WOODRUFF FINANCIAL PLANNING

What you need to know about...

FINANCIAL STRENGTH

There have been examples in recent years of financial companies struggling to meet their liabilities. Currently, the spotlight is on Northern Rock, following the recent problems caused by their reliance on debt from international money markets. There have been other examples of companies failing to meet their obligations, such as Equitable Life, or BCCI. This leaflet explains how we go about minimising the risks in this area for our clients, to ensure their benefits are safeguarded.

Why is the financial strength of companies important?

The recent case with Northern Rock is an example of what can happen if a company cannot trade in its usual way. This affects confidence in the institution, which can lead to further problems with the company.

As consumers we are all concerned that our valuable savings are well looked after, and so it is important to ensure that the companies in which we invest have enough reserves to ride out difficult markets, and safeguard our money.

Of course, no institution comes with an absolute guarantee, because everything is relative; however, given that the financial market in the UK is highly regulated, it is therefore protected. This means that we as advisers can drill deeper into a company's fundamentals to determine whether they are a risky investment or not.

What does strong financial strength mean for investment and insurance companies?

Ultimately, this is a guide to whether a company can meet its liabilities. As an investor, or policyholder, we invest hundreds or thousands of pounds into institutions. We therefore need to be sure that we can get our money back if we need to, or that the company will deliver on its promises. This is important if you invest your savings, as you need to know you can get your money back; it is also important if you pay regular premiums to a life assurance plan - you need to know that if you make a claim the company will pay out.

An example

The Equitable Life saga was a good example of this. The company set up thousands of pension plans, which guaranteed a set rate of annuity income when the policyholder came to retire. This was standard practice at the time, and many companies did this.

At the time, annuity rates were a lot higher than now, because over time this market has become less favourable to the investor. This meant that these guaranteed annuity rates were particularly attractive to policyholders since they would get an income far greater than they would be able to secure on the open market.

When it came down to it, the company was unable to meet its liabilities since it had not prepared well enough for the market to change in this way. This meant that policyholders lost not only the guarantees, but also elements of their savings.

This could have been avoided if the company had gone down the route of their competitors, who had put aside reserves to meet their liabilities. Thus, they kept themselves in a financially strong position.

Continued overleaf...

How do we measure the financial strength of companies?

Every company will have a rating, a little like a credit rating for individuals. This is as important for companies as for individuals, since this rating will determine how other institutions will view them. Ultimately, this can determine whether a company will be able to obtain credit on the open market, and their credit worthiness will determine how competitive they can be.

From an investor's point of view this rating is a vital clue as to whether the company is worth investing in.

What do we do to ensure that a company is financially strong?

When we recommend a company to you for life assurance, pensions or investments we examine the ratings of 3 major experts in this field. These companies specialise in the analysis of other companies, and continuously update their views on a company. We can therefore build up a consistent picture of that company, and determine whether they are a good prospect in which to entrust your money.

Obviously, nothing is guaranteed, but we feel that this is an important aspect of our service to you because we will not recommend financially weak institutions.

Which ratings companies do we use?

We use ratings from Standard & Poor's, Moody's and AKG Actuaries and Consultants. These are all experts in this field, and have access to a wider variety of tools than we as advisers would ever have. Their clout is so great that companies must open their doors and allow them access in order to be given access to trade; without this rating they would lose business.

What does this mean for me?

From your point of view, these ratings give you peace of mind that an independent and rigorous analysis has been undertaken to ensure that your money is in safe hands.

Regulation

Don't forget that we have a very stable financial services industry in the UK. There are many safeguards in the system, and you are protected by severe regulation. There is also the back up of compensation schemes.

Why use us?

1. **Free** initial consultation
2. **Guaranteed** satisfaction with our advice
3. **Fee-based** - no commission hungry salesmen
4. **Fully independent** from insurance companies
5. State of the art **research tools**
6. Regular contact & **services to suit you**

Call today for independent financial advice on this or any other issue on

0845 2265469 or email **advice@woodruff-fp.co.uk**

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360 Mill Road
Colchester
Essex
CO4 5JF
www.woodruff-fp.co.uk