LABOUR OF LOVE

06-07  WE ARE FAMILY
Pension planning for millennials could be a family affair

08-09  GOOGLE DOMINATION
An eight-step plan to managing your crucial online presence

12-13  TAX BREAK
An in-depth look at mitigating periodic charges on whole-of-life plans

Sesame Bankhall Group’s John Cowan on going from a labourer in the Glasgow shipyards to executive chairman in a profession he does not want to retire from
Welcome

“You’re never too young to start saving”

What a summer we’re having! At the time of writing we’ve had weeks of glorious sunshine, so a very warm welcome back to Advice Matters.

You’ll likely either know or have heard of our cover star this month: Sesame Bankhall Group’s (SBG’s) John Cowan. Even after 40 years in the profession (take a stab at what you think his first job was), John is still finding ways to challenge the industry, such as via SBG’s Rewire Routines project, which aims to reinvigorate protection advice. You’ll also learn what John says is his greatest achievement since joining the group.

Elsewhere, former adviser Phil Bray shares his marketing expertise with eight tips that will help you manage your own – and your firm’s, if appropriate – online presence. Start with a simple online search he suggests, and see what you find.

And in the next instalment of our series on intergenerational planning, Zurich’s very own Andy Woollon discusses pension planning for millennials. You’re never too young to start saving, and Andy outlines how advisers can help clients get their children off to a strong start.

Finally, check out our Smart Numbers infographic, based on the findings of the largest study yet carried out on the drawdown market post pension freedoms. Enjoy!

As always, we’re keen to hear any feedback you may have. Please send any comments and ideas for future articles to advicematters@uk.zurich.com.

All the best,

David White
Head of retail management, Zurich UK
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Refer to page 19 for the Zurich legal disclaimer
1. **TIME MANAGEMENT IS KEY**  
   It is a harsh wake-up call when you are your own boss and in charge of your time and it is so easy to get sidetracked. I try to avoid the 'coffee machine' and 'water cooler' crowd. My diary is divided into 15 minute segments, which I have found to be a great tool in allowing me to track where my time is spent.

2. **PRIORITISE CLIENT REFERRALS**  
   Personal recommendation is the most efficient way of obtaining new clients, so favour this over networking meetings. How is it done? Provide good value service to your existing clients and ask them to pass your name on to anybody they know who could benefit from your financial advice. I am a great believer that referrals are earned through client respect.

3. **HAVE AN AGENDA**  
   Our sector still relies heavily on paper. This is mainly due to compliance requirements as well as legacy working practices among product providers. There is nothing worse than having to go back to a client after the meeting because we have forgotten to get a signature or proof of address. I always take a meeting agenda with me as it oozes professionalism and serves to keep me on track.

4. **AVOID JARGON WITH CLIENTS**  
   As an adviser, the use of jargon becomes a part of everyday life and conversations. It can be quite tough to avoid as it is often the way in which we describe a number of things within the company. However, using jargon with customers can have quite the opposite reaction. To customers and ‘outsiders’ these specific words and phrases have no meaning and it makes them feel dumb, especially if it is in response to something they have asked you.

5. **PRACTICE MAKES PERFECT**  
   Being successful in our profession entails a combination of three things: truly listening to understand a client’s situation and see if you can add value; building a relationship so there is trust between both parties; and having the confidence to help others make decisions that are in their best interest. With all of these things, practice makes perfect.

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**Anita Wright**

Anita Wright, an adviser at Bishops Financial Planning in Blackburn, has 12 years’ experience and prides herself on offering in-depth financial planning to business directors and individual clients.
IF I WERE KING FOR A DAY…

If I were King for a day I would target the CII and FCA for three immediate actions to raise the quality of investment advice.

First and foremost, I would like to see the introduction of a theoretical approach in dealing with volatility in the main CII investment syllabus (AF4). Investment involves uncertainty and standard deviation (sigma) is used as a proxy for reflecting this; sigma however is a deterministic calculation with no uncertainty in the outcome. To model volatility requires inclusion of a stochastic term. This can be done through the introduction of basic probability concepts to highlight these areas of importance: normal distribution (bell) curves; Monte Carlo simulations and stochastic algorithms; Geometric Brownian Motion; log normal stock price history; derivatives and the pricing of options.

None of this is dealt with in AF4, but it is all integral to the understanding of investment behaviour. There is a big gap!

Secondly, now that annuity purchase is no longer compulsory in a DB to DC pension transfer, it should be possible to demonstrate more easily whether there is an investment case to justify a move – to do the inverse of what the scheme’s actuary has done to arrive at a transfer value.

I suspect that an investment argument may not exist and any justification for transfer will come down to flexibility. This is likely to benefit the well-heeled client who can plan to pass capital to beneficiaries free of IHT, but not those who need all the income. The FCA should spell this out with greater clarity.

Finally, there is the perennial issue of contingent charging – it should be scrapped to avoid a conflict of interest. Financial planners must be able to give advice and add value to earn a fee without linking it to the sale of a product. Again, the FCA needs to act here.

None of this is dealt with in AF4.

WHY I’M SO KEEN ON…

Polar Capital Biotechnology

We currently use Polar Capital Biotechnology for clients with a balanced or adventurous risk appetite. Headed by Citywire AAA rated David Pinniger, the fund invests across the global biotechnology sector and is managed by one of the largest and experienced healthcare teams in Europe.

