Winter 2017
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PERSONAL FINANCE PROFESSIONAL

SETTING STANDARDS AND GUIDING THE PROFESSION

ADDING VALUE

The new Practitioner Guide to Financial Planning

LET'S GET ETHICAL

Why sustainable investing is good business

Going with the cashflow

HOW TO CHOOSE BETWEEN COLLECTIVES AND INVESTMENT BONDS

Personal Finance Society

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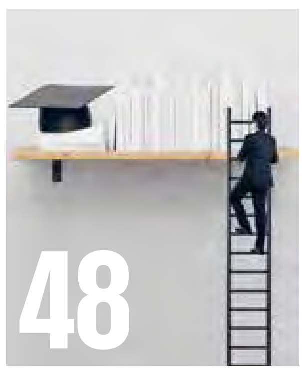
Winter 2017

Sector Focus

Business Focus



News/ Opinion

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OPINION

POSITIVE ENERGY

CEO

KEITH RICHARDS

Personal Finance Society

With the first ever Festival of Financial Planning still fresh in the memory, **Keith Richards** wants the profession to seize the moment

What a month! Thanks to all of you who attended the Festival of Financial Planning and made it such a fantastic success.

Everyone who came brought a fantastic energy with them – we truly presented ourselves as a modern profession that is equipped to serve a diverse public.

One crucial piece of news that we were able to share at the festival was our agreement with the European Financial Planning Association that holders of the Personal Finance Society's diploma will also be allowed to hold European Financial Planner or European Financial Adviser status.

This means that advisers with clients in the EU – for example people who lived and worked in the UK but have moved to the continent to retire – can still give ongoing, professional financial advice to them. It will enable advisers to provide vital support to a huge number of people who are living through very uncertain times.

It was also great to hear from Vince Cable at the Festival, and he certainly gave us something to think about over the long term, from the state of the global banking system to Chinese-US economic relationships.

One theme that came out particularly strongly for me was the need for clients to receive clear, professional advice through the coming decades, as the potential for global political economic turbulence will continue to be high. The need for advisers to act as a calming voice, reminding us to stick to our long-term plans, will be more important than ever.

It was also sobering to read the FCA's latest assessment of the need for advice among UK consumers. In its latest 'Financial Lives' research, the FCA estimates that a quarter of UK adults may have had a need for regulated financial advice during the past year but had not taken any. This was compared to 6% of UK adults who did take advice. Among the over-55s, more than a third of people may have needed advice but did not seek it out.

BUILDING TRUST

The FCA deserves to be congratulated for the candour and thoroughness of this research, but we do also need to think hard about how more people can get access to advice. One key area has to be building trust in the profession, and it was great to see the work that advisers across the country are doing on initiatives like the Forces Money Plan. These initiatives resonate with a huge range of people, and help them to appreciate the value of advice in a real-life setting.

If we can harness the energy that came from the festival, and the kind of difference we are making in a wide range of consumer-focused initiatives, we can really start to move the dial on public trust and closing the advice gap. ●

JOIN THE DISCUSSION

For more information and to offer your feedback, please visit:

PFS member email: membership@thepfs.org
Festival of Financial Planning: www.pfsfestival.org
Forces MoneyPlan: www.thepfs.org/forcesmoneyplan
Apprenticeships: www.thepfs.org/Apprenticeships
ScamSmart: www.thepfs.org/scams

ILLUSTRATION: LUKE WALLER

CHARTERED INSURANCE INSTITUTE

CII AGREES SALE OF ALDERMANBURY

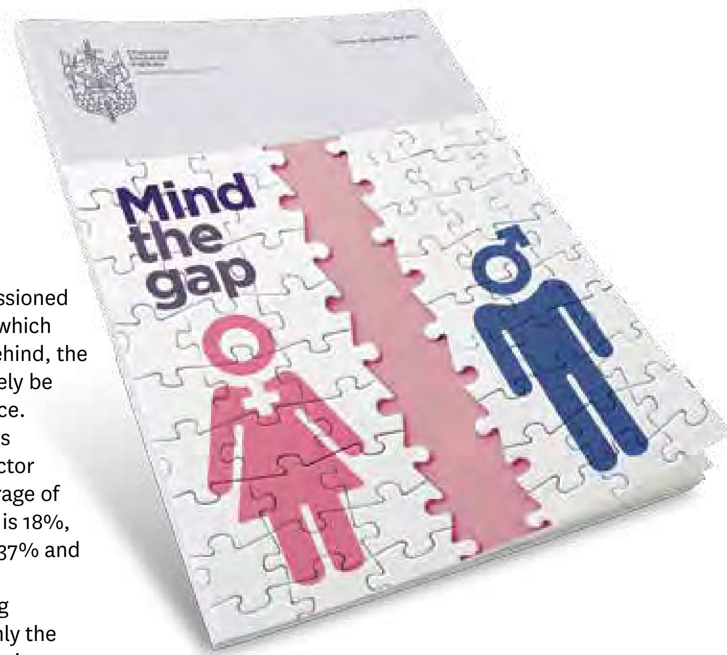
The Chartered Insurance Institute (CII) has agreed the sale of 20/21 Aldermanbury to The City of London Corporation.

The sale is part of the CII's Strategic Manifesto commitment to ensuring it is relevant, modern and diverse. Within the next 12 months, the CII will be relocating to EC3. Its South Woodford office is unaffected.

The CII said it believes The City to be the ideal future caretaker for the building, as it will respect its heritage. The exact timing will be determined by the CII's relocation to a new office and the institute will announce the precise location of its new premises in due course.

GENDER PAY GAP

CII AND PFS ENCOURAGE SECTOR TO GET TO GRIPS WITH THE GENDER GAP



The Chartered Insurance Institute (CII) and Personal Finance Society are encouraging firms in the insurance and financial advice sectors to start disclosing their gender pay information ahead of next April's deadline, regardless of whether or not they are required to.

In issuing the 'call to action' the CII is leading by example by doing so itself – five months in advance – despite the fact it is exempt by being under the 250-employee threshold.

The move coincides with the publication of a specially-commissioned briefing paper, 'Mind the gap', in which the CII outlines the key factors behind, the causes of, and what can proactively be done to bring about better balance.

The CII's mean hourly pay gap is currently 28%, compared to a sector average of 47% and national average of 14%. The median hourly rate gap is 18%, compared to a sector average of 37% and national average of 10%.

"The data that firms are sharing between now and April 2018 is only the start," commented CII chief executive, Sian Fisher. "We are a strong profession and when we behave with confidence and purpose, the public will trust us to deliver. However, if we are opaque or make excuses, they will question our ability to treat customers, as well as employees, fairly. Publishing our gender pay information is an opportunity to show that we recognise that we serve the whole of society, and we should take this opportunity."

QUALIFICATIONS

PFS SECURES ADVISER EURO-LINK AHEAD OF BREXIT

€FPA European Financial Planning Association

The Personal Finance Society (PFS) has secured a vital post-Brexit European foothold for UK financial advisers, by officially aligning the qualifications framework of its 37,500 members with their counterparts across the rest of the continent.

The PFS already acts as the UK representative of the European Financial Planning Association (EPFA), and has just reached an agreement of mutual recognition that will enable nearly two thirds of its qualified members to use an additional European qualification designation of EFA or EFP.

"EFPA is one of the largest and most respected professional licensing, standard setting and certification bodies for financial planners and financial advisers in Europe," said PFS chief executive, Keith Richards, "and was the first European financial standards association created for the purpose of increasing professionalism in the European financial services sector.

"This positive collaboration gives UK advisers greater certainty in advance of Brexit, in the knowledge that the PFS qualifications framework is now recognised via the EFA and EFP European financial planning standards, which are accredited by certain European regulators.

"The new link will ensure that consumers who wish to access advice from UK advisers, or maintain existing relationships in a post-Brexit environment, will in future be able to do so as part of an all-embracing quality standard all over Europe."

Holders of DipPFS and above will be entitled to use the European designations after the initiative formally launches in early their 2018.

APPOINTMENT

MELISSA COLLETT JOINS CII AS PROFESSIONAL STANDARDS DIRECTOR

The Chartered Insurance Institute (CII) has appointed Melissa Collett as its new professional standards director, leading its professional standards, ethics and conduct activity as a united profession. She also takes responsibility for the professional body's legal affairs and risk management.

Ms Collett brings significant insurance and legal experience, having spent more than a decade at the Financial Ombudsman Service, as a director at Fairer Finance and as a tribunal judge.

Ms Collett said: "I am really looking forward to joining the CII. As its strapline suggests, standards, professionalism and trust are at the heart of what the CII does and I'm committed to supporting them to achieve this."

Sian Fisher, CEO of the CII, said: "I'm delighted to welcome Melissa to my executive management team at the CII. She brings a wealth of experience and understanding of insurance consumer behaviour and will, no doubt, play an instrumental role in helping us shape our standards in line with this."

THE NEWS IN NUMBERS

22%
SMEs have started taking steps to prepare themselves for GDPR according to a YouGov survey

600,000
number of UK financial services employees covered by the Women in Finance Charter after 26 new firms now signed up

18%
median hourly rate pay gap at the CII compared to a sector average of 37%

10–15 MIN
is all it takes to fill in our PFS survey to help us improve our member website

Tweet Talk

@conkers3
I will be arriving shortly to attend my second day at the @pfsconf #PFSFestival The first day was filled with great presentations, #learning & entertainment. My meetings were rewarding & insightful. Thank you all!

@AskAdamOwen
With all the excitement of @pfsconf #PFSFestival it is easy to overlook this excellent report and initiative from @CIIGroup #StillWorkToBeDone

@RedCircleFP
I could spend half my evening tweeting all the people I've met over the last 2 day at the #PFSfestival and still miss some out. Brilliant event, fantasic people. Same again next year

@NWright_CFP
Be #ScamSmart check the #FCA Warning List, reject unsolicited calls get impartial #financialadvice @pfsconf @TheFCA

@RuthSturkey
The appointment of @sharonsutton99 as President @pfsconf is for me one of the most exciting pieces of FS news in years. #change #refreshing

@AlanJLSmith
I reckon corporate Chartered status is the gold standard forindependent advice firms - pleased to renew ours @pfsconf

PFS President's Thinktank
3,856 members
PFS Chartered Financial Planners
1,665 members
@pfsconf
6,742 followers

DIVERSITY

PFS RESPONDS TO MONEY ADVICE REPORT

The world of financial services is "aggressively masculine" and puts women off buying mortgages, pensions and investments, according to a report.

Research firm Kantar spoke to 30,000 women and concluded that financial advice is largely "a man's world". The report claims some women feel "diminished" when talking to a financial adviser.

In response, the CEO of the Personal Finance Society (PFS) said his organisation is "committed" to gender parity.

"The sector recognises that more needs to be done to inspire public trust and bring down some of the barriers and negative perceptions," said Keith Richards, chief executive of the PFS.

Amy Cashman, the report's lead author, said women were often being ignored when talking to financial experts. She said in one case, a male mortgage broker spoke only to the husband, and ignored the woman, so the wife did not let the sale go through.

"If anything, women are seen as more competent than men in managing everyday finances," Ms Cashman said.

"But where you see the difference is when you get into higher value products – things like savings vehicles, investments, pensions."

DATA PROTECTION

GDPR GUIDE FOR SMALL BUSINESSES

Hiscox has produced a General Data Protection Regulation (GDPR) guide for small to medium-sized enterprises, after receiving a vast number of questions regarding the new rules due to be introduced by 25 May 2018.

Hiscox said many small businesses are still relatively unprepared and with less than seven months to go, a recent YouGov survey found that only 22% have started taking steps to prepare themselves for the changes GDPR will bring.

The guide can be accessed at: **bit.ly/2m5IGhx**

Read our special report and recommendations on the new GDPR regulations on pages 40-41 of this month's *Personal Finance Professional* magazine.

MEMBERS

HELP US BUILD A BETTER WEBSITE

The Personal Finance Society and Chartered Insurance Institute are working on improving and updating their website to make it easier for users to find what they are looking for. We would be extremely grateful if you would participate in a short online usability test to see if we have organised our website content in the right way.

It will take 10-15 minutes to complete. There is no right or wrong answer.

To take part simply visit: **bit.ly/2hGjFnM**

We will ask a few questions about your experience of using our website and provide a short set of instructions to explain what you are required to do. There is an opportunity at the end to provide more general feedback on how we can develop the website to better meet your needs.

We really appreciate your time in helping us develop a better website.

DIVERSITY

162 FIRMS ARE NOW SIGNED UP TO THE WOMEN IN FINANCE CHARTER

A further 26 companies have signed up to the Women in Finance Charter, including the Bank of England, Deloitte, and Tesco Bank, increasing the number of employees covered by the Charter to more than 600,000.

HM Treasury's Women in Finance Charter asks financial firms to commit to four industry actions to prepare their female talent for leadership positions. More than 600,000 employees in the UK – more than half of those employed in financial services - are now covered by the plan, an increase of more than 43,000 since July this year.

Since the Charter launched, 120 financial services firms have committed to have at least 30% women in senior roles by 2021 and of those, 40 firms have committed to a 50/50 gender split in senior roles by 2021.

Among the new signatories to the Charter are RSA Group, Allianz Insurance, UK Finance, the Association for Financial Markets in Europe, Old Mutual Wealth and Funding Circle.

TECHNOLOGY

ZURICH LAUNCHES 'SELFIE' APP TO ENCOURAGE FINANCIAL PLANNING

Leading insurer Zurich has launched a 'selfie' app called FaceQuote to urge more people to think about and engage with their finances.

FaceQuote guestimates a user's age before calculating how much life cover would cost per month based on the age suggested. The app has been launched to encourage people to engage with life insurance and show how affordable life cover can be.

