New Statesman

Investment

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Remaining calm amid stamp duty uncertainty

The cost of stamp duty is increasing for buy-to-let investors but **Sanjit Dhanjal**, managing director of Opulent, remains optimistic about the future of the UK property market

As of 1 April this year, anybody wanting to purchase a second home, either as an investment or to inhabit, will be hit with an additional 3 percentage point premium in stamp duty land tax. Thanks to the somewhat ambitious plans put forward by the Chancellor, George Osborne, in his Autumn Statement, buy-to-let investors are set to pay the price in order to increase the availability of property for first-time buyers. But is it all doom and gloom for buy-to-let investors? Or could the recent changes bring about opportunities for the more experienced investor?

There's no doubt that the changes with stamp duty will have a significant effect on the buy-to-let market, particularly at the amateur end. Anyone not seriously committed to, or experienced enough in buy-to-let investing will soon exit the market, if they haven't done so already. But to understand the real effect of the increase in stamp duty, we need to understand whether or not the UK is still fertile ground for property investment.

The UK economy is the strongest it has been for some time, having shown economic growth in each of the last quarters since 2013. In the context of a darkening global economic outlook, in recent months the UK has posted steady growth, with low unemployment and low inflation. So from an economic standpoint, all seems well.

Perhaps the most significant factor behind property price growth in the UK is the distinct undersupply of new homes coming on to the market.

As a nation we are living longer, and subsequently occupying our houses for greater periods of time. With the population of the UK expected to grow by ten million over the next 25 years, demand for property in the UK doesn't look like cooling off any time soon.

The National Housing Federation (NHF) has estimated that approximately 240,000 new homes need to be built each year to keep up with increasing demand. Currently, we are building approximately 130,000 homes each year – nowhere near the target number. The fact remains that we are simply not building enough houses, which is fuelling property price growth. This problem is unlikely to be rectified in the near future, meaning prices look set to continue to rise for the next seven to ten years. Mr Osborne can continue to penalise investors as much as he wants: the truth is, without rectifying the supply and demand problem, he is only likely to be skirting around the issue without actually resolving it.

As a result, rental yields will rise; and for the so called "Generation Rent", it means that in some parts of the UK they will be forced to rent for their whole lives. Demand for rental property will always exist and it will continue to gain momentum, thus creating good conditions for successful property investment.

So while a three percentage point rise in stamp duty is not ideal and could mean a greater initial outlay for investors, given the current state of the UK economy and the government's inability to build enough houses, we believe it won't take too long for investors to make 3 percentage points up through increased rental yields and greater capital appreciation. With an increasing amount of volatility currently surrounding the equities market, it's no wonder more and more people are using property as a way to secure their and their children's future.

Opulent works with investors from all over the world, helping them to navigate around the recent changes introduced by the Chancellor. Our fully qualified team of advisers can help investors build a future and create a high-yielding, high-growth property portfolio.

Opulent takes property investment seriously. For a consultation with one of our experts about your existing portfolio, or a portfolio you are thinking of creating from scratch, get in touch with us now at www.opulentinvest.com, call us on 020 7205 4345 or email us at info@opulentinvest.com

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On the money

You could be forgiven for despairing of the world of investments. People brought up in the 1970s and 1980s had the impression that they could build up a reservoir of value in their home and by accumulating interest from the building societies, and later banks. Then the building societies demutualised and started sending people hundreds of pounds.

This was never going to last. Recessions in the early 1990s and more recently at the end of the last decade disavailed people of the notion that you were never safer than when investing in "bricks and mortar". Not to put too fine a point on it, this turned out to be baloney. It was possible to become more than a little disillusioned with how money worked.

More positively, different investments became more popular and available to different sets of people. Share ownership took its first step towards becoming widespread in the 1980s and its offspring, crowdfunding, has started to grow up. The internet has facilitated this, just as it's allowed a broader range of other financial services to emerge and apply to more people.

As a result, investments of various sorts have become more widespread. Bullion, vintage wines and other physical items are all available to more than a narrow band of people, even if they remain a minority pursuit.

That's in principle. In practice there are gaps in the way people are investing; the freedoms on offer can lead to unwittingly poor use of funds. In this supplement we kick off with the different forms of savings available, which have changed since the Budget last month. We also look at the apparent clash between the risk profiles associated with different types of investment and how, in certain cases, they appear poorly matched. Given the number of people who appear not to have sufficient provision for a pension this might seem doubly unwise – and the tools to make those errors are in front of us all.

Any investment will be affected by external stimuli, so we also look at the possible impact that Brexit might have if it happens. Our contributor takes a view with which some readers will no doubt take issue.

The field of investment doesn't feel as fraught as it did when it first sank, in that property wasn't an automatic winner. More options are available, but a greater understanding is needed to get them to work properly. We hope this supplement helps make a start in that process. ●
Guy Clapperton

This supplement and other policy reports can be downloaded from the *NS* website at: newstatesman.com/page/supplements

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COVER: SHUTTERSTOCK/DESIGN BY LEON PARKS

Saving – what's the point?

Over the past few years, the savings landscape has changed so much that it is almost unrecognisable. **Anna Bowes** of savingschampion.co.uk explains

Saving is supposed to be simple, but following the devastation that occurred as a result of the introduction of the Funding for Lending Scheme in 2012, the government has been trying to appease savers by introducing a series of incentives to encourage more people to save.

To name just a few:

- Lifetime Isa due to be introduced in April 2017
- Reducing the 10 per cent starting of rate of tax for saving, to 0 per cent
- Allowing the full Isa allowance in cash
- Allowing the transfer of stocks and shares Isas into cash
- Inheritance of Isa allowance from spouse
- Help to Buy Isa
- Help to Save Scheme
- Flexible Isas
- Personal Savings Allowance
- Isa allowance to increase to £20,000 from April 2017.

But as interest rates on savings accounts continue to fall, many people are simply asking: "What is the point?"

Banking crisis

The first blow to savers came in 2008, when the full force of the financial crisis made the Bank of England base rate drop rapidly, until it hit its current level of 0.5 per cent in March 2009.

Few would have predicted that we would still be here, over seven years later, and worse still this wasn't the biggest issue for savers. Even after record falls in the base rate, savers could still achieve rates of about 3 per cent on easy access accounts in 2012, which in the current climate looks extremely competitive.

While industry commentators predicted that rates were at their lowest levels, the government pulled out all the stops to curb a potential lending crisis, and in turn boost the housing market, with the launch of the Funding for Lending Scheme (FLS) in August 2012. The knock-on effect was catastrophic to savers. Rates on best buy savings accounts dropped like a stone, shortly followed by a tidal wave of rate reductions for existing savers: a practice that was very rare outside of a change in the base rate. Now over 4,000 rate reductions have been made to existing savings accounts, even though the base rate is unchanged and the best easy access account available to new savers is paying 1.45 per cent gross/AER – less than half that of the rates available before the introduction of the FLS.

> Many savers leave their cash with their personal current account provider

Challenging times

The saving grace has come in the form of so-called challenger banks. Savings providers with unfamiliar names, taking advantage of this low-interest-rate environment, now dominate many of the best-buy tables – offering what little competition there has been over the past few years.

The good news is that these providers are becoming more prolific and are doing an excellent job of raising their profiles – which means that savers don't have to apply blindly. They can rest assured that the press and experts such as Savings Champion have done some due diligence and at the very least confirmed that they are part of the Financial Services Compensation Scheme, and therefore up to £75,000 per person is protected should the worst happen.

The market as it once was has gone. But many savers are yet to catch on.

Most savers are loyal to their bank. A study by the Financial Conduct Authority into the savings market confirmed that many savers leave their cash with their personal current account (PCA) provider, even though the savings rates on offer are normally appalling. The FCA's data showed that for the largest PCA providers, over 80 per cent of their total balances in easy access savings accounts is held by consumers who also hold a PCA with the same provider.

The same study identified that there is over £160bn in easy access accounts that pay 0.5 per cent or less. Indeed, shockingly, many accounts pay no more than 0.1 per cent and this can fall to as little as 0.01 per cent. Even in this historically low-interest-rate environment,

There have been lots of changes to cash Isas over the past couple of years to make them more appealing.

Back in July 2014, the government announced an increase to the overall Isa allowance to take it to £15,000 and, more importantly for savers, an overhaul of the Isa rules, which means that savers can now fully utilise their Isa allowance even if they do not want to invest into the stock market. The whole allowance can now be used to fund a cash Isa, as opposed to just half the allowance previously. Also, for the first time, under the rule change, savers could transfer their stocks and shares Isa into a cash Isa if they wanted to reduce the risk of their investment portfolio and still retain its tax-efficient status. Next came the ability for a spouse to inherit his or her deceased partner's Isa allowance and the introduction of the Help to Buy Isa in December 2015.

The recent spring Budget has seen brought another savings incentive in the form of the Lifetime Isa, due to be made available by April 2017. This will be very attractive to many, regardless of the interest rates on offer, as a generous 25 per cent bonus applied annually on savings up to £4,000 per year will dwarf the interest earned.

Ironically, after all of these improvements to the Isa, the introduction of the Personal Savings Allowance looks certain to sound the death knell for this once popular savings vehicle, as many will fail to see the point in putting money into an account which is now paying a lower rate of interest than its non-Isa equivalent.

It's fair to say that the take-up of cash Isas in the past has not been as high as experts would have expected, one reason cited being that people found them complicated, which meant that many would simply stay put in a poor-paying account, paying tax they did not need to pay.

The concern is that although these new saving incentives should encourage more people to save, the complexity that comes with all the new rules may simply lead many to decide to do nothing at all, for fear of making the wrong choice. So once again is it our inertia – and therefore the big banks – that are the real winners? ●

by switching into the best-paying easy access savings account paying 1.45 per cent, on £75,000, that could attract an increase of over £1,000 gross per year. That's a rise from £7.50 to £1,087.50 per year, for doing virtually nothing but being aware of what is available.

It seems that convenience drives savers to use the same provider for their current account and savings, which makes some sense, but it plays into the hands of these providers.

And with the rise of the challenger banks and online savings accounts, transferring from a competitive savings account into your bank account has never been easier – so it's time for savers to become more modern! And the prize is a higher return.

Saving just became less taxing

Where once choosing a savings account was a fairly simple affair, recently it has become a lot more complicated. The biggest change in a generation came into force on 6 April this year, with the introduction of the new Personal Savings Allowance, giving all basic-rate taxpayers the first £1,000 of interest earned tax-free and higher-rate taxpayers the first £500 tax free. But while most savers won't need to do anything but choose the best-paying account, some savers may be caught out. Any tax that is due will come out of the PAYE system, but given that codes are being calculated now based on balances over the past year, many savers are already finding errors in their codes.

