

**Address by Brendan Kennedy,
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to the
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Introduction

Thanks to the IAPF for the opportunity to address this conference this morning, which I much appreciate.

What I am going to talk about are the Pensions Authority's (the Authority) recent supervisory review activities, our plans for the rest of 2025 and our longer-term priorities. I will therefore be covering a lot of ground, but the text of this presentation will be made available shortly.

Supervisory review process

As you may know, section 26J of the Pensions Act requires the Authority to conduct a supervisory review process (SRP). This is an assessment of a scheme's system of governance, the risks that the scheme faces and the ability of the trustees to manage those risks. An important aspect of this process is that it requires the Authority to form its own views of the risks facing the scheme, and not just to oversee the trustees' own risk assessment.

This process will eventually be rolled out to all schemes in the coming years.

We began our review programme in 2024 with the selection of six master trusts, one large defined contribution and one large defined benefit scheme.

The chosen schemes were required to submit comprehensive data and documents to the Authority. Following an initial assessment, a list of more scheme-specific, qualitative questions was issued to each scheme. These questions were grouped into six areas: governance, operations, risk management, communications, investment and fees and charges. The supervisory teams also met with trustees to clarify any issues with the responses provided. We issued a preliminary findings letter to each scheme, which the trustees were invited to respond to. A final findings letter was issued following consideration of the trustees' responses, and we will monitor the schemes' responses.

Overall, some of the schemes we reviewed were good, while others have work to do. Every scheme we reviewed had some findings and we will monitor the trustees' responses throughout this year. I will give an overview of the main issues, but further detail on the specific risks and issues identified will be set out in the Authority's annual supervision report which will be published on the Authority's website in the coming weeks.

Good practices

We were encouraged to see evidence of some good practices adopted by some scheme trustees, especially in relation to the master trusts; and we hope to see more of these as we continue with the SRPs this year and in future years.

Some master trusts are already addressing their legacy issues – by this I mean they are rationalising legacy fund choices and reviewing legacy charging structures to ensure maximum efficiency and achieve the benefits of scale.

Some master trusts have secured fee reductions for members as assets under management increase.

There are a number of schemes where very comprehensive sets of board minutes clearly demonstrate the level of engagement of trustees with the scheme and the level of discussion and probing of key risk issues.

We have seen evidence of trustee boards holding dedicated stand-alone meetings for critical tasks or risk issues.

Many trustee boards are appointing independent advisors to assist them in carrying out annual and critical reviews of service providers, thereby minimising potential for conflicts of interest.

Some trustee boards carry out ongoing reviews of compliance with policies and document these reviews.

Findings

Rather than go through the findings in detail, I want to draw out a number of themes from what we saw – these are governance, risk management and member outcomes.

System of governance

By governance, I mean processes that underpin how the trustees meet the standards and obligations which are set out in both the legislation and the Code of practice (the Code), and this is an important area of focus for the supervisory review. If trustee governance is weak, it is very possible that some or all of these responsibilities will also be deficient in some way.

The quality of scheme documentation, such as policies and procedures and investment documentation such as the SIPP and the SIG can be one indicator of the quality of scheme governance. The extent to which the trustees engage with these is another such indicator. A good suite of policies and procedures provides clarity for

trustees and supports the overall decision-making process. It also demonstrates that trustees have a thorough understanding of their responsibilities and the issues they have to address. However, we have seen some trustees who have approached policies in a 'box-tick' manner, a compliance burden to be contended with, rather than a practical tool that supports them in knowing and meeting their responsibilities.

One very important area of governance is the management of conflicts of interest – whether actual or potential. We all know that potential conflicts of interest in pensions exist: the issue is how to manage them so that members' interests are protected. In our reviews, we identified many examples where obvious conflicts of interest could have been managed better, and some instances where potential conflicts of interests were not even identified. The appointment and evaluation of service providers and KFHs is one such area where potential for conflicts of interest have not been adequately considered. In some cases, trustees have not fully considered the implications of decision-making powers retained by the founder of a master trust or commercial relationships between the founder and other parties.

Another important governance issue is outsourcing. Every pension scheme, including master trusts, relies heavily on outsourcing arrangements to fulfil their various functions. This in turn creates an important oversight obligation on the trustees. They must apply due diligence to ensure outsourced providers and sub-outsourced providers have the competence and capacity to deliver results for members, and that their systems are resilient and fit for purpose. There must also be effective reporting structures in place to monitor the delivery of the promised services.

