



Future of Trusteeship and Governance Consultation Institute for Family Business Response

About the Institute for Family Business

The Institute for Family Business (IFB) is the UK's family business organisation, supporting and promoting the UK family-owned business sector through representation, thought leadership, analysis, events and networking.

We work closely with family firms to support them in growing enterprises for generations to come. A central part of our work is to provide educational resources and knowledge-sharing designed to support business owners and those who work in family business. We champion best practice within the family business community and help others to learn from these examples

Family Business and Pensions

Family business is the backbone of our economy, and the bedrock of our communities. In the UK, family firms generate a quarter of GDP and employ over thirteen million people. By their very nature family businesses take a long-term view, building on long-term stewardship of people and resources. Their commitment to passing a healthy business on to the next generation is locked into their corporate DNA.

The family business sector is extremely diverse. Family businesses come in all sizes and are found in all industries and communities across the UK. Whilst the majority of family firms are small or micro businesses, there are around 17,000 medium and large firms.

By their very nature, family businesses take a long term view, built on long-term stewardship of people and resources. Family businesses have a long history of acting as responsible employers, and this includes their provision of pensions to their employees. Many firms now have significant pension scheme obligations, and family business owners are committed to ensuring that their business is able to meet these sustainably whilst also investing in growth for the future.

Trustee Knowledge and Understanding, Skills, Ongoing Learning and Development

- 1. Do you agree that the expectations set out in the 21st century trusteeship campaign is a good starting point for defining a minimum standard for trustee knowledge in the code? Is there anything else that should be added that would be necessary for all trustees to know?*

We agree with the principles of the campaign, however we believe it is too prescriptive in the detail.

In relation to Defined Benefit schemes the 21st century trusteeship campaign is missing an important element around trustees understanding the business of the sponsoring employer and their plans for sustainable growth. Government and TPR should promote the benefit of constructive relationships between trustees and sponsors, as this will ultimately benefit the decision making process.



We believe that both trustees and actuaries require improved guidance, including guidance specifically focused on the unique characteristics of multigenerational family firms. Trustees and actuaries should be encouraged to take a more holistic view, broadening their considerations from solely financial metrics.

Developing guidance which specifically refers to the different characteristics of multi-generational businesses (including long term outlook, the way in which investment decisions are made, etc) would help to better educate trustees, and empower them to make informed use of the flexibilities within the current system. We would welcome the opportunity to work with The Pensions Regulator on updated guidance.

2. *Should there be legislative change for trustees to demonstrate how they have acquired a minimum level of TKU, for example through training or qualifications?*
3. *Should there be a legislative change to introduce a minimum level of ongoing learning for all trustees, for example through CPD-type training? If so, how many hours a year would be suitable?*
4. *Do you agree that we should set higher expectations on levels of TKU held by professional trustees in the code, recognising that they typically act across multiple schemes of various types, sizes and complexity?*

We believe that trustees require improved guidance and training, including guidance specifically focused on the unique characteristics of multigenerational family firms.

This must, however, be a balanced approach. Onerous training requirements would act as a disincentive to individuals agreeing to act as trustees. Similarly requiring professionalization of trustees would reduce the availability of trustees with a thorough understanding of the business and scheme. Lay and family trustees, who have a thorough understanding of the business, are invaluable assets. Their understanding of the values of the business, and its long term approach, should be recognised as an asset.

The correct governance for individual schemes depends on a variety of factors. A 'one-size-fits-all' approach is not suitable and should not be pursued. This is true in pension scheme governance, corporate governance, and family governance. In family and corporate governance it is essential that families have the flexibility to introduce the structures the best suit the unique requirement of their family and business, to best meet the needs of their employees and communities.

It is important that the scheme trustees understand how the sponsor business is governed, and that governance of the scheme is developed in a way that takes that into account.

We therefore believe that rather than a legislative change, the most appropriate approach would be to promote best practice through a set of principles for good governance, training, etc. This would be proportionate, and encourage genuine change rather than box ticking.

5. *Should we focus more on establishing and setting standards and ensuring all trustees are aware of them, while relying more on industry to have the main role in educating trustees in ways more tailored to their individual needs?*
8. *Should industry play a role in creating tools, guidance and case studies that can help pension schemes attract a more diverse pipeline of lay trustees? How would that work and who should take a lead in making it happen?*



The setting of standards and producing resources should be led by TPR. Whilst industry may supplement this, and provide additional learning, if industry is relied on to educate trustees there is a risk of a conflict of interest, which could result in trustees feeling they need to use particular products or services.

6. We would also welcome any thoughts or ideas that you might have more generally about how we can have greater confidence that trustees have the necessary basic knowledge and understanding to carry out their role.

We believe there is a need for TPR to meet both employers and trustees more, in settings where they feel they can speak openly. This will help TPR to understand them better, but will also understand greater understanding amongst trustees and employers. This could include roundtable discussions, but also a national series of seminars.

TPR should also focus on making guidance which is more practical and reflects the situations that family business and SME trustees face in practice.

Scheme Governance Structures for Effective Decision-Making

7. Should there be a requirement for UK pension schemes to report to the regulator on what actions they are taking to ensure diversity on their boards? Should such a requirement be limited to schemes above a certain size? How should such a report be made to us?

The make up and diversity of the trustees should be decided by the schemes. Greater regulation, or a move towards only professional trustees, would likely lead to a reduction in diversity as trustees would be drawn from a small pool of pensions professionals.

Schemes should be focusing on ensuring a diversity of skills amongst their trustees. That is critically important in ensuring the trustee board understand the scheme members and the sponsor business.

9. Should it be mandatory, in due course, for each pension scheme board to engage a professional trustee? If not what reasons (other than current capacity) would make such a move undesirable?

We do not support a requirement to engage a professional trustee. As we have said in this response, requiring professional trustees would reduce the availability of trustees with a thorough understanding of the business and scheme. It would also reduce the pool of available trustees, which could also impact diversity amongst trustees. This requirement would also add significant additional cost to the running of schemes.

Introducing a mandatory requirement for all schemes to have a professional trustee would not genuinely lead to an increase in standards.

10. Do you share our concerns in this area? Do you have any real case examples where you see these conflicts are not managed in the case of sole corporate trustees?

Whilst this is not an approach all family firms take, for some it is an important option to have available. Maintaining the option for this gives flexibility for schemes to run in the way which best serves the members and takes the realities of the business into account.



Institute for
Family Business

We are not answering questions 11-19.

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