

# Co-operative approach taken on fees

PUBLISHED: 10 Nov 2010 12:01:00 PRINT EDITION: 10 Nov 2010

---

## Mark Lawson

As the financial planning industry grapples with the realities of switching from taking commissions to charging fees for services, those in the industry have firm ideas about which pricing model they will use. It will be whatever the client and the planner decide is fair, provided that it is not a commission and clients know in advance what they will be paying for the advice.

Beyond that, there are no details.

The *AFR* asked several adviser groups what pricing models they intended to use after the looming shake-up of the industry in which commission sales will be abandoned (with the exception of life insurance policies), and received very similar replies from all groups.

They all say it depends on what the planners and the clients agree between themselves. Although various business models are possible within the new rules, none of the groups contacted will publicly commit to a particular model.

The government has declared that the financial planning industry has until June 30, 2012 to abandon commissions and start charging fees. Clients must be informed about those fees upfront, in writing. The new rules will also require planners to put clients' interests first.

But these rules have not yet been put into legislation and nothing has been said about how planners should charge the fees. Various models suggested include an annual retainer, flat fees, hourly fees or a percentage of the assets under management, with the most commonly cited figure being 0.6 to 0.9 per cent of assets a year.

The major planning groups are not declaring themselves for or against any particular model. They also say that it is up to the planner and the clients to work out how the planners will get their money – that is, whether the fee will be taken out of the money to be managed, or paid separately. Individual advisers require clients to pay separately.

Financial Planning Association chief Mark Rantall says he does not believe the new rules will make much difference, except that planners must ensure clients know what they are being charged upfront – the fee must be transparent, and it cannot be in the form of a commission on a financial product.

Beyond that, planners and clients can agree on what they want to do, with one possibility being that the fee is simply deducted from whatever money is handed over for management, Rantall says.

One group that doing something different is AMP, which in August opened a street-front financial planning centre in the major Sydney satellite area of Parramatta.

AMP's director, financial planning, advice & services, Steve Helmich, says the organisation "recognised early" that the industry will be switching to fees and is testing the retail centre model.

As for the fees to be charged, they are a matter for clients and planners to address when the business relationship starts.

Helmich says there may be "several different business models" depending on what the client wants done. Costs will differ depending on whether the client wants, say, several superannuation accounts consolidated, general financial advice or a full financial plan.

There may also be offerings akin to frequent-flyer plans where repeat or frequent customers get better service or prices, he says.

AMP material notes that the first consultation will be free.

MLC Financial Planning has adopted a similar strategy, by opening a National Australia Bank and MLC advice centre in Richmond, Melbourne, which also operates as fee-for-service.

Both groups have previously indicated they will open more shop-fronts, depending on demand.

Another group with flexible fee structures but which puts the main variations in writing is Financial Services Partners, an advisory group owned by ING Australia.

## The new regime

---

- Fees must be transparent and clients' interests must be put first under the new rules.
- Planners and their clients will discuss between themselves what pricing model will be used.
- The new rules have not yet been put into legislation and nothing has been said about how planners should charge fees.

The models listed in an FSP release include:

- \* Issues-based pricing, where the client pays only for specific services at an hourly rate for the adviser and for support time.
- \* Package pricing, which involves packaged services prices at the value they represent to a client, valued upfront.
- \* Stages of advice pricing, where prices are set for each stage of the planning process, including initial meeting and advice, production of a plan, implementation and ongoing maintenance.
- \* Complexity pricing, with a set price to deal with basic, advanced and complex advice.
- \* Pick 'n' flick pricing, where a menu of services is listed, priced on a cost-plus basis and clients choose.

FSP material notes that a client-directed fee is “determined by the relationship between the adviser and the client”. This fee relates to the service provided “and is not governed by the adviser’s product manufacturing relationship”.

FSP has also run workshops for its planners and others in the industry to prepare them for fees.

One group to assess the likely direction of fees is consultancy Investment Trends, which declares that planners expect to charge more for advice, but that the average Australian adult believes financial advice should cost just \$300 upfront – a fraction of the break-even cost for most planning firms.

From surveys of consumers and financial planners, Investment Trends has found 61 per cent of planners expect to charge more for advice under the Future of Financial Advice (FoFA) reforms.

Investment Trends analyst Recep Peker says: “Our research found that the break-even cost of providing full advice is \$2700 for the typical client. The FoFA reforms pose a challenge to planners who are already struggling to align clients’ cost expectations to their cost of doing business.”

The Investment Trends survey also shows planners will increase upfront fees and focus on higher-balance customers.

From the same surveys, advisers know that consumers think a \$300 fee upfront plus \$300 for subsequent visits is fair, although the cost of maintaining a client file, including periodic reviews, is \$1400.

“At a time when planners are increasingly moving to a fee-for-service model, our survey shows a striking disconnect between the expectations of planners and their clients,” Peker says.

“It also suggests that many investors will be unaware of the true cost of advice under existing asset-based fee models.”

The Australian Financial Review

## Related News

Topics [Financial Markets](#), [Financial Services Industry](#), [Personal Investment](#)



## Create an alert

Click on the links below to create an alert and receive the latest news as it happens

Topics [Financial Markets](#), [Financial Services Industry](#), [Personal Investment](#)