



THE SOCIETY OF PENSION PROFESSIONALS

leading pension thinking

ALLEN & OVERY



Dalriada. *A better way*

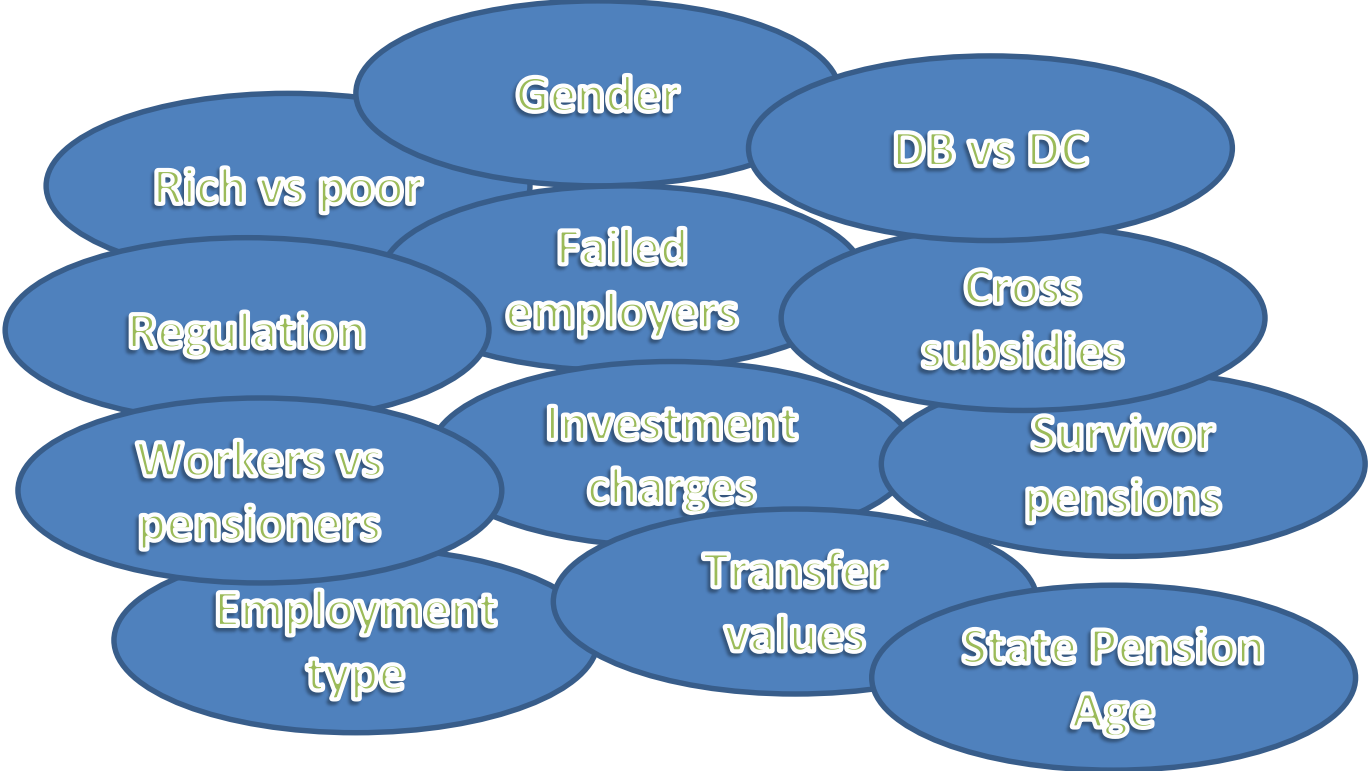
SPENCE

Veratta.

Fairness in Pensions

September 2017

Are Pensions Fair?



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SPP Survey

Short survey – only 4 questions

Ran online from 7 August to 3 September 2017

Over 200 replies from pension professionals

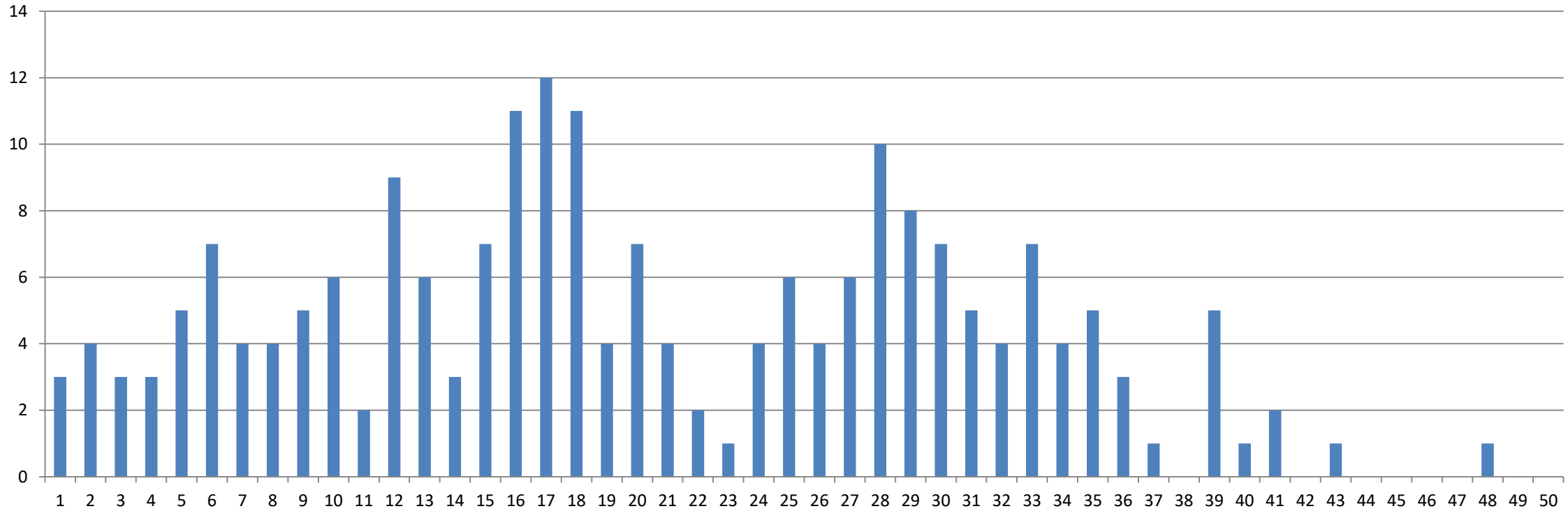
THANK YOU!

