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What you should do to protect yourself from unauthorised firms

Recently there has been a flurry of warnings from the Financial Conduct Authority (FCA) about the increase in the number of unauthorised financial services firms targeting unsuspecting consumers, therefore they have issued some top tips to avoid getting caught out by fraudulent and unauthorised companies.

There are numerous unauthorised firms running scams with many coming from overseas. The important thing to remember is that if you deal with any of them, whether they are running a scam or not, you will not be covered by the Financial Ombudsman, or the Financial Services Compensation Scheme.

However, there are plenty of steps you can take to protect yourself from fraud. The FCA offers some useful tips and here are some of the main ones:

1. Check the Register

They strongly advise you to only deal with financial services firms that are authorised or registered by the FCA, and check the Register to ensure they are. The Register has information on firms and individuals that are, or have been, regulated by them. If a firm does not appear on the Register but claims that it does, contact the FCA Consumer Helpine on 0800 111 6768.

2. Ring them back

To confirm the identity of an authorised firm on the Register, ask for their ‘firm reference number’ (FRN) and contact details, but always call them back on the switchboard number given on the Register rather than a direct line they might give you. If there are no contact details on the Register or the firm claims they are out of date, contact the FCA Consumer Helpline on 0800 111 6768.

3. Use the right website

You should access the Register from www.fca.org.uk - rather than through links in emails or on the website of a firm offering you an investment. Also check that the address of the FCA website is correct and there are not subtle changes that mean it is a fake.

4. Beware of cloned firms

You should also beware of fraudsters pretending to be from a firm authorised by the FCA, as it could be what is known as ‘cloned firms’. These scammers often claim to be from overseas firms that appear on the Register and these firms do not always have their full contact and website details listed.

5. Make additional checks

With fraudsters adapting their tactics, you should make additional checks to confirm you are dealing with the financial services firm in question and have the correct contact details, especially if you have been cold called. You might want to check the details on the firms website, with directory enquiries or Companies House.

6. Check if a firm is authorised or registered

Almost all financial services firms and individuals must be authorised by the FCA. But certain types of firms may instead be registered with the FCA, including some payment services providers and electronic money (e-money) institutions, mutual societies like credit unions, friendly societies, cooperative societies, working men’s clubs and building societies. You can check the Register to see whether a firm is authorised by the FCA or registered but beware that registered firms do not have to provide as much detail about their business and the FCA have less power to check on the firm.

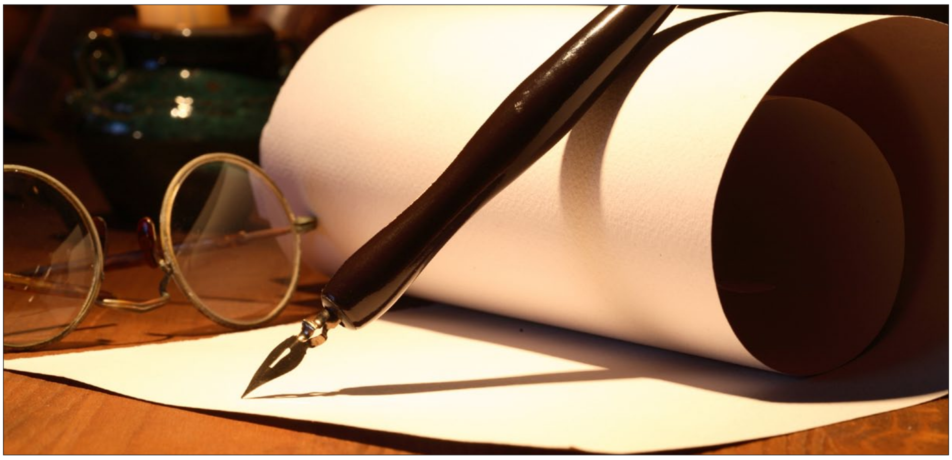
7. Search the FCA list of unauthorised firms

You can look through the list of unauthorised firms to avoid doing business with them, although the names are likely to change regularly. This is a list of firms and individuals that are currently targeting UK investors and the FCA have received complaints about. New names are added regularly but if a firm that has approached you does not appear on the list, do not assume it is legitimate, as it may not have been reported yet.

