

SIPPs: Onwards and upwards

Pensions Age
2008 SIPP roundtable

The panellists on the *Pensions Age* SIPP roundtable of 2008 tackled subjects as diverse as Group SIPPs and the problems they pose in terms of providing advice; the effects of regulation and whether, along with increased competition it would lead to further consolidation; the wrap market and the future battle between life companies and the wrap platforms for business; protected rights; and their predictions for 2008



Chairman: Matt Ward is principal consultant in the Pensions

and Wealth Management group at Defaqto. He joined Defaqto in 1998 after building his pensions experience within the EPP and SSAS departments at AXA Equity & Law where he undertook various roles. In recent years Ward's focus has been heavily centred on the emerging SIPP and wrap markets where he has become a respected market analyst and commentator. He also helps to develop Defaqto Group's IFA and consumer facing wealth management content.



Panellist: Alex Brown joined Mattioli Woods in 1997. As a

senior consultant he has a substantial portfolio of clients throughout the UK, providing specialist pension advice on the structure of pension schemes and ongoing investment advice. Mattioli Woods is one of the UK's leading and fastest growing pension and wealth management consultancies particularly specialising in the application and provision of SSAS and SIPP. Brown is a regular spokesperson for Mattioli Woods on subjects such as interpretation of the latest pension legislation.



Panellist: John White is partner and managing director of

Bentley Jennison financial management. He has worked in the industry for over 18 years, qualifying as an associate of the Chartered Insurance Institute while working for NPI. He was employed as a pensioner trustee throughout the 1990s, and joined RSM Robson Rhodes in 1997. He also established and chairs the Internal Investment Panel, which involves interviewing fund managers, and benchmarking performance to set standards.



Panellist: John Moret is head of sales and marketing at

Suffolk Life. Moret has led the development of SIPPs since their launch in 1990 and is widely regarded as a leading authority on the product. He is regularly quoted in the press and speaks at industry events. He joined Suffolk Life in 2004 from Capita PPML, the second biggest administrator of SIPPs, where he was executive chairman/managing director for four and a half years. He has worked in the pensions and financial services sector for over thirty years.



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Regulation

Chairman: What sort of impact has regulation had on the SIPP market so far?

White: From my point of view as an adviser, regulation has not had as much of an impact on us as it has had on product providers, which is pleasing. From a TFC and compliance point of view, helping us to make more conscious checks is a good thing and also the fact that it's streamlined things somewhat has also helped.

Brown: There is more time and cost placed on us as providers now. We've seen more time cost incurred, with man hours spent regulating the SIPP in relation to legislation, rather than running our business. The other thing we have found is that we have an over-riding legislative framework trying to cater for all types of individuals in an individualised market, and so from our

side we've seen incidents such as people issuing cancellation notices for contributions under what is actually technically personal pension legislation. For example, when you've got a SIPP in which a member is making contributions to fund property purchases, you're effectively sending them cancellation notices over something they've done themselves. All this does get frustrating.

Moret: Regulation had to happen because of the way the legislation around A-day was framed. You can understand why the FSA got to where they are but it's debatable whether the approach taken to regulation was the right one – to deem SIPPs as a packaged product. Certainly at the bespoke end of the market there are plenty of situations where you have a choice between a SSAS and a SIPP and the regulatory difference between the two is very different. With capital adequacy – most people believe it's a level playing field but at the moment it isn't as there are differences depending on what type of provider you are. That's not necessarily a bad thing but there's an awareness factor that still hasn't come out and there's confusion over compensation arrangements – in other words if it all goes pear-shaped, where does the investor go?

Patterson: After a degree of initial trepidation we've found that it's been fairly minor – the confusion that cancellation notices create is a nuisance but there is hopefully work going to be done to try and streamline that process. It doesn't make sense from a client's point of view so what is the point of making regulation if it simply antagonises clients? In relation to the Retail Distribution Review (RDR) we've been involved in advising on SIPPs for many years but what we've seen is not

only an explosion of the number of SIPPs being sold but also the number of advisers who are giving advice and the standards of that advice vary greatly but to what extent that is being addressed is not entirely clear. We hope that the outcome of the RDR will help the marketplace where at present we have concerns about the lack of attention being given by the FSA to some of the practices that are taking place – we're aware that they're looking at it but they need to look at it a lot harder.

Retail Distribution Review

Chairman: Is the RDR positive news?

White: It's perfect for our business as it will drive the independent side of our operations and will help the advisory market because the top end of SIPPs will shrink and leave us with some very good advisers.

Moret: We didn't respond to the review but we are on a watching brief. It will have an impact on the supply of business to us but I do agree on the point of quality – although there are some tricky areas there over VAT which need to be resolved. There's still uncertainty on timescale as to when it will happen – I've even heard it said that some aspects will never see the light of day.

