Priscum April Newsletter

HAPPY EASTER

IN THIS ISSUE

Welcome to the April Edition of the Priscum Newsletter

By Alex Wrightson

Hello and welcome to the Easter edition of the Priscum newsletter. For once there is no news on Brexit The stupid politicians have gone on Holiday leaving us to vote in the European elections I for one will be writing Your all rubbish on my Ballot paper!!!!!! The FCA have been busy with various reports changes and Updates. Some of the most important updates and findings that are most relevant to IFAs I have put in the Priscum Updates section. There are lots of Advisers who are struggling to get PI cover at the moment, not just for DB transfers but for normal business activities as well so if yours is due soon make sure you fill out the forms in plenty of time. Also included is an interesting article about high Net worth Clients who even though could afford to buy a property outright are choosing to take out a mortgage. I have included a Case study about funding property through a Pension. One of the most humorous stories is about a woman who couldn't sell her castle so created a raffle to win it for £5 and then when not enough tickets were sold she gave a cash prize instead.

Priscum Update

Change to Financial Ombudsman Service binding award limit – check your PII policy

On 1 April 2019, the binding award limit for the Financial Ombudsman Service (FOS) will change to:

- £350,000 for complaints about acts or omissions on or after 1 April
- £160,000 for complaints about acts or omissions before 1 April

The Interim Prudential sourcebook for Investment Businesses (IPRU-INV), requires that personal investment firms (PIFs) take out and maintain at all times professional indemnity insurance (PII) that is at least equal to the requirements in IPRU-INV chapter 13. This includes ensuring the policy provides cover for ombudsman service awards made against the firm.

If you are subject to this requirement and are concerned that your PII policy might not be compliant with our rules following this change, you should take the following steps:

Next steps

1. Check your PII policy and ensure that it provides cover for the new FOS award limits. If it does, there are no further steps you need to take.
2. If you are not sure, speak to your insurer or broker (as appropriate) in the first instance.
3. If your PII policy does not provide compliant cover, please **complete this online survey** within 5 working days to notify us and let us know how you intend to obtain this cover. Alternatively, you can tell us via the **FCA firm contact centre**.
4. If you have further questions about changes to the FOS award limit or PII policies, please email **cp18-31@fca.org.uk**.

We will review your plan alongside other information we hold on you and contact you if we have any concerns or further questions. In the meantime, you should urgently progress your plans to obtain compliant cover and let us know when you have done this via your dedicated supervisor. If you do not have a dedicated supervisor, you should let the **FCA firm contact centre** know.

What will the FCA do?

- We recognise that some firms may be in a position where they need to obtain different PII following the increase. We may be prepared to allow firms who follow the steps set out above time to make these arrangements. We would expect insurers to deal fairly with firms in this position.

We will respond to enquiries regarding changes to the FOS award limit and PII policies via **cp18-31@fca.org.uk**.

Advisers are being forced to stop offering DB transfer advice, as insurers are unwilling to take on the risk of what they perceive to be a high-risk market. The source of insurers' concern is obvious, now FOS claims will not be limited at £150,000, PI insurers have to reconsider whether it is worth offering insurance to cover potentially very high value claims. The average transfer size is £400,000, according to the FCA, so it may no longer be worth insurers' while to offer advisers protection against claims.

Regulatory Changes. From 1 April 2019 there is an increase in FSCS investment protection from £50,000 to £85,000. Because of this change Priscum and its ARs need to make this amendment in their client agreement **and** any other documents where the previous figure of £50,000 was shown. Additionally - It isn't necessary to immediately advise existing clients, although it is advisable to make clients aware of the change on the next occasion they are written to.

