Bandwagon

The BWCI Group Newsletter

BWCI

Quarter 1- 2020

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STOP PRESS

Guernsey Secondary Pensions Approved

BWCI gains ISO Certification

Diana Simon

We are pleased to announce our certification of the International Organisation of Standardization under the ISO 9001 and 27001 standards by the British Assessment Bureau. The standards recognise the business' attitude and approach to good quality and information security and demonstrate continuous improvement in these areas.

Diana Simon, BWCI's Managing Partner said:

"Gaining this certification at the end of 2019 was a fantastic conclusion to our 40th anniversary year and we are looking forward to another successful year in 2020.

This ISO accreditation provides confidence and reassurance to new and existing clients and I would like to thank the whole team at BWCI for their professionalism and dedication which made the stage 2 audit to achieve certification relatively painless!"

Our new actuary

Luke Richards

We are delighted to announce that Luke Richards, an assistant manager in our investment team, has passed all of the exams required to qualify as an actuary.

Luke joined BWCI in 2014 after completing a post graduate diploma in actuarial science from the University of Southampton. He also has a degree in mathematics from the University of Portsmouth.

As well as working in BWCI's investment team, Luke has also spent some time working as a member of our pensions actuarial team.

Luke said:

"Studying for the actuarial exams has given me the skill set required to develop further within my role at BWCI."

BWCI's study coordinator Matt Stanbury, said:

"The actuarial exams are particularly challenging as they cover a wide range of skills and we congratulate Luke on his achievements."

BWCI's 2020 Bursary Launched

Our 2019 Bursary students William Ogier (left) and Jean Luc Parker.

We are delighted to announce the launch of BWCI's 2020 student bursary scheme.

We are inviting applications from Guernsey resident students with local residential qualifications who have, or who are expected to achieve at least two A grades at A level, one of which must be in maths.

Since its launch back in 2007, our bursary has supported 14 local university students in several ways. As well as providing financial assistance, our bursary students participate in a structured training programme during their summer vacations, working for BWCI's different departments for the duration of their course.

The closing dates for entries is 13 March 2020. For further details and an application form, please go to BWCI's website:

https://www.bwcigroup.com/Careers/Bursary

or contact BWCI's HR Administrator Shauna McLaughlin (smclaughlin@bwcigroup.com)

Closing Date
13 March 2020

Are your rules in order?

"It is risky to rely on the corporate memory"

Carl Hansen
chansen@bwcigroup.com

Pensions can be complex arrangements that play out over a long period of time. Some pension schemes currently in existence can trace their roots back well over 100 years, and even schemes that are now closed to new members may be paying out benefits for the next 50 or more years. Good governance of pension schemes, and indeed other types of long term employee benefit arrangements, should help trustees to manage schemes effectively and minimise future problems.

For a solid governance foundation, all employee benefit arrangements - whether formal or informal - should have written documentation spelling out what the benefits will be, to whom they will be paid and the conditions for payment. In most cases, this is a legal requirement. However, difficulties can arise over the years as the documentation can become fragmented after a series of relatively minor changes are made.

Changes should normally be implemented by a deed of amendment signed by the trustees and the sponsoring employer, but sometimes alterations will be made by trustee resolution; some of these are easily overlooked with the passage of time. It is risky to rely on the corporate memory as even long serving staff will change over extended periods and recollectons will fade. New staff may have difficulty tracking down all of the changes made to documentation over the years – it is easy to miss something.

Best practice suggests that trustees of employee benefit schemes should review scheme documentation periodically for updates and then consolidate all changes into one new document. This should certainly happen where there are significant changes to the sponsoring employer, the benefit structure or to regulations. Creating a new consolidation, roughly once every 5 years, could be a good guide for schemes where there is significant activity.

As external advisers to a wide variety of employee benefit schemes, we see examples of scheme documentation where there seem to be some missing deeds, both for small and more significant changes. Sometimes there are several drafts of a proposed deed, but it is far from clear if the changes were ever executed. Trying to recreate the trail of updates can lead to problems, as well as unnecessary questions to the employer or previous administrators. It can also add complexity when providing information to members.

