



# Work and Pensions Committee

House of Commons | London | SW1A 0AA

Tel 020 7219 5831 Email [workpencom@parliament.uk](mailto:workpencom@parliament.uk) Website [www.parliament.uk/workpencom](http://www.parliament.uk/workpencom)

From the Chair

22 May 2018

Megan Butler

Executive Director of Supervision - Investment, Wholesale and Specialist

Financial Conduct Authority

25 The North Colonnade

Canary Wharf

London E14 5HS

Dear Megan,

## **Self-invested personal pensions (SIPP)**

During our examination of defined benefit pension transfers, it has become clear that SIPPs are the primary vehicle used by unscrupulous advisers to channel individuals' pension savings into unsuitable investments.

The role of SIPPs in intermediating this sort of investment is a longstanding concern. The FCA's thematic review of SIPP operators in 2013/14 found "unacceptable", "significant" and "widespread" failings in due diligence and consumer protection. It found that "most SIPP operators failed to undertake adequate due diligence on high-risk, speculative and non-standard investments".<sup>1</sup>

Last year the FCA warned operators about the risk of exposure to "increasingly sophisticated" scams if due diligence processes were not robust,<sup>2</sup> and wrote to all SIPP providers asking for information on the level and type of non-standard investments held within SIPPs.<sup>3</sup>

Although the FCA has warned SIPP providers about what it expects of them regarding due diligence, it is not clear what repercussions a provider faces if these

---

<sup>1</sup> FCA [Dear CEO letter: Action required: review of Self Invested Personal Pension \(SIPP\) operators](#), 21 July 2014

<sup>2</sup> FCA alert [Pension scheme operators are at risk from smarter scams](#), 24 January 2017

<sup>3</sup> ["FCA weighs action on non-standard Sipp investments"](#), New Model Adviser, 17 October 2017

expectations are not met. Primary responsibility for paying compensation for mis-selling falls to the financial adviser, who can evade this by folding their firm.

Recently disclosed FCA data shows that the amount of money transferred out of DB pensions more than doubled last year to nearly £21 billion.<sup>4</sup> This surge in transfers heightens concerns about the destination of these funds.

The Financial Services Compensation Scheme (FSCS) expects SIPP-related compensation claims to continue rising, leading to an increase in compensation costs.<sup>5</sup> While the protection provided by the FSCS is welcome, it is limited to £50,000 per case which in many cases will fall far short of the financial loss suffered.

In the light of the above, might I please ask the following:

- 1) What is the value and proportion of funds transferred from DB pension schemes into SIPPs in the last two years which are held in the form of non-standard or unregulated investments?
- 2) What due diligence are SIPP providers required to conduct on the investments that they provide access to, and how does the FCA monitor this?
- 3) What powers does the FCA have to punish SIPP providers for failure in due diligence, and how have these powers been used?
- 4) In what circumstances can a SIPP provider be deemed liable to pay compensation to a customer whose funds ended up in an unsuitable investment scheme, rather than the financial adviser who arranged the investment?
- 5) Is the FCA considering the option of barring unregulated or non-standard investments altogether from inclusion in SIPPs?

Best wishes,



**Rt Hon Frank Field MP**  
**Chair**

---

<sup>4</sup> ["Record number of savers abandon final salary pension schemes"](#), Financial Times, 18 May 2018

<sup>5</sup> Financial Services Compensation Scheme (FSCS) [Plan and Budget, 2018/19](#)