Is commission cannibalising Asian wealth management?

Over half of the 1,000 market practitioners who responded to a recent Hubbis survey say front-line sales staff should continue to be paid commissions. But in such a divisive debate, this view threatens to hold back the industry from adapting and evolving to a model that is more future-proof.

IT SEEMS LOGICAL THAT BY STOPPING paying commissions to relationship managers (RMs), banks can eliminate any conflict of interest between the bankers and their clients.

Although the main responsibility of an RM is to acquire new clients and deepen wallet share from existing clients, acting in the best interests of these individuals should be their ultimate goal. Plus, the economics of the business are changing.

It is difficult to deny that commission payments which are, in many examples, larger than the basic salary, shape an RM's behaviour towards a self-fulfilling outcome.

Why, then, do 53% of the 1,000 market practitioners who participated in a Hubbis survey believe commissions are still appropriate or even relevant in today's environment? Surely wealth management professionals don't want to be perceived in the same category as insurance or securities brokers?

Arguments in favour of keeping the status quo are summed up by a typical response by a proponent of commission: "RMs need an incentive to sell and source clients."

This also reflects a viewpoint that nothing sells without distribution - and distributors won't sell unless they're paid for doing so.

A more balanced perspective suggests that the industry needs to focus on reinforcing ethical values if it wants to avoid abuses.

New metrics needed

In certain cases, when well-managed, commissions can align the interests of the clients and RMs. And there are good arguments for paying on productivity, not specific products.

An alternative might also be to give the commission to the entire team, or no-one.

But perhaps different KPIs should be applied altogether.

Many forward-thinking practitioners, for example, suggest that incentives should be based on all-round performance, including client satisfaction, risk control, outcomes and ethics.

The crux of the matter, say some industry leaders, is ensuring that the approach is customer-centric rather than product centric.

This is more likely to be in line with the US model of focusing on achieving longer-term goals.

Unless this happens, it will be impossible for the industry as a whole to evolve beyond the transaction-oriented model and move towards long-term wealth planning and related solutions.

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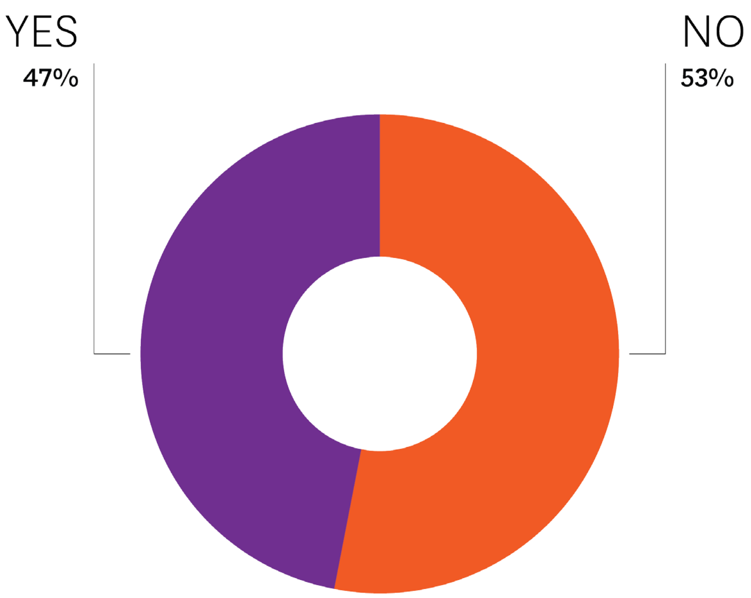
Remuneration could also partly reflect the level of collaboration of the RM with the bank's investment services team.

This might be calculated, for instance, in terms of the penetration of mandates or other solutions to generate more recurring revenues.

Paying for the right thing

Yet debating the pros and cons of commission, or how to pay it, still doesn't answer what is perhaps the most relevant question of all: will clients in Asia even pay a fee?

SHOULD PRIVATE BANKS AND WEALTH MANAGEMENT FIRMS IN ASIA STOP PAYING COMMISSIONS TO RMs?



The issue is clearly not black-and-white. And there is not necessarily a right or wrong approach.

If they see value, they will, urge practitioners who have successfully implemented such a model - often in independent or external asset management or multi-family office models.

However, paying a commission might be best in some situations. If it is, however, it needs to be rooted in transparency and fairness in terms of what the client is being charged for overall - not just commission - and whether it makes sense, for the client, the RM and the bank.

While banks do not like such openness, it seems to be a more honest way to proceed.

Ultimately, determining which approach is best should be part of a collaborative decision - especially as clients are beginning to understand the conflict of interests.

RM relevance

Perhaps the role of an RM also needs to be clarified; are they a salesperson or an adviser? If the latter, it changes the dynamics and expectations, for themselves and also clients. But overall, clients should move away from simply paying for turnover towards paying for performance and advice.

This way, RMs are surely more likely to be motivated to ensure that their client is getting what they want.

Senior executives at those independent firms that adopt such an approach, for instance, say their clients appreciate the transparency.

Yet this is also easier said than done. Asking for a fee requires an RM to be sufficiently trained to have the competency, ability and conviction to put a client's needs first.

The chink in the armour is the fact that many RMs are currently trained to market their products for commission that forms a much more meaningful percentage of their overall remuneration than it probably should.

Forced change

The fact that any of the Hong Kong-based survey respondents believe paying commissions to RMs should continue is especially surprising given the March 2017 notice from the Hong Kong Monetary Authority.

It essentially called for the chief executives of all locally-based authorised institutions to encourage behaviour that requires remuneration to not be linked only to revenue - with the aim of eradicating any undesirable behaviour.

Indeed, many practitioners believe that the only realistic way within the current landscape to force change on industry players is regulation.

Until then, less sophisticated and more retail-oriented clients will continue to be overcharged.

Further up the wealth pyramid, however, more clients are expected to move towards the fee-based model.

Ultimately, market forces will determine the best results in the long term, combined with regulatory tightening.

If advice is going to become more 'freely available', transactions more rapid and digital, and margins thinner, then the whole value proposition will be challenged and the industry needs to think more of clients buying into the bank's services directly than relying purely on RMs to get access. ■