What advisers want

A Whitepaper for InvestmentLink

Inadequate service standards over when and how commissions are paid threatens to undermine relationships between product providers and dealer licensees, Mark Story investigates why.

It's no longer acceptable for fund managers and a myriad of other providers to treat commission management as a clumsy black art. At least that's the clarion call resonating from the results of recently released (InvestmentLink-commissioned) surveys into how advisers and dealer licensees expect upfront and ongoing fees, and commissions to be paid and reported on. Based on feedback from 118 industry organisations, survey results show that 80% of dealer licensees believe it's crucial they receive commission payments electronically.

Providers recognise the importance dealer licensees place on web-based downloads of commission information (see table II). But according to survey results they significantly under-estimate the value dealer licensees place on receiving a single file for all products (from each provider). In fact, almost nine in every 10 dealer licensees (84%) believe the impact of receiving their commission management in a single, standard consolidation, electronic file (rather than multiple files) would deliver a positive or very positive business outcome. On the flipside, only half providers perceive this as an issue for dealer licensees.

Perception and reality

This perception-gap highlights the high number of providers (30%) that still use some manual data manipulation, with 8% still relying entirely on manual calculations. Given that survey results suggest that 68.75% of dealer licensees rate a standardised file format as either important or very important to their business, Peter Phillip CEO with technology solutions provider, InvestmentLink Ltd says provider indifference to this issue is alarming. Little less than half

(43%) providers failed to openly support the adoption of a standardised file format across the entire industry.

Phillip says that while it's unacceptable for providers to continue straddling paper-based commission systems, incomplete electronic systems can create equal amounts of manual work for their dealer licensees reconciling a comprehensive information and payment chain.

He says providers that refuse to supply a comprehensive, single, standard (format) consolidation electronic file effectively undermine the value of dedicated management software that (survey results reveal) 67% dealer licensees now operate. "It can get even more complicated when a dealer licensee merges with or acquires other businesses, leaving providers unclear on whose codes should be allocated to what products."

What this creates by default, especially where there are large commission volumes, says Ashleigh Swayn director with MBT Financial Advisers is uncertainty over what (if any) commissions have slipped through the cracks. "It's not like the dealer licensee is monitoring this. I can't recall a time when they've volunteered to or have found lost or omitted commissions," says Swayn. "It's not like we have the time to check either."

According to Kurt Smyth sales and marketing manager with Dealer Management Systems Pty, the difficultly many providers create for dealer licensees in distributing the right payments to their advisers impacts negatively on the relationship between all three. So much so, adds Gareth Hall director with Lifestyle Financial Services that accuracy (on where income comes from) and timeliness of payments play a major role in the decision to select or retain a dealer licensee relationship. That's one reason why rival adviser, John bachelor from Synchronised Business Services would also like to see effective disclosure of any over-rides and bonus payments negotiated between dealer and product supplier.

Confidence crisis

Only one in five advisers surveyed was very confident in the accuracy of payments received from providers. Not surprisingly, 40% of dealer licensees were little more than 'ho hum' about the quality and accuracy received from providers, while 11% thought it was either poor to very poor.

Smyth suspects providers that force their dealer licensees to make manual data entries (because they can't provide complete sets of information electronically) risk being relegated to the 'too-hard-to-deal-with' basket. "What can let a fund manager's great performing product down is poor back-office and commission payment systems," says Smyth. "If fund managers haven't got the tangible (information and money) parts right, how can licensees be expected to trust the accuracy of the data provided?"

Smyth says some licensees are starting to compile lists of providers that are particularly bad in the commission management stakes. "Dealer licensees want complete sets of information and may stop using providers with poor administration and payment systems," says Smyth. "If the level of detail that reconciles amount to products is unavailable, advisers can't see a breakdown of payments or which providers represent their biggest clients."

Wake-up call

Detail aside, the frequency with which commission payments are made is also an issue. Virtually a third (31.5%) of advisers would prefer to receive commission payments more regularly — notably daily (13%) and weekly (18.5%), double the level that are paid within these frequencies today. What's arguably hampering the ability of dealer franchisees to meet advisers' expectations is the regularity with which providers distribute their commissions. While no providers pay commissions daily, less than 4% makes commissions on a weekly basis.

Interestingly, while 67% of providers pay commissions anywhere between monthly and annually, 76% of advisers would like to receive commission payments somewhere within a 14 day cycle. Smyth says if the sheer size of the gap between expectation and reality isn't a sufficient wake-up call for providers, then satisfaction levels should be. Half the advisers surveyed rated the satisfaction levels on the commission payment services provided by their dealer licensee somewhere between poor and barely acceptable.

