CURTIS BANKS: YOUR FUTURE SIPP

A PRICING ANALYSIS PAPER FROM:

BEFORE WE GET GOING

This lang cat analysis paper was commissioned by Curtis Banks in order to support the launch of its new Your Future SIPP product.

We've had many conversations with Curtis Banks about the new SIPP and how it works. We're not known for keeping our views to ourselves and this paper is no exception. While we believe there are opportunities in the current market for Your Future SIPP, there are also challenges and we have pointed out the weaknesses as we see them.

With all that in mind, we set some ground rules. First, we let Curtis Banks check that we had represented its product accurately. But it didn't get to check or challenge any other data or facts, especially those relating to other providers' propositions or pricing.

Secondly, while we make our opinions on the market clear throughout the paper, this isn't a view from the lang cat on the relative merits of specific products or providers over others. That's a conversation for another day where individual circumstances and client suitability trump all.

Lastly, we believe that organisations hire us for work such as this because of our independence and for the honest, direct and sometimes plain awkward opinions that come with it. The views we express here are our own and Curtis Banks had no editorial control over the analysis. The paper is based on a combination of our experience in the market, our own research and views from the advisers we regularly speak to.

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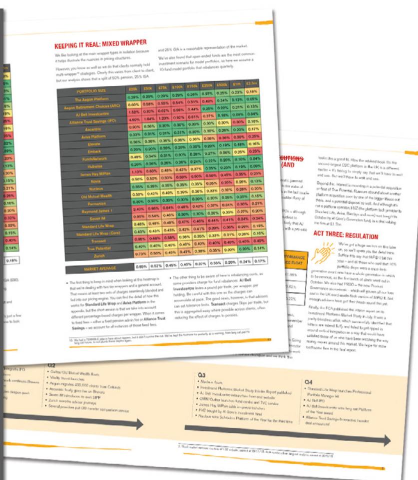


A NOTE ON RESEARCH

Throughout this report, we will lean on and reference 'our research' and various statistics. These are taken from the following lang cat publications:

- *Fixed That For You: State of the Platform Nation,* our 2018/19 guide to the advised platform market.
- *State of the Adviser Nation,* our inaugural study of adviser sentiment.
- *The Platform Market Scorecard,* our quarterly analysis of the advised platform market.

INTRODUCTION

One of the good things to come out of the recent flurry of regulatory activity is that across the long-term savings and investment market, people are talking more and more about the investor. And much of this involves questioning whether they are getting value for money from the charges they pay.

The Financial Conduct Authority's (FCA's) Investment Platforms Market Study (IPMS) placed platforms firmly at the centre of this focus, but it is incumbent upon all of us in the market to keep customer value for money at the forefront of our minds.

IT'S ALL ABOUT THE CLIENT

In this paper we compare pension providers based on price, which is one key consideration, and one we can look at objectively. Comparing value, on the other hand, is a much trickier undertaking as it is entirely subjective and can be judged only by those experiencing the service.

What we *can* do is poke around where we think the value may lie. We can also question who, on balance, is deriving the most benefit from a product or service. There's a great deal of difference between a proposition helping the adviser to support their client offering and one helping to support the business operation in general.

Just to add a further layer of complication, let's not forget that while the client may not be so happy about funding the latter, they could indirectly benefit from the outcome. We also hear the contentious voices shouting at us that the client ultimately pays for it all anyway. They're correct. It's a delicate issue and we'll be sure to tread carefully.

It's also important to keep in mind that very few (if any) people march into their financial adviser's office and confidently announce that they'd like a SIPP please. People don't want products, they want help to meet their financial objectives. A product is the outcome of this, a route from making contributions to one day taking their money back out again.

So, rather than focus on one particular product type, we're looking at the various pathways to a pension wrapper.

VERY BIG NUMBERS

The pensions and retirement income sector manages more than £2.4 trillion of assets, which includes[1]:

- The retirement income market (£384 billion)
- Personal pensions (£403 billion)
- Contract-based workplace pensions (£168 billion)
- Defined benefit schemes (£1,341 billion)
- Defined contribution single employer trusts (£165 billion)
- Master trusts (£18 billion)

Platforms are generally regarded as the investment poster child, and with good reason. Advised platforms currently manage total assets under administration (AUA) of £550bn, of which £400bn was introduced by advisers[2]. But they are not the only option – far from it. We've seen Royal London and Prudential reporting asset inflows in the billions, proving that anyone who thought life companies were out of the game was wide of the mark.

1. https://www.fca.org.uk/publication/data/data-bulletin-issue-14.pdf (page 6)
2. the lang cat quarterly platform market data: Q3 2018.

REGULATION, REPUTATION AND SEGMENTATION

The SIPP market has found itself under scrutiny in recent times. The FCA's 2016 thematic review, for example, introduced the concept of capital adequacy for SIPPs, with the recent Berkeley Burke ruling (and ongoing appeal) leading the regulator to issue a 'Dear CEO' letter, reminding providers of the requirement to be able to meet their financial commitments, no matter the circumstances.