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Experience of Respondents



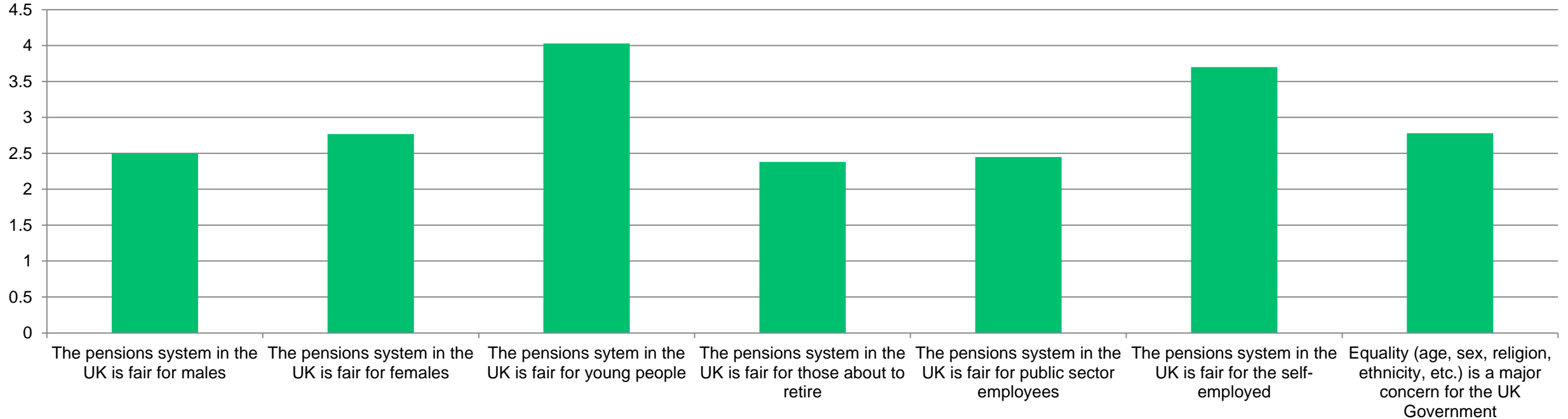
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Conclusions

How far do you agree or disagree with the following statements:

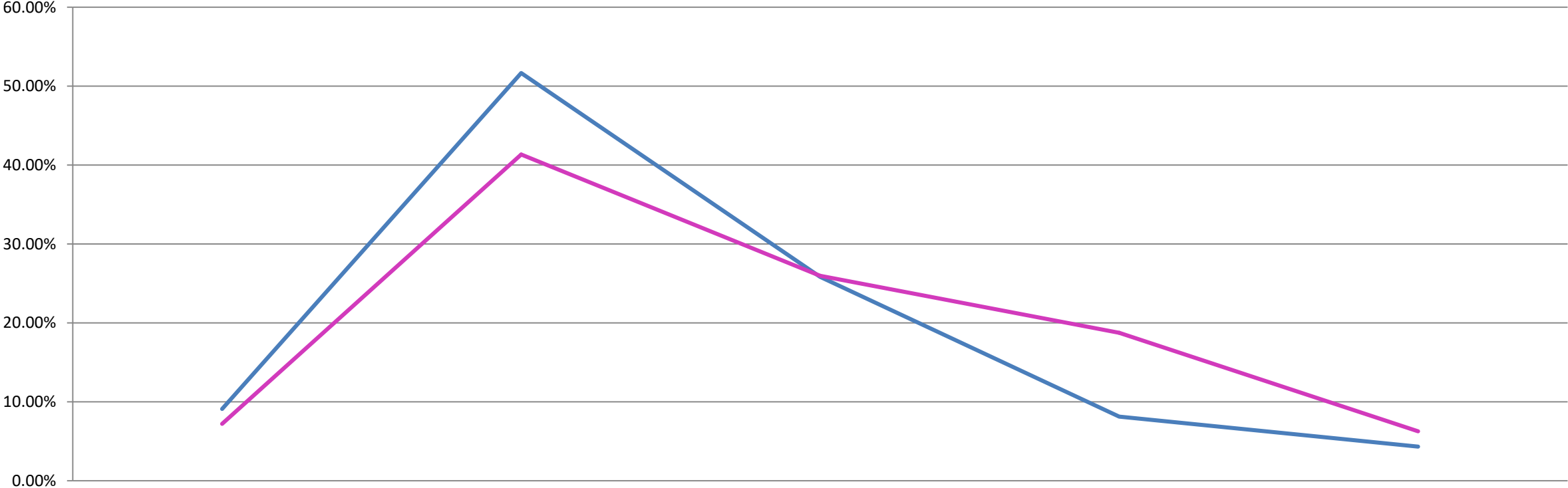


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Gender Equity



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Intergenerational Fairness

	Youngsters	Retirees
Strongly agree	3%	20%
Tend to agree	12%	52%
Neutral	6%	10%
Tend to disagree	38%	9%
Strongly disagree	41%	9%

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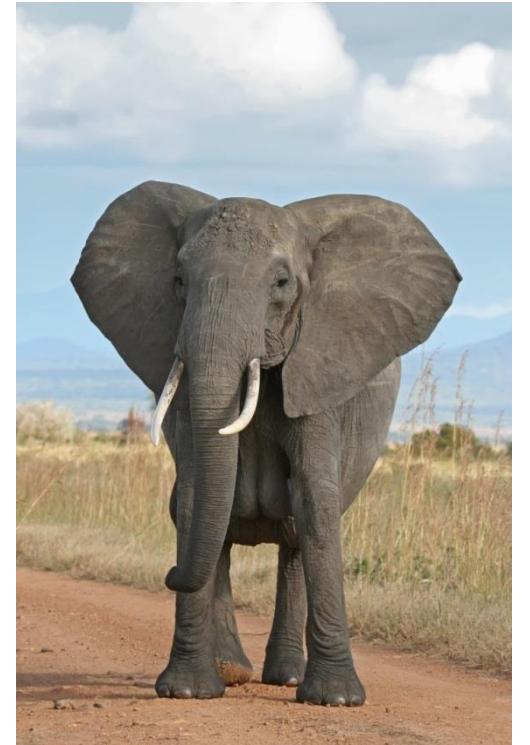
The Big Issues

