

Introduction

The purpose of this Fact Sheet is to provide some background information on **the cost of using the services of Arch Financial Planning Limited**. Much of it will be common to the cost of using any firm of independent financial advisers.

What are You Paying For?

Whenever we provide advice **we are calling upon many background resources** that may not be evident to our customers and clients.

Not all of these will be used on every occasion, of course, but they are listed here **to help you understand what the payment we receive is really for**.

A The **qualifications and experience** of those who advise you. We are reminded of the surgeon who was asked to explain his large fee for a seemingly minor operation. He explained **'£100 is for carrying out the operation and £2,000 is for knowing what to do!'**

A The programme of **continuous professional development (CPD)** that those who advise you are required to undertake, both as a regulatory requirement and a necessity to provide suitable advice. This will include **attending a large number of workshops each year** as well as private study.

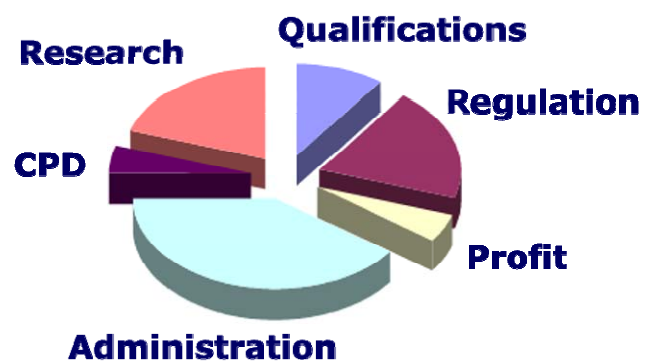
A Our **ongoing research**. The economic environment, both in the UK and internationally, is constantly changing. **Investment theory and practice** is constantly evolving. There are a large number of product providers and **the types of products are constantly developing**. The types of investments available is constantly being added to; there are hundreds of fund managers and thousands of funds.

An independent financial adviser (IFA) has to spend a large part of his or her time **carrying out both generic and product specific research**. Whilst the latest computer software will help with this it is debatable whether there has actually been a time saving for the average IFA. In reality the IFA now finds that he or she **is simply carrying out more detailed and comprehensive research** than was previously possible.

A Our **administrative costs**. The costs of technology, staffing and running our business **eat up over half of the total income** that we receive.

A Our **regulatory fees and professional indemnity insurance premiums** are now a significant part of our expenditure. In addition we pay for external compliance assistance to threesixty services LLP.

A Our profit - hopefully! You will see from the following chart that this is not a large part of the equation.



Why Do We Refer to Customers and Clients?

It may help to say that **there are three different ways of using our services** and the cost of those services will vary depending upon which type of service you use.

'Execution Only' Customer

This is where you know exactly what you want and **no advice is sought or expected**. There are a very limited number of situations where this would apply but when it does **we are able to reduce our costs** because we can remove the costs of our qualifications, CPD and research.

Where you wish to deal with us on an 'execution only' basis you should refer to our website www.arch-fp.co.uk/execution_only.htm or telephone **01483 204600** or email direct@arch-fp.co.uk to agree our commission or fee terms before submitting the business via us.

Customers

You **may require advice from us** to arrange a pension, an investment, or mortgage. It may be to **arrange your affairs to reduce the impact of inheritance tax**, deal with the nursing home costs of a relative or set up investments for your children.

In each case **you are looking for someone to advise you on a particular project**. You are our customer and **you will pay for the particular service or services you require**, whether directly in the form of a fee, or indirectly by means of commission from a product provider. **You may use our services once or a number of times** but on each occasion you are our customer and we will provide you with the best service that we can.

At the present time **Arch Financial Planning Limited has around 6,500 customers** for which we have records on our client computer database.

Clients

Some of our customers have **a different relationship with us** and become our clients. These are people who **look to us on an ongoing basis as their financial advisers and planners**. They may be wealthy individuals with a portfolio of investments or pension funds that need regular reviews. On the other hand **they may have more mundane financial circumstances** but recognise the importance of gaining independent financial planning advice throughout all of their financial journey.

We will seek to set up an arrangement with our clients so that they are **aware what they can expect from us on an ongoing basis**. This would usually include **an annual or more frequent review** and **monthly information of a general financial planning nature** via our email newsletter, *MoneyTalk*, or a paper copy of this.

We **would not expect more than 20% of our customers to be designated as 'clients'** and we are currently in the process of identifying these clients. The major difference between customers and clients as far as payment for our services is concerned is that we would seek to arrange our fees or commissions in such a way that **we receive an ongoing amount from our clients**. As we are more concerned with obtaining such an ongoing amount from our clients they will often benefit over the total cost of our services charged to our customers.

The Cost of an Initial Meeting With New Customers/Clients

Before you can decide whether you want to use our services and we can decide whether our services are appropriate for you, **it is obviously necessary to exchange some initial information**.

We therefore usually make **no charge for an initial meeting** of up to one hour at our office. The same can apply to an initial meeting at your home or office, although this depends on the distance that the adviser has to travel.

You will be informed **beforehand** if a fee is required for a first meeting.

The purpose of the meeting is to **identify what your requirements are**, answer **any questions about our business** and, if appropriate, complete our Fact Find which gives us **a detailed picture of your personal financial circumstances**.

If you wish to use our services on an 'execution only' basis then **the meeting would usually be much shorter** as it would not be necessary to complete a Fact Find.

At that meeting our adviser would also provide a number of regulatory items such as his or her business card, our Terms of Business, and two 'KeyFacts' documents entitled *KeyFacts about our services* and *KeyFacts about the cost of our services*.

We would normally **follow up that meeting with a letter** identifying what we believe your requirements to be, whether we believe our services would be appropriate for you and **what the cost would be** if you wish us to proceed.

