ISSUED 22 FEBRUARY 2021

PROVIDER SECTOR

**Talbot and Muir**

# FINANCIAL STRENGTH ASSESSMENT

**Analysis by AKG Financial Analytics Ltd**

Accessible • Comparative • Independent

## ABOUT THIS FINANCIAL STRENGTH ASSESSMENT

This AKG report and the analysis and ratings contained within it provide assessment of financial strength and associated considerations. Financial Strength is focused on the ability of a company to deliver ongoing operational capability in the interest of its customers and in line with their fairly held expectations. AKG's perspective in the assessment of financial strength is wholly that of a customer of a product or service. From that foundation, this analysis is specifically designed to inform financial advisers and assist in their required understanding of a company's operational financial strength.

Given the underlying customer perspective, the financial strength of companies needs to be focused at an operational level (i.e. the elements and functions of an organisation which operate to specifically deliver and manage a proposition or service to the customer), specifically on the company that is effecting the product or service that a customer is selecting. This is important, because from the customer's perspective it is that company that needs to survive in a form that maintains the requisite operational characteristics to meet their fairly held requirements. And it is thus at this level that the selection needs of the customers' advisers must be met. This contrasts to credit rating, which will be undertaken at group or parent company level where investment or debt placement etc. is made.

Further details on how analysis is undertaken is provided at the end of this report and may also be obtained from AKG.

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## CONTACT INFORMATION

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# Rating & Assessment Commentary

## RATINGS

### Overall Financial Strength

AKG B
FINANCIAL STRENGTH RATED
PROVIDER SECTOR STRONG
TALBOT AND MUIR LTD

### Additional Financial Strength and Supporting Ratings

| | Non Profit Financial Strength | Unit Linked Financial Strength | With Profits Financial Strength | Service | Image & Strategy | Business Performance |
|---|---|---|---|---|---|---|
| Talbot and Muir Ltd | ▣ | ▣ | ▣ | ★★★★★ | ★★★★ | ★★★★ |

## SUMMARY

- Talbot and Muir is a long-standing pension scheme administrator
- Originally a SSAS business, it launched its first SIPP in 2000 and now has over 5,800 SIPPs and 1,100 SSASs, £3.6bn Assets under Administration (AuA) at the end of December 2019
- Prides itself on strong client servicing and staff development, with over 70 employees (FTE basis) and a move to new offices in Nottingham was completed in 2019
- Talbot and Muir Ltd (TML) acquired The Pensions Partnership Ltd (TPP) in November 2019, adding approximately 380 SIPPs and 360 SSASs to its existing book
- The business has a long track record of positive financial performance, and is warm to further acquisitions especially with ongoing consolidation in the SIPP market
- TML was acquired by Curtis Banks Group plc in a deal which completed on 30 October 2020, and involved a consideration of up to £25.25m
- Healthy capital position maintained, with a coverage ratio of 199% at the end of December 2020
- Curtis Banks group AuA stood at £29.1bn as at 31 December 2019, with consolidated shareholder funds of £55.5m

## COMMENTARY

### Financial Strength Ratings

**Talbot and Muir Ltd**

TML is an established provider of SIPP and SSAS administration services, authorised and regulated by the FCA.

The company continued to comfortably meet its minimum capital requirement entirely from Qualifying (Tier 1) capital, with coverage of 137% as at 31 December 2019. Accounting treatment requiring the deferral of renewal income which was introduced in 2018 had an on-going effect of reducing available capital.

TML moved offices during 2019, to help facilitate future growth plans and accommodate anticipated new business flows.

Whilst not of the scale of some market participants, Talbot and Muir is growing at a reasonable pace, has a recognisable face as a niche provider within the market and is operating profitably. Should further capital be required to support expansion, its new ownership should be in a position to facilitate this.

At 31 December 2019, the total regulatory capital requirement across the Curtis Banks group was £12.5m and the Group had an aggregate surplus of £11.7m across all its regulated entities. At the 2019 year end, group internal policy was to hold at least 130% of the regulatory capital for regulated companies within the group.

## Service Rating

Talbot and Muir prides itself on the strong service it provides to financial advisors which comes in the form of both new business and technical support functions, with dedicated Advisor Support and Pension Administration teams. This is regularly recognised with awards that reference the strength of service provided.

Staff development is seen as critical and all incoming staff undergo a programme of training and competence which is supplemented with in house practical training. Staff are also encouraged to gain relevant industry professional qualifications.

The Compliance Department carries out file checks on a regular basis to ensure service standards are being upheld, and all staff are actively encouraged to discuss any concerns or suggestions for improving existing processes and procedures with their Head of Department.

