An Outlook from Across the Pond

New PIBA Professional Indemnity Scheme
Getting the Best Value Mortgage
Chairman’s Remarks

Welcome to the winter issue of *The Professional Insurance Broker* magazine. The theme of this issue is investment and client solutions. I hope you will find it both informative and useful.

The last quarter has been a very busy period for PIBA. During this quarter members of your Executive Committee had two opportunities to meet members throughout the country. This is always a very valuable exercise. We hope you enjoyed the PHI seminars hosted by Friends First and the pensions and investment seminars hosted by Irish Life. Your executive is very appreciative of the support offered by these two companies.

I’d like to thank all our members who completed our service survey in the past month. We have had a big increase this year in the number of members who responded and we expect this year’s survey to be a great success. We are always conscious of the demands on your time and we are very pleased that you took the time and effort to complete our survey in such large numbers.

By now I am sure you are aware that professional indemnity becomes compulsory for all our members from the 15th of January 2005.

PIBA have been active for some months now sourcing a more competitive provider. We have identified a new provider and are in the process of finalising a new scheme for PIBA members with very competitive rates and benefits. Your Executive Committee has recently appointed NCG Professional Risks Ltd, London as our new Brokers and details of the scheme are included in this edition’s article by our CEO.

PIBA are delighted to announce that Liam Carberry, PIBA Committee member and Chairman of the Life/New Business Development Committee, has been appointed to the Industry Consultative Panel. We wish him every success in his new role and we are confident that he will ably represent Brokers’ views.

I would like to wish you every success for the balance of 2004. As we look back on this year PIBA are delighted with the progress that we have made. We successfully lobbied IFSRA and the Department of Finance on your behalf and we have been instrumental in keeping Broker issues to the forefront in the minds of the legislature and the regulator. We promise to carry on working hard on your behalf in 2005.

I hope you enjoy the upcoming festive holidays and I wish you a Merry Christmas and a very happy and prosperous New Year.

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We have now reached the end of the pensions self-assessment deadlines for yet another year. The huge increase in sophisticated and complex pension offerings throw the knowledge required in the intermediary market into stark contrast to that which was historically accepted as the norm.

During the PIBA Irish Life sponsored seminars in early October the standard of questions directed at the speakers showed that the level of knowledge and understanding of both product offerings and client expectations is continuing to advance. In a society that continues to prosper, and with the increasing wealth generated as a result of economic growth, investors not only expect but demand high levels of expertise from their chosen advisers.

The news of Elliot Spitzer’s (Attorney General, New York) actions against various Brokers, companies and product providers again brings the role and practices of the intermediary under scrutiny. It is therefore imperative that the Broking community continues to operate using the highest possible standards when dealing with clients.

With the impending implementation of the Insurance Mediation Directive (IMD), much greater emphasis is going to be placed on competence and education within the investment intermediary community. The provision of sound investment advice and solutions by competent individuals is now going to become a prerequisite to operate in the intermediary market.

In this edition we have two features that represent differing perspectives on the investment markets. This reflects the increasing appetite for knowledge within our membership. PIBA are committed to providing the membership with an ever-evolving knowledge based educational platform. We intend to promote this by way of contributions and articles to help Brokers not only understand but advise on the unfolding developments in the offerings of product providers.

During the previous six months both the national pensions awareness week campaign run in Ireland and the report of the Pensions Commission in the UK have highlighted the lack of participation in and understanding of the nature of pension planning.

The very real possibility of people not only needing to contribute more but also having to work longer will require an even greater input from their pension advisers.

The perceived lack of uptake in the PRSA market and the continuing low participation by employers in company sponsored pension arrangements is adding fuel to those who believe in compellability. There is a real possibility that in the near future the Government will be forced into making people provide for their own pensions.

This has already been implemented in other countries as the only effective method of ensuring that people take responsibility for their own retirement. Should this situation transpire then the likelihood would be that greater regulation and competency requirements for those dealing in the area of pensions advice will follow. This can be expected to add greater impetus to the practice of Continuous Professional Development (CPD), which in the future will probably be the benchmark off which we all must work.
An Outlook from Across the Pond
By Dr Robert Goodman

The General Economic Landscape
By year’s end, economists most likely will begin to speculate that this expansion has the potential to last a long time. Long cycles, as we saw in the 1980s and 1990s, provide an environment in which longer-term business decisions can be made with more confidence and where investors can slowly but surely lengthen their time horizons.

In many ways, the current environment seems to approach what is described in many textbooks as a Golden Age: strong economic growth, low inflation, low interest rates, and vibrant corporate profitability. The question that investors must now have answered is this: is what we are seeing a sustainable situation or is it only a temporary aberration?

The Fed At A Crossroads
In order to maintain a sanguine view of our economic future, as I do, it is necessary that the Federal Reserve Board continue to follow the dictates of the marketplace. The Fed, in my opinion, has acted responsibly in giving the economy all the liquidity it required to foster the current economic expansion. It successfully avoided a potential deflation by reducing interest rates to levels not seen in almost half a century. As of this writing, the yield on 10-year Treasury bonds is about 3.75%.

For investors, any upward adjustments in the federal funds rate at this stage of the business cycle should be taken as extremely good news. It will be the best indication of the Fed’s belief that this economic expansion is sustainable.

Fiscal Policy: Certainty Versus Uncertainty
It has long been known that investors crave certainty. Good or bad, we just want to know what the rules are. The fact is the tax cuts put into place last year provided investors with a good deal of certainty. We know that we have a tax cut in place, how large it is, who received it, and to what degree.

We also know that in fiscal 2004, the U.S. Government will generate a budget deficit approaching or perhaps even exceeding $500 billion. That number is mind numbing. To put it in perspective, if we were to begin counting at the rate of one dollar per second, it would take us more than 16,000 years to complete the task. If investors focus on that number, as the media certainly do, they leave themselves open to making the same mistakes that investors made in 1981. That year, a massive tax reduction package was enacted into law.

Dire warnings echoed up and down Wall Street. One sure consequence, we were assured, was that the Government could triple its outstanding debt within ten years (and it did!).

But the economic growth unleashed by appropriate fiscal action caused the economy to expand for eight and a half years, and as a result, the burden of the debt (debt divided by GDP) was reduced over the decade.

The equity markets responded to these events by tripling within a five-year period. Some of the rhetoric we are beginning to hear today is reminiscent of that period. The fact is the deficits we are experiencing now are absolutely appropriate, given the size of the economy and the risks to economic growth that were so apparent just two years ago.

Therefore, the question we should be asking now is: are these deficits cyclical or structural in nature? In my view, they are cyclical. While Washington will most likely experience budget deficits for the next decade, revenues will grow even faster as the economy continues to expand, and as a result the burden of the debt will remain quite manageable.

The Employment Dilemma
Wall Street and Main Street have become mesmerised by the employment statistics. It seems that no one can understand why, after three years of economic expansion, the employment picture remains dim. Maybe the answer lies in the nature of our economic system. Resources will always seek their most productive use. Any attempt by the government to protect American labour from this natural tendency will increase inefficiency in our system and reduce corporate profitability.

The fact is the U.S. economy is undergoing major structural transition. Protectionism, regardless of the reason it is instituted, will ultimately harm everyone. While the economics are clear, so are the politics. The short-term benefits of arbitrary and politically driven solutions could lead to long-term economic instability. As of this writing, the market solution seems to be winning, but investors must continue to monitor events carefully in this regard.

Investment Implications
In an election year, it is likely that from time to time the equity markets may become disconnected from economic fundamentals. For example in 2002, while the economic numbers were continuing to improve, the market languished as it seemed to ignore the progress. As a result, the market became a coiled spring. Then, in 2003, that energy was released as the market finally began to adjust itself to economic reality and delivered positive performance.

Therefore, in the coming months, any pullback in the equity market that is unrelated to economic events should be seized as an opportunity for investors to reposition assets by rebalancing portfolios and maintaining risk appropriateness — important keys to achieving long-term investment success.

The preceding is the economic commentary of Dr Robert Goodman, Economic Consultant, and should not be construed as investment advice.
Your clients have saved long and hard for their retirement. And with generally improved health in later years and medical advances, it’s not unusual these days for a retirement to last thirty years or more. So, any decision you and your clients make at the time they retire is going to affect how they live for many years to come.

