SEI Investments Europe Limited

Response to Investment Consultants Market Investigation

Provisional Decision Report

August 2018

SEI welcomes the CMA's provisional decision report and supports the outcomes and proposed remedies that have been identified for both the investment consultancy and fiduciary management markets. When considering the implementation of remedies we urge the CMA, and the associated bodies tasked with implementation, to consider the considerable administrative and governance responsibilities already placed on pension scheme trustees in the current regulatory environment. We feel it is extremely important that the CMA's remedies do not inadvertently lead to the unintended consequence of an additional and unmanageable governance burden rather than the intended support for trustees that the CMA clearly wishes to provide.

Whilst we welcome the proposals the CMA has made in the report, we are concerned that the decision not to address competition problems, arising from the sale of master trusts by investment consultants that also provide employee benefit consultancy (Ref 8.114), presents a missed opportunity. It is our belief, underlined by other market participants (Ref 8.95), that implementing similar remedies to those recommended to counter the incumbency advantage for IC-FM firms, could ensure competitive problems in the master trust market that exist today and are highly likely to increase significantly in the very near future are addressed.

The CMA's Provisional Decision Report acknowledges that master trusts are a growing part of the pensions sector (Ref 8.111) and that some investment consultancy firms supply employee benefit consultancy services to employers and also sell master trust pension products (Ref 8.113). The CMA's decision not to address these concerns appears to reflect a very short term view of the master trust market and does not take into account the potential growth of the market and the changing market dynamics we will see in the next two years.

As the Provisional Decision Report acknowledges (Ref 8.106), The Pensions Regulator has created a new regulatory framework for master trusts that comes into effect on the 1st of October this year. It is widely acknowledged that the new regulatory framework, which centres around a requirement for all master trusts to meet a series of standards including capital adequacy, will result in consolidation in the master trust market in the UK. This consolidation is likely to result in a significant reduction in the range of providers offering a DC master trust in the UK. https://www.professionalpensions.com/professional-pensions/analysis/3017319/master-trust-consolidation-what-has-happened-so-far).

Whilst, the new regulatory framework is welcomed, we believe it is important for the CMA to be aware that a reduction in the number of master trust providers will reduce choice and competition and is highly likely to lead to a significant increase in market share amongst investment consultants. This concentration, and the related incumbency advantage enjoyed by investment consultants, is a direct reflection of the issues identified by the CMA in relation to the fiduciary management market (7.152).

The CMA has also raised the concern that low trustee engagement when first buying fiduciary management contributes to the incumbency advantage of the investment consultants (7.152). It is our belief that these same concerns arise in relation to the master trust buying process. This is demonstrated by an Office of Fair Trading study in 2013 (Ref: Defined Contribution Workplace Pension Study: 5.19 – 5.23: http://webarchive.nationalarchives.gov.uk/20131101172428/http://oft.gov.uk/shared_oft/market-studies/oft1505) which identified the lack of knowledge amongst employers responsible for DC work place pensions and their resulting reliance on investment consultants.

We urge the CMA to revisit their provisional conclusions (8.111 – 8.114) in relation to master trusts. The new regulatory environment must be taken into account and the similarities between the competition issues identified in relation to investment consultants offering fiduciary management and those that exist in investment consultants who have employee benefit practices offering master trusts must be acknowledged in order to ensure that DC pension scheme members are protected from competition issues in the same way as those in the DB sector.