Trustee board effectiveness for pension schemes

In association with Lane4

May 2018

kpmg.com/uk

Improving the performance of your Board

Assessing and improving the governance of your Trustee Board

"You should annually evaluate how effectively the board is performing, referring to the objectives you set in your business plan."

– The Pensions Regulator, Feb 2018, "21st Century Trusteeship"

Just as we ought to have regular check-ups to take stock of our health, the Pensions Regulator (TPR) expects trustees to run regular effectiveness reviews to evaluate how they're performing. But, as trustees' duties and responsibilities continue to grow over time, it can be a challenge to find the time, resource and agenda space to carry out these reviews.

This is where we can help. By bringing together our pensions, audit and assurance experience, we've developed a practical, efficient methodology for trustee boards to assess and improve the governance of their scheme. Our approach helps trustees gain a common understanding of what TPR expects from a well governed scheme, distilling the various codes and guidance papers TPR has issued so far.

You can read more about our approach on the following pages.

Key features of our approach:

— **Independent, objective facilitation**

— **Covers and consolidates all key areas of TPR guidance issued so far**

— **Encourages openness and honesty** through reporting results on a grouped, anonymous basis only

— **Efficiency** as it takes trustees just 30 minutes to provide the input required

— **Tried and tested** with a range of trustee board and scheme sizes. Also selected as PLSA's exclusive collaborator (see right)

Improving the performance of your Trustee Board

TPR's research also shows that board effectiveness extends beyond the operational aspects of running a scheme – the behavioural attributes and dynamics of how the trustees work together are just as important. Yet many trustee board reviews we've seen in the market don't give this area enough attention.

This is why we've worked with our alliance partner, Lane4, to develop our approach to board effectiveness reviews. Lane4 are a leading consultancy in the field of human and team performance, and can help trustees measure, improve and have a deeper conversation about how they can work better together. Their approach is customised to the needs of pension trustee boards, and also draws from their wider experience in fields like business, sport, medicine and the military.

The support they've provided to various trustee boards has been described as "transformational" and "amazing".

Some of the ways Lane4 can support trustee boards are listed below.

How Lane4 can support you:

— "High Performing Teams" evaluation (page 4)

— Individual profiling and 1-to-1 feedback

— Skills/personality mapping across trustee board

— Trustee selection

— Observation of trustee meetings & feedback

— Individual coaching

— Workshops

Alliance with the PLSA

We've been selected as the Pensions and Lifetime Savings Association's ("PLSA") exclusive collaborator for running trustee board effectiveness reviews.

PLSA members can receive a discounted rate for our services by engaging via the PLSA. For more details, please get in touch with us or the PLSA.

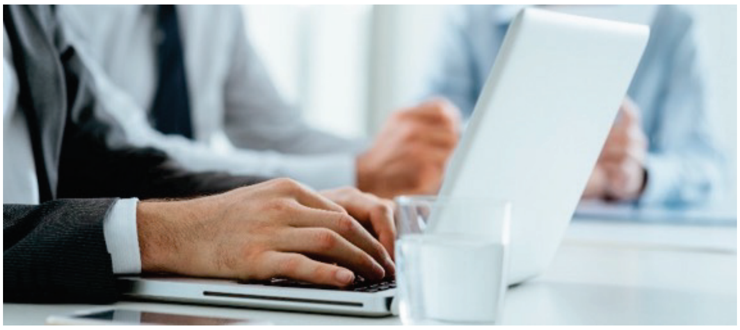
PENSIONS AND LIFETIME SAVINGS ASSOCIATION

EFFECTIVE GOVERNANCE

In collaboration with KPMG

"The Pensions Regulator welcomes the development of tools like this, which provide ways for trustees to assess their current levels of governance and set targets for improvement. As part of our work on 21st Century Trusteeship we would like to encourage trustees to regularly assess their board effectiveness and we welcome initiatives developed by industry to support TPR's drive to improve governance."

– Lesley Titcomb, Chief Executive at The Pensions Regulator



KPMG's governance review

What is it?

A simple but thorough online questionnaire for each trustee to complete. KPMG reviews the results and discusses these in a facilitated workshop with the board.

