

## Topic 8: Sources of financial advice and the limitations

After completing this topic, you will be able to:

- explain the different sources of financial advice, including:
  - friends and family;
  - the different types of financial adviser;
  - financial organisations; and
  - Citizens Advice;
- describe how consumer advice websites and magazines (such as *Which?*) can help when sourcing financial advice; and
- understand the role of UK Payments Administration.

### Where can we get financial advice?

Financial matters can be complicated, and many people are not aware of the range of services available and the different products on offer that can satisfy their financial needs. To find out how to manage their money and about the best products for their circumstances, people have a variety of places to which they can go for advice, including:

- friends and family;
- financial advisers;
- financial organisations;
- Citizens Advice; and
- other sources (such as websites, consumer magazines, etc).

### Friends and family

When people first start work or leave home for the first time, or even when they begin to earn money from a part-time job while still at school or college, the first place to which they normally turn for financial advice is their friends and family. Parents want their children to enjoy their money and they do not want them to get into any kind of financial difficulty, so they can be quite outspoken about what their children should do with their money.

When you first start earning your own money, family and friends normally give you advice about budgeting – ensuring that essential expenditure is covered and helping you to plan properly, so that the rest of your money lasts until the next time you are paid. Parents often encourage their children to save a little for a special



occasion, for a holiday, or just for a 'rainy day', because saving is a good habit to get into from an early age.

Friends and family may also give you advice about where to open your first bank account. They may do some research to find out which bank offers the best 'young person's account' or simply recommend that you open an account at the same bank with which they have been for many years.

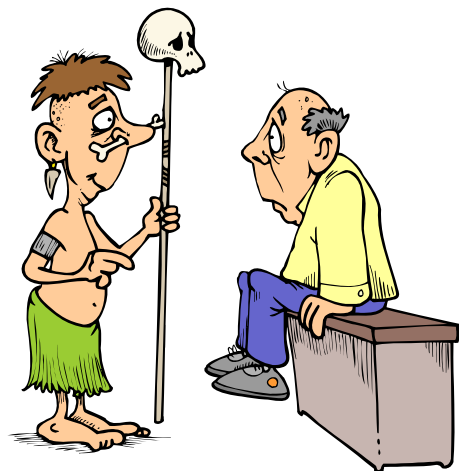
Friends and family also tend to share with you the information that they read in newspapers about financial products or services, or they may tell you about a conversation that they had with a colleague at work regarding an investment, or insurance product, or an event in the financial markets. One of the most common financial topics of conversation among family and friends is interest rates – whether they are going up or down, which organisation appears to be offering the best savings rates and where to find the cheapest loan or mortgage.

## Limitations

As your circumstances, and your finances, become more complicated, there are limitations on the amount and type of financial advice that your friends and family can give you. As you get older, your financial needs will change: your savings will grow; you might want to buy a car with a loan; eventually, you may wish to buy a house with a mortgage. You will then have to think about the various types of insurance that you might need. Then, of course, everything will change again if you choose to start your own family.

Friends and family can give you advice based only on their own experiences – and their circumstances may differ vastly from yours. They may have a lot more money to save than you do, they may earn a higher salary than you do, or they may like taking risks, when you do not like doing so one bit.

It is like medicine: it is acceptable to take a paracetamol from your friend, because that is a medicine that is sold over the counter and generally safe for most people – but you should never take someone else's prescription medication, because it has been prescribed specifically for them and their particular symptoms.



So it is with financial advice: opening a current account on the advice of your parents, or brothers and sisters, is no big deal; if it turns out not to be the best account for you, it is usually quite easy to open another one. But when it comes to more complicated financial products – that is, ones that commit you to a regular payment, or require that you invest greater sums of money for longer periods of time – you should seek expert advice that is tailored to your own circumstances.



### Activity 8a

Can you think of some situations in which it might not be appropriate to take advice from friends or family regarding financial matters, and what might happen as a result?

#### Did you know?

There is another source of financial information of which you should beware and this is a friend or an acquaintance, or the friend of a friend, or someone who you meet at a football match, or in a cafe. They will tell you all about the financial service or product that they bought, and boast about how good it is and how much money they have earned from it.



They are probably exaggerating. They may not be telling you all of the facts, and may not even have invested in it themselves.

