Unit 11: Financial Advice

Student Workbook

CISI Chartered Institute for Securities & Investment — EDUCATION PARTNER 2023-24

Unit 11

Unit Aim: Understand the key features and legal elements in the provision of financial advice.

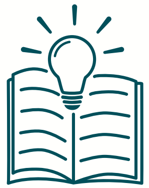
Relevance of this unit to the course:
This unit will review various concepts explored across the entire course.

Learning Objective	Learning Outcomes	Chapter Section
11.1.1	Understand the main areas of financial advice: • Budgeting • Protection • Borrowing • Investment and saving • Later life planning • Estate planning • Tax planning and offshore considerations	1
11.2.1	Understand the key factors in the financial advice process: • The client relationship • Affordability, suitability, attitude to risk • Matching solutions with needs • Use of communication skills in giving advice • Monitoring and reviewing clients' circumstances • Information given to clients • Consumer rights and remedies, including awareness of their limitations	3
11.3.1	Understand the key concepts relating to: • Legal persons (wills / intestacy / personal representatives / trustees / companies / limited liabilities / partnerships) • Contract, Capacity to contract • Agency • Real estate, personal property and joint ownership • Powers of attorney • Insolvency and bankruptcy • Identifying, reporting scams	2

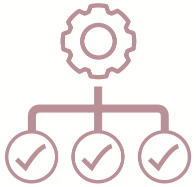
How to use this student workbook

Throughout this student workbook, look out for the different icons to support your learning:

Understand and learn – these sections will help you to develop your knowledge and understanding of the assessed learning objectives.



Apply and practise – Practise and test your newly acquired learning by undertaking a range of activities to help you prepare for the multiple choice assessment at the end of the course.



Further your knowledge – Consolidate your understanding of key concepts by reading and interacting with current, credible resources to help further enhance your learning.

Introduction

Subscribe to the CISI YouTube channel and take a look at some of their content/themes that you are interested in.

You will find interviews, podcasts and discussions about the world of financial advice from careers talks, understanding the difference between financial advice and financial planning through to how to close a deal with a client.

Make a list of the different areas of financial advice that you hear about in the videos that you watch. Are there any more themes and areas that you are aware of?

Introduction to financial planning

Log onto the professional refresher section of the CISI learning platform and complete the Introduction to financial planning module (1hr). This module covers the key aspects of the planning process, the role of the financial planner, client attitudes to risk and the impact of technology.

You can also complete the financial planning module (1hr 30 mins). This module provides an overview of the financial planning process, key terminology relating to the process and the regulatory framework which governs it.

Learning Outcome 11.1 – Areas of Financial Advice

11.1.1: Understand the main areas of financial advice:

- Budgeting
- Protection
- Borrowing
- Investment and saving
- Later life planning
- Estate Planning
- Tax planning and offshore considerations

Budgeting

Read chapter 11 in the course workbook about budgeting and the role of budgeting when giving financial advice. Answer the following questions:

1. What is the **purpose** of a budget in the financial planning process?

2. **Look** at Emile's budget below and **explain** what additional information might you need before you make any recommendations

3. **What advice** might you give to Emile?

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Emile’s budget

4. Emile mentions that in reality he never has any surplus but he’s not sure why. **Suggest** reasons why this might be the case.

Money In - February	
Take home wages	£4,500
Money Out	
Mortgage	£1,875
Utilities	£240
Other bills	£370
Insurances	£130
Groceries	£1,000
Total outgoings	**£3,615**
Surplus	**£885**

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Protection

Read the different types of protection that clients might benefit from in chapter 11 of the course workbook.
Complete the summary below:

Type of protection	Key features	Who might benefit from this type of protection? Why might it be important to them?
Critical Illness		
Income protection		
Mortgage payment protection		
Accident and sickness cover		

Protection

Read the different types of protection that clients might benefit from in chapter 11 of the course workbook.
Complete the summary below:

Type of protection	Key features	Who might benefit from this type of protection? Why might it be important to them?
Household cover		
Medical insurance		
Long term care		
Business insurance		

Watch the video on CISI TV called "Hope for the best, plan for the worst". It focuses on the current protection landscape, how protection products are changing and why protection planning is a core requirement in financial planning.

Want to understand more about protection planning? There's a wealth of videos about this theme on the CISI TV channel.

