

ADVISER SNAPSHOT

Is 2.85% + 0.82% the new '3 plus a half'?

Adviser Snapshot 4: Research into adviser firms levels of initial and on-going service charges August 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 fourth report looks at the charges for both initial advice and on-going service.

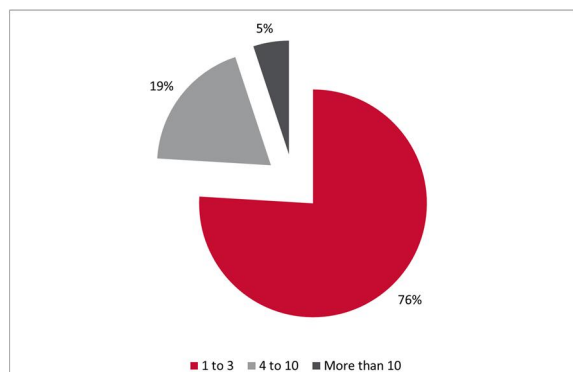
Full analysis of the results is provided to advisers taking part in the research.

Overview

- A significant percentage of firms are still using the 'contingent' model for charging for advice
- Many firms are broadly following the charging model they operated pre-RDR, typically 3% plus 0.5%pa
- Only 20% of advisers charging explicit fees for initial advice charge an hourly rate of more than £200
- No respondent firms operate an 'explicit fee' model (as opposed to charging by assets under advice) for on-going service

The survey sample

Respondents by number of advisers

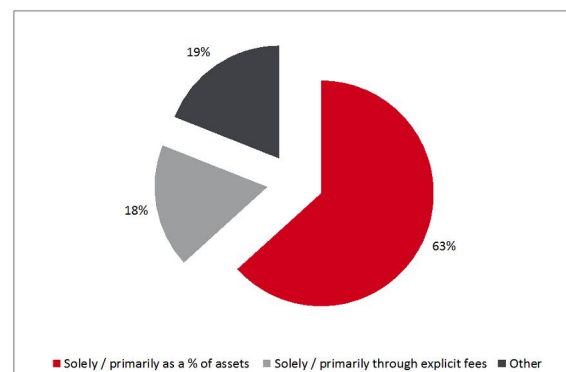


The majority (82%) of respondents are directly authorised, 76% are firms with 3 or fewer advisers, and 94% are independent.

Initial advice charges

Basis of charging

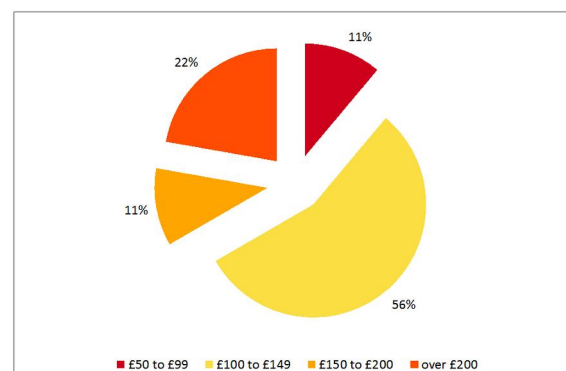
The majority of respondents to the survey are still charging for initial advice solely or primarily using



a percentage of assets under advice. Only 18% use explicit fees as the main charging basis.

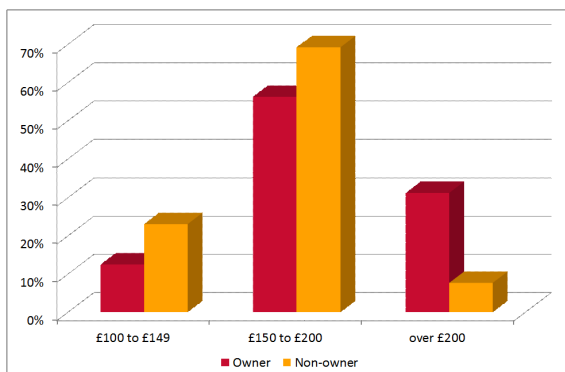
Initial advice by explicit fees

Of those firms charging for initial advice solely or partially by explicit fees, 58% use different hourly charge-out rates reflecting role or level. For the 34% that make no differentiation, the most



commonly applied hourly rate falls in between £100 and £149 per hour.