2nd Largest Money laundering Fine from the FCA

Two areas of the Standard Chartered Bank, the UK Wholesale Bank Correspondent Banking and its branches in the United Arab Emirates (UAE), have been fined by the FCA for serious and sustained Anti-Money laundering [AML] failures, namely no initial verification or ongoing monitoring. Banks with branches outside the EU must apply UK equivalent policies and procedures for account opening and ongoing due diligence monitoring. However internal AML controls were ignored and monies routinely transferred to high risk jurisdictions that exposed the bank to the risk of breaching sanctions and receiving and/or laundering the proceeds of crime. Failures include:

- A bank account opened with £500 k in cash in a suitcase with little evidence that the origin of the funds had been investigated
- failing to collect sufficient information on a customer exporting a commercial product which could, potentially, have a military application. This product was exported to over 75 countries, including 2 jurisdictions where armed conflict was taking place or was likely to be taking place
- not reviewing due diligence on a customer despite repeated red flags such as a blocked transaction from another bank indicating a link to a sanctioned entity
- Between 2009 &2014 the bank processed transactions worth $438 m which involved Iran-linked accounts from its Dubai branch routing payments through, or to, its New York office or other US-based banks.

The failings occurred between 2009 and 2014 and UK and US regulators have fined the bank for significant violations of sanctions laws and regulations. Standard Chartered has not disputed any findings which meant it qualified for a 30% discount, otherwise, the FCA fine would have been £145,947,500. Fines in the UK and US amount to £842 m. The bank accepts full responsibility for the violations and control deficiencies, adding that the vast majority of the alleged incidents took place before 2012, adding that no breaches occurred after 2014.

Priscum Priscum has internal AML controls [client verification checks] to prevent it being used for money laundering. The internal controls enable Priscum to comply with AML requirements.
As you can see AML failures can have significant repercussions, so in recognizing the failures of the bank you must verify clients as well as their source of wealth and the funds they invest through you. Additionally, you must be vigilant and look out for any transactions that appear to be suspicious and report those to Keith Wrightson as your Money Laundering Reporting Officer.

- Advisers warned they could be breaking DB transfer rule
- PI insurer to meet with regulator over Fos award
- FCA warns advisers about PI cover
- Advisers need full PI cover to get quality badge
- Advisers face headache over cost disclosure
- Advisers warned to steer clear of insistent clients
- Senior Managers and Certification Regime: are you resilient
- FCA warns providers to check DB transfer advice
  The FCA has issued a Dear CEO letter setting out its expectations for pension providers in receipt of funds transferred from DB to DC pensions

Pensions Update

- British Airways agrees settlement with APS trustees in long-running dispute over increases
  Majority of pension contributions made by Gen X
- Regulator should show understanding on PI problem
- Advisers to benefit from pension changes
- Govt sets rules for pension dashboard

- Pension schemes switch investment strategies
- Pensions industry branded a 'cowboy area' by MPs
- Advisers may dodge picking up cost of Sipp collapse
- Debenhams pensions unaffected by administration
- Govt refuses to fund pension increases at universities
- EU member states urged to protect social security rights
- Small employers catching up on auto-enrolment
- FCA to crack down on most active DB advisers
- DWP spends £800,000 on Gogglebox adverts
  The DWP spent nearly £800,000 on partnering with Gogglebox to produce a series of adverts to promote the benefits of saving for retirement.

The Money and Pensions Service expects to spend £36.9m on pension guidance this financial year, as part of its vision to achieve a society "where everyone makes the most of their money and pensions". Formerly the Single Financial Guidance Body, the service was formally launched on April 6 after it merged Pension Wise, the Money Advice Service and the Pensions Advisory Service into a single entity. In its business plan for 2019/20 published this week, the Money and Pensions Service set out a budget of £36.9m for pensions guidance - with £31.2m sourced from the levy collected by the FCA and £5.7m sourced from the levy collected by The Pensions Regulator. Overall the body has set a budget of £118.6m, excluding the pensions dashboard, which will cost an additional £8.2m for the set up process. There are two levies funding the guidance body: the pensions general levy on pension schemes collected by TPR and the financial services levy collected by the FCA from firms including advisers.

