

32% of pension schemes admit finance directors serving as trustees could lead to conflicts of interest

- **36% of surveyed schemes admit selecting trustees 'at the golf club'**

An astonishing 32% of pension schemes now admit that conflicts of interest could arise from finance directors of sponsoring companies acting as trustees, reveals new research from Trustee GAAPS, the trustee search and selection firm. There is mounting regulatory pressure to tackle conflicts of interest, which recently culminated in a consultation launched by the Pension Regulator¹.

The research also showed that the most popular method of selecting trustees is by personal recommendation from friends and acquaintances. 36% of schemes admit they restrict their recruitment of trustees to this ad hoc method.

According to Trustee GAAPS, these figures raise serious questions about good corporate governance on trustee boards and highlight how much more work needs to be done in order to achieve levels of corporate governance comparable to the standards on executive boards.

Corporate governance is the principle whereby the management of an organisation is ruled by values such as transparency, integrity and effectiveness. This includes the avoidance of potential conflicts of interest and, when this is not possible, ensuring that they are formally identified and addressed.

David Johnson, Consulting Director, Trustee GAAPS, comments: "It's astonishing that a third of schemes now recognise potential conflicts of interest may arise from finance directors sitting on trustee boards. It is an issue which has, up till now, been easy for them to sidestep."

"It's worrying that the most popular method of selecting trustees is personal recommendation. There are parallels here with how non-executive directors were selected ten years ago over a round of golf², which today would be seen by many shareholders as completely inappropriate. Why should scheme members settle for less?"

He adds: "While the Pension Regulator is increasingly encouraging schemes to become more proactive in preventing conflicts of interest from arising, there is clearly still a long way to go."

¹ Conflicts of Interest Consultation Document

² Until the publication in 2003 of the Higgs Review on the role and effectiveness of non-executive directors in light of corporate governance

47% of schemes surveyed employ independent trustees. According to Trustee GAAPs, five years ago less than 25% of schemes would have used independent trustees.

David Johnson says that with schemes that do not have any independent trustees soon to be in a minority, pressure will intensify to remove conflicts of interest from trustee boards.

He says: “Five years ago employing an independent trustee made you a trendsetter. It is now rapidly becoming the norm. In another five years, schemes that don’t will really be under the spotlight.”

The survey also reveals that 52% of independent trustees remain on trustee boards for five years or more. According to Trustee GAAPS, serving too long on the trustee board can affect trustees’ independence from the sponsoring company.

Explains David Johnson: “Just as with non-executives independent trustees need to be rotated on a fairly regular basis. If you stay on a trustee board for too long you are naturally going to lose your ability to challenge the status quo and bring a fresh pair of eyes to entrenched problems.”