

Master trusts

Completing your application – systems and processes

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Introduction

This guide is for those submitting applications for master trust authorisation – specifically the section relating to the master trust’s systems and processes. The applicant will be the scheme trustee.

Section 1: Completing your application: systems and processes

When applying for authorisation, and throughout supervision, you will need to demonstrate and evidence how your master trust meets the systems and processes requirements set out in Schedule 4 of the Occupational Pension Scheme (Master Trust) Regulations 2018 and our **Code of Practice no: 15, Authorisation and supervision of master trusts**. These requirements reflect our expectations of any well-run scheme and master trusts should be able to provide evidence that systems and governance processes meet them.

This guide will help you understand the evidence that is more likely to enable us to be satisfied that your master trust has sufficient systems and processes in place and will run effectively.

There should be a focus on providing a clear narrative, with links to relevant documents, specifying the particular sections, pages or paragraphs of these documents which are relevant to each requirement. You can do this by completing a questionnaire.

Completing the systems and processes questionnaire

Using the questionnaire, you can describe how your master trust meets each of the requirements laid out in our code, and highlight specific evidence supporting your response to each question.

You can download the questionnaire from our website, complete it offline and then upload it, along with your supporting evidence in electronic format, via our online master trust portal which will be available from the start of May 2018.

The questionnaire will help you do the following:

- ▶ Identify the specific requirements which need to be met.
- ▶ Describe how your master trust meets that requirement.
- ▶ Create an index referencing the specific sections (pages, paragraphs, sentences) of your supporting evidence, which relate to each specific requirement.

We require the narrative and evidence submitted as part of an application to be clear, relevant and user-friendly (eg by use of highlighting, tabs and cross-referencing).

Evidence you should provide

There are a number of ways that you might provide your evidence. Some examples include:

- ▶ screenshots showing that your IT system includes certain features
- ▶ governance reports or management information which are used to report on the ongoing performance of systems over time – such as administration reports.

A strong application would be one which included two types of evidence, to ensure it is clear to us (in a desk-based review) that the master trust:

- ▶ has an IT system which includes the required features, and
- ▶ that these features are monitored over time to ensure any problems are identified and reported.

The role of assurance, accreditation and other independent external assessments

The ability to demonstrate that a robust and independent external assessment has been carried out, with a sufficient degree of scrutiny, will greatly improve the strength of evidence in an application. This is not a mandatory requirement, so you have the option to use an alternative approach. However, any in-house analysis will be expected to demonstrate an equivalent level of robustness and scrutiny.

For certain (but not all) requirements, our preference is for you to have an independent external assessment in place, which has tested the presence and effectiveness of the IT system requirements and administration and governance processes. In our questionnaire, we have indicated the specific requirements where our preference is for an independent external assessment to have been carried out.

If any external assurance reports are submitted that use a Type 1 and Type 2 approach (for example master trust assurance), these should have been conducted as a Type 2 report as these assess both the controls in place and their operational effectiveness.

Where evidence of independent external assessment is submitted, ideally the report should have been signed off by the trustees and reporting accountant within six months of the application date. If this is not possible, for example due to the existing reporting cycle in place for the master trust, the accompanying narrative should also set out any changes or issues that have occurred since the report and actions that have been taken where issues were raised.

In particular, we would want to understand how trustees are comfortable that nothing adverse has happened since the report was signed off. We will consider reports as part of a suite of evidence and master trusts may wish to provide an update from a reporting accountant or an appropriately qualified person from the service provider where a report is more than six months old.

If any significant changes or material failures have occurred since a report was produced, for example a change of administrator or IT system, we would expect to be provided with an updated report, a bespoke review against Agreed Upon Procedures, or an explanation of any alternative work that has been undertaken to give the trustees comfort on their systems and processes.

Our understanding is that the frequency of other forms of assessment varies (ISO reviews are typically carried out every three years, for example). However, we would expect these to be treated in the same way if the significant change or material failure has occurred which affects the results of the review.

We are aware of various forms of independent external assessments which are available to – and in use by – different master trusts. These include assurance testing such as AAF 01/06 and the master trust assurance framework, quality standards such as ISO assessments of IT security and delivery, and also accreditations such as those offered by the Pensions Administration Standards Association and the Pensions Quality Mark (PQM Ready).

The scope of any review is defined by the entity being assessed, meaning there is no standard scope which will have been used for each review. For example, control objectives can be removed by trustees from the scope of a master trust assurance assessment and report. Similarly, the scope of an ISO 27001 assessment is agreed before a review is carried out and therefore will differ between master trusts. Trustees in receipt of an AAF 01/06 report from their scheme administrator might find that some or all of their master trust arrangements or processes are not within the scope of the report.

Additionally, we have noted that the depth and quality of the methodologies used in assessing against these standards can also differ greatly. We have seen examples where reporting accountants reviewing against the same control objective have generated vastly different levels of useful evidence, depending on their own methodology. Therefore, we have not stated which independent external assessment framework would apply to our requirements.

You may wish to take advice on how far any existing assurance or accreditation supports your application for authorisation from the individual or organisation who carried out the assessment. For example, if you (or your third party administrator) have been subject to AAF 01/06, your reporting accountant would be able to provide you with a view on whether the external assessment properly demonstrates that the requirements are met, or whether supplementary material is needed.

When reviewing an application, we will look for some form of independent external assessment against the following sections of our code of practice:

- ▶ Administration system payments
- ▶ Administration system records
- ▶ Administration system transactions
- ▶ Protecting data
- ▶ Reconciliations
- ▶ Record-keeping

In this guide, we specify further which requirements should be subject to an independent external assessment. In addition to the independent external assessment report, we will also want to understand the methodology used by the assessor to carry out the review against each standard or control objective (this is a standardised approach to an AAF report, for example) and also the evidence which informed the assessor in carrying out the review and coming to their conclusion.

We will use independent external assessment reports, methodologies and associated evidence to carry out our assessment. However, their presence does not mean that the requirements have automatically been met.

Forthcoming changes to assurance, accreditation and other independent external assessment frameworks

We are aware that significant changes are planned to many of these assessment frameworks. The new versions are not likely to be available in time to be of value to you if you are planning to apply in the first three months of the application window (ie in 2018). However, they may play a role for those master trusts who are planning to apply later in the application window.

