

ELIXIR

ADVISER PRICING MODELS RESEARCH REPORT 2009

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FOREWORD

When we commenced this research, it was ostensibly to provide assistance to our existing clients and to document what we were already hearing in our travels around the industry. As awareness of this research spread, it took on a life of its own, and we discovered that what was of great interest to our clients was also of tremendous interest to a large percentage of the financial services population. In response to the support, and specific requests for various areas of information, we expanded our consultation, and have incorporated the broader feedback into the format that is this final product, the inaugural Elixir Consulting Adviser Pricing Models research paper.


This research provides a peek into the minds of advisers on what is an incredibly complicated and timely issue. Finding a broad range of participants for the survey was not easy. Whilst many advisers are keen to know what others are doing successfully in their practices, they are not always so keen to open their doors and share their own stories. Pricing in particular, is naturally a very private topic, and an aspect of their business that many advisers hold close to their chest.

In answer to a question that was asked of me recently, the advisers who have participated have done so in order to share what has and hasn't worked for them, in the hope that they might be able to assist their peers in what continues to be one of the most frustrating aspects of the financial advice business today. Many have commented that they would have liked to have had access to this type of information when they were creating their own models.

To the many advisers who participated in this research, thank you for being so open with us; sharing your most intimate details on your businesses, and your challenges and thoughts along the way.

We look forward to re-releasing this research on a regular basis; to revisit the participants in this original release of the study and share more of their journey along the evolution of their businesses, but also to speak with new participants. I extend the invitation to other advisers to share their pricing experience with us, especially those who have devised methods that are unlike the 15 detailed herewith.

All correspondence will be afforded the same level of confidentiality as that of the original participants. Please email me directly at sue@elixirconsulting.com.au.

A handwritten signature in black ink, appearing to read 'Sue Viskovic'. The signature is stylized, with a large 'S' and a long horizontal line extending to the right.

Sue Viskovic, Managing Director.
Elixir Consulting

Adviser remuneration is one of the most controversial and widely discussed aspects of financial planning in Australia. There are a wide variety of methods in which consumers can pay for advice and currently advisers are free to set their own pricing models as to what – and how they are paid (as well they should be). This freedom of enterprise affords the ability to structure an advice offering around the client base and expertise of each advice firm.

In real terms however, the industry is still relatively young in its evolution from advisers being price-takers to gaining more control over their business and revenue streams. Many advisers are keen to change the way they are remunerated, but either don't know where to start, or aren't sure how to overcome obstacles as they reach them.

As specialists in Practice Development, Elixir Consulting often works with advisers to assist them in redefining their pricing models, and the process invariably leads to questions around what is working for others in the marketplace. To date, there has been little in the way of qualitative research into what pricing models are actually being used by advisers in Australia, and how advisers are remunerated for their advice and services. It is for this reason that the concept of the Elixir Consulting Adviser Pricing Models Research came about.

There are a variety of challenges advisers face when setting their pricing models, and this research was created with a view to assist advisers in the process of remodelling their pricing structures, to learn from their peers about what is working in practice, and allow them to consider various alternatives and solutions.

Methodology

The views and experiences documented in this research were collated from extensive discussions conducted throughout 2008 with over 120 Financial Advice firms, spanning large and small licensees and representative of each state in Australia. Fifteen firms were selected for the ***Business Models*** section of the research as they represent a broad range of models and ideals, and demonstrate the thinking of advisers in practice today.

In order to obtain the full picture of how advisers charge for their services, and to maintain integrity of the data, the research has not been conducted by way of a static survey, but rather by in-depth interviews with business principals, in which they were questioned on all aspects of their remuneration and services.

Taking an answer to the question of “how much do you charge for advice?” is irrelevant without exploring what services are provided for those fees, and what other remuneration is involved. No two service offerings are the same, so it is important to dig deeper and understand what areas of advice are included and what ongoing services are provided. It would be inappropriate to compare the fees from an adviser who simply provides advice to rollover a super fund, to another adviser who would also provide strategies to maximise the growth of the fund, ensure the client's risk insurance is adequate, provide structural advice on the clients' assets outside super, and provides ongoing service to the client.

