



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

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**RESPONSE TO WORKING PAPER ON COMPETITIVE LANDSCAPE**

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**10 MAY 2018**

## INVESTMENT CONSULTANCY (“IC”) AND FIDUCIARY MANAGEMENT (“FM”) SERVICES

### WTW RESPONSE TO WORKING PAPER ON COMPETITIVE LANDSCAPE<sup>1</sup>

- 1.1 WTW welcomes the opportunity to respond to the working paper on the competitive landscape published by the CMA on 26 April 2018 (the "**Working Paper**").
- 1.2 We note that the CMA's market investigation into investment consultancy and fiduciary management services arose from the FCA's final decision to make a market investigation reference in the context of its asset management market study. The FCA stated that there were “relatively high levels of concentration (...) which indicate that competition may not be working effectively in this sector”.
- 1.3 On the basis of the more in-depth analysis set out by the CMA in the Working Paper, it is clear that there are no structural competition issues in either the market for IC services to pension schemes (the "**IC Market**") or the market for FM services to pension schemes (the "**FM Market**") giving rise to an adverse effect on competition. The CMA's analysis demonstrates that neither the IC nor the FM Markets are highly concentrated and that the respective concentrations in the IC and FM Markets have markedly declined over the last decade.
- 1.4 The CMA's findings that have been communicated in the Working Paper support the view that both the IC and FM Markets have a high number of participants, with the largest players making up moderate shares of the market and multiple new entrants entering in recent years.
- 1.5 With regard to the IC Market, the CMA finds that:
  - (a) Over 32 firms provide IC services<sup>2</sup>.
  - (b) No firms have a market share above 20%.<sup>3</sup>
  - (c) The three largest firms make up less than 50% of market share<sup>4</sup>, and their market shares have fallen in aggregate over the last 5 years<sup>5</sup>. The IC Market is further characterised by a number of well-established, mid-sized firms who in several segments enjoy a stronger position than the three largest firms.<sup>6</sup>
  - (d) One of the largest three players has experienced a significant decline in its market share over the last ten years.<sup>7</sup>
  - (e) The CMA identified 12 new IC entrants since 2007, and no firms that exited the market over that period, so that the total number of participants has increased in the last ten years.<sup>8</sup>
  - (f) The Herfindahl-Hirschman Index ("**HHI**") for the IC Market is 1,023 and is well below the threshold of 2,000 set by the CMA for the market to be considered highly concentrated.<sup>9</sup> The

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<sup>1</sup> In this response and all responses to the CMA, Towers Watson Limited is the main regulated entity. We refer to both this entity and the relevant general business as "We", "Willis Towers Watson" or "WTW" throughout.

<sup>2</sup> Paragraph 68 of the Competitive Landscape working paper.

<sup>3</sup> Paragraph 5 of the Working Paper.

<sup>4</sup> Figures 2 and 10 of the Working Paper.

<sup>5</sup> Paragraph 59 of the Trustee Engagement working paper.

<sup>6</sup> Paragraph 5 of the Working Paper.

<sup>7</sup> Paragraph 104 of the Competitive Landscape working paper.

<sup>8</sup> Paragraph 15 and Figure 1 of the Barriers to Entry working paper.

<sup>9</sup> Paragraph 77 of the Working Paper states an HHI of 1,023.

HHI for the IC Market has also been declining steadily and significantly over the last 10 years<sup>10</sup> and has been below the threshold of 2,000 since 2009.<sup>11</sup>

- 1.6 Overall, the IC Market is highly competitive in terms of the number of participants that have been able to enter and develop a strong offering and brand to acquire customers and compete effectively against larger or more established firms. The position of the larger firms is clearly vulnerable to the threat of other market players, as evidenced by the weakening position of one of the three largest players (as noted above) and the overall decline in the HHI in recent years.
- 1.7 With regard to the FM Market, the CMA finds that:
- (a) Over 18 firms provide FM services.<sup>12</sup>
  - (b) No firms have a market share above 20%.<sup>13</sup>
  - (c) There are five large firms in this market and several other notable players.<sup>14</sup>
  - (d) The CMA identified 12 new FM entrants since 2007, and in particular, there has been recent entry into the FM Market by a number of large asset management firms.<sup>15</sup>
  - (e) The HHI for the FM Market is 1,324 and is well below the threshold of 2,000 set by the CMA for the market to be considered highly concentrated.<sup>16</sup> The HHI for the FM Market has further declined drastically from 4,300 in 2007 to 1,353 in 2016, largely driven by the entry of large IC providers into the FM Market.<sup>17</sup>
- 1.8 Despite being a relatively new service, the analysis demonstrates that the FM Market has already developed high levels of competition in terms of the number of firms offering the full suite of FM services. As the CMA has recognised, it is notable that not all of the three largest providers of IC services are also the three largest providers of FM services<sup>18</sup>. Large asset management firms, with highly complementary expertise and the resources to expand rapidly, have also been successfully entering the market in recent years and pose a strong competitive constraint on investment consultants and specialist providers in the FM Market.
- 1.9 The CMA has pointed to one finding as indicative of potential concerns about the future evolution of the FM Market: the fact that the largest three IC providers have grown their combined market share in the FM Market from 10% to close to 50% over the course of the last ten years. The CMA stated:
- “While it is difficult to predict whether this trend will continue in even the near future, we see that these firms have ambitious growth plans in FM. There is also some evidence that barriers to expansion may be greater in FM than IC. Therefore we consider that these firms could continue to collectively gain market share in the foreseeable future and there is a possibility that concentration may increase in the FM market in the next few years.”<sup>19</sup>*

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<sup>10</sup> Figure 9, page 28 of the Working Paper.

