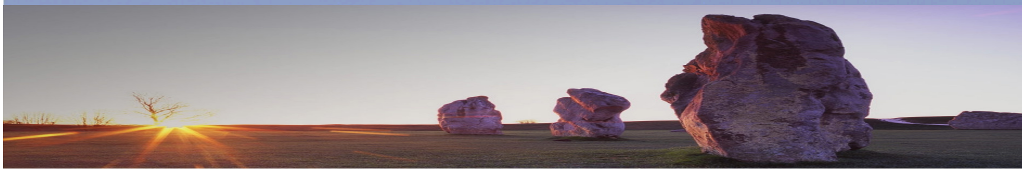
News & Views



MI Financial Services
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A New Financial Dawn

In his inaugural Mansion House speech, Chancellor of the Exchequer George Osborne announced sweeping changes to the regulation of the UK financial sector. He intends to scrap the present structure of financial regulation and hand responsibility for regulating the UK's financial sector to the Bank of England (BoE).

In his speech, the Chancellor criticised the current tripartite system that splits responsibility between the BoE, the Financial Services Authority (FSA) and the Treasury. He believes that the responsibilities of each body are insufficiently clear, and that the three parties have not communicated effectively. He therefore announced that the FSA will "cease to exist in its current form", although the FSA's chief executive, Hector Sants, who was due to leave his post this summer, will now remain in place to oversee the changes.

The FSA will be replaced by three new regulatory organisations: the Financial Policy Committee, the Prudential Regulation Authority and the Consumer Protection & Markets Authority. The Financial Policy Committee will be established within the BoE and will be chaired by the BoE's Governor Mervyn King. It will watch over the economy and highlight any factor that might endanger the UK's financial stability. The Prudential Regulation Authority and the Financial Policy Committee will operate under the BoE's overall control.

The Prudential Regulation Authority will regulate banks and other financial institutions and will be headed by Hector Sants. The Financial Policy Committee will have the power to instruct the Prudential Regulation Authority to take action, if necessary, against a financial institution. The Consumer Protection and Markets Authority will be headed by BoE's Governor Mervyn King and will regulate retail banks, insurers and investment banks. It will also assume responsibility for consumer protection and the Financial Services Compensation Scheme.

Elsewhere, an Independent Banking Commission is to be set up to examine the structure of the UK financial sector, including an assessment of competition within the City of London, the possible break-up of the UK's largest banks, and whether investment-banking operations should be split from high-street banking activities. The commission will be chaired by former BoE's chief economist Sir John Vickers.

Described by the Chancellor as "a new settlement between our banks and the rest of our society", the changes have met with a mixed response from banking and business leaders. The new regime will effectively dismantle the regulatory regime created by Gordon Brown when he was Chancellor of the Exchequer in 1997, and all changes are expected to be in place by 2012.

Welcome to the latest edition of News & Views, your independent update on financial issues.

We hope you find the content of interest, and if you would like to discuss any of the issues raised in this edition, please do not hesitate to contact us.

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The 'Golden Age' of homeownership is over

House prices will drop if the regulators get their way and restrict mortgage lending, the Council of Mortgage Lenders (CML) has warned.

Lord Turner, chairman of the Financial Services Authority, made it clear in a speech at the Mansion House that new banking regulation might well include powers to restrict loans to value to prevent irresponsible lending.

The CML's director general Michael Coogan told a recent conference that 'this is just one of a number of unintended consequences of the FSA's well-meaning but misguided proposals that the CML believes the UK's existing 11 million mortgage borrowers have every right to be concerned about.' The FSA does not deny that a drop in house prices could be the outcome of tougher lending requirements. 'The golden age of home-ownership is over, for the moment,' said Coogan.

The most important point made by Coogan was a warning that if prices fall again it would reduce lenders' security, restricting still further the level of lending, mortgage rationing would continue and many more people would be unable to buy their own homes.

This view is supported by recent research undertaken for the CML by YouGov. People perceive the biggest problem as the fact that young people cannot afford to buy, or take on too much debt to do so, cited by 80 of respondents.

Consumers also appear sceptical about whether the government can make a difference. While 15% thought it likely or very likely that the government could improve first-time buyer affordability over the next 5 years, 80% thought it unlikely or very unlikely.

Bob Pannell, CML chief economist observed that "on balance, people expressed support for tighter lending criteria. But their high level of concern about would-be first-time buyers sits very uneasily with this."

Although lower house prices could be seen as a good thing for first time buyers – a drop in equity for existing homeowners will make it harder for parents to find the deposit they are expecting to lend or give their children to help them get started.

First-time buyers are, and will be, expected to have high deposits and pay a higher price because of their risk status. This will dampen their capacity and willingness to transact even more than we have seen to date. The "haves" with a deposit from the 'Bank of Mum and Dad' may be able to buy, but others will be excluded till their late 30s or even later while they save.

Commenting on a recent drop in the number of advice searches by first-time buyers on unbiased.co.uk, it's Chief Executive Karen Barrett said: "It is important that first-time buyers seek professional advice to ensure they are taking the right approach and making the best decisions for their individual circumstances. Only a whole of market adviser can give advice on products from across the market, to suit an individuals needs and financial circumstances."

