The Story So Far: IGCs since inception

The introduction of Independent Governance Committees (IGCs) is a very positive initiative. When the industry routinely trumpets the efficacy and necessity of robust governance around trust-based schemes, the concept of introducing a well-defined governance structure to workplace pension schemes provided by insurance companies is surely a no-brainer. There are many critics of IGCs although no comment as yet based on experience. I doubt they will be perfect but they are the start of a path towards improving governance standards for contract policy holders – how can this be a bad thing?

There are clear parallels between IGCs and the trustee model: knowledgeable and skilled people, clearly defined roles and responsibilities, and effective governance structures around them. There are also notable parallels with how With Profits Committees operate, such as the responsibility to act in the best interests of policy holders and focusing on influencing the insurer rather than attempting to dictate terms or control actions.

This is, in fact, the biggest problem that IGCs will face. They cannot enforce action upon the insurer and are, currently, limited to raising issues with the provider and asking that they do something about it. So, it will be crucial to the role of the IGC that its members understand the role they play. It is key that the IGC understands the limitations of what a provider can realistically be expected to do, and that it builds a relationship with the provider that is based on influencing behaviour, not generating conflict. Ultimately the IGC can raise issues with the FCA and can publicise its concerns – these are significant powers which would have the potential for serious reputational risk to the insurer.

The FCA's Independent Project Board has reported on the historic charges and benefits in legacy workplace DC schemes, including contract-based arrangements. The report is particularly interested in the value for money of historic contract arrangements (often not good!), and the recommendations of this report will be the first test facing the IGCs.

IGCs will need to oversee the implementation of the IPB report, and plans to complete this should be ready by the end of 2015. We can, therefore, expect to see some results in 2016, which will give the first proper indication, outside of all the theorising, as to whether IGCs are effective, and achieving what they were designed to achieve: providing independent oversight of the activities of workplace pension schemes.

This aim can be achieved, and looking at the value for money of the investments is a crucial part of that, but IGCs should not forget that investments are not the sum of a pension scheme (although others will say otherwise!). IGCs also need to look at the value of the administration and communications.

As IGCs develop, and their effectiveness becomes clearer, there will need to be further development of the value for money framework by each IGC. The framework will need to be appropriate to each particular provider, and appropriately publicised. Over time, this will make IGCs and providers more transparent. The public will have an accessible library of information which will enable them to assess providers on a value for money basis. Perhaps there is a lesson for the trustee model to learn here!

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