Other points made were that if you are dealing with an overseas firm or scheme, you should check how it is regulated and follow the same steps as before, as they do have warnings from foreign regulators about firms conducting unauthorised business. Remember that authorised firms that you have no dealings with are unlikely to contact you out of the blue and if you have a problem with cold calling or unsolicited mailings you can register with the Telephone Preference Service and Mailing Preference Service.

Finally, if you think you have been approached by an unauthorised firm, you should contact the FCA Consumer Helpline on 0800 111 6768 and report it to them.

Is your Will up to the mark?



Following a written request from the Legal Services Board (LSB), there was bad news recently for consumers when the government rejected proposals to regulate Will-writing. Will-writing will remain unregulated which means that absolutely anyone can write a Will and it is believed that around 10 percent of Wills are written by cowboy firms who rip consumers off. The LSB's proposals followed investigations, which found that too many consumers were receiving a poor service and were not adequately protected at the point of their Will being written. Research has also shown that approximately 60 percent of Wills get lost and independent Will-writing firms close within the first four years of operation.

With Will-writing to remain unregulated, it has never been more important for consumers to check that their Will is properly written and that the people they wish to benefit from their estate on their death, actually do. This is of course assuming a Will has been written at all, as almost 2/3rds of people have not written a Will and would therefore, die intestate.

The importance of inheritance tax and estate planning has been highlighted in research by Pannone. The law firm found that, as a result of individuals failing to make a Will, assets worth £38.5 million were left with no named beneficiaries in 2011-12 – an increase of 91 percent year-on-year.

While efforts are made to track down potential heirs when an individual dies intestate, if none are identified, the money goes to the Treasury or to the Duchies of Lancaster or Cornwall if the estate falls within their boundaries. Consequently, the Treasury received £33.5 million of intestate money in 2012, while the Duchies of Lancaster and Cornwall gained £3.35 million and £552,000 respectively. Similar issues can arise if a Will is not reviewed and updated regularly, as the individual may survive their heirs, or the beneficiaries and executors may not be able to locate the Will.

Another worrying aspect is that although a Will is important in determining how a person's estate is divided on their death, what is the situation if a couple were to tragically die together and did not have a Will? Parents should be particularly wary of not making a Will because there is the question of 'what will happen to the children? Children under 18 may be taken into temporary foster care while Social Services appoint guardians. This can take several months and the guardians they appoint are not necessarily the ones you would have chosen and the children could be brought up by people you would find totally unsuitable.

By writing a Will you can ensure that your wishes are carried out correctly on the event of your death but make sure the Will is written by a solicitor, preferably, or someone who is suitably qualified to undertake the work. This will give you peace of mind and will make things a lot easier for those you leave behind.

Welfare reform

New Changes to the Welfare System

In April of this year we saw the introduction of Universal Credit, which was initially launched in certain areas of the country. Universal Credit is a new single payment for people who are looking for work, or on low income. It will replace the following means tested benefits:

- Job Seekers Allowance (income-based)
- Income-based Employment and Support Allowance (ESA)
- Child Tax Credits
- Working Tax Credits
- Housing Benefit
- Income Support

In October of this year Universal Credit will be rolled out across the whole of the country and there will be a gradual transition on to the new system for those people claiming benefits under the current rules and it this is expected to be completed by 2017. However, anyone claiming Job Seekers Allowance (contribution-based) will not be affected by these changes and can continue to claim this benefit if they are still eligible.

Under the new system, it is expected that claimants will receive their benefit on a monthly basis and will be able to manage their claim online. It is expected to be responsive and as people on low incomes move in and out of work, they will get ongoing support, giving people more of an incentive to work for any period of time that is available.

For the time being, however, you can apply for either version of Job Seekers Allowance until the new system becomes available later this year.

Total Benefit Cap

From April 2013 there was the introduction of an overall limit on the amount of benefit payable to people of working age. The limit is £26,000 per year (£500 per week) for couples and lone parents and £350 per week for single person households. There is no Benefit Cap on older person's benefits and it will not apply to households that are in receipt of Disability Living Allowance/PIP, Attendance Allowance, Employment and Support Allowance, which includes the Support Group Component, Working Tax Credit or include a war widow/widower.

