# The market for Investment Consultancy services and Fiduciary Management services: experiences and views of pension scheme trustees

CMA

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IFF Research

# Contents

# Abbreviations and Common Terms

## Common Abbreviations

| | |
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| CMA | Competition and Markets Authority |
| DB | Defined Benefit |
| DC | Defined Contribution |
| FCA | Financial Conduct Authority |
| FM | Fiduciary Management |
| IC | Investment Consultancy |
| MT | Master Trust |
| PSRN | Pension Scheme Registry Number |
| TPR | The Pensions Regulator |

## Common Terms

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| Actuary | A professional adviser able to conduct an actuarial valuation, and to advise on policy issues. DB schemes are required to have a named scheme actuary appointed by the trustees or managers of the occupational pension scheme. |
| Defined Benefit (DB) pension scheme | An occupational pension scheme in which the benefits are defined in the scheme rules and accrue independently of the contributions payable and investment returns. Most commonly, the benefits are related to members' earnings when leaving the scheme or retiring, and the length of pensionable service. Also known as 'final salary' or 'salary-related' scheme. |
| Defined Contribution (DC) pension scheme | An occupational pension scheme in which a member's benefits are determined by the value of the pension fund at retirement. The fund, in turn, is determined by the contributions paid into it in respect of that member, and any investment returns. Also known as 'money purchase' scheme. |
| Dual Section | A dual-section scheme has two sections, one offering Defined Contribution (DC) benefits, and the other offering Defined Benefit (DB) benefits. In other words, scheme members for each section are separate. |
| Fiduciary Management (FM) | The provision of a service to institutional investors where the provider makes and implements decisions for the investor based on the investor's investment strategy in the UK. This service may include responsibility for all or some of the investor's assets and may include, but is not limited to, responsibility for asset allocation and fund/manager selection. |
| Hybrid pension scheme | An occupational pension scheme which combines elements of Defined Benefit (DB) and Defined Contribution (DC) schemes. |
| Institutional Investors | Legal entities invested in funds or mandates, including pension schemes, charities, insurance companies, and endowment funds. |
| Investment Consultancy (IC) | The provision of advice in relation to strategic asset allocation, manager selection, fiduciary management and to employers in the UK. |
| Largest three providers | For the purposes of this research, Aon Hewitt, Mercer and Willis Towers Watson (WTW) are collectively referred to by the CMA as the 'three largest providers of IC and FM services' (later abbreviated to 'three largest providers'), based on 2016 revenues. |
| Master Trust (MT) | An occupational pension scheme established by declaration of trust which is, or has been, promoted to provide benefits to employees of employers which are not connected and where each employer group is not included in |

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| | a separate section with its own trustees. For this purpose, employers are connected if they are part of the same group of companies (including partially owned subsidiaries and joint ventures). |
| Mixed Benefit | A type of Hybrid pension scheme which offers one set of benefits which has elements of both Defined Benefit (DB) and Defined Contribution (DC) schemes, such as a DC scheme with an underpin on a DB basis. In other words, an individual scheme member may draw both types of benefits. |
| Pension Scheme Registry Number (PSRN) | All pension schemes registered with TPR are given an eight-digit Pension Scheme Reference Number for identification of the scheme to government, and for the recording of data regarding the scheme. |
| Scheme size | Defined for the purposes of this scheme as:<br>Small scheme – a pension scheme with 12 to 99 scheme members<br>Medium scheme – a pension scheme with 100 to 999 scheme members<br>Large scheme – a pension scheme with 1000 or more scheme member |
| Trustee | For the purposes of this research (although trustees exist in other contexts), a member of a pension scheme trustee board. |
| Trustee Board | For the purposes of this research, the governing body of a trust-based occupational pension scheme of any type. The trustee board has responsibility for the investment of the funds of the scheme and payment of benefits to members. |

# Executive Summary

## Background

On 14th September 2017, the Financial Conduct Authority (FCA) made a reference to the CMA for a market investigation into the supply and acquisition of investment consultancy (IC) services and fiduciary management (FM) services to and by institutional investors and employers in the UK. IC services and FM services are typically purchased by the trustee boards of occupational pension schemes, in order to assist them in administering the affairs of the pension scheme.

Investment Consultancy (IC) services in the context of this research means the provision of advisory services to institutional investors, including in relation to strategic asset allocation, manager selection, and fiduciary management. Fiduciary Management (FM) services are defined here as the provision of services, where the provider makes and implements decisions for the institutional investor based on their investment strategy. The central difference between these two services, which may be offered as products by the same organisation, is that an IC service is an advisory service, while an FM service involves both making and implementing decisions on behalf of the trustee board.

The CMA market investigations are required to be based on robust and impartial evidence. Early in the investigation, the CMA identified a need for further evidence regarding the opinions and experiences of the occupational pension scheme trustee boards which form the principal group of buyers for these services.

The CMA required research which explores:

- How trustees purchase advice, monitor and switch between IC providers;
- How the use of FM providers arises, and how those providers are monitored;
- Trustees' motivations for purchasing, monitoring and switching IC provider and FM provider;
- Trustees' attitudes toward providers of IC services and FM services, and the perceived extent of any problems and potential conflicts of interest there might be in the market.

This report outlines the findings of the resulting research, which centred on a large-scale telephone survey of trustees. Other outputs from the research included a dataset and data tables, to be used by the CMA for further analysis. A separate technical appendix has also been produced; this provides an in-depth view of the methodology used for the research, and provides copies of research materials.

## Methodology

**Sampling**

The sample scope, as discussed in Chapter 1 and the Technical Appendix (Section A), consisted of the trustee boards of UK occupational pension schemes with 12 or more scheme members, excluding those with no trustee board or managed in the public sector.

Data regarding all pension schemes in scope was supplied by The Pensions Regulator (TPR), the regulator of workplace pension schemes in the UK. TPR requires pension schemes to provide it with certain information regarding the scheme, its members and its trustees. TPR were able to supply details of all 7,102 pension schemes in scope for the research, although usable contact details were not available for 17% of schemes (see Technical Appendix, Section A).

Given the small number of pension schemes within the sampling frame, and the need to obtain a dataset of a size sufficient to allow analysis of the complexity required for the inquiry, a census approach was taken to sampling. All 5,905 pension schemes in scope with valid contact details included and given equal priority in sampling. To maximise the quantity and quality of responses from trustee boards, the data provided regarding pension schemes in scope was processed to locate the trustee contact most likely to be able to speak about investment matters on behalf of the trustee board (targeting in the first instance the chair of trustees), and to prioritise additional potential contacts should that initial contact prove to be unsuitable or unavailable.

Only trustees were spoken to for the research, and only if they were happy to represent their trustee board, as detailed in Chapter 1 and the Technical Appendix (Section A).

**Questionnaire Design**

The questionnaire was designed in a collaborative, iterative process by the CMA and IFF Research. The survey was consulted upon with relevant stakeholders, including TPR and parties to the investigation. The survey was designed to be as accessible as possible, given the subject matter, to pension trustees with a lower level of expertise, as well as those with a high level of professional knowledge of the subject. The survey had a number of questions about respondent and scheme characteristics, followed by ‘routed’ sections asked depending on the scheme’s use of IC services and FM services, and concluded with a short section on perceptions of potential conflicts of interest in the IC market and FM market.

The questionnaire included a complex screening process, designed to ensure that the most appropriate person was being spoken to. The screener also allowed referrals to be taken to relevant trustees for whom TPR did not hold names or contact details. It also contained measures to ensure that the trustee spoken to was able to speak on behalf of the board of trustees for that specific pension scheme, and had the knowledge of the scheme necessary to take part.

The survey was tested and refined through feedback from five cognitive depth interviews. These followed a standard format for a cognitive interview, consisting of the full draft questionnaire, followed by a series of questions designed to assess how the interviewee had experienced the survey, and explore any areas of possible misunderstanding. The questionnaire was further tested in pilot fieldwork; the final questionnaire is included in the Technical Appendix (Section F).

**Fieldwork**

The pilot and mainstage surveys were carried out using a Computer Aided Telephone Interviewing (CATI) approach, between 9th November 2017 and 5th January 2018. All interviewers were briefed on the detail of the CMA survey script, as well as the background context regarding the investigation; all had already received detailed and in-depth training in telephone interviewing at IFF Research.

Fieldwork was monitored by IFF field staff and the project team throughout, and weekly progress reports provided. As a result, in the final seven working days of fieldwork, large schemes (1000+ members), Master Trusts, DC and Hybrid schemes were prioritised in order to achieve the maximum number of interviews in these categories, to maximise the usefulness of the dataset for analysis.

The final questionnaire, including both pilot and mainstage interviews, took an average of 24 minutes to administer. A total of 966 valid interviews were completed, or a response rate of 20% relative to the number of records which proved to have valid telephone contact details on calling.

**Analysis and Reporting Conventions**

Data was examined in detail during and after fieldwork by the team at IFF, and edits made to correct errors and inconsistencies. Verbatim (open text) responses were also coded into categories to allow for statistical analysis.

The response rate was found to vary significantly between key sub-groups. Therefore, even though the survey took a census approach, corrective weighting was required for analysis. A weighting grid of scheme type by number of scheme members (banded) was derived from the data provided by TPR regarding pension schemes in the sample scope (which could be used for this purpose because it included all 7,102 schemes in the sample scope for the research) and applied to the dataset.

The profile of pension schemes and of trustees are presented unweighted, to describe the characteristics of the respondent group. Unless otherwise stated, all other results are weighted; they are therefore estimates for the population in scope for the survey and are subject to sampling error, as described in more detail below and in the Technical Appendix (Section D).

In tables and charts, where a sub-group figure is marked with a star (*) this means that a significant difference (at $p < 0.05$) has been detected for this figure, relative to the figure produced for all other sub-groups combined. Differences reported on in the report text are always significant differences, unless stated otherwise. Significant difference calculations take full account of the effect of weighting.

For consistency of base sizes, 'Don't know' and 'Not asked'[1] responses are included in question bases throughout, unless otherwise specified. Results produced using base sizes of less than 50 are redacted from charts and tables, although they may be referred to in the text. Results produced using a base size of less than 100 are flagged throughout as having a low base size (†). Results with a base size of less than 25 are reported using unweighted numbers of schemes only, to avoid a misleading impression being given.

For clarity of reading, colour coding has been used throughout this report, to show results for different types of pension scheme:

- Results relating to all schemes in **green;**
- Results for DB schemes in **magenta;**
- Results for DC schemes in **gold;**
- Results for Hybrid schemes in **blue;**

[1] Covering situations where a question should have been asked of a respondent but was not, due to post-survey coding and edits.

Throughout this report, unless otherwise stated, pension schemes are divided into three bands by the total number of scheme members they have:

- Small: 12 to 99 members;
- Medium: 100 to 999 members;
- Large: 1000 or more members.

## Profile of pension schemes and trustees

**Profile of pension schemes**

The occupational pension schemes in scope for the survey consist, in terms of numbers of schemes, mostly of DB schemes (63%), with fewer DC schemes (21%) and Hybrid (15%) schemes. Only about a fifth of schemes (21%) have more than 1,000 members. Two thirds of DC schemes have fewer than 100 members (68%).

However, looking at the distribution of scheme members, a quite different picture emerges. Nearly all scheme members (94%) are found in large schemes with 1,000 or more members, rising further (98%) among DC schemes. Furthermore, although DB schemes are many in number, they tend to be relatively small in size. More people (8.5m) are enrolled in DC schemes than DB schemes (6.7m), even though there are many fewer DC schemes than DB schemes. The vast majority of these people (98%) are enrolled in the 13% of DC schemes which are large. A further six million (6.0m) are enrolled in Hybrid schemes, almost as many as in DB schemes.

This distribution is important in the interpretation of results; the situation amongst large schemes is particularly important to consider when seeking to understand the impact of an issue on scheme members.

**Profile of trustees**

About half of trustees taking part in the survey were employer-appointed (47%); a fifth were member-nominated (19%), a sixth (17%) were professional trustees, and an eighth (13%) were corporate trustees. All had agreed to take part as a representative of the whole board of trustees.

A third (35%) of the trustees interviewed were trustees of more than one scheme. On average, these trustees were trustees for three schemes other than the scheme they were answering on behalf of. Professional trustees were more likely than all other types of trustee to be a trustee of more than one scheme (89%) and, on average, were trustees for 16 other schemes.

Two thirds (67%) of interviewees were the Chair of the board of trustees for the scheme they were answering on behalf of. Just over a fifth of schemes interviewed (21%) had an investment sub-committee. A fifth (19%) of the trustees interviewed sat on the investment sub-committee of the scheme they were answering on behalf of. Therefore, where an investment sub-committee existed, in 87% of cases the interviewee sat on that committee.

## Using IC services and FM services

### Using IC

Almost three quarters (73%) of pension schemes are currently buying IC services. There is, though, considerable variation by type and size of pension scheme, with IC service usage more than twice as likely amongst Hybrid and DB pension schemes than amongst DC pension schemes (87% and 82% respectively compared with 38%). Over nine in ten large pension schemes use IC services (94%), as do just under nine in ten medium sized schemes (87%). Smaller pension schemes are much less likely to use IC services, but still around half (49%) do so. Around three in ten (27%) of pension schemes that use IC services buy them from one of the three largest providers of IC and FM services.[2,3]

### Using FM

Around a quarter (26%) of pension schemes use FM services. Medium sized pension schemes are more likely to buy FM services than their larger counterparts (35% compared with 26%). Smaller pension schemes are less likely to buy FM services; about a fifth (18%) do so. Around a quarter (23%) of pension schemes that use FM services buy services from one of the three largest providers of IC and FM services.[4]

### Links between using IC services and using FM services

Overall, almost a quarter of pension schemes (23%) are currently buying both IC services and FM services. Trustee boards of Hybrid and DB schemes are almost three times as likely to use both IC services and FM services than trustee boards of DC schemes are (29% and 26% respectively compared with only 10%).

Trustee boards rarely buy FM services without buying IC (3%), but often buy IC services without buying FM services (49%). About a seventh (22%) do not buy either IC services or FM services for their scheme.

Overall, 70% of schemes that use both IC services and FM services, say that they use the same provider for these services.[5] Furthermore, 64% have the same *main* provider, that is, the provider they spend the most money with for both IC services and FM services. Further investigation shows that in 94% of cases, those schemes with the same main provider have no other provider at all, either for IC services (94%) or FM services (97%). This means that more than half (60%) of those schemes buying both IC services and FM services are reliant on a single company in these matters.

### Importance and Satisfaction with IC services and FM services

Trustees generally considered their IC services and FM services to be important to the scheme, and they tended to be ‘very satisfied’ or satisfied with them.

Around three quarters of trustee boards buying IC services (76%) consider those services to be ‘very important’; almost all of the remainder consider the services to be ‘fairly important’ (21%). Large

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[2] This includes both the pension scheme’s main and other providers.
[3] Aon Hewitt, Mercer and Willis Towers Watson (WTW) are collectively referred to by the CMA as the ‘three largest providers of IC and FM services’, based on 2016 revenues.
[4] This includes both the pension scheme’s main and other providers.
[5] This includes both the pension scheme’s main and other providers.

pension schemes (either in terms of membership or value of assets under management) are more likely than small pension schemes to consider the IC services they purchase to be ‘very important’ in meeting their objectives.

Over half of trustee boards using IC services (57%) are ‘very satisfied’ with them, and almost all of the remainder are ‘fairly satisfied’ (38%). Trustee boards of DB pension schemes are more likely to be ‘very satisfied’ with their main IC provider (59%) than other types of scheme. This compares to 50% of DC schemes and 51% of Hybrid schemes.

Around three quarters of trustee boards buying FM services (75%) consider those services to be ‘very important’, and almost all of the remainder consider the services to be ‘fairly important’ (22%). Over half of trustee boards using FM services (59%) are ‘very satisfied’ with them, and almost all of the remainder are ‘fairly satisfied’ (36%).

**Services bought from IC providers**

Trustee boards buy a fairly consistent set of services from their main IC provider, most often strategic asset allocation advice, and asset manager selection advice (91% and 88% of those using IC services respectively). It is also very common to buy reporting and operational services (79%), and advice on setting pension scheme objectives (79%).

Trustee boards with the same main provider for both IC services and FM services are more likely to use a large number of IC advisory services.

Over three quarters of pension schemes that buy IC services also buy other types of services, which would not fall within the IC services remit, from their main IC provider (77%), most commonly actuarial services and scheme administration (55% and 52% respectively). Medium sized schemes were particularly likely to use services outside the IC service remit from the same provider.

**Activities delegated to FM providers**

Again, trustee boards buy a fairly consistent set of services from their main FM provider, most frequently reporting and operational services (84%), asset manager selection (79%), dynamic asset allocation (77%), implementation of de-risking strategies (76%) and strategic asset allocation (74%).

**Reasons for purchasing IC services and FM services**

Generally speaking, trustee boards buying IC services are far more concerned about bringing in expertise (85%) than they are about increasing investment returns (49%), and especially compared with reducing time pressures on trustees (19%). Taken together, the reasons given suggest *most* trustees buy IC services out of caution, although there is a significant minority of trustee boards for whom the emphasis is on cutting costs or saving time.

Trustee boards buying FM services are far more concerned about bringing in expertise (84%) than they are about increasing investment returns (54%). Most boards appear to buy FM services out of caution, although more than a third of trustee boards (37%) stated that they were at least partly motivated by saving trustee time.

Looking at reasons for not purchasing IC services and FM services, these related mostly to scheme circumstances or a scepticism that better outcomes would result; concerns about potential conflicts of interest affect very few (4% of those who had made the decision not to buy FM services).

**Monitoring IC and FM providers**

In general, trustee boards using IC services say they find it 'very easy' to monitor performance of their main IC provider, especially overall investment performance (64%); just under half (45%) find it 'very easy' to monitor overall quality of service. Generally, third party fees are considered to be less easy to monitor; 34% of IC services users describe monitoring third party fees as 'very easy'.

Just under half (46%) of trustee boards using FM services find it 'very easy' to monitor the overall quality of service from their main FM provider. Third party fees are considered less easy to monitor; about a quarter (26%) of FM services users describe monitoring third party fees as 'very easy'.

Trustees were read out a list of common ways of monitoring IC providers, and asked which they have used in the last three years; for the majority of schemes, monitoring appears routine. On average, IC services users say they have used 2.2 of the methods listed in the last three years to monitor their main IC provider. External monitoring of IC providers is rare; 10% of IC service users have commissioned an external assessment of fees in the last three years, for example.

Trustee boards using FM services were also read out a list of common ways of monitoring their main FM provider, and asked which they have used in the last three years. On average, FM services users said they have used 1.8 of these methods in the list three years to monitor their main FM provider. External monitoring of FM providers is rare; 14% of FM services users have commissioned an external assessment of fees in the last three years, for example.

It is important to note that around a third of trustee boards using FM services (34%) had carried out none of the types of monitoring asked about in the last three years. While this group does not represent a majority of users of FM services, they are nevertheless significant in number. Furthermore, these trustee boards' attitudes regarding ease of monitoring their main FM provider do not differ substantially from those of other trustee boards.  Of those carrying out none of these forms of monitoring on their main FM provider, 34% said it was 'very easy' to monitor the main FM provider, compared with 46% overall.

Similarly, a fifth of trustee boards using IC services (18%) had carried out none of the types of monitoring asked about in the last three years. Notably, this significant minority of trustee boards do not differ in their attitudes regarding ease of monitoring their main IC provider; 48% said it was 'very easy' to monitor their main IC provider, compared with 45% overall.

Smaller pension schemes are much less likely to have challenged their main IC provider to improve their terms; only 41% had done so compared with 74% of large schemes and 57% of medium schemes. Larger schemes are generally more likely to have undertaken a wider range of action, with 76% of large schemes and 63% of medium schemes undertaking two or more of the actions listed compared with 46% of small schemes.

## Switching and tendering for an IC provider and/or FM provider

**Length of time with the current provider**

Schemes which use IC services have been with their current main IC provider for eight years on average; about two thirds (65%) have had the same main IC provider for five or more years. On average trustee boards using FM services have used the same main FM provider for seven years.

**Frequency of switching or tendering for a new provider**

A quarter of schemes purchasing IC services (27%) have switched their main IC provider in the last five years, while a further seventh (14%) tendered but did not switch. Those who purchase IC services from one of the three largest providers are much less likely to have switched main provider in the last five years compared with those not using the three largest providers (15% vs 32%).[6] Of those who switched main IC provider in the last five years, nearly half say they found the process 'very easy' (47%) and a third (35%) found the process 'fairly easy'.

Trustee boards with an FM provider are much less likely to have switched their main FM provider (17% in the last five years) than their main IC provider (33% in the last five years). These trustee boards that use FM services are also significantly less likely to have switched their main IC provider than those trustee boards who do not use FM services (25% in the last five years).

Most of those who have not recently switched say they are happy with their current provider (75%); difficulties with time, effort and cost of switching are less likely to be a factor (11%).

**Switching process**

Most commonly, trustee boards request and receive submissions from three providers for IC services; the most common number of submissions from potential providers received is also three, and the distribution of responses is very similar. This suggests that potential providers who are asked to submit a tender or proposal generally do so.

Just under a third of trustee boards (31%) that switch their main IC provider or run a tender process choose to use a third-party advisor. More than four fifths of trustee boards ask for written submissions and hold interviews (89%) while a similar number (83%) hold interviews with potential providers. Fewer trustee boards ask for modelling to be undertaken (44%) or attend or host site visits (35%). One third of trustee boards purchasing IC services (31%) say they find the overall quality of each proposal 'very easy' to judge, and half (51%) found it 'fairly easy'.

Respondents were asked what, if anything, would make it easier to identify the best investment consultancy for the scheme; the most frequent suggestion (made spontaneously by 11% of schemes who ran a tender or proposal exercise) was a standardised benchmark or proposal format.

[6] This includes both the pension scheme's main and other providers.

## First purchasing FM services

**The initial decision**

Those survey respondents whose scheme used FM services were asked to recall who, if anyone, first prompted the trustee board to buy FM services for their pension scheme. Two fifths (41%) did not know who first prompted the scheme to consider the idea[7]. One quarter of trustee boards (25%, or 42% excluding don't know responses from the base) say that the main person prompting the initial purchase of FM services was a trustee. The existing IC provider was the first prompt for some trustee boards, but not for a majority (20% prompted, or 28% excluding don't know responses). The employer or scheme sponsor was less important (10%, or 17% excluding don't know responses).

More than a quarter (28%, or 45% excluding don't know responses from the base) of those who buy FM services from one of the three largest providers[8] say that purchasing FM services was initially prompted by their investment consultant at the time, compared with one in eight who only buy FM services from other providers (12%, or 21% excluding don't know responses). It is worth noting that the three largest providers are more likely to work with large pension schemes, who may have a greater requirement for FM than small schemes. Those schemes which currently use the same provider for their IC services and FM services[9] are no more likely than others (22% vs. 21%, or 30% vs. 24% excluding don't know responses) to say that their IC provider at the time was the prompt to purchase FM services.

Among those who purchased FM services without the involvement of a third party (third party defined here to exclude the IC provider at the time), a third (30%, or 46% excluding don't know responses) said that the IC provider was the main prompt to purchase FM services, compared with half that level (15%, or 18% excluding don't know responses) who did involve a third party. This suggests that where an IC provider does motivate the purchase of FM services, third-party advice may be less likely to be used in the subsequent purchasing process.

**The IC role in practice**

Taking into account both schemes with an IC provider who currently purchase FM services and schemes with an IC provider who do not, about a fifth of schemes (19%) say that their IC provider has at some point suggested that they might consider using an FM service. Of this group, three quarters (76%) say that the IC provider mentioned their own service at the time. Just under half (45%) are reported to have mentioned other FM providers; slightly fewer (38%) were reported to mention their own FM service but *not* to mention other FM providers or a third-party evaluator. In total a fifth (20%) suggested using a third-party evaluator.

**Buying from the existing IC provider**

Among those able to remember the original process of buying FM, about half (51%[10]) say that they currently use an FM provider that was their IC provider at the time of appointment. However, among

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[7] It should be remembered that the purchase of FM may have taken place many years previously, and there is a turnover of trustees in many pension schemes.
[8] This includes both the pension scheme's main and other providers.
[9] This includes both the pension scheme's main and other providers.
[10] This is equivalent to 39% of all pension schemes using FM services, including those who were unable to remember the process of first buying FM, for example due to turnover in trustees.

the same group, two thirds (65%[11]) say that they currently purchase IC services and FM services from the same provider.[12] The research is unable to determine the reasons for this difference, although, for example, this situation could arise if a trustee board had initially bought (or later switched) IC services and FM services simultaneously. Alternatively, they might buy FM services from a new provider and subsequently switch IC services to this provider.

**Purchasing process**

Among those able to remember the process, about three fifths (61%, amounting to 44% of all who buy FM services) say they had some form of third party involvement in the process overall, most commonly in the form of advice.

Trustee boards are generally positive regarding their ability to assess proposals for a first supplier of FM services; 20% felt that overall quality of each proposal was 'very easy' to assess, and 64% felt it was 'fairly easy' to assess.

## Potential conflicts of interest

**Perceptions of potential conflicts of interest**

Representatives of trustee boards taking part in the survey were asked a series of four questions regarding specific potential conflicts of interest identified by the CMA in the early stages of the market investigation. They were asked to consider whether each of the four following factors were a problem for the market as a whole (rather than for their specific provider of IC services and/or FM services):

- Investment consultants using their position to steer clients into their own fiduciary management services
- Business relationships with asset managers affecting the independence of investment consultants or fiduciary managers
- Receipt of gifts and hospitality from asset managers affecting the independence of investment consultants or fiduciary managers
- Fiduciary management providers investing scheme funds with their own asset managers or investment products

Nearly a third (30%) of trustee boards say that 'Investment consultants using their position to steer clients into their own fiduciary management services' is 'a problem, and more should be done to address it'. About a quarter (26%) of trustee boards say the same regarding 'Fiduciary management providers investing scheme funds with their own asset managers or investment products', and about one fifth (19%) say the same regarding 'Business relationships with asset managers affecting the independence of investment consultants or fiduciary managers'. Finally, one seventh (14%) say the

[11] This is equivalent to 62% of all pension schemes using FM services, including those who were unable to remember the process of first buying FM, for example due to turnover in trustees, and also those who do not currently have any IC provider. To allow comparison this latter group of pension schemes are counted, for the purpose of this comparison only, as not having the same provider.
[12] This includes both the pension scheme's main and other providers.

same regarding ‘Receipt of gifts and hospitality from asset managers affecting the independence of investment consultants or fiduciary managers’.

In total, around two fifths (42%) of all respondents believe that at least one of the issues mentioned above is ‘a problem and more should be done about it’[13].

There are significant differences here depending on the type of scheme or the specific type of trustee responding to the survey. More than half of trustee boards of large schemes (54%) consider at least one of the four issues mentioned to be ‘a problem and more should be done about it’. A similar but larger difference is seen by trustee type; among professional trustees, more than two thirds (69%) consider at least one of the four issues mentioned to be ‘a problem and more should be done about it’.

**Mitigating potential conflicts of interest**

Trustee boards have a wide range of ideas regarding actions that should be taken to mitigate any potential conflicts of interest identified. These were classified through a coding process. About a quarter (27%) feel no mitigation of potential conflicts of interest is necessary, although this falls significantly to 13% among those who are trustees for more than one scheme, and 9% among professional trustees. Top responses were:

- Improvements in disclosure of corporate links / relationships (11%);
- Separation of companies providing IC services and FM services (10%);
- Improvements in trustee knowledge (8%).

