



# SIPPs

The post A-Day world has had a profound impact on the SIPP market. With many providers reporting huge increases in SIPP business over the past year, SIPPs have been proclaimed the pension model of choice for the mass affluent. However, SIPPs have, and continue to face challenges. There continues to be much debate as to what exactly constitutes a SIPP with the market becoming polarised between true SIPPs with their full range of investor control and so called deferred SIPPs and e-SIPPs which offer a reduced amount of investment flexibility at less cost. The industry has also been getting to grips with SIPP regulation in recent months. The process was initially overshadowed by worries about the number of providers who would become regulated and what would happen to the clients of those that didn't. However, in recent months this concern has dissipated to some extent with the vast majority of SIPP providers registered by The Association of Member Directed Pension Schemes (AMPS) submitting the paperwork needed for FSA regulation.

This inquiry aims to take a look at what impact this regulation will have on the SIPP market and how advisers think the market will develop in the future.

**O**ne year on from A-Day and the SIPP market continues to boom. From its initial origins as a niche product to be used only by high net worth customers, the SIPP has increased its reach and now appeals to a wider audience than ever before. The reasons for this popularity are numerous. SIPPs offer an extremely wide range of investment choice to its investors with commercial property being

a current favourite and the SIPP structure allows the investor an unprecedented level of flexibility and control that enables them to engage with their pension investments more than ever before.

The swelling of the SIPP market in recent years has resulted in the development of several different kinds of SIPP model. There is the "true" SIPP which is the original SIPP model aimed at those who want to take advantage of the full range of investment control and flexibil-


ity on offer. Also stepping into the fold in recent years is the deferred or insurance company SIPP – a more mass market product that offers a restricted range of investments for a lesser cost. Finally there is the e-SIPP, an online pension product that enables transfers to be made quickly and cheaply by the investor.

#### Increasing SIPP business

The increased demand for SIPPs post A-Day is undeniable. Of those advisers that took part in this in-

quiry, 44.62% said they thought the demand for SIPPs had increased to a large extent post A-Day while 40% agreed it had increased to a small extent. The remaining 15.38% of respondents said they thought demand had remained the same but none of the respondents thought it had decreased at all.

SIPPs seem to be forming an increasing part of adviser business. Only 12.31% of the advisers we asked said that they currently held no client assets in SIPPs while 36.92% said they



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**Table one – What percentage of client assets under management do you have in SIPPs?**

	Count	Percentage
0%	24	12.31%
1-10%	72	36.92%
11-25%	57	29.23%
26-50%	27	13.85%
51-75%	9	4.62%
76-100%	6	3.08%

Source: Incisive Research

held between 1-10% of client assets in SIPPs. From there a further 13.85% of advisers said they held 26-50% of client assets in SIPPs while 3.08% held 76-100% of their client assets in this way. (See table one for full set of results).

So who is the target SIPP customer? According to our research they appeal to a wide range of peo-

ple. While SIPPs are not seen as an ideal pension vehicle for those with extremely small pension pots (below £10,000), 6.47% of advisers said the average amount of money per client they invested in a SIPP came somewhere between £10,000 and £49,999. However, by far the largest percentage of clients had significantly more money to invest in their SIPP than

this. Of those advisers polled 38.13% said the average amount per client invested in a SIPP was between £100,000 and £199,999 while 41.01% said the average per client was over £200,000 (See table two for full details).

With such amounts being invested, has the SIPP market really shifted as much as we might think? Are they really becoming more mass market or have they mainly remained the province of the high net worth customer? According to the survey 19.23% of advisers strongly agreed that SIPPs are still best suited to the high net worth individual while a further 47.69% agreed. Only 11.54% of those polled disagreed with the sentiment. (See table three for full details).

"I do think that SIPPs are typically best suited to high net worth customers but with a few caveats," said Martin Bamford, joint managing director at Informed Choice. "I think the wide range of investments suit anyone who is looking for increased control, flexibility and transparency when it comes to their pension arrangement. This is not always necessarily the high net worth investor, but it is certainly the sophisticated one."

Derek Winsland, senior investment adviser at Premier Wealth Management agrees, saying: "I think if we are talking about true SIPPs then yes they probably are best suited to the high net worth investor," he says.

"However, if we are talking about deferred SIPPs or insurance company SIPPs then not necessarily, as I think people are getting a bit more savvy about their investments now."

