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Dear CEO

FCA’s expectations for Self-Invested Personal Pension (SIPP) Operators

We are writing to you because your firm’s primary business is that of a Self-Invested Personal Pension (SIPP) Operator. This letter provides a summary of our priorities, our expectations of you, and the work we intend to do.

As set out in our letter in May 2023 (the May 2023 letter), this is an important supervisory portfolio for the FCA as the SIPP product can play a key role in enabling consumers to plan for their retirement with a greater degree of flexibility and control. However, average SIPP pension pot sizes are often higher than other types of personal pension, meaning harm to individual consumers can be greater when issues materialise. We therefore want the portfolio to deliver high standards and for consumers investing in SIPPs to do so with confidence, understanding the risks they are taking, and the regulatory protections provided.

This letter highlights any new and additional areas of focus but should be read in conjunction with the May 2023 letter.

Key focus areas

We recently completed our **2024 SIPP data request** in July 2024. Our supervisory teams will be using this information to increase our **proactive engagement** with firms through a rolling series of visits over the next year to assess and ensure the expectations set out in this letter and the May 2023 letter are being met in full.

We have also recently refreshed our portfolio strategy for SIPP operators but the concerns set out in the May 2023 letter remain as we have not yet seen sufficient progress from all firms to address them – particularly in relation to **redress** payments being made to consumers for due diligence failings.

We have growing concerns about the **handling of pension scheme money and assets** by some firms, and the **accuracy of firms’ books and records**. We also have some feedback for firms on their **implementation of the Consumer Duty**.

2024 SIPPs data request

Our recent SIPPs data request was sent to all firms with permission to operate a personal pension. Thank you for providing the information requested.

Initial analysis of the data provided shows that the total level of assets under administration across the SIPP Operator portfolio is now £184bn (compared to around £130bn in 2022). We have also continued to see an increase in assets under administration on platform-based SIPPs who are supervised in our Platforms portfolio (which now

amounts to £204bn). The total assets under administration within SIPPs reported by all firms now stands at £567bn, for approximately 5.3m consumers.

Non-standard assets within all SIPPs now account for around 1.57% of the total assets under administration (compared to 2% in 2022). Furthermore, we have seen that most new non-standard assets have been in more secure asset types, such as unbreakable fixed term deposits and National Savings & Investments products, with approximately 66% of newly invested non-standard assets in these asset classes (compared to 17% in 2022).

Further analysis of the 2024 data request is taking place. We will be using the data to identify any outlier firms and those that may not be sufficiently resourced, which pose a potential risk to the wider market or consumers. We will engage with these firms individually and where standards are not at the levels expected, we will take any necessary supervisory action.

Redress

The number of open SIPP due diligence cases at the Financial Ombudsman Service (FOS) is decreasing (from a high point of around 3,500 in 2019-20), but there remain approximately 800 open complaints. Some of these cases are now over 24 months old, and in our view are capable of being resolved informally based on either 'lead' or published Final Decisions from the FOS.

What we expect of you

Earlier this year, the FOS successfully defended another judicial review about its handling of SIPP due diligence complaints. Following the conclusion of this latest judicial review, we expect firms receiving a lead decision from FOS to take appropriate action under the Consumer Duty to meet these obligations (in particular, under PRIN 2A.2.5R and PRIN 2A.10.2R) and resolve complaints as quickly as possible.

What we will do

Our work in the upcoming strategy cycle will continue to focus on redress being paid appropriately and promptly. We will be engaging with firms to ensure they are satisfying their obligations under DISP and the Consumer Duty.

Pension scheme money and assets

Whilst SIPP operators using a separate unauthorised trustee company are unlikely to be in scope for CASS 7, we have growing concerns that some firms have not been operating trustee bank accounts with adequate controls and oversight. We are also concerned that some firms' books and records, particularly in relation to the assets being held for the pension scheme, are not being appropriately maintained and updated. We remind you that firms have overarching obligations under Principle 10 to arrange adequate protection for client assets when they are responsible for them.