Borrowing

A financial adviser may discuss borrowing money with some clients. **Write down 5 questions** that you would ask a client about borrowing.

Write down 5 factors that a client should consider before borrowing money. Use chapter 11 of the course workbook to help.

Questions	Factors
1.	1.
2.	2.
3.	3.
4.	4.
5.	5.

Investment and saving

Tammy and Roz regularly save and have built up approximately £25,000 spread between a cash ISA and an online digital savings account. They are keen to find out more about investing.

What are the key considerations when deciding to invest?

What advice would you give to them?

Read chapter 11 in the course workbook about investment and saving to help.

Later life planning

Using your knowledge from unit 9 (investment wrappers, pensions and trusts), **what advice** would you give in the following scenarios about later life planning. Use chapter 11 of the course workbook to help.

Scenario 1 – Una has been self employed for 5 years and hasn't got round to setting up a pension yet. Una is 27.

Scenario 2 – Paulo is 55 and has been paying into various workplace pensions since he was 21. He's not sure how many pensions he's got and he hasn't got a clue about their value.

Estate planning

Estate planning is covered in more detail in section 11.3 legal concepts. Below, briefly **summarise** the key elements of estate planning using chapter 11 of the course workbook to help.

Tax planning and offshore considerations

Read the pages about tax planning and offshore considerations in chapter 11 of the course workbook and answer the following questions:

1. How can tax allowances be utilised effectively by a client?

2. How does tax avoidance differ from tax evasion?

3. How does a client's residency and domicile position impact on the choice of investments from a tax perspective?

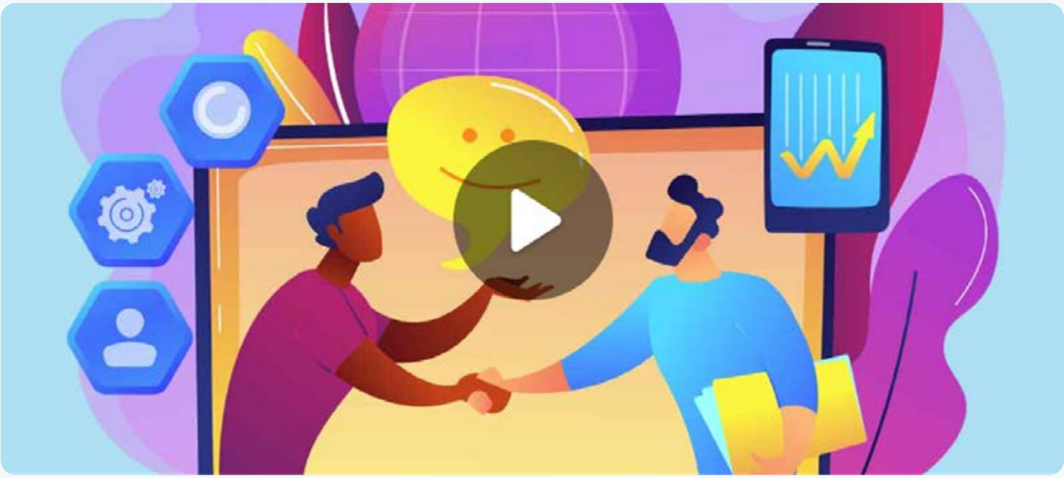
4. Explain the difference between worldwide based tax systems and territorial-based tax systems

Learning Outcome 11.2 – Process for giving financial advice

11.2.1: Understand the key factors in the financial advice process:

- The client relationship
- Affordability, suitability, attitude to risk
- Matching solutions with needs
- Use of communication skills in giving advice
- Monitoring and reviewing clients' circumstances
- Information given to clients
- Consumer rights and remedies, including awareness of their limitations

Watch the video on CISI TV called "What is client engagement and why it matters more than ever." It focuses on the essential elements of building an effective relationship with clients and introduces you to the process for giving effective financial advice.