The biotech sector has grown significantly over the last five years and now has a market cap of more than $1 trillion, with earnings growing at 15% per year.

With advances in computer power, new screening processes and better understanding of the human genome, drugs combating everything from cancer to rare blood disorders are getting closer. In addition, with demographics continuing to shift, we believe there will be further demand for these drugs as people live longer and prioritise healthcare spending.

What attracts us to this fund is the ability of the managers to lower the beta of the fund when they have concerns about valuations, such as in late 2015. This is done either by holding additional cash or underweighting the US which is more sensitive to ETF flows and ‘hot’ money moving in and out of the biotech sector.

Looking at the portfolio, the active share is high for a global biotech fund, sitting at 59%. One of the largest contributors to the fund’s outperformance has been Pharming, a Dutch company that has developed a drug called Ruconest. This drug has regulatory approval and treats patients who suffer from HAE, a rare and life-threatening genetic condition. HAE symptoms include swelling in the hands, feet, face and airway. Airway swelling is particularly dangerous as it could lead to death.

Finally, with so much focus as an investment manager being on the downside, it is uplifting to meet a management team as passionate about their sector as new companies working on drugs that will literally change our lives in the future.

Chartered financial planner Brian Bradley, of Wiltshire, has recently retired following a 30-year career, but the 80-year-old remains a member of the Personal Finance Society and is showing no signs of slowing down.
The press has been awash with articles in recent months on the importance of early engagement and education on pensions following reports by the Financial Conduct Authority and Investment Association.

The UK regulator has proposed a number of reforms to protect consumers’ pension pots, like retirement ‘wake-up’ packs aimed at 50-year olds and people it classifies as ‘the least engaged consumer bracket’ – those aged between 55 and 64.

However, one important group of individuals has been left out of the discussions – millennials. Also known as generation Y and born in the early 80s to late 90s, they now account for one-quarter of the UK population and are an increasingly important target customer group.

Millennials are often regarded as not financially viable customers to discuss retirement planning with due to their lack of disposable incomes as well as their younger age; preference for cars/holidays/alcohol (not necessarily in that order); paying off (university) debts; saving for a house deposit; or repaying a mortgage.

This set me thinking, has it ever been any different? When I was a teenager starting work, my focus was on beer, girls, cars, holidays and not pensions! But of course I and many others like me were lucky enough to have been automatically put in a final salary pension scheme, which now in these later, more-informed years has become a valuable retirement safety blanket.

While workplace pension minimum contributions of 5% (increasing to 8% next year) of qualifying earnings is a start, many millennials often do not earn enough to be auto-enrolled and don’t ask to join or opt into their scheme, which leaves them at best with inadequate pension provision for the future.

So how can we help those who have little or no money and can’t afford advice? The answer could be to focus on their parents and grandparents.
WALL OF WEALTH

According to research by Royal London, there is a ‘cascading wall of wealth’ of around £400 billion due to move between the generations in the coming years. This will primarily move from the ‘silent’ generation (born pre-1945) to the baby boomers (born 1945-1964) and then onto generation X (born 1965-1979) and the millennial generation – or to put it another way, from grandparents to parents and then to kids and grandkids. However, there’s a problem. We are already seeing grandparents die, leaving behind them rising inheritance tax (IHT) liabilities and their residual estate to the parents – simply passing the problem on to be repeated again.

Don’t forget the challenge facing our industry is to ensure we continue to look after family wealth as it cascades down the generations, otherwise advisers will lose assets under advice and adviser income. So, wills could be drafted so that inheritances skip a generation or two, or better still, clients could be encouraged to start passing across some of their wealth during their lifetime, meaning that not only could IHT be reduced or avoided, but that the pension provision of millennials could be improved dramatically.

FUNDING A MILLENNIAL’S PENSION

As you will be aware, every child is eligible for a pension from the day they are born. It is taken out in the child’s name and anyone can contribute – grandparents, parents and other relatives.

A maximum of £3,600 per year can be invested and with 20% tax relief this only costs £2,880. If this contribution was from an estate liable to IHT, by using the annual IHT exemption or normal expenditure out of income, there would in essence be 60% overall tax relief (20% at source and 40% on death).

By making this gift during a lifetime, little Freddie’s £3,600 pension is worth 67% more than had he just been left £2,160 on death (£3,600 less 40% IHT) plus any growth. He may not thank you whilst he’s a teenager, but he will when he retires.

The table above shows what the potential value might be after 50 years’ growth based on various contribution levels and methods, and shows the ‘lost opportunity cost’ of doing nothing.

Of course many clients will be worried about giving away their wealth during their lifetime, typically due to fears around access (running out of money), taxation and control.

However, gifts made monthly or annually can be reviewed regularly in light of prevailing pension legislation and control comes in the form of the minimum age at which pension benefits can be taken of 55.

JUNIOR AND LIFETIME ISAs

For a complete belt and braces approach to retirement, clients could also invest in a junior ISA for Freddie until age 18 when the proceeds could subsequently be invested in a pension (unless used for a car, beer or university). And Freddie could have a cash ISA himself from age 16.

Finally, each client could gift Freddie up to £4,000 per year to put into his own lifetime ISA, on which he would receive a 25% government bonus. This would again be tax efficient and provide control, as it could only be used towards his first property purchase or for retirement from age 55.

