THE SOCIETY OF PENSION PROFESSIONALS
leading pension thinking

Peter Swan
The Competition and Markets Authority
Victoria House
Southampton Row
London WC1B 4AD

Our Ref: JM/JB/4.16 October 12th 2017

Dear Mr. Swan,

INVESTMENT CONSULTANCY SERVICES AND FIDUCIARY MANAGEMENT SERVICES MARKET INVESTIGATION

Thank you for your letter of September 22nd 2017, enclosing the Issues Statement relating to the above investigation.

You have invited us to provide a written statement, together with supporting evidence, on the points raised in the Issues Statement.

We are sure that you will be contacting the relevant Members of this Society – investment consultants, fiduciary managers and asset managers - directly, and will receive detailed responses from them with the requisite supporting evidence.

We have, therefore, decided that we can be of greatest assistance by letting you have some broader observations on the Issues Statement.

We have focussed our discussion on the three hypotheses set out on page 16 of the Issues Statement.

Difficulties in customers' ability to effectively assess, compare and switch investment consultants result in weak incentives for investment consultants to compete for customers

In our experience, where the customer is a large workplace pension scheme, with rigorous governance structures and ready access to external advice, the advice provided by investment consultants is subject to review and challenge and, if appropriate, there is a switch of investment consultant.

There are firms, with a specific function of reviewing investment consultants, available to assist governance bodies.

In the current context, there is perhaps an information gap, in that the Pensions Regulator's Exchange information gathering mechanism does not include information on appointments as an investment consultant, because there is no statutory requirement to have such an appointment. If the information was available on Exchange, it would be possible over time to form an objective picture of how much turnover there is of investment consultancy appointments.

In our experience, there is no indication that, in the defined benefits scheme market investment consultants do not compete for customers. They have sales and marketing teams, with the aim of ensuring that they remain competitive. This is important because the steady decline of defined benefit provision means that over time the market for their services to defined benefit schemes is contracting.

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Smaller schemes are more likely to have combined service contracts, under which actuarial, administration and investment advice are bundled together, although recognised as segregated streams of advice. It can be more difficult to specifically address separately the provision of investment consultancy under such contracts.

It might be helpful generally for the Pensions Regulator to emphasise the importance of reviewing the terms of appointment of investment consultants, as well as those for administrators, scheme actuaries or fiduciary managers.

Conflicts of interest on the part of investment consultants reduce the quality and/or value for money of services provided to customers

Again, our expectation would be that, in the case of larger workplace pension schemes, any conflicts of interest are recognised and appropriately managed.

Governance bodies of these larger schemes will also be aware of the potential for conflicts of interest where other market participants, including asset managers, particularly perhaps those with strong implementation capabilities, provide investment consultancy and fiduciary management services, with the potential of influencing decisions to invest in the in-house funds of those same participants. In such situations the full or partial cost of the investment advice provided might be wrapped into asset management fees.

There are structures, under which these conflicts can be well managed or mitigated by these participants, and these can also potentially be applied to pension schemes of a smaller asset size.

Barriers to entry and expansion reduce competitive pressure on investment consultants, which leads to worse outcomes for customers

We have already noted that, with the decline of defined benefit pension provision, the investment consultancy market in this area is likely to contract in the long term and it might, therefore, not be attractive to enter from this point of view.

Nevertheless, we are aware that there have been new entrants to the market.

The regulatory and capital barriers to entry into the market are quite low and are effectively controlled by FCA.

We hope that these observations have been helpful and would be happy to expand on them or to explore any other areas, if you would find that helpful. Specifically, we would also be happy to discuss the detail of the potential remedies referred to from page 30 onwards of the Issues Statement.

We would very much welcome an opportunity to participate in the hearings/roundtables, which you plan to hold.

Yours sincerely

John Mortimer
Secretary