Re-thinking the link between client satisfaction and advisor pay

By Peter Keuls, Catherine Tillotson, and Zanvi Patel
25 April 2014

It is hard to believe, but in wealth management today one of the most controversial statements you can make is that client satisfaction is at the heart of the business. This seems counterintuitive, especially in a business that prides itself on building lifetime relationships with clients who have complex financial needs.

Yet, client satisfaction as a field of study presents huge challenges to the business of wealth management. It comes with the baggage of mainstream marketing, the skepticism of a soft science, and the fear of unintended consequences, especially when introduced into advisor compensation scenarios. Indeed, among these concerns, it is probably the issue of rewarding wealth management professionals to truly incentivize them to deliver the best possible client experience that presents the greatest challenges. For example, does rewarding advisors for client satisfaction provide them with an incentive to offer fee discounts to boost their client satisfaction scores? Or, will they start to pester clients to give positive feedback?

Moreover, what is the right measure of client satisfaction to use when evaluating advisor performance? Is the satisfaction of a client linked to a transaction, a relationship, progress to goals, investment performance or a wider set of outcomes? And, how much of this is ultimately influenced by the individual advisor and how much by the team or the firm? In a wealth management context, client loyalty is perhaps a more pertinent measure of the depth of the relationship. And many believe that advocacy, meaning the likelihood to refer, could be a better measure of the likely future growth of the business.

These compensation design challenges are a significant hurdle for wealth management firms that want truly to incentivize their professionals to deliver the best possible client experience. Given the range of variables, and the fact that those variables will likely alter depending on the client and their changing circumstances, it is therefore hardly surprising that those firms that do measure customer satisfaction do so largely in isolation from compensation practices.

Indeed, to date, when it comes to rewarding wealth management teams for the quality of client relationships, the approach is typically and unsurprisingly a

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discretionary one. Qualitative measures are often used, such as client management or client service factors, to determine how *likely* it is that the advisor will have influenced the client to have a positive experience—not whether they *actually have* had the desired influence.

Moreover, the measures are based on subjective assessments by managers, reflecting their best impressions of how the advisor has responded to client needs. The lack of hard data can result in a trivialization of the issues by advisors. Or, worse still, the manager’s ratings may tend toward being undifferentiated among his or her team, resulting in the perception that any merit award is an entitlement. In either case, there is virtually no impact on behavior.

Where quantitative measures are used, they are at best a proxy for client satisfaction. For example, the level of an advisor's influence on client satisfaction is often inferred from the flow of assets he or she brings to the business, or from the level of client retention they achieve relative to peers.

Sadly, both of these proxies have significant flaws, particularly in a business that aims to work with its clients from cradle to grave. Transitions, successions, deaths and divorces are all part and parcel of the business of wealth management, and all have an impact on the purity of asset flow or client retention as satisfaction proxies.

More than that, neither of these measures can determine if actual clients are actually happy; instead they measure the ability of the advisor to win new business while not losing the old. This is surely the *sine qua non* of a relationship business, rather than an objective measure of whether advisors are adding value relative to an individual client's financial goals.

Certainly, regulators seem to think this may be the case. Their challenge is simply this: if the measures the industry puts in place to evaluate whether its advisors are meeting the financial needs of their clients actually measure their ability to sell more and change little, then those measures probably incentivize the wrong kinds of behavior.

Instead, the solution they would like to see is one where the quality of the relationship is judged relative to its ability to meet a client's desired outcome, thus incentivizing the advisor to truly understand those outcomes and deliver the most appropriate advice and service to deliver them.

One would hope that in a relationship business this should not be regarded as an impossible task. It does, however, require a commitment to understanding the relationship between client satisfaction and productivity.

Given the complex and long-term nature of wealth management relationships, this link is unlikely to be direct – and therefore a prudent compensation plan would feature an understanding of how different client satisfaction factors correlate with net new assets, revenue, margin, new accounts, for different client groups. This analysis of client satisfaction and business performance will enable firms to optimize the outcomes for clients, for the firm and for the team of professionals that support each client relationship.

Given how poorly firms today measure client satisfaction at the advisor level, their lack of understanding of which metrics advisors can truly impact and how these measures are correlated with performance, there is tremendous opportunity to improve the way wealth management firms reward client satisfaction and enhance long-term business performance. The ultimate question for wealth managers today is not whether client satisfaction is the right measure, but whether it matters enough for the business to make it the right measure.

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