General Guidelines

- Welcome to TCIFA Team.
- This presentation is to provide guidance regarding the research that will be needed to enable you to write good quality business.

Fact Find

- As we all know, this must form the base of everything that we do.
- We cannot start to look at products until we have identified the client's needs. Of course, these can only be based on the information provided by the clients.
- You are all good at getting information. Just make sure that you actually record it on the Fact Find.

Using Information

- We get told all sorts of things and it is important to prioritise the needs of the client.
- Once the needs have been identified, then the products can be selected.
- Having selected the product, then we also need to select the provider.

Life Cover

- Lump sum payment.
  or
- Family Income Benefit.

- Claims clear cut.

- The level of cover should provide enough money to cover all outstanding debts and also to go towards maintaining the standard of living for dependants until they reach independent status.

How to choose life cover

- Use The Insurance Exchange and go for lowest premium.
- If clients are opting for life cover only, they should be advised of the cost of including critical illness cover as a matter of course.
- Waiver of premium should be offered as a matter of course.
- If life cover is being written to cover a capital & interest type of mortgage, the life cover should be written on a decreasing term basis. If clients want additional life cover, that should be dealt with separately.

Critical Illness Cover

- Lump Sum Payment
  or
- Family Income Benefit

- Not so straightforward as providers use different definitions for the level of illness required to qualify for claim.

- Also companies are moving towards a two-tier system of core or comprehensive cover. Core cover normally involves 6 or 7 illnesses. Comprehensive cover can be an extensive list.

Critical Illness 2

- It should be remembered that bancassurers tend to use narrower definitions. Therefore, they are quite easy to re-broke on the basis of offering extra definitions of cover.
- Critical Illness Cover should be recommended as a matter of course for mortgage protection plans.
- Scottish Provident currently has the most comprehensive definitions. The definitions have been standardised, but in my opinion Scottish Provident is still the leader in this field. They are not often the cheapest, but they work on the principle of “advice, not price”.

Accident, Sickness & Unemployment Cover

- Most bancassurers emphasise the need for ASU for loans and mortgages.
- This cover is normally only available to cover for 12 months although we can provide 24 months.
- The deferment period tends to be 4 weeks.
- Cover can be written jointly, but this normally cover half of the amount for each person.
- Underwriting is minimal and can therefore be good value for people in higher risk groups.

ASU 2

- Most providers will not pay up whilst the policy holder is receiving any kind of payment from their employers.
- Unemployment normally refers to redundancy and does not tend to cover dismissal.
- Many employees are unlikely to be made redundant – nurses, teachers etc, but they are still sold the full plan.
- We can provide separate accident and sickness cover or unemployment cover.
- My preferred provider is Paymentshield, although there are other providers that are making this market more competitive.

Income Protection
(Permanent Health Insurance)

- This is underwritten in great detail. Premiums based on work activities, sex, age, health history.
- Deferment periods can be written for 4, 8, 13, 26, 52 and 104 weeks. This can normally be made to dovetail into employee benefit schemes.
- Benefits can be set to pay up to age 65.
- Most companies will limit benefits to below 75% of normal income. Since they will also include state benefits, most companies will offer around 50% of income.

Income Protection 2

- Maximum benefits offered by companies can be seen on The Insurance Exchange.
- Premiums can be guaranteed or reviewable.
- Plans should be set to pay if the client cannot undertake their own occupation. Some companies may want the clients to undertake any occupation and this makes claims rather more complicated.
- The companies with the strongest claims records are Friends Provident and Swiss Life.

Packaged Products

- Particularly with the rising popularity of online applications, more companies are moving towards a menu of benefits. This can be seen in the lay-out of the companies proposal forms.

- Whilst this is probably a good plan to cover everything in one plan, it is very rare for one company to offer best value for each element.

- Additionally, whilst it is normally possible to make alterations to elements of the policy, clients do not realise this and may cancel all of their cover just to change one element.

- It is virtually impossible to get comparison illustrations from The Insurance Exchange for packaged products.

Whole of Life Policies

- I have very little experience of whole of life plans. As far as I can see, the only benefit is that cover does continue to any age.
- The investment element within this type of contract tends to be minimal in “maximum cover” contracts. “Balanced” or “Standard” cover costs almost as much as an endowment would cost.

Whole of Life 2

- The Exchange does quite a comprehensive comparison service. This compares premiums, projected surrender values at various times and the investment growth rate used to calculate the premiums and surrender value projections.
- I feel that it is prudent to choose the products that use the lowest growth rates as these should offer the most maintainable premiums in the future.
- Perhaps I need more product knowledge in this area!!

