

# ADVISER SNAPSHOT

## Advice charges: nobody asked the client

Adviser Snapshot 4 Part 2: Research into adviser firms charging practices and decisions

September 2013

### Introduction

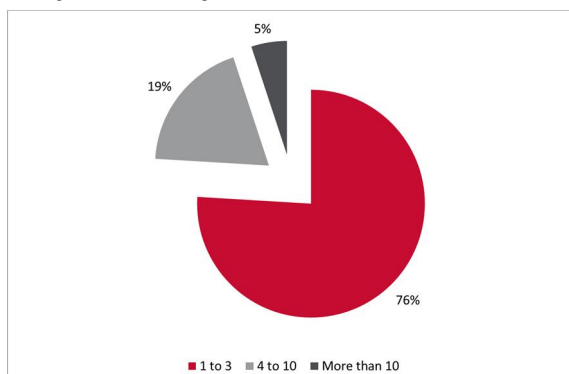
Adviser Snapshot researches the adviser firm market to assess how firms are reacting to the implementation of the RDR and the FCA. This report looks at adviser practices and attitudes to charging for advice and services. Findings about levels of charges are contained in our earlier report: *Is 2.85%+0.82% the new '3 plus a half'?*

### Overview

- Around three quarters of respondents said that their firm is not registered for VAT
- A third of respondents take full commission on protection business in addition to any advice fees charged
- Over half of respondents do not explicitly detail their charges on their websites, and a significant number do not have a website.

### The survey sample

#### Respondents by number of advisers

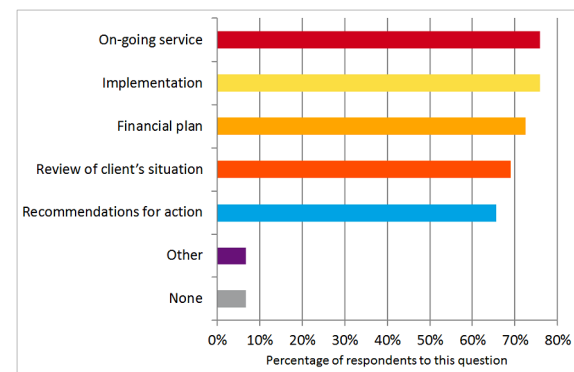


N = 79

The majority (82%) of respondents are directly authorised, 76% are firms with 3 or fewer advisers, and 94% are independent.

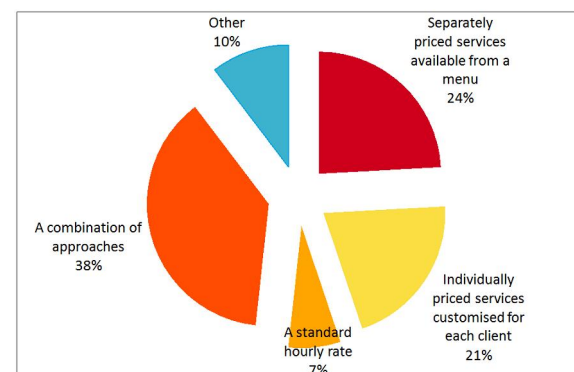
### Charging structures

Of those firms that charge explicit fees for advice and services, the majority charge separate explicit fees for key stages of the advice process, including on-going service. The details are shown in the following chart.



N = 29

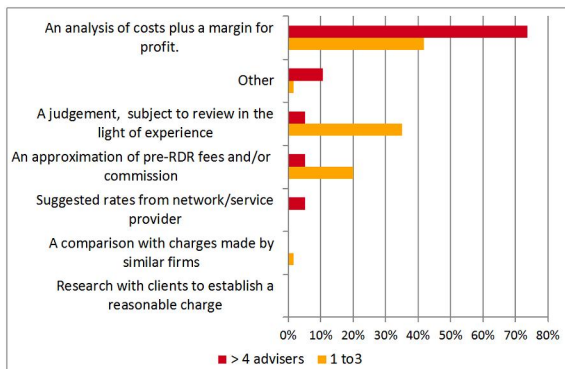
Firms are using a variety of different approaches to charging for services, predominantly using either a menu of services, or customised prices for each client.



