

FIFA Perspectives

Oct 2014

Is the Industry geared up to embrace 'All Trail Model' ?

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AMFI's proposal on an all trail commission model to replace the upfront + trail model has created a flutter within the distribution fraternity. As SEBI is believed to be behind this move, there is a growing perception that this is not just an idea that has been floated for consideration, but pretty much the shape of things to come, soon. Brijesh discusses the various dimensions of this key issue in his usual forthright manner. There are no easy solutions, but perhaps some of the suggestions he makes are worth considering to enable the industry to achieve the twin objectives of reducing churn and mis-selling on the one hand, while nurturing and supporting growth of distribution on the other hand.

The news is in the air that product manufacturers are thinking of bringing an 'all trail model' for distribution business. It has shaken the confidence of IFA's, especially smaller ones and those who wish to enter the profession in the near future. High upfront commissions induce churning & mis-selling while low upfront commissions make it difficult for smaller and new IFA's to sustain. So we have a catch 22 situation here.

In the current environment, IFA's are already facing a lot of challenges. 'Direct' and 'investor friendly user platforms' are in the top of their minds. I have maintained that 'Direct' is not a big risk for IFA's but it is definitely a part of business risk and IFA's will lose some clients. There will be give-aways and take-aways in the industry. 'Direct' is a take-away whereas abolishing service tax was a give-away. Mostly, the industry adjusts on its own over a period of time. However, if there are frequent changes in the system as a whole, it affects the sentiments of IFA's negatively. Tampering with revenue model of IFA's very often is a huge withdrawal of trust and puts IFA's on tenterhooks.

No one system will suit all and so there will always be a section of IFA's who will benefit more and others who will bear the brunt due to changes. Nothing can be done regarding this. However, industry should be very cautious of bringing changes which impacts the revenue of IFA's as it touches a soft nerve.

All trail model

Nothing is superior than an all trail model in the long term. It benefits all the stakeholders of the industry, be it the manufacturer, distributor or the client. Till the time the focus of an IFA will not shift from own revenue to clients portfolio and returns, the industry will not grow at the pace it deserves. Trail is a passive mode of revenue and slowly but surely it will be a step in the right direction. However, the timing of such a move is important. Rather, than doing it instantly, it should be done in a phased manner. Also, for the industry to grow it must take care of the needs of different set of distributors. Players who are established, like banks, national distributors, bigger IFA's, can survive and thrive under an all trail model but small IFA's will find it difficult to meet expenses and focus on mutual funds as a core business. This will also discourage new IFA's to join the industry and the numbers will be low. Essentially, IFA's will lose the confidence of remaining in the business since their future will be uncertain.



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After many years the business confidence of IFA's has been revived and any wrong move at this point of time can have serious implications with regard to distribution business. Without a good revenue model in place in mutual fund business, IFA's will move towards other products and the industry along with the end customer will suffer. I believe, there is too much focus too frequently on the revenue model of an IFA.

There needs to be some radical decisions and shift in the way mutual fund distribution is happening in India. A lot of brain crunching is required on this. I would give below some of my thoughts which can be considered. Initially, all ideas look absurd and we think of its short term defects but all great execution is often backed by a simple idea which might have looked complicated initially.

Seed capital to new IFA's

It's a rather new thought. What about providing seed capital to new IFA's (may be on selective basis). Let's say, when a new IFA's is brought in the system an AMC provides a fixed amount (say Rs. 1-2 Lacs for 1 year or so) so that the said IFA can sustain the costs involved initially while he builds his business. This amount paid can be adjusted for the business done in the current year and subsequent years. There will be some defaults but it can help the industry grow. May be, the funding can be made monthly/quarterly rather than one time to ensure good business / performance by the said IFA. Initially, this can be started as a pilot project (say 100-200 IFA's by leading AMC's) and if the results are good, it can be expanded. I am sure if IFA's are supported by capital, most of them will perform. The whole micro-finance business works on this premise. My sense is that the NPA's due to non-recovery of clawback will be more than the loss due to seed capital. May be a semi-tied agency model can be worked upon where an IFA works for a couple of years only for 1 AMC who support him. Everything starts small but it's an idea which needs execution. The modus operandi of this exercise can be further debated upon to make it workable.

Reducing gap of first year and subsequent years commission

The main devil is the first year upfront commission which is way too high as compared to subsequent year trail commissions. This difference is the reward of sourcing new business. Till the time high upfront will remain, there will always be a section of distribution fraternity which will engage in churning periodically for increasing the commissions. There is no way to stop this. High as well as extended exit loads can reduce the churning but can't stop it. Close ended funds can control churning but a lot of mis-selling will start and distributors will promote such funds more than the appetite of clients. An ideal solution can be that the industry as a whole should come to a number which is justified for first year remuneration across product mix for sourcing new business (say 0.50% or 1.00% higher than 2nd year trail) coupled with lock-in and/or high and extended exit loads. While some bigger players may still negotiate higher upfronts, this capping on a larger scale can do a lot of good overall.