When structuring your client’s retirement income portfolio, there are a number of things to consider, e.g. the amount of retirement income the client needs, the level of risk they’re comfortable with and the source of the retirement fund. An annuity is one of the most straightforward retirement contracts on the market and can form the core of any pensioner’s financial retirement strategy. In fact, for many people approaching retirement, it is the only option.

Once you decide to advise your client to use all or part of their retirement fund to purchase an annuity, your next step is to find the best annuity on the market. In the latest independent survey on Irish retirement annuities, the difference between the best and worst provider can be startling.

Let’s take the scenario of a 60-year-old man with a retirement fund of €100,000 to spend. He could buy an annuity of €6,721 a year with the most competitive provider or €6,180 a year with the least competitive provider. The difference between these providers is €541, that is potentially €541 income out of the client’s wallet every year! Over a thirty-year retirement, going with the worst provider could cost him over €16,000. For someone with a fund of more than €100,000, the difference would be even greater. It’s clear from this survey that it always pays to shop around!

Nowhere can the benefits of independent financial advice be more apparent than in the area of annuities – your client can see immediately the saving by getting you to shop around on their behalf.

Notes:

➤ The source of the table is BDO Simpson Xavier’s traditional retirement annuity survey for single lives dated 1st October 2004.
➤ Figures assume an annuity, payable monthly in advance and guaranteed for five years with no escalation (2% commission payable). Figures quoted are per annum amounts before PAYE income tax and Pay Related Social Insurance are deducted.
➤ A 5% director is one who, either alone or with their spouse or minor children, owns, or has owned at any time in the last three years, shares representing 5% or more of the voting rights in the company providing benefits (or in a parent company).

When an annuity is…

…the only choice
An annuity must be taken out:
➤ using the main scheme fund of an employee (who is not a 5% director of the company) who is a member of an occupational pension scheme,
➤ using the main scheme fund of a 5% director who decides to take their tax-free cash lump sum based on salary and service rather than going down the 25% tax-free cash route,
➤ when a client is taking out an ARF and - needs at least €12,700 a year guaranteed income as proof that they don’t need an AMRF, or - wants to invest €63,500 in an annuity instead of an AMRF.

…the best choice
For a client who has choices (e.g. personal pension policyholder, PRSA policyholder, AVC holder, 5% director), an annuity is generally the best choice when:
➤ a minimum level of income is needed in retirement,
➤ they cannot afford to take any risk with their income in retirement,
➤ they do not wish to take any risk with their retirement funds, or
➤ they want a guaranteed income for life.

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Responding to Regulatory Needs

A number of new technology firms have come on the scene in the last few years to meet the challenges presented to Brokers in converting the IFSRA rules into good business practice. It is critical not to shy away from technological advances but rather embrace them and use the technology that is available to our advantage. Before the current compliant culture developed, the telephone and postal service were our most important means of communication. While it remains the case that many clients prefer the personal approach in their dealings with Brokers, in the day-to-day operation of a Broker’s office technological advances come into their own. It is now easier than ever before for Brokers to provide a thorough and fast service to clients as a result of these new facilities.

Online Facilities increasing

Following the appointment of the financial services regulator, new service companies developed independent specialist websites to provide the Broker with immediate facilities to research the market thoroughly and quickly. Insurance companies developed Broker websites containing information on their products. Some have the facility to quote their products and view client policy information. Insurers and service providers alike are constantly improving the available features. Software is available to store client information, which can be used to incorporate fact finds and needs analysis. However this area of technical development is still in its relative infancy and we would expect to see major improvements over the coming twelve months. A Broker using a system such as Adviserplus is able to meet the challenges of increased customer expectation and transparency in advice and charges. Incorporating product search engines as a tool for compliance, the Broker is able to quickly and accurately research the products available. Covering life, pensions, savings, mortgages and investment products the emergence of this type of website enables Brokers to operate within the regulatory framework without having to search for products and premiums from each company in turn, thus researching the market efficiently and comprehensively.

Information Superhighway now a Reality

Client solutions have been developed with Brokers in mind and serve to strengthen the independent financial adviser. Those who have already invested in their chosen solution are getting the latest advances in dedicated software and have rapid access to online support of the highest quality that is tailored specifically to the Brokers’ day-to-day needs. Online business is here to stay and given its convenience and efficiency, it is time for those who have yet to ‘switch on’ to the information superhighway to give serious consideration to their future business practices.

Making a Decision for your Firm

When evaluating any system for your business, the transparency of the service along with its ease of use, and of course reliability, is an important consideration. It is vital that there is the opportunity to test the service before committing to becoming a paying user, along with the availability of someone from the company to talk you through the system and its features to ensure that you get the best from it during the trial period. In-house technical staff is vitally necessary for ongoing development of the service and to answer any relevant technical queries that users may have. The service provider should always be willing to make available the contact details of some of its existing users, who have no financial or personal interest in the company, who can give you an unbiased opinion of the service they have been receiving on an ongoing basis. And finally, it is important not to let personal contacts or high-pressure sales techniques divert you from making the right decision for your company.

Seamless Integration on the Way

Looking to the future, the online submission of application forms directly to product providers, which is currently available with a minority of insurers, will expand; and with it the need for business administration and client management systems that can support a Broker’s business process from the initial contact with the client through to ongoing policy servicing and client relationship management. From here, the final stage will be to link these systems directly to the systems of product providers to enable seamless processing from initial client contact to policy redemption. While the broader vision may not be applicable now, it is just around the corner, and so at Adviserplus we are developing our services to meet all of the existing requirements of the Broker community and facilitate seamless integration with further developments in this area.
We are experiencing sustained growth of Irish investment in the UK residential property market, a trend which is likely to continue for the foreseeable future.

We have seen our UK business grow substantially in each of the last three years and a year on year growth of 30%. This growth is a reflection of a move in investor activity away from the Irish market and an increased level of UK property being purchased by Irish investors. Our prediction is that this trend will continue for the foreseeable future, with Irish investors continuing to purchase UK residential property for some time to come.

An ongoing shortage of housing supply combined with rising employment and the continuing growth in income levels should continue to offer strong support to UK house prices. Whilst UK house price increases will not continue at the same levels we have seen over the last few years, we do expect prices to continue rising at more modest levels. UK house price inflation will ease to somewhere in the region of 7% to 8% in the next twelve months, representing a healthy ‘soft landing’ for UK property values.

Official interest rates in the UK were increased on five separate occasions by the Bank of England in the ten months to August of this year – meaning price increases have already slowed. However each increase of a quarter of a per cent was relatively modest in magnitude. More importantly, it now appears that this early and speedy action means only a marginal further rate rise will be needed to keep the UK economy on a solid path. A likely peak of the UK interest rate cycle in the region of 5% is unlikely to threaten UK house prices.

UK residential property is widely regarded as a good investment alternative to Irish property due to a number of positive factors. These include better yields, a strong and established rental market, lower costs associated with acquisition (for example stamp duty), the lower cost of the property itself and the wide availability of good quality property in many UK cities. With all these factors, combined with easy access between Ireland and the UK, it is not surprising that many Irish investors are looking to the UK in search of investment opportunities.

Whilst traditionally Irish investors purchased in London and the South East, they are now purchasing in all major cities throughout the UK, which are also offering strong yields. Whilst London continues to be the most popular city for Irish investment, over 50% of IIB’s lending took place in the Midlands and Northern England. Not only are Irish investors active in all cities, but also in all price brackets, ranging from £100,000 to £500,000 plus.

Recently a real supply and demand issue has arisen in the UK housing market. On the supply side, new house numbers have remained static since the mid 1990s at around 175,000 units per annum. In fact, there were fewer houses built in the last six years than in any six-year period since the 1920s. The demand side, on the other hand, has been driven on by demographics, including divorce and separation, and longer life expectancy. To put UK housing completions in context, if Irish house building was running at the same pace as that in the UK, about 9,000 new homes would have been built here last year rather than the 69,000 completed.

One important point to stress is that anyone planning overseas investment should ensure they fully research the varying influences on the local market before they commit. This means using your own due diligence and investigating the merits of the particular location, the local rental market, property values etc. Investors should bear in mind, in a market where house prices are rising by single digit inflation, not all properties will increase in value all the time. Despite the expected slowdown in house price growth, there are still opportunities for the canny investor. Areas worth considering are those affected by urban regeneration, transport improvements or gentrification.