Retirement Planning remains top for consumers

Retirement Planning is the top reason why consumers were looking for an IFA in August, according to research from a professional advice website.

The figures from unbiased.co.uk, reveal 49% of consumers sought retirement planning advice when using unbiased.co.uk's 'find an IFA' service in August. Retirement planning has remained on an upward trend since May this year and continues to remain the number one 'advice driver' for consumers searching for an independent financial adviser (IFA).

Karen Barrett, Chief Executive of unbiased.co.uk, comments: "With ongoing economic turbulence, many consumers nearing retirement age or thinking about retiring may be confused about their options. Retirement planning is a vastly complex area and only an independent financial adviser can look at all the factors relevant to an individual and their circumstances, and recommend the best solution for them from the whole of the market."

With the Government announcements in July on the State Pension Age (SPA) being likely to rise from 65 to 66 by 2016, and the phasing out of the default retirement age from April 2011 (employers will have to 'objectively justify' compulsory retirement, which can no longer be on grounds of age alone), retirement advice has become an important issue.

From next year people will have more choice - and more retirement choices to make. For example some may carry on working full-time and defer their pension, while others may carry on working on a part-time basis while taking a workplace pension but deferring state pension. Some will choose to work later, but many will still opt to retire as soon as they can. Much depends on individual circumstances, the nature of their job and the size of their pension.

£552 million set to be wasted by Britons

UK taxpayers are being advised to take 'capital gains tax action' now and consult an independent financial adviser after research by the professional advice website unbiased.co.uk, found that a shocking £552 million is expected to be wasted this year in unnecessary capital gains tax (CGT) payments.

The research shows that this wastage figure has increased by £36 million as a result of the CGT rate rise from 18% to 28% for higher rate tax payers, as announced in the Chancellor's emergency budget in June.

Capital gains tax is a tax charge that arises from the disposal of assets, such as shares or buy-to-let properties, charged at 18% for lower and 28% for higher rate tax payers. Every individual has an annual capital gains tax free allowance, which stands at £10,100 for the current 2010/11 tax year.

Karen Barrett, chief executive of unbiased.co.uk, said "Capital gains tax has been a hot topic ever since the chancellor announced the increased the CGT rate to 28% for higher rate tax payers. But even before that change, we have seen far too many people making unnecessary CGT payments – simply by not making use of tax efficient ways when it comes to disposing of their assets.

"There are many ways of reducing your CGT liability, but the tax system is complex and can easily be confusing for consumers to understand. Consulting an independent financial adviser is an easy way to get tailored tax advice on your individual tax liability, to help avoid making any unnecessary tax payments going forward."

Inflation remains stubbornly high

The rate of inflation remains a significant problem for policymakers at the Bank of England (BoE), and their headache is unlikely to abate. Their dilemma centres on the need to bring inflation under control without derailing Britain's fragile economic recovery.

UK Consumer Price Inflation (CPI) remained static at 3.1% year on year during August, according to the Office for National Statistics (ONS), after falling for the previous three months. Month-on-month, inflation rose by 0.5% during August, having fallen by 0.2% during July.

Inflationary pressures have been exacerbated by higher prices for clothing and footwear, food and, in particular, air travel. Air fares experienced a record rise of 16.1%, underpinned by seasonal demand. Meanwhile, food prices registered an increase of 4.1% over the year. The price of wheat has posted a particularly sharp rise in the wake of fierce drought in Russia and devastating floods in Pakistan. Elsewhere, retailer Primark recently warned that the clothing industry faces pressure from the rising costs of raw materials and shipping, and from the scheduled rise in VAT in January 2011.

While CPI remained at 3.1% in August, growth in average earnings (excluding bonuses) in the year to August 2010 was 1.5%, indicating that UK wage earners' ability to spend is not keeping pace with rising prices. Looking ahead, concerns about public sector cuts, higher taxes and unemployment are likely to increase caution amongst consumers, and sentiment was not improved by the news that retail sales posted their first monthly decline since January during August.

UK inflation remains well ahead of the BoE's government-set target of 2%, and has stayed above target since December 2009, fuelling speculation that the Monetary Policy Committee (MPC) will be forced to increase interest rates rather sooner than expected. Interest rates have remained at their all-time low of 0.5% since March 2009, and an increase in rates would prove controversial amid stringent cuts in public spending and a fragile economic recovery.

In July's Quarterly Inflation Report, the BoE warned that inflation is likely to remain above target until the end of 2011, underpinned by higher VAT, rising energy costs and the effects of a weak pound. In the short term, BoE policymakers believe that the risks to UK inflation lie on the upside. Looking further ahead, the BoE believes that inflation will eventually subside below 2% during 2012 as spare capacity continues to affect

Unemployed Total Rises

The latest figures from the Office of National Statistics showed that the claimant count (those out of work and claiming Jobseekers allowance) increased by 2,300 between July and August this year to reach 1.47M, while 2.47M people were unemployed.

Patrick Haughton of MI Mortgage Services comments: "Relying on benefits can mean that many people experience a huge financial shortfall. A single person over 25 is only entitled to £65.45 per week."

"Many people don't know what they would be entitled to if made redundant, or what their monthly financial shortfall would be if relying solely on state benefits."

Carrying out a financial review with an independent professional adviser can enable people to protect their income and cover essential outgoings against unemployment, illness or accident.