

## FSA CONCERNS ABOUT POTENTIAL SIPP MIS-SELLING

### **Introduction**

On 28<sup>th</sup> March 2007 the Financial Service Authority (FSA) issued a warning to IFAs that they should not mis-sell SIPPs.

The FSA has looked at promotional material for SIPPs and found worries with a "significant number" of them. As a result, the FSA has warned financial advisers not to be lured by the prospect of high commissions into giving customers inappropriate advice to buy a SIPP.

As you will be aware, the FSA will regulate the sale of SIPPs from 6 April 2007 and we will be regulated by them from that date. We were one of the first SIPP Providers to get our FSA approval, something of which we are very proud.

### **Commission payments on SIPPs**

The FSA says it has noticed reports in the press that some people have been persuaded to alter their pension arrangements and invest in a SIPP when they did not really need to. The suggestion has been that unscrupulous financial advisers have been giving this advice to gain commission on the sale of the new policies.

The Regulator says these customers might have been better off staying in a stakeholder or personal pension plan which might be cheaper.

Some insurance company SIPPs pay a quite substantial commission upfront (we know of at least one insurer who offers commissions of up to 8%) and these are of course deducted from the customer's investment fund.

Whilst this should be with the agreement of the customer, are they really always fully aware of how such payments will affect their future returns?

### **And what about cash?**

Many SIPP Providers also offer poor rates of interest on cash, and either pocket the extra themselves or share it with IFAs. This is frequently not disclosed to their client. It is only a matter of time before the FSA take an interest in this too.

### **A warning from the FSA**

The FSA says that advisers must make sure that "advice given to transfer into a SIPP is suitable, reflects the customer's needs, priorities and circumstances, and is not influenced by commission payments".

It warns that if it finds evidence of people being given poor advice it may launch a wide enquiry into the industry.

### **Our view**

The FSA are spot on. We believe in 100% transparency and only then is there a fair and level playing field – for the benefit of the client. The sooner there is open and full disclosure of commission payments and "hidden" interest charges on SIPPs, the better.

There are many ways that IFAs can legitimately earn fair, decent and regular income from SIPPs. IFAs are invited to ask us for details of alternative ways we have devised for them to earn income streams from SIPPs.

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**Authorised and regulated by the Financial Services Authority from 6<sup>th</sup> April 2007**