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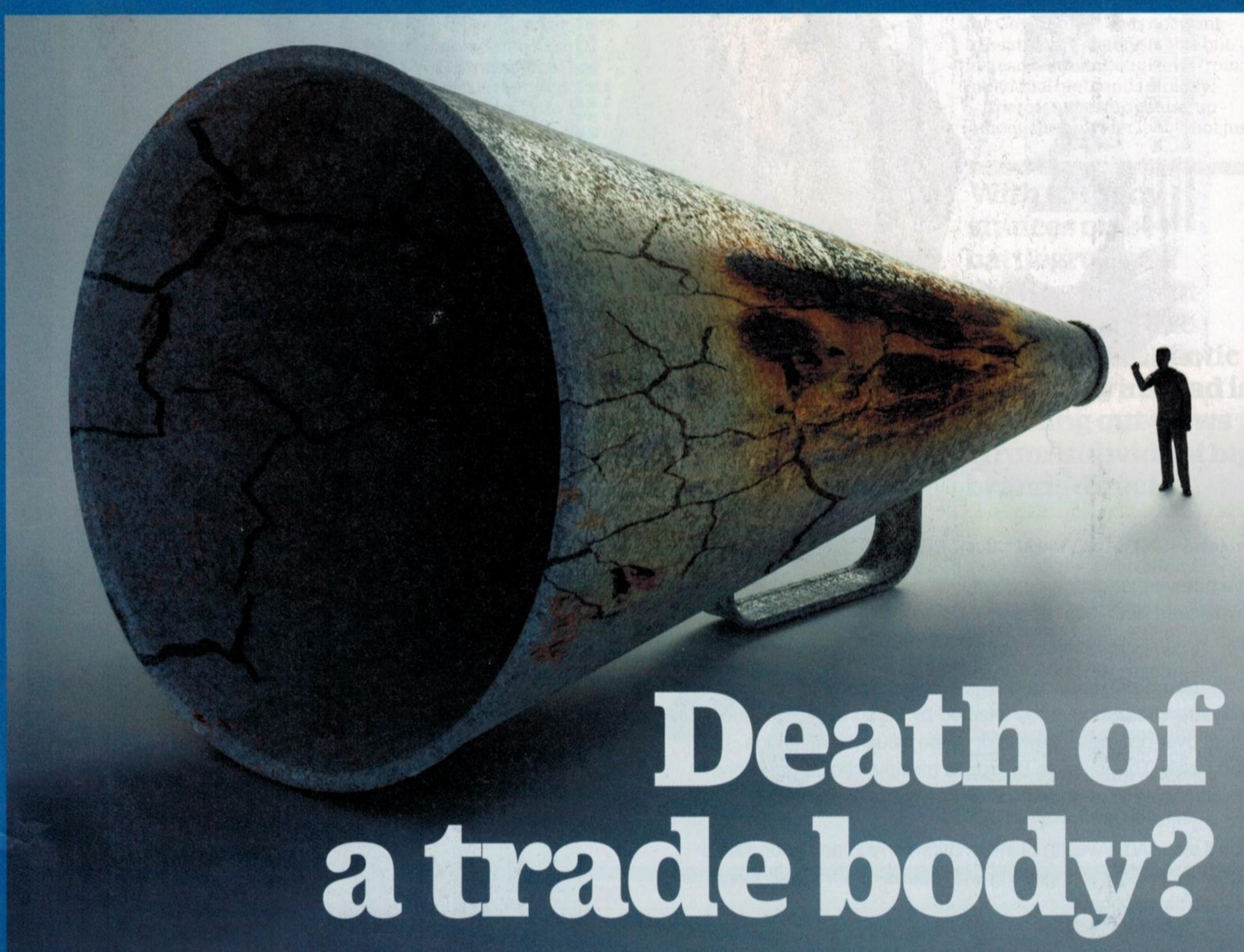

Death of a trade body?

Provider lobby starts to look irrelevant as financial services splinters

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Daniel Godfrey's exit from the Investment Association is the latest in a series of blows for the big three trade bodies

SAM BRODBECK AND VALENTINA ROMEO

The Big Three trade bodies for savings and investment have reached a "turning point" and must act quickly to guarantee their survival, experts warn.

