

Avoiding commission management meltdown

A whitepaper for InvestmentLink

Streamlining commission management through an electronic system not only fast-tracks payments, reduces man hours and the risk of human error, it also reflects favourably on the business, while positively impacting the bottom-line, Mark Story reports.

It's this revelation that's forcing a growing number of financial service providers to explore their electronic commission management options. This wake-up call by providers is partly a response to the pain many experience simply paying commissions. It's also a response to the recognition that many dealer licensees are not 'happy campers' when it comes to commission payments.

An unambiguous broadside by a growing cadre of dealer licensees, including firms like Count Financial Group, Tolhurst Sharebrokers and Financials Planners, Financial Services Partners (FSP), and Millennium 3 has put many providers on notice: Bootstrap your commission management systems or risk being removed from our preferred provider list!

The results of recently-released (InvestLink-commissioned) research suggest that when it comes to commission payments many providers are their own worst enemy. According to David Johnston head of strategy with Oasis Asset Management much of the pain providers' experience (paying commissions) can be attributed to a combination of carelessness and inadequate industry standards. "The best thing the industry could do is set tough standards of disclosure for commission payments," says Johnston. "This would show clearly who gets what, and what they do for the payment. Operationally, standards need to be established covering everything from descriptions to row definitions."

Getting the basics right

On an encouraging note, 72% of the 51 providers (surveyed) support standardised advisor codes across the entire industry. And while over half (57%) support a standardised file format across the entire industry, only 15% can currently do so.

Given that the sheer colossus of variations makes this level of standardisation challenging, Matt Walsh of LifePlan Funds Management suggests each provider start by getting their own fundamentals right. He says what's tributary to the biggest headache for providers is insufficient automation.

The single biggest pain-barometer, adds Walsh is the two thirds of providers who (when surveyed) admitted to relying completely or partially on manual methods. In fact, only 25% of providers laid claim to having completely automated payment methods.

That being the case, he says providers will continue to struggle to deliver what they know dealer licensees want most: Web-based downloads of commission information. Not surprisingly, three in five providers (surveyed) by their own admission rate the quality and accuracy of the commission payments and information they deliver to advisers and dealers licensees as decidedly average.

Streamlining operations

Recognising that its existing manual system made calculating, aggregating and reporting remuneration payments infinitely more problematic than it should be spurred fund manager, Financial Services Partners (FSP) to search for an electronic commission management solution 12 months ago.

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Growing awareness that manual commission payment systems wouldn't be tolerated ad nauseam (by the 500 long-suffering advisers they pay commissions to) was one factor. But equally important, recalls remunerations manager Berenice Evans was the imperative to establish a 'best-of-breed' system that would prepare the company for the inevitable introduction of industry-recognised standards. "There was also a realisation that manually-based, back-end processes would increasingly struggle with business growth in response to ongoing market initiatives," says Evans.

As a mid-sized fund manager, what FSP ideally wanted was similar levels of commission management functionality and service levels to those of the big providers — without the associated multi-million dollar price tag. Not surprisingly, Evans says building an in-house system (as is the case for most providers) was never a realistic option.

In response to demand 12 months earlier, technology services company, InvestmentLink had already developed a solution for providers facing similar sorts of commission payment issues to FSP. It did this by bringing its dealer commissions know-how (through its software, DMS) into the product provider domain with the launch of its Remuneration Management System (RMS).

The dealer group side of FSP was already one of over 120 licensees (covering over 50 of the MoneyManagement top 100 Dealer Groups) already working with a DMS solution. Given this was the case, coupled with the dearth of affordable, alternative options, Evans and Co were quick to select RMS as a complementary solution.

Benefits of automation

What RMS allows product providers to do, says Peter Phillip CEO with InvestLink Ltd is effectively manage and process all the payments made to intermediaries; including dealer licensees, financial planners and brokers. "A key advantage of RMS is that it integrates seamlessly with the large number of distributors who use DMS's back office software to process commissions and payments to advisers and brokers," says Philip.

Once it goes live later this year, Evans expects RMS to eliminate up to three days of administration work associated with the double handling of data. Once FSP sets up the necessary details, including tables, the percentages they pay (commissions) on, plus other relevant data, like bank details for all dealer licensees, FSP can then pay directly into their bank accounts. An EFT file that's automatically created at time of payment then goes directly to the licensees who in turn distribute to their advisers.