Radical changes in products

We already have 3-5 years close ended products. What about having a new range of longer duration products on the asset allocation / pension theme, say 10-15-20 years having a longer lock-in. A high upfront in such cases will suffice along with a trail model. The risk is of mis-selling is there but many things can be done to reduce it. Such products can be offered to selective IFA/ distribution channel, there can be a cap on investment amount (Say 1-2 lacs per PAN), etc. Every decision has its pros and cons. My sense is that, staying invested for long term can have more positives for investors and IFA's than the possible mis-selling of the product and also the churning that happens in alternative products.

Finally,

While moving towards an all trail model will definitely be a welcome move in the long term and favour larger industry participants; it will impact negatively over 99% of the IFA. Though a major portion of industry AUM is from few industry players, removing upfront commission will not be seen as a favourable move by most IFA's and many of them will exit the business. The no. of new IFA's coming in the system will also reduce drastically.

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A mid way approach must be found. Decisions on such matters are not easy and I too don't have any 'one suggestion which will suit all'. May be a task force can be created (representing industry associations and individual IFA's) which can have a dialogue with the regulators and manufacturer and a fair weight be given to their suggestions before deciding on the future revenue model of distribution business. The reality at the ground level is quite different than the understanding of many who decide on such matters. It's better to wait a little, do fair bit of homework and then decide the future course of action. It will be better to be a little late than a decision taken in a hurry and proven wrong.

While I do support the cause of smaller IFA's at this point of time, I am also of the view that sooner or later the industry must ask this question as to how many years it should give to IFA's who are more than 5 years in system that they develop and see this business from long term perspective and trail as the main revenue generator. Today may not be the best time but industry cannot wait forever to take decisions which may be tough on some IFA's on the pretext that they will become extinct if they don't get high upfront. Sooner or later, we must take a call on this. My message to smaller IFA's who are in business for over 3-5 years is this - Get your acts right, align to a good revenue model. Industry won't support you for forever on the pretext of being a small IFA and one fine day you might find either you are forced to align or resign.

Someone once said 'Why are you planting this tree; it will take 20 years to grow'. The other person answered 'Then let me plant a couple more as we are already late'. It's time to induct new IFA's after a careful evaluation of their capability and seriousness rather than adding numbers. There can be initial pain but tomorrow it will make the distribution business clean, reduce conflicts and we can reach higher scale.

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Team work, makes the dream work



Think BIG articulates 5 pillars for growth ([Click here to know more about the 5 pillars of growth](#)), of which an ability to build a winning team is a critical, and often the most challenging piece. We have talked about a 10 step process to build a winning advisory team. Here, we take the thought forward by bringing you the actual story of this year's Think BIG Advisor Award winner for Successful Team Building - Sapna Narang of Capital League, Gurgaon. Sapna gives us an insightful account into what it took for her to build a high quality, all women team that has enabled Capital League to rapidly scale up into the top league of IFA firms in the country.

In our previous article in this series, we discussed a 10 step process for you to consider if you are serious about building a winning advisory team that can give wings to your growth aspirations ([Click Here](#)). Taking this forward, we bring you a real life example of an entrepreneur who has built a high quality team which has spurred her business to achieve rapid growth and be counted among the largest IFA firms in India today.

In the recently held Think BIG Advisor Awards event, Sapna Narang was the winner of the Think BIG Advisor Award for successful team building ([Click Here for Think BIG Advisor Awards](#)).

Here's the citation for her award :

"One of the biggest challenges for an IFA in scaling up is to build, motivate and retain a high quality team that can help him realize his growth aspirations. Advisors who are successful in this effort, see growth galloping far above their peers. Our winner this year for successful team building is a firm that not only achieved this feat of building a high quality team, but is perhaps unique in the entire industry as the only team that is a 100% all women team. With the help of 2 partners and 8 well trained, motivated and skilled support staff, the managing partner of this firm is blazing a high growth path in Delhi and Gurgaon. The amazing aspect of this team is how they perfectly complement each other and balance work and home responsibilities to ensure they give their fullest to their families as well as their clients.

For building a formidable, high quality, all women team that is setting an example on driving business growth while maintaining a perfect balance between work and home, the Think BIG award for successful team building goes to Sapna Narang, Capital League, Gurgaon."

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Team work, makes the dream work



Sapna Narang (4th from left) receiving her Think BIG award from Himanshu Vyapak, Reliance MF and Vijay Venkatram, Wealth Forum

We asked Sapna to take us through what it took for her to build this fantastic team that has propelled Capital League to the top of the IFA league tables. Here's what she has to say.

