

Improving the quality of your advice process – Impartiality of Advisers

In this factsheet:

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This factsheet is for you if:

- you provide financial advice to retail clients (known as 'private customers' under the old Conduct of Business rules).

This is the second of a series of factsheets we are publishing in the coming months. The factsheets focus on the different areas of the advice process that we reviewed in the firms visited and mystery shopped during the Investment Quality of Advice Processes II project. We published the detailed findings of the project on our small firms website:

www.fsa.gov.uk/smallfirms/resources/factsheets/pdfs/iqap2.pdf

The examples outlined below are designed to help firms consider their own processes for ensuring that their advisers remain impartial when advising clients and treat them fairly. There may be other ways of achieving the same outcomes and complying with our rules and principles and you should consider the relevance of these examples to your business, as you may choose an alternative approach.

Disclosure

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Are you confident that your advisers:

- clearly explain your firm's services to clients at outset and the different payment options for those services?
- explain the concept of fees and commission to clients in a fair and consistent way so that clients have a genuine choice to pay by fee?

Suitable non-commission vs. commission earning advice

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How do you ensure that your advisers:

- give suitable advice to clients, even if this means recommending to pay off debt or non-commission earning products e.g. savings account, National Savings?
- are not biased in recommending the highest commission earning products to maximise their remuneration?

Examples of good practice

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- When recommending that its customers paid off debt before starting a savings plan, Firm A supported its recommendation by using a spreadsheet to give the customer a clear timeline as to when the debt would be paid off if the customer focused on this rather than saving.
- Firm B had introduced a Service Agreement and Fee Schedule in addition to its disclosure documents which gave customers a clear outline of the types of services offered and associated charges. This enabled its customers to add key information before entering into any financial transaction with the firm.
- Firm C had a policy of rebating commission received above a certain level and reducing the commission charged for funds invested above certain levels. The firm had customer agreements so that trail commission was not automatically taken for all customers. Bonuses paid to advisers were affected by the number of complaints received and the quality of file reviews; for example three upheld complaints would result in the relevant adviser's bonus being reduced by 50%.

Examples of poor practice

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- When asked to describe how Firm D explained the concept of fees and commission to its customers, the explanation was very confusing and inconsistent. One of the advisers said he would give a different explanation of the concept of fees to different customers. He said he would only explain fees for his 'lower end customers', but would not spend much time on it, as he 'knew' those customers could not afford them.
- Firm E tended to rely heavily on product providers that had provided the firm with a good service in the past, without carrying out regular research to ensure that those providers were the most appropriate for their customers.
- In an initial meeting with a customer, the adviser at Firm F introduced the disclosure documents as "long, formal documents that I am required to give you". The adviser then briefly explained the services provided by saying he was "...as close to independent as you can get...no-one can be 100% independent...everyone has preferred routes". When explaining the cost of the services the adviser stated that he had to offer the option of fees or commission but "it really depends on the nature of what you're doing". The adviser then explained that if the customer chose fees then VAT would be added, making it a more expensive option. The adviser did not explain the concept of commission. The adviser then said that he would not be making any money if he advised to repay debts, mortgage and increase savings whereas he would typically receive 3% commission from ISAs. He then said "by default, I suggest you allow commission". The adviser then added that it would be "worse to pay out a fee – psychologically and you would have to pay VAT".

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Over the coming months we will publish further examples of good and poor practice on subjects including; assessment of customer needs and management information. We would encourage you to familiarise yourself with these examples to ensure that your firm has good Quality of Advice Processes in place.