



10 Questions You Should Ask Your Financial Adviser

Briefing Note

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Informed Choice
Independent Financial Advice

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Introduction

We have prepared this briefing note to help investors understand the questions they should be asking of their financial adviser, financial planner or wealth manager.

The world of retail financial services is changing and now looks very different to the environment a decade ago. There has been growing demand for a more professional financial adviser; better qualified with transparent remuneration and a defined service proposition.

The new regulations being introduced at the end of 2012, in the shape of the Retail Distribution Review, will force those advisers who are lagging behind to improve their standards. But investors should not be waiting for the FSA to force change.

The ten questions (and suggested answers) we have published in this briefing note can be used to assess the suitability of a financial adviser before you engage with them. You should also consider asking your existing IFA or wealth manager these questions.

In an increasingly complex world of investments, taxation and financial planning, it is reasonable to expect the minimum standards described in this briefing note from your financial adviser.

We hope that you find this briefing note useful. If you have any questions about anything in this briefing note, please do get in touch. You can call us on 01483 274566, email hello@icl-ifa.co.uk or talk to us on Twitter @informedchoice.

10 Questions

1 – Are you an Independent Financial Adviser?

Under current rules, financial advisers are either independent, whole of market, multi-tied or tied. It is essential to seek advice from an Independent Financial Adviser (IFA) as this is the only category of adviser to truly represent your best interests.

In order to be an IFA, your adviser must make recommendations based on an analysis of the whole of the market and offer the option to pay a fee for their advice. A 'whole of market' adviser does not offer this fee option, so may recommend products based on the commission available.

Multi-tied and tied advisers can only recommend products from one or a limited number of product providers, which significantly reduces the likelihood that they will be able to provide the most suitable advice based on your individual circumstances and objectives.

From 1st January 2013, financial advisers will either be 'independent' or 'restricted'. The new definition of independent means advice which is unbiased and unrestricted. Any financial adviser who isn't 'independent' from 2013 will be 'restricted'.

For this reason, you should ask your financial adviser if they will be independent or restricted from 2013 onwards, as some independent financial advisers may become restricted from this date.

2 – What is your investment proposition?

Before accepting investment advice from a financial adviser, you should take some time to understand their investment proposition. An increasingly complex world of investments means that a robust investment advice process is crucial for a financial adviser to ensure they consistently deliver suitable advice.

Ask to see three things; their investment philosophy, their investment advice process and their fund selection process. Financial advisers will have differing views and beliefs when it comes to investment advice. Some are advocates of passive funds, others seek 'alpha' from active fund managers and some prefer to blend the two approaches.

Seek to understand how your financial adviser will approach the provision of investment advice and what resources they will use to shape and maintain their House View of the different asset classes.

If your financial adviser chooses to delegate investment decisions to a Discretionary Fund Manager or Portfolio Management Service, ask about the additional costs involved and make sure you are not paying for investment advice twice; once for the financial adviser and once for the portfolio manager.

3 – How do you charge for your services?

Traditionally, most financial advisers have charged for their services by receiving commission from a product provider when they sell you a financial product. This commission is paid for from product charges, so it represents an indirect payment from the investor to the adviser.

From the end of 2012, commission is being abolished as part of a series of reforms to the regulation of retail financial services. It is being replaced with something called 'adviser charging'. This means that you will have to pre-agree the cost of advice and other services with your adviser.

The remuneration from your adviser can still be deducted from your products, but the cost of this advice will be far more transparent than it was under the old commission system.

A common criticism of commission is that it is opaque and unfair in terms of the cost or value of the advice being provided. Adviser charging should help to redress this balance, with control over adviser remuneration placed in the hands of the investor rather than the product provider.

You should always understand what your financial adviser is charging for their services, what they are doing in return for this money and whether it represents good value. Always ask for an engagement letter describing these issues before accepting any services from a financial adviser.

4 – What are your areas of expertise?

Most financial advisers will have a very broad range of knowledge, enabling them to provide advice across various subject areas to help with general financial planning. When speaking to a prospective financial adviser, you should ask where they have specific expertise.

Some aspects of financial advice are far more complex than others. Pensions are a good example. If you require advice on your accumulated pension benefits, you should seek an IFA with specific expertise and advanced qualifications on the subject. The Financial Services Authority (FSA) insists on advisers holding an advanced qualification in the subject before providing advice on some aspects of pensions, such as transfers.

Other specialist advice areas include divorce, trustee investments, care fees planning and equity release. If you have specific advice needs, be sure to speak to an adviser with specific expertise.

One way to frame this question is to ask your current or prospective financial adviser for examples of situations where they have helped clients with similar situations or objectives. If the individual financial adviser does not have the expertise to help, you should ask them whether this expertise exists within their business and how they would work with other specialists to deliver this advice.

5 – Do you provide an ongoing review service?

Because goals and objectives change over time, it is important to keep your financial plans under regular review. Any investment portfolio, whether held directly or within a pension fund, should be reviewed at least annually. This means subjecting your plans to a formal review process and meeting with the adviser to create a plan of action.

If your financial adviser is receiving any ongoing remuneration from your investments and other financial arrangements, you have every right to expect a proactive ongoing service.