Recent research by Zurich found that a quarter of people said they didn't have life or critical illness cover because it was too expensive and nearly a third (30%) said they didn't feel it was relevant.

When asked how much they thought life insurance would cost for a healthy 40 year old, 14% thought more than £40 per month, when in reality cover is available for a fraction of that amount at just £8.

FaceQuote is the latest tool developed by Zurich as it seeks to offer more customers new ways to engage with and manage their finances.

For more information visit **www.zurich.co.uk/insurance/facequote**

PFS LINKEDIN GROUPS

PFS CHARTERED FINANCIAL PLANNERS:

UK IHT treatment of a US 401K pension
Can any of my Chartered colleagues tell me what the UK tax treatment for IHT would be of a US 401K pension plan?
bit.ly/2hSHBbo

Difficulty obtaining Critical Illness Cover
Looking for a bit of guidance/direction please
Have been approached by the partner of a friend, whose having trouble obtaining Critical Illness Cover... Any steer on who to approach would be much appreciated
bit.ly/2iCw1hS

Royal Mail Pension DB transfer
I have a client who is looking at transferring his Final Salary Royal Mail Pension plan.
Is there a personal pension/sipp which will accept new business, that cannot/does not offer flexible benefits?
bit.ly/2jg4HW3

Post Chartered Training/Qualifications
Having completed the PFS exams relevant to me, I have been looking into what I can do next in terms of training and development. I would be really interested to hear of any experience anyone has of non-PFS qualifications/training that they have found useful
bit.ly/2xZeSUT

PFS PRESIDENT'S THINKTANK

Calling thought-leaders to join Manchester Metropolitan's MSc Financial Planning & Business Management in February 2018
It is that time of year when I am looking to recruit a few more, but not too many, Fellows of the PFS to join our part-time MSc, starting in February 2018.
bit.ly/2jasBSI

Join the debate in these and other lively PFS discussion groups on LinkedIn now!

MEMBERS

PFS LAUNCHES INVESTMENT MANAGEMENT HELPLINE

The Personal Finance Society (PFS) and investment management experts, Diminimis, have announced they will provide a private and confidential telephone review service for members to help clarify where responsibilities lie when outsourcing investment management.

It has come to light that many advisers are not clear on whether they have entered an 'Agent as Client' agreement with a discretionary fund/investment manager or one based on 'Agent of the Client'. The differences, which can be critical, are not widely understood and there is a growing concern that firms are risking exposure to complaints and potential claims as a result.

While the terminology may be confusing, the risks advisers face when not appreciating these differences can leave them exposed. Citywire recently reported how a troubled discretionary fund manager, Beaufort Securities, had engaged a claims management company to encourage clients to claim against their IFAs for recommending Beaufort to them.

From a free consultation, members can expect:

- An overview of the various operating frameworks available
- What they mean for the adviser now and under MiFID II
- A GAP analysis – applying the above to the adviser's current arrangements
- Any questions on the topic will be addressed
- Advice on what should comprise the next steps.

Calls are expected to last about 30-40 minutes and members can take advantage of the no-cost assessment by emailing: **david@diminimis.com** before the end of November. A team member will then schedule a convenient time to call you.

GOOD PRACTICE

PFS LAUNCHES VULNERABLE CLIENTS GUIDE

The Personal Finance Society (PFS) has launched a new Good Practice Guide on 'Meeting the needs of vulnerable clients'.

The Financial Conduct Authority defines a vulnerable consumer as: "someone who, due to their personal circumstances, is especially susceptible to detriment, particularly when a firm is not acting with appropriate levels of care". This definition reflects the fact that some consumers may be more vulnerable than others.

The guide offers information and advice on identifying vulnerability and developing a comprehensive understanding of the risk factors that contribute to consumer vulnerability in financial services; establishing good practice and delivering appropriate levels of care relevant to vulnerable clients; and practical steps on creating a robust vulnerable client policy.

Keith Richards, CEO of the PFS, said: "Many people have characteristics or circumstances which can impair their ability to engage with, or benefit from, different services. In recent years, vulnerability has been placed firmly on the agenda of regulators across industries and professions. Ensuring that customers in vulnerable circumstances are treated not only fairly, but with empathy and sensitivity to their circumstances, is a growing priority.

"While, in the absence of any new conduct rules, it is ultimately up to firms how they respond, we hope this paper helps firms to develop a coherent, consistent and robust approach to vulnerability and in so doing, helps them to continue to deliver consistently good client outcomes to all."

The guide can be downloaded at: **thepfs.org/knowledge/good-practice**

WHAT'S ON THE RADAR?

This issue's Regulatory Radar looks at news from the, FCA and more...

FCA CONSULTS ON ITS APPROACH TO CONSUMERS

This is the first in a series of documents the Financial Conduct Authority (FCA) will be publishing, in which it aims to explain its approach to regulation in more depth. The regulator's priorities with regard to consumers are ensuring that:

- High quality, good value products and services that meet consumers' needs are available
- Consumers can buy the products and services they need and the way in which they are sold is clear, fair and not misleading
- The needs of vulnerable consumers are taken into account.

The regulator is clear that firms must provide sufficient information to permit consumers to make informed choices in respect of financial services, especially with regard to consumers who are excluded due to their specific characteristics or circumstances. The deadline for comments is 5 February 2018. The final approach to consumers will be published later in 2018. For further details, visit: **bit.y/2imjBKG**

FCA PUBLISHES FINDINGS FROM FIRST FINANCIAL LIVES SURVEY

The FCA has published a report on its first tracking study highlighting consumer trends in retail financial markets, drawing on responses from almost 13,000 UK consumers. The 'financial lives' survey covers the experiences of consumers using financial products and services, as well as their experiences of dealing with the firms that provide them. The report looks at six different age groups to show key themes at each life stage. See survey here: **bit.ly/2zIMXww**

TREASURY SELECT COMMITTEE LAUNCHES HOUSEHOLD FINANCES INQUIRY

The Committee will take a broad look at the state of UK household balance sheets, including whether households are saving adequately in the current economic environment. The inquiry will scrutinise problematic indebtedness, intergenerational issues and lifetime financial planning. The committee intends to examine the following areas:

- Overall savings levels
- Household lifetime saving and financial planning
- Household indebtedness and consumer credit and incomes.

The deadline for written submissions is 31 December. Read further details at: **bit.ly/2zLygZH**

WORK & PENSIONS SELECT COMMITTEE IN PARLIAMENT

The committee is to hear evidence on how pension freedoms, advice and guidance services and the pensions market are operating. Among the questions the committee will consider are:

- How can the advice sector close the gap in the pensions mass market, and what should the pensions industry be doing to improve value, clarity and choice in the products?
- Will a single, public financial guidance body make a tangible difference to the provision of effective guidance?
- Who can most effectively and reliably deliver a one-stop 'pensions dashboard' that will increase consumer engagement with their retirement savings: the industry, or the public guidance service?

Read further details here: **bit.ly/2xhhgcZ**

PFS ONLINE POLICY CONTENT

Please be sure to visit our policy and research online content. Briefings, updates, research papers and much more are available for download at: **www.thepfs.org/insight**

Latest publications include:
GDPR resource hub A hub of materials to help members make sense of the new General Data Protection Regulation (GDPR) which comes into existence from May 2018
www.thepfs.org/47128

SMCR resource hub
Materials to navigate the Senior Managers & Certification Regime (SMCR) that will soon underpin new regulation.
www.thepfs.org/45982

FESTIVAL FEVER

Luke Holloway reports on the inaugural Festival of Financial Planning, which took place at the NEC in November

PFS president Sharon Sutton

The Personal Finance Society (PFS) made history in November, as it hosted the largest financial planning event ever to take place in the UK.

A Festival of Financial Planning was an epic success, held across two days at the NEC in Birmingham, with a total of 3,278 people joining the event – about 10% of the entire PFS membership.

The PFS aspired to move away from the dry and predictable reputation professional conferences sometimes have, with a focus on fun, colour, cutting-edge content and relaxed networking.

The exhibition was split into themed villages, in addition to the five stages which hosted more than 70 sessions, while around the venue, options included the fintech startup café, Future Generations marquee, as well as live music, giant Scalextric, human pool, ski simulators and a 40-foot climbing wall.

Delegates included financial planners, paraplanners, wealth managers and IFAs and there were visitors from around the world, including more than 100 from Greece.

> *I have to say I think you guys have put on the best conference that I have ever attended*
> **– NICK BAMFORD**
> **Chartered Financial Planner at Informed Choice**

@T_Morris_Wealth

This should be the blueprint for all future financial planning events Great work @pfsconf #PFSfestival

COMPELLING INSIGHT

A host of specially selected speakers were invited to perform, including England's Rugby World Cup-winning coach, Sir Clive Woodward, who gave fascinating insights about the methods and technology he implemented when he joined England, which led the team's performance to improve empathically and surpass their opponents to eventually lift the World Cup.

PFS chief executive, Keith Richards, took the opportunity to highlight some of the current PFS initiatives in his opening address, including the latest developments in the Forces MoneyPlan scheme, the ongoing campaign with the Financial Conduct Authority to combat scammers, and an innovative new mutual recognition agreement with the European Financial Planning Association.

Former pensions ministers Baroness Ros Altman and Sir Steve Webb shared the stage to debate pensions freedoms progress, scams and the future of pensions tax relief, while Paul Armson, CEO of Inspiring Advisers, gave a colourful and rousing performance, urging advisers to continue to elevate their profession and deliver truly compelling client value propositions.

Keynote speakers also inevitably touched on the hot topic of Brexit. Co-founder of Seven investment management, Justin Urquhart Stewart, discussed how the realities

A FESTIVAL OF FINANCIAL PLANNING

@MavenAdviser
Hats off to @pfsconf for putting on the greatest financial planning festival I've been to in the UK. A great few days #PFSFestival


Sir Clive Woodward

Festival Radio with Martin Bamford

of Brexit will impact the financial sector and advisers' clients, while leader of the Liberal Democrats, Sir Vince Cable, gave the closing address, warning the sector to prepare for the disruption that Brexit negotiations could cause.

Other leading financial planners who presented on the day included PFS president Sharon Sutton, Pete Matthew, Julie Lord, Steve Martin, Phil Billingham, Alan Smith, Damien Rylett and, from the US, life planning guru George Kinder.

Expert investment speakers included Trevor Greetham of Royal London Asset Management, Graham Abell of M&G, Edward Bonham Carter of Jupiter Fund Management and many others.

TRENDING SPECIALISTS

Social media around the festival was abuzz with activity, particularly on Twitter, where the official hashtag #PFSFestival trended at number seven in the UK.

Podcaster, author and Chartered financial planner, Martin Bamford, hosted 'Festival Radio', a live station broadcasting from the centre of the festival, interviewing speakers and exhibitors from around the event.

During the following week, Festival Radio episodes had been played 2,653 times and the podcast also entered the iTunes Top 50 business podcasts. All content is available to stream for free via: **pfsfestival.org**

Sir Vince Cable


Justin Urquhart Stewart

@danielxmartin
Great couple of days with my Dad at the #PFSFestival! Many thanks to @pfsconf @CIIGroup for putting on such an insightful conference! Exciting times ahead for the profession to nurture the future #TraineeFinancialPlanners #NextGenPlanners

PFS CEO Keith Richards was delighted with the success of the event, saying: "There were always risks to doing something entirely new, but it has been outstanding. Everyone has commented on the positive atmosphere and people have said they have really felt part of a bigger profession. Generally, it's a very proud profession.

"Few professions you see have so many individuals who are as proud as this one, but we've allowed people to be negative [in the past] and that needs to be corrected with events like this."

Visit pfsfestival.org where you can watch all session recordings from across the Festival. ●

+4.8M
Twitter reach of #PFSFestival

+7.3K
Twitter mentions

Gender spilt

37.3%
Women

62.7%
Men

NEW PROPOSITION

With a new handbook on its way, it's time to bone up on your responsibilities. **Rory Percival** examines the Product Intervention and Product Governance Sourcebook

From next month, advisers will be subject to a whole new Financial Conduct Authority (FCA) handbook. The Markets in Financial Instruments Directive II introduces the Product Intervention and Product Governance Sourcebook (PROD).

This may sound like a handbook that applies to product providers and indeed it includes many rules for these firms; but it also includes sections that are relevant to advisory firms.

The aim of the handbook is to ensure firms have good product governance. In advisory terms, this is referring to the approach to providing advice to clients, including the design and implementation of the firm's centralised investment proposition, and initial and ongoing advisory services.

There are rules around understanding products and liaising with providers, but I want to focus on the advisory firm's proposition for clients. This is enshrined in PROD 3.3.15 R (1), which states:

"Distributors must have in place adequate product governance arrangements to ensure that … the financial instruments and investment services they intend to distribute are compatible with the needs, characteristics and objectives of the identified target market."

> *The handbook states that firms must comply with the PROD rules in a way that is proportionate and appropriate*

WHAT DOES THIS MEAN IN PRACTICE?

You must understand your client bank and target market and design investment solutions – and advisory services – that work for these clients. This is a firm-level assessment of the client bank and the segments of clients that you have, rather than giving suitable advice to individual clients (which clearly you must still do).

I AM A SMALL FIRM – DO I NEED TO DO THIS?

The handbook states that firms must comply with the PROD rules in a way that is proportionate and appropriate. Hence, you still need to go through this process but it is likely to be less onerous than would be the case with a large firm.

DON'T WE DO THIS ALREADY?

