



Hymans Robertson On...The future of services for DB schemes...

Wed, 8/24 2:45PM • 25:17

SUMMARY KEYWORDS

trustee, scheme, work, Marcus, industry, pensions, demand, firms, opportunities, clients, deliver, change, Jon, data, market, DB, members, podcast, technology, Robertson

SPEAKERS

Jon Hatchett, Marcus Hurd, James Sheehan

James Sheehan 00:04

Hello and welcome to our latest episode of The Hymans Robertson On... podcast. In this episode, we'll be discussing the future of services for our DB schemes taking a long-term visionary look at where the DB industry feels right for change. We'll be looking through the lens of the services that DB, trustees, sponsors, and scheme members need and will likely come to expect in the years ahead. We'll also take the opportunity to explore the implications of that for firms providing services and to the industry. My name is James Sheehan, and I am co-head of Digital Strategy for our pensions market business here at Hymans. Before we get stuck in if you'd like to hear more across a broad range of pensions, investment, and finance topics, please do check out the rest of our podcast episodes. And of course, if you like what you hear, please subscribe on whatever platform you go to for your podcasts. So today I'm delighted to be joined by my colleague Jon Hatchett, who is a Partner in Hymans Robertson's pensions business and Marcus Hurd, who is Partner and Managing Director of ndapt, the network of Professional Trustees. Between both John and Marcus, they are fabulously placed to share some views on the future of DB services. With both of them being restless and successful innovators of change in various forms over their careers. I'll not steal their thunder anymore but will hand over to them both to introduce themselves. Thank you very much for being guests of the podcast today. Marcus, if I could hand over to you first to tell us a bit more about yourself and the work you do. That'd be excellent.

Marcus Hurd 01:28

It's great to be on the podcast. So, I'm Marcus Hurd, as you said, I'm Managing Director here at ndapt. We are professional trustees, sole trustees, non-executive directors, so very much ingrained in the pensions industry. And I know the topic that we've got today about driving efficiency, and finding value add is really close to my heart. So, I'm looking forward to this discussion.



Jon Hatchett 01:47

I'm Jon Hatchett, as James said, a Partner at Hymans Robertson. Been here for nearly 16 years, joined on the grad scheme, I was a scheme actuary, headed up our corporate consulting business, I spent a lot of the last five years working on an incubator within Hymans Robertson. So, working with a multidisciplinary technology team, and now a leader in the pensions business. And Marcus and I first met each other around 10 years ago, we worked on a paper for the Institute of Actuaries on meeting defined benefit obligations. I'm not sure it hit The Times bestseller list but it was very interesting at the time and forward looking in terms of Integrated Risk Management, which I see is now finally hitting the funding regulations 10 years on.

Marcus Hurd 02:28

We never got the credit we deserve for that, did we Jon?

James Sheehan 02:32

There's a nice symmetry to getting back together 10 years on and bring you back together and get your views on the next 10 years. So, on that note, it would be a be great to kick off by getting your thoughts on where the industry is today, in terms of the services that DB schemes need and how those needs are changing. So, John, I'll hand over to you to kick us off.

Jon Hatchett 02:54


Yeah, very happy to. For me, there's three big trends, one of which is not to do with a DB industry at all but is about the rise of technology and the opportunities that creates and the expectations it creates. So, people who are used to ordering on Amazon, things appear quickly, it's on demand, it's transparent where services is and it's faster and faster and faster. And trustees are increasingly wanting to work that way, because they work that way in the rest of their life and why are pension schemes so slow, relative to online banking, or anything else. So, you've got the rise of technology, again, the rise of professional trustees like Marcus and many others and how that's changing the dynamic with trustee boards and sole trustees in particular. And then the third theme I'd pick out, which is creating a lot of work for the industry, and really positive in terms of securing member benefits, but the rise of endgame and the flow of liabilities from corporate balance sheets to ensure a balance sheet and maybe over the next 10 years other sorts of balance sheets that give greater security to the member promise. But that's really driving the sorts of work that we're seeing clients demand from us and from many others in the industry.

