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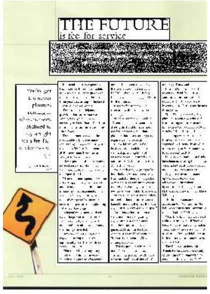

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THE FUTURE
is fee-for-service

A recent research report indicates the financial planning industry is slowly but surely moving toward a fee-for-service model. Victoria Papandrea assesses the trend.

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>
> JO-ANNE BLOCH
> *FPA*

Financial planners expect revenue from pure fee-for-service models to increase to almost a quarter of their total revenue over the next three years, according to the latest Investment Trends report.

The strongest anticipated growth in fee-for-service was among those planners who currently had less than $10 million in funds under administration, the study found.

These planners expected the fixed and hourly rate revenue to increase from 14 per cent of total revenue in 2007 to 29 per cent in 2010, Investment Trends senior analyst Andrew Knox said.

Eleven per cent of planners now derived a majority of their revenue from pure fee-for-service models, the report found.

"These planners spend more time discussing planning for financial and lifestyle goals and less time discussing insurance needs. They also have far more autonomy than other types of planners in selection of platforms and planning software," Knox said.

Independent planners derived twice the proportion of revenue from pure fee-for-service in 2007 compared to bank-based planners, the findings revealed.

However, bank-based planners expected the gap to narrow significantly over the next three years, Knox said.

"The really interesting thing with the bank branch networks is that although pure fee-for-service now is 10 per cent, they expect that to increase to 22 per cent in 2010 and that's a really big increase and also a very good sign for the industry."

It seems fee-for-service has resonated with those new to the industry.

"Planners that have less than 10 years' experience seem to be driving the trend towards more fee-for-service revenue than planners that have over 10 years' experience," Knox said.

Financial advisers in the business for a much longer time still had quite a big book of business based on commission and trail, FPA chief executive Jo-Anne Bloch said.

"So clearly they're going to be less likely to want to move away from that, but then you've got the newer planners coming in who are more inclined to buy straight into a fee-for-service model," Bloch said.

"It doesn't surprise me that they are seeing that the future is a fee-based future and they see that as a model that they want to sign up to."

Asset-based fee-for-service structures were also gaining momentum among planners, with the proportion of revenue generated from this fee type increasing from 16 per cent in 2006 to 19 per cent in 2007, the findings revealed.

"This is quite a big increase and it's projected to increase further to 21 per cent by 2010, so these are really good signs for the industry," Knox said.

Financial planners expect revenue derived from up-front and trail commissions to also fall significantly across most investment platforms over the next three years.

"In 2006, 38 per cent of the planners' revenue was derived from trailing commission and that's expected to reduce to 34 per cent by 2010," Knox said.

"The big decrease is the up-front commissions and that's expected to decrease from where it is currently at 30 per cent down to 22 per cent in 2010."

Industry superannuation funds have been advocating the need for wider adoption of fee-for-service models for quite some time.

Any move towards greater uptake of fee-for-service advice would be welcomed by consumers, Industry Super Network executive manager David Whiteley said.

"Eight in 10 consumers according to a Newspoll in May believe commissions compromise financial advice," Whiteley said.

"The Investment Trends report rightly identifies the difference between fee-for-service, which is essentially a time-based fee, and asset-based fees, which in fact are little more than re-branded sales commissions."

The Planner Business Model Trends Report, based on a study of 1179 financial planners, was conducted in November 2007. ❇

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