Competition & Markets Authority

Serving UK pension schemes better:

Final decision from the CMA's investigation into investment consultancy

12 December 2018

A brief introduction to investment consultancy & fiduciary management services

1. Many workplace pension schemes are held in a trust overseen by a board of trustees who have a range of skills and backgrounds

2. Trustees seek advice on how best to invest scheme and members’ money to achieve their investment goals

3. Trustees get that advice from **investment consultants** who recommend investment strategies, asset allocation and asset managers and their products

4. Trustees may appoint a **fiduciary manager** to make investment decisions on their behalf - half of schemes choose their existing investment consultant to do this

5. We’ve identified competition problems in the ways that the investment consultant and fiduciary management markets work and are taking action to address these

Serving UK pension schemes better

Investment consultancy and fiduciary management

Investment consultancy and fiduciary management are important services for their main customers, pension scheme trustees, helping them to manage over £1.6 trillion of investments on behalf of scheme members.

These services therefore have a major influence on pension scheme outcomes, affecting up to half of all UK households. It is vital that competition within these markets works well.

We have found that there is an adverse effect on competition in the investment consultancy market and the fiduciary management market from which substantial customer detriment may be expected to result.

We have greater concerns about the fiduciary management market due to the features we have found.

Investment consultants influence over £1.6 trillion of pension scheme assets

About the investigation

The CMA has completed an investigation into investment consultants and fiduciary management markets. This has shone a light on an important, but little known, part of the pensions investment sector, and will lead to changes that bring benefits to pension scheme members.

The CMA has carried out this investigation after a reference from the Financial Conduct Authority. As part of the next steps, we expect both the Financial Conduct Authority and The Pensions Regulator to take on new regulatory duties to oversee this sector.

The investment consultancy market is not highly concentrated and there is a wide choice of firms. No firm has a market share of more than 20%.

Our findings

In investment consultancy, there is a low level of engagement by some pension trustees in choosing and monitoring their provider. It is also difficult for trustees 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. This reduces their ability to drive competition and reduces firms' incentives to compete. We expect this may result in substantial customer detriment in the market.

Fiduciary management revenues have quadrupled since 2011. UK Pension Schemes spent £250m on this service in 2017.

In fiduciary management, firms which provide both investment consultancy and fiduciary management have an incumbency advantage. This derives from low engagement by pension trustees at the point of first moving into the service, investment consultants steering their advisory customers towards their own fiduciary management service and the fact that prospective customers do not have access to comparable information on firms' historic performance, or clarity on their fees.

Half of pension schemes buy fiduciary management from their existing investment consultant.

This means that some customers remain with the firm that is their investment consultant even if a better deal on fiduciary management is available elsewhere.

The problem may be exacerbated by the relatively high costs of switching provider.

In addition, it is difficult for many trustees to access and assess the information they need on the fees of their existing fiduciary manager and to identify if they would be better off using an alternative provider. These features reduce pension trustees' ability to drive competition between fiduciary managers and reduce providers' incentives to compete. We expect this to result in substantial customer detriment in the market.

Why this matters

The nature of these markets means that the detriment resulting from the competition problems we have found is likely to be substantial. Investment consultants and fiduciary managers provide investment advice and related services to UK pension schemes with assets of at least £1.6 trillion.

Any negative impact on pension schemes will be both significant and will accumulate and compound over the long time horizon in which pension assets are invested.

Our actions

Our remedies will address these problems in an effective and proportionate way.

We propose to make the following changes to address the problems we have identified:

- We will require pension trustees to tender when they first purchase fiduciary management services (above a minimum threshold) and they will have to run a competitive tender within five years if they have already awarded a fiduciary management mandate without doing so.
- We will require investment consultants to separate marketing of their fiduciary management service from their investment advice and to inform customers of their duty to tender in most cases before buying fiduciary management.
- We will ask The Pensions Regulator to give greater support for pension trustees when running tenders for investment consultancy and fiduciary management services and guidance for pension trustees to support our other remedies.
- We will require fiduciary management firms to provide better and comparable information on fees and performance for prospective customers and on fees for existing customers.
- We will require pension trustees to set objectives for their investment consultant, in order to be able to assess the quality of investment advice they receive.
- We will require investment consultancy and fiduciary management providers to report performance of any recommended asset management products or funds using basic minimum standards.

We are also making recommendations to government to enable The Pensions Regulator to oversee our remedies on pension scheme trustees and to extend the Financial Conduct Authority's regulatory perimeter to include all of the main activities of investment consultants.

We believe that, together, these actions will drive stronger competition between firms and enable pension schemes to get the best deal for their members.

What next?

The CMA will implement the remedies by way of an order on pension scheme trustees and firms providing these services. We will consult on that order in early 2019 before finalising it. We expect our remedies to be effective later in the year.

Our full final report and supporting evidence is published on our case webpage
www.gov.uk/cma-cases/investment-consultants-market-investigation