Cost Transparency Uncovered

CACEIS recently featured in a webinar hosted by the Pensions and Lifetime Savings Association that brought together an expert panel to share their insights on how the pensions industry has responded to the Cost Transparency Initiative.

In 2019, the Cost Transparency Initiative (CTI) became the new industry standard for institutional investment cost data. The CTI introduced a new consistent way of identifying and reporting costs and charges to UK Defined Benefit (DB) and Defined Contribution (DC) pension asset owners, making it easier to understand the total costs of their financial products, portfolios, as well as facilitating cost comparisons where appropriate. The CTI framework remains a voluntary (and free) resource for the industry to use.

In September 2021, the Pensions and Lifetime Savings Association invited several pensions industry stakeholders to share their thoughts on the take-up of the CTI framework and its templates. The panel discussion began with asking each contributor whether the CTI had 'normalised' cost transparency across the pension industry. The responses confirmed that schemes, intermediaries and asset managers are transitioning towards a more consistent way of reporting – and understanding – costs and charges.

Scott Foster, Head of Digital & Governance Solutions, UK at CACEIS: "We still see a few submissions coming through in legacy formats, however the adoption of CTI templates, and collecting data on a like-for-like basis has increased to around 80%, which is a really good thing. We've also seen a significant improvement in the timeliness of transmitting data from asset managers to asset owners, and managers coming to terms with all the data fields within the template. That said, more can be done to ensure the data received by trustees and boards is as accurate as possible before it feeds through to board reporting and overall assessments of value for money."

Duncan Willsher, Trustee Director at 2020 Trustees: "I equate trustee boards to any other business with money flowing in and out, so it seems preposterous that trustee boards don't understand or know how much it costs to run their business. Now we've got this momentum around cost, I'm really keen to start making sure more boards actually use it."

Has the CTI changed behaviours and attitudes? The view from the panel was that the market generally has been that a greater emphasis on transparency has encouraged asset owners to think about improving outcomes generally, rather than just thinking commercially or on a cost basis alone. For local government pension schemes (LGPS), cost transparency is considered very much "part and parcel" of LGPS reporting. However, while the intentions are good, with managers displaying a genuine openness to provide information, the data is not always provided in the CTI template or is presented in a way where further analysis is required. So, from the LGPS perspective, there's still some way to go to seeing standardised practices fully "embedded" in the market. Perhaps more importantly, an as a way of ensuring cost transparency does become more standardised, an increasing number of LGPS are refusing to work with managers not providing cost information.

Vanisha Thanawala, Head of Execution Oversight at Universities Superannuation Scheme (USS): "Given the size of the scheme and the complexity of the asset classes we deal with, cost transparency has been a long road for us. While the data collection aspect has been normalised, there's still a need to educate external managers in completing CTI templates, especially US managers less familiar with the efforts to standardise or indeed the templates. The second challenge comes with interpreting the data that's collected."

Duncan Willsher, Trustee Director at 2020 Trustees: “Boards of trustees have entered into this era of greater transparency willingly, and their reactions have been broadly positive, but then a common trustee response is "what do we do with this now?"

Is cost transparency helping to drive governance and decision making?

However, the panel highlighted that when it comes to turning information into insight, most trustees and pension boards are still at an early stage. Boards can find it difficult to interpret cost transparency data in the context of value for money assessments. Longer time horizons of data, and additional context around investment strategy, risk, and performance are important here. Another challenge is to determine which cost data is relevant and meaningful when presented to boards, and what should be considered as the “controllable” costs versus the variable costs (particularly when it comes to private market investments with carry accruals and performance fees).

Darren Hay, Head of Operations at Brunel: “We wrestle with explaining performance in terms of value, and how to show whether that cost is worthwhile. You must show the bigger picture, and sometimes that can be about putting costs into context. This can be a challenge, and time-consuming, because no two strategies are the same.”

Vanisha Thanawala, Head of Execution Oversight at USS: “We've now told managers we won't work with them unless they sign an agreement to provide the cost transparency data in IMAs, so that's an improvement. On the flip side, there's still the question of interpreting the data being collected. Our board was somewhat confused (quite rightly) to be presented with cost transparency data alongside value for money assessments, as they're not the same thing. So, I think there’s an added question of how we integrate what we're presenting to our boards in terms of cost transparency data, and what we consider as costs.”

While listed markets are achieving good levels of cost transparency and data distribution, some nuances will always need to be understood and accounted for. Private markets were thought of as lagging in terms of their cost reporting infrastructure and working through the new CTI template system. Even so, the panel were keen to point out that the quality and depth of available cost transparency data across both listed and private markets is “better now than it has ever been”, albeit with some room for improvement.

Scott Foster, Head of Digital & Governance Solutions, UK at CACEIS: “You could argue that data quality issues would be solved by feeding the relevant data into one overarching regulatory reporting system – similar to how things are done in the Netherlands. The Dutch pensions market started its cost transparency journey in 2011, and within four years the industry tested templated developed into a standardised regulatory report that feeds through to the regulator annually. They have a universe of the whole Dutch pensions market which all the data providers feed into and share insights on.”

Recent efforts to introduce more standardisation on how value is assessed – such as the joint discussion paper published in September 2021 by The Pensions Regulator (TPR) and the FCA – were viewed positively by the panel, with some caveats. While they agreed that assessing value for money through consistent metrics and benchmarks “means you have something to work with”, most felt full standardisation was still some way off, particularly given the individual and distinctive nature of pension funds and their asset allocations. As one noted, standardisation itself can sometimes muddy the waters: “Boards can be very particular and expect a certain level of information, so there's a fine line when providing a level of information that boards feel comfortable with.”

The risk of being too prescriptive

Is there an added danger that too much standardisation would lead to manager box-ticking? The panel agreed that focusing too much on standardisation of data could prove to be a double-edged sword, leading to a rush to "get things over the line" from asset managers, complacency on the part of asset owners, and failing to capture the nuances that are so crucial when it comes to individual nuances of pension schemes and mandates.

Duncan Willsher, Trustee Director at 2020 Trustees: "It's important to recognise that benchmarking is difficult today, and comparisons are increasingly hard to make. But having that information is very important for trustees, even if it is imperfect."

Darren Hay, Head of Operations at Brunel: "Cost transparency information is very much the building block to further business decision making. It's not just about ticking the box to fulfil an obligation; it's about using that information and insight to run the business. But it's very hard to make decisions from one or two years of data, it needs to be done over several years to be really useful."

Vanisha Thanawala, Head of Execution Oversight at USS: "There's a risk that if we push the regulator to make standardisation a requirement for DB schemes, it won't really achieve what we are setting out to do. There's a risk of having a false sense of security with ticking a box and starting to publish CTI templates. There's also a risk of just giving these numbers to our board and saying "job done".

Scott Foster, Product Specialist at CACEIS: "Benchmarking isn't perfect, and data quality issues mean some firms don't want to open that 'Pandora's Box' of new data. But for the pension clients we work with on cost transparency, the first year is about that internal look in the mirror, and establishing what integrating cost transparency will ultimately look like for the scheme. There's always an urge to compare yourselves to others, but in the first year – or maybe even up to three – it's more important to conduct an internal review that can create a transparency action plan fit for years to come."

Has the cost transparency initiative been successful so far? Our panel agreed that widespread adoption had encouraged the transmission of better quality and more consistent data from asset managers to asset owners. While some issues around data collection and education still need to be ironed out, two years on, the CTI has "allowed us to live and breathe our principles", as one panellist put it.