State Pension sustainability

Public sector pension schemes

Tax relief

Auto-Enrolment for the gig economy



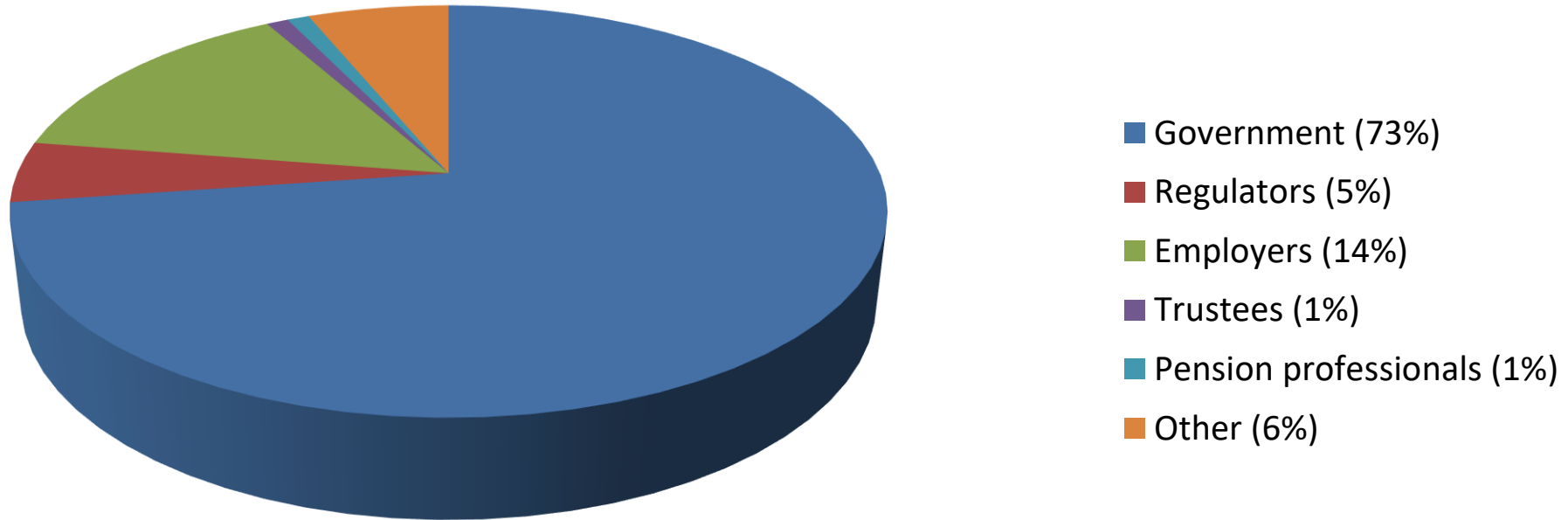
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Whose fault is it?

Who is most responsible for delivering equality in pensions?



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Who can fix it?

- a) The Government
- b) Regulators
- c) Employers
- d) Trustees
- e) The SPP



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Scheme governance: why bother and what next?

Andy Cork

September 2017



**The elusive
governance
premium**

**Governance
as a trustee
duty**

**Navigating
good
governance**

**A new
governance
code**

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The Regulator clearly sees a problem

“

We take the view that it is unacceptable that some members are at greater risk of poor outcomes in later life purely because they happen to have been employed by an employer with a poorly run pension scheme...poor trustee stewardship will impact the funding costs of DB schemes...poor governance and administration is not a victimless phenomenon – it's bad for members and it's bad for employers too.

The Pensions Regulator, 21st Century Trusteeship

”

There is some evidence of a governance premium but...



O'Barr

Focus on “responsibility deflection and blame management rather than on good governance and creating value for fund stakeholders”



Ambachtsheer

– Good governance standards add 1-2% per annum in investment performance



Clark and Urwin

– Schemes that demonstrate best practice achieve 2% per annum above their benchmarks

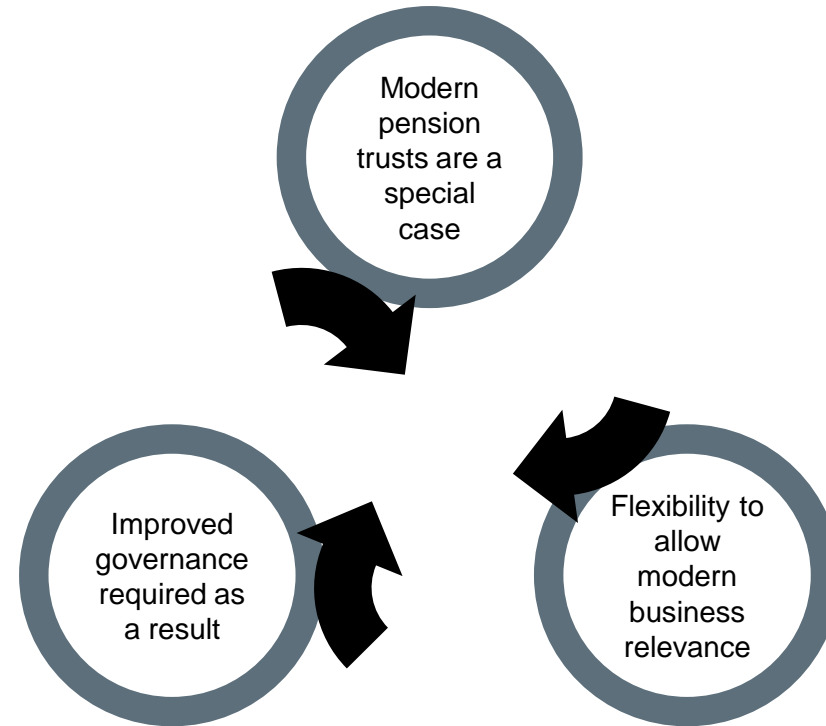
The elusive
governance
premium

**Governance
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duty**

Navigating
good
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A new
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code