Investment Association chief executive Daniel Godfrey's sudden departure, Aegon quitting the Association of British Insurers and the impact of the pension freedoms on the National Association of Pension Funds has cast uncertainty over the role of trade associations.

Tisa policy strategy director Adrian Boulding says: "We are at a turning point for trade bodies and trade associations.

"They have to decide whether they are trying to defend the interests of their members or advance the interests of consumers."

As well as facing charges of blind self-interest, the emergence of alternative niche organisations - such as the UK Platform Group - may prove more attractive to firms with a foot in several markets.

So, can trade bodies stay relevant as financial services splinters? Or will traditional associations be forced to give way to more nimble upstarts?

And can they find a balance between protecting members' business interests and supporting changes that benefit customers and resonate with the public?

Crisis of confidence

The dramatic exit of IA boss Godfrey last week has led to questions over the role of the fund management trade body as it reassesses its relationship with its members and the public.

Following the threat of a mass-exodus of members the IA confirmed Godfrey was leaving his role with immediate effect on Wednesday last week. He has been replaced on an interim basis by director of risk, compliance and legal Guy Sears.

Fund management giants M&G and Schroders both indicated they planned to leave the trade body before Godfrey fell on his sword, while a flood of other firms, including Invesco Perpetual, Aberdeen Asset Management, Fidelity Investments, Neptune Investment Management and JP Morgan Asset Management, were also rumoured to be considering leaving.

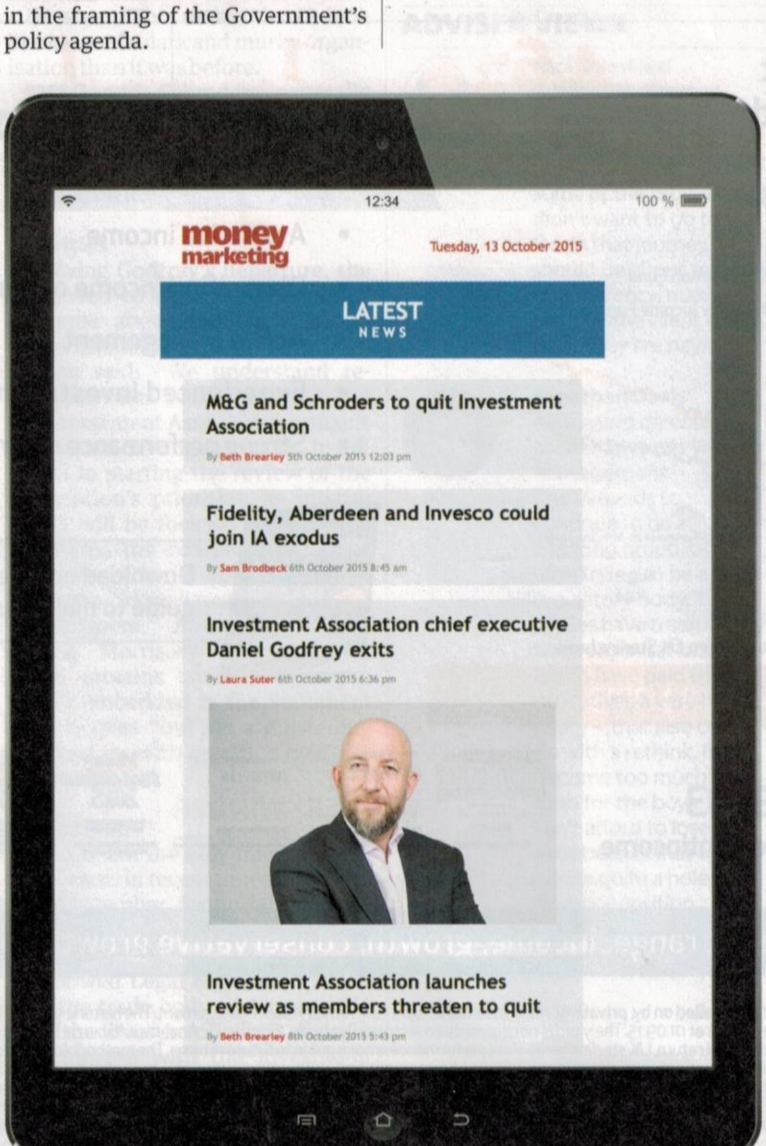
Money Marketing understands Schroders still plans to quit the IA at the end of the year. It remains unclear whether M&G or the other firms are rethinking their stance.

