Roundtable - Avida International - 27 February 2018
DB pensions – a CFO's perspective

On 27 February 2018, Avida International organised a breakfast roundtable on running DB pensions from a CFO's perspective.

Annemarie Straathof talked about the governance changes she, as CFO Europe for Rabobank, helped effect during the last couple of years at their UK pension fund. While the Trustee Board had replaced the administration provider and initiated a change in the DC investment consultant, the Trustee Board meetings and decision taking processes were not as effective as they could have been. It also became apparent that advisors could have been clearer and more concise in their recommendations.

When the opportunity presented itself to make changes with the imminent retirement of the external Trustee Board Chair, the CFO replaced the Board with a Sole Trustee. A Sole Trustee is not to be confused with a single trustee, as a Sole Trustee is typically a professional trustee company with a number of resources, which the nominated trustee can draw upon and who will provide back-up in case of eventualities.

Due process was followed by obtaining external legal and governance advice. A Sole Trustee was elected following the establishment of knock-out criteria, an RFI/RFP process and meetings with the shortlisted candidates.

Further changes were made: the investment consultant and DB investment strategy were reviewed and the Trustee is currently in the process of reviewing the scheme's actuary. Overall level of engagement between the bank and Trustee has been further streamlined. The result is a very efficient set-up, with good dialogue between the sponsor and pension fund, and effective decision making. There is a clear strategy in place towards the future.

A lively discussion followed. Questions/issues raised included the following:

- Decision paralysis in Trustee Boards is all too common. It is important to realise that not taking a decision effectively constitutes a decision. If the trustees recognise this point, things may improve.
- If not, one needs a catalyst for change. At the extreme this would involve a major disaster. At the more acceptable level, it could be a new trustee or Chair coming in, or the sponsor taking a more active interest.
- All too often though, the sponsor's interest is declining or even absent because there are too few active members left in the fund and pensions are no longer an HR benefit.
- Taking or having responsibility focuses the mind. From this perspective alone, a Sole Trustee is worth considering, as trustees are all too often allowed to hide behind the collective.

- Pension funds should be run as a business, which involves recognising responsibilities and creating a culture of accountability.
- This also means that the Sole Trustee's performance will need to evaluated from time to time by the sponsoring company, as the mere fact that they are independent does not guarantee they are automatically and always acting in the stakeholders' best interests.
- There is an important distinction between a single trustee and a Sole Trustee, the latter being backed by a firm with a range of competent resources, covering the skillsets required by a pension fund over its transition from business-as-usual to insurance buy-out.
- Professional trustees are answerable to The Pensions Regulator (TPR), so they are obliged to take an appropriately independent view from the sponsor.
- In the absence of a Sole Trustee, it is important for a Trustee Board to have an effective Chair, who will drive decision taking.
- Internationally, regulators tend to be catalysts for change, more so than in the UK.
- TPR is seen to be more hands-off with Trustee Boards now than the Bank of England was in the past. This is partly due to the fact that pension regulation is spread over too many entities.
- Headcount pressures at the sponsoring company quite often results in understaffed executive pension offices, allowing actuarial and investment consultants to be more powerful than they should be given their conflicts of interest with the pension fund client.
- Very well resourced executive pension offices are not always the answer either, as can be seen in the Canadian pension funds where large internal investment teams develop their own vested interests which may differ from those of the Trustee Board.
- Fiduciary management may be a sensible answer for some medium sized pension funds, as long as the Board is able to provide effective oversight

The meeting concluded with the consensus that the concept of replacing Trustee Boards with Sole Trustees, hitherto limited to small pension funds, may well be adopted by much larger funds in future.

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