Or perhaps more taxing?

So, in theory, the Personal Savings Allowance is great news for savers – but it adds an extra layer of complication when it comes to choosing the best account. For many, cash Isas were always a go-to option every tax year, as any interest earned is tax-free, regardless of the amount and those who have saved the maximum over the past 17 years could now have kept over £100,000 out of the taxman's grasp.

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BULLION

Your weight in gold

Historically the UK has not invested in bullion. **Chris Howard** explores the challenge

There's an old expression that someone is "worth their weight in gold". Leaving aside that this would leave most people in the western world with more money than sense, it appears that there's a mismatch going on here: people like gold, they like silver as well – but it's not the first thing that springs to mind when people are considering an investment. Inhabitants in other countries such as the United States, Germany, India and parts of Asia have an appetite for bullion, but not so much in the United Kingdom. Why? And is this changing?

A historical factor affecting investment in precious metals here is the British preoccupation with property. We tend to invest in bricks and mortar in the UK, and despite the odd blip and property crash, people tend to do reasonably well out of it. Add the importance of our financial services sector and the predominance, even post-crash, of paper-based investments, and you can see why.

The Royal Mint has a wide bullion portfolio. Focusing on gold and silver, investors can choose the popular Sovereign or Britannia coins or gold and silver bars, from a SIM-card sized 1g gold bar to a 400 oz "Italian Job" gold brick, to a digital program called Signature Gold. This is particularly relevant in getting the wider UK population to invest in gold and view it as a viable investment option. With Signature Gold, for as little as £20, any investor can buy a fractional piece of physical gold at live-market rates, and add to their investment portfolio at any time. They can also sell at any time. Signature Gold bullion is stored at the Vault, The Royal Mint's on-site precious metal storage facility, which is protected by a specialist high security unit. It's not just the big investors who can buy into gold – Signature Gold opens up bullion to everyone.

Values vary: in March 2010 the Daily Telegraph published an article suggesting that gold was the best performing investment of the decade. During the years since then the price of precious metal rose 277 per cent, with silver and platinum increasing 242 per cent. This averages out at an annual return of 13.1 per cent, which is the sort of return many investors can only dream of. Offset against any economy this was good progress; set against the backdrop of the financial crash of 2008 it can be seen as quite remarkable. Obviously nobody can offer any guarantee that this will be repeated, but it happened. Metals certainly outperformed property as an investment in that decade.

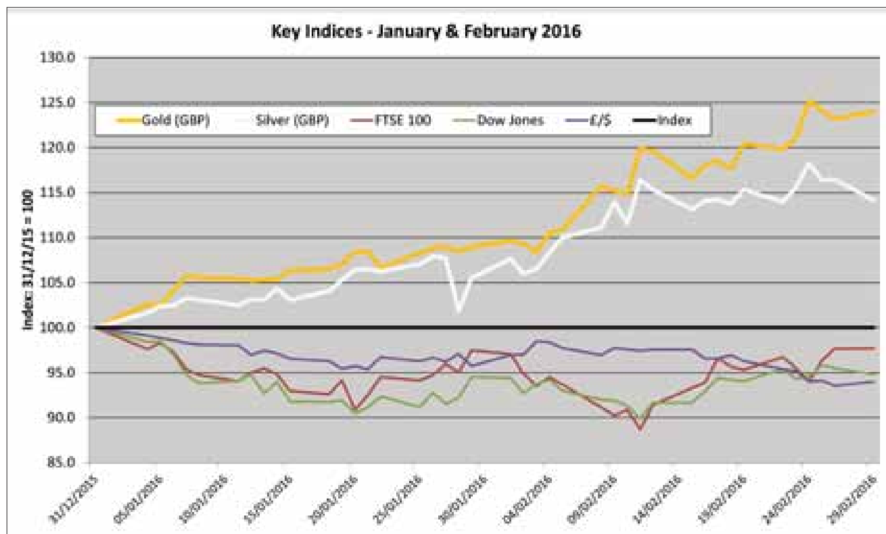
Earlier this year the World Gold Council issued a report painting a slightly different picture; in 2015, gold fell 11 per cent in dollar terms, although it held up in most other currencies and moved up a little in some territories. The council pointed to high valuations of stock market flotations worldwide and high global market risks, from which the precious metals market is insulated, as well as the importance of emerging economies and their interest in gold investments.

Gold is seen as a safe haven in times of turbulence in the world – a solid rock. So when times get difficult, interest in gold rises. As Lehmann Brothers collapsed and the world fell apart, gold forged ahead. By 2015 the world was pulling out of recession and all seemed buoyant in the stock markets. Subsequently gold prices fell. This abruptly ended in January 2016 when global stock markets were panicked about China's economic performance. In the first quarter of 2016, gold was one of the strongest investments around.

This was because, between the start of 2015 and the end of February 2016, the gold price rose by more than 24 per cent in sterling terms, prompted by falls in oil prices and safe haven trading. The price of silver, which is often forgotten when talking about precious metal investments, also rose by more than 14 per cent in sterling terms when measured over the same

period. Meanwhile, equity values fell by 2.3 per cent (FTSE 100) and 5.2 per cent (Dow Jones Industrial Average), whilst the pound lost 6 per cent of its value against the dollar. What this displays is that although gold is often seen as a long-term investment, gains can also be made over a relatively short period of time.

The tendency of bullion prices to move contrary to other asset classes, as evidenced by these recent movements, is why many market commentators, including the World Gold Council, recommend that holding up to 10 per cent of an investment portfolio in gold can protect and enhance overall portfolio performance.



This inverse relationship can be observed over an even longer time. If we look at historical performance, investing £1,000 in gold at the start of the year 2000 would mean that that investment now would be more than £5,000 in value, an increase of 400 per cent and an annual return of 10.6 per cent. If you had invested that same £1,000 in the FTSE 100, your capital investment would be less than £900 now.

The lack of interest or dividend payouts are commonly cited as reasons not to invest in gold, but even with dividends reinvested, the £1,000 invested in the FTSE 100 at the turn of the millennium would be worth less than £2,000 today. And with interest rates in the UK stuck at historically low levels, many commentators are identifying gold as an important asset class that should have a much higher profile in the UK.

*Chris Howard is director of bullion at the Royal Mint (***www.royalmintbullion.com***)*

How much do you need to save in a pension?

People could benefit from better guidance on the amounts they need to put away, says **Chris Curry**, director of the Pensions Policy Institute

In recent years the world of pensions has been characterised by change. A new state pension has replaced the old system for people reaching state pension age since 6 April 2016. Automatic enrolment into workplace pensions began to be introduced in October 2012, and will cover all employers at the new minimum contribution level by 2019. Since April 2015, people have had much great flexibility in how they use their pension saving to fund their retirement, with many more expected to keep the money as capital rather than convert it all into an income. Even more recently, in the last Budget, the Chancellor announced the creation of new tax-advantaged savings vehicle – the Lifetime Isa – designed to increase saving for retirement.

But despite – or maybe because of – all of these changes to the pensions system, it is still very difficult to answer one very obvious question: "How much should I be saving for my retirement?"

The answer to this seemingly easy question will depend on a wide range of different things – most obviously, how much money do you want in retirement? But how much to save in a pension will also depend on what other assets you might have, or expect to have in future, and what you plan to use them for. This will include things such as your house as well as other savings that you might have. And finally, when do you want to start relying on your pension saving? When are you going to stop work, and are you going to stop completely, or perhaps work part-time?

For many people, avoiding a drop in living standards when they stop work seems like a reasonable target when thinking about how much money they might need in retirement. This doesn't mean fully replacing your salary, as some things are likely to be different. The mortgage might be paid off; you may no longer have to get to work every day. And some of what you need will be provided through the state pension – although the new level of £155.65 is unlikely to go very far for most people. But saving enough so that you could, if you wanted, have a total income of somewhere between one half (for high earners) and three-quarters (for lower earners) of the amount that you earned in work could avoid a significant fall in the quality of life when you retire.

> Not everyone will work and save continuously for 46 years

Then, when thinking about how much to save in a pension, the amount that you save when you are automatically enrolled into your workplace pension scheme – increasing to 8 per cent of "band earnings" by 2019 – might also seem like a good starting point. But are these two things – saving at automatic enrolment levels and maintaining living standards in retirement – consistent?

The answer is, unfortunately, probably not. Someone starting working and saving now, aged 22, working and earning the median earnings for their age and saving at the automatic enrolment minimum for every year until they reach the current projected state pension age of 68, has roughly a 50/50 chance of reaching the target. For a higher earner, the chances are lower, at four in ten. In order to have a three-in-four chance of maintaining living standards in retirement – not guaranteed by any stretch of the imagination – a median earner would need to increase their contribution level to 13 per cent of band earnings, and a higher earner to 14 per cent.

There are some important considerations here. The first is that the minimum contribution level for automatic enrolment is not collected over all earnings – only on "band earnings". Band earnings are earnings between £5,824 and £42,385 (2015/16), so if you make contributions on all earnings the headline contribution rate is a little lower.

A second consideration is that the size of the contributions required is heavily

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dependent on what happens to the state pension. The figures cited assume that the new state pension is increased each year by the "triple lock" – that is, the highest out of three variables: growth in prices, earnings, or 2.5 per cent. Although this is the current policy of the government, some are concerned about the affordability of the triple lock. If instead the new state pension was increased each year in line with average earnings growth, both median and high earners would have less than a one in three chance of not suffering a fall in living standards in retirement, and would need to contribute 17 per cent of band earnings to have a three-in-four chance of achieving their target.

Not everyone will work and save continuously for 46 years. Contribution rates would need to be considerably higher for those who have breaks in either earning or saving, or start saving later. For example, someone not starting saving until they are 40 will need to contribute between 25 per cent and 30 per cent of band earnings to have a good chance of not seeing a fall in living standards in retirement if they have no other savings and still plan to stop work at state pension age.

In the real world, of course, 40-year-olds who don't have any prior pension saving are not going to be able to put one-quarter of what they earn into a pension. This is why automatic enrolment has become such an important savings policy. The earlier you start to save, the less you need to save each year to reach any given target. But, as these figures show, automatic enrolment by itself is not likely to be enough for many people. Either the minimum required contributions will need to be higher, or new ways must be found to persuade people that they ought to be saving more. That is easier said than done.