With growing staff numbers and continued plans for expansion, the business relocated offices in 2019 and this is expected to be positive in terms of team management, and for IT and other support systems, in respect of delivering a strong client service. There are no call centres, instead a focus is on a high level of personal service.

Access via the website has been improved / enhanced in the last two years with a suite of upgrades to aid advisers and provide more functionality. These include improved online applications, more data feeds from fund managers and video guides to assist with applications. The company remains dedicated to streamlining the administration of SIPPs and SSASs.

## Image & Strategy Rating

After the acquisition of the SSAS business of Oval Financial Services Ltd in July 2014, Talbot and Muir stated that it remained 'acquisitive and with the upcoming changes to the capital adequacy requirements for SIPP and SSAS firms, we anticipate that more books of business will be sold'. Subsequently, in August 2016 Talbot and Muir acquired the Attivo Group book of SIPPs and SSASs and has stated since, that in addition to organic growth, it remains acquisitive for clean books of business that complement its own. Most recently, in November 2019 Talbot and Muir completed the acquisition of The Pension Partnership, which added 740 SSAS and SIPP schemes.

The target market continues to be the high quality, pension oriented FCA regulated firms active in the SSAS and SIPP markets serving 'mass affluent' or 'high net worth' clients. Talbot and Muir has increased its penetration into this market with the launch of its new SIPP product, and continues to seek ways to work with more investment partners to access additional adviser firms.

It also has a strong presence in the SSAS marketplace, where it sees activity split between the takeover of existing schemes and the writing of brand new arrangements. It is active in promoting its SSAS administration abilities to intermediaries and is regularly approached to consider opportunities to acquire books of SSASs from other smaller providers looking to exit the market for a variety of reasons.

Talbot and Muir's policy of maintaining a permitted investment list helped establish it as a 'safe pair of hands', helping with mandates. This approach, with decisions still taken independently by Talbot and Muir, is also now assisted by liaison over best practice with new Curtis Banks group colleagues.

Longer term brand image and strategy will be determined by opportunities and direction taken by the new parent. In the short to medium term, whilst remaining as an independent brand and entity, the business is able to make use of certain group resources in sharing best practice, in areas such as regulation and compliance. In the medium term potential for coordination in areas like technology within the group is possible. Not least given the acquisition by Curtis Banks of the Dunstan Thomas technology business.

## Business Performance Rating

Total income increased to £5.0m [2018: £3.9m], while expenses rose by 18% to £3.4m [2018: £2.9m]. Profit before tax for the year was £1.5m [2018: £0.9m], and profit after tax was £1.2m [2018: £0.7m].

Share capital was increased by £620k in 2019, reflecting shares issues in consideration for the transfer to TML of the capital of TPP. After dividends of £247k [2018: £174k], TML's total shareholder funds at the end of the period increased to £6.1m [2018: £4.5m].

October 2020 saw the completion of the acquisition of the business by Curtis Banks Group plc. TML is expected to continue to operate as a stand-alone business for the foreseeable future, while benefitting from the capital strength of its new owner. Further systems integration and the sharing of specialist resource are likely over the next two years.

At 31 December 2020, the CRR position had improved to 199% [2019: 137%], demonstrating a healthy surplus. All regulatory capital is Tier 1.

# Group & Parental Context

## BACKGROUND

Talbot and Muir was created in 1993, when the founders J B Talbot and G M Muir formed a pensions consultancy and administration company offering specialist services to owner-manager companies and their advisers. The company TML was established as a specialist SSAS provider at that time.

Talbot and Muir launched its first SIPP product in 2000 with the new SIPP business managed alongside the existing SSAS business, through a new entity established for SIPP administration; Talbot and Muir SIPP LLP (TMS) was a limited liability partnership under the control of its four designated members which included Messrs Talbot and Muir.

In October 2017 a restructure was agreed with FCA approval, to transfer all business to the limited company (TML) merging the businesses to simplify the business model and reflect the fact that it is managed as a single business. The use of TMS was discontinued with effect from October 2017. Messrs Talbot and Muir remained the largest shareholders in TML.

In 2019 the business moved to new offices in Nottingham, into a 10,500 sq ft facility allowing for a better working environment and capacity for managed growth. On 29 November 2019, TML acquired 100% of the share capital of The Pensions Partnership Ltd.

In a deal announced in July 2020, on 30 October 2020 Curtis Banks Group plc (CBG) completed the acquisition of TML for a consideration of up to £25.25m.

Also announced at the same time, CBG acquired fintech business Dunstan Thomas Group Ltd for a consideration reported as up to £27.5m. Dunstan Thomas already provide the technology and support behind the new Curtis Banks secure portal, and the acquisition, which completed in August 2020, is intended to support the successful delivery and execution of Curtis Banks' own technology strategy and to provide access to a broader product and service offering for its existing and future high net worth clients.

