HOW I LEARNED TO STOP WORRYING AND LOVE SIPP DUE DILIGENCE

This paper is an exploration of adviser due diligence within the specialist SIPP market. There's no escaping the fact that due diligence is a hot topic right now and is firmly on the regulator's radar. Here we take a look at what we think good practice looks like and how an adviser can get the most out of the process with minimal pain. We then put *@sipp* under the spotlight, testing it against our criteria and looking at how it's responding to the ongoing regulatory focus.

FIRST THINGS FIRST

The most important thing to establish from the off is that this is an unusual analysis paper for the lang cat.

@sipp commissioned us to write this document. While we never undertake a paid analysis lightly, and always have firm ground rules, this one proved to be a different beast.

Normally, when we assess a provider, we look at its proposition compared to a selection of competitors or an established benchmark of some sort. But that's not what's happening here. Rather, our focus is on the *process* of carrying out due diligence on specialist (or full) SIPP providers and uses *@sipp* as a case study. We'll explain.

The first section of the paper looks at why SIPP due diligence is so important, and points out that there is no established good practice as to exactly what it should look like and how an adviser firm might want to go about it.

The remainder of the paper sees *@sipp* move into the spotlight. Just *@sipp*, not a peer group. We asked a series of questions which *@sipp* answered and it's those *responses* we assess rather than the proposition.

However, as we worked through the responses we found the temptation to comment on *@sipp*'s proposition hard to resist. We are, after all, not known for keeping our opinions to ourselves. And that is what we share here – our opinions. We do not compare *@sipp* to a benchmark. Or its competitors. We're just sharing our reactions to the proposition.

Our primary concern remains how effectively *@sipp* has responded to the due diligence questions and whether those responses are useful to advisers. There were some good answers and some not so good answers. It's all here.

You won't have read anything quite like this paper before. If you're an adviser, it might give you some inspiration around what questions to ask, how to ask them and what to look for in responses. SIPP providers could learn some lessons on how to structure a response to due diligence questions so that everyone ends up where they need to be without having to ask again, or clarify or simply give it up and move on to the next potential provider.

the lang cat

January 2017

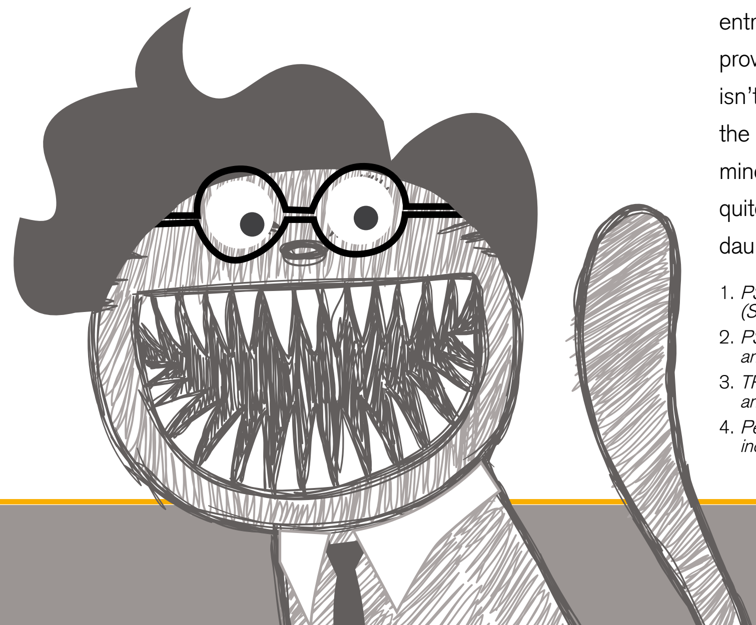
FOREWORD: THE MARKET LANDSCAPE AND WHAT IT MEANS FOR SIPP DUE DILIGENCE

Interest in, and pressure on, the SIPP market has never been greater. Client demand is growing and advisers are rightly starting to ask more questions of their chosen provider to ensure that a suitable recommendation is made and documented.

SIPP provider financial strength is clearly a hot topic with the implementation of PS14/12[1] – the new capital framework for SIPP operators. The long-term objective of this policy is to address the risk of customers having to fund the administration of a SIPP operator from their pension assets, especially where a provider chooses to exit the market. And let's not forget about retained interest on deposits (PS16/12)[2], as well as the FCA's continued focus on due diligence and research (TR16/1)[3]. The SIPP market is about to experience an unprecedented level of scrutiny.

When conducting research and due diligence into any provider, it's important for the adviser firm to get the right level and range of detail to make an appropriate personal recommendation. In the case of full SIPPs, this can be brutal, with the change in classification of some assets to non-standard and the subsequent increase in capital adequacy provision key drivers.

Asking the right questions and securing well structured, transparent answers play a major part here but the only way to get a true sense of the health and well-being of a business is to really get to know the nuts and bolts of it. What is the split of standard and non-standard assets? What does that mean for the provider's capital adequacy requirements? What impact does that have on clients who don't want to hold non-standard stuff? Are they being asked to cross-subsidise more 'challenging' clients?



The changes to capital adequacy rules have meant that for some, SIPP due diligence has become purely a financial strength issue – but there is far more to it than that. Indeed, adviser-based research from AKG in 2015[4] placed capital adequacy as only the 5th most important factor to consider when selecting a provider. Advisers need to assess a wide range of factors when conducting due diligence and the level of detail must be appropriate.

