Institute
and Faculty
of Actuaries

Initial decision on investment consultancy

IFoA response to Competition and Markets Authority

24 August 2018

About the Institute and Faculty of Actuaries

The Institute and Faculty of Actuaries (IFoA) is a royal chartered, not-for-profit, professional body. We represent and regulate over 32,000 actuaries worldwide, and oversee their education at all stages of qualification and development throughout their careers.

We strive to act in the public interest by speaking out on issues where actuaries have the expertise to provide analysis and insight on public policy issues. To fulfil the requirements of our Charter, the IFoA maintains a Public Affairs function, which represents the views of the profession to Government, policymakers, regulators and other stakeholders, in order to shape public policy.

Actuarial science is founded on mathematical and statistical techniques used in insurance, pension fund management and investment. Actuaries provide commercial, financial and prudential advice on the management of assets and liabilities, particularly over the long term, and this long term view is reflected in our approach to analysing policy developments. A rigorous examination system, programme of continuous professional development and a professional code of conduct supports high standards and reflects the significant role of the profession in society.

Institute and Faculty of Actuaries

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24 August 2018

Dear CMA

IFoA response to CMA initial decision on investment consultancy

General response

1. The Institute and Faculty of Actuaries (IFoA) welcomes the opportunity to respond to the CMA's initial decision on the investment consulting and fiduciary management markets. Members of the IFoA's Finance and Investment Board and Regulation Board have been involved in the drafting of this response.
2. This response is consistent with our response to the FCA asset management market study from February 2017[1]. In this response we supported the FCA's referral of investment consultants to the CMA, and supported improved disclosure of fiduciary management fees and performance.
3. We believe that this report is a comprehensive and balanced analysis and a good first step. We are generally supportive of the report's recommendations. We have made some more specific comments in relation to key recommendations below.

Key CMA recommendations relevant to the IFoA

A requirement on pension trustees to set objectives when they hire an investment consultant, in order to be able to judge quality of the service.

4. We agree that trustees should set objectives for their consultants at the start of an appointment and review them over the term of the appointment. These objectives should cover areas such as the scope and terms of reference, budgets and working arrangements, as well as key performance indicators (which we discuss below).

[1] https://www.actuaries.org.uk/documents/02-20-ifoa-response-fca-asset-management-market-study

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Mandatory warnings when selling fiduciary management: firms must be clear when they are marketing fiduciary management services to their existing advisory customers that this is not part of their role as trusted investment adviser.

5. While supporting this proposal in principle, we believe that the definition of fiduciary management needs to be clearer, otherwise there is a risk of inconsistent and inaccurate communications. The clearest example of activity that should fall within the definition is where management of the asset/liability ratio is fully or mostly outsourced. An example of management that is mostly outsourced would be where strategy, portfolio construction and mandates are outsourced, including Diversified Growth Funds managed by the consultant's own firm. Such examples need to be distinguished from situations that should not properly be classed as fiduciary management, such as funds of funds or Diversified Growth Funds managed by a third party, where the trustees have appointed an investment manager to manage part of their portfolio.

Requiring trustees to go out to tender when hiring a fiduciary manager for the first time (and if they already appointed a manager without a tender, doing so within 5 years)

6. As noted above, we believe a clearer definition of fiduciary management is required. Without this, there is a risk that the recommendations regarding tenders will not be applied effectively.
7. We would like to see more emphasis on the involvement of an independent party in the tender process. One advantage of this is that the experience of the independent party can help to target the tendering process effectively.
8. We question whether the requirement to tender should be limited to the first time a fiduciary manager is hired. Given likely changes in the manager's staff and other possible aspects, it would be worth going to tender if hiring or re-hiring a fiduciary manager more than five years after the first tender.

In investment consultancy, there is a low level of engagement by some customers in choosing and monitoring their provider. It is also difficult for them to access and assess the information needed to evaluate the quality of their existing investment consultant and to identify if they would be better off using an alternative provider.

9. We recognise the concern highlighted in the report about the extent to which trustees do not challenge consultants' advice, and we would welcome further consideration of how to address this problem. We note also that the rate of switching investment consultants is low, particularly for small or DC schemes.
10. The report highlights that it is difficult for schemes to judge the quality of their investment consultants as inconsistent measures are used. We believe that there would be benefit in greater consistency of key performance indicators for consultants. Key performance indicators are likely to assess quality of advice, timeliness, value for money, idea generation, working with other advisers and stakeholders and other related factors. It is unlikely that the

key performance indicators would include investment performance or investment risk measures, except where the consultant had delegated authority to manage some or all of a scheme's investments.

Improvements to the information available to trustees in choosing a fiduciary manager, such as a breakdown of fees, standardised performance reporting, and issuing of TPR guidance.

11. We support the proposals in relation to the breakdown of fees between investment consulting and fiduciary management, as well as standardised performance information. We also support improved disclosure on how exiting from a fiduciary manager will impact on costs, liquidity and administrative complexity.

CMA also recommends extending FCA regulation to both investment consulting and fiduciary management.

12. The IFoA supports the recommendation to extend the FCA regulatory perimeter in principle. It will however be important to clarify exactly to what extent the perimeter will be extended, and how this might impact the Designated Professional Bodies (DPB) regime. Licensed firms should certainly be consulted on this point.
13. The DPB regime was set up to allow firms offering investment advice incidental to their main business to be regulated by their professional body rather than the FCA. The regime provides a simpler way for these firms to carry out regulated work under a more proportionate regulatory arrangement. There may be reasons for allowing such firms to continue to offer these services under DPB without being subject to a more complex regulatory framework.
14. If you would like to discuss any of the points raised please contact Matthew Levine, Policy Manager (matthew.levine@actuaries.org.uk, 0207 632 1489) in the first instance.

Yours sincerely,

[redacted]

Marjorie Ngwenya
Immediate Past President, Institute and Faculty of Actuaries