CBG trades primarily under the Curtis Banks name, with some residual use of Suffolk Life.

CBG commenced trading as a pensions administrator in June 2009. The business was headed by Chris Banks, Rupert Curtis and a senior team with over 30 years of SIPP and SSAS development experience, and has grown through a combination of organic growth and acquisitions into one of the largest UK providers of these products.

In May 2015, the Curtis Banks group completed an IPO with a market capitalisation of approximately £85m, since increased to around £150m and CBG was admitted to the London Alternative Investment Market (AIM).

In May 2016, Suffolk Life was acquired by CBG; this was a similar sized business to CBL, managing around 26,500 SIPPs with c£8.7bn of AuA at that time.

CBG currently employs approximately 600 staff in its head office in Bristol and regional offices in Ipswich and Dundee, the office network having been rationalised down to three sites. January 2017 saw the closure of the Chilmark office, part of the EPML (European Pensions Management Ltd) acquisition, whilst the Market Harborough office (part of the Pointon York acquisition) was also closed in January 2018.

Trustee services for the Talbot and Muir SIPP schemes are mainly provided through an associated company, T M Trustees Ltd (TMT). TMT holds such SIPP assets for the benefit of and on behalf of each member, each under a supplemental deed to a Master Trust. TMT is a bare trustee - the company has no assets, does not undertake any operator duties, and is not regulated by the FCA. Formerly held equally by Messrs Talbot and Muir, this company was also acquired by Curtis Banks at the same time as TML. Trustee services are also provided through several non-trading subsidiaries of TML on a similar basis, and exist independently from the SIPP and SSAS business.

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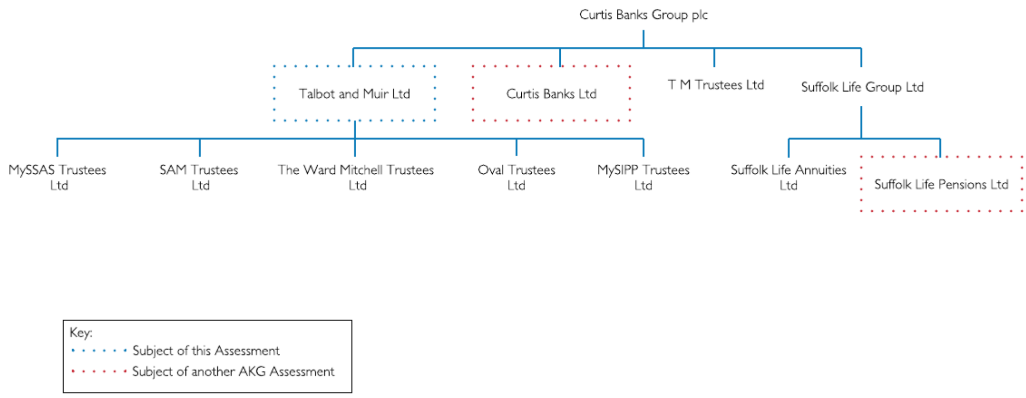
# GROUP STRUCTURE (SIMPLIFIED)



# Company Analysis: Talbot and Muir Ltd

## BASIC INFORMATION

**Company Type**
Non-insured SIPP Operator

**Ownership & Control**
Curtis Banks Group plc

CBG has no majority owner/controller. The percentage of CBG's securities in public hands as at 31 December 2020 was 65%. The primary shareholders at that date were Group directors C Banks (22.18%), R Curtis (8.04%) and P Tarran (5.05%), along with Chelverton Asset Management (7.8%), BlackRock Inc. (7.52%), Liontrust Investment Partners LLP (7.50%), Canaccord Genuity Group Inc. (7.25%) and Octopus Investments (6.21%)

**Year Established**
1993

**Country of Registration**
UK

**Head Office**
55 Maid Marian Way, Nottingham, NG1 6GE

**Contact**
www.talbotmuir.co.uk

**Key Personnel**

| Role | Name |
|---|---|
| Chief Executive Officer, Curtis Banks; Director TML | W A Self |
| Chief Financial Officer, Curtis Banks; Director TML | D J Cowland |
| Chief Operating Officer, Curtis Banks; Director TML | J A Ridgley |
| Director | G M Muir |
| Director | D Bonneywell |
| Administration and Technical Director | P A Darvill |
| Compliance Officer | J A Lane |
| Head of SIPP | P Moran |
| Head of SSAS | T Hickling |
| Head of Adviser Support | C Hall |

**Company Background**
Talbot and Muir Ltd was established in 1993 as J.B. Talbot Ltd and changed to TML in 1994. It has been the SIPP scheme provider and operator since October 2017 when it became authorised and regulated by the FCA. Prior to this the SIPP was provided by TMS, and TML operated the SSAS.