RP Case Study: Maximising the funding of property purchase through a pension

The purchase was structured as follows –		Funded by –	
Property purchase price	**£450,000**	60/40 ownership split:	
Purchase expenses (SDLT, fees, etc.)	**£ 16,500**	£279,900 Ralph's SIPP	
Total cost of acquisition	**£466,500**	£186,600 Jessica's SIPP	
		Total	**£466,500**

Member	Pension transfer	Company contribution using carry forward	SIPP borrowing	Total
Ralph	£51,000	£160,000	£68,900 (32.6% of SIPP value)	£279,900
Jessica	£56,000	£84,666	£45,934 (32.6% of SIPP value)	£186,600
	(£107,000)	(£244,666)	(£114,834)	**£466,500**

Pension Regulators Update

- TPR is clear about its expectations for DB schemes planning their long term strategy
- Monthly declaration of compliance report – this report is based on information provided to us by employers when they complete their declaration.
- Why granting master trusts authorisation extensions makes good sense – this blog from Kim Brown, Head of Master Trusts, outlines the reasons for master trust application extensions and in what scenarios they might be granted.
- Have you broken the law on scheme investments? - this blog from Simon Broadhurst, Litigation Lawyer, highlights the regulations around when a pension scheme can invest in its sponsoring employer or a linked business.

- **Pension Scams** We are currently planning the next phase of our joint campaign with the FCA on scams awareness. In the meantime we continue to promote our messages about how to spot the warning signs of a scam, and you can help us to spread the word by downloading the campaign materials to use in your own communications.
- To view all our publications, please visit our document library.
- To view all our blogs, please visit our media hub.

Mortgage Update

Why Beyoncé and other HNWs put a mortgage on it

Beyoncé advised us to "put a ring on it" but, when it comes to buying property, the American pop star and many other high-profile figures are choosing to put a mortgage on it - despite their vast wealth. In 2017, it was reported that Beyoncé and her rapper husband Jay-Z had taken out a $53m mortgage on their $88m mansion in California. The couple, who have an estimated combined net wealth of around $1.25bn, reportedly secured a rate of 3.4 per cent until 2022, with monthly mortgage payments of around $200,000.

Other billionaires have also borrowed to buy, such as Facebook founder Mark Zuckerberg, who secured a $5.95m mortgage in 2012. Technology billionaire Elon Musk, who has an estimated net worth of $23.4bn, has also reportedly taken out five 'monster mortgages' on his properties in California.

Musk's $61m of mortgages reportedly equate to monthly mortgage payments of around $180,000, with an initial fixed rate of 3.5 per cent.

The need for a mortgage

High net worth individuals are often asset rich but cash poor. On paper they might be worth vast sums but their wealth can be tied up in business ventures, deferred bonuses or long-term incentive plans. Accessing such funds might mean sacrificing a stake in their business or surrendering some influence over its future – neither of which may be appealing. It is not always the case that HNWIs have a couple of extra million pounds just sitting in the bank readily available to fund a property. Even if they do, they may not wish to tie their cash up in this way. Many of these individuals are entrepreneurs and as such they may want to keep some of their wealth at their disposal, ready to invest in a new business venture as and when it presents itself. A mortgage allows them to obtain property without limiting their ability to invest elsewhere, or surrendering any of their current portfolio.

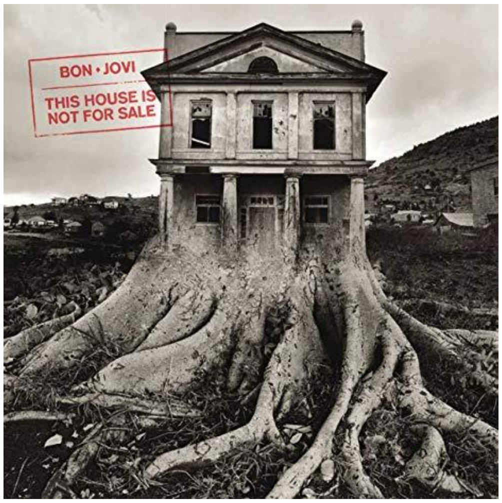
- FCA's market study is 'bizarre, confusing and worrying' – Wilson
- Mortgage product changes slow as swap rates fall – Moneyfacts
- Affordability improves but first-time buyers still need decade to save deposit – research
- Incorporating landlords drive fall in enveloped dwellings tax revenue
- Five-day refurb bridge helps borrower avoid receivership – Aspen
- Treasury sells 66,000 UKAR mortgages to inactive lender Citi
- Sharp jump in equity release plan numbers; Aviva sharpens product range
- Repossessed property sales prices pick up above market value
- Brokers bemoan 'regular' down valuations
- Using price alone, the FCA appears to have confused cheapness with value for money – Marketwatch
- 'Mortgages and insurance go hand-in-hand, one should not exist without the other' – Marketwatch
- Landlords warn of dangers in housing reform

Firms challenged over 'distressing' repossession ad and incorrectly listing home for sale

The Advertising Standards Authority (ASA) has resolved a host of complaints made against property firms who were accused of indulging in misleading marketing.

