MoneyMarketing

Follow the trail...

22 September 2009

Tracey Scott
Earlier this month a number of life offices revealed they are looking at menu-based protection products.

Advisers are now questioning whether or not providers should be offering them some other insurance alternatives.

CBK principal Peter Chadborn is calling for more remuneration options to avoid providers clawing back commission fees.

Chadborn says large upfront fees are outdated and potentially crippling if providers claw back. Instead he says IFAs should opt for trail commission or life offices should create a third remuneration option.

He says: “The rest of the industry in terms of wealth management and investment is about avoiding upfront commissions, providing an ongoing service and getting recurring income. But, it just seems that protection is so far behind.

“I would like to see more providers or life offices moving away from big upfront fees and offering a more regular income stream.”

CBK moved away from large commission fees three years ago preferring non-indemnity payments instead. While Chadborn recognises that the financial pain of moving from indemnity to non-indemnity is too much for many IFAs business models to bear, he asks: “It doesn’t have to be either or, can there not be a third way?”

Cirencester Friendly currently allows advisers to take their commission payment as they please. Friends Provident also offers the option of a 50/50 split, half upfront and the remaining half drip-fed.

Highclere Financial Services partner Alan Lakey says: “In an ideal world there would not be any need for indemnity commission, which is effectively a loan by the insurer against the security of the plan remaining live for a given period. The reality is that many advisers are dependent upon it and have to gradually wean themselves off.”

Bright Grey managing director Roger Edwards says there are other options yet to be explored but for some firms their business model does not suit a non-indemnity model.

He says: “It may be those advisers looking at transactional business who may want to consider an alternative remuneration model and the possibility on that would be a procuration fee in the same way a mortgage provider would pay a fee.”

Direct Life and Pensions Lifequote key accounts manager Phil Jeynes says a sensible strategy is to provide and set aside some commission to cover potential clawbacks.

He says: “The best IFAs will also be in constant contact with their clients to ensure policies aren't cancelled without their knowledge and input.”

He adds: “Trail commission remains an option popular with some and I see no reason why advisers shouldn't use whichever remuneration method best suits them.”

Let me know your thoughts by clicking on the comments box below

Readers' comments (3)

- Michael Cooke | 22 Sep 2009 5:14 pm

  Another Alternative
  Some insurers will consider level commission, this means you get a % of the premium roughly one third for the lifetime of the plan.

  This is a much better option then both indemnity and non- indemnity and various splits. It encourages longevity to the plan and builds a very lucrative embedded value.

  The reason it cannot work for most is the cost to aquire the client in the first place, the cost for us and i'm sure many others to aquire a life client is about £200 therefore the cost to fund this proposed idea is in most cases not possible.

- Jack Morris | 22 Sep 2009 5:43 pm

  INDEMNITY OR NOT TO BE?
  It should be left at the discretion of the broker. It works well enough and has done for some years now. If something goes 'off the books' you just put more business on to cover it. You should also carry some spare cash as a contingency plan. With the best will in the world, you will have some'offs', with proper management you can get by as you are.

- Roger Smith | 23 Sep 2009 12:53 pm

  The way forward
  We have recently implemented a new Admin Platform called ALIS (by FIS-Software). This platform among many other features, allow us to offer a fully flexible commission choice to our IFAs. We think that in the current economic reality flexibility is key to allow IFAs properly plan their ins and outs.