Talbot and Muir's first SIPP product was launched in 2000, with the TMS entity established in 2004 and called TM SIPP Services LLP.

In August 2016 Talbot and Muir acquired a SIPP book from consolidator Attivo Group, that was no longer considered core to Attivo's main advice focus, for an undisclosed sum. This added around 1,064 SIPPs and a small number of SSASs to the business. The Attivo acquisition and that of 200 SSAS schemes from Oval Financial Services Ltd in 2014 took SIPPs to around 3,600 and SSASs to 700, and Assets under Management rose to £1.8bn in total.

TML completed the acquisition of TPP in November 2019 adding 740 SSASs and SIPPs to its book and taking its AuA to in excess of £3.5bn. The total consideration was £2,067k: of this, £1,050k was paid immediately in cash, £620k settled through the issuance of 106 Ordinary E shares and £397k deferred to be payable in the year ended 31 December 2020. The trade and assets were then subsequently hived up and recognised as goodwill, and TPP is now dormant.

Talbot and Muir was acquired by CBG on 30 October 2020. TML will maintain its own brand, products, dedicated staff and distribution network.

AuA/AuM was £3.6bn as at 31 December 2019, with over 5,800 SIPPs and 1,100 SSASs managed.

## OPERATIONS

### Governance System and Structure

Governance is well considered within the business with responsibility lying ultimately with the board of directors and the key principals.

An Investment Governance Committee was established in 2016 to report directly to the board to ensure the firm continued to have sufficient resource and expertise to manage its requirements in respect of non-standard investments / assets (NSI), to support its existing book and manage any incidental transfer-in of NSIs.

Increased amounts, and sophistication of, management information helps the business keep a tight focus on a range of business internal elements including a monthly view of capital adequacy.

Talbot and Muir has an autonomous compliance department whose role is maintaining business standards and ensuring that regulatory procedures are followed and in line with FCA rules, and a compliance officer who reports directly to the board every month.

Governance procedures are expected to remain largely unchanged under the new ownership, while benefitting from shared expertise.

### Risk Management

Talbot and Muir only accepts new business applications on an advised basis, and this requirement applies to both the scheme and proposed underlying investments. Execution only business is only considered exceptionally and only if certain criteria are met, with such cases recorded accordingly by them.

For SIPPs, a Permitted Investments List is published based on the Standard Asset List introduced by the FCA after its thematic review in 2013. Talbot and Muir do not consider NSIs suitable for the type of mainstream SIPPs it administers, and residual SIPP AuA comprising of NSIs is 1% of total SIPP AuA (NSIs defined excluding all Fixed Term Deposits and UK real commercial property syndicates). This compares favourably to the wider industry reducing capital adequacy requirements, reputational damage, complaints and the resources required to service the administration around this. The company states it has limited exposure to unregulated collectives having reduced a small legacy book further although did inherit some in the Attivo acquisition.

Although SSASs are not regulated by the FCA, Talbot and Muir broadly applies these same principles of investment suitability to them.

Across the SIPP and SSAS books (including those acquired from Attivo) Talbot and Muir reports that it holds over 2,300 commercial properties, with 1,276 held via SSASs and 1,048 in SIPPs.

In respect of its relationships with DFMs/Investment Managers, Talbot and Muir requires them to adhere at all times to its Permitted Investment List and will only accept in and make payments out via the scheme bank account. A formal agreement in this respect is set out between Talbot and Muir and the DFMs, separate from any agreement between the client/IFA and the DFM.

### Administration

The Talbot and Muir SIPP offers an online applications process where advisers can enter their client's details online and submit the SIPP application to Talbot and Muir, although wet signature (downloadable Declarations form) is still required.

Talbot and Muir has a dedicated Advisor Support Team of seven providing illustrations, quotes and the processing of new business. Pension administrators deal with day to day queries, with SIPP and SSAS Administration Managers responsible for the implementation of these duties and with additional responsibility for the validation of the records and procedures. More technical queries are dealt with by the Technical Team headed up by Paul Darvill, Director of Administration and Technical, supported by a small team who specialise in both investment technical and pension fund structure.

The back office SIPP and SSAS administration databases are supplied by Delta Financial Systems Ltd. These databases, known as SIPP Pro and SSAS Pro, are modular in design and at the core of the systems are the administration modules that fulfil the administrative and HMRC responsibilities of a Scheme Administrator. Substantial upgrades were made to the core IT system during 2018.