White: We might see Personal Accounts before we see RDR.

Chairman: Will the market consolidate as a result of changes?

Brown: There will be consolidation, as you get in any marketplace. There will naturally be providers who want to acquire other practices, and some who want to get out of the market. Standard Life have said that they want to seriously increase their SIPP offerings,



Panellist:

Steve Patterson is managing director of

Glasgow-based **Intelligent Pensions**, which specialises in the handling of complex pension matters for corporate and high net worth individual clients. After studying engineering at Glasgow University Patterson decided a career in financial services offered the best opportunity to apply his creative talents. Having established his own IFA company in 1984, Patterson and his team have built up a wealth of experience in pensions and investment planning.

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so maybe one way of doing that is through acquisition. But I don't believe there will be a significant slowdown in business flow.

White: I would say you've already seen consolidation in what you could call the 'true' SIPP market but what's muddied the waters is personal pensions now being called SIPP. SIPP is the buzzword that has generated new business and so if you take that out and remove the growth of something that is called a SIPP – then you have had consolidation – consolidation by no growth, apart from major shrinkage.

Brown: Playing devil's advocate you could have new business growth with people catering for the smaller end.

Patterson: There may be a clearer segregation in the market – in the SIPP for SIPP market which is still an administration function not necessarily a platform function – although some of the smaller SIPP providers are obviously trying to plug that gap as well. We would see those SIPP that are set up with specific self-investment in mind as being subject to some limited consolidation. I think that's going to be a totally different market place going forward from the mainstream IFA market as it has become which is more a platforms market place. Also, there is a potential third market in group SIPP with GlaxoSmithKline coming out recently to say that they were going to introduce a group SIPP – with the possibility that FTSE100 may follow.

Moret: Putting group SIPP to one side – we've segmented the market into the commodity SIPP with low cost execution only, the middle ground life company platform SIPP which is the fastest growing segment and the

bespoke end. In terms of growth, we see it on all three fronts – but if you look at the top end we estimate there are about 10,000 bespoke SIPP spread over about 70 or 80 providers and even with the most optimistic growth estimates it is hard to see that as a sustainable scenario especially with regulatory costs increasing. One's only got to look at the HMRC requirement to do annual returns which is proving to be an absolute nightmare in terms of collecting information for whose benefit and information nobody really knows. Competition increase suggests that costs will fall but regulation means cost increases so we suggest that at that end of the market we will probably see consolidation.

Brown: Clearly, there are a lot of funds currently in DB schemes, and this will create a potential market, although obviously not all of it will go into the SIPP market.

White: It's likely that there will be further consolidation around the providers but assets will always grow.

Patterson: There's also a substantial pool of money purchase pots being built up. The corporate executives are at some point going to look at that pot and ask themselves if this needs more TLC and the natural option will be for them to shift into a SIPP arrangement.

Group SIPP

Chairman: Can Group SIPP match the needs for those looking for alternatives in the occupational scheme market?

Patterson: I have concerns about such arrangements being open to such a wide range of employees – the wide potential for self-harm is enormous. How this is being policed and what

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constraints are being put on these scheme will be interesting to see – freedom of choice is wonderful but in the wrong hands could be very dangerous. The idea that people should manage their own pension funds without advice is quite frankly a scary idea.

White: As soon as employers talk about group SIPP for all employees then we just bring out all our cases of legislation going on with 401k in the States at the moment. Trying to drive employers down to make sure that they have governance in place for their contract based DC schemes is vital and if you added on the complexity of a group SIPP, then how are you going to govern that? We would try and put employers off from that perspective, but for top executives it's perfect. Would we put in a group SIPP on its own even at that level at the moment? No we wouldn't – we would consider it as part of flex.

Moret: The recent news about Glaxo is a very significant development in the group SIPP market. We know that the insurance company involved there – Legal & General – are very bullish on the effects in that market. It seems to me that essentially what you have is a plan replicating the old AVC type arrangement so you can see how it will be used by execs in one way and other



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employers in another. Is there any advice? The critical thing is risk and providing advice.

Brown: I have mixed feelings on group SIPPs. Getting more people aware of SIPPs is good, but the lower end of the market may result in people having a complex scheme, and with no supporting advice, so we could see more abuse and misuse of SIPPs. Counter to my own personal opinion, sometimes a 'big brother' regime is in people's best interests. Although I am unsure as to why everyone needs a SIPP when it's not always applicable.

Chairman: To make the suggestion that people will take control of their funds when they are mostly in default funds in DC, takes a large leap of imagination, does it?

White: It's probable that even these group SIPPs will have a default fund and they'll buy into SIPPs as it's currently trendy.

