



THE DIFFERENT
TYPES OF LICENSES
FINANCIAL ADVISORS
HAVE AND WHAT THEY MEAN TO YOU

Today, anyone can call themselves an insurance or financial adviser. But the reality is that while many of these individuals may be able to sell you financial-related products, not all advisers are created equal. Just like there are different types of doctors, there are different types of financial advisers.

In fact, if you've spent any time researching or meeting with financial advisers, then you may have noticed that the professionals who work in the insurance and financial services industry can have a wide array of different licenses and titles.

One of the primary reasons for this is because different licenses and qualifications can allow an adviser to offer different products and services to their clients. They may also be compensated in different ways.

Some of the most common licenses that are held by financial advisers - and what these can mean to you as a customer - include the following:

Insurance Agent



An insurance agent is licensed in their home state and any other state where they do business. Those who have a life and health insurance license, for example, are allowed to offer both term and permanent life insurance policies (not variable products), as well as health insurance, disability insurance, fixed and fixed indexed annuities, and long-term care insurance coverage.

Insurance agents are usually paid a commission, based on the product(s) they sell. These agents can be either captive or independent. If an agent is captive, they may only sell the products of the company they are employed with. Alternatively, an independent agent can offer the products of many different insurance and financial companies.

Agents who only have an insurance license have a natural conflict of interest because they cannot offer investment solutions outside of the insurance industry. For example, they cannot offer securities based solutions without a securities license.

Registered Representative (RR)

A Registered Representative (RR) is someone who is licensed to sell investment products. These include mutual funds, as well as individual stocks and bonds. They may also be referred to as stockbrokers or account executives. Registered Representatives serve in a suitability capacity. Although a recommendation may be suitable it may not necessarily be in the clients best interest.

Typically, Registered Representatives are paid a commission based on the product(s) that they sell. Commissions often differ from one product type to another. For example, a broker may be paid when shares of stock are bought or sold and commissions may vary between mutual funds, bonds, and other products. This can create a potential conflict of interest as one product may offer a higher commission than another.



For example, the commission that is paid when a Registered Representative sells a mutual fund will usually be a percentage of the amount of money invested by the client. How much and when a commission is paid, however, may differ based on whether the client is purchasing A shares, B shares or C shares. Registered Representatives typically will not sell a no-load mutual fund because they would receive no commission, even though it may be best for the client.



Investment Adviser Representative (IAR)

An Investment Adviser Representative is affiliated with a Registered Investment Advisory firm, or RIA. They typically manage client assets for a fee and receive no commissions. They also serve their clients with a fiduciary standard, meaning they are obligated to act in their clients best interest.

In most cases, an Investment Adviser Representative is compensated by way of a management fee. The amount of this fee is usually a percentage of the total amount of assets that are managed. Investment Adviser Representatives may also charge a flat or hourly fee for comprehensive financial planning.

An IAR has a fiduciary relationship with the client. Fiduciaries are required to act in good faith from both a legal and ethical perspective. A fiduciary must do their best to ensure that the advice they provide is made using complete and accurate information. They also have to disclose any potential conflicts of interest.

Hybrid Adviser

In some cases, an adviser may be a Registered Representative and an Investment Adviser Representative, sometimes called a “hybrid adviser”. They can receive commissions, via a suitability relationship with one client and have a fiduciary relationship with a different client.



Dually Licensed Adviser

Dually licensed advisers are those who have an insurance and a securities license, sometimes referred to as a “total adviser”. They have the ability to offer solutions from both the insurance and securities industries. This may be advantageous to some clients as they can complete their planning with one adviser instead of many.

In addition to their insurance license, they will either be a Registered Representative operating under a suitability standard or an Investment Adviser Representative who is obligated to act in the clients best interest, operating under a fiduciary standard.



Which Type Of Financial Advisor Is The Best?

As you learned in this article, there may be bias and conflict of interest strictly determined by how a person is licensed.

However, there really is no one-size-fits all. Choosing the right adviser is a personal decision. Knowing about the different types of advisers may now help you make the best decision of who to work with based on your personal circumstances.



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