

A relationship for life?

Claire Brooks highlights the importance of due diligence when selecting the most appropriate SIPP provider for your clients

AUTHOR

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Before joining Suffolk Life in 2005, Claire cut her teeth in the pensions market, working in the area of pensions and FSAVC reviews, leading a team calculating redress for large IFA networks.

Collecting advisory and specialist pension transfer qualifications along the way, she is now head of the team providing technical help for financial advisers.



In the last two years the SIPP market, financial advisers and SIPP providers have all been on a rollercoaster ride with a number of developments emanating from the FSA, including ongoing rounds of consultation on the Retail Distribution Review (RDR). So what has happened to warrant so much interest in the details of SIPP providers?

Let's start with the regulation of SIPP providers. For those SIPPs operated by insurance companies there was little change; they were used to the reporting requirements. However, many small and purely trust-based providers were in for a shock to the extent that many expected mass consolidation in the years following. It is unclear how many were prepared for the interest they would receive from the FSA.

Protected rights

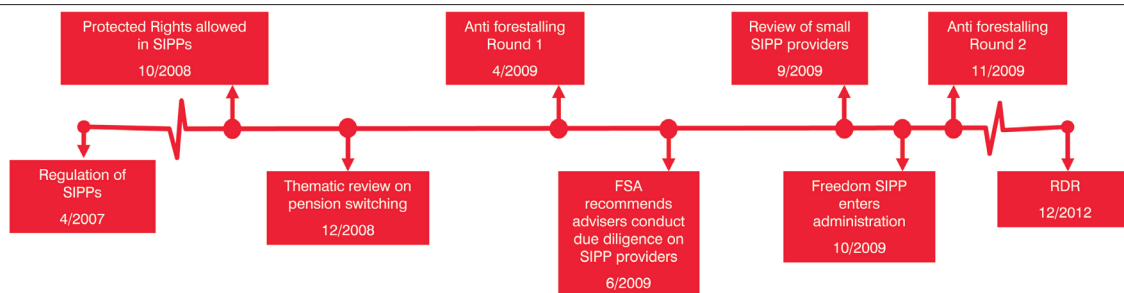
October 2008 ultimately saw the mass introduction of protected rights into SIPPs, although there were a number of providers already specialising in this arena. Increased reporting requirements were the flip side of the extra assets available to the providers. Amongst the first to offer protected rights were smaller providers which previously had no experience of the increased burden of reporting and record keeping.

FSA review

Following swiftly on the heels of protected rights and the transfers that result was the thematic review on the quality of advice on pension switching. This concluded that advice given in 16% of the 500 cases reviewed was unsuitable for a number of reasons and further investigations were started into a number of firms. The publishing of the review coincided with two SIPP providers closing to new business due to administration, regulation and reporting issues. So by this point it was natural that some advisers were reconsidering the profitability and suitability of being in the transfer business.

The second half of 2009 was just as busy. The FSA spoke out at the Henry Stewart conference in June about how advisers should conduct due diligence on the SIPP providers they were using, leading into their review of smaller SIPP providers. It highlighted areas such as TCF, training and competence, illustrations and the much discussed area of providers monitoring the suitability of the SIPPs they administered. This discussion is still rattling on with differing interpretations of the comments by a number of industry spokespeople, although the FSA has again spoken out to assure providers that it does not expect them to review all the suitability reports before accepting the business.

SIPP Timeline



Nothing grabbed headlines more than the slow demise of Freedom SIPP, which finally entered administration in late 2009. Although already closed to new business, the true extent of its failings were still fairly well hidden and it came as a shock to many who subsequently tried to transfer out to avoid tax penalties. The reluctance of many other providers to accept transfers is telling.

It is clear from all of this that SIPP providers have to be adaptable to the changing market and regulatory regime. So what information can you try to extract from them to ascertain if they will be with you and your clients for the long term?

The questions

The first question a client may ask is, 'how much?' However, advisers tell us that their

first question is, 'what do I get for my money and is it what I need and want for my client?'

There are many different types and levels of SIPPs available and as the thematic review highlighted, it is not suitable to put a client in a SIPP in which they are not going to use the functionality for which they are paying. This tends to be slightly mitigated by the charging structure of most SIPPs which is usually a menu approach where you only pay for what you use. That said, however, the establishment and annual fees may differ dramatically so cannot be ignored.