Following a two-year period during which rent levels have remained static, there is now evidence that rents are slowly rising. Whilst house prices were rising, rents did not move due to a large supply of rental accommodation coming onto the market. However, higher house prices means that a growing proportion of first-time buyers are deciding to put off buying their own place, choosing to remain in rented accommodation. The resultant increase in demand for rental properties is driving the pick-up in rents.

Purchasing property in the UK and the legal procedures that go with it are not something that Irish investors should be afraid of. Seeking good independent professional advice on all property and financial matters is key to a smooth and successful transaction.

For further information contact your Broker or the IIB Homeloans UK property desk on (01) 6035679.
There is now intense competition from overseas markets. 

➤ The tax incentives that have been such an important driver of the holiday home market are set to be phased out and will become a less common feature of the market going forward.

➤ There is growing pressure on the Government to broaden the tax base in order to fund the provision of better public services. The taxation of second homes is one such option that a future government might contemplate.

However, another factor to be considered is immigration. Immigration did not play a key role in Tiger I (migration only turned positive in 1996) but will feature more prominently in Tiger II, averaging 30,000 per annum. A larger proportion of these workers will come from the new EU member states, which are not a competitive threat to Ireland, but rather provide a pool of potential workers. Unemployment in many of the states is very high, so the tight labour market in Ireland will continue to attract those seeking job opportunities. These people will, in turn, often settle in Ireland for a period at least and will be both purchasers and renters of property.

Finally, while interest rates may rise a little, they will not rise to any significant degree to slow down the uptake in mortgages.

Jim Power points out that just like the US Federal Reserve, the European Central Bank is obviously now of a mind to start gradually taking rates up from abnormally low levels to what it would regard as more normal levels. Based on the still-weak German economy, it would be somewhat surprising if the tightening commenced this year, but it is now a question of when rather than whether. The current expectation is that ECB rates could rise by 1.5 per cent by the end of 2005.

Mortgage Advisors should also note the increasing trend in the number of apartments being built. The Bank of Ireland Quarterly Analysis shows that there were over 3,800 apartments built during the first Quarter of the year, which accounted for 23% of total completions, the highest share on record.

And, in terms of geography, 3,670 housing units were built in Dublin, accounting for 22% of total national supply. If you take into account the surrounding counties of Meath, Kildare and Wicklow, this area accounts for 34.5% of all completions.

All these factors point to a more even trend in mortgage applications than we have witnessed in the last five or six years. All the evidence is that we can once again ignore the prophets of doom and gloom and look forward to a healthy, but more restrained marketplace going forward.
So what does all this mean for the Mortgage Advisor?

Firstly, in order to remain attractive to the consumer, a Mortgage Advisor must be able to continue to offer what the financial institutions cannot, a highly personalised service, tailored to the needs of the client. That is why 40 – 45% of all residential mortgages are executed through the Brokers.

Mortgage Brokers should begin by reviewing all office procedures on a regular basis. This means reviewing the performance of office PCs and all equipment and software programmes, which are a basic requirement to the running of an efficient office. Careful attention should also be paid to the client database to make sure it is checked and updated regularly to take into account any change in contact details.

As all mortgage Brokers are aware, Terms of Business must be furnished and a fact find completed in full at the first meeting with a client. While much business is and will continue to be conducted over the telephone, mortgage Brokers are also advised to keep their clients informed in writing of the progress being made.

I would recommend that all clients should be written to at least seven times during the course of the preparation of a mortgage. The suggested letters are as follows:

➤ The first letter to be sent within 24 hours if possible - should thank the client for offering the business and should confirm the plan of action as outlined at the first meeting. It should stipulate the documents and information that the client needs to provide.

➤ The second letter should thank the client for furnishing the documentation and outline what financial institutions the Broker will be approaching for a mortgage quotation.

➤ The third letter should confirm by who or how many institutions the client has been approved and state that the Broker will now assess their relative merits. The letter should also specify what further documentation, if any, is still outstanding.

➤ The fourth letter should include a copy of the valuation certificate, which should have been completed at this point.

➤ The fifth letter should include details of all offers and specify the one you are recommending. It should also suggest a date and time for a meeting with the client to discuss the final choice. It should also state the intention to discuss the other insurances including mortgage protection, etc.

➤ The sixth letter should confirm the mortgage is now in place and specify a closing date.

➤ The seventh and final letter should thank the client for the business and deal with any outstanding matters.

I would also recommend that the fifth and all subsequent letters should be copied to the client’s solicitor and any other party involved in the transaction. This represents a further mark of professionalism and clears up any likelihood of confusion arising at a later date in the event of a dispute of some kind arising.

Another area I feel is not given due attention is that of the so-called ‘other insurances’, namely income protection, repayment protection and home insurance. Ideally, in my view, the Broker should provide all these services if he or she is to offer a truly full service. If not provided directly in-house, then the Broker should be in a position to refer the client to a reliable partner or colleague who can offer the service.

Of course, the closing of the mortgage is not the end of the Broker’s dealings with the client. The contact should continue into the future and should be maintained on a minimum of a yearly basis.

There are many reasons for this, not the least of which is the potential for referral business.

As the growth in new mortgages may decline somewhat in the immediate future, many people will remortgage existing properties for many reasons. They may also consolidate existing mortgages into more manageable or longer agreements. This, in my view, will be a huge area of growth and one that all PIBA Brokers should monitor carefully.

Mortgage Brokers should now maintain regular, ongoing contact with all clients so that they feel they are informed and kept abreast of happenings in the marketplace. One of the best ways of keeping in contact is by the preparation and circulation of a lively and informative in-house newsletter. This should be published at least once a year.

The newsletter should be carefully planned and designed to maintain the interest of the reader. Rather than quoting economic data, it should show actual case studies of mortgage applicants and the procedure they went through in purchasing a home, an investment property at home or abroad or a holiday home. Most clients will have an interest in one or all of these items and will warmly welcome useful data to help them make a possible future purchase. The newsletter should also contain items on changes in staff in the Broker’s office, introduce new members and advertise any new services.

There are other innovative methods of maintaining contact, the theory underlying them being that contact should be maintained on a regular basis into the future.
Compliance Update

By John Hogan, Chairman, PIBA Legislation Sub-Committee

As always, legislation continues to be a talking point for our members, with further legislative and regulatory changes on the way. The Legislation Sub-Committee has been working steadily behind the scenes lobbying the regulator and finance officials on your behalf. We have a new member, Emer O’Flannagan, and we are confident that she will bring fresh, informed opinions to our meetings.

This year we launched our Compliance Manual, which gives practical assistance to members. Since its publication there have been a few important changes and I would like to update you on those key areas now.

CBFSAI Act 2004

The CBFSAI Bill No. 2 was signed by the President on the 5th of July. Most of the provisions took effect from the 1st of August. From January 2005, the definition of an intermediary will be amended as follows:

“mortgage intermediary’ means a person (other than a mortgage lender or credit institution) who, in return for commission or some other form of consideration —

(a) arranges, or offers to arrange, for a mortgage lender to provide a consumer with a housing loan, or

(b) introduces a consumer to an intermediary who arranges, or offers to arrange, for a mortgage lender to provide the consumer with such a loan;”

This is an important change, as anybody who refers business to a mortgage Broker in return for commission or some other form of consideration will be required to complete the same application process as mortgage intermediaries are currently required to complete.

At the moment it is common practice for accountants, builders, auctioneers and solicitors to refer mortgage business to a mortgage Broker for a reward of sorts. This will be illegal come January if they themselves are not authorised as mortgage intermediaries. In short, come January, to refer mortgage business to a mortgage intermediary in exchange for a monetary reward you must be authorised as a mortgage intermediary yourself.

There are two important things to note. Firstly, only one letter of appointment is necessary to apply for authorisation and this can be given by the intermediary who receives referrals to the introducer. And secondly, the IFSRA levy will apply.

On the 1st of April next year the provision that sets up the new statutory financial services Ombudsman and the Industry Consultative Panel will take effect. Liam Carberry, PIBA Committee member and Chairman of the Life/New Business Development Sub-Committee will sit on the Industry Panel. He will play an important and active role in advising IFSRA on industry matters.

Codes of Conduct

IFRSA are currently reviewing the codes of conduct for insurance and mortgage intermediaries. PIBA have attended meetings with IFSRA and have put our views forward.

