

**CMA INVESTIGATION: PROVISIONAL DECISION**

18 July 2018

**BACKGROUND**

In 2017, the Financial Conduct Authority (FCA) referred the market for investment consultancy and fiduciary management services to the Competition and Markets Authority (CMA) for an investigation into how well it was working. The case began in September 2017 and will be completed in March 2019.

Key issues examined by the CMA included:

- ▶ Whether trustees are able to challenge their consultants, including whether they have the right information to do so.
- ▶ Whether consultants are more likely to recommend their in-house master trust or fiduciary management service.
- ▶ How easy it is for new firms to enter a market and whether trustees make a decision based on 'brand'.

After consulting with the industry (including the PLSA and its members) and outlining its thinking in a series of working papers, the CMA has today published its Provisional Decision.

**KEY FINDINGS**

The CMA found that for the investment consultancy market:

- ▶ The investment consultancy market is not highly concentrated
- ▶ Some trustees do not have the time or skills to scrutinise their consultants
- ▶ Some schemes, including small and DC schemes, have low levels of market engagement.

On the fiduciary management market, the CMA found some "more serious concerns" including that:

- ▶ Trustees often are not shopping around when moving into fiduciary management
- ▶ It's hard for trustees to get the information to help them make a good choice in picking or assessing a fiduciary management provider
- ▶ Firms offering both investment consultancy and fiduciary management services (IC-FM firms) have an incumbency advantage.

On the sale of master trust pensions by investment consultants that provide employee benefit consultancy (EBC) services, the CMA found that "the potential conflict is unlikely to be leading to a competition problem... [as the] master trusts of investment consultants which also act as EBCs currently have only limited take-up."

## PROPOSED REMEDIES

To tackle the issues outlined above, the CMA has proposed a number of “remedies” affecting both service providers and pension scheme clients. These include:

- ▶ Requiring better information on fees and quality – including requiring fiduciary management firms to break down the fees for their services and introducing industry standards for reporting of investment performance to customers.
- ▶ Requiring firms marketing fiduciary management services to their existing advisory customers to provide clear warnings stating that this is not part of their investment advice role.
- ▶ Requiring trustees to set their consultants strategic objectives and firms to report against them.
- ▶ Introducing mandatory tendering for the first move to fiduciary management, or within five years for those who have already moved to a fiduciary management arrangement but did not tender.
- ▶ Giving the Financial Conduct Authority (FCA) greater oversight of the industry.
- ▶ Recommending new and improved guidance from the Pensions Regulator (TPR) for pension schemes purchasing these services.

## PLSA RESPONSE

We supported the FCA’s referral of the investment consultancy and fiduciary management sector to the CMA given members’ concerns around the potential misalignment of interests in the sector and the need for savers to have an investment chain which works in their best interests.

We welcome the CMA’s focus on improving information around fees and quality: we believe trustees need clearer information in order to be able to compare apples with apples and make the right investment decisions.

We also advocated for stronger support of trustees at key points during the process of recruiting and scrutinising their investment consultants and fiduciary managers, including at the point of tendering. We therefore support the CMA’s moves to improve the tendering process.

Given the CMA’s findings on IC-FM firms steering incumbent clients to their in-house services, we also believe that regulation of the sector by the FCA could do a great deal to support consultants in giving good investment advice to schemes and boost the confidence of pension savers.

## NEXT STEPS

The deadline for responses to the Provisional Decision is **24th August 2019** and the PLSA will be submitting a response (if you would like to feed in views, please see ‘How to Get Involved’).

**September 2018** will see the CMA hold evidence sessions and hearings with interested parties. the final deadline for submissions will be in **October 2018**.

The CMA's Final Report will be published in **March 2019**. Should the CMA decide to make any order, it must do so within six months of the date of publication of this Report. Any Order will be subject to formal public consultation.

#### HOW TO GET INVOLVED

We will actively seek your views over the coming months to inform our response to the Provisional Decision and follow-on work.

You can contribute by:

- ▶ e-mailing [caroline.escott@plsa.co.uk](mailto:caroline.escott@plsa.co.uk) or [openplsa@plsa.co.uk](mailto:openplsa@plsa.co.uk)
- ▶ attending our [Annual Conference and Exhibition, 17-19 October 2018](#), where the CMA will be talking about this investigation.

For more information please visit [www.plsa.co.uk](http://www.plsa.co.uk)