They may also be of value to master trusts who become authorised in continuing to satisfy us that they meet the requirements as part of our ongoing supervision.

We are committed to revising this guidance as appropriate in line with changes to these frameworks. Once again, the best way of understanding how new frameworks might support your application and ongoing supervisory interactions would be to speak directly with the owners of these standards, or the assessors who will be using them to carry out independent external review of your scheme.

Master trust assurance

If you have been through the master trust assurance framework process (related to AAF 02/07), you will not automatically pass the test for authorisation on systems and processes.

However, having liaised with a significant part of the market that has been through this assessment, we believe they are in a much better position to provide the evidence required than those who haven't. Those who have master trust assurance are more likely to:

- ▶ already have strong evidence to demonstrate that they meet some (but not all) of the expectations set out in our code, and
- ▶ have a better understanding of how, in practice, to create a strongly evidenced narrative to describe how they meet each expectation.

Section 2: Requirements and supporting evidence

We have listed the requirements set out in legislation and our code of practice. Each requirement has been given a number, which corresponds to the numbers used in the questionnaire and will be used to submit your narrative and evidence.

We have liaised extensively with master trusts, and those who advise them, to understand the types of evidence which already exist in various types and structures of schemes' systems and processes. Against each requirement, we provide:

- ▶ further clarification which might help applicants understand how best to create their narrative on how their master trust meets that requirement
- ▶ information where we believe existing scheme or provider documentation might exist – as part of good industry practice – which would support the narrative
- ▶ detail on situations where there is not likely to be existing scheme or provider documentation already in existence, meaning further evidence will need to be created.

Key considerations

As a guiding principle in creating your application, it is critical that you bear in mind three key considerations:

1. To be authorised we need to be satisfied that a master trust meets the authorisation criteria, and we expect you to present the evidence we need to make our assessment.
2. Our assessment will be predominantly desk-based. Therefore, all relevant information will need to be documented and we will need to be able to read and understand a description of how you undertake your work.
3. You will need to satisfy us that all necessary systems and processes are in place, are effective in practice and are monitored over time to identify and resolve errors, should they arise.

We have indicated on the questionnaire each requirement where we expect to see independent external assessment. In these examples we will need to see:

- ▶ the reporting accountant's (or other assessor's) report which is relevant to each requirement
- ▶ a description of the methodology used by the reporting accountant (or assessor) to carry out testing against the control objective, and
- ▶ any evidence supplied to the reporting accountant (or assessor) to carry out the assessment.

Functionality and maintenance of IT systems

1. Administration system payments

1a The default is for all payments in and out of the master trust to be made electronically and that any manual payments are made by exception

Our preference is that you are able to provide an independent external assessment report, which demonstrates that a reporting accountant has visited your premises and been given access to the IT system to carry out a test.

Our understanding is that a number of independent external assessments include this test. If other assessment testing has been carried out, these are also likely to represent fit-for-purpose evidence. Where there has been no testing carried out that would cover this expectation, you will be expected to provide other evidence. This could include:

- ▶ copies of communications to employers when on-boarding which would describe default payment methods for paying contributions
- ▶ evidence of when manual payments may be made and have been actioned in practice (eg details of the system specifications which might demonstrate that manual payments are made by exception, and screenshots or a redacted accounts statement being made where relevant
- ▶ relevant management information and reporting which shows the volumes of manual vs electronic payments.

However, you will need to consider how best to demonstrate not only the presence of this functionality, but that it works in practice.

1b The IT system has the capability to accept contributions from a range of sources and caters for different sizes of employers

In terms of demonstrating the IT system has the ability to accept contributions in this way, you could consider providing us with copies of contribution monitoring reports, management information which allows tracking against payment schedules, or other governance reporting. Screenshots may also be useful here, but be aware that we also need further narrative to put these into context.

1c There is a capability for the transfer of data and monies from and to employers (including third party payroll or other providers acting on behalf of employers), in-house administration systems (if this exists in addition to that of a third party administrator), investment managers and investment platform providers.

We expect this requirement to have been tested by independent external assessment. Our understanding is that it is likely to be covered by existing independent external assurance frameworks, however this would depend on the scope agreed with the administrator or trustees.

We would expect that the master trust provider would be tracking the flow of money between various parties involved in product delivery. To do this, management information would need to be generated, which would allow this tracking/monitoring to take place. This is the type of management information that would be useful to reference in your questionnaire and narrative.

We believe that a combination of system screenshots and management reports used for ongoing monitoring, alongside a clearly stated narrative of how they are relevant, would effectively demonstrate that the IT system has this capability and is monitored to be effective over time. However, our preference is for this evidence to be assessed as part of independent external assessment.

2. Administration system records

2a The IT system has the capability to record members' benefits correctly, including identifiers, contributions, investments, payments and transfers

Our preference is for you to be able to submit an independent external assessment report, which demonstrates that a suitably qualified individual or firm (reporting accountant, assessor or similar) has visited your premises and been provided access to the IT system to carry out a test. Our understanding is that a number of forms of independent external assessments include this test.

If no independent external assurance is carried out that covers this requirement, you will be expected to provide other evidence. As a minimum, this could include communications to employers when joining the master trust, which would describe default payment methods for paying contributions. Individual member records could also provide useful, but not definitive, evidence here.

As above, we will need to understand how these functionalities are tested over time to ensure they continue to function effectively, or they can be efficiently identified and managed where issues arise.

2b The IT system contains the functionality to record member contributions and generate reporting on historic contributions, including each pay period, the amount, when it was received and invested, how it was invested and unitisation.

Our preference is for this requirement to have been tested as part of independent external assessment and we would be keen to see evidence that an assessor has visited your premises to test these system features/functionality.

Evidence informing this assessment might also include copies of contribution monitoring reports, management information which allows tracking against payment schedules, or other governance reporting.

You will need to provide evidence that these features are present, and that their effectiveness is monitored over time to ensure that errors are identified and addressed. Our understanding is that industry standard independent external assurance assessments could cover this requirement.