Patterson: You wonder what the motivation is from an employer's perspective in holding shares in a company and there are dangers with that as well – we saw what happened with Enron in the States so you would have to assume that there is going to be some element of restriction and registration that will stop people doing too much damage but it's too early to tell exactly how.

Chairman: Are there opportunities for advisers in this area then?

Patterson: It's not economically viable for advisers to work at that level because their charges are going to price them out of an ordinary employee's scope so that's always going to be the problem with employee

benefit schemes at that level. I would think that the time taken to advise on assets allocation will make it very expensive.

Brown: It will be interesting to see how the Glaxo scheme goes, if it is successful, this certainly could lead to growth in this area of the market

“Do current providers have the necessary capacity to deliver good service levels? I think that's very debatable. There are a few who are clearly struggling” - Moret

among larger blue chip companies, although I do question the reasons for a group SIPP and whether there is any hidden agenda over the purchase of company shares.

Market volatility

Chairman: Will the current volatility in the markets affect SIPP business?

Patterson: It's fair to say that a lot of the new SIPPs are set up with transfer money and people are reconstructing their pension arrangements out of older, less flexible contracts into SIPPs. Our experience has been that when there has been a lot of market volatility there has been a tendency to procrastinate and put decisions off that we would see as a risk to the market. As for new business, the buoyancy could take a temporary dip because a proportion of those that may have been quite keen on a SIPP may have been concerned about market risk.

White: You always see how people get

worried – but the advantage that you have with SIPPs is that you can't literally take out the money that you've put into the vehicle and so you don't lose it out of the SIPP, but you do with the market, albeit temporarily. Hopefully, good advisers will be able to persuade clients to drip feed new money in as there will probably be a lull in the market. The knock-on effect is for providers paid by a cut of the fund. Those paid by fee will be OK, those by fund base will have 10-15 per cent of their fee cut by the market on top of extra regulatory costs on top of competitive pricing means a problem for some providers.

Service levels

Chairman: How easy has it been to maintain high levels of service with the increase in business?

Moret: Service is certainly core to our proposition and as the business grows then clearly it does become more of a challenge. Technology again is key. How much of your business is tech driven, how much you are relying on individuals for that expertise, will have an impact on costs. Do current providers have the necessary capacity to deliver good service levels? I think that's very debatable. There are a few who are clearly struggling. The actual level of service provided on transfers across the pensions industry is pretty appalling – how it squares with treating customers fairly simply beggars belief.

Patterson: In dealing with the providers, a lot of them can be very slick in getting their basic information out but when it comes to asking about some specific questions - such as how does their guaranteed annuity rate apply in these circumstances - sometimes you're talking about a

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six week turnaround to actually get an answer. In terms of capacity it's difficult for us to tell with the smaller providers as we are happy with ours.

White: Getting service right is one of the hardest things to do. It could end up being similar to after 1989 - you'd end up following a good successful SIPP provider who would then buckle on their own performance and then become slack on service. Having said that, I haven't really noticed that so much recently.

Patterson: The impression we got was people who fell into problems are not minor ones but ones that take years to sort out, so my guess as to why we are not seeing it is because SIPP providers now realise that they need to keep their eye on the ball all the time, otherwise disaster can be there before they realise it.

Brown: Keeping high levels of bespoke business can sadly impact on the level of business you are able to take on board - you don't want to turn away business, but sometimes it is appropriate to direct it to other areas of the market if it's in the client's best interests.

Finding the right product

Chairman: Is enough being done by IFAs to find the best product that meets client needs?

Patterson: It would be fair to say that we have reservations. When SIPPs became sexy on the back of possible residential property being included in the product, people's imaginations were captured and journalists found a new way of using the word SIPP in a headline. I must say the FSA must look at all the SIPPs that are being set up and ask if they actually benefit the client.

Brown: My concern is regarding mismanagement and potential abuse relating to changes from A-day, such as unquoted shares in SIPPs. Sometimes you do question whether the SIPP is being used as a tax avoidance vehicle rather than a bona fide pension by some individuals.

Moret: The FSA are looking at this closely and if it hasn't hit advisers yet, it will. The information we've had to provide to the FSA as part of their review is very detailed - looking at sources of business and commissions that have been paid. I'm pretty sure that there will be some embarrassment caused when they report in the second half of the year but hopefully it will be the exception rather than the norm.

DIY SIPP

Chairman: Is there any danger to the existing market with consumers compelled to do things themselves with the DIY SIPP?

White: No. It's a technology driven scenario, but if advisers embrace it, they can find themselves better placed to give advice.

Patterson: A lot of our clients will dabble in the market but when their pension becomes larger and when they reach retirement they actually do want

someone looking after it for them. There's a fun factor in the lower end of the SIPP market - but there are relatively few people who are confident in their own judgement, long-term.