And any changes that help the younger generations are likely to be too late to help those already halfway through their career with few pension savings. Many will have to look at alternative options to complement the pension saving that they can do. This might be using other assets (downsizing the house, or using equity release), or accepting that retirement isn't going to be as comfortable as they'd hoped for. But for many, depending on their health, the option of not retiring at state pension age might be one to consider. Delaying retirement for three years can, through a combination of increased saving and less spending, increase income in retirement by 20 per cent each year.

So, as with so many questions, there is not a single, easy answer to how much money you should be putting into a pension. The amount you should save will vary depending on who you are, what you are saving for, and how long you have to save for. The amount is almost certainly higher than many people think. But there are other things that can be done alongside pension saving, such as using other assets or working longer, that can help people save enough for a comfortable income in retirement. ●

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Coining it

The oil price may be fluctuating and affecting fortunes in the Middle East and worldwide, but the market for rare coins – particularly rare Islamic coins – is stronger than ever.
By **Keith Heddle**, managing director of investments at Stanley Gibbons

Made from precious metals such as gold, silver or bronze, coins have been a store of wealth for thousands of years.

However, while the metals themselves have a certain value, the worth of rare, collectible coins extends far beyond weight or sheen and they are increasingly proving themselves as a potentially solid alternative investment and an option for portfolio diversification.

When divers saw gold coins glittering among the sand and rock off the Israeli coast last year, they initially thought they had found something from a child's game. The coins turned out to be one of Israel's biggest treasure finds. More than 2,000 coins had been hidden in the seabed, close to the ancient Mediterranean harbour of Caesarea for 1,000 years.

Marine experts believe the coins came from a wrecked ship – possibly a treasury boat taking taxes back to Egypt, or a merchant ship travelling between ports. Most of the coins are from the Fatimid caliphate, a Shia empire that ruled parts of the Middle East and North Africa in about 1000AD, however, the oldest coin is a quarter dinar minted in Palermo in the late 9th century.

While treasure hauls on this scale are rare, coins from this era and even earlier are available to collectors; increasingly, sophisticated investors are seeking diversification from uncorrelated asset classes, at auction or via specialist merchants.

One of the strongest markets for rare coins at the moment is the Middle East, and demand for Islamic coins in particular is growing, both from families across the Gulf kingdoms who are reclaiming their historic and cultural heritage, and global investors who can see the potential of these ancient treasures.

Stanley Gibbons recently offered two extremely rare Islamic coins. These included an Umayyad gold dinar, from the Ifriqiya region (which encompasses modern Tunisia and parts of Algeria and Libya) dating from 740AD. This is thought to have been struck in Damascus to support the first Muslim campaign against the Byzantines in Sicily and is currently worth £60,000.

The Abbasid al-Mu'tazz gold dinar is even rarer. Struck in Mecca in 866AD, the gold for the coin came from the covering of the Maqam Ibrahim, the stone behind which the Prophet Muhammad prayed while performing the circumambulation of the Kaaba.

The stone ended up being braced with gold around 777AD, to repair it after it got damaged. The governor of Mecca, Ja'far bin al-Fadl melted the gold from this and from the Maqam's roof to mint dinars, which he used to fund his campaign against the rebel Isma'il bin Yusuf bin Ibrahim (I suppose like a spot of personal quantitative easing). The historical significance of coins like this add significantly to their value, and today this dinar would be worth £150,000.

In such a transient, "virtual" age, many people are increasingly seeing the worth of real assets that are underpinned by supply-demand economics (rather than investor sentiment or market whimsy) and which are uncorrelated to mainstream financial markets. In an era of virtual "currency", many of our assets are only a click or a tap away, but their liquidity and the fact that they are all linked together can adversely affect portfolios in times of high volatility or a crash – as many investors experienced in 2008-2009.

According to the *World Wealth Report*, coins, which feature in the "other collectibles" category, make up 17.1 per cent of "Investments of Passion" by high-net-worth individuals (HNWI) from the Middle East, compared to a global average of 24.4 per cent. With the number of ultra-HNWI in the Middle East expected to rise 40 per cent in the next ten years, demand for stable, long-term investments such as rare coins can only be expected to grow. ●

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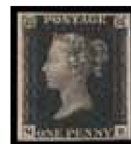

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The Brexit conundrum

Uncertainty around Brexit will damage overseas investment into the UK, says **Dr Maurizio Zanardi**, Lancaster University Management School

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The UK is currently the number-one receiver of foreign direct investment (FDI) in the European Union – it's a major asset to our economy. We are also the undisputed leader in Europe when it comes to the value of FDI projects (UKTI inward investment report, 2014/2015). Foreign investors are keen on the UK because it is a member of the EU.

Countries such as the United States, the number-one UK investor, see us as a platform from which to reach the rest of the EU, which is our largest trading partner. The rules of the single market allow them to operate from the UK without facing any sort of barrier.

While pundits of every hue are happy to chorus on the impact of Brexit or its avoidance, it is very difficult to forecast what the impact would be on overseas

investment into the UK. In this case, we don't know the terms of the potential departure because we don't know what agreement we'll have with the EU if we leave. And we don't know how long the UK and EU would take to finalise any deal. What we do know is that firms do not like uncertainty and that continuing investor uncertainty during the negotiations will drive investment away.

We don't yet have the FDI data for recent months, but some commentators are already claiming that the uncertainty of the Europe referendum will have a negative effect even until June 2016, as foreign investors postpone any new FDI until the outcome of the 23 June referendum is known.

Uncertainty over Brexit can have negative effects on FDI decisions on multiple grounds.

Being part of the single market means free movement not only of goods, but also of services, capital and labour.

To me, as a foreigner living in the UK, movement of labour appears to be one of the greatest issues over which British citizens wish to gain some sovereignty. If the UK regains this control through leaving the EU, it's true that it will succeed in removing itself from any decision-making in Brussels regarding migration issues.

However, the UK will most likely want to enjoy the benefits of the single market for goods and services. This will definitely require payments to the budget of the EU, as is the case for non-member countries such as Norway and Switzerland.

It is unlikely that the EU will agree on a deal for a single market that does not also allow for free movement of people, so it is not clear how the UK could gain sovereignty over this domain through a Brexit.

Staying outside the single market would create huge difficulties for international trade, especially where recent globalisation movements have led to segmenting of the production process across countries (and hence an increase in the extent of trade in parts for assembling). In the absence of a trade agreement, it would also mean that all products (cars, for instance) manufactured in the UK would have duties imposed when exported to France and Germany, for example. Some firms are likely to move their FDI from the UK to continental Europe in order to jump trade, and any other, barriers.

How a Brexit will affect the City of London is the million-euro question. It is likely that there are major cities in Europe that will want to capitalise on this, but again, that will depend on the deal that is made.

There is bound to be some movement away from London. Financial institutions have considered relocation. For example, HSBC has recently decided not to move its headquarters from the UK to Asia, but that doesn't mean that HSBC and others will decide to remain in the UK for ever.

Inward FDI brings employment opportunities, technological spillovers, higher productivity and therefore a big booster for GDP growth. Multinational firms are among the most productive and innovative, and that's why any country tries to encourage inward FDI. We know that when foreign firms come to any country they bring with them their managerial know-how and technical knowledge, which spills over to benefit domestic firms. Multinational firms also pay higher wages than domestic firms, and that is why this has an impact on workers in the UK. It's not only a financial transaction. Multinationals are also looking for the right skills from their workers.

> We've no idea about what's ahead of us if we vote to leave

Some politicians have stated that regaining sovereignty over movement could allow the UK to welcome more migration from skilled workers from outside the EU. This may be a great asset to multinationals; however, firms will also calculate the costs of more difficult movement within the EU.

While the UK is perceived as a riskier place to invest (until June, or afterwards in the case of Brexit), other countries in the EU are likely to benefit. Germany is an obvious example, because of its size and industrial structure, but Ireland also stands to gain. It already receives a lot of FDI from the US because of cultural affinities and language.

Ireland's legal system also has more similarities to that of the UK than, say, Germany's. In this sense, it is seen as similar in many ways, and it is an obvious alternative destination for firms wishing to relocate their UK FDI. It has the potential to replace the UK as the export platform from which to reach the rest of the EU.

Uncertainty is the keyword when discussing the effect of the referendum on inward foreign direct investment. Part of the reason that this uncertainty prevails is that nothing like this has happened in the same way before; there is no direct precedent. The closest comparison was at the peak of the crisis of the euro in relation to Greece and its possible exit from the eurozone, but this was an economic rather than a political decision. The same uncertainty did apply to the Scottish independence referendum, as there was indecision around many issues in the instance of Scottish voters choosing to leave the UK.

In the same way as Scotland staying in the UK, we know what will happen if we stay in the EU. It will not be business as usual because David Cameron has negotiated some changes, which are not merely nominal. But we have no idea about what is ahead of us if we vote to leave. The consequences of continuing uncertainty will be significant for the UK and the EU, and will have global repercussions.

That the world economy is not performing at its best – considering the slowdown of the Chinese economy in particular – only adds to this fragility.

If it does make a Brexit, the UK needs to strike a good deal with the EU, but I suspect it will turn into a very nasty divorce. It's hard to see how this will be arranged on amicable terms.

So far, the damaging effects of uncertainty on overseas investment into the UK are the only element about which we can remain certain. Brexit is a risk for everyone. ●

KILLIK & Co

Help for younger generations

Money can be complex. **Paul Killik** calls for an intergenerational approach

It is an inescapable truth that the financial choices we make today affect the lives we are able to live tomorrow. I was born into the baby-boomer generation, where generous final salary pension schemes were widespread, banks were lending and property prices soared. The reality for today's younger generations is that they are likely to change jobs every few years and face an ever steeper ladder to that first home, with property prices at all-time highs.

The choices they make now will have a far bigger impact than anything my generation faced. At the same time, headlines are awash with recent banking scandals and, frankly, it is no wonder so many of the younger generation admit to feeling such a disconnect with the financial services industry in particular, and show such support for emerging Fintechs who seem to represent a new dawn.

Everyone, of whatever age and means, should be given the opportunity to make the wisest financial choices and provisions for their own future. It is a simple and enduring principle that has always sat at the heart of my career in growing people's savings and investments and has never been more pertinent.

The best place to start is with the family. It is staggering to consider just how dramatically the modern family unit has evolved in recent times. In the 19th century, most families consisted of just two generations. Fast-forward to the 21st century and many families can proudly boast of four consecutive generations alive at the same time.

