



COCKBURN LUCAS  
INDEPENDENT FINANCIAL CONSULTING

# The Future of Independent Advice

## What the latest rules and proposals mean for financial advisers

The financial services industry is currently preparing for one of the biggest reviews of regulation since the Financial Services Act was introduced in 1986. It was instigated with the objective of both improving the overall image of the industry and introducing even more transparency into the process of receiving advice and comes on the back of a number of recent initiatives all designed with the customer in mind.

This guide is designed to take you through some of the ways in which these changes further enhance the service which you already receive from your adviser – and outline why their unbiased opinion is worth seeking to secure your own financial future.

## Independence means whole of market

Independent financial advice was always a description which could only be used by those advisers who took the time to research the whole financial market to make sure the solution they recommended suited your needs. As a client, you expect that every available product has at least been considered before any

recommendation is made – and the rules are being further hardened in this area – and widened to include more products.

In addition, you need to be reassured that, where a product provider relationship exists, there is no bias towards that provider or towards an ‘own brand’ product – unless it really is the best for you. The activities of advisers with such relationships will therefore be even more closely monitored to ensure no bias creeps in.

## Independence means full transparency

Some (although by no means all) independent financial advisers have traditionally relied on commission to pay at least some of the costs that you incur when you consult them for advice. Regulators consider that this gives rise to a conflict of interest as some product providers offer higher commission payments than others for the same solution.

The consequence of this reliance is that some advisers have sought only to work with clients who need a product solution and to leave those who have simply been looking for advice.

However, independent advisers will now have to outline and agree fees for their advice in advance. You become responsible for meeting these fees and product providers will no longer be able to pay a commission in any form<sup>1</sup>.

This makes the process much more transparent. It will be easier for you to work out what your adviser is charging, what they are doing for that charge – and to compare that proposition with that of other advisers. Finally, rather than just accepting ancillary services or unnecessary product features as ‘standard’, you can start to decide which are worth it and pay appropriately.<sup>1</sup>

## Independence means sometimes saying no

An additional benefit of the removal of commission as a payment method is that you can be certain any product recommendation you receive is suitable to your situation. Thanks to the regulations, any question mark which existed before now was generally only perceived rather than real, but this new way of working gets rid of such question marks completely.



Of course, an independent adviser is there to offer you a comprehensive financial plan and help you keep this on track as your life changes and develops. This will involve recommending a whole range of different products and solutions, depending on what your circumstances demand. However, if you have the confidence to run your own affairs but also like to chat through issues on an intermittent basis – much the same as you might do with your solicitor or accountant – you could perhaps just pay by the hour, ask the questions you need to and then walk away.

#### Independence means higher standards

All financial advisers in the UK, whether independent or restricted<sup>2</sup> will now have to achieve a higher minimum standard of qualification before they are allowed to provide advice to the general public. This means an increase in the basic level of knowledge – and a higher level of professionalism for the industry as a whole. However, much like a law degree, this qualification on its own will not prepare an adviser for every eventuality they could encounter.

To be independent, an adviser needs to know what opportunities are available across the whole market place – including even the esoteric or unregulated investment vehicles that may only suit 1 in every 10,000 clients. This means more study or more work experience across more disciplines. As mentioned above, many will ultimately specialise in a single field (eg: pension planning, taxation etc)

but the requirement on them to identify and consider the full range of situations for a client requires this wider knowledge essential.

#### Independence means a structured business model

The Retail Distribution Review does not stop financial advisers from making commercial decisions about the type of client they work with or the fields in which they choose to specialise. In conjunction with other recent legislation, however, there are specific rules about how clients should be treated and what information they should receive on an ongoing basis. Approved individuals within each advisory business are also legally accountable for ensuring those rules are followed.

This provides you with the added reassurance that your adviser's business is being closely monitored within a regulatory framework. In the unlikely event that anything does go wrong, there is both a set process and a chain of personal accountability for making sure things are put right.

#### Independence supported by technology

Alongside the developments in regulation and communication, developments in financial planning technology have taken the industry by storm. In various areas, more secure, more flexible and more user friendly systems mean the way in which your products and plans are checked and monitored has improved immensely.

Many now have the ability to access information on your products and investments at the touch of a button. Instant portfolio valuations let you know if your plans are on track – or if any element is underperforming

– and detailed breakdowns of what assets you hold, even when fund managers are continually trading the underlying stocks, mean you can spot and realign your investments with your risk profile before any deviation gets out of hand.

*Please note: The enclosed information is based on FSA publications and our understanding of the proposals as at January 2011. These may be subject to change as they pass through the final stages of approval and implementation in law.*

1: Product providers can agree to collect the fees you owe along with the premiums you pay and refund these back to your adviser on an ongoing basis – which would allow you to spread the cost of any fees you incur. It is unclear at this time how widespread this facility will be.

2: The definition of 'restricted' is similarly still to be finalised but will refer to some level of limitation over the breadth of advice which will be available from advisers electing to be in this category.

To arrange a no obligation meeting  
call us now on 0115 9819 529 or  
email: [enquiries@cockburnlucas.co.uk](mailto:enquiries@cockburnlucas.co.uk)



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