House Not for Sale

Move Inn Estates was the subject of a complaint over an advert on Zoopla, which included information about a house for sale. The owner of the property in question complained, arguing that the property was not actually for sale, prompting the ASA to get involved. The agent has now removed the ad.



Repossession claims

AX 365 Property Services, a mortgage servicing firm, was subject of a complaint over a direct mailing campaign which implied that the recipient's home could be repossessed.
The complainant argued the ad could cause distress and was not clearly labelled as marketing material.
The firm agreed to amend the mailing to make it clear that it was an advert.

False claims

A third complaint centred on a door drop leaflet from Rain Properties, which trades as Property Purchased Fast.
The leaflet included claims that the firm had been featured on publications like The Sunday Times, the Evening Standard, CNN and the FT, as well as that the firm was registered with the Information Commissioner's Office.
A complainant challenged whether these claims could be substantiated. While the firm provided evidence to show that it was registered with the ICO, the ASA instructed it to not use logos of the other publications as it was misleading.

FCA Regulation Roundup

- Hundreds of CMCs register for FCA authorisation
- FCA backs adviser's pension transfer intervention

The FCA has warned about high-risk innovative finance Isas (Ifisas) being advertised alongside cash Isas.

The regulator has seen evidence the two products were being promoted together, and it warned investments held in Ifisas were "high-risk", with the money ultimately being invested in products such as mini-bonds or peer-to-peer investments. "Anyone considering investing in an Ifisa should carefully consider where their money is being invested before purchasing an Ifisa." Innovative finance Isas were introduced in the 2015 Summer Budget to help investment in small businesses and to allow investors to hold P2P assets in a tax-free wrapper. But they have not taken off in the same way as the lifetime Isa, to help younger savers put money aside for a house deposit and retirement. During 2017/18 only 31,000 Ifisas were subscribed to, compared to 166,000 Lisas, 2.8m stocks and shares Isas and 7.8m cash Isas. Because mini-bonds are unregulated investments the FSCS confirmed it would not accept any claims from LCF investors, with the company's administrators instead hoping to recover funds on behalf of those affected.
In the most recent update from administrators Smith & Williamson, they estimated bondholders would see as little as 20 per cent of their investments returned to them.

Financial Conduct Authority sets out its priorities for 2019/20

We have published our **Business Plan for 2019/20**, which outlines our key priorities for the coming year.
As the UK finalises preparations to leave the European Union (EU), our immediate priority will remain supporting an orderly transition post-exit. We will also continue to play a leading role in shaping the global regulatory framework, working with other national regulators and international bodies.
The Business Plan outlines four ongoing cross-sector priorities:

- work on firms' culture and governance, including extending the Senior Managers and Certification Regime to all firms
- ensuring the fair treatment of firms' existing customers by monitoring firms' practices, including the information they give prospective and current customers
- developing the work being done on operational resilience, which will play a vital role in protecting the UK's financial system and
- combating financial crime and improving anti-money laundering practices, by enhancing the use of technology and data, as well as engaging with multiple agencies and government bodies

The plan also sets out 3 additional cross-sector priorities, which have longer time horizons:

- the future of regulation
- ensuring innovation and the use of data work in consumers' interests
- examining the intergenerational challenge in financial services

Alongside the Business Plan, we have published our annual **Fees Consultation Paper and our Research Agenda for the year.**

The FCA has published their Mortgages Market Study final report setting out if the competition in the mortgage market works for the benefit of consumers. It also includes an update on FCA remedies. It's important you are aware of the report and understands that the FCA will in the next few weeks will publish proposals to change mortgage advice rules. Please will you read the report and add details to your CPD.
https://www.fca.org.uk/publications/market-studies/mortgages-market-study