Ask your financial adviser at the outset what their ongoing review service looks like. Ideally this should include a written report, a face to face meeting and then any agreed follow-up activity completed on your behalf. It is also worth asking them what systems they have in place to ensure this review service is delivered in a consistent and timely fashion.

6 – Who can I speak to if you are not available?

Whilst you would expect to have a working relationship with an individual financial adviser, it is important that you have the confidence in the team supporting them. You should know who you can speak to in the event of an emergency when the financial adviser is not available, due to holiday or illness.

A good team structure sees an individual financial adviser working closely with an administrator and a Paraplanner (the person responsible for research and report writing). These other members of the team should be familiar with your circumstances, easy to contact and available to action requests on your behalf.

You should also find out what plans your financial adviser has for succession in the event of their death or retirement. With the average age of a financial adviser somewhere in the mid-50's, this is an important question if you want to ensure the receipt of a long-term service from the individual and firm you choose to provide advice.

To increase the likelihood that you receive consistently suitable financial advice, look for an adviser working within a team-structure where the advice is constructed by consensus before it is presented. This is preferable to a situation where an individual financial adviser is responsible for creating their own recommendations, only for their compliance people to check it for suitability at some later date.

7 – Can I see your recommendations in writing?

Always ask to see recommendations in writing before taking any recommended action. You should insist on a written report ahead of any meeting, which will give you the opportunity to properly consider what is being recommended and plan your questions for the adviser.

This written report should include with it the specific illustrations and associated key features documents for any policies being recommended. This will give you the chance to consider all of the charges that will be applied to your money and the terms associated with the recommended products.

Receiving these recommendations in writing ahead of a meeting will also give you the chance to seek a second opinion before taking action. You might choose to speak to a close friend, family member or another professional adviser before committing to the recommendations. No financial adviser should object to you seeking a second opinion before making important financial decisions.

8 – Which qualifications do you hold?

In order to provide regulated financial advice in the UK, a financial adviser must hold an approved qualification covering various financial planning subjects. This is typically the CII Certificate in Financial Planning or the IFS Certificate for Financial Advisers.

These are relatively basic qualifications and you should look for a financial adviser who holds a higher level professional qualification. From 1st January 2013, the minimum professional qualification level for all financial advisers (including restricted advisers) will be the Level 4 Diploma qualification.

If you want to ensure that your financial adviser has demonstrated a good level of technical competence, the qualifications to look for are the Chartered Financial Planner or Certified Financial Planner (CFP) designations, from the CII and IFP respectively. These represent a far more robust assessment of technical understanding and practical application of financial planning skills.

With the deadline for holding higher level qualifications fast approaching, it would be unwise to engage today with a financial adviser who was not at least Level 4 (Diploma) qualified, or very close to reaching this minimum level.

9 – Are you a member of a professional body?

Membership of a professional body will ensure that your financial adviser has signed up to a code of conduct and ethics. It will also mean that their annual continuing professional development (CPD) activity is regularly assessed to ensure they remain competent to give advice.

Being a member of a professional body means that your adviser will have the opportunity to regularly attend technical and skills development events, as well as network with other local professional advisers to keep their knowledge up to date.

From 1st January 2013, all financial advisers will need to obtain an annually renewable Statement of Professional Standing from a professional body that has been accredited for this purpose by the Financial Services Authority.

Two of the most popular professional bodies for financial advisers are the Personal Finance Society (PFS) and the Institute of Financial Planning (IFP).

10 – Where do you appear on the FSA Register?

In order to provide financial advice in the UK in respect of 'packaged products' (which includes pensions, investments, life assurance and mortgages), a financial adviser must be authorised and regulated by the Financial Services Authority (FSA). This regulatory body is being replaced within the next couple of years by the Financial Conduct Authority (FCA).

The structure of regulation means that there will be an authorised and regulated firm. This will appear on the FSA Register and you can check this online at www.fsa.gov.uk/pages/register. An individual providing financial advice must then be an Approved Person of this firm, and you can also search the FSA Register to ensure they are listed.

If the financial adviser is not authorised by the FSA, there is a good chance that you would not benefit from the Financial Services Compensation Scheme (FSCS) in the event of receiving unsuitable advice.

At the same time as checking the FSA Register, search for the adviser and firm online using Google or another search engine to make sure they have not had any regulatory action taken against them for bad advice or systems failures.

You should ask your prospective financial adviser for a copy of their Professional Indemnity insurance certificate. It is a requirement for all financial adviser firms to hold this PI insurance and it represents an important layer of protection should things go wrong.

About Informed Choice

Informed Choice is a leading firm of Chartered Financial Planners, working with individuals, trustees and business owners to help them to build, manage and protect their wealth.

We were named as **IFA of the Year** at the Money Marketing Financial Services Awards 2010 and we are four times winners of the Gold Standard for Independent Financial Advice. We were named **Best Retirement Adviser** at the Moneyfacts Good Advice Awards 2010.



We are a firm of Chartered Financial Planners. This means we have satisfied rigorous criteria relating to professional qualifications and ethical good practice. It means you can be confident that you are dealing with one of the UK's leading firms that is wholly committed to providing you with the best possible advice, service and support.

Our briefing notes provide commentary on key financial planning issues, to enable clients and professional connections to understand the implications. We welcome conversations with individuals and professional advisers on any of the issues raised in this briefing note.

To find out more about our advisory and planning services, please visit www.icl-ifa.co.uk.