CMA Working Paper – barriers to entry & expansion

Please find below the collated comments of Hyman Robertson LLP relating to the CMA's Working Papers on the barriers to entry and expansion.

We are in broad agreement with each of the working papers and have the following specific comments:

- In paragraph 13(a) on page 4, we note that only 9% of schemes have switched FM providers within the last 5 years (vs 27% for IC providers). We would agree with the conclusion that there are proportionately fewer opportunities to switch within FM. Within DC, there is an additional complication where a FM provider has designed a default strategy (lifestyle, target date fund or otherwise) that has prepared members to approach their retirement in a certain way based on their conclusions of the membership profiles of their schemes. Should a scheme decide to switch to another FM provider or back to an IC provider, it is likely that members close to retirement could be pointed to a different pre-retirement strategy (different FM providers will have different propositions); these members could then face two sets of transaction costs (switching FM provider strategies and then potentially de-risking). These types of challenges and decisions are likely to lead to fewer decisions to switch FM provider within DC.

- In response to the CMA's question (in paragraph 49 on page 13) regarding the importance of brand recognition or reputation, we believe this can work as a positive or a negative. While reputation is nearly always highly important (either at the firm or individual consultant level), a large brand name can also be associated with more generic less tailored advice, which does not suit all IC advisory customers. Our own experience aligns with that identified in the Working Paper, namely that the breadth of different buyer requirements facilitates IC advisory newcomers to the market. Likewise it is mentioned that switching costs in FM can be very high. This will increasingly be a barrier in future for large DC schemes that want to switch between different FM providers, especially if they have different DC admin providers, which may therefore act as a barrier to new entrants' ability to build and grow a business.

- In response to the question (in paragraph 83 on page 21) on the benefits to DB clients of receiving multiple services, we expect smaller schemes will see the attraction of multiple services by a single provider. More widely, we see that there is some benefit for overlap of investment, actuarial and administration services as schemes mature and head towards run-off or risk transfer. Where IC and FM services are combined, we still consider it necessary for greater transparency, as this represents a bundled service offering, without the benefit of independent advice, (i.e. a tied agent). As previously stated, we, therefore, believe there is a need for unbundling of fees so that clients can see the true cost of advisory and asset management fees from the IC-FM provider. This helps to maintain a competitive market for those providers who do not offer multiple service solutions. Indeed, from the working paper on **financial performance and profitability**, it appears that the combined IC FM firms are able to readily analyse their revenue and profitability on an unbundled basis.