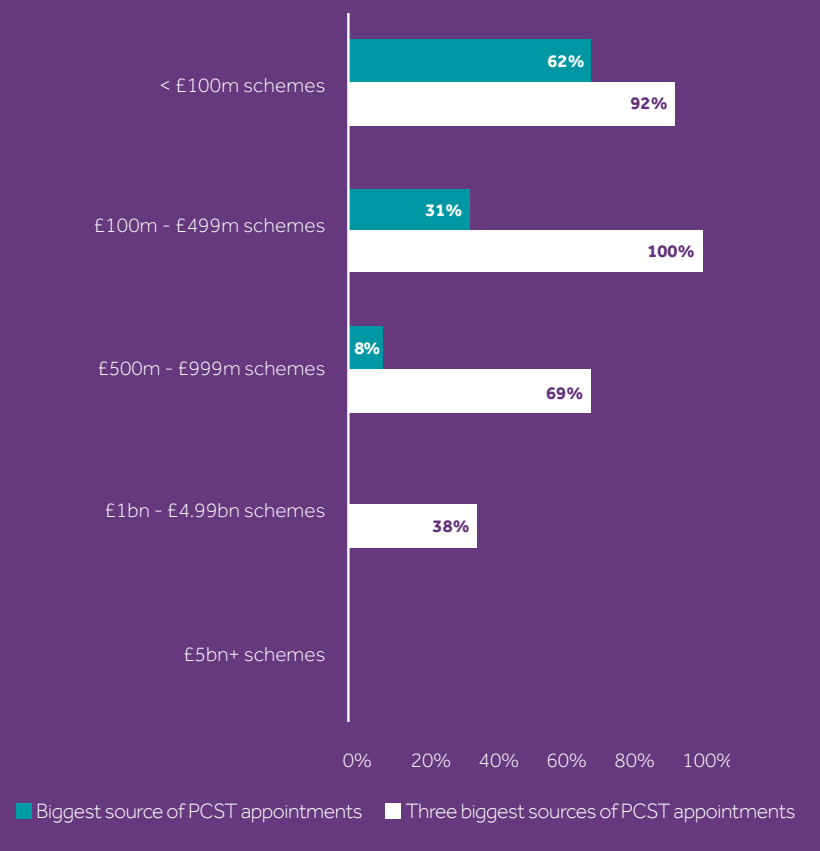
62%

of advisory firms identified that smaller schemes (<£100m of assets) as the biggest adopters of PCST appointments

31%

of firms see the most PCST activity with schemes in the £100m-£499m bracket

In your experience, which part of the market is responsible for the most PCST appointments?





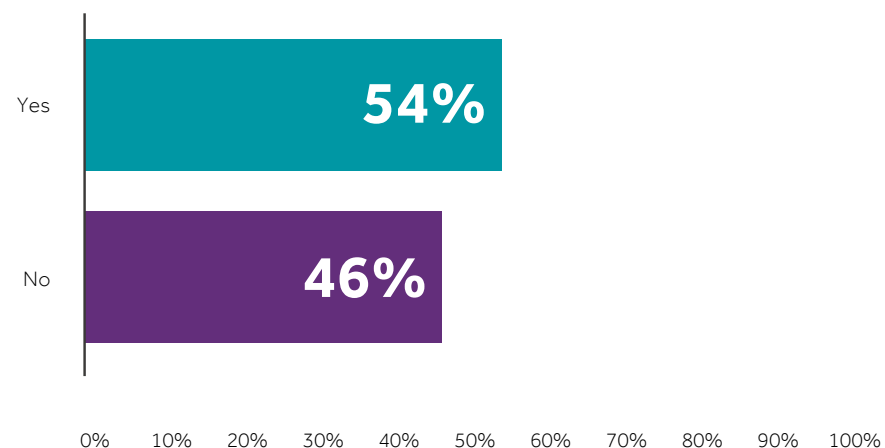
Product propositions

In terms of their respective product propositions, the firms in our sample are almost equally split with 54% saying the wider adoption of the PCST model has influenced their product portfolio, while 46% disagree.

Those consultancies who have responded “yes” have typically developed tailored services to meet the requirements of specific situations or types of scheme already.

A number of firms, who are yet to launch PCST-targetted solutions, are looking to evolve their delivery response in future. They have also observed the model starting to influence organisational thinking about new service developments. This suggests 2022 may prove to be a year of propositional innovations as the industry responds to the differing needs of a variety of schemes that operate using a PCST model.

Has the trend for more schemes adopting the PCST model influenced your product portfolio?