There are a variety of issues that either individually, or collectively, could warrant changes to scheme documentation:

- Guernsey introduced pensions regulation with full affect from September 2018. Some aspects of the new regulations could be incorporated into scheme rules. Jersey is also considering introducing pensions regulation. Documentation may also need updating to reflect new regulations in other jurisdictions.

- Best practice for various aspects of governance evolves over time. Scheme documentation should reflect the current thinking.

- In some cases, scheme rules may need updating to eliminate employers or jurisdictions that are no longer covered. Other redundant provisions could also be removed to improve clarity.

- Many jurisdictions have introduced rules against discrimination on the basis of characteristics such as age or gender. Scheme rules should fully reflect employer policies and any applicable local laws.

- Some schemes may be able to gain Qualifying Recognised Overseas Pension Scheme (QROPS) status from HMRC if certain provisions are included in the rules. This will enable tax efficient transfers from registered pension schemes in the UK.

So is it time to clean up your scheme documentation? A high level review of the existing material serves as a good starting point to identify if your scheme could benefit from a consolidation. Please contact your usual consultant for more information.

Guernsey Secondary Pensions Update

"Employers will have a choice of options"
Michelle Galpin
mgalpin@bwcigroup.com

On 27 December 2019 the Committee for Employment & Social Security published more details of their proposals to introduce "Secondary Pensions" in Guernsey. The policy letter was subsequently debated and agreed by the States on 5 February 2020. This significant milestone follows on from outline proposals which were approved, in principle, by the States in February 2016. While there have been some minor refinements to the initial proposals, there are no fundamental changes.

In a nutshell - What's happening?

All Guernsey employers will need to automatically enrol "eligible employees" into a "qualifying pension scheme". This could be either the employer's own scheme or the new default States' scheme "Your Island Pension". Employers will be required to contribute, unless an employee has chosen to opt out. The long-term joint employer/employee contribution rate will be 10% of earnings, with a minimum rate of 3.5% of earnings from the employer.

How much will it cost?

Contributions will be based on the same earnings as those on which Social Security contributions are paid, ie salary plus overtime and bonuses etc, up to the Upper Earnings Limit (£149,760 in 2020). However, the full rate contributions will be phased in, over 7 years, as illustrated in the graph below.

Initially the minimum joint employer/employee contribution rate will be 2% of earnings, rising to 10% after 7 years. Employers can opt to pay more than the minimum rate (with employees paying less), provided that the joint employer/employee rate is not less than the minimum required in any particular year.

In current terms, the ultimate maximum employer contribution for an individual earning in excess of the Upper Earnings Limit would be £5,242pa; the maximum employee contribution would be £9,734pa.

When will it happen?

Employers' new auto-enrolment duties will be phased in over a 15 month period, expected to start in January 2022; employers will be divided into five size categories, with only the largest employers being required to comply initially. Further details are provided in the table.

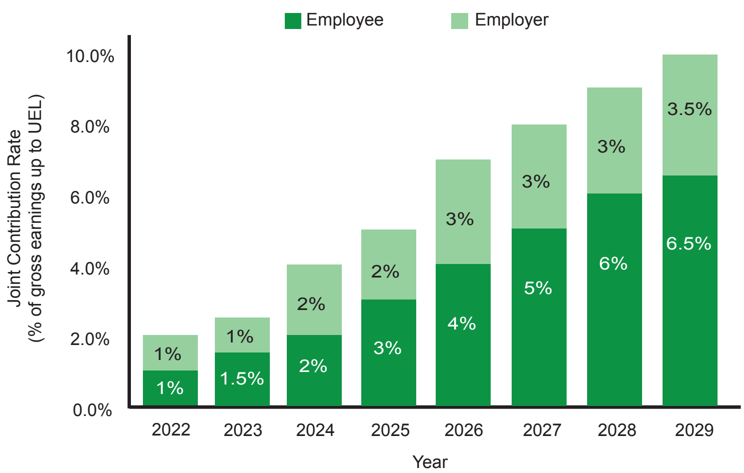
Employer Timetable	
Auto enrolment date	Number of employees on 1 January 2022
1 January 2022	26+
1 April 2022	11 - 25
1 July 2022	6 - 10
1 January 2023	2 - 5
1 April 2023	1

Exemptions and flexibility

There is expected to be some flexibility to reduce the administrative burden on employers. This includes:

- The option to defer auto enrolment of an eligible employee for up to 3 months
- Those in full time education will be exempted
- It will be possible to auto enrol/re-enrol employees in "batches", at least quarterly.