You should have been doing this – it has been guidance for about 10 years – but I would question how well firms are doing this. For example:

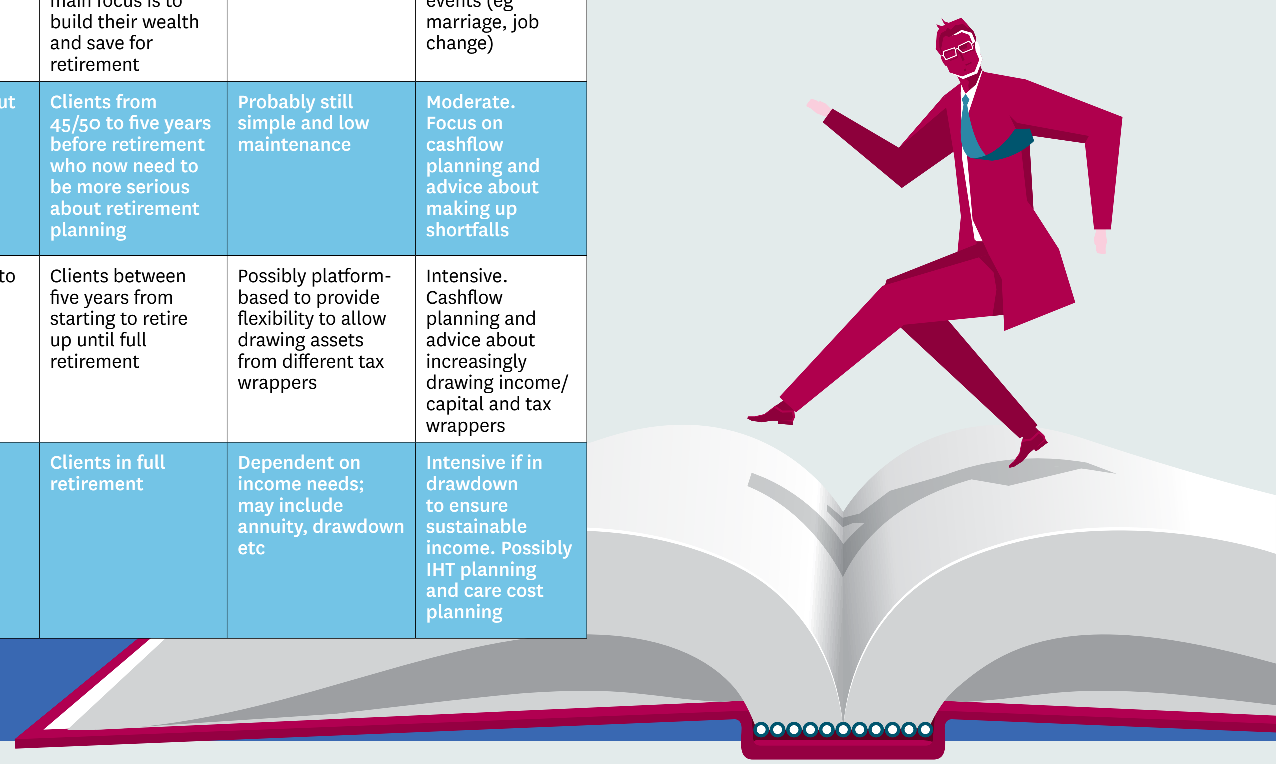
Asset-based advisory services. Many firms provide different levels of ongoing service, dependent on the level of the client's investible assets. You might have a 45-year-old who has just inherited £500,000; a 55-year-old who has just sold a business for £500,000; a 65-year-old who wants to start drawing an income from a £500,000 pension fund; and a 75-year-old widow who has just inherited £500,000. These clients have different needs but would all receive the same ongoing service under this asset-based service model.

Platform selection. Firms often select a single platform on the basis of a range of factors relating to the nature of the investment solution and ongoing services they want to deliver. This may be fine but it seems that some platforms are better geared for decumulation than others, which work well for accumulation. Hence, it may be appropriate to have a different platform for clients going into retirement.

ILLUSTRATION: LUKE WALLER

EXAMPLE: HIGH-LEVEL SEGMENTATION AND SOLUTION MAPPING

Category	Summary	Possible investment solution	Advisory service
Young accumulators	Clients up to the age of 45/50 (typically) whose main focus is to build their wealth and save for retirement	Simple and low maintenance; eg multi-asset fund	Light touch with additional advice at major life events (eg marriage, job change)
Serious about retirement	Clients from 45/50 to five years before retirement who now need to be more serious about retirement planning	Probably still simple and low maintenance	Moderate. Focus on cashflow planning and advice about making up shortfalls
Glidepath into retirement	Clients between five years from starting to retire up until full retirement	Possibly platform-based to provide flexibility to allow drawing assets from different tax wrappers	Intensive. Cashflow planning and advice about increasingly drawing income/capital and tax wrappers
Retirement income	Clients in full retirement	Dependent on income needs; may include annuity, drawdown etc	Intensive if in drawdown to ensure sustainable income. Possibly IHT planning and care cost planning



WHAT DO YOU RECOMMEND?

Firstly, segment your client bank. I recommend doing this at two levels – at an appropriate high level and also sub-segments. I think life stages works better than asset levels as a high-level segmentation *(see table)*.

Next, think about sub-segments. For example, you may have clients who run small businesses where remuneration structure and tax planning feature significantly. Or senior executives who have significant shareholdings in their employer and hence a bespoke discretionary management service might work well to manage out the imbalance over time.

I have given some examples but you need to see what works for your clients. If you undertake this segmentation process effectively, then the nature of the investment solutions and the advisory services will probably be immediately apparent. This will help create an advice and service framework that is better geared for your client bank. Clearly, you will then need to ensure individual clients receive suitable advice. ●

Rory Percival, of Rory Percival Training & Consultancy Ltd

YOUR QUESTIONS ANSWERED

This issue, we look at the use of designated unit trusts and the effect of a personal pension on means-tested benefits

Q Parents invest into a designated unit trust (UT) for their child. Can the parents withdraw some or all of the money if they need it for the child? The situation I have is where the daughter has hearing problems. If she needs treatment before she is 18, for example, can her parents use money from the designated UT to pay for this? I assume this is OK because it is still benefiting the beneficiary?

IMAGE: ISTOCK

A While designated accounts offer simplicity, and in England and Wales they are treated for tax purposes in the same way as bare (absolute) trusts, the downside is that there is no proper trust declaration stating what powers the trustees have.

In the case you describe, the parents hold the funds as nominees for their child. If the parents use the money for any purpose, there may be a question as to who benefited from the funds. For example, in the case of medical costs, if you consider that the parents have a duty/obligation to provide for the treatment, then using the funds from the designated account for this purpose could be seen as benefiting the parents (by saving the parents money that they would otherwise have to spend on the treatment). This could jeopardise the entire gift (by invoking the gift with reservation provisions) and, of course, on attaining age 18 the child could argue that the parents misused the gifted money.

Generally, you would not advise that parents invest in designated accounts if there is an expectation that they will need to use that money, although each case will depend on its own facts. If the investment has not yet been set up then a formally established express trust would, in our opinion, be a better choice.

Q How does a personal pension affect a client's means-tested benefits?

A In relation to means-tested benefits, it depends on a couple of things.

If the client is below the pension credit qualifying age, only the amount that is taken out of the pension counts towards the means testing.

If the client is over the pension credit qualifying age and they are not taking benefits, or if they are flexibly accessing their benefits, the local council will establish how much income they would receive if they were to purchase an annuity with the fund.

If they have purchased an annuity, then this is the income that will be used in the calculations. ●

→ These are actual questions and answers taken from the Technical Connection Techlink Professional question bank. Chartered financial planners can find out more about a trial subscription to TechWise by visiting: **www.techlink.co.uk/techwise**

PFS AWARDS WINNERS

AT THE TOP OF THEIR GAME

This year's *Personal Finance Society* award winners were feted at a glittering gala dinner in London, as we report

For the ninth consecutive year, the Personal Finance Society (PFS) has selected the very best from the profession to win this year's Personal Finance Awards.

The winners were named at a gala dinner held at London's iconic Roundhouse music venue, with the coveted Chartered Financial Planner of the Year award going to Ian Rose, from Group IFA. He pipped Gemma Siddle, from Eldon Financial, and Natalie Wright, from Mazars, to claim top spot in this year's awards.

The other prize winners included Capital Asset Management, named as Chartered Financial Planning Firm of the Year. Grahame Hopper was named Paraplanner of the Year, while Allan Cruse was awarded Retirement and Later Life Advice Specialist of the Year.

Rachel Lane won Mortgage and Protection Advice Specialist of the Year, while Olivia Bowen was named Investment Advice Specialist of the Year.

HIGH STANDARDS

Keith Richards, CEO of the PFS, said: "There is no higher accolade than being recognised as a personal finance award winner by your professional body. Award winners and finalists act as ambassadors for our profession and should be congratulated for their commitment to high professional standards."

He added: "Now entering its ninth consecutive year, our annual Personal Finance Awards grow in size and prestige every year, paying tribute to those who exhibit outstanding skill and service in their respective field.

"In addition, we continue to recognise the contributions of journalists and commentators who champion the interests of consumers through their in-depth reporting and coverage of important personal finance issues."

Last year, the PFS introduced five new media categories to its annual awards programme. The list has been expanded further this year.

First place
WINNER
1ST

THE WINNERS

CHARTERED FINANCIAL PLANNER OF THE YEAR
Phillip Rose – Group IFA

CHARTERED FINANCIAL PLANNING FIRM OF THE YEAR
Capital Asset Management

INVESTMENT ADVICE SPECIALIST OF THE YEAR
Olivia Bowen – Castlefield

RETIREMENT AND LATER LIFE ADVICE SPECIALIST OF THE YEAR
Allan Cruse – Strategic Solutions

PARAPLANNER OF THE YEAR
Grahame Hopper – VWM Wealth

MORTGAGE AND PROTECTION ADVICE SPECIALIST OF THE YEAR
Rachel Lane – Group Rapport

PERSONAL FINANCE CONSUMER CHAMPION OF THE YEAR
Jeff Prestridge - Mail on Sunday

NATIONAL NEWSPAPER PERSONAL FINANCE JOURNALIST OF THE YEAR
Sarah O'Grady - Daily Express

NATIONAL NEWSPAPER PERSONAL FINANCE SECTION OF THE YEAR
Money, The Mail on Sunday

NATIONAL NEWSPAPER PERSONAL FINANCE NEWCOMER OF THE YEAR
Paul Thomas - Money Mail

TRADE PRESS PERSONAL FINANCE JOURNALIST OF THE YEAR
Christine Dawson - New Model Adviser

SPECIAL AWARD FOR OUTSTANDING CONSUMER ENGAGEMENT
Pete Matthews - MD of Jacksons Wealth Management

LIFETIME ACHIEVEMENT AWARD
Mike Morrison

We will hear from the winners in more detail in our future editions

Sarah O'Grady, from the *Daily Express*, was named National Newspaper Personal Finance Journalist of the Year; while Jeff Prestidge, of the *Mail on Sunday*, won the Personal Finance Consumer Champion of the Year Award. *Money – The Mail on Sunday* also scooped the title of National Newspaper Personal Finance Section of the Year.

The National Newspaper Personal Finance Newcomer of the Year award went to Paul Thomas, of *Money Mail*.

Trade Press Personal Finance Journalist of the Year went to Christine Dawson, of *New Model Adviser*, and the new Trade Press Personal Finance Publication of the Year went to *New Model Adviser*.

> *Award winners and finalists act as ambassadors for our profession and should be congratulated for their commitment to high professional standards*

GUIDANCE AND LEADERSHIP

For the second year running, NS&I sponsored the glittering affair and Ian Ackerley, NS&I chief executive, said: "NS&I is proud to continue our long-running partnership with the PFS, which continues to serve the interests of the public through its guidance and leadership of a growing number of personal finance professionals.

"The annual Personal Finance Awards offer an opportunity to thank those who commit themselves to professional development and also the trade media journalists who ensure we're kept fully informed of all key industry issues."

The 2017 MoneyPlanner of the Year award went to James Lawton, from Futures Assured in Sheffield. Ironically James had to decline his invitation to attend the Awards ceremony because of his MoneyPlan clinic the next day, for which he was adamant that his obligations for Citizens Advice took priority. The three finalists in the MoneyPlanner category, who were all highly commended, were Habs Rana, Howard Robinson and Andrew Grassick.

A Special Award for Outstanding Consumer Engagement was presented to Pete Matthew of Jackson's Wealth management in Cornwall for his tremendous consumer education initiatives through meaningfulmoney.tv. His 233 money podcast episodes have been downloaded more than 1.1 million times and his 309 videos viewed 200.000 times. We hope Pete's amazing results will inspire other practitioners to use their knowledge and expertise to help educate and engage consumers to take greater control of their money.

Following his shock death in November a Lifetime Achievement Award was presented posthumously to Mike Morrison. Tom Selby accepted the award and paid a special tribute to the 'pensions legend' who was head of platform technical at AJ Bell.

The winners received their awards from Gyles Brandreth. A writer, broadcaster, former MP and government whip, Mr Brandeth is one of Britain's most sought-after awards hosts and after-dinner speakers.

He has addressed audiences from New York to Buckingham Palace, from senior business executives to 12,000 members of the Women's Institute at Wembley (where he followed Tony Blair and received a standing ovation).

The former Oxford scholar and president of the Oxford Union, won the parliamentary seat for Chester in 1992 and became Lord Commissioner of the Treasury in John Major's government. Today, he has returned to the world of entertainment; Mr Brandreth has won awards as a public speaker, novelist, children's writer, broadcaster, political diarist, journalist, theatre producer and businessman.

The awards have quickly established an important place in the hearts of previous winners as last year's winner Kate Gannon explained: "There's no better feeling than being recognised for years of hard work, professional development and commitment to the personal finance profession."

The PFS would also like to say a huge thank you to all those who generously donated to the chosen charity for 2017, The On Course Foundation. The charity supports the recovery of sick and injured service personnel and veterans by providing a supportive network with camaraderie built around the world of golf with the many employment opportunities that it offers. The kind generosity of our members and guests is greatly appreciated. Find out more at: **www.oncoursefoundation.com** ●

ALL TO GAIN?

