# Advisers investigated

Fewer than a third of financial advisers passed all our tests in our undercover research. We tell you how to get good independent advice at the right price

With some financial decisions we need help, and that's when we need a financial adviser. But deciding to take financial advice is the easy bit. How to find an adviser you can trust is quite another matter.

Whatever you do, don't go to the high street for financial advice. Most advisers working for the big banks are 'tied', which means they can recommend only their own products or, at best, products from a very limited choice of providers. But added to this, our latest investigation shows the quality of advice they give often falls far short of their independent counterparts.

You are more likely to receive better advice from independent financial advisers (IFAs). They can recommend products from the whole market and offer you a choice of how to pay. But not all IFAs do a good job, so you need to choose carefully.

### When do you need advice?

For less complex financial products, such as car, house or travel insurance, cash Isas, savings accounts or credit cards, *Which?* Best Buys are all you need to help you choose (see 'Money Monitor', p32 and www.which.co.uk/money for regular updates). But for more complex products, such as investments, mortgages, pensions and protection insurance, you should see an adviser unless you are confident that you understand the market and are happy to do your own research. However, it's important to remember that if you buy direct, you can't later complain to the Financial Ombudsman Service (FOS) if the product turns out to be inappropriate for you.

### WHAT ADVISERS SHOULD DO

When selling regulated products, such as protection insurance, investments and pensions, advisers must follow rules laid down by the Financial Services Authority (FSA). Here are some of the most important.

- To be called 'independent', IFAs must be able to recommend financial products from any provider and offer you the option of paying by fee or commission. Some advisers (called whole-of-market advisers) do offer products from the whole market but don't offer the option of paying by fee, so they can't call themselves independent.
- Tied advisers don't have to offer the fee option and can recommend just their own company's products or those from a small range of providers. However, they must make it clear which companies they can recommend from.

**Only 16 per cent of tied advisers passed all our benchmarks for good advice**

- Financial advisers must give you documents telling you about the service they offer and how their costs compare with the average in the market. These documents are called 'Keyfacts about services' and 'Keyfacts about costs'.
- All advisers must collect information about you, so they can properly assess your financial needs and make a suitable recommendation. This is called the 'fact find' and can take anything from a few minutes to a couple of hours, depending on how

thorough the adviser is. The fact find should ask about existing policies you have and your entitlement to any state benefits.

- Advisers must give you a keyfacts document explaining the pros and cons of any product they recommend. They should also discuss with you how much they will earn from any products they sell.

## OUR FINDINGS

When we test financial advisers we don't just look at whether they have stuck to all the FSA's rules. We also judge them on how clearly they explain everything, how thoroughly they conduct the fact find and whether they recommend the right type of product or solution for each researcher.

Overall, only 26 per cent of the financial advisers in our test (15 out of 57) passed all our benchmarks for good advice (see the chart, right). As in previous years' tests, IFAs came out better, but they still didn't exactly shine. Only a third (34 per cent) of them passed. However, tied advisers were even worse – only a sixth (16 per cent) passed all our benchmarks for good advice.

Here's where the advisers in our research went wrong:

- Twenty advisers (31 per cent of independents and 40 per cent of tieds) failed to give out the keyfacts on costs document, blatantly breaking FSA regulations. Of the 37 advisers that did give this out, only 11 (seven independent and four tied) bothered to try to explain its importance.
- Twenty one advisers (41 per cent of the independents and 32 per cent of the tieds) failed to do adequate fact finds.
- Over three quarters (75 per cent of independents and 80 per cent of tieds) failed to discuss our researchers' entitlement to state benefits. This is despite the fact that state benefits play an important part in most financial planning.
- Only half of the 28 advisers we visited for pension advice (53 per cent of the independents and 46 per cent of the tieds) properly assessed our researchers' attitude to investment risk. It is crucial to do this to recommend a suitable pension fund.
- Advisers should point out that the full amount of protection insurance cover may not be paid out if your income drops. Only seven of the 29 advisers we visited for protection advice did this (24 per cent of independents and 25 per cent of the tieds).
- Four advisers (two tied – both from Abbey – and two IFAs – one from CIS) missold policies. They recommended a payment protection policy or accident and sickness policy which were inappropriate because they pay out for only 12 months. An income protection policy should have been recommended to our researchers as they were looking for a policy to cover them for long-term sickness.

