Guernsey Pensions Regulation - Gap analysis

"The Rules are marginally less onerous for DB schemes than for DC schemes"
Erin Bisson

BWCI

Location PO Box 68, Albert House
South Esplanade, St Peter Port
Guernsey, GY1 3BY
Tel +44 (0)1481 728432
Fax +44 (0)1481 724082
Web www.bwcigroup.com

Last year saw the States approve the introduction of a pensions regulatory framework. As part of this process, the Guernsey Financial Services Commission ("the Commission") published The Pension Licensees (Conduct of Business) & Domestic and International Pension Scheme and Gratuity Scheme Rules 2017 ("the Rules"). These came into force on 30 June 2017 and **full compliance is required by 30 September 2018**.

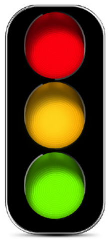
As an interim step, licensees had to conduct a "gap analysis" by 30 September 2017, to identify any gaps in compliance with the new requirements. We have completed this analysis on behalf a number of our clients, as well as for schemes where we have licensee obligations. The results of this analysis highlighted some interesting patterns.

Key areas

We analysed schemes' compliance into ten key areas:

- Compliance
- Contributions
- Investment
- Benefits
- Members and beneficiaries
- Transfers
- Service providers
- DC charges
- Documentation
- Governance

There results were coded with a traffic light approach to identify the areas for immediate action easily:



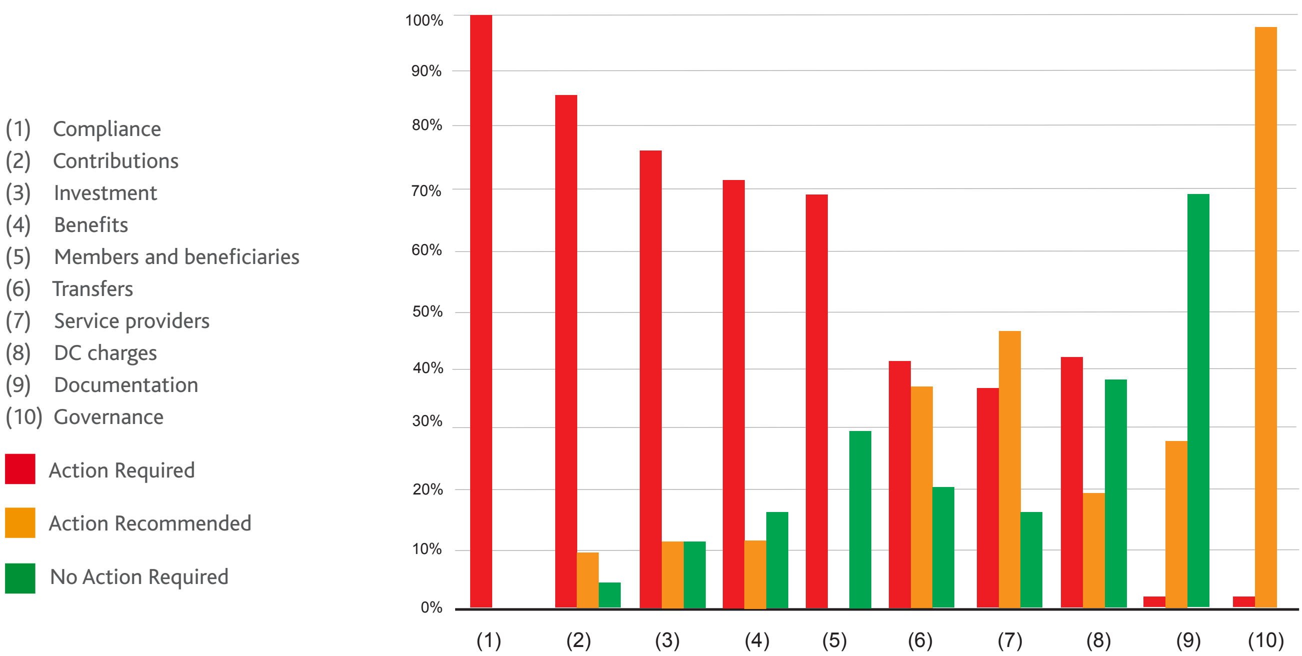
Compliance

Some of the regulatory requirements are new, such as filing a compliance return. Consequently this was a gap identified in all schemes. In due course the return will need to be submitted electronically, through the Commission's website. At this point those responsible for schemes affected need to recognise that the return is a new requirement and include it in their business plan for the year.

Contributions

The Rules require that a contribution schedule is in place. This will set out when contributions are due, together with the amount. While a contribution schedule has been a statutory requirement for UK and Isle of Man schemes for a number of years, our analysis showed that many Guernsey schemes do not yet have a formal contribution schedule.

Figure 1
Compliance by Category



Those schemes which already have a schedule in place will still need to take some action. In particular, they will have to review their processes to ensure contributions are paid in line with the schedule and that action is taken in the event of non-compliance.

Governance

The Rules stipulate that schemes must have a governance committee unless it is decided that it is not required. This is something that should be considered soon, ideally at the next trustees' meeting. Trustees should ensure that if they are not going to put a governance committee in place, they document clearly the reasons for their decision.

Documentation

We found that generally most schemes were compliant with the Rules surrounding documentation requirements and were storing and maintaining their documentation appropriately.

Investment

Investment was another area where most schemes currently appear to meet or almost satisfy the requirements.

Generally some documentation was in place around the scheme's investments; however it was not always fully compliant with the new requirements. We found that some schemes had a fully compliant statement of investment principles ("SIP"). However, while others had a SIP, it did cover all of the points required in the Rules. We also found that some schemes had investment documentation and guidance, but not a formal SIP.

Transfers

Most schemes had set procedures for dealing with requests from members to transfer their benefits, although many did not have timescales as tight as those specified within the Rules.

Differences between DB and DC schemes

Of the schemes we analysed there was a notable difference between the levels of compliance within defined benefit ("DB") and defined contribution ("DC") schemes. This is unsurprising since the Rules are marginally less onerous for DB schemes than for DC schemes. For example, DB schemes only need to provide information to members on request, whereas DC schemes are required to provide annual benefit statements automatically.

We also found that more DB schemes had SIPs in place (some of which were already fully compliant).

Summary

Figure 1 shows how schemes faired against the new requirements and where some action is required or recommended, with respect to each of the key areas. Figures 2 and 3 show the results separately for DC and DB schemes respectively.

The charts show that there is a considerable amount of work to be done by schemes over the next few months to become fully compliant.

Figure 2
DC Schemes

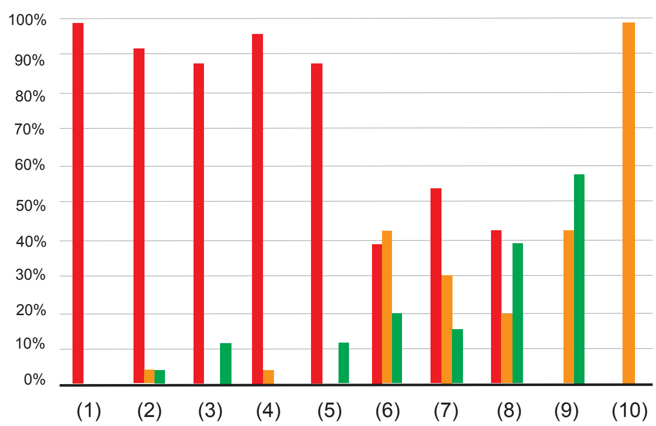


Figure 3
DB Schemes