23rd November 2012

Welcome to TISAtalk, this week –

- Jeffrey Mushens, Technical Director at TISA, outlines some of the projects TISA is currently working on.
- Malcolm Small, Director of Policy at TISA, questions whether the current plans for workplace pensions could be the catalyst to reinvigorate workplace savings.
- Peter Smith, Head of Distribution Engagement at TISA, comments on the impact of RDR on transaction activity within the IFA space.

BUSY WEEK FOR TISA

It's been another busy week for TISA.

Our Structured Deposits project is getting close to a finish. This has been a joint venture with the Structured Products industry and the outcome, if agreed on Tuesday, will be a set of industry guidelines, addressing issues identified with the FSA, which will represent best practice.

We're getting ready for the launch of our FATCA project on Wednesday 28th November, which will aim to help providers and distributors have a simplified and standardised collection of data needed to comply with HMRC requirements.

TeX, the industry re-registration initiative, is now speaking to Luxembourg counterparties that would like to join. It is also developing agreed MI requirements as well as reviewing whether similar standard transfer contracts and SLAs are appropriate for SIPP and pension providers, particularly those handling funds, and offshore funds.

In addition unit rebates have another twist - we're meeting with HMRC and the FSA to look at tax and unit rebates as they impact platforms. We'll know more next week.

Jeffrey Mushens, Technical Director

REINVIGORATING WORKPLACE PENSIONS

The "reinvigoration" of workplace pensions was a Conservative manifesto promise, now being "delivered" by a Liberal Democrat pensions Minister, which somehow seems a bit odd. But, parking that, what have we got here? The proposal is to aim for "Defined Ambition" pensions, with something more of a "promise" than pure Defined Contribution, whilst at the same time not locking employers in to the promises and regulations attending Defined Benefit schemes. Some "hybrid" schemes already exist, and must be sensible to remove any rules which get in the way of employers sharing pension saving risks with their employees. Innovation is certainly to be encouraged, but the big question is will permitting such schemes really reinvigorate workplace pensions?

More choice, which is what is being proposed here, is welcome but will not in and of itself "reinvigorate". To be fair, a range of regulations are going to be reviewed to make pension provision less burdensome on employers – allegedly – but talking to SME employers, I'm pretty clear that they are unlikely to go anywhere near a scheme design which might involve any degree of forward obligation, even if not really a promise, on their part. Many have been seriously scarred by their recent experience and ongoing difficulties with Defined Benefit pensions. Some larger, more paternal, employers may well want to look at this but sadly they will be the exception rather than the rule. Reinvigoration of workplace saving is going to take more of a hand-grenade to get it right.

Malcolm Small, Director of Policy

RDR SLOWS ACQUISITION APPETITES

The final run-up to RDR is having a sound effect on transaction activity within the IFA space. The traditional valuation approach for merger and acquisition (M&A) activity is normally reliant on trail fees. It is somewhat obvious that buyers post RDR will want to see a track record of transparent adviser charges being paid by clients. Until this track record is available, price expectations are likely to be very much reduced.

In the market we are already seeing a reduction in valuations from 2.5 to 3.0 times recurring revenue, moving as low as 0.8 to 1.5 times recurring revenue.

It is likely that distressed sales will increase among both intermediaries and networks, resulting in fewer willing sellers coming to market and so there is unlikely to be the expected flurry of transaction activity in the first half of 2013. This clearly is a depressing picture in the short term but market forces indicate that over the longer term prognosis for advisers that can respond to and then leverage the new adviser charging environment post RDR will be the winners. Once they have overcome the huge challenges presented by the RDR, there should be some significant opportunities to expand and grow businesses by acquisition that fits their appropriate model.

Peter Smith, Head of Distribution Engagement