Despite this dramatic change, families and wealth managers alike remain heavily governed by this 19th-century way of thought, treating family wealth as if it were restricted to just two generations. In the same way that the family has evolved, so too should the way we handle assets between generations.

Small things now can make a very big difference in the long term, such as saving little and often alongside reinvesting any asset growth. Passing wealth a generation or two further down the family tree makes much sounder financial sense, if for no other reason than the simple and extraordinary power of compounding.

During the past 100 years, the UK stock market grew at a real (that is post-inflation) compound rate of 5.5 per cent per year, according to Barclays research, a figure widely quoted in the industry. Using that as an example, let's assume a grandparent is able to invest two full junior Isa allowances of £4,080 on behalf of their grandchild in the first years of their life. Even with a more conservative return of 5 per cent, by the time the child is 30, these two investments alone could be worth about £35,000 in today's money, potentially enough for a deposit on a first home and a saving that would take an inordinate amount of time as a young adult. The availability of the lifetime Isa from April 2017 means that for every £1 you invest, you get 25p from the government at the end of the tax year, significantly increasing the opportunities to save more money.

Naturally, there are no cast-iron guarantees that investments will perform as expected and you could get back less, so I would always advocate seeking advice before any decision. As an industry, I believe we are failing to convince a new generation that we are on their side when it comes to growing their savings. Beginning with the family is a timeless principle that can deliver tremendous benefit.

At Killik we are continuously finding ways to evolve, using our 30 years of expertise to design services around what people truly need, building a better future for our clients.

Paul Killik is a partner and senior executive officer of Killik & Co

WINEBOURSE
winebourse.com

Pitfalls and potential of fine wine

Fine wine isn't just a luxury or collector's item; it's also an investible asset, says **Matthew Starr**, co-founder and managing director of WineBourse

While plenty of articles have been published about wine investment opportunities, it isn't as straightforward as storing a few cases in the basement in hopes of oversized returns. Enthusiasts need to understand what are best practices and how to avoid risks that aren't easily spotted in this marketplace.

First of all, investible wines are generally not held in private cellars of people's homes, but in purpose-built storage facilities, licensed so that excise duty and VAT are not charged while in these warehouses. Often referred to as "bonded" or "in bond", the term dates back to Robert Walpole's excise scheme of 1733: "Importers were to give bonds for payment of duties when the goods were removed." Wine investments are also largely kept "in bond" because the warehouses are typically temperature- and humidity-controlled, and the governmental oversight gives added protection against potential fraud. Furthermore, purchasing your wine without having to pay VAT or duty is a better use of capital, more bang for your buck!

Storing wine directly with a warehouse can be expensive; and while it is cheaper to use a wine merchant's "consignment account", this carries additional risks. If the merchant becomes insolvent, the consignee's wine become subject to a liquidation process.

WineBourse's custodial company, WineCustody, is only ever the nominee owner of the wine in its consignment, not the beneficiary owner of wine – meaning liquidators would never have rights over those beneficiary assets.

Another consignment risk is "commingling", where wines get mixed up between consignees and even the consignment company itself. To avoid this, fine wine investors should insist on confirmation online, and/or with invoices, of the unique identifier assigned by the bonded warehouse on each case of wine. If the consignment company is unwilling or unable to confirm the bonded warehouse's identifying numbers for your wines, do not store your wine with them. At WineCustody, all rotation numbers in consignment are published on invoices and available online, and users are in full control of transfer in and out of the company's consignment at all times.

What is most surprising about the fine wine market is the high degree of standardisation, which creates an ideal environment for trading. However, unlike most other investment markets, it's completely unregulated, and recommendations and investment advice can be subject to huge conflicts of interest; there are no Chinese walls. Often comparisons made between returns on wine indices and traditional investible markets, for example, publish extremely favourable timeframes, with no mention of the much higher transaction costs. WineBourse charges only a 3 per cent commission to buyers and sellers, which is a fraction of the double-digit fees traditionally charged in this market.

Investible wines can last up to 50 years or more, and will become more sought after as age improves quality. Additionally, over time, steady consumption drives up scarcity values, making the demand and supply dynamic very positive.

However, one should never lose sight of the most attractive reason for investing in fine wine: the chance to open a few bottles of something special with friends and family. This isn't just a financial commodity, such as gold, or a collector's item, like a painting; it's also a wonderful experience that can be priceless.

WineBourse: Bringing Financial Markets Standards to the Trading of Fine Wine.

Disclaimer: WineBourse is a low-cost trading platform, open to everyone. We do not offer investment recommendations or promote any specific wines. As a neutral exchange, we aspire to create a transparent, fair, and inclusive marketplace for fine wine trading.

Your investment, your risk

Investors who use self-directed platforms need to understand the chances they are taking, says Andrew Hagger of MoneyComms

The internet has radically changed the way private investors manage their money. With new technology, they can now pick and manage their own investments using online "investment platforms", also known as fund supermarkets.

In the past, many people would have gone to financial advisers to do this. But changes in the industry, not least intervention by the regulators and pricing pressures, mean many advisers will service only clients who have enough money to make it worthwhile.

Although there are platforms that will manage investments, there are many that enable investors to do it themselves.

The prospect of millions of amateur investors handling their own investments raises enormous issues, not least of which is whether they really understand the risks involved.

It was with this in mind that one of the online investment platforms, rplan.co.uk, commissioned me to undertake one of the most comprehensive mystery shopping exercises ever carried out into platforms that are "execution-only", whereby the investors make all their own decisions about investment.

I estimate there are roughly 3.66 million investors in the UK who construct their own portfolios using platforms (analysis of Platforum data, 2016). This is either because they like to do so, or they have no choice because of the lack of advisers willing to service their small investments.

There were several surprises in lifting the bonnet on these "direct to consumer" investment platforms.

But one of the most striking – and concerning – was that only ten of the 19 platforms I assessed offered tools by which investors could match funds to their appetite for risk, or risk profile.

One of the primary roles that any professional adviser usually undertakes for clients is to assess their attitude to risk and recommend investments to match it.

There are several ways to measure this but one scale that is becoming increasingly relevant is the Synthetic Risk and Reward Indicator (SRRI), which was introduced by the Committee of European

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Securities Regulators (CESR). Its aim was to provide investors with a method of assessing a fund's risk. It rates investment funds on a scale of one to seven, with seven as the highest risk.

So how do UK investors rate their own risk appetites? To find this out, rplan.co.uk commissioned a survey of UK adults. In total, 1,058 UK adults were interviewed by Consumer Intelligence on 29 February and 1 March.

The survey revealed a strong aversion to risk: only 4 per cent rated their appetite as being six or seven. The vast majority described themselves as four (medium-risk) or lower.

However, further analysis by rplan.co.uk shows there is a major mismatch between UK investors' appetite for risk and how those investors actually invest: 70 per cent of the investments they have made through Isas have top risk ratings of five to seven – even though only 9 per cent of UK adults rate their appetites for risk as being this high.

While UK adults on average rate their appetite for risk as 2.56 out of seven on average, the risk rating of the nation's overall Isa portfolio is nearly twice as high as that – at 4.82.

Clearly some people invest more than others and they may have bigger appetites for risk. But the sheer weight of money in higher-risk investments points to investors having little or no understanding of the risks they are taking. And the growing use of online platforms that lack sufficient risk controls can only make the situation worse.

It is especially vital that people who are new to making their own investment decisions – especially with so many financial advisers pulling out of the market – should be able to filter their search for investment funds by their risk tolerance or attitude to risk and to monitor their portfolio to ensure it remains within the risk parameters they select.

Nick Curry, director at rplan.co.uk, said: "The absence of risk analysis tools from so many online platforms is quite surprising.

"It is a fundamental part of the investment process and technically it is a straightforward tool to implement.

"Platforms should be giving their clients straightforward explanations of how to assess their own desired risk levels and clear guidance on how to match their investments to that. At rplan.co.uk we regard that as one of the primary services we give to our users."

Although five of the nine platforms in my survey that had no risk filtering tools did offer "model" portfolios, these used their own (rather than industry-accepted) interpretations of risk, and four platforms did not even have these.

There is quite a wide variation in the terms used to describe the risk levels in model portfolios – I came across terms such as "cautious", "positive", "adventurous", "aggressive growth", "growth", "defensive", "conservative", "moderate", "balanced".

This is unfortunate and misleading. Surely a universal set of risk categories used across the industry would be the ideal to aim for?

Many investors in the UK are potentially investing their money without understanding the level of risk posed to their investments.

Portfolio costs can vary wildly between cheapest and most costly

Most providers do not display the risk ratings when people are buying funds, and even when they are, ratings and other information can be hard to find.

All fund providers should be displaying the risk levels of their funds clearly, both before and after investing.

So what should investors look out for if they are handling their own investments online?

My research highlighted a wide variation in pricing, breadth of offering and service levels that exists across the main investment platforms.

This means investors must take a good look at several online platforms before committing.

Price is often a primary consideration for investors, who should be aware that platforms usually target those with certain amounts of money to invest, and price accordingly.

This leads to wide variations in cost even for the same size portfolio. Research I conducted last year, for example, showed that the annual cost of a £30,000 portfolio varied by as much as three times between the cheapest and most expensive.

The personal finance pages of the nationals sometimes run table comparisons of charges for different-size portfolios and these are a good starting point.

But going for the cheapest platform for a particular portfolio size is not always the right strategy. Investors should look for overall value, and a key part of that is the range and quality of the investment tools provided.

As a checklist, investors should ask whether a platform:

- Helps them to assess their risk appetite.
- Labels clearly the overall costs and the risk levels of funds.
- Provides the tools to search funds and construct portfolios according to a desired risk level.

The ability for customers to set alerts based on performance and risk, as well as just price movements, in order to help investors keep tabs on their investment holdings, would also be of great benefit. Unfortunately, it is another area where the platform sector has much room for improvement.

Investing in funds, particularly for first-time or inexperienced investors, can be daunting, with thousands of products to choose from, particularly from websites so cluttered, that it can make the journey confusing and frustrating.

The real danger is that less experienced investors may select their investments based on previous returns or performance, oblivious to the financial risk such a strategy may entail.

But if investors persevere they can register and purchase the funds they desire with whichever self-service platform they choose, although some will take far longer than others.

Some of the providers I looked at contained extensive levels of fund information, reporting capabilities and tools.

These were suited to experienced investors, but they would prove less straightforward for a novice investor to navigate when looking to build a portfolio based on their requirements.