[13] It is important to note that a significant proportion of trustee boards declined to comment on each of these statements (between 19% and 28% said they did not know the answer in each case). If this group were excluded from the analysis, all percentages above would be significantly higher.

# 1 Background

## Market Investigation

1.1 On 14th September 2017, the Financial Conduct Authority (FCA) referred the market for investment consultancy (IC) services and fiduciary management (FM) services to the CMA. When conducting a market investigation, the CMA, acting through a group of independent members constituted from its panel, is required to decide whether any feature or combination of features of the market prevents, restricts or distorts competition in connection with the supply or acquisition of any goods or services in the UK.

1.2 IC services and FM services are typically purchased by the trustee boards of occupational pension schemes, in order to assist them in administering the affairs of the pension scheme.

1.3 Investment Consultancy (IC) services in this context means the provision of advice in relation to strategic asset allocation, manager selection, and fiduciary management. Fiduciary Management (FM) services is defined as the provision of a service to institutional investors, where the provider makes and implements decisions for the investor based on the investor's investment strategy in the UK. This service may include responsibility for all or some of the investor's assets and may include, but is not limited to, responsibility for asset allocation and fund manager selection.

1.4 The central difference between these two services, which are frequently offered as products by the same organisations, is that an IC service is an advisory service, while an FM service involves both making and implementing decisions on behalf of the trustee board.

1.5 Despite the fact that these services and their main providers are not widely known to the general public, these are issues of significant importance to many people.

## Research Objectives

1.6 The CMA market investigations are required to be based on robust and impartial evidence. Early in the investigation, the CMA identified a need for further evidence regarding the opinions and experiences of the occupational pension trustee boards who form the principal group of buyers for these services.

1.7 The CMA required research which explores:

- How trustees purchase advice, monitor and switch between IC providers
- How the use of FM providers arises, and how those providers are monitored
- Trustees' motivations for purchasing, monitoring and switching IC provider and FM provider
- Trustees' attitudes toward providers of IC and FM services, and the perceived extent of any problems and potential conflicts of interest there might be in the market.

1.8 On 21st September 2017, the CMA appointed IFF Research to survey trustees of UK occupational pension schemes as part of the evidence-gathering for its investigation. This report provides an overview of the findings of this research, which utilised a large-scale telephone survey of trustees.

## Report Structure

1.9 The report is structured as follows:

- Chapter 1: Background and Methodology
- Chapter 2: Profile of pension schemes and trustees
- Chapter 3: Using IC and FM
- Chapter 4: Switching and tendering for an IC and/or FM provider
- Chapter 5: First purchasing FM
- Chapter 6: Potential conflicts of interest
- Chapter 7: Summary of findings

1.10 A separate technical appendix has also been produced; this provides an in-depth view of the methodology used for the research, and provides copies of research materials.

## Sample

**Population and sample scope**

1.11 According to TPR (The Pensions Regulator) data, there were 85,700 occupational pension schemes in the UK, accounting for a total of around 59 million scheme members as of July 2017[14]. Not all of these schemes would usually be in the target market for Investment Consultancy (IC) services and Fiduciary Management (FM) services, nor the subject of trustee surveys; a relatively small number of schemes (though accounting for a large number of members) were excluded on the basis of having no trustee board or being managed in the public sector, as detailed in Technical Appendix (Section A).

1.12 However, a far larger number of schemes have fewer than 12 members[15] (85% of schemes). Typically, these schemes have small quantities of assets to invest and may be simply too small for IC services or FM services to be considered in some cases. A single professional trustee may also look after many such schemes (in some cases several hundred), making it impractical to include them in fieldwork. These schemes were considered to be outside the survey scope, leaving around 7,100 schemes in scope for the research.

**Sample source**

1.13 Pension schemes in the United Kingdom are regulated by The Pensions Regulator (TPR), which requires all pension schemes to provide it with certain information regarding the scheme, its members and its trustees. The details held by TPR include scheme-level details and the names and contact details of all scheme trustees. This data is not normally available for research purposes outside TPR. However, the Enterprise Act (EA02)[16] provides the CMA with

[14] This was the most recent TPR data available at the time of the initial planning of the research.
[15] Or are of unknown size; percentages include those of unknown size.
[16] https://www.legislation.gov.uk/ukpga/2002/40/contents

the power to require bodies to provide them with information such as this, for the purposes of conducting its market investigations (see Technical Appendix Section A).

1.14 After making the exclusions outlined above from data received from TPR, the CMA provided data for all of the 7,102 schemes within the sample scope to IFF Research. Detail of the profile of schemes in the sample scope is provided in Chapter 2, and further breakdowns in Technical Appendix (Section A).

**Sampling technique**

1.15 Since it was not possible from industry or official data to reliably identify schemes in the survey scope that use IC and FM services, the sampling process could not take this into account. Instead, usage of IC and FM services was determined through the questionnaire.

1.16 It is important to consider that many trustees, in particular professional trustees, work on behalf of multiple pension schemes. This greatly reduced the size of the sample frame, since it was decided, in consultation with the CMA, that the same person should not be interviewed more than once regarding different schemes.

1.17 Furthermore, while the data supplied covered all 7,102 pension schemes in the sample scope, it did not contain contact details for all of these schemes. In total, 5,905 schemes in the sample scope were found to have contact details supplied which were usable for research (see Technical Appendix Section A), including cases where the contact was a company rather than an individual.

1.18 Given this reduced sample frame, and the need to produce a dataset of a size sufficient to allow analysis of the complexity required for the inquiry (the CMA wished to obtain as many interviews as possible within the limitations of the available sample and the time available) a census approach was taken to sampling, with all 5,905 pension schemes in scope with valid contact details included in the sample frame and given equal priority in sampling. Although the sample frame was not stratified, response rates by scheme type and size of scheme were monitored throughout.

1.19 To maximise the quantity and quality of responses from trustee boards, the data supplied regarding pension schemes was processed to locate the trustee contact most likely to be able to speak about investment matters on behalf of the trustee board, and to prioritise additional potential contacts should that initial contact prove to be unsuitable or unavailable. The overall aim of the prioritisation process, and subsequently the survey screener, was to ensure that the interviewer spoke to the best possible trustee for the survey, and did not speak to any non-trustees for the research, other than in passing when seeking to speak to a trustee.

1.20 Briefly, in order of priority, the following were selected as lead contact, for the sending of advance letters, and initial contact for interviews:

- Chair of trustees with phone number
- Sole trustee with phone number
- TPR nominated contact for Automatic Enrolment[17], usually the employer. While this group of individuals were not trustees, and therefore could not be interviewed, they were included on the basis that they could provide contact details for the chair or another trustee
- Listed trustees with phone numbers, in the order listed on the TPR database

1.21 Extensive detail on this prioritisation process, and how it was implemented, is contained in Technical Appendix (Section A).

**Advance communication**

1.22 All lead contacts in the sampling frame with email addresses which were *not* identified as duplicate cases (i.e. having all trustees and contacts shared with another larger scheme in any case) were sent an introductory email, several days in advance of the fieldwork starting, on the CMA letterhead. A copy of the advance letter is provided in Technical Appendix (Section F).

1.23 Where no email addresses were available, efforts were made to inform lead contacts by post. In most cases, however, where email and telephone numbers were absent, postal contact details were also missing. More detail on this aspect of the research is provided in Technical Appendix (Section A).

## Questionnaire Design

**Initial development and structure**

1.24 The questionnaire was designed in a collaborative process by the CMA and IFF Research. The survey was consulted upon with relevant stakeholders, including TPR and parties to the investigation. All materials used were signed off by CMA in advance of being used.

1.25 The survey was designed to be as accessible as possible, given the subject matter, to pension scheme trustees with a lower level of expertise, as well as those with a high level of professional knowledge of the subject.

1.26 The survey had a number of questions about respondent and scheme characteristics, followed by 'routed' sections asked depending on the scheme's use of IC services and FM services, and concluded with a short section on trustees' views about potential conflicts of interest in the IC

[17] TPR require every employer to nominate a contact for receiving letters and emails relating to Automatic Enrolment. This data is submitted at an employer level, not a scheme level, and therefore the specific scheme does not need to be an Automatic Enrolment scheme to have a contact of this type. This is intended to be the employer, but may sometimes be a pension administrator, adviser or consultant. Schemes where the sponsor is not an employer will not normally have this contact available.

market and FM market. Further detail on survey content is provided in Technical Appendix (Section B); a copy of the final questionnaire is included in Technical Appendix (Section G).

**Cognitive piloting**

1.27 The questionnaire was tested through cognitive piloting, taking place from 16th to 19th October 2017. Recruitment for the interviews was carried out by trained interviewers at IFF Research.

1.28 Five telephone interviews took place in total, each carried out by members of the research team at IFF. They covered both DB and DC schemes, in all three size bands (12 to 99, 100 to 999 and 1000 or more scheme members). No Hybrid schemes were interviewed at the cognitive stage, due to a last-minute withdrawal by the booked interviewee on the last day of interviewing.

1.29 These followed a standard format for a cognitive interview, consisting of the full draft questionnaire, followed by a series of questions designed to assess how the interviewee had experienced the survey, and explore any areas of possible misunderstanding. No direct financial incentive was offered to the interviewee, but those taking part in the cognitive interviews were rewarded with a charitable donation of £50, made to a charity of their choice.

1.30 The process gathered a range of constructive and useful feedback regarding both general aspects of survey design and the wording of individual questions. Some simplifications and modifications were made to the wording to ensure that it was as easy to understand as possible for trustees with a lower level of pension investment knowledge, and the wording of any questions which prompted confusion among respondents reviewed. It was also determined that the survey was considerably too long, and some initial cuts to questions were made at this stage. Particular thought was given to definitions of Investment Consultancy and Fiduciary Management, to reduce the likelihood of respondents incorrectly claiming to use IC services or FM services. Further detail of the cognitive interviewing process is provided in Technical Appendix (Section B).

**Screener design**

1.31 Although the data provided regarding pension schemes in scope contained a large amount of information regarding the names and details of chairs of trustees and other trustees, a complex screening process was also considered necessary to ensure that the correct person was being spoken to. The screener also sought to build upon the prioritisation process by taking referrals to relevant trustees for whom TPR did not hold names or contact details, and ensuring that the trustee spoken to had the required knowledge to take part.

1.32 The screening process was fully scripted, although interviewers were permitted to deviate from the script wording in this section, in order to respond to the wide variety of situations that might be encountered when seeking to speak to the right person.

1.33 Routes through the screener and the resulting key outcomes were as shown in a flowchart in Technical Appendix (Section B), and a copy of the screener is included in the final questionnaire in Technical Appendix (Section G).

1.34 In addition, all respondents taking part were:

- Made aware of how their responses would be handled, in advance communications (see Technical Appendix Section A), and/or through a compulsory read-out section of the screener (at question S2); they were also advised that the scheme's PSRN would be passed to the CMA to allow data matching for analytical purposes,

- Asked to confirm (at question S1A) that they were a trustee of the specific named scheme. Other representatives of the scheme were not permitted to take part. Data was audited after gathering to ensure this was adhered to.

- Asked to confirm (at question S1A) that they were able to speak on behalf of the board of trustees for the specific scheme.

- Screened out if they were unable to comment on some basic facts about the scheme; in practice, use of these screen-outs was rare, with only five cases being screened out entirely on this basis:

  - Whether they were the chair of the board of trustees or not (no cases affected)
  - Their own trustee type (e.g. corporate, employer-appointed, member-nominated) (five cases affected)
  - The type of scheme (DB, DC, or Hybrid); they were permitted to disagree with the data provided by TPR regarding their pension scheme, but not to state that they did not know the scheme type (no cases affected).

## Fieldwork

**Technique**

1.35 The pilot and mainstage surveys were carried out using a Computer Aided Telephone Interviewing (CATI) telephone interviewing system. All interviewers used for the survey had already received detailed and in-depth training in telephone interviewing at IFF Research.

1.36 All interviews were recorded, and a selection of interviews were monitored by IFF staff for quality and adherence to the questionnaire script. During fieldwork, the CMA staff team members also visited IFF Research to listen to interviews taking place.

**Pilot fieldwork**

1.37 Pilot fieldwork was carried out on 9$^{th}$ and 10$^{th}$ November 2017 using the survey script arrived at after the cognitive interviews, and following consultation with stakeholders and parties to the investigation. The sampling frame used was the same as for the mainstage research, as described in Technical Appendix (Section A).

1.38 All interviewers were briefed on the detail of the survey script, as well as the background context regarding the CMA's investigation. As well as IFF Research project team members, staff from the CMA attended the initial pilot briefing to explain the aims of the survey and to answer queries from interviewers and IFF Research staff.

1.39 Based on the results of this, recommendations were made to the CMA for small changes to questionnaire design and wording, and the changes implemented prior to mainstage fieldwork starting. In addition, at this stage the survey script was further reduced in length, by reducing the number of questions asked of those who use both IC services and FM services.

**Mainstage fieldwork**

1.40 Mainstage fieldwork started on 14th November 2017, and continued until 5th January 2018, with a break between 23rd December 2017 and 1st January 2018 inclusive for Christmas and New Year. In total, the fieldwork period consisted of 33 days, or 6½ working weeks. This length of time was necessary to obtain a large achieved sample, especially given the time needed to arrange interviews with senior people working within large and complex organisations.

1.41 As for the pilot, all interviewers were briefed on the detail of the CMA survey script, as well as the background context regarding the investigation. As detailed in Technical Appendix (Section B), the screener design enabled interviewers to take referrals to individuals not named in the data provided by TPR, and to send both introductory emails (where no phone number for a suitable trustee was available) and reassurance emails. Email replies were monitored by the research team, who also updated the contact details held by IFF and booked additional appointments for interviewers to call schemes back.

1.42 Fieldwork was monitored by IFF field staff and the project team throughout, and weekly progress reports provided to the CMA. In the final seven working days of fieldwork, large schemes (1000+ members), Master Trusts, DC and Hybrid schemes were prioritised in order to achieve more interviews in these categories, to maximise the usefulness of the dataset for analysis.

1.43 The final questionnaire, taking into account both pilot and mainstage interviews, took an average of 24 minutes to carry out. A more detailed account of both pilot and mainstage fieldwork is contained in Technical Appendix (Section C).

**Response**

1.44 A total of 975 interviews were conducted across the pilot and mainstage. Nine of these were later discarded, in all cases due to a person who was not a trustee being interviewed, giving a total of 966 valid interviews.

1.45 This equated to a raw response rate of 14% of the number of schemes in scope (7,102 records); however, as previously noted, a significant portion of the schemes in scope were uncontactable. A total of 5,910 records on the TPR datafile provided had unique contact details with a phone number suitable for use at the start of the research.

1.46 For 17% of these 5,910 schemes (1,010 records, or 14% of the 7,102 schemes in scope), the telephone number supplied proved to be invalid or unusable for the purposes of the research on calling. This left 4,900 records which were contactable at the start of fieldwork; relative to this group of records, the response rate was 20%.

1.47 A detailed summary of the response and reasons for non-response is included in Technical Appendix (Section C).

## Analysis

**Coding and Edits**

1.48 Data was examined in detail during and after fieldwork by the team at IFF, and edits made to correct errors and inconsistencies, as detailed in Technical Appendix (Section D). Verbatim (open text) responses were also coded into categories to allow for statistical analysis.

**Weighting**

1.49 As shown in the Technical Appendix (Section C), response rates varied significantly between key sub-groups. Therefore, even though the survey took a census approach, corrective weighting was required for analysis. For example, DC schemes had a response rate of 13%, compared with 22% for DB schemes. In other circumstances, it might have been possible to compensate by oversampling or prioritising DC pension schemes during fieldwork, thus making weighting unnecessary. However, because the number of schemes in scope and contactable (4,900) was relatively small in comparison to the desired number of responses, a census approach needed to be taken to maximise the total number of responses, ruling both of these options out.

1.50 Therefore, a weighting grid of scheme type by number of scheme members (banded) was derived from the data supplied by TPR for schemes within the sample scope (which could be used for this purpose because it included all 7,102 schemes identified as being in scope for the research) and applied to the dataset.

1.51 Extensive details of this weighting process, including a practical example and a discussion of the impacts on statistical significance of the findings, are provided in Technical Appendix (Section D).

## Analysis and Reporting Conventions

**Scheme type**

1.52 For clarity of reading, colour coding has been used throughout this report, to show results for different types of pension scheme:

- Results relating to all schemes in **green**
- Results for DB schemes in **magenta**
- Results for DC schemes in **gold**
- Results for Hybrid schemes in **blue**

**Scheme size**

1.53 Throughout this report, unless otherwise stated, pension schemes are divided into three bands by the number of scheme members they have in total:

- Small: 12 to 99 members
- Medium: 100 to 999 members
- Large: 1000 or more members

**Sampling error**

1.54 As with all surveys, results are subject to sampling error, since due to random variation the distribution of responses among those trustee boards participating in the research may vary from the true distribution in the population.

1.55 Base sizes, effective sample sizes and error margins (due to sampling error) for key sub-groups are shown in Technical Appendix (Section D). Overall, the base size of the dataset is 966 (number of interviews), equating after weighting to an effective sample size of 799. The sampling error at a 95% confidence level[18] is ±3.5%. For example, on a result of 50% for a question, we can be 95% confident that the true value lies within ±3.5% of this, between 46.5% and 53.5%.

**Significance testing**

1.56 In tables and charts, where a sub-group figure is marked with a star (*) this means that a significant difference ($p < 0.05$, as detailed in the section above) has been detected for this figure, relative to the figure produced for all other sub-groups combined. Differences reported on in commentary are always significant differences, unless stated otherwise. Significant difference calculations take full account of the effect of weighting, as detailed in Technical Appendix (Section D).

1.57 For consistency of base sizes, 'Don't know' and 'Not asked'[19] responses are included in question bases throughout, unless otherwise specified.

1.58 Results produced using base sizes of less than 50 are redacted from charts and tables, although they may be referred to in the text. Results produced using a base size of less than 100 are flagged throughout as having a low base size (†). Results with a base size of less than 25 are reported using unweighted numbers of schemes only; they therefore report the results for the respondent group, rather than estimates for the population of schemes in scope for the survey.

1.59 Base sizes shown on charts and in tables in the report are actual numbers of interviews, rather than effective sample size, which takes into account weighting effects.

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[18] Calculated on a result of 50% (worst case); error margins on figures closer to 0% or 100% will be smaller.
[19] Covering situations where a question should have been asked of a respondent but was not, due to post-survey coding and edits.

**Other notes regarding reporting**

1.60 The profile of pension schemes and of trustees are presented unweighted, to describe the characteristics of the respondent group. Unless otherwise stated, all other results are weighted; they are therefore estimates for the population in scope for the survey and are subject to sampling error, as described in more detail above and in Technical Appendix (Section D).

1.61 We have not banded schemes by Assets Under Management (AUM), although this information was collected in the survey, because more than half of trustees did not know their scheme's AUM (59% unweighted, 58% weighted). This makes it less reliable than the number of scheme members derived directly from TPR data, which is expected to be much more accurate. We are advised by TPR that AUM is closely correlated with the number of scheme members in any case.

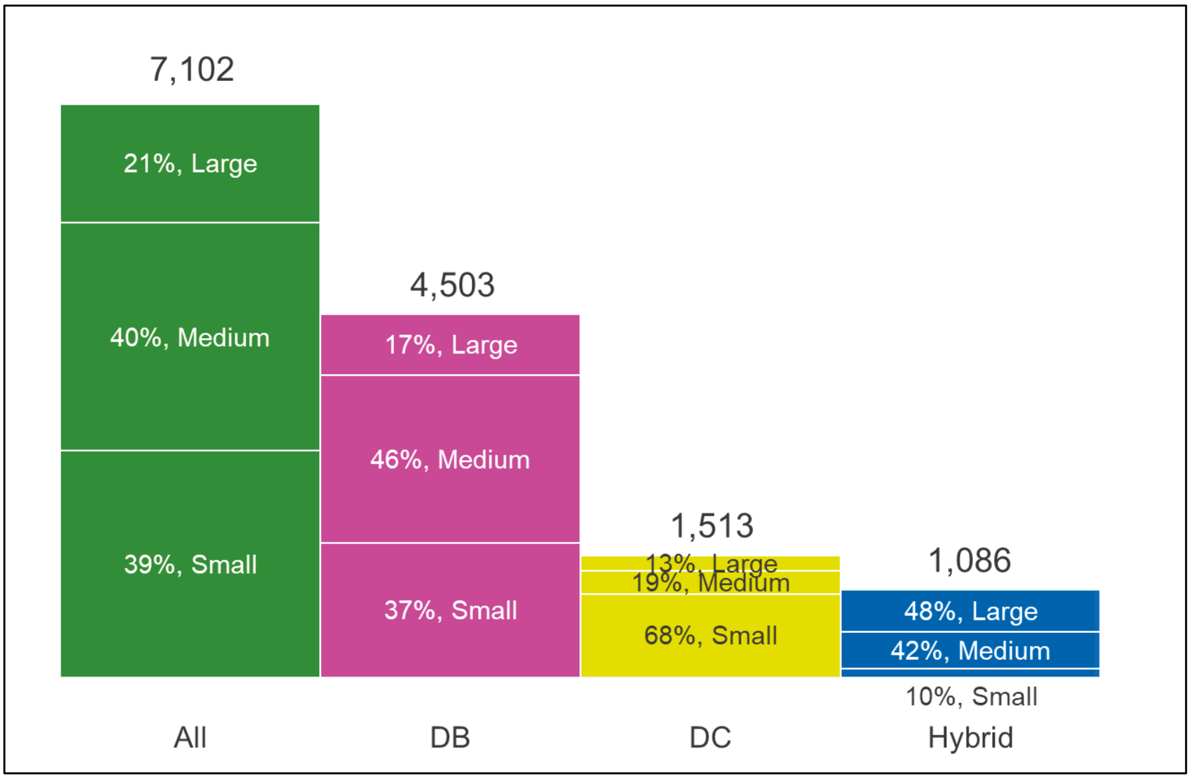
# 2 Profile of pension schemes and trustees

## Population of schemes in scope

2.1 Figure 2.1 presents the profile of schemes that were in scope for the survey in terms of type and size.[20]

2.2 Overall, 7,102 schemes are in scope for the survey. A fifth (21%) are large schemes, two-fifths (40%) are medium schemes and about two-fifths (39%) are small schemes. In terms of scheme type, nearly two-thirds (63%) are DB schemes, a fifth (21%) are DC schemes and a seventh (15%) are Hybrid schemes.

**Figure 2.1 Schemes in scope for the survey: summary**




*Source: TPR (October 2017); scheme data submitted as sample for the survey*

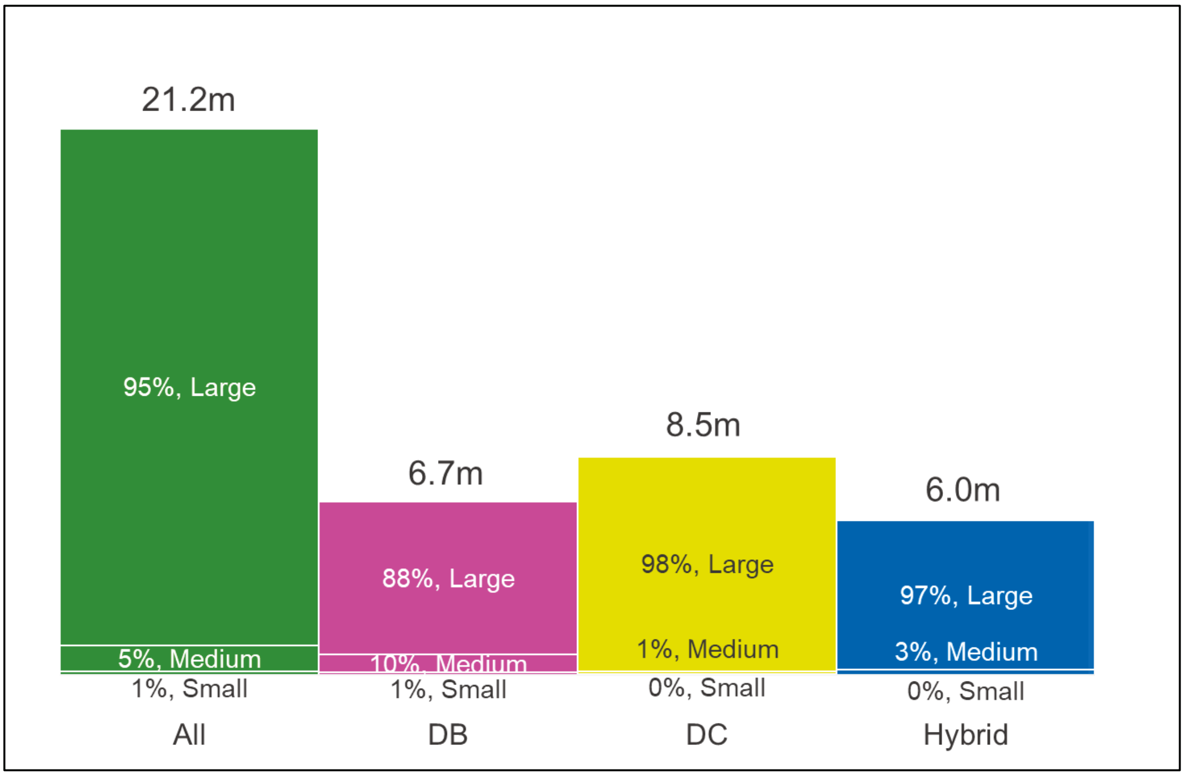
2.3 Figure 2.2 presents the combined membership of the schemes in scope for the survey. In total, the 7,102 schemes within scope have 21.2 million members.

2.4 Although only a fifth (21%) of all schemes within scope for the survey are large, Figure 2.2 highlights that the vast majority (95%) of members are enrolled in these large schemes. One in twenty members (5%) are enrolled in a medium scheme and only 1% are enrolled in a small scheme. This means that in this report, the results for large schemes are of particular importance to understanding the situation of pension scheme members as a whole.

[20] The criteria for schemes that were in scope for the survey are outlined in Technical Appendix (Section A).

2.5 In terms of scheme type, two-fifths (42%) of members are enrolled in a DC scheme, a third (30%) are enrolled in a DB scheme and a little over a quarter (29%) are enrolled in a Hybrid scheme. It is notable that while there are many more DB schemes than DC schemes (4,503 vs. 1,513), as a group, DC schemes have more scheme members in total (8.5m vs 6.7m); this is important to bear in mind when interpreting the findings of this research.