Mortgages

- We have already made extra pages for the fact find to deal specifically with mortgages and these should help you to pinpoint the clients requirements.

- The main source of information is the Mortgage 2000 software. This provides up to date information on around 4000 mortgage schemes.

- The information within the software is sufficient to be able to identify the most appropriate scheme for the clients. Copies of illustrations and comparisons should be kept in the client's file.

- I shall endeavour to get training from Mortgage 2000 to enable you to get the best out of this system.

Investment

- **IDEAS FOR INVESTMENT**

- There is a wide choice of investments depending on your clients attitude to risk and your investment aim. Broadly speaking the choices that you have could be summarised as follows.

- **Low Risk**

- Building Society Accounts
- Fixed Rate Deposit Accounts or Bonds
- Gilts
- National Savings

Investment 2

- **Low/Medium Risk**

- Property
- Corporate Bonds
- Distribution Bonds

- **Medium Risk**

- With Profits Bonds
- Capital Investment Bonds
- Unit Trusts or Investment Trusts - UK based

Investment 3

- **Medium/High Risk**
- Unit Trusts or Investment Trusts – European or International
- **High Risk**
- Unit Trusts or Investment Trusts – Specialist
- Individual shares

Investment 4

- These are very broad-brush classifications of investment risk as there are exceptions in almost every category. Even deposit accounts cannot be considered risk-free from the point of view that rates can be reduced or the provider could go out of business (Bank of Credit & Commerce International).

- Also some investment trusts are made up of more than one class of share – split capital investment trusts – and therefore need to be classified on an individual basis.

Pensions

- We all have a lot of pension clients. You are all needing to look at the plans that your clients have and what the most appropriate action is to get the best for your clients.

- Since your clients do not currently have Market Value Adjustments (Reductions) to come away from AMP, transferring is much easier.

- However, for ongoing regular premiums, I feel that you would be justified in starting new Stakeholder-costed contracts with alternative providers.

- The provider that you will select will be based on individual circumstances, such as age, time to retirement and contributions levels.

Selecting a Personal Pension Plan

- You could make preliminary illustration enquiries from The Exchange, but then I would suggest that you obtain actual illustrations from at least 3 different companies, preferably 6 companies. You should keep copies of any illustrations that you obtain on the file.
- Then you can look at the terms of the individual contracts and compare transfer values, projected funds at retirement and the plan charges. Even Stakeholder contracts come out differently each time, although they are supposed to be uniform.
- The main body of your report is already in place, but you will need to “top and tail” the report for each client.

Pension Transfers

- Currently, we have no one in TCIFA Team that is authorised to undertake transfers from Occupational Schemes, as none if us possess the G60 AFPC qualification.
- If we get an enquiry in this respect, we can do the ground work, but it will need to be signed off by a qualified adviser. I would probably get Mark Waters at Simpsons of Brighton involved.
- Transfer from personal pensions can be undertaken. However, the mechanism is quite detailed. This is to ensure that it is “best advice” to the client.

Pension Transfer Mechanism

- You need a projection from the current provider of benefits at normal retirement age or to a specific date relevant to the client.
- Please bear in mind that you need to know whether the existing plan offers any type of guaranteed annuity and any terms that apply in this respect.
- Also you need to know the exact transfer value from the provider including any charges or MVAs that are to be applied.
- This transfer value is used to obtain comparative illustrations from The Exchange and then individual providers as for a normal pension plan.

Personal Pensions Providers

- The insurance companies that spring to mind as possible providers are Clerical Medical, Friends Provident, Legal & General, Norwich Union, Scottish Life and Standard Life. Additionally, for your more active investors Skandia may be attractive.

- This is not an exhaustive list and certain providers come into the frame as being applicable to certain clients, perhaps requiring niche products, such as EPPs, SIPPs, SSASs and Pension Fund Withdrawal.

Investment Theories

- The general point of investment is to make as much money as possible for our clients.
- Often our hands will be tied by criteria set by the clients such as their attitude to risk, the time that are willing to tie up their money and perhaps even by their attitude to investment types, such as ethical funds.
- Where we can show our true value as Independent Financial Advisers to clients is by providing good quality information to enable them to be confident of our choices for them.
- The reason for producing detailed information is to provide a good service to the clients, but also to protect ourselves from possible claims in the future.

Investment Theories 2

- If we are quoting figures, then we should always state the source of our information.
- If we are stating our opinion, which is what we are being paid for, then we should always state the reasons for our opinion and also the information that we are using to form our opinion.
- We should remember our own limitations. We are not fund managers and therefore have little control over the investment of our clients' money once the investment has been made. Therefore, we must be confident about our reasons for choosing the product, the provider and the specific funds.
- On review of the investment, we should be ready to advise clients by fine-tuning the arrangements by switching funds or even providers if necessary.