This instalment of the tech refresher revisits the fundamentals of multiple chargeable event gains

Gains, which are referred to as 'chargeable event gains' (CEGs), arising on single premium bonds (bonds) are taxed under the chargeable events regime and subject to income tax. In this article, we consider the operation of top-slicing relief when an individual owns several bonds which give rise to multiple CEGs in the same tax year. Top-slicing relief is the mechanism used to determine whether any higher/additional rate income tax liability is payable on a CEG, broadly, by averaging the CEG across the number of complete years for which a bond has run.

> *Where CEGs arise in the same tax year on multiple bonds, the fractional gain for each bond is calculated*

TAKE BILL FOR EXAMPLE

Bill has two bonds which he fully encashed in 2016/2017. Both are UK bonds (although the principles explained here apply equally to non-UK bonds). Bond A had been in force for ten complete years and produced a CEG of £24,000. Bond B, in force for four complete years, produced a CEG of £3,600. Bill's taxable income (after deductions and allowances) for 2016/2017 is £30,500 and he wishes to know his prospective income tax liability on the CEGs. After adding the unreduced CEGs, totalling £27,600, to his taxable income, Bill would be a higher rate taxpayer (£58,100 taxable income) so will benefit from top-slicing relief.

When a CEG arises under a bond, the fractional gain, calculated by dividing the CEG by the number of complete years the bond has been in force, is treated as the most highly taxed part of income for that tax year. This gives effect to top-slicing relief. Tax at 20% (40% higher rate less 20% basic rate) is then calculated on the fractional CEG and multiplied by the number of complete years the bond has been in force to determine the amount of tax due on the whole of each CEG.

Where CEGs arise in the same tax year on multiple bonds, the fractional gain for each bond is calculated. The total amount of the fractional gains is then added to taxable income and tax at 20% is calculated on the excess of the total fractional gains above the basic rate limit (£32,000 for 2016/2017).

In Bill's case, the fractional gain under bond A is £2,400 (£24,000 ÷ 10) and under bond B it is £900 (£3,600 ÷ 4), giving total fractional gains of £3,300.

Adding £3,300 to taxable income of £30,500 gives an amount of £33,800, on which tax is £360 [that is £33,800 less £32,000 x 20%]. The average rate of tax on the fractional gains is therefore 10.91% (360 ÷ 3,300).

The average rate of tax (10.91%) is then applied to the fractional gain under each bond and is multiplied by the number of complete years for which the bond has been in force, to give the tax due on the whole gain for that bond.

Thus for bond A, tax payable would be £2,400 x 10.91% x 10 = £2,618.40. For bond B, £900 x 10.91% x 4 = £392.76. Total tax payable would be £3,011.16.

Of course, for non-UK bonds 20% basic rate tax would also be due on the whole CEG. ●

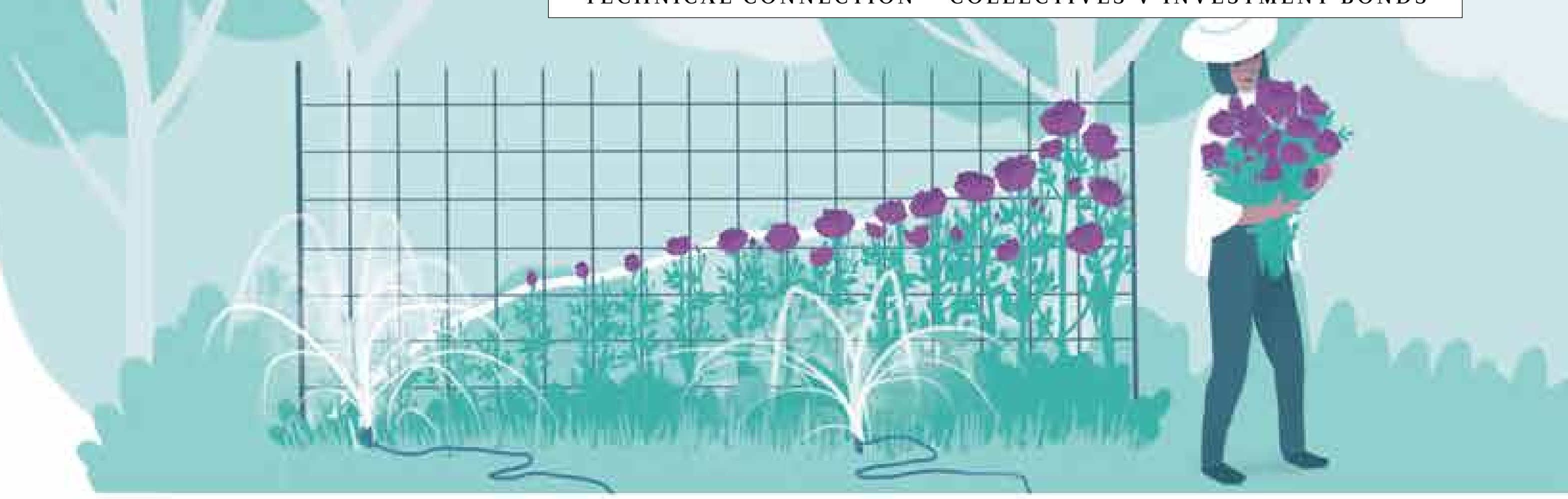
DECISIONS, DECISIONS...

In this article, **Technical Connection** look at the relative merits of collectives and investment bonds when choosing your investment portfolio wrapper

ILLUSTRATIONS DARIA SKRYBCHENKO

Once you have taken care of the tax 'no-brainers' of investing into registered pensions and ISAs, and have given due consideration to tax-advantaged investments like venture capital trusts and enterprise investment schemes, what you do about portfolio wrapper choice can make a big difference to the bottom line – the net return for investors. The 2016/2017 changes to the taxation of dividends, interest and capital gains have a substantial impact on this decision.

Before looking at tax, however, it is important to recognise that fund availability and charges are also likely to have an impact. On fund availability, it is increasingly (though by no means universally) true that most investors will be able to secure the portfolio that meets their needs through unwrapped or (investment bond) wrapped collectives. On charges, in this article we have assumed neutrality between investment bonds and unwrapped collectives.



> *The two key drivers of investment performance are capital growth and income*

Of course, the reality is that these factors (together with relative levels of investor protection and how the wrappers facilitate adviser charging) may well have an influence on wrapper choice.

However, let's assume that they do not represent an insurmountable impediment to the selection of any particular investment wrapper. We can then move on to consider the tax implications of wrapper choice.

In this article, consideration will be confined to the implications of wrapper choice for UK resident and domiciled individual investors. As we are sure you will understand, wrapper choice for trustees, companies and charities deserves separate consideration.

The two key drivers of investment performance are capital growth and income. We'll start with a look at the former:

CAPITAL GROWTH

Collectives: The freedom (for the investor and the manager) from any tax on capital gains realised by the collective manager, as well as the 10% and/or 20% rate for investors realising capital gains on disposal of their interest in collectives, will be appealing for higher and additional rate taxpayers. This will be especially so where all or part of the capital gains tax (CGT) exempt amount can be used to set against the realised gain. Further positive accentuation of this will be achieved where the CGT annual exempt amount can be used each year – possibly even through ordinary, investment rebalancing – to uplift the acquisition cost and thus reduce the eventual chargeable gain.

UK investment bonds: So, how do UK bonds compare on capital gains? Well, for a higher or additional rate taxpaying investor in a UK investment bond, as well as suffering tax (or a reserve for it taken into account in pricing the units underlying the investment inside the fund), there will be a further liability on the realised gain on encashment at 20% or 25%, as appropriate. The chargeable event gain, however, will not be 'grossed up' to take account of the tax suffered at fund level.

The actual rate suffered or reserved for in the UK life fund will rarely be the full 20% of capital gains, because the insurance company benefits from indexation allowance (based on the Retail Prices Index as opposed to the Consumer Prices Index) in calculating taxable capital gains. It is true that the life fund will pay tax on an annual deemed realisation of underlying collective investments, but this liability is effectively spread across seven years. All of this (indexation allowance and spreading of the liability over seven years) helps reduce the effective rate of tax reserved for in pricing the units representing the insurance bond investment. This is an actuarial function and with very few, if any, exceptions, this 'effective underlying rate' is not made public.

The overall rate suffered on the investment (at life fund and investor level) is therefore likely to be highly dependent on the extent by which the realised gains in the life fund exceed the indexation allowance. To the extent that there are no 'real' gains, there should be no 'fund level' tax deduction or reserve. The investor will have a 20% tax credit in calculating any income tax liability on the chargeable event gain when realising the investment bond.

For higher and additional rate taxpayers, the ultimate income tax liability will therefore be at least as high as the CGT rate if the gain were realised by disposing of unwrapped collectives – there will also have been tax deducted or reserved for at the life fund level if real gains were realised or showing in the fund. As such, the UK bond would seem to offer little tax appeal in relation to capital gains for these investors. For a basic rate taxpayer, there would be no further tax to pay on the gain made under a UK investment bond, so the comparison to make is between a maximum 10% on the capital gain made on the collective (after applying any available CGT annual exempt amount) and the effective rate suffered in the life fund with the benefit of the indexation allowance. For these investors, the availability of the (even more likely) CGT annual exempt amount (especially if it can be used annually) is likely to make an important and positive difference in favour of collectives.

20%

THE ACTUAL RATE SUFFERED OR RESERVED FOR IN THE UK LIFE FUND WILL RARELY BE THE FULL 20% OF CAPITAL GAINS

Offshore investment bonds: In an offshore investment bond, there will be no tax on realised gains at fund level. This means that the overall rate suffered on the gain, albeit deferred until the gain is realised, will be 0%, 20%, 40% or 45% – all borne by the investor. With no underlying indexation allowance and the fact that the income tax rate on the bond gain is likely to significantly exceed the CGT rate on a gain from the disposal of an unwrapped collective, the offshore investment bond is unlikely to be tax-attractive in relation to investment growth driven by capital gains. The exception to this general rule would be if tax on gains under the bond could be avoided through appropriate exit planning.

REINVESTED INCOME

So much for capital gains, but, especially at a time of highly volatile capital values and continuing high importance attached to reinvested income, many investors will seriously consider investments that yield income as well as producing capital growth when considering an appropriate investment portfolio. It is widely accepted that having yield/income in a portfolio that is reinvested reduces overall risk and, in the long run, is an important driver of return. So, let's take a look at how income is taxed through collectives and investment bonds.

Collectives: Dividend income paid to a UK collective will, possibly after deduction of management expenses (fund dependent), generally be taxed on the investor (not the fund manager) – even if accumulated. To the extent that dividends fall within the investor's dividend allowance, they will be taxed at 0% – regardless of the tax rate of the investor. To the extent that the dividend income exceeds the investor's dividend allowance, the investor would suffer 7.5% (basic rate tax band), 32.5% (higher rate tax band) and 38.1% (additional rate tax band) on the dividends to which they are entitled. This extra tax – which represents a significant (30% for higher rate taxpayers) increase in the effective rate over the pre-2016/2017 rate – on dividends must be taken into account in determining net returns to the investor, even though this tax is unlikely to be physically paid out of the reinvested dividends but out of other resources of the investor through the assessment to income tax.

Interest distributions (such as from fund investments) received by basic, higher rate and additional rate taxpaying collective investors suffer tax at 20%, 40% or 45% respectively, tax year on tax year. Interest distributions from collectives are paid gross from 2017/2018.

For the distribution to be treated as an interest distribution, the investment fund needs to be invested as to more than 60% in, broadly, cash/fixed interest (interest-producing) investments. If not, even though there will be actual interest received by the fund, the payment to the investor will be categorised as a dividend with the resulting tax consequences. The favourable provisions originally introduced for distributions from open-ended offshore funds from 6 April 2008 have been withdrawn, which means there will be no tax credit for the UK investor on dividends received from these funds.

UK investment bonds: UK dividend income paid to a UK insurance company suffers no further tax and can thus be fully reinvested. This can deliver attractive and valuable tax deferment for higher and additional rate taxpayers who would have a liability to meet on so much of this income as it exceeds the 0% tax dividend allowance of £5,000 a year (£2,000 a year from 2018/2019). A similar position would hold good for overseas dividends, received by a UK life company in respect of funds underlying a single premium bond, under the general dividend exemption in section 931D Corporation Tax Act 2009. To the extent that dividends received outside of a bond wrapper fall within the investor's dividend allowance, though, the tax shelter of the bond – with the eventual potential income tax liability – will have no attraction. It will have increased attraction once the allowance is exceeded though, as the rate of tax suffered on dividends outside of the life fund has increased significantly.

Any interest paid to a UK life fund will be reinvested after 20% tax at life fund rates.

Offshore investment bonds: Dividends and interest will be tax-free at fund level, but there will be no tax credit for the investor when an encashment takes place and a gain is made.

DECISION TIME...

So when is a UK or offshore investment bond likely to offer a superior tax outcome for UK investors?

Well, let's get one thing clear – the decision is far from binary. There are, as we have identified above, a number of factors to take into account.

As a rule of thumb, though, all other things being equal (including respective charges) for capital growth driven by capital gains that are likely to be within the available annual exemption (and especially where it can be effectively used each year), and dividends within the dividend allowance, a collective looks 'tax best'. So how much capital investment would that conclusion imply? Well, the answer is primarily allowance and yield dependent. For example, based on the £2,000 fully available annual dividend allowance for 2018/19 and a 3% yield, you would be looking at £66,666 producing tax-free income and (with good use of the annual capital gains tax exemption) tax-free capital gains. Simple. And for a couple, this would mean more than £130,000. The lower the yield, the greater the capital that could be invested to produce a tax-free return. The point at which the annual management charge is deducted (before or after the declaration of the dividend) could also make a difference.