As SIPPs have become more prevalent and complex the FCA has increased its focus, looking also at how effectively providers carry out due diligence on investment options, at the consumer experience (across areas such as competition) and at the clarity of investment risk.

However, SIPPs are far from alone in having experienced a turbulent time. The last 12-18 months have been the most eventful the platform industry has ever seen: multiple IPOs, replatformings that have been plagued with problems and reputational damage and a raft of regulation. In the midst of all this the regulator has been firmly focused on value for money, repeatedly posing the question of 'who benefits?' from the service.

Taking everything into account, this is a good time for us to look at pricing and ask providers the questions we would be putting to them were we carrying out a suitability exercise.

While the regulatory actions may feel onerous, they are all aimed at securing better client outcomes – something we can all get behind. One example is the focus on treating customers fairly that runs through the Product Intervention and Product Governance sourcebook (PROD). The FCA hasn't issued terms of reference for PROD, leaving interpretation up to the individual firm. Our view is that PROD should be consistently adopted as part of a provider's corporate governance policy as a means of conducting best practice. The need for a fairer, clearer and therefore better investment experience for clients is also a core theme of the IPMS.

OUR APPROACH

In order to analyse the market from a pricing perspective, we're going to break total cost of ownership (TCO) down into its component parts, and then build it back up again.

- We'll introduce our peer group and why we've chosen each provider.
- Then we'll look at their approach to charging, with some headlines and segmentation.
- We'll then rationalise that and look at it alongside costs for saving into a pension.
- There are often product/platform costs when the customer starts to take income, so we'll use a different scenario to take them into account.
- We'll also take a look at the distribution of charges across a sample adviser client segment.
- The core costs taken care of, we'll then layer investment costs on top. This is tricky, so we'll get the high viz jackets and hard hats on for that one.
- We'll then round the whole thing off with the thorny issue of value for money.

THE PEER GROUP

The first step in our pricing analysis is to define a reasonable peer group of providers through which an adviser can place pension business on behalf of their clients. To be clear, this analysis isn't about determining who has the best product. It's about considering the various ways in which an advised investor can find their way into a pension tax wrapper, be that via a platform, life company or specialist SIPP. They may be very different creatures, but all are viable routes, which is why we're comparing them side-by-side here.

Naturally, we're including our sponsor, comparing Your Future SIPP against a selection of the top platforms in the market, based on a combination of market momentum, AUA, new business flow and reputation. We're also including several life companies who consistently report high volumes of pension business.

Here's who we're looking at alongside a high-level breakdown of how they charge for their services.

Let's get cracking. Time to meet the family.

<table>
<tr><th>PRODUCT</th><th>CHARGING APPROACH</th><th>CORE CHARGES</th><th>PENSION CHARGES</th><th>DRAWDOWN CHARGES</th></tr>
<tr><td>Curtis Banks Your Future SIPP</td><td>Fixed-fee</td><td>£310 + VAT for investment partner list, £720 + VAT for full investment range.</td><td rowspan="4">Pension only</td><td>£120 + VAT for initial set up (not modelled here), £150 + VAT per annum for ongoing admin</td></tr>
<tr><td>Prudential Retirement Account</td><td>Stepped %</td><td>Steps down from 0.45% to 0.25%</td><td></td></tr>
<tr><td>Royal London Pension Portfolio</td><td>Stepped %</td><td>Steps down from 0.90% to 0.35%</td><td>£208 one off drawdown fee (removed if plan in force for over 12 months)</td></tr>
<tr><td>Scottish Widows Retirement Account</td><td>Stepped %</td><td>Steps down from 0.90% to 0.10%</td><td></td></tr>
<tr><td>Advance by Embark</td><td>Tiered %</td><td>From 0.35% down to 0.10%</td><td>£75 annual fee</td><td></td></tr>
<tr><td>Aegon Retirement Choices (ARC)</td><td>Tiered %</td><td>From 0.60% to 0.45% capped at £1,215 pa</td><td></td><td>£75 annual fee</td></tr>
<tr><td>AJ Bell Investcentre</td><td>Hybrid</td><td>From 0.20% to 0.10%</td><td>Between £45 to £65 quarterly charge + VAT depending on fund value. Waved above £200k.</td><td>£150 + VAT flexi-access drawdown charge. Menu of additional drawdown charges.</td></tr>
<tr><td>AJ Bell Investcentre (RIA)</td><td>Tiered %</td><td>Tiered down from 0.25% to 0.20% for assets over £500k</td><td></td><td>No drawdown charges.One off income payments are charges at £25 +VAT</td></tr>
<tr><td>Ascentric</td><td>Tiered %</td><td>0.30% down to 0.06% (minimum £180 annual fee)</td><td></td><td></td></tr>
<tr><td>Aviva Platform</td><td>Tiered %</td><td colspan="2">Tiered from 0.40% down to 0.15%. Non-pension wrappers have lower tiered fees that start at 0.25%.</td><td></td></tr>
<tr><td>Elevate</td><td>Stepped %</td><td>Stepped charge from 0.3% to 0.10%</td><td></td><td></td></tr>
<tr><td>FundsNetwork</td><td>Hybrid</td><td>0.25% + £45 annual fee</td><td></td><td></td></tr>
<tr><td>James Hay MiPlan</td><td>Hybrid</td><td>0.25% down to 0.01%</td><td>Additional £189 fee for portfolios lower than £200k</td><td>Annual £158 charge and £100 set-up fee.</td></tr>
<tr><td>Novia</td><td>Tiered %</td><td>From 0.50% down to 0.15%</td><td></td><td>£62.50 + VAT charge for any 12-month period when an income payment is made.</td></tr>
<tr><td>Nucleus</td><td>Tiered %</td><td>0.35% down to 0.05%</td><td></td><td></td></tr>
<tr><td>Old Mutual Wealth</td><td>Tiered %</td><td>0.50% down to 0.15%</td><td></td><td></td></tr>
<tr><td>Seven IM</td><td>Tiered %</td><td>0.30% down to 0.05%</td><td>£100 + VAT if the account value is less than £75K</td><td>£135 pa for taking income, £75 for each crystalisation.</td></tr>
<tr><td>Standard Life Wrap</td><td>Tiered %</td><td>From 0.35% down to 0.1%.</td><td>Pension wrapper costs an additional 0.05% and is waived if firms runs more than £75m on the platform</td><td></td></tr>
<tr><td>Transact</td><td>Tiered %</td><td>From 0.5% down to 0.05%</td><td>£80 annual charge</td><td></td></tr>
</table>