Never buy a financial product because a friend told you about it. Always investigate it for yourself and check out all of the facts before parting with any money.

### Financial advisers

Financial advisers are people who give advice to customers on financial services and financial products, such as savings, investments, pensions and insurance policies. They also give advice on tax matters, helping people to pay less tax by recommending certain tax-free products or by suggesting different ways of investing and withdrawing their money.

All financial advisers have to be properly trained before they are allowed to give financial advice to anyone. They are taught to gather extensive information about the customer's personal and financial situation, and to advise them on the most appropriate products for their needs.

This means taking into account things such as:

- the customer's age;
- whether they are married, single or in a relationship;
- what type of job they do;
- how much money they earn each week or month;
- how many children they have;
- their hobbies;
- how much money they have now;
- how much money they expect to have in the future; and
- how much risk they want to take.

The adviser will gather all of this information on what is called a 'factfind' – that is, a record of everything that the adviser needs to know about that customer's personal and financial position.



They will find out what the customer's aims, objectives and ambitions are – for example:

- at what age they want to retire;
- whether they want to help to pay for their children to go to university;
- whether they want to save for a round-the-world trip; or
- whether they want to provide money for their family after they die.

The adviser is then able to recommend the best products for that customer from the range that they have available to them.

## Types of adviser

As of January 2013, there are only two types of financial adviser and the range of products that they can offer or recommend to you will depend upon which type of adviser they are, as follows.

- **Independent financial advisers (IFAs)**

These are advisers who can give advice and make financial product recommendations based on a comprehensive and fair analysis of the market. They may be self-employed, they may work for a large firm or network of advisers, or they may work for a bank or a subsidiary of a bank. Because they

have access to every product from every product provider, they are more likely to be able to find the most suitable option for their customer's circumstances. The only time when they may not be able to help someone is if that customer needs something specialist – that is, something that is a bit unusual. In that circumstance, the adviser may refer the customer to someone else within the firm who has the specialist knowledge and skills to advise the client. If there are areas of advice in which the firm does not have specialists, the firm cannot call itself 'independent'.

- **Restricted advisers**

These are advisers who can give advice and make recommendations from only a limited range of products – either the products of a single insurance company or the products offered by a limited range of financial services providers.

If a restricted adviser recognises a financial need for the customer, but is unable to satisfy that need from the limited range of products available to them, the adviser cannot offer the 'next best' product; instead, the adviser must refer the customer to an IFA who will be able to recommend exactly what the customer needs.



All advisers must disclose to each customer which type of advice they will be receiving – independent or restricted – and, if the adviser is offering restricted advice, they must disclose the nature of the restriction. Further, they must inform the customer of the type of advice and the nature of the restriction before providing any advice or product recommendation.

## How financial advisers are paid

Until 31 December 2012, financial advisers were sometimes paid 'commission' by the provider of the products that they recommended to their clients – that is, by the insurance companies. Advisers were obliged to disclose this commission payment to the customer, so that the customer could be sure that the adviser was offering the best product for the customer's circumstances, rather than that which paid the best commission. The customers themselves did not pay for the advice, although the commission paid to the adviser was ultimately funded from up-front charges that were levied on the product sold.

As of 1 January 2013, advisers are no longer able to receive commission from the providers of new products that they sell; instead, they have to charge a fee to the customer for the advice that they receive. The adviser can either charge a percentage of the amount that the customer is investing or a fixed fee, based on the amount of work involved in giving the advice.



## Activity 8b

*Using the Internet, search for 'financial advisers in [your city or town]'.*

*How many can you find?*

*How many of them have the word 'independent' in their title?*

## Financial organisations

A lot of people do not actually go out looking for a financial adviser. They may be offered the chance to meet with one and discuss their financial requirements while they are in their bank or building society paying in some money, or applying for a mortgage, or asking about what investments they have available.

## Banks and building societies

All of the major banks and building societies offer financial advice to their customers. Some banks actually own their own insurance companies (that is, they provide the investments and insurance products themselves, but often under a different name). For example:

- Royal Bank of Scotland owns Churchill;
- Lloyds Banking Group owns Scottish Widows; and
- Barclays Bank owns Barclays Life Assurance.

A financial adviser who works for a bank or building society is usually restricted to giving advice on the products of the insurance company that the bank or building society owns. If the bank or building society does not own its own insurance company, it has to choose whether its advisers will be independent or restricted.