3. Administration system transactions

3a The IT system has a capability to process core financial transactions automatically and securely, including calculating accurate investments and disinvestments



3b The system has the capability to carry out reconciliations of data against transactions and investments held and there is capacity for the reconciliation to be carried out against all members and multiple cycles

3c There is a process for rectifying any errors identified

Once again, we understand that various independent external assessment frameworks would (or could) test that these capabilities are present in the IT system (other similar assessments may also apply here). Therefore, our preference is for evidence of independent external assessment to be submitted as part of the application. This should include evidence that the assessor has performed an onsite test of these system functionalities and processes.

These requirements are expanded further below.



Please note: As we are not asking schemes to send us their chair's statement as part of the readiness review, we do not expect you to complete the following sections of the questionnaire: 3a, 9b, 9d, 15c, 15d and 15f.

3d There is segregation of duties in the administration system to encompass a more junior level of clearance to input data and request payments or investment changes, and a more senior level to authorise changes and transactions

3e There are authorisation levels in the administration system to prevent payments of certain sizes exceeding those allowed by the trustee mandate

Our conversations with the master trust industry have demonstrated to us that the documentation of 'segregation of duties' (ie which individuals or teams have access to which areas and functions of the administration system, for security purposes) takes many different forms. They may not be based on levels of seniority, as referenced above.

To account for the various different practices in the market, we are looking for you to:

- ▶ demonstrate that there are policies in place outlining who has access to what, in terms of the IT system and functionality
- ▶ evidence why these different levels of access have been agreed, and
- ▶ evidence how compliance with these processes is monitored.

Standard documentation provided by administrators should include the majority of this information. Where any of these points are not covered, we will expect a further narrative to fill any gaps.

Additionally, the monetary amount of financial payments over which the trustees would need sign off (we have referred to this here as the 'trustee mandate' but it may be referred to in other terms in different types of master trust) is documented. The relevant section of any agreement between the trustees and other relevant parties would be adequate evidence in this case. However, we will also need to understand how this amount was assessed and agreed as being the acceptable level at which trustees need to give authorisation.

4. Planning for change

4a Evidence is provided of how known changes to the system are planned and executed, and this is reflected in the business plan

Under the new framework for master trusts, there will be more planning and resourcing changes and updates than have been covered in our past guidance. The creation of formal roles such as scheme funder, scheme strategist and promoter/marketer means it could be either or both of these parties/entities, along with the trustees, that are responsible for ensuring these activities are properly planned, resourced and executed.

In our assessment of your evidence against this requirement, we will not expect to see all of the changes that have been or will be proposed for the near future. We instead want to understand and assess how the planning, decision-making process and resourcing of these systems changes function. Therefore, we would like to see a description of the following:

- ▶ How system changes are identified to trustees/strategist/funder/promoter (if applicable).
- ▶ How an agreement is made on who will pay for these changes (and whether there will be any impact on the business plan – applicable to the scheme strategist).
- ▶ How the trustees will ensure that any further expense to scheme members is assessed to ensure that it represents value for members (as assessed in the annual DC chair's statement).
- ▶ How any proposed changes are reflected in the trustees' annual business planner (ie the business plan used by trustees to plan their own activities, rather than the formal 'Business plan' referred to elsewhere in our code of practice).
- ▶ How completion of changes (and other tasks related to these changes) are monitored to ensure completion and quality.
- ▶ How the trustees ensure that the system remains fit for purpose as the business grows (eg through acquisition).

Given the recent nature of these new roles, we do not believe that these items will currently be documented in all schemes. However, we will need to see this either in a new governance document, or in the narrative submitted in the application questionnaire.

- 4b Evidence is provided to show that the system is able to be updated. There is evidence of a robust methodology for releasing changes to systems, along with a portfolio of ongoing change to systems for the period of the business plan.**
- 4c There is an IT process for making scheduled and known changes, including annual updates and changes in tax thresholds**
- 4d There are adequate and sufficient resources, with appropriate skills and resources, to carry out the work**
- 4e There is evidence that the IT system can meet the physical system requirements anticipated in the business plan and that it has the funds to meet those requirements**

Our preference is for these requirements to have been tested as part of independent external assurance. We do not believe that onsite testing is necessary in this case, but are keen to see that a reporting accountant, or similar, has been provided access to these processes to carry out an assessment.

We believe that these items may be analogous to tests that are carried out in assurance and accreditation testing.

If no assurance (or similar) has been carried out in this area, applicants will instead need to source alternative evidence. This may take the form of a statement from the IT provider (or administrator if they own the IT system). However, as part of the narrative against these requirements, you will need to describe how the trustees are confident that this statement is correct.

- 4f The business plan accounts for how planned and potential future upgrades can be managed within the administration system and the strategist and trustee are satisfied that the system can be upgraded to meet the needs of the master trust**
- 4g There is a policy in place for maintaining, upgrading, and replacing hardware and software and that this is accounted for in the business plan**

In developing your business plan for authorisation, we will need to see that you have considered potential future upgrades and maintenance to IT systems, whether they are the responsibility of the master trust provider, or by a third party administrator/service provider.

Once these activities have been agreed and the costs accounted for in the business plan, we would need to see further evidence that the consideration of, and planning for further upgrade and maintenance work, is accounted for in ongoing governance and monitoring activities.

To evidence that you are meeting this requirement, we would suggest that a documented process and plan is owned by either the scheme strategist or the trustees, which details when IT system reviews take place, what considerations are made as part of the reviews, who is responsible for delivering any proposed changes and how they will be funded.

5. Protecting data

5a There are cyber defence strategies in place, including firewalls and intrusion detection systems

5b There are procedures and protocols in place for governance, the identification of risks and breaches, and responding to cyber incidents

5c There are roles assigned to manage these protocols and procedures

Discussions with a large sample of master trust providers and some of their advisers has allowed us to draw the conclusion that industry practice in this area has advanced a significant amount in recent months and years. The management of a cyber attack is as critical, if not more critical, than attempts to mitigate or defend against attacks, which is becoming increasingly difficult.

For this reason, we have produced guidance for trustees on our expectations on cyber defence and cyber resilience. This guidance will strongly inform the evidence required as part of an application for authorisation: www.tpr.gov.uk/docs/cyber-security-principles-for-trustees.pdf and you should be clear in any narrative how your evidence meets the expectations set out in this guidance.

