SIPPs in a New Age

Challenges and opportunities for UK advisers

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BACKGROUND

It's been another bruising year for SIPP providers as more court cases, complaints and controversies continue to cast a cloud over the sector. SIPPs accounted for the largest number of FOS complaints about pension products for the 2019/20 financial year. The problems surrounding SIPPs mainly revolve around non-standard investments and where responsibility should lie when these investments go wrong.

In June 2020, the FSCS put SIPP provider Pointon York in default owing to compensation claims related to non-standard investments. Meanwhile, both Liberty Sipp and Berkeley Burke have fallen into administration.

The debate about who should ultimately be responsible for vetting SIPP investments rages on. Court case decisions seemingly conflicting with the views expressed by regulators underscore the need to establish clear and unambiguous rules surrounding non-standard investments.

Whether this entails the introduction of permitted investment lists or restricting access to non-standard investments to sophisticated investors, rules are needed to enhance consumer protection and limit future SIPP failures.

But any new rules will also raise the spectre of SIPPs in their traditional format being regulated out of existence. Some argue that capital adequacy rules have already restricted the investment choice of consumers, thereby undermining the whole premise of investing in SIPPs. Regulators therefore face the difficult balancing act of protecting SIPP investors from adverse outcomes while at the same time preserving their investment freedoms.

Perhaps part of the solution lies in developing different rules for different parts of the market. The SIPP market has become so polarised that the new breed of low-cost D2C offerings bear little resemblance to the more traditional models aimed at sophisticated investors.

Indeed, regulation, technology and the democratisation of investing has seen the SIPP undergo an evolution few could have foreseen at its inception in 1989. The problems associated with the SIPP are largely a function of its exponential growth and changing customer base. But the SIPP remains a key part of the retirement landscape. And as people take more control over their pensions, the SIPP market is set for further growth.

FIVE KEY TAKEAWAYS

1

More than half of advisers say recent SIPP court cases have made them more cautious about non-standard investments. The ensuing negative media coverage from such cases is also a concern for more than a quarter of advisers. Amid this cautious outlook, four in 10 say SIPP providers should not be allowed to hold non-standard investments. But a larger proportion of advisers want the regulator to provide clarity over what investments are suitable, with three-quarters calling for the introduction of a list of prohibited SIPP investments.

2

However, nearly a third of advisers think non-standard assets have an important role to play in SIPPs. A similar proportion say SIPP capital adequacy rules have restricted investment choice and a fifth think the rules should be updated to make it easier for investors to purchase non-standard assets. Interestingly, more than six in 10 advisers think they should be ultimately responsible for ensuring SIPP investments are suitable. A quarter say the onus should fall on providers and just one in eight think end investors should bear responsibility.

3

A third of advisers say cash is one of the most popular SIPP investments. This suggests investors have adopted a defensive stance in response to the Covid-19 fuelled market turbulence. And more than a quarter of advisers point to investment trusts as popular SIPP investments. This perhaps reflects the fact that some investment trusts have been trading on large discounts amid recent market volatility. The ability of investment trusts to pay dividends from reserves will also appeal to income investors at a time when many open-ended funds are suffering from dividend cancellations or suspensions.

4

Charges remain the biggest headache when advising on SIPPs. But advisers express heightened concern this year about PI coverage, claims management companies and scams. These elevated levels of concern reflect pressures emanating from the current crisis. Some advisers may be struggling with soaring PI premiums amid the Covid-19 economic downturn, for example, while the crisis has also created new opportunities for pension scammers.

5

Over a third of advisers think D2C offerings will make it easier to invest in SIPPs by reducing cost and complexity. A similar proportion think they will encourage other providers to cut fees. But in a sign of how polarised the market has become, one in three think D2C offerings are not proper SIPPs and six in 10 say they are not good models because consumers should take advice when investing in SIPPs.

Methodology: CoreData Research surveyed 250 UK advisers between May and June 2020.

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