

Special Report Pension & Investment Consultants

New advice rules

Nina Röhrbein asks consultants how they see their relationship with investors changing to meet the challenges of a new financial environment

Vincent Brett Dublin

Director at Coyle Hamilton Willis

As a result of the financial crisis, investors are looking for help, advice and encouragement. And this means we will be even more focused on communication with clients.

The short-term emphasis will be on the current climate and the markets, as investors wonder what they should do after they have watched their pension or investment funds becoming seriously diluted over the last two years. There is uncertainty for them going forward as to whether they should cut their losses and/or transfer to cash, or whether they should hold out in the hope of recovery.

Consequently there is a greater need for us as consultants to identify what exactly investors require at the moment, which will result in changes in the type of consultancy advice we provide. Our managed funds, for instance, used to be considered medium risk but with funds down in excess of 30% in Ireland last year, clients find it hard to believe that this is medium risk. That is why there is a need now for consultancies, in conjunction with providers, to develop products that offer some form of guarantee. However, the difficulty with that is that in our current low interest rate environment it will produce little or no return when investors who have lost out substantially are looking for a significant return to get back to their former funding level – it is a dichotomy for consultants as well as clients.

The best way of measuring one's own success is to have satisfied clients, whether that is based on the recommendation they receive from their adviser or on the basis of the performance by the provider, or whether that is because their investment has performed better than that of their peers.

Nonetheless, one issue we sometimes encounter is the reluctance by clients to pay the fees that match the time they want to spend with consultants. This is even more surprising in view of the fact that when they go into a bank and receive 1-2% on deposit while paying 7-10% on borrowings they do not perceive it as a charge. Of course a commission of 2-3% appears very high but in actual fact it is much less than the differential they would be paying to the bank.

Our terms of business state that as a consultancy we must disclose all the income we receive. They also state that we do not become involved where there is a conflict of interest unless it is an unavoidable situation. However, if that is the case we are obliged to declare that to the client.

In terms of business plans for this year we are happy to maintain our current situation. I do not see any expansion in terms of additional staff or products.

Jesper Kirstein Copenhagen

CEO and founder at Kirstein Finans

On the back of the credit crisis there is now a tendency for investors to move back to basics. They want simpler investments, they might sit on the fence for a while and may move from active managers to more indexed managers. When this happens, the need for consultants also decreases. And so the financial crisis has affected us to a certain extent.

We were in a very strong expansionary phase up until about 2007. We saw further expansion into 2008 but in the latter half of last year some stabilisation took place. This will continue throughout 2009 but looking ahead at 2010, we are likely to add to our resources again then.

For now, we will stick to what we have been doing over the years, which is to advise clients and constantly improve on what we are doing. We recently noticed that some of our large international competitors are now willing to offer their services at a much lower fee – but this is at a price which we simply can not match.

We try instead to keep our employees, which forces us to develop our research and our models even more but only in the areas we already focus on.

There are only a few advisers in the Nordic region but, compared with the international consultants, we have a much more interactive relationship with our clients. The UK consultancy model is built on the fact that UK pension funds do not have a strong internal investment management team, which means the consultants have to teach them everything. However, most Scandinavian pension funds have strong internal investment teams and so we act more as a 'sparring partner' for them in discussions and give second opinions.

We work in a world with many potential conflicts of interest. The most important thing is that you are open and transparent about it. The only offering we have is a fund of hedge funds but it means that when clients want a fund-of-funds on long-short equity we have to ask them whether we should include our own offering or not.

Clients can help achieve the best from their consultants by being an active counterparty to the consultants and being aware of what exactly they need from them. For us, the more professional the client and the more demands put on us, the better we become.

The easiest way to measure your own success is by looking at the profit you are making. But we also carry out surveys in particular areas in which we ask our clients to rank our services on a number of issues. And we also are honest about making mistakes.

Take a position

The UK buyout market is providing good opportunities for consultants with the right experience. But there is room for more players.

Gill Wadsworth reports

Total transactions for the UK's pension fund buyout market amounted to £8bn (£9.2bn) last year and in spite of the ongoing financial crisis, business volumes are expected to hit similar levels in 2009.

Such upbeat predictions for the buyout market not only represent good news for the insurers, but also for consultants who have seen these kinds of transactions boost business inflows over the past two years.

Prior to the end of the Prudential/Legal & General market duopoly, buyout was invariably seen as an option limited to schemes in wind-up. While traditional actuarial firms were involved in the process, it was seen as a back-office function that merited limited resources.

"Two years ago, an individual somewhere within a large actuarial organisation would come across his clients getting involved in one of these types of transactions and that would be the only occasion that they would get involved," says Ian Aley, business development director at Paternoster.

However, as the market has flourished and a greater number of schemes are able to access buyout providers, consultants recognise that there are lucrative business opportunities in providing specialist buyout advisory services. As such, they are starting to respond to market demand by building teams of advisers equipped to work on these transactions.

David Ellis, principal at Mercer comments: "We have been in the market for 20 years, but we have definitely had to add new people and shore up the buyout team in response to the way the market has changed."

Much of the opportunity to take a place at the buyout advisory table comes from existing clients who turn to their incumbent adviser for support. Mercer and Hewitt both concede that the lion's share of their work in this field has come from trustees already on their books.

Antony Hayes, head of pension risk transfer at Hewitt, says: "We have won a few tenders with clients with whom we didn't have an existing relationship, but that is relatively unusual."

Similarly, over the past two years, the majority of the 24% market share taken by Mercer on buyout deals worth over £50m came from current clients (see table on page 53).

While it is more than likely that the incumbent consultant will play some part in [page 53](#)