Choosing an adviser
Is it possible to find a financial adviser that will work on your behalf, without being influenced by commission payments from product providers?
Ray Prince analyses the different types and their service propositions

If you’re looking for help with your financial-planning decisions, there are a number of resources you can turn to:
• The internet/media
• Friends and family
• Your own knowledge.

Ideally, it’s likely that you’ll want impartial information upon which you can make objective decisions. Whilst these three resources can be utilised, they may not ‘do the job’ as you’ll be hard pressed to get an objective view with no emotion (which often runs high when making financial decisions) attached.

The alternative is to seek advice from a financial professional. The advantage of this route is that, ideally, they will be able to take an objective stance. The downside however, is that there are so many different types of financial adviser/planners to choose from.

How will you know if you are dealing with someone that is 100 per cent impartial, or a slick salesperson whose focus is to sell you what they have?

Let’s look at the options available and also the steps you can take to find the right type of adviser/planner (from the £5,000 or so registered individuals authorised to provide advice) for your circumstances.

The first step is to determine what type of service you require. Do you simply need someone to help you choose the right income protection plan, or do you need someone to help you create a financial roadmap for the rest of your life, so that you’ll be able to see how your future will look until you’re 90?

The financial product retailer
If you have an idea of the type of product you need, this may be for you. The ‘service proposition’ from an adviser that offers this service will probably be to uncover exactly what you need and then to match the need with a financial product.

It’s possible that the advice provided will focus only on the areas that you wish to discuss. For example, if you want some form of life assurance to cover a mortgage/debt, your retirement income requirements may not be discussed at all.

Whether you end up with the best product available on the market will probably depend upon the type of adviser that you are dealing with.

A tied adviser is one that only offers the products from one financial institution. They represent the institution, not you (this point is crucial).

A multi-tied adviser offers the products from a few providers. Obviously, as they have more choice to offer you, this is a better option that dealing with a tied adviser. The downside is that you can never be certain that the product being recommended is the most suitable, as they don’t have access to all the providers in the marketplace. Like the tied adviser, they represent the institution, not you.

An independent adviser (also referred to as whole of market) is able to choose from the majority of providers in the marketplace. So if all you require is income protection, they’ll be able to select the plan that is most suitable for you. Although, bear in mind here that certain providers, such as banks, don’t offer their products through whole-of-market advisers. Crucially, an independent adviser is the agent of the client, not any institution.

Paying for advice
It’s important to understand that the majority of the financial services industry operates on commission. So, when you purchase a product, the institution will make a payment to the advising firm (not normally to the individual adviser).

There’s nothing inherently wrong with the commission system as such, especially when it can be used to help individuals purchase certain financial products. However, commission has been blamed for some of the past mis-selling scandals so one cannot ignore the scepticism.

After all, how can you guarantee that the product being recommended is the most suitable for you, and has not been selected based on how much commission is being paid to the adviser?

If you want to increase your chances of being recommended the right product, I believe you should only deal with an independent, whole-of-market adviser. Why would you take any chances by dealing with a tied or multi-tied adviser? It has nothing to do with how competent the adviser may be. It’s really about the range of products that they can choose from to help you purchase the most suitable one.

Can you find your way through the thousands of financial advisers to find the right one?

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A good independent adviser should be open enough with you to show you the actual research that they’ve done so you can see why they are recommending certain providers.

Regarding commission, the majority of providers pay a similar amount of commission within each product category. Doubts have arisen where an adviser recommends one product category over another. For example, an investment bond may pay up to eight per cent commission on the original investment, whereas a unit trust would usually pay a maximum of three per cent initial commission.
I believe the solution is very straightforward (and fair). When a client invests new money, the same commission should be charged regardless of product category. This should remove any question of bias.

Don't be fooled

Whatever type of adviser you deal with, don’t allow them to fool you that they are paid a salary and don’t earn their money via commission. If they do earn a salary, they will have sales targets to meet. In fact, I recently met with a friend that works for a bank and he told me that he had to sell enough products to validate his salary seven-fold. Not an environment I'd like to work in....

You should also ask the adviser whether you could pay for the arrangement of the financial product by paying them a fee. If they agree to this, and subsequently don’t take a commission from the provider, you will benefit for several reasons:

- For investments, more of your money should be invested
- For protection, the monthly cost of the plan may reduce.

Of course, it will make sense to calculate which route is the most cost-effective. Now, let's look at the other type of service.

The comprehensive financial planner

An adviser that offers this service will normally (but not always, so beware) operate a financial planning process that is aimed at helping the client achieve their most important goals in life. The process may include:

- What are your financial goals?
- What action are you taking to achieve these?
- Are you on track?
- If yes, can you reduce the amount of risk you are taking?
- If no, can you invest more money in order to increase the amount of risk that you’re willing to take?

Their service proposition is not about retailing financial products, although they will usually help clients buy the right ones if required. Often, additional financial products are not required.

I would suggest that you choose to work with someone who is willing to work with you to create your own financial plan. You will have a great deal of involvement in creating your plan, so be prepared to engage in the process throughout.

Paying for services

So, how should you pay for such a service? I am of the opinion that you should pay a fee. By doing so, the financial planner will be remunerated regardless of the outcome. As a consequence, they should have no vested interest in the solutions they devise for you. Of course, there’s no way of guaranteeing this, but I’m sure it will increase the chances of receiving a fee per cent impartial service.

And remember, impartiality is the key. How much you pay will depend upon the adviser and their firm. I’ve come across a whole range of figures and ways of charging. Personally, I prefer fixed fees. That way, all parties know where they stand right at the start of the process.

Qualifications to look for

There really is an ‘alphabet soup’ of qualifications that any type of adviser could possess. Let me cover the ones that I feel are most important.

- The Certificate in Financial Planning, this is the basic qualification required to work as a regulated financial adviser, accredited by the Chartered Insurance Institute. There’s also the Certificate for Financial Advisers (CeFA). These are the absolute minimum qualifications required and advisers qualified to this level may use the designation CertPFS or CeFA after their name.

- The Diploma in Financial Planning develops advanced technical knowledge and understanding across a broad range of key advisory areas (the regulator, the Financial Services Authority, has proposed that all advisers must achieve this qualification, or its equivalent, by the end of 2012). Advisers qualified to this level may use the designation DipPFS after their name.

- The Advanced Diploma in Financial Planning enables professional advisers to develop their specialist planning capabilities, providing clear differentiation from the main body of advisers. Once achieved, individuals may use the title ‘Chartered Financial Planner’.

- The Certified Financial Planner licence, an advanced qualification, being an internationally recognised certification awarded to individuals who have already proven their technical competency by passing appropriate examinations to the level of DipPFS or equivalent, but who then are tested specifically on their Financial Planning skills to become CFP professionals. In the UK, the Institute of Financial Planning is responsible for the assessing and the certification of CFP professionals.

It’s important to be aware that the type of qualification the adviser has is separate to their service proposition and whether they are tied, multi-tied or whole of market. For example, it’s perfectly possible for a tied adviser to be qualified to chartered level.

Choosing an adviser

To find an adviser, here are some resources:

- Ask a colleague/friend for a personal recommendation
- Search online
- Visit IFI Promotion’s ‘Find an Adviser’ online search tool at www.unbiased.co.uk
- Search for a certified financial planner at www.financialplanning.org.uk.

Free audio CD

To learn more about your retirement planning options, you can request a free copy of one of Rutherford Wilkinson’s Audio CDs: ‘How To Avoid The 3 Most Common Retirement Planning Mistakes’. Just call Catherine Lowes on 0191 217 5540 and a copy will be posted to you (please quote ref: DT).

About the author

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