MoneyMarketing

The Year that went bear-shaped

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Sour taste of Lehmans

Ray Boulger, senior technical manager, John Charcol

It was really not until early this year that it dawned on people generally that things were going to get a lot worse before they got better.

As a consequence, we saw a mass exodus from the market in February of 100 per cent plus mortgages and then 100 per cent mortgages.

The first half of the year was marked by lenders progressively tightening criteria as it became increasingly apparent that funding was going to become an issue so that was a steady trend until the end of June.

Then things started to improve and we saw some lenders come back into the higher-LTV market in a limited way and things were improving quite steadily. Fixed rates started to come down as interest rates started to fall until mid-September when the Fed made the biggest mistake of the whole credit crunch period in my view by allowing Lehman Brothers to go bankrupt.

That destroyed what confidence was beginning to return to the market and consequently lenders rapidly drew into their shells again with money becoming extremely difficult to borrow in the money markets.

Obviously, we saw the Government bailout in October and that is beginning to have some modest effect but things are still very difficult in terms of the wholesale markets.

The thing that stands out most is that having the tripartite authorities controlling the banks has been an abysmal failure.
**Kevin Duffy,
managing director,
Mortgageforce**

The lowlight of the year would be the tardiness with which the tripartite authorities dealt with what was admittedly an extraordinary set of problems.

I think Chris Cummings and the role that the Association of Mortgage Intermediaries has played has been a defining success of this year. They are far more prominent and recognised and respected by the tripartite authorities, particularly the FSA, than used to be the case.
The Government's attempt at shared- ownership schemes have been a huge disappointment. They are very badly marketed and oversophisticated.
I think we will look back on that singular decision by the Americans to let Lehmans fall by the wayside as being the single most ill-conceived decision because it created a climate of huge mistrust, between banks and of banks.

As a result, we had the incredible situation where Libor remained well in excess of the base rate for three to six months, during which time some of the damage which had been done could have been mitigated.

A silver lining to the year is that the Bank of England has now acted with a sense of urgency and conviction and the interest rate cut of 1.5 per cent pretty much took everyone by surprise and finally demonstrated that they can make big decisions quickly.

Personal accounts failing all the tests

Tom McPhail, head of pensions research, Hargreaves Lansdown

I am delighted that we have had another pensions minister because you can never have too many pensions ministers. It is good that the Pensions Bill has gone through. There are still some issues there. It was interesting earlier in the year when the numbers on the impact of means-testing emerged, showing the fact that an awful lot of people saving into personal accounts won't be better off.

This was data coming from the Department for Work and Pensions so I think it has confirmed many people's worst fears about personal accounts that they are likely to be a bit of a damp squib and that is disappointing.

Obviously, the events of September and October in the investment markets and the wiping out of £200bn-plus of pension savings was of passing interest.

It is good news that public sector pensions has now become something that is acceptable to discuss in polite society. I think that has really got on to the radar this year.

There was a continued decline of final-salary schemes and I am surprised there are any still open.

I think you could argue that 2008 was a year when third-way products established themselves as having genuine potential. What they have not yet done is really managed to translate that potential into a meaningful impact in the marketplace so that is really a story to watch in 2009.

John Lawson, head of pensions policy, Standard Life

I suppose it was a good year for pensions. We had the Budget at the end which made pensions incredibly complicated and capped the lifetime allowance at £1.8m and the annual allowance at £255,000 in 2012.

It also introduced a new tax band for higher-earners - one at £100,000 and one at £140,000 and one at £150,000 - all these complications are good for pensions because the best way to avoid higher taxes has always been to make pension contributions, so there is lots of opportunity there, despite the fact that it might, on the face of it, appear like bad news for higher-earners.

On personal accounts, any future regulations are of little importance now that we know the qualifying earnings' issue has just been a waste of time and effort.

That has probably been my main bugbear of this year, we have wasted a whole year, arguing over this point, and put an enormous amount of effort into this and yet we have got nowhere with it. We have only got three years until personal accounts come in.

We need to start some hard work now. It should be top of advisers to do list in the new year.

