More to SIPPs

SIPP blog – December 2014

For someone who's been involved with the SIPP market since its inception 2014 by any measure has been an extraordinary year –and a year of considerable contrasts.

Let's get the negative developments out of the way first –and inevitably that means regulation. My views on SIPP regulation are well known and I won't repeat them here. I think there is a chasm of misconception and misunderstanding between the FCA's view of the SIPP market and the industry's view of the regulator. That is unhealthy – and I'm not sure that seeking a judicial review of the FCA's conduct on the introduction of the new capital requirements is a route to bridging that chasm. Equally the dismissive way in which the FCA disregarded the feedback from experts in the industry over the new requirements was astonishing. And whether the new regime will do anything to reduce the risk of a SIPP operator failing and the consequential fallout certainly remains open to question.

I continue to worry about the FCA's grasp of the fundamental problems that affect SIPPs – most of which relate to the quality of advice and the probity of those giving the advice. I believe part of the problem is the lack of continuity amongst the senior FCA staff that deal with SIPPs. That was brought home to me at a conference in the autumn when the FCA representative said that he was only able to deal with questions relating to their latest thematic review –as he had had no involvement with other SIPP activity such as PS 14/12. He went onto say that he had not participated in previous thematic reviews and wouldn't have any involvement in the future as he was moving to another area within the FCA. I think that unfortunately is not untypical. I don't doubt the FCA's staffs' knowledge and expertise in specialist areas such as the understanding and application of the client money rules but what seems lacking is a more holistic and comprehensive level of knowledge of what is a specialist market. As far as I am aware there is no-one at the FCA who has worked in a senior position for a SIPP operator and maybe this is part of the problem.

Another worrying regulatory development during 2014 was the role of the Financial Ombudsman and his determination in the Berkeley Burke case. I've written on this subject earlier in the year and I'm unclear whether this decision is going to be revised. If it isn't it has very worrying implications for SIPP operators and could open the door to a whole new raft of compensation claims.

Another ominous development is that in October my regular analysis of the SIPP market

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showed that for the first time the “full/bespoke” SIPP market was in decline. Although the overall SIPP market continues to grow at a healthy rate of around 15%p.a. fuelled by the increasing penetration – now nearly 50% - of the platform based SIPP operators it appears that the seam of clients looking to utilise wider range investments may be close to exhaustion. This may in part be due to many operators now taking a much more cautious approach to such investments as a result of the perceived regulatory risk.

And finally on the bad news front more and more SIPP operators have been hit by the reductions in interest rates payable by the banks on pooled SIPP cash accounts. When one of the largest SIPP operators reports a reduction in annual profits of around a third and attributes that almost entirely to the reduction in bank interest rates alarm bells for many SIPP operators should start ringing

One fascinating development during 2014 has been the increase in takeover activity. I think the number of deals concluded in 2014 will certainly be the highest in any year to date. What is interesting is that this activity appears to be limited to just a handful of acquisitorial companies. It is clearly a buyer’s market at the moment with some providers apparently prepared to sell at knockdown prices just to be able to exit the market quickly. Potential vendors are in danger of undervaluing their businesses particularly if they don’t have any significant holdings of toxic assets. Purchasers have apparently been able to strike some very attractive deals but I’m still to be convinced that real value can be achieved through a consolidation model. The operational risks are significant particularly where the business models are different.

Onto brighter horizons and 2015 promises to be a really fascinating year for the SIPP market. The new pensions freedoms may bring with them some worrying opportunities for new types of pension scams but they also provide a huge boost to the at and post-retirement market. It’s an area that’s been largely ignored by the bulk of the DC market whereas SIPPs have always had a strong role to play in the income drawdown market. It is going to be really interesting to see the way in which new products and new approaches emerge straddling the annuity, drawdown and third-way markets. SIPP operators ought to be in a strong position to capitalise on the new opportunities although competition will increase both from the more switched on platform providers and from other more traditional players.

The uncertainties and opportunities have encouraged me to defer my own retirement as I am genuinely intrigued to see how this new market develops – particularly post-election. As a

result I will be continuing to write blogs for SIPPs Professional in 2015 and will I am sure return to many of the topics mentioned above. In the meantime season's greetings and best wishes to all for a Sipply super 2015.

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