

The Insurance Marketing Department Ltd

Sales and Marketing guides

Number: 6

Topic: Switching to Fees

Date: September 2001

The fact that you are reading this guide suggests that you are already considering whether or not you can effectively switch your business to a fees basis, rather than relying on commission.

There is nothing intrinsically wrong with commission. Indeed this is an effective way for IFAs to be remunerated, since commission is not subject to VAT – which most private individuals cannot recover. What's more, in the case of pensions, commission can also be offset against tax.

One of the principal problems with commission is that however much disclosure takes place, some consumers continue to believe that financial advice is effectively free and that the insurance company pays the cost. It can be argued that such an attitude is counter-productive in that it minimises the professional status of the financial adviser,

One side issue of adopting a fee-based charging system is that you will probably have to register for VAT. This can be beneficial in terms of recovering VAT on purchases of goods and services for your own company.

implying that he or she is no more than a salesman. But the Independent Financial Adviser is, of course, so much more than this.

The role of the IFA is to identify clients' financial needs in a holistic context and then apply the detailed knowledge of financial services to ensure that fees needs are satisfied.



Switching to fees needn't be difficult

As such, the IFA is a professional with similar responsibilities to those of an accountant or solicitor and, indeed, the consequences of the advice they give can

often be much more far-reaching, financially.

One of the benefits of charging fees is that consumers become immediately aware that they are buying a service and not a commodity. This can only serve to reinforce the value of independent financial advice.

Of course, for many individuals, paying fees for financial services will be a new experience and one to which they may, initially, have some resistance. The purpose of this guide is to explore ways in which such opposition can be overcome –

and a “value proposition” presented – that offers clients a valid reason for paying fees.

Who already pays fees?

There are already a number of clients who pay fees for professional services and are therefore likely to find a transition relatively painless. Most small businesses, for example, expect to pay fees for legal and accountancy services on an ongoing basis, and may also already pay consultants in such areas as advertising, information technology, personnel recruitment and risk management. It is a small step for them to pay fees to an IFA who is able to add value to their business by providing financial advice relating to both employee benefits and protecting the financial position of the company in the events of loss of key employees.



IFAs are professionals, like solicitors

“High net worth” individuals are also frequently accustomed to paying fees for professional services and, in many cases, may prefer to do so in that this establishes a working relationship with their advisers – which can often appear rather nebulous where