Pillars have cracked and collapsed

**Justin Urquhart Stewart,
marketing director,
Seven Investment Management**

This is a generational event we are living through which, first, is frightening for everybody and, second, is actually providing possibly the best opportunity that professional advisers have had in 20 years.

I don't think anyone saw that final lurch down after Lehmans collapsed. The pillars of the banking system have cracked and collapsed.
We are used to the odd bank going down but seeing this wholesale destruction and the incompetence of the Govern- ment and the tripartite arrangement is new.

This was a year when those who did use asset allocation wisely, actually prevented a loss of money.

It shows that proper discipline, as opposed to educated guesswork, provides a way forward. There is no substitute.

New Star is an example of a typical company which obviously had financed itself from the joys of private equity without realising the risks of fund management. Before you know what's happened, all your hard work with the brand has just been destroyed.

We started the year with vibrant fund managers, we finished the year with a good chance that we could be losing up to 20 or even 25 per cent of our fund managers in London.

The shape of the fund management world has changed from dominating asset actives to weakened actives and growing levels of passives. There is also a distrust of packaged and structured and guaranteed products.

Darius McDermott,
managing director,
Chelsea Financial Services

It has been just a phenomenal year in investments. I remember seeing Bill Mott in the middle of October and he said that fund- amentals have gone out the window. The markets are not acting rationally at the moment.

This year has been about September and October and it is pretty much all I will remember about it.

Subsequently, there have been a load of job cuts in fund management and New Star has finished the year off as a substantial casualty of the market and having some performance issues as well.

The pre-Budget report was an absolute waste of taxpayers' money. I believe something should have been done to try and stimulate the economy but I do not believe that VAT savings were the way to go.

The Government should incentivise Middle England to save by returning good tax treatment to Isas.
You could write a whole story on the oil price - up to $148, then back to $48.

From a product point of view, the success of the BlackRock absolute alpha has got people looking to launch other similar types of products.

There are going to be years when almost every strategy fails and I would suggest that this is one of those because of the severe nature of the downturn both in markets and economically.

Money is being retired at 1,000,000mph

Richard Hobbs,
managing director
Beachcroft Regulatory Consulting

The banks are retiring money at a million miles an hour and the money supply is being reduced very sharply by the private sector.
That is putting a huge strain on the asset side of balance sheets of life offices and making life extremely difficult for financial advisers because the security of investment choices is made more difficult for the foreseeable future.

Tripartite regulation completely failed. The tripartite system has a very serious flaw in it because it basically allows banks to use internal models to assess risk. Therefore, the amount of risk taken on to their balance sheet or the amount of regulatory capital that they hold is like putting foxes in charge of the hen coop.

It is a watershed year and it has been a salutary lesson for global regulators that you cannot trust financial institutions with internal modelling techniques as much as they had thought.

Fear and greed remain powerful forces in markets that they regulate.

The main good point in the retail distribution review is the recognition that professional standards need to rise. The riskiest part of the RDR package is the piece on remuneration. Proposals for remuneration are founded on the proposition that product providers control levels of commission. It is not clear that they do.

It seems much more likely that large distributor firms control the level of commission and in that case, the prescription in the RDR appears to be faulty.

New thinking boosts products

**Peter Chadborn,
principal, CBK**

What has been good is prov- iders' apparent appetite for thinking outside the box with new products. Prudential led the way at the tail-end of last year and Fortis took up the baton with Your Life Plan and Real Life Cover. LV= has also come in with its hybrid IP and MPPI plan mortgage and lifestyle protection.

Payment protection insurance was the big story of the year with numerous fines and the proposed ban by the Competition Commission on its sale within 14 days off the back of a loan. I do think it is a drastic step but most of the people against it are so because they have got vested interests - they know that their product does not stack up well compared against the rest of the market.

I think there is a sense of apathy among advisers about the RDR as it looks like the banks will get their way and it will not really make much difference to advisers like me.

Protection sales have slowed down because most protection is considered off the back of a mortgage.

That said, the poor economy does represent a good opportunity for advisers because consumers in general are feeling exposed financially.
More than ever now, people are wanting to know where to turn to get good protection advice.

Source: Money Marketing