Discretionary Housing Payments, support for childcare through Universal Credit and localised council tax support will not be included in the assessment of the total value of benefits received. The cap will be applied by first reducing any Housing Benefit paid by the local authority and then from out of work benefits. Once households have been transferred to Universal Credit, it will apply to their combined income from Universal Credit and benefits including Child Benefit and Carer's Allowance. It is too early to see how these new changes will affect claimants but it is hoped that it will be a fairer system than the current one and that it will help people avoid the benefits trap by making it more beneficial to be working rather than claiming benefits.

MARKET REPORT

GLOBAL REVIEW

The bull run in global equity markets came to an abrupt end in May as US Federal Reserve Chairman, Ben Bernanke, outlined the conditions required for a withdrawal of quantitative easing. His address to the Joint Economic Committee of Congress made no commitment to the tapering of the central bank's stimulus program but the simple admission that a discussion on the withdrawal of liquidity was taking place was enough to unsettle markets. Stock prices, that had returned over 23% for the year, have fallen 8% since the Chairman's statement.

The strong gains made by equities year-to-date have reflected investors growing confidence in a sustainable, albeit sluggish, economic recovery. There are obvious concerns however that the premature withdrawal of quantitative easing will jeopardise the recovery as economies are asked to survive without the unprecedented levels of liquidity currently provided by global authorities. Where before investors were prepared to overlook negative data these are given greater significance in the absence of perpetual government support.

UK

The Monetary Policy Committee again declined to increase the size of its quantitative easing program despite a vote in favour by outgoing Bank of England Governor Mervyn King. Taking confidence from economic growth in the first quarter of +0.3%, thus avoiding a triple dip recession, the Committee cited improving data as a suggestion that the economy was set to accelerate in the second quarter alleviating the need for further intervention. The incoming Bank of England Governor, Mark Carney, however is an advocate of targeting economic growth and the expectation is for changes to monetary policy once he assumes the post.

The International Monetary Fund has cut it's UK growth forecast to +0.7% for 2013 mirroring downgrades across the developed nations. The group also suggested that the Chancellor reconsider his current austerity program given the extended weakness of the economy. This is in contrast to credit rating agency S&P's guidance that threatened a downgrade should the government's current plans change course. Both Moody's and Fitch have already stripped the UK of it's AAA rating this year.

US

The strength of reaction to the discussion on the tapering of quantitative easing may have surprised the Federal Reserve given that the idea was already in the public domain following the release of minutes from the Federal Open Market Committee meeting in April. On that occasion US stock indices jumped to new all time highs as investors focused on the caveat that the economy, particularly employment numbers, would need to be on a sustainable path to recovery before the withdrawal of stimulus.

The improving economic environment has therefore become a negative for financial assets as this brings forward the timetable for the withdrawal of quantitative easing. More bullish predictions suggest that measures will be eased as early as the fourth quarter, a complete withdrawal by the end of 2014 and interest rate rises by 2015. The need to openly manage the tapering of stimulus is now obvious as this is likely to dominate investor sentiment.

EUROPE

The French economy has fallen into recession for the third time in four years after official figures confirmed a contraction of 0.2% in the first quarter. This followed a fall in output of 0.2% from the continent's second largest economy in the last quarter of 2012. Germany, the largest economy, narrowly avoided recession as gross domestic product increased by 0.1% in the first quarter. Falling confidence following the inconclusive Italian elections and the Cypriot banking crisis has been a heavy drag on the region's economy.

In response the European Central Bank cut the cost of borrowing in May but kept deposit rates at 0%. The ECB chairman, Mario Draghi, has not dismissed the idea of negative deposit rates, charging commercial banks to deposit money, in an attempt to boost lending into the economy. The consideration of unconventional steps and inaction at the ECB's June meeting has led to speculation that the Bank is running out of policy ammunition. Focus has shifted to the need for greater structural reform as eurozone governments are unable to spend to boost growth in the face of austerity.

JAPAN

In contrast, the Japanese government continues to spend in its attempt to boost incomes and rid the country of deflation. Prime Minister Abe, the leader of the world's most indebted nation, is set to unveil further plans for structural reform that will run alongside aggressive monetary policy and a ¥10tn stimulus package. The immediate impact has been a jump in growth with economic output increasing by 1.0% in the first quarter following a surprise fall of 0.1% in the last quarter of 2012.