**Figure 2.2 Combined membership of schemes in scope for the survey: summary**



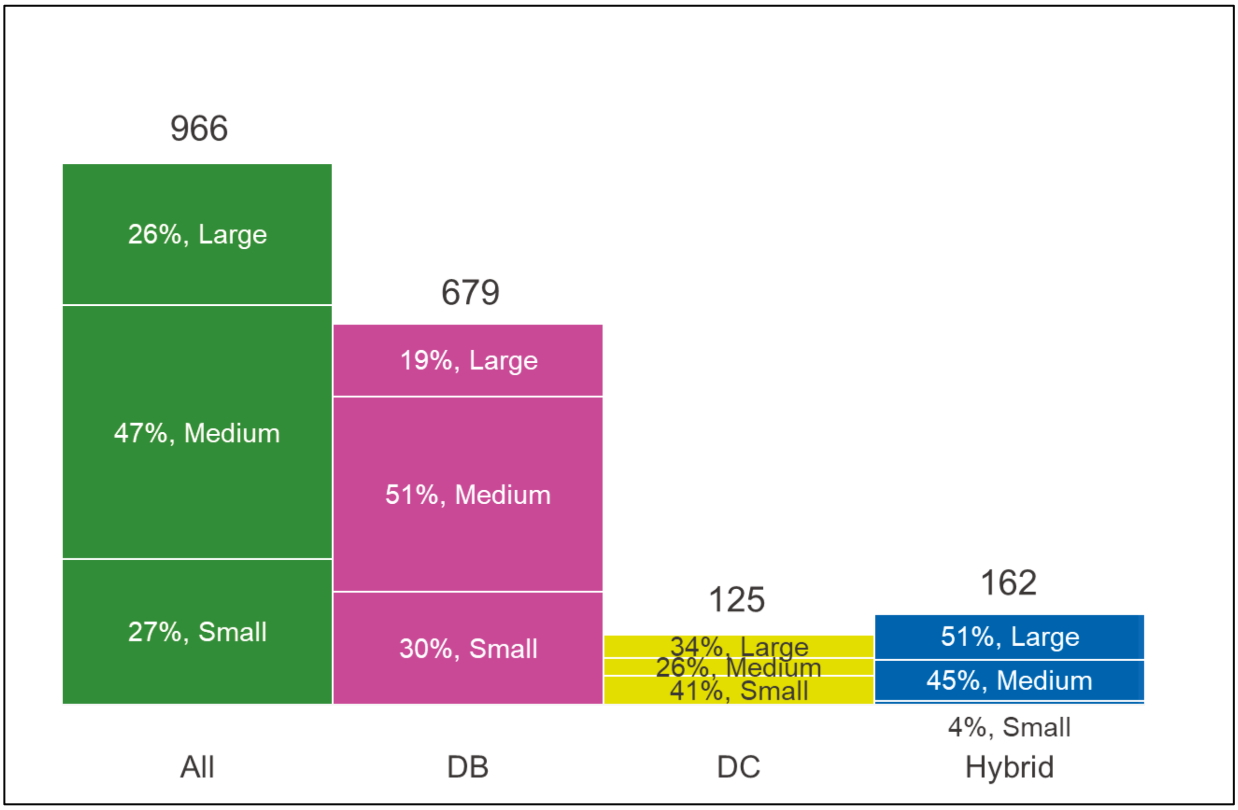

*Source: TPR (October 2017); scheme data submitted as sample for the survey*

2.6 The Technical Appendix (Section A) provides a breakdown of the schemes in scope for the survey and their combined membership by narrow size bands and detailed scheme type.

## Profile of schemes interviewed

2.7 Figure 2.3 presents the unweighted profile of schemes that participated in the survey in terms of type and size. As discussed in Chapter 1, although this varies from the distribution of schemes (specifically in terms of the proportion of DC schemes), this was addressed through the use of corrective weighting in the analysis.

**Figure 2.3 Schemes that took part in the survey: summary**

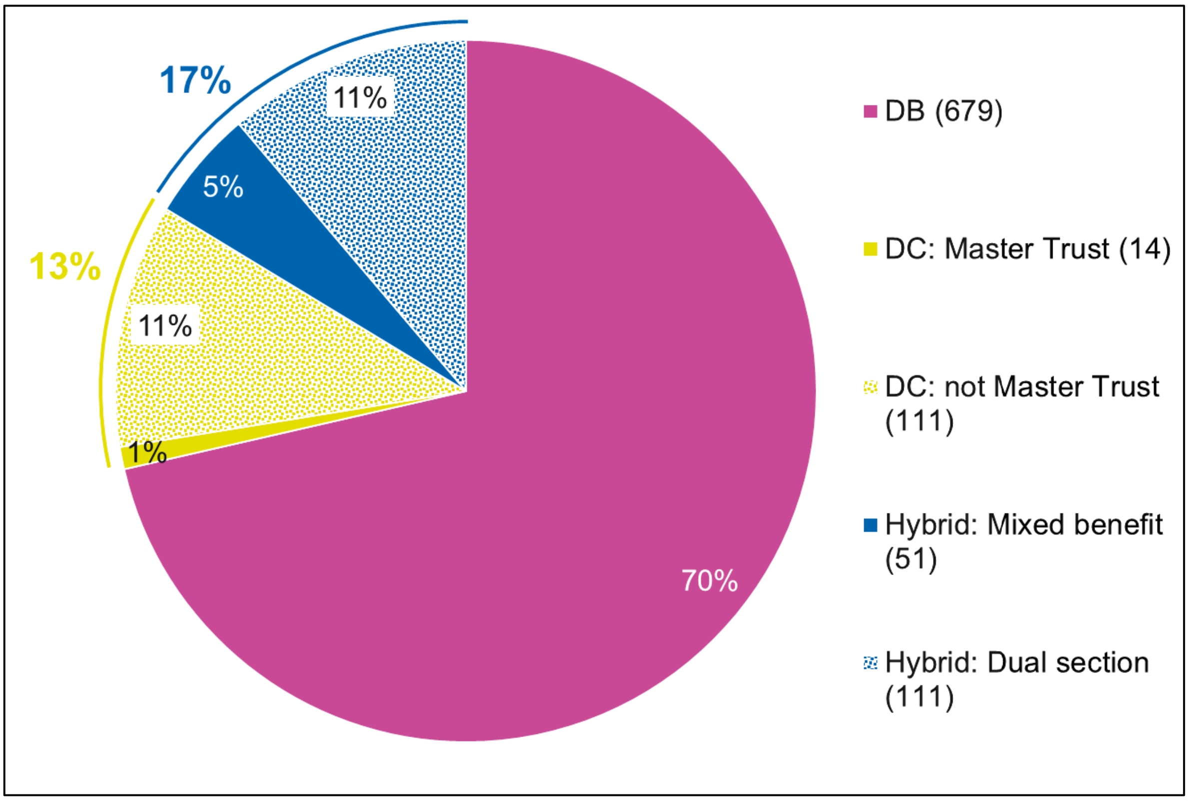



*Base: All schemes (966), DB (679), DC (125), Hybrid (162); unweighted data.*

2.8 In total, 966 schemes took part in the survey. In terms of number of scheme members, a quarter (26%) were large (1000 or more members), almost half (47%) were medium (100 to 999 members) and just over a quarter (27%) were small (12 to 99 members). In terms of scheme type, nearly three-quarters (70%) were DB schemes, a sixth (17%) were Hybrid schemes and an eighth (13%) were DC schemes.

2.9 Figure 2.4 provides a more detailed breakdown of the types of schemes that took part in the survey. Of the 17% of schemes that were Hybrid, 69% were Dual Section (i.e. schemes with members in both the DB and DC sections of the scheme) and 31% were Mixed Benefit (i.e. schemes where an individual member may receive both DB and DC benefits). This equates to 11% of all schemes being Dual Section Hybrid schemes and 5% being Mixed Benefit Hybrid schemes. Of the 13% of schemes taking part that were DC schemes, 11% were Master Trusts. This means that only 1% of all schemes that took part in the survey were Master Trust DC schemes.

**Figure 2.4 Types of schemes that took part in the survey: detailed type**



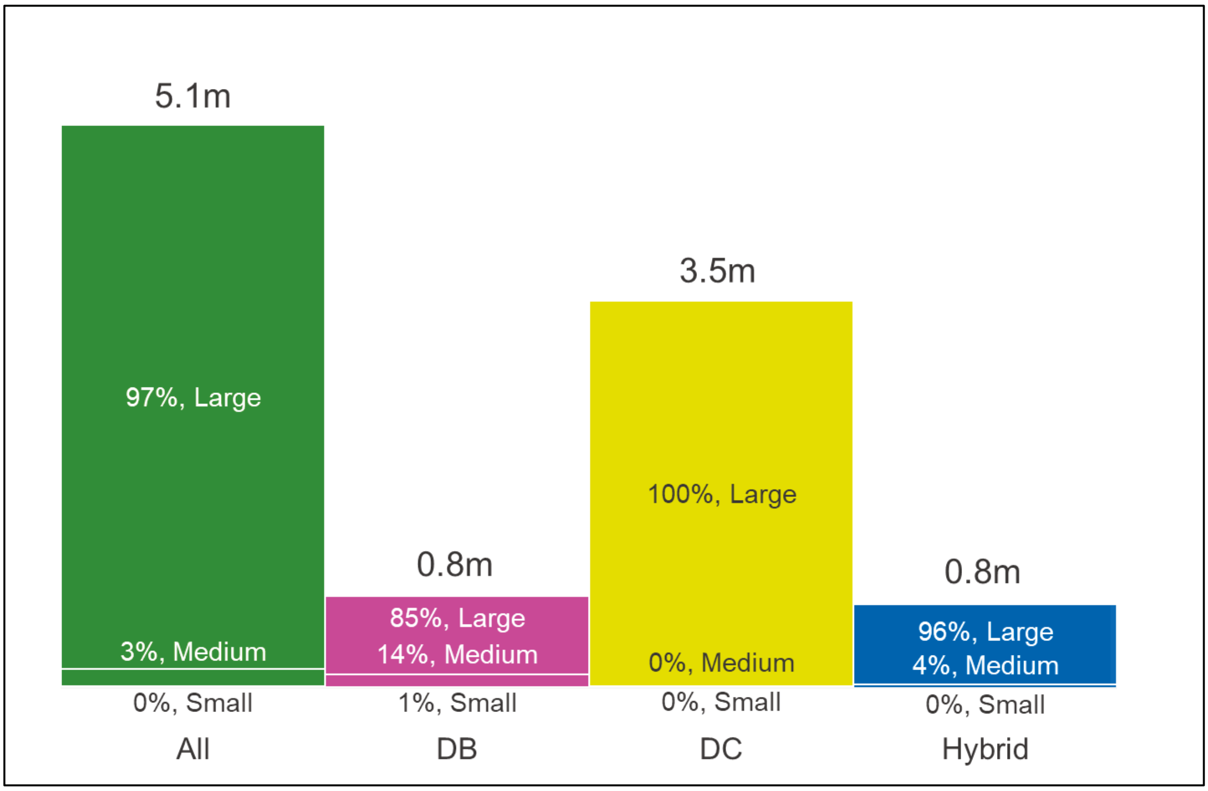

*Base: All schemes (966); unweighted data*

2.10 As presented in Figure 2.5, the schemes that participated in the survey had a combined membership of 5.1 million. In line with the population of schemes that were in scope for the survey, the vast majority (97%) of the members of schemes that participated in the survey were enrolled in large schemes. Only 3% of members were enrolled in a medium sized scheme and less than 1% were enrolled in a small scheme.

2.11 In terms of scheme type, over two-thirds (69%) of members were enrolled in a DC scheme while a seventh were respectively enrolled in DB schemes (16%) and Hybrid schemes (15%).[21]

[21] The combined membership of DC schemes that took part in the survey varies from the distribution of the combined membership of DC schemes in the sample scope because a very large DC Master Trust participated in the survey.

**Figure 2.5 Combined membership of schemes that took part in the survey**



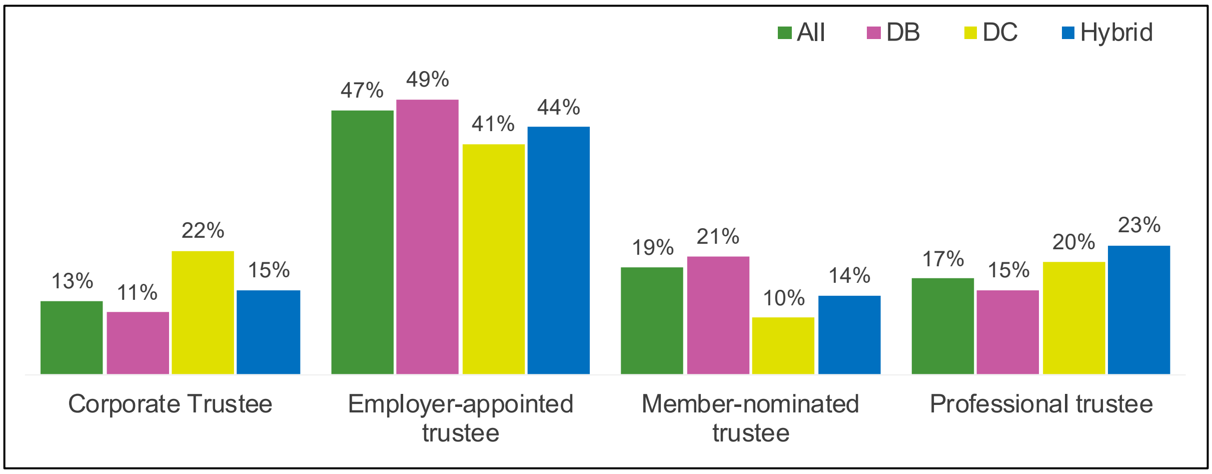

*Base: All schemes; All (966), DB (679), DC (125), Hybrid (162); unweighted data*

## Profile of trustees interviewed

**Trustee Type**

2.12 Figure 2.6 presents the types of trustees that took part in the survey by scheme type. Employer-appointed trustees were the most common type of trustee to have participated, making up nearly half (47%) of all trustees interviewed. A fifth (19%) of trustees were member-nominated, a sixth (17%) were professional trustees and an eighth (13%) were corporate trustees.

**Figure 2.6 Types of trustees that took part in the survey, by scheme type**




*Base (A2): All schemes; All (966), DB (679), DC (125), Hybrid (162); unweighted*[22]

2.13 Table 2.1 presents the types of trustees that took part in the survey by scheme size. Large schemes were more likely to have been represented by a professional trustee (26%) than medium schemes (14%) or small schemes (12%). Meanwhile, small and medium schemes were more likely to have been represented by an employer-appointed trustee (small: 47%, medium: 52%) or member-nominated trustee (small: 21%, medium: 20%) than large schemes (employer-appointed: 38%, member-nominated: 13%).

**Table 2.1 Types of trustees that took part in the survey, by scheme size**

| Trustee type | Small | Medium | Large | Total |
|---|---|---|---|---|
| Corporate trustee | 15% | 10% | 16% | **13%** |
| Employer-appointed trustee | 47% | 52% | 38% | **47%** |
| Member-nominated trustee | 21% | 20% | 13% | **19%** |
| Professional trustee | 12% | 14% | 26% | **17%** |
| **Total** | **100%** | **100%** | **100%** | **100%** |

*Base (A2): All schemes; Small (259), Medium (454), Large (253); unweighted*

2.14 A third (35%) of the trustees interviewed were trustees of more than one scheme. On average, these trustees were trustees for three schemes other than the scheme they were answering on behalf of. Professional trustees were more likely than all other types of trustee to be a trustee of more than one scheme (89%) and, on average, were trustees for 16 other schemes. Two-fifths (39%) of corporate trustees, a quarter (26%) of employer-appointed trustees and 5% of member-nominated trustees were trustees of multiple schemes.

2.15 Two-thirds (67%) of trustees interviewed were the Chair of the board of trustees for the scheme they were answering on behalf of. In terms of scheme size, medium schemes were more likely to have been represented by the Chair of the board of trustees than small schemes (71% vs 62%).

[22] Significant differences are therefore not shown on this chart

**Investment sub-committees**

2.16 Just over a fifth of schemes interviewed (21%, unweighted) had an investment sub-committee. A fifth (19%) of the trustees interviewed sat on the investment sub-committee of the scheme they were answering on behalf of. Therefore, where an investment sub-committee existed, in 87% of cases the interviewee sat on that committee.

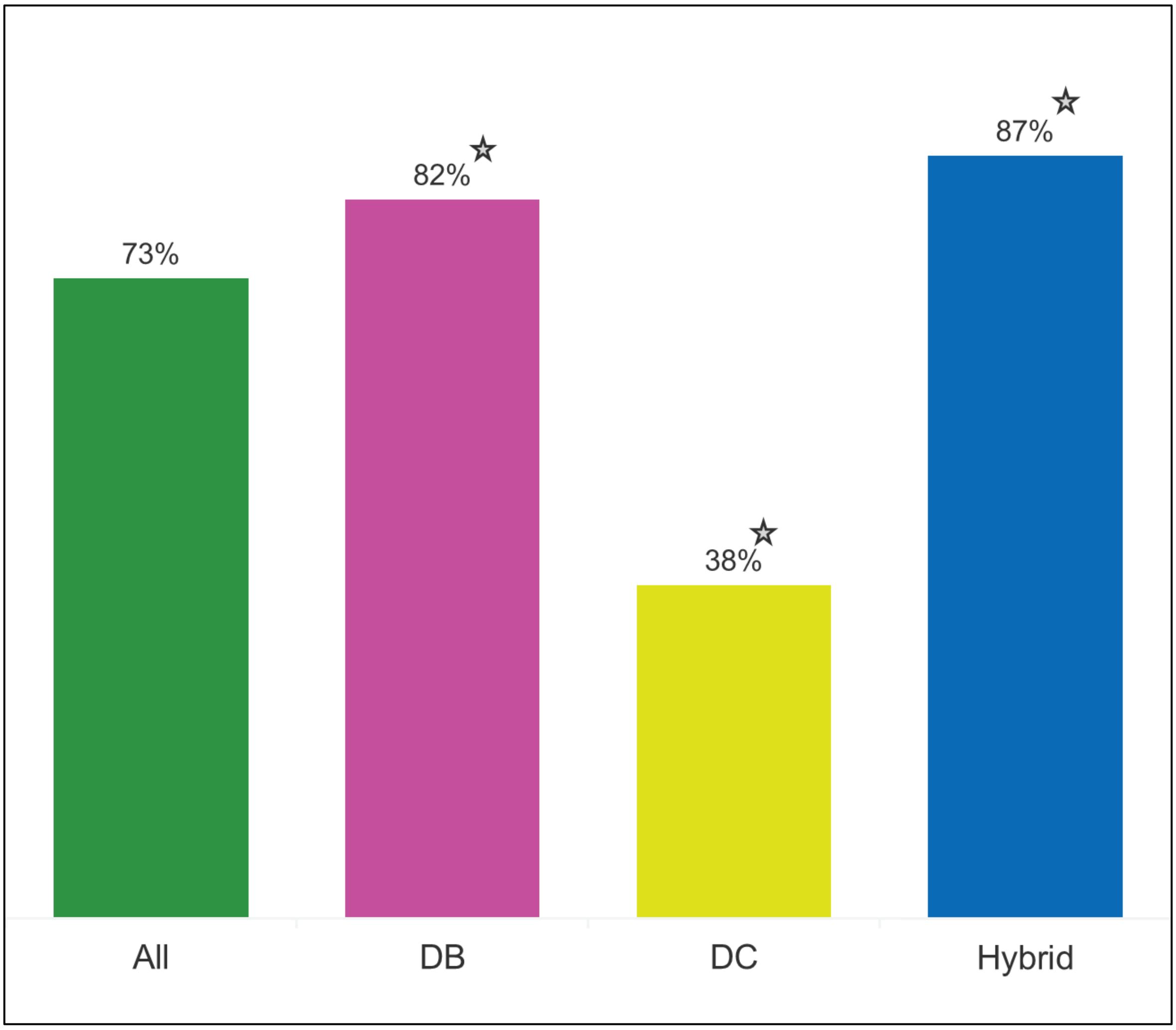
2.17 Of the trustees interviewed that sat on an investment sub-committee, around two-thirds (68%) said they were the Chair of the board of trustees for the scheme, no different to the proportion of interviewees who were Chairs at schemes with no sub-committee (also 68%).

# 3 Using Investment Consultancy and Fiduciary Management Services

## Using Investment Consultancy (IC) Services

3.1 Almost three quarters (73%) of pension schemes say they are currently buying IC services, as shown in Figure 3.1. There is, though, considerable variation by type and size of pension scheme, with IC services usage more than twice as likely amongst Hybrid and DB pension schemes than amongst DC pension schemes (87% and 82% respectively compared with 38%).

**Figure 3.1 Proportion of pension schemes currently buying IC services, by pension scheme type**




*Base (A7_1): All pension schemes (966), DB (679), DC (125), Hybrid (162).*

3.2 Over nine in ten large pension schemes use IC services (94%), as do just under nine in ten medium sized schemes (87%). Smaller pension schemes are much less likely to use IC services, but still around half (49%) do so.

3.3 Amongst pension schemes that use IC services, about nine in ten (91%) use only one IC provider, with only a very small proportion of pension schemes using two or more providers (6%), as shown in Table 3.1.

**Table 3.1 Number of providers pension schemes currently use for IC services**

| | DB | DC † | Hybrid | Total (all using IC services) |
|---|---|---|---|---|
| *Base (C2)* | *567* | *70* | *146* | *783* |
| Single provider | 91% | 94% | 87% | **91%** |
| 2 providers | 5% | 2% | 9%* | **5%** |
| 3 to 4 providers | 1% | 1% | 1% | **1%** |
| Don't know / Refused | 4% | 3% | 2% | **3%** |
| **Total** | **100%** | **100%** | **100%** | **100%** |

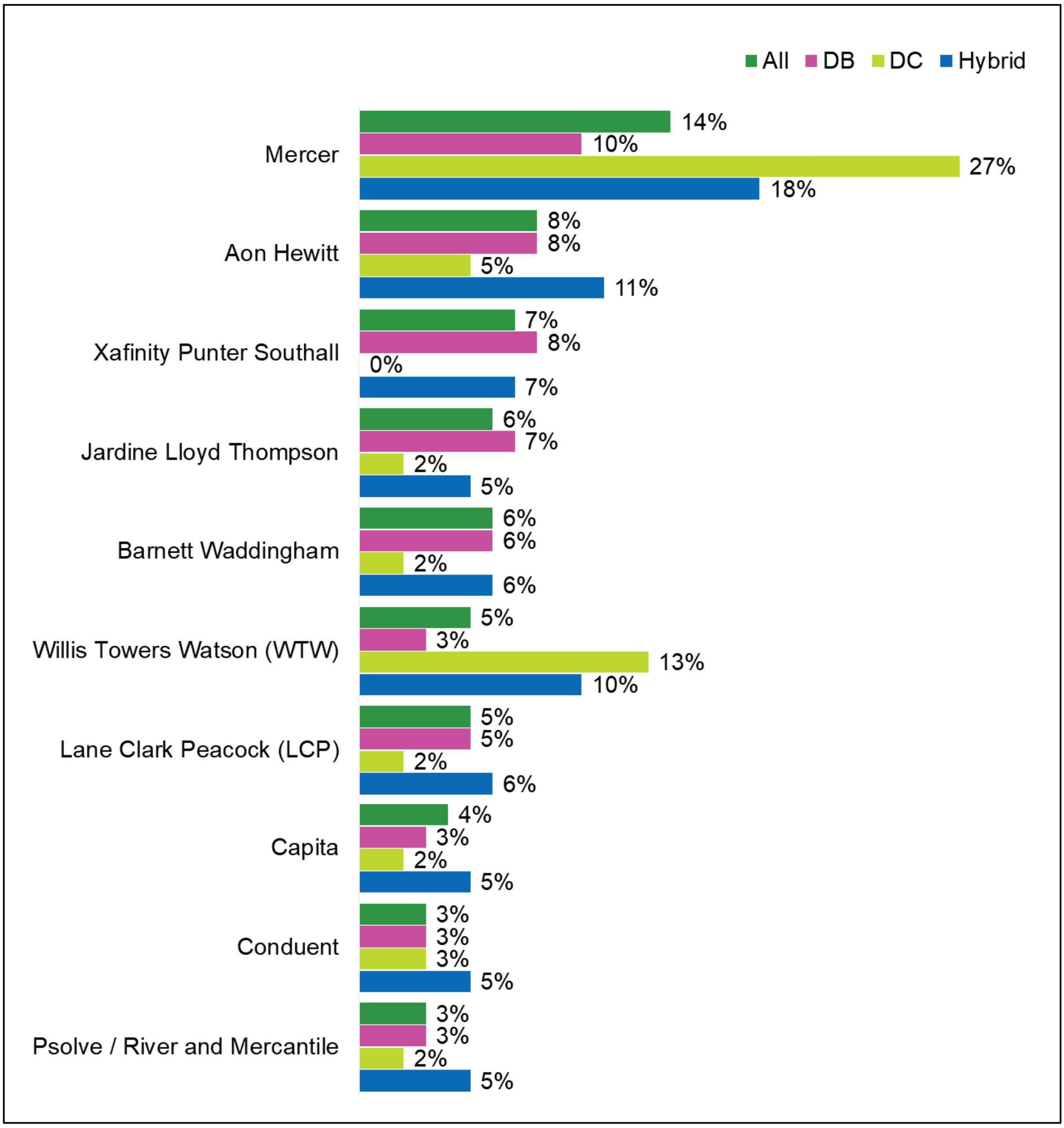
3.4 Hybrid pension schemes are more likely than other pension schemes to claim to use two or more IC providers; 10% do so, compared with 6% of DB pension schemes with an IC provider, and 1% of DC pension schemes.

3.5 Aon Hewitt, Mercer and Willis Towers Watson (WTW) are collectively referred to by the CMA as the 'three largest providers of IC and FM services' (abbreviated here to 'three largest providers'), based on 2016 revenues. Just over a quarter of pension schemes (27%) using IC services named one of these providers, either as their main provider or an additional provider, as shown in Figure 3.2. Mercer is the IC provider most commonly named (14%), followed by AON Hewitt (8%), Xafinity Punter Southall (7%), Jardine Lloyd Thompson Group (JLT) (6%), and Barnett Waddingham (6%).

3.6 The most frequently cited providers by pension scheme type, either as main provider or as an additional provider, are shown in Figure 3.2. It is notable that WTW (used by 5% for IC) does not feature in the top five schemes above by the percentage of schemes using it, despite being one of the three largest providers in revenue terms. This is because all of the three largest providers are more widely used among large schemes which would account for more revenue per scheme for the provider; Mercer (19% of large schemes), Aon Hewitt (16%) and WTW (12%). These three are the top three named providers for large schemes. Lane Clark Peacock is also a provider cited among many large schemes (11%), but like WTW (but even more so) is rarely named by other sizes of scheme.

3.7 In contrast, Xafinity Punter Southall is rarely cited among large schemes (3%), despite its widespread use among medium sized schemes (10%). Similarly, Jardine Lloyd Thompson (JLT) is mentioned more often by small schemes, with stated usage significantly rarer among large schemes (3%). However, their share of small schemes (9%), is approximately equal with that of Mercer (10%), and Aon Hewitt are the third most widespread provider named for schemes of this size (6%).