An external IT Consultant who had been working with Talbot and Muir became its in-house, full time IT Manager in November 2016 and now manages the ongoing development of the IT systems to ensure they keep pace with business growth and aid greater streamlining and efficiencies where possible. Delta expects to upgrade all SIPP Pro and SSAS Pro users to a new web based platform known as Platinum Pro; originally due to roll out during 2017, Delta experienced some problems and delays with the new software, and this pushed back Talbot and Muir's migration. The TPP acquisition has provided a further workstream, as data merges have been needed prior to a combined migration. The SSAS data merge has been completed, with the migration the next step.

Talbot and Muir is expected to continue to operate from its two sites, in Nottingham and Leeds.

Opportunities for future shared technology developments within the Curtis Banks group, to include Talbot and Muir, are to be anticipated and are a benefit from the recent acquisition.

### Benchmarks

Talbot and Muir are consistently recognised for the service, brand and products they provide. This has resulted in recognition above some more established competitors and a list of recent awards indicating increased positive awareness for the business in the wider market are as follows:

- Winners of 'Best SIPP Service' for second successive year at the 2019 Retirement Planner Awards
- Shortlisted for 'Best SIPP Provider' & 'Best SSAS Provider' at the 2019 Investment Life & Pensions Moneyfacts Awards (awards ceremony September 2019)
- Shortlisted for 'Best Pension Provider' at the 2019 Financial Planner Service Awards (awards ceremony September 2019)
- Nominated for 'Best SIPP Provider' at the 2019 Money Marketing Awards
- Winner of 'Best Small Provider' at the 2018 Professional Paraplanner's Awards
- Finalytiq Financial Stability 'Good' rating in 2018
- Defaqto 5* SIPP and 4* SSAS rated
- Defaqto Gold Pension Service Award rating

### Outsourcing

No significant outsourcing is undertaken in respect of key business or administration functions. A limited amount of marketing and website functions are outsourced to ClientsFirst.

## STRATEGY

**Market Positioning**

Talbot and Muir has historically targeted what it considers to be good quality regional financial intermediaries with a desire to provide a high level of service to their clients. This continues post acquisition, and with the maintenance of its independent brand, with an increasing footprint amongst those firms it is now increasingly extending to a number of national intermediaries, including the recent addition of St James Place Partnership. White labelling opportunities also exist and over time are seen likely to also form an important part of the business mix.

The business ceased accepting non-advised clients in April 2015 and it usually sees its advised clients fall mainly within the 'mass affluent' or 'high net worth' sectors, and to have requirements which are not met by a straightforward stakeholder or platform pension plan. Inroads have been made into the mass market via the TM SIPP product which has successfully targeted ‘simple SIPPS’ i.e. where there is a bank account and DFM; Talbot and Muir works closely with DFMs providing bespoke management of funds and has found a significant level of crossover in terms of target market.

The business does not support a 'call centre culture' and has consultants available to meet with intermediaries and their clients (and where appropriate, Talbot and Muir directors will be the consultants). Historically there has been no targeted approach to intermediaries in the North East of England and Scotland although Talbot and Muir continues to review the potential for the area. There are four dedicated consultants covering all other parts of England and Wales following appointments in London and the South West in 2016. A key development within the provision of consultant support to the market is the establishment of desk-based consultants to complement the face to face provision. Primarily using the telephone these staff provide a further choice in 'adviser support' and represent a component in enabling growth.

Talbot and Muir continue to develop brand awareness within the advisor community through social media, press coverage/profile and exhibitions/seminars. This is done both internally and through corporate communications consultancies.

Longer term brand image and strategy will be determined by opportunities and direction taken by the new parent.

**Proposition**

Talbot and Muir until recently operated three SIPP products; the Elite Retirement Account (ERA, a bespoke product), the Flexible Retirement Account and a single asset SIPP called the Simple Retirement Account (SRA). The SRA offered one discretionary fund manager (DFM) portfolio from TMS's selected panel of fourteen DFMs.

In June 2016 Talbot and Muir announced a streamlining of its SIPP products, to bring the features of the ERA and SRA together as one SIPP called The Talbot and Muir SIPP. This is a lifetime pension product provided on a menu-based tiered administration fee. The SRA and ERA were closed to new business with effect from September 2016.

The new Talbot and Muir SIPP was developed to be easy to understand and explain. In terms of fees, a simple approach to product tiering has been adopted, rather than charging multiple separate fees for different facilities. The SIPP offers all the investments previously available under ERA, including property.

Talbot and Muir does not allow new non-standard assets to be invested in by new or existing clients. However, it has agreed with the FCA that it will support the transfer-in of existing NSIs if it chooses.

