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Diversity: are trustees born ready?

You may have missed the announcement of dance group Diversity's 'Born Ready' anniversary tour, but you will likely have spotted the Pension Regulator's (TPR) July consultation on the 'Future of trusteeship and governance' in pension schemes.



TPR is asking for views on whether legislative change is needed to promote diversity in trustee boards, including requirements for trustees to report publicly on their efforts to do so, for example via the DC chair's statement. It also asks whether more could be provided by way of tools and guidance, sharing best practice across the industry. In a landscape of increased regulatory pressures, what should trustee boards be doing now to make sure they are diverse?



Are trustees 'born ready' to make the necessary changes or are there any issues holding them back from promoting diversity amongst their ranks?

What is diversity?

In theory, the trustee board model should be ideally suited to diversity. However, a lack of range in the composition of pension scheme boards is something that has been recognised for a number of years, with the average ages of members on, and gender ratios of, typical trustee boards not reflecting the member profile of most schemes. And although age, race and gender spring most easily to mind, diversity goes far wider. TPR is clear that trustee boards "need to make every effort to attract and include" trustees "from all backgrounds to work in the industry". Its 21st century trustee campaign highlights the importance of diversity in terms of societal demographics, expertise and skills (including skills such as the ability to negotiate, influence and communicate). Ideally then, boards should be looking to have a range of individuals with diversity of background, skillset, experience, personality attributes and seniority level.

Why does diversity matter?

TPR's view is that pension boards benefit from having access to a range of skills, points of view and expertise, as it helps to prevent significant knowledge gaps or over-reliance on a particular trustee or adviser, and supports robust discussion. It states that there is strong evidence that diverse groups are more effective at decision making.

TPR also points out that research shows that if governance boards reflect the diversity of the people they represent, their 'collective life experiences' will improve their capacity to understand the challenges faced by each member of their scheme.

Diversity can help refresh perspectives, and reduce unconscious bias and potential failures to recognise issues that impact on different savers.

What does diversity mean for trustees?

When looking at the diversity of a trustee board, it is important to consider this in the context of the membership of the relevant schemes, rather than as society as a whole. To truly reflect their views, a trustee board should ideally be as diverse as the membership it represents.

Amongst themselves, trustees should discuss the issue of diversity, and acknowledge that:

- similarities in age and gender need not mean a lack of diversity in terms of societal demographics, skills and experience, for example.
- diversity in race, gender, age, or background is not tokenism, and rather than being mere quota-filling, brings real advantages.

One of the key issues for trustees improving diversity is that of trustee appointment. For example, where the power to appoint trustees sits with the employer, the trustees do not control who becomes a trustee. And in terms of the one-third member-nominated trustees required by legislation, the views of the membership need to be incorporated into the process. Trustees should consider recording that diversity will be an area they assess when interviewing nominees as part of a selection process. In an election, trustees could notify members that they may consider diversity as a factor when making their choices. Ultimately, of course, a candidate's suitability in the round is more important than diversity alone – although diversity is of course a factor in determining that suitability.

What can trustees be doing to improve diversity?

TPR is clear that it does not believe that diversity quotas are desirable, necessary or even workable (for smaller schemes in particular). Furthermore, TPR is clear that its emphasis on diversity is not intended to force schemes to remove good trustees with valuable skills.

What steps a trustee board decides to take will depend on the circumstances of that board.

- A good starting point would be to review the current levels of diversity, asking trustees for views on the composition of the board and their aspirations as to what this could look like in the future. TPR recommends its skills matrix and board evaluation tools to help schemes understand and address gaps. A trustee diversity policy could then be drawn up.

- Trustees should review the usual means, and the style, of communications with members, both generally and in particular in relation to trustee elections. Is the tone too formal or potentially alienating? Consider how the trustees are presented, and explain what diversity means to your board and the benefits the board sees it as having.
- Make the current board more accessible. Give information on the individuals who make up your board, and find opportunities for them to meet with the membership to encourage a greater diversity of strong candidates.
- Consider mentoring applicants for trusteeship who miss the cut but who would make good future candidates.

Will this impact good governance?

Reviewing diversity in the composition of the board should go hand-in-hand with a review of governance more widely.

A natural follow on step is to take a look at the effectiveness of the board itself to ensure that all 'diverse' views may be shared, and all directors contribute to the running of the scheme.

It will be interesting to see the responses to TPR's consultation, any resulting legislative changes and additional regulatory burden on trustees going forwards – and whether the policy has the hoped for effects.