# The Value of Advice

## Report

2012

#valueofadvice

unbiased.co.uk
the professional advice website

Standard Life

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# Introduction from unbiased.co.uk

The future for consumers will be great quality advice at a fair price

***Advice is valuable, worthwhile and accessible.***

*I believe this report demonstrates the one thing we really hoped it would. It provides hard evidence of what many in the advice sector have known for a long time and which advisers' clients understand when they meet them for the first time – advice is valuable, worthwhile and accessible to normal people. The report shows the gulf between the confidence of someone who is advised versus someone who isn't, highlights the difference between the financial assets held and presents clear anecdotal evidence of how advised clients view their finances.*

*This report is timely. Changes to the regulatory landscape for advice take effect imminently and consumers' trust in financial services has never seemed lower. Indeed the question of trust is topical right now with the majority of advisers looking for ways to demonstrate that they run trustworthy businesses. We need to focus on proving the value we can add to the financial health of an individual and work together to get this message across – media, provider, publisher, consumer body, industry body and adviser. The consumer may then have a chance of realising that advice is relevant to them and gain the understanding needed to seek out the right advice at the right time for their needs.*

*When we posed the idea of a constructive campaign talking about the success stories of advice and illustrating the real value an adviser can provide to a consumer we received an incredibly positive response. Our 'Value of Advice' report takes stock of what independent financial advice can do for consumers, all against the backdrop of the upcoming Retail Distribution Review (RDR) changes, but using an approach that speaks to the most important group – consumers.*

*For years consumers have tended to believe advice can be had for free, a myth that will disappear with the new advice regime. Consumers will be able to shop around comparing quotes from one adviser with another and they will also understand that even advice from the bank comes at a price. Together with higher standards for adviser qualifications, the future for consumers will be great quality advice at a fair price.*

*Of course, advisers impart their knowledge and wisdom from a plethora of financial qualifications and experience in working out what's best for their clients day in day out, but the real value they can add is in giving you confidence in your financial decisions, and in making you feel that protecting your family, arranging a mortgage or pension and keeping track of savings and investments is all within Joe Public's grasp.*

*I'd like to thank Standard Life for recognising that a sustained campaign, directly to the consumer, was needed in order to make people aware. It's great that Standard Life is supporting unbiased.co.uk in our efforts to make this a reality.*

*Please join the debate and spread the word on Twitter #valueofadvice*

**Karen Barrett**
*Chief Executive, unbiased.co.uk*

unbiased.co.uk
the professional advice website

# Introduction from Standard Life

***At Standard Life we believe good, professional, financial advice is one of the best investments you can make.***

*Our money is unique to each and everyone one of us. However, one thing we do have in common is how complicated our financial affairs can become for one reason or another. A lot of people want help in dealing with complicated money matters as well as answering the many questions that arise.*

*The questions we most often hear from people about their money are:*

***1.*** *Will I have enough money in the future to do what I want?*

***2.*** *Am I saving and investing in the right place?*

***3.*** *Am I paying too much tax ?*

***4.*** *What are my options when things change?*

***5.*** *How can I keep an eye on my investments?*

*Like most things in life, when you're tackling something complex or have difficult questions you'll probably turn to a professional. For many people decisions about their money fall into this 'complex' category. For this reason, more and more people are investing in professional financial advice.*

*A good adviser will quickly understand your financial position and help you identify your goals. They'll look at the lifestyle you have today and the one you want in the future. They'll understand how you want to invest and what your financial – and life – priorities are. With this insight they'll prepare a financial plan that's unique to you, and more importantly, a plan that will adapt as your needs change. In short, they'll make dealing with your finances easier.*

*Good, professional, financial advice will help you have greater confidence and certainty over your long-term plans. That's why we're working closely with unbiased.co.uk to help promote the value of professional advice. I hope the results of our research – detailed in this report – help to broaden your understanding of the benefits of advice, and set you on your financial advice journey. Getting financial advice could be one of the best investments you ever make.*

**Paul Matthews**
*Standard Life Chief Executive, UK and Europe*

Standard Life

*At Standard Life we believe good, professional, financial advice is one of the best investments you can make.*

# Executive summary

Consumer finances have been changing at an accelerating pace. Gone are the days when people could rely on the state, their employers or even the equity built up in their own homes to provide for their retirement income. With interest rates at an all-time low, global stock markets continuing to be volatile and rules and regulations around personal finance products becoming ever more complex, independent financial advice has never been more important. This report is based on research we commissioned looking at the state of the 'advised' nation versus the 'non-advised' nation and comparing the differences in their financial situation.

*We are working on changing the question from 'can you afford to take financial advice?' to* ***'can you afford not to take financial advice?'***

According to our research, less than one in five (18%) of UK consumers has sought advice from an independent financial adviser (IFA), with retirement planning being the number one reason why people search for details of an IFA through unbiased.co.uk. For many others, their first touch points with an IFA are for help with a residential mortgage, or life insurance.