ADVISER BENEFITS

Aside from the additional business this will generate through your existing clients, it will also enable you to start building a relationship with the next generations of their family. The importance of this should not be underestimated.

The not-so-little Freddie may need advice on university fees or loans, workplace pensions, mortgage protection and of course the pension you advised his parents to start for him all those years ago.

But it will potentially be of greatest value when his parents die and he inherits their wealth, as you are far more likely to keep those assets under your advice. Additionally, the value of a business that encompasses multiple generations will be much higher than one where the core client bank is in retirement and decumulating assets.

If you wish to know more about the intergenerational planning solutions that Zurich can offer on our platform along with our range of protection products and trusts, please contact your Zurich business account manager.

Andy Woollon is a wealth specialist at Zurich UK.
How to Manage Your Online Presence

Phil Bray offers an eight-step plan to managing your crucial online presence.

We all know that the best type of new enquiry comes from a referral or recommendation; they’ve already heard great things about you and, in many respects, are pre-sold on the idea of working with you.

However, there’s still a high chance that anyone referred to you will head online to find out more before getting in touch. Some may simply need your contact details; some will be carrying out further due diligence; others may have been given details of multiple advisers and are weighing up the pros and cons of each before deciding who to contact.

There’s another group of people who will also perform brand searches: those who have seen your business name elsewhere and want to find out more. That might mean they’ve been on one of the adviser directories (Unbiased, VouchedFor and AdviserBook being the three most popular), seen an advert you placed, driven past your office or seen a social media post.

These days an online search means Google, which is why most of the traffic it sends to your website probably follows a brand search for your business. What these people see in the results goes a long way to dictating whether they get in touch; if it builds on their existing positive impression, the chances of you receiving a call or email rise. The reverse is obviously true.

And that’s why spending time working on your online presence, dominating the first page of Google for an online brand search and ensuring the results show your business in a positive light is so important.

So, here are our top tips for managing your online presence:
1. **RUN GOOGLE SEARCHES**

   Before anything else, you need to understand what people see when they search for you or your business. To do that, put yourself in the position of a potential client and run the searches they might.

   What do you see? Ideally, you will dominate that first page of Google. Your website should come up first, alongside your Google My Business listing (more on that in a moment). These should then be followed by a combination of:
   - Links to the FCA register
   - Your social media channels
   - Articles you have written
   - Places you’ve been featured online
   - Directory profiles
   - Your Companies House listing

   If you see all of the above you can pat yourself on the back, but you’ve still got work to do (see points three onwards). If you don’t...

2. **CAN’T FIND YOUR BUSINESS?**

   If your business can’t be found for brand searches, we have a problem (unless it’s very new).

   Your online invisibility could be due to one of several reasons. Top of the list of possibilities is that your trading name is too generic and you’re competing against (and losing to) businesses with a similar name. The possibilities is that your trading name is too generic and you’re competing against (and losing to) businesses with a similar name. How do you solve the problem? There are really only three options:
   - Work harder on appearing on that first page by following the tips in this article. Be realistic about what’s possible though. Look at the businesses you are competing against and ask yourself honestly whether you can dislodge them.
   - Set up Google Adwords so adverts appear when people search for your business name. Targeting other key search terms, such as the names of individual advisers, might also be sensible. Remember, this isn’t advertising in the strictest sense of the word; you’re just trying to make it easier for those people who already know about you to find your website.
   - It’s time for a rebrand!

3. **CLAIM YOUR GOOGLE MY BUSINESS LISTING**

   It’s free and simple to set up, yet many businesses fail to claim their listing. Doing so will help you dominate that first page, provide an easy way for potential clients to find your business and website, while also allowing clients to review your service, which in turn will provide you with all important social proof. As an aside, you should closely monitor all reviews left for your business. It’s not unheard of for fake and malicious reviews to be left. These are relatively easy to deal with, providing you know they are there.

4. **MAKE SURE YOUR ENTRY ON THE FCA REGISTER IS CORRECT**

   Your business’s page on the FCA Register will often appear in brand search results. That’s good – it demonstrates you are suitably authorised and will help build confidence. However, your entry is based on the information you give to the regulator, which you usually do when first seeking authorisation. Consequently, if you’ve been trading for several years, the information might be out of date. This applies particularly to email addresses (all too often generic such as Hotmail) and website domains (often missing).

   Check your entry on the Register, if it’s out of date, take steps to rectify the problem.

5. **BUILD AN EFFECTIVE WEBSITE**

   Following a brand search, it’s reasonable to expect most people will head to your website, providing of course they can find it.

   In many respects, a website is your shop window; it displays the type of people you typically advise, how you can help them and the reasons why they should select you and your business. However, so many adviser and planner websites are ineffective, offering a poor user experience, missing vital information and talking too much about products and not people.

   As we’ve said earlier, building a favourable online impression will increase the likelihood of potential clients getting in touch. That’s why you need to focus on your website.

6. **THINK ABOUT HOW YOU USE SOCIAL MEDIA**

   If you or your business has Twitter, LinkedIn, Facebook or other social media accounts, it’s possible these will appear on the Google search results page. They are therefore open for public consumption, including everything you post and conversations you have.

