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Mr D Cranswick
Conduct Policy Division
Financial Services Authority
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3 September 2012

Dear Mr Cranswick

Product projections and transfer value analysis – consultation by the FSA
Statutory Money Purchase Illustrations – consultation by the FRC

I am writing on behalf of A J Bell. A J Bell is a provider of platform services to retail customers offering SIPPs in each of the most prevalent markets, namely "bespoke", "adviser-led mid-market" and "direct to consumer (D2C) execution only". In total A J Bell currently provides services to circa 64,000 clients representing Assets Under Administration of over £16 billion. We are the third largest SIPP operator by SIPP numbers and second largest by AUA.

The response is addressed to Mr Cranswick from the FSA. However it is intended to act as our response to both Chapter 4 COBS 13 Annex 2 – changes to investment return assumptions and Chapter 5 Assumptions for Statutory Money Purchase Illustrations (SMPI) of CP12/10. For this reason the response is also copied to the Financial Reporting Council.

Our responses to a number of the questions raised in Chapters 4 and 5 are set out immediately below. This is followed by a more overriding request for the FSA and FRC to carry out a wider review into client experience of illustrations, wherever they are required, and ensure that simplicity and consistency are placed at the heart of policy decisions in this area.

Looking at each of the questions to which we would like to respond:

Chapter 4

Q7 Do you agree that this change of wording provides sufficient additional emphasis for providers regarding our longstanding requirement that they use appropriate projection rates?

We agree that the change of wording will help to ensure that investors will be provided with illustrations using appropriate projection rates. Our own SIPP illustration tools allow the user, whether adviser or direct client, to select an appropriate rate of investment return based on the asset mix which they intend to choose.

When we see reference to a requirement for providers to use appropriate projection rates we remain concerned that there is a lack of understanding as to usage of illustration tools in the SIPP market. Advisers and clients can typically choose from a wide range of investments to hold within a SIPP, and the SIPP operator typically plays no part in the investment selection process. The combination of these two facts means that a SIPP operator cannot unilaterally provide an illustration using appropriate projection rates. Provision of an illustration using appropriate projection rates must involve an adviser and/or client either indicating the investments which are to be held so that the illustration tool can work out the appropriate rates, or it requires the adviser/client to input a blended projection rate themselves. The first of these options will act as a barrier to engagement with illustrations, particularly in the D2C market. The latter option will lead to failures in terms of use of wildly inappropriate rates of return, again particularly in the D2C market, if providers cannot give illustration users a default rate of return.

We recommend that providers are at least required to give illustration users the flexibility to choose an appropriate rate of return (i.e. they must not be forced to use standard rates of return), but that providers can start from the position that the illustration user is offered the default rate of return.

Q9 Do you agree with the cost benefit analysis for our proposals in Chapter 4?

We agree that the changes to the investment return assumptions will have little impact on providers.

The change of wording regarding use of appropriate projection rates may have a significant impact on the SIPP market. This will depend to some extent on the outcome of the Pension Scheme Disclosure consultation set out in CP12/5. Whilst this remains outstanding it is not possible to quantify the cost benefit position in respect of this consultation. We would repeat the point we made in our response to that consultation that it wildly under-estimated the costs to providers and the implementation timescale, if the proposals proceed.

Chapter 5

Q1 Do you agree that the assumptions in AS TM1 should be consistent as far as possible with those specified in COBS 13 Annex 2 of the FSA Handbook?

As stated in a little more detail in our response below, we would agree with any attempts to increase consistency between the various illustration requirements. The one caveat we have is that consistency must not come at the expense of simplicity.

Q2a Should AS TM1 continue to specify a maximum accumulation rate?
Q2b If AS TM1 continues to specify a maximum accumulation rate, should it be the same as the FSA's intermediate projection rate?
Q2c If your answer to b is 'No', what rate should be specified in AS TM1?

Our response to this question is based on the assumption that the proposals for the new investment assumption rates to be maxima are confirmed. For consistency we agree that AS TM1 should use a maximum accumulation rate and that this must be consistent with the intermediate projection rate.

Call for a wider review of projection and illustration requirements

As indicated above, whilst we have responded to a number of the questions raised in this consultation, our main concern is that we believe there is a clear need for a wider review into projection and illustration requirements. We would suggest that the focus of this review needs to be client needs at each of the stages where a projection or illustration may be required where a retail investment product is held.

Focussing on SIPP requirements, at present the following projections/illustrations are, or in some cases may be, required:

- Pre-sale key features illustration – currently not a SIPP requirement;
- Variation charges information – illustration not specifically required but likely to be appropriate in most cases. Again SIPPs are currently exempted from any requirement;
- SMPI – required for all uncrystallised schemes including SIPPs;
- Annual income withdrawal – illustration not specifically required but generally considered to be appropriate. SIPPs are not exempted.

The difference in requirements for each of these projections/illustrations is significant enough for providers to struggle with. From a client perspective this means, rather than being provided with a suite of information which is complimentary and so can easily be understood and compared from one document to another, they are presented with what often appear to them to be unrelated items. This in turn limits client engagement and understanding of the purpose of each illustration.

In CP12/19 the point is repeated that the requirements for SMPI and other illustrations differ because they are intended to serve different purposes. We would ask whether, if these different purposes in themselves cause a loss of client engagement and understanding across all illustrations, is it not time to look again at whether a compromise in each of these purposes would be of wider benefit.

If a wider review of illustrations is considered we would be happy to assist in this process.

Yours sincerely

Gareth James
Technical Resources Manager

cc. Financial Reporting Council