Money Laundering

In September guidelines issued from IFSRA with the approval of the Money Laundering Steering Committee took effect. You must in all circumstances Know Your Client (KYC) and retain identification records for at least six years from the date of the last business transaction. The Compliance Manual goes through this topic step by step but there has been a major change to the operation of your business in that your Money Laundering Reporting Officer (MLRO) now also has to report any suspicions of money laundering to the Revenue Commissioners.

EU Insurance Mediation Directive

This Directive was introduced by the EU in December 2002. Ireland must put its requirements into place by the 15th of January 2005.

Given the level of regulation introduced in recent times, a significant number of the key points are already in place, e.g., factfinding and Reasons Why letters.

There are two key issues that will affect the way you conduct your business:

Professional Indemnity: A mandatory requirement for PI cover of €1m. per claim, with an overall total cover of €1.5m. The PIBA PI scheme will be automatically updated to ensure that renewals after the 15th of January 2005 will have a €1.5m. limit of indemnity.

Competency requirements: In April this year IFSRA issued a consultation paper on mandatory competency requirements. No decision has yet been made. IFSRA has assured us that Grandfathering will be introduced.

There are numerous other items on the legislative agenda, including a submission to the Department of Finance regarding the Consolidation and Simplification Bill, the Competition Authority Final Report, the Morrogh Working Group and European consultations.

As with everything else the membership is the backbone of our association. I would like to thank all those members who actively contributed time and effort to help us in our efforts to keep Brokers’ issues alive in the political arena. I would ask that you continue to lobby your local politicians when important issues arise. We will keep the membership informed of any regulatory and legislative changes in advance. In the meantime, if you have any questions or if you would like to pass comments or seek advice in how to best lobby your local politician, please contact compliance@piba.ie
PIBA, in association with Friends First, has recently held a number of seminars around the country on the topic of permanent health insurance. Venues visited included Dundalk, Galway, Cork, Waterford and Sligo as well as the following venues in Dublin - Cherrywood, the Great Southern and the Citywest Hotel.

The seminars were given a very warm reception as they covered many issues of interest to Brokers.

The PHI / income protection market is relatively small and is currently estimated at €25m. It is also estimated that only 6% of the Irish market is covered by income protection or PHI, and therefore there is an opportunity to significantly grow this market over the next 3-5 years.

Facts on PHI

The following are a few interesting facts that Brokers may or may not have known about the PHI opportunity:

➤ For most of your clients, their future income is their largest asset. Simply multiply their current salary by the years left to their retirement and see how large an asset it is. For example, a person aged 40 earning €60k will earn €1.5m. before retiring at 65. If you allow for inflation of just 3% p.a., this figure grows to €2.3m. This is what we are protecting with PHI. Most people will insure smaller assets such as car and home.

➤ Self employed people get nothing from the State if they are out of work due to illness or injury. If appropriate cover is not in place, either the business or family assets may need to be sold to replace lost income.

➤ Most employed staff will get no more than 26 weeks ‘sick pay’ from an employer and the State disability benefit is only €225 p.w. for an adult (with a dependent).

➤ A 33-year-old, earning €80k and with €100k of bank savings, would be able to maintain a €45k annual lifestyle for only two years before they would have to sell other assets such as their home or business, if their income stopped today.

➤ Friends First paid out €9.3m. in claims to PHI clients in 2003.

➤ 92% of PHI claims to Friends First are paid. The average claim term is five years.

➤ 60% of PHI claims would not give rise to a critical illness claim under any ‘top of the range’ critical illness product. Therefore, a client is more than twice as likely to claim under PHI as under critical illness. PHI is far broader.

➤ At the recent workshops there was a huge level of interest in the optional ‘back to work’ programmes that Friends First provide on the policy. Their experience has been that most PHI claimants are keen to work if they can and Friends First provide the following services to facilitate this:

➤ Rehabilitation services help people get back to their own job either on a full or a limited basis.

➤ If it is impossible for a person to return to their normal job and they are keen to try a new career, we can provide retraining services to facilitate this.

➤ Friends First also ensure that any income deficit arising from either returning to work on a limited basis, or opting for a new career, is bridged by the income protection benefit. This can mean that your client receives a total income that is greater than their PHI benefit following a limited return to work.

PHI offers Brokers an opportunity to diversify their income in a profitable way, while providing clients with a very important coverage at a reasonable and competitive cost.

As leaders in the individual PHI market, we will continue to build on our efforts to significantly increase the demand for PHI through the Broker market, and we are committed to helping Brokers to maximise the PHI opportunity in 2004.

Finally, I would like to thank all at PIBA for their help and support and all Brokers who attended the seminars. PIBA now looks forward to enjoying a long and strong relationship with Friends First into the future.
QuickQuote from Assurelink now available Online!

Comparing quotes is now even easier with the latest rates online at www.assurelink.ie

In 1993, Ireland’s leading Broker-focused life assurance companies came together to support the independent financial adviser through information technology, founding Assurelink. Assurelink offers the life and pensions Broker a wide range of services to fulfil their e-business needs.

As of October 2004, Assurelink has over 2,000 registered users representing approximately 1,000 Brokerages nationwide.

Assurelink offers a range of services, encompassing OmniView, OmniQuote, QuickQuote, Document Store, free training and an online Knowledge Base. There are huge benefits in terms of rapid and secure access to policy information, fully underwritten quotes on the desktop and workflow efficiencies to be gained from being registered with Assurelink.

And best of all, use of all Assurelink services is FREE.

OmniView is Assurelink’s client and policy enquiry software. OmniView securely transfers policy information from Canada Life, Eagle Star, Friends First, Hibernian, Irish Life, New Ireland, Scottish Provident and Standard Life to Brokers’ own computers. Brokers can then check clients’ details, commission, pipeline business and policy information on OmniView. OmniView links seamlessly with OmniQuote, Assurelink’s quotation software.

OmniView saves the Broker time and increases efficiency by providing client reports automatically, such as an Annual Client Review. OmniView also has the potential to integrate with client administration systems, facilitating the transfer of policy data, thus making the updating of client records quicker and easier. Assurelink has recently added a new ‘Notes’ feature to OmniView. This feature gives Brokers the option of adding a note to a client’s profile and putting in reminders about encashment requests or fund switches etc. The new ‘Notes’ feature is entirely flexible and Brokers can use it for any additional information they would like to hold on a client’s record. Brokers can now interact even further with the client information presented in OmniView, making it the most useful application on their desktop when it comes to clients’ details. It is very important to note that this secure access to policy information and the ability to make notes on clients’ records are FREE services from Assurelink.

OmniQuote, a revolutionary quotation system for life, savings, investment and pension products provides complete, fully underwritten quotations for Eagle Star, Hibernian, Irish Life, Canada Life and New Ireland. OmniQuote enables Brokers to quote instantly for over 100 products.

In a recent innovation, Assurelink has also added product information to OmniQuote. This means that while the Broker is doing a quote for a client, they can print out any of the necessary related documentation, such as application forms, brochures, key features etc., at the same time. Brokers can also go directly from OmniQuote to the Document Store on the Assurelink website, which provides additional documentation such as investment bulletins, reports and more.

Using OmniQuote eliminates the need to keep separate discs from each of the insurers. OmniQuote is currently installed in almost every Broker’s office around the country and Assurelink has to date provided free OmniQuote training to well over 1,000 Brokers and their staff.

One important issue to note is that all quotes generated from OmniQuote are complete quotes, not indicative or illustrative. They are fully underwritten by the participating insurers. This may not be true of all quotation services currently available in the Broker market.

QuickQuote is a very important element of OmniQuote. QuickQuote is a quote comparison tool that generates a number of quotations at once and ranks the results by premium. This saves time and helps the Broker meet their compliance obligations. As well as being part of the OmniQuote software, QuickQuote is also available on the Assurelink website, www.assurelink.ie, where the Broker can always be confident that they are quoting the latest rates from the insurers.

To avail of all the benefits of OmniView, OmniQuote, QuickQuote and the Document Store, make sure you are registered with Assurelink. You can register on our website at www.assurelink.ie.

For further information, please contact Suzanne Fagan, Marketing Manager, Assurelink Ltd.

Telephone: 01 294 2119 Email: suzanne.fagan@assurelink.ie
PIBA Irish Life Seminars

On October 4th and 5th of this year PIBA, in partnership with Irish Life, held a series of special seminars in Galway, Limerick, Cork and Dublin. These seminars were targeted towards PIBA members who advise on pensions and investments.

