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As the wealth and asset management US advisory leader at EY, Nalika has worked extensively with many of the top 10 global wealth and asset management firms. Nalika has led projects ranging from strategy to execution, focusing on business, operations and technology operating models. She works with clients to define innovative offerings for the digital age.

HOW TO ALIGN PRICING WITH VALUE THROUGH TRANSPARENCY AND VARIETY

Firms must recalibrate their pricing models and do a better job of communicating their value to clients

Nalika Nanayakkara

Nearly half of discretionary wealth management clients are dissatisfied with the fees they pay and do not trust that they are being charged fairly. This dissatisfaction stems from a combination of uncertainty about what they are paying for and unhappiness with how they are paying. There is growing concern among clients that fees based on assets under management are not fair.

Wealth management providers cannot ignore this sentiment, as our research shows that pricing transparency and competitive fees are two of the top five most important factors for clients when evaluating and selecting wealth managers. Firms have work to do to prove that their services are worth the fees they charge.

The answer is not simply lowering fees, but rather a combination of increasing transparency and predictability, as well as improving how the value of their offerings and services is communicated to clients.

Many clients do not think they are charged fairly

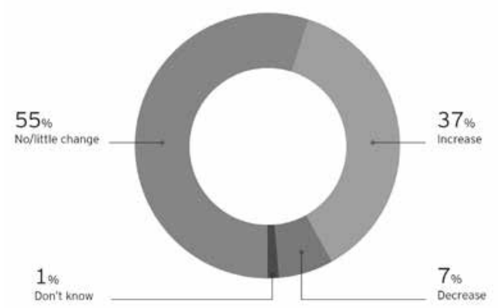
The client segments that are most profitable today and most promising for tomorrow are unfortunately the ones that are most dissatisfied. Satisfaction is lowest among the youngest clients – who regularly comparison shop online – and among more knowledgeable clients – who have a better understanding of the nuances of pricing.

Wealthier clients are also more troubled about pricing, particularly regarding asset-based fees that can rise with wealth levels without a proportionate change in service.

Despite this dissatisfaction, discretionary management clients overwhelmingly seem resigned to an expectation that their fees will remain the same or increase – for now. Only a small share (7%) expect them to decrease, and many of those anticipate paying less because of a reduction in service levels or a shift in assets to lower-cost wealth management providers.

Most clients believe their fees will remain constant or increase

Figure 1. Percentage of clients who expect their fees to increase, decrease or remain unchanged over the next three years



Source: EY Wealth Management Research

The emergence of less expensive alternatives, such as FinTech and passive investment options, is causing clients to question fees at a growing rate. This trend is most pronounced among younger and more knowledgeable individuals: six out of 10 millennials and 8 out of 10 clients with very high investment knowledge expressed this sentiment.

A desire for clarity and simplicity

The lack of perceived value and fairness in the wealth management relationship is compounded by low awareness and understanding of wealth management fees: our research shows that only 56% of clients say they fully understand the fees they pay. Fee awareness is lowest for older clients and for clients with low levels of wealth or investment knowledge.

Helping clients to understand fees

Wealth management executives realise that clients expect more than just strong investment performance. In conversations with executives from top global wealth management firms, we found they are focused on demonstrating value by providing exceptional client experience, goals-based solutions and financial coaching.

By tracking and displaying a client's investment progress toward a goal, advisers can show clearly how they are assisting with tangible outcomes in the future. Going beyond just investment selection and assisting clients with budgeting or estate planning also exhibits value that is more difficult to obtain from automated or self-service platforms.

Clearly communicating services and associated fees is crucial to demonstrating the benefits provided, as well as addressing expanded regulatory rules for greater disclosure. In addition to making disclosures as understandable and coherent as possible, firms can educate clients about fee structures, adviser compensation and incentives through videos or app notifications.

But improving transparency cannot come at the cost of simplicity. Complex performance fee structures for funds have struggled to take hold: recently, multiple large asset managers released funds that link fees to performance in response to investor demand for value-based pricing, but the asset flows into the funds have been disappointing. Although the funds sought to provide one transparency and fairness to clients, the operational challenges with disturbing products with more complex and unpredictable fees caused hesitation.

Demanding alternative price models

Although greater disclosure and simplification are important, for many clients it may not be enough. Most wealth management clients want to pay their wealth

The quote

You need to dispel the myths and help the client understand how your business operates, why you charge what you charge, and what the value for the money is.