It is evident that independent financial advice is particularly valuable in helping the consumer understand the need for more complex financial products. It also tends to increase the uptake of products that may otherwise be overlooked, such as protection products like life insurance or mortgage payment protection insurance. When comparing the financial situations of consumers who have taken independent financial advice to those who haven't, some remarkable differences become clear as shown in our report:

- The advised group, despite being relatively similar with regard to income, includes a much higher proportion of people with life insurance, pension provisions and investment products than the non-advised group.
- The current average pension pot for consumers who have been advised on their retirement planning is £74,554.30, nearly double that of those not seeking advice.
- Those who have taken advice put nearly a third more a month into their pension plan.
- On investments, people with an adviser save for longer and contribute more, leading to an average investment value which is over £40,000 higher than the average for those who haven't sought advice
- All of these findings suggest that taking independent financial advice has a vital part to play in the health of consumer finances and it can have a tangible positive effect on consumers' financial security.

And independent financial advice doesn't just prove its worth in the hard numbers. It also plays an important role in helping consumers understand their personal financial situation and how it fits into the wider financial environment of the national and global economy. The advised group showed a better awareness of the limits of state provisions for retirement income and financial support during sickness. They were also more confident that they had made the right financial product choices for themselves than the non-advised group.

With the advice industry in the midst of another shake-up and the Retail Distribution Review firmly in view, independent financial advice continues to be vitally important for consumers needing help with their personal finances. This report clearly demonstrates the value independent financial advice adds in both consumer confidence and financial benefit.

# State of the advised nation

Although few would claim to be completely happy with the state of their personal finances, only a minority seek professional financial advice. Our research shows that just 18% of the overall population engage or have engaged the services of an independent financial adviser.

**18%**

The percentage of the overall population who engage or have engaged the services of an independent financial adviser.

## Region

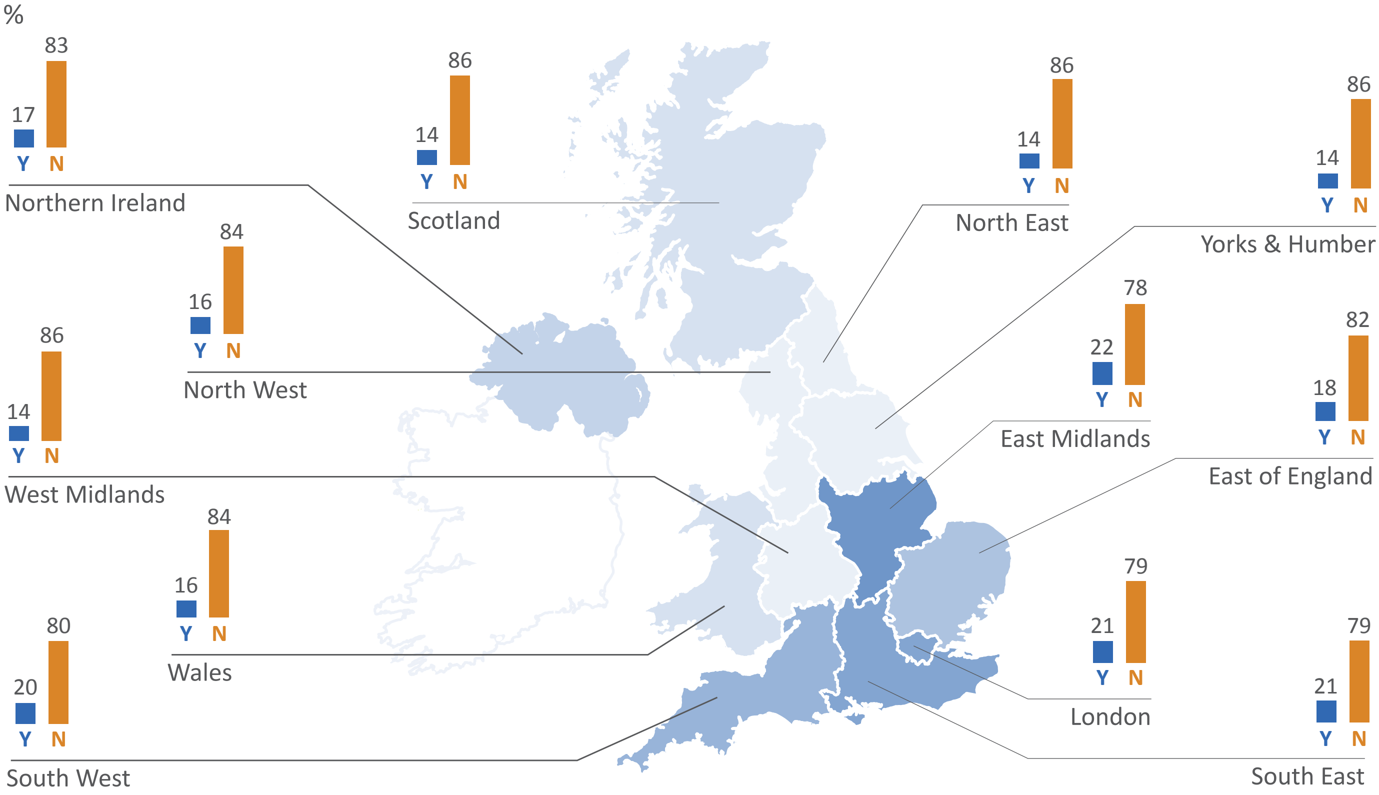
Historically the parts of the country where people take most financial advice had been those where there are high concentrations of wealth – such as London – or those with a greater number of retired people, such as the South West. Generally the South had a far greater propensity to seek advice than those in the North.

