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Retired / Investor / Saver

Pension switch fees ban

The City regulator has banned lucrative incentives pocketed by financial advisers amid fears of a pension mis-selling scandal. The Financial Conduct Authority has outlawed the charges that meant advisers were only paid if a pension transfer went ahead. It was feared the fee process was causing advisers to recommend savers take their money out of generous final salary pension schemes when in most cases it was a bad idea for the customer. The watchdog said that an 'unacceptably high' proportion of savers in defined benefit schemes had been advised to transfer out. Last year the regulator warned savers may be losing £2billion a year by moving money out of defined benefit pensions. Under contingent charging, the adviser only gets paid if the customer acts on their recommendation to trade a defined benefit (DB) pension, delivering a secure retirement income, for a cash lump sum, a model that the FCA has said creates conflicts of interest for advisers. The FCA revealed that 745 pension transfer advice businesses, out of 3,000 operating in the market, had given up their advice permissions after “feedback” from the regulator. Concerns identified by the FCA included not only suitability of advice but also inadequate insurance cover, and advisers’ skills not being kept up to date.

Investor / Saver

Markets surging, but what next?

In the current circumstances the complex nexus of what-ifs that creates that broad market call has been simplified. Is there going to be a material coronavirus second wave? If yes, the market will crash. So that is all you need to consider. Coronavirus second wave, yes or no. A replay of the 1929-1932 depression would not be brought on by bank failure; it would be set off by the reaction to a second wave of the pandemic. Experts believe that the world economy would not survive in its present form if there was another lockdown and even the risk of another lockdown will crash the markets. It might not even take a second wave of the pandemic to get to the bottom, but it would certainly get us there quickly. A large fast bounce will certainly set off the next leg down. The market future would be the map of a borderline survivable economically recovery, a couple of years of gritty clawback. But a 1932 situation will require an inescapable economic reset, some believe. These two outcomes are not fate; a lot of incredibly clever people are working flat out to avoid “the Great Depression 2” and they really are very good at their jobs. However, it will take some incredible political contortions to escape economic annihilation if there is a second wave of the pandemic.

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Property Owner

What next for property?

Since lockdown began, it’s seemingly been a case of if – not when – house prices would drop. Amid mixed messages about the current state of the housing market, Nationwide has reported a sharp fall in house prices. Its latest house price index fell by 1.7% in May; the largest monthly fall since February 2009. As a result, the annual rate of house price growth slowed to 1.8%, down from 3.7% in April. This put the current average price of a house at just under £219,000, £4,000 down on April. Housing market activity has certainly slowed sharply as a result of the measures implemented to control the spread of the virus. Recent market research survey suggested that around 12% of the population had put off moving as a result of the lockdown. Most viewed the current situation as a temporary pause in the market, with would-be buyers now planning to wait six months on average before looking to enter the market. House buyers’ housing preferences may also have been changed by the lockdown. Around 15% of people surveyed said they were considering moving as a result of life in lockdown, with a third saying they thought differently about their home as result of the Covid-19 outbreak, especially the importance of a garden and the need for more indoor space. Meanwhile online property companies such as Zoopla have reported a surge in online house searches, with growing demand for rural properties offering additional garden space.

Investor / Saver / Retired

Active funds lead the way

Britain’s investors poured £4.1billion back into investment funds in April after a torrid March saw them pull money out in the coronavirus crash. Investment Association figures showed that a quarter of April’s uptick was thanks to a significant flow of money into responsible investing funds – a theme that has been under the spotlight in light of the current situation. While the return to investing in a month that covers the start and end of the tax year indicated some investor confidence returning after the crash, April’s money put in came nowhere near the record £9.6billion that was withdrawn in March. In addition to showing an appetite for funds that can have the power to do good, Britain’s investors also seemed keen to back fund managers’ claims that they can pick winning investments rather than tracker funds that follow the market. Active funds had a strong April with £2.7billion worth of sales, almost doubling the amount of sales for tracker funds, which saw £1.4billion worth of inflows. According to DIY investing platform Interactive Investor, there was a renewed appetite for actively managed funds in April, accounting for half of its top 10 list of most bought funds. The £2.4billion invested was the largest amount of monthly sales for equity funds over the last 12 months. Bonds were the second best-selling asset class with £903million of sales, followed by mixed asset funds and money market funds with sales of £872million and £154million respectively. Even property funds saw £52million of net retail inflows despite the sector currently struggling with some having suspended trading since 2019. The only sectors to experience withdrawals were those including Targeted Absolute Return, Volatility Managed, and Unclassified funds, which net retail outflows of £172 million.

All

Deflation fears and what it would mean

The Eurozone is on the brink of sliding into deflation after the economic disruption of the coronavirus pandemic dragged price growth in the bloc down to 0.1% in May, its lowest level for four years. The fall in inflation — which turned negative in 12 of 19 Eurozone countries in May — has added to investors' expectations that the European Central Bank will inject more monetary stimulus into the economy when its governing council meets virtually next week. Economists worry that a prolonged period of deflation would be painful for the Eurozone as it would make high corporate and government debt levels even harder to manage as interest payments stay fixed but wages, prices and tax payments all fall in cash terms. Commentators believe steps must be taken to counter the significant risk of low inflation and the marked fall in economic activity from translating into a permanent reduction in expected inflation or into the possible resurfacing of the threat of deflation. Also as a result of the high levels of public and private debt in the euro area as a whole, this could trigger a dangerous spiral between the fall in prices and that in aggregate demand.

