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Commission ban 'likely to disadvantage new planners'

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A 2009 survey of financial planning remuneration trends shows that new planners are more likely to be disadvantaged by a ban on commission-based fee structures.

Specialist market researcher Investment Trends' 2009 Planner Business Model Report, which was publicly released late last month, collates data from surveys of 4000 advisers over the past five years, with the latest survey conducted in September last year.

It says Australian financial planners derived 56% of their revenue from upfront and trailing commissions, although the proportion of revenue derived from asset-based fee-for-service models had risen by more than 60% since 2006.

The report defines an "asset-based fee for service" as a fixed percentage fee that is independent of the individual investments recommended so it does not influence product selection.

However, the adoption of an asset-based fee-for-service model to replace commissions appears skewed towards planners with high funds under administration.

The 2009 survey results show that planners with more than \$40 million in funds under administration derived an average of 35% of their revenue from asset-based fee-for-service charging, compared with just 17% among planners with less than \$10 million under administration.

"Banning commissions will have a relatively larger impact on new planners, who usually derive a much higher proportion of their revenue from commissions in the early years while their client base is being built," Investment Trends Principal Mark Johnston said.

Looking at individual dealer groups, he says while results vary widely there is a clear trend showing that bank branch networks currently rely most on commissions while independent boutiques rely on them the least. Aligned dealer groups are usually in the middle.

The survey also showed that well before the Federal Government's plan to ban commissions was announced, the financial services industry was predicting that 62% of revenue would be derived from fee-for-service arrangements by 2012.

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