Write to us at:

New Model Adviser™

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Letter of the Week

Dear Sir,

I am writing in reference to your story on Norwich Union's 20% upfront commission option [see *New Model Adviser®*, Issue 27, page 3]. Having now had some time to think, my conclusion is that it all seems rather desperate out there including the level of thinking coming from strategic managers in this industry.

I note that claw-back has been introduced to stop/prevent churning of policies. We all know that when NU introduced commission payments of 5%-6% of pension transfer payments to its plans in 2001-2004 its intention was to 'buy' business from IFAs. This is common practice that has existed among insurance companies for years. While this was a successful motivator and produced a flood of assets into the NU contracts, we are also aware that, generally speaking, IFAs are just as fickle. So when NU had no claw-back on those commission terms, IFAs were transferring monies out of NU as fast as they were transferring in and rubbing their hands to boot. Consequently NU commission terms changed rapidly to prevent this sort of business practice continuing.

At least NU seem to have learned its lesson on this occasion.

Secondly, the commission terms have been introduced to encourage people on lower incomes to save. I am interested to understand the correlation between commission paid to an IFA and the ability of a client to save money. From my experience, none exists. That is, regardless of any fees/commission earned this does not change my client's disposable income.

We all know that when stakeholder was introduced with an objective to do the same thing, it was a miserable failure. I think we have all learned that as a low earner, if you can't afford £50 per month you can't afford £50 per month; regardless of any contract terms or commission payable to an IFA.

Remaining with the lower earners for now, let's take an example of £50 per month paid to a pension and assuming the saver has no pension funds accumulated:

- Total paid in year 1 = £600.
- Commission payable on NU terms £120
- 0.5% servicing commission payable with effect from year three, thus the fund value will be c£1,800 and 0.5% trail would equal £9.

How on earth can this be an incentive for IFAs to service a client?

I have just paid my FSA, PI and insurance premiums totalling £8,000 for the year.

In conclusion, anyone running a business model based on a crusade to help bridge the savings gap should be given a wealth warning themselves.

Nicola Downs,
Trentham Invest
Dorking, Surrey

Dear Sir,

It's always good to get feedback from advisers whether it's good or bad (see Are You Being Served?, page 19). I'm pleased that an adviser has taken the time to tell us about his experiences using the Standard Life Sipp

Of course I'm disappointed that the adviser has taken the decision to stop using Standard Life for new business. The decision does not appear to be based on poor service or lack of investment choice or options. It appears to hinge around the fact that we are currently unable to accept in-specie contributions – a process that we are working on. The adviser correctly mentions that we can offer a work-around with