

Why I am adding a new client charge for regulation

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All business incurs costs but there comes a point when specific overheads either become disproportionate to the operation or, when created for the protection of the consumer, consideration has to be given to passing them on. Regulation and the related client protection has now crossed this barrier and firms must reconsider their charging terms to survive.

We are introducing a 2 per cent levy on all new subscriptions to cover the transactional risk following the hike in our Financial Services Compensation Scheme levy. This extra charge can be seen as an insurance premium. The retail distribution review is bringing significant changes to the advisory world. Not only will there be fewer advisers but the cost to remain fully independent is also rising.

We face growing costs through consumer protection for the FSCS and the Financial Ombudsman Service, which revels in being a growth business in an ever litigious society. All advisers have professional indemnity insurance and, as claims rocket, advisers must consider a vulnerability premium against the possibility of something going awry and the cost of compensation.

We used to provide almost all our advice with no charge or obligation, in the hope of encouraging a relationship. We can now be taken to the ombudsman and have an inequitable decision made against us for a charitable action we did not complete.

We could enact a big pension transfer on a closing scheme on an execution-only basis for just a few hours' administrative work and end up being accountable for thousands of pounds' liability because of a dispute over the extent of advisory limits.

For the firm's security and to protect other clients, we can no longer afford these risks. Our charge is lower than many other advisers have always charged (or certainly take as commission) but it is still an extra consumer cost. We will review this charge and hope to revisit it if the industry norm for liability subsides.

In future, I would like to see a better qualified and more professional industry with greater clarity on product costs and advisory remuneration, including direct sales and on platforms. I would like to see more transparency in terms of what an independent adviser really is, as opposed to the direct/restricted boys clouding the issue.

I also believe clients should take more of the risk. If a client receives the risk warnings for the advisory process and signs to acknowledge that, caveat emptor has to apply. Perhaps we also need to consider a product levy to protect against Keydata-type scenarios. This must apply to platforms as well as execution-only.

Perhaps there could be a separate entity established to collect these sums, with all firms as shareholders, so we could see an equity return as it becomes proven that the reserves have been excessive.

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