With the InvestLink subsidiary, Dealer Management Systems Pty (DMS) hosting the RMS system, Evans says FSP hasn't needed to invest in unnecessary hardware. "All we'll need to do is get spreadsheets and load them into the system to process upfront payments monthly and trailing commissions half yearly," says Evans.

What the RMS system also enables them to do, advises Kurt Smyth DMS sales and marketing manager is send access codes to dealer licensees so they can go in and download their own commission statements. "Being able to embed their logos within these statements means dealer licensees will naturally assume the service is being hosted by the provider," says Smyth.

Plan for growth

Not unlike FSP, a realisation that it couldn't go to the market with growth strategies without a professional back-end to support it saw non-bank fixed interest manager, Provident Capital become the first company to adopt the RMS solution in September 2006. Growth strategies, explains the company's business analyst, Carla Hoorweg meant the volume of (weekly and monthly) commissions paid across both sides of the business (mortgage broking and investments) would significantly increase. "The worst case scenario would have been an increase in business volumes that we couldn't support – leading to a melt-down in commission payments," says Hoorweg.

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While there were other options, Hoorweg says no other solutions offering was dealing with a product provider. Some, she adds couldn't do what they needed, for example extract files from their DMS system, and others were far too expensive for their volume. "We chose RMS because they were prepared to work with us to get the best out of our system," says Hoorweg. "It took a couple of months to iron out system kinks so fortunately commission volumes at the time weren't huge."

With such a cost-effective system already available (in RSM), Hoorweg says building an in-house system was never a realistic option. In addition to cost, she says an internal system would have taken significantly longer than the three to four months it took to set up RMS. "Given that our internal system is currently being re-built, we wanted a commission system that would just plug into it," Hoorweg says. "The good thing for us is that whether we have one commission or 150 to pay, it takes the same time now that the back-office is under control."

Developing the system

Much of the development time, says Hoorweg was spent working out what was in each system and identifying if there were any gaps. That meant establishing key data which had to overlay broker and adviser data with product data.

The first job, adds Hoorweg was working what minimum pieces of data they needed to run in addition to product data, these included: Commission type, broker/adviser ID, and group ID and name.

The next step, recalls Hoorweg was working out any number of anomalies or 'what if' scenarios. The most common anomalies included: Loans that go into arrears, loan rollover, loan amount increases, advisers moving, and assigning a new group and early payment.

Once they'd identified every scenario they then had to establish a business rule for each.

Hoorweg says it's the inflexibility of their existing system that's the current headache. Because it doesn't store codes for advisers they have to be entered in manually. "When the new system comes on-line we'll have a huge amount of connectivity between the enterprise level, back-end and DMS," advises Hoorweg.

Only once the company has bedded down its new system (comprising an NTBS banking software system) will Hoorweg provide advisers with the facility to log-in and check payment status, plus other historical commission data. "We chose to run with RMS because we knew the system was flexible enough to do all the things we would ultimately need it to do, even if it took 24 months before it all goes live. RMS is able to handle commissions for both our lending and investment business for which there are multiple commission structures."

How to build the ideal system

It's impossible for any provider to build its ideal commission management system, advises Hoorweg until it thoroughly understands what it wants to achieve from it. Here are four things Provident Capital understood at the outset.

1. As a point of competitiveness, Hoorweg says the company wanted to be able to pay brokers within seven days. "That's particularly important for us given that our commission rates aren't generically competitive," says Hoorweg.
2. They knew what data they had and what data they could get into the current system.
3. They knew they wanted to (ultimately) make commission payments electronically and open up the system to others via log-in. "When we get big enough with a dealer group we can lock into their DMS and upload the data into their system. There'll be one point of data entry so brokers can log-in and see where an individual loan is up to," says Hoorweg.
4. They knew the limitations of the existing system and what it could and couldn't do.

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But because no system is totally immune to human error, Hoorweg says it's critical that those charged with entering data know what they're doing. She advises other providers to build their commission management system around an industry recognised format, then if an industry standard does emerge, they'll be able to communicate in it.

By getting it right first time, she says Provident Capital doesn't have to worry about the consequences of having unhappy advisers or dealers. "Given the regulation around what advisers can and can't do and say, it must be frustrating for them to put up with providers that say 'gee-whiz, we stuffed that up didn't we - we'll fix it next month'."

Top tips to better commission management

- Adopt industry standards.
- Provide dealer licensees with what they want.
- Supply standard file format & adviser codes.
- Offer dealer licensees web-based down-loads.
- Select a solution that automates the entire system.
- Provide payment & settlement data electronically.
- Incorporate FUM data.

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