

## FEATURE HEAD TO HEAD

## SIPP AND WRAP PLATFORMS

## How reliant is wrap development upon the growth of Sipp?



JOHN MORET

Sales and marketing director  
Suffolk Life

DAVID FERGUSON

Chief executive  
Nucleus Financial Group

## KEY SPEAKERS

**JOHN MORET:** The self-invested personal pension (Sipp) market holds roughly £50bn in assets today, split between £30bn at the bespoke end and £20bn in the middle ground, the life company and platform market. While there are big opportunities for platforms in the pensions market, at the bespoke end, few of the assets benefit from being on a platform. Indeed, I don't think many platforms actually either want those assets, or are geared up to cope with them.

**DAVID FERGUSON:** I think wraps absolutely do need Sipp. Sipp probably don't need wraps, but there are some parts of the Sipp market – outside the bespoke providers – that may feel threatened by the wrap market. But I think those Sipp at the bespoke end of the market doing specialist things probably have very little to fear from any of this. And John's assertion is correct that, in the meantime, some of the purer wraps in the market probably have no desire to get into the complex Sipp market.

**PÁDRAIG FLOYD:** What are your opinions as to whether the development of wrap is actually wholly reliant on Sipp? What might be driving both markets?

**FERGUSON:** On our platform, roughly half the money is in the pensions vehicles, so it's definitely a significant part of it. There is a growing realisation in the IFA community that most life company packaged investment solutions are not appropriate for many investors, and growth in the Sipp market has undoubtedly opened people's minds to the sort of issues that have allowed the wrap market to begin to develop. Sipp are a huge part of that, but there's an awful lot of money that

isn't in Sipp and never will be, which will form a large part of the wrap market.

**FLOYD:** Are we seeing a greater sophistication from the investor base and their advisers, and is there a greater appetite for taking control?

**FERGUSON:** It depends what you mean by sophistication. In the sophisticated – or bespoke – parts of the Sipp market, there is certainly a growing number of wealthy people who demand more complex solutions. And there's a growing appreciation that investment propositions should be put together by someone who's closer to the client than a product provider, so the investment proposition is much more aligned with their own goals and requirements.

**MORET:** Sipp have been in the UK for nearly 20 years, while platforms less than 10, so in some ways Sipp have led the way. In the next two or three years, the big battleground is going to be fought over life company assets, in particular those sat in legacy products. Sipp have already chipped away at this quite successfully, but the real threat to the life companies will come from the platforms providing a viable alternative based around collective investments, which is really an extension of the move by life companies away from running their own funds into multi-manager external funds. There's only going to be one winner, and it isn't going to be the life companies. We're going to see more window-dressing of personal pensions from life companies, because they have to be seriously worried about the impact, particularly on their existing customer base. In terms of the client, the drivers come from the wealthy end. I would

say entrepreneurs, professionals, corporate executives and, importantly, the retired, are the customer segments that are absolutely key to the development and the ongoing growth of the individual pensions marketplace.

**FERGUSON:** That the life industry is the big loser in this will come as no surprise. If IFAs are going to professionalise and move in line with the trends we see in that market, then there'll have to be significant consolidation of client assets, either into Sipp or platforms. And as that consolidation occurs and accelerates, that's when we start to see the really material change and drift away of assets from life companies into these newer models.

**MORET:** Recent Association of British Insurers statistics show that new single premium pension business in 2007 topped £22bn, of which about a third went into life company Sipp. That's a doubling in the space of three years. But if you add in the non-life company Sipp, you'd probably get a figure of £30bn, so that gives an idea of what's at stake. There is also somewhere between £300bn-£400bn of legacy product assets that are at risk, and that figure looks reasonable in the context of the £30bn inflow last year. So the prize for platforms is clearly significant and, as David said, the prize for IFAs, the opportunity to advise and, in many cases, manage a slice of those assets is not to be ignored.

**FLOYD:** In time, would the ideal place to manage many Sipp be through a platform?

**MORET:** At the moment about 50% of the Sipp market is invested in assets such as property and direct equities, which aren't readily plat-

formable. When you get into collective investments, the position is very different, and it is an area where platforms will gain ground. If you look at the growth statistics in the Sipp market, it is that middle ground that is growing most rapidly. Roll it forward five years and the bespoke market will be somewhere around £80bn, compared to £30bn today and the collective market will be around £100bn, compared to £20bn today. So there's more upside for the platforms than the bespoke players but, nevertheless, if you're a bespoke Sipp operator and you've got a reasonable share of that market you're going to be pretty comfortable. So that's why I say the opportunities, almost wherever you play in the pensions market, are enormous.

**FERGUSON:** I think certainly Sipp are heavily dominated towards collectives and mainstream equities. Our platform copes with that, and I'm sure others that don't today will in the future. There's still a question mark about the extent of the sophistication of that equity proposition, but it will evolve in line with the market. So I don't think there's a requirement for the platforms to encroach into the more bespoke area. However, I wouldn't be surprised if some bespoke businesses that are very specialised in property, for example, approached some of the platforms to white label their technology for the equity and collective parts of their own proposition.

