Is sole trusteeship the future?

The sole trusteeship market is a growing one. Aon's **Paul McGlone** examines some of the associated benefits and challenges and asks if it really is the governance model of the future

Sole trusteeship in pension schemes is undoubtedly on the rise. My conversations with a range of trustee firms suggest that sole trusteeship makes up as much as 20% of appointments and in some cases up to 50% of new business requests. And the market recently saw what we believe is the first sole trustee appointment to a £1bn plus scheme.

But as the market grows there are challenges to address, to ensure that it delivers all that it should.

The drivers for the move to sole trusteeship are well understood. As schemes continue to mature, it is increasingly difficult to find good quality and motivated member-nominated and company-nominated trustees. In the meantime, standards edge ever higher, with the regulator now focusing increasingly on governance standards, and a defined benefit (DB) chair's statement due to complement the existing defined contribution (DC) statement. Some existing trustees are even starting to feel trapped, with no succession plan to let them move on.

From a corporate perspective, frustration with managing DB schemes is also evident. For many businesses these arrangements are a legacy issue but remain a source of financial frustration. Corporates working on ever shorter timescales and tighter budgets can be at odds with a traditional trustee board continuing to operate on quarterly 'trustee time' and perhaps being less ruthless than their corporate equivalents when managing costs. A sole trustee can be seen as a way of getting decisions made more efficiently, while also managing supplier costs more tightly. It will also largely address the trustee succession planning issue.

Trustee risks

So what of the challenges I referred to?

The first issue raised by many people is concentration risk – all decisions in the hands of one person. In practice, a sole trustee is not actually an individual but a firm. The individual is just the firm's nominated representative, and normally has colleagues to provide support and experience. It is helpful that the proposal from the Professional Trustee Standards Working Group (PTSWG) recommends that sole traders should not accept sole trustee roles. But even within a firm it is easy to see how the nominated individual could be the dominant decision-maker, leaving the scheme with little cognitive diversity.

From the sole trustee firm's perspective this is a risk that it is also in their interests to manage. If a crisis or scandal were to arise for a scheme with a sole trustee, the professional trustee cannot look to the board as a whole to take responsibility – they are the only decision-maker. Showing that they had sound procedures and that decisions were not controlled by one individual may be important.

In practice, how this works is quite variable, and depends on how the firm is structured. Different firms are set up in different ways. Some are more supportive and collegiate than others. Some will take responsibility for issues such as training, while others will not. Understanding the nature of the firm you are appointing is important.

The second challenge I would flag is diversity and innovation within the sole trustee market. The professional trustee landscape is, like so many industries, over-represented by the older, male and white demographic. Recent Aon research concluded that over 80% of trustees were male, with an average age of almost 55. The sole trustee market is a little more balanced than that, but still not ideal. In theory, the diversity should change over time – but for two challenges. First, will there be a flow of new blood into a market that is both in decline and ripe for consolidation? And will the new standards proposed by the PTSWG (and the mandatory disclosure of those standards) act as an entry barrier? This is a risk, as stagnation would not be good for schemes, sponsors or members.

The third issue I would raise is about dealing openly with conflicts. All trustees have conflicts, but with a sole trustee (or indeed any professional trustee) that conflict is commercial rather than related to their membership. That is not a reason to avoid sole trustees – it just needs recognising and managing, through appropriate oversight. That starts with the appointment process, where schemes should resist any attempts for their existing professional trustee to roll the appointment into a sole trustee appointment. But it should also include periodic reviews – something trustees are keen to encourage with their advisers but that was noticeably missing from the PTSWG suggestions.

None of these challenges are show-stoppers. Sole trusteeship is a valid approach to running a scheme, can generate good results, and should be considered alongside other models such as a full board and a DB master trust. So is a move towards sole trusteeship the inevitable future?

The status quo will always have momentum. If schemes can get their existing board operating efficiently, with high standards, good cost control and succession planning, then that model is likely to last for many more years. Such an approach arguably provides better connection with members. And with a long journey before the scheme is fully secured that may be helpful. Some schemes already do this very successfully – others are currently reviewing the size and skillset of their board to deliver a governance model that is right for the scheme members and the company.

The White Paper points towards DB master trusts as being another potential option for improving the efficiency of governing smaller arrangements, while potentially overcoming some of the issues above around bringing different perspectives. Although traditional DB master trusts have not always been seen as being sufficiently flexible (in areas like funding and investment strategy), we expect the market to develop in this area.

In summary, for employers looking to improve the governance of their DB plans, sole trusteeship (or potentially a master trust in a developing market) may be the right option, and we do expect to see sole trusteeship increase in popularity over the coming years. PP

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