My overall view is that online DIY fund investing may cater for the experienced investor and those dipping their toe in for the first time, but for the latter category, failing to appreciate the associated risk to their investment is a problem that could come back to haunt them and the wider investment industry. ●

Opportunity knocks

Why Isa holders should take a close look at the peer-to-peer sector. **Frank Mukahanana**, founder and chief executive of QuidCycle, suggests taking a closer look at the P2P market to boost return on investments

What changes come into effect on 6 April in the way Isas operate?

Up until the 2016 Budget, Isa (individual savings account) holders in the UK were able to put away £15,240 each financial year without paying tax on any interest accrued on those savings. Typically, they had the option of putting their money into two buckets – either a cash Isa or a stocks and shares Isa.

One of the changes in legislation that was announced by George Osborne essentially created a third, new bucket: an Ifisa (innovative finance Isa).

This means people can now hold P2P loans within Isas, so lenders can enjoy tax-free interest on loans arranged through peer-to-peer platforms such as QuidCycle.

In addition to the Ifisa, the Chancellor announced the introduction of a personal saving allowance, which allows individuals to earn tax free interest on savings of up to £1,000. This sits on top of the Isa allowance of £15,240.

Why did the Ifisa come about?

There are two key reasons for the change. First, consumer demand. The banking turmoil of 2007-08 forced the government and the financial sector to consider a better way, which is where the alternative finance market really kicked in.

To enable the alternative finance market to grow and become a credible alternative, the playing field needed levelling somewhat to allow alternative finance companies to compete with the big traditional institutions.

Second, it's down to the huge changes witnessed in the P2P industry in recent years. The Ifisa would not have happened if the industry were not regulated by the Financial Conduct Authority (FCA), which it has been since April 2014.

Equally, the P2P market has really evolved with an increase in the number of businesses, a growth in their awareness and their ability to market themselves on a credible level.

The Treasury and HM Revenue & Customs have acknowledged this and driven these changes in a progressive way, helping to ensure the new legislation works for everyone, especially the customers.

What do the changes mean for savers?

They open up other options to make your money work for you.

There is around £450bn-plus sitting in cash Isas and stocks and shares Isas in the UK (60 per cent of which is in cash), with interest on cash Isas typically between 0.5 per cent and 1.6 per cent. The P2P market and Ifisas give Isa savers an opportunity to earn tax free interest of between 4 per cent and 6 per cent.

P2P platforms such as QuidCycle are able to offer these rates because, quite simply, we are more efficient than banks as we do not require a large, expensive branch network.

As online operators, we have embraced technology and innovation to create even more value, which we pass on to our customers.

There really is no barrier to people switching their money to an Ifisa, simply awareness and education as to the potential returns they gain if they do.

What other changes are being considered by the government?

There is a strong probability we will see the inclusion of crowdfunded debt-based securities into Ifisa, allowing people to invest in companies that raise finance on crowdfunding platforms using debt-based securities and enjoy the tax-free benefits of Isa.

For more information on QuidCycle, visit www.quidcycle.com or speak to one of the team on: 020 3664 8625

Making start-up investment sustainable

Investor education is key to a sustainable and profitable SME market, says **Sally Goodsell**, chair of Become an Angel

The United Kingdom sits at the forefront of SME investment. As the first country to regulate the online equity industry in 2011, the market was valued last year at £245m, placing the UK firmly as the world's online equity capital. As a result of this rapid growth, the UK has set the benchmark for others looking to create a viable online equity investment market.

As the industry leader, it is imperative that the UK continues to set the example and focus on the long-term opportunities and challenges.

As the market matures, investor education and a smart model of funding have become all the more vital in maintaining a sustainable SME marketplace.

A recent report commissioned by an independent rating agency questioned how investors are approaching the overall decision-making process. The research accumulated extensive investor data from UK-based online investment platforms, concluding that investors had the requisite knowledge when vetting a good team and product; however, this was often undermined by their inability to analyse a company's financials properly when making informed investment decisions. This is why Become an Angel is focused on investor training and education.

Through our free masterclasses we want to help investors of all levels of experience, so they can better understand investment opportunities and add value going forward.

The Become an Angel campaign, backed by key influencers in SME financing including RBS, Angels Den and Grant Thornton, seeks to promote the benefits of angel investing by highlighting the benefits of educated investors combined with the angel-led funding model of online investment. This model places experienced investors at the forefront of funding rounds and encourages them to ensure both the business and valuation are sound, before opening the raise to others, utilising their skills and networks pre- and post-investment.

The campaign is looking to recruit a new generation of educated angel investors by urging the 500,000 UK high-net-worth individuals to attend a free masterclass and invest their capital, networks and expertise into the UK SME community. This is of the utmost importance, because the UK has 5.2 million small businesses that employ 15 million people, contributing 50 per cent of the UK economy. Investing in high-growth start-ups can often be a thoroughly satisfying process, and through investor training, represents an opportune way to stack the investment odds in your favour by becoming involved and using your skills to good effect.

Injecting capital and expertise into growing businesses increases long-term success rates, enables job creation and opens up wealth for future generations. Success rates for educated Angels, combined with a highly curated deal screening process can significantly exceed the industry norm. For instance, our partner Angels Den reports that over 90 per cent of its funded companies are still trading. Typically, angels seek a high-return investment opportunity where losses can be offset by generous SEIS and EIS tax relief. The overwhelming feedback received is that whether via their own investments or through a wealth manager, working with and helping an exciting business grow is a rewarding and fulfilling journey.

For the UK to hold on to its reputation as a standard bearer for online start-up funding and for sustainable start up investment to be viable, investor education should become a priority.

SMEs need the extra knowledge and expertise at a very crucial stage of their development and passive investment capital alone is not enough.

If you believe you have what it takes to invest in and mentor SMEs, want to find out what type of investor you are, invest alongside like-minded individuals and also to discover the benefits of SEIS/EIS tax relief, then attend a masterclass and become an angel.

For more information on Become an Angel, visit: www.BecomeAnAngel.com

On location

London is impossibly expensive for some investors – so where else should they look, asks **Kate Chapman** of AB Property Marketing

It is a telling time for the UK property market. Headlines speak of spiralling house prices, far outpacing the modest average wage growth being seen across the UK, and it appears that the current and future prospects in the industry are a hot topic for all. It seems that everyone has an opinion on the UK's housing market, whether debated at the dinner party table or spoken of on the school run. As many questions are being posed as answers put forward.

Emerging from a shifting economic backdrop, what is clear is that the country is undergoing a period of great change. With the once-long-held dream of property ownership slipping from the grasp of many, some are speaking of the UK finally becoming more like its European counterparts, where home ownership rates are low and owning property is not necessarily seen as preferable to renting.

Many are finding the exceedingly high deposit rates of buying their own home unachievable, and this is resulting in growing numbers finding that long-term renting is becoming their norm. From this, therefore, the UK has seen a buy-to-let boom take hold in recent times, with savvy investors jumping on the property bandwagon to fulfil this need and, in turn, to bolster the country's coffers.

A changing property landscape is beginning to emerge, and for those looking to cash in on this evolution, the question of how best to do this – to answer the shifting demand – is top of the priority list.

Once the central focus of keen-eyed investors, London as a whole continues to hold on to its reputation as a hugely desirable location, with the prestige of owning a home in the capital remaining strong. However, for those crunching the numbers, it is clear that the city's situation is far more complex than its purely international status would have one believe.

Although overall there is a steady demand for rentals, buyers need to purchase with great care in order not to be burnt by incredibly high property prices. Primarily, this means choosing a London location carefully.

According to the recent Land Registry House Price Index, released at the end of March, the average property price in London stands at £530,368, far above the national average of £190,275. Thankfully for those looking to buy, there remain untapped pockets of potential where the entry point is far lower, yet which are still set to enjoy impressive capital growth as prices rise, alongside healthy rental returns. Knight Frank, for example, is predicting central London house price cumulative growth of 20.5 per cent in the period up to 2020 but this will be trumped further still by prices on the city's fringes and commuter belt, where 23.4 per cent growth is predicted.

> Manchester is a major focus of investment and expansion

A major impact on the city's fringes is the nearly constructed east-west Elizabeth Line, the Crossrail link that will run through the capital – which comes into operation from December 2018 and which will in turn have a huge impact on local house prices. One such area sure to be affected is Ilford, already popular and with a family focus, ample shops and restaurants (Zoopla reports that house prices here have risen 5.71 per cent over the past year). With the Elizabeth Line passing through, Ilford is on track for further increases.

Jonathan Stephens, managing director of Surrenden Invest, a property consultancy specialising in high-yielding buy-to-let investments, explains more: "We are working on the basis that key areas around the new Elizabeth Line are likely to see a minimum of 8 per cent growth each year between now and 2020, and Ilford is one location that will be central to this. The new route will result in large-scale gentrification of areas that currently remain relatively affordable, meaning that now is the time to get on board.

"The long-term result of this will mean that Ilford will become an even more desirable place to live, leading to sustained future growth. This will impact all property types, but we are finding that new-build, modern properties are especially drawing great interest within the Elizabeth Line catchment area."

The impact of the rail development shows how important it is for investment buyers looking in London to choose their location carefully. The flipside of this is that, primarily because of overpriced stock, the appeal of London and the south in general may well be on the wane overall. Under the government's wider economic plans, great focus has been put in the past year on what has become known as the Northern

region, announcements of a new tunnel linking Sheffield with Manchester, and the green light to the HS3 Manchester-to-Leeds line, all playing into a growing focus on the north-west. It is certainly not grim up north!

Not only have the past 12 months been witness to a great evolution in the investment prospects of some of the UK's major cities, with London and Manchester just two examples, but there have been further major government announcements that have opened up debate within the industry on their impact, too. Since 1 April, anyone purchasing a second property in the UK has had to pay an additional 3 per cent stamp duty, causing murmurings in the industry that this will stunt long-term sector growth.

Short-term, in the run-up to the April deadline, many agents reported a boom time of investment sales, as many people sought to beat the additional duty payment. Whether figures will drop off dramatically from pre-announcement levels as the market begins to settle again remains to be seen. Stephens thinks not, however. He says: "Compared to the majority of international real-estate markets, closing costs in the UK will still remain comparatively low – some overseas buyers are used to paying up to 15 per cent to close a deal back home. UK buy-to-let looks likely to continue to be an attractive asset for those seeking a savvy investment and residential property is predicted to remain the UK's most profitable asset class long after spring 2016."

There is no denying that we are living through a telling time for the UK property market, as the government seeks to balance the books while steadying the market and enjoying economic growth. What is clear is that the compelling debate about the present state of, and prospects within, the industry both for those on the shopfloor and for those putting their cash into the sector, is set to continue. All eyes will remain on the property sector for the foreseeable future and the emerging results are sure to be intriguing.