The following considerations are key to being able to demonstrate that your plans and activities in this area are fit for purpose:

- ▶ We will need to be sure that you have a cyber defence strategy with responsibility allocated to appropriately skilled individuals which is reviewed at appropriate times to ensure it stays current and effective.
- ▶ We will need to see a cyber resilience strategy which explains how the organisation will react to any cyber threats and attacks, as per our guidance. We will also need to understand how this strategy and the activities detailed are tested to ensure they are effective in terms of reacting to any problems if and when they arise.
- ▶ Given that good practice in this area is moving so quickly, we would also need to see the plans in place to revisit and refresh this strategy over time.

5d Scheme and member data should be backed up at least daily, with back-up servers at an external location and an offline backup

We would expect to see a policy for data storage documented, which manages the risk of data loss or theft. An 'external location' could be anywhere that is outside of the premises of the master trust provider, including virtual storage. However, we would need to understand how data backup strategies have been developed and agreed to ensure there is a good understanding of the benefits of the back-up option in use.

If offline backup storage is located outside the UK we would like to see consideration of the how the requirements of the EU General Data Protection Regulations are met in terms of any personal data stored or transferred. This will need to take into account any guidance issued by the UK Information Commissioner's Office.

5e There is a disaster recovery process in place with roles assigned and it is tested at least every six months

Our preference is for independent external assessment to have been carried out in this area. We believe this kind of assurance forms part of a number of independent external assessment frameworks. There may also be scope for IT security assessment standards such as ISO to (also) play a role, but only if an external audit/review of some kind were to form part of the methodology employed to carry out, or review the findings of, the assessment.

In terms of evidencing that this requirement has been met, you will need to be clear how operational issues and failures will be addressed at a business continuity level, as well as at the level at which a disaster recovery process would operate or become operative. We believe there are two key points of interrogation here:

1. There would need to be plans in place to identify and react to issues arising at the master trust provider (potentially the scheme strategist) level and in particular around the scheme administration.
1. The trustees' scrutiny and quality control over these plans is also important, as part of their internal controls framework.

We would suggest that you provide both the business continuity and disaster recovery plans in place at a provider level, along with a description of how these have been assessed by the trustees to ensure they are fit for purpose. We would also need to understand how frequently these plans and processes are assessed to ensure they remain up-to-date and fit for purpose.

It is critical that you are clear about who holds responsibility for carrying out any actions cited in these plans. We would need to see clear allocation of roles and responsibilities for activities included in business continuity and disaster recovery plans.

Processes and how they are governed

6. Reconciliations

We expect to see evidence of independent external assessment in relation to requirements 6a and 6b below.

6a The process demonstrates how reconciliations will be completed and by who

Regular reconciliations are part of existing good practice for pension scheme management and we would expect you to already have a documented procedure in place demonstrating how this process functions in practice. We will need to see a copy of this procedure. It should also be clear that it was part of the evidence submitted to your reporting accountant/assessor.

If this procedure is owned and used by a third party provider or administrator, it would be acceptable for you to provide your third party provider's procedure instead, along with evidence that this has been subject to independent external assessment.

6b Reconciliations are completed at least once a month

This information should be included in the documented process/policy described above and be tested through independent external assessment. We will also need to understand how delivery against these timescales is monitored over time.

6c The process sets out the action that will be taken to put members in the correct position if errors or inconsistencies are found and how under/over allocations of units will be treated and funded

You will need to provide the documented process/policy which sets out how errors will be addressed. Examples of how errors have been rectified in the past would strengthen the evidence base against this requirement.

In situations where financial compensation may be required, you should explain not only who would be responsible for paying any compensation, but also demonstrate how the funds would be made available. This information may also be found in the business plan. If this is the case, then a link to the relevant section of the business plan is likely to be acceptable, as long as the specific section(s) of the business plan is/are relevant and referred to in your narrative.

7. Record-keeping

We expect record-keeping and related processes to be subject to independent external assessment. This may either be assessment carried out on the master trust itself or the scheme administrator if it is a third party.

If your third party administrator has an independent external assessment report, it is critical that you are able to demonstrate that the assessment is related to the specific systems and processes used to administer your master trust. Third party administrators can run multiple administration systems, used by different clients. Please ensure that you clarify with your third party administrator that their AAF 01/06 applies to the administration platform which you are using and then evidence this in your application.

Our focus in terms of understanding the quality of your record-keeping will be on the processes and monitoring of data quality, with an accompanying plan in place to address data issues. Our assessments will not be based on individual data scores at any given point in time.

7a The process directs how records are kept up-to-date and that exception reporting is in place to ensure that errors and gaps, once identified, are reported to the relevant governance function

It is clear that reporting around scheme administration happens at two levels:

1. Regular reports are sent to trustees for discussion (typically the quarterly administration report).
2. The administrator will run their own detailed monitoring of data held to identify issues and produce plans to rectify them.

We need to understand both levels of governance and monitoring to carry out our assessment.

We do not expect trustees or providers to replicate the processes and monitoring of the administrator, but rather to understand and be able to describe how it works and why they consider it to be effective.

7b There is a plan to rectify data errors, and the business plan and continuity strategy reflect the impact of the data quality within the scheme

If errors are identified using the processes referenced above, we will need to understand how these are reported, addressed and monitored to ensure that:

- ▶ they are resolved, and
- ▶ if the same errors are identified again, that the root cause is identified and addressed.

You should give examples of how errors have been identified, addressed and resolved (including trustee oversight measures), what lessons were learned and how these were implemented. Any instances of errors not being identified, or identified but not rectified, should also be given where known. This will allow us to understand better how issues are managed in practice.

Root cause analysis is a standard procedure in pension scheme administration and, as such, we would expect to see documented the process used by each administrator/provider/scheme.

7c Evidence of service provider agreements that include provisions, roles, responsibilities and source of funds for resolving errors that impact members

We understand that IT systems – and the processes which monitor their effectiveness - could be provided from various sources within the overall structure of a master trust. This could be from a dedicated IT provider, the scheme administrator, internally within the provider business, or elsewhere.

In terms of demonstrating you have met this requirement, we will need to see that the set up agreements with whoever is providing the IT system has a clear owner (or owners) who has responsibility for provision and ongoing monitoring. This information may be found within provider contracts if outsourced, or internal service agreements if provided in-house.

