Citywire

Advisory fees: how to charge for protection

by **Rob Griffin** on Mar 31, 2010 at 12:00

Fee-based advisers have several options when it comes to protection business but choosing which route to take should be based on the needs of the particular practice and the individual client.

Discussing charges with clients can be a tricky task for some advisory firms, but it is becoming even more of a challenge for those that offer protection policies alongside general financial planning services.

The most pressing task is explaining to confused clients how they can have a full fee-paying structure for everything apart from the sale of protection, which differs due to the lack of commission-free policies available in the market.

Split the business

Linton Penman, head of retail sales and marketing at Unum, has even suggested that firms may have to tackle this problem by effectively running two businesses: one to deal with protection and the other with general advice and investments.

It is an idea that has already been proven to work well. Broker LifeSearch is the sister company of Baigrie Davies, for example, and is well-placed to take on all the protection business that the advisers can put its way.

According to Amanda Davidson (pictured), director of Baigrie Davies, it is a valuable arrangement that works extremely well, particularly as LifeSearch has the required systems and relationships in place with underwriters.

‘Everything else apart from protection is entirely fee-based,’ she says. ‘Therefore there is a clear divide between the pure fee-based financial planning and the arrangement of the protection contract which is done mainly on a commission basis.’

Peter Chadborn, co-founder of CBK in Colchester (below), says the regulatory authorities are arguably pushing firms down this route, having realised that fee charging will not work in the vast majority of protection cases.

'It is widely accepted that in all but a few circumstances charging fees for protection does not work,' he says. 'Almost without exception commission is the structure that can be applied to protection-related work.'

A fee-based approach

However, Leeds-based IFA Yvonne Goodwin (below) takes a different approach. She believes fee-based arrangements are more sensible because of the uncertainties that go hand-in-hand with discussing people's medical conditions, and dealing with underwriters.

'Where protection is concerned it has to be on the clock because you never know how long something will take to sort out,' she explains. 'As well as giving a client the advice, you have also got to deal with the application once it has been submitted.'

She gives clients a rough idea of how long it will take. 'This way of working benefits us because we can keep a check on which clients are profitable and gives us early warning signs if we are spending too much time on a particular issue,' she adds. 'It would not be sensible to set up another business just for protection cover because we do very little of it.'

Among those charging fees there can still be a wide variety in the way they charge that fee.

Some firms base it on an hourly rate, while others have set fixed fees for different services.

Which way to go?

So how do advisers know which route to choose?

There is no right or wrong way, according to Davidson. 'Every IFA business needs to think about their clients when they are deciding which fee structure is most appropriate. For example, if they are pure planners then it might be best to charge either a flat fee for certain types of work or maybe even an hourly rate.'

As well as being fair to potential customers it also needs to make sense from the owner's perspective. 'They need to ensure the business model is going to be profitable because if it does not make money then it will not be viable,' she adds.

Caution on compulsory fees

Colin Last, director of Tamar IFA (below), says that clients need to be given a choice over how they are charged for protection, and argues that forcing the masses to pay for advice means they could end up turning their backs on life cover completely.

'The right way forward for us is to tell them that we can set these things up in one of two ways: charting a fee or getting paid a commission,' he explains. 'It is then up to the client. If they believe the premium is sufficiently reduced by paying a fee and have got the wherewithal to go down that route, then that is fine.'

Last believes that when discussing charging with clients, it is crucial to avoid using the word 'free' as it can have negative connotations.

'As soon as you say something is free people will presume it is not any good so we prefer phrases such as "at our expense',' he explains. 'We have also tried to remove the word "commission" from our vocabulary, and talk about fees or remuneration.'

It needs to be very clear from the start that not only will fees be involved but how much will be taken. 'If you are talking about fees do not look away or cover your mouth – look them in the eyes,' he adds. 'This is what you charge so be clear.'

Tamar has a number of fee-paying options. 'There is the fixed fee, the hourly rate, a percentage of assets for investments, or even a combination of all three,' he says. 'We are small enough to be that flexible.'

Providers need to adapt

Where advisers are using a pure commission charging structure for protection advice, there is a demand for changes from the product providers that would give advisers more freedom to determine how they take that payment.

Chadborn says he is keen to see an overhaul of the existing remuneration structures.

'Protection is currently lagging badly behind the rest of the financial services industry in terms of remuneration options,' he says. 'Increasingly, advisers are going to want more than a straight choice between full indemnity and non-indemnity which is particularly problematic for those without any other sources of income.'

Chadborn would like to see more companies following the lead of Cirencester and Friends Provident. 'Cirencester effectively asks how we would like to take our pot of commission so if I had £1,000 coming I could opt to take £500 upfront and then £500 spread over a longer period which would provide me with a better business model.'

This would also mean that advisory firms would enjoy greater flexibility. 'I would like to see advisers have the option of adapting the remuneration to reflect their business models and the services they had agreed with their clients,' he adds.

Regular dialogue with clients will help advisers arrive at the best protection charging structure, according to Goodwin. 'We review our pricing structure every year,' she says. 'We are very open and transparent in terms of how we run the business but this will be on the agenda at every annual meeting.'

Embracing the internet

She adds that advisers are likely to have their protection sales challenged by the internet.

'A lot of clients will end up going via the internet rather than paying fees through an adviser,' she says. 'My view is we should embrace it as the web has, in some respects, taken over from the man down the pub. There are plenty of sites but not all supply good information. The opportunity is there for advisers to use it to provide good advice and direct people where to go for more information.'

Gillian Cardy

Apr 06, 2010 at 17:38

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