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# Can providers cope with adviser-charging?

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The introduction of adviser-charging (never quite understood the name change from customer- agreed remuneration as adviser-charging gives the impression we are being charged, or worse still that we run on batteries) has obvious challenges for the adviser but little has been written on the capacity of the providers to cope with its introduction.

I have real concerns that they all have their own perception of what is enough to comply but will that be fit for purpose?

To explain, let us look at what consultants would refer to as client journeys, where a client puts in place a product or wrapper that will have the potential to run for many years but will not always be under the control of the same or indeed any adviser.

The first adviser who effects the plan takes 3 per cent up front and 0.5 per cent in the way of trail. The client then decides to go for the DIY approach and finds a platform that can hold the wrapper and we move to a zero level of adviser- charging. As the years pass, he becomes time-poor and hires a new adviser who operates on a fee for the plan, then a fee to set up the portfolio, then a digressive fee based on the size of the portfolio for ongoing investment advice. The latter shape of remuneration involves a fixed fee, then basis point fees coming from the same wrapper. The first adviser's charge is higher initially but lowers subsequently. The provider then has to turn that off, only to find a new shape is required later on

At this stage of my column, some providers have had a panic attack but it gets more complex where clients change their mind. Here, I am referring to cooling off. In the past, cooling off meant clawback but, under adviser- charging, the provider cannot claw back the adviser charge. Have all the providers realised this? I think not. Also, where there is a debit on an agency from legacy business an adviser charge cannot offset it. Do all the providers realise this? I do not think so.

Then we need to consider the other big issue in charges - rebates, cash or units. If we take a client journey again where they buy one mutual fund that has multiple share classes, can the system cope? If they start off at 150bps, then move to where it is 100bps, then back to 120bps, can this all be done through transition which, in any event, is a waste of time unless investment bonds can move in specie? I make no apology for repeating this.

Perhaps we should just avoid it all and request a cheque. But wait, they are disappearing soon, so are debit cards the answer?

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IFAs will struggle to obtain a debit card machine, as financial advisers (read mortgage advisers) are blacklisted due to the level of write-backs disputed on unexpected debits to you and me. This is one problem that needs to be sorted out and quickly.

We only have 20 months left until adviser-charging is mandatory. The idea that providers will be fully ready is laughable. I am not having a go at them, this is aimed at the regulator. There is simply no excuse if the client journeys I have detailed are out of scope, if they are, it just underlines how product- centric a regulator we have.

As numbers of advisers fall, will the regulatory dividend be facilitated via the accredited bodies and, if so, how much due diligence will be done on these bodies? We cannot have advisers or planners relying on organisations that are living hand to mouth instead of being properly funded.

Consultancy charging has it own cul-de-sacs where low take-up results in those who join paying for those who do not. Hang on, is that not the same as commission?

So have the providers built on sand or, worse, has the sand still to be delivered?

We need to know exactly where we are on these issues. Far too many providers (based on recent research by the Ideas Lab) are taking the casual approach. This is not something that will be all right on the night. If it is not ready or fit for purpose, then we have a serious problem.

There are rumours in the market that the exam deadline will be flexible. It may well be that this will need to be the case with adviser-charging too. In not providing the big picture, the regulator has permitted multiple views of what “good” looks like.

I call on the providers to let me know if these client journeys can be accommodated and, if not, how long will it take for a solution to be available. It would be regrettable if system failures (which includes under- specification in my book) led to a hiatus in the market where providers’ wrappers were dismissed on their inability to cope with variable adviser-charging formats and degrees.

All of us should be asking the questions I have posed here. If not, it will be a poor 2013 for many.

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