

Which? reports Zurich to FSA

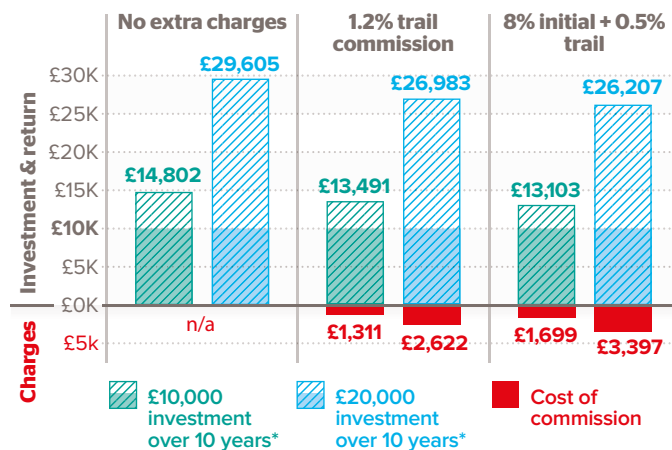
Financial advisers encouraged to lock in commission at consumers' expense

Which? has reported Zurich to the Financial Services Authority after one of its sales staff urged financial advisers to switch clients' money into bonds that lock in ongoing commission – just months before the practice is banned.

In an email seen by Which?, the Zurich employee appears to call on advisers to 'make your bonds work better for you', even though, after charges, this could have the opposite effect for investors.

When the Retail Distribution Review comes into effect in January 2013, advisers will no longer be able to receive commission on investment recommendations and any new ongoing payment will have to be for an ongoing service. At the moment, advisers can receive trail commission every year you hold a product they sold you, despite them offering no ongoing service.

But investments in place by the end of 2012 can continue



*Based on annual growth of 4% after all other fees

to earn trail commission until they are cashed in or the client cancels the arrangement.

The email even includes the commission levels that can be earned on its Sterling Flexible Bond (see table, above), ranging from no initial fee but a hefty 1.2% trail commission, to an 8% initial fee plus 0.5% trail.

Invest £10,000 over 10 years, and your adviser could pocket almost £1,700 in commission.

Zurich told us: 'This email was sent by an individual member of staff to a small number of financial advisers in the last month. It was totally inappropriate and was not sanctioned by Zurich.'

Which? works for you

OFT ACTS AFTER WHICH? TIMBER INVESTMENT AD COMPLAINT

After Which? complained about an Ethical Forestry timber investments advert, the Office of Fair Trading (OFT) has warned Ethical Forestry that it could face an injunction and penalties if it reruns the ad. The company's marketing included quotes from adverts Ethical Forestry had itself placed in national newspapers, rather than being editorial comment independently recommending the investments.

We believe that presenting paid-for advertising as an endorsement could be misleading to consumers and may breach the Consumer Protection from Unfair Trading Regulations.

The OFT told us: 'We have concerns about the potential for endorsements inappropriately attributed to trusted sources to deter some people from doing appropriate due diligence.'

£3.5bn the amount of PPI compensation actually paid so far, out of the £9bn banks have put aside. To complain about mis-sold PPI, use our free tool at www.which.co.uk/ppiclaim.

Over 65s clobbered by travel insurers

Some travel insurers are still hiking your premiums when you celebrate your 65th or 66th birthday – a year after Which? exposed this practice (June 2011, p66).

Premiums rocket for 15 out of the 48 annual worldwide policies for the over-60s when you turn 65 or 66. These include policies from Columbus Direct, Debenhams, ETA and Insureandgo. A 65-year-old would pay £58.72 for an annual worldwide policy

with Essential Travel. Turn 66 and the price jumps to £205.51 – a 250% rise overnight.

Many won't even cover older travellers. Out of 80 annual policies we looked at, 97% exclude those over certain ages, and just 9% offer cover for people in their 80s. For single-trip policies, 84% apply an upper age limit and only 33% cover people in their 80s.

Find the best travel policies for all ages, at www.which.co.uk/travelinsurancejuly.





HOW THE FUNDS COMPARE

Fund	Performance fee?	Highest annual fee during period (%)	Three year return (%) ^a
HSBC FTSE All-Share Index	N	49.4	0.27
Fidelity Moneybuilder UK Index	N	49.0	0.30
Henderson UK Abs Return	Y	14.05	3.19
BlackRock UK Abs Alpha	Y	3.0	2.30
CF Octopus Absolute UK Equity	Y	-7.35	2.81
SVM UK Absolute Alpha	Y	-20.4	2.03

Cost and performance of funds that do and don't charge performance fees over three years. ^a 30/04/09-30/04/12
 Source: Lipper

Fund managers take a big slice of your money

Exorbitant, over-complex performance fees leave investors short

Investors are being stung by fund managers' performance fees that we believe are often too easy to earn and too hard to understand, thanks to their complex and inconsistent structures.

Performance fees allow some of the UK's largest investment companies to reward themselves with millions of pounds a year, and sometimes charge arguably exorbitant annual fees, despite often struggling to deliver positive long-term returns for investors.

The theory is that if you invest in a fund that buys shares or bonds in companies, the fund manager takes a cut of any profits if it does particularly well. Fund managers claim that this better aligns their interests with yours.

But we believe that performance fees are sometimes being used to disproportionately reward fund managers for short-term gains, and give nothing back if they do badly in the longer term.

And we found some performance fees that increased charges by more than 250% in a year. But the complex ways in which they are calculated makes it virtually impossible to work out what you might pay.

HUGE RISE IN CHARGES

All funds have an annual management charge (AMC) of around 1.5%, but performance fees, charged only by a minority of funds, are an additional expense – typically 20% of any gains made over a designated benchmark.

This means you can pay uncapped fees during periods of strong performance, frequently adding more than 100% to your annual costs, but get nothing back during periods of poor performance – though of course you still pay your AMC.

For example, the BlackRock UK Absolute Alpha fund took nearly £12.5m in performance fees in 2010 alone, even though the fund lost

3.9% of investors' money between the end of 2009 and the end of 2011.

A major problem with these fees is the use of inappropriate benchmarks. For example, many funds use the Bank of England base rate as their benchmark, so if your investment had grown by more than the base rate of 0.5%, the fund could have received 20% of your returns. This makes little sense, given the high rate of inflation.

More worryingly, some fund managers, including Cazenove and Henderson, have no benchmark at all on certain funds, enabling them to take a cut of any returns above zero.

Henderson's European Absolute Return fund, whose aim is simply to produce a positive return in all market conditions, is a good example of a fund with a fee structure that we believe works heavily in the manager's favour. With no benchmark to beat, and taking a performance fee every three months, even if you lost money over a year, you could still pay for one quarter of growth.

CHARGES MUST BE FAIRER

Charges have a huge impact on investment performance, and Which? is calling for them to be clearer and fairer. At the moment, charges are not only too high, but they're rarely disclosed in full to investors.

We don't think that managers should be able to charge a performance fee simply for delivering a positive return – unless they've whittled back annual management charges to ensure that they only get paid a minimum if they fail to perform. We also want to see them setting higher benchmarks (beating inflation) and longer periods to collect these fees.

We'll be raising these issues with the regulator and speaking directly with some of the worst offenders.