Our research shows that little has changed with the exception that the East Midlands has the highest proportion of people seeking independent financial advice at 22%, with London at 21%, the South East at 21% and the South West at 20% following closely behind.

The regions with the lowest uptake of advice are Yorkshire & Humberside, the West Midlands, Scotland and the North East – each with just 14% of people seeking advice from an IFA.

The strength of regions such as the East Midlands shows that seeking financial advice is not necessarily the preserve of oligarchs and investment bankers, who tend to dwell in the capital. Many people from different backgrounds and circumstances can benefit from independent financial advice. The people who choose to see independent financial advisers are those who have decided they need help planning their finances – whether that is to achieve a specific goal (such as the purchase of a house, a comfortable retirement, or a legacy for a grandchild) or perhaps to create a holistic plan for their financial future.

**Do you use an Independent Financial Adviser?**



## Age and products

Older people are more likely to use the services of a financial adviser than younger people. The data shows the vast majority (79%) of those who have sought advice are aged over 35. Of this group, 60 to 69 year olds take the most advice (23%), followed by 50 to 59 year olds (22%); next are 30 to 39 year olds (22%), then 40 to 49 year olds (19%). Only 7% are aged between 20 and 29 years old.

79%

of those who have sought advice are aged over 35

Younger people (18-34 year olds) tend to use the services of an adviser less than those aged 35 and upwards, and when they do it is most likely to be for a residential mortgage. By ages 35-54 people's priorities start to change and the data shows a greater number of people with life insurance products within this age bracket than in the younger group. More than a third of 35-54 year olds hold a residential mortgage and a similar proportion hold life insurance. The data also shows an increase in the number of people in this age group with a private pension from an IFA.

From the age of 55 onwards, the figures show an increase in the number of investment products held, accounting for the most visits to an IFA for this age group, suggesting that planning for a secure retirement is becoming the top financial priority at this stage.

As people get older and retirement is looming, they need to ensure they do not outlive their money as the state pension is no longer sufficient on its own. By this stage in life many will have built up a reasonable savings pot and they want to know how to invest to ensure it will last them for the rest of their lives. As a result, the most common reason this age group seek advice is for savings and investments.

## Advice Drivers

Advice is predominantly needs focused – there are a number of personal and product-specific triggers for people to seek advice. In general, people will seek advice when they need to plan for their retirement, or to know which type of ISA to select for their annual savings plan. They will seek advice when they move house, or require complex tax planning (such as inheritance tax planning). They will also seek help when they require a personal protection insurance product – such as life insurance to protect their family or critical illness cover, so their income is covered in case they can't work for a while.

But there are also life events which trigger people to seek advice. They may want advice when they get married, or have their first child. They may find themselves in a new job with a larger salary, they may become self-employed (losing their rights to a company pension scheme) or even set up a new business. Or perhaps they want to move abroad, or retire early.

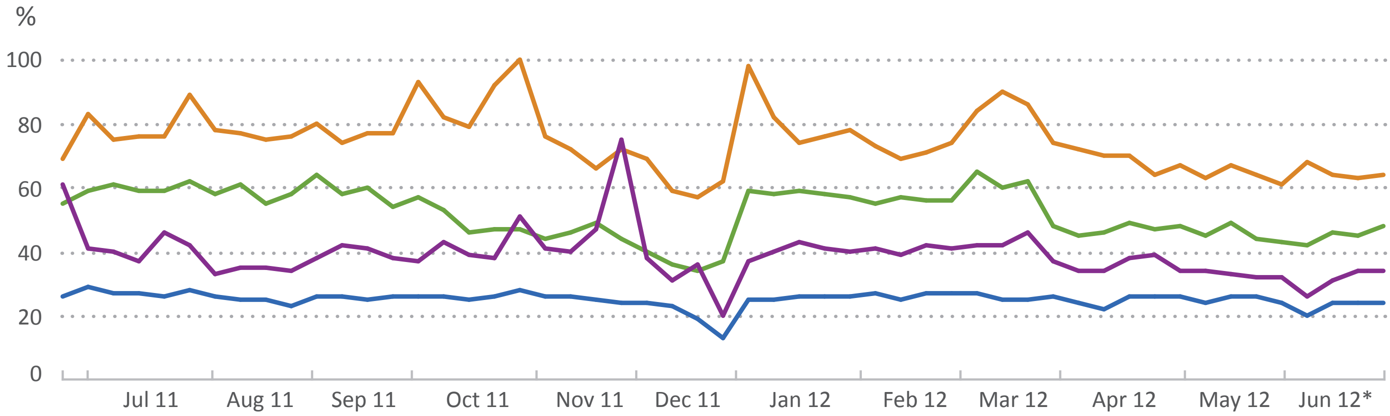
Figures from unbiased.co.uk's Advice Drivers report show consumer demand for product specific areas of independent financial advice from June 2011 to June 2012. This data shows that retirement planning (33%) and investment & savings (23%) were the most in demand areas of advice in June 2012.