N = 29

The survey asked how firms had approached the task of deciding on the level of fees. Over 70% of larger firms assessed their fee-basis by analysing the cost of providing those services and adding a margin for profit. While just over 40% of smaller

firms used the same approach, many such firms also either set their fees to approximate to their pre-RDR basis, or just used their judgement, initially, planning to review fee levels later in the light of experience. The findings are illustrated in the next chart.

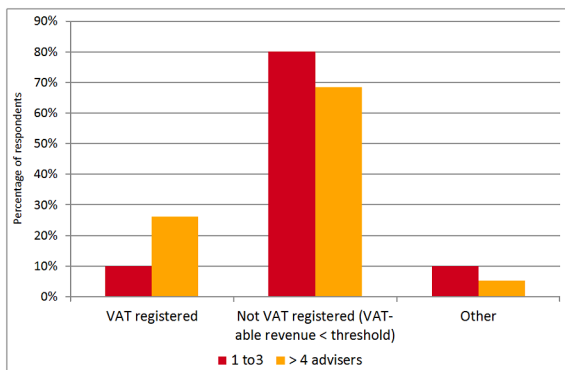


N = 79

From our perspective, it is interesting that none of the firms conducted any research with their clients on what level of charges might be reasonable!

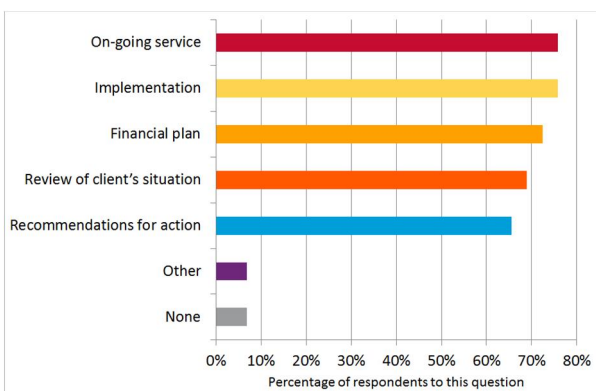
## VAT implications

Given the concern expressed in the run up to RDR about VAT on explicit advice charges, the survey explored firms responses to this. As the next chart shows, 80% of small firms, and nearly 70% of larger firms, are not VAT registered.



N = 79

Scant surprise then, as the next slide shows, that over half the firms surveyed have no concerns about when and whether to charge VAT.



N = 79

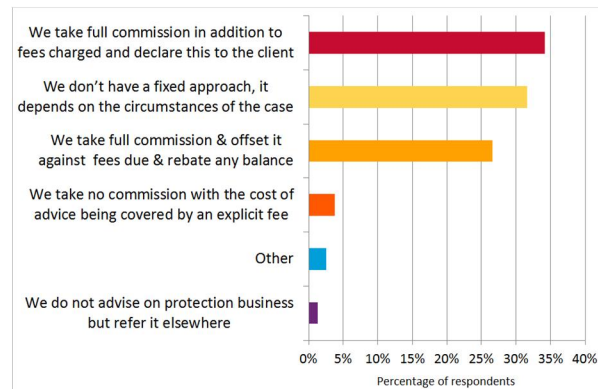
Some misconceptions did emerge however, with one firm maintaining that intermediary firms are not liable for VAT.

There is also clear evidence that the VAT rules are influencing service design, with nearly one fifth of firms structuring their services so as to avoid VAT. This is obviously one extra reason why the contingent fee basis has such a firm following in the market.

Finally it should not be ignored that nearly 1 in 3 firms do have at least some concerns about the application of the VAT rules.

## Protection business

The survey also asked how firms treated protection business where this generates commission. As the next chart shows, fractionally over a third of firms take full commission on protection business even where they are also charging for the relevant advice, declaring this to the client.