Investment Strategies

- The best way to get the maximum investment potential for a client is to utilise all tax allowances that are available.
- This means that as a matter of course, the first £7,000 should currently be used to fund an Individual Savings Account.
- This can either be in the form of a “Stocks and Shares” Maxi ISA or separate Mini ISAs based on “Stocks and Shares” (£3,000), “Insurance” funds (£1,000) and “Cash” deposits (£3,000).
- Money over and above £7,000 could either go into a bond structure or into collective investments, such as unit trusts, investment trusts or Open Ended Investment Companies “OEICs”.

Investment Strategies 2

- The choice of product will really depend on client preference and requirements. If they are looking for income, then the bond structure allows 5% per annum to be taken tax-free.

- If they are looking for growth, then I feel that you should consider the collective investments as they tend to be more focussed investments.

Research Sources

- Money Management magazine, published by Financial Times Magazines has been my preferred source of information in choosing funds. More latterly, the weekly paper Professional Adviser has started to produce good information in this respect.

- A criticism of Money Management is that the information goes out of date, because it is a monthly magazine. Whereas, the Professional Adviser statistics are put together weekly and are therefore more up to date. However, the information in Professional Adviser is quite short-term, only covering the previous 3 years.

- Perhaps we need to find a sensible and meaningful way of combining the two sources.

More Research Sources

- It is important to read as much as possible. It is vital to keep up to date with financial information and new products that come out.
- The trade press, the “pink papers” are a good source of up to date material and background reading. I understand that you have had problems getting these, so I shall ensure that my copies are available in the office each week.
- Also Money£acts and Money£acts Life & Pensions provide up to date information regarding various banking accounts, loans and also types of investment, such as Insurance ISAs.

Investment Providers - ISAs

- For ISAs, I tend to use either Fidelity FundsNetwork or CoFunds fund supermarkets. These offer a tremendous choice of funds from different providers all under the one umbrella.

- This means that you should be able tailor a portfolio of funds specifically for your clients. Additionally, when you come to review, switches can be made between managers and funds at minimal expense and hassle.

- Also a selling point of these arrangements is that they get a consolidated statement of all their investments from one provider and they can get up to date information straight off the internet.

Investment Providers - Bonds

- I find this a rather more difficult choice, since I have not tended to use bonds, as I prefer the more transparent structure of the collective investments.
- The choice of bond will depend on the type of investment strategy required. I would only use bonds for income generation because of the 5% tax-free income.
- This enables the use of corporate bond funds, distribution funds, property funds and fixed interest funds, in any combination. These are considered to be lower/medium risk funds and are designed as income generating funds.
- The insurance companies are the main providers and your choice will depend on the charging structures and financial strength of the companies.

Investment Bonds 2

- With Profits funds should only be used as qualification for membership of mutual companies. They are unlikely to get decent bonuses applied for many years to come and will almost certainly involve the application of a Market Value Reduction even if there is not an official redemption penalty.

Offshore Investment

- Certain companies have products that are designed to minimise Inheritance Tax. Some of these involve offshore investments.
- Whilst these products appear to be attractive, you should look carefully at the charging structures. In my limited experience, these tend to be quite expensive and the investment performance of offshore funds has not often equalled ordinary UK based funds.
- Offshore funds have very little benefit for basic-rate tax payers. The tax liability is only deferred and is payable at the end of the contract.

Skandia Life

- Skandia Life is a very interesting provider. It was the first company to offer the choice of fund managers within bonds and pensions and personal equity plans.

- In my opinion, it has been overtaken for ISAs because there is double charging within it’s contract. The charges are by Skandia and also the individual fund managers.

- However, it is still the only company offer genuine choice of funds and fund managers for pensions and bonds.

- I feel that this makes Skandia very attractive for your more sophisticated investment clients.

With Profits Funds

- These funds have been the investment basis for “traditional” endowments or investment bonds over the years. They have been very popular with investors as they were perceived as “safe” investments, although recently this claim has been open to question.

- In order to understand these funds, it is important to be aware of the way they work. The funds themselves tend to be based on the Managed funds run by the Insurance Company. This Managed fund will include elements of all of the funds managed by the company in order to offer a diverse investment.

Contents of With Profits Funds

- The table on the next page shows the make up of the With Profits funds of the companies that have provided illustrations, except AMP NPI which did not supply figures to Money Management magazine.

