MONEY

HITTING THE HIGH NOTES
MARY COUGHLAN IS TRYING TO GET BACK ON THE ROAD TO FINANCIAL HARMONY P13

Capitalise on their counsel

Financial advisers are worth their weight in gold and the smart money is on the independents, writes **Mark Channing**

FERGAL PHILLIPS

Moran is pleased now that he stuck with his with-profits policy for its full term

New research suggests consumers who use financial advisers have twice as much in savings, larger pensions and feel more financially secure than those who don't.

The research was commissioned by the Professional Insurance Brokers Association (Piba) and claims that 60% of consumers who receive regular financial advice have pensions, compared to 39% who don't use an adviser.

A separate survey by Standard Life claims that more than four in 10 savers intend to make investments in funds, shares and property by year-end. So should these new savers look to tap a good financial adviser before parting with their cash?

Finding a good quality professional financial adviser is not an easy task. "It's exceptionally difficult," said Vincent Digby of Impartial.ie, a fee-based adviser. "There are a lot of people out there who want to get the right advice, are willing to pay for it, but just don't know where to start."

We give you our advice on finding the right adviser.

TYPES OF ADVISER

There are three main categories of adviser in Ireland: tied agents, multi-agency intermediaries and authorised advisers.

Tied agents are tied to a financial firm or institution and only advise you on or sell you the products of that particular institution. While they are obliged to sell you a suitable product, they cannot compare the market for alternative providers.

Multi-agency intermediaries include investment and mortgage brokers. They advise and sell products from a number of financial services firms.

Authorised advisers are obliged to consider relevant products from all financial services in the market. Most industry experts advise avoiding tied agents. This includes banks, which are known to target customers with large lump sums sitting on deposit.

"I have clients coming to me all the time who are being hounded by their bank manager," said David Quinn, the managing director of Investwise.ie, a fee-based adviser. "They offer you a free consultation but then sell these really terrible products that hardly ever pay out a return."

CHOOSING

Of the different types most experts recommend choosing an authorised adviser when seeking advice.

"An authorised financial adviser will look at the whole market and not just a few providers," said John Geraghty of LABrokers.ie, which sells discounted insurance online.

The Central Bank maintains a register of authorised advisers on its website, listing the business services and investment instruments that the firm is authorised to sell.

While the register can serve as a starting point, experts say it alone cannot separate out the good from the bad. To do this requires legwork on the part of the consumer.

"You have to do your research beforehand," said Gerard Sheehy, of PRSA.ie, a discount pension broker.

"Draw up a list of potential candidates and interview them as if you were giving them a job, because that's essentially what you're doing," he said.

Personal referrals are also a good indicator as to the ability of an adviser, say experts. "A personal recommendation is a really strong endorsement of what somebody does," said Bob Quinn, managing director of The Money Advisers. "It brings a degree of trust into the equation from day one," he said.

When considering qualifications, Quinn believes that you should look for your adviser to be qualified as a Certified Financial Planner (CFP).

This is an internationally recognised qualification and commits holders to certain ethical standards.

"Being a Qualified Financial Adviser (QFA) is the minimum standard in the industry. Your adviser should be at least a CFP," he said.

The Financial Planning Standards Board (FPSB) maintains a register of CFPs. There are 219 CFPs currently practising in Ireland, a spokesman for the FPSB said.

COMMISSIONS

How the adviser is paid, whether by fee or a commission on the sale of a product, remains an issue of debate in the industry.

Some believe that a conflict of interest arises from the commission-based model of remuneration as the adviser may be motivated to sell one financial product over another.

Others say the commission-based model of remuneration is a legitimate way for advisers to get paid, provided the commission is transparent to the consumer.

Financial brokers and retail intermediaries earned more than €722m in commission income last year according to the Central Bank (see chart, left). Several countries, including Australia, the Netherlands and the UK have introduced bans on advisers taking commissions for selling financial products.

"In Ireland, we are behind the leading countries in that our financial advisers are still very much incentivised by commission," said David Quinn of Investwise.

DISCLOSURE

While financial advisers must disclose in their terms of business if they take commissions, the size of the commission can be difficult for the consumer to find out. "The disclosure is in the consumer protection code but it can be very discreet in the paperwork," said David Quinn.

"There is so much compliance that consumers can get worn out. They don't tend to read these three- and four-page declarations so it's very easy for the commission to be hidden."