THAT'S A MIGHTY FINE TABLE, BUT WHAT IS IT SAYING?

Point taken. We'll rationalise what's going on here as there's a huge degree of variance from provider to provider. First, let's clear up some terminology.

WHEN WE SAY	WE MEAN
Fixed fee	The platform or product has a fixed, explicit pounds and pence cost for product wrappers, administration, trading activity and all other touch-points.
Tiered %	Portfolios are split into chunks, with each chunk charged according to which pricing band it fits into.
Stepped %	Charges apply to the full portfolio depending on which pricing band it has reached.
Hybrid	Percentage-based charging but with a menu of additional charges that apply to typical investor behaviour (i.e. product and drawdown admin).

THE HEADLINES

- What's clear from the table is that the sector is still very much wedded to a percentage-based charging approach. All platforms in our peer group have a percentage-based model. And each of the life companies also operate in this way.
- One thing we should mention while we're talking about the life companies is that the Royal London Pension Portfolio has a bundled range of investments (its in-house Governed Range) within the core product costs. Something to bear in mind if you're rushing ahead to make #valueformoney assessments.
- On reflection, that first bullet isn't entirely fair. It should read that the *platform and life company sector* is very much wedded to percentage-based charging. It's time for our first shoutout to our sponsor (hello, sponsor!). Your Future SIPP operates a fixed-fee approach but it can be viewed as a proxy for the rest of what we'll call the specialist SIPP market, given that the vast majority of products in that segment operate on the same basis.
- Back to platformland[3] and there's very little by way of pricing innovation. Aegon ARC is the only established platform to cap its charges at a meaningful level (no charges to the slice of the portfolio above £250k). Hubwise and Embark recently came to market with lower-than-average platform costs but have both struggled to gain any real traction.
- Since the pension freedoms came into force there's been a mini-trend (trendlet?) of platforms removing additional drawdown charges. A few still operate a menu-based approach but they're now in the minority.
- Platform pricing as a whole has stalled in the last couple of years, with only a bit of tinkering around the edges. We reckon there are a number of factors at play here:
  1. Many platforms are in a mid- or post-replatforming funk, meaning strategic pricing changes aren't on the agenda.
  2. Similarly, the sector is in something of a holding pattern as it waits on any significant fallout from the FCA's IPMS.
  3. Lastly, pricing is yet to prove itself to be any real determinent of new business flow[4].
- On the one hand, the fixed-fee approach has a lot going for it in terms of fairness for the consumer. Everyone pays for what they use so there's no cross subsidy issue. Basic arithmetic also dictates that it's much more cost effective at higher portfolio sizes.
- On the other hand, a bundled headline percentage cost aligns well with the general industry trend towards simplicity and transparency (no large charge sheets to navigate) and is more palatable for smaller pot sizes.
- Ultimately, we reckon there's an inherent tension between the different pricing models. You pull one lever and it affects another and it's very difficult to get the balance right. We'll come back to this later in the paper.

Let's take this a step further by applying the pricing assumptions from the table to key portfolio sizes.

3. Still the worst theme park in the UK and the 134th time we've used that joke.
4. Check out our white paper from *2015 Platform Pricing Prophecies*. Our conclusions hold true thus far.