Sapna's story on team building - in her own words



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Team work, makes the dream work

Our team is our biggest asset!!

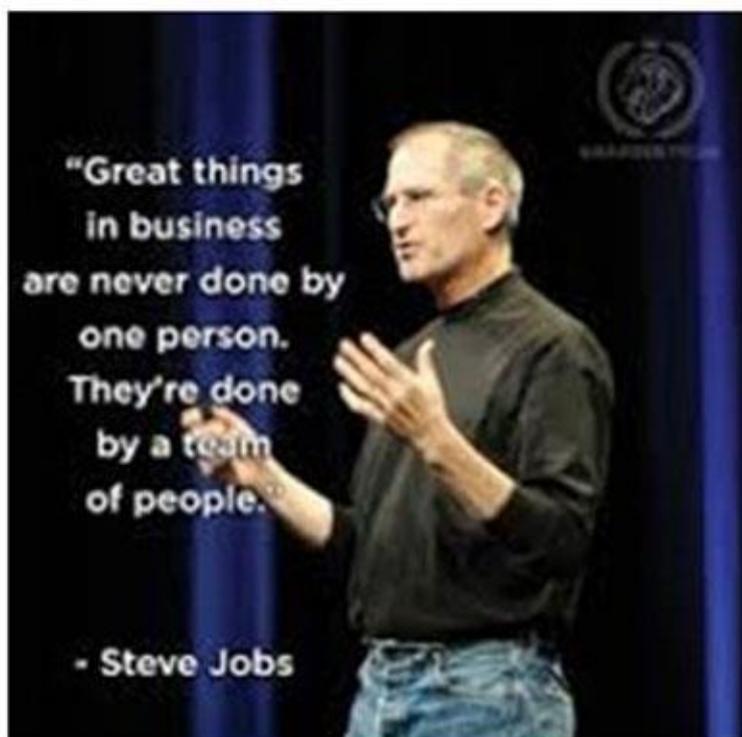
Our 'Culture', 'Values', 'Commitment', 'Talent', 'Knowledge', 'Experience', 'Motivation', 'Mutual Respect' and 'Teamwork' have all made Capital League what it is today.

I started Capital League in 2003 with a dream to provide top end wealth management services to a discerning set of select clientele. I soon realised the need for a team. For someone who shared my dream..... my vision.....

In 2004, my Partner Vinita Idnani joined and in 2007 our third Partner, Rajul Kothari joined us. Each of us has our unique strengths and contributes to Capital League in our own special way. We have worked together for several years in HSBC and thus have an understanding of each other's strengths and weaknesses. We share similar value systems and have been unanimous in the 'core values' that form the foundation of Capital League. Our relationship is based on mutual respect, sharing, caring and complete transparency.

In 2003, I hired the first team member, a young woman professional. She took care of the office operations while I was out for meetings. I could not have managed without her. From that day on, we have hired number of young professionals. Vinita, my partner has the unique strength of 'managing' people and thus has evolved as the 'HR Head' of Capital League. She is a guide, mentor and philosopher to the young team members. When needed, she is also a strict disciplinarian, ensuring the team meets the high standards of Capital league.

The first step towards building a successful team is appropriate hiring. Hiring is a sensitive and painstaking issue. Behind each successful hire is the drudgery of dozens of shortlisted CVs, days of follow ups with consultants, cancelled appointments, disappointing interviews...till finally we find our probable gem! We look for young professionals with a positive 'Do It' attitude and hunger for growth. We look for youngsters who fit in with the Capital League culture. Each new member goes through an orientation and is then put under the wing of a senior team member. Vinita has developed a knack for picking the 'right-fits'. But on the rare occasions when we felt we have made the wrong choice - we have been swift and brutal in letting-go. The impact of a poor hire in a small team is dramatic - it spoils group dynamics. Brings down the morale & efficiency of the team.





