

# Additional systems and processes guidance for new master trusts

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## Introduction

New master trusts must apply for authorisation before they start to operate. New master trusts are those starting to operate on or after 1 October 2018. As part of meeting the authorisation criteria, they must demonstrate that systems and processes are sufficient to ensure the scheme is run effectively, however this may be harder for brand new schemes with no operating history.

This guidance provides trustees with additional help to interpret the requirements set out in the Pension Schemes Act 2017, the Regulations, our Code of Practice 15, our systems and processes questionnaire and accompanying guide (which we refer to throughout this guidance). It should be read alongside those documents and trustees should seek to understand how to apply it to their own circumstances.

This guidance is aimed at new master trusts who intend to use an external administration and investment platform and/or investment management providers, or already offer these services in-house. If you do not fit this description, please contact us at: **mastertrustauthorisation@tpr.gov.uk**

In relation to each of the sections below, we expect to see evidence of the trustee and/or provider's due diligence and assessment processes in selecting service providers or anyone else who will be involved in the ongoing running and governance of the scheme.

# Functionality and maintenance of IT systems

## 1. Administration system payments

Trustees should be able to provide us with evidence of their administrator's processes, which describe how contributions will be paid by employers. It may not be possible to provide us with evidence of historical payments being made for this specific scheme. However, the evidence provided should be able to demonstrate that the IT and administration systems are capable of processing electronic payments.

Where possible, evidence should include successful use of third party administrator systems in other relevant contexts, such as delivering administration services to existing clients. Third party administrators may also have an independent external assessment (for example an assurance report such as AAF 01/06) which, if the scope and methodology of the assurance is fit-for purpose, provides additional evidence that the systems and processes criterion is met.

## 2. Administration system records

Trustees should be able to demonstrate the sufficiency of any third party administrator's system, using reference to member data processed on behalf of other clients using the same administration system. We do not wish to see personal data of members (which should be redacted), but rather examples of how the data is managed and monitored, including examples of administration reports and data sampling exercises.

The third party administration provider may also have an independent external assessment report which may, if the scope and methodology is adequate, provide evidence for this requirement.

### 3. Administration system transactions

The following evidence could be sought by trustees from the scheme's proposed administrator to support the application:

- Administrators should have process documents describing how system functions work in practice. This includes details of responsibilities for managing and implementing these processes, and how they will be monitored to ensure that errors are identified and addressed and do not recur. Third party administrators should also have historical data related to other clients which demonstrate these processes working in practice, including examples of quarterly administration or stakeholder reports, which are sent to trustees to allow them to oversee scheme administration on an ongoing basis.
- All providers of third-party administration services should engage an auditor to carry out an annual assessment of their systems and, critically, their management of core transactions, against the control objectives set out in AAF 01/06. Trustees should ask their administrator for this document and seek to understand the scope and methodology used by the Reporting Accountant who carried out this testing.
- Any administrator should be able to provide you with internal process documents detailing how duties are segregated. We expect trustees to demonstrate why these processes are fit for purpose and an understanding of how they work.
- We also need to see evidence of how the trustees have set their required level for the trustee mandate, and that this is recorded in their documented processes for governance and monitoring of scheme administration (covered further in sections 9 and 10 below).

### 4. Planning for change

The following evidence could be sought by trustees from the scheme's proposed administrator to support the application:

- The administration and IT system provider(s) should have documented processes which cover our requirements in relation to how changes to IT systems will be funded and delivered. We expect master trust trustees to have sight of and be familiar with these processes and to explain how they are content that they are fit-for-purpose. This explanation should correspond with the narrative and other content in the master trust's business plan.

## 5. Protecting data

The following evidence could be sought by trustees from the scheme's proposed administrator to support the application:

- A third party administrator or IT provider will already have data protection and disaster recovery strategies and processes in place, and these are likely to have been tested against industry standards.
- An in-house administrator may already have such processes, and we will expect to see that policies addressing the requirements laid out in our code are in place and plausible. The trustees should similarly have a clear approach to monitoring compliance, and a timetable for obtaining independent assurance.

## Processes and how they are governed

### 6. Reconciliations

Any in-house or third party administrator should be able to demonstrate that their IT and administration systems are capable of meeting our expectations in this area.

