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JLT Employee Benefits

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Strictly Addressee Only

Peter Swan
Project Manager
Investment Consultancy Market Investigation
Competition & Markets Authority
Victoria House
Southampton Row
London
WC1B 4AD

Dear Peter

Investment Consultants Market Investigation - Working Paper : information on fees and quality

We are responding to the questions posed in this Working Paper and split our responses to the 5 sections of the paper. However prior to doing so, we would make the observation that it is reassuring that we found little in your paper of surprise. Indeed many of the aspects raised we believe the industry is fully aware of (at least partly but not wholly because of the earlier FCA study) and these are being addressed by the industry. Nevertheless some aspects remain challenging which is also highlighted in your paper.

Section 1: Current Clients – information on fees

The fact that you state that the information on advisory fees are typically very clear, these findings being backed up by the survey results with 89% saying they find the fees fairly clear or better, does raise the question as to whether much further regulation is required at all. The support information for fiduciary fees is felt to be less good, but again 86% said they found fees at least fairly easy to monitor. Because ad valorem fees relate generally to a variety of services which are not uniformly provided throughout the contract the mapping of fees against services provided is necessarily less precise than under advisory. Nevertheless we support that there should be full transparency as to what services are covered.

The paper suggests on pages 35 and 36 the requirement for mandatory comprehensive disclosure and the use of templates. In the absence of the further work which is already in train under MiFID II, IBWG and by the DWP, we would fully support these remedies. However were further, additional, requirements to be mandated because of the CMA investigation we believe the industry would be too heavily and unnecessarily burdened in producing details of costs and fees. This would at best add little and at worst cause confusion to stakeholders who actually have said the information is already pretty clear.

Section 2: Current Clients – information on performance

The survey results on pages 42 and 43 show for advisory that 94% and 91% of trustees find it at least fairly easy to monitor the investment performance of the schemes and of the asset managers respectively. For fiduciary management the percentages are 92% for both. One would therefore suggest that there is little to be addressed as far as asset manager performance is concerned.

The area which is suggested needs to be addressed is measuring strategic performance in DB and member outcomes in DC. In terms of DB one has to reflect that merely monitoring the funding level has limitations. For a precise measure one has to take into account the agreed objectives including not least risk parameters and the fact that this measure can be affected by non-investment factors such as member movements. In relation to DC it may be appropriate to try to look at member outcomes in relation to default funds. However self-select funds are less capable of such analysis.

Taking account of these observations we can see no necessity for the measures set out on page 54 to be introduced; as a result we have not detailed the issues that mandatory introduction may create. These could however be useful in relation to communicating to trustees “what good looks like”. The guidance suggested on page 55 would certainly be helpful. TPR already has a comprehensive toolkit for trustees, which includes sections on investment. In order not to introduce potentially conflicting guidance and doubling up we would encourage such guidance to be provided as part of the TPR toolkit, or as a separate standalone document.

Section 3: Prospective Clients – information on fees

We must observe that 81% of trustee boards found it at least fairly easy to compare advisory fees and the same percentage in relation to fiduciary fees. We are therefore surprised at your comment on page 62 that it is very difficult to compare fees. Disappointingly the percentages for third party fees were not as high. Nevertheless we would support the proposed remedy set out on page 68, namely the requirement for a minimum level of fee information.

Section 4: Prospective Clients – information on performance

It is inherently very difficult to measure the performance of either advisory or fiduciary services which you have recognised in the paper. This is because of the myriad of different factors such as funding level, attitude to risk, covenant, benefit structure, scheme size etc. Equally it is also difficult to measure the performance of other advisers such as the Scheme Actuary, the Legal Adviser and the Covenant Adviser. One is not looking at a mere mathematical index of performance, but factors such as competence, confidence, trust, ability to come up with new ideas. Case studies can be helpful, but of course these are invariably the "best performances". We would therefore suggest that guidance be given to trustees as to what should be looked for in relation to evidencing past performance, including the softer aspects. References from current and recently lost clients should form part of this.

Finally JLT are like other firms supporting the IC Select work. Similar to the above comments in relation to MiFID II, we would recommend that regard be had of possible duplication and confusion which would be caused by the introduction of further standards. As a consequence we suggest actions should be deferred until the outcome of the IC Select work is known.

Section 5: Other information on quality

The observations made on pages 93 to 95 are very valid and indeed confirm the point made in the previous section. Good tender disciplines should seek to cover these aspects and many do, albeit not consistently. We would therefore encourage guidance being provided in these areas.

We cannot however support the suggestion for mandatory feedback as set out on page 96. Many firms, including JLT seek feedback, although many clients do not welcome intrusive questions, as you may have found when the survey was undertaken on your behalf. Furthermore we all, I hope, recognise the limitations of Trip Advisor ratings and that dis-satisfied clients tend to be more vociferous than satisfied clients. Equally the role of the client relationship manager in seeking the feedback (directly or by encouraging participation in surveys) can greatly influence the outcome.

We hope you have found our feedback of help. We would be more than happy to elaborate further on the points made, or generally.

Finally we look forward to receiving the further working Papers.

Yours sincerely

Phil Wadsworth
Chief Actuary