CMA
Competition & Markets Authority

Serving UK pension schemes better:
Provisional findings from the CMA's investigation into investment consultancy

18 July 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 have proposed actions to address these

Serving UK pension schemes better

We have provisionally found some competition problems in investment consultancy and more serious concerns in the fiduciary management market. To tackle these, we propose to make changes to boost competition in these markets and better equip customers to ensure they're getting the best deal. This will include mandatory tendering when first moving to fiduciary management, and requiring firms to give customers clearer information.

About the investigation

The CMA has published the provisional decision from its market investigation into the investment consultancy and fiduciary management markets.

Investment consultants influence over £1.6 trillion of pension scheme assets

Investment consultants and fiduciary managers provide investment advice and related services to UK pension schemes with assets of £1.6 trillion pounds. They play an important role in the financial wellbeing of millions of people.

Little has previously been known about the workings of these markets. We hope our investigation shines much-needed light onto an increasingly influential part of the investment sector as well as bringing about positive change.

The CMA has carried out this investigation following a reference from the Financial Conduct Authority (FCA) in September 2017 when it concluded its own market study into Asset Management.

Investment consultancy

Investment consultancy is a well-established market with wide use amongst pension schemes; who are legally required to get advice on their investments. The market is not highly concentrated; customers have a wide range of different firms to choose from and it's relatively easy to move between consultants.

We found:

- No firm has a market share of more than 20%.
- The three largest firms' combined market share is below 50%.
- There are no significant barriers for firms to enter and expand.

The investment consultancy market is not highly concentrated and there is a wide choice of firms

However, there are some issues which weaken the competitive pressure on firms:

- Some trustees don't have the skills or time to scrutinise their consultants.
- Some schemes, particularly small and Defined Contribution schemes, have low levels of engagement in the market. This means they don't switch, tender or find other ways to put some pressure on their investment consultant.
- Generally, there isn't sufficient information on the quality of these services for trustees to judge if they're getting a good deal.

We recognise that trustees have many competing demands and it's not an easy task in such a complex sector as this. But these problems mean that firms don't face pressure to compete as hard as they should do.

Fiduciary management

Fiduciary management has emerged more recently and is a fast-growing service: the size of the market has increased by ten times in the past ten years as pension schemes have moved over from investment consultancy. We estimate that 13% of pension schemes use fiduciary management.

Fiduciary management has grown ten-fold over the past decade

Fiduciary managers take some or all of the investment decisions on behalf of pension schemes, rather than just giving advice as investment consultants do. We've heard it can be a useful service for many pension schemes, but it costs more and is a significant hand-over of control.

This makes it even more critical that trustees choose the right fiduciary manager who can manage pension assets well on behalf of the scheme members and who offers good value for money.

We think that fiduciary management has similar problems to investment consultancy but we also have more serious concerns:

- Many pension trustees aren't shopping around when first moving into fiduciary management; two-thirds don't tender and half of pension schemes using fiduciary management simply appoint the firm that was already their investment consultant.
- Pension trustees find it hard to get the information that will help them make a good choice when picking a fiduciary manager or assessing their existing one.

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

- The firms that offer both investment consultancy and fiduciary management enjoy an incumbency advantage when selling fiduciary management to their existing consultancy customers. Some of the ways in which they introduce and market fiduciary management steer their customers to their own service, making it less likely they shop around.
- Once in fiduciary management, it may be difficult for customers to move as it is very costly and time-consuming to do so.

Much like investment consultancy, the market is not highly concentrated and there are currently a range of firms to choose from. But we have also seen a sharp rise in the market shares of the larger combined consultancy and fiduciary management firms, who enjoy this incumbency advantage.

We think the problems in both markets are likely to result in material harm to customers by, for example, higher prices and a lower quality of service.

As these firms advise on, or manage, the pension savings of millions of people, these issues could have a significant impact. Given the long time horizon for pension scheme investments, any negative impact will also multiply over time.

Proposed actions

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

- **The introduction of mandatory tendering for the first move to fiduciary management:** there must be a competitive tender when pension schemes first purchase fiduciary management services. For those who already have it, but did not tender, they must also do so within five years of the start of the mandate.
- **Mandatory warnings when selling fiduciary management:** firms must be clear when they are marketing their fiduciary management services to existing advisory customers that this is not part of their role as trusted investment adviser.
- **Help for pension schemes:** we recommend that The Pensions Regulator provides new and improved guidance for pension schemes in how to purchase these important services.
- **Better information on fees and quality:** including a requirement that fiduciary management firms break down the fees for their service and the introduction of industry standards for how investment performance is reported to customers.
- **Setting clear objectives:** trustees will be required to set their investment consultants strategic objectives and firms must report against these.
- **Bringing most of these services into the FCA's regulatory perimeter** so that firms are on a footing with other parts of the investment industry.

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?

We welcome views on the problems we've found and the actions we propose to take by Friday 24 August, before we make our final decision. Please send any views and comments to investmentconsultants@cma.gov.uk

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