The questionnaire covers all the key areas TPR has issued guidance on. It helps trustees get a handle on what TPR expects from a well governed scheme, and how they might address any gaps.

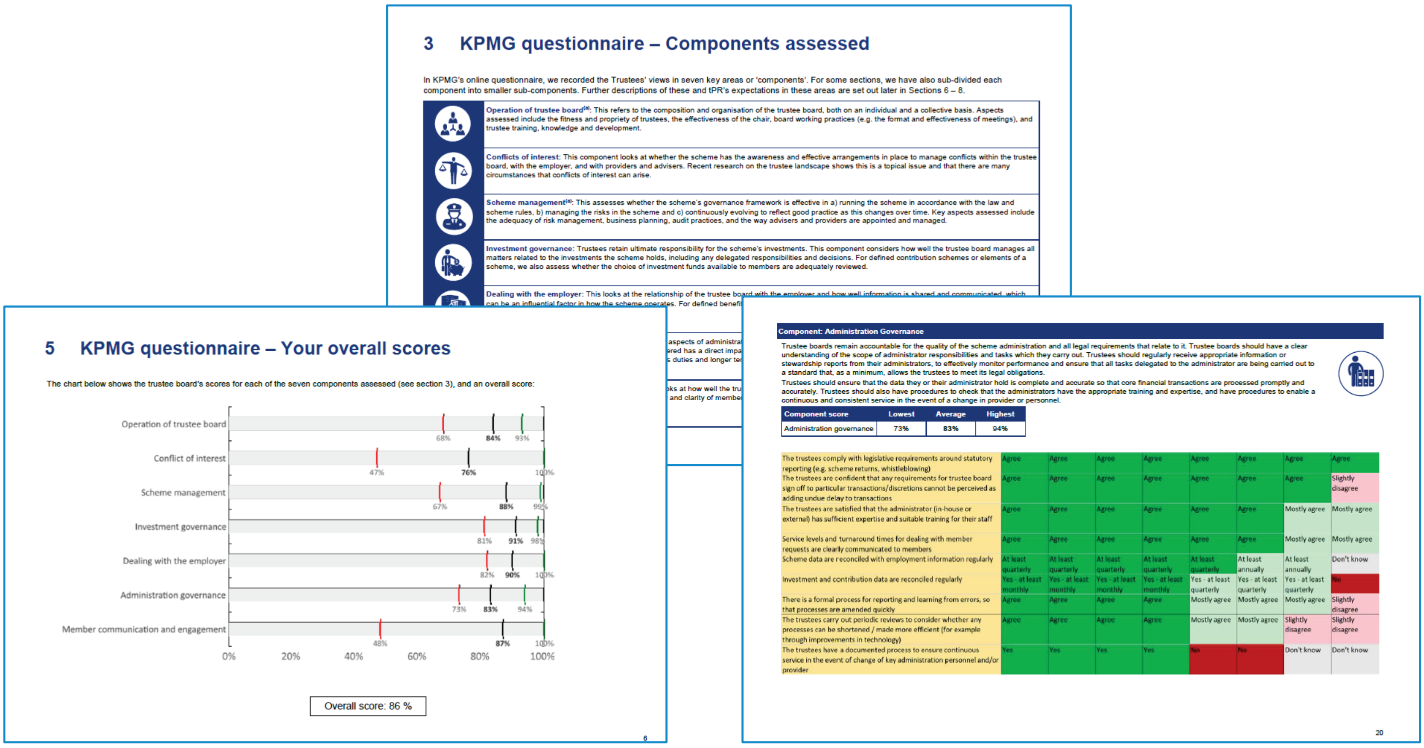
What will my Board receive?

- Set-up of secure online governance questionnaire for each trustee to complete.
- Collation and review of results by an experienced KPMG consultant.
- Fully facilitated workshop to discuss results, identify any gaps and agree next steps to address these. We also share insights on market trends and future expectations.
- Trustees receive a report with the results shown on a grouped, anonymised basis.

What other benefits are there?

- ☑ Independent review – removes any conflicts of self-review, and allows the Chair and Secretary to fully participate in the process.
- ☑ Efficiency and flexibility – it takes just 30 minutes to complete the questionnaire, which trustees can do in their own time.
- ☑ Ability to track progress – measurable approach allows tracking through re-assessment after an agreed period.

