India grappling with ebb-and-flow of falling fees, more clients

With plummeting fees within Indian wealth management becoming a concern locally, the situation is attracting a worrying eye from practitioners. An exclusive Hubbis survey of almost 100 top Indian wealth management professionals delved into the abyss.

A Hubbis survey of almost 100 leading wealth management professionals in India has shown that the dramatic decrease in fees in the sub-continent can be directly linked to automation and a continued client resistance to embracing the fee-paid advice model.

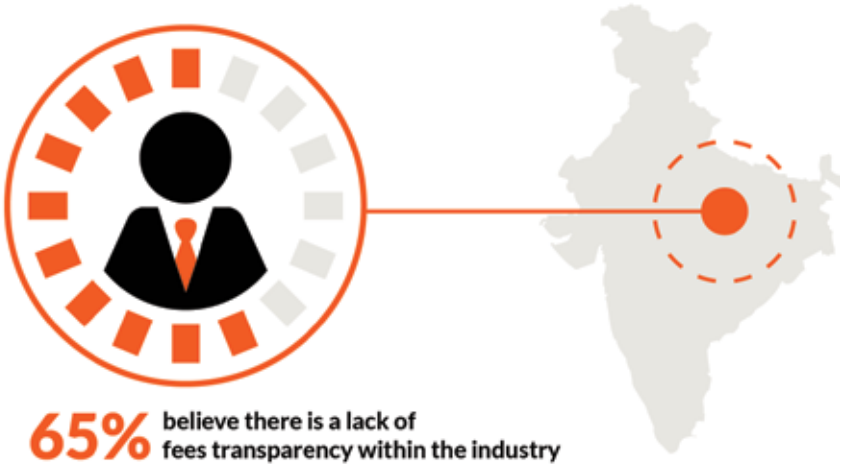
However, some industry protagonists believe solutions do exist to overcome these setbacks.

When asked about a perceived lack of fees transparency within Indian wealth and asset management, almost 65% of respondents agreed that this was the case, this being tempered by the fact that current regulations are in place to monitor fees.

A significant portion of those surveyed also held the view that most Indian clients need more education of wealth needs and products in order to get over the hurdle of clients being unwilling to pay for advice, which leads to a preference for structured products.

This has led to fees in some cases being reduced to 20 basis points or less, which was another worrying point grappled by the survey respondents with the majority believing that this was self-defeating. It was also thought that advisers should stop competing on the parameters of fees and start differentiating themselves on the basis of quality advisory practices, turnkey solutions and structured products and services.

However, a majority also said that from the investor's perspective this as going to be hard to change, and, worryingly, they believed that this was ultimately controlled by the investors, who wishes would prevail with quality being compromised.



On the question of quality, the survey respondents also debated if clients should be placing greater value on the advice given to them?

This garnered a mixed reaction, with the majority opinion agreeing with the sentiment but questioning if the market had matured enough to allow this to be possible.

One respondent also noted that: "Clients have always placed greater value what is being offered to them. A client shall never give business to a firm on the basis of lower fees.

"Quality of Advisory practice and bouquet of products along with benchmarking performance are the priority. Fees are an important criterion but overall performance counts first."

The question of low fees also prompted some debate on the possibility of "hidden fees" propping up the structure, and, while there was a mixed response (and some evasive responses) most practitioners agreed that some fees, while still transparent were not obvious.

This, of course, lead on to the question of how front-line advisers and wealth managers should be rewarded, which again produced diverse opinions.

While around 35% of respondents agreed that rewards or compensation should be based on the service provided and the time spent to manage that account, there was support for the alternative option of having a full performance-based structure that would be linked to the growth of the portfolio of the client.

However, this group was very clear that there must be a demand to cover the appropriate cost for that advice and that neither compromise on quality or cost should be entertained.

The group also opposed hidden charges and said that earnings must be transparent to the clients.

Over 50% of those surveyed also believed that the current practice to incentivise by rewarding higher churn of a specific book of accounts was also a good initiative as the emphasis of the front line advisers is on doing more number of transactions then increasing returns of the portfolio.

The reward should then be on the feedback an adviser has received based on parameters set out for performance by the firm as well as the clients.

Another school of thought is believed that a large part of the incentives should be based on returns generated for clients and not only on sales achieved, while some weight-age should also be given for feedback from clients on the services given to them.

It was also thought that there should be a cap on fees that could be charged by the advisers / wealth managers for their advice depending on the AUMs handled by them.

The group said this was similar to investment management fees that could be charged by investment managers under the SEBI (Mutual Funds) Regulations, which are based on the AUMs managed by the investment managers.

However, a minority 15% of the survey had concerns over the capabilities of the advisers in relation to the services they offer.

"Front-line advisers should be well equipped to impart quality advice to clients and should be rewarded on wallet share of the client that is brought in, rather than chasing revenue. Revenue chasing never ends up in increasing quality Asset Under Advisory / Management. When an organisation takes pride in mentioning the AUM being managed, why not praise the advisers as well?

"Ideally, rewards should be on an incentive model, but the firm has to drive the right behaviour. Most local firms pay only lip service to due diligence on products and transparency and ethics." ■

HUBBIS SURVEY: 100 TOP INDIAN WEALTH AND ASSET MANAGEMENT PROFESSIONALS