INVESTORS PUTTING THEIR MONEY IN

	£20k	£50k	£75k	£100k	£150k	£250k	£500k	£1m	£2.5m
Curtis Banks Your Future SIPP	1.86%	0.74%	0.50%	0.37%	0.25%	0.15%	0.07%	0.04%	0.01%
Prudential Retirement Account	0.45%	0.45%	0.45%	0.40%	0.40%	0.35%	0.30%	0.25%	0.25%
Royal London Pension Portfolio	0.90%	0.50%	0.45%	0.45%	0.45%	0.40%	0.40%	0.35%	0.35%
Scottish Widows Retirement Account	0.90%	0.30%	0.30%	0.30%	0.30%	0.25%	0.20%	0.10%	0.10%
Advance by Embark	0.73%	0.50%	0.45%	0.42%	0.38%	0.35%	0.30%	0.20%	0.14%
Aegon Retirement Choices (ARC)	0.60%	0.58%	0.55%	0.54%	0.51%	0.49%	0.24%	0.12%	0.05%
AJ Bell Investcentre (SIPP)	1.28%	0.63%	0.49%	0.46%	0.38%	0.20%	0.20%	0.20%	0.13%
AJ Bell Investcentre (RIA)	0.25%	0.25%	0.25%	0.25%	0.25%	0.25%	0.25%	0.22%	0.21%
Ascentric	0.90%	0.36%	0.30%	0.30%	0.30%	0.30%	0.30%	0.30%	0.16%
Aviva Platform	0.40%	0.38%	0.37%	0.36%	0.36%	0.36%	0.28%	0.22%	0.18%
Elevate	0.30%	0.30%	0.30%	0.30%	0.25%	0.25%	0.25%	0.20%	0.15%
FundsNetwork	0.48%	0.34%	0.31%	0.30%	0.28%	0.27%	0.26%	0.25%	0.25%
James Hay MiPlan	1.20%	0.63%	0.50%	0.44%	0.38%	0.25%	0.23%	0.19%	0.09%
Novia	0.50%	0.50%	0.50%	0.50%	0.50%	0.50%	0.45%	0.35%	0.23%
Nucleus	0.35%	0.35%	0.35%	0.35%	0.35%	0.35%	0.35%	0.26%	0.13%
Old Mutual Wealth	0.50%	0.40%	0.37%	0.35%	0.33%	0.32%	0.28%	0.24%	0.19%
Seven IM	0.90%	0.54%	0.46%	0.30%	0.30%	0.30%	0.30%	0.27%	0.20%
Standard Life Wrap	0.40%	0.40%	0.40%	0.40%	0.40%	0.40%	0.35%	0.30%	0.21%
Transact	0.90%	0.66%	0.56%	0.36%	0.33%	0.31%	0.30%	0.25%	0.15%

Our accumulation[5] table includes any ongoing platform, product or SIPP admin fee, but doesn't include the ongoing charges figure (OCF) of the investment in question. On that theme, we don't assume any portfolio or particular investment proposition. More on that later.

Your Future SIPP is on the market rate for investments of £75k and then becomes cheap/very cheap/hella cheap as you move up the scale. The only cost is the annual £310 + VAT product charge.

Half a million pounds is no longer an incredible sum of money in the post DB to DC transfer universe, and at this point Your Future SIPP is only a quarter of the market rate.

Platforms are, by and large, hooked on the drug of unlimited percentage-based charging. The majority – as we saw earlier in our overview table – favour tiered percentage-based charging with no ceiling. The only fixed fee offering in the platform sector was Alliance Trust Savings, but since the acquisition by Interactive

5. Terrible word.

Investor and then sale of the advised book to Embark Group it is no longer open for business – and assets which were with ATS, are now heading across to one of the Embark Platforms. Your Future SIPP now has the unique selling point of being the only flat fee pension offering featured in these tables.

Very few platforms cap charges with Aegon ARC (again, we don't know what the long-term pricing strategy will be once the Cofunds/The Aegon Platform thing settles down) and Hubwise (too new and untested to be in the peer group) forming the main two. AJ Bell Investcentre also caps charges but at such a high portfolio level (£2m) that it might as well not do so.

The life companies look more costly than you might expect, but it's important to keep in mind that they either have very cheap internal funds or, in the case of Royal London, its flagship range bundled into the cost.