If the bank or building society chooses to offer independent advice to its customers, it will probably do so through a separate division. For example, Nationwide offers independent advice through 'Nationwide Independent Financial Services Limited'.

## Insurance companies

Apart from offering their products through banks and building societies, insurance companies themselves will have their own team of advisers that work directly for them, either as employees or as agents. These will be restricted advisers who can offer only the products of the company for which they work.

Advisers that work directly for the insurance companies will get new customers by asking their existing customers to pass on the adviser's name to their friends and colleagues, or from agents who pass on the names of customers who need financial advice.



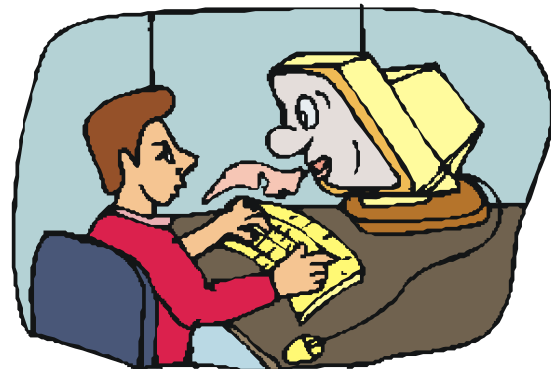
### Activity 8c

*Using the Internet, find the names of four banks and four building societies, and find out what type of advice they offer (that is, independent or restricted). If they offer 'restricted advice', find out to which insurance companies they are linked.*

## Citizens Advice

Citizens Advice is a charity, staffed by some 6,500 paid staff and over 22,200 volunteers, with 343 offices all over the UK. It gives free confidential advice to help people with money issues (as well as legal and other consumer problems).

These volunteers are trained to help people to resolve their problems by giving advice either face-to-face, over the telephone or occasionally by visiting people in their homes. They sometimes give advice by email too.



One of the most common problems with which Citizens Advice helps people is debt and how to deal with it. It tells people about their rights, the options available to them to pay off their debts and how they should communicate with the people to whom they owe money.

## Did you know?

Between April 2012 and March 2013:

- Citizens Advice dealt with more than 6.6 million new problems;
- 14.5 million people visited its website.

Debt is the biggest problem, with 1.9 million new problems reported during that period:

- more than 2.3 million new problems were related to benefits;
- more than 481,000 new problems related to employment;
- more than 237,000 new problems were legal issues; and
- almost 465,000 new problems were to do with housing.

Source: [www.citizensadvice.org.uk](http://www.citizensadvice.org.uk)

Citizens Advice publishes many factsheets (in different languages) to help people with their problems, including factsheets on the following financial matters:

- bankruptcy;
- credit;
- jargon busting;
- sample debt letters;
- mortgage arrears;
- payment protection insurance (PPI);
- dealing with people to whom you owe money;
- council tax arrears; and
- rent arrears.



## Limitations

Although Citizens Advice offers its services free of charge, there is a limit on the amount and type of financial advice that its volunteers can give. They tend to give information regarding what people are entitled to and regarding their legal rights if they find themselves involved in a dispute (not only with banks and other financial providers, but with anyone).

They also point people in the right direction when they have debt problems, housing problems, and issues regarding their entitlement to benefits and other help from the government.

The volunteers that work at Citizens Advice cannot tell you which type of bank account to open or which insurance policy to buy, but they will guide you and advise you if, for example, you cannot afford to keep up with your mortgage repayments or your loan instalments.

## Other sources of financial advice

To help people to make financial decisions, there is a variety of websites and magazines offering advice and assistance. These can be useful when it comes to comparing one product with another – particularly charges and interest rates – but they also warn consumers about the downside of certain financial products. They tell you to check certain terms and conditions, and provide advice on what questions to ask before you make a decision and buy a financial product.

A good example of a consumer magazine is *Which?*. This magazine not only gives advice on financial products, but also reviews and compares everything from vacuum cleaners and burgers, to laser eye treatments and cars.



### Activity 8d

Visit [www.which.co.uk/money](http://www.which.co.uk/money). What financial products have been studied?

**Look at the 'Recommended providers' for credit cards, car insurance, bank accounts, etc. What does Which? have to say about them?**

A website that is very good at checking out prices and deals, and which is generally dedicated to saving its readers money rather than giving them financial advice is [www.moneysavingexpert.com](http://www.moneysavingexpert.com).