Where dividends (taken or reinvested) are in excess of the dividend allowance, and especially where the CGT annual exemption cannot be used or fully used, the investment bond may look 'tax attractive' as a deferment vehicle. This would be especially so where income levels can be managed on exit to reduce or avoid tax. Exit planning, including assignment to lower or non-taxpayers, can also play an important part in the overall comparison.

And offshore or onshore? Well, unless you are confident you can manage the exit to avoid tax (which may well be possible), the UK bond (with tax freedom on dividends received and indexed capital gains plus a 20% tax credit) will often look tax best. It really does depend on the facts.

In running your comparisons based on appropriate assumptions, it is always worth doing the numbers first. Once you have clarity on this basis, you can factor in the softer aspects like simplicity of administration, ease of holding the investment in trust etc, and then come to a decision. As mentioned previously, decision making is far from binary.

On pure tax grounds, if you can be sure that the funds selected will be either 'all capital growth' or 'all reinvested income within the dividend allowance', and you are relatively sure about your client's tax position, both now and in the future, then arguably, it would be possible to implement a wrapper choice strategy that would see these investments made directly through collectives, and other investments through an appropriate investment bond.

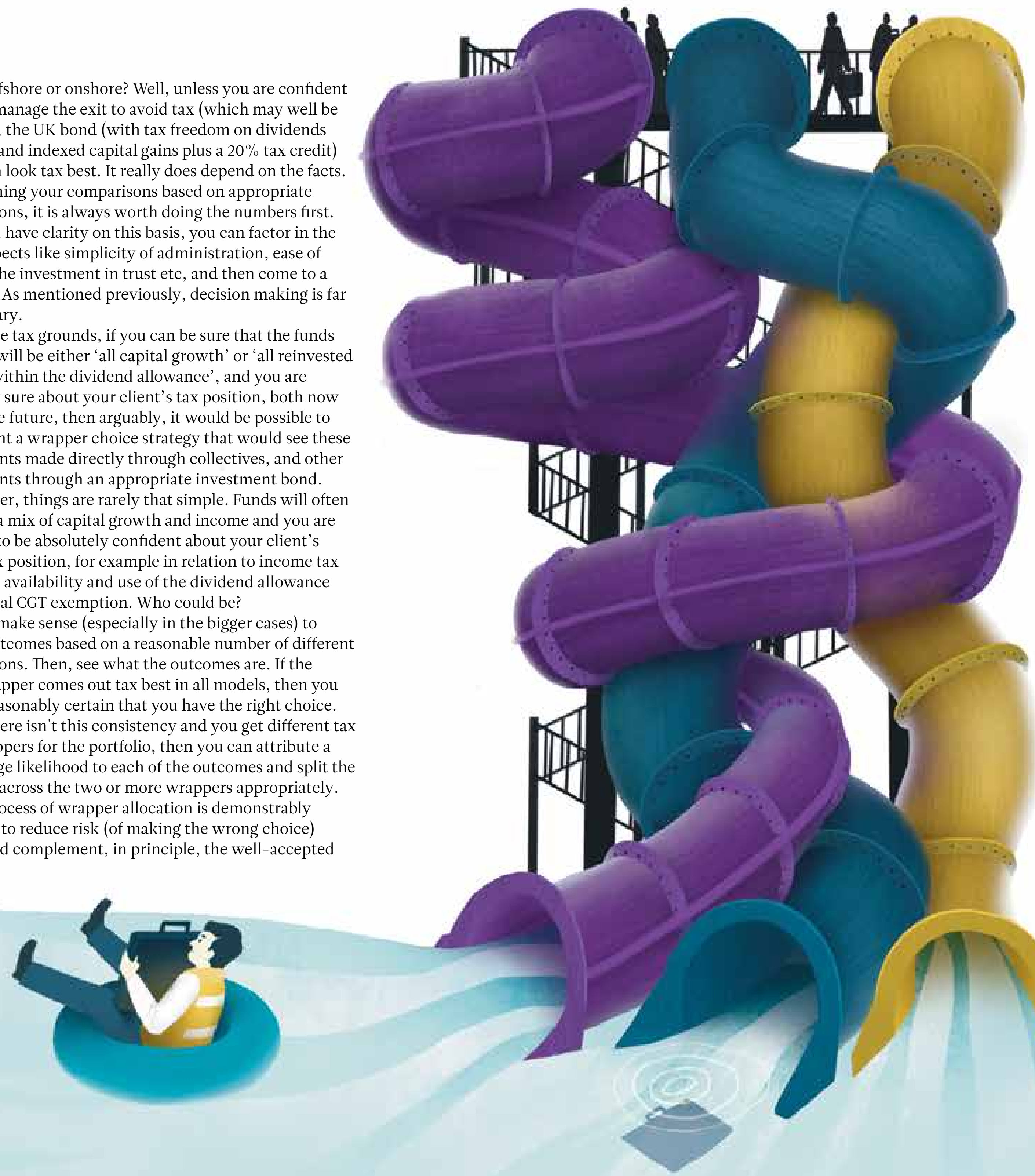
However, things are rarely that simple. Funds will often produce a mix of capital growth and income and you are unlikely to be absolutely confident about your client's future tax position, for example in relation to income tax rates, the availability and use of the dividend allowance and annual CGT exemption. Who could be?

It will make sense (especially in the bigger cases) to model outcomes based on a reasonable number of different assumptions. Then, see what the outcomes are. If the same wrapper comes out tax best in all models, then you can be reasonably certain that you have the right choice. Where there isn't this consistency and you get different tax best wrappers for the portfolio, then you can attribute a percentage likelihood to each of the outcomes and split the portfolio across the two or more wrappers appropriately.

This process of wrapper allocation is demonstrably designed to reduce risk (of making the wrong choice) and would complement, in principle, the well-accepted principle of asset allocation employed to diminish investment risk by avoiding having all of your eggs in one basket – so to speak.

20%

THE INVESTOR WILL HAVE A 20% TAX CREDIT IN CALCULATING ANY INCOME TAX LIABILITY ON THE CHARGEABLE EVENT GAIN WHEN THEY REALISE THE INVESTMENT BOND



There is a real role for advisers to play here in making the right wrapper choices for their clients and building in some contingency through wrapper allocation.

As we mention above, another basis for determining wrapper choice would be by reference to the underlying investments. Under this principle, investments that are substantially capital growth orientated and/or produce dividends that will fall within the 0% tax dividend allowance, could be made through 'unwrapped' collectives – especially where the investor can use their CGT annual exemption. Investments producing a material yield through dividends that exceed the investor's 0% tax dividend allowance could fare better inside a UK or offshore investment bond, especially for higher or additional rate taxpaying investors who will benefit from the lower tax rates on accumulated reinvested income inside a life fund.

Advisers showing that they have given thought to and, where appropriate, undertaken this process would also have strong evidence of having paid due care and attention to the determination of suitability in making investment recommendations and wrapper selection, an important part of that process.

There is a real role for advisers to play here in making the right wrapper choices for their clients and building in some 'contingency' through wrapper allocation. And it is essential to start with and base decisions on the just-discussed 'quantitative basis'. Only with a clear idea of the numbers can you put a cost on, and thus assess, the benefit of any of the qualitative aspects to be factored into investment wrapper decision making. ●

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This article takes no account of the Autumn Budget as it was written prior to 22 November 2017.

THE POWER TO CHANGE LIVES

Mark Hutchinson examines the work of the newly formed Practitioner Panel on Financial Planning

A few months ago, Personal Finance Society (PFS) president, Sharon Sutton, agreed to chair a new practitioner panel focused on financial planning. The objective of the panel is for established practitioners to share good practice and insights from the development of their own financial planning businesses, and in particular, skills and techniques that add value for their clients.

Sharon's own career journey was initially inspired by George Kinder speaking at a PFS conference. But she acknowledges that it takes a lot of courage, practice and new skills to make the successful transition. The rewards for her business have been increased turnover and profit, not to mention longer-term clients and more referrals.

As Dennis Hall, CEO of Yellowtail Financial Planning, says: "Convincing someone they need financial planning (compared to whatever it was they came to see you about) can be challenging." But when you see the feedback you can understand why he makes the effort: one client remarked: "It's a comfort to know that someone is looking at everything and can see our bigger picture – we value that aspect of the relationship more than the investment returns."

PRACTITIONER GUIDANCE

The new practitioner panel is made up of leading financial planning practitioners, who have generously committed their time to share their skills and experiences with members. We are also grateful to many other financial planning practitioners who have made contributions and provided case studies for the Practitioner Guide to Financial Planning, which we launched at our recent Festival of Financial Planning. Steve Gazzard and marketing specialist Carrie Bendall have been working with the panel to help prioritise and drive initiatives.

The guide covers a range of financial planning topics; it looks at purpose, some existing processes and gives guidance on proposition. Practitioners discuss the importance of coaching and listening skills and the guide overviews different phases in the financial planning process, such as discovery and lifetime cashflow planning.

Practitioners drill down into the essential aspects of client experience and there are real client testimonials to demonstrate the potential – and often life-changing – impact that financial planning can have on clients. The guide has a section that helps with defining and marketing service propositions and suggests the top 10 qualities of good financial planners.

As Keith Richards, CEO of the PFS, highlighted during his festival introduction: "The purpose of this guide is not to suggest that any one methodology or approach is right or wrong, especially as there is rarely a 'one-size-fits-all' solution to meet individual client needs and goals. Our objective however, is to help widen awareness of a range of 'good practice' techniques and tools that might assist advisers in achieving the best financial planning outcomes for their clients."

He further added: "As the economic and social environment continues to change and evolve, so must our role as a profession in delivering the best possible consumer outcomes while continuing to build public confidence and trust more broadly. We are immensely grateful for the enthusiastic support and guidance of our financial planning ambassadors for sharing their insights and experience."

The practitioner panel will meet regularly to guide the PFS in developing tools, resources and events that members will find useful, and expand the existing CPD framework. We intend to update the guide on a regular basis, so do let us have your feedback. We'd also like to hear from you if there are particular topics that you would like to see covered, or specific speakers that you would like to hear from. Email us in the first instance at: **pfsnews@thepfs.org**

Watch out for further information as we start to turn some exciting new ideas into reality in 2018, by delivering you a range of inspiring digital resources and dedicated financial planning events.

Download the Practitioner Guide to Financial Planning from our good practice hub at: **thepfs.org/good-practice** ●

Mark Hutchinson is head of group marketing at the CII

PRACTITIONERS

Sharon Sutton, Thornton Chartered Financial Planners (chair)
Jane Hodges, Money Honey Financial Planning (vice-chair)
Julie Lord, Magenta Financial Planning
Damien Rylett, Brunel Capital Partners
Neil Bailey, Fortitude Financial Planning
Garry Hale, HK Wealth
Adam Carolan, Xentum
Adrian Quick, HarperLees
Gemma Siddle, Eldon Financial Planning
Brendan O'Ciobhain, Phoenix Wealth Management
Simon Thomas, Tenet Group
Anthony Villis, First Wealth

MOMENT OF TRUTH

With Brexit edging ever closer, interest rates going up and a Budget coming this month, **Alex Wright** explains why these are defining times for the UK economy

These are tough economic times we are living in, with the uncertainty surrounding Brexit and what form a deal struck with the European Union (EU) will take, if indeed any at all.

There is also the 0.25% rise in interest rates to 0.5% announced by the Bank of England earlier this month – the first rise in a decade – increasing mortgage interest payments for almost four millions households. As if that wasn't bad enough, the Chancellor Philip Hammond admitted in last week's Budget that growth forecasts have been lowered and productivity is still poor.

The uncertainty following last year's EU referendum vote has resulted in a double whammy of lower inward investment and higher inflation, rising to 3%, fuelled by a weaker pound.

However, it has not all been doom and gloom. The UK economy was estimated to have grown 1.8% in 2016, second only to Germany's 1.9%, and it has continued to grow at almost the same rate this year, according to the Office for National Statistics.

Unemployment has also continued to fall, to a 42-year low of 4.3%. Annual house price increases, meanwhile, have fallen from 9.4% since the June 2016 vote, but were still at an inflation-beating 5% in the year to August 2017.

BREXIT QUESTION

The big question, however, remains whether Prime Minister Theresa May and her government can push through a hard Brexit, leaving both the single market and the customs union, or whether it is vetoed by parliament, or they fail altogether to reach a deal with the EU before the 29 March 2019 deadline. Despite Ms May insisting that "real and tangible progress" has been made in Brexit talks to date, "no deal" is still a real possibility.

Agreement has also yet to be reached on the size of Britain's divorce bill from the EU, before both parties can move on to discussing future trade deals. The EU is demanding €60bn in payment, whereas the UK has so far offered €20bn to cover the two-year transition period.

Should the worst happen and Britain gets no deal, it would have to rely on trading with the EU under World Trade Organisation (WTO) rules, meaning higher tariffs for businesses and consumers, companies losing passporting rights to operate across the EU, and soaring unemployment. Worse still, consultants Oliver Wyman estimate that 75,000 financial services jobs would be lost if WTO terms were imposed, not to mention the billions of pounds in lost tax revenue and investment.

"This is another reminder that a no-deal Brexit will be no good for the industry, for customers or the economies of the UK and the EU," says Miles Celic, chief executive of lobby group TheCityUK. "For our industry, the most urgent priority remains agreeing a timebound Brexit transition period."

INTEREST RATES

Amid all this was this month's announced interest rate rise – a double-edged sword. While it will raise the cost of borrowing on mortgages and other loans, it is good news for savers who have endured historically low rates for the past decade.