The highlight of the seminars was an address by an internationally renowned speaker, Dr Robert Goodman, on the subject of “The Global Economy: Challenges and Opportunities”.

John Hogan, PIBA Secretary and Chairman of the Legislation Sub-Committee, gave a talk on the upcoming compliance and regulatory issues that will affect the way members will conduct business in the coming months. Irish Life also had two speakers. Simon Hoffman covered selling pensions as more than just pensions and Dermot O’Brien spoke on investment options for retirement planning.
Simon Hoffman, Barry O’Sullivan and Willie Holmes, Irish Life

Keynote Speaker Dr Robert Goodman

Members: Eddie Walsh, Séamus Sheridan and Carmel Sheridan

Diarmuid Kelly, PIBA CEO, John Hogan, PIBA Secretary and Terry Hardiman, PIBA Chairman

Members: Hugh Sheridan, Terry Brady, Bartle Landy and Frank Downes

Terry Hardiman, PIBA Chairman and Dr Robert Goodman, Speaker

Gary Ellison, PIBA Treasurer and Imelda Holland, member

Lisa Gillett, PIBA and Mary Troy, Irish Life

The Professional Insurance Broker
Getting the Best Value Mortgage
the Objective of New Cork-based Firm

The financial services industry has been given a fresh injection of professionalism and enthusiasm with the incorporation of the Cork-based Buckley Pierse Purcell Financial Services outfit.

Run and managed by three qualified accountants, the fast-growing company has a skills set complementary to the investment, commercial, home loan and personal finance needs of a Corkonian and Irish public increasingly in need of such expertise.

The three founders, Eoin Buckley, Seán Pierse and Mark Purcell met when working in Apple Computers in Cork city. All three have financial and accountancy qualifications, which gives them an edge when advising clients.

Eoin holds an Honours Business Degree from University College, Cork and is a chartered management accountant. He has worked with a number of financial institutions around the world including Dresdner RCM in San Francisco, where he was employed as a fund accountant. Eoin is head of the home loans department.

Seán Pierse holds an Honours Business and Legal Degree from University College, Dublin. He is a chartered accountant and is also a member of the Institute of Taxation. Seán trained as an accountant with a Dublin firm specialising in tax planning and structures.

Mark Purcell is a qualified certified public accountant who, in addition to over six years private practical experience, also held a number of treasury positions with large multinationals. Mark heads up the commercial finance division.

All three found working with a multinational rather impersonal and decided they wanted to enter an area of the financial industry where there was far more interaction with people.

“We were seeking ways to interact with the public while using the financial skills we had gained through training as accountants,” says Seán Pierse.

So Buckley Pierse Purcell was incorporated last May and began trading in June.

All three pay tribute to PIBA, whom they found to have been a great help in all aspects of compliance.

“We were delighted with the support provided by PIBA Headquarters, our compliance guardian angel whenever we hit a stumbling block” says Seán. “In our view, the membership fee paid to PIBA has been the best money spent so far by the company.”

Though they all jump to point out the value of compliance to the industry, all three have been surprised at the cost of compliance in terms of time spent on the various aspects. Seán describes it as “an ever present daily challenge”. In this regard, they found the PIBA compliance manual most helpful.

The firm set about offering clients an all-in package: a one-stop shop where all their needs can be taken care of.

For example, in their residential property division ‘abettermortgage’, they have an agreement with a local firm of solicitors who look after clients’ legal work for a competitive fee.

“Our accountancy background allows us to give specific advice to clients in relation to stamp duty and other such issues that may be of relevance,” points out Eoin Buckley, who heads up the home loans department. Abettermortgage brands itself as ‘the value intermediary’, focusing on optimising the value of their customers’ home purchases over the life of the mortgage. And sure who better to advise on big financial decisions than trained and experienced financial professionals!

A lot of their mortgage business would include tracker mortgages. The firm currently has agencies with seven financial institutions.

Though still very much a new firm on the Cork scene, the firm is actively continuing to enhance its website which, along with fostering good relationships across the industry, has proven to be an effective marketing tool.

And adds Seán: “We also look forward to PIBA obtaining their first agency agreement next year and getting their teeth into the mortgage representation area.”
National Pensions Awareness Campaign 2004 (NPAC)

The most recent pensions coverage figures issued by the CSO on the 7th of September 2004 show current private pension coverage at 52.4% of the total at work aged 20-69. The CSO survey also shows that the coverage rate is 59.1% of the total at work aged 30-69. The Pensions Board welcomes this increase in coverage but recognises the need for more to be done to achieve the ultimate goal of some 70% of the total at work over the age of 30 having private pension provision.

As we see it, the first step in increasing pensions coverage is to make people aware of the need to consider their pension position and then to help them to do something about it. The Pensions Board publishes a wide range of very practical information booklets on all aspects of pension related issues. These booklets are available free of charge and can be ordered from the Board’s Information Unit on info@pensionsboard.ie or LoCall — 1890 65 65 65, or they can be viewed and downloaded from the Board’s website, www.pensionsboard.ie.

Online Pensions Calculator

The Pensions Board launched an online interactive pensions calculator on the Board’s website www.pensionsboard.ie in July of this year. The pensions calculator allows the individual to estimate how much they should be contributing to ensure adequate pension coverage in retirement. By taking into consideration the individual’s basic personal information, for example age, gender and current salary, the calculator estimates how much that person ideally should be contributing on a weekly and annual basis to their pension.

National Pensions Awareness Week 13th – 19th September 2004

Launching the five admobiles on their nationwide tour at the start of National Pensions Awareness Week, (pictured on right) actor Jamie Belton (Ross from Fair City), Anne Maher, CEO The Pensions Board, Michael McNulty, Chairman, The Pensions Board, Minister Mary Coughlan, then Department of Social and Family Affairs and model Sarah Dennedy.

We know that spreading awareness may be the easier part of the process and progress in spreading actual pension cover will only be achieved if all interested parties work together. In this regard, the Board is delighted to be associated with the pensions providers, under the auspices of the National Pensions Awareness Campaign (NPAC), who are all helping to promote pensions and who share our commitment to increasing pensions awareness and encouraging people to take action on foot of that awareness.

The Board is also taking steps to ensure that all employers are complying with their mandatory access obligation. In September 2004, the Board wrote to 64,000 employers as part of its access monitoring activities. The Board is also looking at possible incentives to make private pensions more attractive to those who have not yet taken them out and would expect to make some recommendations to Government on this later this year.

The Pensions Board recognises that there needs to be awareness among the general public that Ireland has a robust system of pensions regulation that protects the interests of scheme members, PRSA contributors and the broader public interest. Added to this is the Board’s commitment to encourage greater take-up of pensions, particularly among those socio-economic groups, including young people, women and atypical employees, who have the lowest levels of pension coverage.

The present agreed pension structure is based on achieving increased private pension coverage on a voluntary basis. The Board believes that the best way forward is for employers, trade unions, the pensions industry and Government agencies to make every possible effort to increase this coverage as planned. 2006 has been agreed as the year when progress under the present system will be reviewed. The Board will be presenting a report to the Oireachtas at that time and the Board’s recommendation is that mandatory pension options should be considered if coverage is not increasing sufficiently on a voluntary basis.

Partnership in spreading the Pensions Message

By Anne Maher, Chief Executive Officer, The Pensions Board
It is a well known fact that a man spends the greater part of his life working away from home, either in an office or factory, or from his car. In my case the car and the office are my workplace and just like my home I try to keep them well protected.

The car has a Class II comprehensive cover, and with a full no claims bonus I intend to keep it that way. The office however needs greater attention as both the public and our employees spend their working week within its walls. So the need to have a safe and comfortable environment in which to work is important and the more relaxed I can make the working conditions the better the results. So having built up a good office for your employees and yourself, this status has to be protected by insurance.

Most insurance companies offer a very comprehensive all risk office policy that will cover your fixtures and fittings and your liabilities to your staff and the public, and will even pay you your gross profit if the office is closed by one of the insurance perils. The need for this cover is evident when you consider what could happen if, say, you had a fire in the office. After the Fire Service has completed its work the office will now look like a bomb site and you will have to pick up the pieces and brush yourself down and start over again. You have to find alternative accommodation, transfer the phone lines, get back-up for your computers and be ready to start the next day. The public will be sympathetic for a short time but they will want your service, and fire or no fire their needs are paramount. So now you realise the value of your insurance policy when you start to replace all the damaged contents of the office. The additional expenses of getting new offices, replacing computer files and covering loss of revenue are all paid by the insurer. From experience I can assure you that by having this policy, my office was back in business and looking good in a short space of time.

