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News

PLANNERS LOOK TO HIGH-NET-WORTH SEGMENT

By [Caroline Munro](#) on 3 February 2011 [7 comments](#)

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Many financial planners are progressively making changes to their business models as they shift towards the high-net-worth (HNW) client segment, according to [Investment Trends](#) research.

The annual Planner Business Model survey of 1,600 financial planners, conducted in October 2010, revealed how planners intended to change their businesses in the wake of regulatory reform.

Investment Trends director Mark Johnson said that while planners have been gradually moving to asset-based fee-for-service for some years now, and the Government announcement of the proposed ban on commissions had sped up that trend, an unexpected outcome of the research was the increasing interest in fixed price fees.



"Planners said that asset-based fees would still be a big component but they are now also saying that fixed price fees would start to become more important," he said.

Johnson said that in 2010, 24 per cent of revenue on average was coming from upfront commissions, 31 per cent from trail commission, 22 per cent from asset-based fees, 14 per cent from fixed pricing and 4 per cent from hourly rates, with the rest coming from volume rebates from dealer groups and the like.

"But when we asked the planners what they think the world will look like in 2013, they estimated that the proportion coming from upfront commissions will be down to 19 per cent, trail down to 20 per cent, and asset-based at 23 per cent," he said. "But fixed price fees they expect would be more like 26 per cent."

Investment Trends analyst Recep Peker stated that the survey also revealed what kind of client advisers expected to service in the future. Some 62 per cent stated they would not be able to support as many lower-balance clients, while 20 per cent stated that they intended to service only a small group of HNW clients, he said.

The research revealed that advisers increasingly intended to offload C and D clients and charge more for the advice they provided.

Johnson said those advisers with higher average funds under advice tended to offer a wider range of services, in particular direct shares, self-managed super funds, exchange-traded accounts and managed funds services. Johnson said that if advisers were to justify the higher fees they charged, particularly fixed fees, they would need to provide a broader range of services to demonstrate the value they provided.

Johnson said that the research was more about advisers' intentions rather than actions, and most were avoiding taking on more low balance clients while others were considering selling that part of their client book. However, Peker noted that the average number of active clients per adviser had come down, with the average adviser servicing 157 clients (down from 175).

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Here we go. Currently wealthier people subsidise the less well off in the percentage of FUM model. It all kind of evened out in the wash and advisers could afford to give advice to people who couldn't pay any other way. These same people are now going to get none. These same people were never the ones complaining and asking for fee for service. Nice one.

Sydney adviser | 3 February 2011 at 11:32

These industry funds dont have the clients interests at heart. They dont offer a personal financial service to their customers and their administration generally is shoddy. How can they dare criticise the cost of planning services? I for one pulled my clients out of equities before the GFC hit. Would my clients have got this service from Industry funds

Chris | 3 February 2011 at 14:55

In some ways we are our own worst enemy when it comes to this fee/commission debate. It matters little to clients whether we badge it commission, brokerage, direct fees, or ASF. A rose by any other name is still a rose. The ONLY issue should be that whatever our business model, it be explained fully to the client. In terms of the client 'opt-in' fee model, this does not worry me personally, so long as the adviser can make any agreed fee formula stick legally. Ie: if we explain to a client that an ongoing ASF is part of the deal in lieu of say a larger (unaffordable) Upfront Fee then this should be akin to a legally binding commercial contract. If commissions are per se a dirty word, then why not ban them in all forms. No commissions for selling Real Estate. Cars, and even Avon.

Brian Handley | 3 February 2011 at 16:25

Chris. 'I for one pulled my clients out of equities before the GFC hit'. 1. I don't believe you. 2. If you are telling the truth then you are treating your client's portfolios like a hedge fund rather than strategically in line with their goals and objectives (i.e. you are obviously not a proponent of modern portfolio theory, rather you are a speculator). 3. Why didn't you tell everyone else the GFC was coming if you knew about it? 4. Why didn't you personally short the heck out of every stock you could get your hands on, and then retire? You could then go on Oprah and tell the world how good you are. Give us a break fella.

Whatevs | 3 February 2011 at 16:45

I think the real problem is not HOW planners are paid, but that they expect to be paid 40 times for the same service. A bloke spends an hour instructing me about the benefits of increasing my non-concessional contributions, fine - I'll pay him well. Better than what I paid the doctor who cut off a pre-cancerous lesion and sent it to be lab, saving me from a melanoma. But the doctor, one I pay his bill, doesn't want a trail commission or AUM-based fee for 40 years. It seems the planner thinks he's entitled to \$20k p.a. and increasing every time I implement that advice though.

Andrew | 4 February 2011 at 7:52

Don't you think the heading is a little mis leading ! Planners look to high-net-worth segment , wonder how they got this from the information in the article? Also wonder what the definition of high net wealth is ! I think I have a different idea of HNW to the researchers ! There isn't that many to go around and most have advisers !

Ian | 4 February 2011 at 8:19

"I agree Andrew, I have always argued that paying someone \$1,000pa (normally higher) to have 1 or meeting every year, a statement which says..."

Dae on [Planners look to high-net-worth segment](#)

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"Noah, so the solution you think is industry funds offering advice on an unfair playing field, where the advice is based on getting money..."

Jason M on [Club Plus Super comes around to planners](#)

"Well is this an argument for rebates ! If the dealer groups provide service support and so on for the advisers and this is of value , then..."

IAn on [Licensee payments: backing advice](#)

"Don't you think the heading is a little mis leading ! Planners look to high-net-worth segment , wonder how they got this from the..."

Ian on [Planners look to high-net-worth segment](#)

I agree Andrew, I have always argued that paying someone \$1,000pa (normally higher) to have 1 or meeting every year, a statement which says I have a adviser, maybe a Christmas card, a phone call or two is too much. And in a review if there are no significant changes there's nothing to do. Most funds these days automatically rebalance portfolio's which is what a review is mainly for. I really don't know how that's justifiable. Using compliance and regulation costs is NOT an excuse, as this should be second nature to a planner. Super switching, ROA's or even if you have to rebalance is not time consuming. Sure pay for someone to look after you throughout the year, but a fixed percentage of your funds, is not the answer. If I have \$10,000 invested or \$200,000 invested it still take's the same amount of time yet the difference in fee's is massive.

Dae | 4 February 2011 at 10:41

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