- We have taken the figures from a survey conducted by Money Management magazine and produced in the April 2003 issue of Money Management magazine, published by Financial Times Magazines.

With Profits Funds Contents table

	UK Equities	Overseas Equities	**Total Equities**	Property	Fixed Interest	Other
Friends Provident	44%	Nil	**44%**	13%	43%	Nil
Legal & General	44%	15%	**59%**	13%	43%	Nil
Liverpool Victoria	42%	14%	**56%**	17%	15%	13%
Prudential	31%	13%	**44%**	15%	39%	2%
Standard Life	42%	10%	**52%**	14%	20%	14%

With Profits Funds 2

- Given that With Profits funds have been marketed as low risk, despite current market conditions, all of the companies have fairly high equity exposure. In times when the Stock Market is rising, this equity exposure produces profits that the companies can put in reserve. This retention of profits is to provide a smoothing effect for investors over the term of their policies as investors would be concerned if their bonuses truly reflected the Stock Market activity.

- However, in the last three years of falling markets, most companies are struggling to provide the reserves that are needed to maintain the bonus rates applied to the policies. The falling rates are highlighted in the table on the next page. Although these show the rates being largely maintained, this is only over a year and the figures would be much more damning if a longer history were shown.

With Profits Bonuses

Reversionary rate payable at	1/2/02		1/8/02		1/2/03		Current Interim rate	
	SA%	RB%	SA%	RB%	SA%	RB%	SA%	RB%
Friends Provident	2.0	2.3	2.0	2.3	2.0	2.3	Same as RB	
Legal & General	2.0	3.5	1.5	2.8	1.5	2.8	Same as RB	
Liverpool Victoria	4.5	N/A	4.5	N/A	3.9	N/A	Same as RB	
Prudential	1.9	3.2	1.7	3.2	1.7	3.2	N/A	Same as RB
Standard Life	2.3	3.5	2.3	3.5	1.0	1.5	1.0	1.5

With Profits Funds 3

- The smoothing effect used in With Profits funds also masks the investment performance of the underlying fund and therefore there are no figures produced for pure fund performance. The main measure used is the maturity values achieved at various points. These figures are produced quarterly and the companies are sorted into ranking tables.

- The table on the next page shows the number of times each company has appeared in the top ten for maturity values in each quarter in the decade between 1st February 1994 to 1st February 2003 for 10, 15, 20 and 25 year policies. Also the table shows the figures over 30 years. This table illustrates the consistency of returns achieved over the years.

With Profits Funds
Past Performance

Company	Appearances in top 10	
	10 years	30 years
Standard Life	23	87
Liverpool Victoria	22	22
Friends Provident	15	75
Legal & General	1	11
Prudential	0	10
AMP NPI	0	3

With Profits Funds 4

- In my opinion, the companies are going to struggle to maintain any level of bonuses in the coming years as it is expected that the Stock Market will take some years to return to a consistent growth. Therefore, I would only use With Profits funds as a small part of the investment strategy.

- It should be borne in mind that there are still some a mutual companies in the market and that investment in the With Profits fund may give membership of the companies after a qualification period and therefore the possibility of a bonus if the company goes public or is taken over in the future. Indeed, this would be my only rationale for using With Profits funds.

With Profits Funds Conclusion

- There will almost definitely be Market Value Adjustments applied for monies coming out of With Profits funds in the future, even if there are no official redemption penalties.

- I cannot see any rationale for using With Profits funds unless it is to gain membership of a mutual company. If you choose to use With Profits Funds, they should be limited to 25% of the investment.

Property Funds

- Property funds have historically been considered to be at the lower end of the risk scale. This is because they contain tangible assets.

- There are various types of property that form the portfolios of property funds, such as tenanted residential property, commercial property – retail, offices, industrial buildings etc. Additionally, some property funds may hold shares in property companies, such as house builders, property maintenance and landlord companies.

- The income generated by property funds has traditionally been from the rental of the properties. This tends to be fairly constant and indeed increasing as most lettings have an agreement to review (normally upwards) the rent at regular intervals.

Property Funds 2

- The downside of property funds is that the assets are illiquid and may be difficult to realise from time to time. Also due to the residential property price boom, there is some doubt regarding the future value of properties.

- In order to understand why property funds perform differently, it is important to know what types of property the individual companies keep in their portfolio.

- The table on the next page shows the contents of property funds. The information has been obtained from the fund brochures produced by each company and obtained from their websites.