The most important aspect of this policy is the maintenance of a level of cover adequate to replace all your office contents. Should you have any item of high value such as a colour copier or objet d’art in the office these should be noted separately. The premium for this policy is very reasonable when you consider the extent of cover provided by the insurer to keep you and your staff in business. There is a tendency by all of us to think that “this will never happen to me” but talk to any fire fighter and they will tell you that fires, floods and burst pipes are all common in the workplace.
Recent changes in pensions legislation have opened up new investment opportunities for pension funds, particularly for the business owner/high net worth individual market. From a Broker’s perspective, these changes mean that they can now target clients who traditionally may not have necessarily found pension products attractive or exciting.

Most business owners are entrepreneurs and see their business as the key to their financial success and security in later life. The tax reliefs available with pension funding and the tax-free lump sum at retirement were an attractive vehicle to help secure an income in retirement, but the forced purchase of an annuity with the larger portion of the pension fund dissuaded many. The changes introduced by Charlie McCreevy in the 1999 and 2000 Finance Acts, in particular the removal for many pensioners of the need to purchase an annuity, have started to have far reaching effects, both on our business and on the way in which retirement benefits are used and enjoyed.

The second significant change in pension legislation occurred this year when the Finance Act 2004 permitted pension funds to borrow.

**1999 to Date**

The relaxation of the annuity purchase rule in 1999/2000, unfortunately for equity investment, coincided with the start of a three-year bear market, when equities had a terrible time. As a result, while pensions were now much more attractive to business owners, many investors looked to property and pension mortgages.

Pension mortgages became much more popular because the amount that could be borrowed was significantly increased and because the entire pension fund could now be cashed at retirement. As well as the pension mortgage, there was a small but growing use of syndicates for property fund investments.

Now that borrowing by pension funds is permitted, there has already been a significant demand from Brokers and their clients for pension products that combine property and borrowing (although borrowing and equities could similarly be packaged). For the individuals interested in property investment, there is now a wide range of options to choose from.

**1. Pension Mortgages**

Pension mortgages are certainly not new but remain, in my view, a very attractive alternative for many clients. They should certainly be used as the yardstick against which any other pension property scenario should be measured.

The first advantage of the pension mortgage is that the property is owned by the individual in his or her own name (with the pension fund simply being used to pay off the loan at retirement). The second advantage is that it enables an individual to purchase their business property - owner/occupier investments are not possible under any of the other geared pension products. For many individuals, the idea of actually owning the property and having it in their own name is a big attraction. Key features of pension mortgages include:

➤ The property is owned by the individual.
➤ The deposit and loan must be arranged separately to the pension scheme.
➤ The investor is free to dispose of the property at any stage.
➤ Disposal will trigger a Capital Gains Tax liability of 20%.
➤ Rental income in excess of interest costs will be liable for income tax.

Arguably, the pension mortgage approach offers the best of both worlds in that a person has a property investment, borrowing, and also typically will have an equity based or managed fund pension fund to pay off the loan at maturity.

**Pension Property Investment - the new alternative?**

By James Skehan, New Ireland Assurance, Pension Sales Manager
2. Small Self Administered Scheme (SSAPs)
SSAPs represent an attractive investment vehicle for individuals who want to be directly involved in the investment process, whether buying property or equities. SSAPs are subject to normal Revenue rules and regulations and, in addition, have an extra layer of compliance that needs to be adhered to. In brief these are:

1. The need to appoint a pensioner trustee.
2. Annual audited accounts need to be prepared.
3. Actuarial valuations need to be carried out every three years.
4. Specific restrictions apply to where they can invest.

These restrictions rule out the purchase of holiday homes, pride and possession articles (e.g. wines, antiques, jewellery etc.) and any form of self-investment.

3. Insured Contracts
Like SSAPs, insurance company contracts can now incorporate property borrowing and, in many respects, the insured contract and the SSAP will offer the same investment option for clients. In theory, the insured contract will be simpler because there is no need for a pensioner trustee, audited accounts, or actuarial valuations to be completed. However, while the SSAP may prove suitable for a one off property of a certain size/value, it is likely that the insured contract will meet the requirements of the vast bulk of investors.

4. Geared Pension Products
Insurance companies are busy developing schemes that will enable Brokers and their clients to participate in a combination of property investment and borrowing. The nature of these particular structures will depend largely on whether the property involved is commercial or residential.

Packaged Commercial Property
It is likely that large commercial properties will be packaged by insurance companies and marketed via Brokers on a syndicated basis. A typical commercial property deal might have the following features:

- A suitable property is identified at say €15 million.
- 30% of the purchase price is funded by pension fund money, 70% by way of a non-recourse bank loan.
- Ten individual investors, each under age 50, each contribute €450,000 to the fund.
- The insurance company purchases the property (on behalf of the investors).
- The expected invested term would be between seven and ten years.
- Early exits other than as a result of death would not be permitted.
- When the property is sold the proceeds are allocated to each individual’s pension fund.
- All rent and capital gains would be tax free, as the investment would be within the pension fund.

At the end of the term, clients would simply reinvest in another building or would invest elsewhere as they saw fit at the time.

Residential Investment
While the smart money may go for commercial property, the popular demand will still be for residential investment. The approach to residential investment will be different and the following would be a typical structure:

1. A suitable group of apartments will be identified and purchased.
2. The entire property block would be established on a unitised basis.
3. This structure allows a sub fund to be created for each apartment and an investor will be able to select an apartment for their own particular fund.
4. This approach also permits different investment returns as the property can be retained on behalf of the client until their retirement date.
5. A property manager would be appointed to look after the management of the property, collection of rents etc.
6. Normally rents for the entire apartment block would be pooled.
7. As with the commercial property, all rental income and capital appreciation would be tax free within the fund.

Property Investment – Objective Analysis
Geared property investment does carry certain risks and these need to be carefully borne in mind. It is fair to say that for many years people have been saying that property prices have reached their peak, yet they still seem to keep creeping upwards. Some commentators feel that the relaxation of the borrowing rule for pension funds will in turn help to sustain an increase in property values for the immediate future, but this must be considered against the current backdrop of falling rents and rising interest rates.

As a general rule any pension fund, indeed any investment, should follow a diversified investment strategy. Concentration in one asset class, let alone one property, may not be the most sensible thing to do. Unfortunately most pension offerings in the market tend to be either all geared property or none at all, with ‘Trilogy’ from New Ireland being the one exception – it packages geared property, equities and corporate bonds in one investment.

Property – the Perfect Solution?
Property investment over the long term has proved a very good investment and has outperformed equities in the recent past. The ability of pension funds to now borrow, and for individuals to acquire specific property, both commercial and residential, makes this a very interesting and exciting area. Property is certainly an alternative worth considering by investors but it is not the only show in town. Advice as ever will be extremely important and this is where the professional Broker has an extremely valuable and crucial role to play.
Take regular, short breaks. That’s the advice from Galway PIBA member Jarlath Jordan to all Brokers as the best method of relaxation. Jarlath tries to take a number every year as a way of staying refreshed and on top of things.

Like most Brokers, Jarlath works all kinds of hours depending on the nature of the workload. But increasingly, he tries to see clients in his office, or in their workplace, especially if it relates to pension business for employees.

“We work in a profession and it’s far more professional and beneficial to meet clients in the office,” he says. “Like many other walks of life, it’s a constantly changing environment and you have to adapt and be innovative if you are going to survive”. Jarlath believes a Broker’s business should offer a broad based financial service to its clients. He remarks “just look at all the property on offer within pension funds at present. There’s no doubt but we are now property advisers along with everything else”.

“On a lighter note, a large number of my clients are based on the Aran Islands and there is nothing to compare with a trip to any of the three islands and I can assure you this is a good way to mix business and pleasure”.

A native of Ballyhaunis, Co. Mayo, Jarlath worked as a regional sales manager for many years with New Ireland. But some years ago he set up business in association with an accountancy firm in Mill St, where he runs the appropriately named Mill Financial Services, specialising in all areas of financial services. In recent years, he has worked particularly hard at building up the business, which includes life pensions and investments together with mortgage business. He says: “Commercial lending is very good for us and we are now developing deposit Broking as another product distribution.”