Giving Financial Advice

Read the section about the financial advice process in chapter 11 of the course workbook and **answer** the following questions:

1. What is the purpose of financial advice?

2. How does an adviser gather the information required?

3. What are the common misconceptions around financial advice?

4. Explain the 5 stages in the financial planning process

5. Briefly summarise the key factors that build an effective financial planning process

Stage 1 – Identifying the client's needs

Under the FCA's 12 Principles for Businesses (PRIN), there is a requirement for firms to "know your customer"

'know your customer'

requires firms to **obtain sufficient information about their client** to meet its responsibility to give suitable advice

FCA FINANCIAL CONDUCT AUTHORITY

Read the blog about the 12 principles to help you understand the importance around these regulatory obligations.

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Stage 1 – Identifying the client's needs

You are a financial adviser who has taken on new clients – Will and Kiera Molyneux who are both 30. You have a meeting with them tomorrow to establish their needs. In preparation for the meeting, put together **a list of information** you will need to gather from the clients and write a **list of questions** you will ask them at the meeting.

Information	Questions

Stage 2 – Identify solutions based on client's needs

In the meeting you discover that Will and Kiera want advice around investments. They don't currently have any investments and lack knowledge about their options. They have 2 young children and both work full time with a household income of £115,000. Use the relevant pages in chapter 11 of the course workbook to help:

1. How would you explore their risk profile?
2. What objective and subjective factors could be helpful in establishing their risk profile?

Stage 2 – Identify solutions based on client's needs

Following the meeting, you provide a report to the Molyneux's with a number of investment recommendations. The profile suggests that their attitude to risk is low possibly due to their lack of knowledge and experience.

1. What should your recommendations be based on?

2. Based on what you know about the couple, what investments might you suggest? Explain your reasons for this based on your limited knowledge of their circumstances.

Stage 3 – Information given to clients

As well as the report recommendations, what other information do you need to provide to Will and Kiera?
List the details below:

Stage 4 – Monitoring and reviewing the clients circumstances

As a financial adviser you would be expected to monitor and review the client's circumstances. There should be periodic reviews of the client's financial plan and progress towards achieving their goals.
Why should you do this?

Further your knowledge – Financial Planning

Log onto the professional refresher section of the CISI learning platform and complete the modules below to help you understand more about the financial planning process.

Applying the financial planning process to client circumstances (1hr 15 mins)
Financial planning assumptions (2hr 15mins)
Financial planning cashflow projections (2hrs 15mins)
Financial planning personal financial statements (2hrs)
Financial planning personal risk management strategies (1hr 45mins)
Financial planning trade offs (2hrs)
Impact of personal and political drivers on the financial planning process (2hrs 30 mins)

Learning Outcome 11.3 – legal concepts relevant in financial advice

11.3.1: Understand the key concepts relating to:

- Legal persons (wills/intestacy/personal representatives/ trustees/ companies/ limited liabilities/partnerships
- Contract. Capacity to contract
- Agency
- Real estate, personal property and joint ownership
- Powers of attorney
- Insolvency and bankruptcy
- Identifying, reporting scams

Legal Persons and their capacity

Read about the legal persons and their capacity in chapter 11 of the course workbook and then **match** their legal title to the correct role…

1. Attorney
2. Deputy
3. Executor
4. Administrator
5. Trustee

KEY

A. A person who is responsible for administering and distributing the estate of the deceased if there is a will
B. Someone appointed to manage a trust and invest the assets. This person becomes the legal owner of the assets until the beneficiary is able to.
C. Someone who is allowed to make financial decisions or act on someone's behalf
D. Someone appointed to administer the estate of the deceased if there is no will
E. Someone who is appointed to act on someone's behalf if they become mentally incapable and do not have a LPA in place

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Legal entities

Summarise the key features of the 3 legal entities in chapter 11 of the course workbook below:

Companies	Partnerships	Agencies

Ownership of property

1. What is the difference between real and personal property?
2. What is the difference between joint ownership and tenancy in common?

Insolvency and bankruptcy – True or False?

	True	False
1. Insolvency is when the liabilities of a business or an individual exceed their assets, or when they are unable to repay their debts as they fall due.	○	○
2. Bankruptcy applies only to limited companies.	○	○
3. An individual can be declared bankrupt if they owe less than £5,000 to any creditor.	○	○
4. A liquidation is the legal ending of a limited company, where it is removed from the official Companies House register.	○	○
5. In administration, an insolvency practitioner or 'administrator' is appointed to take control of a company and restore its viability or sell its assets.	○	○

Identifying and reporting scams

Action Fraud is the UK's national reporting centre for fraud and cybercrime. Read some of the lastest scams and the different ways to protect yourself from fraud and cybercrime.