For information on investing in the UK property market, contact Surrenden Invest on 020 3372 6499 or visit: surrendeninvest.com

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Antony Gormley's *Angel of the North* in Tyne and Wear, where there's been a surge in tech start-ups

Powerhouse and this has led to growing numbers of investors looking north.

Sitting at the centre of the Northern Powerhouse, Manchester is a major focus of the investment and expansion that is taking place, in part to redress the north/south divide, and it is already seeing the positive effects.

A central beneficiary of the HS2 rail line, linking Manchester (and Leeds) with London and cutting journey times by an hour, the city is also undergoing major improvements to its transport network and also enjoying city-centre regeneration, supported by the huge amount of FDI pouring into the city.

Besides this, Manchester is witnessing a significant population expansion, with growth significantly outpacing that of the UK overall and ever more businesses moving their operations to the city. The recent Savills *Spotlight: the Future of Manchester* report predicts that the city will need to house an additional 36,000 office workers in the next ten years, which, given the current average annual property shortfall of 5,100 homes and the city's rising population (it is forecast to grow by 20 per cent between now and 2025), will be quite some feat.

As Stephens explains, this is having an unprecedented impact on housing demand and investment prospects: "The young professionals flocking to Manchester are going to want well-located, high-spec homes with plenty of amenities like secure parking and on-site gyms. If Manchester is serious about being the centre of the Northern Powerhouse then its property sector needs to be building homes that are worthy of that position – and these are the properties that serious investors should be snapping up today."

Recent Budget measures by the Chancellor have also encouraged investors with their finger on the pulse to turn their attention northwards. George Osborne alluded to the Northern Powerhouse in his statement to the Commons last month, saying the government was "making it a reality" and adding information about road improvements in the

Gaining real insight on your financial future

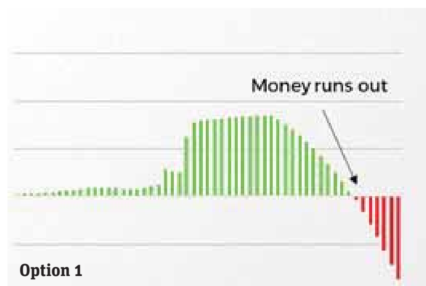
We all wish we had a crystal ball when making important decisions about our finances. Having a proper plan is the next best thing, says **Gareth Rees**, partner at Epoch Wealth Management

The world of finance can be a confusing one and its advisers often seem to talk a different language. Deciding on the best strategy to provide you with the financial security you need – and the future lifestyle you want – can be daunting.

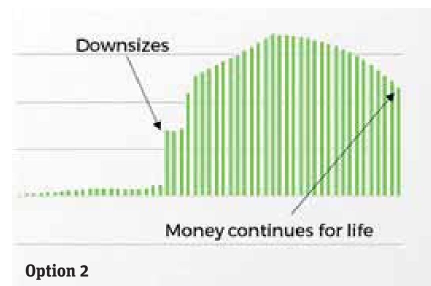
Record life expectancy and new pension freedoms have made these decisions even more challenging and raise many important questions for savers: when can you afford to wind down and spend more time doing the things you enjoy? Will the financial choices you make now sustain you into your twilight years? What if you outlive the money you have? If you could look into the future and see the impact of your decisions, wouldn't it be easier to make plans?

In conjunction with a full assessment of your attitude to risk, cash-flow modelling can help you answer important questions and see the possible future impact of your present-day choices.

The process takes into account your current financial situation – things such as your income, expenditure, assets and any liabilities you may have – together with your personal aspirations. It then projects all this into the future, taking into consideration known future changes (such as educating your children privately, for example), and visually illustrates whether you can achieve all you want to.



Option 1



Option 2

You might discover that your goals aren't achievable unless you take more risk than you're comfortable with. You may then have to reassess whether your goals are realistic. Or perhaps the reverse is true – you can achieve what you want by taking less risk than you had previously thought, so why risk more than you need to?

As well as showing whether you are on course to achieve your goals, cash-flow planning can also take into account "what if?" scenarios and their effects on your wealth. What if you fall ill, for example, or die prematurely? What if you're offered more money to do your job elsewhere, or the value of your business falls?

There is no magic answer; however, seeing a clear picture of your finances allows you and your adviser to make far reaching decisions which may have otherwise been delayed due to not knowing the possible consequences. In the above example, a client downsized as they retired and the resulting inflow of capital meant that they had sufficient funds to sustain their lifestyle for life, ensuring assets could be available for passing on to the next generation.

Armed with a proper financial plan, you may decide to postpone selling your business by a couple of years to fund your lifestyle without compromise. Or you may find that you can't afford to do what you want without having to compromise on something now or later on.

Only when you have visibility on your financial future can you truly make informed decisions that will enable you to achieve your dreams in life, however long you may live.

For more information, visit: www.epochwm.co.uk/cashflow

Cash-flow modelling is not regulated by the Financial Conduct Authority but advice arising as a result may be regulated. Epoch Wealth Management LLP is authorised and regulated by the FCA (549980)

Opportunity everywhere

How Britain's fastest-growing smaller companies can be a force for regional revival. By **Simon Rogerson**

When Octopus published the first *High Growth Small Business Report* in 2014, our goal was to draw attention to a powerful but undervalued engine of the UK economy: Britain's high growth small businesses (HGSBs). Often overlooked, they make up less than 1 per cent of UK companies, but they create one in every three new jobs.

Working with the Centre for Economics and Business Research (Cebr), our 2014 and 2015 reports showed that HGSBs have the power to improve dramatically the communities that embrace them. In particular, the 2015 report showed that HGSBs have a disproportionately positive impact on weaker-performing economies. In other words, higher numbers of HGSBs lead to more economically prosperous communities. With around three out of every five located outside London and the south-east, HGSBs have the potential to rebalance our economy, breathe new life into the UK's regional towns and cities and help address the north-south divide.

But to realise the full potential of HGSBs, we need more of them. We need to encourage more people to set up more HGSBs across the country, creating jobs and opportunities for regional towns and cities.

What makes a good place to locate and grow an HGSB? To find out, we asked them. Just as transport, schools and outdoor spaces might be important when deciding where to live, HGSBs also share common needs: finance, talent and connectivity. We then used this information to build a league table, highlighting the most HGSB-friendly locations in the UK.

It may be no surprise that London tops the table. London is not just a domestic hub but a global centre of commerce, providing excellent transport links, a wealth of skills as a talent magnet and demonstrable economic strength. But London is not the only UK capital to be recognised for its HGSB-friendly characteristics. Both Edinburgh and Cardiff make it into the top five – flying the flags for their respective nations and scoring well for connectivity and transport infrastructure.

Northern cities are well represented in the top half of the table for connectivity and infrastructure, with Liverpool, Manchester, Leeds and Sheffield all in the top ten. Factored into the table for economic performance is job creation forecasts. Northern cities perform well here too, with Liverpool, Manchester and Sheffield all in the top ten and Leeds just outside.

The great news is that the league table shows that HGSB-friendly locations – "urban hubs" – are spread right across the country. From Belfast to Bristol, untapped opportunity is everywhere.

Of course, choosing where to start a business isn't a purely clinical decision – there are many other factors, such as quality of life and proximity to family, to think about. But for entrepreneurs who have the flexibility to choose the location of their businesses, our league table could help to inform their decisions. Equally, those who want to champion their local town or city as a great place for HGSBs will be able to understand where they are doing brilliantly (and celebrate this) and take action in those areas where they can improve.

Starting an HGSB takes determination, ambition and talent – and it's essential we give the people who start these businesses every chance to thrive. We want every community to be a great place to start a small business. Our 2015 report made the case for doing more to support HGSBs, and it called on the Government to encourage 25 per cent more HGSBs in every region by 2020.

With the right framework and support, HGSBs can bring economic prosperity and optimism to every part of the UK.

Simon Rogerson is a founder and chief executive of Octopus

About the report

The Octopus High Growth Small Business Urban Hub League Table builds on the Octopus *High Growth Small Business Report 2015*, which quantified the huge economic value of this tiny group of companies and called on the government to increase the number of HGSBs by 25 per cent in every region of the UK.

For a copy of the league table and to read the report visit **highgrowthsmallbusiness.co.uk** or find out more about Octopus at **octopusinvestments.com**

Investing with the wind in your sails

Investments for cash are one thing but ethics and environment play their part, too, says **Sami Raja** of Heron Global Investments

Heron Global Partners is working exclusively with a company that has recently launched on the renewable energy scene in a very bold fashion. It has issued a series of mini-bonds that pay a fixed rate of 8 per cent per annum for four years. The bonds are fully secured over the assets of the company via a debenture held by the security trustee in London. This fully protects capital against the assets of the company.

The proposed changes to the renewable obligation (RO) and the FIT (feed-in tariff) has no effect on the projects in question, offering investors safety and security. All the sites have gone through the process of environmental tests, planning permission, approval for access roads, grid connection and receiving the FIT subsidy, once a wind turbine is erect and functioning. The subsidies offer a guaranteed revenue stream for the next 21 years under the FIT scheme.

The reason the bonds have been so popular is because of the transparency. Once investors check the rates that have been pre-accredited on the sites tied to the bond, they can clearly see that the generous interest payments being offered are more than viable.

Harnessing wind power is one of the cleanest, most sustainable ways to generate electricity. Heron Global Partners is very excited to be doing its part in leading the UK towards a greener future.

Like all investments, the bonds do carry risk. One of the main risks would be a turbine developing a fault and therefore not generating an income. The bond issuers believe they have mitigated this by taking out a full insurance policy with a house hold name which covers them for loss of income.

However the government has made so many changes to the banding, degression intervals and tariff rates that the opportunity to take advantage is limited.

Generating electricity from renewable energy sources, rather than from fossil fuels, offers significant public health benefits. Wind energy produces no toxic pollution or global warming emissions. It is also abundant, inexhaustible and affordable, which makes it a viable and large-scale alternative to fossil fuels.

The air and water pollution emitted by coal and natural gas plants has been linked to breathing problems, neurological damage, heart attacks and cancer. Replacing fossil fuels with renewable energy has been found to reduce premature mortality and lost workdays, as well as cutting overall health costs.

Wind generates electricity without emitting pollution. Moreover, wind energy requires virtually no water to operate and so doesn't pollute water resources or strain supplies by competing with agriculture, drinking water systems or other important water needs. In contrast, fossil fuels can have a significant impact on water resources.