Given that over two thirds (72%) of advisers highly value practise management tools as a payment feature (helping them run their businesses), limited transparency into payments by providers is a likely driver of poor satisfaction. While 68% of advisers rate client billing, Funds Under Advice (FUA), reporting and payment tracking as important or very important payment features, only 3% regarded giving referees online access to payment information as important.

In addition to clearer declaration and calculation of commissions, Daniel McCabe director with the Financial Advisory Group says commission management systems should also incorporate a facility to direct debit clients bank accounts for fee for service. "I'd also like to see a live flow through of fees from product suppliers to advisers, without the hold-up in dealer groups, says McCabe."

Devil in the detail

When you're a dealer group with over 500 advisers the last thing you need is a constant barrage of avoidable queries over commission payments. But for Millennium 3, one of the country's largest dealer groups this is the by-product of poor commission management by providers. Much of the problem says Kellie Foster commission manager comes down to either inconsistency in the way data is presented or vital data that simply isn't provided. "Sometimes we receive payment days before the commission statement which means we may have to hold paying advisers until the following week's payment cycle," says Foster.

While most providers supply data in an Excel file, Foster says inconsistency over what columns provide what type of data become a major issue when they're dealing with over 100 providers per payment cycle. "Not all providers will report on Funds Under Management (FUM) so we can't use our own systems to provide management and advisers with an accurate picture of FUM," says Foster. "If providers don't update this data regularly our own FUM data remains inaccurate."

Foster claims regular reversals of funds back to providers could be eliminated if only they supplied different codes for advisers with more than one company. She adds, the fact that the payment may still go to the right advisor, doesn't negate the need to make a manual reversal where it's clearly gone to the wrong company.

It may be understandable why providers with infrequent or small files still supply data manually. But Foster says those consistently sending regular, larger hard copy files are being pressured to supply electronically if they wish to retain their preferred-provider status. “Typically any electronic statement with over 200 pieces of data should be sent electronically,” says Foster.

Format inconsistency between providers is one thing, but to make matters worse, Stephen Aguilera-Mendoza IT executive with Count Financial Group Pty Ltd says some providers struggle to present data in the same columns with the same letters and symbols or dashes from one payment cycle to the next. “Sadly, it’s not always apparent that data is wrong, missing or that the file amount doesn’t correlate to the banking amount until we start processing the file,” says Aguilera-Mendoza whose processes up to $4 million in commission payments to around 900 advisers monthly.

Given the inconsistencies in the way providers supply data, Berenice Evans remunerations manager with Financial Services Partners says there’s no accurate and electronic way advisers can cross-check they’re being paid the right amount. She says when they’re distributing $2 million in commissions every two weeks to 180 advisers across 50 practises, it’s critical they have reliable data.

Adding insult to injury, Aguilera-Mendoza says it can be difficult to work out who they need to speak with when commission problems needs fixing. Even when you can find the right people to talk to, Evans says poor quality customer service suggests commission management is a low internal priority for many providers. “Some fund managers, typically the mid-sized don’t care two hoots about the distribution of commissions,” says Evans.

Foster cites an example where one of the larger providers supplies her with half their files by first name and half by last name. While Foster has brought this up with them many times, she says they’re just not interested – leaving her to manually adjust the data which takes time. “We don’t want to have to open a file and modify it, this creates an opportunity for human error. Having a single, standard (CSV) electronic file format would save everyone a lot of hassle.”

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Payment frequency

Frequency	When providers pay	Advisers preferred payment cycle	When dealer groups pay
Daily	0%	12.96%	1.56%
Weekly	3.92%	18.52%	4.69%
Fortnightly	25.49%	44.44%	40.63%
Monthly	58.82%	24.07%	37.50%
Quarterly	5.88%		
Annually	1.96%		
Not sure	3.92%		1.56% *

- 14.07% of dealer groups surveyed didn't pay commissions, ie salaried advisers

Payment feature ratings

	A single file of all products for each product provider	Standardised File format	Web-based management reporting of product usage	Web-based down-loads of commission info	Standardisation of adviser representative codes
Dealer groups: Important/very important payment features from product providers who pay commission.	73.44%	68.75%	53.13%	82.81%	67.19%
Product providers: Payment features they believe dealer licensees see as important for you to provide them in your commission payment service.	49.02%	50.98%	35.29%	76.47%	27.45%

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