### Misleading information

Worryingly, almost a third of the tied advisers we visited misled our researchers into thinking they offer a wider choice of providers than they actually do. For example, a Bradford & Bingley adviser said: 'Bradford & Bingley doesn't have its own products. We're free to choose who we use.' This is not the case – Bradford & Bingley are tied to Legal & General for protection products and, unsurprisingly, it was a Legal & General product that the adviser recommended to our researcher.

However, an HSBC adviser gets the prize for pure cheek by saying: 'HSBC has an agreement with all those different insurance companies, but the one I would recommend would be an HSBC policy.' Actually it was the only income protection policy he could recommend.

Some of the banks' keyfacts documents were similarly misleading. NatWest, Yorkshire Bank and Halifax all state that they can offer products from a limited number of companies – leading customers to think that they offer a choice of providers for each type of product. However, this is not always the case. For example, NatWest offers only CGNU's stakeholder pension. Yorkshire Bank offers only Legal & General's life insurance and Axa's pensions. Similarly, Halifax offers only Norwich Union's income protection plan.

**Twenty advisers failed to give the keyfacts document, blatantly breaking FSA regulations**

keyfacts



## NO LONGER SCEPTICAL ABOUT ADVISERS

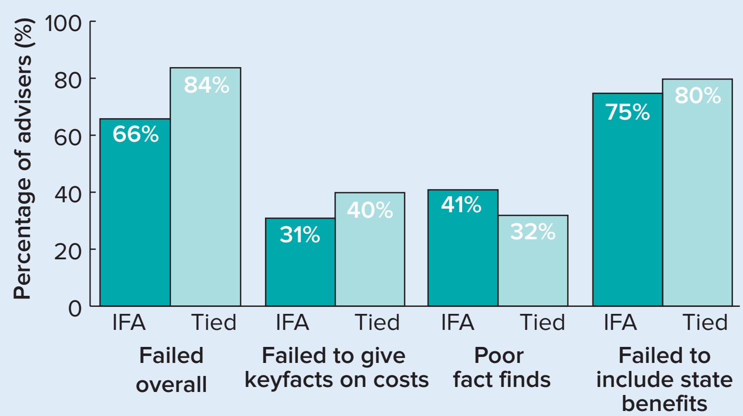
**Kim Patrick and Nigel Cowdery** *35 and 49, part-time property developers*

When Kim and Nigel set up their property development company, they wanted help to find the best buy-to-let mortgage deals. However, they were sceptical of financial advisers. Kim told us: 'Nigel was convinced that financial advisers sell only the products that make them the most money. However, we didn't have either the time or the expertise to find the best deals, so we needed someone to act on our behalf.'

A friend recommended independent financial adviser Anne St Ives. She has sorted out one buy-to-let mortgage for them, which they are pleased with, and is currently negotiating another two deals for them.

Kim and Nigel chose to pay by commission as it is the cheaper option for them in this case. Typical fees for advice on commercial mortgages can be as much as 1.5 per cent of the amount borrowed. Anne told us: 'It can be a fine line between what is a fair charge for the advice and covering my costs, but I'm always happy to negotiate fees and charges.'

## HOW ADVISERS FAILED OUR TESTS



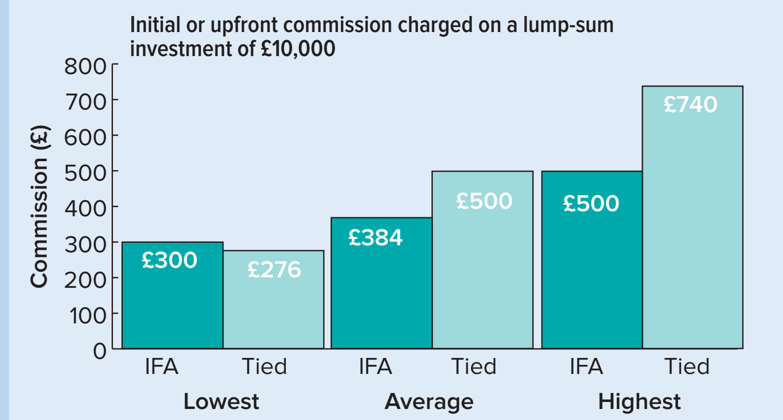
We've raised our concerns with the FSA about the misleading information we received from tied advisers.

