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To fee or not to fee, that is the question

Is it financial advice? Or financial sales? Does it make a difference if "advisers" are incentivised by commission to steer clients to particular financial products? Should paying fees for advice be the norm?

The war of words over the merits of commissions and fees has been going on for some time, and fee-based advisers seem to be winning. But while increasing numbers of financial planners are charging fees, many mortgage brokers and insurance advisers are convinced the public is not ready for them.

Financial planner Robert Oddy said he was no longer willing to take a purist line and condemn commission-taking rivals as lacking professionalism and impartiality.

"It's my view that the public is becoming aware that these people who are paid by commission might have a vested interest," he said.

"(But) there's still a large portion of the population who are quite happy for commission to be the form of payment."

Others are less compromising. Fee-charging financial adviser Colin Austin of DecisionMakers says the argument that people won't pay fees for good advice is just plain wrong.

Austin said: "Ever since I entered the financial advisory sector, I have had clients paying fees for advice just as they pay their lawyer or accountant fees for their advice. Over that time not one single client has discontinued our relationship on the basis that they were not getting good value for the fees they paid.

"My clients also enjoy the confidence that comes from knowing I am working for them not the investment issuer."

He said an adviser paid through commission, by definition cannot recommend certain very good assets.

"A commission-only advisory business effectively limits their menu to products that pay commissions, and to some degree, potentially prioritising those products that pay more commission than others. I would estimate that... only about half of the assets currently available pay trail commission," said Austin.

These include the best New Zealand share fund (Fisher Funds) as well as UK investment trusts such as RIT Capital Partners, Templeton and Caledonia.

Murray Weatherston, head of the Society of Independent Financial Advisers, and a planner himself, says the whole fees versus commissions debate is nonsense.

"Around the world both models work and in my view it is up to the individual as to how they operate their services," Weatherston says.

And he says assumptions that fee-based advice is impartial are also just plain wrong. Some advisory firms charging fees simply put clients into model portfolios of the same products, or put plenty of clients into the products of related parties.

Financial planner Susanna Stuart thinks there might be a financial motivation for many advisers to remain commission-based. "If we switched from charging fees to taking commission, we could double our profits," she said.

"I don't know why people don't want to pay for advice because it is cheaper as well as better value."

It is also argued that fees are better suited to rich clients who don't mind writing out cheques for professional advice, while commission suits the less well-off.

Many argue commissions are also more appropriate on insurance advice, and even fee-based advisers tend to pocket commissions on insurance products.

Milton Jennings, chief executive of Fidelity Life, says insurance is "sold" as opposed to clients seeking it out to buy, and hence clients are less willing to write out a cheque.

For every one sale there might be 10 rejections, he says, and making a sale can mean weeks, if not months of to-ing and fro-ing between an insurer's underwriters and their clients.

It's better, the argument goes, for insurers to pay commission and charge the costs of the sale over the lifetime of the policy.

But that has helped create "unsustainably high" commission levels, say insurance company chief executives, and higher than necessary premiums and distorted advice, say critics.

Ed Saul of Pinnacle Life says it has few brokers who use it, largely because it pays broker commissions of just 50%75% of first year premiums.

Saul, formerly with one of the larger insurers, says the cost of commission across the industry adds 25%30% to the cost of life insurance.

But it is possible for an adviser to pocket commission, and provide unbiased advice.

Cecilia Farrow says her firm, Triplejump, draws up recommendations for the level of cover clients need, but then presents a detailed report on all the policies available, so the client, helped by the adviser, actually chooses the provider.

Farrow says: "Commission in itself is not the problem. In our view a fee-based advice model is likely to increase the high under-insurance rate in NZ as access to advice would become the domain of only those who could afford to pay fees."

But, she agrees: "The problem for many consumers currently is that they cannot determine if the advice they have received is appropriate both in terms of the sums assured recommended and the product recommended."

John Killick of FSB in Wellington is a largely fee-based insurance adviser, but he deals with business and professional clients used to paying, and after 35 years in the industry he does not believe that's possible for the wider market.

He also said commission advisers with links such as volume agreements with a limited number of insurers were providing "appropriate advice" (though not best advice), and that their close links could make a difference when making claims.

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