   Firstly, make sure your profiles are complete. Next, agree the key messages you want to promote. Finally, decide how you will use social media; will you be on constant broadcast mode or be more interactive, conversing with your followers and connections to add value, build trust and demonstrate knowledge?

   Hint: how likely are you to listen to someone constantly talking at you during a networking event?

7. **BE CONSISTENT**

   Consistency breeds confidence. That means being consistent in how your brand is visually represented online. It’s relatively simple to produce a set of basic brand guidelines that show everyone in your business how you should be visually represented – from colour palette to the fonts you use. Producing these guidelines and embedding them in your business will help to improve the consistency of your visual identity.

   Consistency is about more than colours and fonts though. You should be consistent with your messaging too. That might be in terms of what you do, who you do it for or the benefits of working with you. If your website says you specialise in long-term care advice, but your social media profiles talk regularly about first-time buyer mortgages, you can see why a potential client might be confused.

8. **DON’T IGNORE THE ONLINE WORLD**

   Like it or not, most of us now, to one extent or another, live in an online world.

   We can’t ignore the fact that most people in the UK, including those in their late 50s and early 60s (often the target client of advisers and planners), are online; that includes 7.8 million over-55s who are on Facebook.

   And, there’s no doubt that many will head there to check you and your business out. That means you need to do everything you can to make it easy for them to find you and, when they do, build a lasting and favourable impression.

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Phil Bray is founder and director of Nottingham-based The Yardstick Agency, which help advisers, planners and providers to market their businesses
John Cowan has revived the fortunes of Sesame Bankhall Group. Despite his long career, he has no plans to hang up his hat from a profession brimming with opportunity, as Jennifer Hill found out.

Back in 1968, John Cowan was a 21-year-old labourer in the Glasgow shipyards having grown up in tenement housing in the city. A career change into financial services as a broker consultant with Scottish Amicable seemed an easy move to make.

‘I was pondering my career options whilst labouring in the shipyards during the winter months; a job working in a warm office instantly felt like a far more inviting choice,’ he said.

It is a career that has spanned more than 40 years, 33 of them with Scottish Amicable where he rose to the role of sales and marketing director and took a position on the board. He became group sales director after Prudential bought Scottish Amicable in the late nineties before leaving to work for National Australia Bank, which at the time was looking at opportunities in the UK market.

He took a number of independent non-executive director roles at various financial services companies, including Sesame Bankhall Group (SBG), which he joined in 2009 and became executive chairman in 2014.

His CV might be impressive, but John concedes that he has hit some bumps in the road.

In the late nineties he declined a job offer for a very senior role, as he was uncertain he was up to the task. ‘Subsequently, I know I could have done it – it will always be a source of regret,’ he said. ‘I should have been braver.’

In his mid-50s, he lost out in a restructure at Prudential. At his lowest point he listened to a well-known industry figure, who advised him to accept that he would not hold an executive role again.

‘I subsequently went solely down the non-executive path, but in hindsight I could have continued down both routes. That’s where I am today, but it took a decade to rectify the error. You should listen to your inner voice.’

**TURN-AROUND TALE**

SBG brings together Sesame, one of the largest and most established adviser networks in the UK; Bankhall, a leading supplier of support services to directly regulated financial advisers; and PMS, the largest mortgage and ancillary service distributor, which John helped found while at Scottish Amicable. Through these three brands SBG reaches 11,000 professional financial advisers, making it one of the largest distributors of retail financial advice.

‘SBG is a fascinating business, offering a wide variety of services to both directly FCA authorised advisers and appointed representatives, which are all delivered by our brilliant staff,’ said John.

He makes no secret of the challenges that the group has faced: a downward spiral began in June 2013, when Sesame was fined £6 million by the Financial Conduct Authority for failing to ensure advice given to its clients in relation to collapsed investment scheme Keydata was suitable. That year the network reported losses of £9.3 million for 2012 – four times its losses for the previous year.

A strategic review of the business saw it withdraw from licensing wealth advisers in...
its network and shake-up its board; John took a more hands-on role as executive chairman to help devise a plan for the business. The company subsequently moved back into the black.

‘My greatest achievement has been working with the leadership team to stabilise the business and turn it around,’ he said. ‘The business emerging today is a result of years of hard work by many people. The group is now in a strong position to grow and this is reflected in the many positive comments I receive from people across our industry, who can see what has been achieved and the exciting opportunities ahead of us.’

**ROLE OF PROTECTION**

The group continues to support wealth advisers through Bankhall, while increasing its focus on the mortgage and protection sector. In May, it unveiled 20% annual growth in mortgage completions through Sesame and PMS. It now writes one-quarter of all intermediated mortgages in the UK.

This year, it has also been running its Rewire Routines campaign, a charter challenging advisers to make protection a central part of conversations with mortgage customers. It is allied to the British Heart Foundation, so for every adviser who signs the charter, SBG makes a donation to the charity. The initiative is being supported by a number of product providers and has so far raised more than £10,000.

‘Within SBG the whole of the senior leadership team is absolutely passionate about the role of protection, particularly in the mortgage space,’ said John. ‘Wealth customers are alerted to all the potential investment risks, whereas for mortgage customers taking on debt there is no obligation to talk to them in the same way about the risks they are taking on.