Good governance should be seen as central to the trustee duty to exercise reasonable skill and care





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Think of governance as falling into four overall categories

Board
competence

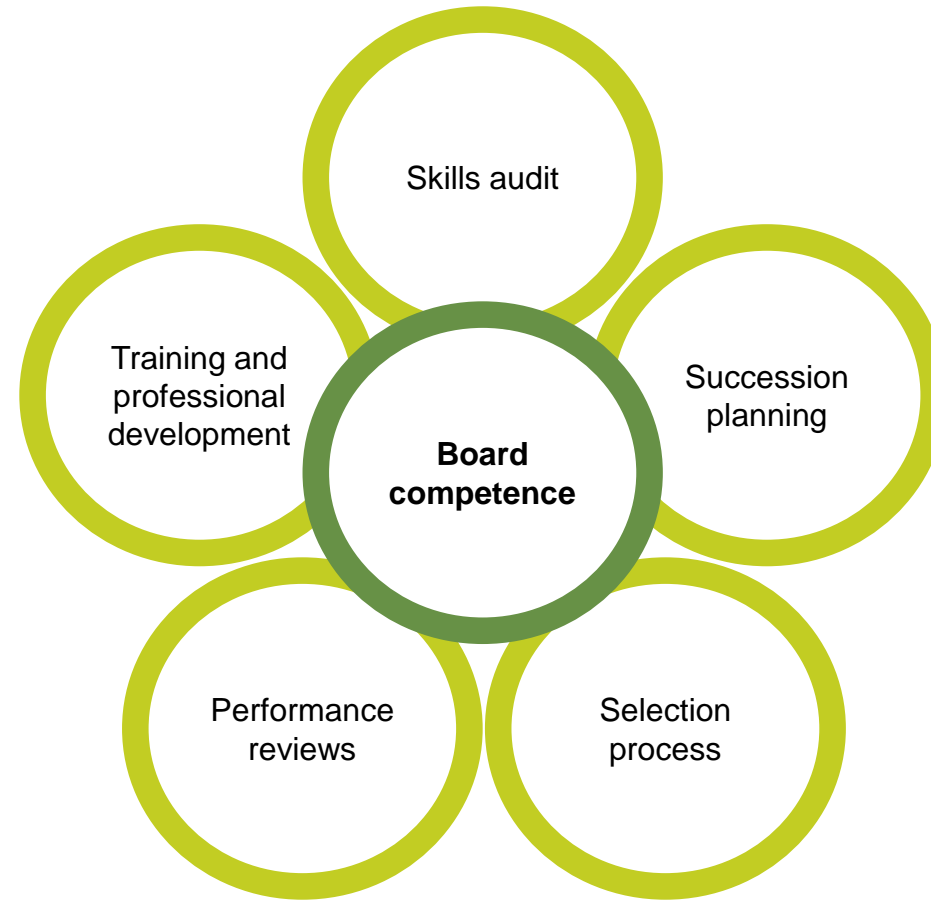
Roles and
accountability

Governance
structures

Strategic
planning

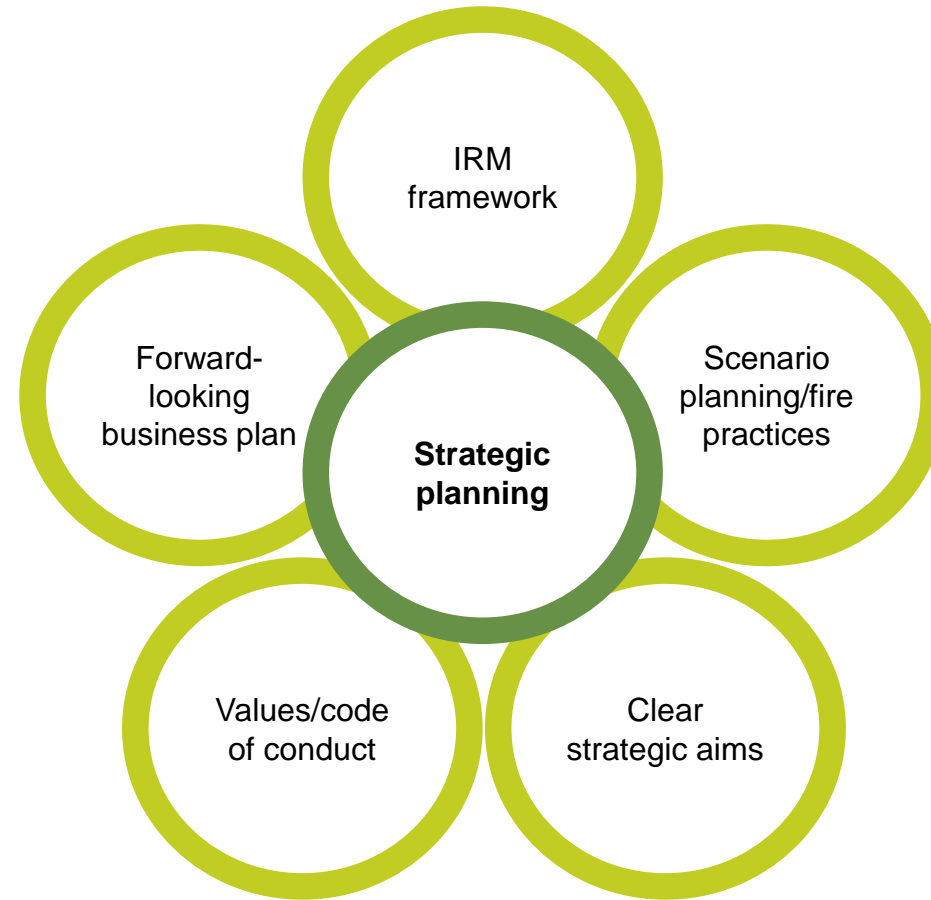
Diversity

Remuneration









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There are a number of models for a wider regime

**UK Corporate
Governance Code**

**Ofsted-style policy
inspection**

**Internal survey and
evaluation**

- Comply or explain
- Main principles
- Specific code examples



PPF levy reduction for good
governance?