It is difficult to get the level of candour required from advisers, to obtain enough information to form a thorough understanding of a pricing model. Businesses agreed to participate in this research on the grounds that their identity would be kept confidential. Each business featured has entered into a legally binding confidentiality agreement with Elixir Consulting that ensures their identity will not be disclosed at any time, to any party.

Context

The debate continues to rage about fees vs commissions as a method of remunerating financial advisers, and it is not the intention of this paper to prescribe or promote either model. If anything, our research confirms that there is no single ideal method of charging, rather a range of models that are as unique as the personalities in the businesses and the clients they cater to.

In fact, there are almost as many different definitions of ‘fee for service’ as there are pricing models in the market. The purist definition is that a fee is a set dollar figure charged to a client by way of an invoice that is paid by cheque or direct debit, and is completely unrelated to product. Others define a fee as a figure that is derived by the adviser (not the product provider) for the advice provided, and can be expressed as a percentage of assets under management. The percentage figure is the same, regardless of what platform is used or what investments are in the portfolio.

Most pricing models fall roughly into three categories:

- The Purist Fee Model — set dollar fees charged and invoiced, with all commissions dialled down to zero or rebated.
- The Hybrid model — set fees charged for some aspects of advice, and commission received for others (eg, set fees charged for initial and ongoing investment advice, and commission received for risk, agribusiness and/or structured products)
- Pure commission model — advisers receive commission from product providers to pay for the advice provided to the client. There is still some adviser discretion in the amount received, for example, many managed fund investments and platforms allow the adviser to select the up-front fee to be received — from 0 - 5.5%.

Whilst there has been — and will continue to be — ongoing debate about fees vs commissions, the underlying argument is centred around transparency and fairness to the client, and above all, to ensure that advice is always centred around what is best for the client, not what provides a higher income to the adviser.

All too often people confuse the method of collection with the definition of a fee. Ultimately, whether a client pays their advisers fee by way of their cheque book, or from their investment earnings is a separate issue to how much the client is paying for their advice.

Content

The ***Business Models*** section of this research details 15 different pricing models utilised in 19 different financial planning offices around Australia — across 5 States (7 offices in city locations, 9 in suburbs, 3 in regional areas), and 15 Dealer Groups, (5 boutique, 1 small, 5 medium and 4 large). See page 22 for definitions of dealer group size.

The majority of the business models detailed are considered 'hybrid' pricing models — combining a mixture of fees and commissions in their remuneration structure. There are two pure Fee for Service businesses and one business that still derives its revenue from pure commissions.

We have included one adviser who has made a limited attempt to charge fees, but on the whole, is remunerated by commission, as his views are indicative of many (if not most) advisers in that situation. Another sample is an adviser who has reviewed his pricing model and made the conscious decision not to move to fee for service unless a client requests it — and he shares his views.

There is one business featured that has multiple advisers spread throughout more than one office — where pricing models are set by management and adhered to by employed advisers; there are boutique businesses who hold their own license and create their own pricing and service methodologies. The businesses in between are spread throughout small, medium and large sized dealer groups.

There are five companies featured who have a large focus on risk insurance. Four of these companies have specialist risk advisers employed in-house, and one is a specialist risk insurance business.

There are three companies that are situated inside accounting practices.

This research is not designed to be a broad quantitative study on trends across the whole industry; rather it is an in-depth, qualitative look at how advisers structure their advice.

This research is also not designed to create a standardised method of pricing — if anything it demonstrates that this would be inappropriate.

What it does, is provide insight into how successful advisers in business today have gone about pricing their advice, and is intended to allow the industry to gain some insight, and perhaps to learn from the mistakes of their peers.