Phased Employer and Employee Contributions



Your Island Pension

The States will make available a default scheme "Your Island Pension" or "YIP" which will be administered by UK company, Smart Pensions Limited. YIP will be obliged to accept any employer wishing to use it for auto enrolment, as well as any voluntary contributions from individuals. The YIP fees will be based on an asset management charge (AMC), which is expected to be between 0.85% and 0.95%pa for funds invested in the default investment option. Part of this charge will cover the cost of YIP's governance structure, which will include an independent trustee board.

Employers' considerations

The most suitable pension arrangement for a particular employer to select to fulfil their new auto-enrolment obligations will depend on various factors, such as their existing remuneration package, the size and nature of their workforce and staff turnover. Employers will have a choice of options:

- Use their existing pension arrangements, (with minor modifications if required);
- Establish their own separate qualifying pension scheme;
- Use a qualifying pension scheme provided by a local third party provider; or
- Use Your Island Pension.

Eligible employees - who's included?

The starting point is that every employee paying Social Security contributions will be included. This means that all employees resident in Guernsey[1] aged between 16 and State Pension Age[2], earning more than the Lower Earnings Limit (£7,488 pa in 2020) would need to be automatically enrolled, unless they are covered by one of the exemptions.

Qualifying schemes - what do we know?

Based on the information available in the policy letter, at this stage, the requirements for a scheme to be qualifying appear to be:

- Approved by the Revenue Service under section 150 or 157A of the Income Tax (Guernsey) Law, 1975
- Rules must enable auto enrolment
- Established in either Guernsey, Jersey, the Isle of Man or the UK
- Regulated by the appropriate financial services regulator
- For Defined Contribution arrangements, the employer must contribute and the minimum contribution requirements must be met
- RATS[3] must be employer-facilitated
- For a Defined Benefit scheme, it must be continuing to accrue benefits and be independently certified by an actuary as providing at least an equivalent level of benefits.

Changes from the original 2016 proposals

- Launch date delayed two years until 1 January 2022
- Re-enrolment every three years , rather than two
- Phased introduction by size of employer
- Some exemptions for students and potentially others
- Self-employed and non-employed no longer within scope initially
- Contributions will not be collected through the Social Security system.

[1] and potentially Alderney if the Alderney States agree
[2] which is increasing from 65 to 70 between 2020 and 2049
[3] Retirement Annuity Trust Scheme

Timeline

January 2016
Initial proposals published

February 2016
States agreed high level proposals in principle

January 2018
Scheme projections and economic impact assessment published

December 2019
More detailed proposals published

February 2020
States agree proposals

January 2022
Launch of automatic enrolment and Secondary Pensions expected

April 2023
All employers compliant

2029
Phasing in employer and employee contribution rates complete

Investing in a world of Climate Change

"climate-aware investment strategies and policies are expected to evolve"

Carl Stanford
cstanford@bwcigroup.com

Climate Change Effects

- Coastal flooding from rising sea levels
- More frequent heat waves and droughts causing wildfires
- More frequent and extreme rainfall causing flooding
- Reduced agricultural yields leading to food shortages
- Loss of biodiversity
- Increased acidification of oceans
- Mass migration
- Increased conflict
- Increased spread of pathogens

With increased reporting of extreme weather events and calls from regulators[1] to consider the materiality of climate-related risks and manage them, we look at the implications for long-term investors, such as pension schemes.

The effects of global warming are already evident in recently observed statistics:

