ISLE OF MAN
FINANCIAL SERVICES AUTHORITY

Lught-Reill Shirveishyn Argidoil Ellan Vannin

An explanatory guide about financial advice

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Whilst your Financial Adviser has a responsibility to deal with you properly, please don't forget that you are responsible for managing your own financial well-being.

Please ensure you understand what is going on in the process, the advice you are given and the fees and charges that are involved.

Ask questions and seek clarifications from your Financial Adviser to whatever extent you feel necessary to be entirely comfortable that you understand the proposed investment before signing.

What is financial advice?

Financial advice generally covers 3 main areas –

- investment of a sum of money;
- regular or long term savings; and
- protection needs, such as life insurance.

Why would I need financial advice?

There are many reasons why you may require financial advice, these will depend on your personal circumstances. Examples include –

Planning for retirement

- You are looking to invest some money into a pension scheme.
- You may have already invested into several pension schemes and be looking to consolidate your arrangements.
- You may already be a member of a pension scheme and approaching retirement and wanting to discuss your options.

Making an investment

- You have a single sum of money to invest and are seeking a potentially better return than the interest rates currently offered by Banks and Building Societies.
- In order to plan for the future you are looking to invest money regularly into a savings plan. As above you may also be seeking a potentially better return that the interest rates currently offered by Banks and Building Societies.
- Alternatively you may already hold existing investment plans and would like to seek guidance on these.

Protecting your family

- You are considering whether to take out life or critical illness insurance to protect your family and its financial commitments (e.g. mortgage repayments) in the event of death or serious illness.
- You have already taken out life and / or critical illness insurance and want to review the policies and receive guidance.

What is a financial adviser?

A financial adviser is an individual who is qualified to provide advice to people regarding their financial planning needs including those described above.

Some financial advisers may offer advice about products from the whole of the market whilst others may be "restricted". "Restricted" means that they can only advise on a limited range of products and product providers.

Financial advisers on the Isle of Man are required to hold specific qualifications which demonstrate their competence to provide advice. In addition, financial advisers should be suitably experienced and complete ongoing training to ensure that they are up to date with financial planning matters.

You should only seek advice from a financial advisory firm which is licensed under the Financial Services Act 2008 by the Isle of Man Financial Services Authority ("the IoMFSA"). A list of licensed firms can be viewed at: https://www.iomfsa.im/register-search/

Alternatively, in relation to pure protection contracts only (e.g. level term assurance and decreasing term assurance, permanent health insurance, etc. where there is no investment element), advice might alternatively be sought from a firm which is registered as a general insurance intermediary with the IoMFSA, and that the names of those registered can be found at: https://www.iomfsa.im/register-search/

When contacting a firm it is worthwhile checking that it is licensed by/registered with the IoMFSA and whether the advice provided is restricted to certain product types and certain product providers. If you are in any doubt regarding whether a firm is licensed by/registered with the IoMFSA you can check the registers detailed above or contact the IoMFSA on 646000.

Do I need to make an appointment to see a financial adviser?

Although it may be possible for you to see a financial adviser without an appointment, it is better if you do arrange one to ensure that –

- the financial adviser has sufficient time to obtain all of the information needed to advise you appropriately;
- you have sufficient time to get together details of any existing products or policies you have so that you can give all relevant information to the financial adviser; and
- you will have had an opportunity to check that the financial adviser can offer advice on the type of product you are interested in or provide advice on the particular financial needs that you have.

What can I do in advance of a meeting with a financial adviser?

In advance of your meeting you should be clear about why you are seeking financial advice and what you are looking to achieve (e.g. capital growth, income, protection of capital).

Gather together details of any existing products or policies to take along to the financial adviser during your meeting.

Think about whether you want to invite a family member or friend to the meeting. Remember however that you will be asked questions of a personal nature.

You have worked hard to grow your savings and you want your money to work hard for you. If you want to save or invest, you need to think about how you feel about the risk of losing some or all of your money. This is known as your 'attitude to risk'. You should consider –

- Whether it is important that you don't risk losing any of the money you put in;
- Your capacity for loss and whether you are willing and able to accept some risk of loss if it means you may get a bigger return;
- If you are willing to take some risk, think about how much.

Financial advisers will discuss your attitude to risk, and should only recommend products that match this. It is important to have an understanding of the balance between risk and reward. You should consider what your understanding of risk is. Don't be afraid to follow up any gaps in your knowledge regarding risk with your financial adviser. As a general rule if something is too good to be true it probably is – there is no such thing as a 'risk free' investment.

