

### **Examiners Report: Professionalism & Governance, April 2022**

As the final exam in the PMI Advanced Diploma, and the future route to Fellowship for other pathways, Professionalism & Governance has high expectations of learners. It is assessing the higher level skills required as people progress in seniority through their careers, when they need more than just technical pensions knowledge. This is tested through case studies and scenarios, which can be based on the Governance and Professionalism Manuals, the PMI Code of Conduct (the Code) and also highly topical subjects. The Communications Manual supports learners' understanding of how to frame the format of their answer.

In line with PMI's drive to support improvement of professionalism in the industry through its qualifications, an important communication was sent to learners in January 2022. This highlighted how revision for Professionalism and Governance needs to be broader than simply learning material verbatim from the study manuals. However, the information in all the manuals is still relevant and needs to be understood.

To help in preparation for the exam, learners were told they would also need to learn about and understand:

- Liability management, including TPR's code of practice on incentive exercises
- The impact of pension scams on people

PMI directed learners to additional material which could support their revision by including links to relevant information. Learners were given the opportunity to raise any questions at the time. Despite this support, many learners still struggled with both the technical and communication aspects of the exam. This was very disappointing. The future of the exam will be to expect learners to have a sound understanding of highly topical issues in the sector. Therefore without additional reading and an inquisitive mind, learners are likely to struggle with this exam.

It is unfortunate learners do not appear to be reviewing their answers for technical accuracy, readability, spelling or grammar. There is no automatic correction capability within the Calibrand online exam portal and mistakes distract from the clarity of answers. Learners need to remember to incorporate sufficient time to fully read through their answers before submitting them. Good exam time management and adequate planning is key to this.

The Code is the core behavioural guide for all PMI members and a copy is included in the Professionalism Manual. This Manual gives examples of situations where learners would need to draw on the Code to know how to act. However, they still need to know and understand technical aspects to answer any question fully. When learners are asked questions on the Code they are designated a role and need to develop their answer from this perspective e.g. Team Leader, or Manager. The role gives learners clues as to how they are expected to approach an issue i.e. a manager will be expected to take ownership of a problem, solving any immediate impact and looking to the long term. It would not be appropriate for a manager to avoid responsibility by passing it over to another department.

The exam paper shows how many marks are allocated to each question, and the sections within the questions. This also provides a clue to the learner as to the depth of their answer. The questions can also be answered in any order.

**Question One** is a long case study where learners are asked to apply technical information to a given situation, and in a specific format. Learners are assigned a **role** and an **objective**. Their answer must be appropriate both to their assigned **role** e.g. Pension Manager, consultant etc and their **objective**, e.g. to train, to inform etc through the specified format. Question one carries 60 of the total marks available, 48 for demonstrating technical knowledge and 12 for fulfilling the role and objective through communication. There are always more than 48 technical marks available to allow for learners' interpretation of the question. Question One was:

**You are the Pension Manager for a company with a defined benefit scheme which is closed to future accrual and has 5,000 members, 2,600 of which are pensioners and dependents. The scheme has two sections, but no special benefits or discretionary benefits are awarded. After the 2020 valuation funding has improved and the scheme is on target to meet its objective of self-sufficiency within the next five years.**

**The Finance Director wants to explore options for reducing liability risk in the scheme and has asked you to prepare a presentation for the next Board meeting. Your presentation should include:**

- a) A brief explanation of what a liability exercise achieves (3 marks)**
- b) Analysis of the different types of liability management exercises, with their risks and benefits (26 marks)**
- c) Assessment of the considerations for both the employer and trustees (15 marks)**
- d) Recommendations for next steps (4 marks)**

**(you are not expected to prepare the presentation slides)**

(48 technical marks, 12 format/communication marks. Total 60 marks)

It was clear from the marking allocation where learners were expected to spend the majority of their time. Unfortunately, despite being given advance notice of the subject matter, few learners demonstrated a broad enough understanding of liability management exercises.

Many learners referred to liability risk without discussing the underlying risk factors which affect a scheme's liabilities such as inflation, interest rates and longevity etc. They also did not pick up how de-risking is often used as a step towards buy-out. Many learners did not think about the effect of some of the exercises on assets or data. Data and data cleansing is important in any such liability risk exercises to ensure correct benefits are paid out.