James Sheehan 04:11

Marcus, you okay to share some reflections on that, please?

Marcus Hurd 04:14

Yeah, I completely agree with John, I think he's hit the nail on the head. I think that the areas is speed of execution, being able to do stuff really quickly and not just be dragged back into the old quarterly trustee meeting



cycle of the old days. You know, it's no longer good to have manual processes in place, you need to be able to have things automated, be able to do things directly. There's also increased demand for governance, as trustees were responsible for billions of pounds worth of assets on behalf of other people. The idea that we have governance processes that are archaic is no longer fit for purpose, it's no longer good enough. I think the other thing I'd add is that this speed, this efficiency, this governance is also that we can focus on the more strategic issues. So, let's get the basics done, really quickly, really efficiently and free up the time to think on the big picture stuff. Those things like market opportunities where if we can move quickly enough, we can take advantage of market opportunities. Whereas if you're in a quarters trustee meeting cycle with good chances, you'll miss them by the time you get down to actually move on, I think linked to that, as John mentioned, you see the rise of professional trustee ship, but also sole trustee. So, you've got sole trustees who can move very quickly and then having the technology that sits behind that, that enables them to again, execute. Yeah, I just think back to the old days, where the investment consultant would come with an idea, you'd put it on the next trustee meeting agenda. So, you've lost a couple of months there, you'd then have a training session, and then three months later, interview a few managers and then three months later, you'd hopefully report that you've made the change. Whereas now, a literally seen a case, just last week, where I was called at nine o'clock by investment consultant, we had a brief discussion of what it was, we'd already pre agreed what the actions were going to be if this situation arose and then we using the digital technology was signing execution documents and by 6pm, that evening, we have the confirmation call, say everything have been completed, literally within a 9-6 timeframe, that's got to be the way forward, that's got to be the best thing for scheme members.

James Sheehan 06:21

So just picking up on that point, Marcus, about improving this sort of the flow of decision making, if you like trustees and real time governance, how's that changing the broad relationship? Would you say between trustees and their service providers and including advisors?

Marcus Hurd 06:37

It's a very, very good question. And I think if you look back at the old model, if I can call it that the model was how could you find a scheme match your investment consultant's administrator understood you and there was a lot of a softer edge to it, that was very much a question of do you get on with that person? Do you think that's the sort of person you want to have meetings with, training from? It was that kind of discussion, whereas now, actually, there was an expectation that the basics will be done very efficiently, the conversations a lot more action orientated, and actually almost more of a solution lead relationship and an implementation relationship than it is one of how well do you get on with that person. So as a trustee, we're effectively, we are looking now for advisors who can deliver and get stuff done, rather than somebody who we don't mind spending a couple of hours in the trustee meeting with, if that kind of makes sense. The other bit of this is, it's not just the rise to professional trusteeship, which I think is now quite widespread, but sole trusteeship and that is an entirely different relationship. So, when this scheme actuary calls the sole trustee, to discuss, say, a change in factors or change in funding, there is very little discussion about what the background is to the situation, because the sole trustee knows that it's very much a peer-to-peer discussion, where the adviser and Trustee are working together to find what the right outcome is for that scheme. So, it cuts all the fluff, cuts all the training, it's a very different relationship, the relationship of old.



James Sheehan 08:05

Jon from employee benefits consultancy point of view, does that, does that resonate for you? How would you respond to that?

