

# Financial advisor compensation

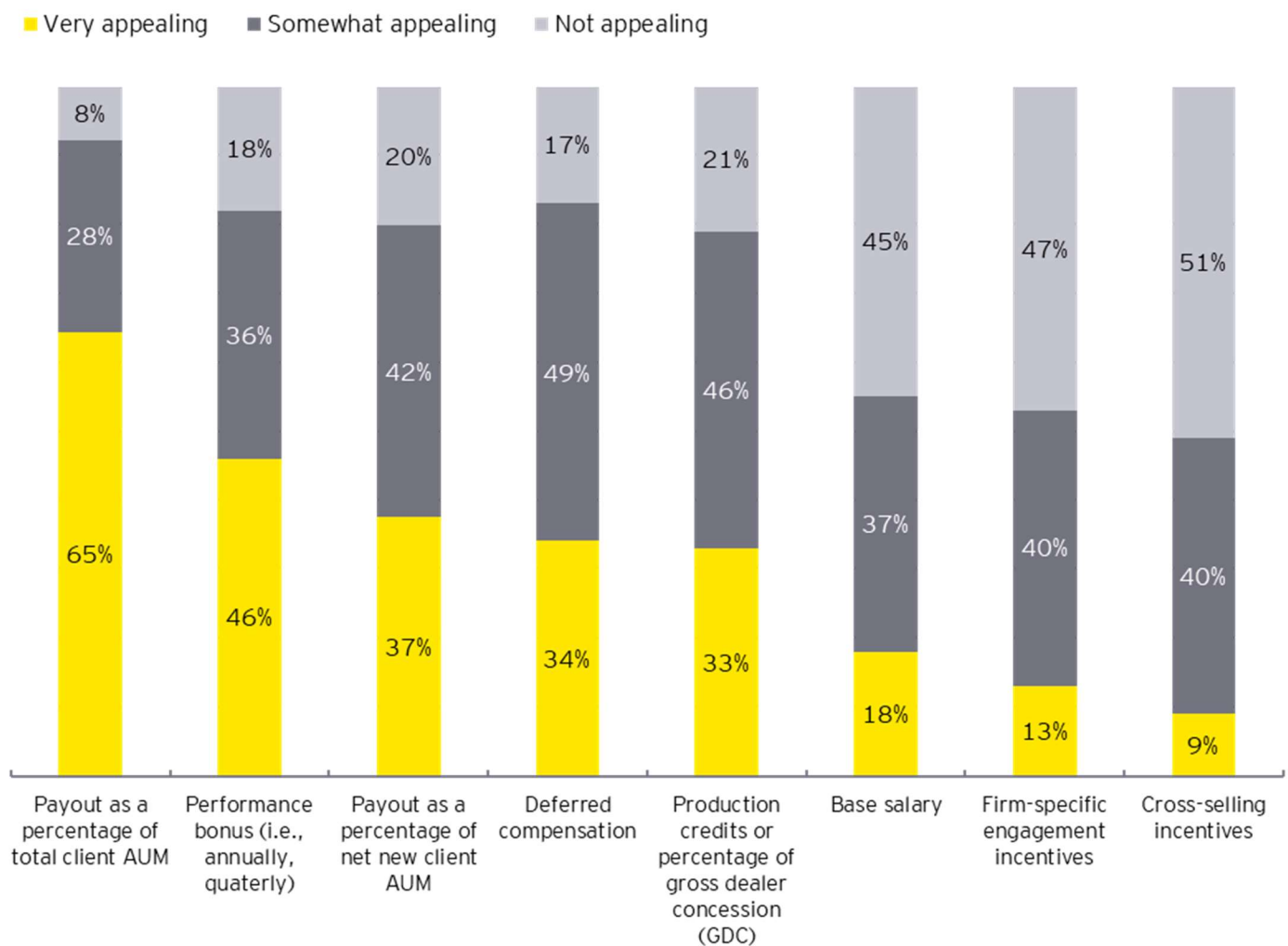
The modernization of  
compensation platforms

## Introduction and thesis

Wealth management products, services, and financial advice channels have dramatically shifted over the past decade. Clients have become more aware of the products and services offered, can engage with wealth managers in new ways and now have more options to choose from in how they pay for financial advice. These trends directly impact advisor compensation as there are more levers to pull than ever from both traditional compensation methods and incentive compensation for wealth managers.

The growing number of compensation methods, in tandem with improved data management and modern compensation platforms, provides a significant opportunity for wealth managers.

By enhancing tools and applications for compensation management and reporting, wealth managers can gain deeper insights into profit and growth drivers and develop customized compensation plans aligned with business objectives. Modern tools enable the identification of strategic growth-aligned incentives, flexible management of compensation plans, and improved reporting, benchmarking and delivery of advisor compensation.



## Compensation preferences

Compensation methods have expanded with advisors interested in being compensated in a variety of ways.<sup>1</sup>

\*Firmwide goals include client retention, satisfaction, and revenue targets.

