LONDON & COLONIAL
INNOVATION IN PENSIONS

Press Release

Adam Wrench, Head of Business and Product Development, explains that whilst the subject of SIPP cash commissions might have some up in arms, not everything is as it may at first seem.

The issue of SIPP cash commissions is undoubtedly a thorny one, continuing to make headlines as the industry debate over whether it's right or wrong persists.

It is quite clear from recent media coverage that, for many, cash commissions continue to be the SIPP industry's number one issue at present and we certainly get the feeling that it won't be disappearing anytime soon.

It has been claimed by some that many SIPP providers shy away from the mere mention of the subject, fearful that they might rock the boat should the FCA decide to turn their ever-increasing spotlight on such 'payments'.

Such interest is growing seemingly more likely, as some are unfortunately describing such payments as having been "siphoned off" from interest earned on Client Account monies held at the bank, and without them knowing. A few have even gone as far as to suggest that as the practice of withholding interest is contrary to the principles of Treating Customers Fairly, there is a risk that this could trigger yet another mis-selling scandal.

In our opinion, not only are these suggestions misleading and harmful to the already fragile reputation of the SIPP industry, but they are also factually incorrect; and it is such unnecessary inflammatory wording that makes future FCA intervention more, rather than less, likely.

Firstly, for this practice to be deemed as 'mis-selling' the client would have to be totally unaware that their provider was withholding part of any interest earned on their account. Personally speaking London & Colonial have always openly declared this fact to all of our SIPP clients and we very much doubt that we are unique on this front.

What, of course, does need to be better understood is the amount of interest the provider retains, especially as in the majority of cases the client will still receive the exact same amount of interest they would have been given had they placed the investment in a current account with the bank in question themselves – and in some cases they may receive even more.

Whilst some may be surprised at this latter statement what you need to bear in mind is that the reason these additional payments become available in the first place is due to the significantly large sums of money involved when a provider's client's funds are pooled together, combined with the considerably higher rates of interest that a SIPP provider is able to negotiate as a result of these sums. In fact, many clients will find their SIPP accounts to have benefitted from far higher payments than would have been the case had they "flown solo", as the level of interest available will always be higher for an institutional commercial investor.

It's also worth bearing in mind that a considerable proportion of any payments the provider may receive will be used

to help reduce the ever increasing operating costs – costs that would normally have been passed onto the client in the form of higher annual management fees.

So in reality, with London & Colonial at least, not only do clients potentially benefit from a better interest rate than that they could have secured for themselves in a current account, but they also receive a reduction in the additional costs of maintaining their SIPPs thanks to this "commission". As such, we really do struggle to see how so many people can view these payments as being unfair.

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Notes to Editors

About London & Colonial
London & Colonial specialises in self-invested products for both UK residents and persons resident overseas.

The London & Colonial Group includes

(1) London & Colonial Holdings Limited – UK parent company
(2) London & Colonial Services Limited which is regulated by the UK Financial Services Authority and operates SIPPs and SSASs
(3) London & Colonial Assurance PLC which is regulated by the Gibraltar Financial Services Commission (matching UK standards) and which offers Open Annuities, QROP Annuities and Open Offshore Bonds
(4) L&C (Administration Services 2) Limited and London & Colonial (Trustee Services) Limited which are both based in Gibraltar and offer the EU SIPP.

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