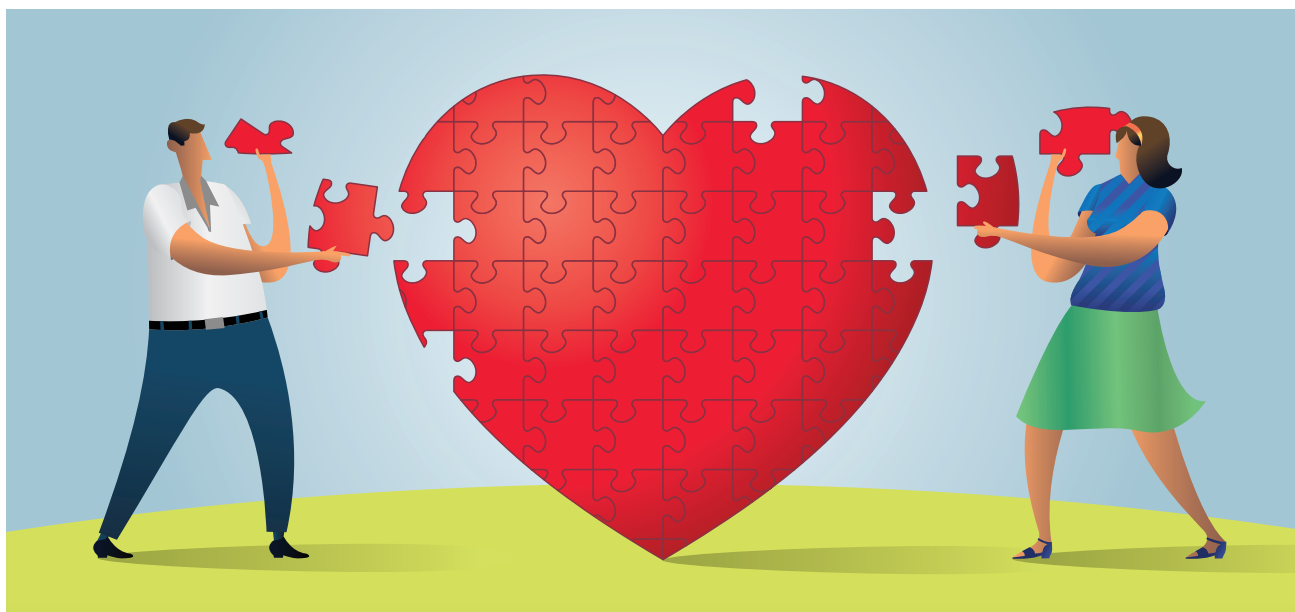
Fees aside, there are many other things to consider and I will look at them in turn for the questions that you need to ask.

Training and competence

There are a number of areas under the heading of systems and controls including that of training and competence. A SIPP provider's staff are amongst its most valuable assets. Well-trained and skilled employees are central to providing good quality service. It is essential to make sure the provider employs suitably qualified staff and keeps their skills both up to date and relevant. A good provider will meet all these requirements, and have a low staff turnover to boot.

Business continuity plan

The recent bad weather has emphasised this issue: can the company function in a crisis? Does it have other buildings from which to operate if the worst happens? Is there remote access to its database,



records and administration systems? Does it even have a plan?

Back office systems and IT platforms

With a number of firms struggling to monitor the assets purchased by discretionary managers, it is essential that SIPP providers have a robust back office system and IT platform. Has it been tailored to suit the needs of the adviser and can the provider adapt to a changing, growing market? Their profitability and stability of their management team are other useful indicators.

Financial strength

Do you really know who your SIPP provider is? Is it backed by a larger institution? When was it founded? These are all questions that you can ask. There are a number of rating agencies that can be used although not all pure administrators will have these ratings for comparisons. So you will need to make a judgement call based on these factors on the durability of the provider.

Banking

One of the biggest talking points of last year surrounded banking facilities at SIPP providers, restricted access to accounts and interest rates. Many providers still restrict the main SIPP bank account, which is understandable from a control perspective.

Providers need to have a good working relationship with their main bank to be sure that timely reconciliations are made and that transfers to investment managers, income payments, investment deals are done in an orderly and timely fashion. So the relationship should be investigated to check things will run smoothly. On the flip side, cash as an investment can be important in turbulent times, so other options should be available.

Administration and segregation of duties

Although it is good to have a main point of contact with a provider, there are times when specialists are needed. Would you

like your property transaction dealt with by a call centre or by a person with a number of years of experience? The same goes for investment queries and deals; it is not something that everyone can be an expert in.

Client and adviser communications

How does the provider interact with advisers and does this suit your way of working? This can be essential in picking a SIPP provider to work with. It needs to be flexible enough to deal with your way of working but automated enough to be able to cope with the complexities of SIPPs.

There is a school of thought that SIPP providers offering financial advice are not adequately focused on administration. The service needs to be provided to the adviser who in turn supports the client. Providers tend not to make good financial advisers: a statement that has been borne out over time with the demise of tied agents.

There are many different ways that providers communicate with your clients. Some try to put everything through the adviser while others will go direct at any opportunity. But that aside, does the information provided meet your and your client's requirements? Does the annual report cover everything you need so it can be presented to the client or do you have to produce your own so it looks professional?

Management and their background

Do you know who is running the business and where their background lies? How confident are you that they understand the complex product under their control? I firmly believe that the principals in any company cannot make the right decisions for the company and ultimately their clients if they are not in the midst of the action.

TCF and conflicts of interest

Companies should have a published TCF policy statement so this should be easily

available, especially following the FSA review of smaller SIPP providers. Most, if not all, SIPP providers will have TCF fully embedded in company culture, and it may be worth asking a few questions to test this theory. In the same vein the conflicts of interest policy should be clear and openly available.

Financial crime and anti-money laundering

The flexibility of SIPPs combined with the wide range of investment possibilities has led the industry to believe that SIPP business is potentially high risk. Providers should have systems in place to prevent money laundering and detect instances where reports are needed. Better ones will help advisers with what they need to look out for and why.

Firm structure and trust arrangements

Do you know the structure of the firm you are dealing with? Does it have a large parent company to back it up, or is it likely to be swallowed by a bigger fish in the near future? That is not to say that being small is a bad thing but can it sustain all the regulatory requirements whilst still maintaining its service?

The structure of the firm and how the SIPP is established will have a significant bearing on the way in which the assets are held, whether in a trust or under a contract of insurance. This in turn will determine how claims under the FSCS are dealt with. Neither way particularly outweighs the other but you may need to explain the differences.

Here today, gone tomorrow? Not if you get it right!

Once you have all this information to hand, you would have thought it would be easy to decide where to go. But there are still likely to be a number of providers that tick all your boxes so it will come back to the product and value. Ultimately it is what the client needs that is just as important as how robust the provider is. So how good are you at spinning plates; and will your SIPP provider catch it if you let one slip?