The data from January to April 2012 suggests the end of the tax year triggered a rise in the number of people searching for advice on ISAs, OEICs and unit trusts, increasing from 12% in January to 13% in February. This marked a nine month high, with people looking to make the most of their tax-efficient savings before the 5 April 2012 deadline. Demand for mortgage advice peaked in January and April 2012, the latter when first time buyers may have been looking for advice on mortgages following the end of the stamp duty holiday.

## Consumer search trends

Data from Google Insights shows the number of searches made via Google over the course of a year from July 2011, using the following terms: investment, pensions, savings and mortgage advice. While the number of searches sees a seasonal dip around December, the graph shows a notable spike in January. This suggests consumers feel a need to get their finances back in order at the start of a new year. While searches for investments remain relatively consistent over the course of the year, savings, pensions and mortgage searches spiked in March. This is likely to be due to a combination of the tax year end and the end of the stamp duty holiday for first-time buyers.

**Consumer search trend – 12 month period**



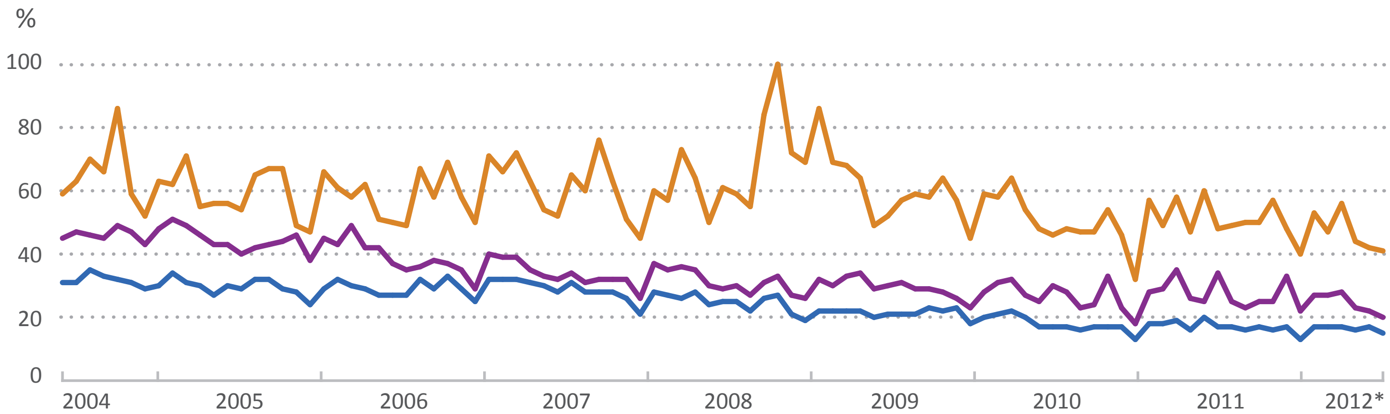

Data from Google Insights

*The last week of June is based on partial data and may change

More recently, people have increasingly sought advice to help cope with the effects of the credit crisis. There is a clear uplift in searches for the term 'savings' in September 2007, around the time Northern Rock hit the headlines and at the end of 2008 when the credit crunch started to take full effect in Britain. The data suggests that people tend to be apathetic until a critical event in their own life or the wider economy.

Investments
Pensions
Savings
Mortgage

**Consumer search trend – 8 year period**




Data from Google Insights

*The last week of June is based on partial data and may change

# Advised vs. non-advised

## Products held

There is a clear divide between the suite of products held by advised and non-advised people, with those who have taken advice holding more sophisticated products. This is both cause and effect: on the one hand people tend to seek advice on the more complex areas of financial planning – investment, pensions and insurance, for example; and on the other hand advisers tend to specialise in these areas and are therefore more likely to recommend one of them than, say, a cash ISA. This is to some extent self-evident – it is far easier for the average consumer to select a cash ISA, where the only difference between products may be the headline interest rate, and useful comparison tools are both widely available and heavily advertised to help make that decision.

Our research shows that life insurance, for example, is far more commonly held by people who have sought advice than those who haven't (51% compared to 35%), clearly highlighting that the advised group is better provided for with regard to life insurance than the non-advised group. In addition, with a product as important as life insurance, people need to ensure that they end up with a product that will properly meet their needs and specific circumstances, adding further emphasis to the importance of seeking advice on this area of personal finances. The gap is also apparent for private pensions, stocks and shares ISAs and more complex insurance products like critical illness cover.

