NEWSLETTER

Cyber Insecurity

A recent report by the UK's National Cyber Security Centre (NSCS) shows that millions of us are using passwords, on sensitive accounts, that are almost laughably easy to crack. The NSCS conducted an analysis of passwords found in public databases of previously breached accounts to see what the most frequently occurring passwords were. In 2018, when the last review was reported on, the most popular password on breached accounts was '123456' and the same password topped the league of cracked passwords again this year, it appeared in more than 23 million breached passwords!

Other passwords, not quite as popular but included in the top 5, were '123456789' (slightly harder to crack because of its greater length but still not much of a challenge), 'password', 'qwerty' and '1111111'.

Some people with breached accounts used names, including 'Ashley' (the most frequent) 'Michael' and 'Daniel'. Names are easy to guess, particularly if they are family names. Other categories of breached password which were identified in the report include Premier League football teams (Liverpool top this one), Musicians (blink182 being the most popular) and Fictional characters (Superman being far and away the most popular).

Co-author of the NSCS report, Troy Hunt said "Recognising the passwords that are most likely to result in a successful account takeover is an important first step in helping people to create a more secure online presence'.

A 2015 report 'Password Guidance' published by the information security arm of GCHQ (CESG) and the Centre for the Protection of National Infrastructure, provided a number of hints for businesses on how to create secure passwords. The key hint, and the one most relevant to individuals was to 'Change all default passwords'.

Taxing Times on Inheritance

HM Revenue & Customs (HMRC) has reported a new record high for Inheritance tax (IHT) receipts in 2017/18 with around £5.2 billion being received, a £400 million year on year increase in the amount received in 2016/17 last tax year, around an 8% increase. And this despite the introduction last April of the main residence nil rate band which, in certain circumstances allows couples to pass on a family home worth up to £1,000,000 tax-free.

The last 8 years have seen steady increases in IHT receipts, mainly as a result of rapid rising property prices, especially in London and the South East – which led to the introduction of the residence nil-rate band referred to above. This "residence nil-rate band" will increase each year until 2020, when a couple will be able to bequest a home worth £1m without incurring tax.

But this exemption is restrictive and very complicated, a Freedom of Information request from financial advice firm NFU Mutual showed that as few as one in six estates have used the new exemption. HMRC data obtained via the FOI request show that just over 3,000 taxpaying estates claimed the new residence nil-rate band between April and December 2017. By any standards, this is a very low take up of a theoretically valuable 'exemption'. It may be that those estates where the exemption was not claimed were not eligible for the residence nil rate band or it might be that the personal representatives just did not know about it. This nil rate band does not need to be claimed, it is included automatically, according to HMRC, for all qualifying estates but that only works if HMRC has enough detail through probate to know that it applies.

If you have not had a professional assessment of the potential IHT liability arising on your death and considered methods of mitigation since April 2017, when the residence nil rate band came into force, then we would strongly recommend that you seek advice on this area.

The main nil rate band of £325,000 per person has been frozen since 2009 so even modest growth in property or investment values will serve to increase IHT liabilities.

Are Innovative Finance ISAs as bad as they are painted?

When George Osborn, then Chancellor of the Exchequer, announced the launch of Innovative Finance ISAs (IFISAs) back in 2016 there was much hype about how they would be an exciting new way to invest, bringing investments previously only open to the ultra high net-worth investor to the ordinary investor. Invested money is used by the fund managers to invest in highly fashionable areas such as mini-bonds (loans to companies that pay high interest rates as they can't easily access the funding required through more mainstream suppliers) or peer-to-peer investments.

However, the recent collapse of London Capital& Finance has resulted in the financial watchdog – The Financial Conduct Authority (FCA) – issuing a warning about these products. In fact, the warning is more around taking careful note over how the IFISA is marketed rather than the IFISA itself, which is no more (or less) risky than it was when it was first launched.

Key points from the FCA's warning include:

- Although IFISAs are generally high-risk, some firms are marketing them alongside cash ISAs.
- The investments may not be protected by the Financial Service Compensation Scheme (FSCS) so customers may lose the money invested if their provider fails

This is not the first time that the FCA has shown its concerns in this area, back In December 2018 the FCA instructed one provider to withdraw all of its marketing literature because it appeared to suggest that IFISAs were somehow similar to cash ISAs. The FCA's concerns then centred on the marketing material ('promotions') used by the provider and included:

Clairville York Limited, 22-34 High Street, Cheam SM3 8RL. Tel 020 8642 3899. Fax 020 8642 8348. Email cyfsl@cyfsl.co.uk. www.clairvilleyork.co.uk
Clairville york Limited is authorised and regulated by the Financial Conduct Authority

- Warnings within the promotions that the underlying investments were not covered by the FSCS and were not themselves regulated by the FCA were given much less prominence than the statement about the firm being authorised and regulated by the FCA
- The statement within the promotion "LOOKING FOR HIGHER RETURNS THAN THE HIGH STREET" was given higher prominence than the balancing statement, which was "Investing in bonds means your capital is at risk and payments are not guaranteed if borrowers default"

While the firm itself was authorised by the FCA, the specific activity of issuing mini-bonds is not a regulated activity. Mini-bonds, at first glance, may seem to be the same as corporate bonds which have a long track record within unit trusts and OEICs as lower risk investments. But unlike corporate bonds, mini-bonds are not traded on any exchange and must be held until maturity.

These types of investment cannot be considered to be risk free, or even low risk as the loans are typically unsecured and the FCA is concerned that consumers are not fully aware of the underlying investment risks due to the way some IFISAs are being marketed.

In a note on its website, the regulator states that it has 'seen evidence that IFISAs are being promoted alongside cash ISAs' which could be seen as implying that they share the risk profile of cash.

The note goes on to say 'Investments held in IFISAs are high-risk with the money ultimately being invested in products like mini bonds or peer to peer investments,'

'These types of investments may not be protected by the Financial Services Compensation Scheme so customers may lose the money invested or find it hard to get back.'

In a time of low returns from more conventional investments, it is natural for investors to be attracted by investments offering potentially higher returns but it is essential that they recognise that higher potential returns invariably come at the cost of higher risks and that they are comfortable with this. In the case of IFISAs, this higher risk comes from the facts that:

- There is generally no FSCS protection and,
- There is no guarantee the individual and business borrowers will be able to service the interest or, ultimately, repay the capital

The FCA's warning about IFISAs followed closely upon the heels of its announcement that it intends to conduct an independent investigation into the collapse of London Capital & Finance.

High return investments are available even in the current market but investors should recognise that they expose them to more risk and that they should seek to mitigate those risks by careful consideration of the underlying investments themselves.

May 2019

Clairville York Limited, 22-34 High Street, Cheam SM3 8RL. Tel 020 8642 3899. Fax 020 8642 8348. Email cyfsl@cyfsl.co.uk. www.clairvilleyork.co.uk
Clairville york Limited is authorised and regulated by the Financial Conduct Authority