Take 5 is a national campaign offering impartial advice that helps prevent email, phone-based and online fraud. Read about the different types of scams, how to spot them and what to do if you think you might have been duped by a scammer

ActionFraud
National Fraud & Cyber Crime Reporting Centre
0300 123 2040

TAKE FIVE TO STOP FRAUD

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Identifying and reporting scams

Read the scenarios below, what advice would you give?

1. Johannes has received an email that claims to be from his bank, he's not sure if it's genuine

2. Klara has bought a ticket for a festival from someone she follows on Instagram. She paid by bank transfer but has not received the ticket and the person has now disappeared from social media.

3. Tate has received a whatsapp message from a friend who has lost his bank card and needs money quickly to pay for a taxi to get home

End of Unit 11
Multiple Choice Assessment

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Test your knowledge

1. Having a budget means that you are *(tick all that apply)*

- A. Less likely to end up in debt
- B. Able to spot potential savings
- C. Able to plan your future spending
- D. Able to claim tax credits

2. What type of cover is designed to pay out an income benefit when a person is unable to work due to sickness or incapacity?

- A. Critical Illness Cover
- B. Income Protection Cover
- C. Accident Cover
- D. Home and Contents Cover

Test your knowledge

3. The term “Intestate” means

- A. The estate of a person who has died
- B. Being an administrator
- C. A person who avoids tax
- D. A person who has died without having made a will

4. The first stage of the financial planning process is to

- A. Revisit the recommended investments
- B. Formulate a strategy that meets the clients needs
- C. Determine a clients requirements
- D. Implement the strategy by selecting suitable products

Test your knowledge

5. Risk tolerance is:

- A. A client’s willingness to accept risk
- B. A client’s personal opinion about risk
- C. A client’s ability to absorb financial losses
- D. A client’s risk profile

6. Which of the following is NOT an example of objective factors that will help define a client’s risk profile?

- A. Timescale
- B. Commitments
- C. A clients level of financial knowledge
- D. Wealth

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Test your knowledge

7. Financial advisers need to provide "material information" to all clients. Which of the following is NOT material information?

- A. Insurance Premium
- B. Charges
- C. Cancellation rights
- D. Risk warnings

8. Estate planning includes *(tick all that apply)*

- A. Preparing a will
- B. Deciding the beneficiaries
- C. Decisions around power of attorney
- D. Offshore considerations

Test your knowledge

9. What factors need to be considered when borrowing money? *(tick all that apply)*

- A. The interest rate
- B. How much will be repaid in total
- C. Level of insurance protection
- D. The affordability of the repayments

10. If someone believes that they have been a victim of a scam, they should contact

- A. MoneyHelper
- B. FCA
- C. Companies House
- D. Action Fraud

Monitoring my progress – Unit 11

My multiple choice assessment mark is / 10

I am happy with the progress that I made on the multiple choice assessment

◯ Yes ◯ No

To improve my knowledge and understanding, I now need to….

1.

2.

3.

Need more help?

If you feel that your multiple choice score can be improved further, complete the end of unit 11 multiple choice questions in the course workbook.

Answers

Page 7
What is the purpose of a budget in the financial planning process?

To help the client (and financial planner) understand more about income / expenditure. This helps the planner to determine what potential products might benefit the client.. A budget means that individual is:

less likely to end up in debt

less likely to be caught out by unexpected costs

more likely to have a good credit rating

more likely to be accepted for a mortgage or loan

able to spot areas where they can make savings

able to save for planned spending or just for the future.

Look at Emile's budget below and explain what additional information might you need before you make any recommendations

Explore all bills/ day to day expenses that the client incurs

Find out more about the client's financial goals – what are their long term plans? These should also be included to the budget

Any existing borrowing -credit cards? Loans? Etc.. Again, any repayments should be included.

What advice might you give to Emile?

Create a more detailed budget that includes everything

Client should have some ideas about long term financial goals

Page 8

The budget is far too brief and doesn't appear to include all bills and expenses

Page 9
5 questions

- Do you need to spend the money?
- Do you have other ways of financing the purchase?
- Can you afford to pay back the money that you are planning to borrow?
- Do you have any existing borrowing?
- Have you checked your credit report?