Savings accounts, cash ISAs and work pensions are the most commonly held financial products across both advised and non-advised people. Our research shows that savings and cash ISAs are marginally more prevalent among non-advised people.

**Which of the following products do you hold?**

| | Taken advice from an IFA | Not taken advice from an IFA |
|---|---|---|
| Savings account(s) *(other than an ISA)* | 68% | 71% |
| Cash ISA(s) | 57% | 58% |
| Work pension *(provided through your employer)* | 55% | 51% |
| Life insurance | 51% | 35% |
| Residential mortgage | 43% | 26% |
| Private pension *(excluding SIPPs)* | 39% | 21% |
| Investment / stocks and shares ISA(s) | 38% | 19% |
| Investments *(outside an ISA, for example unit trusts, OEICs, bonds)* | 30% | 16% |
| Critical illness cover | 18% | 7% |
| Mortgage payment protection | 12% | 5% |
| Income protection | 9% | 3% |

*In general, people who have sought advice, are more likely to hold investment, mortgage and protection products indicating that the advice process is playing an important part in people considering these types of products.*

## The impact of advice

> *The UK has a significant and worrying 'savings gap'*

The UK has a significant and worrying 'savings gap' – that is, people do not save enough for retirement and, unlike for previous generations, workplace pensions are unlikely to fill the gap. Initiatives such as 'auto-enrolment', where companies will be compelled to provide and contribute to workplace pension schemes will go some way to addressing the problem, but many people are still likely to face a significant drop in income when they retire.

A recent study by the Association of British Insurers (ABI) showed that increasing annual pension contributions from 8% to 12% of salary would see a pension pot rise by 50%. The same study showed starting a pension early could make a significant difference to the overall pension pot. To delay starting to save for a pension by five years could potentially reduce the final sum by as much as 17%.

Our research shows that people who seek the help of an IFA generally set more money aside than those who are unadvised. This gap is not simply explained by the relative differences in income between advised and non-advised people – advised people tend to contribute a greater proportion of their wealth to long-term savings and this is reflected in the findings. These two factors contribute to a substantially higher pot of savings overall.

The current average savings for consumers who have been advised on savings products is over £59,000, nearly £20,000 more than those not seeking advice (£38,918.26). Again, those who have taken advice are on average putting away £191 a month and have been contributing to savings products for 18 years compared to those who haven't at £149 a month and 13 years.

Looking at pension provision, on average non-advised people contribute £108 per month and have held a pension for 17.5 years. Advised people on average contribute £167 per month and have held their pension for 18.5 years. The combination of higher contributions and a longer investment horizon shows that the average pension pot for those who have sought advice on their retirement is nearly double the size.

**So what does this mean in real terms? Here is an example:**

| | IFA advised on pension planning | Non IFA advised |
|---|---|---|
| Average monthly pension contribution | **£167.01** | **£108.00** |
| Average pension pot at age 54*: | **£74,554.30** | **£37,277.10** |
| **Total pension pot at retirement age of 65** | **£175,121** | **£92,616** |
| **Annual retirement income** (in today's terms) | **£5,921**<br>**(£493 monthly)** | **£3,132**<br>**(£261 monthly)** |

Calculations based on:
6% annual investment return after charges, monthly contributions escalating by 2.5% per annum, 2.5% inflation.
Annual paying joint life annuity with 50% spouse's benefit, 3% escalating. All to age 65.
*Figures based on a 54-year-old, the age of the average person answering the retirement saving question in our research.

## Proving the value of advice – case study 1

Retired civil engineer, Harry Pratt, saw the benefit of taking pension advice from an IFA. He was able to retire early and saw an uplift in his pension of 50%, after taking advice from Dave Penny at Invest Southwest.

“

**Harry Pratt,** Taunton, 60 years old

*This initial meeting provided a good opportunity for me to check over my investments and savings and sort out my pension. I was also looking to retire at 60 and wanted to see if this was possible. Dave sorted out my pension, I was previously a member of a workplace pension scheme which had started to lose money. He also tidied up my investments so that I had access to greater income in the future.*

*“Dave lifted my pension by 50% and this enables me to take early retirement as a result, I was also able to clear my mortgage, something that I wouldn’t have thought possible before I had this financial review.*

*Dave explained the financial steps that I needed to take very clearly, he said that I had done a good job with my investments so far but just needed a bit of direction. His knowledge was invaluable particularly as I can’t afford hours on a computer looking for information (me and computers don’t see eye to eye)!*

*A lot of people don’t have a computer or the time to put into their finances and an IFA can make life a lot easier.*

*I don’t know why people are reluctant to pay for advice, I am definitely happy with the service and advice that I paid for.*

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“

**Dave Penny,** Invest Southwest

*All the work we do involves a complete financial review and a promise of ‘advice for life’. This is assumptive and we write to our clients at least once a year to invite a continuation of the review process.*

*Harry now reviews his investments annually, more proactively than most in fact, because he enjoys the process. In fact he keeps discovering additional investments which we then take under our wing and absorb into the overall strategy of the portfolio.*

*We have endorsed and congratulated him for what he has done to date with his finances. He was in a good net position when he came to us, albeit that he felt a little bit out of control. We took the good work he had done and made it better. He felt good about what he had done to date and what we have done together since. He has reduced risk, increased performance, cleared his mortgage, and retired. Wouldn’t you be happy?*

”

# The consumer experience

## What do people value from advice?

While many people recognise the wisdom of building a financial plan, relatively few have made the leap to seeking out a financial adviser to get a solid plan in place. And even then, making it work requires time, advice, guidance and the knowledge to understand what's best for the individual.