We therefore believe that the starting point for advisers is to consider what factors need to be assessed, how important each factor is and what their selection criteria might be. For example, as well as assessing financial strength, the adviser firm might wish to review a provider's investment approach, service offering, technical support, risk and governance approach, strategy and distribution, management team experience, pricing and functionality. This is not an exhaustive list and we would suggest an adviser firm documents its own concerns and priorities to ensure its research covers all the important aspects.

The next stage is to consider each aspect and to decide on the criteria for selection. What should a provider be delivering to ensure a firm can provide the level of service clients expect? What measures need to be in place to ensure the provider is a safe custodian for clients' assets? The adviser firm should document these criteria and, in line with TR16/1's expectation of a culture of challenge, we believe the criteria should be discussed and agreed by a number of people within the firm. This helps ensure the process remains objective and, consequently, more likely to result in positive customer outcomes.

Having defined the adviser firm framework for due diligence, documenting the assessment factors and their criteria, the adviser firm can then move to the research stage. Rather than inviting providers to talk about how good they are, the onus is on the adviser firm to ask the right questions. If a provider is unwilling or unable to supply the required answers, this is probably a pretty good indicator of whether they should be entrusted with clients' assets, but the crucial point is to assess provider responses against the defined criteria. Due diligence isn't about getting a sales brochure from a provider. It requires the adviser firm to research and assess the market with an open mind and to challenge the result – both points the FCA has been quite clear on. But with a robust process in place it needn't be a daunting task.

1. *PS14/12: A new capital framework for Self-Invested Personal Pension (SIPP) operators.*
2. *PS16/12: Pension reforms – feedback on CP15/30 and final rules and guidance.*
3. *TR16/1: Assessing suitability – research and due diligence of products and services.*
4. *Pension Freedoms: Clearing the hurdles to business success in the retirement income market. AKG.*

Speaking of daunting tasks, it's nearly time to move on to the main event. But before we do, here's our take on some adviser due diligence etiquette. You're welcome.

LANG CAT VIEW: DOS & DON'TS OF DUE DILIGENCE

SOME GOOD PRACTICE:

- Share where possible what your book of business looks like i.e. how many clients you have/portfolio sizes/investment type etc. A good provider will use this information to give you a response that's appropriate for your business.
- Ask questions that really concern you as a business. Think about things that have been a pain in the neck for you in the past and interrogate the providers on them.
- If you think a question is awkward or blunt, all the better.
- Narrow your options down to a short-list before issuing due diligence questions.

BE WARY OF:

- Third-party tools and ratings that can often be manipulated to get the answer you're looking for. They can also include information skewed by marketing teams. Due diligence shouldn't be a tick-box exercise.
- Be wary of asking banal questions that simply provoke a copy/paste marketing response.
- If you ask something like "Are you committed to the UK market?" don't be surprised if 20 out of 20 providers answer "Yes". What are you going to do with that information?

QUESTIONS, QUESTIONS, SO MANY QUESTIONS

Before we kick off, we know what you're thinking. What you're about to see is a conveniently structured set of questions, tilted in such a fashion that *@sipp* appears remarkably positively throughout, right? How very dare you. We don't blame you though; each lang cat has been around the industry long enough to spot marketing fluff a mile off in thick fog. With that in mind, let's break the fourth wall of consultancy right here and outline exactly how this document came into being.

PROCESS AND METHODOLOGY[5]

- The lang cat had an introductory meeting with some of the *@sipp* senior bods in Glasgow, where we talked about many things including: the financial market, specialist SIPP products, due diligence, the regulator and whether more than three moderately famous people would survive 2016.
- The lang cat then retreated, put ourselves in the shoes of an advisory firm and had some fun thinking about the many awkward questions we could ask *@sipp*.
- We don't think this is an exhaustive set of questions by any means. Your mileage will vary, but do feel free to pinch a few of them or get in touch with your views.
- At no point did *@sipp* have editorial control over the question set. Repeat this 10 times.
- We sent *@sipp* the questions (fully expecting a few ifs, buts and grumbles here and there) but were pleasantly surprised to find a full response in our inbox a week or so later.

Right, so we're all still friends? Time to move on to the Q&A.

The questions we asked and *@sipp*'s responses to them are faithfully reproduced here with no editing, polishing or PR frippery. Our take on things follows at the end of each section. After all, it's rude to interrupt.

5. Kind of.

SECTION 1: FINANCIAL STRENGTH AND OUTLOOK

1.1 We'd like to see disclosure from you on the following points for the past 5 years, with some commentary alongside the data.

- **Ownership structure**
- **Profit/loss**
- **Revenue**
- **Number of new cases**
- **Any material peaks or troughs on the balance sheet e.g. significant addition of new capital**

@sipp

The business is privately owned with the three majority shareholders (Colin Barral, Alastair Miller and Colin Blair) collectively holding over 95% of voting rights.

The shareholders, via their significant personal wealth, are committed to providing development funding to help grow the business as required. This has been evidenced in recent years in the form of a move to new premises, recruitment of a deeply experienced executive management team and purchase of Alfa Trustees.

As a result, the business has no reliance on external funding.

@sipp remains committed to operating independently and will continually keep acquisition opportunities under review to help grow the business.