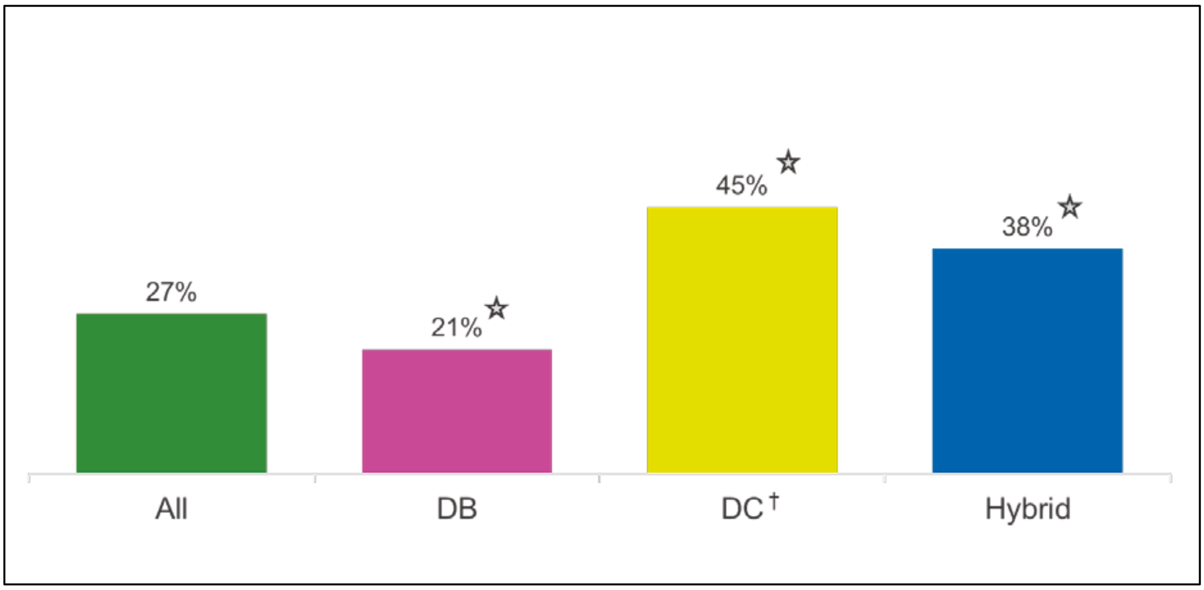
**Figure 3.2 Top 10 providers of IC services, either as a main provider or an additional provider, by percentage of pension schemes saying they use their service: by pension scheme type**




*Base (C2): Currently buying IC services (783), DB (567), DC (70), Hybrid (146)*

3.8 As shown in Figure 3.3, DC and Hybrid schemes are more likely than DB schemes to say that one or more of the three largest providers for IC services is either their main provider or an additional provider (45% and 38% respectively, compared with 21%). In addition, large pension schemes who buy IC services are twice as likely as medium or small schemes to say they use one of the three largest providers, as either their main provider or an additional provider (44%, compared with 21% and 19% respectively).

**Figure 3.3 Proportion of pension schemes currently using IC services which cite one of the largest three providers either as a main provider or an additional provider, by pension scheme type**

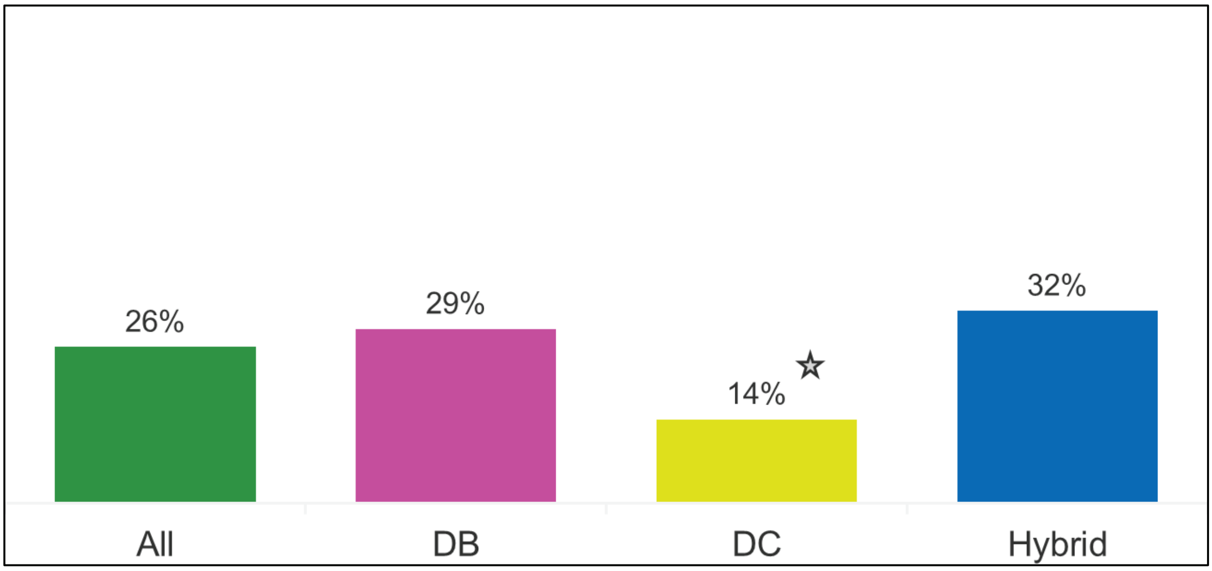



*Base (C2): Currently buying IC services (783), DB (567), DC (70), Hybrid (146)*

## Using Fiduciary Management (FM) services

3.9 Around a quarter (26%) of pension schemes say they use FM services, as shown in Figure 3.4. The use of FM services is much less common than the use of IC services (used by 73% as reported above). Hybrid and DB schemes are more than twice as likely to use FM services as DC schemes are (32% and 29% respectively compared with 14%).

**Figure 3.4 Proportion of pension schemes saying they currently buy FM services, by pension scheme type**




*Base (A7_2): All pension schemes (966), DB (679), DC (125), Hybrid (162).*

3.10 Use of FM services is particularly likely amongst medium sized pension schemes, amongst which usage rises to over one in three (35%). Smaller pension schemes are less likely to buy FM services; almost a fifth (18%) do so.

3.11 The majority of trustee boards that use FM services have a single provider (86%), as shown in Table 3.2. Use of multiple providers is very uncommon, with only 7% using multiple providers for their FM services. None of the 25 DC schemes interviewed use multiple providers.

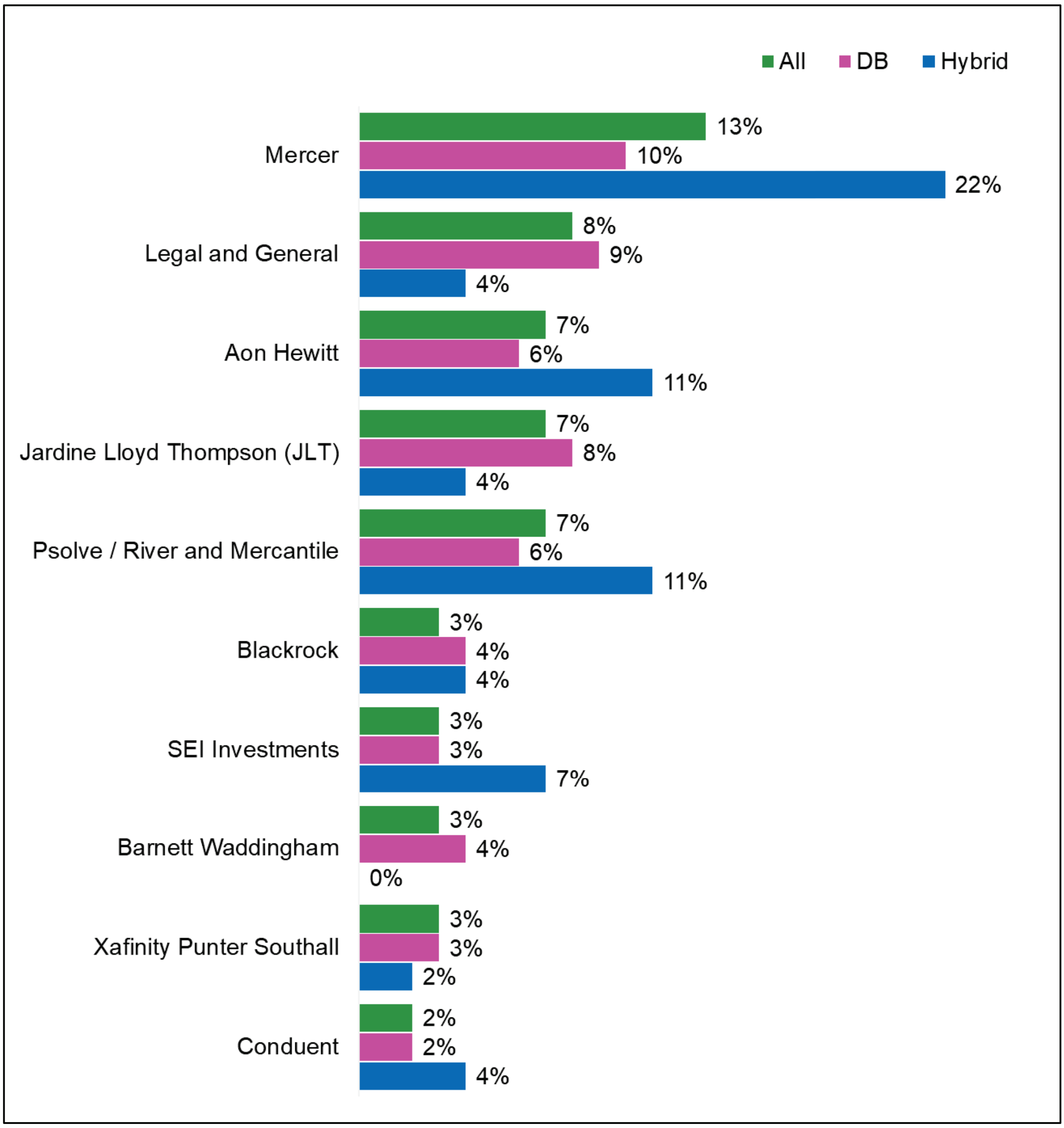
**Table 3.2 Number of providers pension schemes say they use, either as their main provider or an additional provider, for FM services**

| | DB | Hybrid † | Total (All using FM) |
|---|---|---|---|
| *Base (K2)* | *200* | *54* | *279* |
| One provider | 84% | 91% | 86% |
| Two or more providers | 8% | 5% | 7% |

3.12 Just under a quarter of pension schemes (23%) using FM services say they use one of the three largest providers identified earlier in this chapter, either as their main provider or as an additional provider. As shown in Figure 3.5, Mercer is the FM provider most commonly cited by pension schemes (13%), followed by Legal and General (8%), Aon Hewitt (7%), Jardine Lloyd Thompson Group (7%) and Psolve / River and Mercantile (7%). All other providers have a share of less than 5%, according to survey data.

3.13 As for IC services, the largest three providers are particularly likely to be mentioned by large schemes as their main provider of FM services or as an additional provider. This is a significant difference for Willis Towers Watson (WTW), who are cited by only 3% of schemes overall, but named by 14% of large schemes. The leading providers named among large schemes were found to be Mercer (18%), Psolve / River and Mercantile (18%), WTW (14%) and Aon Hewitt (12%).

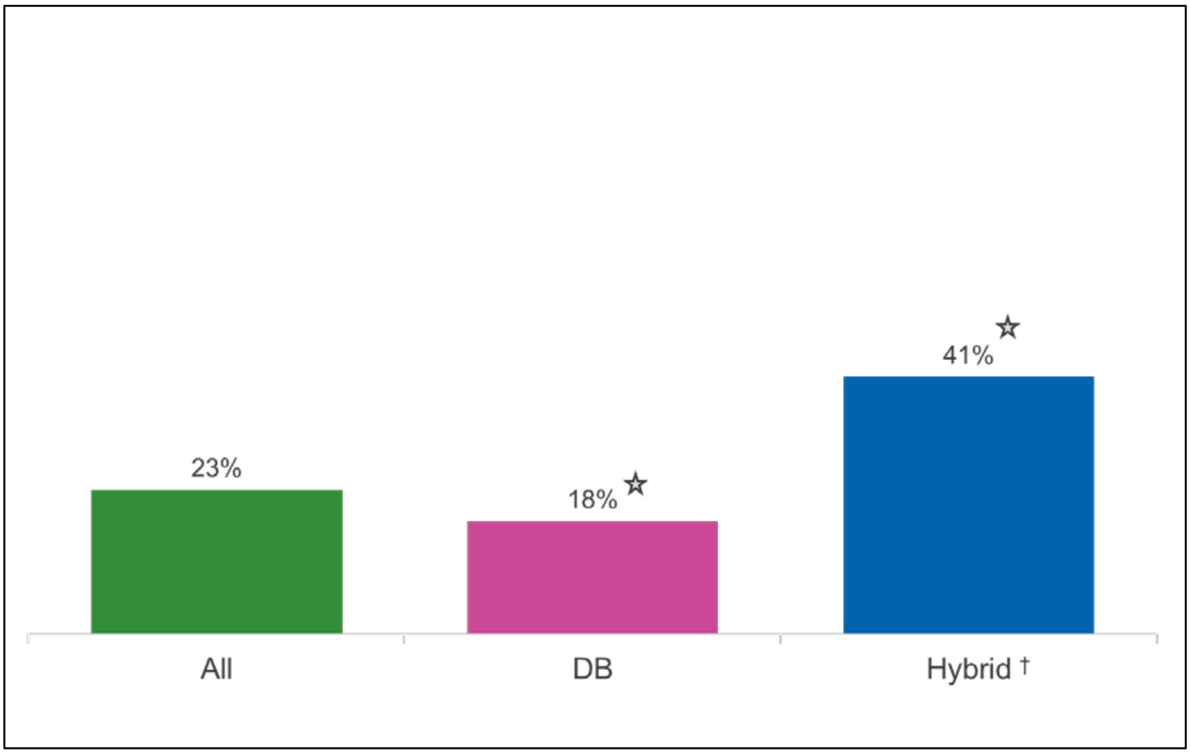
**Figure 3.5 Top 10 providers of FM services, by percentage of pension schemes saying they use their service, either as their main provider or as an additional provider: by pension scheme type**




*Base (K2): Currently buying FM services (279), DB (200), DC (25), Hybrid (54)*

3.14 Using one of the three largest providers for FM services (either as their main provider, or as an additional provider, among those that use FM) is particularly common amongst Hybrid schemes (41% compared with 18% of DB schemes), as shown in Figure 3.6. Large pension schemes are twice as likely to use one of the three largest providers, as are medium or small schemes (43%, compared with 22% and 9% respectively).

**Figure 3.6 Proportion of pension schemes currently using FM services which cite one of the three largest providers, either as their main provider or as an additional provider, by pension scheme type**




*Base (K2): Schemes purchasing FM services: All (279), DB (200), DC (25), Hybrid (54)*

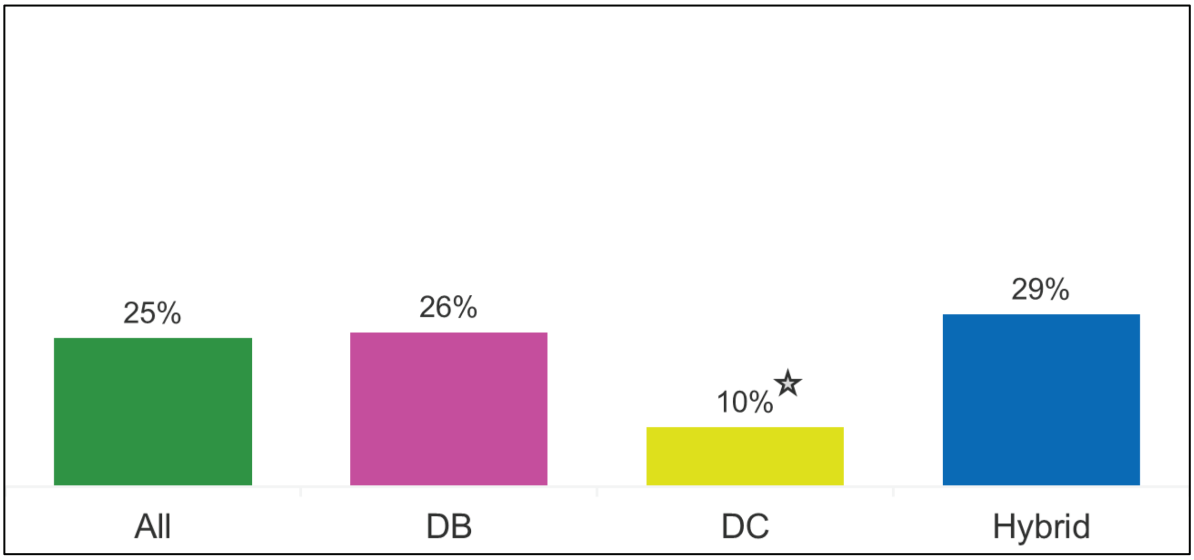
## Links between using IC services and using FM services

3.15 Overall, almost a quarter of pension schemes (23%) say they are currently buying *both* IC services and FM services, as shown in Figure 3.5.

3.16 In line with the increased likelihood of Hybrid and DB trustee boards using each individual type of service, they are almost three times as likely to use *both* IC services and FM services as DC trustee boards are (29% and 26% respectively compared with only 10%).

3.17 Medium sized pension schemes are particularly likely to be buying *both* IC services and FM services - twice as likely as their smaller counterparts (30% compared with 15%). Although nearly all large pension schemes use IC services (94%) their lower usage of FM services leaves only around a quarter (24%) using both services.

**Figure 3.7 Proportion of pension schemes saying they buy both IC and FM services, by pension scheme type**




*Base (A7): All pension schemes (966), DB (679), DC (125), Hybrid (162).*

3.18 About half (49%) of pension schemes are currently using only IC services (and not FM services), as shown in Table 3.3. Use of FM services but *not* IC services is very rare (only 3% of pension schemes do this). The remaining trustee boards were using neither IC services nor FM services (22%) or were unsure.

**Table 3.3 Proportion of pension schemes currently using either IC and FM services, both IC and FM services or neither**

| | DB | DC | Hybrid | Total (all schemes) |
|---|---|---|---|---|
| *Base (A7)* | *679* | *125* | *162* | *966* |
| Use IC services | 82% | 38%* | 87% | 73% |
| Use FM services | 29% | 14%* | 32% | 26% |
| Use only IC services (and not FM services) | 54% | 27%* | 56% | 49% |
| Use only FM services (and not IC services) | 3% | 4% | 3% | 3% |
| Use both IC services and FM services | 26% | 10%* | 29% | 23% |
| Use neither IC services nor FM services | 14% | 55%* | 10% | 22% |
| Don't know if use FM services | 3% | 4% | 2% | 3% |

3.19 Trustee boards that use FM services are highly likely to use IC services as well; almost nine in ten pension schemes using FM services also use IC services (88%).

3.20 Overall, 70% of schemes that use both IC services and FM services say that they have the same provider for both. Furthermore, 64% have the same *main* provider, that is, the provider they spend the most money with for both IC services and FM services. No variation in these was noted by scheme type.

3.21 Use of the same main provider does not preclude use of additional providers, but trustee boards who use the same main provider for both their IC services and FM services are particularly unlikely to use multiple providers for either service. Further investigation shows that in 94% of cases, those schemes with the same main provider have no other provider at all, either for IC services (94%) or FM services (97%). This means that 60% of those schemes buying both IC services and FM services are reliant on a single company in these matters.

3.22 Amongst those buying their IC services and FM services from the same provider[23], nearly a fifth (19%) say they use Mercer, while 12% use Aon Hewitt. Even though Psolve / River and Mercantile account for only 3% of schemes using IC services, this rises to a 9% share among those using the same provider for both. 8% use Jardine Lloyd Thompson Group (JLT).

## Importance of, and satisfaction with, IC providers and FM providers

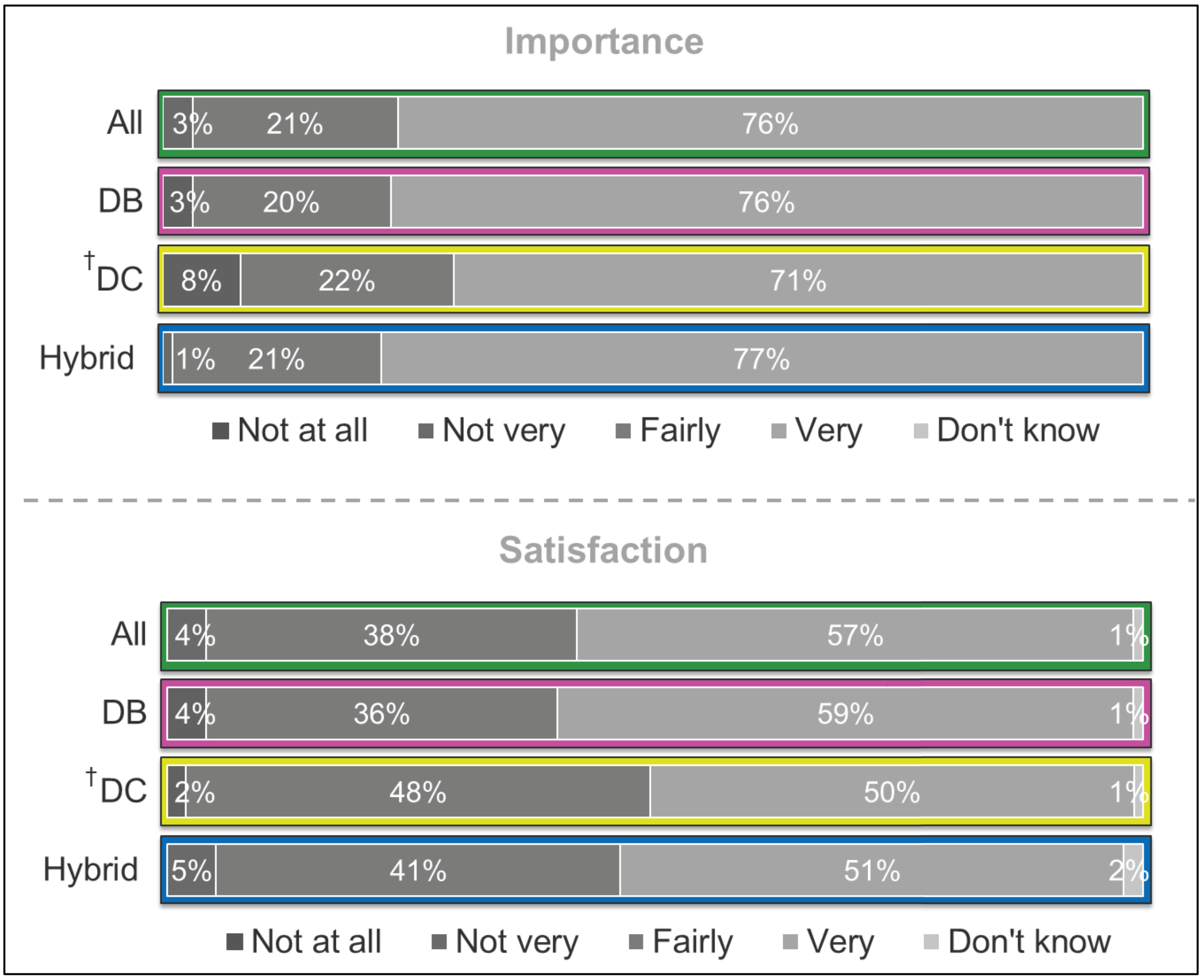
3.23 Around three quarters (76%) of trustee boards buying IC services consider them to be 'very important', as shown in Figure 3.8. Large pension schemes are more likely than small pension schemes to consider the IC services they purchase to be 'very important' in meeting their objectives.

3.24 Over half of trustee boards (57%) using IC services are 'very satisfied' with their main IC provider, as shown in Figure 3.8. Trustee boards of DB pension schemes are more likely to be 'very satisfied' with their main IC provider (59%) than other types of scheme. This compares to 50% of DC schemes and 51% of Hybrid schemes.

3.25 There is little variation in satisfaction with the main IC provider by size of pension scheme, but the trustee boards of schemes that have an investment sub-committee (where the respondent is on that committee) are more likely to be 'very satisfied' with their main provider than those without an investment sub-committee (64% compared with 55%).

[23] This includes both the pension scheme's main and other providers.

**Figure 3.8 Importance of IC services in meeting the pension scheme's objectives and satisfaction with the IC services of the main IC provider, by pension scheme type**



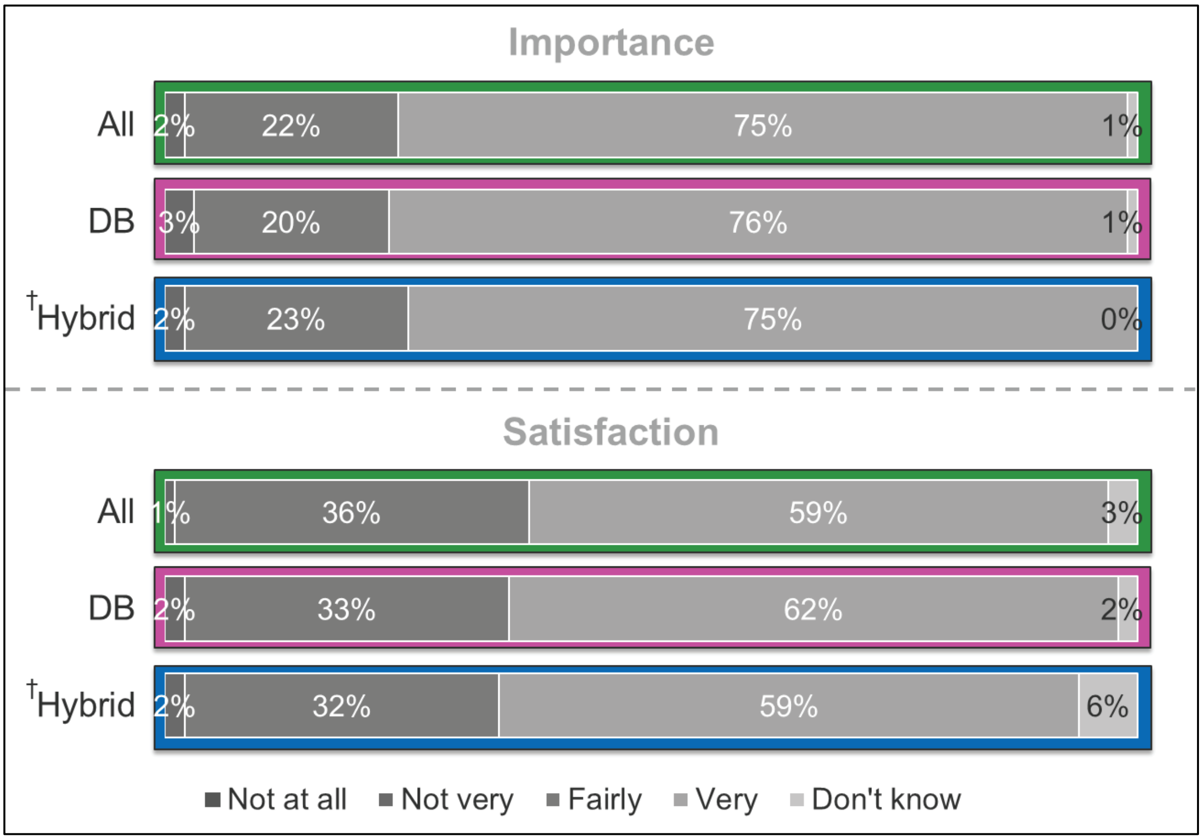

*Base (C6, J1) Pension schemes currently buying IC services: (783), DB (567), DC (70), Hybrid (146).*

3.26 Three quarters (75%) of trustee boards buying FM services consider them to be 'very important' in meeting their pension scheme's objectives, as shown in Figure 3.9.

3.27 Over half of trustee boards are 'very satisfied' (59%) with their main FM provider, as shown in Figure 3.9.

3.28 Trustee boards that use both IC services and FM services are not significantly more likely to be 'very satisfied' with their main FM provider (59%) than those who use only IC services (57%). However, those that use the same main provider for IC services and FM services are more likely to be 'very satisfied' with their main FM provider than all other groups combined (65%).