Financial Advisers
Mortgage Lenders
Live & Local 2018/19 events for regulated firms We are continuing our series of monthly 'Ask the regulator' Q&A roundtable discussions for mortgage advisers and lenders across the UK to pose questions and provide feedback directly to a panel of senior FCA representatives and industry experts. The agenda for each event is determined by attendee questions and comments. Registration details for remaining events in April, May and June are on our Live & Local webpage. You can also sign up to our Live & Local email updates to get alerts for upcoming events.
General Insurance
Update on Access to Insurance You can read an update and details of next steps on Access to Insurance on our website. We've met with the industry, trade bodies and others to discuss options to support people with pre-existing medical conditions who are looking for travel insurance. We will be developing our proposals and plan to consult before this summer. **General Insurance Distribution Chain**

The General Insurance Distribution Chain report identified significant potential for harm to consumers arising from the product development and distribution approaches currently employed in some sectors of the GI market and by some GI firms.
Some firms need to significantly improve to meet IDD and SM&CR requirements.
Our non-Handbook guidance consultation details how we expect firms to interpret the rules in relation to the manufacture and distribution of GI products. Submit feedback by 9 July 2019.
We are willing to use the full range of our regulatory tools wherever we encounter issues because firms are failing to meet requirements.

Banks & Building Societies

Global AML & Financial Crime TechSprint
From 29 July to 2 August 2019 we will be holding a Global AML & Financial Crime TechSprint to explore the potential for new technologies to enhance information sharing between financial institutions, regulators and law enforcement across jurisdictions to detect and prevent financial crime. The TechSprint will be held in conjunction with fellow regulators Abu Dhabi Global Markets (ADGM), Australian Transaction Reports & Analytics Centre (AUSTRAC) and Monetary Authority Singapore (MAS), and in consultation with Europol.
Please contact techsprints@fca.org.uk if you would like more information on how your firm can participate.

Life insurance & Pension Providers

New consultation on extending the remit of Independent Governance Committees
We have published a new consultation on extending the remit of Independent Governance Committees (IGCs), with two key proposals:

- To extend the remit of IGCs to report on pension provider firms' policies on environmental, social and governance (ESG) considerations including climate change, member concerns, and stewardship, and clarifying for firms how they should take account of long-term risks and member concerns in investment decision-making.
- To extend the remit of IGCs to provide independent oversight of the value for money of investment pathways (following on from our work on the Retirement Outcomes Review).

Fintech & Innovative Businesses

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News and Publications

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Naughty Advisors

- FSCS receives 450 claims as Sipp firm enters liquidation
- Investment firm shut down by courts
- Estimated 1.75 million workers missing out on £60m in tax relief amid net pay 'scandal'
  An estimated 1.75 million people are missing out on £60m in tax relief on their pension contributions in 2019/20, as the net-pay anomaly continues, Royal London estimates.
- Platform complaints reach ombudsman
- Action on ambulance chasers is welcome
- Accountant trustee jailed for plundering company pension scheme
- FCA has 'large number' of investigations in pipeline
- Concerns raised about FCA complaints handling
- FCA handling of failed bond firm to be reviewed
- FCA slams insurers for selling unsuitable products at 'significantly higher prices'
- The FSCS has received at least 625 claims from a collapsed firm who gave DB advice recommending high-risk Sipp investments.
- So far 530 decisions 446 have been upheld!o
- Another 95 claims are currently being processed, and 84 applications are in the process of being submitted, giving a total of 778 claims that the FSCS is aware of.
- FSCS raises compensation paid to steel workers
- SJP referred to regulator over pension failing
- LCF scandal highlights mini-bonds' failings
- Tribunal upholds FCA fine for DFM

End of the Tax year and Other HMRC storys

- HMRC issues last minute warning over tax avoidance
- Govt rules out tax allowance exemption for doctors
- Jessica List: When is a mistake an error?
- Challenges of making Britain's tax digital
- Regrets, refunds and the relevance of contribution paid dates
- Thousands of savers breach tax allowance protection

The taxman has reported itself to the police over the death of an individual who had been notified of a loan charge bill.

