

PMI Roundtable Feature

The Master Trust Agenda

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CACEIS, in partnership with the Pensions Management Institute (PMI), held a roundtable to discuss what's on the Master Trust agenda. Several different Master Trusts were represented, and the discussion centred around many broad themes such as governance, value for members, member outcomes and data challenges.

A key recognition at the outset of the discussion is the importance of delivering what the end-member wants, and ensuring that consolidation does not risk harming member outcomes, alongside good governance.

The biggest governance challenge is keeping an eye on the end goal, which is meeting member outcomes, and ensuring Master Trusts don't get bogged down by compliance and regulatory challenges which could create a tick-box mentality. Given the amount of regulatory change, there is a clear focus on prioritising compliance with new regulations over the next two years.

What does good value mean?

Value for members comes in many different forms and costs, and it's usually difficult to quantify value apart from performance. It's also important to note that it's not just about value from the features members actually pay for – it's also about the wider ancillary benefits a member experiences by being in a Master Trust.

However, the roundtable consensus is that value for members starts with employee engagement, which needs to be seen as a benefit of Master Trusts. And then there is the ability to provide good services at good costs, which is going to be more critical for smaller schemes.

Having independent data to help drive more realistic like-for-like comparisons between the different Master Trusts was also noted as an important future step, so that more accurate benchmarking and assessments can be achieved.

The growing need for data

It was clear that investment data is one priority, and a challenge, especially in light of increasing regulation, such as the need to report on climate risks according to the TCFD framework.

"Master Trusts are effectively first movers in the pensions industry in having to report in line with TCFD, but it's acknowledged by the DWP that there will be gaps in the data, which means trustees will have to look at plugging that data gap."

The mismatch between the regulations for pension schemes and asset managers was also noted: "With no requirement for asset managers to follow the same approach, this creates a major mismatch between what is expected of pension schemes and what is actually regulated and required by asset managers."

A call to action, however, is critical. Despite this challenge, it was commented that "change only occurs when there is consumer demand and regulatory change. The first movers, like Master Trusts, will be challenged, but we have to start somewhere because climate risk is real".

Also, it was observed that the industry experienced similar challenges with the introduction of cost transparency, where DC pension schemes had to disclose their costs, but asset managers struggled to provide the necessary data. That changed when the DC Workplace Pensions Template (DCPT) was introduced when it became a regulatory obligation, followed by the CTI templates – climate reporting requirements will probably follow the same path.

Another challenge that was highlighted is the difficulty in trustee boards digesting lots of information on climate risks for effective decision-making. Trustee boards are also questioning the area of scenario analysis, but this is posing some challenges: "Getting sufficient metrics, just basic ones, is key so trustees can determine how they might be meeting the net zero commitments of their scheme and looking at risks from their fiduciary duty".

We also need to be mindful of the different risks of climate, and why broad data is key: "We can easily get wrapped up in looking at the transitional risk of climate change and not the physical risk.....if we are investing in a company that is physically located in an area prone to flooding, that is just as challenging as transition risk.....and getting hands on data is difficult".

The other main challenge discussed was the different reporting methodologies used by asset managers, which creates difficulties in getting an aggregated and consistent view across different asset managers.

The dialogue is changing

One interesting insight from the roundtable discussion centred on the changing nature of dialogue. Currently, trustees have a stronger dialogue with their consultants – previously this was with asset managers. However, with the growing need to manage investment risks, it could revive trustee meetings with asset managers.

"The data is good but what is important is the dialogue.... and having discussions with asset managers on the transition risks and opportunities faced by companies, and how they are engaging with those companies."

As trustees get their hands on data, and can begin to understand their scheme's exposure to climate risks, this will lead to more robust dialogue with asset managers.

Moreover, activities such as managing ESG and climate risks have generally been delegated to investment committees – this is another area where the change is expected: "Trustee boards need to be upskilled so they can begin to understand and challenge around climate risks and opportunities".

Member outcomes remain key

A common thread throughout the discussion was the importance of getting the default fund right, and recognising that developing bespoke investment solutions might not necessarily lead to better member outcomes. It's here that communications back to the members need to be more personalised, perhaps utilising AI technology so that members are prompted to make decisions during the moments that matter.

"For us it's not about giving more choice, because the core default fund is central to member needs. We look at needs and not wants – recognising that there is always a trade-off between the two." Default funds remain critical to meeting member needs, and need to be structured as best as they possibly can be.

Getting members engaged on the issues of climate change was another key area for discussion.

"We are designing our member questionnaire at the moment, and asking them questions that help us understand if they require further clarification on areas such as our net-zero policy, which we'll then point them towards a specific area on our website."

Member communication around TCFD reporting also needs to be simplified, and we must not take it for granted that members will understand the nuances around climate change: "Practical examples will be good in getting members really engaged, especially younger members".

Look forward

In the next one to two years, the general focus will be on addressing the compliance requirements and getting this right, whilst staying focussed on member outcomes.

And as consolidation accelerates, and with a significant amount of DC schemes in the £100 million and below bracket, will there be a challenge in the near future for onboarding? In addition, it's also about good governance around member data. As Master Trusts grow, they will be inheriting legacy member data that may or may not have been subject to good administration in the past. This is especially relevant if there are large volumes of pension schemes consolidating into a Master Trust.

"Administration, administration, administration" – good administration quickly became a core area of focus, especially around areas such as the onboarding process. It was recognised that Master Trusts will experience strong growth, especially with more consolidation. It's here that operational processes are key, so that Master Trusts can take on new schemes, and maintain the integrity of the onboarding process.

Finally, more innovation around retirement pathways is still required, particularly around factors such as longevity risk. Moreover, there is a more structural challenge to overcome. The challenge is looking at the pension pots of low-income members and assessing how to make auto enrolment more successful for this cohort.