Choosing a financial adviser

Selecting a financial adviser is not a lifetime commitment - but the impact of their advice can last a lifetime.

We have put together a few questions to ask a prospective financial adviser before engaging them.

1. Are you independent?

There are two different types of financial advisers – 'independent' and 'restricted' – and this can affect the advice you are given. An adviser or firm has to tell you in writing whether they offer independent or restricted advice.

Always go for "independent" financial advice. A single, or even small group of companies, are unlikely to be the most competitive in all areas so the ability to select from every available product/company should be a minimum starting point. Restricted advisers might purport to represent the 'best' products in the market but they just don't have the same level of choice as an independent adviser.

Independent advisers
An adviser or firm that provides independent advice is able to consider and recommend all types of retail investment products that could meet your needs and objectives.

Independent advisers (IFAs) will also consider products from all firms across the market - and they have a legal obligation to give unbiased and unrestricted advice.

Restricted advisers
A restricted adviser or firm can only recommend certain products and/or product providers. The adviser or firm has to clearly explain the nature of the restriction. If you are not sure you should ask for further information, but some examples of restricted advice are where:

- The adviser works with one product provider and only considers products that company offers.
- The adviser considers products from several – but not all – providers.
- The adviser can recommend one or some types of products, but not all retail investment products.
- The adviser has chosen to focus on a particular market, such as pensions, and considers products from all providers within that market.

Independent and restricted advice: key differences

	Independent adviser	Restricted adviser
Will consider all retail investment products	**Yes**	No
Will consider all product providers	**Yes**	No
Can use 'independent' to describe their advice	**Yes**	No

Other types of 'advice'
If you are only given general information, or just have one or more investment products explained to you, this is called 'guidance' rather than 'advice'.

The main difference between guidance and advice is that under guidance you decide which product to buy and you accept full responsibility for that decision. The guidance provider has no liability if you make the wrong, or poor decision.

It means you will probably not have access to the Financial Ombudsman Service (FOS) or Financial Services Compensation Scheme (FSCS) if things go wrong. As a result, guidance can be a risky option if you are the least bit unsure of what you are doing.

If you are unsure whether the adviser or firm is proposing to provide you with guidance or advice - or whether the advice is restricted or independent - you should ask them to clarify.

2. How long have you been a financial adviser?

Experience isn't everything. However, you may have more confidence in someone who has at least spent a few years advising people like you. Some of the best advisers are the ones who have been around long enough to experience the journey people like you go through – both the good bits and the not so good.

Your adviser should also be FCA-regulated. You can check the background of authorised advisers on the Financial Conduct Authority's website: www.fca.org.uk/register

3. What qualifications do you hold?

The basic requirement for an authorised adviser is to hold a minimum qualification of QCF Level 4. This is the lowest possible standard and does not reflect any particular expertise or knowledge.

You should seek an adviser who holds more advanced qualifications. The highest levels of qualification are the "Certified Financial Planner" licence and "Chartered Financial Planner" status.

4. Are you a specialist?

Very few financial advisers have expert knowledge in all areas of financial planning. Ensure your adviser is experienced and regularly deals with people like you. And should they ever need to refer you to other specialists; when this might be necessary and who they would propose referring you to.

5. How do you charge for your services?

There can be significant differences in the level of fees charged by advisers - and it pays to shop around. Always seek an adviser who offers you a well-defined service in return for an explicitly clear, unambiguous fee. You should request an engagement letter after the first meeting that sets out the services to be provided and the way you will be charged for these.

Fee-based advice is often paid for by way of charges levied on your savings – both initially and on an ongoing basis. Keeping track of what you are paying can be very difficult, so make sure you get a clear £, as well as a % figure, from your adviser from outset. Get this in writing.

6. What other charges will I be paying?

People often over-estimate (or are over-sold) the level of future investment returns that they are likely to achieve - and woefully under-estimate the amount and effect of charges.

Ask your adviser for a detailed breakdown of ALL the charges that will be levied on any proposed investment. A "long-term" (25> years) historic record of performance – and an estimate of future performance. Only then will you be able to understand the "net" potential of the investment being recommended.

7. Will your advice focus on one area, or will it be a complete review?

You may or may not require a complete review of your financial position. Some people seek financial advice simply to obtain recommendations on one particular aspect of their financial lives. Establish exactly what the financial adviser is offering to you in terms of the scope of their recommendations.

8. What will the advice process look like?

What will the advice process entail? What does each stage look like? Do they use financial planning tools like "risk profiling" and "cash flow analysis"? Such tools can provide great value in giving context to your overall financial position, enabling educated and informed decisions to be made around risk and expenditure.

9. What level of ongoing service can I expect?

The answers to this question will vary from firm to firm. However, if the adviser is going to receive any form of ongoing remuneration from your investments, you should expect to receive a structured and documented level of service in return.

Advisers often provide different levels of ongoing service, to suit the varying needs of their clients. Ensure you clarify what service you are going to get – and that it meets your needs. At a very basic level, an annual review will update the advisers' understanding of your financial position and enable them to reassess the suitability of any products or investments that you have.

10. How do you work with other professionals?

A good financial adviser should be able to work closely with your solicitor and accountant. The advice that they provide should complement the advice from your other professional advisers. Ensure that your financial adviser is comfortable working with other professionals and find out how they propose doing so.

11. What happens if something goes wrong?

UK authorised advisers must have Professional Indemnity Insurance. In addition, there is the Financial Ombudsman Service and Financial Services Compensation Scheme if things go wrong and the adviser can't, or won't settle a complaint. But not all advice and/or advisers come with full protection so ask the question – especially when dealing with specialist and/or offshore investments or advisers.

Choosing a financial adviser is one of the most important decisions you will ever make. Take your time and choose wisely. "Test drive" a few first?

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