# NEWSLETTER

CLAIRVILLE YORK FINANCIAL ADVISERS

## Pension (and other) Scams

The City of London Police Economic Crime Directorate is recognised as the national policing lead for fraud and is dedicated to preventing and investigating fraud at all levels.

According to their figures, some £51 million worth of investments was lost to fraudsters in the second quarter (April to June) of 2018. A large proportion (but by no means all) of this was linked to pension 'scams', mostly around the new 'pension freedoms'.

To put this figure into perspective, this represents a 70% increase compared with the amount lost in the same period of 2017 (£30 million), while the figure for 2016 was 'just' £24 million.

The majority of investment frauds appear to originate with 'cold calls' and for this reason there has been a long-standing campaign for a ban on cold calling – specifically around pension freedoms.

This ban was due to be introduced in June but has been held over until the Autumn, to the dismay of many who view this type of activity as having fuelled the British Steel pension mis-selling scandal.

These 'scams' are well structured and highly convincing, so it is important to be armed against them.

The Financial Conduct Authority, which regulates most retail investment in the UK, has a comprehensive system that identifies known investment scams as well as providing advice on how to avoid becoming a victim. This 'scamsmart' system can be found at: www.fca.org.uk/scamsmart

## National Savings Interest Rates

Today the Bank of England's Monetary Policy Committee have met and have unanimously voted to increase interest rates from 0.5% to 0.75%. The minutes of their meeting also show that, "all members agreed that any future increases in [the] bank rate were likely to be at a gradual pace and to a limited extent."

Obviously, Brexit uncertainty has been one of the reasons for previous reticence to raise rates, while interest rate rises in other areas have been a key driver for the increase – a balancing act that the MPC must perform on an ongoing basis.

As result of today's increase and those to come, we can expect to see increases in the rates paid on savings accounts. However, products offered by National Savings & Investment (NS&I) do not act like normal retail savings accounts.

Back in March the returns on NS&I's Guaranteed Income and Guaranteed Growth Bonds were cut and it has now been announced that the return on the Direct ISA will reduce from 1.00% to 0.75% from 24th September.

These apparently anomalous changes are products of NS&I's operating framework.

NS&I investments are backed by the UK Treasury, so they must therefore adhere to limits set by the Government. being backed by the Government they are, arguably, more secure than most other deposit accounts, although the availability of up to £85,000 in compensation through the Financial Services Compensation Scheme for savings accounts does limit this advantage.

As stated by Jill Walters, NS&I Retail Director, they have to 'strike a balance between the needs of our savers, taxpayers and the stability of the broader financial services sector'. All of which means that NS&I cannot attract too much investment in fairness to the taxpayer (who funds the return) and the savings market (which could otherwise face 'unfair' competition).

NS&I savings products are generally high quality and 'super' secure – just don't expect them to behave like the rest of the market when interest rates rise.

## Investing for Good

In recent years, there has been significant growth in investors seeking more than just a financial return from their investment; many also want to see a positive social impact arising from it. This goes beyond 'green', 'ethical' or 'socially responsible' investments. It involves a deeper connection with the uses to which money is being put.

Typically, this involves investors lending money to charities and social enterprises or investing in businesses working to create a positive social outcome, for example reducing ex-prisoner re-offending rates by providing accommodation, training and work experience or reducing homelessness by providing affordable rental housing, etc.

The classic 'loan'-based route is the **Charity Bond** (the first UK retail Charity Bond – they were launched in 2003 and so aren't that new), which is very similar in nature to a Corporate Bond but, as a sweeping generalisation, pays a lower rate of interest. This is due to the fact that part of the 'return' is the satisfaction of the investor's desire to support whatever social activity the bond is targeting.

These investments, from a financial perspective, stand outside the normal 'risk v return' equation. The bonds are for fixed terms, target to pay a fixed level of interest and are expected to return the investor's capital at the end of the term.

Recognising the contribution that such social investment can make the Government introduced in April 2014 a specific form of tax relief, **Social Investment Tax Relief** (SITR). SITR has been modelled on the better-known Enterprise Investment Scheme (EIS).

It is possible for investors to obtain as much as 30% tax relief on investments of up to £1 million when buying shares or shares and loan capital, in qualifying enterprises. As you would expect, given the valuable tax reliefs (including an Inheritance Tax exemption and Capital Gains Tax benefits), there are

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stringent rules to be followed and some opportunities can be extremely complex.

As with EIS, SITR schemes are likely to be fairly high risk, so it's reassuring to know that like EIS they can benefit from some downside protection through 'Loss Relief'!

A much longer established form of tax relief linked to this sector is '**Community Interest Tax Relief**' (CITR), which is aimed at investment in disadvantaged areas. It is somewhat more flexible than SITR but offers less relief: 25% spread over five years.

Alternatively there is a simpler way to use an investment in a way that generates positive social impacts, although without any form of tax benefits – **Credit Unions**.

We all know what Credit Unions are – they are simply savings and loans organisations designed for small savers and those needing to borrow small amounts who are not able to meet the qualification requirements of high street banks. But that's an old picture.

These organisations are centred around special interest groups linked by common professions or geography and exist to support those communities. Therefore, 'investing' through a Credit Union could be a low-cost, simple way of helping others while still obtaining an investment return. In fact, unlike the SITR opportunities described above, the returns available through a Credit Union could even beat more mainstream deposits, partly because there are no shareholders; these are 'not-for-profit' mutual organisations.

From the social impact perspective they offer tremendous assistance to less well-off members of the community without the problems caused by some payday loans, etc. Some Credit Unions offer current accounts, ISAs and even mortgages.

Of course, given their 'union' nature, not everyone can join one. It can take serious research to find one with which a potential investor has a 'common bond' (the Association of British Credit Unions has a website to help with this).

Generally, Credit Union accounts pay a dividend rather than interest, so returns are retrospective and not declared until the end of their financial year, although there are exceptions to this.

As smaller organisations, with close links to their borrowers, Credit Unions have quite stringent lending requirements and like mainstream deposit takers, depositors are protected by the Financial Services Compensation Scheme up to £85,000 per depositor. Given that few Credit Unions will accept deposits of more than £20,000, this limit is not a problem.

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