**Figure 3.9 Importance of FM services in meeting the pension scheme's objectives and satisfaction with the FM services of the main provider, by pension scheme type**




*Base (K6, O6): Pension schemes currently buying FM services: All (279), DB (200), DC (25), Hybrid (54).*

**Services within the IC remit**

3.29 The IC services which trustee boards most commonly buy from their main IC provider are strategic asset allocation advice and asset manager selection advice (91% and 88% of those buying IC services respectively), as shown in Figure 3.10. In addition, almost four in five trustee boards which buy IC services use each of reporting and operational services (79%) and advice on setting pension scheme objectives (79%).

3.30 Strategic Asset Allocation advice is more likely to be used by DB and Hybrid pension schemes (95% and 93% respectively compared with 72% of DC schemes who use IC services). The same pattern applies to Asset Manager selection. Generally speaking, DC schemes demand fewer services from their main IC provider. There is no significant difference by scheme type in use of reporting and operational services.

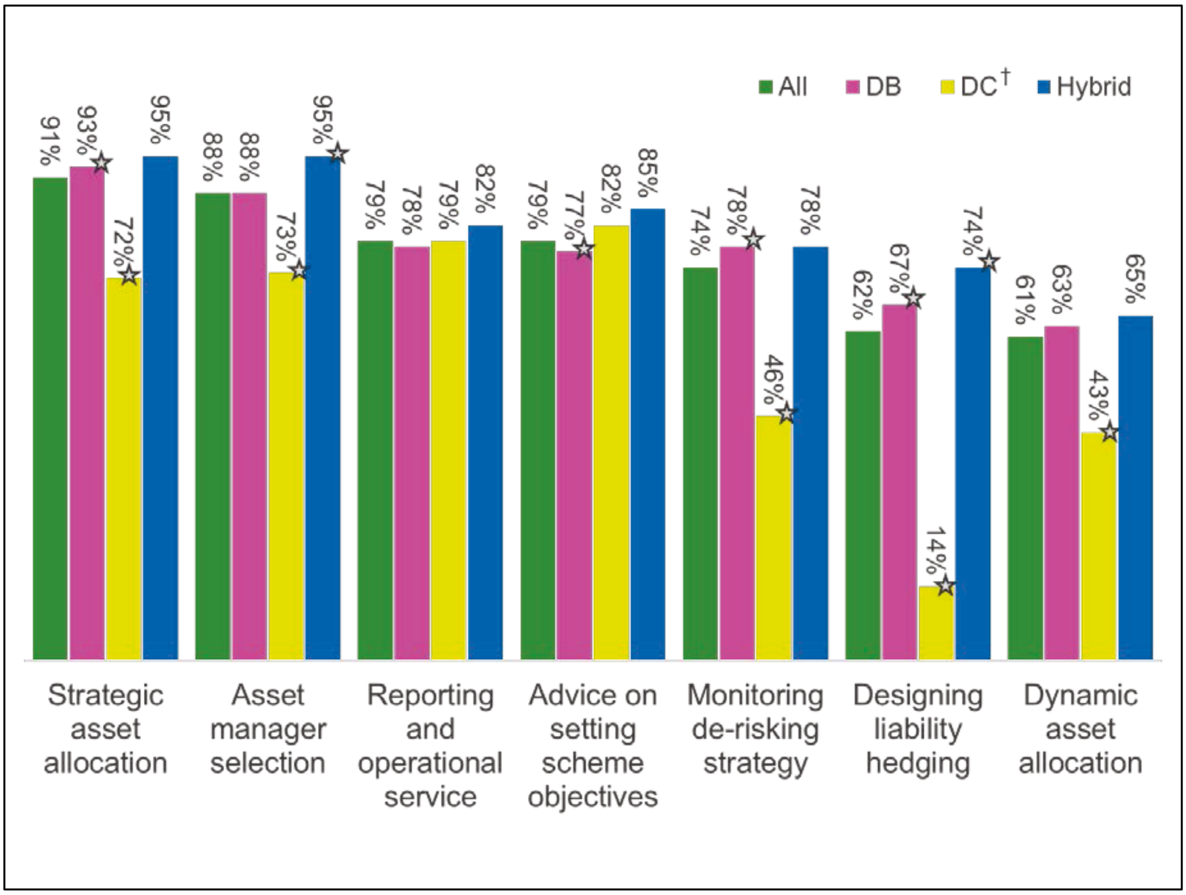
3.31 Overall, trustee boards which use IC services purchase an average of 5.3 of the services asked about from their main IC provider. This rises to 5.7 amongst Hybrid pension schemes, and 5.4 amongst DB schemes but drops to 4.1 amongst DC pension schemes.

3.32 Large schemes with 1,000 or more members which buy IC services are significantly more likely to buy most of the types of service listed than their counterparts with fewer members, other than the monitoring of de-risking strategies. Overall, large schemes who buy IC services purchase

5.7 services on average from their main IC provider, more than the averages amongst medium and small schemes who buy IC services (5.4 and 4.9 services respectively).

3.33 Trustee boards with the same main provider for both IC services and FM services are also more likely to use a larger number of IC services from their main provider, using 6.1 on average compared with 4.9 amongst those who use different main providers for IC services and FM services.

**Figure 3.10 Types of IC advisory services bought, by pension scheme type (prompted)**




*Base (C4) Pension schemes currently buying IC services: (783), DB (567), DC (70), Hybrid (146).*

**Services outside the IC remit**

3.34 Over three quarters of pension schemes which buy IC services also buy other types of services from their main IC provider (75% do so, with 25% buying no other services). On average, pension schemes use their main IC provider for 1.5 of the additional services listed in Figure 3.11.

3.35 The most common additional services bought from main IC providers are actuarial services and scheme administration, used by over half of those who buy IC services (55% and 52% respectively). Over a third (35%) use asset management services from the same provider.

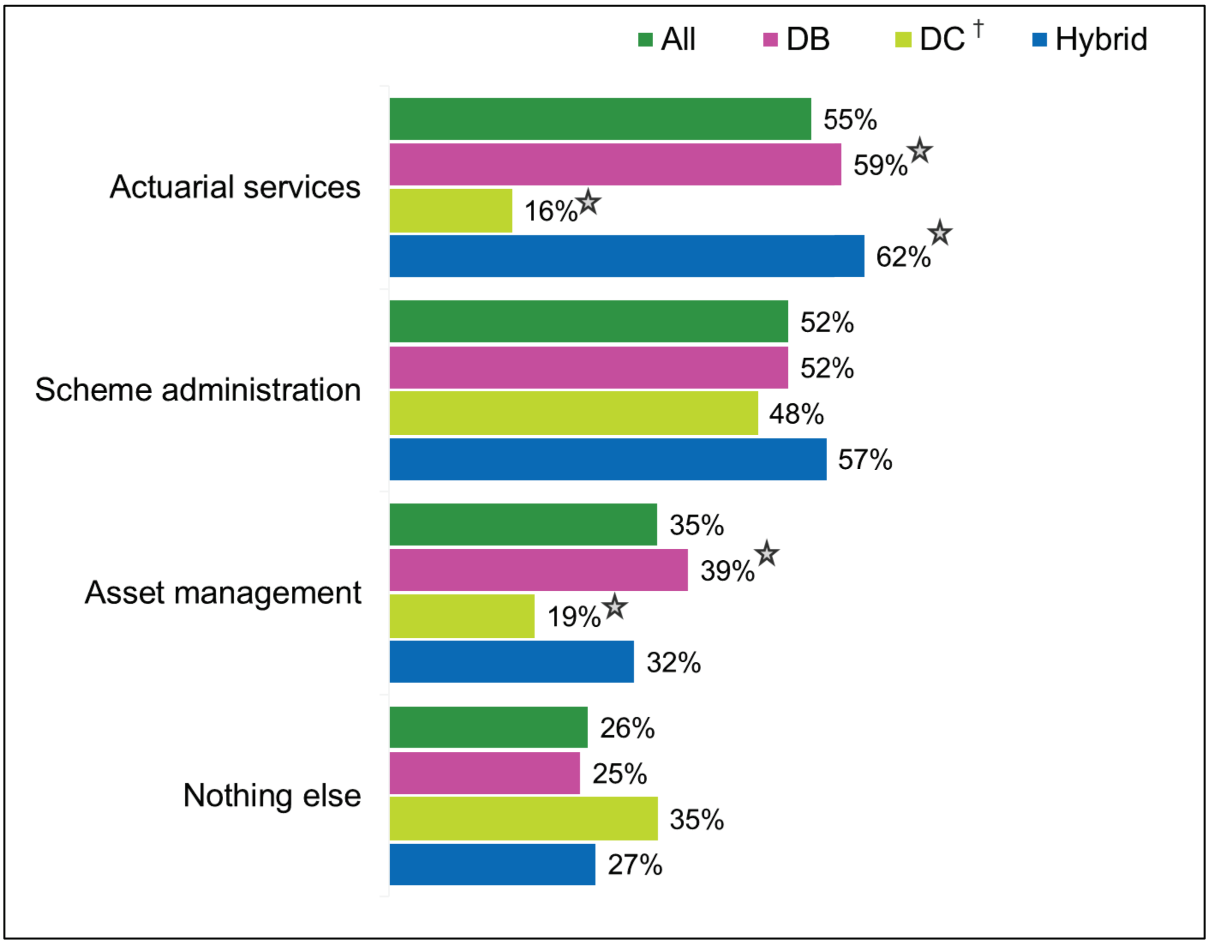
3.36 Importantly, trustee boards who use the same main provider for both IC services and FM services are twice as likely to also buy their asset management services from the same provider as those who have separate main providers for IC services and FM services (66% compared with 33%).

3.37 DB schemes are also much more likely than DC schemes to use their asset management services (39% compared with 19%); Hybrid schemes' usage (32%) is in-line with the overall average. DB and Hybrid pension schemes who buy IC services are much more likely to use the actuarial services of their main IC provider than DC schemes are (62% and 59% respectively compared with 16%).

3.38 Medium sized schemes are more likely than either small or large schemes to use their main IC provider for actuarial services (64%) and scheme administration (62%).

3.39 Trustee boards which have used the same main IC provider for ten years or more are also more likely than other types of scheme to use their actuarial services (63% compared with 49% of those who had been with their main provider for a shorter time), and / or to use their scheme administration services (59% compared with 46% of those who had been with their main provider for a shorter time).

**Figure 3.11 Other services pension schemes buy from their main IC provider, excluding FM services (prompted)**




*Base (C7) Pension schemes currently buying IC services: (783), DB (567), DC (70), Hybrid (146).*

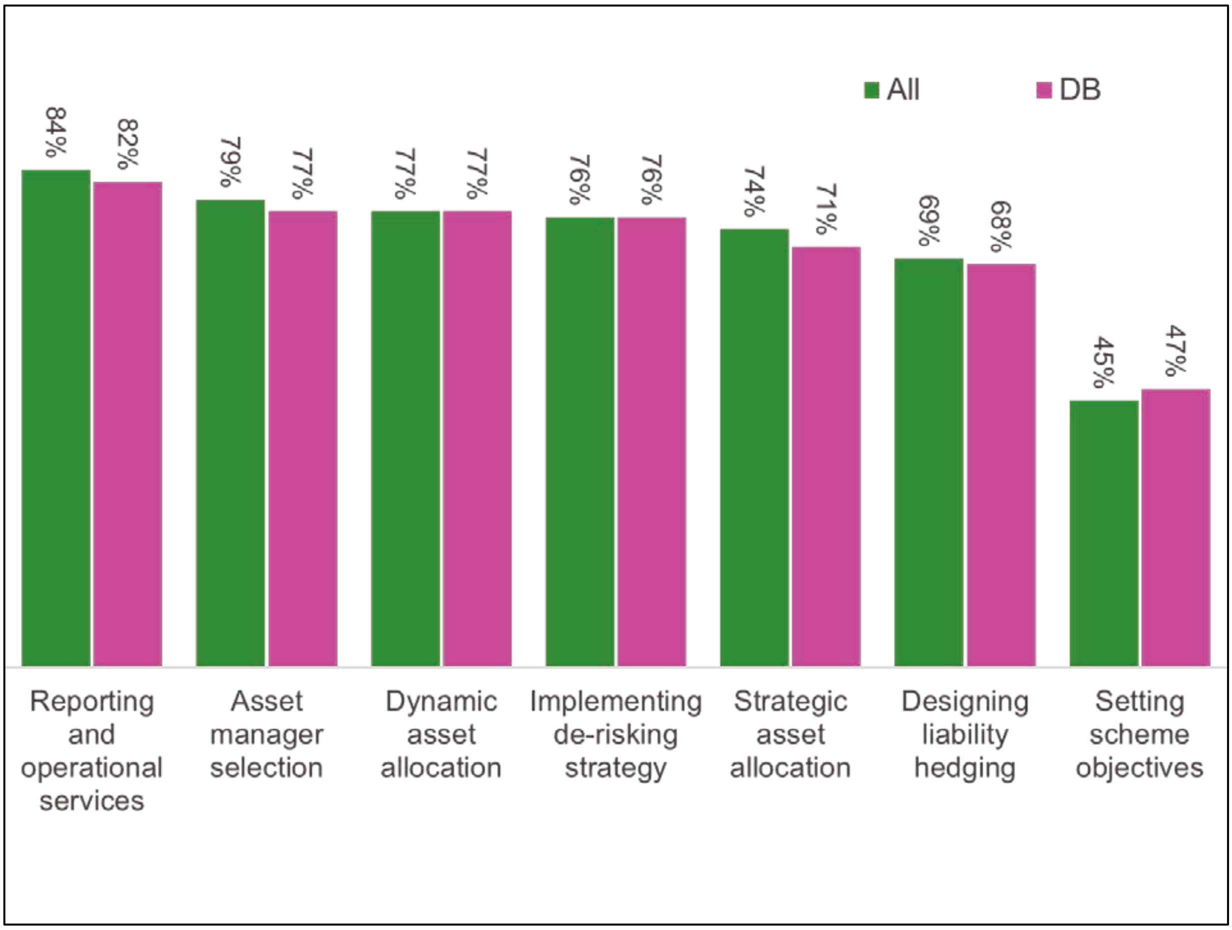
## Activities delegated to FM providers

3.40 The services most frequently bought from main FM providers are reporting and operational services (84%), asset manager selection (79%), dynamic asset allocation (77%), implementation of de-risk strategies (76%) and strategic asset allocation (74%), as shown in

Figure 3.12. On average trustee boards purchase five of the FM services mentioned in the survey from their main FM provider.

3.41 There are no marked differences by scheme type or size in the purchase of FM services.

**Figure 3.12 Types of FM services delegated to main FM provider, all pension schemes and DB schemes (prompted)**




*Base (K4) Currently buying FM services: (279), DB (200).*

## Reasons for purchasing IC services and FM services

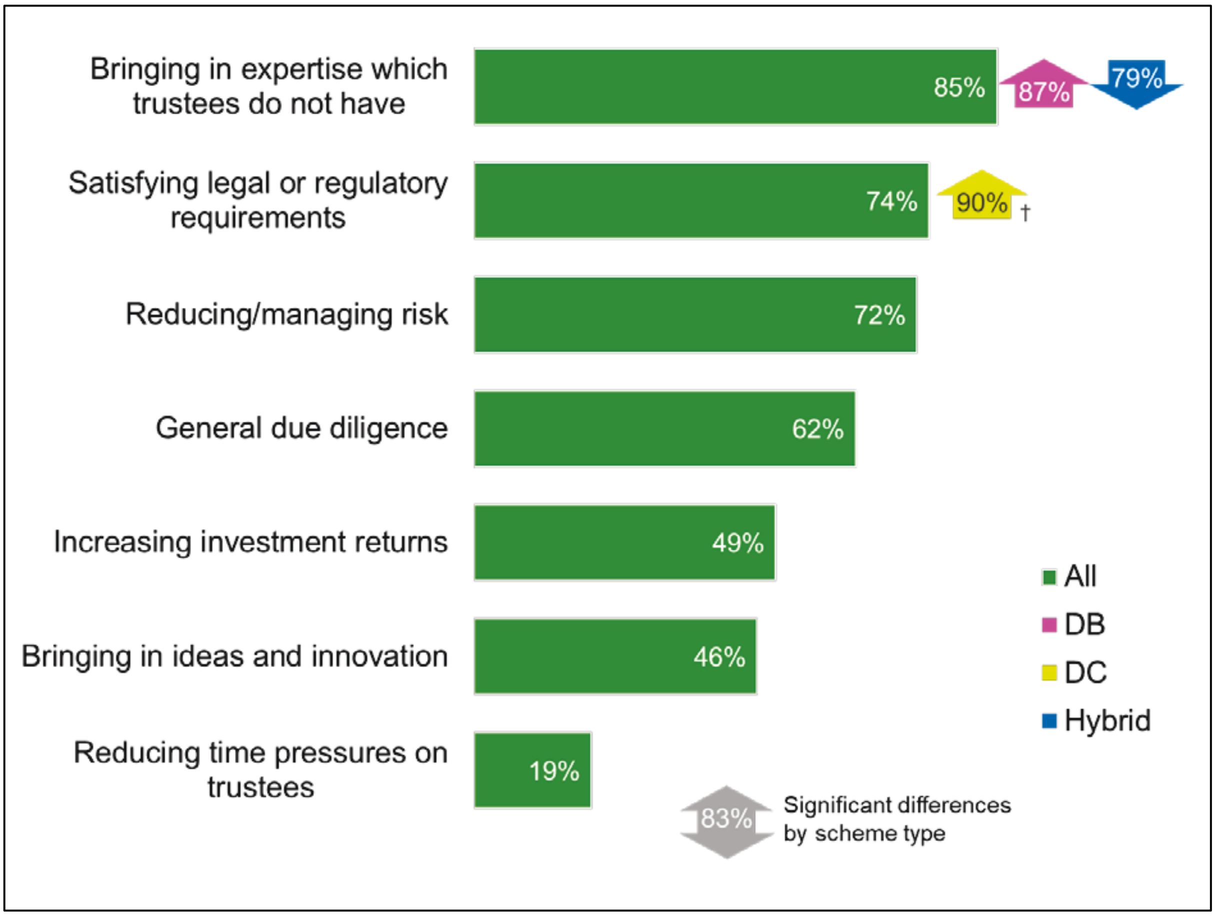
**Reasons to purchase IC services**

3.42 When deciding to purchase IC services trustee boards are particularly concerned about bringing in expertise ('very important' for 85%); much more so than increasing investment returns ('very important' for 49%), innovation ('very important' for 46%), or reducing time pressures on trustees ('very important' for 19%), as shown in Figure 3.13.

3.43 Satisfying legal or regulatory requirements and reducing or managing risk are 'very important' considerations for around three quarters of trustee boards buying IC services (for 74% and 72% respectively). Satisfying legal or regulatory requirements is an especially important reason for DC pension schemes to use IC services, considered 'very important' by 90% compared with 72% of DB and 69% of Hybrid pension schemes.

3.44 Medium sized schemes are more likely than other sizes of scheme to consider general due diligence to be 'very important', whilst large schemes are less likely ('very important' for 53% of large, 66% of medium and 63% of small pension schemes, compared with 62% overall).

**Figure 3.13 Features of IC services considered 'very important' by trustee boards (prompted)**




*Base (C1) Pension schemes currently buying IC services: (783), DB (567), DC (70), Hybrid (146)*

**Reasons to purchase FM services**

3.45 Similarly, more than four-fifths (84%) of trustee boards who purchase FM services consider bringing in expertise which trustees do not have to be a 'very important' reason for buying FM services, as shown in Figure 3.14. Reducing risk is also 'very important' in deciding to buy FM services for nearly three quarters (72%).

3.46 For just over half, accessing different asset classes and/or strategies (57%), making investment decisions quicker and easier (also 57%) and increasing returns (54%) are 'very important'. Reflecting the reasons given for buying IC services, fewer mention costs or time as 'very important' factors when deciding to buy FM services (reducing time pressures on trustees is 'very important' for 37%, reducing governance or asset management costs is 'very important' for 23% and 22% respectively).

3.47 Bringing in ideas and innovation is a 'very important' consideration for two fifths (41%) of those buying FM services, but this rises to almost three fifths (57%) amongst Hybrid pension schemes (compared with 40% of DB schemes; please note the number of DC schemes using FM providers is too small to reliably compare).

**Figure 3.14 Features of FM services considered 'very important' by trustee boards (prompted)**

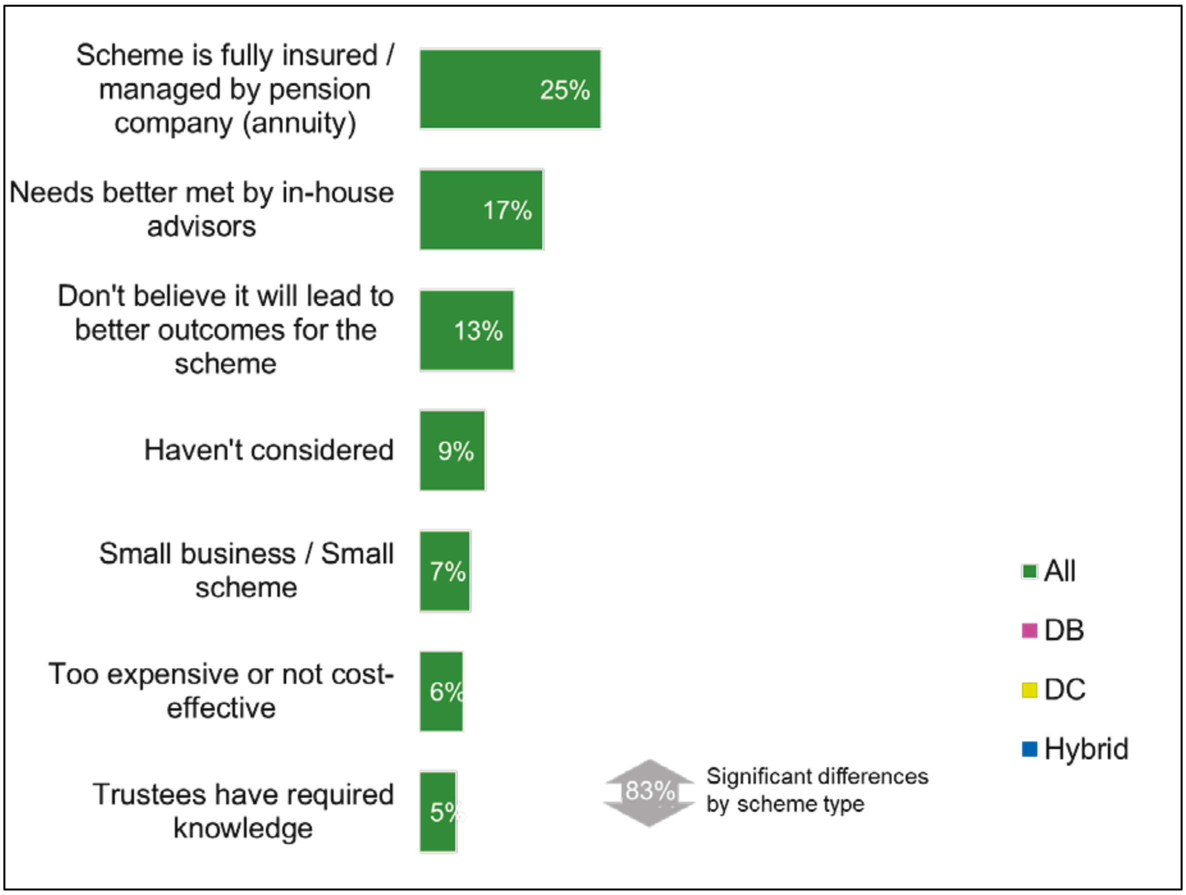

*Base (K1) Pension schemes currently buying FM services: All (279), DB (200), DC (25), Hybrid (54)*

**Reasons not to purchase IC services**

3.48 A wide range of reasons are given for never buying IC services by pension schemes which have never done so. The most common reason is because the scheme is already fully insured or managed by a pension company (the situation for 25% of those who have never bought IC services), as shown in Figure 3.15. A significant proportion also had in-house advisors (17%), while a further group (13%) were sceptical of the benefits.

3.49 Smaller pension schemes with 12 to 99 members are more likely than other groups to not buy IC services because their scheme is fully insured or managed by a pension company (29% compared with 25% overall), but less likely to not do so as they think their needs are met better by in-house advisors (13% compared with 17% overall). The base size for large and medium schemes who have never purchased IC services is too low to reliably compare.

**Figure 3.15 Reasons for trustee boards to have never bought IC services (unprompted)**




*Base (P1) Pension schemes that have never purchased IC services: All (131), DB (71), DC (49), Hybrid (11)*

**Reasons not to purchase FM services**

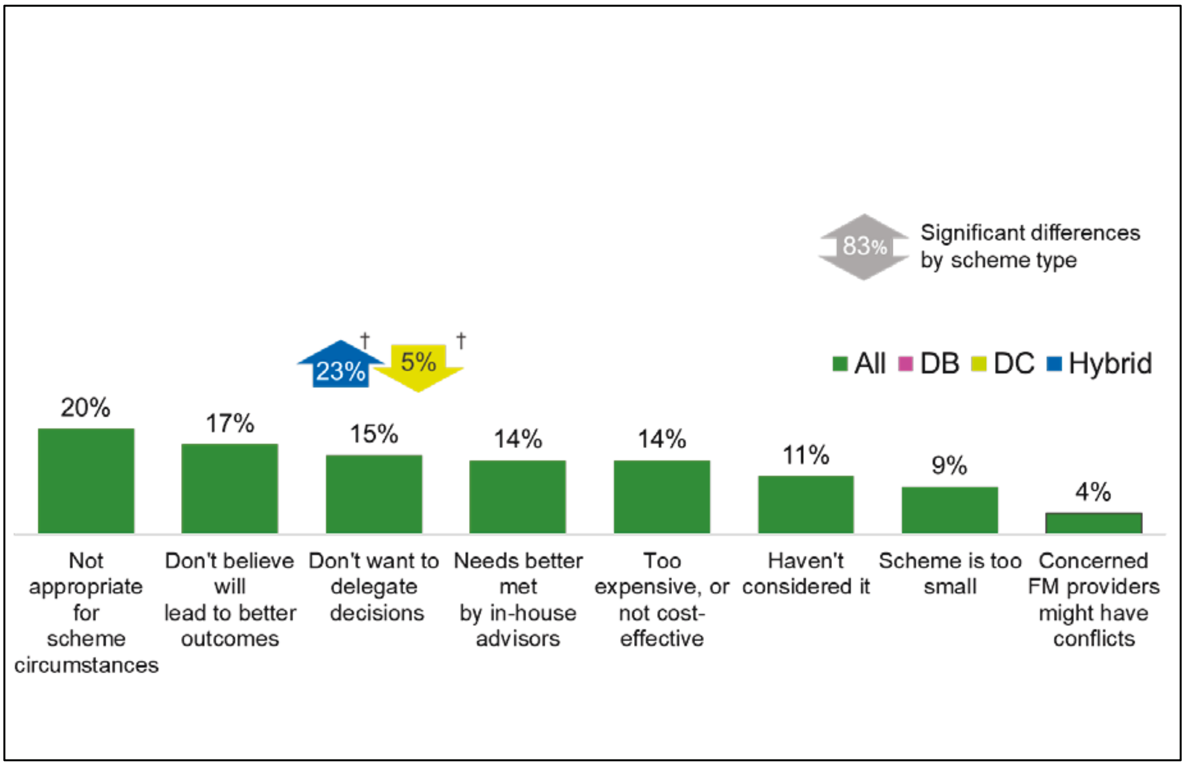
3.50 Trustee boards that do not buy FM services are most likely to say this is because; it is inappropriate for their scheme's circumstances (20%), or they are sceptical of its usefulness (17%), as shown in Figure 3.16.