5 factors

- the interest rate and the annual percentage rate (APR)
- how much will be repaid in total
- any penalties that may occur for missed or late payments, and
- the cost per week or per month and whether this might vary.
- Check eligibility
- Previous credit history

Page 13
What are the key considerations when deciding to invest?

- Advertised rates do not always represent the true rate actually earned.
- Tax treatment may vary.
- There may be minimum or maximum investment amounts which may restrict the usefulness of an account.
- Attractive accounts may only be available for funds that are new to that savings institution and not
- from existing accounts with the same firm.
- There may be penalty charges if withdrawals are made or early encashment is needed, which will reduce returns.

Answers

- High quoted returns may only last for a limited period, to be replaced by lower rates. Many top-of the-table rates include temporary bonuses for three, six or 12 months, after which time the accounts often switch to uncompetitive rates.

What advice would you give to them?
- Investing involves committing money into an investment vehicle in the hope of making a financial gain.
- It is different from saving because it involves a greater level of risk, and there is no guarantee that you will get your money back.
- Investment products are for the longer term and are generally suitable if the individual already has enough cash savings to keep them going for three to six months.
- Investments generally outperform cash savings over the longer term but, as their value can rise and fall, investors have to be prepared to take

Page 14
- Scenario 1 – Una has been self employed for 5 years and hasn't got round to setting up a pension yet. Una is 27.
- Scenario 2 – Paulo is 55 and has been paying into various workplace pensions since he was 21. He's not sure how many pensions he's got and he hasn't got a clue about their value.

Page 16
1. Tax allowances can be used to reduce tax liabilities. For instance, a client can utilize personal allowances, such as for income or capital gains, to minimize the amount of taxable income or gains.
2. Tax avoidance legally exploits the tax system to reduce tax obligations within the boundaries of the law, whereas tax evasion involves illegal means to evade tax payments. For example, using legitimate tax planning strategies to minimise tax is considered avoidance, while underreporting income to avoid taxes is classified as evasion.
3. A client's residency and domicile position determine which tax rules they are subject to, influencing the structuring of investments to minimize tax liabilities and attract the least tax possible on returns.
4. In worldwide-based taxation systems, residents are taxed on their worldwide income and capital gains, regardless of the source. In territorial-based systems, residents are taxed only on income and gains arising within the country, with income and gains from outside not being liable to tax. However, some countries with territorial-based systems may include overseas income and gains if they are remitted to the country of residence.

Page 19
1. What is the purpose of financial advice? **When an individual seeks help from a specialist to consider their financial needs/objectives and determine financial products they could use to meet them**
2. How does an adviser gather the information required? **There is often a lengthy face-to-face interview between the client and the adviser. An adviser finds out the client's needs and circumstances. They use this information to recommend products to meet their specific needs and circumstances – They MUST only recommend products that are suitable for the client**
3. What are the common misconceptions around financial advice?
   - **Only suitable for people with lots of money – anybody can benefit from financial advice**
   - **It's a daunting experience – its is actually empowering**
   - **It will be embarrassing and derisive – it is the job of the adviser to help, not to belittle the client**

4. Explain the 5 stages in the financial planning process
- **Determine the client's requirements.**
- **Formulate the strategy to meet the client's objectives.**
- **Implement the strategy by selecting suitable products.**
- **Revisit the recommended investments to ensure that they continue to meet the client's needs.**
- **Periodically revisit the client's objectives and revise the strategy and products held, if needed.**

Answers

5. Briefly summarise the key factors that build an effective financial planning process
   The client relationship; affordability, suitability, attitude to risk; matching solutions with needs; use of communication skills in giving advice; monitoring and reviewing clients' circumstances; information given to clients; consumer rights and remedies, including awareness of their limitations

Page 21

- Personal Information – questions about full name, address, age, health, family and dependants
- Financial details – questions about level of income, level of outgoings, assets, liabilities, insurance policy details, protection arrangements
- Objectives – questions about what is the purpose? Growth? Protecting real value of capital? Generating income? Protecting against future events?
- Risk Tolerance – questions about is the client cautious, balanced or adventurous in their appetite for risk?
- Liquidity and time – questions about when are funds needed? Are there any immediate needs? What are the know future liabilities? Is there the need for an emergency reserve?
- Tax status – questions about level of income tax? Capital gains tax liabilities? Inheritance tax liabilities? Available allowances?
- Investment Preferences – questions about does the client have any restrictions or ethical considerations?

