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Press Article : Charging Structures Are Getting Chucked Around The Room Again

CHARGING STRUCTURES ARE GETTING CHUCKED AROUND THE ROOM AGAIN

The Price and Value Outcome wasn't the first time that charges have been dissected, analysed and chucked around the room a bit. It is one of the most emotive subjects in our profession. I stood up in front of 300 people at a event maybe five years ago, and it was one of those quick 15 minute things.

How many questions and opinions? I had kicked a huge hornet's nest and the conversation was brilliant. I literally had to say to the audience, "We've run over by 30 minutes, do you want to keep going on this?" And they did.

It is fascinating, the opinions all businesses have and guess what? There is no prescribed way of charging.

Our intention is not to set prices and our rules do not have this effect. It also does not mean that firms are expected only to offer products and services at a low price. Products or services that cost more for customers may well provide value if that reflects their quality and benefits. (FG22.5 S7.4)

The FCA is not a price regulator and it's OK to have higher prices as long as it's considered value. Value is the key, the price you pay for the benefits you enjoy. The first thing we need to do when setting advisory firm charges is to find the value.

FG22/5 states that firms must consider at least:

- the nature of the service and the benefits provided
- limitations of service
- the expected total price

Firms must also demonstrate that the price paid is reasonable compared to the benefits. That means get a process in place and get it documented, it used to be 'Show and Tell' but now is more like 'Tell and Show'

Tell me what your charges are.
Now show me how you arrived at them.

Other factors to look at:

- The costs of manufacture of the service.
- The market rate for comparable services and whether the service is a significant outlier in comparison.

Advisory firms should therefore aim to do at least a virtual time and motion exercise, taking into consideration where they are within the wider market. Check out Data Bulletin 7 for some great insights into charges and will help in evidencing if your charges are an outlier.

The Regulator does introduce the concept of reasonableness, given the fact that the Consumer Duty is applicable to practically the whole of the world and beyond.

As with the entire Duty, the price and value outcome rules apply based on what is reasonable. The nature of the value assessment and the data and insight firms use to inform that assessment will vary depending on the type of product or service, and the size and complexity of the firm. (FG22/5 S7.18)

So the small guys don't need to feel like this is an overwhelming thing, there will be areas that don't apply or have less effect, however that doesn't mean it should not be built and documented.

Also consider different charges for different customers, and yes that is acceptable.

The price and value outcome rules do not require firms to charge all customers the same amount. Differential pricing between new and existing customers in the form of clear, transparent up-front discounts for either set of customers is not prohibited by the Duty. (FG22/5 S7.38)

This leads neatly on to two directions of travel.

Ongoing charges: What does a firms ongoing fees look like and what do clients get for their money.

- How much
- Should a firm have different ongoing charges
- What is considered a reasonable minimum charge, basically what is the firms advice gap
- How would a firm make it go bigger / faster / stronger
- What is a reasonable maximum charge, that is the point where a service isn't value
- How do you make sure it's clear, fair and not misleading

Income in Retirement: Thematic Review TR24/1 provided excellent guidance in a number of key areas.

- How much
- Is this service different from accumulation
- Is it more important that accumulation
- Is there more risk and should it be treated differently
- Should it cost more given the risk and potential for harm, making the process longer
- The dilemma being charging more means customers need a bigger monetary value, so what happens to those with lower values who arguably are at more risk and have a greater need for good solid advice
- What about when the value of the investment falls below acceptable thresholds, that's therefore becomes 'not value' if minimums are imposed

The debate on charges is far from over and probably never will be, we do however and more guidance and firms should be continually assessing charges, and for those that haven't done it yet, it's time to get it built and documented.

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