Both coal-mining and natural gas drilling can pollute sources of drinking water. Natural gas extraction by hydraulic fracturing (fracking) requires large amounts of water and all thermal power plants, including those powered by coal, gas and oil, use water for cooling.

Heron Global Partners is aware of the environmental concerns associated with wind turbines. The company appreciates that there may be worries regarding the environmental impact that wind turbines can have on the land. But recent survey reports show that less than one acre per megawatt is disturbed permanently and less than 3.5 acres per megawatt are disturbed temporarily during construction. The remainder of the land can be used for a variety of other productive purposes, including livestock grazing, agriculture, highways and hiking trails.

Looking to the future is key, as Heron Global Partners is well aware. The company appreciates the contribution that each and every one of its clients has made towards helping fund new renewable energy projects.

INVESTMENT QVORVM
Unique, Boutique Wealth Management

Update your options

The Budget has done its work for better or worse. **Lee Robertson**, CEO of Investment Quorum and a chartered wealth manager, assesses the changes

So another Budget has passed with the usual pre-Budget leaks and rumours surrounding pension savings and how the tax reliefs available and tax free cash entitlements are to be curtailed or even withdrawn. Yet again these rumours which swirl around the financial press have proven to be unfounded.

Or have they? The Chancellor appears to have heeded warnings from within his own party of massive opposition from the prudent within middle England to any further meddling on pensions. However, he did manage to introduce the Lifetime Isa, a variant of which was mooted as a replacement for pensions as we currently know them. Only time will tell but it may just be that we have seen something of a Trojan horse introduced more of which will come later when the Chancellor feels a little more confident about changing the tax treatment of pension savings.

I mention this as I think it highlights the need for ongoing constructive dialogue with your wealth manager. The objectivity that a good wealth manager will bring as well as being continually up to date with the rumours as well as the facts and bringing planning experience to bear on your finances should be of real benefit to your financial well-being.

- The result will almost always lead to better-informed financial decisions.
- The planning process helps you to fully understand your existing financial situation, assess the suitability of any new investment opportunity, and give you a clearer idea of what you need to do to achieve your objectives.
- An efficient use of your money, both from income and capital.
- Effective planning is the key to allocating your available resources in the most efficient way possible and identifying ways to save money.
- Potential tax savings.
- A wealth manager can suggest tax strategies that will help you to reduce potential income tax, capital gains tax and inheritance tax liabilities. Any tax treatment mentioned is based on personal circumstances and current legislation, which is subject to change.
- Assisting you understand your risk tolerances and ability to endure market volatility.
- By working with you and your loved ones on a regular basis to understand, endure and overcome market movements and filter out many of the natural emotions associated with these times a wealth manager will assist you stay the course for better investment outcomes.
- Ensuring that you have a plan for any of life's uncertainties.
- Ensure you have access to the right amount of money at the right time. Your wealth manager will ask you to consider a number of "what if?" questions to ascertain whether you have planned adequately for the future. For example, have you really thought about what your retirement lifestyle will be like if you continue doing what you are doing now?
- Finally and perhaps most importantly, peace of mind and security.
- Your financial affairs will be organised and kept up to date through regular reviews with your wealth manager.

As the personal financial world becomes more complex, particularly around pensions and taxation, lifetime allowances, annual contribution allowances, pension input periods, optimum withdrawal strategies, legacies for loved ones and our potential for living longer continues to grow we really do need to ensure that we give ourselves the optimum chances of financial success.

As you move into retirement your cumulated capital may have to provide income security for decades and how your money is managed and the way in which you withdraw income will be absolutely crucial to a secure retirement.

Having professional guidance and counsel in this period will be crucial. Depending on how, when and from which investments you withdraw capital can dramatically affect your levels of personal taxation, which will obviously lead to better outcomes for those seeking and acting upon professional advice.

I am not saying that much of this cannot be achieved by individuals without advice, but I do advocate, for those who do not have the time or inclination to learn and understand the constantly changing rules and nuances of investment and taxation, that advice is one of the best investments which might be.

Message in a bottle

Investing in wine is a serious business. **Peter Lunzer** explains how it works

The 2000 vintage in Bordeaux will go down in history as being a truly glorious year for the finest red wines of the region.

Only three or four harvests per decade have the right climatic conditions to produce the perfect fruit which, in the right hands, can create truly great wine. Many adjectives are used to describe wine, but in this context the word "great" implies a wine which has formidable power in its youth and the ability over time, to develop depth of flavour and aromas.

Complexity of flavour cannot be achieved by any short cuts. The quality of a vintage really depends on a balance between fruit, carefully extracted tannin and acidity. All are important in a wine, but in general it is the acidity which is the lifeblood of wine and those wines lacking the required balance will fade away long before their more acidic siblings.

The 2000 vintage has the three ingredients in abundance and as the wines approach their 16th birthday, the qualities are really beginning to show.

There are plenty of delicious Cabernet Sauvignon blends created in the world, but wine makers have not all followed the Bordeaux tradition of packing the juice full of extract, which for Bordeaux wines makes them almost undrinkable for the first decade of their lives.

New World wines can be consumed when young, and some wine buyers do not have the patience required to buy something and then pay for its storage for years before pulling the cork. However, those who are prepared to wait are undoubtedly rewarded. Prices for 2000 Bordeaux have been flat for three years, and although some wines will benefit from more ageing, now is an incredible time to pick them up.

The reality for investors today is that while prices for young vintages hover in a fragile state, there is not enough of the 2000 vintage to supply any tangible increase in demand. The core reason for this is that when the wines were released in 2001, the buyers were almost entirely an old-fashioned, traditional bunch who bought wines because one day they would drink them.

Compare this to the buyers of the 2009 harvest who, we believe, were almost entirely speculators. It means that ownership of the 2000s is truly fragmented and as wine enthusiasts, hotels and restaurants across the world look at replenishing their stock, finding any volume is becoming increasingly difficult. This is the time to buy.

Not all wines are down on their luck. In terms of anomalies, the Mouton Rothschild 2000 shows a dogged resistance to price softening. This has partly been attributed to the Golden Ram stencil on the bottle rather than the intrinsic quality of the contents. Whatever the reason, Mouton is not making any more of the wine and so we believe it should feature in collections.

In summary, 2000 Bordeaux has the quality and fragmentation of ownership which should make the prices fly with just a hint of new demand. In the meantime, they are all about to taste delicious, which should be sufficient motivation to buy them.

The traditional approach in the UK has been to buy three collections and then sell two of them in the future – leaving the third for free drinking. Alternatively, people may take a 35 to 40 per cent increase over the next three years and put the profits to other uses.

We feel strongly that this wine investment opportunity will not last that much longer.

Peter Lunzer is a wine trader and principal of Lunzer Wine Group

For more information visit: www.lunzerwinegroup.com

The Long View

In recent months, markets have experienced short-term volatility. Taking a longer-term view, writes **David Saunderson**, chief executive of Cantab Asset Management, is appropriate for many investors

If investing in the market is to be attractive, it is an obvious statement that it should offer good returns. The returns could be good in two ways: in absolute terms or relative to alternatives. I believe investing in the market potentially offers good returns in both senses.

The FTSE 100 has slipped over the past year. However, investors should not fall prey to the cognitive bias which leads individuals to take more notice of recent events than returns in the long run. The Black-Litterman analysis of investment returns from 1991 to 2012 demonstrates that the stock market gives a typical average return[1] of 7.9 per cent per annum for developed market equities, much higher than the return on cash of 1.5 per cent.

By investing in a variety of assets including developed and emerging market equities and government and corporate bonds, a spread of risk is achieved with generally low volatility. At Cantab Asset Management, this approach has proved successful, giving an average return on our medium risk portfolio of 9.6 per cent per year over the past six years[2]. Our successful strategy means that we would be placed in the top quartile of wealth managers in the FT Wealth Manager Comparison over one, three and five years.

For many people, their biggest investment other than their house will be their pension. The recent pension freedoms mean that on retirement, individuals can choose between taking an annuity and remaining invested in the market. Let us consider the returns offered by these options. A level single life annuity taken at age 65 purchased for £100,000 will pay £5,300 per year[3].

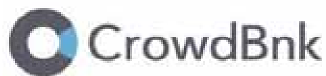
Assuming average life expectancy and using a redemption yield calculation, this is equal to an investment return of 0.7 per cent for a man and 1.2 per cent for a woman. This is lower than the returns offered by an investment portfolio (as outlined above).

Not only that, but such an annuity will cease payment upon death, while an investment portfolio can be bequeathed to successors (in the case of a pension in a very tax efficient manner).

Sometimes, individuals are tempted to see buy-to-let property as their "pension", preferring bricks and mortar to shares. However, property does not benefit from diversification, which means it can be comparatively higher risk than shares. Secondly, residential property cannot benefit from the tax shelter offered by a pension, which (as well as being tax-exempt when paid in) allows assets to grow tax free. Even outside a pension, residential property is at a tax disadvantage: it suffers a capital gains tax rate which is 8 per cent higher than shares (28 per cent for higher-rate taxpayers versus the new 20 per cent rate for shares) following the 2016 Budget.

It is clear that while volatility might be a concern, in the long term the investment markets have provided a good return over many years. They are also likely to be the best option for turning your defined contribution pension into your retirement income. It is important, therefore, to take a long term view with your investments, as you may contribute to a pension for 30 to 40 years and draw from it for just as long. It is important in developing and managing your investments to take advice from a professional independent firm of financial advisers, such as Cantab Asset Management. ●

1 *This is the forward-looking equilibrium return.*
2 *Complete calendar years 2010-2015.*
3 *Based on the FT Annuity Best Buy table, retrieved on 1 March 2016.*



What does your money get you?

Alternative finance platforms are the future, explains **Ayan Mitra**

Alternative finance platforms are changing the face of investment and, as a result, traditional routes to profit may not necessarily be the most fruitful. This is the first real financial innovation enabled by technology since the advent of the ATM. The upshot? Investors need to consider their options more carefully than ever before.

At CrowdBnk, it is our view that broadly there are eight options for investors to consider in today's market:

- Property
- Public equities
- Bonds
- Cash holdings in a bank
- Pensions
- Venture capital
- Mezzanine funds
- SME credit (blended)

Generally speaking, property and pensions are considered the most obvious and low-risk of the options, while SME credit is frequently overlooked. This could well change, given the rise of the Fintech revolution, which provides investors with the necessary platforms to invest in SME opportunities directly.

Not convinced? Here's our reckoning, which shows how SME credit (blended) could offer higher returns than the same investment made in bricks and mortar.