‘Protection has historically been the foundation of financial planning, so in many ways we are simply seeking to restore it to its rightful place, which is at the heart of the conversations between advisers and their clients. One of the natural consequences of this focus is that advisers’ protection income has risen exponentially in recent years.’

If he could change one thing about financial services today it would be an end of loaded premium protection products. ‘In a world of greater transparency, I look forward to this,’ he said.

**EXPERT ADVICE**

For John, today’s financial advice sector is ‘full of amazing opportunities due to the perfect storm of an increasing supply of people needing professional advice and only a limited number of advisers to serve them, which combined together makes this an incredible place to be’.

‘If you consider a combination of factors in the UK – changing demographics, pension freedoms and wealth tied up in property – what it is telling us is that for the advice profession over the next 20 years, there is going to be an endless supply of people who will require financial advice,’ he said. ‘This is taking place against the backdrop of an advice profession that is getting smaller.’

For John, the challenge is to build a diverse profession that is fit for the future. At a time when technology is having an increasing impact on financial services, another challenge for advisers is the need to play to their strengths and be confident in the advice they deliver – and the customer’s willingness to pay for it.

‘Be clear with your customer that what they are paying for is expert advice; they aren’t paying for sorting out products and carrying out administration,’ said John, whose partner, Gillian, also works in financial services. ‘Advisers should be clear and confident in standing up and justifying the fees they earn. Be confident, proud and play to your strengths.’

John’s goal over the next few years is to continue to deliver the strategic plan set out for the group. A longer-term objective is to develop a succession plan that enables the father-of-two to hand the business on in great shape.

‘I’m 70 years old, but age is just a number and it sounds older than I feel so even after that, I would still like to remain involved with SBG, perhaps in a non-executive chairman capacity.’

**Jennifer Hill** is a former deputy Money editor of The Sunday Times, personal finance correspondent of Reuters and personal finance editor of The Scotsman.
An increasingly popular way of mitigating periodic charges on whole-of-life plans placed in trusts is to break the cover into multiple plans, as Graham Warner explains.

In previous issues we have looked at an often overlooked tax implication associated with large premium whole-of-life plans that are placed within discretionary trusts. These plans can potentially attract a tax charge on 10-year anniversaries of the trust, known as a periodic charge of the trust value.

As a whole-of-life plan is typically an insurance-only contract with no underlying asset value we need to understand how the trustees can either pay the charge or reduce the chance of the charge being applied.

An increasingly popular way of mitigating the tax charge is to break the cover into multiple plans and trusts, ensuring that total premiums payable during lifetime into each trust does not exceed the nil rate band at that time – the Rysaffe principle. If a guaranteed premium plan is used, it should be relatively easy to calculate when a periodic review will generate a tax charge based on current legislation.

Assuming that the Rysaffe principle has been employed, what other factors do we need to consider?

**WILL THE PLAN PROCEEDS BE PAID OUT IMMEDIATELY TO COVER INHERITANCE TAX (IHT) ON THE ESTATE OR WILL THEY REMAIN IN THE TRUST?**

If the plan proceeds remain in the discretionary trust then the aforementioned periodic charge continues to be assessed at 10-year anniversaries.

In practice the periodic charge is more likely to be triggered by the sum assured as opposed to cumulative premiums. Consideration of the premium level should therefore be done in conjunction with the sum assured.

**HOW WILL THE PREMIUM BE PAID?**

Premiums will be gifts for IHT purposes unless they are covered by the £3,000 annual exemption and/or the normal expenditure exemption. In the case of the latter, the gifts have to be regular, should not affect standard of living and should be made out of income. If premiums were payable out of a life assurance bond the normal expenditure exemption could therefore not be utilised.
additional assets added to their estate in gifts. Likewise, the client may have potential IHT liability, including absolute schemes are available to reduce the worth clients, a number of legitimate

For high net worth and ultra high net

CLIENT’S ESTATE?

CURRENT OR FUTURE VALUE OF THE

HAVE YOU IDENTIFIED THE FULL

benefit:

payments annually which can have a dual savings, many clients would prefer to make IHT100 tax form). The trustees would need to keep track of for the purposes of revenue reporting (the IHT100 form).

Typically, as premiums will be paid out of savings, many clients would prefer to make payments annually which can have a dual benefit:

1. Only one entry per year on the IHT100 form for the trustees to calculate potential seven-year chargeable lifetime transfers upon.
2. Most insurers give a discount on premiums paid annually rather than monthly and if the client has the ability to pay annually this discount should be considered.

H ave You Identified the Full Current Or Future Value Of the Client’s Estate?

For high net worth and ultra high net worth clients, a number of legitimate schemes are available to reduce the potential IHT liability, including absolute gifts. Likewise, the client may have additional assets added to their estate in the future that would generate additional IHT liability.

If you would expect to reduce the client’s estate and therefore the clients cover a whole-of-life plan may seem a costly way to do this. Consideration should be given to splitting the cover required into two separate amounts:

1. The amount that cannot or will not be given away and therefore will become liable to IHT should be set as the default basis amount. This amount is highly unlikely to change and could be written through a guaranteed premium whole-of-life plan.
2. Placing the remaining amount of the estate that you would be expecting to reduce over the coming years in a whole-of-life plan could prove costly if the ultimate aim is to reduce or even cancel the unneeded cover in the future. In this instance, consideration should be given to term plans. Potentially gift inter vivos if known outright gifts are due to be made.