**Investment flexibility**

Increased investment choice is the very hallmark of a SIPP. Many will remember how the pre A-Day SIPP hype centred around the possibil-

...I think the wide range of investments suit anyone who is looking for increased control, flexibility and transparency when it comes to their pension arrangement...

ity of being able to invest directly in residential property. While this did not come to pass investors still have a great deal of choice available to them. More traditional asset classes such as bonds and gilts continue to feature strongly in SIPP portfolios with 56 respondents allocating be-

**Table two – Per client, what is the average amount (£) you have invested in SIPPs?**

	Count	Percentage
Under £5,000	0	0%
Between £5,000-£9,999	0	0%
Between £10,000 - £49,999	9	6.47%
Between £50,000 - £99,999	20	14.39%
Between £100,000 - £199,999	53	38.13%
Over £200,000	57	41.01%

Source: Incisive Research



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tween 0-10% of their portfolio to them and 46 choosing a larger allocation of between 11-25%. However, the survey shows there is plenty of appetite for different types of investment with 62 respondents choosing to allocate up to 10% of their SIPP portfolio to hedge funds for instance and 63 respondents choosing to allocate a similar portion to unlisted shares. (See table four for full details). While direct investment in residential property died a death, the investors enthusiasm for property remains undimmed with commercial property already sparking major interest. According to the survey 90.09% of the advisers questioned said they are now prepared to deal with this increased interest.

### Regulation issues

As well as getting to grips with the increased demand for SIPPs, FSA regulation has also given providers

**Table three – SIPPs are still best suited to high net worth individuals – Do you agree with this statement?**

	Count	Percentage
Strongly agree	25	19.23%
Agree	62	47.69%
Neither	26	20%
Disagree	15	11.54%
Strongly disagree	2	1.54%

Source: Incisive Research

and advisers food for thought. Stringent capital adequacy requirements, training and the increased compliance burden of keeping up with regulatory requirements have made many providers sit back and think about what it means to operate in a regulated world. As a result there has been much speculation as to what will happen if SIPP providers either

do not prepare properly for the new regime or choose to withdraw from it altogether. However, despite this early concern, respondents demonstrated a real sense of optimism about the future. Of those questioned, 16.39% said they thought the SIPP market would continue to be very attractive post regulation while a further 44.26% thought it would remain

attractive. 37.70% thought regulation would not make a difference to the SIPP market while only 1.64% thought the new regime would not be attractive. When asked to qualify their answers the responses received included the fact that the regulated regime would give clients increased confidence and real knowledge of how a SIPP works and the options available to them. Others said they couldn't understand why regulation was not introduced earlier while another respondent said the new regime would help advisers to identify who the really serious players are in the market. By becoming regulated it also becomes easier to compare SIPPs against other pension products which is a huge plus point for advisers and clients alike. Key concerns raised about the new regime included the possibility of increased costs and paperwork. Other advisers thought that by potentially forcing smaller SIPP players out of the market regulation was effectively stunting investor choice. However, despite this many respondents said they believed regulation wouldn't make any difference to them. When asked if they were prepared for the new regulatory regime a massive 83.47% of advisers questioned said they were. Only 6.61% said they weren't while 9.92% said they were unsure. Those advisers who will be least affected by the change will be those who have always treated SIPPs as regulated products.

"Regulation will have little effect on our business," commented Bamford. "We've always treated SIPPs from the advice point of view as a regulated product. We've gone through exactly the same process with SIPP as we did with personal pensions or stakeholder because we saw it as best practice. The only real impact that we see will be the knock on costs that SIPP providers will need to bear now that they are regulated and these will be passed on to their customers."

**Table four – What percentage of client assets under management do you have in the following asset types?**

	0-10%	11-25%	26-50%	51-75%	76-100%
Bonds and gilts	56	46	7	0	2
Cash	85	21	6	1	5
Direct investment in stocks	56	19	11	2	1
Esoteric assets	50	7	0	0	5
Futures & options	53	2	0	1	1
Hedge funds	62	9	1	0	1
Insurance company managed funds	38	31	10	9	5
Investment trusts	51	25	3	0	1
Offshore	48	10	6	0	1
OEICS	25	38	30	5	3
Property	33	43	23	8	7
Shares	52	34	6	2	2
Unit trusts	23	47	31	8	3
Unlisted shares	63	5	0	0	1

