

## **What to look for**

### **The meaning of independent financial advice**

#### **Who's looking out for your money?**

The burgeoning choice of financial products on the market – more than 30,000 (source IMA, DTI, AKG) at the last count – can be daunting and lead many people to leave their money languishing in the wrong place.

Yet when headlines present a bleak picture of our financial future if we don't start saving more wisely for our retirement, right now, then it's clear we should be doing more about putting our money through its paces.

#### **Whatever you want we'll help you find it**

Whether you're looking for the best way to save for retirement, a mortgage, advice on how to invest for the future or protect yourself and your family with a life assurance policy, the most suitable product for you is almost certainly out there. It's simply a case of how to find it.

Now, perhaps more than ever, it is important to get sound, unbiased advice on what financial products you should have, especially those of us who are too busy or who lack the confidence to search the market on our own. If you are wondering what sort of advice is out there, where and how to find it and how much it will all cost, read on.

#### **Seeking advice?**

There are currently three main ways of seeking financial advice for products such as life assurance, pensions and collective investments like unit trusts/OEICs, Individual Savings Accounts and Child Trust Funds; either through an independent financial adviser, a multi tied agent or a tied agent.

#### **How do the types of advice differ?**

Offer unbiased financial advice to their clients and recommend the most suitable products, if any, after researching the whole market. The key differentiator is that they act on your behalf and will offer you the option of paying by a fee, as well as the option of paying by commission.

The big advantage of independent financial advice is that you have access to all the products on the market through a qualified practitioner (more about qualifications later). An IFA's job is to research and recommend the most appropriate financial solutions after asking their clients a whole range of detailed questions about their circumstances, their financial goals and their attitudes to risk. IFAs are answerable to the FSA to ensure that they keep to the rules. As they act on your behalf, they provide personalised written reasons why they have recommended particular products or a course of action.

## **Tied Agents**

Can advise only on the products of one provider.

Many people buy financial products through multi-tied agents or single tied, such as the sales staff who work at their bank or building society. When they want a pension or investment product, they often find it easier just to nip into their bank and accept what is sold through that organisation's relationship with one or a few financial product providers.

The person providing you with product information (unless they are an IFA) are acting on behalf of the company they are employed by or have a tied relationship with. Many people buy products this way, usually because they feel more comfortable buying from a big-name organisation and assuming, sometimes incorrectly, that they are bound to get a good deal. What they are actually getting is limited information from a small selection of products. Confusingly, some banks also have an IFA available upon request!

The FSA has recently proposed changes to the current system under its Retail Distribution Review (RDR). We will therefore update this guide to reflect industry changes as and when they are introduced.

## **When to look for independent advice**

Your first job, buying a house, getting married, starting a family, saving for your children and planning for retirement... these are just some of the big stages in your life that put additional pressures on your finances.

It makes sense to take control at each stage and revise your financial plans to match your changing lifestyle. If you are too busy to take the DIY approach, then an Independent Financial Adviser (IFA) can offer a helping hand through the maze of products and financial planning strategies.

An IFA can help clarify your financial priorities and your short, medium and long-term financial goals. They ask detailed questions about your financial circumstances, your existing investments, debts, state of health, your future goals, your risk tolerance and what you want from life. Then they will advise you on how to develop a budget and make recommendations that will help you manage your finances and allow your money to grow for the future while ensuring you and your family are financially protected.

An IFA can also take the pain out of the research required and pinpoint the most appropriate products to meet your aims, such as saving for your first home, your children's future or your retirement needs.

## **How you pay for advice**

Whether you take tied, multi-tied or independent advice, there will always be a cost for your adviser's service. Customers pay for advice in three main ways.

- 1 By paying the adviser a fee, either at an hourly rate or through a fee for the whole job. This is known as 'fees only' advice. Fees vary, typically from £50 to £200 an hour. Often the first half hour is free at the initial meeting where you can get to know each other.

- 2 By paying indirectly through commission, which is deducted by the product provider from the products you may take out. Often there is not only commission charged for setting up a plan but also annual commission on top, known as trail commission.
- 3 By paying a combination of fees and commission. The adviser will rebate back into the financial products or hand to you some or all of the commission or offset it against the fee.

Everyone can choose to pay their IFA by a fee rather than commission, if they want to. In the past the majority of consumers tended to opt for commission. In the future there may well be a shift towards more people paying fees and this will be explained in the information on your IFA's charging arrangements. Most importantly only an IFA has to offer a choice of payment options i.e. paying by fee or commission or a combination of the two. Tied and multi-tied agents don't have to offer you this choice, but some may.

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### **What you see is what you get**

The Financial Services Authority (FSA) has recently made changes with regards to the documents you should receive when you visit an IFA. By incorporating the Markets in Financial Instruments Directive (MiFID), which came into effect on 1<sup>st</sup> November 2007, the FSA rules that an IFA has to provide you with the relevant information on charges and the services they can offer. This information may be provided to you in a Key Facts document, in the IFAs terms and conditions, or indeed in some other document.