If you had invested £100,000 in 1996 into UK property and exited that holding in 2015 you would have made a 100 per cent profit in real terms, before tax. This would net you a not-to-be-sniffed-at return of 3 per cent per year net of inflation.

However, if you had of invested that same £100,000 into secured, convertible and mezzanine credit you would have generated a return of 7 per cent year net of losses and fees.[1] That is more than double the return made on the traditional property investment – which is especially poignant, given the current macroeconomic climate of low interest rates.

Of course, no investment is without risk. But there are key things to consider in each of those channels:

- Tax at the time of investment and at the time of exit
- Minimum amount of investment
- Fees (commitment, management, performance)
- Control and choice – transparency
- Effective return based on the risk you are taking

So how can you minimise risks when investing? The most important thing you should do is focus on diversification. This technique aims to create a portfolio that includes multiple investments in order to reduce risk. A simple analogy is this: if you put all of your investment funds into one company and that company's stock experiences a downturn, your whole portfolio will suffer. If you had invested in multiple companies, it wouldn't be such an issue as the risk is spread. That said, general market risks tend to affect most stock, so you should also diversify with different asset classes, too.

It's also a wise idea to have a good balance of direct and managed funds. You should check the returns of your portfolio too (net of tax, losses and fees) and use that to guide your future investment decisions. Alternative finance platforms provide much needed access to the better yielding asset classes, opening up a world of opportunity that has so far been available only to institutions. However, good opportunities should still be approached with appropriate caution and risk assessment. And no matter how diversified your portfolio, risk can never be fully abolished. You need to find a happy medium between risk and return so that you will achieve your financial aims while not being kept up all night with worry.

As with all investing, it matters who you invest through, and whether or not you beat the market by getting the right return. It is for this reason that we at CrowdBnk subject every new client to 60 hours of rigorous due diligence. Our team of finance professionals structure and price every deal we send live. Ultimately, this is why we invest alongside our investors, aligning our interests with theirs.

Ayan Mitra is chief executive of CrowdBnk
@CrowdBnk

1 *According to IPE*

From borrower to investor

When Frank Mukahanana set up QuidCycle he had distinct ideas about what he wanted to achieve, as he tells **Guy Clapperton**

The classic picture of a debt spiralling out of control is of someone completely swamped. Frank Mukahanana, the founder of QuidCycle, was a financial adviser who perceived another issue: people he knew on reasonable, middle incomes getting involved in a number of financial products over the years and ending up working for their money rather than the other way around.

"These are really intelligent people, clever people with good jobs," Mukahanana says. "They ended up with a whole lot of products they didn't understand." The other thing people were doing was taking on a little debt – a bit of credit card here and there to finance something, a car loan there, and they were becoming accustomed to owing and making repayments. "What started off as an unnoticeable thing coming out of their account ended up taking up all of their monthly income and stopping them, for example, starting an investment."

These people were working hard to stay still. Mukahanana's training as a financial adviser allowed him to work out ways of helping – but as a small employee in a larger company, he was unable to make it happen at scale. He worked to raise capital and called on friends and family, too, starting up properly in 2013.

"We did a beta test and the feedback was phenomenal," Mukahanana said. OK, so how does this offering from this risk-averse entrepreneur work? It takes advantage of the new world of finance that has been emerging over the past few years. Essentially, as our headline suggests, it turns borrowers into investors over a period of time.

SHUTTERSTOCK

Many clients are overburdened professionals

The company takes a three-step approach. First, where necessary, it helps people release their cash. "We find that one of the biggest expenditure items is servicing credit; if they didn't have to do that they'd be able to do more with their money." So the first step is to examine the client's expenditure and refinance it at lower rates, consolidating it into a single payment agreed as manageable between QuidCycle and the client. There are safeguards, though. "A lot of the time, money for refinancing debts from other companies goes into the client's current account and it might take a busy professional weeks before paying them off – meanwhile the kids' bikes need repairing or whatever, and by the time it gets to paying the creditors off there isn't enough."

So QuidCycle pays the creditors direct and offers busy professionals a turnkey solution. "One of our clients is a medical doctor with two teenage kids at private schools – he can afford that but he had around £65K on credit cards. We refinanced and it's gone down really quickly – our clients are people who've got their heads down."

The other thing QuidCycle does is take the credit cards away to prevent people ending up with further debt. "It costs us money to call these credit-card companies but we think it's the right thing to do." The advisers work with the client and offer cash back as long as all payments are met. The debt goes down each year. The client also has to go through a minimum two-hour web seminar on financial hints and tips and make an appointment to consult a financial adviser.

Once the debt is paid and the financial education is complete, the client can start putting money back in – and the money is loaned to other new clients, paying higher rates than typical high street investments would achieve, but lent at lower rates than credit-card companies offer.

There are criteria for becoming a client and only a few are accepted. "We look at the way they've handled their credit over the last three to five years and that's very telling; it's not just a credit score," Mukahanana says.

The scheme resembles a mutual account with a few extra bells and whistles – but Mukahanana is convinced it will help a great many people. Debts are cleared earlier than otherwise possible, and then the client has the option to save the money they're accustomed to setting aside. There should be minimal impact – and a lot of better-off savers, in principle. ●

The multibillion dollar question

Simon Briskman and Kirstene Baillie, partners at the legal firm Fieldfisher, examine establishing a growth platform for fintech

The UK is Europe's leading financial technology (fintech) centre. Research for London Fintech Week shows UK investment in the field to be greater than the rest of Europe combined. London & Partners estimates venture capital investment in the UK technology sector at roughly £6.96bn since 2010.

Given these figures, it may be hard to understand why the UK's success in fintech is dwarfed by that of the US. The UK has one of the world's largest financial centres, a strong pool of technology workers and established hubs for start-ups such as Tech City and Level39 in Canary Wharf. Yet KPMG says that US fintech investment was over £5.29bn last year while Europe attracted just £1.05bn, with over half of that invested in the UK. While the tap is running in America, capital in Europe trickles through.

America has the infrastructure for start-ups to flourish. Not only is Silicon Valley awash with talent, it is overflowing with entrepreneurs who follow a long tradition of hard work, clever innovation and pursuit of the American dream. Talent and hard work create opportunity. Capability is hotly pursued by the moneymen. Thus, access to capital is far more easily obtained in Silicon Valley.

Of course, Europe also has experienced entrepreneurs and innovative ideas. Across Britain and Europe new companies often display the discipline required to prototype and perfect a product and the hard work needed to sell it. Yet the figures show that London financiers focused on fintech are more reluctant to commit money than their US counterparts.

One rational explanation is that start-ups in the United States are more likely to show extraordinary growth than their EU counterparts. The investment research firm CB Insights reported 11 new tech European unicorns valued in excess of a billion dollars for 2015, while the US produced 22. Though there are many reasons for Europe's lower success rate in fintech growth, one clear problem has to be addressed. To free the flow of capital we must also free our markets from undue regulation. European fintechs are tied up in red tape.

> To free capital we must also free our markets from undue regulation

Financial services regulation is of primary importance to activities from mobile money to peer-to-peer lending. Good regulation instils consumer confidence and ensures well-run markets. There are, in fact, some fine examples of regulatory innovations designed to support fintech companies. The UK Financial Conduct Authority (FCA) is actively encouraging fintech enterprises to approach the FCA and develop new models, for instance through its "regulatory sandbox" initiative, which allows for the testing of new technology without the risk of regulatory action.

However, despite the occasional good initiative, Europe has a significant problem with financial services regulation. Getting things right in one EU country does not automatically mean getting it right across the whole of Europe. It is notable that the FCA recently announced a fintech initiative in tandem with the Australian regulators. Yes, that's Australia – not Austria, nor Germany, nor France. Europe remains fragmented in practice.

Despite financial services regulation in EU member states being largely governed by EU-driven regulation, it is behind the times on fintech. The FCA in the UK and regulators in a few other European country may be beginning to take the initiative individually in this area. However, scaling up in the US in its primarily single market is faster than on this side of the Atlantic.

The EU also sets privacy laws that apply across Europe. The coming EU General Data Protection Regulation should provide more uniformity than at present but

Level39 in Canary Wharf is only one of several centres for fintech

SHUTTERSTOCK

raises other barriers to fintech growth. With further controls on storing and using personal data and purging it when not needed, big-data analytics projects require a regulatory assessment and may hit the rocks if privacy barriers cannot be overcome. Europe also has rules that turn exporting personal data between Europe and the rest of the world into a bureaucratic process, and make it harder to put cloud solutions in place.

While these and other regulatory issues can be addressed, many projects hit them very early. This can distract or even derail start-ups, which must spend time and money seeking regulatory-compliant approaches from an early stage. Unduly burdensome regulation acts as a brake on growth. Some entrepreneurial ideas simply never make it through.

US companies, by contrast, grow big-data and cloud solutions more rapidly, hitting a market of over 300 million people before worrying about picking off detailed EU rules. Regulation is important but getting the balance right between business needs and protection for our communities and economic well-being is absolutely vital.

There are other legal problems with the European market being fragmented. Although we should say *vive la différence* to our diversity there is no doubt that local legal issues, from advertising to consumer information, can seem very different and impenetrable to the outsider.

When London suffered the Great Fire of 1666, Sir Christopher Wren was commissioned to draw up grand designs for long boulevards and beautiful buildings. But by the time the scheme was approved by officials, entrepreneurial Londoners had already rebuilt their shops and houses. Only St Paul's Cathedral matched the original plans. In Europe fintech developments are happening in any case, but without practical plans from the regulators we badly need.

Unfortunately, it takes time for primary EU legislation to be agreed, and then time to trickle down changes to local markets. Change takes years or decades. Fundamental regulatory change is glacial compared with changes in the market. Abandoning the pan-European approach cannot be the answer. Fintech needs consistent regulation across Europe. Even with the possibility of a Brexit ahead, growth of UK fintechs depends on access to sizeable and uniform markets, as we see from the US model. But we also need that regulation to allow for a more flexible response to rapid technological change.

We have in Europe a great deal of co-operation between regulators both in the field of financial services and in privacy. Should the UK vote to remain in Europe in June, the European Commission, the European Parliament and the European regulators must exercise their might and judgement to build a regulatory framework that is clear and simple. Europe must allow businesses to grow – through whatever channels may be demanded by consumers. Of course, our financial and privacy regulation must protect consumers properly and ensure confidence in the markets. But with faster and better responses from the government and the regulators, we may be able to give fintech in Europe the backing that it deserves. ●

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