An independent financial adviser can help clients understand the realities of their finances. For example, 44% of advised people were aware the state is unlikely to support their long term care in retirement, compared to 41% of non-advised; 46% of those who had taken advice from an IFA realised mortgage payment protection insurance will only cover the cost of mortgage payments and no other monthly outgoings, compared to 37% of non-advised.

Good financial advice helps consumers in a number of ways: it provides peace of mind that an individual is doing what is necessary to provide security for them and their family; it helps to set clear financial goals and provides a benchmark to ensure goals are being met. It reassures an individual through difficult economic conditions and makes them feel more confident about their financial decision-making.

“

**KW,** Wilmslow

*I have been dealing with Carl at NOW financial solutions for several years and always found them easy to work with, extremely helpful and providing financial results well above anything I could have done on my own. Also when we needed to sort out our long term financial planning to fund our child's education, they came up with something that fit the bill exactly. It was easy to understand and removed any concerns we had about how we would find the money while minimising the impact on the growth of our assets.*

”

“

**Mike Jones,** Private Client

*I have dealt with Parry Leggett, Senior Investment Consultant with Cockburn Lucas for over ten years. My long-term investment strategy in medium-term financial planning needs has been dealt with in an intelligent, efficient and successful manner throughout this period. Of particular value is the research and planning aspect of their services with options presented in well laid out and presented plans. I have also taken advantage of exclusive investment opportunities offered to their clients.*

”

Our research shows that when people were asked whether they had made suitable product decisions for their circumstances, 76% of those with an adviser said yes, compared to 67% of non-advised people. Financial advice clearly gives people more confidence that the financial decisions they make are the right ones.

People were also asked about how they felt after seeking independent financial advice. ‘Peace of mind’ was ranked highest as a benefit of using an IFA. Other popular answers were that it was reassuring to know, having taken advice, people were doing all they could for their family and seeking advice had saved them time. Others suggested it helped them to set clear financial goals and stick to them.

## The advice process

So what should consumers bear in mind when deciding which type of adviser to choose? Only independent financial advisers can look across the whole of the market to find the right product for their client's needs – compared to an adviser in a high street bank, likely to offer products from only one company.

An IFA will look at individual circumstances and provide tailored advice that takes into account a client's future goals. They add value by advising on suitable products and also by providing support and guidance, where needed. Like all professionals, independent financial advisers have different skills and specialisms. It is therefore important to choose an adviser who has experience in dealing with the individual's particular requirements.

Personal recommendations can be a useful way to find an adviser, but it is worth bearing in mind that what is right for one person may not be right for another. Equally, the most productive relationships between people and their advisers are based on trust and understanding.

**Questions to consider when choosing an adviser:**

1. **In which product areas do they specialise?** For example, do they specialise in pensions, investment or mortgages? Or do they offer a GP-type service, providing an initial financial plan and then referring on to specialists as the need arises?
2. **Are they tied to a few companies or can they give advice on all financial products from across the whole of the marketplace?** Independent financial advisers can look across the whole market to find the products which are best suited to an individual's needs.
3. **What qualifications does the adviser have?** From the start of 2013, the minimum qualification for all types of financial advisers will be QCF Level 4 – the equivalent of a component of a degree – but many advisers have chosen to move higher to QCF Level 6, which is the equivalent to a post-graduate qualification. For more information on qualifications and what to look out for please refer to: www.unbiased.co.uk/ifa-qualifications
4. **Make sure you choose someone with whom you feel at ease and who gives you confidence.** Finance is, by its nature, personal and it is important the consumer is happy to talk about their situation, their financial needs and their hopes for the future with an adviser.
5. **What are the costs?** Different advisers have different charging structures. For example, some will charge a percentage of the value of assets under management, others will charge a fixed or hourly fee. It is important potential clients can make a realistic assessment of costs up front.

Before making any decisions it's important to compare services and charges. Talking to a few different advisers can make a difference in understanding what options are available and the costs for differing levels and types of advice.

"

**Mrs. B. Ingle,** Retired, Ampthill

*One of the best decisions I've ever made was to attend a seminar by Wealth & Tax Management. Since that time I have used them to handle my finances. I lost my husband seven years ago so it means the world to me and is very reassuring to know my finances are in such capable hands.*

"

## The financial plan

The ultimate aim for many financial advisers is to build a workable financial plan for life. This plan will take into account financial goals, risk tolerance and requirement for income on one side and ‘building blocks’ – salary, savings, investments – on the other.