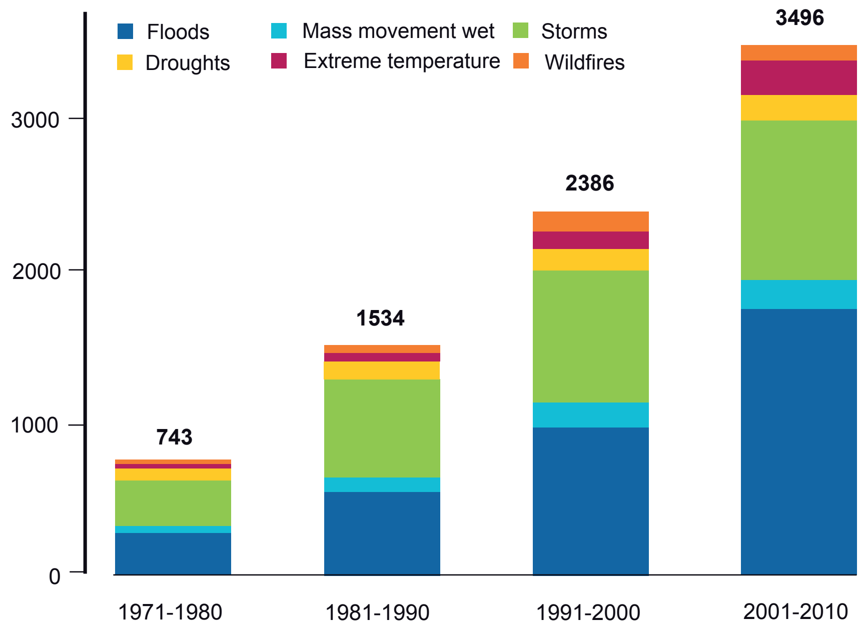
- 20 of the warmest years on record have occurred in the last 22 years
- The Arctic ice loss tripled in the period 1992 to 2017
- Extreme weather events have become more frequent and intense

Government inaction

Governments around the world signed the Paris Agreement with the collective goal to limit the increase in the global mean temperature to well below 2°C above pre industrial levels, they also agreed to pursue efforts to limit the temperature increase to 1.5°C. To achieve this net CO_2 emissions would need to be close to zero by 2070, with negative net emissions thereafter.

Climate Action Tracker tracks governments' progress against the Paris Agreement target. This shows that, even if current climate change policies were fully implemented, it is estimated that there would still be a 3°C increase above pre-industrial temperatures by 2100.

Number of reported disasters per decade - 1971 to 2010



Source: World Meteorological Association

Financial implications

Financial markets have tended to underestimate uncertain and apparently distant risks; it is estimated that the value of global financial assets at risk from climate change is anywhere between \$4.2tr to \$43tr, depending on the degree of warming.

The scale of financial risk was illustrated recently by Pacific Gas and Electric, one of the largest US investor-owned utility companies that was bankrupted due to the climate change. It filed for bankruptcy in January 2019 with \$40bn of investors' assets at risk following liability claims that its power lines had started wildfires following a decade-long drought in California.

[1] On 2 July 2019 the Bank of England Prudential Regulatory Authority, Financial Conduct Authority, Financial Reporting Council and the Pensions Regulator issued a joint statement on climate change.

What does all this mean for pension schemes?

Regulation
Trustees have a fiduciary duty to act in the best interest of beneficiaries and take into account factors affecting long-term investment performance. In addition, trustees of UK pension schemes are now required by law to set out their policies on Financially Material Considerations relating to investment, including but not limited to climate change and other ESG[2] factors. They also need to report on the implementation of these in an Implementation Statement. As regulators' policies develop and more investors take action, those who do not take appropriate steps may be susceptible to legal challenges in the future. The Asset Owners Disclosure Project already scores and ranks investors, including the top 100 largest pension schemes, based on their success in managing the financial risks of climate change.

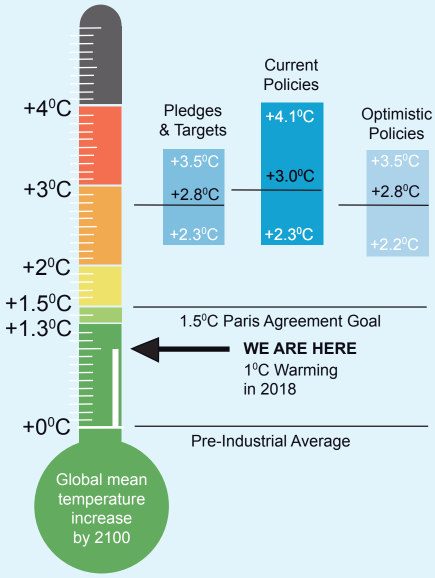
Investing for Climate Change
Even in scenarios where governments succeed through international regulation on carbon emissions etc to avoid the worst effects of climate change, the adjustments required to decarbonise the economy will almost certainly result in both significant investment risks and opportunities. As pension schemes invest globally and over long-term horizons, it is important that they build in resilience to climate change into their investment policies. So far, the general reaction from institutional investors has been to mitigate risk through reduced allocation, or screening out of climate-exposed companies; increased investment in low carbon and renewables and increasing engagement with companies to influence decision makers.

