Improving the quality of your financial advice process

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FACTSHEET

This factsheet is for you if:

- you provide financial advice to private customers.

It is a toolkit you might want to use to identify areas of your advice process to focus on. How you use it may vary according to your business model.

It explains:

how you can consider the quality of advice you give your customers to help ensure you treat them fairly, looking in particular at:

- knowledge and skills of advisers;
- assessing your customers' needs;
- making recommendations, including research;
- communicating with your customers; and
- corporate culture, system and controls.

It also includes some examples of good practices we have seen. These are only examples and there may be other ways of complying with our principles and rules; you may choose to adopt an alternative approach.

Quality of advisers

It is essential your firm has good training and competence (T&C) in place to ensure advisers are capable of giving good quality advice. Your T&C should identify and address any gaps in an adviser's knowledge and skill. You may need to consider:

- **Your recruitment process** – is it robust enough to ensure you recruit the right staff?
- **Qualifications** – are they appropriate for the services and advice your advisers provide to customers?
- **Gaps in skills and knowledge** – does your T&C strategy allow you to identify gaps in skills and knowledge? How do you address those gaps? Do you check advisers' ability to apply their knowledge?
- **T&C strategy** – do you have a T&C strategy that you regularly follow and review? Does it include Treating Customers Fairly measures? Do your advisers keep up to date with tax and benefits? Do they have training on how to assess affordability?

Good practice example:

Completing a training needs analysis every year with each adviser and reviewing this at regular 1:1 meetings, along with business written.

Assessing customer needs

To 'know your customer' you must take reasonable steps to find out and record all the details of your customer that relate to the services you are offering. The information must be collected before any recommendation is made. The areas you may consider include:

- **Advice** – do you agree with the customer the areas you are giving advice on and warn them of the potential limitations and risks if it is agreed the advice will be limited to one or more needs?
- **Customer details** – this could include information on customer needs and objectives, attitude to risk, affordability, tax status and entitlement to state benefits.
- **Risk** – do you explore your customer's attitude to risk across all their objectives and ensure there is a common understanding of what this means in practice? Do you explore all aspects of risk, including product risks and underlying fund risks, where applicable, as well as the circumstances in which these risks might occur?
- **Customer needs** – is the customer asking for a product or service that does not suit their needs? You are responsible for telling the customer if that product is not suitable for them. Does your customer need to buy a new product? Are you identifying other significant needs?
- **Change in circumstances** – do you consider whether the advice you provide remains suitable if your customer's circumstances change, for example changes in income, employment, residence and health?

Recommendations and research

You must take into account all of your customer's circumstances and advise them accordingly. When giving a recommendation, do you:

- capture all the relevant information ('know your customer') before you make any recommendation?
- recommend a product or service to match the customer's appetite for risk?
- recommend the most appropriate product and provider and explain your decisions to your customer? and
- provide the level of service you committed to in your initial disclosure document (IDD)?

You must consider all the financial needs of your customer. However, if you ensure the customer understands the risks and agrees upfront, it may be appropriate to exclude certain areas of advice and focus on individual objectives, for example income in retirement. In analysing your customer's situation you should:

- identify that there may be other areas of significant need;
- highlight the implications of these to your customer, for example lack of life protection.

However, affordability, debt repayment, impact on benefits and tax implications are central to making a recommendation and you should make sure you consider these issues to ensure you are treating your customers fairly.

Good practice example:

In depth fact-finds, with detail and further explanation,including a customer's financial priorities, objectives and expectations.

Communication and suitability letters

Communications with your customer should be clear, fair and not misleading and serve their purpose.

In particular, you should consider whether your suitability letter:

- is tailored to your customer?
- uses clear and plain language?
- explains the reasons for any recommendation made and how it relates to the customer's objectives?
- highlights the risks associated with the recommendation?
- provides a balanced view? and
- highlights if you have omitted any objectives?

Good practice examples:

Use of bold text to highlight key risks and changes associated with the recommendation.

A clear summary of a client's existing investments to demonstrate that the adviser has taken account of these.

In preparing and issuing your suitability letters, you should also bear in mind that :

- overly long suitability letters may reduce a customer's ability to consider the recommendations being made.

Systems and controls

Your firm should have appropriate systems and controls in place. Collating and using management information will help to ensure advisers follow a good quality advice process. Regular analysis of this information can then be used to identify and address issues.

Good practice example:

Carrying out regular independent file reviews and taking remedial action where necessary. Holding regular meetings with advisers to monitor business written, quality of advice and progress towards learning and development objectives.

Further help:

The TCF toolkit asks you the sorts of questions you should ask yourself to ensure you are treating your customers fairly.

TCF toolkit: http://www.fsa.gov.uk/Pages/Doing/small_firms/general/docs/tcf_tool.pdf

The TCF and small firms websites include cluster reports and case studies, as well as regular updates on TCF and other topical issues.

TCF website: http://www.fsa.gov.uk/Pages/Doing/Regulated/tcf/index.shtml

Small firms website: http://www.fsa.gov.uk/Pages/Doing/small_firms/general/tcf/index.shtml

FSA Industry training run a number of courses and online training on various aspects of your business.

Industry training: http://www.fsa.gov.uk/Pages/Doing/Events/index.shtml