



Transparency, Processes, and Enhanced Communication

By Jamison Monroe, CIMA®

You've read the polls; you get the industry magazines and business press. You no doubt are aware that consumers have become more than a little disenchanted with financial services companies. Some might say consumers have expressed downright distrust of the financial services industry. You also know that Congress and the Securities and Exchange Commission (SEC) are investigating industry practices.

It's no surprise. Portfolios have shrunk for individuals and institutions, bailouts have become commonplace in numerous industries, and the housing market has tanked. Who or what are consumers to believe anymore? As a result, Congress passed the Dodd-Frank financial-regulatory-reform legislation and the SEC is studying the value of 12(b)-1 fees and whether both investment advisors and brokers should be considered fiduciaries.

Transparency—Fees

Instead of conducting business as usual, we should heed these developments as a welcome opportunity to conduct our business better. Now, more than ever before, we need greater transparency and enhanced communication. After all, clients and regulators can see clearly through a lack of transparency.

Transparent consultants are open, accountable, and communicative. They are upfront about the way they operate and everything they do for a client. Transparency is especially critical when it comes to identifying the fees that a consultant receives. No one likes the surprise of hidden fees, and the SEC is getting ready to ensure there is transparency on fees.

A consultant might charge clients a fixed fee or a fee based on a percentage of the client's assets, or a combination of both. We should show clients exactly what they will be charged—including the set fee and any other fees that may come from mutual funds or other sources—and show the client what revenues we are receiving.

What I call "double dipping" is when a consultant quotes a hard-dollar retainer fee and, in addition, accepts and keeps 12(b)-1 fees from the client's mutual fund investments. This has been a common practice in our industry. In "SEC to consider putting an end to 12(b)-1 fees,"¹ SEC Chairman Mary Shapiro said, "We must critically rethink how 12(b)-1 fees are used and whether they continue to be appropriate." She questioned whether the fees, which were first allowed in 1980 to help funds pay for distribution, "result in investors overpaying for services or paying for distribution services that they may not even know they are supposed to be getting."

Instead of double dipping, and in light of coming regulation, consultants should consider giving credit against the retainer fee for the 12(b)-1 fees. If excess 12(b)-1 fees exist after the credit, then these should be paid back to the client. After all, the client presumably hired the consultant based on the retainer fee quoted, not both. This practice means that the consultant's revenue from the client may be lower, but in the long run transparency will help prevent the client from leaving over a compensation issue. Compensation should be fair, not excessive, and should be exactly what was quoted—not more, not less. This practice certainly will please the

SEC. Why not be out in front of this issue? In the current environment, it will give you a competitive edge.

To further the transparency approach, help clients understand fully how the financial services industry operates. We should peel the onion for our clients. Show them how money flows from one entity to another in this industry, including mutual fund fees to the broker of record and any subtransfer fees to record-keepers in the case of 401(k) plans. Consultants should document the percentages and dollar amounts clearly. Clients should be shown whether recordkeeping fees are reasonable or not.

Transparency—Manager Search

Transparency also is critical in the manager selection process. Many consulting firms do not show how they arrived at the finalist list that is presented to clients. In today's environment, more transparency definitely is needed. Clients should understand how the search process is conducted and what criteria are used in making a selection. Ideally, fund managers are chosen through a rigorous, disciplined approach based on quantitative and qualitative criteria. Very high standards should be consistently applied in an objective, transparent search process, which should be thoroughly documented. How did you arrive at the finalist in the search? Every step should be documented in writing. Too often consultants show the finalists without showing the process. This "trust me" approach is not transparent.

This approach eliminates what I call the "reciprocity method." This is where consultants steer their clients to managers with whom they have a financial arrangement and/or managers who send

the consultant clients or revenue. This practice is not objective and transparent. It is not in the client's best interest, but rather, the consultant's best interest.

Processes Guide the Practice

To create value in a consulting practice, a consultant should establish written processes for every service he or she offers. If a consultant wants to create value in his or her practice that can be passed on to another generation or another consultant, the only way this can happen is by creating processes that someone else can do with the same results. Your ego may say that without you the practice is worthless, but your logic will say that you should create a practice that has value when you want to retire. Processes help ensure an orderly structure for the investment consulting practice. Established processes go a long way in reassuring jittery clients who entrust you with large sums of money to invest and grow on their behalf. Be proud of your processes. Explain them clearly and be able to demonstrate to clients that they work. This applies to independent consultants or those who work in large financial institutions.

