

Defined Benefits: today and tomorrow

The role of governance

Reviews provide clarity on trustee responsibilities

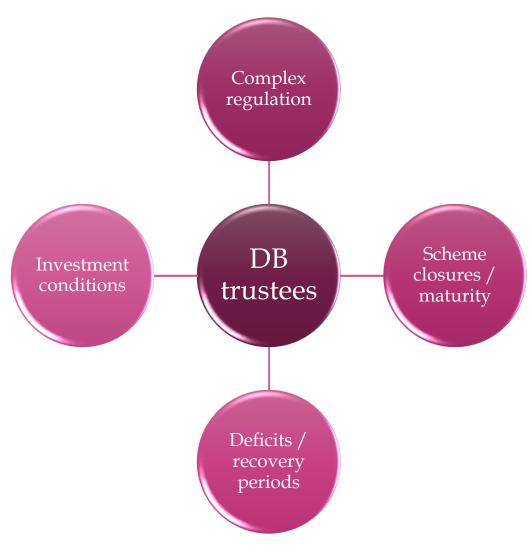


"... that the client's interests are put first, that conflict of interest should be avoided, and that the direct and indirect costs of services provided should be reasonable and disclosed"

Kay J (2012), The Kay Review of UK Equity Markets and Long-Term Decision Making: Final Report

Good governance matters more than ever





Good governance delivers quantifiable benefits



Secures member benefits

Improve investment returns

VFM investment and admins costs

Reduce volatility of sponsor costs

Chart 1: Evidence for a 'good governance' premium



Canadian research

2006 study: Ambachtsheer et al found a positive statistical relationship between good governance and investment performance (in a sample of 81 schemes from around the world). Schemes with good standards of governance (self-assessed by schemes and with size of scheme controlled for) added 1-2% per annum in investment performance when compared to less-well governed schemes.

Swiss research

2014 study: Ammann and Ehmann constructed objective governance scores for Swiss pension funds (sample of 139) based on organisational structure, target setting and investment strategy, investment process, risk management, monitoring and transparency. The scores were then compared to investment performance and found a positive relationship. The research also highlighted the relationship between scheme size and investment performance with larger schemes performing better.

Australian research

2014 study: Research by the McKell Institute explored the relationship between governance structures and performance and concluded that mandating independent directors of superannuation schemes would not add significantly to the performance of schemes. It concluded that the current governance arrangements with representative trustees drawn from membership and employers delivers superior standards of conduct and performance.

Components of good governance



Monitoring, reviews and challenge of agents

Board structure, membership and leadership

Manage conflicts of interest

Investment strategy and processes

Systems and controls / risk management

Chart 2: Smaller schemes consistently rate their knowledge and ability lower than larger schemes



Assess value for money in investment costs and charges (7.6)

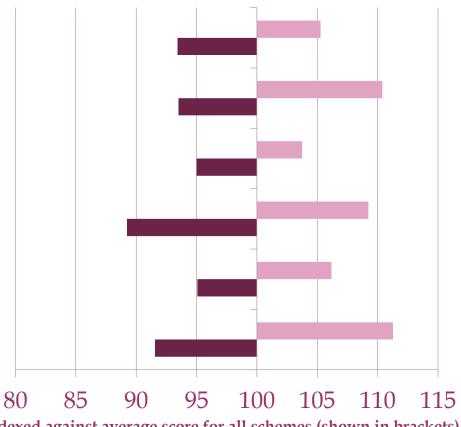
Challenge investment advice or advisors (7.7)

Knowledge of recovery plans, contributions and funding principles (8.0)

Knowledge of pensions law (6.5)

Knowledge of roles and responsibilities of trustees (8.1)

Knowledge of pension scheme investments (7.1)



Self-rated scores 1-10 (1=low) indexed against average score for all schemes (shown in brackets)

■ Large (1000+ members)

■ Small (12-99 members)

Questions for discussion



- What can be done to improve governance?
- What further can be done to support trustees?
- Can small schemes afford / access good governance?
 - ➤ Access to qualified / experienced trustees
 - ➤ Systems and controls (learning from others)
 - ➤ At what cost?
- If not, should small schemes be encouraged / forced to consolidate?