In assessing whether this requirement has been met, our focus is not only on who carries out these tasks and whether they are outsourced, but on ensuring that the system functions properly and the appropriate responsibilities are in place to ensure they are monitored over time and therefore continue to function properly.

Additionally, we are aware that rectification of issues, once identified, can be expensive. For this reason, we also need to understand where the funds would be found to pay the cost of rectifying errors (this information may be included in the business plan) and how those responsible are checking that these funds continue to be available over time.

8. Maintaining contributions

- 8a There is a process for ensuring the master trust can accept contributions from new employers**
- 8b The scheme is able to quickly identify missing contributions and there is an effective process in place to chase the missing contributions**
- 8c See page 20**
- 8d There is a process for rectifying the missing contributions ensuring minimal financial detriment to the member**
- 8e There is a log of missed contributions, which includes actions taken in response to the missed contributions and any member detriment noted and acted upon**

We have laid out our expectations in our **Code of practice no: 5: Reporting late payment of contributions to occupational pension schemes** as to how contributions should be received and monitored and also how missing contributions should be reported to us and followed up with employers: www.tpr.gov.uk/docs/code-05-occupational-pensions.pdf. We would expect to see adequate evidence that these regulatory expectations have been met.

Code of practice no: 5 states:

'Trustees [...] have a duty to check that the contributions that fall to be paid under the scheme rules are taken into the scheme in accordance with the schedule and to safeguard those contributions once they are in the scheme.' Part one, para 29.

'[Trustees] also have a duty to seek to recover any outstanding payments and debts to the scheme.' Part one, para 29.

'Trustees should have risk-based processes in place to monitor the payment of contributions which will allow them to check whether the contributions and amounts that are due to be paid to the scheme under the payment schedule are actually paid by the due date.' Part one, para 22.

There are various documents and processes cited in code of practice no: 5 which should be provided as evidence, including:

- ▶ documented, risk-based process for monitoring contributions
- ▶ processes to facilitate the transparent movement of payment information
- ▶ payment schedule, prepared in consultation with the employer
- ▶ processes to check the contributions due reconcile with those received.

8. Maintaining contributions 8a-8e continued...

To carry out our assessment, we will need to see evidence of the risk-based processes used for monitoring the receipt of contributions. Further to this, we will also seek to understand how trustees are confident that these processes are:

- ▶ based on the correct management information from the various parties involved, and
- ▶ monitored over time to ensure that it continues to be effective.

Furthermore, we expect to see documented policies and procedures which describe:

- ▶ how and when an employer is alerted where a payment failure is identified, and
- ▶ an approach to resolving payment failures, obtaining overdue payments from the employer and rectifying administrative errors.

8c In the event of an employer insolvency or redundancy payment service, there is a process for reclaiming the contributions from the employer assets

In this case, the relationship we are most interested in is that of the trustees and insolvency practitioner representing the employer who has experienced an insolvency event. We expect to see a documented process in place explaining how the trustees will engage with the insolvency practitioner for any employer who has gone into administration or become insolvent when there is, or there is the potential to be, a claim. We will also seek to understand what follow-up process is in place to allocate (or re-allocate) any funds that are returned via the insolvency practitioner.

We understand that this is a difficult area, which involves many parties over which trustees have limited control. However, we will need to be confident that the trustees have considered this type of event and have a plan in place, along with clearly identified activities, roles and responsibilities for delivering them.

9. Trustee recruitment and standards

9a It is clear who is responsible for the recruitment and selection process and the input that is required from other parties

To evidence that this requirement is met, we expect you to be able to produce a documented process which outlines the responsibilities for selection and recruitment of trustees. This should include reference to potential risks in terms of trustee selection such as possible conflicts of interest, whether the trustee has a specific role (such as member or employer-nominated trustees) and how these risks are identified and managed over time.

We will also need to understand how recruitment processes take account of the skills, knowledge and competence needed by the trustee board as a whole.

9b It is understood which skills and competencies need further development on the trustee board as a whole, and how this is monitored over time



As outlined in our regulatory guidance on scheme management skills: www.tpr.gov.uk/trustees/scheme-management-skills.aspx#s22246, there should be evidence that master trusts have assessed the skills, knowledge and competencies necessary to properly govern their scheme over time.

We would like to see analysis of which of these skills, knowledge and competencies were provided by the trustees (on an individual basis) and which gaps may be filled, either on a short or long-term basis) by advisers or other individuals (perhaps by representatives of the scheme strategist, funder or promoter/marketer).

9c There is a succession plan in place to maintain the skills and competencies needed by the board

The analysis of skills, knowledge and competence referred to above, along with the documented selection and recruitment process (these could all form part of the same document) should also include a description of succession planning, to ensure that critical skills are not missing from, or unavailable to, the trustee board for prolonged periods.



Please note: As we are not asking schemes to send us their chair's statement as part of the readiness review, we do not expect you to complete the following sections of the questionnaire: 3a, 9b, 9d, 15c, 15d and 15f.

9. Trustee recruitment and standards continued...

9d The principles for determining trustee remuneration are assessed and agreed

While the function of the trustees and the trustee board is to ensure members' interests are considered and the risk of detriment is monitored and managed, trustee services in most master trusts are provided at a cost to the master trust and therefore, in most cases, the member.

All member-borne charges should be considered as part of the value for members' assessment in the annual chair's statement or equivalent document¹. This assessment, if carried out to a suitable level of detail, should provide us with adequate evidence of the assessment of trustee remuneration for the master trust. To be clear, our focus is on how trustees assess the levels of remuneration, rather than levels of remuneration themselves. We would also need to see evidence that any assessment of trustee remuneration had been agreed. To demonstrate this, we would accept a copy of an excerpt from the minutes of the trustee board meeting where the chair's statement was discussed and signed off by the trustees.

9e Fitness and propriety is assessed on an ongoing basis, along with any potential conflicts of interest and how these are managed or resolved

We expect there to be (either in the selection and appointment policy or elsewhere) a documented policy for assessing the fitness and propriety of new trustees, including that used to assess candidates prior to formal appointment. We will assess the fitness and propriety of existing trustees as part of the authorisation application. Trustees appointed to a master trust post-authorisation must also meet the fitness and propriety requirement.