Jon Hatchett 08:12

It resonates very well for me from what I see from colleagues and my own experience of working with sole trustees and I like that term peer to peer relationship, because that that feels really right, it's about collaborating together. And, and to some extent, that's a kind of commercial interests are different and and to some extent more aligned with that sole trustee, it needs to be collaborative, and advisors expected to be more proactive. It's not about kind of two weeks before a quarterly meeting cycle, getting together to sort of debate what the agenda might be and what you agreed to do two and a half months ago, it is much more that picking up the phone, sending emails, looking for opportunities to help the scheme on a much more ongoing basis and that kind of moving from a cadence of quarterly cycles to ongoing as Marcus described, having the information you want, ready at your fingertips to help drive decision making, drive the identification of opportunities, that all that all matters a lot. So those dynamics are really changing quite a lot. So, relationships still matter, tailored advice, still matters, good consulting, still matters. But the importance of service delivery, I think is really rising quite quickly. And some of that is to kind of get it out of the way, almost. Just, just expect that if chance or values are being calculated, we don't need to spend a lot of time on that. It's just being done, it's being done to high quality. And then also service delivery so that if you want to be able to look at risk and returns on a short-term basis or risk attribution, or long term analytics about scheme funding, or pricing opportunities in risk transfer, what's going on with the LDI collateral, that's very topical. Any of those things, the scheme is being run in such a way that that data and information is far more readily available, rather than it being a consulting project every time to go and calculate a particular number and order implications for increasing the elapsed time of decision making that that leads to.

James Sheehan 10:29

What do you think this means for advisory and services firms in the DB industry, Jon?

Jon Hatchett 10:36

So, firms have changed if you if you sort of look back long enough. You know, at one-point actuaries were calculating valuation using pieces of paper and logarithms and, you know, so it's not that firms haven't changed but, but like many other industries, that pace of change is increasing. And we've talked about those market drivers and firms will need to adapt quickly really, if the markets adapting the firms will need to adapt and reminded the old adage that it's not the survival of the fittest in an evolutionary environment, it's the survival of those most adaptable to change. And I think there are there are big opportunities for firms who can deliver on this desire of automating those things that can be automated, getting that service delivery brilliant, through that automation, and then using the time that that frees up, to be proactive, to be on the front foot with professional trustees and sole trustees, which are growing part of the market and Trustee boards in general, but be on that front foot, and take great ideas to your clients that are good for members. And that you know, that's where the great alignment of interest, of everyone is. It's, it's more interesting work, there's some you know, there's some brilliant problem solving to be done in automating stuff and ultimately, just being able to do a better job for the members.



James Sheehan 12:00

Marcus, how's that sounding from your trusteeship perspective?

Marcus Hurd 12:03

I think that's spot on, I think, organisations, the advisory firms do need to continue to change continue to adapt and reflect the modern environment, and perhaps push the barrier a little bit to, to really challenge themselves whether they are being as efficient as they can, but they are changing as fast as they, they can. Because this, this point about delivering efficiencies is actually really quite challenging in an industry where if you'll excuse me for saying this, we are paid for being inefficient a lot of the time, just the sheer structure of the way in which the agreements work, the more time you spend on something, the more you get paid. So there is a natural barrier there is it worth being efficient, but I think there's organisations that managed to crack that but then find as Jon says, that you can then focus on value level opportunities, because it's been efficient it's really so that you can then work out what the market opportunities are, and make sure they're actually delivering a better end outcome for the scheme members and the sponsors who are backing these schemes.

James Sheehan 13:02

So, really looking out into the future now over the next five years say, what would you like to see as as progress picking up on some of these points that you've made? Marcus, if you're okay to reflect?

Marcus Hurd 13:15

Yeah, I think, you know, just echoing all of what we've been discussing this morning, you know, to be more streamlined, to be more efficient to look at automation, you know, how many times we were sending emails, where actually the whole process can be automated, how many things are still being logged manually or held in Excel spreadsheets, when actually proper systems development would mean that these things just naturally flow. Focus on that speed of execution and the example I gave earlier, where a transaction was concluded within a day should not be abnormal, it should be something that is all pre planned, free automated, then we can get to these these better outcomes. I think as well over the next five years, and I would say this been in professional trustee market, I think we will see increased professionalisation. I think the job of the trustee now is becoming increasingly difficult. I think the threats and regulatory pressures are a little too challenging now, and I think seeing more professional trustees out there is going to drive better outcomes in the long run. And then the other thing, big thing over the next five years is seeing scheme's able to transact on buy-out. And I know we've been saying that for a long time in our industry but you do get the sense now that we had another three months like the last three months or another six months, like the last six months, schemes could be hitting these buy-out targets. And at the moment, I don't think every scheme is ready to actually do that transaction of something which if you're ready for that you've got everything in place, then actually you can get a much better price and much better deal than if you are just approaching market for the first time having not really thought about it in great depth. So I think there's a lot of things happening over the next five years, frankly, is gonna be an exciting industry to be in.