GETTING IT BACK OUT AGAIN

	£100k	£150k	£200k	£250k	£300k	£500k	£750k	£1m	£2.5m
Curtis Banks Your Future SIPP	0.55%	0.37%	0.28%	0.22%	0.18%	0.11%	0.07%	0.06%	0.02%
Prudential Retirement Account	0.40%	0.40%	0.40%	0.35%	0.35%	0.30%	0.28%	0.25%	0.25%
Royal London Pension Portfolio	0.66%	0.59%	0.55%	0.48%	0.47%	0.44%	0.38%	0.37%	0.36%
Scottish Widows Retirement Account	0.30%	0.30%	0.30%	0.25%	0.25%	0.20%	0.20%	0.10%	0.10%
Advance by Embark	0.42%	0.38%	0.36%	0.35%	0.33%	0.30%	0.23%	0.20%	0.14%
Aegon Retirement Choices (ARC)	0.61%	0.56%	0.53%	0.52%	0.43%	0.26%	0.17%	0.13%	0.05%
AJ Bell Investcentre (SIPP)	0.61%	0.48%	0.28%	0.26%	0.25%	0.23%	0.22%	0.21%	0.14%
AJ Bell Investcentre (RIA)	0.25%	0.25%	0.25%	0.25%	0.25%	0.25%	0.23%	0.22%	0.21%
Ascentric	0.30%	0.30%	0.30%	0.30%	0.30%	0.30%	0.30%	0.30%	0.16%
Aviva Platform	0.36%	0.36%	0.36%	0.36%	0.34%	0.28%	0.24%	0.22%	0.18%
Elevate	0.30%	0.25%	0.25%	0.25%	0.25%	0.25%	0.25%	0.20%	0.15%
FundsNetwork	0.30%	0.28%	0.27%	0.27%	0.27%	0.26%	0.26%	0.25%	0.25%
James Hay MiPlan	0.60%	0.48%	0.33%	0.31%	0.30%	0.26%	0.23%	0.21%	0.10%
Novia	0.58%	0.55%	0.54%	0.53%	0.51%	0.46%	0.41%	0.36%	0.23%
Nucleus	0.35%	0.35%	0.35%	0.35%	0.35%	0.35%	0.29%	0.26%	0.13%
Old Mutual Wealth	0.35%	0.33%	0.32%	0.32%	0.31%	0.28%	0.27%	0.24%	0.19%
Seven IM	0.30%	0.30%	0.30%	0.30%	0.30%	0.30%	0.28%	0.27%	0.20%
Standard Life Wrap	0.40%	0.40%	0.40%	0.40%	0.38%	0.35%	0.33%	0.30%	0.21%
Transact	0.36%	0.33%	0.32%	0.31%	0.31%	0.30%	0.27%	0.25%	0.15%

Moving on now to decumulation[6] and the same rules apply about our analysis being net of any investment proposition costs. You'll notice that the initial pot size is higher due to this being a drawdown scenario.

In a practical sense, this means that we're looking at the same set of calculations as before, but this time loading any initial and annual drawdown costs on top.

From a Curtis Banks perspective, we note here that Your Future SIPP has set-up costs for flexi-access (£120 + VAT) and ongoing drawdown admin (£150 + VAT). Our heatmaps are based on an ongoing annual basis, so that initial set-up fee is excluded but one to be mindful of.

Your Future SIPP begins to look in line with the rest of the market around the £200k level and, like before, starts to streak ahead on cost at the half million-pound point. On an ongoing basis, £500k invested in Your Future SIPP will cost £310 + VAT plus £150 + VAT. **That's just £550 per year, or £46 a month.**

Excluding Your Future SIPP, the market rate for £500k is just over 0.30%. We'll call it a round 0.30% between friends. Or put in terms that Joe/Joanne Bloggs would understand, **£1,500 per year or £125 each month. However you look at it, that's three times the cost.**

Now, in the interest of balance it's only correct to point out that, of course, a platform can deliver a significant breadth of functionality, and features such as pre-funding and income flexibility that directly benefit the customer. But platforms also deliver functionality around reporting and investment proposition maintenance. Many believe (and we know from the IPMS interim report that the regulator has its eye on this) that there are some instances where the benefits are tilted too much in favour of the adviser.

If a platform can deliver enhanced experience, functionality and all that, then is it worth it? Where does the benefit sit? If it's adviser-led does this make its way back to the customer?

6. Even worse word.

KEEPING IT REAL

We reckon our heatmaps offer a great snapshot of the relative competitiveness of products and platforms across various investment pot sizes. But, over in the real world, advisers take into account each client's unique set of circumstances whilst trying to run a coherent service across a book of clients. And that means unique wrapper splits, portfolio sizes and all the stuff that punches one dimensional tables squarely in the face.

THE INEVITABLE PROD BIT

If all that isn't enough, PROD rules and guidance make it clear that assessing suitability by client segment isn't optional. To quote directly:

> *Distributors must determine the target market for the respective financial instrument, even if the target market was not defined by the manufacturer…*
>
> *The target market identified by distributors for each financial instrument should be identified at a sufficiently granular level.*

PROD applies to any firm that manufactures or distributes financial instruments, which means SIPPs, platforms and life companies at the start of the advised market distribution chain, and advisers at the other end.

Now, the majority of providers are not manufacturers in this context, meaning that the selection of SIPP or platform does not fall under PROD. This is the case for Curtis Banks. On the other hand, some firms will be both manufacturer and distributor, albeit via different legal entities. Where those products are distributed exclusively through one provider – an in-house SIPP for example – the symbiotic relationship between manufacturer and distributor brings PROD to the fore.

It's easy to lose sight of what PROD is all about. To refresh, it's target market definition, suitability and treating customers fairly. Specifically, making sure advisers segment their client propositions appropriately and that customers end up with products that suit their needs. Perceived complexities aside, that's all good news for investors.

We think that applying this framework to provider selection makes sense. It seems strange to us to ensure that an investment fits with a client's specific requirements, but not apply the same stringent requirement to provider selection. This is a decision, with price a key element, that can have just as much of a material impact on client outcomes as the investment itself.

