How to become an Independent Financial Adviser

Introduction
We often receive queries from the public requesting information on how they can become an independent financial adviser (IFA).

In the following sections we shall try to explain what an IFA does, the requirements to be a competent IFA and some of the approaches that can be adopted in order to meet competent status.

Firstly though, we shall establish what other types of financial adviser there are.

Type of financial adviser
Currently, a customer can receive financial advice from:

- Advisers who are tied to providing advice on the product range of one marketing group
- Advisers who are multi-tied to providing advice on the product range of more than one marketing group and
- Whole of market advisers who can provide advice across the whole market place or segment of it. IFAs are whole of market advisers. To be defined as IFAs however, the regulator requires that they give customers the option of paying for their services by fee rather than through commission paid by product providers.

What is an IFA?
Put simply, an IFA assists clients to meet their financial objectives in the most suitable and efficient way.

From the perspective of an overall financial plan, an IFA will wish to help a client to achieve the lifestyle that they desire for instance, by owning their own property outright, by having no other debts, by ensuring that their expenditure needs are met in the event of ill health or death and by attempting to build up sufficient sums to meet short and long-term financial goals.

What does an IFA do?
IFAs will go through an advice "process" when dealing with clients. The Financial Services Authority (FSA) requires that advisers "know their customers" meaning that they have to accumulate sufficient information on clients' personal and financial circumstances before providing advice and recommendations. Such information will include details of income, expenditure, assets, liabilities, attitude to risk and the client's financial aims and objectives.

The information will commonly be recorded in what is known as a "fact find" form and it will be the IFA's skills in questioning and information gathering which will enable the fullest possible picture to be developed on the client. The IFA will also establish a priority order with the client of both the perceived needs and any others that the adviser has identified. This information will form the basis of the IFA's advice and recommendations both now and in the future.

The IFA will then usually go away to analyse the client's situation and formulate recommendations before returning to the client to present these. The recommendations are followed up in writing in what is known as a "suitability report".

This process is common to all types of financial advisers. The difference with an IFA is that he has access to products from across the market and is not restricted as to which he recommends.

The key to any successful IFA relationship with a client is to establish a long-term relationship of trust and respect. IFAs should be able to work with other professionals such as solicitors and accountants, not in place of them.

What minimum level of knowledge is required to be an IFA?
As a minimum, an IFA should achieve a recognised financial planning qualification to certificate standard (NVQ Level 3) such as the CII's Certificate in Financial Planning or the IFS's Certificate in Financial Advice. The FSA is currently reviewing the minimum qualification standards for financial advisers and it is envisaged that by the end of 2012, all advisers will need to gain an NVQ Level 4 qualification such as the CII's Diploma in Financial Planning or the IFS's Diploma for Financial Advisers.

All firms will have their own training and competence scheme and it may be deemed that trainee advisers would have to undergo further assessments on their knowledge of the financial services industry and products within the marketplace.

What skills are needed for a competent IFA?

- A technical ability to understand most financial products available, their features, benefits, pitfalls and uses
- To be able to listen to and communicate with clients in order to understand their financial circumstances and goals
- To identify financial planning opportunities
- Analytical skills to understand a client's situation, quantify needs and identify suitable products to meet those needs
- Presentation skills to be able to present both verbally and in writing, recommendations in a way that clients understand
- Compliance awareness to ensure that all advice and recommendations are delivered in a compliant manner
- Organisational skills to maintain a manageable client bank in an effective way both for the adviser and the customer
- A desire to learn and improve both on knowledge and skills.

How much can an IFA earn?
Earnings potential is potentially unlimited although realistically, many advisers earn between £25,000 and £50,000 pa with some higher performers doubling or even quadrupling that.

IFAs can either be self employed or employed within an established IFA practice. Business size ranges from "one-man bands" to large multi-national organisations. A good indication of current income levels can be gained from visiting the jobs sections of websites such as www.moneymarketing.com or www.ftadviser.com.

How do you become an IFA?

An individual or group of individuals could not set up an IFA practice and start trading from day one without any previous experience. The business owners and management would have to satisfy regulatory requirements in terms of adequate controls and financial resources as well as the competence of individual staff carrying out regulated activities. Visit www.FSA.gov.uk for further information.

Before establishing their own practice many people work for an existing IFA to gain experience either as a trainee adviser or perhaps in another supporting role such as a paraplanner. This enables the individual to achieve a certain level of competence before either becoming established as a competent adviser at their current practice, or moving elsewhere.

In summary our advice to becoming a successful IFA would be to:

- Gain the benchmark qualifications as required by the FSA to provide competent advice
- Gain experience at an existing advisory practice to develop competence and compliance awareness before moving on to establish a firm of your own
- Contact existing IFAs to talk about their experiences as advisers. This can often be an invaluable source of information.

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