The Corporate Code is principles-based



Main principle A1

Every company should be headed by an effective board which is collectively responsible for the long-term success of the company



The board should set the company's strategic aims, ensure that the necessary...resources are in place for the company to meet its objectives



The board should meet sufficiently regularly to discharge its duties effectively

The Corporate Code is principles-based (cont'd)



Main principle A2

There should be a clear division of responsibilities at the head of the company between the running of the board and the executive responsibility for the running of the company's business



The roles of chairman and chief executive should not be exercised by the same individual



The division of responsibilities between the chairman and chief executive should be clearly established

The Corporate Code is principles-based (cont'd)



Main principle B1

The board and its committees should have the appropriate balance of skills, experience, independence and knowledge



The board should be of sufficient size that the changes to the board's composition can be managed without undue disruption

The Corporate Code is principles-based (cont'd)



Main principle B6

The board should undertake a formal and rigorous annual evaluation of its own performance and that of its committees and individual directors



Evaluation should consider the balance of skills, experience, independence and diversity



Evaluation of the board of FTSE 350 companies should be externally facilitated at least every three years

Questions?



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Cyber / Data Security

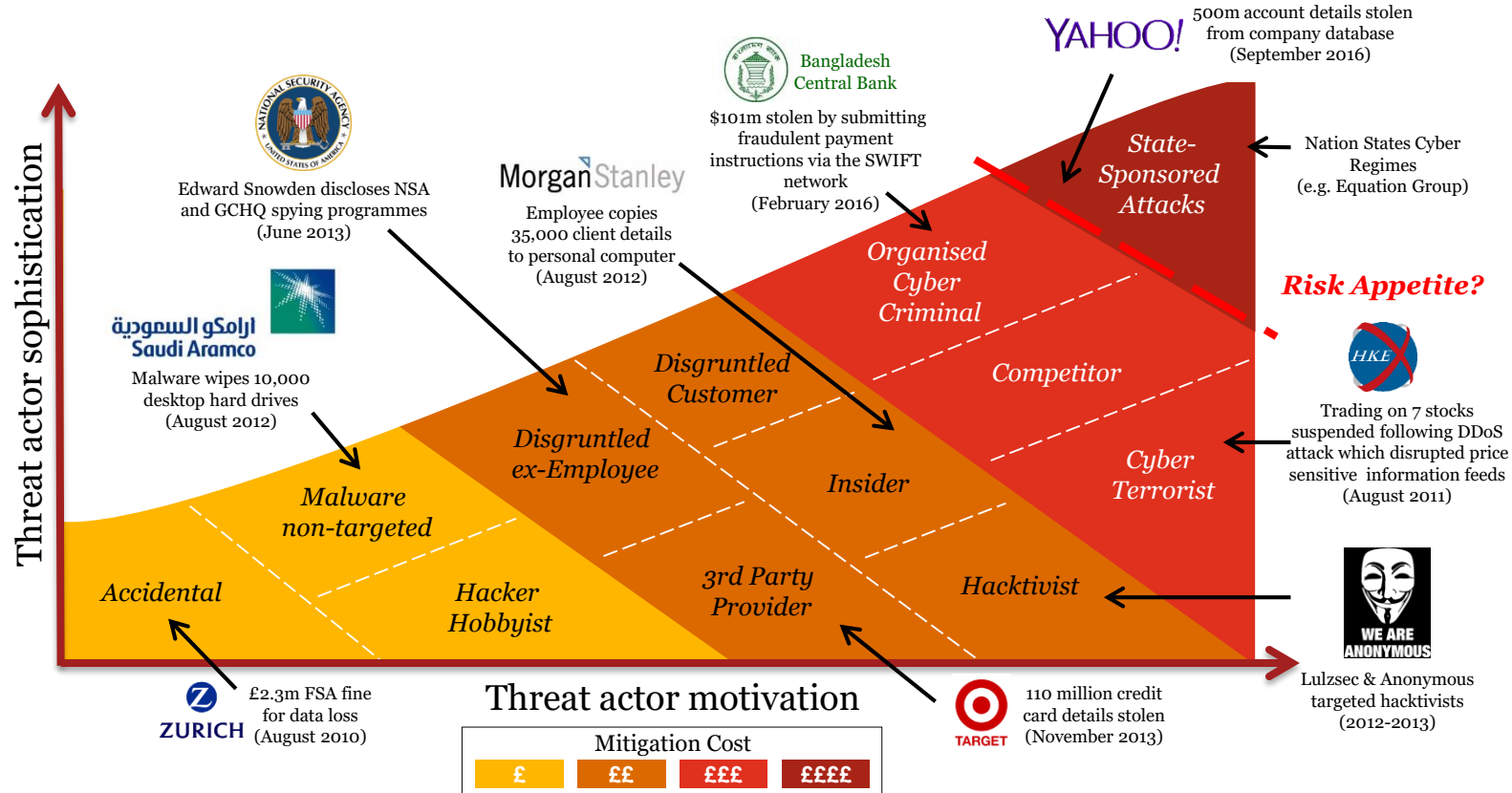
Digital world risk that cannot be ignored

11 Sept 2017



The Society of Pension Professionals

Threats are rapidly increasing and evolving



Why are pension schemes at risk?

Its already happened.....

1.25 million

Personal records leaked from Japan Pension Service. There are UK examples too



£3.3 trillion

Worth of assets in pension schemes in the UK

Data transfer

Between a high number of advisors and 3rd parties



Reform

Allowing members to encash entire holdings at one time

Top 10

Risks recognised by The Pension Regulator

Risk

The type of data pension schemes hold could lead to serious financial crime on a wholesale scale.