Price growth diverged between Europe's largest economies, with inflation of 0.6% in Germany, 0.2% in France and 1% in the Netherlands. But prices fell 0.9% in Spain and 0.2% in Italy. The lockdowns imposed in many European countries to contain coronavirus brought many activities to a standstill and are expected to lead to a record post-war recession this year. With economic output set to remain below pre-virus levels for the next couple of years, the ECB will keep policy ultra-loose for the foreseeable future. The ECB has flooded the financial system with cheap money in an attempt to stimulate activity and keep inflation from falling further below its target of just below 2%. Meanwhile, Sweden revised up its first-quarter economic performance from its initial estimate of a slight contraction to growth of 0.1 per cent, as its no-lockdown approach to coronavirus helped prevent the deep recessions suffered by most other European countries.

All

HMRC scams on the rise

The number of scam emails from those impersonating tax officials has reportedly "skyrocketed" since the beginning of the year, according to the Financial Times. The recent surge in tax scams has reportedly emerged from criminals seeking to "exploit financial fears over the coronavirus outbreak", the paper has alleged. It comes as a recent freedom of information (FOI) request revealed that the number of phishing emails reported to HMRC reached 42,575 in March, marking a 74% rise since January, when 24,446 phishing emails were reported. According to the paper, the FOI request also revealed that Covid-19 was "explicitly referred to" in the phishing emails reported in March, the month that the UK went into lockdown. The pandemic was not mentioned in any reported phishing scams reported in January or February, however. Phishing emails are those sent by criminals posing as a "trustworthy" authority, in efforts to convince people to hand over personal information such as email logins, passwords and banking details. Commentators say that many individuals who otherwise may not interact with the Revenue regularly, or do so through a tax adviser, may now have very pressing reasons to correspond with HMRC directly, as a result of applying for the Self-Employed Income Support Scheme, or other government Covid relief programmes.

All

Pandemic spurs digital revolution

While many aspects of life remain on hold, many organizations are charging full steam ahead on digital transformation efforts – even giving some pieces a speed boost. As the pandemic stretches on and companies get used to their new "normal," many are thinking about how their plans will evolve for the long term. What will start, stop, or continue after the crisis eases? With plenty of unknowns ahead, it might make sense to take a step back and reassess goals and timelines in some areas. However, the speed at which IT has had to adapt during the pandemic, and the need for laser focus, provided exactly the boost many leaders needed to fast-track certain digital transformation objectives, experts say. Both the dot-com bubble burst and 9/11 may seem like ancient history to some, but the lessons from that era are coming around again during these pandemic, say commentators. These events forced businesses to focus on what's really important: providing value to customers and investing in projects with measurable impact on revenue and cash flow. The current situation will be no different. Businesses will have to adapt to a new environment and adapt quickly. The ones who build change into their DNA will continue to succeed. In terms of the wealth management, there were few plans in place for a lockdown combined with a stock market upheaval. But as we emerge from months of significant disruption, clients are seeing changes in how they work with some of their most important advisers that will make their relationships more efficient and flexible. This is most welcome for investors and advisers alike.

Business Owner

Mortgage conundrum – to holiday or not to holiday?

The Coronavirus pandemic has had financial implications for almost everyone. For many, it's meant that their incomes have taken a hit, with millions of workers furloughed and effectively now employees of the Government. If you're self-employed, then you may not have been able to work at all. But the chaos caused by the pandemic stretches into our household bills too, with thousands of mortgage borrowers condemned to spending even longer on terrible, overpriced deals than expected. There are currently around 140,000 mortgage prisoners in the UK. These are borrowers who are trapped on their current, expensive mortgage deal, unable to move to a cheaper loan. Often, these borrowers took out their initial mortgage with a lender that is no longer operating in the UK, like Northern Rock or Bradford & Bingley, lenders that hit the wall in the financial crash. Their loans weren't just written off though – instead the loan books were sold onto other financial firms who manage the loans, but aren't regulated to offer new deals. And unsurprisingly these firms crank up the interest rates, charging rates higher than you will typically see from active lenders. The problem is that these borrowers are unable to switch to a new lender, generally because of new, stricter underwriting rules brought in by the regulators following the financial crash which force lenders to be much tougher when assessing whether a loan is affordable or not. When it comes to mortgage prisoners, these tests simply go too far. These borrowers are up to date with their payments – if they are shelling out £1,000 a month to the hedge fund that bought their loan, of course they could afford £700 a month with an actual, proper mortgage lender. But if the strict tests aren't passed, then they can't move. Thankfully, last October the FCA tweaked its rules to allow lenders to be a bit more flexible when assessing the affordability of mortgage prisoners. They were also given a deadline for contacting relevant borrowers who may be able to take advantage of these new assessments and therefore qualify for a new deal. However, it wasn't the most encouraging change. For example, the new, more moderate affordability tests are entirely voluntary. If a lender doesn't want to apply them, they don't have to. There's also the fact that only around one in 12 mortgage prisoners would actually be eligible for a new deal under these new rules. In other words, the vast majority of prisoners are still stuck on their expensive deals.

Past performance is not a guarantee to future performance. You may get back less than invested.
Thresholds, percentage rates and tax legislation may change in subsequent Finance Acts and reliefs from taxation are subject to change. The FCA does not regulate tax advice.

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