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### **INADEQUATE MONITORING OF ACCRUED INCOME BY PENSION SCHEMES "POTENTIALLY ALARMING"**

UK pension schemes regard investment monitoring as ever more important and are even practicing it with increasing commitment, but their monitoring of income accrued is often inadequate, according to a new survey into investment monitoring in the pensions industry.

The survey *Investment Monitoring in Practice*, commissioned by Euraplan, a pension fund monitoring and accounting software provider, found that as many as one in two pension schemes in the UK failed to make suitable provision for monitoring the efficiency and accuracy with which their investment manager and/or custodian relays investment income into the scheme's bank accounts.

This is "potentially alarming", according to Katherine Lynas, an associate director at Euraplan.

The funds participating in the survey manage from £15 million to more than £4 billion. A total of 64 percent of respondents were commercial funds while the others were local authorities.

According to Euraplan, since the debacle of the Maxwell pension scandal, which the 1995 Pensions Act was designed to prevent from happening again, the UK pension fund industry has taken on a much heavier burden of compliance and monitoring than was ever the case before.

The firm says investment monitoring is a crucial means of protecting pension scheme beneficiaries because it enables a scheme to conduct its own ongoing audit of the proper management of the fund of assets that the pension scheme controls. The fund of assets is what enables the scheme to meet its obligations to its beneficiaries.

"Due to the large size of most pension funds, even a short delay in crediting a dividend or other income to the fund can cost the scheme a substantial amount of money," said a spokesman for Euraplan.

"Equally, an unwarranted reduction in the percentage on which accrued income is based can cost the scheme a considerable sum. Investment managers and global custodians acting for pension schemes are coming under intense pressure to produce a level of thoroughness and accuracy in their management and custodial duties."

The survey reveals that pension schemes seeking to monitor the actions of their investment managers and custodians have two fundamental choices. They can delegate the responsibility for investment monitoring to a third party such as a custodian or an investment manager or they can monitor their investments themselves.

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Euraplan says that, ultimately, the decision comes down to a question of priorities. Do the trustees believe that a relatively small expenditure on this matter (relative to the total value of the pension scheme's assets) is worth making, or are they happy to place a high level of trust in third-party organisations?

**Other findings:**

- There is a trend towards UK pension schemes taking investment monitoring more seriously - 84 per cent of respondents said that they believe investment monitoring to be more important today than it has been in the past.
- Almost all pension schemes regard investment monitoring as an important and integral part of their professional activities.
- The Myners Report *Institutional Investment in the United Kingdom: A Review*, published on 6 March 2001, has made pension schemes regard investment monitoring as a higher priority than in the past.

More than two thirds of respondents said that they considered the Myners Report to have had a significant impact on how the pensions industry views investment monitoring.

- At present there are about as many pension schemes in the UK that handle their own investment monitoring as there are pension schemes which delegate the function to third parties.
- Many pension schemes that do delegate investment monitoring to a third party, only do so because they believe that they have inadequate resources to do the job in-house. The clear implication of this point is that if they could handle it themselves they would prefer to do so.

Seven per cent of respondents admitted that they knew very little about investment monitoring and took it for granted that it would be handled by a third party.

Roger Forder, chief executive of Euraplan said:

'The survey's findings show unequivocally that the commitment to and demand for investment monitoring is reaching unprecedented levels in the pensions industry.'

'However, there is also clear evidence that many pension schemes would handle their own investment monitoring if they felt they had the resources in-house to do it.

'At present more than half are saying that they are happy to delegate the responsibility to a third party but their response to more probing questions reveals that many have reservations about making this delegation.'