**Jon Hatchett 14:52**

I'd absolutely agree with all of that and it really is an exciting future and I'm energised by the amount of change that we're going to see. From a perspective of our business, I think there will be really dramatic changes in the way we work, not necessarily with our clients that that time in client meetings will change some and having data at your fingertips with your client will change some of that way of working. But I think more changes in how things are delivered in the background, and from particularly around the kind of production of analytics and advice rather than it every job being a kind of bespoke one-off job. More of analytics available on demand across a whole client base. And for a trustee board being able to access that. But if I kind of take a step back and sort of try and think about the way we deliver to clients, there's a kind of there's the bedrock is data. And in the pension industry, that's been a, that's been a hard problem to crack. But I think pensions dashboard, GMP, equalisation, a lot of schemes who've done their first buy-in, having clean benefit specs, and clean data to go alongside that will be transformed for most schemes over the next five years, they will have done the work to know what's required. The next layer is modelling. So, on that data modelling layers, and I think technology provides completely different opportunities to what we would have had 10 years ago, and so data piped into models, and then reporting in different ways. So automated reporting, in some ways, models that you can use with clients, for education, for consulting for advice in the trustee meetings. There's some of that already, but I think the range and quality and integration between investment, actuarial and administration, so you can see right through that in one place will really just grow and grow. I mean, from our own perspective, we've had what we call on demand valuations for full-service clients for think getting on for five years now. So, every quarter, there's a new member data feed, which when you're thinking about risk transfer pricing, or you're thinking about LDI, now you've got that up to date member data is really valuable. And we can now do LDI analytics, pretty much on demand on the back of that data. And you can kind of see the range of services, that flow right back through to that administration platform, just growing over time, to give really robust, high-quality decisions. So, it's not fast, that the sake of accuracy, it's fast, because the work is just being done in a very different way to how some work is done today, and how pretty much all work would have been done 10 years ago.

James Sheehan 17:42

Thank you really interesting views there. I think a really poignant note that Marcus struck around incentives in the industry today are often based around time spent is charged and that means that there's a perhaps less of an incentive than there should be to drive towards efficiency. Just keen to ask you both whether you have any, any views on how you might see those broad incentives that are in place today changing, how to be sort of make that that whole thing improve?

Jon Hatchett 18:12

I guess, my take on that is part of what drives us is I think its what clients want. Ultimately, what motivates us is looking after members and doing that through giving our clients information, they need to make great decisions, building strong, strategic relationships and looking after them. And we think if we can, if we can get this right, have an experience for clients that is timely, that gives them what they want on demand, that's transparent in terms of how services are, that's digital where it needs to be, and human where it needs to be. If you get all of that right, then then your kind of market share will grow, frankly, and we'll get to work more people and have more influence in the industry. So, the kind of, I think the driver's competition, technology's increasing the pace of everything and so those who can be more successful, will have more influence through doing a great job and working with more schemes for more members.

**Marcus Hurd 19:19**

Yeah, I would add to that, I think as a trustee, we've got to be more business like about the way in which run these schemes and we've got to demand the sorts of things that John has been talking about, you know, in terms of having the automation, having to streamline, the link to the administration system. It's incredible how many schemes just aren't doing that. And the technology is available, it's just not widespread. And I think as a trustee, it's our duty to run these schemes like we would a business of the same size and demand of advisors that they step up to the mark and deliver on this. It doesn't seem acceptable any longer to be running these schemes as if they were a hobby, it should never should have been the case but when the technology is out there, and the advisors are capable of delivering then that is exactly what should be demanding. And where services are just not up to scratch, then I think we've got to make it very clear that that's not acceptable any longer. Seems a little bit hardnosed but actually, if we are going to drive change like this, then I think we have to be a lot more demanding of ourselves and, and lift the expectations of what is what is the art of the possible.