**How to approach a meeting with an independent financial adviser:**

1. The first meeting will often be a ‘getting to know you’ meeting. The adviser will establish the parameters of the advice, what they can and can’t do, costs and whether the relationship is likely to work over the long term.
2. Although it’s not necessary to dig out years of bank statements and life insurance documents, it is worth giving the adviser a rounded picture. The more information a financial adviser has, the more accurate they can be when providing a financial plan. This picture should take into account: current salary, mortgage, pension provision and savings.
3. It is worth having an idea of future financial aims and objectives. It may be as basic as providing for the children, paying for school fees, ensuring a comfortable retirement or something more exciting, such as moving abroad or buying a yacht.

*The ultimate aim for many financial advisers is to build a workable financial plan for life.*

## Ongoing monitoring

The first steps will be to establish a financial plan and the actions needed to get it started. An IFA will then be able to monitor and judge progress against goals and financial objectives. Reviews are dependent on individual circumstances and it may be appropriate to have regular or ad hoc reviews, depending on the products and the personalities. It’s important to know who the main point of contact at the adviser’s firm is and how best to contact them.

## Proving the value of advice – case study 2

Andy and Angie Demitris, both age 50, sought advice on their finances to ensure their 13 year old triplets would be provided for in the future.

### Q. When and why did you choose EA Financial Solutions: how did you hear about them and what drove you to seek advice from an IFA?

**A.** We were introduced to Minesh Patel at EA Financial solutions by my accountant; this gave me confidence that EA Financial Solutions would give me advice which I could trust.

### Q. What were your objectives?

**A.** We were not happy with our pensions. We had a number of them which were not performing well and weren't sure whether they would give us a good pension in retirement. We were very confused as we had a number of different insurance and savings policies and needed someone to sort our arrangements out including the mortgages.

### Q. How did Minesh help?

**A.** Minesh consolidated our pensions in a SIPP which reduced cost and provided better investment options and they started to grow again. He also advised us that pension payments should be paid from our company to save the company tax. He looked at what we needed and what we did not need. This gave us greater focus and made me feel more confident about our finances and helped us plan for different eventualities.

### Q. What was the outcome and what does this mean for you in retirement / your family?

**A.** We feel far more confident that we are doing the right things for our family now and for our retirement. We have savings in ISAs and pensions and know we have savings which can be used now if needed but will also give us income later on.

### Q. What did you value most about the service that was provided?

**A.** The advice was simple and logical and Minesh helped us to implement his recommendations, we felt that we are working as a team and that is very valuable. His fees were very transparent and good value.

### Q. Do you think you could have achieved this doing it yourself or through someone who isn't able to give independent financial advice?

**A.** No we certainly could not have achieved the high quality advice ourselves and our previous financial adviser was not independent and we ended up with a lot of arrangements from one company. No company can be the best at everything.

### Q. Why do you think people should go and see an IFA?

**A.** Minesh shows that IFAs have a lot of knowledge about a wide range of subjects which is better for consumers like us. The advice was fee based and this gives reassurance the IFA is working for you and not his own interests. A good IFA has strong planning skills and we have regular reviews to ensure new issues and opportunities are identified. An IFA has a very clear process and asks thought provoking questions.

### Q. Why do you think getting professional advice is worth paying for?

**A.** The main reason is that financial products are a complex area and not easy for the consumer to get to grips with. Professional advice helps to identify real needs and how the needs can be fulfilled by considering the whole of the market. You get what you pay for; we were often told in the past the advice was not costing us anything but we were paying through commission.

# The new advice landscape

The advice sector is changing to improve the professionalism, integrity and credibility of financial advisers. These changes are part of the Retail Distribution Review, which has been established as part of the Financial Services Authority (FSA) consumer protection strategy. The new rules come into effect on 1 January 2013.

*The advice sector is changing to improve the professionalism, integrity and credibility of financial advisers.*

**As a client of a financial adviser, people can expect:**

- a transparent and fair charging system for the advice received;
- clarity around the service received;
- to receive advice from highly qualified professionals.

The most visible changes for consumers will be: raising minimum qualification levels, changing service levels and ensuring full transparency on costs.

## A new definition of independence

From 2013 advisers will be required to clearly state the type of advice they are offering; this will either be independent, restricted, simplified or basic. This is important to know as an adviser may have limitations to the products or services they can offer or advise on.

- **Independent advice** – the adviser can provide advice on products and services from the whole of the market and will need to provide ‘unbiased and unrestricted’ advice based on a ‘comprehensive and fair’ analysis of the market.
- **Restricted advice** – an adviser is restricted in some way, for example by the number of products or by the type of products they can advise on.
- **Simplified** – the adviser will only be able to advise on simple, straightforward products such as stakeholder pensions. This means they will not be able to give a full review of financial circumstances or take into account other financial products that an individual already holds.
- **Basic** – Basic advice is only on regulated stakeholder investment and savings products which involve a very basic assessment based on scripted questions, as opposed to a full assessment. Basic advice will tend to be offered through the internet or by telephone.