The complexity of climate change issues and the variety of ways in which a climate change investment strategy can be implemented, may make this seem daunting. However, it should be recognised that this is an area of rapid development and climate-aware investment strategies and policies are expected to evolve. In response to growing awareness of climate change, index providers and asset managers have been developing a range of climate-aware solutions.
These include low carbon indices focusing on those companies that apply positive screening of climate factors, together with more active policies on stewardship, with clearer criteria for active engagement on climate issues.

Defined Contribution (DC) schemes
Trustees should review the scheme's investment options, including any lifestyle strategies and the default option. They may also wish to obtain the views of members, since it is the members who take on the investment risk. Do members feel that they have sufficient options to enable them to mitigate the effects of climate change? This is particularly important for the default option , which is where the majority of the members are likely to be invested. Trustees are responsible for reviewing the default strategy regularly to ensure it remains appropriate. Failure to reflect climate-related risks adequately in the investment options could result in future liability claims from members.

While DC investment is typically via pooled funds, it is possible to incorporate climate aware investment strategies on either an active or passive basis, provided the benchmark index adopted includes climate-related considerations. Where this is not the case, potential climate change actions would be limited to engagement, reviewing and replacing funds.

Defined Benefit (DB) schemes
Trustees should work with their investment consultant, in conjunction with their investment manager(s) to determine the scheme's current exposure and processes for managing climate change risk. Stress testing can illustrate the portfolio's current resilience to various climate risks including physical and transitional risks. Scenario modelling can also help understand the projected impact of different climate change outcomes, and the mitigating impact of changes to investment strategies. Once a strategy has been agreed, the investment mandate can be amended to reflect the trustees' climate change policies and revised investment strategy.



Source: Climate Action Tracker

So what can trustees do?

Initial steps trustees can take to facilitate the adoption of a climate-aware investment strategy, include:

1. Trustee Training - Ensure all trustees have sufficient knowledge and understanding of climate change and its investment implications.
2. Understand the scheme's current practice of managing climate change risk and the residual exposure to climate change – your investment consultant, in conjunction with your investment manager, can assist in this area.
3. Develop investment policies relating to climate change and record these in the scheme's Statement of Investment Principles.
4. Include climate change risk in the scheme's risk register.
5. Work with your investment advisor and investment manager(s) to develop a climate-aware investment strategy that meets the trustees' investment policies.
6. Review the implementation of these policies annually and refine them as required.

[2] Environmental, Social and Governance

BWCI Foundation update

Tower No 5 at L'Ancresse Bay which was the finish for the 2019 GAA Annual Tower to Tower walk

Every year BWCI staff vote for a main charity for the BWCI Foundation to support for the following two years. The Guernsey branch of the Samaritans topped our staff poll for 2020; we will also continue to work with the Guernsey Alzheimer's' Association (GAA), to provide practical support with their fund raising events, as well as financial support.

In addition to our two main charities each year, we also help a range of other charities through our monthly dress down days, where the funds raised are matched by the BWCI Foundation. In 2019, the funds raised for charitable causes was £8,000.

Shakespeare returns for 2020

Last year BWCI had the opportunity to support the Shakespeare's Globe Touring Company's first ever visit to Guernsey as part of our 40th anniversary celebrations. We are delighted that they have agreed to return again this year with three new plays from 15 to 18 July. BWCI will again be a headline sponsor for these events. This year's performances will include some of Shakespeare's best well known plays:

- A Midsummer Night's Dream
- As you Like it
- The Tempest

Following the same popular format as last year, a different play will be performed on each of the first three nights, with the play on the fourth night chosen by the audience on the night.

The first three nights' performances will be in the conventional format with the audience seated. However the final performance will see the audience standing, just as it would have been in Shakespeare's time, complete with a bar in the main hall at St James.

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