White label arrangements have previously been available, where advisers utilise Talbot and Muir's SIPP and administrative services but use their own branding.

# KEY COMPANY FINANCIAL DATA

*Last 3 reporting periods up to 31 December 2019*

**Capital Resources Disclosures**

| | Dec 17 £000's | Dec 18 £000's | Dec 19 £000's |
|---|---|---|---|
| Available capital resources | 2,241 | 2,199 | 2,274 |
| Capital resources requirement (CRR) | 1,485 | 1,526 | 1,661 |
| Excess capital resources | 756 | 673 | 613 |
| CRR coverage ratio (%) | 151 | 144 | 137 |

During 2018 there was a change to the accounting treatment of income, adjusting SIPP renewal fees to being recognised over a 12 month period. This treatment and, associated deferred income creditor, impacted on available capital resources.

At the end of 2019, solvency coverage was 136.9%, and was estimated as 199.4% as at 31 December 2020.

All regulatory capital is Tier 1.

**Statement of Financial Position**

| | Dec 17 £000's | Dec 18 £000's | Dec 19 £000's |
|---|---|---|---|
| Assets | 5,102 | 6,095 | 8,431 |
| Current liabilities | (782) | (1,569) | (2,333) |
| Long-term liabilities | (13) | (12) | (40) |
| Net assets | 4,308 | 4,514 | 6,059 |

**Statement of Changes in Equity**

| | Dec 17 £000's | Dec 18 £000's | Dec 19 £000's |
|---|---|---|---|
| Equity at start of period | 1,252 | 3,997 | 4,526 |
| Movement due to: | | | |
| Share capital and premium | 2,591 | 0 | 620 |
| Retained earnings | 464 | 516 | 913 |
| Other | 0 | 0 | 0 |
| Equity at end of period | 4,308 | 4,514 | 6,059 |

Financial statements from 2019 are consolidated for TML and its subsidiaries, whereas earlier statements, reflected in 2017 and 2018 data above, are for the company solely.

Consolidated assets increased by £2.3m over the year, with a £1.3m increase in intangible assets, reflecting goodwill in TPP; a £0.2m increase in tangible fixed assets, including leasehold improvements of £0.1m; and a £0.4m increase in cash. The group had a non-cancellable operating lease, with minimum lease payments of £1.38m [2018: £94k] at the end of the year.

TML's consolidated shareholder funds at the end of the period increased to £6.1m [2018: £4.5m], with retained earnings after dividend payment of £913k [2018: £516k]. Additionally, share capital increased by £620k in the year, reflecting shares issued in consideration for the transfer to the company of capital of TPP.

### Income Statement

| | Dec 17 £000's | Dec 18 £000's | Dec 19 £000's |
|---|---|---|---|
| Revenue | 2,077 | 3,859 | 4,967 |
| Other operating income | 908 | 0 | 0 |
| Operating expenses | (2,391) | (2,915) | (3,430) |
| Operating profit (loss) | 594 | 944 | 1,537 |
| Other gains (losses) | 5 | 6 | 5 |
| Profit (loss) before taxation | 598 | 949 | 1,542 |
| Taxation | (134) | (259) | (382) |
| Profit (loss) after taxation | 464 | 690 | 1,160 |
| Other comprehensive income | 0 | 0 | 0 |
| Dividends | 0 | (174) | (247) |
| Retained profit (loss) | 464 | 516 | 913 |

### Financial Ratios

| | Dec 17 % | Dec 18 % | Dec 19 % |
|---|---|---|---|
| Operating margin | 29 | 24 | 31 |
| Pre-tax profit margin | 22 | 25 | 31 |
| Employee costs as a % of revenue | 46 | 45 | 38 |

2018 figures reflected the first full trading year of combined reporting with new accounting treatment which results in deferring a portion of income.

Consolidated revenue in 2019 increased by 29% to £5.0m [2018: £3.9m], broadly in line with the increase in AuA. Administration costs increases were more contained, rising by 18% to £3.4m [2018: £2.9m]. Overall, profit before tax increased by 62% to £1.5m [2018: £0.9m], and profit after tax increased to £1.2m [2018: £0.7m]. Interim dividends of £247k were paid [2018: £174k], with no final dividend.

The average number of employees during the year for SSAS Administration: 16 [2018: 14] and SIPP Administration: 25 [24], with all other functions making a total of 62 [58].