Operation of the trustee board	Scheme management	Dealing with the employer	Investment governance	Administration	Member engagement



Lane4's High Performing Teams (HPT) evaluation

What is it?

An online questionnaire for each trustee to complete, followed by a workshop with a qualified Lane4 consultant to discuss the results and issues arising.

The questionnaire is a diagnostic tool that helps trustees assess the team effectiveness of their board as a whole, such as how the team perceive each other, the sense of leadership, and how they react to changes or deal with difficult situations. It's based on Lane4's High Performing Teams framework, developed from years of research of high performing teams in various fields, and is highly applicable to the trustee board setting.

What will my Board receive?

— Set-up of secure online HPT questionnaire for each trustee, which takes 10-15 minutes to complete.

— Collation and review of results by a Lane4 specialist. Results are presented in a report, shown against the main components of the HPT framework.

— Fully facilitated workshop with a Lane4 specialist to discuss any issues arising and how to improve the performance of the board.

— Workshop can be combined with KPMG's governance review.

What other benefits are there?

☑ Measure the "immeasurable" – the HPT framework now gives trustees a way to measure and assess the less tangible behavioural aspects of board effectiveness, such as trust, leadership and engagement.

☑ Deeper conversations without confrontation – anonymous and fully facilitated approach gives trustees more confidence to raise difficult or hidden issues.

☑ Strengthen relationships within trustee board, through better understanding and appreciation of each other.

HPT Components

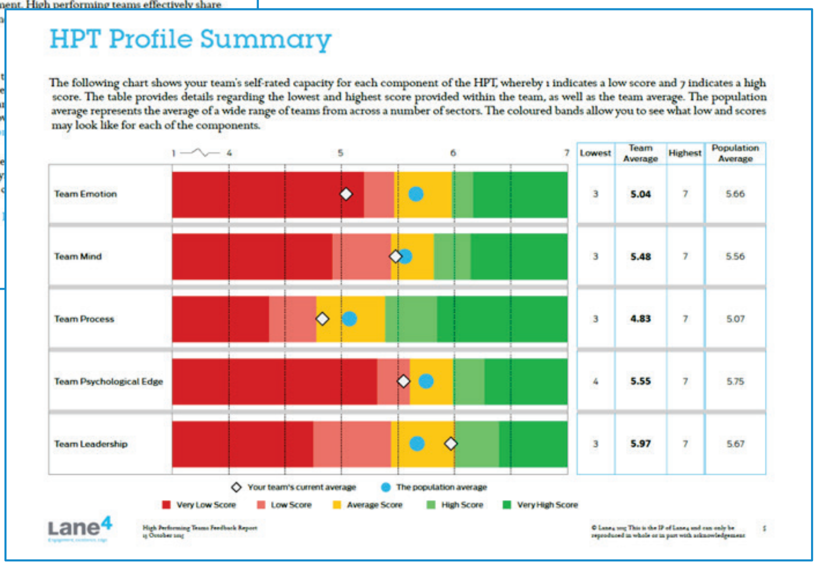
Team Emotion refers to how team members feel about each other, and their team as a whole. This determines how they will behave and how effectively the team will perform. High performing teams have high levels of mutual trust. They feel fully engaged with the team, successfully resolve conflict and make superior decisions as a result of capitalising on knowledge held by all team members.
Sub-components: Team Engagement, Mutual Trust, Conflict, Decision Making

Team Mind refers to the 'shared thinking' within the team. In high performing teams, members know how their team works best together. They are able to read new situations and apply existing knowledge. To keep improving, teams need to learn. Through a continual process of action and reflection, great teams acquire, share and apply knowledge.
Sub-components: Shared Mental Models, Situational Awareness, Learning

Team Process refers to what the team does that allows them to adapt and perform at a high level despite changes in the internal and external environment. High performing teams effectively share information, distribute workload and anticipate the n
Sub-components: Communication, Coordination

Team Psychological Edge refers to the team's ability t
can perform in the most difficult circumstances by re
determined and controlled under pressure. These tea
the direction of momentum when the team is in a do
Sub-components: Team Toughness, Psychological Mo

