Charges and distribution terms that slow take-up

For pricing, proposition and distribution leads at insurers, asset managers, platforms and lifetime mortgage lenders: three common beliefs about charges and distribution terms, what tends to happen instead, and what to change.

IN BRIEF

The problem

When take-up is slow, the first lever pulled is usually the headline price, and the shape of the charge and the terms offered to intermediaries get less attention.

Why it happens

Charges are set to meet internal return targets, while advisers and intermediaries judge them on how easily they can be compared, explained and justified for a particular client.

What to do

Check whether price is the problem before cutting it, simplify the shape of the charge, and set distribution terms with the channel and against fair value.

01

Belief one: if take-up is slow, cut the price

A price cut is the most visible response to slow sales, and often the most expensive. Where the cut also applies to existing customers, revenue falls on every pound already invested, not only on new business, so the product needs a lot more assets just to stand still.

ILLUSTRATIVE EXAMPLE

Extra assets needed to keep revenue level after a charge cut

Annual charge	Cut to	Extra assets needed
0.75%	0.70%	7%
0.75%	0.65%	15%
0.75%	0.60%	25%
0.75%	0.50%	50%

Revenue is assets multiplied by the charge, before any change in costs. On a £2bn book, a cut from 0.75% to 0.65% removes £2m of revenue a year, which needs £308m of extra assets to replace.

If price was the reason for the slow take-up, a cut can pay for itself. If it wasn't, the firm has given away revenue on its existing book and left the real problem in place. Briefing 1001 sets out how to find out which it is before deciding.

02

Belief two: the lowest headline charge wins

Advisers rarely compare headline charges alone. They compare the total cost for a particular client, set out in the costs and charges disclosure, and they explain it to the client in the suitability report. Several common features make that harder:

- **Multi-part charges.** A product charge, a fund charge and a separate fee each need their own explanation, and the total depends on the client's circumstances.
- **Tiered charges.** A rate that changes at set thresholds makes the adviser work out which tier each client falls into, case by case.
- **Exit charges.** A charge for leaving early is hard to defend to a client, and harder still in a fair value assessment.

A single, clear charge that is slightly higher can be easier to recommend than a cheaper one in three parts. Before changing the level of a charge, look at its shape.

03

Belief three: distribution terms are a cost to keep down

For advised investment and pension business, the question has been settled since the Retail Distribution Review: since December 2012, advisers have been paid through charges agreed with their clients, not commission from providers. Platforms have been barred from taking payments from fund managers on new business since April 2014. Here the provider's job is to make adviser charging easy to set up and pay, not to compete on terms.

Elsewhere, intermediaries are still paid by providers: procuration fees on lifetime mortgages, commission on protection, and commission on some non-advised annuity sales. In those channels, terms shape what gets recommended or promoted and how much servicing is done afterwards. Treating them only as a cost to minimise can push business to competitors. Paying the most can buy business that doesn't stay, such as protection policies replaced soon after the commission clawback period ends.

The Consumer Duty sets the frame for both. A distributor has to check that its remuneration, and any it knows another firm in the chain receives, doesn't stop the product giving fair value (PRIN 2A.4.16R; for protection and other non-investment insurance, PROD 4.3.6AR). The FCA's later-life mortgages market study, launched in March 2026 (MS26/1), is looking, among other things, at the commission and referral fees providers pay advisers, with interim findings due in the fourth quarter of 2026.

FROM EXPERIENCE

At St. James's Place I maintained the product pricing approach, signed off terms for bespoke, high-value cases, and led an initiative to remove penal exit charges. At Partnership I renegotiated distribution network terms, and at Prudential Polska I recommended the agent remuneration for a new product suite.

The common thread was that a charge or a term had to work for three audiences at once: the business that needed a return, the intermediary who had to recommend it, and the client who would pay it.

04

What to change

- **Test before cutting.** Confirm that price is the reason for slow take-up, and work out how much new business a cut would need to pay for itself.
- **Simplify the shape.** Fewer components, no tiers unless they clearly help clients, and no exit charges that can't be justified in the fair value assessment.
- **Price for the comparison advisers make.** Model the total cost for typical clients against the alternatives advisers actually use, not against the market average.
- **Set distribution terms with the channel.** Where intermediaries are still paid by providers, pay for the work the channel does, including servicing after the sale, and check the terms against the product's fair value assessment.

Questions for the board

01 What evidence do we have that price, rather than something else, is slowing take-up?

02 If we cut the charge, how much extra business would we need just to keep revenue level, given the cut also applies to existing customers?

03 Can an adviser compare our total cost with the obvious alternative for a typical client in one step?

04 Which of our charges would be hardest to justify in a fair value assessment, and why do we keep it?

05 Where we pay intermediaries, do the terms reward the work the channel does, and have we checked they don't undermine fair value?

06 How exposed are our volumes and costs to the FCA's current work on commission, such as the later-life mortgages market study?

Before cutting a charge, look at its shape and at the terms around it. Getting those right often does more for take-up than a lower level, and it doesn't give away revenue on the existing book.

If this is on your table, a 30-minute conversation is usually enough to tell whether I can help.

Talk to Mark

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ABOUT THE AUTHOR

Mark Woodruff is a Chartered Actuary (FIA) and Chartered Financial Planner (FPFS). He spent 15 years pricing and building products at Aviva, Prudential, Partnership and St. James's Place, then more than seven years founding and running advice firms through to a substantial sale. Through Mark Woodruff Consultancy he works with financial services firms on product, pricing, distribution and governance.

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