For those firms that do charge differential rates, rates for adviser time depends on whether the adviser is an owner/manager or not.



Para-planner and administrator fee rates

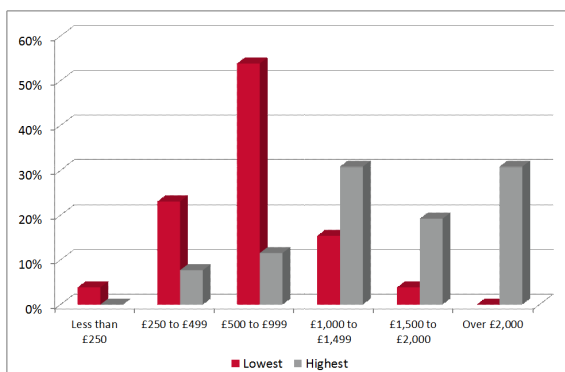
Different patterns emerged in the fee rates for para-planners and administrators.



The majority of firms are charging para-planners out at between £75 and £100 per hour, whereas there is a far greater range for administrators ranging from under £25p.h. to over £100p.h.

Overall fees charged for a financial review

While comparing hourly rates is informative, different firms will apply these differently in doing specific work for clients. So the survey also asked firms to indicate a typical range of charges for certain commonly delivered services.



The chart here illustrates the pattern of lowest and highest charges for a full financial review including recommendations. The lowest charges conform to

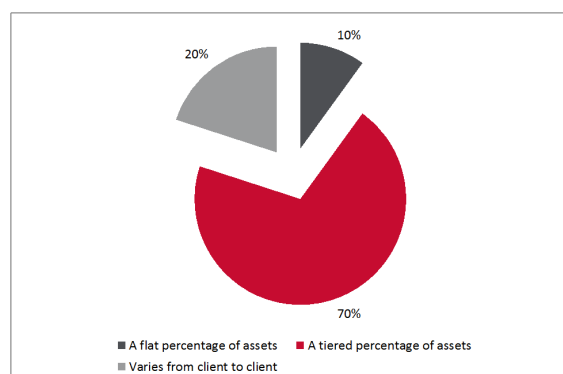
a pattern that might be expected, peaking at somewhere in between £500 and £999 (54% firms), with just over a quarter charging less, and 20% charging more than that.

The highest typical fees showed greater variation peaking both at £1,000 to £1,499, and again at over £2,000. This probably reflects a greater variety of what firms would include in a full financial review.

Similar figures for lifetime financial plans, pension reviews, and investment reviews, can be found in the Statistical Appendix to this report.

Initial advice paid for by percentage of assets

Of those firms that charge via a percentage of assets being advised on, the majority (70%) apply a *tiered* percentage of assets.



Of those firms that charge a *flat* percentage of assets, none charged more than 3%.

Is 2.85% the new 3?

For firms that are using a tiered percentage of assets to calculate the charge, it is more difficult to compare charges. We asked them to provide the effective net % of assets they would charge at a range of different portfolio sizes, and the graph below illustrates the highest, lowest and average percentages for different sizes of portfolio.



There is a wide range of amounts being charged, although the gap between highest and lowest does narrow the larger the portfolio. Significantly, the average percentage charged on £50k is 2.85%, a shade lower than the traditional 3%.