Year end	2017*	2016	2015	2014	2013	2012
Turnover (£m)	2.30	1.70	1.55	1.31	1.20	1.07
Pre-tax profit (£m)	0.23	0.07	0.01	0.09	0.07	0.12

* Projected

Membership numbers have increased by 25% over the last 18 months and now sit at 2,457 SIPP members as at October 2016. Including our SSAS operation, we provide administration and trustee services for over 2,700 self-invested pension members, holding c£1bn assets under administration.

Having made substantial investment in our people, premises and infrastructure in recent years, the firm has a solid foundation for future growth. Revenues for 2017 are expected to be c£2.3m, generating a pre-tax profit margin of c10%, highlighting the success of the investment strategy in recent years.

1.2 Do you have any third-party financial strength ratings e.g. AKG?

@sipp

Our current AKG rating is C. This is a desk-based rating. Though we have an ongoing dialogue with AKG, we have not engaged them to carry out a full financial strength analysis. The business is well capitalised, which we discuss in more detail in response to the next question.

To put the AKG rating into context, this is one rung below firms such as Barnett Waddingham, Hornbuckle and Curtis Banks and is on a par with Rowanmoor.

While profits have been modest against the backdrop of significant investment in the business over recent years, we are confident that this investment will yield considerably higher returns for the business and that this positive outlook on profitability will help enhance any future assessment.

1.3 What specific action have you taken with regards to the upcoming capital adequacy requirements?

@sipp

We have increased our reserves via additional capital injected by our existing shareholder base. The effect of this is that we can grow our assets under administration by 70% without requiring any additional funding. This also assumes the same level (currently 8%) of clients holding non-standard assets – however we expect this proportion to be closer to 5% by the end of 2017, which will further strengthen the capital base.

Despite fears amongst industry commentators to the contrary, the vast majority of clients (c92%), continue to enjoy some of the lowest charges in the market, which have remained unaltered for 7 years. Our clean charging basis sees clients simply pay the wrapper and annual property fee where appropriate. We make no charge for items such as incoming transfers, transactional charges or holding secondary bank accounts.

We introduced an additional fee for members holding non-standard assets, with effect from 1 September 2016. The fee is £500 per member per annum and ensures that the very small (c8%) proportion of members who account for c45% of the revised capital requirement make an equitable contribution to the revised capital sum (as opposed to an across-the-board increase).

It is also worth noting that, unlike some of our peers who introduced non-standard asset fees a number of years ago, we have only introduced this charge from the effective date of the new regulations.

We remain committed to the full SIPP sector and have the appropriate risk and governance controls in place to safely administer such assets. The text below is an extract from the FCA response to *@sipp* in 2014. Having considered our approach to holding non-standard assets, the regulator stated:

> "In brief, we found that the updated due diligence information that you have proposed did correctly identify the risks that non-standard investments pose, and identified the need for robust due diligence. Also, the information that you provided referred to a defined risk appetite for non-standard investments at *@sipp* – which we consider to be a positive approach to controlling the quality of your business. It is also evident that careful consideration has taken place as part of this work".

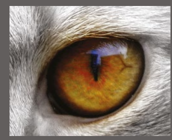
1.4 Can you share with us a brief overview of your outlook in the short to medium term, noting any particular strategic developments?

@sipp

As previously stated, the business has recently undergone a significant investment phase which we believe will help achieve our strategic aims over the short to medium term. During this period, we have remained profitable and in addition have also significantly increased our capital and reserves.

The business has reached a level of maturity whereby it increasingly benefits from economies of scale, which provide the basis for increased profitability moving forward – our 2017 forecast for example being c10% profit before tax (PBT) margin.

Our future strategy includes an ambition to grow our business to serve 5,000 self-invested pension members by 2018/19. This aim will be delivered via a combination of organic growth, acquisition and building upon our existing strategic partnerships – e.g. securing further third-party administration contracts and provision of white labelled SIPP options.



LANG CAT VIEW 1: FINANCIAL STRENGTH AND OUTLOOK

We asked for a number of data points to try and get a good sense of where *@sipp* is in terms of its bottom line but gave it room to flesh out its answers and tell us what it wants us to know.

Now, financial measures are objective and pretty easy to understand so it may strike you as odd that we leave room for additional commentary here. We are constantly assessing providers and have learned that commentary and nuance around the numbers are often as important as the numbers themselves. We'd counsel advisers not to try and restrict answers here.

So how did *@sipp* do in its responses?

We'll comment briefly on the content shortly but let's stick with the responses themselves for now. We were impressed at *@sipp*'s transparent answers to turnover and profit (1.1) and liked getting further context in terms of the outlook for the future.

In terms of financial strength, *@sipp* was again pretty open and naturally sought to minimise what is clearly not a positive situation in terms of its AKG rating. Whatever your view of the rating itself, this is a comprehensive response from *@sipp*.

We got another full response about capital adequacy (1.3). The detail around the capital base and the response to non-standard assets is what we like to see.

This response also addressed a problematic issue with an explanation of its £500 charge for holding non-standard assets. If we were doing due diligence for an adviser, we'd have clarified how important this element is early in the process so we could establish whether *@sipp* might be a good fit in scenario testing.

COMMENTS: FINANCIAL STRENGTH AND OUTLOOK

We may have mentioned that the purpose of this paper is not to assess *@sipp*. But certain responses merit further comment, which is what we're doing here.

The first point which caught our attention was profit. While the profit figures are slim, a profit is still a profit and has been delivered against the backdrop of a period of significant development and expansion within the business. Not everyone achieves that.