Moret: If you look at the online SIPP figures, then you have to assume that that is the SIPP on the side of other pension plans as the average value is £40,000 and if it is the total pensions worth, then the concerns have to be huge. Risk needs to be taken into account and the online aspect is not something that is unique - but you only have to look at internet banking, that's what people want and it gets them more interested in pensions.

Brown: There's a great need for a bespoke area/service rather than an insurance company or online SIPP. We currently have a smaller bespoke market and a larger middle core, but ultimately as the market matures and people want more hands-on control, as wealth grows there will be more people looking for a bespoke service.

Patterson: There should be a healthy trade-off with fund platforms that have access to all funds and very little space to negotiate on price and the other platforms with restricted funds and higher volume going to each manager and the ability to negotiate a price - I think that's a healthy thing. If the range of funds available is adequate to provide a good quality portfolio for the client, then you can construct perfectly good portfolios - and by getting prices down on a limited platform that must be good for the consumer.

Protected rights

Chairman: Is the apparent green light given by the Government for the inclusion of protected rights in SIPPs another opportunity for the market?



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Moret: It's not cast-iron but 95 per cent likely. We find it strange that the DWP has been banging on for so long about security as the reason for not allowing self investment for protected rights but have now taken a view that self investment should be allowed now SIPPs are regulated but they haven't delved any deeper into the regulatory effort. You've got different levels of protection afforded by different types of SIPPs so I'm not convinced that what we've got as draft legislation will be what we finally end up with. It's significant for the market – just over 50 per cent of our new SIPPs come in with protected rights and the average protected rights investment is somewhere between £50,000 and £60,000 so you might debate in isolation if that is SIPP territory as well, but put it alongside non-protected rights and then quite clearly the advantage of having the two side by side is clear.

Patterson: As long as there's going to be some distinction between protected and non-protected rights, they are in fact two separate pots. There's a lot of misunderstanding in the marketplace from advisers and customers who believe that they will be able to build the two pots together.

Brown: It's encouraging to see that we're moving to a more simplified pensions remit where it's more flexible, and the allowance of tax free cash is certainly a bonus for those who contracted out. It's going to be a bit of a headache with one pension benefit under one roof. Hopefully, with the way the legislation is going, we may be able to merge them together long term, which will make our job easier. Again it's a client benefit as most can't distinguish why they can't put protected rights in their SIPP – so it will make it easier for the client and adviser.

“To me it (wrap) is just an IT platform that creates an efficient way of me giving the advice that I want to give to the client” - White

Wrap market

Chairman: What are you finding with the wraps you are looking at or interacting with?

Patterson: Pensions are fairly unique in that they provide an income for life thereafter and they have a role to play which is ultimately insurance against longevity and also inflation. Because it's got a unique role which is different from clients' other assets, we've got some suspicion in the effectiveness of wrap platforms – this idea of an asset allocation overlay across all clients investments – pension or non-pension we have doubts over whether that is technically sound or not.

White: My view is that it is possible to remove the so-called middle ground of SIPPs and the DIY space and call it a wrap platform. To me it is just an IT platform that simply creates an efficient way of me giving the advice that I want to give to the client. Providing I get maximum flexibility out of it, overlay where it's right to overlay across the board and can put the right trust around the right part of money and have that really informed conversation with the client, then the future is wrap. Having said all that, I haven't put all my business on a wrap platform because the industry is still embryonic. We are testing a couple, but it's difficult to think about the future of SIPP without thinking about wrap.

Moret: The real fight is between life companies and the wrap platforms for

assets under management and I know where my money is – the wrap providers. They have the funds and some very good backing. We will see that over the next five years, it could end up being a real bloodbath.

Brown: It's like we were saying earlier with increased costs, the technology side just has to develop or we get left behind, especially with the development of wraps and where the providers want to go, so we have to stay one step ahead too. We have to be involved, but it's not currently affecting our sole core business. However, we see technology is never the sole answer – it needs to dovetail with a personalised service.

Predictions and hopes

Chairman: What predictions or hopes do the panellists have for the year ahead?

White: There will be a continued flow of new money going into SIPPs, I can't see that changing fundamentally.

Patterson: I agree. As more money gets freed up from DB and money purchase schemes it will grow.

Brown: Post-retirement we are looking for a reduction in ASP tax positions post-75. Admittedly we're stuck with 70 per cent and then IHT on the remaining 30 per cent at the moment, but if there could be some movement there, then it would be a massive bonus for the SIPP market.

Moret: My big hope is that the 75 limit will get removed, but our estimate is that assets in the market will hit the £50bn mark in the near future. It all still looks very positive and if there will be a fall out at some stage, it will be around the middle ground rather than the bespoke end.

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