Transform or transition?

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Trustee dissatisfaction with providers should not automatically lead to a full market review. In this viewpoint we consider some alternatives.

1. Background

The pension administration market has undergone significant change in recent years. On the supply side, some Third-Party Administrators (TPAs) have been acquired, whilst some have withdrawn from the market, or are only prepared to offer administration services as part of a bundled offering. For some providers there are now waiting lists, and it is increasingly common for TPAs to decline to participate in tender exercises. At the same time, the demand for high quality administration is as strong as ever. The market is also being impacted by several factors, including the pension freedoms, auto-enrolment, liability management exercises and GMP reconciliations. And of course, there is no respite in sight with GMP equalisation now just around the corner.

When trustees are unhappy with their existing outsourced administration service, they often resolve to undertake a market tender exercise. However, in the current climate we typically advise trustees to consider whether the current offering can be improved, rather than to automatically assume they should transition to another provider.

In this article, we provide an overview of the key steps in this review process: clarify your objectives, assess your current offering and understand what it would take to make it fit for purpose, and only then decide whether to proceed to a market tender exercise.

2. Clarify your objectives

It's important to consider your priorities and objectives in relation to the administration service. This will vary significantly by scheme, and the sorts of issues to consider include:

- Your scheme strategy and time horizon. For example, a mature defined benefit scheme that is largely comprised of pensioners may have different administration priorities to a scheme that is still open to future accrual. Similarly, a scheme with a rapidly growing defined contribution section will have specific needs for contribution processing and investment switching that would be less relevant in a defined benefit context.
- You should also consider what constitutes a good service, and a common pitfall is to just focus on visible metrics such as turnaround times. We recommend a broader and more balanced approach to measuring performance, which factors in a range of qualitative and quantitative measures. So, in addition to Service Level Agreements (SLAs), parameters such as legal and regulatory compliance, processes and controls, staff training and development, as well as behavioural and relationship measures and member feedback might also be considered.
- It's also important to adopt a balanced approach to cost, as a provider that charges more but invests in people, technology and compliance may well prove to be cheaper in the long run. For example, the time that you spend dealing with errors and complaints, and managing an underperforming

provider has a cost attached. And it can be difficult to retrieve overpayments made in error from members.

- Many schemes will also find that benchmarking their running costs against those of comparable schemes provides useful guidance. When undertaking this assessment, careful selection of an appropriate peer group is key, and will help avoid an 'apples and oranges' comparison with the risk of invalid conclusions.

3. Assess your current offering

Once you have clarified your administration objectives and performance measures, the next step is to consider how the existing service measures up:

- We recommend first defining your assessment criteria. These will vary depending on your scheme objectives, as will the weights assigned to each of them. However, they typically include systems, people, performance and costs. For each criterion, it should be possible to clearly define what an acceptable standard is for your scheme.
- Where there are gaps between the current offering and the desired standard, due diligence with the provider will need to be undertaken to see if and how those shortcomings can be addressed.
- Most schemes will also need to consider whether the service can be transformed and run at a reasonable cost, and any budgetary constraints should be established at this point too. It should also be borne in mind that initial investments in automation and enhancing processes should result in lower ongoing fees, and it is prudent to allow for continuous investment to ensure the service keeps pace with market developments.

4. Transform or transition

Having defined your requirements from the service and compared this to the current performance, you can then agree with the provider how the gaps may be filled. Some points to consider as part of the transformation project include:

- It's best to work collaboratively with your existing provider from the outset to agree a transformation plan with clear deliverables, timescales and budgets.
- You should also assess whether your existing pension resources are sufficient and have the right skills to support the transformation at the same time as delivering 'business as usual'. It may be sensible to retain additional specialist support to assist with the transformation, or to 'backfill' existing roles if more appropriate.
- It's also important to think about project governance. An implementation oversight group comprising representatives from all key stakeholders is recommended, particularly to monitor and manage the risks and issues that typically emerge during a transformation.
- It may be tempting to breathe a sigh of relief once the transition is complete – but this should not be the end of the process. Periodic 'light touch' operational reviews and benchmarking, combined with routine contract and relationship management will help ensure your service keeps up with the latest developments.

If your administrator does not want to support the transformation, or they fail to deliver, it may be necessary to investigate transitioning to another provider. If you decide to transition, the analysis undertaken will help ensure that the market review process is more efficient.

5. Conclusion

In conclusion, dissatisfaction with your provider should not automatically lead to a full market review exercise. Trustees should first take the time to define their administration objectives and requirements and ensure they have appropriate oversight in place to allow a collaborative dialogue with their provider that helps to deliver the high-quality service and right behaviours. If that doesn't succeed, then a market review exercise may be appropriate.