HMRC's activities are regulated by the Office for Police Conduct, which regulates the activities of both the police and the taxman. This was the first time HMRC felt it had been given sufficient evidence to link the death to the loan charge. The IOPC will assess the case "to determine whether an investigation by the IOPC [into HMRC's conduct] is required". The loan charge relates to disguised remuneration schemes whereby workers were paid via loans rather than salary, and as a result were not paying income tax on their earnings. Recent government legislation means that those who were paid in this way are being asked to either repay the loans or pay tax on it. Many MPs and members of the House of Lords have expressed concern that the charge is being applied retrospectively, as taxpayers can face a bill going back to 1999. But HMRC believes that because the loans remain unpaid in this tax year, the law is not being applied retrospectively. The tax liabilities fall due on April 5. HMRC said it expects to raise about £3.2bn from the charge, with two thirds of that coming from the employers. Those with earnings below £30,000 have seven years in which to pay the tax owed.

Latest News

- Employers struggle to address wellbeing concerns
- Sustainable investment house posts 15% AUM rise
- Government slow on care reforms
- Steep rise in older people living solo
- Government pledges divorce law overhaul
- UK economy grows faster than expected

Lloyd's of London calls time on drink and drugs

For most workers, telling them they can't roll into the office stinking of alcohol or high on drugs is unnecessary. This week, though, the giant Lloyd's of London insurance market, in the City of London, is setting out a new code of conduct: it felt it needed to remind people. The 331-year-old institution, where brokers and insurers meet to do business, is regarded as the last bastion of the financial district's boozy culture. But after recent revelations of sexual harassment and general boorish behaviour, Lloyd's has decided to act. Two years ago the institution banned its staff from drinking between 9am and 5pm. But this only covered about 800 direct employees. Lloyd's is made up of thousands more people and independent operators. The organisation says there are about 40,000 pass holders who have access to the building. Now, anyone deemed under the influence of alcohol or drugs will be barred from the building. Security guards will have the right to confiscate passes of anyone breaching the new rule. The on-site bar will become a coffee shop. A hotline is being set up to expose bad behaviour. Anyone found responsible for sexual harassment risks being banned for life. That there was something rotten going on inside Lloyd's isn't in doubt. Last month, the Bloomberg news agency revealed a catalogue of sexual and verbal misconduct claims, with many fuelled by alcohol abuse.

- Lloyd's vows action over sexual harassment
- Hurricanes behind insurer Lloyd's £1bn loss
- Lloyd's of London chief to step down

Orchardton Castle owner's £5 raffle branded 'unfair'

'Win a castle' organiser says she 'will not be bullied' after regulator bans promotion

A ruling by the Advertising Standards Authority against a property lottery offering winners the chance to own a castle has drawn a furious response from the woman behind the scheme. The ASA said it had received a complaint over the Orchardton Castle Facebook page, promoting a 'Win A Castle' competition. Text on the page stated: "Win a castle competition. For less than the price of a pizza. £5 per entry. Win the whole building freehold". The complainant said the ad was misleading as they understood the prize had been changed to a cash amount. According to the ASA, Susan DeVere – who ran the competition – denied the accusation, arguing that it was made clear from the beginning that if not enough entries were received, a cash prize would be offered instead of the property. She noted that this was not only mentioned on the main web page, but also in all media interviews promoting the competition. However, the ASA said this was not made sufficiently clear, and would have failed to meet the advertising code's requirement for a "reasonable equivalent" to the advertised prize, given the three cash prizes – worth £65,000, £7,000 and £5,000 – were significantly less than the value of the property (suggested to be as much as £2.7m). The ASA has ordered that the promotion must not appear again in its current form, and that any future prizes must be as described, or reasonable equivalents. In response she slammed the "ineffectual" ASA. She argued there were numerous "inconsistencies" in the ASA's investigation, and accused the body of a "slur against her reputation". DeVere also said in a statement that she was refusing to sign a document stating that she will not run the promotion in its original form again, even though she said she had already been clear that future competitions would not be run in the same way.