

INVESTMENT CONSULTANTS MARKET INVESTIGATION

Summary of hearing with Willis Towers Watson (WTW) held on 2 October 2018

Introduction

1. WTW stated that they did not intend to repeat their written submissions on the AECs, in particular that there was no robust evidence of harm. Subject to those submissions, they broadly welcomed the findings from the investigation and the proposed remedies, particularly those which promoted transparency in the industry and customer engagement.
2. WTW also noted that they consider Fiduciary Management has brought improved returns and lower volatility of funding for pension schemes. They are concerned that a remedies package might deter the many pension schemes who have not taken up Fiduciary Management from doing so as this could lead to detriment in terms of their scheme returns.

Mandatory tendering for Fiduciary Management

3. In relation to Remedy 1,¹ WTW said that they generally support schemes using tendering and other ways of driving competition when purchasing Fiduciary Management services.
4. They supported the requirement for mandatory tendering for full scheme Fiduciary Management mandates but not for partial scheme mandates. They do not agree that clients which put a minority of their assets into a Fiduciary Management arrangement are then 'locked into' that provider's Fiduciary Management service and WTW do not often see a scheme gradually increase the proportion of its assets which are in Fiduciary Management; usually a scheme moves from a minority arrangement directly to a full scheme delegation. They consider partial Fiduciary Management is commonly used for well under 20% of the scheme assets.

¹ **Remedy 1:** mandatory competitive tendering on first adoption of fiduciary management.

5. WTW explained that they see partial Fiduciary Management as competing with the many 'fund of funds' services offered by investment consultants and asset managers, hence applying the mandatory tendering remedy only to IC-Fiduciary Management firms would put them at a competitive disadvantage.
6. WTW saw the move to full scheme Fiduciary Management as a major change to the governance of a pension scheme and so something which normally entails a competitive tender.
7. WTW considered that closed tenders are a better process as an open tender could lead to a client having to consider an unnecessarily high number of bids.
8. WTW estimated that the cost of a tender for them ranges from £20k for a smaller mandate (ie less than £100m) to £55k -60k for a very large one (ie several £billion). They find that larger pension schemes engage more and so require more time spent on the tender.
9. WTW thought that use of third party evaluators can be helpful as they improve the quality of the tender and help clients assess fees, but should be best practice and not mandatory. They estimate the cost of TPE support for a tender as in £10,000s. They think that this could be seen as a lot by a small (£10m) scheme, but not significant for a larger (£100m) one.
10. They accepted that many TPE firms are competitors to them in the provision of investment consultancy.
11. They considered that Fiduciary Management firms' own pension schemes should not be made to tender for Fiduciary Management as there are considerable sensitivities around providing full information about internal pension schemes to rivals and there are doubts about whether such a process would be genuinely competitive.
12. They also considered that Fiduciary Management providers' own master trusts which buy Fiduciary Management should be excluded from the tendering requirement as the rationale for establishing such vehicles is the ability to provide services to them.
13. WTW said that trustees should be responsible for complying with the mandatory tendering remedy as they need to be accountable for their own actions and that they should report this to TPR via the annual scheme return. They accepted that Fiduciary Management firm compliance could work, as set out in the provisional decision, at the most basic level.

14. WTW also said that trustees are well aware of TPR guidance: as an advisor, they offer training on, or have discussions about, new regulatory responsibilities; trustees commonly have a meeting agenda item on regulation & legal matters.

Mandatory Warnings

15. On Remedy 2,² WTW said they have some concerns about how the proposed remedy is designed in terms of its wording (they have suggested an alternative) and its placement in client documents. They have changed their marketing materials to comply with MiFID II since sending examples to the CMA earlier in the investigation.

Fiduciary Management fee & performance disclosure for existing and prospective clients

16. On Remedy 4,³ WTW considered that new MiFID II provisions cover these remedies although they do support the disaggregation of Fiduciary Management from AM fees as CMA has proposed.
17. On Remedy 6,⁴ they do not wish the work that has been done with IC Select to be re-done but agree that there could be an implementation group as a backstop in case the existing standard does not reach a point where it can be transferred to the CFA Institute.

Investment consultant objectives

18. On Remedy 7,⁵ WTW said that they do sometimes find that it is hard for an investment advisor to know what trustees are hoping to achieve for their scheme and they consider these most likely to be financial and linked to scheme performance. They consider that other, service-level factors are much more easily measured by client satisfaction.

Recommended asset manager reporting standards

19. WTW said that they have some concerns over the design of these standards so that they do not become too restrictive – high-level basic rules would work better as rules that are too granular can have unintended consequences. The

² **Remedy 2:** mandatory warnings when selling fiduciary management services.

³ **Remedy 4:** Requirement on firms to report disaggregated fiduciary management fees to existing customers.

⁴ **Remedy 6:** Standardised methodology and template for reporting past performance of fiduciary management services to perspective clients.

⁵ **Remedy 7:** Duty on trustees to set their investment consultants' strategic objectives.

treatment of benchmarks and of fees (net or gross) are both areas where care must be taken. For example, the appropriate benchmark would depend on the investment style in question.

FCA regulation

20. WTW considered that widening of the perimeter will need careful definition and that firms will incur some cost in terms of engaging with the FCA's process of consulting on the change (external counsel, etc).
21. The ongoing impact of the change on firms of this will be that some processes will need to change, that relevant assurance processes will need to be created and that the regulatory levy paid to the FCA would be likely to rise.