Moving on to financial strength, *@sipp* is rated C by AKG, which translates as 'weak' in the AKG lexicon. We can see how that might cause some concern. However, we would expect any ratings agency to be firmer on a provider where, as in this case, it does not have access to carry out a full rating. If we were *@sipp*, we'd be giving serious consideration to inviting AKG to carry out a proper rating.

Finally, our feeling on *@sipp*'s approach to charging for non-standard assets is that it's a fair way of handling something that will be unwelcome no matter what approach is taken. Either investors with non-standard investments are being penalised or everyone is. That said, £500 per SIPP, per year is undeniably steep, but it's the result of the charge only being applied to the relevant customers (as opposed to a lower charge for all). We're not running comparisons here, but if we were we'd run standard and non-standard scenarios side by side to give the relative position for each provider.

SECTION 2: MANAGEMENT TEAM, STRATEGY AND DISTRIBUTION

2.1 What is *@sipp*? What's your background? Who are your key people? Give us your pitch.

@sipp was formed in 2001 as a direct response to an increasingly inflexible SIPP market. Since inception, the business has also sought to offer a level of personable service sadly lacking in the wider financial services market.

We provide SIPP, SSAS and at retirement solutions across the full investment spectrum – from simple SIPPs such as DFMs and open market platform solutions, through to commercial property and unlisted equities.

Privately owned, we remain wholly independent of any investment platform, fund manager or advisory business, which ensures investment choice is a decision for members and their advisers rather than dictated by the operator.

The business has grown to administer c£1bn of self-invested pension assets, having benefitted from both strong organic growth and by acquisition (such as the recent purchase of Alfa Trustees).

The pillars underpinning this growth highlight why we are a "FIRST" class provider.

Flexibility
Independence
Robust financial strength
Service offering
Transparency and technical expertise

KEY PERSONNEL

While the strength and depth of *@sipp*'s personal service lies in the diverse range of experience, skill and expertise of all our staff, here is a short introduction to each of our senior staff.

Colin Barral, Chairman

Colin is also the Chairman of Profit Counts, corporate business advisors and chartered accountants based in Paisley. Colin has significant experience in the financial services sector, focusing on servicing a range of high profile clients. He is a specialist in commercial property acquisition and development, including the structured finance of such projects, particularly within the framework of effective pension planning. Colin holds a number of other non-executive directorships.

Eddie McGuire, Managing Director

Eddie's career spans 28 years of working with a number of blue-chip financial services companies, most recently as Client Services Director of AJ Bell. Prior to that he was Financial Institutions Director at Jardine Lloyd Thompson and was also the originator of Xafinity (previously Hazell Carr) SIPP business.

Executive Management Team

Angela Barr, Change Manager

Angela has over 20 years of experience in the financial sector and is responsible for making sure our systems and processes are robust and fit for purpose. Previous roles include Senior Business Analyst, Executive Management Support and Business Risk at Aegon before joining *@sipp* in 2013 as our Change Manager. Angela is Lean Six Sigma trained and has recently attained the PRINCE2 Foundation qualification.

Gill Baynes, Head of SSAS

Gill joined the business in 2016 as Head of the SSAS Trusteeship and Administration Department. She entered the pensions industry in 1983 and has specialised in SSAS trusteeship and administration since 1987. She is personally recognised by the Revenue as a pensioneer trustee and is a signatory for our Corporate Professional Trustee Companies @ssas (Pension Trustees) Limited and Alfa Trustees Limited.

Lee Halpin, Technical Manager

Lee provides product advice, technical guidance and support on pension matters to both our internal team and external introducers. Given the nature of his role, Lee has developed a particular expertise in handling enquires on unlisted investments – in the process ensuring that proposed arrangements and resulting share structures comply with both our Trustee requirements and HMRC rules. Lee joined *@sipp* in 2006 and is currently pursuing formal CII qualifications.

Stephen Lancaster, Head of Finance

Stephen heads the finance function within *@sipp*. He has previously held a number of senior roles across multinational organisations such as Deloitte, including being the finance lead on a $2bn aerospace programme and managing the financial performance of a $1bn financial transformation programme.

Kyle Dale, Business Development Manager

As the main point of contact for new business, Kyle visits FA firms across Scotland, Belfast and North West England, presenting on a variety of subjects but mainly focusing on property ownership within a SIPP/SSAS. Kyle previously worked for two of the big four UK pension providers and is qualified to Level 4.

Aileen Mungin, Operations Manager

Aileen has been with *@sipp* for over a decade and has worked across nearly all operational aspects of the business, with particular expertise in regulatory compliance as well as FCA and HMRC reporting. In 2016, Aileen was appointed Operations Manager accountable for the efficient management of the customer services area.

2.2 Has your management structure fundamentally changed in the past few years?

- **If so, why?**
- **What has materially altered as a result of the change?**

The key changes to the management structure in the last year or so have been as follows:

We now operate with a cross functional executive management team and two Executive Directors (Chairman and Managing Director). The strength and experience of the management team has been enhanced in the shape of some key, deeply experienced hires (e.g. new Managing Director and Head of SSAS Operations).

2.3 Can you share with us the number of staff employed in each of the past 5 years? Will this materially change in the next 5?

2016	2015	2014	2013	2012
48	35	28	22	20

As can be seen here, our staffing numbers have doubled in the past 5 years to keep pace with the growth of the business. Our move to new premises in late 2014 gave us capacity to further double our staffing levels. The long-standing practice of the business has been to invest in additional resource ahead of demand to ensure continuity of service whilst we continue to grow.

