

28 September 2017

Mr Peter Swan
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Markets and Mergers Group
Competition and Markets Authority
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MAILING ADDRESS

Aon plc
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Dear Mr Swan

**Investment Consultancy Services and Fiduciary Management Services
Market Investigation**

Aon Hewitt Limited and Aon Hewitt Risk Management Services Limited (together **Aon**) looks forward to working closely with the Competition and Markets Authority (**CMA**) during the course of its market investigation (**MI**) into UK investment consultancy services (**IC Services**) and fiduciary management services (**FM Services**).

Aon will offer every assistance to the CMA in helping it to understand these services, how they relate to the asset management sector and how competition functions within the sector.

We recognise the significant importance of these services to the UK economy as well as to the interests of pension funds, investors and individuals.

We have been open and transparent in our views that certain industry practices can be developed and improved to assist pension trustees to increase the security of pension scheme members' benefits. Nevertheless, we recognise there is work to do.

That said, we consider that the sector for IC Services and FM Services is competitive.

As a result, there are certain key issues we invite the CMA to take into account during the MI:

- Our services have evolved to give clients greater choice in how to benefit from our expertise.
- We face competition from a wide range of providers for all aspects of our services, not just a select few.
- Barriers to entry are low and competitors can and do readily enter the market (as the FCA has acknowledged).
- Whilst there is transparency of service levels, performance and fees, this can be enhanced.
- Most pension trustees we work with possess the requisite experience and are well-placed to evaluate investment consultants.

- We recognise and manage the potential conflicts of interest that are inherent in the services that we offer to our clients. Any additional measures to manage potential conflicts of interest should be proportionate and apply equally across the market that we operate in.

We briefly expand on these issues in the accompanying submission to this letter.

We appreciate that the CMA has now published its Statement of Issues. Aon intends to respond comprehensively to that. We are also working on responding to the information requests provided with the CMA's 'first day' letter. However, ahead of submitting these documents, we hope that the short accompanying submission proves useful to the CMA in orientating itself on the key issues for Aon in the MI.

We look forward to engaging substantively on each of these issues with both the Inquiry Group and the case team.

Yours sincerely



Tim Giles
Head of UK Investment Consulting
Aon Hewitt Limited



**INVESTMENT CONSULTANCY SERVICES AND FUDUCIARY MANAGEMENT SERVICES MARKET
INVESTIGATION**

AON INITIAL SUBMISSION

1. THE EVOLUTION OF OUR SERVICES GIVE CLIENTS CHOICE

- 1.1 Aon has its clients at the heart of everything it does and has shaped its services to best suit its clients' preferences.
- 1.2 Historically, the pension scheme landscape was very different. The investment strategy of pension schemes was simple – usually a balanced portfolio of growth assets often with a single manager. Over time, schemes began to use increasingly sophisticated techniques to optimise returns and manage financial risks inherent in liabilities. The consequence of this was trustees having to take more decisions concerning, for example, the range of assets and appointment of managers.
- 1.3 This meant that some clients engaged investment consultants like Aon and asked them not only to educate and advise, but also to explore how clients could delegate and make decisions more efficiently. Clients were not seeking to relinquish their responsibilities for scheme governance or setting investment objectives, but instead sought a greater degree of flexibility as to how they benefit from our expertise.
- 1.4 Our data shows that Aon's FM Services offer clients significant benefits of scale in terms of market research and experience, effective decision making, asset pooling, reduced underlying management fees and oversight of the asset managers chosen. This can be particularly beneficial to smaller schemes with limited resources who have fewer assets to drive down asset manager fees. We will also show as part of the MI process that Aon's FM Services' clients benefit significantly when comparing the return on assets invested against the clients' specific benchmarks.

2. THE PROVISION OF IC SERVICES AND FM SERVICES IS COMPETITIVE

- 2.1 Our experience of the IC Services and FM Services sector is that it is competitive. We consider it misleading to describe the market under investigation as comprising of a "big three"¹ with a tail of smaller competitors:
 - 2.1.1 First, there are a number of investment consultants, including Hymans Robertson, LCP and Redington, comparable in size to Aon.
 - 2.1.2 Second, there is a much wider range of competitors. Competition for these services also comes from asset managers, as well as the large accountancy firms who are able to leverage their scale and experience.
 - 2.1.3 Third, we will show during the MI the competition we also face from smaller investment consultants, who are able easily to expand.
 - 2.1.4 Fourth, there is a high degree of competition among Aon, Mercer and Willis Towers Watson, in addition to the other effective companies operating in the market.
- 2.2 As such, we urge the CMA to consider in the broadest terms the behaviour of all providers of IC Services and FM Services.

¹ We note that the FCA, in rejecting the UILs, has implicitly confirmed this position when it stated that one of the grounds for rejection was because the signatories made up only 56% of the market.



3. BARRIERS TO ENTRY ARE LOW

- 3.1 The FCA has accepted that it is “relatively easy” to enter the market for providing IC services.
- 3.2 Investment consultants face the same challenges when expanding as in any other market (i.e., the need for a good reputation, importance of quality of staff). However, these challenges can be overcome by a quality firm with a successful track record deploying effective marketing.
- 3.3 In addition, the trend of pension schemes seeking pensions advice from multiple providers also creates a platform for smaller firms to establish and prove themselves to trustees.