## Unprofessional conduct

A number of advisers made negative remarks about the keyfacts documents that under the new regulations they have to give out to customers. These documents are designed to help consumers shop around between advisers, so it's important to read them. However, some advisers made statements deliberately designed to put our researchers off reading them. For example, one independent adviser said: 'There is a lot of rhubarb in here about commission.' Another said: 'Try not to lose the will to live when you are reading it through'. These were both fairly typical of the unprofessional remarks we heard.

'He came across as a very good salesman, but I wouldn't buy a used car from him'

## COMMISSION: IFA vs TIED ADVISERS




## OUR RESEARCH

**Our undercover researchers describe what they thought of the advisers**

From March to June this year, ten researchers visited 57 financial advisers in England and Wales – 25 were tied and 32 were independent. In 28 of the visits, our researchers asked for advice on saving for retirement, and in the other 29 they wanted advice on how to protect their income if they couldn't work due to ill health. We spent ten weeks analysing the recorded interviews.

The advisers we visited on the high street were from Abbey, Barclays, Bradford & Bingley, Co-op Bank, Halifax, HSBC, Lloyds TSB, NatWest, Nationwide BS, Royal Bank of Scotland and Yorkshire Bank.

### John's experience

John, one of our researchers, had interviews with seven advisers – three tied and four independent – to find an insurance policy that would cover his income if he was off work through ill health. John said: 'I thought most of the advisers did a good job. The IFAs, in particular, seemed to do a lot of work. The bank advisers were OK, but it was often hard to get an appointment.'

One of the IFAs John saw mis-sold him the wrong type of policy – a payment protection policy instead of income protection – without John realising. When we pointed it out to him, he said: 'That adviser was one of the most charming people I have ever met, but there was something about him. He came across as a very good salesman, but I wouldn't buy a used car from him.'

### Jane's experience

Jane saw eight advisers (four tied and four independent) for pension advice. She told us: 'I feel wiser about pensions in general. However, the IFAs couldn't make up their mind whether I needed an Isa or a stakeholder pension. But at least they gave me some advice about my existing pensions – which is more than most of the tied advisers did. Some of the bank advisers conducted the fact find in a very robotic manner and didn't seem to care whether I took their advice. I had to make 17 phone calls and three visits to Barclays over ten weeks to get a recommendation.'

The two advisers Jane liked best both failed our benchmarks for giving good financial advice.

## FEES OR COMMISSION?

If you buy a pension or investment, it may be better to pay a fee for the advice if you can. This is because commission increases the product charges, which can dramatically affect the return on your investment. For example, if you pay a commission of just 3 per cent for a stocks and shares Isa (into which you pay £200 a month), the value of your Isa could be reduced by £1,000 over ten years. A fee for the advice would have cost you around £300.

The bigger the investment, the more you lose in commission. The graph, below right, shows that typical commission of 6.25 per cent could reduce the return on a £50,000 lump sum investment by £5,200. However, a typical fee for this type of advice would be more in the region of £1,500.

You may also be able to get a lower premium on products like income protection or life insurance if you pay by fee.

If a product is recommended, ask your adviser to run two illustrations – one with commission and one without. Then ask how much a fee would cost. Don't automatically assume the fee will be more expensive than the commission until you compare. The fees charged by the IFAs we visited ranged from £65 to £300 an hour. Advisers can give you an idea upfront of how long it might take to give you the advice you need. Get several quotes and don't be afraid to negotiate fees.

With mortgages, it may be better to pay by commission because mortgages are one of the few financial products where commission doesn't usually increase the product charges. However, always check this point with your adviser.

