Financial Planning Today's E-mail Inbox

From: Lester Petch, CEO, TAM Asset Management
Re: Advisers need to fight back against robo adviser threat

Originally the mission of robo was to provide an online 'IFA free' investment management solution – one that plugged the RDR advice gap. However, in recent months, there has been a concerning shift in the robo world that could result in a full-frontal assault on the traditional IFA community – 'bionic' robo.

Notable players including Scalable Capital, Nutmeg and Wealthify have all recently introduced or are considering human advisers to complement their algorithms.

Media reports suggest they are now willing to offer advice as a loss-leader in order to attract more assets under management. A January 2018 Scalable Capital press release said, and I quote: "After the initial, free consultation which determines whether the firm's services might be suitable for the investor, the client can go ahead and book a session with an adviser for a fixed fee of £200."

The original robo target market was thought to encapsulate small to medium sized investors who had just begun to build a nest egg and needed to put it into the market at a competitive AMC. Investors with larger sums were deemed IFA clients.

But bionic robo is now coming directly for the IFA heartland and IFAs need to fight back with digital services of their own if they are to survive the onslaught.

From: Kate Smith, head of Pensions at Aegon
Re: Merger of Pensions Regulator and FCA would be a mistake right now

As the FCA and the Pension Regulator work together to tackle the key risks facing the pensions sector over the next 5 to 10 years through their 'Regulating the pensions and retirement income sector: our strategic approach' consultation, when it comes to regulating pensions, the FCA and the Pension Regulator have very distinctive roles with different objectives.

However, calls to merge them seem to be ever present. While there may be merit in this, we strongly believe now is not the time to consider it. A coming together of the two bodies would take up considerable time, possibly years, eating up resources, and potentially result in emerging risks being missed. What is required is a more joined-up approach such as pooling resources.

New models such as super trusts and defined benefit consolidators are in the pipeline.

The regulators must learn the lesson of master trusts and move much more quickly to regulate new models giving member protection avoiding regulatory arbitrage and potential market failure. With these issues already on the table, the distraction of a combined pension regulator is entirely unwelcome.

From: Laura Suter is Personal Finance Analyst at AJ Bell
Re: FCA study highlights lack of trust and the advice gap

The FCA recently released its Financial Lives survey of UK consumers' attitudes to financial products. It showed: 13% of people have savings of less than £10,000; 57% have no savings or savings of less than £5,000; 31% of people have no private pension provision.

Just 6% of individuals have used regulated financial advice in the past year, and just 38% trust financial advisers and 23% of people have had an unsolicited approach about their pension or investment that might be a scam in the past 12 months. Just 6% of people have used regulated financial advice in the past year, highlighting the advice gap in the UK at the moment.

Despite the work done over recent years by the industry and regulator, the British public are still wary of the financial services industry, with only a third thinking financial firms are honest and transparent, while just 40% say they are confident in the industry.

The data on pension scams shows how important it is for legislation like the pension cold calling ban to be pushed through parliament.

DB Transfers – What's the Point?

Julie Lord of Magenta Financial Planning

So it looks like the FCA has effectively made it mandatory to use cashflow modelling to determine the suitability or otherwise of a DB transfer from October this year. The peeps in Canary Wharf haven't said so explicitly, (they never do) but frankly how else can an adviser show clients a simple comparison and come to an advice conclusion that can be robustly defended?

However, it appears that the FCA sees the primary role of cashflow modelling in the DB transfer advice process as helping advisers calculate critical yield. If this is all you think you need cashflow modelling software for then don't waste your money – the "RATE" formula in Excel will do the job for you; so, for that matter, can an investment calculator or your smartphone.

Critical yield is only used to determine what rate of return the client would need to replicate the income they would get under their DB pension scheme?

But surely the whole point of transferring out of a DB pension is that the client probably doesn't want the level of income they would get from their DB pension scheme? If they wanted that exact income, the most prudent course of action would be to advise them to remain in the scheme for obvious reasons.

For most clients the idea of transferring funds is to allow them to do things that they wouldn't be able to do if they stayed in the scheme – buy a holiday home, travel more and so on – lifestyle choices that are unique.

The client, in all likelihood, is considering a transfer because they DON'T want to take an escalating income from a date set by a scheme administrator, which will leave them with more income at age 100 (when they aren't in a position to enjoy it) than at 60 (when they are). They want control of their pension fund, and the freedom to use it as an IHT planning vehicle, or to take ad-hoc withdrawals from it as and when they are required. A critical yield calculation is a good starting point but is there any value in comparing one situation the client doesn't want to be in with another which they equally have no desire to be in?

The primary focus of DB transfer advice should be always on whether it's in the client's best interest to transfer.

Julie Lord CFP™ Chartered FCSI
Julie is a Chartered Wealth Manager, Chartered and Certified Financial Planner at Magenta FP, Wales, and director at Prestwood. She is an ex-IFP President.

julie@magentafp.com 01656 760670
https://magentafp.com @julielordcfp