Money Management

Stripping commissions could cut 50 per cent off client product costs

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David Price

Stripping commissions from the cost of financial products could result in falls of up to 50 per cent in their cost to clients, according to David Price, managing director of Strategy First Financial Planning.

Price said falls of this size were feasible if clients "no longer had to subsidise commissions and third-party payments" to advisers on products such as managed funds, retail super funds and life insurance.

It's one of numerous rewards of an industry-wide fee based model, which would in turn help to avoid future disasters such as the collapses of Storm Financial, Westpoint and Timbercorp."

Price said Strategy First rebates 100 per cent of the commissions on insurance sales to clients in accordance with its fee-for-service policy, and this currently amounts to a 30 per cent reduction for clients on their annual premium for the life of the policy.

He said, however, that commissions on these products "ranged from 30 to 35 per cent for flat structures, 65 per cent for hybrid structures in year one and 25 per cent every year thereafter".

"Upfront commissions can be as high as 110 per cent."

In relation to commissions for retail managed funds, Price said trails are up to 0.44 per cent per annum, while also giving the adviser the ability to increase this amount further.

"If you look at the total cost of the average retail managed fund of 2 to 2.5 per cent, the total cost associated with commissions (paying, administering and reporting) can account for up to 50 per cent of the total cost borne by the retail investor."

In the case of wrap platforms and volume rebates, he said the rebate paid to the dealer groups is more than 75 per cent of the fee paid by the client for the administration and reporting provided by the wrap platform.