The family ties are very much West of Ireland-based. His wife, Fionnuala, is from County Roscommon and the couple have three children, Mark (14), Sarah-Kate (13) and Adam (12).

His young teenage family means that Jarlath is kept busy ferrying them to one sporting event or another. He keeps a close eye on the fortunes of the underage teams at Salthill-Knocknacarra GAA club and Salthill-Devon soccer club, where both Mark and Adam are members.

In the week before Galway’s win in the Ladies Football Final in Croke Park, the Club’s under-14 team, as his son Mark plays, lost the Galway County Final, as did the Senior team a few days later. Add to that his native Mayo’s loss of the Football Final and it is clear that it has not been a good year on the sporting front for the Jordan family. The entire family had travelled to Croke Park to see Mayo make the breakthrough but went home disappointed. “Never mind, we live in hope for next year,” he says. “The consolation prize, however, was that Galway won the Ladies Football Final.”

Jarlath also likes a game of golf when he can find the time. “I am a member of Oughterard club and I try to get a game in once a week if I can,” he says. “I am a very average player but one of these days I expect to make a breakthrough!”

He is a fan of outdoor activities and to relieve stress, or think a problem through, he recommends a walk along the river bank, which is a beautiful attraction in Galway city.

“My favourite walk is from the Spanish Arch down to the salmon weir, which is truly magnificent,” he says. “It’s a facility that not an awful lot of people know about to appreciate.”

He likes to savour a few pints, too. And yes, he has been in Fibber Magees - of smoking fame - on Eyre Square, where publican Ronan Lawless is a client.

“I have been there but I wasn’t smoking as I am a non-smoker,” he says.

But as the family live on the Barna road, you are more likely to find him in Donnelly’s in Barna or Padraign’s in Furbo.

For regular annual holidays, the family likes to travel. They have been all over Europe and recently made a trip to Budapest. They also have a holiday apartment in Estepona in Spain, which they try to get to a few times a year for sunny breaks.

“I do like the lifestyle there and it’s one of my ways of getting away from it all.”

At home, Jarlath loves to get to the Clare coast and enjoys the Burren and the Ballyvaughan area.

“The whole length of the Clare coast is wonderful and totally refreshing,” he says. “I find the benefits from a break around there very worthwhile and I make a point of getting there as often as I can.”

“I love the business I am in, there is always something new going on and the opportunities for new business are great, so if you work hard you can take those breaks and enjoy life.”

That’s the advice from Jarlath Jordan for good business and an enjoyable lifestyle.
How to Choose Stocks that will be Winners!

Companies that can achieve organic revenue growth and margin retention are scarce and will perform well through good times and bear markets.

By Pramit Ghose

The easy money in the stockmarket recovery since the March 2003 lows has been made. Then, we said a 60% upward move in equity markets over the following three to four years was a reasonable expectation.

Now, just over a year on from that call, 30% has been delivered. The main beneficiaries of this sharp upward move have been the so-called ‘dogs’ or ‘recovery plays’ – stocks that had been badly beaten up, often making losses and saddled with stretched balance sheets.

Examples of such stocks are Elan, Iona, British Airways, Rolls Royce and Reuters, which all surged several fold as the recovery in both stockmarkets and the global economy dissipated investors’ fears.

Recovery Stocks

Stockbrokers are often criticised for stating the obvious, but sometimes investors need to hear it: while some of these stocks will continue to perform well, as a ‘sector’ recovery stocks will not repeat their outperformance over the next leg of this stockmarket run.

Instead, I think investors will now focus on some of the valuation characteristics Warren Buffet looks at. In particular, we at Bloxham believe in RGARPTM (a mnemonic I developed at Bloxham): ‘Revenue Growth At a Reasonable Price’ (TM=Trade Mark). The theory is simple – with the low inflation, low growth environment we are in, equity (and other asset classes) returns will also be low in general – experts talk about a 7-8% return for equities.

In this environment, companies that can grow earnings, not by cost-cutting and letting go thousands of employees, but by organic revenue growth and margin retention are scarce and will perform well.

A side issue: employee morale is much better in the firm that is growing revenue than the firm that is letting staff go. A good example of this is MMM (Minnesota Mining & Manufacturing), a company well-known as the inventor of sellotape and post-its.

Looking at its share price graph, an investor in MMM would say “what huge bear market from 2000 to 2003?” MMM’s secret is consistent revenue growth.

Citigroup

Citigroup’s Smith Barney puts it very well: “We would expect a stock with strong sales growth to outperform a stock with weak sales growth. Over the cycle there is a positive relationship between strong sales growth and strong performance”. From 1992 to 2002, top quartile growth firms by 13.5% annually.

Unilever is a company people would associate with being in the same vein as MMM. It has great brands, huge financial and marketing strength, and has a queue of bankers and M&A advisers dying to do business with it. However, Unilever is a stock that is struggling with the investment community. The reason: lack of sales growth in its core products.

Despite much restructuring and marketing initiatives, sales growth remains elusive, and the share remains well below its 1998 highs.

IAWS

IAWS is a great Irish example of the RGARPTM theory. Its total shareholder return (share price movement plus dividends) has been around 20% p.a. over the past five years.

Revenue growth has been good at around 5% p.a., but its margin has grown from 5.8% to 7.9%, allowing its earnings to grow at some 21% p.a.

Unfortunately (but fortunately for professional stock pickers like me!) it’s not always that simple – valuation does matter.

It’s hard to believe that Alliance & Leicester, the UK building society, has increased its earnings by over 60% over the past few years when you look at the share price. The problem is a rich valuation at the start of the period (twenty times earnings) and a de-rating by investors over this period as they looked for less expensive stocks.

The Bloxham Intrinsic Value Fund adopts the RGARPTM approach. It’s a fund I never lose sleep about – I’m pretty confident most of these companies will deliver good revenue growth over the next three to five years, and their valuations give me protection in case I’m wrong.

Over the past few months, I’ve noticed a substantial pick-up in new inflows into this fund, as investors seek great companies at reasonable prices and a better way to benefit from the next leg of the stockmarket recovery.

Pramit Ghose is head of investment strategy at Bloxham Stockbrokers.
How many times have you received a brochure from a financial institution for a new investment product and you say to yourself, I feel I could sell some of this product if only they had this feature or that feature in it. As we all know the financial services world is rapidly changing and the days are coming to an end where financial institutions can ‘shove’ products upon Brokers that are not necessarily competitively priced and not exactly what the Broker wants, and expect Brokers to sell it.

Are there any alternatives? Well the answer is to build your own investment product for your clients. You can gather together a group of your clients who have similar investment needs and manufacture an investment product specifically for them. You can choose the capital guaranteed, which can be anything from 90% to 120%, the term, from one to ten years and beyond, the commission you want/need and the kind of investment option your clients want to track. This is where the adviser role comes to the fore: not only can you control the whole process but you do not run the risk of one of the direct sale channels or the banks offering the same product that they distribute through their Broker channel. This is also a service that will differentiate you the Broker from other advisers, where you are bringing innovation to the table instead of the same old, same old.

The kind of tracking options are wide and varied and I have seen a retired pharmacist tracking the performance of the World Pharmaceutical Index, to a group of clients tracking the performance of Russian oil stocks, all while having a capital guarantee. All these products are conservative, risk adverse, capital secure, deposit-based products where the opportunity cost is the amount of interest your client would have earned had he/she left their money on deposit with the bank or building society.

These products can be built for around €1 million but this can be made up of a group of clients: clients who have money on deposit, clients with maturing policies etc. Alternatively we may have other Brokers trying to achieve the same thing and we can ‘piggy back’ the arrangement. Also if you have a couple of high net worth clients there may be opportunities for them in this concept, which used to be the preserve of the private bankers, but now is available to you.

It is not only in the area of investments that Brokers are (or need to) take control: self-directed ARFs and AMRFs are now freely available to Brokers. Why let the financial institutions control the cost and investment criteria of your clients, when you can take control of it yourself? After all you are the one who carries out the factfind and needs analysis and makes the recommendation, so why shouldn’t you get paid throughout the lifetime of a single premium product as opposed to the financial institution taking the majority of the maintenance costs by way of charges?

