



## THE FUTURE OF THE INDUSTRY AN INSIDER'S VIEW



# All work and no pay

**Neil Shillito, a director at SG Wealth Management, believes remuneration decisions should be placed back into the hands of the client and their adviser**





**FOLLOWING THE 'DE-POLARISATION'** of financial advice firms on 1 June 2005, the complexity of how advisers are remunerated, whether by fees or commission or a combination of the two, has increased.

So with so many options, how can the investor make an informed choice and decide whether a fee-based or commission-based payment structure is right for them?

The first thing that needs to be said is that it is not the payment of commission itself that is the problem, it is the lack of accountability.

It is also true that commission can undoubtedly lead to an element of bias in an adviser's recommendations.

It is important to understand that is not simply a question of "fees good, commissions bad", it is more a consideration of what service the adviser is providing, and what that service is worth to the investor.

In this context, how the advice is actually paid for becomes irrelevant. What is relevant, however, is whether the level of remuneration is decided by and paid by, the product provider (as now), in which case the adviser is simply acting on the provider's behalf as a distributor, or whether the remuneration is agreed between the client and adviser based upon the level of service and advice required by the client, in which case the adviser will always be working in the client's best interests because it is in his best interest to do so.

If a fee payment is preferred then there are three main options, depending upon the client's needs and preferences.

1. **A one-off fee;** for specific work done.
2. **Hourly rate;** this is perhaps the most common form of fee payment and the most familiar to many clients.
3. **Fees based upon a percentage of assets managed;** This method of charging is very commonplace in countries such as the US and Australia, but is in its infancy here in the UK.

Because it is accepted that some clients are averse to fees in any shape or form and

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## What justification is there for a provider to decide the level of remuneration that an adviser should receive?



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many clients cannot afford to pay fees from resources other than investment transactions, what is the way forward for the 'mass-market'? The answer is to abolish commissions in their present form and rethink the whole adviser/client/provider relationship.

What justification is there for a product provider to decide the level of remuneration that an adviser should receive for giving advice? Far better that the adviser agrees with the client an acceptable 'fee' and this is then paid by the provider on a bespoke basis as a 'commission'. The wrap concept is ideal for this model and advisers should be embracing wrap for this reason alone.

So, in answer to the question, the future of financial services is to remove the control of remuneration away from the product provider and put it firmly in the hands of the client and the adviser. This would open up a completely free market and remove any bias in the advice given.

If the client demands too much in the way of service and advice and is not prepared to pay the adviser's fee, then they will have to seek advice elsewhere and conversely if the adviser prices themselves out of the market, they will not be able to run a sustainable business.

So where does this leave the product provider who has relied on the adviser to act as an agent for distribution? Competitive pressure will mean that only the fittest will survive and there will be massive consolidation within the market – so what? This will not mean less choice for the consumer because there will always be room for niche players and those providing specialist products.

