

The changing face of advice



A fresh approach to the regulation of financial advice

The value of financial advice cannot be underestimated. Making the right decisions about your finances may never have been so important and it has certainly never been so complex. Millions of UK investors rely on their adviser for support and guidance and are their satisfied customers.

You may be aware that from the beginning of 2013 a new set of regulations governing the provision of financial advice will be introduced which aim to provide higher standards and greater peace of mind for investors. The Financial Services Authority (FSA) has taken a look at the whole investment advice industry and, having consulted widely with trade bodies, product providers and advisers themselves, has decided to make some changes. These include raising the level of professional qualifications and removing the potential for conflicts of interest in terms of how advisers are paid. The aim is to improve overall the advice being offered and to boost consumer confidence in the advice industry.

The new regulations, which come into effect at the end of 2012, fall into three main areas which are summarised in this guide.

1. Charging for advice

The most significant change for many people will be how they pay for financial advice.

Up until these changes there have been two main ways of paying an adviser for their services:

1. The provider of the product you decide to invest in pays the adviser a commission. In this case the cost of advice is usually accounted for in the product charges you pay.
2. You agree a fee with your adviser and pay him or her directly.

The FSA has sought to remove any possibility that the payment of commission could create a bias towards particular products. Therefore, from 31 December 2012, advisers will no longer receive commission payments on new business. From this date they will charge fees for their services and will lay out their fee rates so clients will be able to see the charges for advice as distinct from product charges.

What this means for you

Your adviser will describe up front the charging rates for their services. You will be able to pay these charges either by making a physical payment (for example, by cheque) or by agreeing to having them deducted from your investments. A change from your adviser being paid commission to being paid by fees may not in itself make a difference to the overall total of charges you pay for both products and advice combined.

2. Unifying standards for professional qualifications

All advisers today have qualifications to give professional financial advice but the changes being made aim to raise the bar higher, to promote consistently high standards across the board.

In order to promote a consistently high standard for all advisory professionals, the FSA is introducing some new requirements:

- A new, higher minimum level of qualification is being introduced. Most advisers will need to meet this new minimum standard by the end of 2012 (many already do)
- Advisers will need to demonstrate that they are enhancing and developing their skills and knowledge over time to a higher degree than before
- As 'approved persons', advisers will need to have adhered to principles on ethical behaviour in order to be accredited each year.

What this means for you

You will have the reassurance of knowing that all advisers are highly qualified professionals and overall they should offer a high level of technical expertise.

3. Greater clarity on the different types of advice on offer

To help consumers choose the type of services they require, the definition of advice is being made clearer. In future, advisers will need to declare up front whether they are offering 'restricted' or 'independent' advice.

- Restricted advisers will offer advice restricted to a limited range of products or product providers
- Independent advisers will be required to consider all products from across the relevant market when providing advice.

In practice, a restricted adviser might work with a particular type of client, for example clients with straightforward needs. An independent adviser will have no such limitations and will be able to recommend any product from any provider.

What this means for you

This will only affect you if your adviser decides to change the type of advice they offer (moving from offering independent to restricted advice). However, your adviser will need to clearly disclose to you before giving any new advice what they can advise on.

Many advisers have already made the transition to meet the new requirements and product providers are gearing up to make the necessary changes to remove commission from products. The advice industry should be more open and transparent and offer a higher level of technical expertise as a result of these changes, and you should hopefully see the benefits in the years to come.

If you would like to know more about the FSA's Retail Distribution Review and how it will affect you, simply talk to your adviser.

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