TISAtalks **25TH NOVEMBER 2013**

Welcome to TISAtalk, where topics include –

- Malcolm Small, Policy Director at TISA, examines why pensions and long term care provisions don't currently go hand in hand.
- Jeffrey Mushens, Technical/Finance Director at TISA, provides an update on TISA's work with HMRC on wraps and platforms, and how TISA Exchange is reviewing the possibility of extending it's scope to include pensions.
- Peter Smith, Head of Distribution Engagement at TISA, explains why TISA have formed the 'Suitability Special Interest Group' to consider what constitutes suitability, appropriateness and due diligence post-RDR.

PENSIONS AND CARE COSTS – TWO SEPARATE THINGS?

I've been reading a report from Squire Sanders, the law firm, which looks at the interaction – or rather, the almost complete lack if it – between the pension system we have today, and long term care in later life. The recent Dilnot Commission cast a stark light on the prospects for care needs in an ageing population, and some of the figures here are quite frightening. More than 80% of the population will require care and support after age 65, whilst the number of people over age 85 is expected to double in the next 20 years and treble in the next 30. The numbers of dementia sufferers is forecast to increase from around 820,000 today to more than 1.7 million by 2051! We are facing a care funding issue of massive proportions already, and this is clearly only going to get much worse.

It's therefore ironic that a 'pension' as we have it today, delivering a level annuity income and with no access to the remaining 'fund', can make little contribution to a sudden need to support care home fees. Flexible Drawdown can make a contribution where an individual has a sufficiently large pension fund, but the requirement to 'secure' an income of £20,000 a year when this occurs can diminish the utility of the remaining fund, with the payment subject to tax in any case. The report recommends a series of measures such as splitting and deferring pension commencement lump sums, all of which might help, but have the feeling of 'tinkering' with the existing architecture and making it even more complex.

Steve Webb, the Pensions Minister, has called for a long, hard, look at how we 'do' retirement income. Reports like this reinforce how radical we are going to have to be.

Malcolm Small, Policy Director

UPDATE ON WRAPS & PLATFORMS AND PENSIONS TRANSFERS

We've now had two meetings with HMRC about wraps and platforms. The first was a new forum with HMRC to discuss issues affecting the industry, and the second, a couple of weeks ago, to discuss VAT and platforms was a session aimed at informing HMRC ahead of a consultation later this year.

Relatedly, we met the FCA as part of the consultation into CP13/5, where a hot issue is the proposed removal of the fund manager exemption, in addition to changes that will affect the operation of platforms in the UK. We had a good hearing and will be meeting with them again in early December to discuss concerns, possible solutions and policy direction.

And, of course, we have the consultation on the proposed FCA guidance on conversion from legacy share classes to platform classes, and the issues this presents for platforms.

Finally, the Board of TeX has agreed to extend the scope of Tex to permit re-registration of assets in a variety of personal pensions, particularly but not exclusively, SIPPs. The target date is from the beginning of next year. Busy times ahead for the TISA wraps and platforms community.

Jeffrey Mushens, Technical/Finance Director

TELL ME

In the post RDR-environment a growing conundrum for advisory businesses is the consideration of what constitutes 'suitability', 'appropriateness' and 'due diligence'.

Such is the concern amongst members of TISA, we have formed the 'Suitability Special Interest Group' project to liaise with the regulators and ascertain a common understanding of what appropriate outcomes should look like. This is easier said than performed.

These three phrases have probably come to define the post-Retail Distribution Review reality of advice more than any others, except perhaps 'client suitability', though this is obviously merely the aim to which 'appropriate due diligence' aspires.

Advisor firms have to focus on the expectations and outcomes of the regulator, as part of the new regime of 'outcomes-based' principles. In essence, this means simply that the regulator is "fairly loose" on the machinations of the advice process, as long as the outcomes are in the client's best interest. There is no longer a tick box system as with the FSA.

However, in reality you would think that any adviser worth his or her salt should not recommend any investment that they do not fully understand themselves. While it is desirable, it is not always viable to get to grips at a granular level with investments that advisers may feel they have enough of a handle on to recommend. In the past many advisers have recommended with-profits bonds, for example, although few would be in a position to fully articulate how the bonuses and returns were calculated. The same probably applies to structured products, particularly with their counterparty underlying elements and understanding completely how the underlying put and call option derivatives work. Should they on this basis now recommend the product?

I guess the question now is do appropriately qualified advisers have to fully understand and be able to perform due diligence on each and every facet of products, funds construction and underlying portfolio elements in order to be confident enough to recommend a fund or product solution?

The regulator would expect advisers to be able to justify the due diligence process used, especially if the fund did not achieve its objectives or if clients lost money.

One area we are seeking clarification in our project is whether an adviser needs to look at each underlying security in an equity portfolio in order to recommend the fund, or would they only need to understand the fund's strategy and how the managers select each investment. Could not understanding the minutiae of the underlying portfolio leave an adviser exposed to complaints, which currently are rising and likely to continue to do so in the future.

This reflects the fact that in trying to resolve these issues we should be working with both the FCA and the FoS (Financial Ombudsman Service) to alleviate advisers concerns for the future.

If the FoS were to assess a complaint into advice on a fund or a structured product, in the event of client losses, how would they assess any advice process if the adviser admitted to not fully knowing how the underlying investments operated?

Hopefully at the conclusion of our project we will be able to provide our members and the wider market with some guidance.

Peter Smith, Head of Distribution Engagement