

## Article

# Suitability, PR transfers and SIPP challenges for 2008

8th October 2008

The SIPP market is experiencing growth, development, challenges and change all at the same time. Volatile market conditions, self investment of protected rights and discussions around the suitability issues when transferring to a SIPP are hot topics.

On 29th September 2008 the FSA published a press release making it clear that they expect firms to ensure that suitable advice is provided on any transfer to a SIPP, including the transfer of existing protected rights from a personal pension.

The release outlined clearly that the FSA expects firms to ensure any advice to transfer is suitable and based on an assessment of customer need in order to help consumers make decisions that are right for them. This is consistent with other areas of the pension market, makes a great deal of sense and should be supported.

It then goes on to say that this would include determining whether there is a genuine need for the investment flexibility and control associated with a SIPP. You must provide a clear explanation of the costs involved and how the recommendation meets a customer's needs and attitude to risk. This highlights an area where I believe a greater understanding of the variety of SIPP structures available is needed.

Let us take a step back and look at the issue of suitability. The FSA has made it clear the emphasis is on ensuring that advice on transfers is suitable and meets the client's individual requirements. You must evidence why the transaction is suitable for the client, allowing for his, or her, personal and financial circumstances. This will include:

- Needs analysis.
- Analysis of costs, penalties involved in any transfer and the benefits.
- Advantages, consequences and any disadvantages of the transaction.
- Documentation explaining how the new arrangement satisfies the at least as suitable as stakeholder test.
- An explanation of any investment and on going advice.

Must we now add to this a check to see whether there is a genuine need for investment flexibility? Playing devil's advocate, if the answer is "no" does this mean that a SIPP can never be suitable?

Greater clarity and care is needed around this point of genuine need for investment flexibility. There is no doubt that SIPPs have earned their popularity for provision of investment flexibility and control. However, products have evolved to such an extent that many will link the degree of investment flexibility to the charges the client pays. If the needs of the client can be satisfied at a cost that compares favourably to other products there should be no issue with suitability. Indeed, you could argue that a product that provides extra investment flexibility that you pay for only when used should be used in preference of other more basic plans. Why wouldn't you want the comfort of knowing it is there if you need it, on the condition that you don't pay for it until you use it?

### **SIPP challenges for the remainder of 2008**

#### **Clear explanation of the costs**

The FSA has highlighted concerns in this area and changes are likely. At the moment there is a requirement for SIPP providers to provide a clear statement of the charges applicable at the point-of-sale. Confusion can exist because there is no need to provide a pre-sale illustration, some providers do and some don't. When illustrations are provided, not all allow for the costs of the underlying investments. Also, the terminology used can differ across providers.

The Handbook Notice mentioned earlier raises another potential inconsistency. When advising on contracting out into a SIPP, firms will need to provide a comparison of projected retirement income from the SIPP versus potential benefits from the State Second Pension. You now have a situation where you must provide a projection for the contracted out part but not for any other contributions to the SIPP!

In practice, I understand that few SIPP providers will accept on going contracting out contributions for clients remaining contracted out but this is something to be aware of. The issue of how you deal with a clear explanation of the costs on transfer of existing protected rights funds is the real issue.

## Thematic review

Thematic reviews are part and parcel of the work carried out by the FSA. The current review, applicable to SIPPs, involves pension transfer advice and transfers to SIPPs. The original scope focused on transfers to SIPPs. Exploratory work carried out by the FSA in 2007 identified significant growth in transfers to Personal Pensions and SIPPs. From this, the decision was taken to widen the review to also include assessing the quality of advice on transfers to Personal Pensions.

To quote the FSA "We set up a project to assess the risk of poor quality advice when transferring into SIPPs. The project now includes transfers into PPPs, including SIPPs. The intended outcomes of this project are that consumers are given suitable advice when they are thinking about transferring into PPPs and SIPPs, and firms consider their TCF obligations when designing and marketing PPPs and SIPPs."

It is likely that the review will also look at how providers have incentivised advisers to recommend their products. This will include an analysis of marketing literature, adviser remuneration and the role of broker consultants.

As we approach the end of 2008 the results of this review should be made available.

## Treating Customers Fairly (TCF)

This is included for completeness as I am sure all will be aware of the end of year deadline. By December 2008, firms are expected to be able to demonstrate they are consistently treating their customers fairly. You will be expected to provide MI or other measures that allow you to evidence and articulate your positive results.

The stated aim of the FSA is to see changes that will help the market evolve – raising standards across the industry and consequently producing positive consumer outcomes. When we eventually get to the end of what has been a hugely challenging year, I think we would all drink to that.

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**END**

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## Notes for Editors

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