

HEAD TO HEAD

REGULATORY REVIEW

How will the review of pension transfers impact the Sipp market?



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KEY SPEAKERS

JOHN MORET: From a provider perspective, it has had a slightly detrimental impact on advisers, in that it imposed an extra burden on those operating in the self-invested personal pensions (Sipp) world.

Effectively, the Financial Services Authority (FSA) has asked about 4,500 firms to review their advice on pension transfers, with a specific focus on Sipp since Sipp were regulated.

I do wonder whether the FSA has gone a little over the top in what it is asking advisers to do. My hope is that it won't have a long-term negative impact. Pension transfers are a difficult area for a lot of advisers anyway, and this is making things slightly worse.

Having said that, many professional advisers experienced in this marketplace are of the view that what they have been asked to do is nothing more than what they have been doing for the last few years anyway.

DENNIS HALL: I have got to disagree slightly with what John says, in that when we look at the results of the review, 25% of the advisers were effectively given a clean bill of health. They had no cases of mis-selling of pensions, whereas 25% of them had a third or more of their cases that were questionable. So it is right that those advisers should be asked to go and look back through the advice that they have given.

Those people should have been doing the job properly in the first place, yet either through lack of controls or lack of experience, they were unable to demonstrate the advice they have given is correct. I would rather we were doing this now than be faced with a similar situation to the previous pensions review that

took forever to get through.

PÁDRAIG FLOYD: Do you think the fact that the FSA has found structural weaknesses in some providers' processes means we need to tie down what a Sipp actually is, so that regulation can be applied to it properly?

MORET: It is difficult. We do now have a definition of a Sipp primarily from the FSA, but I personally think their whole approach to regulation to Sipp was flawed.

It started from the premise of trying to put Sipp into the packaged product regime. The difficulty is that while some Sipp sit in there very comfortably, others don't. Does it really matter how these are described? Yes it does, if the consumer is confused by the terminology. There is scope for confusion if the client has ended up with what it thinks is a Sipp, whereas in fact what they have got is effectively what they had before, but just called something different.

But whether we can come up with an alternative definition that avoids that confusion, I am not sure. The FSA has attempted it using the terminology, 'low functionality, high functionality', but I don't know that that would mean a lot to those outside of the Sipp world.

HALL: A lot of financial services terminology leads to confusion in the minds of the consumer. We need a very clear understanding about what a Sipp is, because everybody is coming out with their own version. You have platforms coming out with Sipp, and then life companies developing personal pension mark II that they call a Sipp, and you also have the original true Sipp providers offering full functionality.

Because the charging structure

across these things is so very different, we have got to have a clear differentiation between what a Sipp is, and what a personal pension is – something that is very easy for the consumer to understand.

FLOYD: Do you expect the regulator will do that?

HALL: I don't. I think the regulator has got other problems to contend with. It has not been very good on this kind of thing, and it is very easy for a provider to develop something that sounds like it might be a Sipp, and again create more confusion.

It could be that the Sipp is the administration function of the pension and you might separate this aspect of the Sipp from the investment management side. Currently within the life company, this is very difficult to do because they want control all of those functions.

MORET: The FSA is very keen on getting some clarity around both the way a Sipp is described and to find a way for different Sipp charging structures to be compared more easily. The difficulty the trade bodies have found is trying to get one consistent approach to either terminology or, indeed, charging. The latter is particularly difficult because comparing an insurance company deferred Sipp and a fully bespoke Sipp is a bit like comparing chalk and cheese. One possible solution is to strip out the components and look at the operators' costs, which can be compared reasonably readily, and then deal with the investment management charges separately. But as Dennis rightly points out, the problem with that is when you get into a bundled Sipp or personal pension, splitting those two components is difficult.

However, I think we are going to see

the FSA pushing quite hard on this over the next few months.

HALL: This industry continues to dig a hole for itself through the lack of transparency in many of the things that it does – particularly over charges – and there are a number of providers operating on rebates.

As an adviser, I would like to know exactly what we are paying for, so that we can decide whether we want to pay that amount of money for the administration. Then we can decide what we want to pay for the investment.

I don't really want my hands bound by having to buy from a preselected panel of investments purely to get a cost-effective Sipp wrapper. If that means that one or more of the models out there don't stack up if you take the rebates out, so be it.

MORET: One of the selling points for Sipp over the years has been greater transparency, but as different organisations – particularly life companies – have got a handle on Sipp, they have feared seeing an attack on their personal pension legacy book, so we are in a situation where new-look Sipp have emerged with the same issues of lack of explicitness of charges as we had on personal pensions 10 or 15 years ago. If we could get to a situation where there is a clearer understanding of what the charges are and what they are for, that would be a great step forward.