System and control weaknesses in these areas can mean consumers are provided incomplete or inaccurate valuations or statements of their pension, impairing their ability to make informed decisions and plan appropriately for retirement. In worst case examples, they can lead to shortfalls in pension scheme bank accounts, fraudulent payments being made from the pension scheme, and can also lead to significant delays in the orderly wind down of a firm where its pension business is being transferred to a new operator.

What we expect of you

We expect you to review your controls over pension scheme bank accounts to ensure they are robust, that your books and records are accurate and that there is adequate oversight by the firm's Senior Manager Function holders. If appropriate, you should consider ways

to enhance the data you collect and store on the underlying investments within the pension scheme.

What we will do

In line with our proactive strategy, our team will be completing more in person site visits to your firms looking at your systems and controls, with a particular focus on ensuring accurate books and record keeping.

Consumer Duty

Through our pre and post implementation Consumer Duty work in the portfolio, we have now reviewed 19 SIPP operators. Whilst many of these firms have taken significant steps to implement the Duty, some have demonstrated there is additional work or improvement needed.

Some of the concerns we identified were:

- As set out in our May 2023 portfolio letter, SIPP operators are manufacturers and distributors under the Consumer Duty. Whilst all firms understood their role as manufacturer, many remained unclear about their obligations as distributors under the Consumer Duty. SIPP operators are distributors under the Consumer Duty because they sell a product when they grant rights under a personal pension scheme to a member.
- Some firms have not specified the target market for their products at a sufficiently granular level. This is significant because of long-term fair value concerns for groups of consumers who do not need the flexibility of a full SIPP or who do not have a significant pension pot and are therefore unlikely to fall within the target market for this product.
- On fair value, some firms assessed the value of their product primarily through market comparisons. In our [recent publication](#) on good and poor practice under the price and value outcome, we explained that firms may consider the costs to manufacture and distribute a product in their value assessments (see PRIN 2A.4.9G(1)). Incorporating cost and margin analysis with supporting evidence in a fair value assessment can provide necessary context to effectively consider pricing decisions.
- Some firms were too reliant on third parties (such as advisers) to ensure their communications were understood by retail clients.
- Some firms had not adequately implemented the Consumer Duty for closed products and services, despite the 31 July 2024 deadline now having passed.

What we expect of you

Whilst firms understand their obligations as a manufacturer, we remind you that as distributors your firm must maintain, operate and review product distribution arrangements, which includes ensuring the needs, characteristics, and objectives of the target market are taken into account. Distributors should review their distribution arrangements to verify their product is only being distributed to the identified target market. A distributor should also not distribute a product unless its distribution arrangements are consistent with providing fair value. This includes considering whether remuneration received, both by itself and other persons in the distribution chain, would result in the product (i.e. the member's pension) no longer providing fair value.

The FCA’s publications on Consumer Duty, including our final guidance (FG 22/5), can be found on our [website](#). We recently published an [update](#) on the price and value outcome, with a specific mention of SIPP operators.

What we will do

We will be engaging individually with firms who have not yet implemented a robust framework for all products under the Duty and/or have not met the expectations set out in our recently published update mentioned above. Where standards have not been met, we will work proactively with these firms to ensure they are raised in line with our expectations.

Next steps

You are responsible for ensuring that your firm meets FCA requirements including the obligations and expectations set out above. You should take all necessary action to ensure these are met. We may ask you to assess your business against these areas of concern and explain the actions you have taken. As before, we will use the Senior Managers & Certification Regime to engage directly with accountable individuals on specific areas of concern.

Our proactive strategy will focus on the areas addressed in this, and the May 2023, letter, and we will expect firms to demonstrate how you have fully implemented these concerns into your firm’s work plan.

The SIPP’s Supervision team is also available at SIPPSupervision@fca.org.uk, or via the Supervision Hub on 0300 500 0597.

Yours sincerely



Lucy Castledine
Director of Consumer Investments