If you look at rapid developments in the area of small self-administered pensions where control is being given back to the adviser, when it comes to investing a client’s pension portfolio it certainly would lead one to believe that these developments will follow suit in the area of investments and post retirement options. On the subject of small self-administered pensions I would respectfully suggest that Brokers familiarise themselves completely with this area, because if we follow the model in the UK this whole area will become the fastest growing sector in financial services in the very near future. If you don’t discuss the idea with your suitable clients you can be very sure that someone else will.

As you can see the model is changing: Brokers are rightly taking back control of their clients. Controlling the advice, the costs, the fees and the product. This is how it should be and how it operates in more mature markets overseas. Seize the opportunity before someone else does.

David Overy is Managing Director of Wealth Options Limited, a financial services wholesaler that provides products and services exclusively to financial advisers.
New PIBA Professional Indemnity Scheme

by Diarmuid Kelly

Professional Indemnity (PI) essentially protects a firm against errors and omissions it makes in the course of providing professional services to clients. Most Brokers will have this cover in place but it is now being made compulsory. By the 14th of January 2005, to comply with regulations that will be introduced under the Insurance Mediation Directive (IMD), all intermediaries must have PI in force. The cover required is €1m. for each claim with €1.5m. in aggregate for all claims in any one year. This requirement however won’t apply to tied agents where the insurer takes full responsibility for that intermediary’s actions.

PIBA have had a PI scheme in place since 1996 and we have worked over the last number of months to secure improvements for members. We are delighted to announce a new scheme which combines premium reductions with cover improvements. The new scheme is underwritten by QBE and the Broker is NCG Professional Risks Ltd. in London – a specialist PI firm.

Looking first at the yearly premiums:

<table>
<thead>
<tr>
<th>Turnover (commission and fees)</th>
<th>QBE</th>
<th>Old scheme</th>
</tr>
</thead>
<tbody>
<tr>
<td>Under €50,000</td>
<td>€850 + 2%</td>
<td>€1,200 + 2%</td>
</tr>
<tr>
<td>€50,001-€100,000</td>
<td>€1,250 + 2%</td>
<td>€1,554 + 2%</td>
</tr>
<tr>
<td>€100,001-€250,000</td>
<td>1.25% + 2% levies</td>
<td>1.6% + 2% levies</td>
</tr>
<tr>
<td>€250,001-€500,000</td>
<td>1.35% + 2% levies</td>
<td>1.6% + 2% levies</td>
</tr>
<tr>
<td>€500,000-€1,000,000</td>
<td>1.45% + 2% levies</td>
<td>1.6% + 2% levies</td>
</tr>
</tbody>
</table>

To calculate your PI premium, find the band which applies to your firm and then apply the relevant percentage to your turnover. Turnovers below €100,000 have fixed premiums. Turnovers above €1m. are individually quoted under the QBE scheme.

The savings range from 10% to 30% with the new scheme, with the largest savings concentrated on lower turnovers.

The cover is also much improved under the new scheme with two key changes:

1. Cover is €1.5m. for any one claim with automatic reinstatement of cover. This compares to an aggregate limit of cover of €1.5m. for any one year under the old scheme.

2. Mortgage cover has been increased from a €250,000 to a €1.5m. limit of indemnity. This reverses a previous restriction of cover under the old scheme.

Cover also includes

- Libel and slander
- Loss of documents
- Inadvertent breach of confidentiality
- Dishonesty of employees
- Damage and legal costs for negligent acts, errors or omissions
- FISRA disciplinary hearings (€30,000 limit, €650 deductible)
- Full retroactive cover

The uninsured excess or part of claim you must pay is €5,000 or 1% of turnover if higher. On certain ‘investment work’, this excess rises to €10,000.

The scheme is exclusive to PIBA members and full details including proposal forms are currently being sent to members.

PI is one of the many benefits of PIBA membership. Other benefits include negotiated agency agreements, the PIBA Compliance Manual, updates on all legislative and regulatory developments, representation at government and institutional levels and the FÁS Financial Advisors Assistants course to name just a few. If you would like more information about becoming a member of PIBA simply call (01) 402 0250 or visit www.piba.ie.
## LIA Update

<table>
<thead>
<tr>
<th>Date</th>
<th>Event</th>
<th>Time</th>
<th>Speaker/Venue</th>
</tr>
</thead>
<tbody>
<tr>
<td>Thursday 2nd</td>
<td>LIA CPD Seminar</td>
<td>4.30 pm - 7.00 pm</td>
<td>Gary Fearon and Declan O'Neill - Income Protection.</td>
</tr>
<tr>
<td>December 2004</td>
<td>(2 hours CPD)</td>
<td></td>
<td>Jennifer Hoban - The Budget. Industry Centre, UCD.</td>
</tr>
<tr>
<td>Friday 3rd</td>
<td>Insurance Institute Annual Dinner</td>
<td>7.15 pm</td>
<td>The Burlington Hotel, Dublin.</td>
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<tr>
<td>December 2004</td>
<td></td>
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<tr>
<td>Thursday 13th</td>
<td>Insurance Institute Life Breakfast</td>
<td>7.30 am</td>
<td>Paul Feigherty, CEO Mercer Ireland -</td>
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<tr>
<td>January 2005</td>
<td>(1 hour CPD)</td>
<td></td>
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<tr>
<td>Friday 21st</td>
<td>Insurance Institute Annual Dinner</td>
<td>8.00 pm</td>
<td>Silver Springs Hotel, Cork.</td>
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<tr>
<td>January 2005</td>
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</tbody>
</table>

## Updates

### Crossword Competition

#### Across
1. Small insect with pincers at its tail end (6)
2. Animal lacking normal colouring (6)
3. Italian dish of rice containing chopped meat (7)
4. Cardiff is its capital (5)
5. The Whale, Richard Wagner’s great operatic masterpiece (4)
6. This king had six wives (5)
7. Short, thick finger (5)
8. Drink in honour of a person (5)
9. Holiday after a wedding (9)
10. Part of science (7)
11. Director of the film ‘Titanic’ (7)
12. Shout, thick finger (5)
13. Symbol of the Speaker’s authority in the House of Commons (4)
14. They indicate the half-hours of a nautical watch (5)
15. Personal insults (5)
16. Group of ships (5)
17. Austin is the capital of this US state (5)
18. Pansies, roses and crocuses (7)
19. People who carry a load (7)
20. The time now passing (7)
21. Items of clothing associated with Scotsmen (5)
22. Drink in honour of a person (5)
23. Passages between rows of pews (5)
24. He helps the bridegroom at a wedding (4,3)
25. Hindu or Buddhist temple (6)

#### Down
1. People who carry a load (7)
2. The time now passing (7)
3. Items of clothing associated with Scotsmen (5)
4. Pansies, roses and crocuses (7)
5. Passages between rows of pews (5)
6. Drink in honour of a person (5)
7. Holiday after a wedding (9)
8. Part of science (7)
9. Director of the film ‘Titanic’ (7)
10. He helps the bridegroom at a wedding (4,3)
11. Personal insults (5)
12. Group of ships (5)
13. Austin is the capital of this US state (5)

### General Knowledge Crossword

#### Across
1. People who carry a load (7)
2. The time now passing (7)
3. Items of clothing associated with Scotsmen (5)
4. Pansies, roses and crocuses (7)
5. Passage between rows of pews (5)
6. Drink in honour of a person (5)
7. Holiday after a wedding (9)
8. Part of science (7)
9. Director of the film ‘Titanic’ (7)
10. He helps the bridegroom at a wedding (4,3)
11. Personal insults (5)
12. Group of ships (5)
13. Austin is the capital of this US state (5)

#### Down
1. People who carry a load (7)
2. The time now passing (7)
3. Items of clothing associated with Scotsmen (5)
4. Pansies, roses and crocuses (7)
5. Passages between rows of pews (5)
6. Drink in honour of a person (5)
7. Holiday after a wedding (9)
8. Part of science (7)
9. Director of the film ‘Titanic’ (7)
10. He helps the bridegroom at a wedding (4,3)
11. Personal insults (5)
12. Group of ships (5)
13. Austin is the capital of this US state (5)

### Terms and Conditions
The prize is available for up to one year at time of receipt of voucher excluding bank holidays, and reservations are subject to availability at the time of booking. Simply complete the crossword puzzle and send your entry along with the form to: Crossword Competition, c/o Tim Ryan Communications, 69 Fitzwilliam Square, Dublin 2. Entries to arrive not later than Dec 20th.

### Lucky Winner
The lucky winner of our Autumn ’04 competition was John White, Ballymore Eustace, Co. Kildare.