Source: 1. Exhibit 9.05, B/D Advisors: Compensation Preferences, The Cerulli Report | U.S. Advisor Metrics 2022

## Wealth advisory sector trends

Firms that are considering updates to their compensation tools must understand these key drivers of change to leverage modern capabilities that fit their business models. Understanding these drivers can enable wealth managers to derive deeper business insights and deliver tools and create compensation plans that meet or exceed advisor and home office needs.

Driver	Summary	Trend
<b>Growth of large and complex teams, partnerships and specialized advice roles</b>	Large and complex teaming models require platforms that can accommodate compensation of various advisor roles and keep up with the ever-changing teaming arrangements and splits.	<ul style="list-style-type: none"> <li>▶ The percentage of high-net-worth (HNW)/ultra-high-net-worth (UHNW) practices operating in a team-based structure, increased to 70% up from 66% in 2021.<sup>1</sup></li> <li>▶ Nearly half (49%) of advisor teams with assets under management (AUM) of more than \$500m employ specialized staff.<sup>2</sup></li> <li>▶ More than half (53%) of all practices are structured as multi-advisor teams, and 22% employ at least one specialized staff member.<sup>3</sup></li> </ul>
<b>Client payment preferences</b>	Financial advisors are adapting to a newly widened range of client preferences. Increased advice channels and client payment preferences require compensation model adjustments.	<ul style="list-style-type: none"> <li>▶ Performance-based fees are most preferred by millennials and preferred by 18% of all clients.</li> <li>▶ Thirty-four percent of households have both fee-based and transactional accounts.<sup>4</sup></li> <li>▶ Wealth managers should incorporate pricing flexibility that is aligned with their clients' needs at all stages of their lives.</li> </ul>
<b>Expansion of products and services</b>	The growth in variety of products and services offered, along with the increase in complex products, necessitates more sophisticated compensation engines to quickly introduce new products and rules to compensation platforms and accurately calculate advisors' compensation.	<ul style="list-style-type: none"> <li>▶ Separately managed accounts (SMAs) have become far more popular over the last 10 years, growing from 3.9% of managed account assets in 2012 to 10.2% by the end of 2022.<sup>5</sup></li> <li>▶ Seventy-three percent of advice households prefer that their primary advisor can help solve all their financial needs with a variety of products and services<sup>6</sup></li> <li>▶ HNW individuals are going outside their primary wealth management relationships to invest in nontraditional assets.<sup>7</sup></li> </ul>

# What modernizing platforms provide

---

To meet the needs created by the key change drivers, platforms have developed capabilities to more effectively support wealth managers. Though the capabilities leveraged by wealth managers are driven by unique needs and firm strategy, the five capabilities below underpin the needs of all wealth managers:

1. Compensation reporting
2. Benchmarking
3. Incentive development
4. Compensation modeling
5. Implementation

Firms that take advantage of these modern capabilities will be well placed to deliver on their overall strategy through a more in-depth understanding of their business, targeted compensation plans, and how to meet the needs of their advisors and home office employees.

## Compensation reporting

Wealth managers have access to clear and accurate reporting on advisor compensation that can be viewed dynamically through a variety of metrics and time frames. Compensation from different sources, including referrals allocations across product types and advisor, banker or relationship manager roles, can be tracked and assessed across individual trades, accounts, households, advisors and teams, while insights into branch and national sales performance can be obtained to support and shift firm strategy where necessary.

## Benchmarking

Firms can benchmark their compensation structures against competitors in the wealth management industry from multiple perspectives, such as by advisor, team, branch, geography, etc. This is so that, in an evolving landscape, compensation plans remain competitive and aligned with industry standards.

## Compensation modeling

Modern tools enable wealth managers to perform a variety of scenario analyses to allow advisors to model the impact of team structure changes and home office employees to assess the potential impacts of broad compensation plan changes. By simulating different incentive structures, firms can evaluate the potential outcomes and make informed decisions on how to optimize their compensation plans.

## Incentive development

Through access to comprehensive compensation data, firms can leverage information to identify incentives that can drive specific product and service growth. By analyzing compensation data, patterns can be identified to understand which incentives should be implemented to increase profit margin and drive growth.

## Implementation

Modern compensation platforms offer the advantage of quick implementation and adjustment of compensation plans. With automated processes and real-time data, firms can easily adapt their compensation structures to respond to changes in products and services offered, the market, regulatory requirements or business strategies.

# Key considerations

---

Properly implementing a new compensation platform goes beyond just selecting a vendor; many implementations fail due to a lack of preparation and design to implement and fully leverage vendor capabilities. Wealth managers must consider the integration with their existing technology stack, firm compensation strategy, communicating changes and training employees on properly leveraging the new tools.

## Implementation planning

Reconciling internal technology and existing vendor tools is critical to proper implementation. Firms must consider the future-state architecture and integration of the vendor platform with the existing technology stack to efficiently leverage existing workflows and data, maintaining continuity. It is imperative for firms to properly plan, develop and test prior to migration.