David Quinn said that he has come across financial advisers earning commissions of €50,000 or more for a single transaction. The amount of time involved in the transaction would amount to "a number of hours" on the part of the adviser, he said.

To avoid paying too much, experts say, when seeking advice you should ask for full transparency on costs and request that the impact of any initial or ongoing commissions on the investment should be clearly visible.

"The client has to demand transparency on all the costs. Without this it's impossible to determine whether or not you are getting value for money," said Digby.

FEE-BASED ADVICE

Choosing an adviser who works on a fee-only or nil-commission basis is one way to remove potential conflicts of interest, say experts. Finding a completely fee-based adviser, however, remains a difficult task, with experts saying there are not many of them in Ireland. "Out of the thousands of financial advisers out there, there are probably as few as 30 who are genuinely fee-based advisers," said David Quinn.

There is currently no register of 100% fee-only advisers and the Central Bank said it had no plans to introduce one.

The Society of Financial Planners was recently set up to promote fee-based financial planning. Members have to be independent fee-based financial planners.

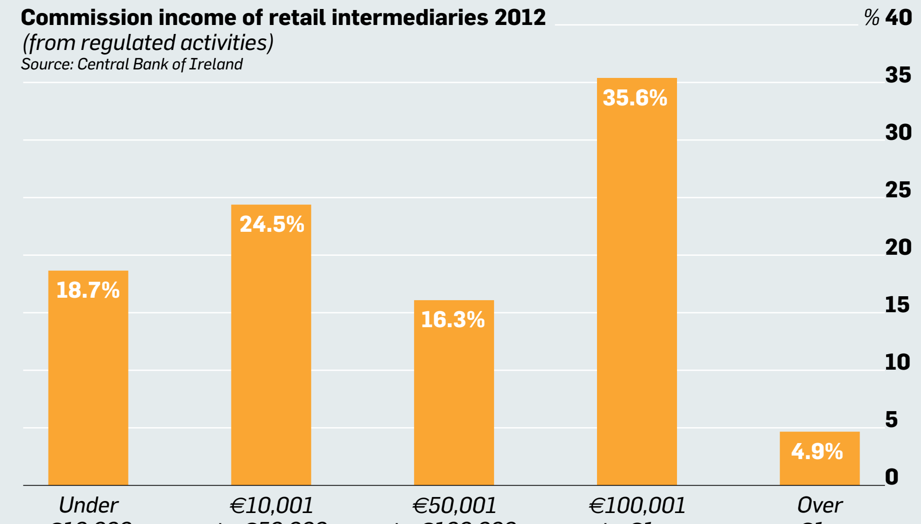
It said it aims to publish a register of fully fee-based advisers in the coming months.

The Central Bank suggests that consumers look out for the word "independent" when choosing an adviser.

"The term 'independent' may only be used by an intermediary where that intermediary allows the consumer the option to pay in full for its services by means of a fee," said a spokesman for the Central Bank.

"Firms using the word independent must also ensure that there is no ambiguity about the range of services that it provides in an independent capacity."

Commission income of retail intermediaries 2012
(from regulated activities)
Source: Central Bank of Ireland



Good advice is invaluable

David Moran, a recently retired engineer, said it is hard to put a price on the value of having a good adviser.

Moran has relied on the counsel of Jim Hegarty of Hegarty Financial Management.

In 1969, on Hegarty's advice, Moran began saving the equivalent of €11.05 a month into a Standard Life with-profits policy. He continued saving the same amount every month for almost the next 45 years. When he recently cashed in the policy he was stunned to find out that his total contributions, of about €6,000, had grown to €81,457. "I had to ask them to double-check the figures because I thought it was a mistake," said Moran.

Moran credits his adviser for encouraging him to maintain the policy over the years and to continue to make the monthly contributions.

"There were times when I considered cashing in the policy but I was advised to stick with it. It turned out to be the right thing to do."

Moran also believes that without the encouragement of Hegarty he would not have made as many additional voluntary contributions (AVCs) to his pension. Nor does he think he would have taken full advantage of savings schemes such as the Standard Life policy or the government sponsored Special Savings Incentive Account (SSIA).

"I really believe that having an independent adviser makes your decisions easier. You need somebody who is removed from your situation to give you sound, impartial advice about how you should be managing your money."

Moran said the increased complexity of financial products today makes it even more important to get the advice of an expert.

The advice however, only pays dividends if you heed it, he said. "Some people might say I was lucky, and of course I was fortunate to have such a good adviser, but I still had to take the advice I was given."