Source: Incisive Research



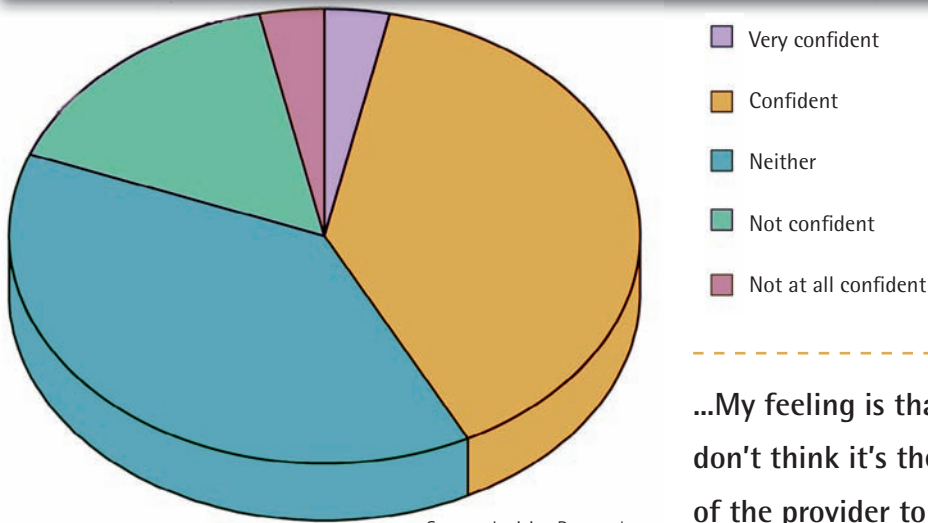
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Pie chart one – How confident are you that the new regulation will be implemented effectively?



Source: Incisive Research

This optimism carries through to expectations of provider preparedness with a massive 73.55% of respondents saying they believe their SIPP provider is completely ready for regulation. Of the remaining answers 16.53% of respondents said they thought their provider was partially ready while 4.96% said they didn't think they were.

"Certain companies are doing very well," said Winsland. "The companies we use for instance are only those we feel have the proper systems and controls in place. However, there are SIPP providers who I would say have a lot more work to do."

**The post regulation SIPP world.**

While many advisers appear to be optimistic about the run up to regulation there do appear to be some looming concerns about how the regulation will be implemented. Only 3.33% of those questioned said they were very confident that the new regulation would be implemented effectively

while a further 39.17% said they were confident. Of those remaining, a worrying 15.83% said they were not confident that this would be the case while a further 3.33% said they were not at all confident that the regulation would be implemented effectively. (See pie chart one for full details).

The possibility that the new regulation could eventually lead to allegations of mis-selling is a topic that has prompted much discussion in recent months. The advisers questioned did show some level of concern about this with 5% saying they were very concerned while 25% said they were concerned. While 40% said they felt neither concerned or not, 27.5% said they were not concerned and the remaining 2.5% were not concerned at all.

However, the level of concern demonstrated could depend upon the type of SIPP being used. According to Bamford the post regulation SIPP world will evolve into three distinct camps – the true SIPP, deferred SIPP

wanted to do one then I would probably run a mile," he said. "Regulation means that someone at some point down the line could be held to blame. I would hate that to be me on the basis of a conversation I've had with someone who then decides they are going to do their own thing and then they lose everything. How they regulate this I'm not so sure as the only thing the FSA can do is regulate the advice process."

A large portion of the advisers who took part in the inquiry seem to agree with this sentiment with 57.66% saying they wouldn't recommend e-SIPPs to clients while of the remainder 35.14% said they would and 7.21% remained unsure.

...My feeling is that I don't think it's the role of the provider to train advisers, it's a separate function and advisers should take responsibility for their own training when it comes to SIPPs....

**What will be the impact of providers?**

The effect the regulation will have on SIPP providers has been a major issue for discussion. While there was initial concern about the number of providers applying to be regulated, this seems to have been largely resolved. However, the ongoing compliance burden of meeting these regulatory requirements has caused much comment as to the future of providers going forward, particularly smaller SIPP operators. When asked if they believed the legislative burden would force some providers out of the market 35.9% said they thought there would be an increase in mergers and acquisitions as larger providers look to take over smaller players. A further 35.04% thought smaller providers would be forced out of the market altogether while 22.22% thought there would be an increase in the number of companies looking to sell their SIPP books to other providers. Only time will tell if any or all of these scenarios come to pass.

and e-SIPP. The e-SIPP in particular will appeal to those who "want that transparency and flexibility while also keeping the costs down." He added that "There are more restrictions in place with an e-SIPP but for those who want a bit more control it will be a good market going forward."

However, Winsland does not share this point of view. According to him e-SIPPs need to be approached with real caution.

"I think e-SIPPs are very dangerous and if I was talking to someone who

**How can more advisers be encouraged to write SIPP business?**

While SIPP business is booming there still remains a number of ad-

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visers who continue to remain wary. Twenty three advisers who choose not to recommend SIPPs responded to the survey and of those 30.43% admitted to having recommended SIPPs in the past while 69.57% had never recommended the product. Reasons given for not recommending SIPPs varied widely but included product complexity, the suitability of other pension products and the perception of SIPPs as a risky product. One major area of contention highlighted was the issue of training with 42.11% saying they did not believe that advisers receive adequate training from providers and distributors about SIPP products. Only 21.05% believed adequate training was given (see pie chart two).

