SIPPS » John Moret, director of sales and marketing at Suffolk Life, on the effect the FSA changes have had on protected rights and the need for even more changes to be made

Adaptation is the surest way of achieving success

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Investment Adviser: What effect will the change in the rules surrounding self-investing in protected rights have on your business?

John Moret: Winding the clock back 12 months, we were aware there were ways of designing a Sipp that allowed protected rights. This was in advance of the DWP changing the rules, and we spent quite a lot of time looking at the ways it could be done.

Basically, that meant using a life company. Suffolk Life has a life company within its group, so we adopted a new design to our Sipp offering last year and one of the consequences of that is we were able to accept protected rights.

We launched that just under a year ago. It's had a big impact, as 40 per cent of our new Sipps include protected rights.

IA: In what other ways is the Suffolk Life Sipps proposition different from that of other providers?

JM: Our proposition is targeted to ensure the value of the protected rights that are being transferred are at the upper end.

Our whole Sipp proposition is aimed more at those with substantial amounts to invest, although we don't have a minimum.

We price it in a way that we can provide the quality of service we think our advisors want. That meant our average protected right fund has been around £50,000 and our average Sipp, in total, is around £300,000.

We've been very comfortable and satisfied with the volume of business we have received – in excess of £50m of funds into protected rights funds. We can see the market growing and will continue to see it grow.

From 1 October there will be increased competition from the Sipp providers in the market and we expect some of those will start to price quite competitively – one or two of them have already made that clear. To some extent, those organisations are aiming at slightly different parts of the markets.

We have been quite happy with what has been happening and we've decided not to make any changes at the moment. We're going to hold fire and see how the market develops in the next few weeks and then respond if necessary.

IA: In what form will that response come? Will it involve fundamental changes in pricing and structure?

JM: The pricing and structures goes hand in hand. The issue of structures is quite an important one. There's effectively two ways of running the money with protected rights.

You can pool the investments so they are all run as one collective fund and then somebody has to look at what is protected and what is non-protected once a year as, while the DWP has changed the rules, it hasn't changed the rules yet on the accounting and reporting requirements.

You've got to be able to identify the protected rights pot separately and the investments behind them. So, if you choose to pool then either the investment manager has to separate those investments back out once a year as a minimum, or the provider has to do that.

We chose last year not to pool. We run two separate portfolios. That has definite advantages, in that it is much easier to report the holdings. In some situations it is also advantageous to have a slightly different strategy for each part.

Most of the other providers will go for the pooled approach. It'll be interesting to see how they are going to report protected rights separately. They will struggle to identify the split if – as I suspect will be the case with some providers – they don't have the systems in place to do that.

It's not a big issue if it's just one or two investments, but if you have ongoing transfers or ongoing contributions then the actual reporting and calculating can get quite complicated. There may be some issues down the road there.

IA: Are you anticipating further changes to the rules and if so what changes would you like to see?

JM: We do expect further changes and we were actually quite disappointed with the piecemeal changes that have just been made.

There could have been more radical changes, which would have meant abolishing the difference between protected and non-protected rights.

The DWP's argument all along has been that it won't be able to do that until it has ceased the contracting out facility, which on the legislative timetable isn't scheduled to happen until 2012.

Potentially, we've got four years of this complication, which we could have done without.

IA: To what extent are IFAs keeping up with the changes? How much do you think they understand this latest raft of changes around protected rights?

JM: In terms of IFAs keeping up to speed with what is going on, some will be, but I suspect some won't be so familiar.

To be honest, until fairly recently, protected rights almost disappeared off most advisers' radars. With the exception of Contracted Out Final Salary schemes, the average person's funds are generally quite small and so they didn't attract a lot of attention.

Certainly our experience suggests those kinds of funds have been dormant for a number of years and not actively managed.

There is the opportunity for advisers to undertake reviews with their clients, but there is the issue of making a move from one provider to another. There has to be a clear reason to make such a recommendation, and this is all in the area of suitability.

IA: How do you ensure suitability? With the greater amount of flexibility allowed in Sipps, do you think there is a problem with transparency? Is the industry susceptible to intervention by the FSA?

JM: We know the FSA have been on watch with Sipps for quite a while. They are undertaking an ongoing review of transfers and the latest timeline for that is to expect a report from the FSA by the end of the year.

I'm pretty confident they'll be keeping an eye on what is happening with protected rights, particularly with the volumes of protected rights being moved into Sipps.

Another area they have intimated they are looking at is the disclosure regime, where they have suggested there may be inconsistencies between personal pensions and Sipps, and the starting point would be to bring Sipps in line with personal pensions.

There may be some merit in that, but, to be quite honest, some of the disclosure regimes for personal pensions are a little misplaced in terms of the illustrations and disclosure of charges and will probably just add to the paper mountain rather than being of any real help to the adviser or the end investor.

Having said that, there is a growing air of opaqueness around Sipps charges and no real standardisation in how they are presented and disclosed.

We can probably expect to see some action taken on that before too long, which will have an impact on protected rights as well as non-protected rights. But I would hope advisers and providers will learn from the past.

There are good grounds for individuals moving protected rights on to a self-invested basis, but there are also some grounds in many cases where that isn't the right course of action.

That is what advisers are there to determine and one hopes they would look at all of the factors that need to be taken into account and not just the headlines.

IA: You pride yourselves on offering good service. What do you think it is that makes you different from other providers?

JM: There is a balance to be struck between price and service and I just hope those going down the route of pooling have done the necessary homework and put in place the systems and reporting mechanisms that will allow them to report accurately.

There are different views from providers on using third-parties and I just think on this particular issue to rely on a third-party investment manager to report on protected rights is likely to be problematic. That's the main issue with service: it's another layer of complication.

The other issue, in view of current market conditions, is the area of compensation for Sipps.

It's fair to say that, until recently, advisers have generally given less emphasis to considerations of investor protection and the financial strength of the Sipp provider.

They now must undertake that before embarking on a new relationship with a provider. That isn't always straightforward.

CV

JOHN MORET

2004 Director of sales and marketing at Suffolk Life

2000 Managing director and then executive chairman at Personal Pension Management

1986 Director of sales and marketing at Provident Life (then Winterthur Life)

1983 Assistant manager individual pensions at UK Provident