Alternatively, a convertible plan may be beneficial, providing the cover can be converted in full or part at anytime in the future to a whole-of-life plan without further medical or financial underwriting. This means that the client is guaranteed to be able to have full cover in the future. The added benefit is that if the default basis amount increases the client can draw down parts of the convertible plan into a whole-of-life plan. If they do this in stages, they can also benefit from being able to do Rysaffe planning on each individual drawdown, making the process potentially more tax efficient for the client. Any sum assured that is not required due to effective IHT planning could be cancelled or removed at a later date meaning this cost is no longer being taken from the client’s estate.

Although convertible term plans are generally cheaper than whole-of-life plans, we should remember that typically the difference between convertible term premiums and whole-of-life premiums becomes less the older the client gets. Equally, when the convertible option is utilised the premium is based upon the age of the client at the outset of the whole-of-life plan. Therefore, the later the whole-of-life plan is set up, the higher the likely premium for the same sum assured.

I S The Client Liable To Pay A Periodic Tax Charge And Can This Be Reduced?

Potentially, contracts that are already in force since 2006 and have discretionary trusts applied may already need to pay a periodic charge, or may have a periodic charge due at the next periodic review. A number of scenarios may apply for these clients:

1. The health of the clients has deteriorated, meaning that the ability to get cover has reduced or any underwriting decision would increase the premiums substantially.
2. The clients will be older, therefore it is likely (but not necessarily) that the premiums will be higher if this was to be re-written, taken into account the discretionary trust rules and planning ideas we have discussed.
3. The client does not want to go through the underwriting process again.
4. If it was a joint life arrangement, one of the lives assured may have passed and therefore the premium cost is likely to increase considerably if the plan was re-written.
5. The client is not worried about the potential periodic tax charge and will not take action.
6. The cost of re-writing the plan and the increase in premiums does not outweigh the expected tax consequence of doing nothing.

The above situations may preclude the client from being able to write the plans to avoid the periodic charge. In this instance, consideration should be given to understand where the payment of the tax charge will come from. These could include other assets held by the trust that have a value, such as an investment bond, or a trustee bank account.

Graham Warner is a senior consultant at Zurich UK
Hertfordshire-based Enhance Wealth Management has reinvented itself over the past nine months and now has its sights set on £100 million of AUM, as directors Peter Flowers and Adam Flack tell their Zurich business account manager Clyve Hancock.

TELL ME ABOUT YOUR COMPANY...
Adam (pictured top right): My dad, Paul Flack, and two colleagues founded the company in 2003 as an old school financial advice firm – very much a transactional model with generalist advisers doing a mixture of pension, investment, protection and mortgage business. In 2008 we introduced the then embryonic model portfolio service. In the autumn of 2017, after the company became directly authorised, we slimmed down adviser numbers to promote a better ratio of support staff to advisers, revamped our CIP [central investment proposition] and refreshed our image by re-branding with a new name, logo and some new job titles. At present, Enhance Wealth Management has four regulated advisers, an operations director, new business manager, two paraplanners, one trainee paraplanner and an office administrator.

WHAT MADE YOU WANT TO BE A FINANCIAL ADVISER?
Peter (pictured above): I joined Prudential in 1996 after a very varied work history. In January 2000 I joined the ranks of the IFA and haven’t regretted that decision a single day since. Adam: I found my way in to the profession more by accident than design. When I left school I started a management training course with a large company that didn’t treat people very well, to put it mildly. My dad said I could work for him while I found a new job. I’m still here 12 years later!
WHAT PERSONALITY TRAITS MAKE YOU WELL SUITED TO THE PROFESSION?
Peter: Honesty, ethics and punctuality.

WHAT’S YOUR COMPANY’S USP?
Peter: We have our own custom-made client portal and ensure we are well staffed with very capable people.

WHAT IS YOUR PRIMARY BUSINESS OBJECTIVE FOR THE NEXT FIVE YEARS?
Peter: To focus on improving the customer experience, not only with technology but by developing and growing our team. We believe that delivering ever-improving levels of ongoing service will naturally increase our referral rate. We aim to grow AUM from £60 million to well in excess of £100 million of AUM in the next five years.

WHAT THREE THINGS DO YOU LOOK FOR IN A PLATFORM PARTNER?
Peter: Firstly, we want a face-to-face point of contact – someone who is proactive and will take ownership of issues and deliver on promises. Secondly, the technology must be fit for purpose, both from a user and regulatory perspective. Thirdly, the provider must be financially committed to the platform market and willing to innovate. We have recently taken the strategic decision to transfer a large proportion of our AUM to Zurich as we believe it provides us with a modern, efficient and robust platform to help us drive forward our investment propositions.

WHO HAS BEEN YOUR GREATEST INSPIRATION?
Peter: Paul Flack, who sadly passed away 18 months ago. His work ethic, inter-personal skills and infectious good humour were an inspiration to all who knew or met him. Paul was instrumental in the formation and evolution of Enhance Wealth Management and his quiet drive and dedication to the best of outcomes for his clients were unmatched by his peers.
Adam: My dad was a great role model for many reasons. Further afield, the more I read and hear about Richard Branson the more I think he gets customer experience better than anybody else.