To evidence this, we will need to understand how the master trust assesses new trustee appointments against the fitness and propriety requirements outlined in the Regulations in terms of honesty and integrity, competence and conduct. We expect to see that trustees' policies and procedures for checking fitness and propriety align to our own requirements for authorisation, which can be found in our draft Code of Practice no: 15: www.tpr.gov.uk/docs/draft-master-trust-code-march-2018.pdf

Once again, this will need to be fully documented for us to be able to make an assessment of the robustness of this policy as part of our scrutiny of your application.



Please note: As we are not asking schemes to send us their chair's statement as part of the readiness review, we do not expect you to complete the following sections of the questionnaire: 3a, 9b, 9d, 15c, 15d and 15f.

1

See regulation 4(3) (b) – where regulation 23 of the Occupational Pension Schemes (Scheme Administration) Regulations 1996 do not yet apply to a master trust scheme, an application must contain a document describing how the scheme meets, or is intended to meet, the requirements set out in that regulation.

9f A resignation and removal policy is in place which provides clarity on who can remove a trustee, under what circumstances and the steps for doing so

A description of the trustee removal process (including grievance and appeal processes, or similar) should be included in the documented selection and appointment process (or elsewhere if more appropriate).

10. Trustee governance

10a The frequency of trustee meetings and under what circumstances this may change

10b The circumstances where extraordinary meetings may be called and how

10c Expectations of trustees in preparing for meetings and actions needed in between them

10d Who has the responsibility for setting the agenda and frequency of trustee meetings and who else is consulted in the development of an agenda (for example trustees, strategist, funder, advisers)

10e Standing agenda items

10f The number of trustees required to be present for the trustees to be considered quorate

To properly understand and assess how trustee governance functions within your master trust, we need to see a documented policy or process for the running of the trustee board. In many cases, we understand that this may be maintained by a trustee secretariat or pensions management function, but owned by the trustees themselves. This is entirely acceptable, as long as it is clear how the trustees maintain sign off and oversight of this delegated function.

Further to this, minutes of trustee meetings may provide us with further insight on the time spent on, and quality of discussion about, key issues arising in the running of the scheme – and how they are addressed.

This policy or process should provide a detailed description of the how the requirements above (10a-f) are met.

10. Trustee governance continued...

10g The extent to which the trustees can influence or direct scheme strategist and funder in making decisions which may have material consequences for the business

10h It is clear who is able to make a decision in a scenario where the interests of the strategist and funder may be in conflict with the interests of scheme members. There is a clear process for trustees to make known their views and record their decisions.

Our assessment of this aspect will focus on how trustees manage and mitigate the risk that others involved in the provision of the scheme make decisions that may not necessarily be in the best interests of scheme members. This may include roles without direct fiduciary obligations to members, such as the strategist, funder and also, potentially, promoter/funder.

The best evidence to demonstrate that this requirement has been met would be a documented sign off process (possibly a joint policy or side-letter) agreed by the trustees and any business representatives, that outlines a hierarchy of decision-making where such a document is available. This needs to clearly demonstrate that the trustees have a discretion/veto in decision-making to mitigate the risk that any commercial strategies or activities do not conflict with members' best interests.

10i There is a process for trustees to be notified of breaches and a corresponding process for monitoring breaches of the law and determining whether they are reportable to TPR

Reporting breaches to us has been a key part of the trustee role. We expect there will already be a process in place which would explain how possible/perceived breaches are assessed by trustees, how it is identified whether or not they are materially significant and, finally, how they are reported to us if required.

11. Managing service providers

We would regard 'service providers²' for the purposes of an application for authorisation as any company carrying out work for, or providing services to, the master trust.

In discussions with potential applicants, it has become clear that there are many and varied companies and organisations who provide services to master trust providers. However, not all of these are critical services to the delivery of the pension product. If a critical service (for example scheme administration) is provided in-house, we consider it is essential for trustee boards to have in place similarly robust controls in terms of availability of resources, skills, competencies and fitness and propriety of relevant staff members and ensuring the ongoing quality of services provided. Service providers would also include advisers, both to trustees and others involved in running the scheme.

11a Service providers are assessed in advance of appointment, including access to due diligence carried out as part of the appointment process

It is standard industry practice to ensure there is proper due diligence before appointing any service providers. In understanding the choice of service providers, we'll need to understand what due diligence was carried out, by whom and according to what criteria. We are more likely to be satisfied if we are able to have sight of not only the due diligence process, but also an understanding of the considerations that informed the choice of any service providers.

Where service provision is carried out internally within the business (for example in insurers, administration and consultancy businesses) we would instead expect that service levels would have been agreed for the provision of these services.

The trust deed and rules of master trusts cannot, by law, prohibit trustees from changing service provider (even if services are currently provided in-house). Therefore, we would expect the ongoing monitoring of internal services to be performed with the same level of scrutiny and accountability of those that are outsourced.

²

Regulation 2 of the Occupational Pension Scheme (Master Trust) Regulations 2018.

11. Managing service providers continued...

11b Performance indicators were agreed on appointment and there is accountability within the service provider for ensuring these are met, with escalation points

This expectation involves two activities and evidence for each is likely to be found in a different source.

Firstly, we would expect that performance indicators for all service providers would be found in the contracts which were agreed on appointment. While performance indicators agreed with service providers may have broad coverage, we are only interested in those directly related to the provision of member benefits and the delivery of the business plan. Given the varied structures and types of master trusts, this list of indicators is likely to vary greatly from master trust to master trust. For that reason, we are unable to provide examples. We believe that you will understand your structure and activities best and therefore be best placed to decide what is and is not relevant.

We will also need to understand how the trustee board, or other entities on their behalf, monitors the ongoing quality of the delivery of these services to ensure the performance indicators are being met on an ongoing basis. The governance activities relevant here will be contingent on the performance indicators identified above.

We will expect to understand from your narrative how trustees (or those monitoring on their behalf) use internal controls to identify failures in delivery against these performance indicators. However, we would also be keen to understand how trustees have reassured themselves that they are satisfied with the performance indicators agreed and the effectiveness of controls and processes in place to monitor their delivery.

11c These performance indicators are considered regularly by an appropriate person, the outcomes are recorded and all actions are allocated and tracked

11d Service providers and advisers are kept under review, including detailed criteria for assessment (and key performance indicators (KPIs) and service level agreements (SLAs) if they apply)

To meet our regulatory expectations on scheme governance related to our DC Code of Practice 13 (and associated guidance) trustees should have a documented process which includes description of how the quality of advice and service provision is monitored over time. This should include the levels of quality agreed on appointment and the regularity of reviews. This should be submitted as part of your application.