Page 22

1. How would you explore their risk profile? Ask about their risk tolerance, attitude to risk, capacity for loss
2. What objective and subjective factors could be helpful in establishing their risk profile? Find out their objective factors (financial circumstances) and their subjective factors (psychological make-up)

Page 23

What should these recommendations be based on? Suitability and affordability

Page 24

- Charges for the recommended products
- Cancellation rights
- Early encashment penalties
- Risk warnings
- Any special or non-standard terms

Consumer Rights – including

- The cooling off period
- the existence of the right to cancel or withdraw
- its duration
- the conditions for exercising it, including any amount the client may have to pay
- what happens if the client does not exercise the right, and
- any other practical details the client may need.

Page 25

- The environment can change e.g. tax regime or tax allowances
- Client employment status alters
- Stock market performance(better or worse than client predicted)
- Client's needs, wants and aspirations can change

Page 28

1. Attorney – C . Someone who is allowed to make financial decisions or act on someone's behalf
2. Deputy – E - Someone who is appointed to act on someone's behalf if they become mentally incapable and do not have a LPA in place
3. Executor – A - A person who is responsible for administering and distributing the estate of the deceased if there is a will

Answers

4. Administrator – C - Someone appointed to administer the estate of the deceased if there is no will
5. Trustee – B - Someone appointed to manage a trust and invest the assets. This person becomes the legal owner of the assets until the beneficiary is able to.

Page 30

What is the difference between real and personal property?

Personal property includes possessions of any kind, as long as they are movable and owned by someone. It includes tangible items, such as furniture and vehicles, and intangible items, such as bonds and shares. The key difference between personal property and real property is that real property is fixed permanently to one location. This includes land and anything that is built on it. It also includes anything that is growing on the land or under it. Examples include land, buildings, crops and mineral rights.

What is the difference between joint ownership and tenancy in common?

This is where an asset (eg, land or a bank account) is owned by one or more individuals who could own the asset in equal shares or potentially in unequal shares. The big difference with tenancy in common is that if one of the owners dies, their share of the property does not automatically pass to the surviving owner; it would pass to whoever they specified in a will or, if a will is not made, in accordance with the rules of intestacy.

Page 31

1. True
2. False
3. False
4. True
5. True

Page 33

1. **Johannes has received an email that claims to be from his bank, he's not sure if it's genuine**

ADVICE

- Never automatically click on a link in an unexpected email or text.
- Remember, email addresses and phone numbers can be spoofed, so don't use those as a means to verify that a message or call is authentic.
- The best way to get in touch with a company is to use a known email or phone number, such as the one on the back of your bank card.

2. **Klara has bought a ticket to a festival from someone she follows on Instagram. She paid by bank transfer but has not received the ticket and the person has now disappeared from social media**

ADVICE

- Do your research on sites you are buying tickets from and read reviews from trusted sources.
- Always access the website you're purchasing from by typing it into your web browser and be wary of clicking on links in unsolicited emails or social media posts. Use the secure payment method recommended by reputable online retailers and auction sites.
- Avoid clicking on links in unsolicited emails or social media posts.
- Be suspicious of any "too good to be true" offers or prices and be wary of requests to pay by bank transfer only. Always use the secure payment methods recommended by reputable online retailers.
- If possible, use a credit card when making purchases over £100 and up to £30,000 as you receive protection under section 75 of the Consumer Credit Act.
- Book tickets directly through official sellers who are members of the self-regulatory body Society of Ticket Agents and Retailers (STAR), as anything else could be a scam.
- If you have visited a website you think is suspicious you can report it to the National Cyber Security Centre using the 'report a suspicious website' form on their website.

Answers

3. **Tate has received a Whatsapp message from a friend who has lost his bank card and needs money quickly to pay for a taxi to get home**

   ADVICE
   Watch the video about impersonation fraud for the answer.
   https://www.takefive-stopfraud.org.uk/advice/general-advice/impersonation-fraud/

Test your knowledge
1A, B, C
2B
3D
4C
5A
6C
7A,
8A, B, C
9A, B, D
10D