Planner remuneration: Becoming accountable

2 November 2009 | by Mike Taylor

It appears that while the Ripoll Inquiry mulls over the evidence and the various industry organisations debate the pros and cons, most financial planners have already made up their minds – they can and will change the way they are remunerated.
The latest research from Wealth Insights and **Investment Trends** has served to reinforce the degree to which financial planners understand their clients, their industry and their willingness to embrace change when it becomes obvious and necessary.

What the research from Wealth Insights and Investment Trends has revealed is that market forces have already squeezed planner incomes in a fashion that has prompted them to examine the justification and sustainability of the underlying structures.

Planners who provide advice to the trustees of self-managed superannuation funds (SMSFs) will no doubt have been disturbed by the findings of the Investment Trends research suggesting that, while their fee levels declined in the order of 22 per cent, accountants providing not dissimilar services to SMSFs saw their fee levels increase by 17 per cent.

The difference, of course, is that the accountants' revenue was derived from a fee-for-service model, while many planners were reliant on an asset-based fee model – a formula with a much larger downside during periods of market adversity.

As the Investment Trends research made clear, financial planners not only recognised the flaws in their existing asset-based fee model, but were also ready to implement change based on their recent experiences and the high likelihood of legislative or regulatory change on the part of the Government.

The point is, therefore, that contrary to the assertions of the numerous critics, financial planners have not needed to be forced to leave a commissions-based revenue gravy train. Rather, they have recognised the shortcomings of the commission regime, and have opted to make changes on their own terms.

That many planners might not have reached this point of change in the absence of the pressure applied by the critics will probably have to remain a moot point. The extreme forces generated by the global financial crisis, not least the changes wrought on client attitudes, must also be counted as a significant factor.

The debate surrounding fee-for-service versus commissions is more than half a decade old, and the Ripoll Inquiry represents just the latest chapter.

For most of the past eight years, investors and clients appeared little moved by the fees versus commission debate. Clearly, it takes a global financial crisis and a consequent plunge in investment returns to get clients thinking not just about fees but the value for money they receive from their planners.

The market has moved and planners are clearly moving with it.

– *Mike Taylor*

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