In demonstrating that this requirement has been met, we also need evidence of how roles and responsibilities are allocated for the ongoing assessment of providers and advisers. We are keen to understand how trustees have identified who is responsible for generating the management information required to carry out quality reviews, and how it is ensured that the agreed management information continues to be correct over time.

11. Managing service providers continued...

Finally, it is important that we are able to understand how any actions and decisions resulting from provider and/or adviser reviews are executed and tracked to completion. How regularly are progress reports requested from owners of actions? What is the escalation process if issues are not being resolved within the agreed timescales? Including examples in your narrative (with relevant sections of meeting minutes), would assist in evidencing this requirement.

11e Trustees establish that their service providers are fit and proper and the criteria and methodology for doing so. This may include evidence of the checks carried out by service provider on new staff and how tender processes are operated.

We would expect that thorough due diligence is carried out before appointing a service provider to carry out activities on behalf of the master trust. This would include ensuring that those acting on behalf of the master trust meet the appropriate standards of fitness and propriety, as per common industry practice.

We will seek to understand what checks are carried out by (or on behalf of) trustees, including what elements of integrity, competence and conduct are included in checks, how information is sourced to perform these checks and what sign-off and approval is required once the checks have been carried out.

11f The role of the trustee board, strategist and funder is clear if a decision is needed to replace any service provider

As with other critical decisions on changes to the overall roles and responsibilities for running the master trust, we need evidence of the hierarchy of decision-making. This was covered in detail in the earlier section on trustee governance (section 10).

11g Information related to the performance, evaluation and ongoing fitness and propriety of service providers, including any issues or concerns, is brought to the attention of the trustees in a timely manner

To evidence that this requirement is met, we would like to understand the following:

- ▶ What types of issues are considered significant enough to be reported to trustees?
- ▶ How they are reported, by whom and when?
- ▶ How are the trustees expected to react to ensure issues are discussed promptly between trustees and any other relevant parties and to ensure action is taken to resolve these issues in a reasonable timeframe?

You will need to describe the data and management information used to identify, review and (where appropriate) escalate issues and decide how this information is made available as required.

11. Managing service providers continued...

11h Trustees understand the contracts/agreements (and any impacts on service/ability to act) in place with all service providers to the master trust and there should be a written process documenting how these can be updated and agreed

A scheme's trust deed and rules cannot constrain trustees in making a decision to replace a service provider at any time. Therefore, you will need to demonstrate that you have considered whether there are any other scenarios where clauses in contracts or agreements with service providers could potentially interfere with your decision-making about appointments or replacements, or cause a situation where you could potentially be unable to act in the best interests of members. You should also consider any potential impact on service as a result of your ability to intervene, which might be found in contracts and agreements.

To evidence this, we would suggest that you document how you have carried out this analysis, what the outcomes were and any actions required to manage or mitigate the identified risks.

12. Risk management

12a There is an ongoing process for the identification, measurement, monitoring and resolution of risks

Risk management is an essential aspect of running a master trust. We expect trustees and providers to demonstrate that they have systems and processes in place to ensure compliance with the requirements of the master trust legislation itself. This should address the five statutory criteria for authorisation, ie:

- ▶ the people running the master trust are fit and proper
- ▶ systems and processes are robust
- ▶ there is a scheme funder who will be able to financially support the scheme
- ▶ the scheme is financially sustainable with sufficient funds
- ▶ there is a continuity strategy in place which will help protect members' benefits if certain circumstances occur which put the scheme at risk.

You will need to demonstrate the adequacy of your risk management, including operational, financial, regulatory and compliance risks. You should identify the relevant risks under each of these risk types to include in your master trust's risk management framework.

12. Risk management 12a continued...

Broadly, we will need to see evidence that demonstrates:

- ▶ the key operational, financial, regulatory and compliance risks identified for inclusion on the risk register, along with
- ▶ commentary on:
 - how these risks have been identified, assessed and rated
 - how they are to be mitigated, managed or monitored over time (including the management information required to facilitate this, where appropriate)
 - who owns each risk
 - what plan would need to be executed were each risk to manifest
 - how – and how often – are the risks on the risk register reviewed and refreshed to ensure they are current.

In order to understand and assess the quality of risk management in master trusts, we expect you and other relevant parties to demonstrate you have identified all risks which may affect the ongoing effectiveness and running of the master trust, should they materialise.

In addition to submitting a risk register, we will need to understand how particular risks are identified and managed. We will also need to see evidence that trustees know who is managing key risks to members and also that they have considered whether this individual or organisation has the necessary skills, knowledge and resources to be the appropriate owners of this risk.

A scheme or provider's monitoring against any risk is only as strong and effective as the management information on which it is based. To carry out our assessment, we will need to understand how trustees decide on the information they need to monitor and manage risks of various types and how they ensure they are getting this information from the relevant source.

This is not something typically documented in detail as part of trustee or pension scheme governance. However, given that we are carrying out a desk-based assessment of this vital and critical activity, you will need to provide a detailed narrative of how risk identification, monitoring and management works in practice.

We would typically expect the trustee board to be at the centre of, and ultimately responsible for, these activities. However, we also understand that there may be other risk-management activities which take place elsewhere in the structure of the master trust (perhaps by scheme strategist, funder or promoter/marketer). Where this is the case, we have an interest both in the other parties' risk management activities and of the trustees' scrutiny of those activities.

12. Risk management continued...

12b The scheme strategist has considered and documented actual and perceived risks to the delivery of the business plan and has documented mitigations or processes for monitoring and management of each of these risks

Our code sets out what a business plan should contain. Beyond this, we believe the scheme strategist will need to be able to track the successful delivery of that business plan to ensure that any underperformance is identified as early as possible, and that appropriate mitigating action can be taken.

Applicants will need to provide evidence of a process which identifies the individual(s) responsible for tracking the business plan against actual performance, including frequency and scope of reviews.

We are also more likely to be satisfied where we see that the scheme strategist has considered what mitigating actions might be taken if the business plan is at risk of not being delivered, particularly where this might represent a risk to members' benefits, or the ongoing financial strength and sustainability of the provider or scheme.