## Misleading information on costs

Generally, you'll pay for any advice you receive – one way or another. Even if an adviser is a salaried employee, a cost for advice is still included in most financial

## Contacts

**For help finding an adviser**

**IFA Promotions**
0800 085 3250; www.unbiased.co.uk

**Institute of Financial Planning**
0117 945 2470; www.financialplanning.org.uk

**Personal Finance Society**
020 8530 0852; www.thepfs.org

**To check whether an adviser is regulated**

**Financial Services Authority**
0845 606 1234; www.fsa.gov.uk

PHOTOGRAPHY SIMON WRIGHT, GETTY IMAGES

products. However, some advisers made it sound as if the advice was free. For example, an adviser from Co-op Insurance Services said: 'Why should you pay when the provider is willing to pay it for you?' Similarly, a Nationwide adviser said: 'I'm salary based so I don't receive any commission...so hopefully that puts your mind at rest.'

### Advice at a price

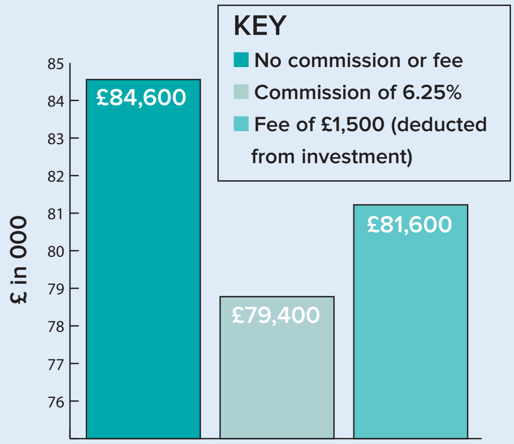
Some banks have both tied and independent financial advisers working for them. But with one bank at least, independent advice comes at a premium. When one of our researchers tried to make an appointment with a NatWest independent adviser, she was told: 'I charge £2,000, which you'll have to pay before you get any advice'. We asked NatWest to comment on this exorbitant charge as we feel it far outstrips any fee you would pay for this type of pension advice – even from a top IFA.

A NatWest spokeswoman confirmed that it does indeed charge a flat rate of £2,000 for a full independent financial review. However, she said that an hourly rate of £225 is charged for specific independent advice (such as the pension advice our researcher asked for). So it seems we were quoted the wrong charge.

Don't assume you'll pay less commission with a tied adviser. When we compared the commission charged by tied advisers with that charged by independents, it was often higher – see the graph, opposite.

**Commission increases the product charges which can dramatically affect the return on your investment**

## THE COST OF ADVICE




What you might get back after 10 years from a £50,000 investment bond, assuming 7 per cent growth a year depending on how you pay for the advice

## HOW TO GET THE BEST ADVICE AT THE RIGHT PRICE

**Follow our steps to finding a good adviser and getting the best advice from them at the right price**

STEP 1
### Get a list of IFAs
Decide what type of financial advice you need and try to find an independent financial adviser (IFA) that specialises in that area. You can find a list of IFAs through one of the contacts listed opposite. Ring at least three firms.

STEP 2
### Check experience and qualifications
Look for an IFA with at least three years' experience and qualifications over and above the minimum requirement. See www.which.co.uk/money and www.unbiased.co.uk for more information on advisers' qualifications.

STEP 3
### Make sure they are authorised
Check that the adviser is fully authorised. You can do this by going to www.fsa.gov.uk/register.

STEP 4
### Compare costs
Ask the advisers to send you their keyfacts documents before you meet them. This will allow you to check they are truly independent and to compare costs.

STEP 5
### Negotiate costs
Don't be afraid to negotiate fees and charges with your adviser – if you find it difficult to do this in person, discuss it over the phone instead.

STEP 6
### Do the fact find
If you think you might pay by fee, ask the IFA to send the fact-find questionnaire to you in advance. Fill it in and send it back to them so they can familiarise themselves with your information before you meet. That way, you may avoid paying for time spent collecting and analysing information during your meeting.

STEP 7
### Know what to expect
At the end of the first meeting you should be clear about what the adviser is going to do for you. You should also have a reasonable idea of costs.

STEP 8
### Get it in writing
Insist on getting the recommendation in writing and read through all the product literature before you sign. If you don't understand anything, ask your adviser to explain it.

STEP 9
### Keep it professional
It's important to get on with your financial adviser, but don't get too chummy as this can make it hard to stay professional. After all, it could be a long-term relationship – a good adviser should review your finances with you every year.