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TURNING THEIR BACKS ON COMMISSION

James Pearcy-Caldwell leads the switch to fees in Europe

LAST WORD

A THIRD WAY

Aisa co-founder James Pearcy-Caldwell explains why he backs fees over commissions and how his evolving network offers a halfway house for advisers working in Europe

Kirsten Hastings

When former RAF pilot James Pearcy-Caldwell set up financial planning firm Aisa (pronounced A-isa) with business partner Clive Tutton in 1999, they took the unusual step at the time of implementing a fee-only payment structure.

"We have tried to be transparent with clients right from the beginning, so Aisa was set up with a view of being fees-based," says Pearcy-Caldwell.

The company initially allowed advisers joining the business, who had previously earned commissions, to continue to do so; although this was phased out in 2011. Pearcy-Caldwell and Tutton, however, have always worked on a fee basis.

Aisa, which stands for advanced independent specialist advice, operates in the UK as a chartered financial planning firm and as a certified financial planner in the US; regulated by the Financial Conduct Authority and Securities and Exchange Commission, respectively.

A typical client is someone with a pension fund in excess of £0.5m ($0.72m) or investments anywhere between £0.25m and £1m. They tend to have an international presence and face cross-border difficulties, such as double taxation and inheritance tax issues.

The company has developed co-operations with firms in other territories on similar regulatory paths as the UK; namely Australia, Hong Kong and Singapore. It is also in the process of setting up a joint venture in South Africa.

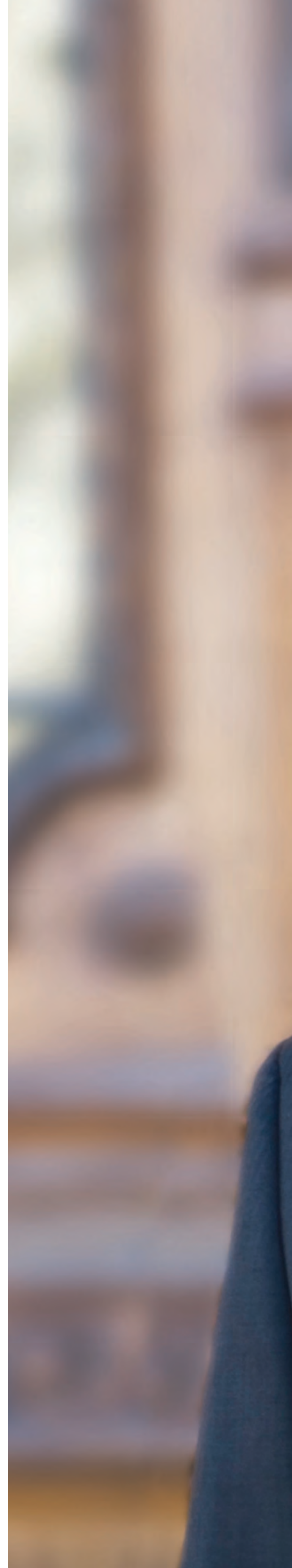
Just over two years ago, Aisa turned its sights to mainland Europe and launched OpesFidelio, with the aim of setting up a network of financial advisers delivering the same transparent, fee-based service that Pearcy-Caldwell and Tutton offer through their existing business.

European network

"We believe that we are different from the other networks because they still tend to work on a traditional commission-based system in Europe, and we don't," says Pearcy-Caldwell.

Built from the Latin 'Opes' and 'Fideli', the network's name means wealth, loyalty and trust. Launched with little fanfare in late 2013, Czech Republic-based OpesFidelio accepted its first members in 2014.

During the past 18 months membership has grown, mostly driven by word of mouth and a growing reputation, and the network now numbers six financial advisers.



‘OUR MODEL SUITS INDIVIDUALS WHO MIGHT NOT WANT TO WORK UNDER THOSE THAT ARE CURRENTLY AVAILABLE’

James Pearcy-Caldwell, Aisa

BIOGRAPHY

James Pearcy-Caldwell was a pilot with the Royal Air Force for nearly 11 years where he was known simply as ‘PC’. He served during the first Gulf War and remains a qualified airline transport pilot. Pearcy-Caldwell specialises in pensions and inheritance tax advice in multiple countries. A UK and US adviser, he is a chartered financial planner, certified financial planner, certified in discretionary investment management (CertPFS (DM)), and a G60 pension transfer specialist. In his current roles, Pearcy-Caldwell is chief executive of Aisa International, managing director of Aisa Group, and managing director of OpesFidelio.

Through OpesFidelio, Aisa is, in a sense, working to evangelise the fee-based business model in Europe.

"The fundamental difference between commission and fee-based business models is fairly simple. A commission-based model largely relies on having to rewrite new business all the time.