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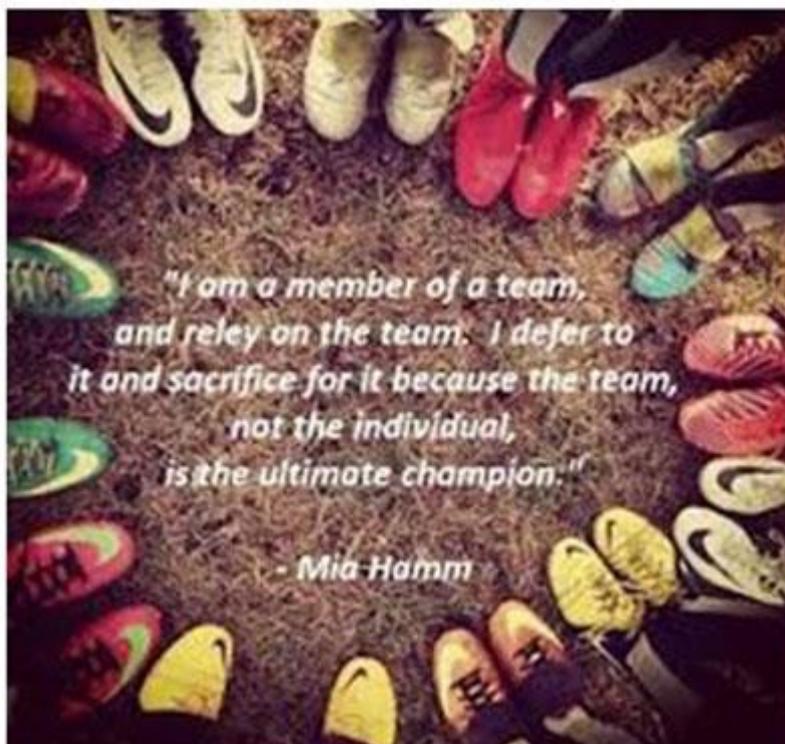
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Team work, makes the dream work

We are a close-knit team of 12. We have our lunch together in the conference room, talk about the latest movies, movie stars, fashion.....family issues.....celebrate birthdays, achievements.....have gol-guppa chat parties.....and also keep ourselves abreast of the economy, markets and products. Each week we have an update on the domestic, global economy, political affairs, and new developments in our industry etc. Each month we have an external trainer visit our office. Most of the trainings are related to the markets, economy, products etc. But we have also had 1-2 trainings on soft skills. Rajul, my partner has evolved as the head of Research & Analysis. She keeps the entire team abreast of the developments. We regularly have fund managers visit our office and ensure that most of the team members join in.

Our team is young and hungry for growth. Many have gone on to achieve CFP or other financial certifications. They are continually pushing for more work & responsibility. Over the years we have delegated and empowered them to be able to take independent decisions. This has evolved through development of systems & processes, which ensure that each member knows what needs to be done and how it needs to be done. We have never been let down in the trust we have placed in them.

Our team is unique in that it is an all-women's team. We accept that women have to face extra challenges in their professional careers. We have strived to create a supportive ecosystem, where young professional women have the flexibility of facing up to their personal issues while striving to achieve their full professional potential.



Over the years, the Capital League team has gone for off-sites, organized highly appreciated client events, participated in the Delhi Airtel runs, walked together for 'Stepatholon' and along side won many accolades. Our office is overflowing with trophies and certificates. Each a testament to our winning -team!

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FIFA Event : MF Utility

FIFA had organised a knowledge sharing event on Benefits of MF Utility Thursday, 30th October 2014 as part of their knowledge series. MFU is an innovative "Shared Services" initiative from the Mutual Fund industry under the aegis of Association of Mutual Funds in India (AMFI) to the Distributors of Mutual Fund schemes created with an objective to provide

- Convenience to distributors with 24x7 online access to submit their investor transactions across Mutual Funds using a single form and consolidated payment.
- Electronic time-stamp for transactions upon online submission thereby reducing the need to rush to the AMC/RTA front office for time-stamping the transactions.
- Centralized and Improved visibility to distributors with regard to the transactions and information of their investors.
- Centralized and Consolidated MIS across the industry and access to validated information and content.
- Operational efficiency at distributor offices due to reduction in multiplicity / duplicity of efforts and travel to AMC/RTA front offices.
- Scope for extended internal cut-offs thereby increase in scope for additional business.
- Cost savings to distributors on day-to-day basis as well as on software development / maintenance for maintaining investor/transaction data.
- MFU will be accessible via smart-phones, tablets etc.



Mr. V Ramesh, Managing Director & CEO at MF Utilities India Pvt Ltd and R. Niranjana, Head - Operations at MF Utilities India Pvt Ltd. gave members a detailed presentation on MF Utility application



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FIFA Event : MF Utility



FIFA members had an extensive interactive session with Ramesh and Niranjn

FIFA is very thankful to Mr. V Ramesh and Mr. N Niranjn for answering back to back questions that were brought up by members. The interaction round was much longer than usual. Vote of thanks was offered by Mr. Dhruv Mehta, Chairman - FIFA & Ms. RoopaVenkatkrishnan, Director- FIFA.

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FIFA welcomes its new members

M Type	Type	Name of Organisation/ IFA	Representative(s) NAME	CITY
Ordinary	N.Indv	Kongruent Wealth Management Services	BhaveshJhala	MUMBAI
Ordinary	N.Indv	Best Investment Centre	Yogesh Bhatia	Noida
Ordinary	N.Indv	Vaibhav Financials	DivyaKhemka	Guwahati
Ordinary	N.Indv	Propsero Financial Plannig& Wealth MGNT	ArchanaBhingarde	MUMBAI

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