Few learners talked about which party generally pays the costs for these exercises, or how costs impact on them. Given this presentation was requested by the Finance Director for the Board, this would have been relevant. Some learners also went into granular technical detail, which would not



have been relevant to the audience – unless it was in relation to how it impacted on different cost bases. There were some learners who included investment de-risking approaches, which were not relevant to the question

Despite being asked to provide the answer in a presentation format learners were not required to draft the slides, but they were expected to draft the notes which would ordinarily accompany these. Few learners introduced themselves, referenced an agenda or timings, talked about expected outcomes for the session, or suggested next steps. By forgetting the **role** and **objective** set for this question and writing a technical essay in large paragraphs instead, some learners missed out on crucial communication marks. Few most learners went beyond a brief recommendation for next steps, which meant that many missed out on crucial marks.

**The remaining 40 marks for the exam were gained from three short questions. Where questions are taken from the syllabus, they can be broader than the Governance Manual. These and topical issues cover aspects of the industry anyone working in pensions would be expected to know something about – regardless of their seniority. The marks available for these types of questions are purely technical. When answering a Code related question, learners need to be familiar with the Code and its structure so they can recall which area(s) a particular scenario relates to. The number of marks available for are given for every question. A mark is generally (but not always) given for the section reference of the Code and the clause. Learners need to think about what behaviour they should exhibit in each circumstance and what would need to be done to resolve the issue at hand. They need to take responsibility for the scenario they are presented with. To ensure they do not become side tracked, learners should read the questions carefully. The short questions were:**

#### **Question 2**

**You are the Pensions Manager at financial service provider with a large DB scheme with a small in-house pensions team. A close friend who is an ex-colleague has approached you because she is frustrated her transfer request is not being dealt with smoothly. When you look into the issue, your team have told your friend the transfer cannot proceed without her receiving registered financial advice. You know your friend is a financial adviser and it seems she is telling your team she does not need to go through this process as she can fulfil the requirement herself.**

- a) What are the relevant section(s) of the Code that could apply (4 marks)**
  - b) Assess what your next steps should be (9 marks)**
- (13 total marks)**

The relevant sections of the Code were:

- 1b – acting in compliance with all relevant statutory, regulatory and other legal requirements
- 1e – conducting their professional work with proper regard to their technical and professional standards
- 4e – take all reasonable steps to obtain all the relevant information necessary to form a judgement
- 4c – behave in a manner consistent with the obligations to act impartially



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Some learners were able to grasp both the technical aspects of transfers and the potential for conflict of interest. However, the majority did not pick up that although the Pension Manager is not personally dealing with the transfer, they are investigating the facts and as such there is a potential for conflicts of interest. This would require other oversight and input to mitigate this. Most learners picked up that this is a highly unusual situation, but not necessarily how any additional costs would be agreed and attributed, or how disclosure timescales still apply. Some learners referenced the 2021 transfer regulations appropriately and they were rewarded for doing so.

### **Question 3**

**You are Client Relationship Manager at an Employee Benefit Consultancy whose largest client receives all services. The client is a sectionalised scheme with both DC & DB benefits. In preparing the quarterly administration report for the client, you find a number of errors, delays and breaches of disclosure deadlines affecting all sections of the scheme.**

- e) What are the relevant section(s) of the Code that could apply (3 marks)**
  - f) Comment on your next steps? (10 marks)**
- (13 total marks)**



The relevant sections of the Code were:

- 1b – acting in compliance with all relevant statutory, regulatory and other legal requirements
- 1e – conducting their professional work with proper regard to their technical and professional standards

Some learners gained very good marks for this question. They clearly understood they were approaching the question from a CRM perspective, rather than a pure administration perspective. This meant they were expected to resolve the issue by understanding the extent of the issues, how/why they had occurred and what is currently being done to resolve them. CRM's have a commercial role as well as a client management role. This means the CRM would be expected to understand if there had been any contractual breaches which would require remedy. It would be usual for the CRM to be responsible for communicating to the trustees, both as an interim and with a full report. Some learners passed on responsibility for the client communication and others did not address the commercial implications of the problem.

#### **Question 4**

**You are a communication specialist at a large Employee Benefit Consultancy. Clients have been asking for guidance on what their members can and should do to protect themselves from pension scams.**

**Set out a short communication raising awareness of scams and what members can do to protect themselves, which clients can insert into a newsletter. (Total 13 marks)**

While most learners were able to identify the tactics scammers use some showed less awareness of what people can do to stay safe and where to get impartial advice. However only a few learners picked up on the fact they were asked for a communication and missed these marks.

This is a highly topical issue which has been covered extensively in the pensions and national press. It is an issue of concern for regulators and government. Learners were also given prior warning this topic would be part of the exam. They were therefore expected to have gained a thorough knowledge of the issue. There were some fair answers, but few learners scored highly.