We would expect to grow our staff numbers at a faster rate over the next 5 years than the previous 5 due to a combination of strong organic growth and a number of strategic partnerships which we are actively developing at present.

2.4 What proportion of your revenue is made up of SIPP business?

@sipp

94% of revenue comes from SIPP with the remaining 6% from SSAS business.

2.5 Are there any cases/business types that you would turn away? When was the last time you did this?

@sipp

We will not accept any non-standard asset proposal which fails to meet our due diligence checking (e.g. poor financials, track record of board/any sanctions against principles, ability to value, insufficient regulatory oversight).

We would also be unlikely to accept insistent client transfers from a defined benefit arrangement and we also monitor overall business levels to spot trends such as concentration risk and "spikes" – e.g. an adviser who wishes to write a high proportion of business in a particular non-standard asset.

Where a new asset is proposed to us, we may also seek additional due diligence information from in:review, which specialises in reviewing alternative investments (https://in-review.com/about-us/our-history/). However, the ultimate decision as to whether an investment is acceptable rests with ourselves.

We have a dedicated team responsible for investment governance and oversight and our processes are also subject to twice-yearly external compliance reviews. The combination of these and our internal risk and governance controls helps give comfort that we can safely administer investments across the risk spectrum with no exposure to toxic assets such as Harlequin.

@sipp does not accept business from unregulated introducers.

LANG CAT VIEW 2: MANAGEMENT TEAM, STRATEGY AND DISTRIBUTION

So finances done, we move on to the provider's opinion of itself. In our view, this section is one of the easier ones to judge and set criteria for at the individual adviser business level. What does a 'good' answer look like and, alternatively, what answer would start alarm bells ringing? It's also a great example of how provider-produced due diligence materials turn into sales aids very quickly.

Marketing fluff is inevitable; the trick is to be able to see through the fluff to the substance beneath. In terms of *@sipp*'s responses, we were pleased that it gave us full and (we think) honest answers. We were less pleased with some of the salesy stuff, namely the bit where it detailed how it is a "FIRST" class provider. This belongs in a sales presentation, not a due diligence document (and yes, we gave this feedback to *@sipp* prior to producing this paper).

Providers reading this (1): concision is a virtue and allows you some wiggle room to expand in other areas. For example, we could boil the answer to question 2.1 down to: privately owned, £1bn AUA, strong team and lots of developments. No need for loads of accompanying text.

Providers reading this (2): try to avoid cutting and pasting from other materials. For example, *@sipp*'s 'meet the team' response reads like it has been clipped from the website or a brochure, which is a fairly common approach.

Information is a curious thing. The same basic facts or message can be expressed in many words or condensed into just a few, the key things. But here's the rub. Everyone's key things will differ and it's hard to work out what matters without the lengthier version.

@sipp's responses to the rest of the questions in this section were generally concise and useful. The level of detail around staff numbers (2.3) and the types of business that are turned away (2.5) was encouraging, as was the disclosure of revenue split (2.4).

So why tolerate waffle when it appears? Why not push for a full set of short, to the point responses? Full SIPP is complex and multi-faceted in nature and it's important to get a sense of the strength, depth and scale of the business. This is a very high level view; you could go much deeper into each area you consider relevant.

COMMENTS: MANAGEMENT TEAM, STRATEGY AND DISTRIBUTION

So *@sipp*'s report card for this section is pretty good. It's not the biggest provider, but that's not the be-all and end-all in SIPPland. We like that there's evidence of a strong control environment, especially around non-standard assets.

It's growing fast – staff numbers up by a third in the last year – and so if we were really putting *@sipp* under the microscope we might ask some questions about how it maintains service standards when new folk join, and what its recruitment plans are.

One point worth pulling out here is that the investment in new staff, premises and the acquisition of Alpha Trustees also helps to offset and provide more detailed context for the profit levels we saw in the previous section.

SECTION 3: PROPOSITION

3.1 What is the legal structure of your SIPP offering?

@sipp

The *@sipp* scheme is a registered personal pension scheme, written under Master Trust. The SIPP assets are held for the sole benefit of the scheme and its members by *@sipp* (Pension Trustees) Limited, a non-trading company whose whole purpose is to act as trustee to the *@sipp* scheme.

@sipp Limited undertakes all administration in relation to the *@sipp* scheme. This structure ensures the SIPP assets are protected by being held separately from the trading business of *@sipp* Limited.

3.2 Do you have a menu of products i.e. full, single SIPP? If so, what are the implications of one of our clients moving between the options should their circumstances change? What are the practicalities (annual fees, policy numbers etc)?

@sipp

Yes, we offer a choice of three branded SIPP options – namely Solo, Collective and Full SIPP. Clients are free to move through the options (up or down) to suit their desired investment approach at any given point in time.

No transfer is involved where clients wish to amend their choice of investment. This also applies where a client wishes to draw PCLS or income from the fund.

From a pricing perspective, we offer a pay-as-you-use-approach – ensuring clients only pay for the investment options they require at any given point in time.

3.3 What is the current split of your AUA (between standard, non-standard, property and cash)?

@sipp

Our current SIPP book has AUA of £679m as at 30 September 2016, which consists of 64% securities, 24% property, and 12% cash.

Including our SSAS operation, the business has AUA approaching £1bn.

We anticipate that the level of members holding non-standard assets will have reduced to c5% (from its current level of 8%) by the end of 2017, due to overall growth in SIPP numbers and a small reduction in non-standard assets currently held (e.g. unbreakable term deposits).