<sup>11</sup> Paragraph 107 of the Working Paper.

<sup>12</sup> Paragraph 68 of the Competitive Landscape working paper.

<sup>13</sup> Paragraph 7 of the Competitive Landscape working paper.

<sup>14</sup> Paragraph 7 of the Competitive Landscape working paper.

<sup>15</sup> Paragraph 7 of the Competitive Landscape working paper.

<sup>16</sup> Paragraph 147 of the Working Paper states an HHI of 1,324.

<sup>17</sup> Footnote 62, page 38 of the Working Paper.

<sup>18</sup> Paragraph 28 of the Financial Performance and Profitability working paper.

<sup>19</sup> Paragraph 146 of the Competitive Landscape working paper.

- 1.10 Given the high degree of complementarity between the IC and FM services, it is unremarkable that IC firms have been able to grow their market share upon entering the FM Market. Although there has been growth for the three largest IC providers in the FM Market, at the same time there has also been a fall in the market share for the three providers within the IC Market. The current combined market share of these firms is the same for IC as it is for FM, and in both cases the HHI is well below the threshold for the market to be considered highly concentrated. We also note that these three firms are not all among the three largest providers of FM services.
- 1.11 It is far from clear that the trends in market shares observed in recent years will continue. Since the FM Market as a whole is growing rapidly, firms may succeed in growing their revenues from the FM service without necessarily improving their relative position in the market compared to rival firms. It is hardly surprising that IC firms operating in the FM Market have ambitious growth plans given the growth of the market as a whole, and in general all players are likely to have such plans which are in any case pro-competitive. In any event, the CMA cannot conclude that there is a competition issue based on speculation about what might happen in future years.
- 1.12 We note that the CMA’s claim that “most customers who have moved to FM have done so with their existing provider, with firms losing only a limited number of advisory customers through switching to an FM service provided by rivals”<sup>20</sup> is factually incorrect. The CMA’s analysis<sup>21</sup> found that in 47% of cases, the trustee board appointed the incumbent IC provider when first purchasing FM services; the analysis carried out by IFF Research found this figure to be 39%.<sup>22</sup> In any case, a majority of clients did *not* select the incumbent as their initial FM provider.
- 1.13 There have also been a number of other findings communicated by the CMA in its other working papers that support the conclusion of IC and FM Markets being competitive:
- (a) In the financial performance and profitability working paper, the CMA was unable to conclude that firms in either the IC Market or the FM Market make excessive profits.<sup>23</sup>
  - (b) In the barriers to entry and expansion working paper, the CMA has found little evidence of any significant barriers for new entrants to enter or for existing industry players to expand.<sup>24</sup> Furthermore, as observed by the CMA, the IC and FM Markets have been growing since 2007, with the number of firms active in these Markets increasing steadily and no firms exiting.<sup>25</sup>
- 1.14 As acknowledged by the CMA in the Working Paper, *“there has been both a substantial movement of customers from advisory to FM, and a significant number of customers who have begun purchasing FM for some asset classes alongside wider IC services. [...] this appears to be part of a long-term trend to FM services, rather than customers switching in response to a small change in the competitiveness of advisory services.”*<sup>26</sup>
- 1.15 The CMA refers to this “long-term trend to FM services”, but has not addressed, here or in any other working paper, what might be driving this trend. For many pension schemes, FM is recognised as an

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<sup>20</sup> Paragraph 26 of the Competitive Landscape working paper.

<sup>21</sup> Paragraph 64 of the supply of fiduciary management services by investment consultancy firms working paper.

<sup>22</sup> Paragraph 5.13 of the Survey report produced by IFF Research. The difference in the results are due to the exclusion by the CMA of all responses in cases where a “confirmed provider of FM services” had not been recorded as the main FM provider for the trustee board.

<sup>23</sup> Paragraph 6 of the Financial Performance and Profitability Working Paper.

<sup>24</sup> Paragraph 8 of the Barriers to Entry and Expansion Working Paper.

<sup>25</sup> Paragraph 15 and Figure 1 of the Barriers to Entry and Expansion Working Paper.

<sup>26</sup> Paragraphs 25, 26 of the Working Paper.

improved service model for their needs in an increasingly complex market environment and one that has provided better outcomes for them in terms of risk reduction, cost reduction and returns. The growing take-up of FM is therefore a positive sign that competition in the market is driving market participants to evolve and develop new and improved solutions for meeting client needs.

- 1.16 We do not consider it likely that the FM Market will become more concentrated in the future. Any such concentration would be prevented by measures being considered in other working papers<sup>27</sup> such as increasing transparency and consistency for FM track record reporting and costs disclosures. There is also a strong likelihood that more firms will enter the FM Market as it continues to grow in response to consumer demand.

**WILLIS TOWERS WATSON**

**10 May 2018**

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<sup>27</sup> Information on Fees and Quality Working Paper.