Together, for better or worse?

Recent years have seen an increase in merger and acquisition activity within the pensions industry, among both pension providers and service providers. David Adams considers whether more M&A will mean more progress or more problems

Summary

- Recent years has seen market forces and regulatory change combine to encourage M&A activity within the pensions industry, affecting master trusts, pension providers, but also many of the businesses that provide services to support the pensions ecosystem.
- While consolidation can enable provision of better quality and more efficient services, some in the industry are concerned that it may have negative consequences, such as reducing competition or increasing the risk of conflicts of interest.
- Future regulatory intervention is certain to have a very strong influence on future M&A activity in the pensions industry. Finding a way to ensure the best outcomes for savers and scheme members will also be hugely important for the wider economy and society.

Recent years have seen market forces combine with regulatory change to drive mergers and acquisitions (M&A) in the pensions world. There has been consolidation among master trusts and other pension providers, but also among many of the businesses that serve the pensions ecosystem, such as consultants, administrators, professional trustee firms and technology providers. The question is, how can we be sure this sort of M&A activity will have beneficial, not negative, effects on retirement savings and pension benefits? Ultimately, of course, pensions are for the good of savers and scheme members, not just balance sheets and shareholders.

Consolidation within the master trust market has been driven in part by the natural shaking out of providers that have failed to acquire critical mass during their first few years of operation, as well as by tightening of regulatory requirements. For example, when in October 2022 master trust provider Smart Pension acquired the Ensign Master Trust, this was the seventh smaller master trust it had acquired in recent years.

"The focus of the *[Ensign]* deal is to deliver efficiencies and reduce the charges on members' pension pots," says Smart Pension group director of M&A, Paul Toon. "It starts with a cost-effective integration of Ensign and its benefits, enabled by Keystone, our cloud-based technology platform.

"We should expect to see a significant amount of growth and consolidation in the master trust market over the coming years," he continues. "More employers are using *[master trusts]* to reduce risk, lower costs, improve oversight and upgrade investment options. When it comes to single-employer schemes, the regulator's intent is very clear, so movement of single employer schemes to larger-scale master trusts is only likely to accelerate."

Workplace financial education and guidance provider Wealth at Work director, Jonathan Watts-Lay, sees consolidation among master trusts as a natural market development. But he fears it could have some negative consequences. "I'm concerned that a handful of master trusts might take over the majority of pension provision and a majority of people will end up being guided by default options the whole time," he explains. "I'm less worried about what happens during accumulation, but one of the negatives could be a lack of choice at the point of retirement, when the employer is no longer actively involved."

Another consequence of consolidation might be that responsibility for delivering pension benefits moves from a pension scheme or provider to an insurer, and then perhaps to a pensions consolidator. One such consolidator is Chesnara, which operates in the UK, the Netherlands and Sweden, and had £10.6 billion funds under management at the end of 2022, thanks to acquisitions such as that of Sanlam Life & Pensions UK during 2022.

"Appropriate consolidation should be good for this market," says Chesnara CEO, Steve Murray. "If you have people who want to look after these customers and assets, ultimately that should result in a good outcome for customers." He also highlights stronger regulatory oversight designed to protect the transfer of pension assets, which he claims will give individual savers/scheme members "a huge amount of protection".

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Consolidation or predation?

There has also been plenty of M&A activity among service providers working for pensions schemes and funds. In January 2023, Isio (previously the pensions advisory arm of KPMG before its launch as a separate entity in 2020) announced its acquisition of Deloitte's UK pensions advisory business, Deloitte Total Reward and Benefits, subject to FCA approval. In April 2023, insurance and risk management company Arthur J. Gallagher acquired benefits and pension consultancy Buck; while Broadstone bought another actuarial and financial consultancy, OAC.

There has been consolidation in the independent/professional trustees space too. For example, in August 2022 Ross Trustees acquired Clark Benefit Consulting (CBC) Pension Services; then, in early 2023 Ross Trustees merged with Independent Trustees Services, creating a new trusteeship and governance provider: Independent Governance Group (IGG). This new business then acquired Clarity Trustees in February 2023.

Another service provider, Zedra, which serves wealth, fund, pension and corporate clients in 16 countries, has, in just over two years, acquired the advisory firm Inside Pensions, along with professional trustee businesses PTL, Caledonian Trustees, Clear Pen Solutions, AAA Trustees and Trustee Matters.

Zedra head of M&A, Marc Hedeman Joosten, explains the thinking behind the acquisition of Inside Pensions in 2021. "We saw an opportunity to add a business comparable to what we already had – offering secretariat, governance and trustee services – but *[while]* we already had a mix of multinational listed and non-listed companies, entrepreneurs, families and high-net worth individuals, we weren't really present in the pension space," he says. "We felt that what Inside Pensions was doing was very close to the services we were rendering in other countries to corporate clients."