WHAT HAVE BEEN THE MOST SIGNIFICANT DEVELOPMENTS IN THE FINANCIAL ADVICE INDUSTRY?
Peter: The list is endless, but probably the RDR. Everything has known and unknown consequences and RDR definitely threw up many of the latter.
Adam: Cashflow planning software has proved to be the biggest single tool in enabling clients to understand their present-day and future realities and what can be done to improve the latter.

WHAT CHANGES WOULD YOU LIKE TO SEE IN FUTURE?
Peter: A more pro-active and accountable regulator.

WHAT’S YOUR ADVICE TO ANYONE TRYING TO KEEP UP-TO-DATE WITH CHANGES AND DEVELOPMENTS IN OUR PROFESSION?
Peter: Have a good compliance consultant (we use threesixty). Choose your seminars carefully; only go to those that will deliver useful information that is pertinent to your business.
Adam: There is more quality content available about our profession than ever before. Anyone who is interested in developing as a financial planner should engage with this material as often as time will allow, whether that be books, blogs or podcasts.

WHAT DO YOU DRIVE AND DREAM OF DRIVING?
Peter: A Range Rover Sport... a Porsche 911 Carrera GTS.
Adam: A BMW 5 Series... and as for the dream I can’t get that excited about cars. Something German and expensive probably.

OUTSIDE WORK, WHAT ARE YOUR PASSIONS?
Peter: Golf, skiing, sailing and our house in France.
Adam: I love eating good food (with good wine to go with it) and am currently working my way through the Michelin guide.

HOW ARE YOU SPENDING THE SUMMER?
Peter: Spending time in France with the family and playing more golf.
Adam: As I don’t have kids I tend to go away in September when the beach is quieter. So I’ll be working and trying to enjoy as much of the British summertime as possible.
In the three years since the pension freedoms revolution, what has changed? Zurich and YouGov studied the drawdown landscape since 2015 and what that has meant for consumers.

**THE SAMPLE**
742 people who moved into drawdown since April 2015

**THE ROLE OF ADVICE**
Drawdown was the first investment experience for 32% of them, and 41% have not received either financial advice or guidance.

Those who aren’t paying for advice are receiving guidance from a variety of sources:
- 35% from their pension provider
- 28% from the government’s Pension Wise Service
- 20% from newspapers/magazines
- 13% from search engines
- 10% from their partner

Among non-advised consumers:
- 43% believe drawdown is simple
- 44% say there is no trigger that would make them seek financial advice

Struggling to manage investments (19%) and deteriorating mental health (16%) are the two biggest triggers, suggesting that as the population in drawdown ages they may seek advice.

Advised consumers are most likely to have a lasting power of attorney in place, which can help to manage the financial risk of ageing.

For a copy of the full report email advicematters@uk.zurich.com
While ISAs are a tax efficient way to build up wealth, they are far less efficient when passing them on. Inheritable ISA rules were introduced in April 2015, meaning an individual can inherit the value of their deceased spouse or civil partner’s ISAs, providing they died on or after 3 December 2014.

Known as the additional permitted subscription allowance, it is based upon the value of ISA assets at the date of death and is in addition to the surviving spouse or civil partner’s own ISA allowance, preserving the tax efficiency of a couple’s ISA portfolio.

For example, if Mr and Mrs Smith both have £125,000 in their ISAs, on Mr Smith’s death, his widow will have an additional permitted subscription of £125,000 in addition to her own ISA allowance. This is available for three years from his death or 180 days after the estate has been administered.

Mrs Smith would still be entitled to it even if her late husband left his ISA portfolio to his children as it does not have to be the actual ISA monies that are subscribed. If Mr Smith had multiple ISAs then Mrs Smith could combine all additional permitted subscriptions by transferring them to her provider of choice. However, once an ISA provider has been selected, the subscription can only be maximised with that chosen provider.

**INHERITANCE TAX RULES**

The inheritance tax (IHT) considerations of inherited ISAs are often overlooked or misunderstood by clients.

While there is no IHT on ISAs inherited between spouses or civil partners, this has nothing to do with inherited ISA rules; it is purely due to the IHT spousal exemption.

This doesn’t apply to unmarried couples (typically divorcees or widows/widowers in a relationship) or on the subsequent death of a surviving spouse or civil partner.

Continuing our example, on Mrs Smith’s death her ISAs of £250,000 (assuming no further subscriptions) are included in her estate for IHT purposes. Assuming any nil rate bands are already used, these potentially give rise to £100,000 in IHT.

For every additional annual ISA subscription Mrs Smith makes between her husband’s death and hers, HMRC would effectively get 40% (£8,000 in 2018/19) in delayed IHT.

**PLANNING OPPORTUNITIES**

Given that ISAs cannot be held in trust, what planning can be done to mitigate this? In the past, clients have cashed in their PEPs and ISAs in their mid to late 60s and reinvested them in an investment bond held in a discounted gift trust to provide an income for life and IHT efficiency.

The use of AIM shares inside an ISA attracts business property relief and is IHT-free after two years if held by the client on death, but this is often not appropriate to a client’s attitude to risk or capacity for loss.

Another alternative is to use a whole-of-life protection plan, written on a joint life second death basis in a discretionary trust.

