EXPERT TAKE | **By MOHIT BATRA** CEO, Alchemy Capital Management & Alchemy Private Wealth

Value-Added Services Must Drive Financial Advisor's Fee

REGULATORS worldwide lead the role of industry makers and over a period of time, write the future of industries and most often countries. Banning of entry load in mutual funds was one such initiative which is redefining the way financial advisory services operate today and will operate tomorrow. If one were to interpret the regulator's language in one line, it would be something like this: Alignment of client advisory interests with earnings of both clients as well as advisors. Many have decoded this message, but most of the financial advisory firms have yet to act upon it. It takes us to the moot point of what's going right and wrong with this financial advisory industry. Sadly, at the moment, there are more things that wrong than right with the industry.

From an era where advisors could earn a fee of 4-5%, the yields have dropped to 1-1.5%. Financial advisors have the ability to charge clients for advice as a value-added service. Many advisors are trying their best to get back to the older yield regime rather than trying to focus on providing superlative services to clients and demanding an advisory fee. Banks are shifting their internal targets to higher-yield products like home loans and other liability-based offers. Pure financial advisors are looking at moving portfolios to higher-yielding assets like insurance while some have started charging transactional and asset under management (AUM)-based pricing to clients.

AUM-based pricing is not uncommon if one were to see how wealth advisors work globally but with a big flaw. Advisors are charging clients on equity AUMs and not on debt. This is bound to create conflict in the mind of advisors. Asset allocation, which is the base of any financial plan, is at grave risk if we don't become unemotional about how we manage assets and thus, get rewarded equally. A lot of advisory responsibility needs to come in from asset management companies and insurance companies as well.

We need to stop innovating ways in which we can reward financial advisors differently for different products, which dents the base of client advisory and propels product push. Lastly, we need to remember that in any business there are always two levers — revenue and cost. We all want to play the revenue lever by a desperate attempt to increase it but playing our cost lever here will work better here. In the past eight years, costs in this industry have boomed beyond sensible revenue of assets. People cost needs to be rationalised and technology cost needs to be hiked, but overall this business cannot run at a cost of more than 0.75-1% of yield to AUM. The belief in revenues being incidental if client advisory is superlative still holds true and will remain so.

We cannot undermine what we are achieving at the same time. Clients have become more receptive to paying advisors if they find value in advisory — we have all seen that in the past one year. Financial plans, investment plans, goal plans have become table stakes. Information disclosure via the requirement of benchmarking all portfolios to a defined benchmark provides performance transparency. Investor awareness is bringing retail participation in markets, which was as low as 5% of financial savings of investors in the country. Importance of financial advisory is well understood and clients have started thinking long-term beyond just the fixed deposit and bank saving route. Over the past eight years, clients have compounded capital in excess of 15%, which is definitely due to market performance but primarily due to the sharpness of advice they get.