

February 2012

## welcome



This is the IMA newsletter for parliamentarians, regulators and policymakers. It aims to provide a snapshot of current issues affecting our industry. The IMA is the source of information on the UK asset management industry.

If you need any facts, have a question or want to discuss an issue with one of our team, please get in touch with us. We are happy to help.

*Richard Saunders,  
Chief Executive, IMA.*

## at a glance:

IMA criticises “wildly exaggerated” claims of hidden pension fund costs

Investors need the true facts about charges instead of being discouraged from saving

Financial Services Bill going in the right direction

But the true test of reform will be down to quality of senior management teams

IMA supports measures to reform executive pay

Reform should link pay and performance

## about us

**The IMA is the trade body for the UK's £4 trillion asset management industry.**

Member firms invest and manage money mainly on behalf of retail savers and institutional clients, such as pension funds and insurance companies.

The IMA's role is to represent the industry, and promote high standards.

## news



### IMA criticises “wildly exaggerated” claims of hidden pension fund costs

IMA has criticised recent claims that pension fund management charges are subject to “hidden” costs which significantly reduce returns to pension fund members. These claims, say IMA, are wildly exaggerated.

Richard Saunders, IMA Chief Executive, says *“Fees and charges in pensions can compound up over time, which is why costs should not be higher than absolutely necessary. This is one reason why IMA has been a strong supporter of NEST ever since the Pensions Commission report, as it offers the best way of providing a low cost investment option for ordinary savers without access to good workplace provision.”*

*“But,” he continues, “people need to save for their retirements and need to have good quality*

*information to help them. They do not need to be put off by wild and unsubstantiated scare stories that if they save they will be ripped off by the industry.”*

IMA is particularly critical of a recent piece by David Norman and Christopher Sier, which, among other conclusions, claimed that fees and charges were taking £67 billion a year out of peoples’ retirement savings. That is equivalent to about 3% a year of all UK pension assets. If that were true, it would devastate pension saving. But fortunately it is not.

Among the errors in the analysis:

- It is claimed that fund management charges on pension assets are 1.5% a year, but independent surveys show that the typical charges for such fund management services are 0.3% a year; NEST has led the way and providers are responding.
- The authors claim to identify 16 different sets of charges applied to long term savings, but most of these are included within the fund’s “ongoing charges”, the measure of costs mandated under European legislation and which must be disclosed to investors
- They claim that the costs of trading the underlying portfolio (which are not included in the ongoing charges) add a further 1.8% a year to the costs of investing for a UK equity fund. There is no evidence for this at all. Our analysis suggests 0.3% is a more typical figure and [recent work published by the IMA](#) demonstrates that net performance (ie what the investor gets after all charges, trading etc) is not impaired by trading or any other “hidden” costs.

Concluding, Richard Saunders said: *“It is right that investors should be aware of the importance of charges. But they deserve to be given the facts in a balanced and fair way, not assailed with misinformation which can only discourage them from saving for their futures.”*

Read IMA blog: [Irresponsible scaremongering yet again](#)

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## Financial Services Bill going in the right direction



The scrutiny process behind the Financial Services Bill has already improved the Bill in a number of ways. The recommendations of the Treasury Select committee were also welcome but the IMA believes there is still more which could be done to strengthen further the new regulatory approach.

Guy Sears, IMA Wholesale Director, commented:

*“The Bill setting up the new UK financial regulators is going in the right direction. As it goes through the parliamentary process we hope that further improvements can be made. One of the areas in urgent need of reform is the Financial Services Compensation Scheme (FSCS), whose role and powers require fundamental overhaul.”*

The Scheme is currently designed in such a way that a part of the financial services industry which has no affinity to the failure of a particular product, can find itself bearing the financial burden of compensating investors. Firms do not understand how the current rules operate in some key areas and the FSCS should be given a more pro-active role ahead of a default as with the US Federal Deposit Insurance Corporation. The requirement for fund managers to provide a backstop cross subsidy to financial advisers and stockbrokers leads to injustices.

Guy Sears added,

*“Of course it is right that investors should be compensated but there has to be a better way than the current system. The compensation scheme has had to pay out over £400m for failed intermediaries; fund managers had to provide £230 million of that on one month’s notice to bail their class out. The prudential and insurance requirements on intermediaries must be reconsidered along with a re-design of the compensation scheme. The current scheme leads to moral hazard and imposes no real discipline upon poor firms.”*

Another area of concern to IMA is the Prudential Regulatory Authority’s (PRA) power to veto

decisions by the Financial Conduct Authority (FCA). This could have the effect of putting the prudential strength of banks over consumer protection. In addition, in relation to any PRA veto over FCA action to protect consumers, although the PRA must tell the Treasury about its use of the veto it can also prevent the Treasury informing Parliament. At the very least the Treasury should have a power to require the PRA to publish details of its use of the veto to allow Government to be the final arbiter of the public interest.

The final point IMA has about the Bill is the inequality in requiring the FCA to hold a public AGM while not requiring the PRA to do so. As the regulator responsible for improving confidence in banking this would seem to be a logical accountability measure.

Guy Sears concluded,

*“Ultimately, whatever is put down on paper, the true test of the reforms’ success will be heavily dependent on the quality and approach of the regulators’ senior management teams.”*

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## IMA supports measures to reform executive pay



IMA is supportive of the need for reform of excessive executive remuneration. Responding to the Government’s intention to take action, Liz Murrall, IMA Director of Corporate Governance and Reporting, commented:

*“IMA supports the need for measures to strengthen accountability and address concerns in relation to excesses in executive directors’ remuneration. Any reform should improve transparency and address the lack of a clear link between pay and performance.*

*We will look carefully at the Government’s proposed package of reforms and work with them on the detail while also looking to develop best practice with the industry.”*

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## Recent responses

A round-up of recent IMA submissions

Treasury Select Committee inquiry into the Financial Conduct Authority

[IMA written evidence](#)

[IMA supplementary evidence: The Real Cost of Regulation](#)

House of Lords European Union Committee Inquiry: Towards a Financial Transaction Tax?

[IMA written evidence](#)

The Kay Review of UK Equity Markets and Long-Term Decision Making

[IMA follow-up submission](#)

## contact us

Email us: [ima@investmentuk.org](mailto:ima@investmentuk.org)

Phone us: +44 (0)207 831 0898

Investment Management Association

65 Kingsway | London WC2B 6TD

Web site: [www.investmentuk.org](http://www.investmentuk.org)

See also our [website for policymakers](#)