OPINION

THE QUIET INEVITABILITY OF CONSOLIDATION

» **Dave Lunt** head of business development at B&CE, provider of The People's Pension

DC pension consolidation is inevitable, but we will see a quiet, methodical evolution rather than a Big Bang

In an industry full of buzz words, there is one which crops up more often than most – consolidation.

In reality, pensions have been consolidating over the last decade, an evolution largely driven by The Pensions Regulator (TPR), Department for Work and Pensions (DWP) and the Financial Conduct Authority (FCA).

Originally their focus centred on the legal duties of defined contribution (DC) pension schemes and boosting retirement savings. Although this emphasis on pension schemes' legal duties remains paramount, there has also been a notable shift towards driving up the quality of workplace pensions for better outcomes for members. This, of course, should be the reason for being for all master trusts.

Last year we saw the end of the first phase of this culture shift towards better governance in pensions – master trust authorisation. When the authorisation process came to an end in the early autumn we saw 38 master trusts successfully gain the authorisation they sought, with just one casualty. That said, there were many master trusts that opted against applying.

Since that highly rigorous process ended last autumn, the question 'what next' has loomed large over the sector. In reality, the next steps we take aren't a great secret as we all expect that tighter regulations will continue along as the drive towards further market consolidation, led by TPR and the DWP, continues to unfold.

The focus of the regulator will most likely be directed to challenging smaller single-employer defined contribution trusts that lack resource and access to specialist support to attain the required standards of governance or proposition development.

Much of this change in the pensions landscape has been brought about by the advent of auto-enrolment, with larger DC pension schemes growing substantially in membership and assets under management, making them significantly bigger than many smaller DC pension schemes.

As a result, in the last decade there has been a clear decrease in the number of small DC pension schemes registered. Statistics from TPR revealed that the number of pension schemes with 12 or more members has more than halved between 2009 and 2017, falling from 4,570 to 2,180.

Much of this change in the pensions landscape has been brought about by the advent of auto-enrolment, with larger DC pension schemes growing substantially in membership and assets under management, making them significantly bigger than many smaller DC pension schemes

How much further this figure continues to reduce remains to be seen. We know that the requirements of time, resource and cost can present major issues for some smaller DC pension schemes looking to meet the increasingly burdensome regulatory requirements. According to a TPR report last year, larger DC pension schemes were able to meet 84 per cent of the regulator's Key Governance Requirements in contrast to both micro and small DC pension schemes, who only met 15 per cent of them.

There are numerous conversations already taking place between trustees, sponsors and advisers of these smaller schemes and their counterparts at master trusts about if and how consolidation can be achieved in the best interests of members.

We must also remember that it isn't just the smaller outfits that will consolidate. In the 1990s, there were 25 active group pension providers but now this is a much more streamlined seven.

In terms of pensions governance, we are certainly in a better place than we were 10 years ago, but there is still a long way to go before we can honestly say there is complete fairness in the market. There will be no Big Bang but a quiet, methodical evolution over the next decade.

After all, nobody expected consolidation to happen overnight.

If you are intersted in discussing this further, we'd love to hear from you. Please get in touch on 0333 230 1309 or consolidation@thepeoplespension.co.uk. ■

Visit us at www.thepeoplespension.co.uk

the people's pension