A key reason for Godfrey's departure was a feeling among members the organisation was becoming "far too aggressive" over reforms on the transparency of fund performance fees and transaction costs.

Some investment firms are also believed to be dissatisfied over the IA's Statement of Principles, which outlined "behavioural standards such as the need for fund managers to put clients' interests ahead of their own".

Neptune Investment Management is one of 25 firms which have signed the Statement of Principles. Head of distribution Charlie Parker says: "We would urge the Investment Association to renew its focus on the key issues affecting the industry. This is in order to ensure our voice is heard in the framing of the Government's policy agenda.

As competition has grown more intense and pressure on margins has increased through public policy and regulatory changes, financial institutions have tended to be rather distrustful of their trade bodies



"In particular, we worry that in key areas of the market - such as the defined contribution and local authority pension scheme arenas - the Government's focus on cost above all else has removed the freedom of investors to pick the active fund managers who we believe will be crucial to meeting their long-term needs.

"These are the matters on which the trade body can make a very significant contribution. We need to speak more clearly on these matters and rely on the renewed focus of the Investment Association to achieve this."

Financial Inclusion Centre director and FCA board member Mick McAteer says Godfrey's departure is a "backward step" for the industry.

He says: "I was very disappointed at Godfrey's departure because he was doing a very good job and making the industry more consumer-focused and more aware of the consumer perspective.

"Their priority now is to reassure consumers and consumer groups they are determined to clean up the industry and make the industry more efficient and consumer-focused as this is a real backward step. Godfrey was associated with a very forward-looking proposal; it looks very bad for the investment industry at the moment."

Independent regulatory consultant Richard Hobbs says it is becoming increasingly difficult for rival firms to collaborate through trade bodies.

He says: "Some institutions find it very hard to work out on what matters they should be cooperating with their peer group and on what matters they should be competing.

"As competition has grown more intense and pressure on margins has increased through public policy and regulatory changes, financial institutions have tended to be rather distrustful of their trade bodies."

PR disaster

SCM Group founding partner Gina Miller says the episode should make the FCA think twice about deferring to the industry on regulatory matters.

She says: "This shows the FCA can't rely on the industry. They've got to do their jobs and stop passing their responsibility to industry bodies."

Lucian Camp Consulting founder Lucian Camp says: "This episode doesn't reflect hugely well on the asset managers, and IA members ▶

INVESTMENT

EXPERT VIEW

GINA MILLER

IA cannot survivive in its present form

According to the Trade Association Forum's Best Practice Guide for Trade Associations, a modern trade association needs to follow three key characteristics. After judging the actions of the IA against these I conclude it cannot survive.

Effectiveness

a: The association must be properly resourced by generating income from members and from sales of services to members, and to others. With two of the largest companies said to be leaving the IA and another three considering leaving, who pay an average £200,000, that would leave the IA with a £1m black hole.
b: It must be professional and ethical in approach, attracting and retaining high calibre staff.
If reports are true and Daniel Godfrey was aiming to do an ethical job in reforming poor industry practices that contribute to poor customer outcomes, you have to question the calibre and principles of his potential successor. I find the suggestions by the IA chair that she would like a woman in the job perverse both in terms of discrimination and the hint that a woman would be more appealing to the members. It must be a candidate who can build a bridge of trust between the industry and the public.

Legitimacy

a: Members should represent a substantial proportion of the sector
b: Membership needs to represent both large and small businesses containing the key players, and be responsive to their views.

If all five large firms were to depart, the legitimacy of the IA would be in doubt as these five companies represent 29 per cent of assets within retail funds. The IA now say they will consult with their members to ensure they reflect their views. Should they not have been doing this all along?

Progressive

a: A trade body should promote co-operation within the sector, and between the sector, its customers and suppliers, to enhance international competitiveness.

However slick the progressive words spun by Godfrey, the actions under his leadership were less progressive and more prosaic. In July 2012 Godfrey's predecessor allowed members to no longer report their fund turnover, a significant backward step in terms of transparency, but despite a consultation, a promised formula for reporting PTR never materialised.