In explaining each process, describe how it creates value, illustrate the type of client commitment required, and outline its intended results. A simple chart can be the format for highlighting these processes and indicating which are industry standards and which are unique to your practice. You no doubt already know that a good client relationship is one built on trust and integrity. The ideal relationship is one in which you bond with the client. A client needs to know that by having confidence in your processes, he or she should see positive results over time. If not, you may need to determine why your processes are not working and adjust them accordingly.

Communication—Build the Relationship

Good communication begins by eliminating all barriers that might get in the

way of a bonding relationship. For starters, nothing complicates relationships as much as physical distance. I recommend consultants meet face-to-face with all of their clients every quarter. Some consultants may balk at the time and expense needed for this, but there is huge value in conducting regular, face-to-face meetings.

With in-person meetings, consultants can really find out how clients are feeling about their investments and the consultant relationship. When things are going well clients may not feel the need to meet quarterly. They will, however, when things are not going well.

In these meetings, clients often are more willing to share their real concerns. Besides, in-person meetings help demonstrate your sincere interest in clients and the real value you place on their business. At the meetings you can confirm the client's investment objectives and risk tolerance. If they have changed, then an adjustment in strategy may be appropriate. The year 2008 was a critical time to be face-to-face with clients and a very good time to revisit objectives and risk tolerance. It is my observation that most consultants are reluctant to deliver bad news. Clients want to know the truth—even if it is bad. A key to delivering bad news is always to recommend a solution at the same meeting.

You may instinctively know this, but the importance of retaining existing clients bears underlining. It's far more cost effective to nurture and keep a client relationship than to be always chasing new clients. What good is it to have clients coming in the front door while others are going out the back? A growing practice is built on maintaining solid client relationships. These relationships need to be tended as carefully as those in your social life because the need for positive business referrals has become a way of life in our business. Always ask for referrals.

Another barrier to communication is, regrettably, one of the most

widely used communication boosters in existence today. E-mail is not my preferred way of communicating with clients. It is far too difficult to discern what a client really is thinking and saying in an e-mail communication. With e-mail, the consultant doesn't have the benefit of hearing and seeing the client express himself. How many times have you misunderstood or misinterpreted the significance of what was said in an e-mail?

The need to understand a client's business goes beyond the consultant who is assigned to help manage the client's account. Everyone in a practice—from the consultant and junior analyst, to the data entry specialist and the receptionist—needs to know what the client does and how the client operates.

Consider taking everyone in your firm on a short field trip to the client's place of business. A client will likely be impressed that the consulting firm invested time and effort to nurture the relationship. These visits are beneficial to the entire firm because they help each member of the firm become more inspired to protect and grow a client's assets. Everyone in the firm needs to know why you are in business. If it's just for the money, you may have problems. Your team needs to see that they affect real people's lives and who these people are.

Travel expenses and time commitments are likely to restrict field trips to only in-town clients. However, virtual meetings now are easy through inexpensive video hookups on most computers. Most clients will like the fact that your firm took the initiative and effort to put faces to names in the interest of developing a personal and solid relationship. Your team not only gets to know the client, but the client gets to know your team.

Greater transparency and good, basic communication are the relatively simple yet most effective approaches for fostering long-term client relation-

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ships. Clients who remain with you for decades are those who feel valued and know that their business will be conducted in an open and professional manner.

Sometimes it is far easier to say than to do. Observant consultants will look for additional ways to shatter the barriers that tend to obstruct our business. Diligent consultants will make it a habit to improve how they interact with clients as well as prospects. A robust, meaningful, and profitable practice is everyone's goal. Becoming more transparent and enhancing your communication skills are essential first steps in getting there. 

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Endnote

- ¹ Sara Hansard, SEC to consider putting an end to 12(b)-1 fees, *InvestmentNews* (December 9, 2009), available at <http://www.investmentnews.com/article/20091203/FREE/912039968>.