



# A clash of the titans

**➤ The push for consolidation has seen a rapid acceleration in mergers and acquisitions, not only in the DC scheme space, but also amongst many consultancies and providers. But scale is not a silver bullet, and many remain wary of potential conflicts of interest and competition concerns. Sophie Smith reports**

**T**he pensions landscape is currently undergoing a rapid and transformative wave of consolidation, driven by key shifts in the overall landscape, such as the value for money framework and work to create DC megafunds.

This push for scale is directly fuelling significant merger and acquisition (M&A) activity across all market segments – not just in the areas that are being explicitly targeted, such as DC schemes [see *boxout*], but also in administration and consultancy firms.

Indeed, EY UK pensions consulting

leader, Paul Kitson, says that with the Pension Schemes Bill nearing its final stages in parliament, “the starting gun has been fired on consolidations in the DC pension provider space”.

This has already seen many firms rapidly acquiring complementary services; recent examples include Independent Governance Group’s acquisition of KGC Associates, Howden’s acquisition of Evelyn Partners’ employee benefits consultancy arm, and Gallagher’s acquisition of First Actuarial.

This is perhaps unsurprising, as Sackers partner, Andy Lewis, says,

## ➤ Summary

- The push for scale has seen increased merger and acquisition activity, particularly in the DC master trust space, and amongst consultancies.
- Acquisitions amongst providers has seen further development of integrated firms offering multiple services, which may improve efficiency, but could raise concerns about the potential loss of independent advice and conflicts of interest.
- A surge of private equity investment is also fuelling questions over whether the primary motivation for deals is financial gain for backers rather than long-term benefit for members.

“mergers do have upsides: Greater scale can bring more bandwidth, more bargaining power, more institutional knowledge and more access to collective experience”.

Agreeing that consolidation is gathering pace across the pensions market, particularly in the administration and consultancy space, Trafalgar House client director, Dan Taylor, says: “Larger providers often have more firepower to invest in systems, tighten controls and

strengthen their resilience. When that translates into better service and stronger outcomes, schemes and members stand to benefit.”

However, Quantum Advisory principal investment consultant, Paul Francis, warns that while it can be argued that having various services under the same house brings efficiency improvements, there is also an associated perception of loss of independence, “in the sense that firms become effectively ‘tied or preferred providers’ and conflicts of interest might arise around that”.

### A double-edged sword

Some changes are already being seen, as Francis points out that there are now less ‘traditional advisory partnerships’, suggesting that it could be argued the advisory industry is ever dominated by larger, more commercialised firms, and risks losing something of the more personalised, trusted adviser approach.

This brings heightened risk in other areas, as Lewis warns that although concerns around legal conflicts are not new to pensions, they will be accentuated where there are fewer, larger schemes supported by fewer, larger providers with more vertical integration.

“Even where the rules for a legal conflict are not triggered, commercial conflicts and perceived conflicts can sometimes be just as damaging,” he says.

Lewis is not alone in his caution, as Cartwright director of consulting, Sam Roberts, says that, although everyone keeps talking about consolidation as if it’s automatically a good thing, it isn’t.

“There’s a real risk that we end up with a market where a small group of big brands Hoover up everything. That might be efficient on paper, but it leaves schemes with far less genuine choice and enables greater government control – both are likely to lead to worse sponsor and member

outcomes,” he says.

However, Lewis predicts that the continued M&A activity will mean that, over time, there will also likely be “renewed emphasis on demonstrating how conflicts are effectively identified, monitored and managed”.

He also suggests the accreditation of trustees will develop further, and that the industry may even develop some wider and tighter self-imposed principles around independence and conflict management in areas where there has been less overt focus in the past, perhaps with regulatory support.

Broader risks remain a concern though, as Lewis warns the idea of ‘mega providers or schemes’ could present a prudential risk: Could someone become too big to fail, and does existing regulation adequately cover this?

Lewis points out that this is an issue the government and regulators are already alive to the issue in some sections of the industry, for example in their work on administrators and in new market oversight roles for regulators in relation to DC megafunds.

Indeed, a spokesperson for The Pensions Regulator confirmed: “We are aware of recent market consolidation across a number of service providers. We continue to monitor the situation in case any risks arise.

“Having an efficient market where competition helps drive delivery and value for members is key to a thriving pensions system, and through our market oversight work we’re committed to achieving good long-term outcomes for savers as we move towards a pensions landscape of fewer, larger schemes.”

### Keeping innovation alive

Innovation concerns are also emerging, as Roberts argues that “we can’t afford to lose the independents and specialists”.

“They’re often the ones coming up with new ideas and stopping the market from going stale,” he says. “If all DB schemes were heading to wind-up in the

near future then maybe this wouldn’t matter, but many of the large schemes could run on for many years.

“We’re on track to end up with half a dozen of each of the trustee firms, master trusts, and advisory firms. Will that be sufficient for genuine diversity of thought?”

“Scale can be great when it’s used well, but if it squeezes out competition or muddies accountability then it’s bad for schemes and members. The industry needs to be braver about calling this out.”