3.51 Not wanting to delegate decision-making is a reason not to buy FM services for 15% of trustee boards who have never bought FM services, although this is only a concern for 5% of DC boards compared with 23% of Hybrid schemes and 18% of DB schemes.

3.52 Large schemes are more sceptical than small or medium schemes that their outcomes would improve if they bought FM services (24% compared with 17% and 13% respectively), and are also more likely to be wary of delegation (31% compared with 17% and 6% respectively). Small schemes are more likely to say their scheme is too small for FM services (14% compared with 8% of medium schemes and 1% of large schemes). Cost effectiveness is more likely to be a concern for medium schemes than for small (19% compared with 9% of small schemes).

3.53 Few boards of trustees see potential conflicts of interest as a reason to avoid using an FM provider. Overall, only 4% of trustee boards who have not bought FM services have avoided doing so because of this. Any concern is almost exclusively mentioned amongst larger schemes, with 10% of those with a thousand or more members mentioning this reason compared with 5% of medium schemes and less than 1% of small schemes.

**Figure 3.16 Reasons for trustee boards never to have bought FM services (unprompted)**




*Base (P4) Pension schemes that have never purchased FM services: All (593), DB (414), DC (85), Hybrid (94).*

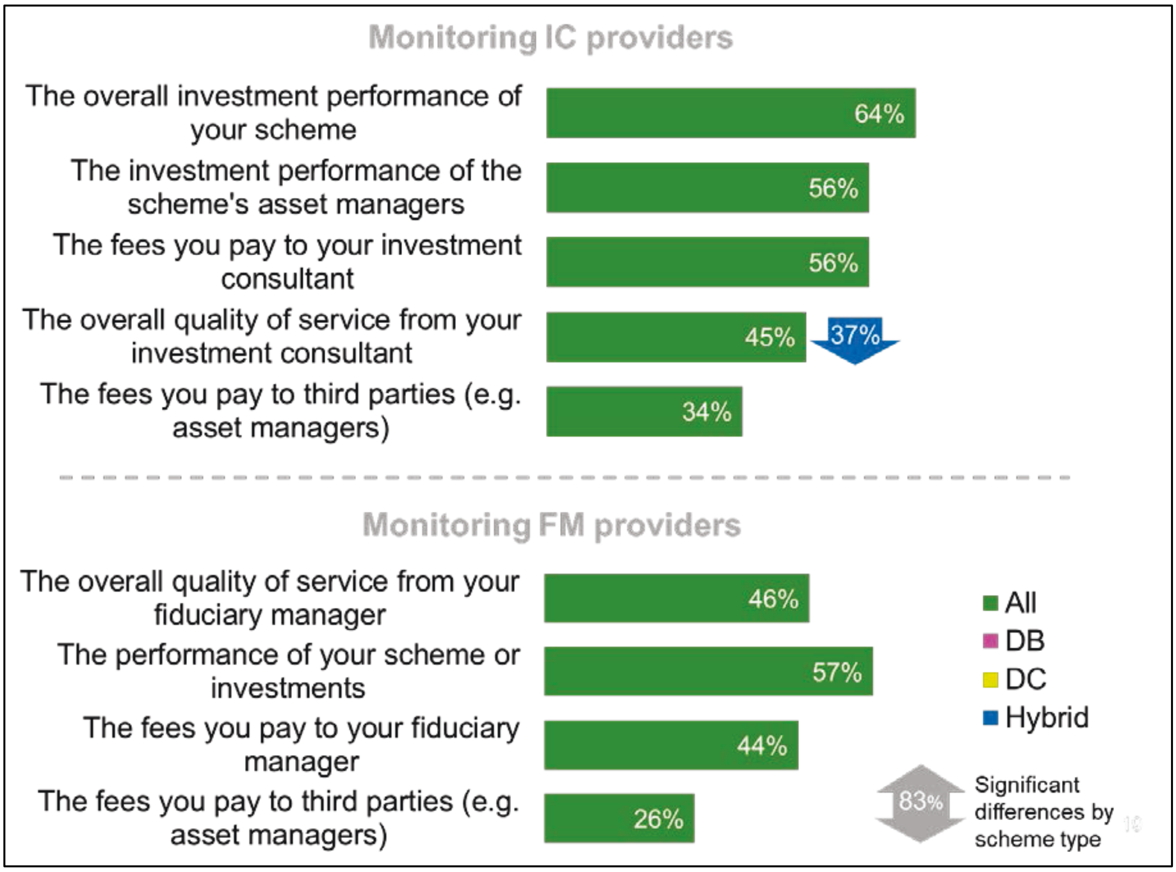
## Monitoring IC providers and FM providers

### Ease of monitoring providers

3.54 As shown in Figure 3.17, in general, users of IC services say they find it 'very easy' to monitor performance of their main provider, especially overall investment performance (64%), but also investment performance of asset managers (56%), and fees paid to the IC provider (56%). The overall quality of service is less likely to be 'very easy' to monitor (45% 'very easy', falling to 37% among hybrid schemes), and fees paid to third parties such as asset managers least likely to be rated as 'very easy' (34% 'very easy').

3.55 Nearly half of users of FM services say they find it 'very easy' to monitor the overall quality of service from their main FM provider. A similar proportion find it 'very easy' to monitor FM provider fees (44%). Only about a quarter (26%) said it is 'very easy' to monitor fees paid to third parties where an FM provider was used. However, more than half (57%) continued to find it 'very easy' to monitor the performance of their scheme or investments.

**Figure 3.17 Monitoring main IC providers and main FM providers: trustee boards who find each aspect listed 'very easy'**




*Base (D1, M2) Pension schemes currently buying IC services: All (783), pension schemes currently buying FM services: All (279)*

**Actions taken to monitor main providers**

3.56 Most trustee boards report they have taken action to monitor their main IC providers in one of the ways listed in Figure 3.18 within the last three years. Three quarters (62%) of trustee boards using IC services have undertaken two or more of the actions listed, and 24% have undertaken one. On average, trustee boards have taken 2.2 actions to monitor their main IC provider.

3.57 Hybrid schemes carry out more forms of monitoring than other groups of schemes (2.5 actions) and DC schemes carry out fewer forms of monitoring (1.7 actions).

3.58 Most commonly, boards challenge their main provider to improve their terms and / or have a formal review of fees (57% of those using IC services each). Just over half of trustee boards using IC services had benchmarked the fees their main IC provider was charging (45%). Far fewer have carried out any actions involving external oversight – for example external assessment of fees or advice quality (10% each).

3.59 Less than half of trustee boards using FM services had challenged their main FM provider to improve their terms (42%), had a formal review of their fees (45%), or had benchmarked the fees their main FM provider was charging against those of another potential provider (37%). On average trustee boards using FM services monitor their main provider in 1.8 of the ways listed. For those which had been with their current main FM provider for more than five years, a formal review of performance was more likely to have been carried out (52%) than for all other groups combined; however, there were no differences regarding other forms of monitoring.

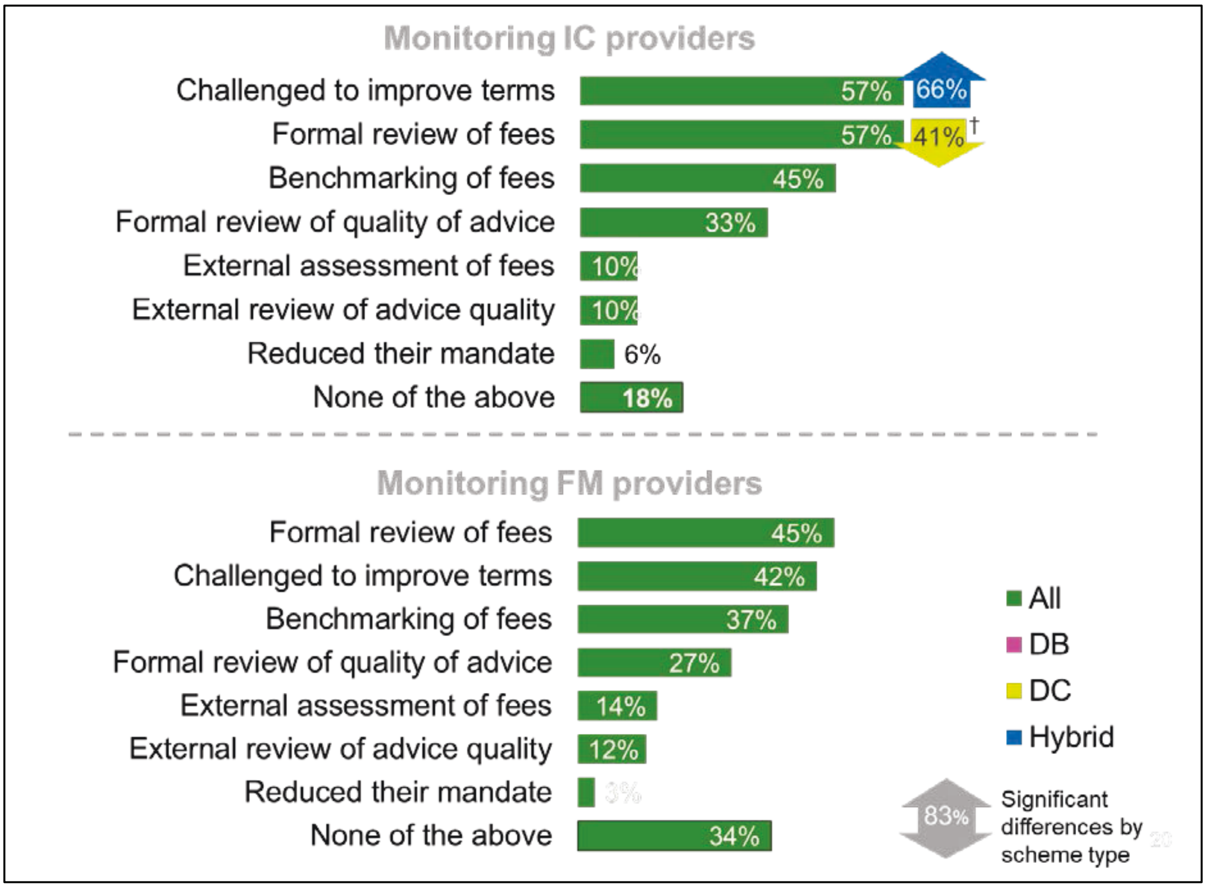
3.60 It is important to note that around a third of trustee boards using FM services (34%) had carried out none of the types of monitoring shown in Figure 3.18 in the last three years. While this group do not represent a majority, they are nevertheless significant in number. Furthermore, these trustee boards do not have significantly different attitudes regarding the ease of monitoring their main FM provider. Of those carrying out none of these forms of monitoring on their main FM provider, 34% said it was 'very easy' to monitor the main FM provider, compared with 46% overall.

3.61 Similarly, a fifth of trustee boards using IC services (18%) had carried out none of the types of monitoring shown in Figure 3.18 in the last three years. These trustee boards had very similar views regarding the ease of monitoring of their main IC provider compared to others; 48% said it was 'very easy' to monitor their main IC provider, compared with 45% overall.

3.62 Smaller pension schemes are much less likely to have challenged their main IC provider to improve their terms; only 41% had done so compared with 74% of large schemes and 57% of medium schemes. Larger schemes are generally more likely to have undertaken a wider range of action, with 76% of large schemes and 63% of medium schemes undertaking two or more of the actions listed compared with 46% of small schemes.

3.63 DC pension schemes are less likely to have run a formal review of fees charged by their main IC provider, only 41% had done so compared with 58% of DB schemes and 63% of Hybrid schemes.

**Figure 3.18 Monitoring main IC provider and main FM provider: actions taken by trustee boards in last three years (prompted)**




*Base (D2, M3) Pension schemes currently buying IC services: All (783), pension schemes currently buying FM services: All (279)*

**Scheme sponsor involvement**

3.64 The pension scheme sponsor (usually the employer) and their advisors are considered to be ‘very important’ in monitoring the main IC provider by two fifths (42%) of trustee boards who use main IC services. Where the sponsor is involved in monitoring of the main IC provider, the provider is on average scrutinised or challenged twice per year by them.

3.65 For FM services, the pension scheme sponsor and their advisors are considered to be ‘very important’ in monitoring the main FM provider by two fifths of trustee boards (42%). Where the sponsor is involved in monitoring of the main FM provider, the provider is on average scrutinised or challenged twice per year by them.

Larger pension schemes are less likely to think of the scheme sponsor and their advisors as ‘very important’ in monitoring their main IC provider, with only 34% of large schemes reporting this compared with 45% of medium schemes and 44% of small schemes. Larger pension schemes are more likely to see their sponsor take such actions more frequently than smaller schemes (three times a year compared with twice for medium and small schemes for IC services).

# 4 Switching and tendering for an IC provider and/or FM provider

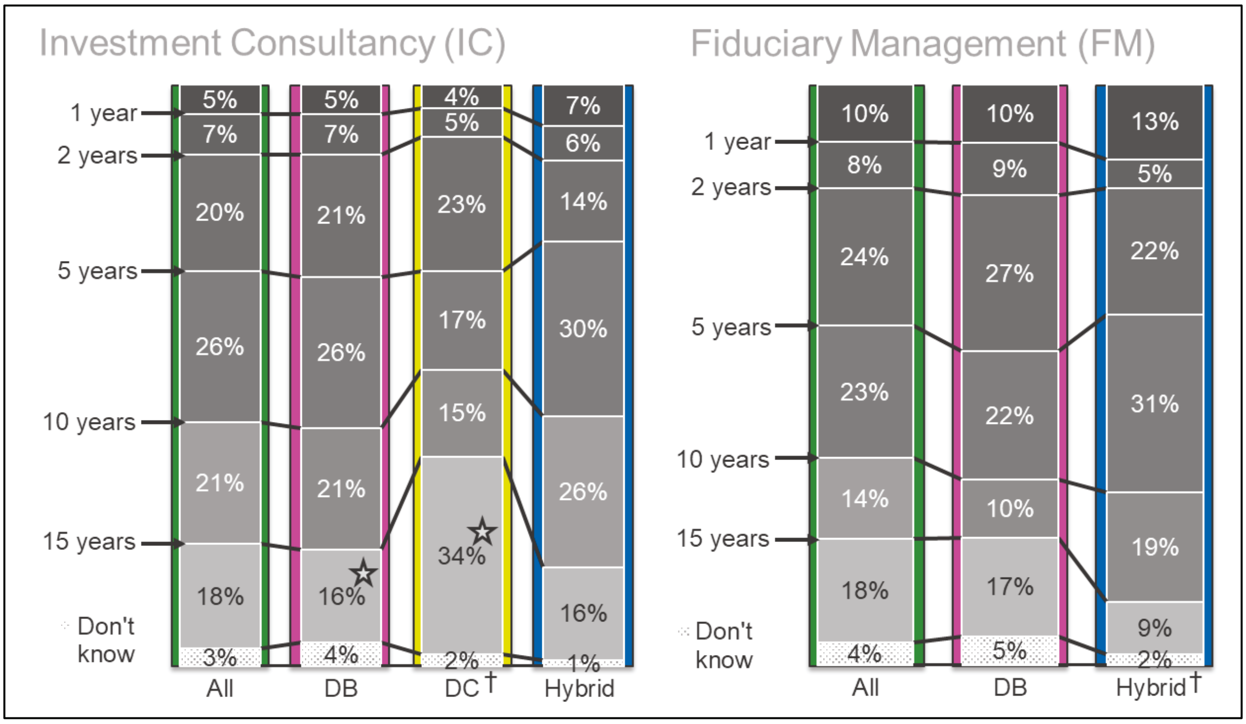
## Length of time with the current main provider

4.1 Schemes using IC services have been with their current main IC provider for eight years on average; about two thirds (65%) have had the same main provider for five or more years. DC schemes are more likely to have been with their current main IC provider for 15 years or more than other scheme types (34%), as shown in Figure 4.1.

4.2 On average trustee boards using FM services have used the same main FM provider for 7 years. About a tenth (10%) have been with their current provider for less than a year.

4.3 DC schemes' length of time with their main FM provider is not shown in Figure 4.1 due to the small base size (25). However, of the 25 interviewed, eight said they have been with their current main FM provider for 15 years or more.

**Figure 4.1 Number of years with current main IC provider or main FM provider: by scheme type**




*Base (C3): Schemes currently buying IC services: All (783), DB (567), DC (70), Hybrid (146)*
*Base (K3): Schemes currently buying FM services: All (279), DB (200), Hybrid (54)*

4.4 Those claiming to purchase any IC services from one of the largest three providers are more likely to have been with the same main provider for five or more years (75% vs 62% of those not using one of the three largest providers providers).

4.5 More smaller schemes have joined their main IC provider in the last year (8%) than larger schemes (5%).

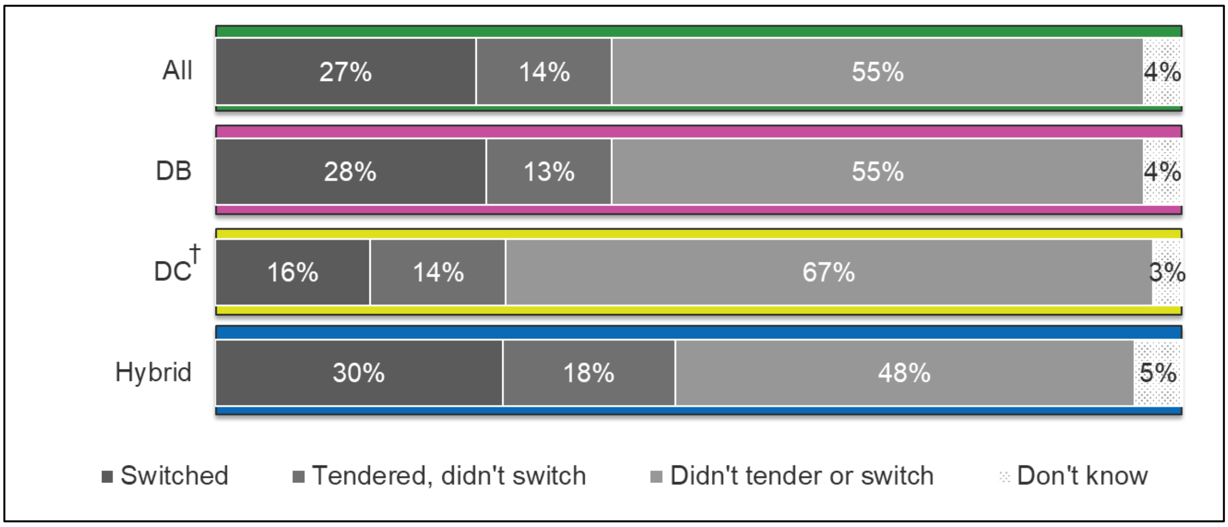
4.6 There is no clear link between a scheme using the *same* IC provider and FM provider and length of time with the IC provider. However, there is a link with time with the *FM* provider; those who purchase IC services and FM services from the same provider[24] have been with their main FM provider for fewer years, an average of seven (46% for five or more years), compared with nine years (74% for five or more years) for those who purchase IC services and FM services from different providers.

## Frequency of switching or tendering for a new provider

**Switching and tendering for an IC provider**

4.7 A quarter of schemes purchasing IC services (27%) have switched their main IC provider in the last five years, while a further seventh (14%) tendered but did not switch. Although the distribution of responses for DC schemes appears quite different (Figure 4.2), the base size here is small (70), and there are no significant differences by scheme type, or by size.

**Figure 4.2 Switched main IC provider in the last five years: by scheme type**




*Base (IC_SWITCH_1) Currently buying IC services: All (783), DB (567), DC (70), Hybrid (146)*

4.8 Those who purchase IC services from one of the three largest providers[25] are much less likely to have switched main provider in the last five years compared with those who have purchased IC services only from other providers (15% vs 32%). Similarly, nearly two thirds (63%) of schemes purchasing IC services from the three largest providers say they have not tendered or switched in the last five years, compared with those who have purchased IC services only from other providers (51%).

4.9 Of those switching main provider, nearly half say they found the process 'very easy' (47%) and a third (35%) found the process 'fairly easy'. One in ten (9%) found the process 'not very easy' while 2% say that the process was 'not at all easy'.

4.10 There are no differences by size regarding ease of switching main IC provider.

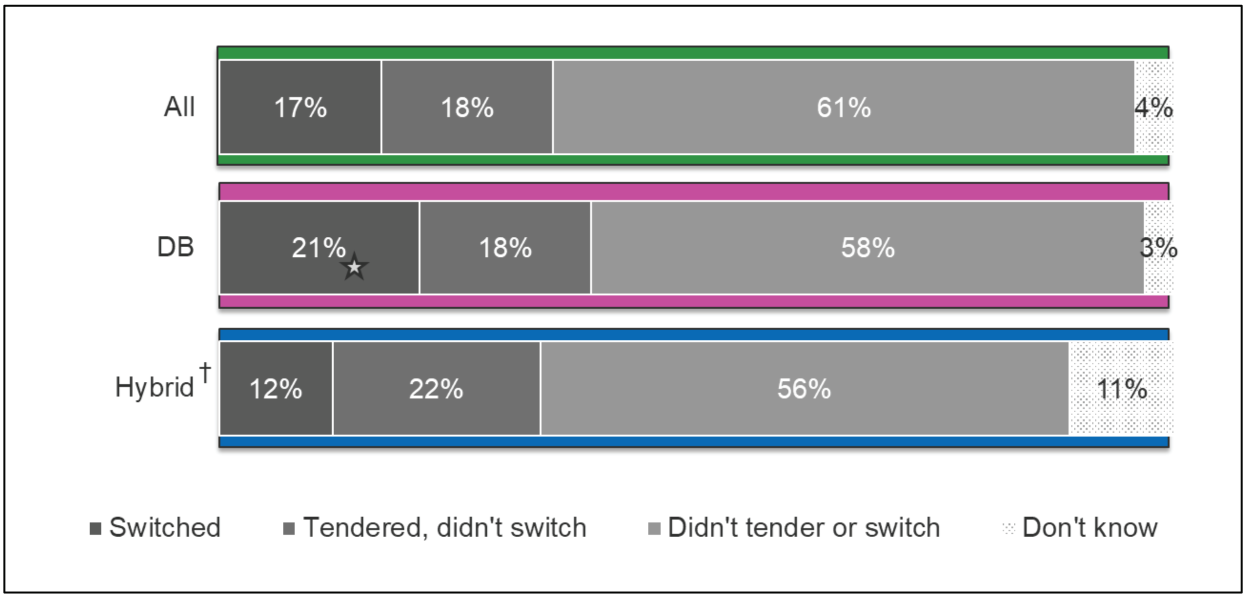
[24] This includes both the pension scheme's main and other providers.
[25] This includes both the pension scheme's main and other providers.

**Switching and tendering for an FM provider**

4.11 Trustee boards with an FM provider are much less likely to have switched their main FM provider (17% in the last five years) than their IC provider (33% in the last five years). These trustee boards that use FM services are also significantly less likely to have switched their main IC provider than those trustee boards who do not use FM services (25% in the last five years).

4.12 There is also some variation by scheme type, shown in Figure 4.3. One in five (21%) DB schemes using FM services have switched their main FM provider in the last five years, significantly above all other scheme types combined. Among Hybrid schemes using FM services, 12% had switched their main FM provider in the last five years. Although the base size is small, of the 25 DC schemes using FM services interviewed, none had switched their main FM provider in the last five years. There are no significant differences in propensity to switch provider by size of scheme.

**Figure 4.3 Switched main FM provider in the last five years: by scheme type**




*Base (FM_SWITCH_1) Currently buying FM services: All (279), DB (200), Hybrid (54)*

4.13 Those who did not use one of the three largest providers for FM services were slightly more likely to have switched in the last five years (21%) than schemes using other providers (4%). However, a quarter (28%) of those purchasing FM services from one of the three largest providers tendered but did not switch, more than those using other providers (15%).

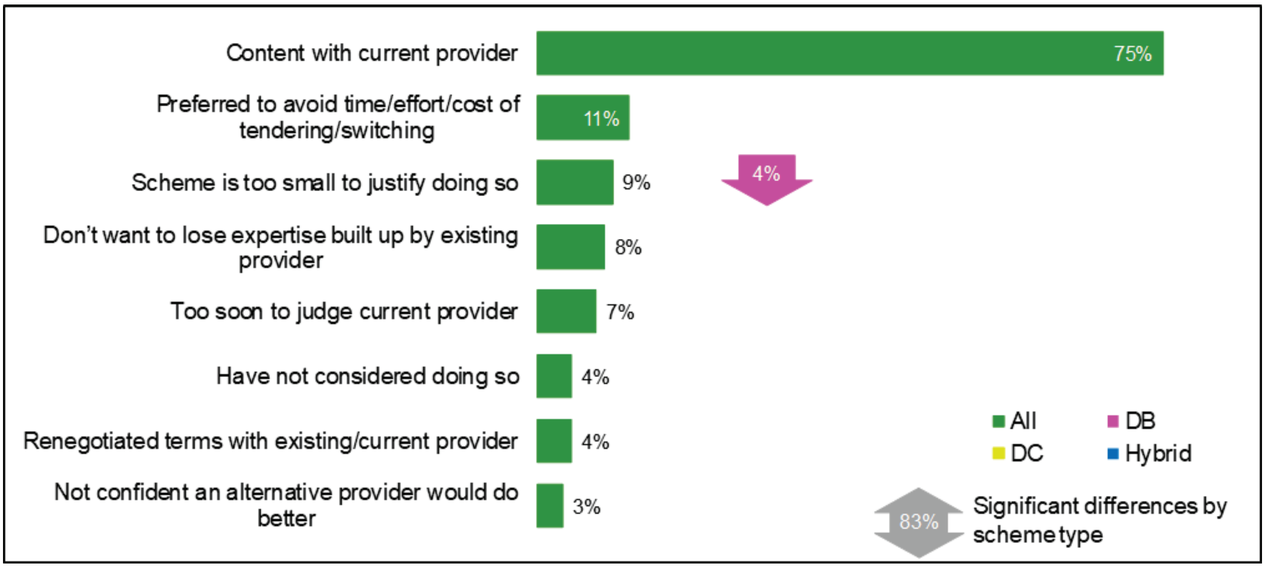
4.14 Roughly a third of the schemes interviewed that switched their main FM provider (15 of 46, unweighted due to small base size) found the process ‘very easy’ while 18 found it ‘fairly easy’. Seven said the switching process was ‘not very easy’ and three said it was ‘not at all easy’.

## Reasons for not switching or tendering for a new provider

4.15 This section, and that regarding the switching process below, is based on questions which were not asked of schemes who buy both IC services and FM services. The decision to not ask these schemes the questions about switching IC provider was made to ensure that the survey length was reasonable for respondents.

4.16 More than half of schemes (55%) chose not to tender or switch IC provider in the last five years; most (75%) say this is because they have been happy with their provider, as shown in Figure 4.4. A quarter (23%) of small schemes with between 12 and 99 members felt that the scheme was 'too small' to justify switching provider or running a tender exercise.