James Sheehan 20:22

But you both have lots of experience of leading on transformational change in the industry and I'm keen to just ask, what do you see as biggest challenges for leaders and defined benefit space in the years ahead and delivering on this? So, I'll hand it over to you Marcus first.

Marcus Hurd 20:39

So, it's difficult, what this there is a lot of progress being made and I'm conscious, I may seem a little bit negative about the old way of doing things, as I've referred to a few times but there is change. It's not as fast as I would like, but I guess that is just the nature of change is that there will be those who want it to happen faster than others. But it is hard for this industry to change. First of all, in any industry where change has to happen, it is hard for those that are inside that industry to make that change themselves without external prompts and I feel a little bit like my job as a trustee, I am almost that external prompt, who can then demand of the advisory firms, the change that needs to be made. There are other obstacles as well. A lot of the industry is driven by established organisations were very strong but because of that there are barriers to entry. It's not an obvious area for new growth entrants into the market. So actually, you're asking the established organisations to make that change from within, which is always challenging, coupled with the point I raised earlier, which is a lot of us are paid to be inefficient. So, when you're paid to be inefficient, you've got established organisations and it's hard to change from within is difficult enough. But layer on top of that, as well the bandwidth that organisations have at the moment, there are some big changes out there, such as GMP equalisation, the pressures on Administration, also look at the data cleansing work that is required, and the new governance era which is coming in, which is a good thing. But nevertheless, it takes up bandwidth. However, having said all of that, whilst there are so many barriers, it's a point that Jon raised earlier, for those who've managed to get it right, for those that can be ahead of the curve drive, the transformational change that is required, they're going to be in a fantastic place and they'll be sweeping up large parts of the market, because they'll be the ones who are able to deliver on the cost of real efficiently, but also find that value add opportunities, that ultimately, as I was saying earlier, it goes on to benefit the ultimate stakeholders, which are the sponsors of these schemes, but also the members that are within these things.



Jon Hatchett 22:45

So yeah, I'd agree with all of that. And for those firms who are successful in five years' time, this isn't bombast to say that the change will have been transformational, it won't have been a set of incremental steps, if you look forward to how they're working in five years from today, it really will be transformational. But there are challenges. Marcus describes lots of project work, and I'm sure the listeners to this podcast will be very familiar with all the things going on and, and you know, it's not just pensions, where people are struggling to get enough people from airports to ports to supermarkets, to, to legal professional services, you know, across across the UK, there is a scarcity of great people to do work. And so you've got you've got lots of project work, we've got scarcity of people across the UK, never mind our industry, but equally there are, I think when you've got clients energised for change and firms energised to meet those client demands, I think you've got the fundamentals of a market that is ripe to do things very differently, working with a broader set of skills so I don't think it's the consultants themselves who can transform. It's consultants working with engineers, with modellers, with UX designers, with business analysts, bringing together a panoply of skills to really deliver in the way that kind of Marcus has described he wants, and we think many others want. And yeah, just to say that that feels like an exciting path for the industry to be on.

James Sheehan 24:24

Thank you very much both. That's a nice high note to end on, lots of work ahead and very much looking forward to being part of all that, it's been fascinating to hear your views from you both and very much appreciate you joining today. We hope our listeners enjoyed this episode of Hymans Robertson On... and I'd like to thank Jon and Marcus for joining us today and for being such great guests. If you enjoyed the show, we'd really appreciate it if you rated us on Apple podcasts or Spotify and hit the follow button if you'd like to be notified of future episodes. Of course, if you have any comments or feedback then we'd love to hear from you reach out to us on LinkedIn or you can find out more about this episode by visiting hymans.co.uk/podcasts. Thanks for listening!