Statement

Managing service providers

There has been significant recent attention on companies providing outsourced services to government and industry, including pension schemes.

This statement summarises our expectations of good practice by trustees and scheme managers on the management of service providers, and planning for events which could have major consequences for their schemes, including the failure of service providers.

Managing commercial relationships

As trustees and scheme managers, you will often need to appoint service providers to your schemes to carry out specific tasks, such as administration, on your behalf. However, you remain ultimately accountable for the running of your scheme.

You must put sufficient controls in place around third party providers to make sure your scheme is well run, and keep enough oversight of the tasks you delegate to others, but that you remain accountable for. The ability to effectively manage commercial relationships is a key skill you should be able to demonstrate. You should:

- fully understand the scope of the roles and responsibilities being delegated to third parties
- carefully review the quality and suitability of service providers before you appoint them - you should consider multiple providers
- be confident that your service providers have the requisite skills, training and experience to deliver their services
- be confident that your service providers are operating in accordance with the legal obligations that you and they must meet - use service level agreements, require reports and regularly monitor the performance of your providers
- take steps to address areas of poor performance
- have procedures in place, and a clearly documented procedures manual, to enable a continuous and consistent service in the event of a change of provider, or provider failure

When reviewing the suitability of providers, you should consider relevant independent frameworks which provide evidence of the suitability of the provider. This can include ISO certification, or independent accreditation frameworks for specialist functions, such as administration.

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You should be familiar with, and understand the effects of, the terms and conditions of contracts with service providers. This includes:

- the scope of services being provided
- the costs of those services
- the arrangements and procedures if the service provider is changed
- any limits on liability

Risk management and business continuity planning

You need to make sure that arrangements are in place to manage risks that would have significant consequences for your scheme and members. This includes having a business continuity plan (BCP) in place, which sets out what actions would be taken if certain events occur that would affect the running of your scheme. The failure of a third party provider is such an event.

You should also understand your provider's business continuity arrangements, and be confident that they ease any risks to member data and benefits. Their plans should cover the winding-up of their business. Trustees may also wish to understand where the liability lies if processes are interrupted by a BCP event, or where a BCP fails in practice.

Resolving issues

You should work with your service providers to address any areas of concern that you identify. If you're concerned about their performance, in most cases this can be resolved by requesting an improved level of service, and using any complaints or mediation processes detailed in your contracts.

If you're unable to resolve the concerns, you'll need to take account of issues such as risk, practical difficulties, and costs to members before making a decision to end a contract. You should be aware that cancelling particular contracts can take time, and have significant implications for resources and costs.

Useful links

Code of Practice on DC schemes: www.tpr.gov.uk/code13 and administration guide: www.tpr.gov.uk/admin

Code of Practice on Internal Controls: www.tpr.gov.uk/code9 and guidance: www.tpr.gov.uk/controls

21 Century Trusteeship: www.tpr.gov.uk/21c-trustee

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