

CHARGING AN APPROPRIATE FEE



Steve Billingham
Managing Director

Tel 020 7431 3663
Mobile 07802 611 643
Email steve@fpadvance.com
www.fpadvance.com

Having established your charges for upfront advice, what is it appropriate to charge for the implementation of that advice and the regular ongoing review service? Well, let's start by contrasting the 'old' and 'new' models.

The current transactional model relies on a sale to generate initial – usually indemnified – commission. In theory, this pays for the adviser's time and input – and that of the staff involved in the process – through both the initial advice and implementation stages.

Consequently, these commissions can often look disproportionate because, in the old model, the client isn't helped to understand where the value is added and relates the commission received to the filling in of a few forms. Upfront commissions can also create a perception of product and provider bias.

In new-model businesses, because the value-added at the plan stage has been paid for, the implementation charge can be more modest – and, from the client's perspective, more aligned with the time and effort involved. Typically this might be somewhere between 1% and 3% of the assets invested on behalf of the client.

If you are uncomfortable charging too high a fee at the initial advice stage, then closer to 3% will help to ensure the work you do remains profitable. Over time, as your confidence grows, you can re-balance the relativity of the advice and implementation charges to more accurately reflect where most value is added.

Over the last few years most advisers have started to take an element of fund-based renewal commission – typically 0.5% of assets. More recently, as advisers have started to recognise the importance and value of a comprehensive regular review service, and package this up into a compelling client proposition, we are seeing many more advisers using 1% of assets under management as an ongoing charge for their review service.

This gives the benefit of effectively leveraging the value of the assets under management, doubling the level of recurring revenue and creating significantly increased embedded/sale value in the business.

Market falls have also seen some advisers introduce retainer fees (with a corresponding reduction in assets under management fees) to protect themselves from significant market downturns in future. According to a report from J P Morgan, the high net worth client sector seems to favour performance-related fees, which is probably not surprising in volatile market conditions. Time will tell if this approach achieves traction over the next year or two.

Here is an example of how a charging structure could look built around the end to delivery of advice to clients:

- **Plan/strategy fee:** a flat fee of, say, £1,000, which is possibly variable depending upon client complexity, and including a possibly offset against any commission received if the client proceeds with implementation.
- **Implementation fee:** 1% to 3% of assets invested. If preferred, this can be taken as commission –while it lasts.
- **Review fee:** an asset-based fee, which is paid by an investment manager or platform as fund-based renewal commission and is typically 0.5% to 1% of assets under management.

Steve Billingham is managing director of FP Advance, which provides specialist consulting and business coaching to financial advisers across the UK. If you would like further information regarding these services or to receive free access to one of the company's Online Transition Toolkit Modules, please visit www.fpadvance.com or email enquiries@fpadvance.com