Trustees must hold all service providers to account to ensure they deliver on commitments, irrespective of who that provider is or how they were appointed. Contracts and service level agreements should be clear and unambiguous, and trustees must be clear about what they will do when things do not go according to plan. This includes clarity on who bears the legal and financial responsibility for rectifying issues and any limitations that may apply. Where there are issues with administration services, trustees do not need to wait for the three-year critical review to assess this: performance management should be an ongoing process. In some cases, our supervisory review has seen evidence of repeated poor performance by service providers which was not appropriately addressed by the trustees.

Risk management

As well as the system of governance, the supervisory review also considers the scheme risks and the ability of the trustees to manage those risks. In our reviews, we focused particularly on the own-risk assessment (ORA) and the process followed by the trustees to develop the ORA. The Authority also examined the risk management

framework for schemes, including the risk management policy, risk appetite statement and risk register.

It is important to reflect on the need to ensure that risk management is embedded in the trustee board culture. This matters: while the risk and internal audit key function holders have a critical role to play, it is the trustees who ensure risk and risk management are an integral part of the decision-making process, and they must demonstrate that they lead and own the scheme's risk management. Trustees should be heavily involved in the ORA process rather than merely signatories to a document. The ORA should be considered a 'living' document which is referred to at every trustee board meeting and updated as often as needed.

The Authority views the ORA as one of the most important of the trustee documents and consequently takes any shortcomings very seriously. The quality of the ORA documents reviewed as part of the 2024 SRP varied and there were mixed levels of detail about how risks were assessed. There were several instances where the ORA did not reflect all the risks that the scheme is exposed to and instances where appropriate ORA actions were not identified or implemented. For example, risks to scheme viability and sustainability and outsourcing risks were not adequately considered in some cases.

Risk appetite statements and risk reviews did not always state whether a given risk was within or outside of tolerance, indicating that risks may not be measured on an ongoing basis or that tolerance had not been adequately addressed by trustees. In some cases, it was not clear what data, and information would be used to assess the risks, and how trustees satisfy themselves about the accuracy of this data. Furthermore, in general there was limited evidence of cohort analysis to assess specific risks faced by the different categories of members or deferred members.

However, the supervisory reviews indicate that trustees are developing their risk management functions and frameworks and have a desire to ensure they have the right policies, processes, and procedures in place to assess risks and identify mitigations and actions. But establishing a risk culture is about more than processes, and there is a need in some cases for mind-set and behavioural change that may prove to be more challenging for trustees. This is not something that we can wait for years to occur.

Member outcomes

The third aspect I would like to focus on is the driver behind this intensive supervisory process – ensuring good member outcomes.

A good system of governance and sophisticated risk management practices are likely to mean little to the members themselves; it is the outcomes that matters – for example, holding service providers to account for poor administration services to members or ensuring that investment choices reflect the risk appetite and profile of the membership.

Another issue that directly affects member outcomes is communications. This goes beyond the statutory pension benefit statement and the trustee annual report: it requires effective engagement with members and ensuring that members are empowered to make informed choices about their pension. It also involves trustee oversight of any information that might be provided by third parties, such as brokers or advisors.

In many cases, there is a trend towards automation and use of technology to engage with members. This trend is welcome, but it is important that trustees regularly assess how effective these tools are and test the level of engagement with the technology and with all communications amongst members, adapting the approach when necessary. To date we have seen limited evidence of such consideration, and trustee focus appears to be mainly on statutory communications.

Costs and charges have a further direct impact on member. This may be less of an issue for schemes where employers bear most of the costs of the scheme, however most DC schemes and master trusts will involve some form of charges for members. This is an issue that trustees must engage with and in a supervisory review, we will be considering how they have engaged with the issue, through measuring their costs and benchmarking them against relevant comparators.

The Authority has noted that some trustees are actively considering participation in the Cost Transparency Standard (CTS) for investment costs, and this is to be welcomed. However, the Authority is also mindful that there are charges applied to members of master trusts which may not be captured by the CTS, and we will be monitoring this closely in 2025.

2025 plans

We have already begun the 2025 supervisory reviews and will be undertaking three times as many as we conducted in 2024. This number will continue to increase in future years. We will also be monitoring the schemes we reviewed in 2024 to ensure that they address the issues we identified.

On Monday, we published further details on our website about DORA compliance. If you have not yet read it, you should do so as soon as this event is over. In summary:

- All schemes with at least 16 active and deferred members are subject to DORA.
- Yesterday, we published further information about schemes who will not be required to file a register of information. If your scheme falls into this category, you should let us know.
- All other eligible schemes should prepare a DORA register. However, these schemes should not make a submission unless directly contacted by the Authority. This contact will take place no later than 14 March, i.e., tomorrow.

It would have been much better had the communication about DORA happened a lot sooner, but that was because many important issues were not clarified at European level until very late in the day.