4. TRANSPARENCY OF SERVICE LEVELS, PERFORMANCE AND FEES

- 4.1 Our advice brings substantial value to our clients, and in turn, pension scheme members. The strength of the competitive environment means that if we do not provide effective and valuable advice, we will lose clients. As such, we strive at all times to provide a high-quality service, and we have to be transparent about disclosing our performance.
- 4.2 We recognise that improvements can be made in the sector by encouraging greater consistency in the disclosure of performance. Reporting consistent metrics is critical to a well-functioning market. It is essential to facilitating customer choice and maintaining high standards of delivery. Our UIL package, submitted in conjunction with Willis Towers Watson and Mercer, was designed to address these issues.
- 4.3 We are committed to engaging with the CMA to explore measures to improve transparency and standards in the sector. We look forward to addressing with the CMA the proposals in the UIL package, and explaining the measures which we are already taking in this regard.

5. PENSION TRUSTEES ARE WELL PLACED TO EVALUATE INVESTMENT CONSULTANTS

- 5.1 We encourage the CMA to talk to a broad spectrum of pension trustees to understand fully the trustee landscape.
- 5.2 In its reference decision, the FCA explains its concern that trustees have limited or variable experience, resulting in a high dependency on investment consultants. Further, the FCA considers that pension trustees are unable to assess the quality of advice provided by investment consultants and fiduciary managers.
- 5.3 Aon's dealings with its own clients suggest a different view:
 - 5.3.1 Aon's clients are well-placed to obtain information and act on it to identify the consultant and/or strategy that best meets their needs and the needs of the pension scheme. Aon provides regular, useful information to trustees, including on performance and fees. A number of resources are available to help trustees to make appropriate choices.
 - 5.3.2 Our research² shows that trustees are, in general, well-educated and financially literate, making them capable of assessing and acting on the information received.
 - 5.3.3 The Pensions Regulator (“tPR”) provides a substantial amount of guidance to trustees on their responsibilities in the investment space. We strongly recommend that the CMA engage with tPR to fully understand the role it plays.
 - 5.3.4 Recent changes to the trustee function have led to an increase in the appointment of professional trustees. This can lead to greater levels of skill and expertise being

² Aon has undertaken detailed research in conjunction with the Leeds University Business School which evidences this. We shall present this data to the CMA during the course of the MI.

applied across the whole range of trustee functions, including investment decisions. It is common for those carrying out professional trustee services to have a professional background which is highly complementary to occupational pension schemes – usually investment, actuarial or legal.

- 5.3.5 Pension schemes and their trustees do not sit in a vacuum. Our experience is that sponsoring employers are important stakeholders and take significant interest in scheme governance, trustee performance and the investment strategy of their schemes.
- 5.4 To the extent that there are trustees who may face difficulties in assessing the performance of their investment consultants, in our experience these tend to represent smaller pension schemes. This is an important area for the CMA to address.

6. MEASURES TO MANAGE POTENTIAL CONFLICTS OF INTEREST MUST BE PROPORTIONATE

- 6.1 Aon however, recognises the concern that, perceived or potential conflicts of interest can arise in the provision of IC and FM services, as conflicts can arise for firms in the asset management sector and in all professional services organisations. Aon is very mindful of these and we look forward to explaining to the CMA how we manage our potential conflicts.
- 6.2 The most basic potential conflict is linked to the fact that revenue can be increased by extending services to existing clients. All professional services firms, no matter the industry, suffer from the same conflict of interest.
- 6.3 We are aware of arguments being made that Aon suffers from something more fundamental than this potential revenue conflict because we provide both IC Services and FM Services. Our view is that these arguments are disingenuous and those that make these assertions are self-serving as they have their own business models challenged by FM services.
- 6.4 Firms *without* a fiduciary offering might have an incentive to discourage clients from seeking FM services as that would reduce demand for their advisory services. Furthermore, clear conflicts can arise for firms that provide both investment consulting services and proprietary securities-level investing (i.e., asset management), in respect of the choice of investment funds recommended. Aon does not operate under this model and does not undertake securities-level investments. No matter how our clients work with us, their investments ultimately reside with third-party asset managers who operate independently of Aon. However, many asset managers will provide “advice” such as asset liability modelling or “health checks” to encourage and increase investment in their funds – even if these services are not explicitly charged for.³
- 6.5 There are also significant benefits that flow from firms offering both services, including the sharing of common costs and best practice, and enabling better access to high quality research.
- 6.6 For these reasons, any structural remedies to address structural links (between IC Services and FM Services) would be unnecessary, and disproportionate. As the market investigation continues, we shall engage constructively with the CMA to provide further explanation and evidence in this regard.

Aon Hewitt Limited/ Aon Hewitt Risk Management Services Limited

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³ Indeed, for this reason and as set out above, it is imperative that the CMA retains a broad view of the competitive marketplace for investment consulting.