12c There are appropriately skilled individuals taking responsibility for the management of risk monitoring against the business plan and those individuals have access to the necessary management information and intelligence to properly carry out this task

The individual(s) mentioned above will require certain skills to be able to properly carry out this task. You should submit evidence identifying these skills, how they have been obtained – including relevant qualifications – and describe how staff are monitored to ensure these skills are available.

12d Information and relevant data is regularly (at least quarterly) received from the responsible parties (funder, strategist, administrator, investment manager, etc) to enable to risk register to be properly updated

Evidence will need to be prepared and submitted which demonstrates that the trustees:

- a. know what data and management information will be required to properly carry out risk management activities, and
- b. are able to access this information when required.

We would suggest that a documented agreement between the trustees and those who would need to provide the data would be sufficient evidence to demonstrate that this requirement has been met. The agreement should reference any penalties which could be levied if data and management information are not made available to trustees in a timely manner.

12. Risk management continued...

12e The trustees have documented how issues identified through risk management will be managed to resolution, including processes for allocation of owners and a responsible party for monitoring the resolution of issues in between trustee meetings, particularly if the resolution is the responsibility of the scheme administrator, strategist or funder

As referenced earlier, it will not be sufficient for applicants to simply document, mitigate and monitor against risks. We will also require an understanding of how those running the scheme will respond should any key risks materialise. We do not expect this to be done for every granular risk which is being monitored. However, there will be key risks which, having been assessed by trustees (or others), have either a significant impact or are more likely to occur (or both). It is these key risks we want to see evidence of in a management plan. You should identify which risks are considered 'key risks' within your scheme.

We would expect in many cases that the monitoring of the resolution of risks and incidents will be not be carried out by the trustees, but by a representative of the provider (strategist or funder), administrator or an adviser. We have no objections to this approach in principle; however, we will need to be provided with an explanation of how trustees monitor this delegation over time to ensure this work is being delivered to an adequate standard.

13. Risk register

13a There is a risk register to support the ongoing monitoring of risks and it has been considered and agreed by the scheme strategist, funder and by the trustee board

See requirement 12a under **Risk management**. Not only is it important to be able to demonstrate that the risk register includes the appropriate risks for your master trust, but also that the owners of each risk have acknowledged their ownership and are able to act in a timely and proper fashion should the risk materialise.

13b The risk register is regularly reviewed in detail by trustees, with considerations and decisions being documented and ownership and actions attributed, along with timelines for delivery

Again, there is not likely to be an existing document which demonstrates this, unless a document has been drafted as part of any assessment for master trust assurance, where applicable. If the master trust has not been through the master trust assurance process, this explanation will need to be included, with evidence, in the application. We would also expect to see any process documents highlighted in your narrative.

13. Risk register continued...

13c An annual review is conducted to ensure that there have been no additional risks arising which should be included on the risk register

We assume your business plan will include a standing action to review the risks on the risk register. We suggest that this information is also addressed in the description of how risks are identified, which is discussed above. You will need to explain the methodology which has been agreed and used to assess the risks monitored through the risk register to ensure this is robust. You will need to include this in the documented risk management process or the narrative submitted in the questionnaire.

14. Planning resources effectively

14a All key administration tasks, including the timely sending of notifications and documents to us, are fully documented, with detailed end-to-end processes

14b These process documents and maps are subject to regular review, particularly after system or process change to ensure human resources allocated remain sufficient

14c Key resources, with the necessary skills and experience to deliver the objectives in the business plan, have been identified and there is a plan in place to ensure continuity of service

14d There is awareness of the timeframes required to bring new human resource onboard and what contingency is in place to mitigate any under-resource due to increase in work volumes or the loss of staff

Our view, following discussions with industry, is that these items are likely to have already been documented by the scheme administrator, whether they be an external, third-party provider, or in-house. Beyond submitting copies of these processes and plans, we suggest you consider two further questions when creating their narrative against these requirements:

1. How are these processes and plans reviewed and approved by the trustees (or others on behalf of the trustees) to ensure they are appropriate?
2. What is the overlap between operational planning of this type and the strategist's documented business plan?

15. Communicating with members

Member communication and engagement is a vital part of running a pension scheme and industry practice in this area has made many positive developments in recent years.

In understanding how a master trust is ensuring members' views are heard and how it plans to encourage members to engage more with their scheme, we'll be looking for a documented engagement plan (including realistic timescales for delivery), as well as evidence that the trustees or provider have the relevant skills and competencies to plan and carry out this work (if not themselves, then through other means including advisers, other organisations or individuals).

To assess this, we would need to have sight of a detailed plan which outlines the master trust's approach to the following expectations:

15a There is a communications plan in place dealing with how to improve or maintain member engagement with the master trust

15b The communication plan covers the methods that will be used to improve/maintain member engagement, including the standards and timing of regular and scheduled communications with members

15c There is a process for members' views to be heard by the trustees at board level

15d Trustees and the strategist respond to member feedback and take appropriate action

15e The communication plan includes provision for regular reviews for effectiveness and updated to reflect changes to the scheme and/or membership profile

15f There are processes in place to identify issues and gather feedback from members

15g There are processes in place for escalation of issues or complaints to the relevant decision-maker and to resolve the root cause of the issue



Please note: As we are not asking schemes to send us their chair's statement as part of the readiness review, we do not expect you to complete the following sections of the questionnaire: 3a, 9b, 9d, 15c, 15d and 15f.

15. Communicating with members continued...

We will also need to see the master trusts' complaints management procedures, including reference to root cause analysis of member/customer complaints, to ensure that these are both properly handled on receipt and reacted to more widely across the business/scheme (where appropriate). In most cases, we believe these to be standard documents which providers should be able to source from existing scheme documentation.

Further to this, master trusts are required by law to provide a process for members to be able to give feedback. The scheme's chair's statement must contain details of the arrangements put in place to encourage members' views to be put forward on matters relating to the scheme.

Further information on our expectations of trustees in this area can be found in our DC Code of practice 13 and the associated regulatory guidance, here: www.tpr.gov.uk/trustees/communicating-with-members-in-your-dc-scheme.aspx#s22391

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Master trusts

Completing your application – systems and processes

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