"The Bank of England seemingly sees the hike to 0.50% as more likely to be a case of 'one and a little more to come' rather than 'one and done'," says Howard Archer, chief economic adviser to the EY Item Club consultancy.

The 3.7 million households on variable and interest-only mortgages will be worst affected by the rise, with monthly mortgage payments increasing by about £12 per month based on an average outstanding balance of £89,000, according to UK Finance.

The rise may also force landlords to increase their rent. Consumer spending may also decline, having a knock-on effect on shops and retailers, particularly during the crucial Christmas and new year trading period.

On the flipside, Britain's 45 million savers stand to benefit most from increased interest earned on their accounts, as well as pensioners buying an annuity. Nationwide, Skipton, TSB and Yorkshire Building Society have all pledged to increase their variable savings rates after the announcement.

CRUCIAL TIME

In his Budget Mr Hammond slightly reduced the pace of repaying the country's debt and has stuck to his guns in terms of income tax pledges. Little emerged in his speech, however, in terms of good news for savers.

Whatever the outcome, the UK is now entering a significant time that will go a long way to determining its economic future. ●

BECOME A PFS BOARD MEMBER AND HELP TO SHAPE YOUR PROFESSION

The Personal Finance Society (PFS) is currently looking to recruit two new directors (DipPFS and above), to join the board.

The positions are voluntary roles for a maximum term of six years, but why would someone make such a commitment? To find out, we spoke to Sharon Sutton, who in the last year of her six-year spell has just been named as the new PFS president.

"I've met some wonderful people during my time in financial services who have influenced my thinking, and I have learned so much through having access to all their generously shared knowledge," she began. "It made me want to be at the heart of any process that could affect and influence positive change for the future. There is no better place to achieve that by becoming a member of the board, with a sphere of influence that extends to more than 37,500 members.

"Yes, it's a big commitment to make – especially for me, living in the Isle of Man – but one never stops learning and it is a privilege to be able to pass that learning on, for the benefit of members on an individual basis and our profession as a whole."

Ms Sutton continued: "The feeling one gets from being able to help others increase their knowledge and improve their skillset cannot be quantified. And we all know how good it feels to be the beneficiary of new and useful learning.

"When I look back on my time on the board, I can take great pride from what we have achieved. Our pro bono work, the Aspire apprenticeship scheme and all the work we did on the retail distribution review spring instantly to mind. They are just some of many, many more.

"So to anyone thinking about applying to join the board I would say: Yes, it does entail a great deal of extra work and commitment – but nothing much beats the prestige that comes with shaping your profession for the benefit of all who work in it." ●

Personal Finance Society

Standards. Professionalism. Trust.

Interested in becoming a Member Director?

We're looking for two Member Directors to serve on the Personal Finance Society Board

Whilst the appointments are open to all members who are DipPFS and above, we would ideally like to encourage applications from members who are paraplanners, or who work for small advice firms (up to five advisers) to ensure there is knowledge of these sectors on the Board.

The successful candidates will be able to think strategically and be passionate about the work of the Personal Finance Society.

The positions are voluntary roles for a maximum term of six years.

A commitment to attend six board meetings a year (one of which includes the Annual General Meeting), the annual personal finance awards event and officers' conference and one regional meeting each year is required.

If you are interested in these roles and to find out more visit thepfs.org/memberdirectorvacancy.

Application deadline is 15 January 2018

DRUGS AND ALCOHOL

WHY IT'S BEST TO TEST

The use of drugs and abuse of alcohol continues to be an issue for wider society, but what should employers be doing to check their own staff?

£6 BILLION

estimated cost of lost productivity last year in the UK due to drugs and alcohol abuse

With the introduction in recent years of roadside drug testing and the surge in drug-related accidents at work, employers are coming under increasing pressure to ensure their staff are fit to work.

According to a survey carried out in 2015 on employees from a range of sectors, nearly a third of them admitted using drugs at work, with a significant number claiming to be 'under the influence' every working day, warns Suzannah Robin, a drug and alcohol safety expert at AlcoDigital.

"Although there is still no legal requirement for an employer to adopt a drug or alcohol testing policy, they do have an obligation to maintain a safe working environment as part of the Health & Safety at Work Act," she explains.

"If carried out with the proper guidance and training, a drug and alcohol testing policy will not only make your workplace safer, it will also help to reduce absenteeism and increase worker productivity," Ms Robin adds.

THE OFFICIAL LINE

The government's official line on testing is: Employers have to have consent if they want to test for drugs and alcohol. Usually this is when they have a full contractual health and safety policy, which should be in the contract or staff handbook.

Employers should:

- Limit testing to employees that need to be tested
- Ensure the tests are random
- Not single out particular employees for testing unless this is justified by the nature of their jobs.

WHAT DRUGS SHOULD EMPLOYERS TEST FOR?

It is no surprise that illegal substances such as cannabis, cocaine, ecstasy and ketamine should be included in any testing. Alcohol should also be tested for. But the implication of the 2015 UK drug-driving law is that other 'everyday' drugs should also be considered. Legal drugs cited in the 2015 law include:

- Antihistamines, such as chlorphenamine, diphenhydramine, loratidine or cetirizine
- Diazepam
- Morphine or opiate and opioid-based drugs such as codeine, tramadol or fentanyl
- Termazepam.

A study in the US this year revealed that 71% of employers have been affected in some way by employees' misuse of legally prescribed medications, including opioids. In the UK, drugs and alcohol abuse cost British businesses in excess of £6bn in lost productivity last year alone. Yet a survey of 501 HR decision-makers found that 41% of those that do drug test employees are not testing for synthetic opioids.

Ms Robins takes the example of someone returning to work with a back problem for which he or she has been prescribed codeine.

"It's a scenario any employer could imagine. But would you question their fitness to work? The disturbing fact is that many bosses wouldn't – yet they could be laying themselves open to prosecution, not to mention risking the safety of employees and customers."

An employer could be scrutinised for breaching health and safety legislation, leading to fines or even a jail sentence for failing to take all reasonable steps to ensure staff members are fit to work.

DRUG TESTS – KNOW THE PROS AND CONS

Ms Robin says there are lots of decisions to be made about testing, including:

- Urine samples: For years these have been used for reliable and cost-effective drug testing, providing instant results.
- Blood testing: The most accurate method – but needs medical training and laboratory analysis.
- Hair testing: Provides historic data of what drugs a person has consumed but not from the most recent few weeks.
- Oral fluid collection: A far simpler process – the window of detection for the drugs in saliva mimics blood testing – making it the method of choice for UK police roadside testing and companies implementing drug screening policies.
- Random testing: Enable an employer to form a basic consent agreement with their staff, acting as a deterrent and encouraging them to be more aware of what they are consuming and how this could have an impact on their lives, and those around them. ●

SETTING UP A DRUG AND ALCOHOL TESTING POLICY

While many larger corporations have policies, smaller businesses may feel daunted by the sensitive task of setting up a screening procedure. However, the process can be relatively simple.

Ms Robins suggests:

- Technological advances have transformed the quality and accuracy of testing hardware, and high-quality police-grade testing kits can be bought reasonably priced, offering instant and reliable results.
- It is important that personnel are trained in the correct use of the kits and accurate interpretation of results, ensuring any evidence is irrefutable if challenged in a legal action.
- You may be wondering how employees react to the news that they are to be tested. Experience shows the vast majority actually welcome testing, recognising that it is in the interest of all employees and customers.

KNOW YOUR CUSTOMER–

AND YOUR INVESTMENT HOUSES

Knowing the customer and understanding their needs is a crucial requirement. However, there are increasing signs that the messages may not be reflected in results delivered by the wider investment community

The Financial Conduct Authority (FCA) is calling for investigations into investment consultancy.

The call comes at a time when people are increasingly questioning whether investments are delivering the best results to the end client – an issue that could cause problems for independent financial advisers in the future.

For the first time ever, the FCA is making a market investigation reference (MIR) to the Competition and Markets Authority (CMA) in relation to investment consultancy and fiduciary management services.

The FCA has the power to make a MIR when it has reasonable grounds to suspect that any features of a financial services market prevent, restrict or distort competition. In the case of investment consultancy and fiduciary management, the FCA considers those features are:

- A weak demand side, with pension trustees relying heavily on investment consultants but having limited ability to assess the quality of their advice or compare services with resulting low switching rates
- Relatively high levels of concentration and relatively stable market shares, with the largest three firms together holding between 50% and 80% market share
- Barriers to expansion restricting smaller, newer consultants from developing their business
- Vertically integrated business models creating conflicts of interest.

Christopher Woolard, executive director of strategy and competition at the FCA, says: "Investment consultancy services play a significant role advising pension fund trustees when they are procuring asset management services. It is important trustees can be confident they are getting good quality advice and value for money from their investment consultants.

"Assets affected by investment consultants' advice are significant, with up to £1.6trn of assets affected by the advice of the 12 largest firms. The institutional investors who use investment consultancy services are mainly pension schemes but also include charities, insurance companies and endowment funds."

HUGE VARIATIONS

The move comes as a recent investigation by Barnett Waddingham uncovered significant inconsistency in the investment performance of UK with-profit funds. The survey looked at funds with similar asset allocations representing more than £100bn in total. It showed that overall fund returns ranged from as little as 2.8% to an impressive 16.5%.

The survey also showed that the biggest component to investment return variations is the difference in performance within each asset class. For example, individual fund equity performances were very wide-ranging, with returns varying from 4.4% to 25.0%.

Scott Eason, partner at Barnett Waddingham says: "It is clear that the investment performance of UK with-profits funds is extremely variable. While some with-profit funds have performed very well, a number of funds have significantly underperformed and this will have had a direct impact on the returns to policyholders.

"Such a variation in returns is simply unacceptable and makes it extremely hard for customers, who rely on insurers to get the best deal. The end customer is not an expert in investments and trusts companies to use their expertise and size to produce returns that can stand up to scrutiny.

"Unfortunately, many customers of UK with-profit funds are not having this experience and are also probably unaware that the inconsistencies exist."

Added to that, investors are often not aware how

> *"Overall fund returns ranged from as little as 2.8% to an impressive 16.5%."*

much their wealth manager is charging them for advice and money management services, warns online wealth manager Netwealth.

Charlotte Ransom, CEO of Netwealth, says: "In its recent report on the asset management industry, the FCA noted that 'investors' awareness and focus on charges is mixed and often poor'. Transparency regarding the impact of fees on future investment returns is also highlighted as a priority in the MiFID II proposed regulations."

THE PLANNING VIEW

The Personal Finance Society (PFS) has just launched a good practice guide to financial planning. Keith Richards, PFS CEO, says some planners "will completely separate the advice element from any product recommendation or execution (if appropriate)", adding: "Many run their own small firms and others will work for big firms and have access to a range of resources, using different processes and tools to other personal finance professionals.

"The common thread is that all of you strive to deliver the best possible outcomes to your clients."

However, David Gurr, a director at Diminimis, warns that many financial planners might be inadvertently setting themselves up for problems in the future.

The relationship between end client, planner and discretionary investment manager can be handled in several ways, he says.

At the moment, one of the most common approaches is for the investment manager to treat the planner as their client, in an agent-as-client arrangement.Here, the investment manager often has no knowledge of the end client and certainly no knowledge of their risk appetite.

Mr Gurr says the arrangement works well in the good times when money is flowing in. However, he worries that planners have not considered how they would deal with future complaints, should the returns dip.

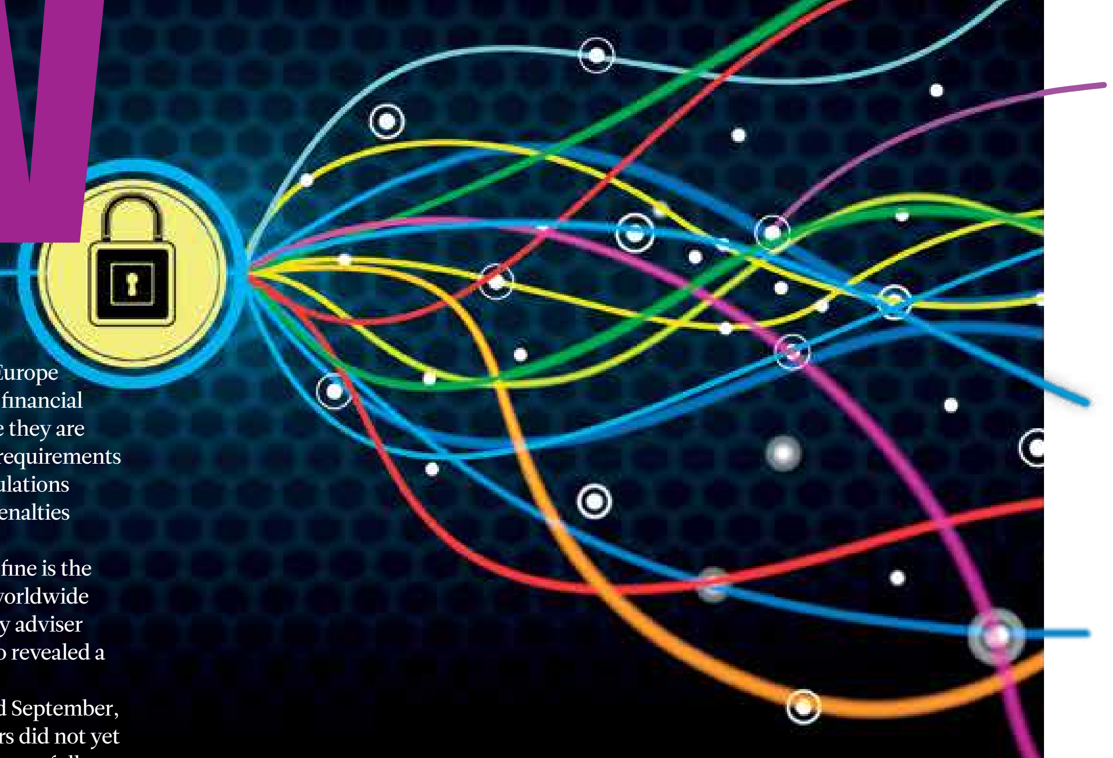
He also questions whether their professional indemnity insurance would cover such a situation.