2022

may prove to be a year of propositional innovations



Industry impact

While the PCST model has been adopted by a relatively small, yet growing, number of pension schemes, our research shows clear agreement among advisory firms that the shift towards sole trusteeship is beneficial for the pensions industry.

Three quarters (76%) of firms feel that greater adoption of the PCST model is having a positive impact on the sector, including 15% who feel the impact is very positive. No firms perceive a negative impact across industry and only three firms (23%) feel there will be no impact*. In these cases, respondents urged caution about overlooking the benefits of 'engaged and effective' lay trustee boards as an alternative to the PCST model, and also questioned whether uptake of sole trusteeship will extend to certain smaller DB schemes despite the benefits it could offer.

01

☆☆☆☆☆ Very Positive

▢▢ Industry views

"The trend is resulting in better informed, more proactive trustees, which leads to streamlined working with timely and better decision-making."

"We believe the shift will lead to cost efficiencies, swifter decision making, closer relationships with scheme sponsors, improved governance and benefit security for scheme members."

15%

of respondents consider the impact on the industry of sole trusteeship to be 'very positive'

02

☆☆☆☆ Positive

▢▢ Industry views

"We expect decisions to be made more efficiently, due to the decreased need for trustee training and the 'real time' governance which can be supported by a PCST and the move away from decisions being restricted to formal quarterly meetings."

"Many schemes are closed to accrual and so are in run off. PCSTs help address the practical difficulty of filling Trustees vacancies giving the onerous nature of this role – the Pension Schemes Act will increase this."

"PCST will have specialists from various disciplines to deal with complex matters including buy-ins, longevity swaps, consolidators, third party capital solutions, captive insurers, contingent funding, M&A, sponsor distress and refinancing."

"The trend will lead to cost efficiencies, swifter decision making, closer relationships with scheme sponsors and overall improved governance and benefit security for scheme members."

03

☆☆☆ Neutral

▢▢ Industry views

"The model clearly improves governance and decision making, although care is needed that PCSTs remain independent."

"The PCST model is not necessarily better for every scheme. If a scheme is well run with an engaged and effective board, a board can still be very effective. In other circumstances it can be highly beneficial."

"The PCST model will perhaps not extend as widely to the smallest of schemes (<£20m) where a large number of DB schemes, who could benefit, sit."

"The move to a PCST model will undoubtedly shake up the industry. There are potential advantages to this, but also potential drawbacks."

*Percentages do not equal 100% due to rounding.



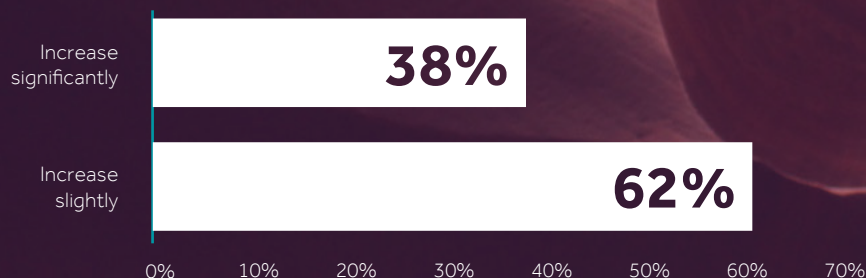
Demand trends

Whether or not the growing popularity of PCSTs has impacted their respective product portfolio, all advisory firms involved in our research are unanimous in their view that the year ahead will bring another increase in demand for PCST appointments.

Two in five (38%) predict demand will grow "significantly" during 2022 and all of this group regard the wider trend as either "positive" or "very positive" for the pensions industry.

Interestingly, there is limited correlation between those firms who have been the first movers by evolving their product portfolio and those who anticipate significant growth over the next year. In fact, more than half of firms who are most confident about increased demand for sole trusteeship also say the model is yet to influence their product proposition, suggesting we may see evolution rather than revolution in this area.

How do you anticipate demand for appointing a PCST will change during 2022?



Industry views

What might drive a "significant" increase in PCST appointments in 2022?

"Regulatory developments, a focus on 'end games' as a large number of schemes head towards self-sufficiency or buy-out, and trustee vacancies will be three key drivers of increased demand."

"The more onerous regulatory regime and the increasingly complex nature of trustees' work will continue to drive PCST appointments."

"The increased burden and complexity involved in running schemes properly will lead trustees and sponsors to adopt this model, helped by the PCST model being more the 'norm' and a more widely accepted approach."

"Lay trustees will struggle more and more with additional governance requirements and training."