[www.thisismoney.co.uk](http://www.thisismoney.co.uk) is a website that gives information about financial products and answers questions posted by visitors to the site. It is a good place to find facts and figures, such as investment limits for individual savings accounts (ISAs) and similar.

One website that offers easy-to-read guides giving advice on a variety of financial situations is [www.moneyadviceservice.org.uk](http://www.moneyadviceservice.org.uk). These online guides include:

- Things to look out for when buying insurance;
- Should you save, or pay off loans and cards?;
- Budgeting and taking control;
- Pay and benefits;
- Should you manage money jointly or separately?;
- Managing your bank account';
- What's the best way to finance buying a car?;
- How to reduce the cost of your personal loans; and
- Pensions in the workplace.

## UK Payments Administration

UK Payments Administration is an organisation that administers all types of payment made between bank accounts in the UK. It manages the systems behind:

- cash machines;
- chip and PIN;
- credit card payments;
- debit card payments;
- direct debits;
- Faster Payments;
- CHAPS;

- Bacs; and
- payments abroad.

UK Payments Administration carries out research on how different payments are used and for what they are used. It also supplies services to other payment companies, such as the Cheque and Credit Clearing Company (which clears all of the cheques that are written by the banks' customers and makes sure that the money is transferred from one account to another correctly), CHAPS and Bacs (both of which are a quick way of moving money from one account to another).

UK Payments Administration makes sure that money moves around the banking system in the UK smoothly every day, and is responsible for the development and launch of new payments systems that are more efficient.

In November 2007, the organisation introduced the '2-4-6' clearing system for cheques. This means that, once a cheque has been deposited in an account, the money starts to earn interest after two days and can be withdrawn from the account after four days. After six days, the person who paid the cheque into the account can be certain that it will not bounce (in other words, they can be certain that the money has been transferred from the payer's account.)

### Did you know?

In the 12 months to December 2013, UK Payments Administration processed:

- 967 million Faster Payments;
- 5.6 billion Bacs direct credits and direct debits;
- 34.9 million CHAPS payments; and
- 565 million cheques and credits.

Source: [www.paymentscouncil.org.uk](http://www.paymentscouncil.org.uk)



### Activity 8e

Visit [www.ukpayments.org.uk](http://www.ukpayments.org.uk) to find out more about CHAPS, Bacs and Faster Payments.



## Review questions

1. What sort of financial advice might you get from friends and family?
2. Why it is important to check out a financial product or service about which your friends or colleagues tell you?
3. Describe the following.
  - a) Independent financial advice
  - b) Restricted financial advice
4. Why might you contact Citizens Advice to discuss your finances and in what ways can it help you?
5. What does UK Payments Administration do?

## Learning activities



### Internet

- Find a large firm of IFAs on the Internet, and make a list of the areas on which it gives advice (such as investments, protection, etc) and the sort of products that it sells. In the 'About us' section or the 'Our advisers' section, read what the website has to say about each of the firm's financial advisers. Does it tell you what qualifications they have? Does it tell you if they specialise in one particular area, such as pensions?
- Visit [www.citizensadvice.org.uk](http://www.citizensadvice.org.uk) and explore some of the work that the organisation does. Check out the 'Factsheets' and select 'Debt and money'. Look at the advice given relating to debt.



### Group

Visit a couple of banks in your town and ask for a copy of a 'factfind' document. Study the various questions that are on the form and discuss why you think a financial adviser would need to know the answers to all of these questions before being able to give financial advice to a customer.



### Individual

Use the factfind document that you obtained in the group exercise above to carry out a factfind exercise on a member of your family. Alternatively, find an example of a factfind document on the Internet.

- How many of the questions are they able to answer without referring to their records and paperwork?
- Do they understand the purpose of all of the questions included on the form?



## Key points for Topic 8

You should now understand:

- the difference sources of financial advice;
- the type of advice that each of these sources can give;
- what a financial adviser does before being able to make a recommendation to the customer;
- the difference between a 'restricted adviser' and an 'independent financial adviser';
- the way in which financial advisers get paid;
- what sort of advice is given by Citizens Advice;
- where to look for additional information about financial products and services (that is, on the Internet and in magazines);
- the function of UK Payments Administration.