Lewis echoes this, arguing that, currently, the industry is “fizzing with new ideas and disruptors”.

“Some people argue that mergers and consolidations will dampen this, creating higher barriers to entry that the new entrant pathway in the Pension Schemes Bill cannot address,” he explains. “They suggest that over time, merged products and services will generally crowd around a market norm.”

Lewis admits that “unless carefully managed this is a risk – or at least, the jury’s going to be very firmly out for some time”. Taylor agrees, warning: “More money doesn’t automatically mean more innovation”.

“Many organisations are still dealing with years of underinvestment, working through legacy platforms or merging fragmented systems,” he says. “That kind of tech debt doesn’t disappear overnight. So while the headlines may be full of big investment numbers, the practical improvements can take time to reach trustees and members.”

However, Lewis says that, on the optimistic side, there is a view that in the future merged providers across the new market will need to work even harder than before to differentiate themselves from each other.

### Creating the right kind of scale

The type of consolidation is also set to be a key factor, as Francis raises specific concerns over the amount of private equity flowing into the pension industry, noting



that recent money market conditions have seen a wall of private equity money looking for a home.

“This has almost certainly fuelled consolidation activity, and some of the deals being done could be argued to be more about the payoffs to financial backers than for the benefit of clients or employees,” he explains. “There’s also the matter that some of the firms who have merged have not been seen to fully integrate the respective teams that have been brought together, which leads to

efficiency leakage and other issues that can arise around change management, such as staff morale, differences in client experience, client/brand loyalty etc.”

However, Taylor says that, so far, the consolidation seen has been the right type: “What’s encouraging is the shift in the type of consolidation we’re seeing. It’s less about chasing volume and more about building genuine value. New entrants and combinations are emerging with a clear intent to integrate properly, raise standards, and give clients more

joined-up, end-to-end support. That’s exactly what schemes have been crying out for.”

“If consolidation is going to lift standards across the board, it has to be done well. That means transparency, accountability, and an unshakeable focus on service. Get that right, and this wave of consolidation won’t just reshape the market, it could finally reshape the member experience too,” he says.

### Master trust consolidation activity

Perhaps one of the most notable areas where mergers and acquisitions (M&A)’s are playing a growing role is the master trust space, with most looking to get ahead of the game on the government’s 2030 scale test, which will require DC schemes to have at least £25 billion in assets under management by 2030.

Broadridge Director, Hal La Thangue, points out that there have been two key ways to pursue scale, organic growth, which will require more aggressive business development practices to win scheme transfers going forward given intensifying competition, and inorganic growth, through M&As.

And with the number of master trusts that are looking for scale, La Thangue says that it is inevitable that M&A activity in the master trust market will play a crucial role.

“A lot of the traditional pension providers will harness assets in the other parts of their DC business to reach the default scale mandated by the government,” he says.

“But what’s more interesting is many sub-scale master trusts don’t have a parent company that’s associated with DC pensions and so can’t go down this route.... and they’re not going to be able to reach that £25 billion threshold through organic growth alone – so the number of master trusts has to shrink.”

Indeed, La Thangue suggests that by the 2030 deadline, 10 large master trusts will remain.

Quantum Advisory principal investment consultant, Paul Francis, echoes this, suggesting that “in terms of scheme consolidation, this is, to some extent, an unstoppable force”.

“In each case it does change the risk position, and notably increases the concentration of risk and ‘groupthink’ within a smaller number of decision makers,” he stated.

“Which can be a positive if they make good decisions, and not so good otherwise. We feel the market needs a healthy number of participants to provide sufficient competition and challenge to ensure service provision remains attentive to client need and adaptive to the circumstances.”

Whilst some early deals have already emerged, however, La Thangue admits that “there aren’t any low-hanging fruit anymore”, and everyone who is now left in the market has “pinned their flag to the mast of having a master trust”.

This is expected to see some ‘surprising’ M&A activity, with many in the industry still unsure what brand names and partnerships will win out over others.

La Thangue admits that some master trusts are worried that if they try to add scale too quickly, their own propositions might suffer as a result.

La Thangue says that this risk will

depend on the integration levels seen and whether these acquisitions are just seen as new pools of assets to plug into.

Exactly what names will remain standing is unclear, as La Thangue suggests that we could see some “surprising departures from the market”, adding: “It’s going to be challenging because a lot of these businesses have placed strategic importance on having a master trust and dropping out of it is not going to be a decision taken lightly.”

But answers are likely to be seen sooner rather than later, as the past month has seen a number of significant deals in this space *[read more on page 12]*.

And some providers have already reached the key scale milestones needed, including Nest, People’s Pension, and Legal & General Master Trust.

Additionally, WTW’s LifeSight is currently close to the threshold at around £24.7 billion AUM. At the same time, however, La Thangue admits that the recent market buzz around master trusts and consolidation has reactivated interest among an array of insurers, wealth managers and asset managers in terms of setting up a master trust, “which feels like the market’s come full circle after many exited, or chose not to participate in, the market in the 2010s”.

 **Written by Sophie Smith**