Citrus

Regulation and governance: what's all the fuss about?

With the General Election behind us, and a new Government taking us forwards, there are numerous questions about the regulations which are outstanding for the pensions sector, and how these will develop over the coming months.

The new DB Funding Code, which is beginning to look like it may suffer similar delays to the General Code, was due to be implemented earlier this year. However, with the change in Government and the summer break in full swing, it looks like this may be further delayed. This might be a good thing though for some, as they grapple with the General Code, which came into effect in March 2024. But what has all the fuss been about, and why are we seeing so many changes in how we manage pension schemes?

GENERAL CODE

The Background

In late March 2024, the new General Code came into effect almost exactly three years from the first draft being published as the 'Single Code' of practice in March 2021. But the story begins much earlier than that, back in 2019, when the Pensions Regulator (tPR) announced their aim to draw together 10 codes of practice in to one single code. With statutory changes, plus consultation responses totalling over 100, the General Code has evolved from its initial form, but the aim remains the same: to enhance compliance from trustees and deliver better outcomes.

So what does this mean for your scheme?

Whether you've taken the wait and see approach, or the opportunity to get ahead before it came into effect, the below provides some thoughts and helpful ideas as we move into an enhanced governance world.

Why all the fuss?

Almost everyone linked to pensions has a view on the General Code – whether it's one of the importance of good governance, another item to add to the trustee agenda, or a great opportunity to increase engagement between trustees and their advisers. Regardless of your view, the last few years have taught us that good governance matters.

From COVID and the move to greater technology, to the LDI crisis and the need for speed of information and action, we have no shortage of examples of why good governance can make a difference to outcomes.

If good governance can therefore make such a difference, why don't we all do it anyway? Well, the answer is many do. And for those schemes and trustees, many of the areas covered by the General Code will already be in place. And for those who don't? Well, it is these schemes where enhancements to governance are likely to be most needed, and therefore a good option to ensure pragmatic and proportionate governance is in place.
So, is there a need for all the fuss? In many cases, no. But it is worth noting the approach to implementing the General Code across the industry has been varied, with adviser services and trustee involvement varying, and hence costs and outputs varying significantly. There is no right solution for how this is delivered, but it may be worth exploring who is best placed to lead on this and deliver the outcome that is right for your scheme.

What do we need to do?
Although many will have been looking at this over the past few years, even for those who haven't you may find you have a comprehensive governance framework that meets many of the requirements of the General Code without knowing it!

Ultimately, there are several areas covered by the General Code, including:

1. Funding and investment

From SIPs and implementation statements to climate, ESG and investment governance, monitoring and decision making on funding and investment for many will already be part of the agenda.

2. Regulatory and management

For areas such as reporting breaches of the law and dispute resolution, having clear controls and policies is important to ensure members remain protected.

3. The Trustees (or wider governing body)

Including trustee knowledge and understanding (TKU), appointment of trustees, succession planning and removal, as well as the use of any subcommittees, being clear on how the governance of the scheme will work mitigates risks and improves transparency and outcomes.

4. Communication and disclosure

Covering the Chair's statement for DC Schemes, as well as communicating with members and statutory requirements such as those for public sector schemes to share certain information, much of this is likely to be done already and gives rise to the opportunity to review and enhance processes to make them more robust.

5. Administration

Including data monitoring, IT and cyber, and contributions, this may be an area where trustees spend more time ensuring the current approach is clearly documented and equally look to make enhancements where more robust procedures could mitigate risks further.

6. Reporting

Many of the more routine reporting requirements may be already in place for your scheme, such as submitting Scheme Returns. However, revisiting and ensuring there is an understanding of what needs reporting and to whom, the process around this, and having everything laid out clearly is vital to prevent risks occurring which could be avoided. The last thing any scheme wants if they have contribution failures or a data breach is to lack clarity on next steps introducing further challenges.

Whilst the list above is not exhaustive, it provides a flavour of the key areas covered. Most importantly, there will be a number of items above already being done. Therefore, enhancing and / or documenting these in an Effective System of Governance (ESOG) and Own Risk Assessment (ORA) will enhance scheme management and focus the trustee on integrating risk controls.

So why do we need more regulation?
If the General Code aims to improve governance and risk management, what will the DB Funding Code and the much talked about Statement of Strategy add to schemes?

Importantly, the updates we have seen to regulation over the past few years aim to combine and modernise parts the regulatory framework for pension schemes, improving security and stability for members, trustees and employers.

Whilst these changes can be costly to implement, in time and financially, a pragmatic and proportionate response which has impact, rather than being a tick box exercise, is vital. Using technology to implement, as we are at Citrus, can drive efficiencies in set up but also make ongoing integration more seamless and cost effective. It can also bring significant advantages to data and risk management. For some schemes, consolidation may also bring benefits, leveraging work and sharing costs to deliver improved governance and risk management.

SUMMARY

Whatever your thoughts about the General code, DB Funding Code, Statement of Strategy or any other regulatory aspect, modernising and enhancing our pensions framework must be good for members, trustees and employers in the long term – albeit a stable environment to deliver them in would be helpful! The trick is to ensure you take the right approach to application and delivery, balancing the appropriate pragmatism with implementation to manage risks and improve governance. If you'd like to discuss any aspect of this further, or if you have any questions, please do reach out.

Sarah Leslie
Citrus Trustee
T: 07496 331090
enquiries@
citruspensions.co.uk