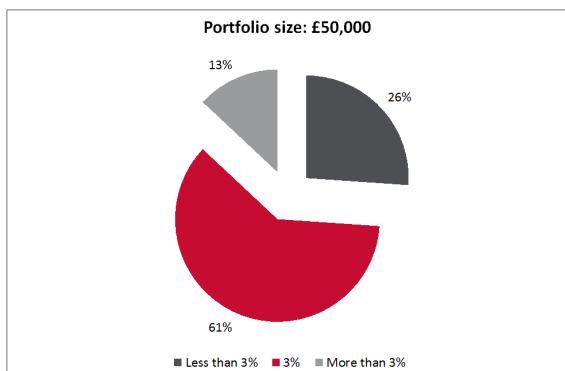
From those figures we can illustrate average cost

of advice, for firms charging as a percentage of assets, and these are shown in the table below.

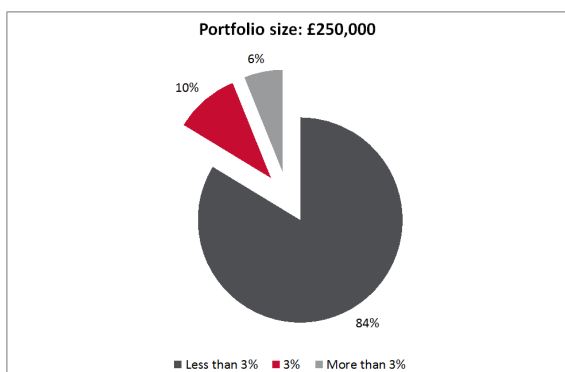
Average advice charge for different sums invested

£50k	£100k	£250k	£500k	£1m
£1,430	£2,360	£4,120	£6,840	£8,890

Of course the average only tells part of the story, and the next charts show the distribution of charges for portfolios of £50k and £250k.

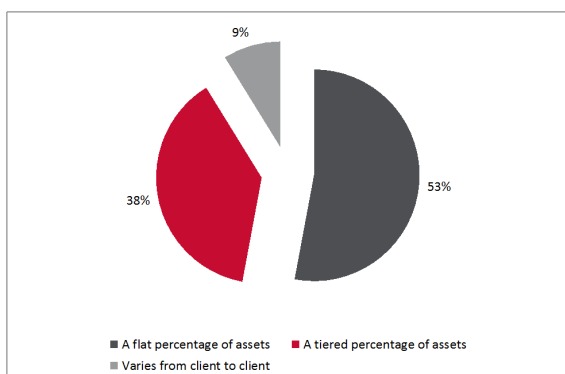


While 61% firms are charging 3% at £50k, only 10% are doing so at £250k. Comparable charts for other portfolio can be found in the Statistical Appendix to this report.



On-going service charges

All firms responding to this survey, including those charging for initial advice by explicit fees, charge for on-going service using a percentage of assets.

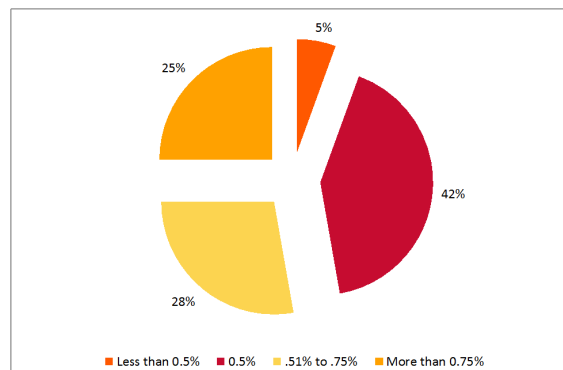


The majority of those (53%) apply a flat percentage of assets, with only 38% mainly using

a tiered percentage. This contrasts significantly with the 70% that charge for initial advice with a tiered scale.

Flat percentage on-going service charges

Of those firms charging a level percentage for on-going service, under a half charge 0.5% or less, with a quarter of firms charging more than 0.75%.



Is 0.82% the new half?

Firms using a tiered percentage approach to on-going service charges were asked to provide the effective service charge for different sums invested, and the graph below illustrates the highest, lowest and average percentages for different sizes of portfolio.