With premiums perhaps paid from ISA income or withdrawals (which could be replaced within a flexible ISA) and falling within the annual IHT gift and/or normal expenditure out of income exemptions, the sum assured would be paid out on second death into the trust for the beneficiaries to cover the IHT liability.

Subject to health and the ability to continue to pay the premiums, this is a quick and simple solution that retains the tax efficiency afforded by ISAs.

**ESTATE ADMINISTRATION**

Until earlier this year, there was a gap in the rules that meant that between the date of death and the formal closure of the estate (which could take months if not years) ISAs were subject to tax at the highest rates applicable to personal representatives.

However, from 6 April 2018 ISAs have retained their tax-advantaged status during an estate’s administration period (though no new monies can be paid in), saving the personal representatives having to cash in ISAs and account for tax.

This is good news for personal representatives and surviving spouses or civil partners as it means the additional permitted subscription will be based on the (hopefully) higher ISA value at the date of closure rather than at the date of death.

**Andy Woollon** is a wealth specialist at Zurich UK.
The negative mood enveloping UK equities looks overdone: there are compelling reasons to invest, not least the consensual pessimism creating pricing anomalies that offer meaningful upside opportunities for bottom-up stock-pickers.

UK equities were found to be the least attractive asset class across global markets in April’s Bank of America Merrill Lynch global fund manager survey. UK equity indices have lagged most other major equity markets over the past year or so. Underlying the weakness is a marked bifurcation of the market. While most internationally-focused stocks have held up comparatively well, UK domestic stocks are singularly unloved and are trading at valuations last seen post the 2008 financial crisis (see chart).

Risks overstated
Several factors are at play, but we believe the risks are overstated.

With less than a year to go until the UK officially leaves the European Union (EU), investors are understandably perturbed by the lack of clarity over the terms of Britain’s withdrawal and its implications for the economy. However, with opinions sharply divided, the UK appears on course for a moderate outcome rather than an extreme shift away from the EU. Moreover, history reminds us that companies adapt and innovate in response to change; we expect new opportunities and entities to emerge, as the UK’s relationship with Europe continues to evolve.

The recent slowdown in UK growth has also contributed to negative sentiment. Nevertheless, the UK economy is still growing, bolstered by improving global activity. Additionally, unemployment has reached historically low levels and wage growth has finally started to outpace price rises, which bodes well for consumer spending.

Investors are worried about the UK government’s weak position and the threat that a government led by Jeremy Corbyn would pose to the UK economy. However, not all stocks and sectors would be affected equally. With many UK companies deriving a significant portion of their earnings overseas, the UK stock market is not the UK economy. At the same time, recent polls suggest that Mr Corbyn is failing to win new ground.

Outright positives
Not only do the negatives appear overstated, there are outright positive reasons for investing in UK equities:

• The UK offers a higher yield than most developed equity markets (around 3.7% versus 2.7%).

• International investors are underweight UK equities, yet corporate merger and acquisition activity has increased, implying there is genuine value to be found. With expectations so low, any slight improvement in sentiment is likely to catalyse flows back into UK equities.

• From a contrarian viewpoint, increasing exposure to UK equities offers greater return potential versus a consensual allocation.

• Consensual pessimism has created compelling opportunities for bottom-up stock-pickers. Many of these stocks continue to benefit from strong fundamentals and a positive outlook, offering value to investors compared with the broader market.

Park the pessimism – there’s a strong case for UK equities, writes Thomas Moore

Valuation opportunities for disciplined stock pickers

Source: Barclays Research, Thomson Reuters Eikon, MSCI, IBES, ONS

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KEITH RICHARDS

The British Steel Pension Scheme fiasco thrust several important issues into the spotlight and prompted the Work and Pensions Select Committee to call for a ban on contingent fee charging.

As a profession we need to protect consumer choice by acknowledging and mitigating the growing concerns over conflicts of interests – real or perceived – and the inherent risk to contingent charging more widely.

Consumers seek financial planning advice when they recognise the need for expert support and often the need to do something is evident from the outset, meaning that the use of contingent charging is an appealing and convenient consumer option, but we have to acknowledge that DB transfers are uniquely different.

The Financial Conduct Authority (FCA) has recently reverted its position to a starting assumption that a DB pension transfer will be unsuitable for most consumers. This brings into question the role of contingent charging for the initial review only, rather than contingent charging more broadly.

The separation of an initial review or recommendation fee from any ongoing transaction fee helps to demonstrate the mitigation of a conflict of interest and removes the potential for client confusion. If the advice is that a transfer is suitable, contingent charging can of course be offered as an option, as this is more often the preferred and most convenient option for clients.

Given the mandatory requirement for advice for safeguarded benefits above £30,000 and the FCA’s starting guidance, if a consumer is not prepared to pay a separate fee for the initial review and personal recommendation of suitability, an adviser’s alarm bell ought to be ringing and they would be wise to disengage.

Our profession has positively evolved and we equally need to demonstrate that ‘professional advice’ is now the product and not contingent on a transaction.

DB transfers will remain an area of regulatory and media focus. PI insurers are alert to the issue and ambulance chasers are already circling with blue lights flashing, so it is essential that the profession acknowledges – and takes voluntary control – of the unintended consequences of pension freedoms, negating the need for more draconian regulatory rules.

Keith Richards is chief executive of the Personal Finance Society

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