

Pensions software

Monitoring the monitors

Should companies monitor their pension funds in-house or leave the job to an outside firm? It is a question that European firms, for historical reasons, approach differently.

Most big UK companies already employ a third party to keep watch over individual pension fund managers. Typically, this is the same global custodian that administers the fund. By comparison, the "do-it-yourself" approach persists in mainland Europe. Many organisations outside the UK still prefer to monitor the funds themselves, using off-the-shelf software or spreadsheets, explains Mick Brant, chief executive of CAPS, a pensions-monitoring service.

In fact, this is a reflection of a deeper division in the attitudes of pension fund trustees. Continental trustees traditionally have preferred administratively simple bond investments over relatively complex equities. UK trustees, in the main, take the opposite view.

As a result, there is a lot more that can go wrong with more liquid pension schemes in the UK. Were trade failures reported back to the fund manager? Did dividends get paid on the due date? Do the capital gains reflect the equity's exact sale price?

Make no mistake

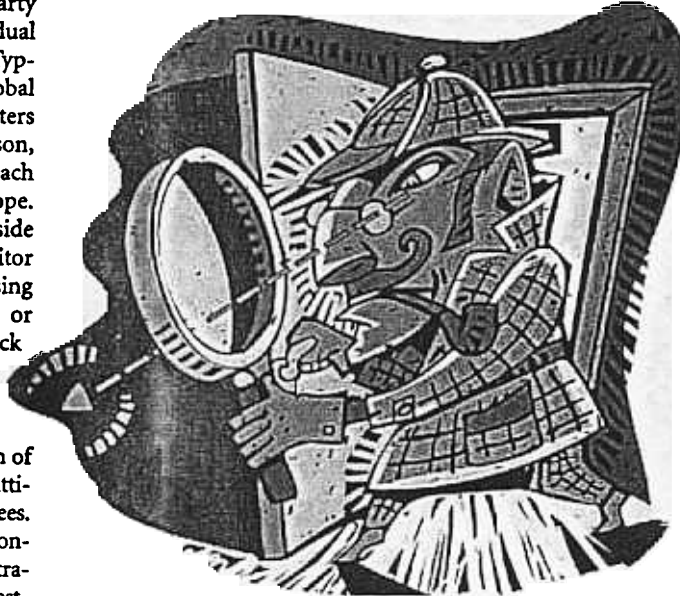
Given this backdrop, it's easy to see why UK trustees pay upwards of £30,000 (£48,000) a year for a professional monitoring service. Money well spent, insists Roger Forder, chief executive of Euraplan, which monitors pension funds on behalf of some of the UK's biggest companies.

"Fund managers make mistakes that might not be picked up by the custodian," he says. "A missed dividend can easily cost a fund £100,000."

And it is money that trustees on the continent are

well to take a closer look at developments on the other side of the English Channel.

A significant minority of UK organisations are, in fact, re-establishing internal monitoring programmes—including BT, whose £12 billion



also increasingly prepared to spend, says Neil Fitzpatrick, a partner at Bacon & Woodrow, an investment consulting firm. Fitzpatrick says a growing number are relaxing their bias against equities. As they do, he notes, they face the same pressure as their British counterparts to take on a monitoring service to "make sure their assets are in the right place".

"The most advanced along this track are companies in Norway and Sweden," Fitzpatrick says. "France is embryonic, and while Germany is a little better, it is behind both Dutch and Swiss companies."

But before they retool their in-house expertise, mainland European firms would do

pension fund is the country's biggest.

To be fair, most are keeping external oversight as well, but supplementing it with special-purpose in-house software. The leading providers of that software—Deutsche Bank's WM Company and Euraplan—cite more stringent reporting requirements for company pension funds as one factor behind the trend. Euraplan's Forder adds that the end of the equity boom is also concentrating trustees' minds.

Relying on custodians themselves to monitor their own accounting under these circumstances is risky. Because custodians are geared towards offering a personalised service to individual pension fund clients, says Euraplan's Forder,

clients are often reluctant to demand it, for fear of jeopardising the custodian part of the relationship.

As a result, fund secretaries like Chris Angell are putting in place a third, in-house check on both fund managers and custodians. His team uses Euraplan's Shareholder software to reconcile cash movements in the £3.5 billion pension fund at London Regional Transport (LRT). "The trustees like the comfort of a three-way reconciliation between ourselves, the global custodian and the individual fund managers," he says.

Comfort level

To avoid chasing its own tail, Shareholder, and its new incarnation OpenAIR, draw independent financial information from third-party sources. The software is alerted to a dividend declaration, for example, which it can check against the entitlements of equities held by the fund.

Angell concedes this "extra level of comfort" has meant taking on two additional staff. But even factoring in the £60,000 LRT pays for the software, he says that costs less than contracting an external service to monitor a fund of its size.

Bacon & Woodrow's Fitzpatrick expects the mixed approach being pioneered in the UK to find favour in the rest of Europe. However, it will take longer for a common set of software tools to emerge across the region. "The danger is vendors will invent the best of all possible mousetraps when, in reality," he says, "each market is still very different."

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