12th JULY 2013

Welcome to TISAtalk, this week –

- Malcolm Small, Director of Policy at TISA, discusses why news that current restrictions on transfers and contribution limits are being lifted in 2017 is good news.
- Jeffrey Mushens, Technical Director at TISA, confirms that the SLA came into force on 1st July 2013 and how there are still challenges ahead to include other products such as Sipps.
- Peter Smith, Head of Distribution Engagement at TISA, outlines concern around the principle of operators keeping interest from clients' cash accounts, which some feel is against the spirit of transparency ushered in by the RDR.

TAKING THE BRAKES OFF NEST

This week's announcement that the restrictions on transfers and maximum contribution limits currently applying to the National Employment Savings Trust (NEST) are to be lifted in 2017 has been widely welcomed by employers and market commentators. Many saw the restrictions as an impediment to using just one pension arrangement for all employees, including higher paid staff, across the board. Furthermore, it would be a major handicap to the concept of "pot follows member" whereby an employee's pension fund will automatically transfer to a new employer's scheme when an employee changes employer; if NEST is unable to make or receive pension transfers, this initiative could not work in full.

However, it is an interesting point to reflect on how the market for automatic enrolment schemes has evolved and there are several points to make here in relation to the lifting of these restrictions. NEST was originally established to serve all employers who wished to use it, including the smallest employers with low-earning employees. This is known as the Public Service Obligation, put in place because it was anticipated that existing pension providers would not be interested in serving such customers. Now, it looks as though at least two providers and, very possibly more, will be open to taking pretty well any employer on board, so NEST needs to be in a position to compete with them on a level playing field. With 1.2 million SMEs due to "stage" starting from 2014, I'd suggest this market needs all the capacity it can get. If left pretty much entirely to NEST, this market would, in my view, stand in at least some danger of overwhelming them, so competition here is welcome, as is the extra capacity. It is also important that NEST is as successful as it can be – after all, it was built with taxpayers' money and this needs to be paid back. The restrictions were also put in place to avoid "market distortions" under EU competition rules. The market now seems to me to be so vibrant there is little chance of such distortions.

The result for employers and pension savers is that modern, cost effective, pension schemes are competing for their custom, and this can only be good news.

Malcolm Small, Director of Policy

TeX SLA GOES LIVE

1st July is a big day for customers, for platforms and for fund managers. It's a big day for the financial services industry. The TeX Service Level Agreement comes into force for TeX members. It's a big day because members of TeX have signed up to re-registration of funds within six working days. Message standards and legals have been agreed.

There'll still be some hiccups - some firms haven't joined TeX yet and one non-member fund in a portfolio of several can delay the whole thing. However, the industry has set this up and agreed the (tough) standards. The beneficiaries will be the people who pay the industry's wages - the customers. TISA has been working on this, with the industry, for three years now.

Last week saw the first TeX AGM and a series of challenging presentations on how to deliver the next steps in automation and STP, for comparable products. If it will only take 6 days to re-register an ISA (all parties being in TeX), why should it take three months for a standard Sipp? With 'Pot follows Member' the rule in auto-enrolment world, will months for pension transfers be acceptable when TeX has set a norm of 6 days?

TeX, TISA and the industry have been set a challenge. Let's see if we can rise to meet it head on.

Jeffrey Mushens, Technical Director

WILL IT WASH?

The modern washing machine is a very efficient tool, getting the laundry clean proficiently and quickly. Nevertheless, for the majority of the time you cannot tell exactly what's going as you only hear the noise of the motor! The recent Platform Paper mainly focused on the obvious suds relating to fund manager rebates, however there is another issue bubbling away under the surface which is not receiving many headlines.

There is a swell of concern around the principle of operators keeping interest from clients' cash accounts, which some feel is against the spirit of transparency ushered in by the RDR. A number of operators do not point out the margin on the interest generated from the aggregated amount of cash in all client cash accounts. The rationale for this from those operators is that it provides a cheaper service to adviser and clients. This practice has been termed the "*dirty margin*", which does not fit exactly with the flow of travel of the RDR and the FCA's platform policy paper.

It has to be said, that going forward it really needs to be clear to an ordinary consumer who is getting what slice or proportion of any arrangement on interest amounts on cash funds, in order that the consumer understands how much interest he is actually received on any cash account and what proportion or cost the operator deducts or charges for running the facility. The principles of hard disclosure should dictate this and the fact that investors have a right to know explicitly all deductions and profits being made from their money.

The conundrum at present is that very few people can quantify everything that should be termed a disclosable charge. Transparency requires operators to be clear on what they are charging and consumers need to understand what it is worth to them. Quite often reference is made to the "*dirty margin*" on websites and in terms and conditions, but the actual amount is not always stated. The explanation of this practice is further complicated where cash balances lie across the business including corporate cash, and rates may change frequently, making it virtually impossible to pay it back to a specific number at client level. It differs in that you cannot look at a total holding of a fund and rebate for it in the instance of cash.

Advisers should therefore examine the client's attitude to particular bank accounts used and whether they should be leaving any investment in cash at all. Some wraps and platforms operate across a number of different bank accounts and are very open that they earn a margin on interest. However, under current rules they are not obliged to inform clients how much they make on interest from cash. It is only the client who knows what he actually makes on net cash after the operator's deduction. It should be remembered that cash accounts are not really investment accounts but are more a facilitator of transactions and movements of investment particles.

Advisers should ensure this practice is explained to clients and that they understand whether any deductions are added to the operator's bottom line or are a mechanism to facilitate administration and benefits for the client in other aspects of the functions and services provided, together with all the other charges involved.

No doubt all of this will come out in the post Platform Paper wash.

Peter Smith, Head of Distribution Engagement