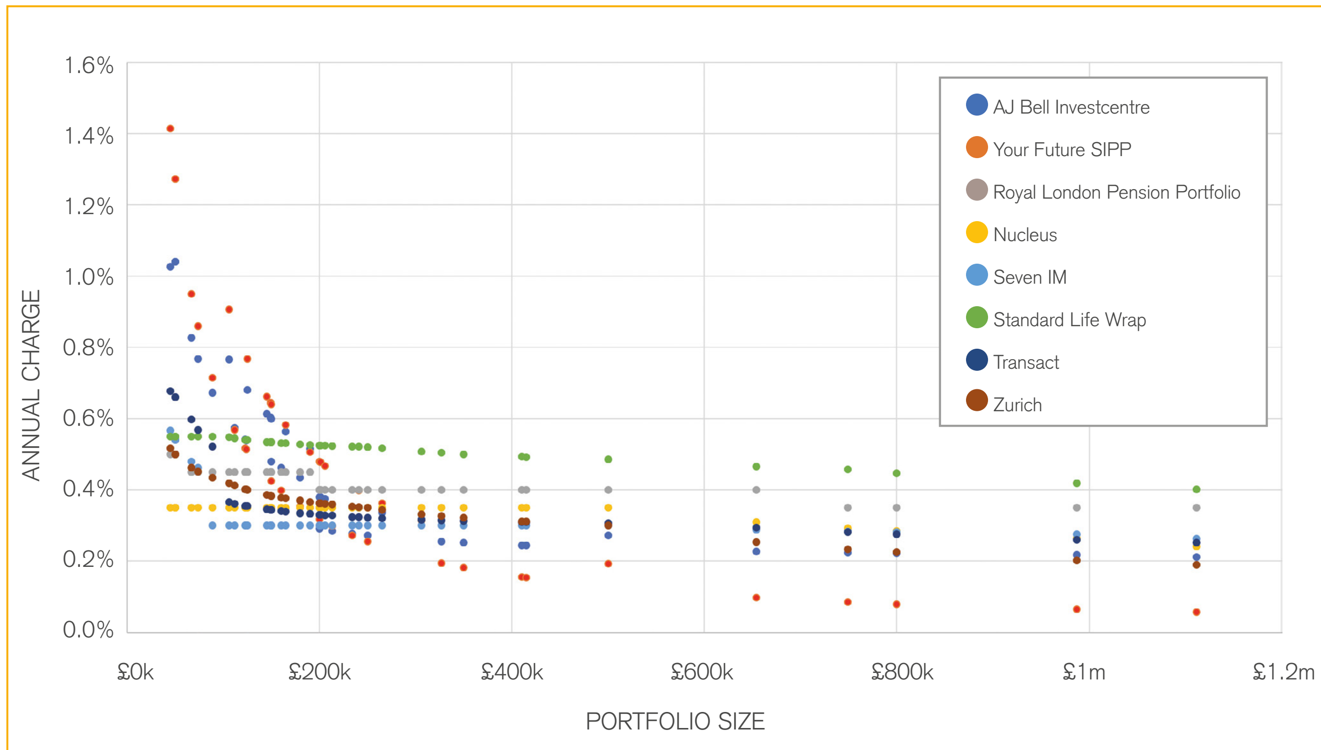
To illustrate some of this thinking in practice, we've drawn on our extensive experience of managing suitability exercises on behalf of adviser firms to create a sample client segment and model a set of customers with the following characteristics[7]:

- A total of 40 clients in the segment.
- The clients in this segment are wholly invested in a pension wrapper.
- The average portfolio size is £275k, with a mode average around the £150k to £200k mark.
- Just under half of clients are drawing income.

This analysis assumes that we've already done rigorous work looking at suitability from our client segment's perspective. We've gone through the initial shortlisting phase and identified eight providers – six platforms, a life company and our sponsor, which we feel merit a closer look in terms of pricing.

If we put this book of business through our pricing calculator the following picture emerges.

7. In the interests of transparency, similar underlying assumptions and characteristics also appear in *Fixed That For You: State of the Platform Nation*, our 2018/19 guide to advised platforms. We have intentionally used similar assumptions and process here 1) because we believe in the process and 2) to free us from any suspicion that we're manufacturing a creative scenario for the benefit of our sponsor. We've all worked in marketing departments!



Looking at a range of different clients in this way, a number of patterns emerge. What we're seeing here is the various charging approaches clearly illustrated in practical terms. Specifically:

- Standard Life Wrap demonstrates the tiered percentage approach with an incremental decline in annual charge as portfolio sizes increase.
- Contrast this to Royal London Pension Portfolio, where you can see a series of straight lines, illustrating the stepped approach as new pricing 'cliff edges' are reached.
- Transact and Zurich follow similar curves, with the effect of fixed pension admin fees resulting in a definite downward curve at lower portfolio sizes.
- Your Future SIPP has the most pronounced pattern of all and we see two main things going on with it. Firstly, there's the effect of the fixed-fee approach, with the lower portfolio sizes looking out of step with the majority of the market, but then comes the clear inflection point above £200k where you start to see the product looking extremely competitive.
- Note also the effect of the additional fixed drawdown fee. This creates two similarly shaped curves for Your Future SIPP as we see the effect of the product charges with or without drawdown[8].
- There's a real clustering effect at the £150k to £250k mark, with very little differentiation between our cohort of providers (despite representing many fundamentally different models). This is unsurprising to us as it's the centre of gravity for the advised market at present and we're seeing demonstrable evidence of real competition here.