**Figure 4.4 Reasons for not switching or tendering IC provider**



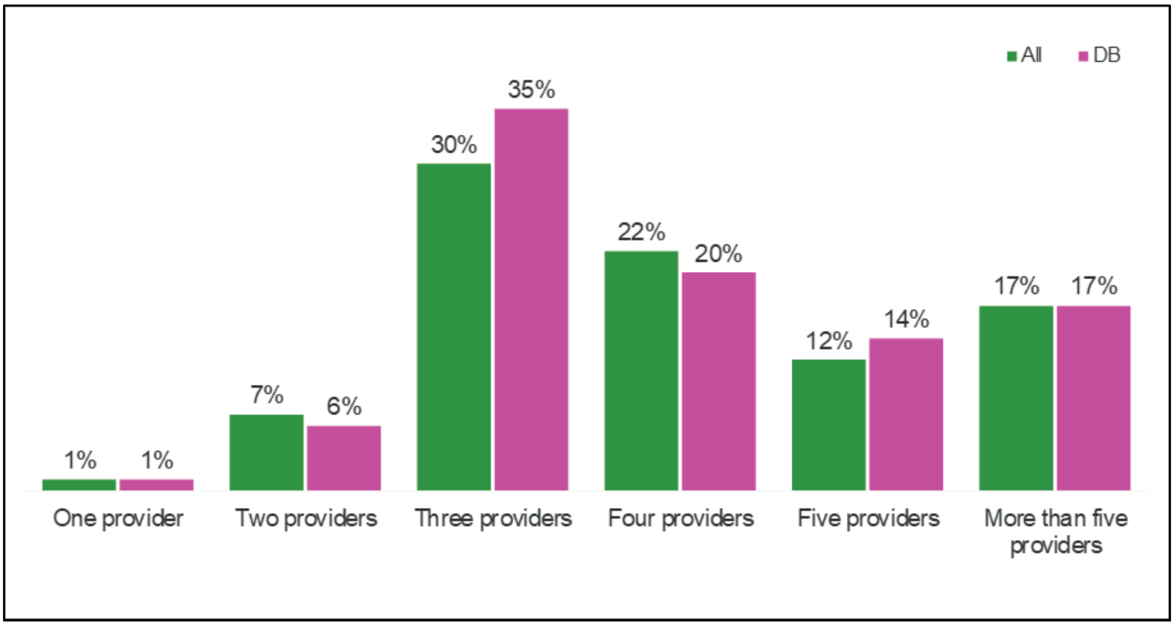

*Base (I1): Schemes that had not switched or tendered for an IC provider in past 5 years and did not use both IC services and FM services: All (308), DB (232), DC (27), Hybrid (49)*

## Switching process

**Range of providers**

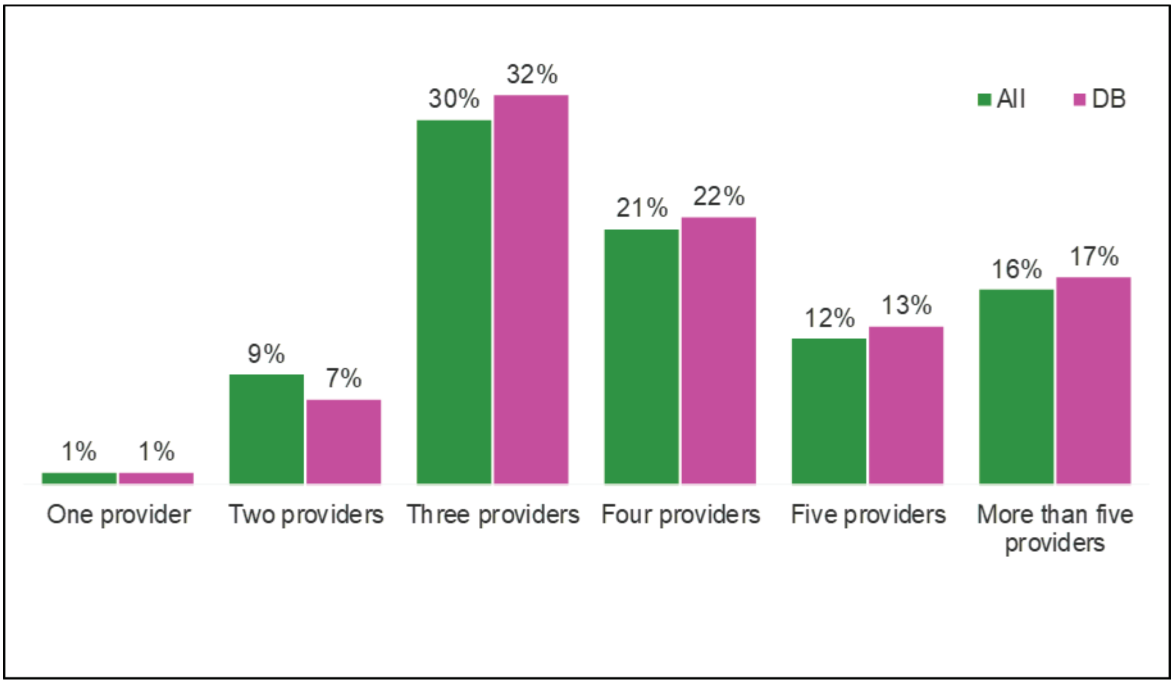
4.17 Most commonly, schemes request and receive submissions from three providers for IC services (as shown in Figure 4.5) when issuing a tender. As shown in Figure 4.6, the most common number of submissions from potential providers received is also three, and the distribution of responses is very similar. This suggests that potential providers who are asked to submit a tender or proposal generally do so.

**Figure 4.5 Number of providers invited to submit a tender or proposal: by scheme type**




*Base (F6) All switching IC or tendering, who did not use both IC services and FM services: All (173), DB (117)*

**Figure 4.6 Number of tenders or proposals received: by scheme type**




*Base (F8) All switching IC or tendering, who did not use both IC services and FM services: All (173), DB (117)*

4.18 Large schemes invite the most providers to submit a tender or proposal. Four out of ten (43%) of large schemes invited five or more providers to tender. Similarly, large schemes also received the most tenders or proposals; 45% received five or more proposals.

4.19 Schemes without an investment sub-committee were less likely than other schemes to invite proposals from five or more providers (23%).

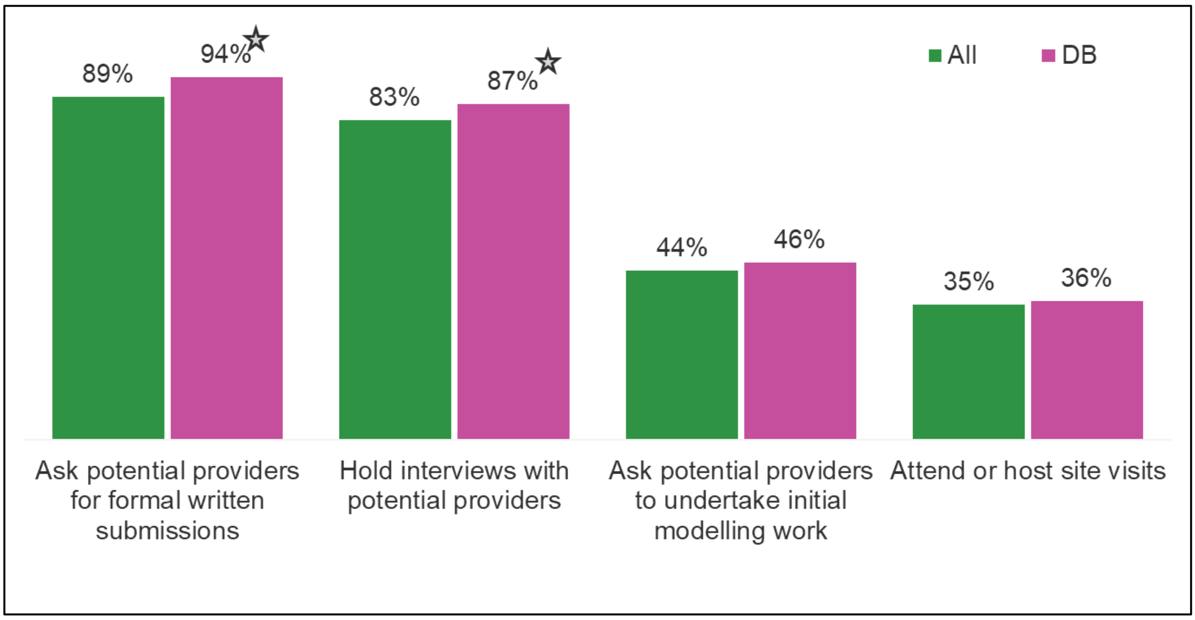
4.20 More than four in ten schemes currently purchasing any IC services from one of the three largest providers (45%) invited five or more providers to submit a tender or proposal, compared with around a quarter of those using another IC provider (23%).

**The role of third parties**

4.21 Just under a third of trustee boards (31%) that switched main IC provider or ran a tender process chose to use a third-party advisor. There are no significant differences by scheme type or size; 3 of 19 (unweighted) DC schemes used a third-party advisor when switching or tendering, as did 12 of 44 (unweighted) Hybrid schemes.

4.22 As shown in Figure 4.7, more than four fifths of trustee boards asked for written submissions (89%), while a similar number (83%) held interviews with potential providers. Fewer trustee boards asked for modelling to be undertaken (44%) or attended or hosted site visits (35%). DB schemes are slightly more likely than other groups to have asked for formal written submissions (94%) or to have held interviews with potential providers (87%). Base sizes are insufficient to show results for DC and Hybrid schemes on the chart below.

**Figure 4.7 Actions taken as part of the switching/tendering process**



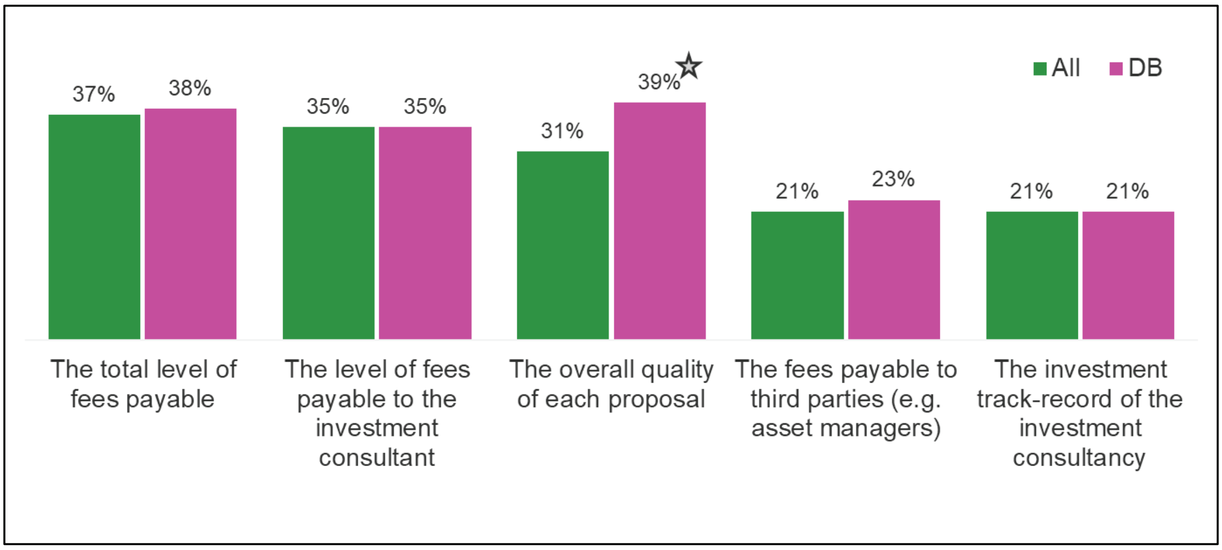

*Base (F9) All who ran a tender exercise for IC that did not use both IC services and FM services: All (173), DB (117)*

**Ease of comparison**

4.23 Trustee boards find it generally easy to assess the quality of proposals, and the level of fees, but less so the investment track record of IC providers of the fees payable to asset managers. One third of trustee boards (31%) say they find the overall quality of each proposal 'very easy' to judge, and half (51%) found it 'fairly easy'. Small proportions find it 'not very easy' (4%) and 'not at all easy' (2%). A small group (10%) did not know or could not recall how easy or difficult the process had been.

4.24 As shown in Figure 4.8, DB schemes are slightly more likely to say that judging the overall quality of proposals was 'very easy'.

**Figure 4.8 Percentage of schemes finding each aspect 'very easy' to assess**




*Base (F10, F11) All who ran a tender exercise for IC that did not use both IC services and FM services: All (173), DB (117)*

4.25 Respondents were asked what, if anything, would make it easier to identify the best investment consultancy for the scheme and gave a wide range of responses. The most frequent suggestion (made spontaneously by one in eleven schemes who ran a tender or proposal exercise) was a standardised benchmark or proposal format (11%).

4.26 Other suggestions for making the process easier were having more information available to trustees on investment strategy and fees (5%), improved expertise and attention to detail among IC providers (4%), improved pension trustee knowledge and ability (3%), the provision of a reliable source of recommendations, references and reviews (3%) and improved methods of judging an IC provider's track record (3%).

4.27 One in eight (12%) of schemes said that 'Nothing' would make it easier for them to identify the best IC provider for the schemes based on the proposals they had received. It is also worth noting that, of the schemes asked, one in five (20%) said they did not know what would make it easier to identify the best investment consultancy provider for their scheme.

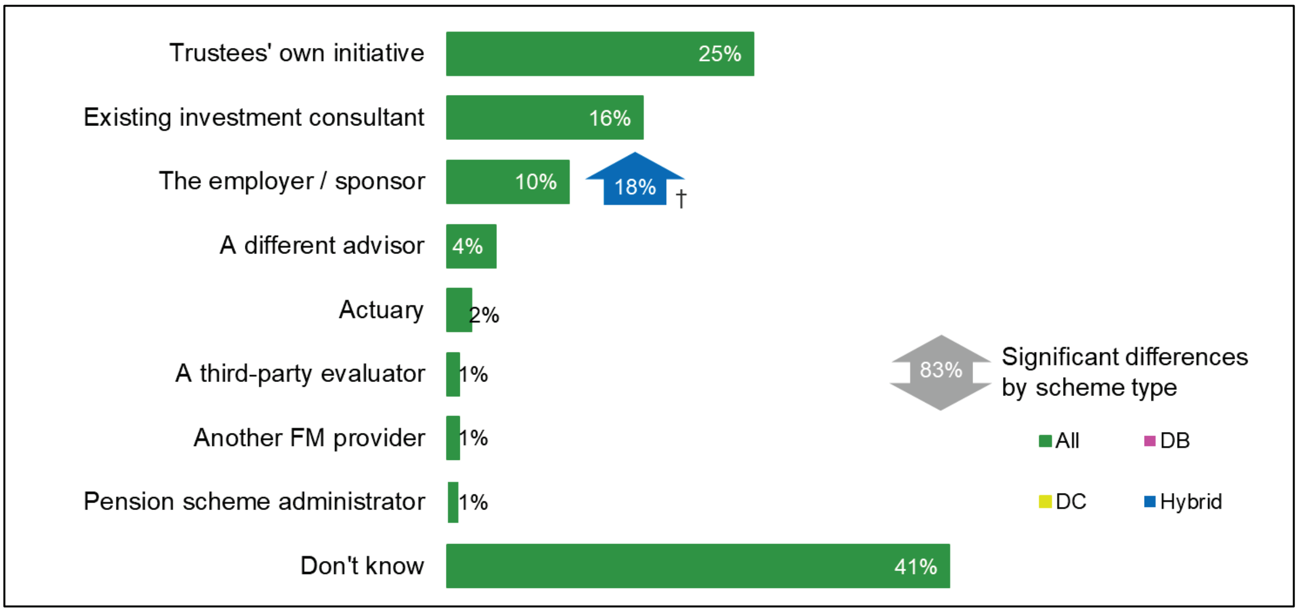
# 5 First purchasing FM services

## The initial decision

5.1 Those survey respondents whose scheme used FM services were asked to recall who, if anyone, first prompted the trustee board to buy FM services for their pension scheme. Two fifths (41%) did not know who first prompted the scheme to consider the idea. It should be remembered that the purchase of FM services may have taken place many years previously, and there is a turnover of trustees in many pension schemes.

5.2 As shown in Figure 5.1, a quarter of trustee boards (25%, or 43% excluding don't know responses) say that the main person prompting the initial purchase of FM services was a trustee. An existing IC provider (16%, or 27% excluding don't know responses) was the first prompt for some trustee boards, but not for a majority. The employer or scheme sponsor (10%, or 17% excluding don't know responses), was less important.

**Figure 5.1 Who, if anyone, first prompted the trustee board to buy FM services?**




*Base (L1) Currently buying FM services: All (279), DB (200), DC (25), Hybrid (54)*

5.3 More than a quarter (28%) of those who purchase any FM services from one of the three largest providers say that purchasing FM services was initially prompted by their investment consultant at the time, compared with one in eight who buy FM services only from other providers (12%). It is worth noting that the size distribution of customers of the three largest providers tends toward larger schemes, who are more likely to purchase FM services (see Chapter 3). Four in ten large schemes (39%) said that the initial purchase of FM services was prompted by the trustees' own initiative, significantly more than for other groups.

5.4 Examining schemes which currently purchase at least some IC services and FM services from the same provider, one in three (30%) say that the idea to purchase FM services was initially prompted by the trustees' own initiative, significantly more than schemes who buy IC services and FM services from different providers (11%). They are no more likely than other schemes to say that the IC provider at the time was the prompt to purchase FM services.

5.5 Among those who purchased FM services without the involvement of a third party (third party defined here to exclude IC providers at the time), a third (30%) said that the IC provider was the main prompt to purchase FM services, compared with half that level (15%) who did involve a third party. This suggests that where an IC provider *does* motivate FM services purchase, third-party advice may be less likely to be used in the subsequent purchasing process.

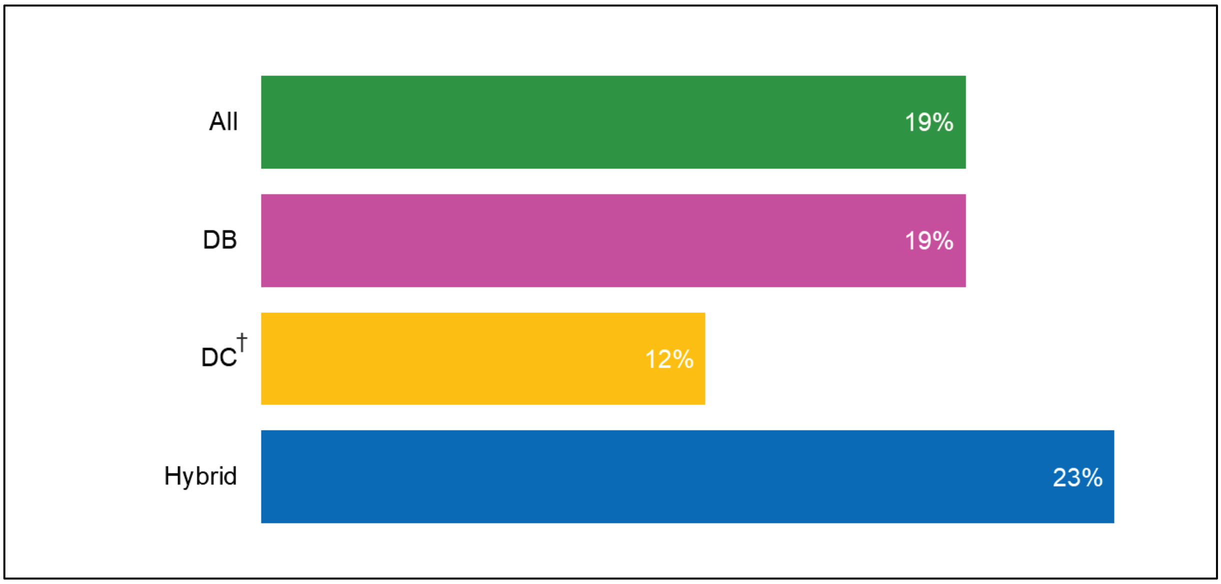
## The IC provider role in practice

5.6 Taking into account both schemes with an IC provider who currently purchase FM services and schemes with an IC provider who do not, about a fifth of schemes (19%) say that their IC provider has at some point suggested that they might consider using an FM service (as shown in Figure 5.2).

5.7 Large and medium sized schemes are more likely to have had FM services mentioned to them by their IC provider (26% and 19% respectively) than small schemes (11%). This may reflect that smaller schemes have simpler requirements and may therefore be less likely to need FM services (see Chapter 3).

5.8 Those who buy IC services from one of the three largest providers are far more likely to say they have had FM services suggested (37%) by their provider, compared with 13% of others. It is worth noting that the three largest providers would be more likely than some other IC providers to have an FM service to offer.

**Figure 5.2 Percentage of all schemes (using either IC services or FM services) where IC provider suggested using FM services**



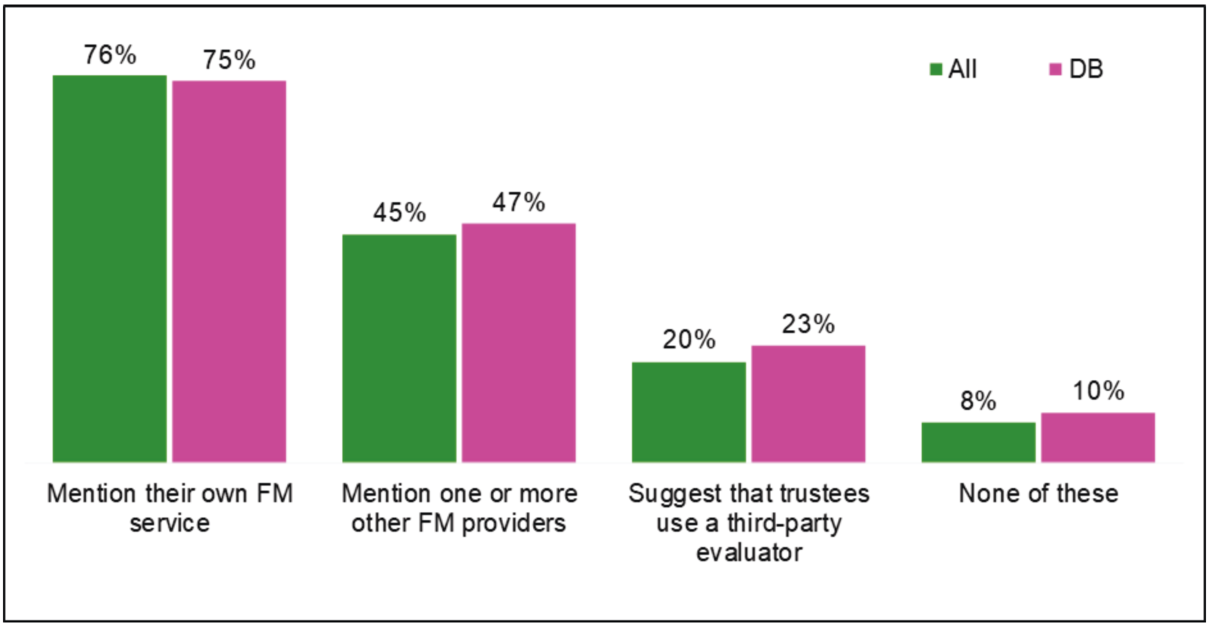

*Base (P5L2) Currently buying IC services or FM services: All (753), DB (545), DC (69), Hybrid (139)*

5.9 Trustee boards who say their IC provider suggested the use of FM services say that three quarters (76%) of IC providers mentioned their own service at the time (as shown in Figure 5.3). Just under half (45%) are reported to have mentioned other providers; slightly fewer (38%) were reported to mention their own FM service but *not* to mention other providers or a third-party evaluator. In total a fifth (20%) suggested using a third-party evaluator.

5.10 Where the IC provider was stated to be one of the largest three providers (94%) as opposed to a different provider (59%), trustee boards were much more likely to report that they mentioned their own FM service. The majority of large schemes (92%) say that their IC provider mentioned their own FM service when suggesting FM services.

5.11 However, it should be remembered that the largest three providers, who are more likely to deal with large schemes than some other providers, as noted in Chapter 3, are also more likely to have an in-house FM service.

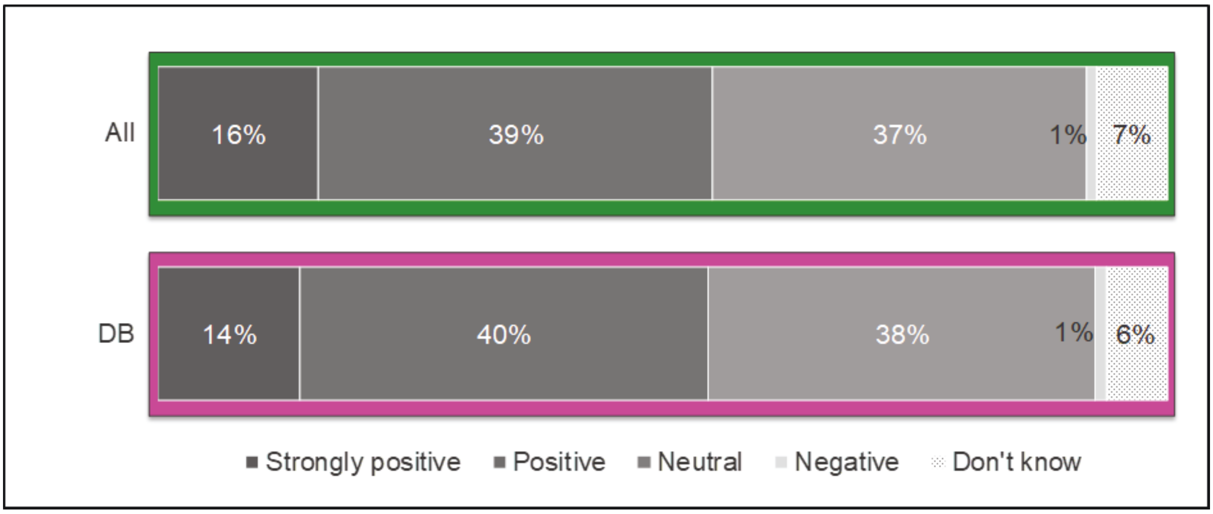
**Figure 5.3 Other actions taken by IC provider when recommending FM services**




*Base (P6L3) All schemes where IC provider suggested using FM services: All (150), DB (108)*

5.12 Many IC providers were positive (39%) or 'strongly positive' (16%) about FM services, and most of the remainder neutral (37%); only 1% were negative; none were 'strongly negative' (as shown in Figure 5.4). There are no significant differences in perception of attitude of IC providers towards FM services by either scheme type or size. The largest three providers were reported to be more likely to be 'strongly positive' (23%) than other providers that suggested the use of FM services (9%).