Think about whether you just want to buy a specific product or if you want an ongoing service from the financial adviser. It is important that you monitor the performance of the investment, your financial adviser can assist with this.

Familiarise yourself with the concept of "diversification". This means investing in a variety of products or asset types to help reduce risk and it reflects the proverb "never put all your eggs in the one basket". Be ready to ask your financial adviser about diversification and how you can benefit from this.

You will also have to take "Know Your Customer" documents with you which should include either your passport or driving licence which confirms your identity and an original utility bill from the last 6 months to confirm your address.

What can I expect during a meeting with a financial adviser?

The financial adviser will provide you with a business card containing their contact details and a Terms of Business document. The Terms of Business document will clarify what type of adviser the company is (e.g. whether they are restricted); set out the basis on which the financial adviser will provide services to you, state they are regulated by the Authority and include information relating to fees and commissions.

The financial adviser will ask you a lot of questions about your personal circumstances, including questions about -

- your income and savings;
- any borrowings or debt you have;
- your disposable income (how much you have left after paying all of your expenses);
- how you would cope financially with an unexpected event such as not being able to work;
- your partner, children or other dependents;
- your health and that of your dependents;
- your employment status, how much you earn;
- your investment aims;
- any financial products you already have;
- how long you want to invest;
- your attitude to risk;
- what age would you like to retire.

You should be prepared to answer these questions and 'fill in' any gaps after the meeting has taken place. Certain questions that the financial adviser could ask you may seem personal, however, in order to provide you with the best possible, most suitable advice, it is important that all relevant information is disclosed. If you are only seeking 'limited advice', for example, advice only relating to a pension matter, you will only be required to provide certain details to the financial adviser.

Attitude to Risk

The financial adviser will discuss your attitude to risk with you. If you are willing to take some risk, the adviser will discuss with you exactly how much risk you are prepared to take. This is so that the financial adviser will be able to match your attitude to risk to a suitable product or products. Your age may impact on your tolerance of risk, as the older you are, the less opportunity there is to recover from poor investment choices so make sure you understand the risks associated with your investment.

Investment Term

The financial adviser will also need to know the period of time you wish to hold any investment. Some products have a specific period, for example, 5, 10 or 25 years. In order to ensure that you will be able to afford to pay any premiums for regular savings products, their maturity date should not normally go past your planned retirement date. Be sure that you can afford to tie up your savings for the period of the product. Be clear about whether you will be able to access your funds and whether any charges or penalties will apply to withdrawals.

Your Financial Needs

Prior to making any investment recommendations, your financial adviser will ensure that any protection needs such as life assurance are addressed. The financial adviser will also seek to ensure that you have sufficient funds to meet day to day expenses and also have an emergency fund for unexpected expenses before recommending any products to you. You should consider your short and long term needs such as education costs, travel plans and retirement needs and discuss these with your financial adviser. This will help you decide how much you should invest or whether you should be investing at all.

The information the adviser takes from you will be summarised on a “fact find” form which you will be asked to read and confirm the details recorded on the form are correct. You will be given a copy of this form for your records.

Having obtained all of the necessary information, the financial adviser will consider your financial circumstances and your attitude to risk and prepare recommendations – set out in a ‘Summary of Recommendations’ or ‘Reasons Why’ letter - to meet your needs.

Be prepared to ask the financial adviser the basis on which they make any recommendations. Do they have a product panel (a list of products which they have already assessed as the best performing in their field)? How do they review and monitor the investment products that are recommended? How can you be sure that you are getting the best possible advice?

What will happen after the meeting/what will I receive?

"Reasons Why" letter or report

The "Reasons Why" letter or report may be posted to you so that you can consider this at your leisure. Alternatively, a second meeting may be arranged so that the financial adviser can discuss the recommendations with you.

If a fee is to be charged, you may be sent a further letter which will outline your objectives; the service the financial adviser will provide and the cost of the service. You will need to sign this document to confirm your objectives and the service to be provided. By signing this document you are also agreeing to pay any fee for the adviser's time in considering your circumstances and preparing the "Reasons Why" letter or report which will contain recommendations to meet your needs.