- ▶ Integration with existing platforms and data warehouses to leverage the platform across all current-state technologies
- ▶ Data mapping and interface development to accelerate initial platform connectivity activities and requirements
- ▶ Migration and execution planning to provide clarity on execution timelines and deliverables

## Target-state design and operating model

Clearly defining the target-state requirements for the new compensation platform and the structure of the future operating model is pivotal to making certain that the required features implemented are fit for purpose and leveraged successfully by the relevant business and operations teams. This facilitates proper implementation and will reduce business disruptions, keeping daily operations intact and averting any downtime of critical functions.

- ▶ Defining the target-state capability requirements in alignment with firm compensation strategy so that firm objectives are in sync with initial platform integration
- ▶ Target-state operating model including roles and responsibilities across involved stakeholders for a streamlined implementation timeline
- ▶ Intuitive UI/UX design to drive engagement from advisors and home office employees

## Conducting change management

Effective change management ensures that employees are well trained and comfortable with the new software, paving the way for seamless adoption. This boosts not only user confidence but also the benefits derived from the new platform, enhancing overall productivity and efficiency.

- ▶ Collaboration across required business lines in platform implementation (advisors, finance, HR, tech, etc.)
- ▶ Training all stakeholders on new systems during implementation for a smooth launch
- ▶ Platform adoption plans with ongoing support post-implementation

# How EY US can help

Ernst & Young LLP (EY US) delivers comprehensive support in all aspects of modernizing financial advisor compensation platforms and strategies. From our experience supporting wealth managers across the front, middle and back office to delivering end-to-end technology solutions, EY US can help firms position themselves to drive growth in rapidly changing world.

## Compensation platform assessments

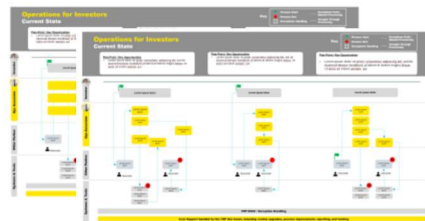
EY US conducts comprehensive assessments of wealth managers' compensation platforms. We evaluate their maturity, identify any gaps and provide actionable recommendations for remediation to boost performance.



- ▶ Leverage existing EY detailed evaluation criteria.
- ▶ Lead due diligence discussions with pre-developed questions and expected key performance indicators (KPIs).

## Compensation platform development and implementation

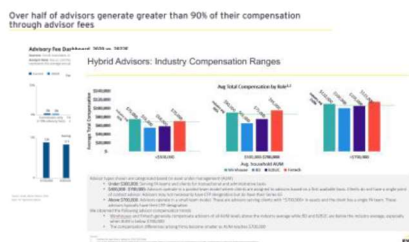
EY US assists wealth managers in developing and implementing compensation platforms, whether it involves supporting internal development or integrating external platforms. From planning to execution, our professionals have track record for a seamless process and successful implementation.



- ▶ Develop detailed process maps outlining future-state operations.
- ▶ Develop detailed roadmaps with experience-driven timelines and required vendor-provided deliverables.

## Assess advisor compensation strategy

EY US offers guidance in assessing advisor compensation strategies to enable wealth managers to align their compensation models with their growth objectives. Our team helps identify appropriate compensation models and incentives that drive performance and foster growth.



- ▶ Assist in compensation data collection and analytics.
- ▶ Conduct benchmarking exercises to compare the compensation packages offered with those of competitors or industry standards.
- ▶ Evaluate incentive programs in place to measure their effectiveness in driving desired advisor behaviors and outcomes.
- ▶ Provide formal recommendations on advisor compensation strategies, policies and incentives.

Despite fears of digital channels and solutions reducing the role of the advisor in recent years, it is clearer than ever that the advisor-client relationship sits at the core of the wealth management industry. With the use of modern compensation tools, wealth managers can develop plans that retain and motivate their advisor base while growing targeted products and services. Firms that succeed in implementing modern, flexible compensation solutions will be well positioned to adapt to meet advisor and firm needs over the next decade.

## **EY | Building a better working world**

**EY exists to build a better working world, helping to create long-term value for clients, people and society and build trust in the capital markets.**

**Enabled by data and technology, diverse EY teams in over 150 countries provide trust through assurance and help clients grow, transform and operate.**

**Working across assurance, consulting, law, strategy, tax and transactions, EY teams ask better questions to find new answers for the complex issues facing our world today.**

EY refers to the global organization, and may refer to one or more, of the member firms of Ernst & Young Global Limited, each of which is a separate legal entity. Ernst & Young Global Limited, a UK company limited by guarantee, does not provide services to clients. Information about how EY collects and uses personal data and a description of the rights individuals have under data protection legislation are available via [ey.com/privacy](https://ey.com/privacy). EY member firms do not practice law where prohibited by local laws. For more information about our organization, please visit [ey.com](https://ey.com).

Ernst & Young LLP is a client-serving member firm of Ernst & Young Global Limited operating in the US.

© 2024 Ernst & Young LLP.  
All Rights Reserved.

2402-4426297  
ED None

This material has been prepared for general informational purposes only and is not intended to be relied upon as accounting, tax, legal or other professional advice. Please refer to your advisors for specific advice.

**[ey.com](https://ey.com)**