We anticipate that a third party administrator, if selected, would be able to provide an independent external assessment relevant to this requirement.

### 7. Record-keeping

The following evidence could be sought by trustees from the scheme's proposed administrator to support the application:

- We expect any third party service providers, including those providing administration services, to be able to provide examples of their current processes and procedures as part of their tendering process. An administrator may also be able to provide a suitable independent external assessment relevant to the quality of their record-keeping.
- In-house administration services should have a clearly demonstrable plan for meeting our expectations in this area, as laid out in Code 15. Evidence provided by the trustees should include reasons why any newly created in-house service provision was preferred to outsourcing.

## 8. Maintaining contributions

Any in-house or third party administrator should be able to demonstrate that their IT and administration systems are capable of meeting our expectations in this area. Our guide to completing the systems and processes questionnaire provides further detail on the sort of evidence we will need trustees to provide in their application.

## 9. Trustee recruitment and standards

We have set out our expectation that schemes should have a sufficiently robust and effective 'trustee governance policy/process' to demonstrate compliance with this requirement, and this applies to all new master trusts. This is the same expectation as for an existing scheme.

We have requested in guidance a 'trustee governance policy/process'. This should include a skills and competencies matrix and professional development plans for each individual trustee. We also need to see that the trustees' annual business planner includes reference to regular dates for trustee appraisals and re-assessing training needs, training and development plans and other related activities.

Additionally, the chair's statement would also need to explain how all the relevant skills, knowledge and competencies are available to the trustee board, either through their own skills and knowledge, or through advisers and other specialists.

## 10. Trustee governance

Our expectations here are the same as for an existing scheme, as described in our guide to completing the systems and processes questionnaire. All new master trusts should be able to submit a trustee governance policy/process as a minimum to demonstrate compliance with this element.

We expect schemes using a third party administrator to demonstrate how they will identify and report breaches to the trustee board. We expect to see a documented process from the administrator demonstrating how this process will work. We would also need to see a formal process document describing the actions the trustee board would take if they received a notification of a breach from their administrator. Finally, there should be a documented process which describes how the trustees will assess the materiality of breaches in deciding whether they should be reported to us.

## 11. Managing service providers

Our current guidance indicates the typical types of service provision we believe would be 'key' providers, although this list is not exhaustive. It would help demonstrate compliance to submit any documents sent to potential key service providers when they were asked to tender for their appointment. Applicants should redact any commercially sensitive information relating to third parties from such materials where not necessary for the purpose.

We expect trustees to identify the performance indicators potential key service providers would be expected to meet, if and when they are appointed. We would also benefit from an understanding of who in the scheme would own the relationship with each of the key service providers and how, in practice, these performance indicators will be monitored over time.

We expect an application to include the formal, documented process which outlines the detailed criteria to be assessed for each of the scheme's key service providers.

All processes for selection and management of service providers should be documented in the trustee governance policy/process document.

## 12. Risk management

This requirement applies as it would to an existing scheme. At the point of application, there should be a fully documented and agreed policy in place describing how risk identification, measurement, monitoring, mitigation and resolution will function once the scheme begins to operate. Although service providers and other key functions of the scheme may not yet be operational, it will still be possible for applicants to describe the risk management processes they intend to follow.

Elements we expect to see addressed include the following:

- The risks considered to be those affecting this scheme.
- The key roles and responsibilities in risk management.
- The risk policies and templates to be employed in the risk management process.
- The process for, and frequency of, risk monitoring.

We will also want to understand how the trustee board understand and integrate the monitoring and oversight of the scheme strategist. There should be a clear understanding of how the scheme strategist's risk management activities interact with those of the trustees.



### **13. Risk register**

We expect an application to include a template of the full risk register as part of the risk management policy adopted by the trustees. There should also be evidence in the trustees' annual business planner of a process for regular reviews of the risk register and periodic reviews of the risks the scheme is exposed to.

### **14. Planning resources effectively**

Our expectations here are the same as for an existing scheme. Trustees will need to demonstrate the development of a bespoke documented process describing how resources are planned effectively. There may also be evidence available from other third party service providers as to how their processes work with other clients.

### **15. Communicating with members**

This requirement will be the same as for an existing scheme. We expect a communications plan to be developed outlining how all relevant communications will be developed, signed off, distributed and monitored once the scheme begins to operate.



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