The Cost of Our Services for Customers

We would usually discuss an outline of our costs at our first meeting once we are aware of your requirements, or provide this in the follow up letter.

Where possible **we offer customers a choice as to how to pay for our services**. However, in some circumstances we would have no option but to charge a fee. This would be the case where there is no possibility of commission payments from a product provider or **where any such commission that is payable does not properly reflect the work** which we will have to undertake in advising you and arranging the investments or other financial products.

A Paying by Fee - We will provide you with details of our hourly rate although we find that **most customers prefer to agree to an estimated total cost figure** for each particular area of advice. If we are to arrange any investment or financial product as part of our advice, we will do so, where possible, on a nil commission basis.

It may be appropriate for you to **pay a fee to provide the initial advice** and arrange any investment or financial product, **together with a smaller annual fee to cover the servicing** of such products. Alternatively we may agree to charge a fee to provide the initial advice and arrange any investment or financial product but then receive **ongoing renewal or 'fund based' commissions to cover the costs** of future servicing of such products.

A Paying by Fee with Commission Offset - We will again agree an estimated total cost figure for each particular area of advice. However, we will use a system referred to as 'commission offset'.

In other words, if we are to receive commission for arranging any investment or financial product as part of our advice, **we will 'offset' that commission against the agreed fee.** Such offsetting could be used directly to reduce the fee; or it could be used to reduce the product charges to your benefit; or to increase the investment amount. If the total commission exceeds the agreed fee we will not pay the excess to you.

The same choices are available to cover the servicing of any investment or financial product as detailed under the previous option 'Paying by Fee'.

A Paying by Commission - If the advice you require involves arranging one or more investment or financial products, **we will normally be entitled to receive commission from the product provider.** In such circumstances we could agree with you not to charge a fee but to cover our costs by the indirect payment of commission from the product provider.

Such commission **would normally be paid out of the standard charges on the product and would not be in addition to them.** This is not always the case as some products have no commission automatically built in but we can arrange with the product provider to include a commission payment to us out of your investment.

Where the initial advice is on a commission basis we **would normally receive ongoing renewal or 'fund based' commissions** to cover the costs of future servicing of such products.

Receiving commission in this way, even though you pay nothing to us directly, **does not mean that our service is free.** You still pay us indirectly through the product charges. Product charges pay for the product provider's own costs and any commission. These charges reduce the amount left for investment. If you were to buy direct, the product charges could be the same as when buying through us, or they could be higher or lower. **We will tell you how much the commission will be** before you complete an investment, but you may ask for this information earlier.

The Cost of Our Services for Clients

Many of our clients start out as customers, requesting advice on one-off areas of their financial planning **but then develop over time into clients.** Other people **require to be treated as clients from the outset.** Although clients generally have the same three choices of paying for our services as identified for customers there is one difference in that **we will want to make sure that there is sufficient ongoing fees or commission** to cover our ongoing service commitment.

There would be no problem where the client had either agreed ongoing fees or where the fund based renewal commission was large enough to cover our costs.

Where this is not likely to be the case **we ask the client to set up a monthly direct debit** to provide a minimum fee income to ourselves. At the present time **this will range from £10 to £50 a month** depending on the estimated servicing requirements involved.

Nothing is for Nothing

The old adage 'there is no such thing as a free lunch' applies equally to your use of a financial adviser. You will not go far wrong if you reconcile yourself to the fact that **you are paying for the services of your financial adviser** whether he or she represents just one product provider, or is an independent financial adviser (IFA) or anything in between.

It is also important to realise that nearly all 'retail' financial products, that is those available to individual investors, have **costs built into them for marketing that product.**

If you walk into a High Street bank or building society to deposit your cash **there appear to be no charges.** However, the interest rate you receive reflects the costs of that High Street position and the staff who are there to greet you. You may decide to **access the internet to cut out the cost** of those High Street premises and staff to obtain a higher interest rate, however the interest rate you receive will still reflect the high amount spent on advertising by internet banks.

It is still the case that the majority of customers of financial advisers, whether those advisers are restricted in the advice they can give, or are fully independent, **do not pass over any fees for the services of their financial adviser.** However, as we have tried to show by our choice of payment models, **that adviser is being paid by you in one form or another.**

Your adviser will quite rightly point out that commission is normally part of the standard charges on the product and not an additional cost to you. Whilst this is true, it nevertheless should not remove from you the knowledge that **you are paying, albeit indirectly, for the advice that you have received and the arrangement of any investment or financial products.** It is in your interests to make sure that you are aware what the commission payment or credit to your adviser is in £ sterling.

Many financial advisers are now salaried but **this does not mean that they do not have the same direct financial interest** in the investments and financial products that they are arranging for you. If you and others like you do not use their services, their salary will soon be reduced or removed altogether.

Which is the Best Payment Option?

It really comes down to **the option with which you are the most comfortable**. Some customers are happy writing cheques to us and some would prefer any such payments to be indirectly taken from their investment and financial products.

It is generally true that **the larger the amount you are investing**, or the greater the amount of financial product that you are purchasing, **the more the fee option becomes the best choice**. However, that is far from always being the case and it does, of course, depend on the level of fees being charged.

It is important to realise that **you cannot simply compare the fee being quoted to the commission amount** that the IFA firm would otherwise receive. Commission is a gross payment whereas **any fee will come out of your net income**. If you are a higher rate tax payer a £2,000 fee will really have cost you £3,333, so £3,000 of commission, while seeming to be more, could actually cost you less than a £2,000 fee.

For Further Info

If you have a particular query concerning the cost of our services please ask your usual Arch adviser or contact us via one of the following:

Tel: **01483 204600**

Email: **enquiries@arch-fp.co.uk**

Online: **www.arch-fp.co.uk**

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