Figure 2. Percentage of clients in each category who are aware of all trading and product fees they pay

Source: EY Wealth Management Research

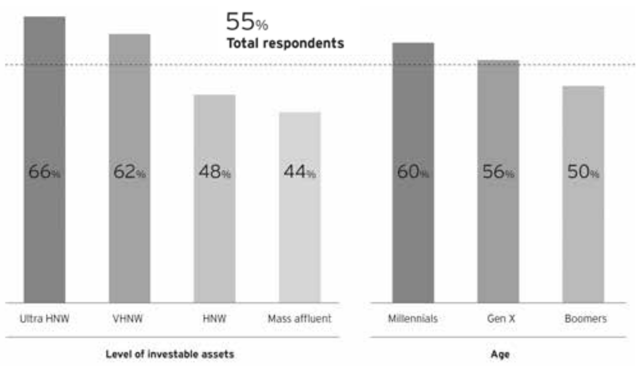
managers using a different payment method – often one that offers more transparency, objectivity and certainty.

Dissatisfaction with payment methods increases with wealth levels, where percent-of-asset pricing models can amplify the size of fees. Younger clients also have a greater desire for change as they are accustomed to clear, simple and predictable purchase terms for everything from taxi rides to lending products: 6 out of 10 millennials indicate a desire for a different type of payment method than they are currently using.

Younger and wealthier clients are more likely to want a change in payment method

Percentage of assets under management is currently the most common payment method, but fixed fee and per hour of support methods are most desired. Wealthier and more knowledgeable clients show a higher preference for fixed fees, which help clients lock in costs and establish the objectivity of wealth advisers.

Figure 3. Percentage of clients who would prefer to pay for wealth management services using a different pricing structure than their current one



Source: EY Wealth Management Research

Though no one fee method is predominantly preferred, clients are showing a preference for fees that are predictable

Forward-looking firms are already working to develop fee structures that offer clients more options and certainty. In addition to fixed and hourly fees, alternative models include pay-as-you-go and fee-for-service, where clients only pay for what they receive.

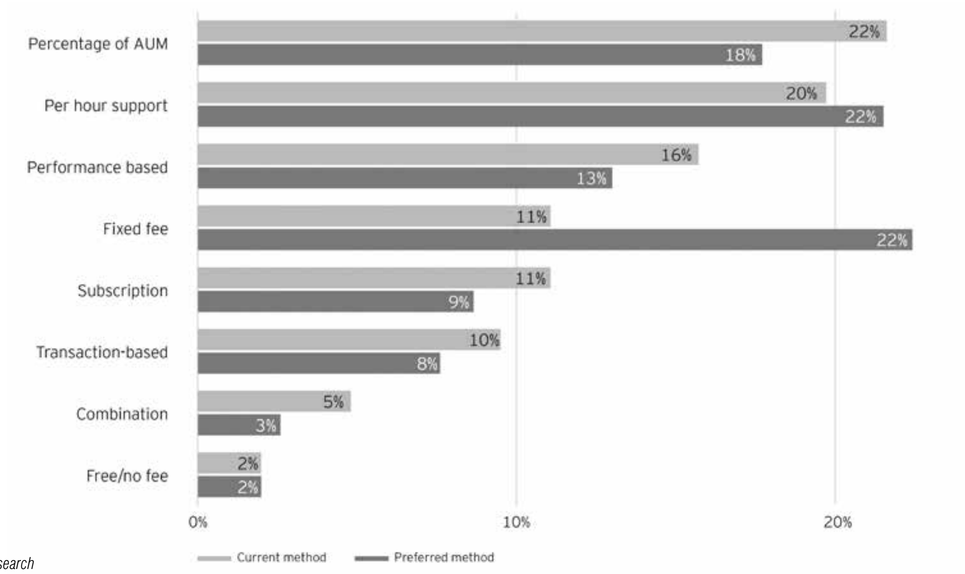
Some firms see opportunities to offer subscription-based models to clients for access to certain services – a trend seen in other industries such as video streaming and food delivery. Another theme we heard from executives was a trend toward unbundling fees for investment products and advice. By splitting fees more discretely, firms are experimenting with creating clearer delineations between receiving value from investment returns versus personalised financial planning advice.

Independent advisers, who are not tied to fee structures mandated by large firms, are generally best equipped to offer variety. They can select the payment method that works best for their clients and themselves, without having to apply discounts or explain certain service fees.

A key consideration when implementing alternative fee structures are the operational impacts. For some firms – especially smaller, independent providers – offering variety comes with greater back office processing challenges. Enabling fee variety for different services requires a cohesive billing platform that clearly prices and charges for distinct services in a coordinated way, and that does not create confusion for clients.

Balancing the economics and increasing efficiencies through technology will be critical to prevent margins from being impacted by pricing alterations. By experimenting with new automation technologies and pooled resource models that share services more seamlessly, firms can provide increased value to specific segments without raising costs. **FS**

Figure 4. Current and preferred payment structures among clients



Source: EY Wealth Management Research