

# SALES INDUCEMENTS IN ASIA PACIFIC

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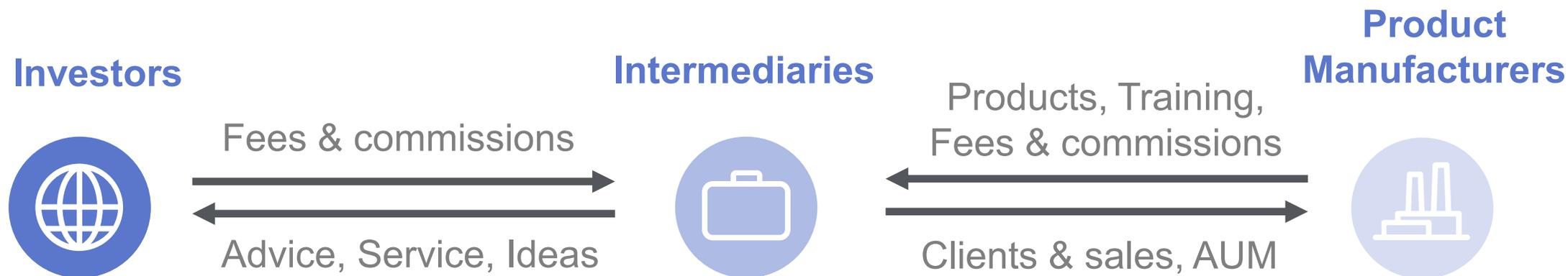


CFA Institute



# TYPICAL FINANCIAL ADVISORY / SALES PROCESS

**What's wrong with this picture?**



## Potential issues:

- Principal-agent problem
- Sales bias
- Product bias
- Provider bias
- Vertical integration



# CFA INSTITUTE ADVOCACY PROJECT



**Reviewed sales inducements  
in four key APAC markets:**

- Australia
- Hong Kong SAR
- India
- Singapore



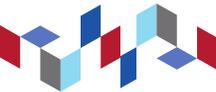
**Broad literature review  
Over 45 interviews with key parties**





# REGULATORS HAVE A TOUGH JOB





## AVAILABLE LEVERS

**Fees versus commissions** - which model is better?

**Duty of care** – best interest versus suitability

**Client segmentation** – are high-net-worth clients savvier?

**Fund distribution channels** – the more the merrier?

**Transparency and disclosure** – what investors do not know will not hurt them?

**Investor education** – when to regulate and when to educate?

**Conduct, culture, accountability** – are corporate cultures biased towards sales?

**Australia**

- Best interest

**Hong Kong SAR**

- Suitability

**India**

- Distributors / independent financial advisors (IFAs): suitability
- Registered investment advisors (RIAs): fiduciary duty

**Singapore**

- Suitability



# FEES VERSUS COMMISSIONS

## Australia

- Ban on upfront and trailing commissions
- Some grandfathering allowed

## India

- Ban on upfront commissions
- Trailing commissions capped
- Distributors / IFAs charge commissions
- Fee-only model for RIAs

## Hong Kong SAR

- Commission model dominates

## Singapore

- Commission model dominates

## Australia

- Concentrated

## Hong Kong SAR

- Concentrated, banks have ~69% share

## India

- Fragmented: top five distributors account for 12% of the market
- Banks, IFAs, non-bank financial companies have more or less equal market share

## Singapore

- Concentrated, banks have ~67% share

# RESEARCH TOPICAL AREAS

# IS THERE AN ADVICE GAP?

- In markets that have banned commissions:
  - Pay-for-advice model
  - Re-alignment of focus towards high-net worth clients
- Moving towards low-cost, execution-only services for retail clients
- Is robo-advice the answer for retail clients?





# CONDUCT, CULTURE AND ACCOUNTABILITY

- Organizational culture drives behaviors and behaviors drive how employees treat customers
- Growing regulatory focus to enhance culture by increasing accountability
  - Hong Kong SFC Manager-In-Charge Regime
  - Singapore MAS Guidelines on Individual Accountability and Conduct
  - Australia's Banking Executive Accountability Regime (BEAR)



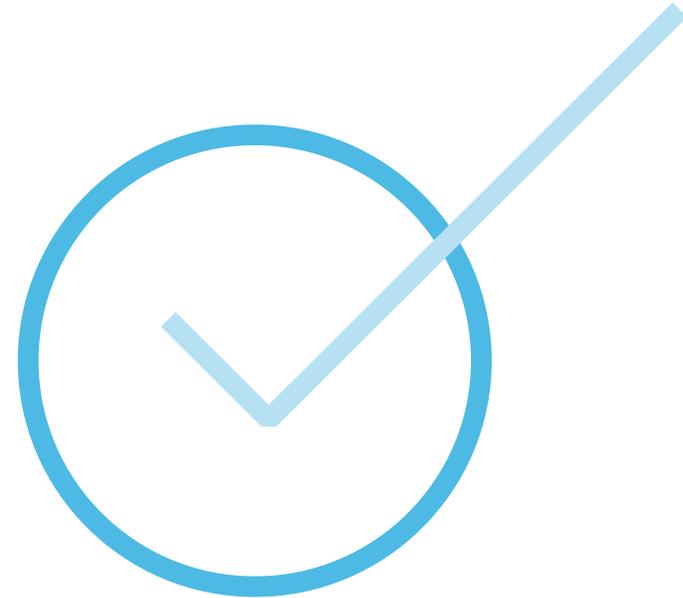
# BALANCED SCORECARD APPROACH

- Many investment firms have implemented a balanced scorecard approach as a tool for performance evaluation and compensation
- Sales KPIs versus non-sale KPIs
- Singapore is the only market where regulation requires a MAS balanced scorecard approach for financial advisers



## WHAT DOES A HEALTHY MARKET LOOK LIKE?

- Sound investor protection
- Access to quality, affordable advice
- High degree of professionalism
- Transparency on fees
- Minimal conflict of interest
- Culture of accountability





# RECOMMENDATIONS

- **Fees versus commissions** – no holy grail
- **Duty of care** – best interest versus suitability
- **Client segmentation** – consistent approach to investor protection
- **Raising professionalism** – ensure minimum qualifications and continuing professional development
- **Transparency and disclosure** – simple, clear, timely, user-friendly information to help investors make informed decisions
- **Investor education** – an educated investor is better able to distinguish, differentiate and assess different products and services
- **Conduct, culture, accountability** – emerging move away from a pure-sales driven remuneration model



**THANK YOU!**