No industry standard

means 'easy pickings' for criminals

4%















Large fines up to 4% of annual turnover under new data protection regulations

The Value of Data: Attackers and Companies

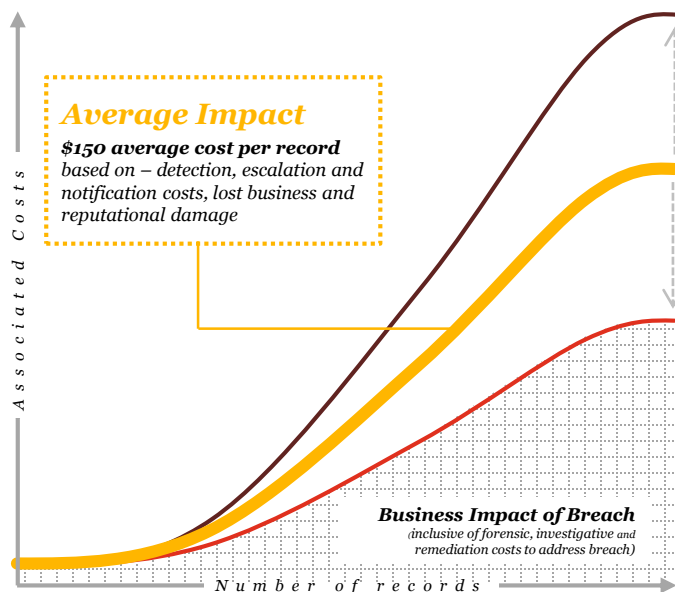
Threat actors will act upon and exploit any data they choose

Value to Hackers

	Intellectual Property \$???
	Nortel Espionage Attack
	RSA SecurID Authentication Technology
	Targeted Identity \$250 +
	Health Records \$50 - \$60
	WADA Database and Health Records Hack
	Driving License Scans \$20 - \$25
	UBER Driver Names and License Plate Numbers
	Financial Credentials \$8 - \$20
	Oracle MICROS Payment System
	Personal Information \$1 - \$15
	E-Mail Credentials \$0.50 - \$2.50

PwC | Cyber Security Briefing | April 2017

Impact on Company



What drives costs up?

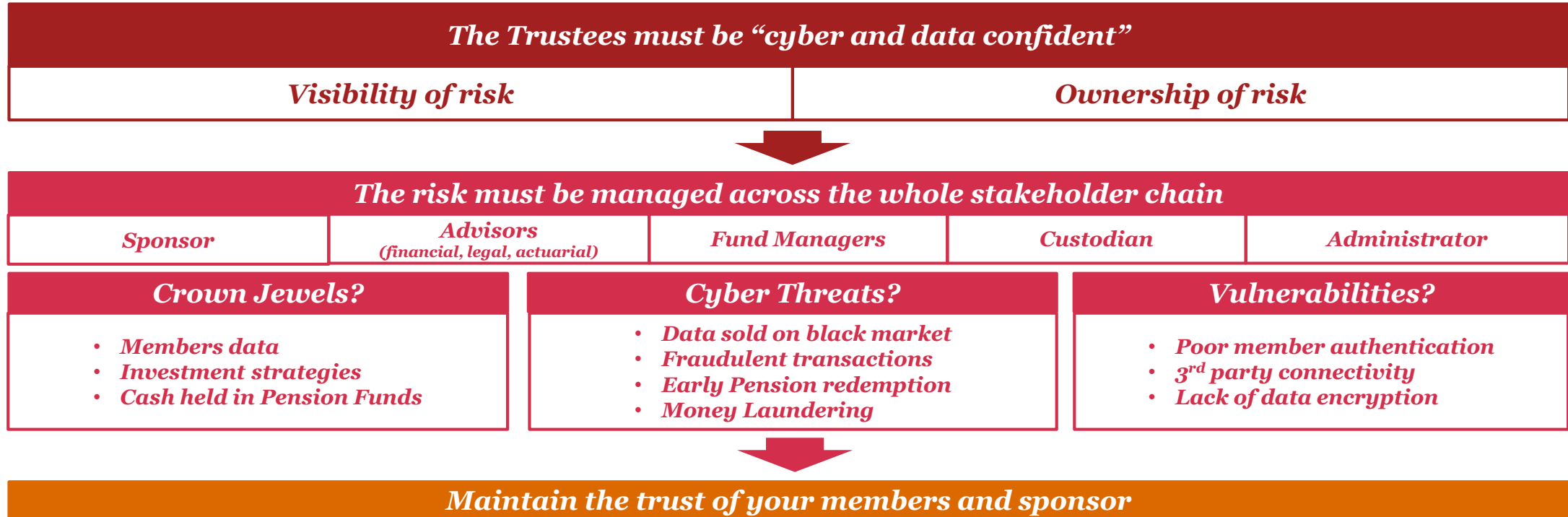
- Third party involvement
- Extensive cloud migration
- Rush to notify
- Lost or stolen devices

What keeps costs down?

- Incident response team
- Employee training
- CISO appointed
- Understanding risk
- Participation in threat sharing
- Data governance

Based on Ponemon Institute © Research Report – 2016 Cost of Data Breach Study: Global Analysis

What does this mean for Pension Trusts?



What are the issues for Trustees?