Equity markets have also benefited from the improved outlook, rising 60% in yen terms since the election of Abe in mid December. The decline of the yen over the same period after prolonged strength has been a boost for companies with goods and services now 20% cheaper in US dollar terms. Expected asset price inflation and the improved outlook for trade has been coupled with an pick up in consumer spending and wage growth. Much now depends on the delivery of the structural reforms set to be announced in July.

ASIA

The Chinese government added to liquidity fears by announcing the end to cheap credit just days after the US Federal Reserve outlined its plans for the tapering of quantitative easing. This served to amplify risk aversion and fuel further falls in global equity markets with local indices hardest hit. Stock prices in China have fallen to values 20% below their February peaks.

The Reserve Bank of India cut interest rates for the third time this year in May following the release of the worst economic growth numbers for a decade. Output grew by 5.0% in the fiscal year to March, down from 6.2% in the previous year. Scope for further cuts are limited with the rupee recently falling to an all time low versus the US dollar. The weakness of the currency adds to inflationary pressures as import costs, particularly energy, rise.

28 June 2013

Are you thinking of becoming a Landlord?

After years in the doldrums, the buy-to-let market has seen something of a revival with rising rents against the backdrop of depressing interest rates. Whilst this could be a useful way of boosting your income or diversifying from an equity-based portfolio, becoming a landlord for the first time is a daunting prospect and should be approached with care.

Despite the benefits of becoming a landlord, there are signs that some are struggling to meet their mortgage commitments, as the repossession rate (the total of repossessions in relation to the number of mortgages) in the buy to let market reached 20 percent of the total of repossessions, in the first quarter. However, Paul Smee, Director general at the Council of Mortgage Lenders said "Mortgage arrears and repossessions have stabilised at levels lower than many anticipated when the economic downturn started."

With a wave of new mortgage products for landlords and with the cost of rates down nearly 25 percent, this can make a significant difference to funding for potential borrowers. However, the knowledge and skills needed to be a landlord are considerable and anyone contemplating this step should do their research carefully as they are effectively starting a new business.

If you are considering a move into the buy to let market, you should ask yourself the following questions.

What is the demand for rented accommodation in the area you are considering investing?

It might seem a ridiculous question but there is no point buying a property to rent if there is little demand for it. You would need to think about what appeals to tenants rather that what appeals to you. Other things to take into account are, is the property close to offices, hospitals or a college for instance, where there might be a higher demand, or maybe it is within the commuter belt of a large town or city? Or, will a 3 or 4 bedroom family house rent more easily than a terraced property or a flat?

How much rent could you expect and will this cover the costs involved?

It is important to calculate how much rent you are likely to receive to ensure that you can afford a second property. There is a calculator that tells the amount of rent you will have to charge in order to be approved for a buy to let mortgage. The potential income will obviously have to cover the cost of the mortgage but there are other expenses that will need to be taken into account, such as insurance, maintenance, repairs, letting expenses, professional fees and tax. However, many of these expenses are allowable and can be offset against the tax on rental income.

How much of the year can you afford the property to be empty?

If you were having difficulties in finding a suitable tenant and your property was lying empty you will still have to fund the mortgage repayments, council tax, water rates, electricity bills and insurance. Ensuring you buy in a good area and keep the property in good order will lessen the time that the property remains vacant.

What is the potential investment return?

You will need to be realistic and in the short term you will see little profit apart from what you may gain from the income after the expenses are taken into account. Over the longer term however, you could stand to make a reasonable profit if the value of the property increases over the years. However, assuming the value of the property has increased, if you sell it at a later date and the net gain on the value is in excess of the Capital Gains Tax Allowance (currently £10,900) then you would be liable to pay tax on the excess amount at a rate of 18 percent, as a standard rate taxpayer, or 28 percent as a higher rate taxpayer. However, if house prices were to fall, the value of your property could fall as well and you may not get the price you had hoped for. This would be disappointing but more worryingly, would the price you achieved on the sale of the property be enough to clear all of the mortgage? If not, you would then have to make up the shortfall. The timing of buying a property is crucial and with prices still at reasonable levels it is worth considering once you have done your homework and weighed up all the pros and cons. If this is something you had been considering, speak to our mortgage advisers Wesley Fox and Darren Weir who will be able help you assess the viability of a buy to let mortgage before you take the next step.

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