3.4 Are there any investment types you simply would not support?

@sipp

Whilst we are committed to the full SIPP market, all investments are subject to our risk and governance oversight. Investments that we would not accept include overseas property, carbon credits and any asset that would be deemed to be "tangible moveable property" by HMRC e.g. art or wine collections.

Our Permitted Investment Schedule confirms the investment types we will support across our various SIPP options and is available at:

http://www.atsipp.co.uk/wp-content/uploads/2016/12/Permitted-Investment-Schedule.pdf

3.5 Do you own your underlying technology or do you outsource? Why do you favour the approach you take?

@sipp

In common with many providers in our sector, our core administration system is provided by Delta Financial Systems. Delta's technology helps administer one in three of every SIPP and SSAS in the UK – worth £34bn – for 150,000 members and is trusted by some of the largest financial services brands in the UK, such as HSBC and Legal & General.

Using Delta's technology (namely SIPP~Pro and SSAS~Pro) provides significant cost efficiencies versus the alternative of an in-house build. Delta also has a proven track record, spanning at least 20 years of on-time delivery to meet legislative change e.g. various amendments to income drawdown rules and the pension freedoms.

We continue to keep alternative options under regular review to ensure both advisers and clients receive the best possible service.

3.6 When was the last time you made a significant change to your underlying technology? Do you have plans in the short to medium term to upgrade all or part of your underlying technology?

@sipp

Further enhancements will be made to our technology in 2017 to give advisers and clients richer functionality.

We are currently undergoing a major redesign of our branding and website. Initially, this will provide simpler navigation, interactive applications and more frequent technical updates/blogs such as the frequent financial press coverage we continue to receive.

Advisers have the ability to produce client illustrations via our website with underlying technology supplied by Dunstan Thomas. This technology is widely used throughout the market, providing illustrations across many product providers and platforms.

In addition, having previously been subject to CASS 7 requirements, our banking and administration system is subject to daily automatic reconciliation of all client accounts. As an early adopter of such functionality, this again highlights our appetite to invest in our proposition where client outcomes can be enhanced and/or risk can be reduced.

We continue to actively seek partnership opportunities in the technology space where these provide synergies for our business.

3.7 What can we do online? Give us a breakdown of the level of information and transacting that we can access.

@sipp

Advisers and clients can self-serve the majority of enquiries they may have via our dedicated online portal. This allows advisers access to all client data which includes:

- Historic earnings details
- Contributions and transfer values received
- Overview of investment holdings and last known valuation
- Banking transaction history
- Details of benefits drawn/income taken

Should you wish to see a demonstration of our online portal, please contact our business development team.

3.8 What support do you offer for commercial property purchase?

@sipp's capability in the commercial property sector has been a key component of our growth over the years. We currently hold around 750 properties with a combined value of over £175m.

We operate a dedicated property administration team which supports our team of field-based technical experts. We are happy to offer feasibility reports which will consider aspects such as guidance in relation to funding, structure (e.g. phased timing, split title and syndicated deals).

We are supported by a panel of experienced SIPP and SSAS legal experts. Our panel has agreed a common set of processes and documentation. This consistency of approach helps our operational colleagues process deals as quickly as possible. This is very much about adding value for our clients as opposed to any commercial benefit for *@sipp* since we draw no additional remuneration from our panel arrangements.

We are also happy to support non-panel legal appointments at no additional cost to the client.

Further details about our property panel and our guide to property purchase are available at:

http://www.atsipp.co.uk/our-solutions/panel-solicitors/

http://www.atsipp.co.uk/wp-content/uploads/2016/12/Property-Guide.pdf

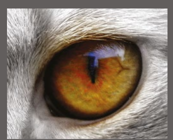
3.9 What level of technical support can you offer advisers?

In addition to our field-based support, we also supply regular newsletters which include company, proposition and technical/legislative updates.

We are very happy to support advisors with CPD sessions on either a group or one-to-one basis and we also run seminars/webinars for advisers and their professional connections. These are typically led by our dedicated technical services team and/or advisor support.

Our technical expertise is also evidenced by our frequent trade and business press articles.

LANG CAT VIEW 3: PROPOSITION



This is another area where advisers need to consider what is important to them and the proposition they want to offer to their clients. Obvious? Of course, but if nothing else it saves wading through loads of information that's useless to you.

We're getting into the guts of the SIPP product itself. This is a high-level view but it would be fitting in many cases to go deeper.

Again, when constructing questions we've resisted simple yes/no or tick/cross options. If you are assessing simple products (such as an ISA) that approach may work to a certain extent, but in full SIPPs there is just too much going on. Specifically, the bespoke nature of many SIPPs means that there is naturally more manual processing going on than with very simple products. It's crucial to be able to get inside that as part of a due diligence check.

@sipp answered this set of questions consistently well and without too much padding. There is a good level of detail around technology (3.1 and 3.2) including _@sipp_'s current developments.

Commercial property can be complex and it's important to know that the provider in question can meet exact needs and expectations. The answer to 3.8 provides an example of the level of detail that can be required here, specifically that a legal expert also being a SIPP or SSAS expert cannot be taken for granted.

COMMENTS: PROPOSITION

Commercial property can be something of an acid test when it comes to specialist SIPPs. Some do it very well and others, well we're sure you know all about them. A quarter of _@sipp_'s AUA being in property does suggest a decent level of expertise (a single digit figure would start alarm bells ringing) and there is a good (on paper) support offering.

