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IFAs reluctant to relinquish hold on commission

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IFAs are becoming more reliant on income from commission, despite regulatory pressure to move towards a fee-based model, research from Russell Investments shows.

Results from a survey of 120 investment advisers conducted by the multi-manager group in August show more than 70% of those polled received more than half their income from commission.

But according to a similar poll Russell carried out for the IFP in August last year, the average respondent got just 42% of their income from commission.

This comes despite the FSA's attempts to reduce the prominence of commission in IFA remuneration through its RDR proposals.

The survey also shows 79% view transition to a more fee-based business, post RDR, as a "critical challenge".

But nearly 20% of respondents are confident of overall RDR compliance, not viewing it as "a challenge" for their business model in future.

"This shows advisers have work to do to adapt their businesses towards getting revenue through fees," adds Russell UK and Ireland MD Peter Hugh-Smith.

Helm Godfrey MD Bruce Wilson says he suspects there are a number of reasons for the increased use of commission.

"It could be their fees are based on the size of their clients' investment portfolios and those have gone down with the markets," he says.

"Or it might be symptomatic of the fact a lot of IFAs are struggling to get by and are more concerned about that than what will happen in a few years' time."

But he warns there are also some advisers who are "incapable of adapting the way they need to at a time of great change in the industry".

Russell has launched an IFA business planning website (www.helpingadvisers.co.uk) which features tools to help advisers set levels of fees and explain the need for the transition to clients.