He sees consolidation of professional trustee businesses as a natural consequence of increased regulatory obligations for scheme trustees. "The regulator has been producing new rules and regulations and it's clear that the liability for trustees and service providers is of a different nature than it was several years ago."

Technology matters

Another relatively recent change in the pensions industry that has helped drive M&A activity has been an increased emphasis on the importance of individuals' engagement with DC pensions. This has stimulated technology

and service innovation and encouraged some M&A activity, such as Link Group acquiring HS Pensions to improve its engagement and administration capabilities; while Wealth at Work has acquired employee engagement/communication specialist Landscape; financial wellbeing firm Employee Financial Wellness; and technology provider DBD Digital.

Watts-Lay suggests that one factor influencing its strategy has been a trend for employers to offer broader, integrated employee benefits packages. "A lot of employers now look at pensions as one element among many," he explains. "We bought communication and digital engagement agencies because employers were saying 'We want to create portals so people can get what they're used to getting in their consumer lives, where they can grab the information they need when they like.'"

Some fintech providers have shown an ability to alter business models in order to take advantage of new opportunities – and this has also helped to stimulate M&A activity. For example, Cushon, a fintech offering personalised savings services through a mobile app, acquired several master trusts, including the Creative Pension Trust, Calvus and the Northern Ireland Workers Pension trust – but then, February 2023, Natwest announced its intention to acquire an 85 per cent shareholding in Cushon (subject to regulatory approval).

Clearly, consolidation can result in "better quality in a smaller, appropriate number of organisations," as LCP partner, Alex Waite, puts it; but potential downsides include problems related to conflicts of interest; and a reduction in genuine competition.

"I don't think we've got there yet in the core markets," says Waite. He cites his own part of the pensions landscape, the actuarial marketplace: "I don't feel our market has got to the negative point; and it is positively benefitting from the positive points."

But he can see the potential threat posed by an increasing risk of conflicts of interest in the pensions industry as the number of market players decreases. One theoretical illustration he cites would be a major corporate transaction that required the services of multiple, separate corporate and pension scheme actuaries – all of which would need to be completely independent of each other, with no conflicts. For that reason, he suggests, "you don't want the market to get much smaller than it is now."

Regulatory influences

Naturally, the attitudes and actions of regulators, particularly The Pensions Regulator, will play a crucial role in encouraging or curbing M&A activity in the industry. The regulator has expressed positive views in relation to master trust consolidation in the past. It has not often been drawn on commenting on consolidation elsewhere, but it is likely to consider future interventions alongside its stated strategic priorities: security of savers' money, value for money, scrutiny of decision making, "embracing innovation" and "bold and effect regulation".

Murray thinks regulators could do more to enable helpful, positive consolidation among master trusts or more generally of pension schemes that may not be run or governed in an optimal way at present.

"I think there are books of business that aren't with their natural owners at the moment," he says. "*[Regulation sometimes]* creates a barrier to moving business from companies that might have thought being in pensions was a good idea ten years ago but now don't really want to be in the market."

Another potential risk Murray identifies is the possibility that a large organisation that acquires pension assets or insurance policies could seek to exploit a lack of pensions knowledge among the general population.

"One of the challenges everybody faces is that many consumers know less about their pensions and where they are invested than anyone would like," he says. "I think the danger is somebody could take the opportunity, through a default fund for workplace pensions, to benefit from that in ways that may not be in the best interests of customers.

"The regulator has put in measures that mean there's been good oversight of that, but for me, if you have a set of customer policies that are going to go through multiple consolidations, it feels like that produces more risk."

But for Toon, the drive to consolidation in the pensions industry, certainly within the master trust sphere, is inevitable and desirable.

"Consolidation has been the watchword of the pensions industry for years now – it is key to providing further value for members," he says. "But our industry has a tendency to move too slowly. We are concerned that some members remain in poor value legacy solutions, so don't feel the benefits of consolidation. All too often, we see consolidated schemes still run separately - with duplicate governance, the costs and organisational overhead associated with that, and customers stuck on old legacy platforms with the same proposition. Getting consolidation right is essential."

Whether or not you agree with all of the Smart Pension view of consolidation, that last assertion is surely correct: Getting this right is indeed essential, for the pensions industry and for the good of society and the economy. Consolidation is a fact of life in the pensions landscape and is certain to continue, so regulators and the wider industry must do everything possible to ensure it leads to the best possible outcomes for savers and scheme members.

Written by David Adams, a freelance journalist