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SIPPS

What has been the impact of the FSA's review on Sipp regulation?



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KEY SPEAKERS

NICK BAMFORD: While self-invested personal pension (Sipp) has been a regulated product for two years – and it's the wrapper itself that has most regulatory attention – in practice we've been treating it as a regulated product all the time. With a couple of exceptions, pretty much everything held as an asset within a Sipp wrapper is going to be subject to some kind of regulation.

By making it a regulated product, it has to generate an illustration, but how relevant are illustrations before it is known which investments are to be held? What if the asset class isn't easy to fit into very broad growth figures? Cash is a good example – would I feel comfortable showing an illustration of 7% growth to a client with the bulk of their money in cash? I'm not sure what extra value regulation at the illustration level has delivered to the consumer.

JOHN MORET: I don't disagree with what Nick's saying, but the Financial Services Authority (FSA) review last year found that 60% of cases reviewed had a degree of unsuitability in terms of the advice; I do worry as to whether the FSA has got the balance right. Quite clearly, there has been some poor – or incomplete or poorly documented – advice, and one has to be concerned. But the FSA wasn't explicit in terms of the products that were transferred. We don't know the proportions of personal pension to personal pension, personal pension to Sipp etc, and there remain some underlying issues there about the quality of advice provided.

One subject that came in for most criticism was cost, and I have an issue with the FSA on this. I think the FSA is

overestimating the importance of costs and underestimating the value to both client and adviser of effective consolidation. This remains the main driver for most individuals having a Sipp in the first place.

BAMFORD: To have all of those consolidated in one place, and have the ability to control it, is too easily dismissed by the price argument.

PÁDRAIG FLOYD: But to what extent is the retail distribution review (RDR) likely to deliver that? In an environment where the quality of advice is improved through regulation, the chances of someone failing to advise, or misadvising on the choice of a Sipp, must surely fall?

BAMFORD: I'm an advocate of higher standards of qualification, but I temper that by saying it has to go hand in hand with relevant experience. Having that knowledge and skill applied with integrity and trust makes one a professional. The FSA has focused on a lot of consolidation activity that doesn't seem to be able to demonstrate added value. Maybe the RDR will lead to better behaviour; I'm not going to hold my breath.

MORET: My overriding concern is that for many advisers, the path of least resistance is not to do anything now. It would be a huge shame if advisers are scared to take on this type of review activity, and indeed there is evidence that activity levels have fallen since the FSA began its review. One of the recommendations in the RDR concerns the introduction of adviser charging, and that if innovations were introduced tomorrow on all pension transfer business and commissions were banned, that would have a major and positive impact, and many of the historic

problems would disappear.

One area flagged by the FSA is illustrations – in both the report on advice and latterly, the report on the review of Sipp providers, especially the smaller ones. It expressed concern about the use of illustrations and the growth rates being used, notably where the client was invested 100% in cash. I can understand its concerns, but this perhaps demonstrates that the FSA is on a learning curve with Sipp, as the reality is that the number of clients that remain 100% invested in cash long term is relatively small.

BAMFORD: Once you've worked out an investment strategy for the client, sometimes the implementation of that investment strategy takes place some time after the money has been moved. With a need to generate the illustration pretty soon, you can't get an accurate illustration.

MORET: In my view, the value of illustrations in this area is very limited, partly due to the FSA's simplistic approach, but also because there is no allowance for the duration of the contract in their projection assumptions.

It seems that this is becoming more of a tick-box exercise, which is unfortunate. You probably need to get into blended growth rate assumptions to do a proper job, and use assumptions that vary by term, reflecting, to a degree, the differing investment returns and expense ratios on the underlying investments proposed.

FLOYD: It is interesting that you would seek to become a provider in what is potentially a fairly hostile regulatory environment, Nick.

BAMFORD: Perhaps, but I can see this happening more, with other intermediaries, who want to make it possible for consumers to execute the

transaction for themselves, following our lead. One thing that will happen post RDR is that the intermediary community will shift towards the delivery of advice as its primary function, supported by the power of the internet in enabling people to execute transactions for themselves. Many of my peers are dismissive of this because they feel threatened by it, but execution is often the least valuable part of the role. Most valuable is the delivery of advice and planning, and then the ongoing review process.

MORET: I wouldn't argue that post-RDR advisers will need to focus on the quality of advice, but I worry about where the dividing line is in terms of implementation, as well as to what extent this leaves the client to execute an investment strategy alone. I know there is a market for that, but I'm not convinced that it is a huge market, and I worry that the majority of individuals are deluding themselves if they believe that they can outperform the experts.

BAMFORD: We have created an execution site in the sense that we provide information, guidance and describe some model portfolios we've constructed. The user gets a lot of information, but also some guidance as to what risk looks like. We were concerned about whether the user might perceive they are actually receiving advice, and we've also posted quite a few in-your-face warnings that use language like 'This is not advice. If you're not competent to do it yourself, you should go and get advice'.

