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Counting on commissions

While the financial planning industry tries to avoid conflict of interest scenarios, there is no sign that commission payments are being phased out. ROSS KELLY reports.

Despite the recent barrage of community and adviser scrutiny of commission payments, this year's Top 100 shows that commission continues to be the most common form of adviser remuneration, and its popularity has increased.

Of the 52 groups that disclosed their remuneration structure, commissions were the most common form of payment for 27 groups, followed by a combination of salary and commissions (9), salary (6), fee for service (5), a 50-50 split between commissions and fee for service (3), and other (2).

Amid all the wrangling, advocates of commissions are quick to make the point that the terms 'commission' and 'conflict of interest' are not interchangeable.

If advisers are paid the same commission for recommending different products, no conflict of interest exists, they say. And even if there is, there's no problem if it's all disclosed to the client.

Even practices that don't offer commissions accept this point.

"Disclosure is always the key," says Avenue Capital Management director Simon Clifford.

"Whatever route the adviser goes down, they must disclose everything they know – what they're receiving and what the client's getting in client-speak language. It might not be the way we run things, but if that's the way they want to run it, that's okay."

Despite his comments, Clifford says most of his planners get paid through fee for service. But that doesn't mean they send their clients an invoice after each consultation. Commissions still come into the equation, even for dealer groups that flagged fee for service as their most common form of remuneration.

Fee-for-service payments

There are, of course, several definitions of fee for service doing the rounds. On one hand you've got your 'pure' fee-for-service model where advisers deny commissions and in Avenue's case you've got the ongoing fee model, which is based on deducting a fee from a platform.

According to Clifford, if a planner dials a commission up or down for example, they are offering a flat, ongoing fee to their client which represents a fee for service model.

"Having an ongoing fee means you will provide a clearly defined level of service. You will be saying quite clearly to the client 'this is what your going to receive, these are the dates when you will receive it, here are the seminars, briefings and revues you'll get."

Conversely, plain trail commissions set by the distributor are sold to the client as 'this is what I receive just to keep the doors open' by the planner.

But not all dealer groups in this year's Top 100 that advocated fee-for-service believe commissions are acceptable in the circumstances outlined by Clifford.

Centrestone is still the only dealer group to employ a pure fee-for-service model for all its advisers, although three other groups – the Berkley Group, Grosvenor Securities and Kingston Capital Group – come close.

"It aligns our interests with clients. It removes obvious biases and it enables one to recommend assets that would be uncommercial," Centrestone managing director Rob Keavney says.

"We recommend bank bills, and some fixed-term investments because we think they are applicable for some clients. If we didn't charge a fee we would be offering good advice and not getting paid for it. That's not okay by us or we might feel tempted to not recommend those things, so then you've got a conflict of interest."

As for the argument that a fee-for-service model keeps lower net wealth clients out of the market, Keavney is prepared to agree – but only to an extent.

"If someone wants to invest $10,000 we just can't help them. Down in the very tiny end of the market people don't get service and therefore they shouldn't pay a fee."

Future pay arrangements

So what of the future? Will fee for service, at least in an ongoing fee form, eventually overtake commissions as the most popular form of adviser remuneration? Not if this year's Top 100 is anything to go by.

But now that the Financial Planning Association has cracked down on conflicts of interest, is there a chance that consumers will shun commission-based advice if – through new disclosure requirements – they are clearly alerted to its nature?

ANZ head of financial planning Mike Goodall doesn't think so.

He says if there are no inherent conflicts of interest most people will be quite happy with a commission style of payment, much like they are when they go to the local travel agent.

"They don't want someone charging them for their air fare and accommodation and then slapping an additional cost on top of that for going out and finding those things for them," he says.

But that doesn't mean there won't be room for fee-for-service either, according to Goodall, who believes that model may be more appropriate for clients who request it and have the budget to do so. That's why he says ANZ employs 50 planners who are paid purely via fee for service.

Simon Clifford

Other groups disagree. Capstone has been gradually moving towards a fee-for-service model since its inception two years ago. Now it has a 50-50 split between fee for service and commissions.

"The transition is part of how we are bringing the practice into the modern world," Capstone managing director Grant O'Riley says.

"We think more and more clients are looking for fee-for-service, we think more of our practices are becoming comfortable in providing fee for service options."

Avoiding conflicts of interest

O'Riley believes new conflict of interest regulations will force many institutional dealer groups to change their remuneration practices.

"There's a lot of nooks and crannies that are going to have to be made known," he says. "And although fully disclosed commissions might have their place in the future, one thing that's very clear, and we're very passionate about this, is that the days of charging the ridiculous high upfront commission are well and truly gone."

Keavney doesn't believe the whole market will go fee for service. However, he says increased media focus and a growing reluctance by people to pay a financial adviser "40 basis points every year", even if they haven't seen them for two years, will give fee-for-service arrangements a boost.

While the fee for service versus commission debate rages, it is important to note that almost a quarter of all financial planners aren't paid by either. Advisers paid purely by salary, or at least a combination of salary and commission, are still as abundant this year.

"We've had no problems attracting people," says FuturePlus chief executive Brett Westbrook, whose 20 financial planners receive referrals through various unions and, even though the average client balance is close to $240,000, are still "paid extremely well" thanks to a constant stream of referrals.

For More Information Contact:

John Livanas
General Manager Client Services
johnl@futureplus.com.au