INCENTIVE COMPENSATION MANAGEMENT TRENDS

How your firm performs in achieving its strategic business objectives is the result of many factors, but few are as important as your advisor incentive compensation plan.

With so many changes underway in the wealth advisory industry, it's important to be aware of the current trends in incentive compensation so that you create an effective plan that will motivate your advisors and align them with your strategy to produce results in the market.

So, we reached out to several experienced experts and influencers with knowledge of incentive compensation management and asked them what they thought were the most important trends to pay attention to – and why.

EQUITY COMPENSATION OR INCENTIVES

The landscape of the wealth management industry has expanded to respond to the demand for increased freedom, flexibility, and control. With this shift, brought the rise of the quasi-independent model which has become quite popular, especially for the advisor elite. Generally speaking, these firms offer advisors equity in the firm in addition to cash and earn-outs. It's the equity that is the most meaningful incentive to top talent today as it gives advisors a seat at the table to help build the business. The shift to receiving equity is quite notable, as during the 2008 financial crisis, most advisors swore that they would never again accept equity as part of their compensation or incentive to join a firm. Here we are a decade later and it has become the most exciting, valued and prized way for an advisor to build meaningful wealth.

Mindy Diamond (LinkedIn, Twitter)
President, Diamond Consultants

REGULATORY ENVIRONMENT AND BROADER PERFORMANCE OBJECTIVES ARE SHAPING COMPENSATION STRUCTURES

At Strategy & Resources, we see the following three macro trends shaping how firms are seeking to manage incentive compensation:

1) Incentive compensation in the new regulatory environment: While much of this has been acutely driven by the response to regulatory rule-making, firms realize that principles of transparency and objectivity are going to continue to attract regulator focus. The key is to develop incentive compensation that supports those principles while also driving business results.

2) Promoting and supporting profitable team-based models: With teams viewed as a means to offering a more compelling value proposition and a tactic to address the looming advisor succession wave, incentive compensation plans increasingly take a proactive approach to rewarding teams versus an accommodation approach which was a popular incentive method to use a few years ago.

3) Broader performance objectives: Our customers want a reward for the growth of the practice, not the growth of assets and/or revenues. We see that manifest as a shift of incentive compensation plans to include more KPI based attributes such as net promoter score, customer engagement or financial planning penetration.

Matt Lynch, (LinkedIn, Twitter)
Managing Partner, Strategy & Resources

PERFORMANCE AND TEAM-BASED INCENTIVES

More firms are making a concerted effort to rationalize incentive payments. According to the 2017 FA Insights People and Pay study, 43% of firms are still paying positions that generate revenue for the firm discretionary bonuses, and 56% of firms are paying support roles discretionary bonuses. Discretionary bonuses, which are generally paid without regard for any measurable criteria, are less effective in motivating behavior as they don't create a clear link between pay and performance and can foster an entitlement mentality. Instead, many firms are moving towards performance-based incentive pay such as client retention, acquisition and attaining credentials. This sets a clear expectation of what it takes to earn additional compensation as an incentive for moving forward.

I am also seeing firms create team-based incentive goals which can help motivate and reward groups of employees that are needed to accomplish larger firm initiatives such as selecting and implementing a new software system like a CRM, updating the firm's website or sending client newsletters. The key concept here is that members of a defined team are eligible for an incentive by working together to accomplish a project.

Kelli Cruz (LinkedIn, Twitter)
Founder, Cruz Consulting Group

TIME-RELATED COMPENSATION

One incentive that is working well to motivate advisors right now is time compensation. The beauty of time as an incentive is that it can be defined by the receiver in any way they wish. For the older advisor, it gives them more time away from their desk, for the young advisor it lets them do more family activities and for the millennial advisor they have more time to explore new passions. As it is such a good incentive, many firms are reviewing how they can fit time compensation into their overall corporate culture, how it will impact talent recruiting and retention and how it can be commoditized and administered without overbearing rigor.

Declan O'Beirne (LinkedIn)
Senior Executive Consultant, Collaborative Solutions Group

FOUR TRENDS REFLECTING A MODERN VIEW OF VALUE

Rewarding Advisor Alpha – In the face of digital investment management tools, firms are keen to refocus advisors on higher value services. This means structuring compensation to reward actions that broaden revenue streams, provide more wealth planning, and incentivize advisors to increase expertise levels and develop new skills.

Accelerating the future – Firms have begun to align financial rewards to the adoption of new technologies. Using incentive compensation plans to accelerate advisor behavior change effectively brings the future closer and is a smart investment.

Focusing on customer success – Segmenting customers based on account or household asset value has long been a driver of customer success, but more sophisticated segmentation based on needs and values is now possible with the emergence of new techniques for measuring customer satisfaction and engagement.

Stopping differentiated product compensation – It's hard to support a product-based compensation regime in a customer-centric business strategy. As the cost of advice becomes more transparent, advisor compensation will need to become less product-based and more tied to the value of advice.

Jeff Marsden (LinkedIn, Twitter)
Chief Product & Strategy Officer, Xtiva Financial Systems