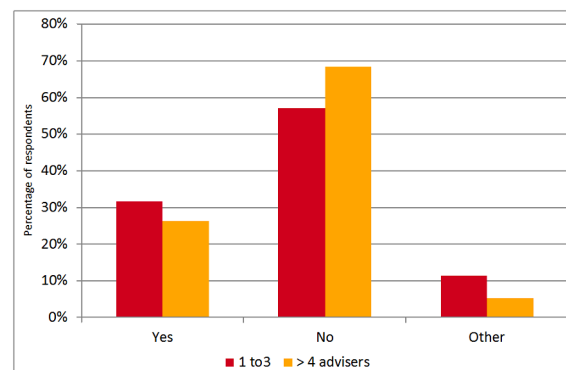


N = 79

This may be an indication of how concerned firms are about the short-term sustainability of a fee-only model.

## Disclosure of charges

The survey did not ask for details about how and when firms disclose their charges, but it did ask firms if they disclose their charges on their website. The results are shown in the next chart.



N = 79

Less than 30% firms do disclose their charges on their website with, interestingly, a slightly higher percentage of smaller firms doing so than of larger firms.

Obviously there is a clear argument that firms may not wish to advertise the cost of their services before they have had an opportunity to promote their value. What is perhaps interesting is that of the firms not disclosing charges on their website, one reason given is that the firm does not have a website. This may well be an indication of how much some firms are focussing exclusively on existing clients and referrals.

## Potential changes in status

Barely 6% of firms are currently considering changing their regulatory status, which seems about normal or possibly on the low side. Whilst a higher percentage of firms are considering moving from AR status to DA, the numbers are too small to be significant.

More significant is the number of firms indicating that they are looking at the costs and benefits of remaining independent, potentially with a view to moving to restricted status.

## Inferences

- **Around three quarters of respondents said that their firm is not registered for VAT and that they have no concerns regarding if and when they need to charge VAT.**

Given the evident confusion amongst advisers and technical staff around if and when to charge VAT, as covered in the media following HMRC announcements and advice from professional bodies, we were surprised that so many firms are confident enough to state that they have no concerns about this.

Whilst it is encouraging that confidence in this area is high, it may also in part be a reflection of the fact that many advisers only charge for advice if and when there is product implementation.

- **A third of respondents indicate that they take full commission on protection business in addition to any fees they have taken for advice.**

This perhaps suggests that, for many, the

costs of running their businesses in the post-RDR world are difficult to cover purely by charging fees and that the commission route appeals more to both adviser and client.

- **Over half of firms responding to the survey indicated that they do not explicitly detail the charges for their services on their websites.**

While we were not surprised that most firms do not disclose charges on their websites, both for competitive reasons and perhaps because disclosing costs without being able to demonstrate value might put potential clients off, we were amazed that as many as 10% declared that they do not even have a website!

- **Over 90% of respondent firms are currently independent with only 6% indicating that this may change in the next 6 months. Only one firm said it operated a model with both independent and restricted advice.**

While few firms are considering change, one of the most commonly cited potential changes was from independent to restricted status, with some firms questioning the value of the additional costs involved in maintaining independence.

It will be interesting to see if and how these numbers change over the next year, especially as over time more firms will be having more direct contact with the FCA who have already expressed concerns about firms describing the status of their services adequately to clients.

## Next steps

Future surveys in the series will consist of:

- Tracker surveys, looking at how the adviser market is evolving.
- More in-depth surveys on specific topics.

**If you would like to participate in future research and find out what other adviser firms are doing, simply email us at:**

[enquiries@actionconsulting.co.uk](mailto:enquiries@actionconsulting.co.uk)

**and ask to be added to our research panel.**

*The Adviser Snapshot 4 research was carried out from 4<sup>th</sup> to 18<sup>th</sup> July 2013, with 79 firms responding. 84% respondents were principals of their firm and 11% were advisers or financial planners.*

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