The split of assets is interesting; cash assets are relatively high but we can see from the answers that _@sipp_ has form in allowing advisers to access all sorts of different cash products. Again, if this were a 'proper' full due diligence exercise, we'd go into the process around external assets such as cash.

The online answers are fine; it's good to be able to see that MI. There appears to be relatively little transactional capability online, but this is not untypical of the SIPP market. The backing technology of Delta is tried and tested.

SECTION 4: PRICING AND TRANSPARENCY

4.1 How often do you review your charging structure? Do fixed fees escalate alongside an inflationary measure?

Our pricing is regularly benchmarked against our competitors and formally reviewed at least annually. Details of our current charging structure are available at:

http://www.atsipp.co.uk/wp-content/uploads/2016/12/Fee-Schedule.pdf

4.2 When and why was the last time you made:
- **A minor alteration to a price point?**
- **A fundamental change to your pricing policy?**

Our fees remain amongst the most competitive in the market with our establishment and annual fees unaltered for the last 7 years with no inflationary linking during this period. An additional non-standard investment charge was introduced on 1 September 2016. The fee is £500pa and applies per member holding one or more non-standard assets. Advance notice was given to advisers and direct clients in summer 2016 to help them make an informed decision as to the cost/benefit of continuing to hold such assets.

We believe the approach taken is both equitable and transparent given that c8% of clients account for c45% of the revised capital sum. It is also worth bearing in mind that *@sipp* does not impose fees for items such as incoming transfers, transactions or holding additional deposit accounts, unlike much of our peer group.

We were keen to retain both the simplicity and transparency of our overall charging approach and have avoided the feared across-the-board increase in charges that many commentators predicted would occur as a result of the capital adequacy rules. Furthermore, the new capital adequacy rules have required the business to increase its headcount specifically to deal with the additional governance and reporting required. Although certain providers have passed such costs on to clients 2-3 years ahead of the implementation of these rules, we delayed passing any additional costs to clients until the rules were implemented.

4.3 Do you impose exit penalties?

@sipp

There is no penalty to access benefits. Transfers out to another provider are subject to a charge to cover the costs involved in meeting the requirements of the receiving provider. Details of these charges are contained within our fee schedule.

4.4 How are adviser fees and product charges deducted from the plan? Do you impose a %/£ cash balance minimum? What's your policy on cash interest?

@sipp

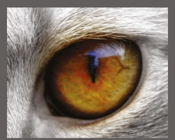
Product charges are paid at outset then on the plan anniversary by deducting the sum due from the client's cash holdings. Similarly, adviser charges can be facilitated via the plan with ongoing advisory fees typically paid either monthly or annually.

We do not have an explicit minimum cash balance, though we reserve the right to realise investments to settle product charges as and when appropriate.

@sipp Limited may receive payments from banks based on aggregate cash balances held across all accounts. The amount received will vary depending on the total cash balances held and market interest rates. We expect to receive between 0.00% and 0.50% above the prevailing Bank Rate, although this may be higher or lower when interest rates are volatile. We retain the amounts received to keep our charges as low as possible.

Clients are free to hold any number of additional deposit accounts over and above the designated SIPP deposit account which is primarily held for transactional purposes only. There is no additional cost for this, assuming the funds are available within a 30-day window.

LANG CAT VIEW 4: PRICING AND TRANSPARENCY



Eagle eyed readers will note that we did not ask any questions as to the detail of the current pricing structure. All SIPP providers have a lengthy charge sheet, downloadable at your leisure. There's no point in creating questions to check something you can find out yourself unless you're too lazy to live.

SIPP charges are very complex, not least comparing headline charges across 'all inclusive' providers and those with a menu approach. If we were carrying out a real due diligence exercise we'd be looking to model various typical client types/scenarios with a range of providers. Those of you who know the lang cat won't be surprised to hear that we'd probably present those findings as a heatmap.

Back to *@sipp*: its responses to this section were generally satisfactory with only a soupçon of waffle.

An example of this waffle is in the response to question 4.2 around fee increases where there is definitely a whiff of standard marketing paragraphs. That this stands out like a sore thumb (to us at least) is actually a vote of confidence – in general *@sipp*'s responses were played with a straight bat.

As a general point, if providers are going to claim that their fees are among the most competitive, we'd like to see some evidence of that. Which we didn't get here.

COMMENTS: PRICING AND TRANSPARENCY

Ultimately, how you feel about the *@sipp* charging structure will depend on your clients' circumstances and investment types. With that in mind, a couple of points are worth commenting on. We can't let *@sipp*'s exit fees pass by without comment, but they are in line with the market so that's more of an industry issue. And we've already covered the non-standard asset charge.

The charging structure itself is in line with the majority of *@sipp*'s peers and is, in general, competitive (having compared the charging structure to that of 15 of *@sipp*'s peers). Set-up fees, annual property charges and drawdown fees are either on or below the market rate.

The fixed fee structure (along with the vast majority of competitors it has to be said) means that for those holding a pension only or with relatively straightforward investment needs, *@sipp* looks particularly competitive against the percentage based platform market for chunkier pot values (£200k+). Bear in mind though the many and various caveats about it being a different market with different benefits.

SECTION 5: CUSTOMER SERVICE AND TECHNICAL SUPPORT

5.1 Will we have a named contact at head office looking after our book of business?

@sipp

Yes.