The so called all-inclusive pounds and pence cost disclosure, contained in a Sorp, turned out to be partial and not added up, nor did it tally with Mifid II. That the IA members have issues with these baby steps towards reform demonstrates their cartel-like nature and unwillingness to put customers first.

Gina Miller is founding partner of SCM Group

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seem to be suggesting Daniel Godfrey was pushing too hard on the transparency agenda. It doesn't look great for fund groups to be ganging up in favour of opacity.

"You cannot help but think both the individual asset managers and the IA have got themselves into a bad place, where it is clear that an obvious showdown has taken place. From a PR point of view, clearly this is not where they want to be.

"The financial world appears to have reached a simultaneous crisis point around exactly what the role of a trade body should be. We have had members leaving the ABI, Apfa, and now what's happened with the IA. It is inherently in the nature of what trade bodies do that they are going to be pulled in two different directions - what their members want against the need to put the industry's best face forward."

Camp says trade bodies are increasingly "walking a tightrope" in their efforts to represent the views of their members.

"Walking that tightrope without falling down either side has been getting increasingly harder to do as trade body members become more and more difficult and demanding about what they want their representation to look like.

"It's a case of 'shut up and do what you're told'. It is the same story wherever you look, regardless of the financial services sector involved."

Dark and murky

Threesixty managing director Phil Young says if M&G and Schroders follow through with their threat to quit it would be "a significant blow" to the IA.

He says: "This makes the IA look like more of a dark and murky organisation than it was before.

"M&G and Schroders generally see themselves as capable of having an influence in the market, so it did seem they were taking a tactical position on it."

Priorities

Following Godfrey's departure, the IA moved to quell member firms' concerns about the trade body's future direction.

Sears said: "We understand recent news has been unsettling, but the Investment Association remains focused on its ongoing work. In addition to starting the review of the Association's priorities, as interim CEO I will be focused on Pension freedoms, the competition review from the FCA and ensuring capital markets work well for investors."

Investment Association chair Helena Morrissey also said the board remains committed to the values embedded in the Statement of Principles "but we are listening to members with regard to how it is implemented".

Splintering

The IA is not the only trade body to face a crisis in recent times.

In September Aegon left the ABI citing a desire to lobby directly with the Government and the regulator. It followed Legal & General, which quit the trade body in August 2014 after the investment affairs division was merged with the Investment Association.

An ABI spokesman says membership "will always reflect the changing structure and composition of the market it represents".

He adds: "There should be nothing sacrosanct about how a trade body is organised and how it does its work, no more than when the ABI was originally created in 1985."

The NAPF is also battling to represent the pensions market. Auto-enrolment brings millions of new employers into the pensions market for the first time and the pension freedoms have empowered asset managers and investment firms at the expense of traditional pension funds.

Hargreaves Lansdown is not a member of any of the major trade organisations. Head of pension research Tom McPhail says: "We do not naturally fit into many of these groups. We're not a life company or a pension scheme and unlike most platforms we're heavily focused on direct. We could join them all but we don't want to devote resources, time and money."

He adds: "There's some truth in the argument of collective debating. But it's possible for organisations to have bilateral relationships with significant stakeholders, such as civil servants, ministers and think-tanks."

But Apfa director general Chris Hannant says: "I welcome the fact firms want to have their voices heard; people should speak up for themselves. But there inevitably needs to be collective representation.

"The FCA and Treasury want to hear from the industry on a collective basis. Otherwise you get what happened with the environment minister. There were eight representative bodies for the building trade and he said 'go away until you can agree on what you think'".

ADVISER VIEWS

Nick Bamford
Executive director
Informed Choice

The thrust of the IA was to get transparency but some of the providers didn't want to go too far on that journey. IA should be about total transparency, making it easy for the client to see what they are paying.

Jonathan Davis
Managing director
Jonathan Davis Wealth Management

The IA needs to continue to be a lobbying group rather than trying to be a regulatory body. Trade bodies have traditionally been organisations which have paid their executives a very high salary – that also could do with a rethink. It has become too much of a job for the boys. IA can't afford to lose big members as that would create quite a hole in its financial position.