"Do advisers understand the consequences or legal basis of these arrangements fully?" he asks. "Do they understand that because they are the client, the discretionary investment manager can use assets or asset classes that are not suitable for the retail client?

"It is all building up when the markets are being kind to everyone. Now is the time to have the conversation – you cannot afford to wait until the problem gets worse." ●

GRASPING THE GDPR NETTLE

With the EU's General Data Protection Regulation less than six months away, **Sam Barrett** gets the views and recommendations of two industry experts



With the introduction of the General Data Protection Regulation (GDPR) across Europe less than six months away, financial planning firms must ensure they are compliant. As well as new requirements around client data, the regulations significantly increase the penalties organisations face.

Although the maximum fine is the greater of €20m or 4% of worldwide turnover, a recent survey by adviser software providers Intelliflo revealed a worrying lack of readiness.

Conducted in August and September, it found that 67% of advisers did not yet have a plan to ensure GDPR was fully implemented by 25 May 2018, with 9% completely unaware of the new regulations, with subsequent surveys backing up those findings.

But while the scale of the changes required for compliance may seem daunting, the rewards are high for those firms that embrace the new regulatory requirements. Here, two industry experts give their views on the upcoming changes.

ROB WALTON

chief operating officer at Intelliflo

GDPR changes the way UK financial advice firms process and handle client and prospect data; affecting how it's stored, what's stored and how firms can communicate.

Consent is one of the topics getting a lot of airtime. Firms will need to contact legacy clients and prospects now, to ensure they have consent to future contact. Sending this request out after 25 May constitutes a breach. It's also important to understand that this consent applies to marketing communications: sending annual statements and valuations is part of delivering a contract.

Data security is also essential and firms must look at how they store data to ensure its confidentiality, integrity and availability. Scanning active records and putting them in safe storage will ensure that, even if there's a fire, they will be protected.

Firms also need to consider what constitutes a data breach. For instance, if a letter goes to the wrong address, it's a breach. Adopting a secure messaging and document delivery service, where information is encrypted and stays on a secure database, can address this.

Another big area is data quality. Data protection regulations have always stated that appropriate effort should be made to ensure data is accurate and up to date, but this will be particularly important under GDPR where an individual could sue if you cause distress. As this distress could be receiving an inaccurate valuation, it's important that firms are able to demonstrate they've done everything they can to ensure the data they hold is correct.

Although this might involve some work going through records, there is a silver lining. Holding clean, good quality data is good business. It helps to create a much more transparent relationship with customers and can also make it much easier to sell the book or the business.

There will be pain adjusting to the new requirements, especially with the Markets in Financial Instruments Directive also requiring attention, but it will deliver benefits in the longer term.

> *Although this might involve some work going through records, there is a silver lining. Holding clean, good quality data is good business*

STEVEN RHODES

independent financial services professional, barrister and legal consultant

Whenever new regulations are introduced, it's inevitable that there's some anxiety that it will be too difficult to achieve compliance. But with GDPR, this shouldn't be the case. The Information Commissioner's Office (ICO) has published some very useful guidance to help firms, especially its GDPR mythbusters.

This will inform the process but there are some steps I would strongly recommend. A risk rating exercise is sensible. If your firm has a risk register, include data in it and make it an integral part of your business operations. This should include client data but also data from suppliers and facilities. If you have a board, make sure it, and its audit committee, knows about GDPR and has noted its actions to implement it.

To ensure data is protected, it's worth investing in an encryption system – but I'd also suggest looking at ways to minimise risk in this area. For example, if you process clients' medical information, you might want to leave the exchange of this between doctors and underwriters.

You should also develop a data breach plan, so you know how to respond if there is an issue. This should include appointing someone to take responsibility for telling the ICO.

GDPR is a good opportunity to overhaul the way your firm uses data. Make sure you're only gathering information you need and get rid of anything that isn't necessary. Unless you're still using it, or it has some value, there's no need to save data once it's more than six years old.

Data is the new oil in business, so managing this well is the best way to run your company.

I can't see the ICO handing out fines on 26 May to anyone who hasn't met all of the requirements. Fines will be for firms that have done little or nothing and who don't care: if you can show you've seriously tried and have read the regulation, it will look favourably on you. Approach the requirements sensibly and it will yield a good outcome for your business. ●

GDPR SUPPORT

The ICO has complied a range of support and guidance to help firms prepare for GDPR. These include a guide that highlights the 12 key steps that should be taken ahead of next May and a data protection self-assessment checklist to help firms ensure the right processes are in place.

More information can be found on its website at: **ico.org.uk/for-organisations**

There's also plenty of support from companies within the financial services sector. Examples include Hiscox's GDPR guide for SMEs (bit.ly/2hvBonl) and Intelliflo's GDPR guides at: **it.ly/2jnkF4D**

Q1 2018 REGIONAL CONFERENCE PROGRAMME

RISK TOOL CALIBRATION, BUDGET DEEP DIVE AND GLOBAL MARKETS OUTLOOK

Next year's Q1 events run from 9 January to 26 March. Here, we outline the topics of discussion

Registration is now open for our Q1 2018 Regional Conferences. The first Q1 regional event takes place in Sussex on 9 January and the programme concludes on 26 March in London.

We have put together a topical programme to kick off 2018 with highlights that include:

- **Budget deep dive:** Technical Connection lifts the lid on the detail of the Budget and helps advisers identify the planning opportunities that are presented for their clients
- **Risk tools and suitability:** Square Mile will recap on its 2017 session, which focused on volatility and the limitations of asset allocation tools, before moving onto tool calibration and the role of gilts. The session will pay particular attention to risk tools in the drawdown environment
- **Markets have had a pretty good ride during the past couple of years, so will 2018 be the year of the correction?** Speakers will consider the outlook for global growth and where they believe the opportunities lie, including a particular focus on emerging markets.

Intelliflo will also be participating in our Regional Conferences across Q1 and Q2, taking us back to the future of financial advice by discussing how digital servicing and advice are driving customer engagement and driving down costs – meaning more satisfied clients!

View the full programme and accompanying session learning outcomes for your preferred location online at: **www.thepfs.org/events**

Make sure you register early to secure your free place – simply register online or through the PFS App. Up to five hours of structured CPD will be available to delegates, should they consider it relevant to their professional development needs.

** Intelliflo are appearing at these venues in Q1 – see online for full details*

IMAGE: ISTOCK

Q1 REGIONAL CONFERENCE PROGRAMME

REGION	DATE	VENUE
SUSSEX	1/9/2018	AMEX BRIGHTON - NB LARGE ROOM*
SURREY	1/10/2018	EPSOM RACECOURSE*
KENT	1/11/2018	MERCURE MAIDSTONE*
STAFFORDSHIRE & SHROPSHIRE	1/16/2018	TELFORD CC
EAST MIDLANDS	1/17/2018	HILTON EM
BIRMINGHAM	1/18/2018	ASTON VILLA
HERTS & MIDDLESEX	1/23/2018	HILTON WATFORD
THAMES VALLEY	1/24/2018	PHYLLIS COURT
LONDON 1	1/26/2018	CII
YORKSHIRE	2/7/2018	ELLAND ROAD
HAYDOCK	2/8/2018	MERCURE DUNKENHAIGH
MANCHESTER	2/9/2018	THE MERE
BRISTOL	2/19/2018	TORTWORTH COURT
SOUTH WALES	2/20/2018	THE VALE
NORTH SCOTLAND	2/27/2018	ABERDEEN ALTENS
CENTRAL SCOTLAND	2/28/2018	CROWNE PLAZA GLASGOW
TYNE TEES	3/1/2018	RAMSIDE HALL*
STAMFORD	3/6/2018	PETERBOROUGH MARRIOTT*
NORFOLK	3/7/2018	DUNSTON HALL*
ESSEX	3/8/2018	HYLANDS HOUSE*
ISLE OF MAN	3/14/2018	THE EMPRESS HOTEL*
NORTHERN IRELAND	3/16/2018	HILTON TEMPLEPATRICK*
PLYMOUTH & CORNWALL	3/20/2018	LANHYDROCK*
EXETER & NORTH DEVON	3/21/2018	SANDY PARK*
HANTS & DORSET	3/22/2018	HILTON AGEAS BOWL
LONDON 2	3/26/2018	CII

> Behaving in an unsustainable manner will cease to be an option

STUDY ROOM

WHY ETHICAL INVESTING MATTERS

Dr Quintin Rayer explains why ethical is about more than paying lip service to corporate social responsiblity

IMAGE GETTY

Advisers may find that they face a dilemma with ethical investing, while advisers and clients often accept matters, they fear underperformance. Human activities have generated threats including climate change and its consequences; lifespan is increasing, so demographics will impact healthcare and pension costs; while an expanding world population demands improved living standards as less developed countries modernise. Behaving in an unsustainable manner will cease to be an option.

Corporations are ubiquitous and powerful; we need them to end unsustainable behaviours and tackle future challenges, including environmental, climate change and social issues. Financial markets help direct and control corporate behaviour; markets reward ingenuity, efficiency, talent and productivity through the ability to raise funds and by share pricing (thereby valuing companies). Companies tackling these problems will benefit in either the short or longer term, making them valuable investments.

APPROACHES TO ESG

Companies are encouraged to promote practices including environmental stewardship, consumer protection, human rights and supporting the social good. One focus is on environmental, social justice and corporate governance issues (ESG). In sustainable investing, funds are directed into companies with business practices capable of being continued indefinitely without causing harm to current or future generations, or exhausting natural resources (ie not 'unsustainable'). Sustainability is often defined as ensuring development meets the needs of the present without compromising the ability of future ↘

generations to meet their own needs.

ESG identifies three sustainable investing dimensions (see diagram).

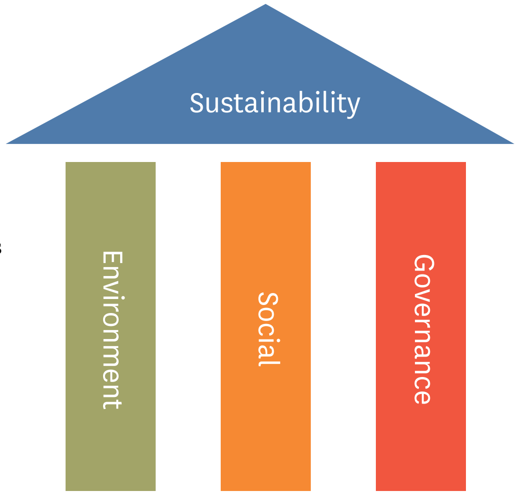
- Environmental, including carbon-intensity; forest and woodland degradation; pollution; use of scarce resources, including water and living creatures, additionally to minerals, oil and natural gas; toxic by-products from mining etc.
- Social, including corporate social responsibility (CSR); child labour; slavery; hazardous, exploitative and/or coercive working conditions; structures that reduce corporate tax bills to levels incommensurate with the profits and activities taking place in those countries; displacement of indigenous peoples.
- Governance; weak internal controls may let management ignore company policies, increasing risks of irresponsible behaviours, corruption and bribery. At board level, weak governance may mean that non-executives cannot control powerful executives, with possible damage to the company and owners' (shareholders') interests and increased risk of excessive executive remuneration.

IMPLEMENTATION STRATEGIES

Methods cover a range of strategies, including negative screening (avoiding unethical companies), positive screening (investing only in ethical companies), best-in-class (selecting least bad company), portfolio tilting (slanting a portfolio towards ethical investment) and engaging with companies to influence their behaviours.

Many of these strategies can be accessed through funds, although this can be a complex area since, in addition to the usual investment due diligence, analysis is required into the ethical strategies used to confirm they meet clients' needs. In this respect, advisers may benefit from support from wealth managers with specific skills and expertise in this area.

One 'light green' approach is portfolio tilting, where the majority of a portfolio is invested conventionally (allaying underperformance fears), while the remainder is invested ethically.



THE THREE PILLARS OF SUSTAINABILITY

IS PERFORMANCE BETTER THAN FEARED ANYWAY?

The argument that ethical funds must underperform generally proceeds as follows: Ethical investment requires screening, this reduces choices available for investment, reducing diversification and resulting in worse returns, higher risk, or both. An early example of the argument that less-diversified ethical portfolios increase risk was made in 1980. Additionally, some fund providers may only have a superficial commitment to ethical investing, which can cloud the issue.

Looking at risk, harmful corporate behaviours eventually lead to negative consequences, harming growth and share price. These can include sector emissions constraints, community opposition to projects, increased insurance premiums, decreased access to capital markets, damage to reputation and litigation threats. Essentially, unethical companies have risks not well reflected in share prices.

Ethical companies have a competitive advantage by avoiding the problems above, but also from a good reputation to attract customers, enhanced trust with similarly-ethical trading partners reducing costs and increasing business opportunities, the ability to attract the best staff, new revenue streams from novel environmental technologies and access to capital markets on better terms.

Academic studies suggest that various ethical approaches can indeed result in outperformance. The table outlines studies of long-only ethical strategies, which all generated positive alpha. These involve analyses of various time periods using differing criteria to define which companies are more (or less) ethical.

Such historical analyses can always be challenged on the basis that they offer no guarantee of future performance. Equally, market conditions may vary looking forwards, and perhaps several environmental, social and governance factors are now better addressed by companies.

