FEATURE SIPP SURVEY

SIPP APPEAL John Moret advocates flying the pension flag as early as possible, and has evidence to boot...

School for Sipps

JOHN MORET

Twelve months ago, I wrote an article entitled “Introducing the new age pension” (see *Pensions Management* Sipp supplement, June 2006). This was based on an educational initiative with a local school under which some fascinating new ideas were conceived for making Sipps and pensions more appealing. I looked at the new pensions environment, post simplification, and concluded that “Sipps have come of age and are the vehicle for the majority of individual pensions savings”. In the first year of pensions simplification, Suffolk Life saw some fascinating developments in our business. These are summarised below.

Contributions

- Total contributions increased by over 300% compared with 2005/06. These contributions exclude transfer values. Total net personal contributions were up by over 250% and total employer contributions by over 550%.
- The number of contributing investors increased by over 33% compared with 2005/2006.
- We experienced a significant increase in large contributions with over 300 personal contributions and over 150 employer contributions exceeding £100,000. There were a significant number of contributions that exceeded the annual allowance for 2006/2007 of £215,000.
- We received over 80 contributions (including phased property purchases). Following recent HMRC guidance we have temporarily suspended accepting further contributions because of the operational issues that arise.

Unsecured income

- The number of unsecured income cases was over 200% up on the comparable figure for 2005/2006 drawdown.
- Over 30% of the unsecured income cases actually took no immediate income.
- We accepted a small number of alternatively secured pensions, although, following further changes in this year’s finance bill, we expect very little future demand.

Investments

- Despite changes to the borrowing limits interest in commercial property investment remained strong.
- We experienced little demand for unquoted investments.

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- We have seen an increasing interest in hedge funds and structured products.

These trends are not surprising – the survey of advisers we conducted 12 months ago suggested that the greater flexibility at vesting and the higher contribution limits would be the most significant factors in increasing the volume of Sipps established after A-day. That appears to have been borne out in practice.

But what of the future? There are a lot of factors at work which could materially influence the future growth of the Sipp market. These are summarised on the accompanying chart and I have expanded the commentary on some of the points in the comments that follow.

Differing responses

Historically almost without exception life companies have treated the Sipp market with indifference. However in the last year many companies appear to have had a rethink following the apparent success of one or two more enlightened early movers. The difficulty that most companies face is where to play in the value chain. Few have the resources – people, technology and financial – to provide a total solution so in many cases we have seen some of the operational activities outsourced. We have also seen a proliferation in the deferred or hybrid Sipp solution. That has led to an inconclusive debate on suitability and issues such as transparency of pricing and commission levels.

It will be interesting to see how this debate unwinds, undoubtedly influenced by the outcome of the retail review and developments in the wrap market. To date few life companies may have successfully penetrated the Sipp market but surveys confirm that this is the fastest growing segment of the Sipp market and it could well be that over time some life companies use the Sipp as the catalyst for replacing their legacy book of individual pension products in an attempt to secure the underlying assets which would otherwise be under threat.

Niche players unscaleable post-regulation

Reports suggest that following the introduction of the new regulatory regime for personal pensions and Sipps there are now almost 200 regulated operators. Many of those operate at the bespoke end of the Sipp market running a few hundred Sipps. With the move to Sipps being treated as a packaged product for regulatory purposes this 'glut' of small operators seems unsustainable both on financial and competitive grounds and consolidation seems inevitable over time.

Room for new entrants

There have been few notable new entrants to the market in recent years. Despite the apparent oversupply of operators there still seems to be an opportunity for well capitalised businesses with access to scaleable technology platforms to enter this market. In particular the corporate market and retirement options segments seem to provide plenty of scope for new players such as investment houses and wealth managers and maybe even some new names from overseas where these markets are already developed such as the United States, South Africa and Australia.

FSA retail review

The potential impact of this review on all markets could be very significant – and it is unlikely that Sipps will escape. What makes Sipps a little different is the complexity and variations in the operating and distribution models. Distribution is largely through financial advisers so changes to the current intermediary model will certainly impact Sipps. The current power battle over control of distribution is likely to increase with many advisers keen to take more control of the value chain leaving providers such as some life companies to fight over the scraps such as annuity and risk provision. The growth in the e-Sipp may also continue particularly in the workplace where technology will be vital in overcoming the problems associated with the provision of advice and in driving costs down.

Wrap providers/fund supermarkets on the move

The role Sipps play in the fast developing platform market remains to be seen. A current analysis shows all platforms provide access to a Sipp. While some are truly open architecture, others require the platform's own Sipp to be used and others have links to a single third-party platform. While it would be wrong to conclude that the future of the Sipp market is solely dependent on the successful development of platforms, there is little doubt real growth in Sipps will come through access to mutual funds, and platforms provide the obvious route.

Technology

Generally the Sipp industry has been slow to respond to the demand from investors and their advisers for greater availability of online Sipp capability. Access to online valuations and transaction histories are essential and growing numbers of advisers are also requesting online illustrations and application forms, mutual fund dealing and integration with their back office systems. Operators unable or unwilling to provide these types of service in the future are likely to be left behind.

As Sipps become the only individual pensions solution for the majority there is an opportunity to rebuild confidence in the "pensions" brand – a point made strongly by the schoolchildren mentioned at the start of this article. Unfortunately there are already signs that the behaviours associated with pension product solutions in the past are starting to reappear with concerns over unjustifiable levels of commission, churning of business, increasing attrition rates and unjustifiable delays in processing business – particularly transfers and reregistration of assets. Hopefully some of these points will be addressed as part of the regulatory review. Dealing with transfers and reregistration of assets fairly and promptly is vital and this area is likely to come under increasing scrutiny from the regulators.

For those operating in the Sipp market the opportunities look very significant – almost regardless of the position occupied in the value chain. However, continuing growth will bring challenges too, with margins coming under increasing pressure. Investment in technology will be crucial in order to cope – but so will investment in knowledgeable and well trained staff. Service quality may become less of a differentiator as the market grows but it will remain a vital ingredient for success. We may well be at the start of a new age for Sipps but some of the older attributes of Sipps which add value such as transparency and flexibility still have a crucial role to play. PM

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KEY FACTS

- Total unsecured income cases were 200% up on previous year
- Greater flexibility at vesting and higher contribution limits increased volume after A-day, as predicted

MARKET GROWTH DRIVERS

'PROVIDER' POSITIONS
- Differing insurance company responses
- Niche players unscaleable post regulation
- Room for new entrants

DISTRIBUTION
- FSA retail review
- Wrap providers/fund supermarkets on the move...
- Investment houses just waking up to the opportunity
- Tech integration important

CONSUMER TRENDS
- Greater awareness of Sipps
- Distrust of 'pensions brand'
- Disillusionment with traditional 'solutions'
- Acceptance of fee-based advice model?

EXTERNAL INFLUENCES
- Accelerating demise of DB schemes
- New second tier 'Pension Accounts'
- Growth in Group Sipps
- Complex retirement options
- New regulatory framework