### Statement of Cash Flows

| | Dec 17 £000's | Dec 18 £000's | Dec 19 £000's |
|---|---|---|---|
| Net cash generated from operating activities | 290 | 1,736 | 1,758 |
| Net cash used in investing activities | (2,719) | (133) | (1,032) |
| Net cash used in financing activities | 2,855 | (438) | (247) |
| Net increase (decrease) in cash and cash equivalents | 426 | 1,165 | 479 |
| Cash and cash equivalents at end of period | 1,383 | 2,548 | 3,027 |

### Assets under Administration (AuA)

| | Dec 17 £000's | Dec 18 £000's | Dec 19 £000's |
|---|---|---|---|
| Assets at start of period | | 2,326 | 2,750 |
| Inflows | | | |
| Outflows | | | |
| Net market and other movement | | | |
| Assets at end of period | 2,326 | 2,750 | 3,600 |
| Growth rate (%) | | 18 | 31 |
| Net inflows as % of opening AuA | | | |

The net cash inflow from operating activities was broadly steady at £1.76m [2018: £1.74m], while the cash used in investing activities increased to £1.03m [£0.13m]. The majority of this related to the acquisition of TPP, which had a total consideration of £2.07m, of which £1.05m was paid immediately in cash. Cash acquired amounted to £0.22m, resulting in a net cash outflow of £0.83m in the year in relation to the TPP transaction.

AuA increased by 31% over the year through a mix of both acquisition and organic growth. Net client numbers increased by around 25% from 5,300 to 6,650. Over 977 advisors introduce business to the firm.

Residual SIPP AuA comprising of NSIs is 1% of the total SIPP AuA and is reducing over time as investments mature.

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# Guide

## INTRODUCTION

For over 20 years AKG has particularly focused on the financial strength requirements of financial advisers, who when acting on behalf of their clients, need to ascertain a company's ability to deliver sustained provision.

From this customer perspective, the financial strength of companies needs to be focused at an operational level, specifically on the company that is effecting the product or service that a customer is selecting. This is important, because from the customer's perspective it is that company (not some higher corporate entity) that needs to survive in a form that maintains the requisite operational characteristics to meet their fairly held requirements. And it is thus at this level that the selection needs of the customers' advisers must be met.

It is also important to understand the sector approach (comparative peer groups) that is adopted in financial strength assessment and rating process.

At AKG, this is again driven by the end customer perspective and the fact that assessment is designed solely for this purpose, i.e. as a component in helping customers' advisers to select between comparable companies competing to deliver relevant products or services.

AKG's focus and approach has remained consistent over the years since it commenced assessment and rating support for the market. However, coverage, format and presentation has rightly evolved over this period, in line with the needs and expectations of assessment and rating users in the market. And AKG considers further changes on a continual basis.

Further details including an explanation of what is included in the assessment reports and coverage can be found online at https://www.akg.co.uk/information/reports/provider.

AKG's process for assessment and rating is to use a balanced scorecard of measures and comparative information, relevant to the companies contained within each peer group. This is gathered via Public Information only for non-participatory assessments and public information plus company interactions with companies for participatory assessments. Further details on AKG's process can be found at https://www.akg.co.uk/information/reports.

This includes further information on the different participatory and non-participatory basis and for companies wishing to learn more about participatory assessment AKG is pleased to outline this and welcomes contact.

This is a participatory assessment.

## RATING DEFINITIONS

**Overall Financial Strength Rating**
The objective is to provide a simple indication of the general financial strength of a company from the perspective of those financial advisers who when acting on behalf of their clients need to ascertain a company's ability to deliver sustained operational provision of products or services.

The overall rating inherently reflects the mix of business within the company, since different types of customer or policyholder have different requirements and expectations, and the company may have particular strengths and weaknesses in respect of its key product or service areas. However, it also takes account of comparison across the sector in which it is assessed.

The rating takes into account those of the following criteria which are relevant (depending upon the company's mix of business in-force): capital and asset position, expense position and profitability, structure (and size) of funds within the company, parental strength (and likely attitude towards supporting the company), operational capability, management strength and capability, strategic position and rationale, brand and image, typical fund performance achievements or product / service features, its operating environment and ability to withstand external forces.

| Rating Scale | A | B+ | B | B- | C | D | ▣ |
|---|---|---|---|---|---|---|---|
| | Superior | Very Strong | Strong | Satisfactory | Weak | Very Weak | Not applicable |

**With Profits Financial Strength Rating**

The objective is to provide a simple indication of the with profits financial strength of a company, where it currently offers with profits business or has existing with profits business within it.

This is from the perspective of those financial advisers who when acting on behalf of their clients, for this product type, need to ascertain a company's ability to deliver sustained operational provision of with profits funds, products or propositions. Its comparison is with other companies within the assessment sector that offer or have with profits business.