Under the new rules, if an adviser cannot meet the requirements to be considered ‘independent’, they will be deemed ‘restricted’. In practice restricted advice may in fact be sufficient for many clients who don’t have complicated financial needs. Fees and qualification requirements will not apply to basic advice.

## Higher qualifications

From the start of 2013, all advisers will have to achieve a higher minimum standard of qualification before they are allowed to provide advice.

The minimum advisers will need to achieve is QCF level 4 – the equivalent to a component of a degree – and anyone using an adviser should check that they hold those qualifications. In practice, many advisers are aiming for a higher level of qualification – QCF Level 6 or higher which is up to chartered or certified financial planner status.

IFAs will also have to complete 35 hours of CPD each year and sign up to a code of ethics. Advisers meeting all these requirements will be granted a Statement of Professional Standing (SPS), which will be renewed every year.

The qualifications that an adviser could hold are listed at: www.unbiased.co.uk/ifa-qualifications. This also shows the different qualifications independent advisers need for individual product areas to ensure the IFA has the right qualifications to permit them to advise on it.

**54%**

say that having a clear outline of the charging structure and costs would help the make a decision about choosing an independent financial adviser.

## Paying for advice

In the past, financial advisers have been able to take payment for their work via commission from product providers when they sell a financial product. After 31 December 2012 advisers will not be allowed to receive commission for the sale of retail investments and pensions and 'adviser charging' will be introduced. This means that IFAs will be required to disclose their charges upfront, and the cost of the work to be undertaken will be agreed between adviser and client before the advice process starts.

Early research suggests that advisers are likely to charge on average around £150 per hour, but this may depend on the individual needs of the client and the level of advice needed. This will be the first time many people have had to pay a fee directly for financial advice. Some advisers may offer to undertake specific services for a fixed fee – much like solicitors and other professionals.
This new system of payment should increase transparency and enable prospective clients to fully understand what services they will receive and for what cost. Clarity around charging will form an important part of the initial adviser/client meeting process. Our research suggests that this will provide important reassurance for many people seeking advice – 54% say that having a clear outline of the charging structure and costs would help them make a decision about choosing an independent financial adviser.

# Can I afford NOT to pay for advice?

The challenge for the industry is a clear one – to demonstrate that independent financial advice adds value to an individual's financial situation. And that this value is worth paying for; consumers may believe, possibly driven by 'invisible' commission arrangements, that advice is free.

This report clearly highlights that there are benefits to seeking independent financial advice: whether it is the adviser's professional expertise leading to better products and better returns, having a safety net in place, such as a protection product, or giving their clients confidence in their own financial decision making.

By increasing people's confidence and knowledge of how they can access the right financial advice and make responsible financial decisions, advisers help people from all walks of life to meet their life goals and enhance the quality of their lives. This report gives clear evidence of the difference financial advice can make in real and practical terms to ordinary people.

Surely the question consumers now need to ask themselves is 'Can I afford NOT to pay for advice?'

## References


1. Research based on Opinium Research results from an online poll of 1,044 adults who had taken advice from an IFA and of 1,219 adults who had not taken advice from an IFA. The poll was taken between 30 May and 7 June 2012
2. Opinium Research carried out an online poll of 2,011 UK adults from 25 May – 28 May 2012 (nationally representative)
3. unbiased.co.uk search statistics taken from server log between June 2011 until June 2012
4. Data taken from Google Insights Research on 29 June 2012: www.google.com/insights/search
5. Statistics taken from the Association of British Insurers: http://www.abi.org.uk/Media/Releases/2012/06/Workplace_pensions_revolution_set_to_breathe_new_life_into_Britains_ailing_savings_culture_says_new_ABI_report.aspx


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Through an extensive media campaign and digital marketing we create awareness of issues affecting consumers. Our news stories are regularly featured in The Telegraph, The Independent, the Sunday Times, This is Money, FT Adviser, Evening Standard, City AM, The Mail on Sunday and Which? helping them to understand the true value of seeking professional advice.

## About Standard Life

A leading long term savings and investments company operating internationally. Established in 1825, Standard Life is a leading provider of long term savings and investments to around 6 million customers worldwide. Headquartered in Edinburgh, Standard Life has around 9,000 employees internationally. The Standard Life group includes savings and investments businesses, which operate across its UK, Canadian and European markets; corporate pensions and benefits businesses in the UK and Canada; Standard Life Investments, a global investment manager, which manages assets of around £155bn globally; and its Chinese and Indian Joint Venture businesses. At the end of December 2011 the Group had total assets under administration of over £198bn. Standard Life plc is listed on the London Stock Exchange and has approximately 1.5 million individual shareholders in over 50 countries around the world. It is listed in the Dow Jones Sustainability Indexes (DJSI World) in recognition of its performance as one of the world's leading sustainability-driven listed companies. All figures at 31 December 2011