Our senior team is supported by both advisory and technical support colleagues. On the operational side, we do not operate a call centre approach. For our SIPP products we operate a cradle-to-grave service, which includes our operational managers and team leaders. They would be responsible as first point of contact for client specific queries and are assisted by our dedicated team of commercial property specialists.

All aspects of our SSAS operation (including property) are dealt with by our specialist SSAS team in Essex.

5.2 Are your CS/admin staff one and the same or are there segregated call centres?

@sipp

As confirmed above, we do not operate a call centre approach. Our telephony system guides callers to the appropriate area (e.g. pensions, property) ensuring a substantial number of calls can be dealt with on a one touch basis.

5.3 Do you offer online/web chat help?

@sipp

We support Skype, Webex and GoToMeeting calls on request.

5.4 When are your offices open?

@sipp Monday to Friday, 9am to 5pm.

5.5 Do you publish service standards? Are you willing to report against your success rate?

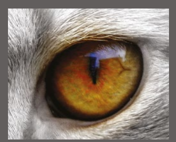
@sipp Yes, our internal benchmarking of these standards versus our peers compares favourably. In addition, our complaints history is very low with complaints running well below 1% pa. Since inception, we have only had one complaint referred to the Ombudsman and this was not upheld.

5.6 What is your ratio of admin/CS staff per single SIPP account?

@sipp 1:200

5.7 What is your ratio of admin/CS staff per adviser firm?

@sipp 1:10



LANG CAT VIEW 5: CUSTOMER SERVICE AND TECHNICAL SUPPORT

This section is essentially a round-up of basic due diligence questions. Service is always hugely important for advisers, especially when you are working with high net worth clients. It's also a particular point for specialist SIPP provision as the nature of the assets involved demands manual administration in a lot of cases and you must have confidence in how this is going to go.

There are a few core factors here, things to think about in terms of your own service proposition and structure and how the two might fit together. *@sipp*'s responses are generally short and to the point, as befits the nature of the questions.

@sipp's openness around complaint stats (5.5) is reassuring, as is that around the ratio of CS staff per single accounts and adviser firms (5.6 and 5.7 respectively).

COMMENTS: CUSTOMER SERVICE AND TECHNICAL SUPPORT

Not running a call centre approach is always a good thing and this is an area where a smaller operation such as *@sipp* can play to its strengths and offer a named contact with more ease than a larger business. We know of many providers in both the wider pension markets and the platform market who would kill to be able to run named contact servicing.

CONCLUSIONS: THE LANG CAT VIEW

We spend enough time looking at product providers through the due diligence lens to understand that responses are often stacked with marketing chat which then needs to be stripped out so advisers can get to the facts. It's just what they do. In this case, we did get some brochure excerpts when we asked for facts. It's what we expected.

While we passed comment on *@sipp*'s proposition in each section, we'd stress again that this isn't a competitive assessment type paper. This paper has been about how *@sipp* responded to our questions and, overall, the quality, structure and content of response was good. There is certainly room for improvement and some replies could be better and a lot sharper. It was no little thing for *@sipp* to let us put it through this process and we applaud what we see as a testament to the culture of the business. We don't know many providers who'd go through this in public.

In real life, any true due diligence exercise would go into much more depth around issues which are important to the adviser firm. This paper, then, only covers some of the more fundamental questions advisers may ask. It's not a comprehensive question list. But there is no point asking questions for the sake of it – firms need to think about what's important before constructing a questionnaire.

Questions around proposition in particular can reap lots of information if you give a provider space for broader responses and can face sifting through the detail. For many, undertaking this scale of sifting across a broad range of providers is either the stuff of nightmares or a job for a someone else who weirdly quite enjoys this sort of thing.

In some ways, it would be helpful to just invite tick-box responses as they fit nicely onto a spreadsheet and are 'objective'. But, as we all know, it's not that simple. Apart from the fact that due diligence should never, ever be a tick-box exercise, providers want and need to sell and if there's no room for nuance you often get 'proposition inflation' or, as we know it, 'lying'.

Even if you are tempted to streamline the process by simplifying the questions, the complexity of full SIPP defies such an approach. In fact, while a SIPP is just one product in the range that advisers must research and evaluate, the degree of work that goes into this for a full SIPP is not all that far removed from selecting a platform. Our top tip for providers? Being open and transparent is key to a good response.

If you're an adviser who is interested in this subject (if not, well done for getting this far), here are our suggested next steps.

1. Look at our questions. Don't cut and paste them, but use them as a template for your own process. Think of your clients, what they want and what they need. Write these questions down and then get someone else within the firm to challenge your views, adding their own questions.
2. Think about what the answers should look like. What do you want the providers to say? What don't you want them to say? Write down these selection criteria and also include a view on how easy it should be to get hold of the information. For example, if a provider doesn't reply within, say, two weeks, then that could be a criterion to exclude them from the research. This is your process, these are your questions and you are in control.
3. Use your market knowledge to identify the providers you want to include in your research panel. If you have a good reason to exclude anyone – for example, you know they don't offer the proposition you need or their service is hopeless – then record it.
4. Send your questions to the providers, sit back and wait. When they get back to you, use this information to make your selection.
5. Don't forget to review this in the future to ensure your chosen provider(s) remain the most suitable for your clients. This should be done on a regular basis, but especially if there are big changes to the market or your typical clients.

Have fun
the lang cat

do what you love

www.langcatfinancial.com