Property Fund Allocation

Company	Industrials	Offices	Shops	Retail Warehouse	Residential	Other	Cash
AMP NPI	46.0%	13.0%	18.0%	11.0%	N/A	N/A	12.0%
Clerical Medical	26.1%	9.5%	35.6%	25.7%	N/A	N/A	3.1 %
Friends Provident	23.1%	18.7%	16.1%	10.9%	0.5%	1.4%	29.2%
Legal & General	23.6%	31.1%	17.6%	20.6%	N/A	N/A	7.1%
Norwich Union	21.8%	27.4%	49.6%	N/A	N/A	1.2%	N/A
Prudential	27.0%	32.0%	41.0%	N/A	N/A	N/A	N/A
Standard Life	22.0%	39.0%	36.0%	N/A	N/A	3.0%	N/A

Property Funds 3

- This study relates to life property funds that these providers have available in their investment bonds and it must be remembered that this should form a part of a portfolio rather than the total investment.

- It is interesting to note the emphasis placed by the different companies on the types of property. From these figures, it would appear that greater success has been achieved by the managers that have been in retail and office properties. The returns from industrial property largely reflect the problems in the manufacturing industries

- The most exceptional figure is the amount of cash currently held within the Friends Provident Property fund. This high cash figure relates to the recent sales of office properties in Central London. It is the fund managers view that Central London office properties are going to underperform against other property sectors. This is a good indication that this fund is pro-actively managed.

Property Fund Performance

- Next we shall look at investment performance. The past performance figures are shown as average annual growth rates achieved over the last 5 and 10 years. For a shorter-term view, we use the Micropal rating system. This shows the performance of a fund over the last 3 years relative to the other funds in the same investment sector. The system is based on 5 stars – where 1* is poor performance up to 5* which denotes excellent performance.

- We shall also show the volatility of the funds. This is a measure of the amount that movements in the Stockmarkets affect a fund. The lower the figure, the less volatile the fund and therefore the fund is considered "safer". We have taken the figures from the June 2003 issue of Money Management magazine, published by Financial Times Magazines.

Property Fund Performance Table

TONY CATT
Independent Financial Adviser

Company / Property Fund	Past Performance		Micropal rating – out of 5*	Volatility
	5 years	10 years		
AMP NPI	6.1%	5.7%	**	0.6
Clerical Medical	5.8%	7.2%	**	0.2
Friends Provident	7.3%	5.1%	***	0.4
Legal & General	7.6%	8.2%	****	0.3
Norwich Union	7.2%	9.4%	*****	0.8
Prudential	8.3%	8.3%	****	1.1
Standard Life	7.4%	7.6%	****	0.3

Property Funds 4

- Most recent developments with Property funds is that Scottish Widows has stopped taking business into their property fund and Standard Life is limiting the input into the property fund to 25% of the total investment into a bond.

- Standard Life advised us that this is due to the lack of commercial property available for the company to buy. In my opinion, it is a victim of its' own popularity in that it has too much cash coming in and too little property available for it to buy.

- The recommendation for provider will mainly be based on the fund performance and asset allocation, but will also include the unit allocation and policy charges of the individual providers.

Choice of Funds

- Each sector can be analysed in the way that I have looked at With Profits funds and Property funds. This information is quite easy to access, but requires some time to put together.
- If we are doing a lot of similar business, we can simply use information that has already been gathered.
- For example, the fund performance table produced in this presentation would be valid for use for the whole of June, if we are looking at bonds based on property funds.
- Most of my reports are simply updates of work that has previously been undertaken. It is simply personalised with any new information that has been obtained for a specific client.

The AMP Pearl situation

- As you all know, the press has declared “open season” on the “orphan” client bank of AMP Pearl.
- Now that you have all received your redundancy money from AMP Pearl, it is difficult to see what the company can do regarding your dealings with your old client bank.
- Obviously, we should be seen to be adhering to your severance contract, but balanced against that is the pillaging of your client bank by other IFAs, such as Hargreaves Lansdowne, who are actually producing information leaflets to get people out of AMP Pearl.
- Whilst we should exercise some caution, I feel that it would be appropriate for you to go back to your best clients in order to make them aware of the full facts about the company and your new positions as Independent Financial Advisers.

Conclusion

- I hope that this presentation has been helpful to you.
- I look forward to providing whatever help and guidance that you require to enable you to write consistently high quality business.
- We should all be on constant alert to ensure that we are up to date with developments in the industry.
- I am not keen to give a rigid menu of “best buys” or “best funds”, as this may inhibit your own research, although I shall try to put together a more detailed description of how to choose funds and providers as part of your ongoing training programme.
- I am going to try to get professional trainers in for The Exchange and Mortgage 2000 and will run a Genesis training session myself soon.