"In contrast, a fee-based model is far more service-oriented and is reliant on you providing a service to a client who is prepared to pay for that service ongoing.

"Under the first model you can earn more money initially but it tends to trail off. Under the second model you are in a position where you are actually building something of value for the client. The client comes first, as they are getting a service.

"That is something we are very used to in the UK and something that isn't common yet in mainland Europe," he says. "It would be fair to say Europe is a step behind the other regulated territories in which we operate."

The spectre of the now-delayed Mifid II regulation, which has been causing concern for a number of financial advisers, does not faze Pearcy-Caldwell, Aisa or OpesFidelio.

"Using a transparent fee-based model we welcome the idea of Mifid II. The benefits are mainly for the consumer, not for IFAs. It is making everything much more transparent, so it is going to be beneficial for consumers. I can only see that as a good thing."

That said, the European focus on commission-based remuneration for financial advisers looks unlikely to change any time soon.

Having presented at finance i ndustry events across Europe, Pearcy-Caldwell has heard regulators from several European countries categorically deny they have any plans to mimic the UK's retail distribution review. "The regulators come out with comments like 'we believe in self-regulation' and 'we don't believe in the fee-based model'."

Through their network, Pearcy-Caldwell believes they are offering something unique to the market.

OpesFidelio was set up as "a bit of a halfway house to the UK", in which advisers are able to operate on a fee-based system in Europe and in return pay a monthly membership fee, Pearcy-Caldwell says.

"I am not here to bash other networks because they clearly offer something to their members. But our model suits individuals who might not want to work under those that are currently available," he says.

Scalable service

Similar to its client proposition, OpesFidelio membership is paid on a fee basis.

"The idea that financial advisers pay a fee, of say £400 to £500 a month, and do not have to pay any split on fees they agree with their clients is, in my opinion, very different.

'THE BEAUTY OF THE WEALTH MANAGEMENT SERVICE IS THAT IT IS SCALABLE. IT PROVIDES GENERALISED PORTFOLIOS ACCORDING TO RISK STRATEGY'

FACT BOX

Prospective members of OpesFidelio can choose between three membership levels:

Proficio: Suitable for professionals looking for a partner or IFAs looking to reduce their workload or responsibility.

Assurgo: Appropriate for individuals with funds under management of €4m who do not have their own agencies.

Particeps: Suitable for a group of individuals or an existing company with €8m in funds under management.

"Members know they are going to be paying us, for example £6,000 a year, for a service that we are offering, and that is it," Pear-cy-Caldwell says.

OpesFidelio members also have option-al access to a wealth management service, which was set up by Aisa in 2010.

"A consequence of financial planning is that there are usually investment funds to be managed," Pearcy-Caldwell says. "What we did was set up an investment committee in the UK, which has been publishing its re-sults every quarter since 2010."

Clients are contacted quarterly and pro-actively advised on their investment. The service is paid for by clients at a charge of 0.5% per annum, although this depends on the other services they receive alongside the wealth management service.

"It is very complex to take on more than around about 50 clients. The beauty of the wealth management service is that it is scalable. It provides generalised portfolios according to risk strategy. Clients are assessed for risk, volatility, and loss, and then recommended a portfolio.

"If they want an individual portfolio we can handle that as well. But not many clients want that service."

Expansion plans

At present OpesFidelio has a member in Italy, France, Portugal, the Czech Republic, and two members in Spain.

With ambitious expansion plans over the next 12 months, which includes add-ing a business development manager, Pearcy-Caldwell is confident not only that their fee-based model will prosper but that reach-ing their next membership target of 20 financial advisers is achievable.

"At 20 members we will reassess. The model we are building is very scalable."

The company has a few prospective mem-bers in the pipeline but is not rushing to ac-cept them.

"We do not just accept anybody. It is a crit-ical consideration for us that the people joining are enthusiastic about the idea of trans-parency and fees.

"It's about putting the clients first and ensuring that they are going to become long-term clients."

The OpesFidelio network and wealth management businesses, however, are not the only irons in the fire at Aisa.

"We are currently undergoing regulation in Cyprus with the plan to set up a discretionary fund management company there to benefit clients in Europe," he says, a plan that is expected to come to fruition in the second half of 2016.

The combined entities of Aisa and OpesFidelio currently have assets under management of $120m.

"The advantage we have at the moment is that Aisa runs a clear profit and we are able to subsidise the network. It means we can af-ford to do what we are doing, even with only six members, as the compliance and admin processes are incorporated within the exist-ing Aisa structure."

As the network grows it will become a sep-arate entity from Aisa, but it will continue to be subsidised until OpesFidelio reaches at least 20 members.

He says: "If we achieve our level of 20 financial advisers then we will know that our model absolutely works."

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