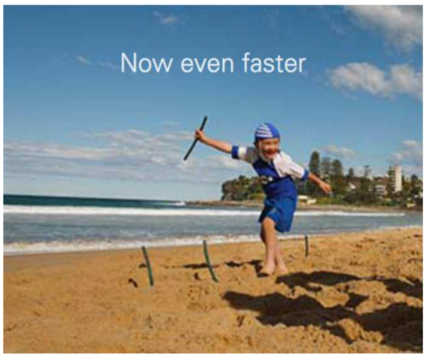
# Financial planners increasingly using fee-for-service models

18 June 2009 | by Amal Awad

As industry associations take steps to phase out commission-based models, recent findings show financial planners have increasingly turned to fee-for-service remuneration models over the last three years.

According to data from the Investment Trends 2008 Planner Business Model Report, both asset-based and fixed fee-for-service models already comprised 39 per cent of advisers' revenue last year, with commissions experiencing a decline.




"Since these figures reflect total revenue across both new and existing business, this means the proportion of new inflows being written under a fee-for-service arrangement is higher again," said Mark Johnston, principal, **Investment Trends**.

According to the report, asset based fee-for-service grew from 16 per cent in 2006 to 23 per cent by 2008, while fixed or hourly rate fee-for-service rose from 15 per cent to 16 per cent. However, upfront commissions fell from 32 per cent in 2006 to 26 per cent by 2008, while trailing commissions experienced a smaller drop of 1 per cent to 35 per cent.

Johnston said planners receiving a higher proportion of revenue from fee-for-service models "often had similar characteristics", advising on a much wider range of investments.

"They are more likely to advise their clients on direct shares, gearing within super, listed investment companies, managed accounts and exchange traded funds for example," he said.

Johnston said planners last year felt fee-for-service models would continue to grow as a share of revenue.

"At the end of 2008, planners expected revenue from fee-for-service models to rise to 47 per cent of their total revenue by 2011."

The report also found that independent planners received higher revenue for fee-for-service models than aligned dealer groups and bank-based planners. However, Johnston said bank-based planners "expect the gap to narrow through faster growth of fee-for-service arrangements over the next three years".

The Investment Trends report, based on a survey of 1,380 financial planners, was conducted in October last year.

The findings follow recent announcements by the **Financial Planning Association** and the **Investment and Financial Services Association**that they would phase out existing commission-based arrangements.

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