Mark Channing

Oops! Too late to put the insolvency cat back in the bag

JILL KERBY
COMMENT

Some of the many shortcomings in the new insolvency system were inadvertently revealed last week by personal insolvency practitioner Jim Stafford of insolvency consultants Friel Stafford.

Stafford told RTE's Drivetime how the new system favours the professional classes over the common PAYE worker. He later had to apologise for his crass explanation as to why insolvent hospital consultants, solicitors and accountants would feel more entitled to keep their high value homes when a creditor's deal is proposed than common or garden PAYE workers.

The Insolvency Service of Ireland (ISI) distanced itself from Stafford's remarks, insisting that the legislation does not favour one class of debtor over another. The ISI maintains that, within reasonable financial parameters, all family homes are protected as part of a personal insolvency arrangement (PIA) which can last up to six years.

The theory might be that every personal insolvency practitioner (Pip) will try to save the family home if its running costs and size are appropriate to the insolvent person's new circumstances. But Stafford inadvertently lifted the lid on how things actually work — especially when the banks are the biggest creditors.

Because the new legislation sets no limit on the size of or conditions regarding the payment of Pips, there was always the risk that they would cherry-pick higher value insolvency cases. The risk of not getting paid is simply too big when it comes to taking on clients whose incomes are their only — and already inadequate — financial resource.

Indebted consultants, lawyers and accountants not only have higher incomes, but often have other assets such as investment properties, jewellery and art that can be sold to cover initial consultation or upfront Pip fees.

The banks also want these "higher status" insolvency arrangements to succeed because these are the people they hope to continue doing business with in the future.

Pips expect that large portions of these clients' investment mortgage debts will be written off in order to return these people to solvency.

Discharge periods are also likely to be shorter than the six years that PAYE workers will probably have to bear, if they can find a willing Pip in the first place. Without access to upfront cash, that won't be easy, said Stafford.

In another RTE interview on Liveline, Stafford even went so far as to say that he will be advising prospective clients to stay clear of the entire process (unless they have sufficient assets to make deals with the banks) for perhaps the next seven months or longer.

That's because he has seen no evidence that banks are ready yet to write off mortgage debt. No one should want to be the system's "guinea-pigs", he said. Between one thing and another Stafford opened a few cans of worms that won't be easily closed.

The ISI claims that the new insolvency system is based on best practice in other similar jurisdictions, such as the UK, US and Canada. If that was the case we would have two forms of insolvency: one that deals with unsecured debts and the other — bankruptcy.

The system we have deals with unsecured debts (the DSA — debt settlement arrangement) and unsecured and secured debts (PIA) and bankruptcy.

If our system mirrored the UK, there would be no demands for upfront Pip fees.

Many Irish Pips say they will not take on clients unless the creditors agree to front load their fees to ensure they are paid for their preparatory work and as an insurance against the collapse of the arrangement. Some 40% of UK insolvency arrangements fail.

If we were following best practice in other countries, the discharge period for debt relief notice (for €20,000 unsecured debts) would be one year, not three. We would permit more than just one lifetime PIA or bankruptcy event and a bankruptcy would be discharged not in three years but in nine months (as in Canada) or one year (the UK).

Most of all, a "best practice" insolvency system would endeavour to reflect how the banks and the state encouraged and permitted tens of thousands of modestly-paid PAYE customers to borrow excessive mortgages. It would accept this mortgage debt can never be repaid during the debtor's working lifetime and should be written off.

Instead, the ISI produces an example of a typical PIA arrangement involving a married couple with a mortgage worth €400,000, €100,000 worth of negative equity and unsecured credit union, bank loan and credit card debt of €60,000. The outcome involved a 10-year extension of their mortgage loan to 35 years and the loss of their tracker rate. This is in exchange for the same fixed rate for the six years of the PIA after which they will pay a variable rate on their mortgage. The unsecured creditors agree to write off €40,900 of the unsecured debt but share €29,000 of debt repayments over the duration of the PIA.

They agree that the Pip's share will be €10,000.

The ISI insists that this is a credible insolvency arrangement based on the couple's income and expenditure. There is no mortgage debt write-down. They lose their tracker and have another 10 years added to their loan term and come under strict financial supervision for six long years. And there is no guarantee their home won't still be in negative equity at the end of it.

I wonder how many hospital consultants, solicitors or accountants will find themselves in that position?