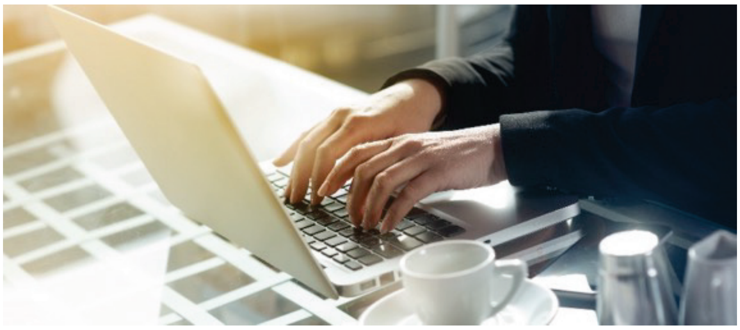
Team Leadership refers to the formal and informal le
performing teams, leadership responsibility can be dy
informal leaders according to the situation and skills
high levels of vision, support and challenge.
Sub-components: Vision, Support, Challenge, Shared



HPT Profile Summary

The following chart shows your team's self-rated capacity for each component of the HPT, whereby 1 indicates a low score and 7 indicates a high score. The table provides details regarding the lowest and highest score provided within the team, as well as the team average. The population average represents the average of a wide range of teams from across a number of sectors. The coloured bands allow you to see what low and scores may look like for each of the components.

	Lowest	Team Average	Highest	Population Average
Team Emotion	3	**5.04**	7	5.66
Team Mind	3	**5.48**	7	5.56
Team Process	3	**4.83**	7	5.07
Team Psychological Edge	4	**5.55**	7	5.75
Team Leadership	3	**5.97**	7	5.67



Additional services

We also provide a range of other services to help trustees improve their effectiveness, covered below. We recognise that every board is different, so get in touch to find out how we can meet your specific needs.

Individual profiling and 1-to-1 feedback

In addition to the HPT evaluation, Lane4 can carry out personality profiling through an online questionnaire, followed by a 1-to-1 feedback session with a Lane4 specialist. Trustees gain a deeper understanding of their own personality traits, and how they work best as part of a team.

Through this process, Lane4 can also map the overall mix of behavioural qualities contained within the trustee board, helping the chair and trustee board understand what the "sum of the parts" looks like.

Trustee selection

If your board is going through a period of change such as a selection process for new trustees or a restructuring, this is both a perfect and critical time to look at board effectiveness so you're best placed to make the right choices for your scheme's future.

By having a clear understanding of the existing mix of personalities, skills and attributes on the board, we can empower trustees and employers to appoint the right candidates that "plug the gaps" and improve diversity of thought on the board.

Feedback and 360 reviews

No matter how strong or qualified the individuals on the board are, those that adopt regular practice of giving and receiving constructive feedback will adapt and perform better than those that don't. TPR also advocates annual performance reviews with individual trustees.

We can help chairs/sub-committee leads co-ordinate an efficient and independent feedback process. We have an online 360 assessment tool for gathering anonymous feedback on core attributes including leadership, collaboration and performance, giving individuals the valuable, insightful and honest feedback they need to keep getting better.

Scenarios

Scenarios provides an immersive, interactive and memorable experience to bring to life the behavioural dynamics of the trustee board. Perfect for a fun team-building exercise or an away-day.

Scenarios can be used to simulate a decision-making or pressured environment, to test how the board will react and work together. Both pensions and non-pensions scenarios are available.

Observation of board meetings

Both KPMG and/or Lane4 can observe trustee or sub-committee meetings, and provide trustees with valuable immediate feedback. This helps build on and consolidate wider efforts of improving board effectiveness.

Desktop governance review

KPMG carries out a desktop review of the key documentation and governance processes for a scheme. We provide a view on how comprehensive they are, whether they're fit for purpose and working effectively in an integrated way. This can be used to supplement the online questionnaires or be carried out as a separate exercise.

Documents we review typically include: business plan, risk register & internal controls, sub-committee and trustee support working policies, delegated authorities, trustee meeting minutes, training and development plans, conflict policies.

We can also interview key trustees, executive/support functions, providers and other stakeholders where appropriate to form a comprehensive view of how effective and adequate the scheme's processes are.