However, they should serve to give pause for thought for those who are tempted to assume that it is 'obvious' that ethical portfolios 'must' underperform the wider market and help to allay the dilemma faced by advisers considering discussing ethical investing with their clients. ●

STUDIES SHOWING OUTPERFORMANCE BY ETHICAL STRATEGIES

Alpha, per year	Period analysed	Ethical criteria
1.3% – 4.0%	1995-2003	Environmental
2.3% – 3.6%	1992-2004	Environmental, social
2.3% – 3.8%	1984-2011	Employment quality
3.5%	1990-1999	Governance
3.7% – 5.2% (estimated)	1990-2003	Governance

Table: See below

The table presents the result of the following analyses: J. Derwall, N. Guenster, R. Bauer and K. Koedijk, "The eco-efficiency premium puzzle," Financial Analysts Journal, vol. 61, no. 2, pp. 51-63, 2005; A. Kempf and P. Osthoff, "The effect of socially responsible investing on portfolio performance," CFR Working Paper, no. 06-10, 2007; A. Edmans, "The link between job satisfaction and firm value, with implications for corporate social responsibility," Academy of Management Perspectives, November 2012; P. Gompers, J. Ishii and A. Metrick, "Corporate governance and equity prices," Quarterly Journal of Economics, vol. 118, no. 1, pp. 107-155, 2003; and L. Bebchuk, A. Cohen and A. Ferrell, "What matters in corporate governance?," The Review of Financial Studies, vol. 22, no. 2, pp. 783-827, 2008.

The author also gratefully acknowledges helpful advice from Guy Turner (12 October 2017).

Dr Quintin Rayer is head of research and ethical investing at P1 Investment Management

STUDY ROOM

THE BIG TEN

This set of questions, courtesy of the online CII training package Financial Assess, will test your knowledge of key financial topics such as premium bonds, systematic risk and exchange rates. The answers are at the bottom...

QUESTION 1

How much can be invested in a child trust fund (CTF) account?

- A £15,000 per year
- B £3,600 per year
- C £4,000 per year
- D £4,128 per year

QUESTION 2

Which of the following is the most liquid?

- A Blue chip shares
- B Currencies
- C Gilts
- D Small cap shares

QUESTION 3

Which document is issued by a collective investment scheme instead of a key features document?

- A A fund manager's report
- B A key investor information document
- C A marketing brochure
- D A statement of demands and needs

QUESTION 4

What is the maximum investment limit for premium bonds?

- A £100,000
- B £40,000
- C £50,000
- D £75,000

QUESTION 5

What is another name for systematic risk?

- A Capital risk
- B Equity risk
- C Market risk
- D Theoretical equity risk

QUESTION 6

How are platforms paid for their services?

- A By an explicit charge agreed with the client
- B By an implicit charge agreed with the client
- C By payment from the product provider
- D By rebate from the product provider

QUESTION 7

At which of the following events is a mortgage repayable?

- A If one monthly payment is missed
- B If the interest rate changes
- C If the value of the house falls below the outstanding mortgage
- D On the death of the mortgage borrower

QUESTION 8

What is the main benefit of a critical illness policy?

- A A lump sum to the policyholder
- B A lump sum to the policyholder's family
- C Income to the policyholder
- D Income to the policyholder's family

QUESTION 9

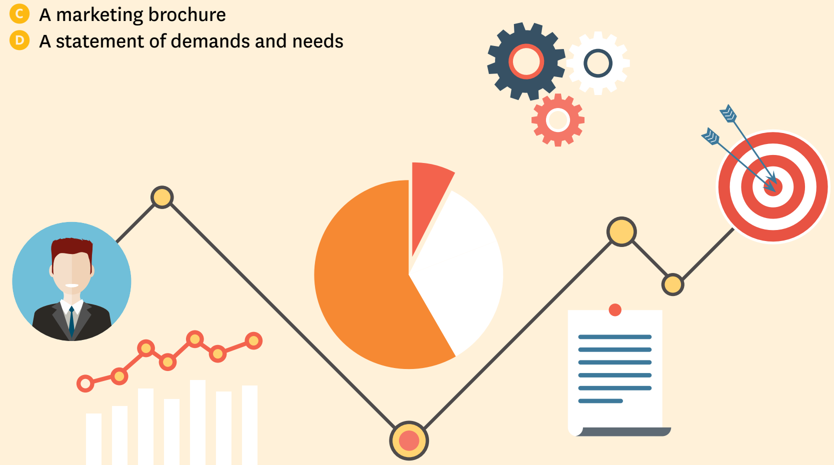
What does falling dividend cover often indicate?

- A A likely cut in future dividends
- B A likely increase in future dividends
- C A rising share price
- D A static share price

QUESTION 10

A falling exchange rate will normally lead to:

- A A decline in the value of foreign investments
- B A reduction in the volume of exports
- C An improvement in the balance of trade figures
- D Overseas earnings falling in domestic currency terms to anyone



● YOUR SCORE »

1-3 POOR	7-8 VERY GOOD
4-6 GOOD	9-10 EXCELLENT

ANSWERS

1D. The subscription limit is £4,128, the same as a junior individual savings account (JISA).
2B. The foreign exchange market is deemed to be the most liquid market in the world.
3B. Collective investment firms may issue a simplified prospectus in lieu of the KFD.
4C. The maximum investment limit for premium bonds is £50,000.
5C. Systematic risk is the risk inherent in the market.
6A. Platform services must only be paid for by an explicit charge agreed with the client (not payments or rebates from product providers).
7D. Mortgages are automatically repayable after the death of the borrower - but not in the other circumstances mentioned.
8A. Other benefits may also be available.
9A. A falling dividend cover increases the likelihood of a dividend cut, which will often precipitate a share price drop.
10C. Falling exchange rates makes imports dearer for domestic purchasers and exports cheaper for foreign buyers. This should lead to an improved trade balance, but initially the balance may worsen market reaction to the new prices.

FINAL REFLECTIONS

After 10 years, **Caspar Bartington** is moving on from the CII. In his final piece, he reflects on his time in the education sector.

SCHOOLS AND COLLEGES

Before I joined, we did nothing structured with schools and colleges.

Careers fairs are one way to have a physical presence – but I'm not a fan. The more transformational event we developed, and which I love delivering, is Discover Fortunes. Delivered hundreds of times at schools, colleges and even some universities, the event makes learning about the sector fun, interactive and memorable. Hundreds of Personal Finance Society (PFS) members have supported these sessions.

We have also delivered more than 100 apprenticeship events to help raise the profile of this supported programme – a great way for any company, but especially a smaller company, to get supported learning for staff.

School students are not scary – they just want to be inspired.

School teachers, meanwhile, are often scared of finance – that is why there will be a pilot programme bringing financial planners, students and teachers together so that members can connect with local schools to discuss key financial decisions.

UNIVERSITY LINKS

There have been hundreds of university events through the years. These have featured hundreds of PFS members and have stretched across the UK from Exeter to Aberdeen, from Belfast to Canterbury.

Universities with degrees closest to our professional qualifications are:

Glasgow Caledonian University: BA Finance, Investment and Risk – degree with the most FS credits

Coventry University: BA Financial Services – written with our Diploma in mind

Manchester Metropolitan University: MSc Financial Planning and Business Management – popular with experienced practitioners

All three universities featured at the recent PFS Festival of Financial Planning, along with other universities that offer students a degree with preparation for the world of work: Birmingham City University, Sheffield Hallam University and the University of the West of England.

Remember, graduates will travel and come from across the UK, so even if you are not based close to any of these universities it is well worth connecting as they will have students local to you.

You can also sponsor a student prize and deliver a guest lecture to raise your company's profile – a little time for a large impact.

INTERNSHIPS

Not ready to run a graduate scheme? An internship programme is a perfect way to roadtest a student. The example of best practice that springs to mind here is Astute Wealth Management – Andy McLaughlin has regularly worked with his local university (UCLan) in this way. Take a look at the company's website to see how they have benefited.

GRADUATE SCHEMES

Through the years, I have seen many companies kick off their graduate schemes – the sector is still behind other professions in this area, but there has been progress. And it is not only big corporations. For example:

Capelin Financial Management – a small business consistently reaching out to tomorrow's talent

Para-Sols – not just a new graduate scheme but in paraplanning too

Trentham Invest – another small business that is committed to bringing through new blood regularly

LIFT Financial – an award-winning company, but also one that offers many entry-level roles.

The best way to attract talent into the sector is to reach out to them.

Thanks for your support during the past 10 years. It feels like we are ready to embrace new talent like never before. ●

Caspar Bartington is education relationship manager at the Chartered Insurance Institute

IMAGE: ISTOCK

DISCIPLINARY MATTERS

CII wishes to make clear that, unless the case reported indicates otherwise, allegations and findings against members do not implicate those members' employers in any way.

BREACH OF CII CODE OF ETHICS

David MacDonald APFS, St James Place, York House, 23 Kingsway, London UK

(order effective from 7 September 2017)

The respondent had been convicted of drink driving. The CII case examiner invited the respondent to approve and sign a Consensual Order under Rule 9.1 of the CII Disciplinary Procedure Rules 2015, to which the respondent agreed. The sanctions imposed were that the respondent be reprimanded and be required to take the CII online ethics course.

Unascribed Case

The respondent was subject to an IVA from 2006 to 2011. The respondent failed to declare his IVA whilst being a member. This failure to report was a breach of the Code of Ethics and Conduct to the CII. The CII case examiner, invited the respondent to approve and sign a Consensual Order under Rule 9.1 of the CII Disciplinary Procedure Rules 2015, to which the respondent agreed and which came into effect on 18 September 2017. The sanctions imposed were: 1. That the respondent be reprimanded; 2 Take and complete the CII online ethics course before attempting to book any further CII examinations, enrol on any CII assessments, apply for any recognition of prior learning (either a member or non-member, renew membership or within 3 months, whichever is sooner).

Shani Odedra, Leicester, UK

The respondent was found to have falsified his FA7 result and held himself out as having passed the exam when he had not. The respondent refused to co-operate with the CII during the investigation The respondent was given opportunities to challenge the evidence and did not place any alternative positions to the evidence, despite being given numerous opportunities to do so. The case examiner was therefore satisfied to proceed to determine the matter under Disciplinary Procedure Rule 7.1(b). The sanctions imposed on the respondent were: a) That he be reprimanded; b) Take and complete the CII online ethics course; c) Be declared ineligible for membership of the CII for the maximum period of 3 years; d) Be excluded for a period of 36 months from the examinations or assessments with effect from the date of the order or from applying for CII recognition of prior learning; and e) No examinations, assessments or qualifications obtained by the respondent during the period of exclusion will be eligible for CII recognition of prior learning with effect from the date of the order.

Where the disciplinary panel or case examiner has decided to publish details of a disciplinary case ascribed (i.e. where an individual has been named), every care has been taken to identify members correctly. Please contact the CII if there is any doubt about the identity of a member who may have been the subject of disciplinary proceedings and in relation to whom a report has been published.

TAKE NOTE

The CII have dealt with 20 instances of non-members using CII designations during 2017. As this is an infringement of CII's trademarks, where people persist in misusing CII designations, legal action will be taken against them.

IMAGE: ISTOCK

New PFS president, **Sharon Sutton**, enthuses about 'the best job on the planet'

THE POWER OF CHANGE

ILLUSTRATION: LUKE WALLER

What a privilege it is to be your president for 2017/2018. To all who I met at the recent graduation ceremony at Aldermanbury in October, thank you and congratulations again.

I'm writing this while still buzzing from speaking at our Festival of Financial Planning. How cool was that? What a thrill to be part an event which knocked the socks off any other financial services gathering I've ever attended.

BUT WE HAVE MORE EXCITING WORK TO DO!

I made a bold statement in my address: "Financial planning is the most important, most authentic profession of the 21st century." That is something I totally believe in.

Why? Because people will talk to us about their money. They don't or won't talk about it to anyone else; it's a secret, and it's the very last taboo. And yet money is the most powerful and pervasive secular force on the planet. This entails a huge responsibility for us as financial planners and when you consider how young our profession is, we've come a long way.

You'll remember from your textbooks that money is defined as a means of exchange, a tool of accounting or a holder of value. However, exam books don't tell you about how it affects people and their behaviours in both emotional and illogical ways.

Macroeconomists have ignored the fact that money is a man-made invention, so humans have no natural instinct about how to deal with it. They've also ignored the individual – and that's who we deal with as personal finance professionals.

We hold the 'trusted adviser' role with our clients. We know that our relationship with money is at the base of every positive human activity. It has to do with social justice. It has to do with being able to feed, house and clothe a world with seven billion human beings and is the best self-organising force ever invented – enabling us, for the most part, to get along in a peaceful, productive way.

Our purpose as financial planners is to work with individuals and families to help manage their personal relationships with money and the fearsome force it generates. Income inequality headlines might sell the news but the area of income sufficiency is perhaps where we financial planners can really add value.

Each president has a theme for their year, which becomes embedded in the strategy and culture of our society. Mine is financial planning.

We've just launched our financial planning practitioner panel, which aims to create a roadmap to help aspiring financial planners be the best version of themselves that they can. It is about how to create sustainable business practices and succession planning for both you and your clients. Sharing stories about good practice ultimately helps us all to become more successful.

We launched the first of our good practice guides to financial planning at the Festival, which is available for download at **thepfs.org/good-practice**

During the next few months we plan to cover processes, skills and competencies, plus lots of other good stuff, and we'll be looking for volunteers across our regional network.

As financial planners we play a vitally important role in the way everyone lives today. What we do has the power to change people's lives at every level, because people will talk to us about money.

It's the best job on the planet! ●

3 THINGS TO TAKE AWAY

1. I truly believe financial planning is the most important, most authentic profession of the 21st century
2. Our mission is to work with individuals and families to help manage their personal relationships with money
3. We are proud to launch the first of our good practice guides to financial planning, which is now available for you to download