Product Literature, Illustrations and Key Features Documents

In addition to the "Reasons Why" letter or report, you should also receive product literature, illustrations and key features documents for the recommended products. These documents provide additional information about the products and may also provide examples of projected values based on various interest rate scenarios. Although they may seem technical, it is important that you read these thoroughly, and it is especially important to focus on the risks of the product as well as its benefits. You may also need to sign a declaration that you have read and understood the product documentation. If you have any questions on the content or do not understand any part, make a note to ask your financial adviser to explain these to you. Do not confirm your understanding of the risks of a product if you are not satisfied. Also, some collective investments schemes require confirmation that the investor is "an experienced investor". ***Do not invest in these types of schemes unless you really are an experienced investor and understand the associated risks.***

Only once you have received the "Reasons Why" letter/ report and fully understood the recommendations, and have had time to consider whether these are appropriate for you, you can request the financial adviser to arrange some or all of the transactions. Some products have a "cooling off" period which enables you to change your mind and cancel without penalty, others may incur significant penalties. You should therefore be sure that you are happy with the products before you enter into any arrangements. Do not be pressured or rushed into making a decision.

It is possible that you could be advised to surrender an existing policy or switch from an existing investment to a different product. If this is the case, the adviser should explain clearly in the "Reasons Why" letter or report, the advantages and disadvantages of this advice as these actions can incur additional risk, cost and loss of money.

At this stage, if there is a fee payable, you may be asked to pay it, although the timing of the payment of fees may vary from firm to firm and case to case.

How do you minimise the risk of investing?

- Cash deposits can be safer and may be covered by the Depositors Compensation Scheme, but remember, higher interest often means higher risk and low interest might not keep up with inflation.
- Investing in savings products, collective investment schemes or unit trusts can produce higher returns, but you may incur penalties for early withdrawal and charges will be applied by the fund manager.
- Shares provide an opportunity for capital growth, but also a greater risk of capital loss.
- Property investment may offer a good return, but comes with ongoing costs of maintenance, may be difficult to sell, and can also go down in value. If the investment is made through a collective investment scheme or unit trust, these factors may affect the fund's liquidity and ability to repay your investment when you want it.

Always limit your risk by spreading your investments ("diversification") and never put all of your eggs in one basket!

How much will it cost?

Remember – if you do not understand the fees and charges paid to the financial adviser or applied to your investment, remember to ask your adviser.

There are different ways to pay for the advice you receive –

- you may have to pay a fee for the advice you are given;
- the financial adviser may be paid commission from the money you invest or spend on the financial product; or;
- there may be a combination of a fee and commission.

There may also be additional fees if the financial adviser provides an ongoing review service.

The Terms of Business document will provide information relating to how the financial adviser is paid. Any fees must be agreed between you in advance of any advice or the arrangement of a transaction. Where the financial adviser is receiving commission, they must tell you and you have the right to ask how much this will be.

Depending on the size of the investment, the financial adviser may be able to offer you better terms on larger amounts. If you are unsure whether this may apply to you, ask your adviser.

If your financial adviser was to receive payment from the money you invest or spend on a financial product and you do not invest in or purchase a product, the financial adviser may require you to pay a fee. This should be made clear to you in the Terms of Business document but do ask the financial adviser about this possibility.

Many investment products will involve other fees as well as a fee to the financial adviser. The product provider itself will take its fees on the product. There may then also be an additional level of fees on underlying funds etc. held by the chosen product. The level of these fees and their effect on your investment should be made clear to you by the advisor when recommending the product. **If you do not understand the costs (i.e. fees/charges paid to the financial adviser or applied to your investment), remember to ask your adviser.**

What if I don't understand what is being recommended to me?

It is important that you understand what is happening at the meeting and also what is contained in the Reasons Why letter or report and product literature. The financial adviser is there to help you. If you don't understand then it will be difficult for you to make the right decision on what to do. You should not be embarrassed by saying you don't understand. The financial adviser is a suitably qualified individual, it is normal and accepted that you may not have that specialist knowledge. **Remember - you have the right to query the financial adviser to make sure you understand everything that is being offered to you.**

What should I do after I have invested?

Once you have made your investment, monitor it or have your adviser do so to ensure you are on track to achieve your goals. This should be done on an annual basis as a minimum.

What if I am dissatisfied with the advice I am given or the product I have purchased?

The IoMFSA has issued guidance about its role in relation to complaints and what an investor should do if they are unhappy with the advice they have received or the product they have purchased. The IoMFSA will only investigate a complaint if it gives rise to material regulatory issues. However, there is a Financial Services Ombudsman Scheme which may be able to help you and a leaflet on the Scheme is available from the Office of Fair Trading.

Remember that the value of any investments can go down or up. Complaints about the lack of, or poor performance of, any investments are not regulatory issues.