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When you are better off ditching the middleman

Advisers can cost a lot of money, make sure yours gets the best deals



Elizabeth Colman

More consumers are turning to financial advisers during the recession — though there is growing evidence they could be better off buying direct from providers.

Some 10% of people sought help from a financial planner in 2008, compared with 20% in 2009, according to the Institute of Financial Planning (IFP).

However, borrowers need to look beyond the middleman as lenders are increasingly cutting mortgage brokers out of the best deals. HSBC and First Direct, for example, dominate the best-buys for fixed and tracker mortgages, but their deals are not available from advisers.

Of the top 10 mortgages on offer a year ago, seven were available through brokers — today, however, none of the top 10 deals are via brokers, according to eMoneyfacts, the financial data firm.

Savers are also being penalised for taking advice. About 500 financial advisers and brokers have joined a “savings club” set up by Moneyfacts, an intermediary website that promotes products. Rates may be lower as some providers seek to claw back commission they now pay to advisers.

However, experts warn of the perils of cutting out independent advice, saying that intermediaries, such as price comparison websites, do not always offer the cheapest option, especially when buying insurance.

Here, we look at when it does and doesn't pay to cut out the middleman:

MORTGAGES

The best two-year fix available through brokers is Coventry building society's 3.95% (which has a £999 fee and requires a 50% deposit), whereas First Direct's two-year fix is 3.49% (with a £1,298 fee on a 40% deposit) if you go direct — a difference of £77 a month on a £200,000 loan.

Halifax and Abbey have “dual pricing”, which means the mortgage deals done through brokers are more expensive than those offered through their branches, call centres and websites. They save on the commission paid to brokers for bringing in business, usually about 0.35% of a loan. Abbey's two-year fix for those with a 30% deposit is 3.98% direct or 4.18% through a broker. Halifax's two-year fix (40% deposit) is 4.19% direct or 4.29% through brokers.

Aaron Strutt of Trinity Financial Group, a mortgage broker, said it still paid to seek independent advice. "A good broker will direct their client to the best product — even if it is direct from a lender," he said.

"Broker-only deals could be better in the long run. Abbey has a four-year fix at 4.99% for a £995 fee with free valuation and legal fees, maximum loan of £1m — only through brokers. HSBC's five-year deal is 4.95%, but the maximum loan is £500,000."

SAVINGS

Some banks and building societies are offering commission to advisers and mortgage brokers for recommending deposit accounts, as they scramble to attract savers' cash to shore up their balance sheets.

Advisers who recommend products on the eMoneyfacts website — which features savings accounts from the likes of the Yorkshire, Skipton and Newcastle building societies as well as Scottish Widows Bank — are often paid commission on the amount deposited.

However, the rates on offer through the website are, in some case, lower than the rates paid to direct customers. For example, Newcastle building society offered 3.75% last month through eMoneyfacts for its two-year fixed-rate bond, with 0.35% of commission going to the site. A similar bond paying 4.2% was available direct from the society, meaning a customer who paid in £50,000 through the club would be £225 a year worse off than if they had gone direct.

INSURANCE

Growing numbers of consumers are turning to price comparison sites, with some 65% having used one this year, the IFP said.

They earn commission when you get a quote, when you "click through" to a provider's website or when you eventually take out a product. They do not compare all providers, however. Some firms, such as Direct Line and Norwich Union, are not signed up to comparison sites and may offer cheaper deals.

For example, going through an aggregator does not allow you to get a discount for insuring more than one car with the same insurer, you would have to go direct to the insurer to get this. These discounts are worth about 10%.

Brokers may come into their own when insuring expensive properties, possessions and luxury items, such as boats. Stuart Reid at Bluefin Insurance Services, a specialist broker, said: "Take a home in, say, Newbury, Berkshire, where the house is insured at £1m and the contents are insured for £150,000. Include a £50,000 antique dining table and throw in £10,000 of items that you want to be insured, and you're looking at paying £1,304 a year through an insurer we have on our panel.

"According to a quote from Gocompare, a comparison site, only one insurer is prepared to offer a quotation for that sort of risk — at £1,893 a year — so almost £600 more."

Reid added: "Even where there are no savings to be made at the point of purchase, brokers can help influence insurers when it comes to making a claim — and make sure that you have satisfied the policy small print at the outset."

Without a broker



Financial consultant Andrew Armour, 36, and his wife Amelia, 33, have used a mortgage adviser for all their property purchases over the past four years — but were recently recommended a direct-only deal.

The couple, from Newport, Essex, pictured with children Charlotte, 3, Logan, 2, and Duncan, 1, have a buy-to-let mortgage on an investment property and another mortgage on their holiday cottage, arranged through their broker, Ian Gray of Largemortgageloans.

For the remortgage on their family home, Gray advised a variable deal at 0.49% over Bank rate — available only directly from HSBC. The top remortgage deal available through brokers was from Abbey — but cost about 1 percentage point more.

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