

I have heard that new standards are being introduced by the Financial Services Authority. How do I know if my current financial adviser (or a new one I am considering) meets these new standards?

For the last three years or so, the Financial Services Authority (FSA) has been working on a set of proposals to improve the way financial services is delivered in the UK to consumers, by improving professionalism and competence, and enforcing greater transparency in (for example) how advice is paid for. The process has become known as the Retail Distribution Review (RDR).

RDR is supposed to be implemented by the end of 2012, but many financial planning firms have already implemented most of the changes, indeed had incorporated them into their business long ago, because they are beneficial to their clients and business practices.

If you want to be sure that the financial adviser you are talking to is on track to comply with RDR, here are a few of the issues to look out for.

Remuneration

In the past, financial advisers have typically been remunerated for their services through the payment of commission on the sale of a financial product they recommended. Although this often looked as if the advice was given “free”, in that no cheque was written by the client, the cost of commission was paid for out of product charges, which obviously were higher as a result. The FSA believes that the payment of commission has the potential to cause bias, and for products to be sold where none are needed.

RDR introduces the concept of adviser charging. This means that your adviser will need to agree the precise cost of their advice and other services with you, in advance. Adviser charging should go some way towards improving impartiality, as fees for services will not depend on the sale of a commission paying financial product. Ask your financial adviser how they charge for advice and what plans they have to introduce Adviser Charging.

Qualifications

By the end of 2012, all financial advisers will need to be qualified to a higher minimum level than the one which applies today. The current mandatory minimum qualification for financial advisers is at QCF Level 3, which is broadly equivalent to a GCSE exam. The new standard is QCF Level 4 and this means your adviser will have needed to have passed a more testing set of qualifications, at Diploma level.

You should ask your financial adviser about their current qualification level and their study plans. With less than three years to go, your financial adviser should have already made good progress towards Diploma level, with at least one or two of the required exam modules completed. If your financial adviser tells you that experience is more important than qualifications, you might challenge him about the need for relevant experience combined with the testing of knowledge through relevant qualifications.

Scope of Advice

From the end of 2012, financial advisers will offer independent or restricted advice. Many existing financial advisers will fall into the restricted advice category, with more stringent requirements to disclose the limitations of their services and product range.

Professionalism

A Professional Standards Board is to be introduced to monitor and manage individual financial advisers, looking at factors such as their ethics and behaviour. Ask your financial adviser if they already subscribe to a code of conduct and ethics through a professional body, such as the Personal Finance Society or Institute of Financial Planning.

These are all important questions to ask your financial adviser if you want the peace of mind that they will be able to remain your adviser in a few years time. Most importantly, their answer to these questions should be a good indication of their current levels of professionalism, ethics and business acumen.