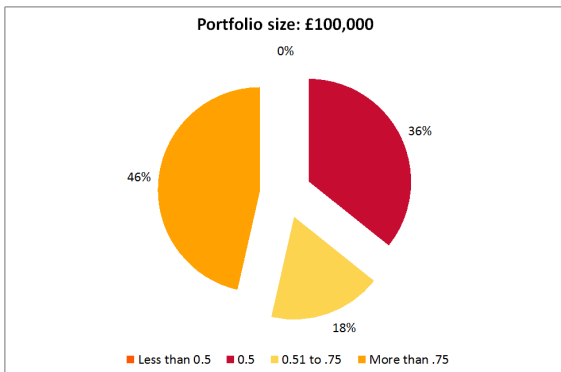
The figures tail-off a lot more gradually than do the comparable figures for initial advice, with the average charge for a portfolio of £100k being 0.82%, falling to 0.54% at £1m. Only above that figure does the average charge fall below 0.5%.

From those figures we can illustrate average costs, shown in the table below, of on-going service for firms charging a percentage of assets.

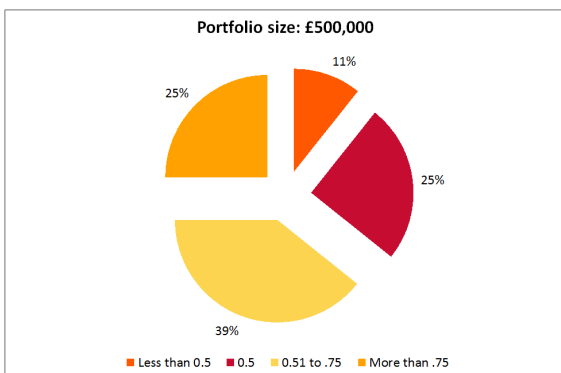
Average annual on-going service charges for different sums invested

£100k	£250k	£500k	£1m	£5m
£820	£1,940	£3,410	£5,450	£20,700

As with charges for initial advice, the averages only tell part of the story, and the following two charts illustrate the distribution of on-going service charges for portfolios of £100k and £500k.



As many as 46% firms charge more than 0.75% on portfolios of £100k, and for funds of £250k nearly two-thirds of firms charge more than 0.5%. Comparable charts for other portfolio sizes can be found in the Statistical Appendix to this report.



Inferences

- **A significant percentage of firms still use the 'contingent' model, and many broadly follow the charging model they operated pre-RDR, typically 3% plus 0.5%pa.**

Regardless of whether a 'contingent' model creates 'dealing bias' as implied by Martin Wheatley, it does raise other issues:

- is it sustainable post-RDR, when clients can get the advice free by self-implementation, or no implementation, and where costs (especially regulatory) are rising inexorably?
 - is it appropriate and fair that clients with larger investments are effectively subsidising those with smaller investments?
 - for on-going service, what is the logic to either client or firm of charging a variable amount for a fixed service that is not related to investment performance?
- **The majority of firms using the 'contingent' model for initial advice tier their charges**

based on the amount invested

The average tiered charge for £100k is 2.40% reducing to 0.89% at £1m. While the reduction may seem reasonable, in cash terms it still means an average charge of £2,400 for £100k and £8,900 for £1m. This may reflect the reality of larger investments having to cross-subsidise the smaller amounts, as much as it does the greater work and/or complexity involved in advising on higher sums.

- **No respondent firms operate an 'explicit fee' model (as opposed to charging by assets under advice) for on-going service**

This was surprising, and may be down to a mix of historical practice and administrative ease.

- **The average percentage charge for on-going service is more than the typical pre-RDR 0.5%, now 0.82% from our survey**

This is an interesting result, perhaps a consequence of the greater need post-RDR to align specified services for an on-going charge, whilst at the same time recognising the client's right to cancel this at any time.

- **In determining the appropriate rate(s) to charge for their services, a significant number of firms indicated they charge amounts broadly in line with the commission they would have received for doing similar work pre-RDR.**

This might indicate that many firms haven't properly analysed/apportioned their costs in light of the changed market and regulatory view but are taking a 'wait and see' approach.

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

and ask to be added to our research panel.

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

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