**Figure 5.4 General attitude of IC provider toward FM services in discussions, after suggesting FM services to the trustee board**




*Base (P7L4) All schemes where IC provider suggested using FM services: All (150), DB (108)*

## Buying from the existing IC provider

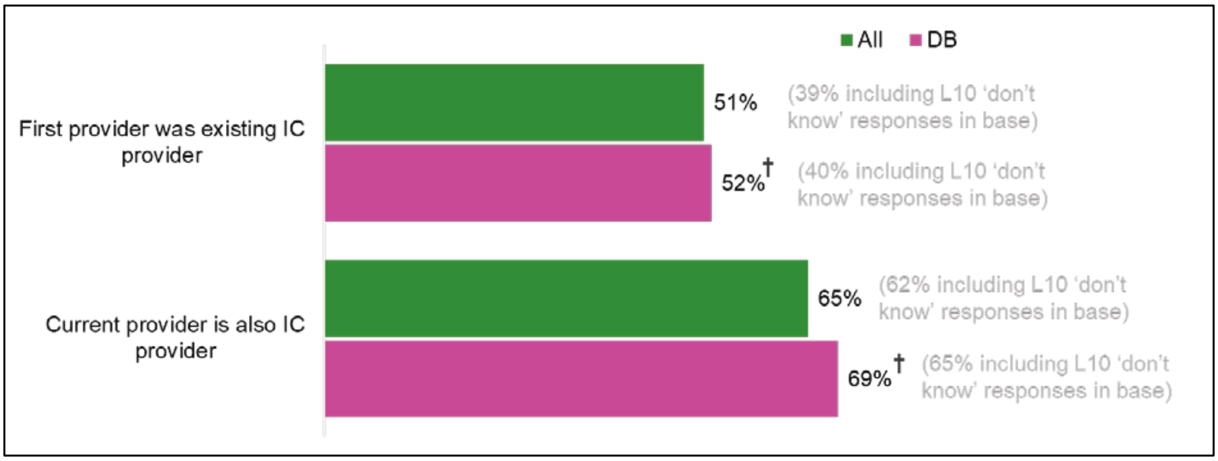
5.13 Less than half of trustee boards say they use an FM provider that was their IC provider at the time they chose them (39%). However, a quarter of schemes (25%) say they don't know if they were the IC provider at the time (likely to be primarily due to the passing of time since the initial adoption of FM services, and the turnover of trustees). It is therefore informative to also look at rebased data for this question: of those who were able to answer the question, about half of trustee boards (51%) say that they currently use an FM provider that was their IC provider at the time of appointment.

5.14 However, it is more common that schemes use the same provider *currently* for both services. Overall, more than two thirds (70%) were purchasing their IC services and FM services from the same provider.[26] Looking specifically at the group who are able to recall whether their FM provider was their IC provider at the time of first purchasing FM services[27], two thirds (65%) say that they currently purchase at least some IC services and FM services from the same provider.

5.15 Clearly there is a difference between the answers to these questions, with 14% (of those able to answer) using the same provider for their IC services and FM services at the time of the survey[28], but not at the time of purchasing FM services. It seems clear that some trustee boards must have subsequently switched their IC service to their FM provider, or alternatively they had *neither* IC providers nor FM providers prior to the purchase of FM services. Since this situation was unanticipated at the time of survey design, the questionnaire does not allow these situations to be identified or distinguished.

[26] This includes both the pension scheme's main and other providers.
[27] Including those who *do not currently have* an IC provider, and so were not asked the question, who are classed as not using the same provider for this purpose. This means that the rebasing process *increases* the proportion using the same provider relative to non-rebased data.
[28] This includes both the pension scheme's main and other providers.

**Figure 5.5 Buying FM services from an existing IC provider (among those able to remember if the first FM provider was an IC provider at the time)[29]**




*Base (L10, SAMEPROV) (rebased): Currently buying FM services and able to answer L10: All (209), DB (80), Figures in brackets: All currently buying FM services: All (279), DB (200)*

5.16 Looking more broadly at groups that purchase their IC services and FM services from the same provider[30], just over two thirds of schemes (70%) are in this situation, while just under two thirds (64%) use the same *main* provider for both IC services and FM services. Those who say that they use one of the largest three providers for their FM services are more likely to say they purchase their IC services and FM services from the same provider (94%) than those who do not use these providers for FM (70%). It should be noted that this may be because the largest three providers are more likely to be in a position to offer schemes both services than some other providers.

5.17 Those who have had their main FM provider for 5 or more years are much less likely to purchase their IC services and FM services from the same provider (63%) than those who have had their main FM provider for 2 to 5 years (87%).[31]

## Selecting a provider

### Range of providers

5.18 About two thirds (70%) of those schemes purchasing FM services for the first time, and able to remember the purchase, say that they ran a tender process. Including schemes where the respondent was unable to remember the purchase (likely to be primarily due to the turnover of trustees since FM was first purchased), half (50%) of all schemes that buy FM services say that they ran a tender process.

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[29] This approach has been taken because the responses in this section of the survey have a high proportion of don't know responses. This could be because they sometimes relate to events several years ago of which respondents may have lesser recall (for example, where they may not personally have been involved at the time). Meanwhile, the responses regarding current FM providers have a much lower proportion of don't know responses. Therefore, to compare the two situations meaningfully, it is helpful to exclude don't know responses. Responses including don't know are shown (for information) in grey.
[30] This includes both the pension scheme's main and other providers.
[31] This includes both the pension scheme's main and other providers.

5.19 Only 9% of schemes buying FM services for the first time invited fewer than three proposals from providers when buying FM services for the first time. Of those 12 schemes (unweighted), three schemes did not invite more proposals as the trustee board had a preference for certain provider(s) and two schemes said that their advisors only recommended one or two providers.

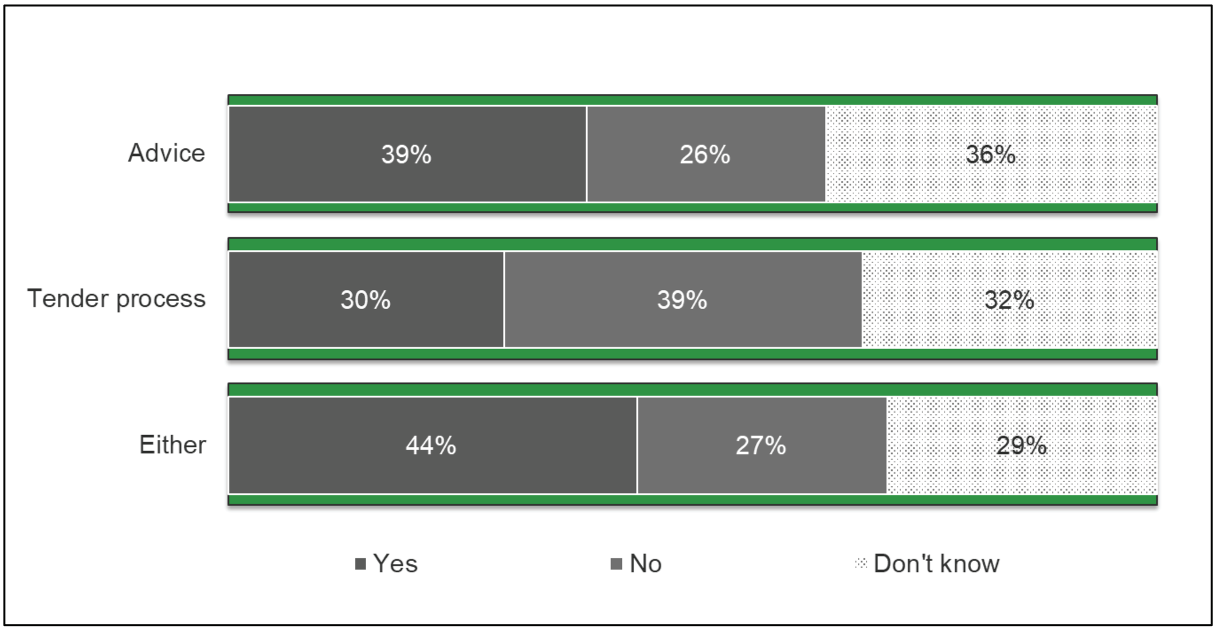
**The role of third parties**

5.20 As noted above a number of respondents had difficulty recalling the precise circumstances of the initial purchase of FM services. More than a quarter did not know if they had run a tender or obtained third party assistance with the switching process when asked (28%); responses here are given both including and excluding these responses.

5.21 Half of schemes say they ran a tender process when buying FM services for the first time (50%, or 70% of those able to answer). A third (30%, or 41% of those able to answer) ran the tender with external help, and a fifth (21%, or 29% of those able to answer) without external help.

5.22 Just under half of schemes (44%, or 61% of those able to answer) had some form of third party involvement in the process overall, most commonly in the form of advice (39%, or 53% of those able to answer), as shown in Figure 5.6.

**Figure 5.6 Trustee boards: seeking advice from a third party on the initial purchase of FM services, or asking third parties to run a tender process**

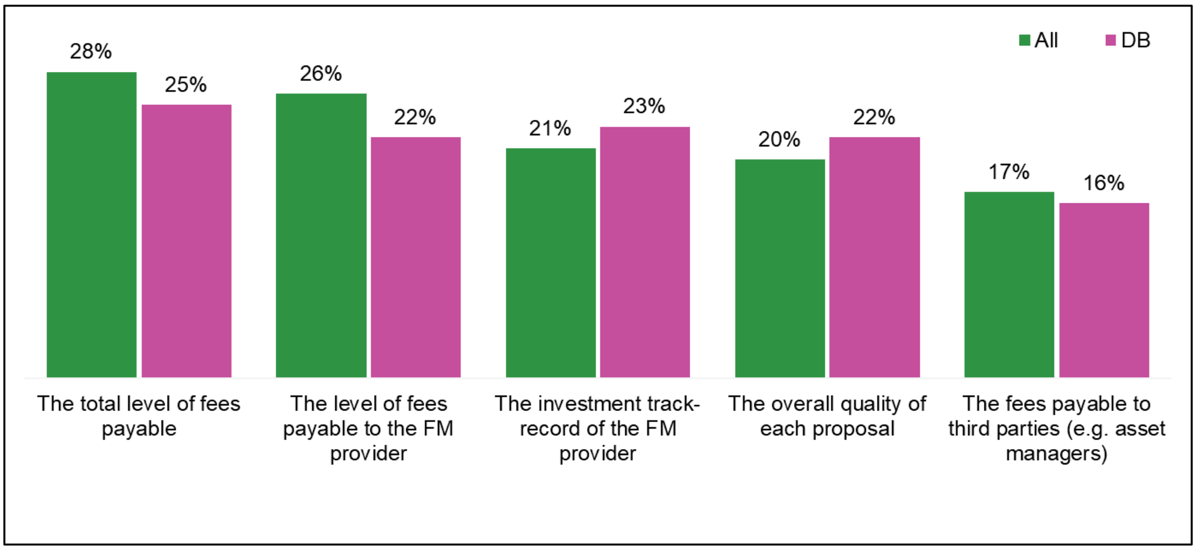



*Base (L5): Currently buying FM services: All (279)*

**Ease of comparison**

5.23 Trustee boards are confident in their ability to assess proposals; 20% felt that overall quality of each proposal was 'very easy' to assess (as shown in Figure 5.7), and 64% felt it was 'fairly easy' to assess. A small proportion (6%) felt it was 'not very easy', and very few (1%) felt it was 'not at all easy'.

**Figure 5.7 Percentage of schemes finding each element 'very easy' to assess: by scheme type**




*Base (L9) Ran tender exercise for FM services: All (143), DB (110)*

# 6 Potential conflicts of interest

## Perceptions of conflicts of interest

6.1 Representatives of trustee boards taking part in the survey were asked a series of four questions regarding specific potential conflicts of interest identified by the CMA in the early stages of the market investigation. They were asked to consider whether each of the four following factors were a problem for the market as a whole (rather than for their specific provider of IC services and/or FM services):

- Investment consultants using their position to steer clients into their own fiduciary management services;
- Business relationships with asset managers affecting the independence of investment consultants or fiduciary managers;
- Receipt of gifts and hospitality from asset managers affecting the independence of investment consultants or fiduciary managers;
- Fiduciary management providers investing scheme funds with their own asset managers or investment products.

6.2 The responses to these are shown in Figure 6.1. In total, around two fifths (42%) of all respondents think that least one of the issues mentioned is 'a problem, and more should be done to address it'. It is important to note that a notable proportion of trustee boards said that they did not know whether each of the statements above constituted a problem for the market as a whole (between 19% and 28% said they did not know the answer in each case). If this group were excluded from the analysis, all percentages in this section would be significantly higher.

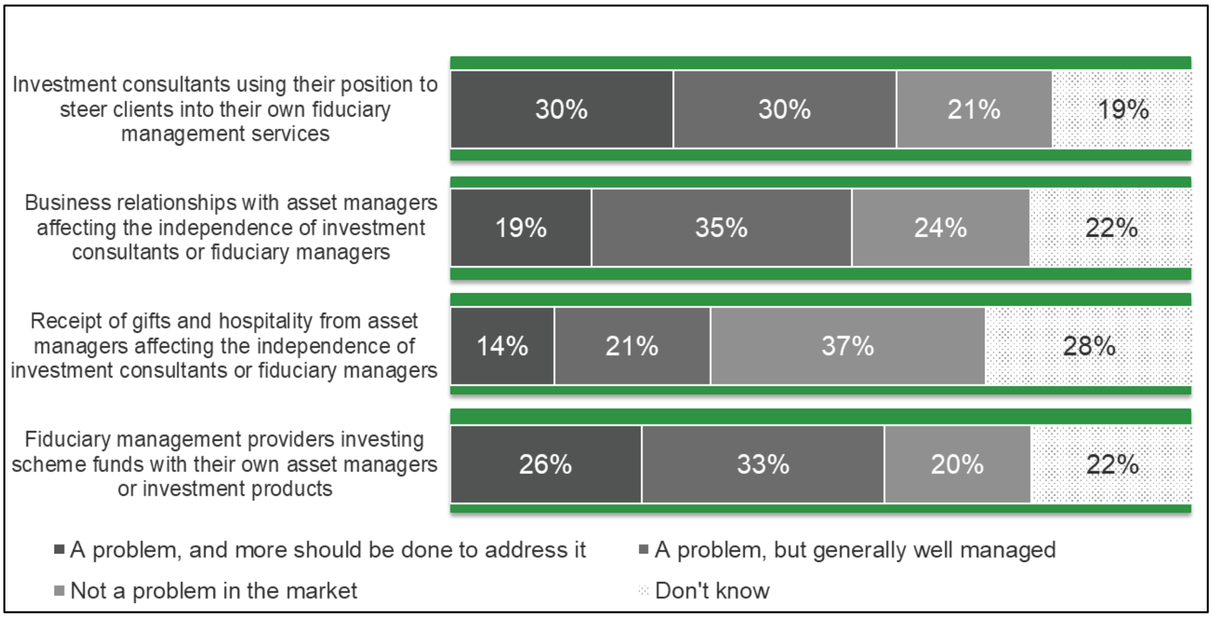
6.3 Nearly a third (30%) of trustee boards think that 'Investment consultants using their position to steer clients into their own fiduciary management services' is 'a problem, and more should be done to address it'. A further 30% consider it to be 'a problem, but generally well managed'. About a fifth (21%) believe that it is 'not a problem in the market'.

6.4 About a quarter (26%) of trustee boards think that 'Fiduciary management providers investing scheme funds with their own asset managers or investment products' is 'a problem, and more should be done to address it'. A further third (33%) consider it to be 'a problem, but generally well managed'. About a fifth (20%) believe that it is 'not a problem in the market'.

6.5 About one fifth (19%) of trustee boards think that 'Business relationships with asset managers affecting the independence of investment consultants or fiduciary managers' is 'a problem, and more should be done to address it'. A further third (35%) consider it to be 'a problem, but generally well managed'. About a quarter (24%) believe that it is 'not a problem in the market'.

6.6 One seventh (14%) of trustee boards think that 'Receipt of gifts and hospitality from asset managers affecting the independence of investment consultants or fiduciary managers' is 'a problem, and more should be done to address it'. A further three tenths (21%) consider it to be 'a problem, but generally well managed'. About a fifth (37%) believe that it is 'not a problem in the market'.

**Figure 6.1 Perceived conflicts of interest: opinion regarding four prompted statements about potential conflicts of interest**




*Base (Q1): All (966)*

6.7 It is important to note that there are notable differences here depending on the type of scheme or the specific type of trustee responding to the survey. These are shown in Tables 6.1 and 6.2.

**Table 6.1 Perceived conflicts of interest: opinion regarding four prompted statements about potential conflicts of interest; by scheme size**

| 'A problem and more should be done about it': | Small | Medium | Large | **All schemes** |
|---|---|---|---|---|
| *Base (Q1)* | *679* | *125* | *162* | *966* |
| Investment consultants using their position to steer clients into their own FM fiduciary management services | 22% | 32% | 42% | **30%** |
| Business relationships with asset managers affecting the independence of investment consultants or fiduciary managers providers | 15% | 19% | 25%* | **19%** |
| Receipt of gifts and hospitality from asset managers affecting the independence of investment consultants or fiduciary managers | 14% | 13% | 13% | **14%** |
| Fiduciary management providers investing scheme funds with their own asset managers or investment products | 17%* | 29% | 35% | **26%** |
| **Any of the above** | **32%** | **46%** | **54%*** | **42%** |

**Table 6.2 Perceived conflicts of interest: opinion regarding four prompted statements about potential conflicts of interest; by responding trustee type**

| 'A problem and more should be done about it': | Corporate trustee | Employer-appointed trustee | Member-nominated trustee | Professional trustee |
|---|---|---|---|---|
| *Base (Q1)* | *126* | *457* | *180* | *163* |
| Investment consultants using their position to steer clients into their own FM fiduciary management services | 23% | 27% | 20% | 62%* |
| Business relationships with asset managers affecting the independence of investment consultants or fiduciary managers providers | 17% | 16% | 16% | 32%* |
| Receipt of gifts and hospitality from asset managers affecting the independence of investment consultants or fiduciary managers | 9% | 14% | 15% | 17% |
| Fiduciary management providers investing scheme funds with their own asset managers or investment products | 19% | 24% | 19% | 47%* |
| **Any of the above** | **35%** | **39%** | **37%** | **69%*** |

6.8 In general, trustee boards of large schemes are more likely to believe that each specific issue is 'a problem and more should be done about it', with the exception of 'receipt of gifts and hospitality from asset managers affecting the independence of investment consultants or fiduciary managers'. More than half (54%) think that at least one of the four issues mentioned is 'a problem and more should be done about it'.

6.9 A similar but larger difference is seen by trustee type; where the individual concerned is a professional trustee; more than two thirds (69%) think that least one of the four issues mentioned is 'a problem and more should be done about it'.

6.10 The more schemes a trustee is involved in, the more likely they are to think that each issue is 'a problem and more should be done about it', with the exception of 'receipt of gifts and hospitality from asset managers affecting the independence of investment consultants or fiduciary managers'. Those who are trustees for no other schemes are least likely to believe any one issue mentioned is 'a problem and more should be done about it' (35%), rising to two thirds (66%) among those who work with five to ten schemes, and to nearly four fifths (79%) among those who work with 11† or more schemes. However, this latter figure is based on a low base (43).

6.11 Finally, Table 6.3 shows responses regarding these four issues among trustee boards using IC services and FM services. The proportion of those using IC services who feel at least one of the four issues mentioned to be 'a problem and more should be done about it' is above the proportion found for other pension schemes. No significant difference is seen between trustee boards stating that they are customers of the largest three providers, and trustee boards using only other providers.

**Table 6.3 Perceived conflicts of interest: by usage of IC services and FM services**

| 'A problem and more should be done about it': | Use IC services | Use FM services | Use both IC services and FM services |
|---|---|---|---|
| *Base (Q1)* | *783* | *279* | *258* |
| Investment consultants using their position to steer clients into their own FM fiduciary management services | 32% | 22%* | 22%* |
| Business relationships with asset managers affecting the independence of investment consultants or fiduciary managers providers | 19% | 11%* | 11%* |
| Receipt of gifts and hospitality from asset managers affecting the independence of investment consultants or fiduciary managers | 12% | 9% | 10% |
| Fiduciary management providers investing scheme funds with their own asset managers or investment products | 28% | 14%* | 14%* |
| **Any of the above** | **45%** | **31%*** | **32%*** |

## Mitigating potential conflicts of interest

6.12 Trustee boards have a wide range of ideas regarding actions that should be taken to mitigate any potential conflicts of interest identified. These were classified through a coding process. About a quarter (27%) feel no mitigation of potential conflicts of interest is necessary, and a further tenth don't know what could be done (10%). Top responses are shown in Table 6.4

**Table 6.4 Mitigating potential conflicts of interest: suggestions given by all who identify a problem by size** (unprompted)

| 'What, if anything, would you support to mitigate any of the potential conflicts of interest that you consider may be problematic?': | Small | Medium | Large | **All schemes** |
|---|---|---|---|---|
| *Base (Q6)* | *178* | *375* | *218* | *771* |
| Improvements in disclosure of corporate links / relationships | 8% | 10% | 17%* | **11%** |
| Separation of companies providing IC services and FM services | 4% | 10% | 18%* | **10%** |
| Improvements in trustee knowledge | 8% | 8% | 10% | **8%** |
| Require or encourage trustees to buy, or obtain independent advice or reviewing | 6% | 6% | 10% | **7%** |
| Unspecified improvements to transparency / disclosure | 9% | 4% | 6% | **6%** |
| Unspecified other changes to regulation | 4% | 6% | 5% | **5%** |
| FM providers and IC providers being barred from using / recommending their own products | 1% | 5% | 5% | **4%** |
| Disclosure of asset manager fees and/or rewards | 1% | 4% | 8% | **4%** |
| Separation of companies providing services, other than between FM and IC | 2% | 5% | 5% | **4%** |
| Clearer code of conduct | 2% | 4% | 2% | **3%** |
| Banning of gifts and/or hospitality for IC providers or FM providers | 5%* | 2% | 1% | **3%** |

6.13 Professional trustees responding to the survey (who, as noted above, were the group most likely to identify perceived conflicts of interest) show slightly different priorities to other groups regarding mitigation. They are particularly likely to suggest that IC services and FM services should be provided by separate companies (17%), and especially that trustees should be required or encouraged to buy or obtain independent advice and review (17%, vs. 4% to 6% of all other trustee types). They are much less likely than other trustee types to say that nothing should be done (9%). Top responses are shown in Table 6.5.

6.14 Individuals who are trustees of two or more schemes are also more likely than other groups to want to see actions taken regarding mitigation of potential conflicts of interest; 13% think nothing should be done compared with 35% of those who are trustees of only one scheme. They are also particularly keen to see separation of companies providing both IC services and FM services (16% vs. 6% of those trustees for one scheme).

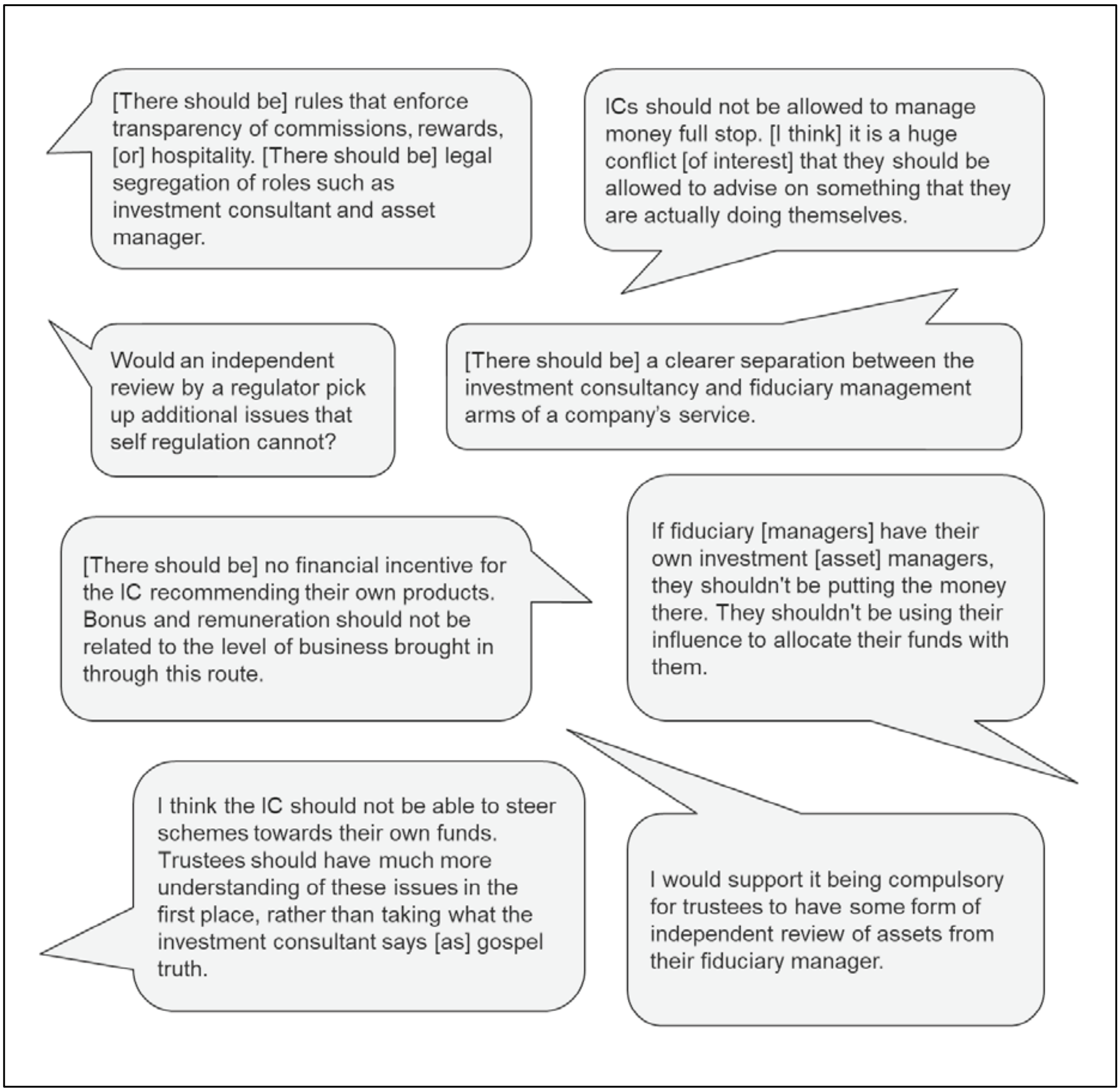
6.15 Finally, those trustees on investment sub-committees have a distinctive profile of answers; only 12% felt nothing should be done regarding mitigation of potential conflicts of interest, while 17% wanted to see separation of companies providing both IC services and FM services, and 8% wanted to see improvement of the disclosure of asset manager fees and/or rewards, something rarely mentioned by other groups.

**Table 6.5 Mitigating potential conflicts of interest: suggestions given by all who identify a problem by trustee type**

| 'What, if anything, would you support to mitigate any of the potential conflicts of interest that you consider may be problematic?': | Professional trustees | Trustees of two or more schemes | Trustees on investment sub-committees |
|---|---|---|---|
| *Base (Q6)* | *149* | *299* | *154* |
| Improvements in disclosure of corporate links / relationships | 13% | 11% | 15% |
| Separation of companies providing IC services and FM services | 17%* | 16%* | 17% |
| Improvements in trustee knowledge | 9% | 9% | 12% |
| Require or encourage trustees to buy, or obtain independent advice or reviewing | 17%* | 9% | 8% |
| Unspecified improvements to transparency / disclosure | 6% | 9% | 4% |
| Unspecified other changes to regulation | 5% | 5% | 5% |
| FM providers and IC providers being barred from using / recommending their own products | 7% | 5% | 4% |
| Disclosure of asset manager fees and/or rewards | 8% | 5% | 8% |
| Separation of companies providing services, other than between FM and IC | 3% | 4% | 6% |
| Clearer code of conduct | 2% | 3% | 3% |
| Banning of gifts and/or hospitality for IC providers or FM providers | 1% | 2% | 3% |

6.16 A selection of specific responses is shown in Figure 6.2.

**Figure 6.2 Perceived conflicts of interest: opinion regarding methods of mitigation – selection of open text responses**



“

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