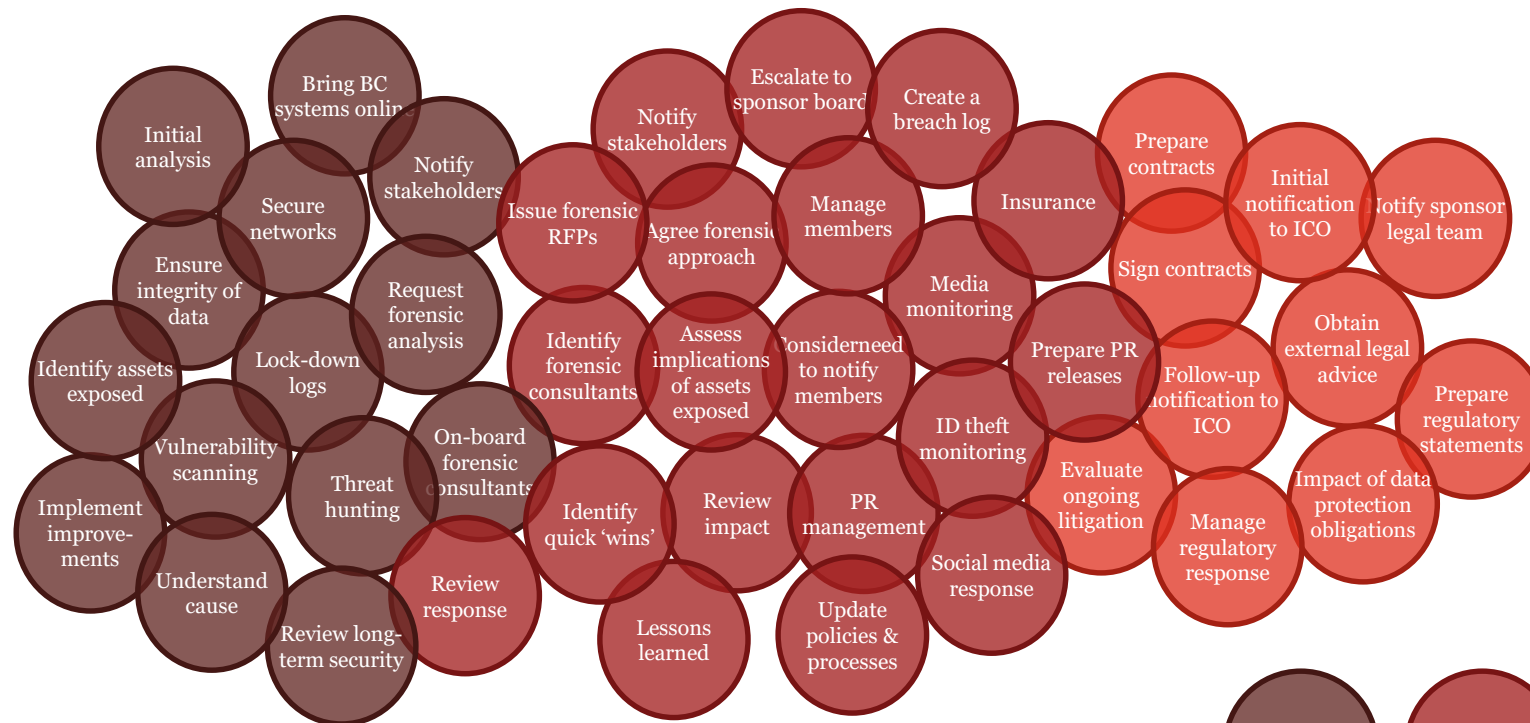


What would you do right now if you were told of a data breach?

Who would have identified the breach – your team, or the press?

How would your processes and systems stand up to the scrutiny of the public, members, and Regulator?

Responding to a breach – First 72 Hours



Activities:



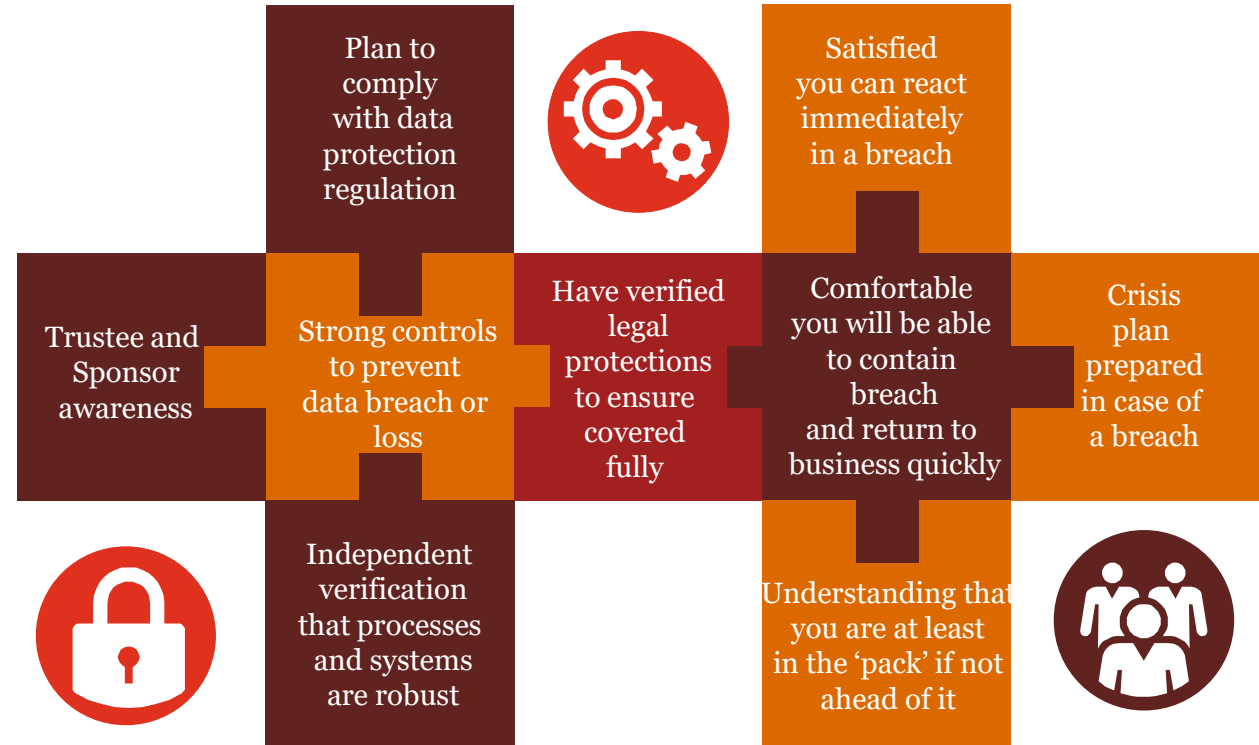
What does good look like?