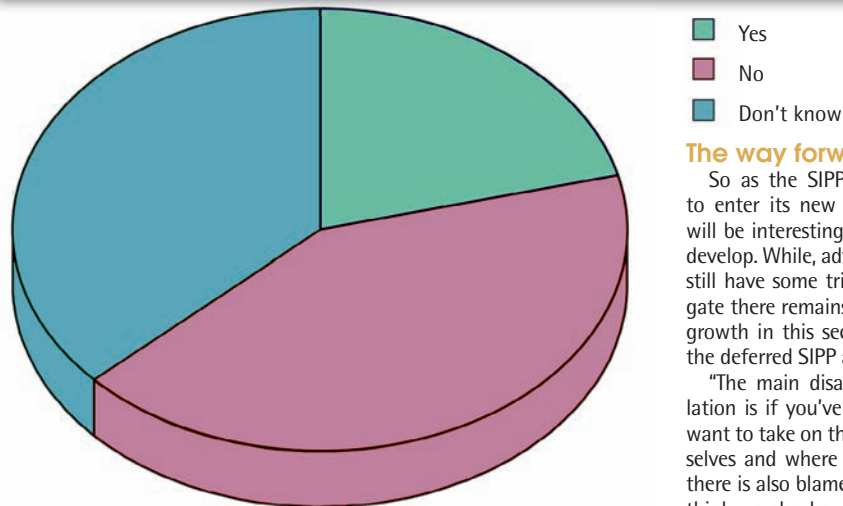
While 44.44% of those respondents said they would consider recom-

...I think we have a situation where we may have advisers who are promoting true SIPPs when perhaps they should be looking at promoting deferred SIPPs to their clients instead....

mending SIPPs if proper training was given, it is an issue that seems to divide advisers.

"My feeling is that I don't think it's the role of the provider to train advisers, it's a separate function and advisers should take responsibility for their own training when it comes to SIPPs," said Bamford. "I think it's

**Pie chart two - Do financial advisers receive adequate training from providers and distributors about SIPPs?**



Source: Incisive Research

important that providers distribute clear material and it should be easy for the adviser to find information on specific products but in terms of technical knowledge it's down to the adviser to take responsibility for their own training."

According to Bamford there remains a hard core of advisers who expect the provider to keep them up to speed but that approach is dangerous as it doesn't encourage advisers to take responsibility. "Providers are there to provide products while advisers should ensure they are professionally trained," he added.

However, while technical knowledge should be the province of the adviser - more communication between advisers and providers is needed if advisers are to get the best service possible for their clients.

"Sometimes we struggle to know what procedures SIPP providers are working towards in their own operations. I particularly refer to the role of the pension administrator," said Wins-

land. "More training needs to be done on what is required by administrators in setting up SIPPs and managing them on an ongoing basis. I think we need a bit more communication."

There were various other ways highlighted when advisers were asked how SIPPs could be made more attractive. Increased cost efficiency was a popular choice and other areas included the need for better understanding of what self investment entails, as well as the inclusion of protected rights into a SIPP. The proliferation of providers entering the SIPP market in the last few years also appears to have acted as a deterrent with one adviser saying that the SIPP market now has too many providers operating within it. According to the adviser many of these providers are offering the same funds and this is complicating the issue. Perhaps the possibility of several providers exiting the market post regulation will tempt some advisers to start looking at SIPPs again?

- Yes
- No
- Don't know

### The way forward

So as the SIPP industry prepares to enter its new regulated world it will be interesting to see how things develop. While, advisers and providers still have some tricky issues to navigate there remains real possibility for growth in this sector, particularly in the deferred SIPP arena.

"The main disadvantage of regulation is if you've got investors who want to take on the ownership themselves and where there is regulation there is also blame," said Winsland. "I think we also have a situation where we may have advisers who are promoting true SIPPs when perhaps they should be looking at promoting deferred SIPPs to their clients instead. From the context of the deferred SIPP with its controlled range of underlying investments then you can see the advantages and these products should be promoted to everyone."

Bamford agrees with the positive outlook saying that while regulation will bring bigger costs to the consumer, these downsides will be counterbalanced and the deferred SIPP market in particular will grow. "I think the main benefit is probably confidence in the financial protection and it will hopefully lead to SIPP providers who are more serious about their financial strength. With regards to deferred SIPPs I think this will develop into a much bigger market than true SIPPs. Investors want access to a wide range of funds but they don't necessarily want the full capability of self investment and the costs that come with that. I think that will be the market that will grow fastest going forward."