Assuming proposition and provider suitability and analysis formed the basis of this (fictitious) exercise and informed our shortlist, reasonable conclusions could be that:

- From a purely pricing perspective, any one of the likes of Nucleus, Seven IM, Transact or Zurich Intermediary Platform could form a natural fit for our sub-£200k clients.
- Above this point, Your Future SIPP makes a compelling case to be considered, based on the sheer competitiveness of its core charges.

Now, clearly this is a lightning-quick sprint through what a pricing analysis may look like and we're making a couple of leaps of logic with our provider shortlisting. It's also important to keep the overall theme of the paper in mind. We're thinking from the perspective of investors, who are generally more concerned about meeting their objectives than the specific products and their respective mechanics. They approach the process with none of our ingrained industry prejudice and are more open-minded (albeit accidently) as a result. There may be a lesson in there.

From the adviser perspective, it's unlikely that a platform, life company and off-platform SIPP would be set against one another for any particular client. The likely direction of travel for the client's investment would become clear much earlier in the process. That said, it could conceivably be directed towards any of the three, hence our comparing them head-to-head on price here.

There is, of course, one additional and vital step to consider, and that's the investment proposition that the adviser firm chooses on behalf its customers. Let's crack on.

8. The less famous U2 song.

TO CIP OR NOT TO CIP

Every SIPP requires an investment. Otherwise it would be a SPP. Which would benefit no-one. And just as product or platform costs are part of the equation, so we must factor in investment costs too. But doing so is far from straightforward.

In our most recent adviser research, 86% of respondents reported that they are running some kind of centralised investment proposition (CIP). Within that, running advisory models, outsourcing to a discretionary fund manager (DFM) or using multi-manager/multi-asset funds form the top three mechanisms, with the number of advisers opting to run their own discretionary models lagging some considerable way behind. In the interests of fair disclosure, we should mention here that our adviser panel data is slightly skewed towards platform adopters and their associated behaviours.

We talk a lot at lang cat HQ about the concept of Sliding Doors. Not because we particularly like the film. I mean, it's alright and we have nothing specific against John Hannah, but it crops up because it's a good metaphor for the range of potential customer outcomes.

As we alluded to in our introduction, we doubt very much that the following statements are representative of the thoughts customers have prior to seeing a financial adviser:

"I really should see an adviser to open up a SIPP, I hope it's fixed-fee."

OR

"I wonder if my financial adviser operates a centralised process meaning I'm in a similar investment range to his or her other customers."

OR

"I wonder if my investment range will be from the same provider as my product or adviser. Oh I do love a bit of vertical integration."

Rather, we think the likeliest thought process in the majority of cases will be more along the lines of:

"I've got this chunk of money and I have no clue what to do with it, I'd best see a professional. I very much hope they don't rip me off."

That's why when us industry types are assessing things like price, or investment segment or value for money, it's incumbent upon us to remember that the customer has very little influence on the nature and location of his or her product and investment solution. Their fate is sealed the moment they choose an adviser firm.

Here, we take a look at the variety of investment approaches taken by adviser firms, where they are most likely to place their business, and some representative TCOs based on our experience in the market.

APPROACH	PRODUCT/PROVIDER	TYPICAL COSTS
The intellectual property of investing rests firmly within my firm. I run models on an advisory or discretionary basis.	Exclusively on-platform.	Platform ~ 0.35%. OCFs will vary depending on house view (particularly around active versus passive) but a typical mean average cost of ~ 0.75% will be there or thereabouts.
My specialism is financial planning. I outsource investments to a DFM.	Typically on-platform, but for pension-only clients there's no reason not to use an off-platform SIPP.	Platform ~ 0.35%, DFM access 0.15% to 0.50% + VAT, OCF variable.
My specialism is financial planning but I choose a multi-asset range.	Again, typically on-platform and very typically via the likes of Vanguard LifeStrategy.	Platform ~ 0.35%. Multi-asset funds vary but can be as low as 0.25% to 0.30% for passive ranges.
I have a range of clients for whom I recommend more complex investments.	Many platforms can cater for this but specialist SIPPs offer the cleanest and most cost-effective route.	Typically fixed-fee product for ~ £500-600 with additional menu of charges.
I want a light-touch investment approach, with an integrated range of investments.	Typically lifeco with Royal London Governed Portfolios and PruFund hoovering up loads of new business for pension-only customers.	Product plus investments often sub 1% (as low as 0.35% in the case of Royal London).
I work for a firm that mandates the use of certain investments.	The likes of St. James's Place, 1825, Intrinsic et al.	TCOs can range from eye-watering highs of 2.5% – 3% (including advice) down to more mean* industry levels.