FLOYD: Despite rapid growth, that is not sustainable, particularly at the lower end of the market during these turbulent markets?

MORET: I disagree. One survey recently indicated some big growth in the middle segment of the Sipp market. If you use the broadest possible definition of Sipp, then across ▶

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ANALYSIS



Regulatory action on Sipp will have far greater consequences than originally intended

There is little doubt the Financial Services Authority's (FSA) review into the (mis-) selling of Sipp has already had some impact upon the advisory market.

Too bad, some would say. It's all

about the survival of the fittest and writing bad business was never the way to build a sustainable model.

Those who have made a hash of compliance should rightly fear the long baton of the regulator, but experience tells me it is unlikely that only the guilty – and there will be some – will be punished.

Hector Sants said recently that the FSA should be feared. I fear another example of acting before thinking, whether or not lip service is paid to consultation.

It is often said that an Irishman,

“The FSA has tried to shoehorn Sipp into an unsuitable regulatory category with packaged products”

when asked for directions, will say: 'Well, I wouldn't start from here, if I were you, but from over there.' If Hector asked me about the direction of regulation, I'd give him a similar answer.

The FSA has tried to shoehorn Sipp into an unsuitable regulatory category with packaged products. As it seeks to get heavy with what it sees as profligacy and unbridled greed in the financial services market, it is even less likely to listen to sense and reconsider its position.

the three main segments, the low cost execution-only market is growing, the middle ground has grown dramatically and the bespoke end is still growing, although perhaps not quite as fast as it had done previously.

Looking to the future from an investment point of view, where do you invest? But equally, if you look at it from the point of view of what is happening in the pensions marketplace generally, it seems to me that we are just moving into an environment where people are increasingly going to be on their own. People are being left to their own devices. Now, whether they can afford to do that is another question, but ignoring the immediate economic climate, I actually think the prospects for Sipp's over the next few years are as good as they have been for a long time.

We only need a change on the annuity compulsion requirement at age 75 – which I am sure will come eventually – to give another boost to the Sipp market.

HALL: We have got to separate the administration of the Sipp away from the underlying investment management.

There is still a good case to be made for giving people more control over what they do with their pension funds and a Sipp is the ideal vehicle for doing that. There is a lot of money tied up in older-style contracts that are expensive, as well as protected rights accounts. People are rightly worried about their retirement income situation and are looking for advice; they are looking for some certainty around reaching that point of financial independence and a conversation about pensions and Sipp's is very much at the fore.

I can't see why we would not want to be talking about Sipp's as a means of consolidating existing pension funds that might be more expensive, and poorly performing pension wrappers and funds.

FLOYD: How important is price?

HALL: Obviously you get what you pay for, and you have got to be very clear about what it is you want from the product. There are some extremely expensive ones, but when you look at what they are offering, the fees are probably justified. They are clearly not for everybody. If you had a client who wanted to hold everything possible in their Sipp you would go to such a provider. If you were somebody who wanted a vanilla Sipp and a limited choice of funds, you would look elsewhere and aim to

pay as little as possible for it. At the moment we don't have clear price transparency across the marketplace.

FLOYD: That is a concern for advisers, but it must be a concern for providers as well if their competitors don't disclose their fees.

MORET: That is probably fair comment. For us, who historically have tended to play at the top or bespoke end of the market, price has been less of a consideration. What people have been concerned about is that the service is up to scratch. We are seeing a narrowing of the gap between proposition that we and others operating in the bespoke space offer, and those that operate in the what I will call the 'vanilla-plus' part of the Sipp market. Consequently, price is now becoming more of a consideration.

But while price is a consideration – and certainly the opaqueness of some pricing structures does make comparison difficult – the savvy adviser can get under the skin of most pricing structures and knows what is going on. Linked to price is the whole adviser remuneration issue. For a long time I have held the view that commission structures and commission incentives, particularly on transfer business, is entirely inappropriate. I do think we are starting to move away from that towards remuneration structures that are geared to the adviser's time and effort. This may ultimately clarify some of the pricing issues.

HALL: I agree with that, but would go further. If we could go back to the original FSA pension transfer review, I wonder whether the results would be the same if all pension transfers were done on a fee-only basis. That is a fee payable for the transfer review and a separate fee for the actual transfer. All the way along the advice chain there is an implied bias that something must be switched or transferred in order for people to be remunerated. In a perfect world you could do it, but until then there ought to be a ban on pension transfer commission.

MORET: I would say that Sipp's do seem to be a particularly resilient part of the pensions marketplace, and despite the doom and gloom over the FSA review, disenchanted Sipp investors still appear to be few and far between. That's encouraging and indicates that, given everything else that is going on in the pensions world, there is reason to be optimistic, even to the point where we should now be perhaps thinking about the next half million Sipp's. **PM**

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