Embedding data security in all strategic and cultural decision making

People

Process

Technology



A trustee check list

1

A real understanding of risk exposure

2

Appropriate capability and resource at sponsoring employer and 3rd parties

3

Holistic framework and approach

4

Independent review of procedures (including 3rd parties) and test them

5

Review processes in place for member data requests

6

Update processes including risk register and insurance

7

Consider appointment of DPO

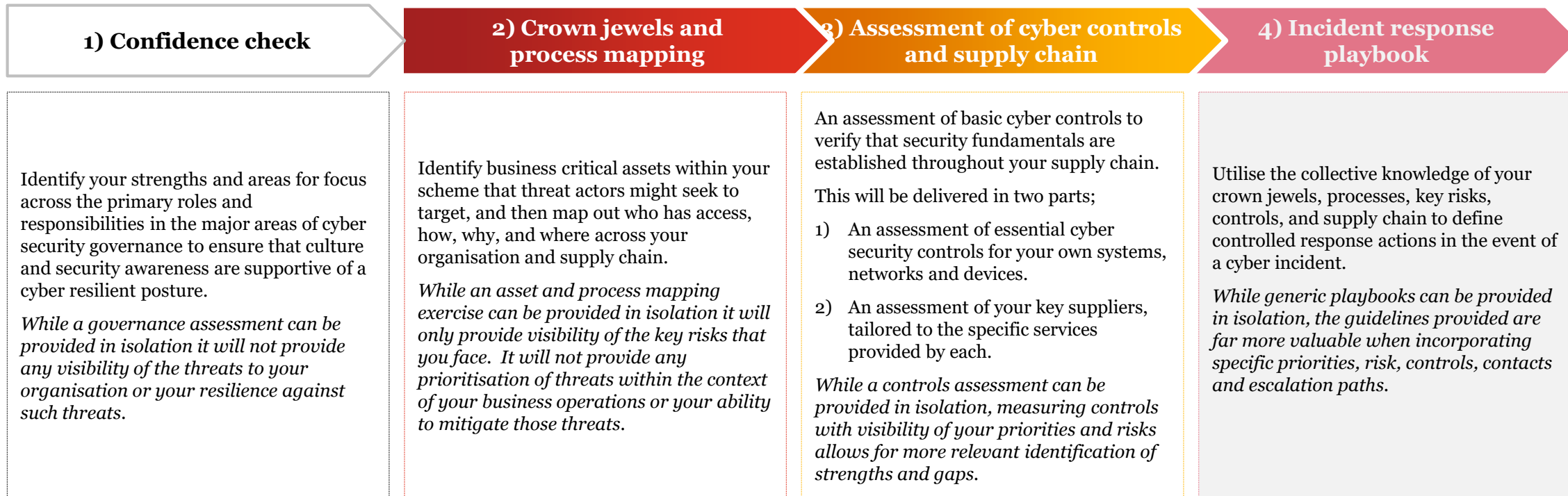
8

Review breach management procedures

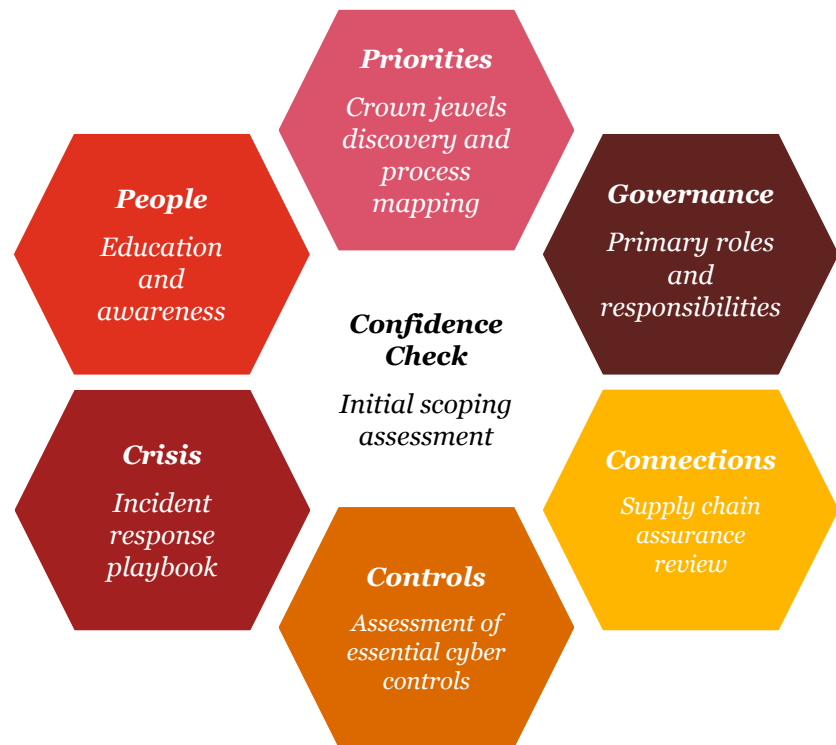
*Enabling Trustee boards to challenge themselves as to whether their **response is adequate** and **evolving sufficiently rapidly** as the risk develops*

A recommended solution

This approach combines a number of distinct activities to help assess and enhance cyber resilience, while also improving awareness within your organisation and primary supply chain.



Gaining cyber confidence for Trustees



PwC Cyber Confidence Approach

We believe that your journey to enable effective cyber governance for the Board of Trustees should start by:

Gaining visibility of the cyber risk to the scheme: Trustees are struggling to understand properly why they might be targeted; what might make them vulnerable, and how a successful attack might impact them. Building a complete and accurate understanding of this risk through **Establishing the cyber risk exposure to the scheme**, is critical to ensuring that the response to the risk is correct and appropriate.

Real understanding of ownership of risk: For Trustees to be effective data controllers, a **programme of discovery** needs to be in place, to enable you to gain sufficient understanding and confidence that their cyber risk is being appropriately managed on your behalf.

The 6 stages of the Cyber Confidence journey for Pension Trustees

Confidence Check - Gain an understanding of your awareness across primary areas of cyber security governance and scoping assessment for:

- 1. Crown jewels discovery and process mapping** - Identify the critical assets and processes most vital to your schemes success and identify the areas of greatest threat to these critical assets
- 2. Cyber Governance** - Identify strengths and areas of focus for the primary roles and responsibilities of the Trustees.
- 3. Connections** - Seek an independent review of the security of your key suppliers.
- 4. Controls** - Independent assessment of basic cyber security technical controls.
- 5. Incident Response Planning** - Provide workflows, contacts and escalation paths for responding to common attack scenarios
- 6. People Training and Awareness** - Educate yourself on cyber security through interactive game-play.

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