*mean average. Not mean, nasty.

We're not breaking any new ground when we say that there's no right or wrong way with this stuff. It all comes back to the client, their needs and the best way of getting them along that path from making contributions into a pension, to taking it back out again in whatever form.

It is, however, a good thing for the industry to collectively step back from 'how we do, always have and always will do things' to remind itself of this. If, based on the suitability process, a CIP is the best option for your client, great. Go, Gadget go. If, on the other hand, you believe that your client really just needs an insured fund or a tracker, or indeed something more complex, then that's fine too.

CONCLUSIONS

As we've worked our way through this analysis, we've found ourselves being consistently pulled back into the following train of thought:

- In very simple terms, fixed fees mean there is an inflection point at which the product will start to work very nicely in favour of the customer. We will win the sum total of zero Nobel Prizes for Mathematics by pointing this out[9], but that doesn't make it any less true.
- This line of thinking is complicated though by the fact that platforms, which by and large charge unlimited percentage-based fees, offer a significantly wider range of services including tools and software integration, wrapper consolidation and (one of the biggies) the ability to industrialise an investment proposition. All of these things are very real and very valid.
- That's not to say that Your Future SIPP (and remember that in the interests of impartiality, it acts as a proxy in this paper for the rest of the off-platform SIPP market) doesn't have anything going for it. It has, most notably around the ability to access a wider range of investments in a cost-effective manner.
- You may also decide that placing pension-only business in a vehicle renowned for its pension specialism – whether that's a SIPP provider or a life company which patently specialises in pensions – is an entirely logical thing to do. When the going gets complex you find out who really know their onions and all that.
- But there's no getting round the fact that platforms offer more by way of ongoing systemised, transactional functionality. This will come as no surprise to our sponsor and it's to Curtis Banks' credit that it hasn't challenged our stating this explicitly here.
- That in turn leads us (and to be fair, many others, including the regulator) to question where the *balance* of platform benefits lies and whether those benefits are too skewed in favour of the adviser firm.
- Our regular platform research shows that around 50% of existing platform assets are held in a pension wrapper, and that the proportion of new business flow is significantly higher. We also know that there are tens of thousands of customers whose sole investment on-platform is in a pension wrapper. So, that's one of the core benefits of platform usage (the multi-wrapper consolidation, reporting and transacting) negated right there.
- Customers don't view the financial services sector as a series of component parts as we do. Instead, they surely assess matters in terms of the utility they derive from the sector as a whole. Or in simpler terms "How is my money doing and am I going to meet my financial goals?" and not "That bit looks slightly too expensive to me". Not that a customer would be able to make a market assessment of cost for themselves anyway, given the complexity of the sector.
- MIFID II may help shufti this along a bit, by increasing the visibility of the pounds and pence cost of each component part of the TCO chain, but we don't think this will be a paradigm shift for consumer attitudes.

9. Not to mention the fact that there isn't a Nobel Prize for Mathematics, so we couldn't win one even if we tried. Which we won't. Because it's mainly just adding and dividing.

This is an interesting debate on a number of levels, but you have to be careful not to swirl down a vortex of circular thought. To illustrate the dangers, look at this series of entirely reasonable statements:

Do we believe that if a customer only has pension assets then an off-platform solution should be at least considered when it can be demonstrably cheaper for the customer in a large volume of instances? Yes.

Do we believe that running a risk-aligned CIP can be an efficient way to run a client proposition? Of course.

Do we think the needs of some customers are best served by more specialist investment types? That's probably true too.

Do we understand why an increasing number of firms are championing the utility of financial planning and are outsourcing investments as a result? That makes sense as well.

Do we think that some of the efficiencies of platform use are, for a variety of reasons, yet to be fully realised, therefore meaningful cost savings are yet to make their way to customers? Well, we kind of agree with that too.

See what we mean?

In the midst of all this intellectual grandstanding, our minds need to be brought back to the two critical questions that are central to this paper:

1. What defines value for money? and
2. Who gets to decide?

On the second question, we politely step aside. Only adviser firms and their clients, on an experiential case-by-case basis can decide that for themselves. Tricky, no?

SUMMING IT ALL UP: KEY PRICING CONSIDERATIONS FOR YOUR FUTURE SIPP

1. Looking purely at core costs, Your Future SIPP is extremely competitive at all but the lower portfolio sizes thanks to its fixed-fee approach.
2. For portfolios in excess of £200k, there are significant savings to be made on product custody and administration compared to the main incumbents in the platform market.
3. The majority of adviser new business is transacted on a risk-based, commoditised basis, via either model portfolios or multi-asset funds.
4. Advisers can outsource model portfolio investment to a discretionary manager via one of Curtis Banks' investment partners. The cost of this is likely to be broadly in line with accessing a DFM via a platform. However, some of the elegance of an MPS solution will be lost.
5. While multi-asset fund use is not commonplace among advisers using off-platform SIPPs, from a pricing perspective, accessing the desired investment fund directly via Your Future SIPP could be cost-effective.

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