Solutions for Price Transparency and Fee Disclosure Challenges in Wealth Management

Dr Silvio Struebi, a partner at the global strategy and marketing consultancy Simon-Kucher & Partners, based in Singapore and Hong Kong, believes wealth management firms can markedly up their game when it comes to pricing their products and services to reflect the value they offer. He gave his invaluable insights to delegates at the Hubbis Compliance in Asian Wealth Management Forum in Singapore in mid-January, advising them that if they do not adjust their pricing practices, they will not future-proof their business models and will also run the risk of being reprimanded or issued penalties by regulators.

STRUEBI OUTLINED THAT HIS PRESENTATION WOULD COVER THE KEY PRICING AND DISCOUNT MANAGEMENT CHALLENGES PRIVATE BANKS IN ASIA FACE, examine how an integrated pricing and discount management framework can help address these challenges and discuss ways for private banks to manage risk and handle compliance more effectively while maintaining commercial feasibility.

For those not familiar with his firm, Struebi explained that Simon-Kucher & Partners is a mid-size consulting firm with around 1,400 employees operating out of 39 offices across the globe. “As a specialised consultancy, our primary focus is on pricing, marketing and sales,” he reported. “In most industry verticals, we focus on the commercial angle of pricing. In heavily regulated industries, such as banking or pharmaceuticals, there are some other key restrictions we have to consider when we come up with our pricing and discount recommendations.”

Professionalising pricing and discount management

The premise of Struebi’s presentation was that the existing approach to pricing, monetisation and discounts in the wealth

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management sector in Asia needs addressing more professionally to provide sustainable growth and superior service and diminish growing regulatory risks.

However, the transition to higher transparency and a new revenue mix is not an easy one. The struggle around pricing in the wealth management sector in Asia results from the continuing focus on transactional and spread-based revenues as opposed to recurring revenue, or at least, commission-based revenue. In any case, a far better balance is required.

In Europe, the MiFID II regulatory regime applies, and as Asia follows Europe's lead, pricing transparency and fee structures are becoming an increasingly important topic in this region too, forcing providers to find better ways to ensure compliance in every aspect of their client interface.

Fee transparency is ever more vital

Struebi then highlighted that the need for transparency in the Asia region will increase in the future. At the same time, competition is intensifying, making the drive towards monetisation and value pricing more crucial than ever, with innovations and smart pricing strategies proving central to protecting declining revenue margins.

Struebi supported his talk with an excellent set of slides to demonstrate his points, highlighting some instances in Singapore of the authorities publicly clamping down on the dubious behaviour of some financial services providers in relation to their fees and charges. Key issues today include limited communication of fees on wealth products and services, a relatively high level of discretion for RMs over fees charged, including commissions and spreads, a lack of oversight, a lack of pricing-related monitoring and reporting, and the widespread absence of clear, tangible industry guidelines and frameworks for pricing in the region.

He went on to comment that further emphasis on fee transparency and guidelines will be the logical consequence for regulators in the region. "We know that fee transparency does not stop at disclosure," he observed. "It also matters how fees are communicated, so that customers really understand what is going on. Accordingly, new regulations will most certainly be introduced, and then, of course, banks will have to implement them, as usual, on an accelerated timetable."

Three important areas to address

Summarising the three key pricing problems he observes in today's wealth management industry, Struebi noted there is a lack of pricing transparency, fee disclosure and communication and a rising number of wealth management industry cases and complaints relating to pricing misconduct.

There are deficiencies in pricing system controls and the sales surveillance process caused by insufficient internal controls and quality assurance, resulting in overcharging or unfair ways of dealing with consumers, especially for OTC structured products, FX and bond spreads.

Moreover, wealth managers' remuneration structures are misaligned. In particular, fee-focused remuneration schemes are not in line with customer behaviour and could increase the risk of misconduct. Moreover, in an increasingly regulated environment, market misconduct should, in fact, impact a wealth manager's remuneration.

Solutions are available

Struebi then briefly offered some solutions to enhance pricing transparency and fee disclosure. "First," he remarked, "banks should actually lower their maximum prices, which are generally high and actually beyond commercial feasibility. I would add that, in many of our current projects worldwide, we help banks achieve these fee decreases properly without them suffering very much and tap into new revenue streams."

He advised firms to document wealth management charges and fee properly. "Quite often," he noted, "some banks do not have a proper archive of agreed client tariffs." He is referring to a written individual agreement between the RM and client, which is often not available and hence not reflected in the individual fee set-up for a given portfolio in the core banking system. In other words, pricing is defined on a trade-by-trade level.

He said firms should embrace providing clear guidelines and intuitively explaining fee structures. "Some jurisdictions have been leading in this regard," he noted, "and have been making considerable progress on disclosing fees and explaining the rationale for how they are calculated. The overall disclosure topic is very important, especially on the OTC side, and it is not easy to address. Generally speaking, firms will also need to focus on IT improvements in order to resolve this and other issues relating to pricing and transparency."

He then advised banks to follow another key trend that Simon-Kucher is seeing globally in the wealth management space for annual discount confirmation and disclosure, whereby banks send out letters to clients that set out the fee and discount schedules for the year ahead.

Struebi also highlighted the value of detailed post-trade client advice with fees explicitly laid out and this data carefully logged and maintained in the data systems. "Clarity is vital," he explained, "and keeping clear and accurate records will also potentially help banks increase the fee structure, depending on their specific strategy. In fact, any deviation from agreed client pricing should be justified with clear evidence."

Avoiding mispricing

He then offered delegates some formulae to ensure that there is no overpricing and that there is a clear correlation between ticket size and the fee charged. The spotlight, he said, falls on both overcharged and undercharged rates, as there is a widespread drive to achieve greater pricing fairness.

Struebi then returned to the important topic of remuneration. He observed that a transaction-based model in a decreasing margin environment might increase the risk of unfair charging. He commented that in the quest for AUM, overweighting volume-based targets might lead to the acquisition of low-quality assets and volume churn. Struebi emphasised that a balanced score-card including revenues, AUM growth, customer satisfaction and compliance would result in both quantitative and qualitative measures to steer positive staff behaviour and better outcomes.

Future-proofing your business

By following these points, Struebi noted, wealth management firms' revenues would become more evenly balanced between transaction-based income and recurring fee income and the risks of regulatory transgression would be reduced, as pressures on key revenue generators are mitigated. These outcomes will help make wealth management firms more fit for purpose, their staff more satisfied and their customers more loyal.

The wealth management industry in Asia has remained too opaque for too long, but with an increasing need for disclosure on the client side and strict compliance requirements, it is gradually becoming an internal priority for all the players in this industry that they focus on and willingly embrace transparency. Struebi encouraged delegates to address all these concerns as a matter of priority. ■