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John Moret gives his views on the results of the SIPP inquiry.



John Moret

# In for the long run

The results of the *Retirement Planner* SIPP inquiry which confirm the continuing growth in demand for SIPPs should come as no surprise. Recent surveys have all confirmed that the rate of growth in the SIPP market continues to exceed 20% per annum.

Just what constitutes a SIPP continues to provoke some debate. Historically a SIPP has been seen as a rather exclusive individual pension savings vehicle for the wealthy. The survey confirms that although the average amount invested per client in a SIPP remains high there are now many clients with funds of less than £200,000 where a SIPP has been recommended. This is not

result of the FSA comments in their adviser newsletter in March 2007 in which they said: "We are already monitoring closely the provision of advice on SIPPs and are having discussions with a limited number of firms to further inform ourselves of market practices. We require firms to treat their customers fairly. Advice to switch into SIPPs should be suitable – reflecting the customers' needs, priorities and circumstances – and not influenced by commission payments".

The issue of suitability is a complex one but now that all SIPPs, for regulatory purposes, are deemed to be packaged products all advisers need to heed the clear warning in the above statement. It is clear

ers and activities among operators with smaller providers being forced out of the market. This is in line with our view that the increased regulatory overhead both in terms of solvency requirements and the implicit costs of compliance with a "packaged product" regime will over time lead to a rationalisation in the market.

The biggest impact is likely to be at the "bespoke" end of the market which is already arguably overcrowded with suppliers. In this segment the quality of service delivery will remain all important. As a sponsor of this survey we were able to pose our own questions one of which was the importance of the availability of online services. The replies demonstrate very clearly where advisers feel that real value can be added both for themselves and their clients. The need for SIPP operators to be able to provide online valuations and transaction histories is very clear – any operator that is unable to do this is likely to find it very difficult to sustain a position in this market.

We also asked about the use of discretionary management services within SIPPs and discovered that just under two-thirds of advisers use or have used such facilities. This is a rather higher proportion than we had anticipated. Similarly we were surprised that over half the advisers surveyed felt it was important that a panel of discretionary investment managers was available as part of a SIPP proposition. I suspect that some advisers have been influenced by the offerings of some insurance company SIPP providers where a "panel" had become almost a mandatory feature.

## Commercial property

One encouraging trend in the survey responses was the number of advisers prepared to deal with the apparent increase in interest in holding commercial property as an investment within a SIPP. Although there were fears that the reduction in gearing levels as a result of the A-Day changes might have had a

negative impact on the demand in our experience this appears not to be the case.

We have also seen a number of other positive developments as a result of the new simplified pensions tax regime introduced in April 2006 particularly in the context of contributions and unsecured and alternatively secured pensions. Compared with the twelve month period ending in April 2006 total contributions received in the tax year 2006/07 were up by over 300% with an increase of over a third in the number of investors contributing. There were some very substantial contributions made with over 300 personal contributions of over £100,000 and 153 employer contributions including several in excess of the annual allowance of £215,000.

We also experienced an increase of over 200% in investors using the new unsecured income provisions although interestingly over 30% elected not to take any income and instead took some or all of their lump sum entitlement. We also had a handful of investors who elected to use alternatively secured pension (ASP) although unsurprisingly in the light of tax changes demand for this facility has waned.

What comes through loud and clear from the survey findings is that SIPPs are here to stay. It remains to be seen whether the rates of growth experienced in the past will continue. There are many external influences at work that will shape the future including the FSA's retail review, the impact of wrap platforms, the potential introduction of the second tier "Pension Accounts" and the accelerating demise of defined benefit schemes. What is clear is that SIPPs can provide real value to advisers and their clients but that to simply replicate the features of the traditional individual products is not the key to unlocking the many benefits that SIPPs can bring.

John Moret is director of sales and marketing at Suffolk Life



entirely surprising particularly given the increasing activity of insurance companies in this sector.

This segment which I've labelled the hybrid sector has been the fastest growing segment over the last five or six years. It has also been the segment which has provoked most debate – with some critics arguing that many of the plans reported as SIPPs are nothing more than personal pensions dressed up legally to represent a SIPP. These arguments have increased in intensity following the regulation of SIPPs partly as a

from the responses to the questions on regulation in the survey that some advisers are concerned about the potential for mis-selling and it is also somewhat worrying that over 15% of those responding felt they were not prepared for the new regulatory framework.

## The future shape of the SIPP market

There were some interesting perspectives on the future shape of the SIPP market with many advisers anticipating an increase in merg-