THE NAME OF THE GAME

The secret to any type of sale is to understand fully what you are buying and where potential pitfalls or problems may lie in the buying decision. This may well apply to practitioner providers in the growing SIPP market currently.

A number of self-invested pension providers have been in talks with the regulator over their appetite for acquisitions of other SIPP players in a period when we are still awaiting an overhaul of capital adequacy rules for the sector. Pension commentators recently estimated that they could see one in five providers leave the market, a view shared by the regulator.

SIPP providers and facilitators have been contacted by the Financial Conduct Authority in recent months, as part of the ongoing thematic review. Providers have been involved in meetings with the regulator to gauge the regulatory perspective when considering the purchase of client books of rivals that choose or are forced to close by tougher operating requirements and capital demands. Currently when the regulator has concerns about a SIPP scheme or operator, it withdraws the permissions to operate the SIPP effectively meaning it is closed from an operational perspective.

The worrying aspect here, particularly when takeovers can take up to a year or more to complete, is that clients are often left in limbo. It is for this reason many firms are ‘reluctant’ to take on these books as they cannot look at them in detail. Indeed, there are bound to be ongoing tax liabilities as well as illiquid assets involved in many arrangements. When a scheme is suspended, clients are put in limbo as they can’t deal with investments and they can’t withdraw income.

In November 2013 the FCA said almost one in five SIPP operators affected by the proposed increase to capital requirements could leave the market if the proposals are implemented, which could mean more than 20 current SIPP operators closing. Originally scheduled to be published last November, the final rules have been delayed a number of times and are now expected at some point in the first quarter of this year.

Until they get some clarity, those firms wishing to purchase additional books of business are understandably cautious and probably sitting on their hands until they get firm clarification of their responsibilities and requirements to achieve a purchase. If implemented in their current form some will struggle to meet the requirements laid out by the regulator, which is currently trying to understand what capacity and appetite there is within the market.

TISA will be holding an industry seminar fairly shortly to examine these demands and the view of the regulator as to how SIPP providers can meet them. Further details on the seminar will follow.

Peter Smith, Head of Distribution Engagement