The main criteria taken into account are: capital and asset position, expense position and profitability, the amount of with profits business in-force, parental strength (and likely attitude towards supporting the company), and image and strategy.

NOTE: More detailed analysis of with profits companies is included in AKG's UK Life Office With Profits Reports.

| Rating Scale | ☆☆☆☆☆ | ☆☆☆☆ | ☆☆☆ | ☆☆ | ☆ | ▣ |
|---|---|---|---|---|---|---|
| | Excellent | Very Good | Good | Adequate | Poor | Not Rated |

**Unit Linked Financial Strength Rating**

The objective is to provide a simple indication of the unit linked financial strength of a company, where it currently offers unit linked business or has existing unit linked business within it. This is from the perspective of those financial advisers who when acting on behalf of their clients, for this product type, need to ascertain a company's ability to deliver sustained operational provision of unit linked products or propositions. Its comparison is with other companies within the assessment sector that offer or have unit linked business.

The main criteria taken into account are: capital and asset position, expense position and profitability, structure (and size) of funds within the company, parental strength (and likely attitude towards supporting the company), operational capability, management strength and capability, strategic position and rationale, brand and image, typical fund performance achievements or product / service features, its operating environment and ability to withstand external forces.

| Rating Scale | ☆☆☆☆☆ | ☆☆☆☆ | ☆☆☆ | ☆☆ | ☆ | ▣ |
|---|---|---|---|---|---|---|
| | Excellent | Very Good | Good | Adequate | Poor | Not Rated |

**Non Profit Financial Strength Rating**

The objective is to provide a simple indication of the non profit financial strength of a company, where it currently offers or has existing products and propositions such as term assurance and annuities. This focuses on the company's ability to deliver sustained operational provision of such non profit products or propositions. Its comparison is with other companies within the assessment sector that offer or have non profit business.

The main criteria taken into account are: capital and asset position, expense position and profitability, structure (and size) of funds within the company, parental strength (and likely attitude towards supporting the company), operational capability, management strength and capability, strategic position and rationale, brand and image, product / service features, its operating environment and ability to withstand external forces.

| Rating Scale | ★★★★★ | ★★★★ | ★★★ | ★★ | ★ | ▣ |
|---|---|---|---|---|---|---|
| | Excellent | Very Good | Good | Adequate | Poor | Not Rated |

**Service Rating**

The objective is to assess the quality of the organisation's service to the intermediary market in respect of the brand concerned.

Criteria taken into account include: performance in surveys, awards and benchmarking exercises (external and internal), the organisation's philosophy, service charters, the extent of investments designed to improve service, and feedback from intermediaries.

| Rating Scale | ★★★★★ | ★★★★ | ★★★ | ★★ | ★ | ▣ |
|---|---|---|---|---|---|---|
| | Excellent | Very Good | Good | Adequate | Poor | Not Rated |

**Image & Strategy Rating**

The objective is to assess the effectiveness of the means by which the organisation currently positions itself to distribute its products for the brand concerned and the plans it has to maintain and/or develop its position.

Criteria taken into account include: overall trends in the company's market share position, brand visibility and reputation, feedback from intermediaries and industry commentators, and AKG's view of the company's general strategy.

| Rating Scale | ★★★★★ | ★★★★ | ★★★ | ★★ | ★ | ▣ |
|---|---|---|---|---|---|---|
| | Excellent | Very Good | Good | Adequate | Poor | Not Rated |

**Business Performance Rating**

This review is an assessment of how the company and the brand has fared against its peers, and how it is perceived externally. Effectively this is how it has performed recently in the market. Whilst it will include performance indicators from the most recent available statutory reporting (report and accounts and SFCRs in the case of insurance companies, for example) it will also draw on other recent key performance elements before and after such disclosure, up to the point at which the assessment is undertaken.

Criteria taken into account include: increase/decrease in market shares, expense containment, publicity good or bad, press or market commentary, regulatory fines, and competitive position.

| Rating Scale | ★★★★★ | ★★★★ | ★★★ | ★★ | ★ | ▣ |
|---|---|---|---|---|---|---|
| | Excellent | Very Good | Good | Adequate | Poor | Not Rated |

# ABOUT AKG

AKG is an independent organisation. Originally established as an actuarial consultancy AKG has, for over 20 years, specialised in the provision of assessment, ratings, information and market assistance to the financial services industry.

As the market has evolved over this period, the range of entities considered by AKG has expanded. Consequently, AKG has brought additional skill sets into its operations. This has meant the inclusion of accounting, corporate finance, IT and market intelligence experience, alongside actuarial resources, to deliver an expanded professional capability.

Today AKG's core purpose is in the provision of financial analysis and review services to support the wider financial services sector and its customers.

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