All financial advisers must hand you this information up front for you to look at before going any further. Armed with these details you can ask your IFA to explain the charges he or she will make and choose to buy elsewhere if you think it may be better value. This system will also reveal where independent advice is better value than other types of advice.

Under its recent Retail Distribution Review (RDR), the FSA outlined proposals to change the way the financial advice market is structured. The RDR is currently in its consultation period and we will update this guide if there are any changes to the current situation.

### **So, does Independent Financial Advice look good to you?**

Independent financial advice is considered the gold standard of financial advice, since it offers access to and guidance on a huge pool of products.

### **But before you go ahead, ask yourself the following questions.**

- 1 Would you want advice on the whole range of products available rather than on a limited number of financial products or provider companies?
- 2 Do you want your adviser to be independent of any commercial relationships, which may restrict the advice they give?
- 3 Do advanced qualifications matter to you, particularly in the sector you are

seeking advice?

If the answer to any or all of these three questions is 'yes', then independent financial advice is likely to match your needs.

### **Finding the best advice for you is what we're here for**

If you choose to seek independent financial advice, don't just go to the first IFA you stumble across in a telephone directory. It is crucial to take more control of the process right from the start, to be sure you end up with the right IFA for you. If you don't already have an IFA, you can search online at [www.unbiased.co.uk](http://www.unbiased.co.uk) or call the freephone Hotline on 0800 085 3250, which will provide you with a list of IFAs who most closely match your location and specific requirements.

The 'Find an IFA' search now allows you to select an IFA based on a number of criteria, to ensure you are matched with the best IFA to suit your needs. There are a number of factors you should consider when selecting an IFA.

**Location:** Is it important to have your IFA's office near your home or your place of work?

**Areas of Expertise:** Some advisers focus on particular product areas, so take care to choose the right one for your specific needs. Some solicitors offer independent financial advice, as do stockbrokers and accountants, but you should realise that accountants, for instance, will probably be strongest on tax issues. If you know what sort of advice you require, then select an adviser who specialises in this area. If you want advice across a range of products, then select one who has strengths across the board.

**Qualifications:** You can select an IFA based on their advanced qualifications across a range of products or across a particular product area. Information on IFA qualifications is available for consumers on [www.unbiased.co.uk/independent-financial-advice/ifa-qualifications/](http://www.unbiased.co.uk/independent-financial-advice/ifa-qualifications/) which will help you with the selection process.

**Online presence:** Consider if it is important for you whether your IFA has a website or is able to communicate via email.

**Philosophy:** You may want to deal with an IFA who focuses on ethical investments.

**Type of IFA:** Would you prefer a male or female IFA? Many men as well as women feel more comfortable seeking money advice from a woman or vice versa, and you can select an IFA on this basis.

**Recommendation:** If a friend or relative has had a good experience with a particular adviser, that can often be a great route and be highly reassuring – but be aware that your financial circumstances and needs may be different from theirs. Alternatively, if an IFA that you know nothing about catches your eye, ask them to provide the details of customers who are happy to talk to you.

Just like any other product or service you buy, shopping around for advice is crucial. It is important for you to get on with your IFA, especially since you will need to share a certain amount of personal information with your adviser.

### **Eyeing up their qualifications**

To improve your chances of finding an IFA who matches your requirements, and to be 100% confident that they have a high level of competence in the area you want advice on, it is important to consider an IFA's qualifications.

**Basic qualifications.** Whether tied or independent, all financial advisers are required by their regulator, the FSA, to hold the Financial Planning Certificate or the Certificate in Financial Planning before they are allowed to provide financial advice. Advisers with these benchmark qualifications are also obliged to keep up with relevant financial developments throughout their career, but in addition many opt to take advanced qualifications.

**Advanced qualifications.** An 'alphabet spaghetti' list of initials after an adviser's name does not necessarily mean that much in terms of their advanced training. Sometimes the letters do not even refer to specific qualifications, simply membership of a certain body, so it's worth asking questions and doing a little homework.

There is a wealth of advanced or incremental qualifications that advisers can achieve, some covering broad financial knowledge and some focusing on particular product areas, which may be of relevance to your needs.

The most popular advanced qualifications for holistic financial advice are the Advanced Financial Planning Certificate (AFPC) now known as the Advanced Diploma in Financial Planning and becoming a Chartered or Certified Financial Planner (CFP) Licensee. Advanced qualifications in pensions include G60 and AF3 and for investments, G70, AF4 and the Investment Management Certificate (IMC). Specialist qualifications in mortgages include the Certificate in Mortgage Advice, and the Certificate in Mortgage Advice and Practice (CeMAP).

Of course, many extremely good and talented IFAs have become so because of their many years' experience in the industry, not because they chose to obtain an advanced qualification. However, there is often a correlation between a good adviser and a commitment on their part to learn as much as possible about a particular subject and to put this knowledge to the test in exams.

More and more advisers find that having additional qualifications helps them stay ahead of money issues and their financial planning implications, as well as reassuring potential customers like you about their professionalism. Indeed, many awarding bodies insist that to keep those precious letters after their name, advisers must maintain records of continuous professional development (CPD).