It is nearly five years since the Code was first published, and we intend to conduct a review later this year. No significant change of direction is planned, but there will be some clarifications and responses to issues that have arisen since the document was first published. Value for money benchmarks and investment objectives will be two areas of focus.

We in the Authority are in the process of replacing our supervisory I.T. platform, and the new system will go live in 2026. We will communicate with trustees and administrators in the coming months. Our objective is to make sure that our systems are robust, and that they support forward-looking risk-based supervision, and evidence-based data driven policy. However, one issue that must be addressed immediately by trustees and their administrators is the quality of data in submissions to the Authority. We spend far too much time addressing data issues and manually correcting what is sent to us. Our new platform will have additional layers of validation to aid with accuracy but equally we will be looking at new approaches to stricter enforcement on submissions in future.

I would like to remind trustees that they have responsibility for the data sent on their behalf to the Authority, and we will be looking at what steps they are taking to ensure it is accurate. More profoundly, what does this inaccurate data say about the competence of the administrator and the reliability of the member records?

As Minister Calleary referred to in his speech at last week's IAPF Annual Dinner, the Department of Social Protection are preparing legislation to implement a system of scheme authorisation, and to address some specific aspects of master trusts. We are working with our colleagues in the Department to support this important initiative.

We are also working with colleagues on proposals for in scheme drawdown, which we see as being of benefit to scheme members.

We are also examining proposals that might enable consolidation of defined benefit schemes, and you are likely to hear more from us about this also.

Longer term

The derogation for older one member pension schemes will expire in a little over a year. Trustees and administrators need to ensure that these schemes become IORP II compliant by the 2026 deadline, and they need to take account of the work that will be needed to make this happen. We will continue our consolidation engagement process to support this work. In the shorter term, we will also step up our activity related to schemes that were not derogated: too many of these are non-compliant four years after transposition.

I previously referred to our new I.T. system. In the medium term, we will be collecting more data from pension schemes, and this data will have to be provided more quickly than at present and, in certain cases, more accurately. We will be working with our colleagues in the Central Bank to avoid data duplication as far as possible. Trustees will be required to ensure that their administration systems are capable of providing timely and accurate data in the formats required.

Value for money is an issue which trustees should already be considering. In the coming years, the Authority will be looking at standardised calculations for all scheme costs, not only investment, and of course taking account of the services provided. Our medium-term goal is to provide benchmarks that trustees can measure their performance against, and I would like to see all schemes publishing their value for money performance.

We will also look further at the question of investment objectives, for both DC and DB schemes. We will engage with trustees about their quantitative investment objectives, and about their communication with members.

Conclusion

I have given you what is in effect a long to-do list. I hope I have succeeded in communicating to you a sense of urgency: there is a lot to do by all of us, and it needs to be done sooner rather than later. We are committed to ensuring that member outcomes are as good as they can be, and I know that you share this commitment.

But this is not a long-term objective: it is an immediate necessity: there is a responsibility in respect of the considerable assets which schemes already hold on behalf of their members.

We have made a lot of progress in the last few years, but we are not there yet.

Thanks for your attention.

Additional clarifications

Following Brendan Kennedy's address to the IAPF Spring Conference on 13 March, there were a number of questions from the audience. Some of these were addressed at the conference; however, the Authority has prepared the clarifications below to address some of the themes that featured in the questions submitted.

Transparency of charges

The publication of master trust data on investment returns and charges which would be of benefit to participating employers and members is a matter for the trustees of the master trust.

In the interim, the Authority supports the participation of schemes in the Costs Transparency Standard, and we welcome any additional initiatives undertaken by trustees to improve transparency with regard to charges borne by members.

Supervisory review process notification

Trustees of all master trust schemes who are subject to a supervisory review process in 2025 have been notified as have a number of DB and DC trustees. Trustees of any other schemes subject to a SRP later in 2025 will be informed in advance of the commencement of the SRP.

Oversight of scheme service providers

The Authority is conscious that trustees may benefit from further guidance on the required critical reviews of administration and investment service providers, and we are considering whether this could be incorporated into the review of the Code which will take place in 2025.

Oversight of outsourced services and sub-sourced services is the responsibility of the trustees and will be supervised by the Authority. This supervision will include business continuity planning in the event of a change of a service provider and exit strategies for outsourcing arrangements.

Derogated OMAs

The derogation provided for one-member arrangements established before 22 April 2021 will end on 21 April 2026. The Authority is in direct contact with administrators, providers and trustees of OMAs to discuss any related issues or challenges. The Authority expects any issues to be raised well in advance of the end of the derogation period.

Contact information for deferred members

The Authority reminds trustees/pension scheme providers that the Department of Social Protection operates a host mailing service, which can assist with contacting scheme members who may have moved address.