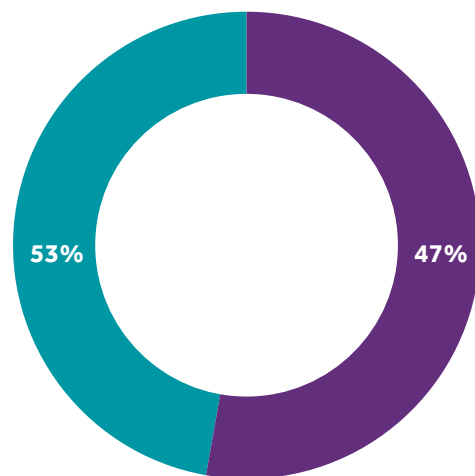


Awareness and drivers

Decisions to shift to the sole trusteeship model in the current climate are driven by a range of factors, relating both to 'business-as-usual' scheme requirements and specific needs relating to strategic projects or external scenarios.

Both scheme sponsors and their advisers are responsible for flagging the PCST model as a potential solution to meet the requirements of scheme sponsors. Our respondents were split almost equally on whether this consideration is tabled by advisers or derives from the client directly, with a slim majority identifying the client as the main driver (53%).

Is the move to a PCST model typically client-led or recommended by their adviser?



■ Client-led ■ Adviser-led

Industry views

Triggers and drivers for considering a PCST model

"Where it would improve governance, efficiency and decision making."

"Where there is a specialist need to deal with specific projects or scenarios involving a stressed scheme or restructuring."

"Where members of the existing trustee board are retiring (succession issues), disengaged, conflicted or have limited technical knowledge."

"Where there is difficulty finding trustees, such as companies with an overseas HQ and/or mature scheme."

"Where the corporate sponsor is finding difficulty in identifying individuals to undertake a member nominated trustee role."

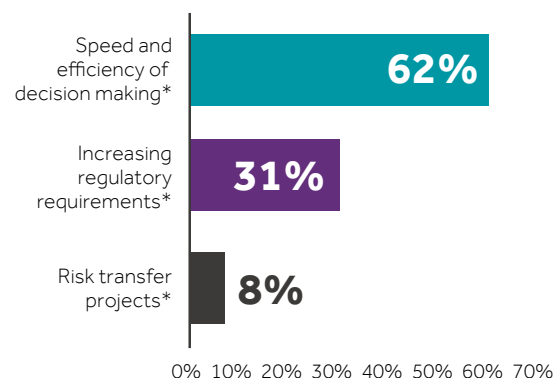
"Where the client recognises problems with their current approach and PCST is regarded as a potential solution, often triggered by something going wrong or a change in circumstances / people."

The decisive factor

While the PCST model offers benefits in a range of scenarios, three key attributes emerge when asking firms to identify the single most important advantage of appointing a PCST in the current climate. The majority (62%) cite the speed and efficiency of decision-making as the strongest attraction.

One in three (31%) reference extra trustee training and governance needs arising from increasing regulation, while one firm cited the skills to deliver risk transfer projects such as longevity swaps.

In your experience, what is the single most important advantage of PCST appointments in the current climate?



0% 10% 20% 30% 40% 50% 60% 70%

*Percentages do not equal 100% due to rounding.

Building partnerships

Successfully implementing a PCST model involves collaboration and an effective partnership between the scheme and its professional advisers. Those consultancies in our sample consider price to be the least important of four key factors when it comes to recommending a specialist PCST firm to one of their clients.

Instead, a firm's expertise carries the greatest currency, closely followed by the quality of their service, with a firm's track record also taken into account as a tertiary factor.

What do you value most in a PCST firm when you are recommending providers to a client?

01 Expertise

02 Quality

03 Track record

04 Price

Industry views on sole trusteeship providers

Reflecting on their experiences working with a variety of professional trustee firms, advisers also observe a range of trends and developments that will influence relationships within the market in 2022 and beyond:



"We are seeing an increase in support or secretariat roles within PCST appointments, with many firms including add-on services."



"Some firms have dedicated PCST teams and protocols in place; others co-mingle PCST appointments with traditional trustee chair appointments ... we have experience of both models working well in practice."



"We are seeing the importance of professional trustees providing an experienced resource with proven ways of working."



"Deep pensions experience is increasingly important with many firms looking for trustee directors and their service teams to cover actuarial, investment, covenant governance and legal skillsets."



"Curated expertise and the ability to work in partnership with stakeholders is key."

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All findings in this report are taken from research conducted by Ross Trustees with consultancy firms in November 2021, anonymised and aggregated to present a picture of current practices and the future outlook for the PCST market. Views expressed within the report do not necessarily represent those of Ross Trustees unless explicitly stated. While care is taken in its compilation, no representation or assurances are made as to its accuracy or completeness.

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