Frequently asked questions

Q: Is your governance process targeted at DB or DC schemes?

Both – our approach works for all DB, DC and hybrid occupational pension schemes.

We also provide more tailored services to public sector schemes, please get in touch to find out more.

Q: TPR has shared a number of board evaluation tools on its "21st Century Trusteeship" website. What does your approach add?

While the paper-based questionnaires are a good starting reference, a board evaluation is a *process*, not just a collection of tools. It's more important to focus on whether the wider review process enables the quality of interaction needed to lead to genuine improvement.

We review our tools and approaches regularly to ensure we more than cover TPR's latest content. But our approach provides you with much more:

- **Time and cost savings** – TPR's paper-based tools require valuable resource (e.g. the scheme secretary or adviser) to manually compile responses. We've automated this part of the process, making it time and cost efficient for you.
- **Confidentiality and freedom from conflicts** – we protect the confidentiality and anonymity of responses received, giving all trustees an open, honest platform to voice their views.
- **Inclusivity** – where responses in a self-review are typically directed to the Chair, Secretary or Pensions Manager for collation, our process enables all parties to participate fully in the process and receive honest feedback.
- **Independent facilitation, challenge and insight** – we facilitate the review without bias or pre-conceptions about your board. We're also able to provide genuine challenge and insight based on our wider experience in working with trustee boards.
- **Clear, specific action plan to take forward** – the real value in a board review lies in the change and improvement it inspires. We help you develop a tangible action plan that addresses your scheme's specific development needs.

Q: We're making some changes to our trustee board. Should I postpone a board effectiveness review?

This is actually a crucial time to look at board effectiveness, as the selection of any new board members (or departure of existing ones) will affect the balance and mix of skills and attributes present on the board.

While assessing some aspects of team effectiveness that may be sensibly held for later, other exercises such as individual profiling and mapping can really enhance the trustee selection process, giving you the data you need to choose (or work with) the candidates that fill the right gaps, and objectively assess what the board needs to improve how it operates.

Given that TPR expects all schemes to carry out regular reviews, trustees should also challenge themselves as to whether any postponement is genuinely short-term and temporary, or if they're simply kicking a review into the long grass as there may never be "a good time". For example, some trustee boards we work with stagger their trustee elections so one takes place almost every year – if they postponed their review due to "making changes", they'd be delaying a review indefinitely!

Q: Our scheme/trustee board is not large, is your approach still suitable for us?

Performing regular reviews is healthy practice for all schemes and trustee boards. We specifically designed and invested our approach (e.g. part-automation) to make our services available and affordable to schemes and boards of all shapes and sizes, not just large ones. We've even carried out reviews on sole trustee arrangements.

Speak to us if you've got a particular structure or set-up you'd like to explore, we're more than happy to share some ideas with you and how we might customise a suitable approach for you.

About Lane4

Co-founded in 1995 by Olympic Gold Medallist swimmer Adrian Moorhouse, Lane4 is a leader in the field of human performance. Based in the UK, Lane4 works with a wide range of organisations, helping individuals and teams around the world to reach their potential and build sustainable competitive advantage. Lane4's blended learning programmes are underpinned by their own rigorously researched frameworks. There are three broad areas in which Lane4 specialise: Talent Management and Assessment, Leadership and Team Development and Employee Engagement and Communications (delivered by Comment8, Lane4's internal communications and engagement consultancy). http://www.lane4performance.com/

Contacts

Claire Whittaker
Director, Pensions

T: +44 (0)20 7694 4360
claire.whittaker@kpmg.co.uk

Sarah Lacey
Senior Manager, Pensions Assurance

T: +44 (0)20 7311 3865
sarah.lacey@kpmg.co.uk

Eleanor Dobson
Manager, Pensions

T: +44 (0)161 246 4773
eleanor.dobson@kpmg.co.uk

Richard Smith
Client Solutions, Lane4

T: +44 (0)7467 911 906
richard.smith@lane4.co.uk

Visit www.kpmg-trusteeeffectiveness.co.uk to find out more.

kpmg.com/socialmedia

kpmg.com/app

Produced by Create Graphics/Document number: CRT094891A