If you want more information on IFA qualifications, your IFA can get this from IFA Promotion on your behalf. If you don't have an IFA, or would like to find this information yourself, you should visit [www.unbiased.co.uk](http://www.unbiased.co.uk). There you can also find details of IFAs who hold any of the most popular advanced qualifications. The website also has links to some of the awarding bodies that set the exams.

Naturally you should look for other qualities in your IFA beyond being super-qualified in the financial areas you want to discuss. You don't need to be best friends with your adviser, but it helps if you find them approachable, particularly if you hope to establish a long-term relationship. Experience can count for a great deal too, so it's worth asking how long they have been in business.

**Focus on what's right for you**

**Happy to select and buy on your own...**

Buy direct without advice.

**Want advice on financial planning but access to only a limited number of products or companies...**

Seek tied or multi-tied advice.

**Want independent advice on financial planning generally and on all relevant products on the market...**

Seek independent financial advice.

Use the flowchart below to find out which type of advice will be best suited to your needs

Q) Are you confident you can identify your financial needs and choose the most suitable combination of products to meet them, without expert advice?

Yes, I'm confident I will make the right choices.

No, I think I need advice.

Q) Are you happy to spend your time researching your financial needs and identifying the most suitable financial products to meet them?

No, I'd prefer advice.

Q) Do you want your adviser to choose you the most suitable product(s) from one financial company's range?

Yes, I'm happy with advice on one company's products.

A tied agent, found in most banks and building societies, will offer advice based on the products of a single financial company, with which the firm has a direct commercial relationship.

Yes, I'm happy to do it all myself.

No, I'd want recommendations based on more than one company's products.

Sounds like the DIY route suits you, for now at least, although remember that financial circumstances tend to get more complex as you get older. Try to plan your finances to be as tax-efficient as possible overall. Finally you should be aware that, by opting for the self-select approach, you have no access to financial redress should the products you choose turn out to be unsuitable.

Q) Do you want your adviser to choose you the most suitable product(s) from a restricted number of financial companies?

Yes, I'm happy with restricted choice.

A multi-tied agent will offer you advice based on the products of a restricted range of financial companies, with which the firm has direct commercial relationships.

No, I want recommendations based on the full range of financial products.

Q) Are you happy that the products your adviser can recommend will be restricted by commercial relationships?

Yes, I'm comfortable commercial relationships will restrict the products my adviser can offer.

No, I'd rather commercial relationships didn't restrict the products my adviser can recommend.

Only an Independent Financial Adviser (IFA) can recommend the most suitable combination of products for you from all the providers on the market, free of commercial ties to financial companies. They must offer you the option of paying by fee, although many will offer the choice of paying for the advice through commission taken from the products you buy, or a combination of fee and product commission.

Sounds like a tied/multi-tied adviser suits you, for now at least. Remember, all types of advisers are now required to disclose a menu of costs for their advice. This means not only can you compare the up-front cost of different [tied/multi-tied] advisers, but also you can contrast these costs with what an Independent Financial Adviser would charge for advice on the whole market of financial companies and products.

### **Looking out for the pitfalls**

When looking for advice on one category of product, be aware that an adviser may not be able to offer independent advice on every sector.

An organisation can offer different types of advice, such as 'whole of market' advice on mortgages, but may offer only tied advice on investment products.

Always visit the IFA's premises, so that you can get a good feel for how professional an organisation it is.

If you go back to an IFA you have used before, double check that he or she is still an IFA and has not changed their status. Some IFA groups may have given up their independent status and switched to multi-tied arrangements. They should spell this out to you, but it is better to be sure by asking.

Also check that your IFA is authorised. IFA Promotion carries details of about 9,000 IFAs on its database, all of whom are continually verified.

If you need to find out additional information about an IFA's authorisation, you can look at the FSA Central Register at [www.fsa.gov.uk/register](http://www.fsa.gov.uk/register) or phone 0845 606 1234.

### **Want to see an IFA?**

For further information on the subject contained in this booklet, please contact your IFA.

If you do not already have an IFA, our 'Find an IFA' hotlines and website enable you to search confidentially for a list of IFAs in your local area. You can search for an IFA based on a whole host of criteria (including product, qualifications, gender and payment options) so you can be sure you'll find an IFA who meets your precise requirements.

If you are looking for advice on personal finances call the IFA Promotion Consumer Hotline on 0800 085 3250.

If you are looking for financial advice for your business call the IFA Promotion Corporate Hotline on 0800 085 3251.

Alternatively, visit our website at [www.unbiased.co.uk](http://www.unbiased.co.uk)

Further booklets and factsheets covering aspects of financial planning such as investments, savings, mortgages, pensions and healthcare can be downloaded from [www.unbiased.co.uk](http://www.unbiased.co.uk)

Booklets are also available in the following alternative formats: large print, Braille and audio tape. Please call our Hotline on 0800 085 3250 if you wish to order an alternative format.

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