

Asset-based fees the preferred alternative

27 April 2010 | by Mike Taylor

Financial planners would likely seek to move to asset-based fee structures in the wake of the Federal Government's announced intention to [abolish commission-based remuneration](#), according to new research released by [Investment Trends](#).

Investment Trends principal Mark Johnston said his company's 2009 Planner Business Model Report, conducted late last year, had identified asset-based fee-for-service as being the fastest growing area over the last few years.



"The proportion of planner revenue coming from fixed rate or hourly rate arrangements has only crept upwards since 2006 while the proportion from asset-based fee-for-service models has risen by more than 60 per cent over this time," Johnston said.

He said definitions and terminology had also changed in circumstances where five years ago the trailing commissions could be described as an asset-based fee while the consensus now had moved to using this term to describe a fixed percentage fee that is independent of individual investments recommended so as not to influence product selection.



Johnston said the use of asset-based fee-for-service was skewed towards planners with high funds under advice (FUA), with planners with an FUA of more than \$

40 million deriving an average of 35 per cent of their revenue from asset-based fee-for-service charging, compared to an average of 17 per cent among planners with FUA of less than \$10 million.

He suggested this indicated that the banning of commissions would have a relatively larger impact on new planners, who usually derived a much higher proportion of their revenue from commissions during their early years while their client base was being built.

Johnston said the research had also indicated that the Government's announcement would not have come as a great surprise to planners with the survey suggesting that most respondents had an overall sense that upfront commissions and trailing commissions would become a much smaller part of their revenue mix in the future.

"But advisers and licensees may now have to adjust their timelines," he said.

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