MORET: This whole concept has huge potential in the workplace, and undoubtedly we will see more promotion of that as we head towards 2012, perhaps driven by RDR or auto- ▶

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ANALYSIS



The RDR is a welcome legislative addition, but the FSA must do more on advisory regulation

Unless you are a dyed-in-the-wool recidivist, or were dropped on your head as a baby, you will have felt the winds of change and realised that RDR is not

only coming, but long overdue. While its influence remains uncertain, the intentions are good. If it achieves half its stated aims, it will move the industry out of the limbo it finds itself in. One in which advisers are considered a lumpen group, whatever their skills or experience, squabbling like vultures over carrion.

The truth is more prosaic; there are good and bad. Not all those that are fee-based are the good, nor are all the commission-based ones the bad. To finally have a market that

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imparts a truly professional status to the best and clearly defines what advice really means will be most welcome.

There is a long way to go with regulation and the FSA needs to up its game. A lot. But to focus on regulation alone is to miss the point, as increasing numbers of advisers seek to support their work with technology that – as in the workplace – encourages individuals to take more responsibility for their own futures.

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enrolment. Ultimately, provided that the education tools are in place, and investors can be educated in recognising the limits of their knowledge and expertise, and that they themselves are responsible for the outcome of their decisions, then that's good. And I'm sure this will be a growing market over the next few years.

BAMFORD: I would much prefer that 100% of consumers who were establishing any kind of pension arrangement took advice – clearly, it's in my firm's financial interests, but the RDR may cause the acceleration of facilities that consumers will be able to use to execute for themselves, particularly if it has the effect of reducing the number of intermediaries. There will be a vacuum created and the internet will fill it.

FLOYD: We know that the Conservatives have outlined a plan to replace the FSA, but it's not going to happen any time soon. Do you expect it to be business as usual?

MORET: One has to assume that the FSA will remain in place, and I would have thought most of the findings and proposals in the RDR will come through as well, because I think most people agree that they will ultimately lead to a better advice industry and better framework for investors. In the world of Sipp, there are areas where there is work to be done and the FSA is driving this. Clarity is a major issue and the FSA is very concerned, based on research, that a lot of Sipp investors don't fully understand what they have.

The at-retirement and post-retirement segment will become increasingly important, where up to now we've witnessed some false starts. We will see some change, hopefully, in legislative frameworks around the whole annuity compulsion area. If we have a change of government, I hope that will lead to some simplification and greater consistency in the way in which your pension fund is treated. This is a rapidly growing market because of demographics, and because of funds already built up coming to maturity. It is a big opportunity for advisers and providers.

BAMFORD: My view is the RDR is here to stay and there's little doubt that, regardless of change of government the FSA will continue – although there may be a change of name. It's going to be staffed by the same people, have a similar set of conduct of business rules; it's pretty much going to be the case that any intermediary who thinks they're not

going to pay attention to what's going on in terms of regulation is setting themselves up for a fall.

MORET: The other area is whether and when we're going to get some common sense to prevail. We've already tried simplification, and you know what we've ended up with. What is absolutely clear is that if we carry on in the way we have done over the last few years, the chances of anyone choosing to save in a pension wrapper will reduce year on year, because increasing numbers just won't have a clue what they're getting into.

BAMFORD: There's already evidence that thinking consumers and intermediaries are looking to a wide range of assets and products to satisfy their retirement planning needs. Pensions have taken a bit of a battering in recent years, and many believe they can achieve their retirement goals without necessarily exploiting the tax benefits of a registered pension scheme. Simplification, we all knew, wasn't simplification. If anything, it's more complex today than pre-2006.

MORET: It is estimated that today, there is about 50,000 pages of pensions legislation. The only good thing you can say about that is that it's probably keeping 50,000 people in work by interpreting it. Hopefully we will see some progress, but the difficulty is reaching consensus. Whether we can have another go at it, I don't know.

BAMFORD: The focus for the intermediary community at the moment is less about the regulation of products including Sipp, and more about the consequences of RDR. I hope it delivers better-educated intermediaries, who are more explicit with their clients about what they're paying for. That would be very positive. There are an awful lot of challenges to be faced by the intermediary community, but they centre on becoming client-centric, and most of the RDR is focused on this.

MORET: I expect a communication in the near future from Sipp trade associations to providers, to try to clarify some of the issues we have been discussing over which they have some control. Also, in a recent speech, Joe Pain at the FSA made a strong reference to the possibility of product regulation, not specifically for Sipp, but more generally. I think we can expect to see a lot of change in the next few years in all aspects of pensions regulation, and that will make life interesting wherever you play in the value chain. **PM**

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