**FLOYD:** And is there sufficient transparency in terms of wrap propositions for people running Sipp?

**FERGUSON:** We believe we've got the most transparent business in the UK, but it's certainly true that some parts of the wrap market are not ▶

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**DAVID FERGUSON**

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## ANALYSIS



**Opportunities abound, but there will be no second chances for those who fail clients, says Pádraig Floyd**

The basic premise of this debate may appear to be Sipp vs wraps, but there is more to it than that. A tension lies at the heart of both markets that must be addressed.

Development of Sipp has greatly boosted interest in – and investment into – pensions, which can only be to the good. However, some commentators have voiced concerns, shared by the regulator, that there has been a Sipp selling free-for-all that has led to many cases of – simply put – mis-selling.

Transparent wrappers Sipp may be, but poor practice and execution can lead to excess charges and poor service. The FSA has Sipp under a thematic review and is keeping a watching brief on wrap, because

**“A tension lies at the heart of both markets that must be addressed”**

for the moment, the two are inextricably linked.

The explosion of funds with the main protagonists (life offices) in the wrap market has relied on getting scale from Sipp transfers.

It is inevitable that the continued growth of Sipp will feed into the lower end of the market, much of which will be held on platforms. Confidence is high.

So, the opportunities are great, but so are the responsibilities. Mess it up this time and there will be no more second chances.

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transparent at all. This has been one of the few global industries that in some cases has gone online and thought it could charge the client; make it a cost-plus proposition.

**FLOYD:** What kind of impact do you see with platform take-up if the retail distribution review (RDR) goes through?

**FERGUSON:** There’s no doubt at all that the wrap market can only be a beneficiary of the RDR. We’re seeing significant change in the IFA market; the parts that are already embracing wrap are the parts of the market that are clearly going to grow.

**MORET:** The regulator is pretty keen to encourage the development of wrap. It is certainly concerned about some of the as yet unresolved risks associated with wraps like reregistration – which is also an issue in the Sipp market. The other crucial area is the whole commission debate and what that model actually looks like. If it’s going to move at all, it will move in favour of more bespoke structures and fee-based advice, rather than any other direction. One area I’m not quite sure on is the whole area of retrocessions from investment fund managers and investment houses, and to what extent there will be more pressure on disclosure in that area.

**FERGUSON:** Everyone’s got quite a different definition of transparency, and retrocession of fund management charges is a massive part of it. There are packaged pension products and other products on the market that are heavily funded by the retrocession coming from external fund links, and this point has been completely overlooked. Life companies are creating fund structures that look comprehensive, but what they’ve done is hand-picked them to support their own pricing structure, which clearly is not transparent. Other areas, like dealing charges and particularly the margin some providers take on cash, require scrutiny. Historically, in certain parts of the Sipp market, and in some parts of the wrap and the platform market, providers have been guilty of paying pretty derisory rates on cash. As the world moves away from packaged investment solutions, that could drag on the overall performance effect.

**MORET:** I agree. There is considerable inertia around cash, so it can be a substantial source of income and revenue stream for Sipp and wrap operators.

**FLOYD:** What do you think is the likely outcome of the reviews on Sipp

from the Financial Services Authority (FSA), as well as how the regulator may look to regulate wraps?

**MORET:** The sooner we get to the situation where there is no commission paid on pension transfer business – and particularly internal transfers – the better it will be for the investor. In terms of any other areas the FSA is looking at, clearly there’s the whole issue of a level regulatory playing field, where the perception and the reality are quite different. A life company-based Sipp potentially provides a much higher degree of investor protection than a trust-based Sipp, and that is an issue.

**FERGUSON:** If an adviser is going through a process of bringing together a number of different pension arrangements and putting them into a Sipp or wrap, it is perfectly reasonable for the client to pay a fee for that service. And if it has to be funded under the current regime as commission, that may be a more efficient way of doing it. But the practice of leveraging sales through offering commission on transfers is the murkiest part of that process. In terms of the paper that came out last year, the only assertion we disagreed with was that the market would find a solution to the problem of transfers re-registration. There are too many people already in products with significant practical operational and cost barriers moving to say the market would resolve this. We tend to find that pension transfers, for example, from life companies are reasonably straightforward, whereas reregistration of assets from a fund supermarket is just an absolutely tortuous process.

**FLOYD:** How do you see the use of Sipp and platforms developing?

**FERGUSON:** The opportunities for wrap and Sipp providers are immense, providing you can demonstrate excellence of delivery. The loser in this is going to be the life industry, and the winners the IFAs and clients. And in a consumer-led society, that’s the way it should be.

**MORET:** I’d echo that. We are very optimistic about the prospects. One other area that shouldn’t be overlooked – that offers great opportunities for both Sipp and wraps – is workplace and worksite marketing and the development of group Sipp, which is now just starting to gain momentum. A lot of the technology that exists with platforms could easily be migrated into a workplace environment. So that’s another reason to be very optimistic. **PM**