



## FOUNDATION OF INDEPENDENT FINANCIAL ADVISORS

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### Note for discussion –

### Development of a Distributor Rating System for Linking Distributor Compensation

#### **Background :**

This is with reference to recent discussions between AMFI & FIFA on the development of a commission structure which is a win-win for all distributors and manufacturers.

#### **Articulation of Industry Goals**

It is our humble submission that before we try to arrive at an ideal commission structure it is most essential that the Industry clearly articulates its objective. Any compensation structure will evolve on basis of the goals and objectives that the industry players sets for itself.

We believe that the common goals which the MF Industry should articulate is

- 1) Benchmark beating Investment Performance
- 2) Growth in Business
  - a. In Net Sales
  - b. In New Customer addition
  - c. In Retail Penetration
  - d. In Geographic Dispersion
- 3) Quality of Business
  - a. Longevity of AUM
  - b. Investor Returns
  - c. Appropriate Sales process
- 4) Profitability of Business
  - a. Win WIN for all Stakeholders

In fact AMFI could come with a Best Practice Circular articulating the above goals.

#### **Distributor Rating :**

Distributors should then be assessed on an industry wide

- 1) Net Sales
- 2) New Customer Acquisition
- 3) Quality of Business
- 4) Existing AUM

Following this a framework could be evolved for Rating Distributors depending on how they do their business based on the above parameters.

Example Longevity of Assets is higher or lower than industry average



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Subsequently compensation/ commission structure's be developed based on the above assessment

We believe that an industry body should not be laying down specific commission rates/limits but more importantly best practices in terms of how business should be done and what type of business needs to be done.

For example – rather than banning Commission/ Banning types of commission (for ex upfronts) / Types of products sold - linkage of the overall compensation with the overall business done is necessary.

For example higher compensation to distributor having higher longevity of assets / greater retail business – whether paid by way of upfronts /trail

It would be appropriate to institute awards which recognize those Manufacturers and Distributors who do exceedingly well on the parameters outlined by the industry.

It is necessary to Highlight the GOOD that is being done by the Industry and its participants and to recognize them.

It is also essential that the different distribution Models be recognized ( Banks , Brokers and IFAs) and policies be evolved separately for each rather than painting all with the same brush.

The different distribution Models on an aggregate basis should also be evaluated on the above parameters.

It is also imperative that we have clarity on the long term business model.