Report Card – January 2016 Monthly Meet

Mr. Suresh from the Knowledge Management (KM) Team welcomed the gathering and briefed the agenda for the session. He introduced Mr. Suresh Sadagopan the speaker. Mr. Suresh Sadagopan spoke to the council via skype on the ‘Fee based Financial Planning’ model.

Speaker’s Introduction: Suresh Sadagopan is the Founder of Ladder7 Financial Advisories, a specialist Financial Planning/ advisory firm. Ladder7 was founded by him in 2004 and has since been in the field of detailed and holistic financial planning. He was on the board of directors of FPSB India for the period between 2013 -15. He has been in several committees of FPSBI, over the years.

He contributes regularly in various publications on Finance & related subjects. He has written hundreds of articles on various aspects of Finance and related subjects for reputed publications like The Times of India, Business Standard, The Economic Times, Money Today, Outlook Money, India Today, Moneycontrol.com, DNA Money, Financial Planning Journal, etc. He also blogs on FinancialPlanet.org, the international blog of FPSB US. His blog was one of the Top 10 blogs of 2012.

He has participated in several shows on NDTV Profit, CNBC Awaaz, CNBC TV18 & DD News. He was also on the expert panel of FPSBI on "Gold as an asset class", participated in several panel discussions by DNA & Money Today. Participates regularly in lectures, panel discussions etc. on personal finance subject in various fora.

Mr. Suresh Sadagopan at the very outset tweaked the topic of discussion to "There is no alternative to fee based financial planning from "Fee based Financial Planning". He gave a historical perspective of the fee based financial planning model and emphasized that this is the only way forward in India. Historically, in the financial services space, there were only product sellers who are just selling products where there was a conflict of interest which led to lot of issues. In India too mis selling happened because the product sellers are acting in the best interest of themselves and not that of the client. When this happened in a large scale the regulators started noticing and stepped in and brought in measures which would curtail the mis-selling to some extent. Mis-selling started hurting large set of investors. The regulator's action led to suitability standards where the product sellers should sell the products which will fit into the needs after assessing the risk profile of the investors. Being the seller of a financial product of a particular company can be good but may not be the best and cheapest product that fits the needs of the customer since the seller has very few choices due to his association with few companies.

The regulatory environment around the world became stricter and over a period of time it was closing in on the product sellers. Various kinds of checks and balances were imposed on the product sellers. These changes led to lot of complaints from the product sellers. One of the things that the regulator was trying to curb was the excessive remuneration on few products. The regulator wanted to make the client interest the paramount importance because there is asymmetry between the actual information of the product and what the product seller knows about the product. The regulators started slowly realizing that there is abundance of conflict of interest and wanted them to act with a fiduciary responsibility in case of the product sellers acting as the financial advisor of the client. Fiduciary responsibility is acting in the best interest of the client by putting the client's interest above his/her interest.

That led to SEBI investment advisor (RIA) regulations which were out in 2013. SEBI wanted to create a class of advisors who would work in the best interests of the clients. SEBL also raised the standards for those who would want to become a RIA i.e. one should be a graduate and with at least 5 years of experience. An advisor must also do risk profiling and suitability study before recommending any advice to the client. There was also a host of exclusions to RIA. Few of them are distributor, insurance advisor, tax consultant etc.

There were some positives and some negatives with the changes brought out by RIA regulations. The biggest positive was there were lot of investors who were looking for those who only advice and not sell products and who are willing to pay fees. There was a definite perceptible change regarding the fee only financial planning or fee based financial planning. This was a very positive development for the fee based financial advisory model. He said that it has been eleven years into the fee based financial planning and they did not have many issues in charging fees to the clients. He said if that was true for few then it should be true for the entire financial services industry.

Then he spoke about the technological changes taking place in the industry. He hinted at the possibility of no commissions on any financial product sometime in the future where fee will be the only remuneration for the advisor. He spoke about the pure fee based and fee plus commission based models in US. The client may not be ready to pay the fees, but once the environment changes investors will quickly have to adjust to the environmental change which is most likely to take place. Investors will adjust to the true reality when the environment changes like the way Indians adapted to online shopping from purchasing from a brick and mortar shopping.

He then spoke on the environmental changes that are affecting the business in the financial services industry like direct plans. Till this point in time, direct plans are not a major threat.

Advisory and distribution are separated through direct plans. He said though this shift will upset the distributor community but that is the direction in which the industry is going to move in the future which is equivalent to dismantling the commissions on the mutual fund. What is going to happen in the near future is that any client is going to be aware of a direct plan. He advised that is good idea to offer direct and regular plans to the investors at the outset because hiding so might break the trust factor between the investor and the client if the client comes to know about the direct plans in the future. He might even question why he/she was not informed about the direct plans which would have yielded better returns. So, it is in the client's best interest to educate the client on the direct plan. There is a possibility of shrinkage of the AUM in the future if the client realizes the benefits of direct plans and shifts his investments from regular to direct. He also said that a simple letter from the investor is enough to move the AUM from regular to direct plans. He adviced the advisors to start talking to the clients about the direct plans on a case by case basis if not at a wholesale basis initially. It is better to charge fees in lieu of the commissions. He said that by going through direct plans the client can save anything between .75% to 1% which could turn to be quite huge in the long term with the aid of compounding. If it’s a pure equity portfolio it comes from .95 to 1%, if it is a pure debt portfolio it comes from .5 to .6%. If an advisor can save .9 to 1% for the clients by directs plans and charge .7% as the fees it can be easily proven to the client the value being added to his portfolio. He adviced the advisors to be very transparent when it comes to direct plans which will work well for both client and in the current changing regulatory environment. Direct plan can be seen as an opportunity or a threat. He also advised to use the technology platforms to reduce the operational overload. He also spoke on the charges for using the platforms which are linked to the quantum of the AUM.

The next threat to the professionals in the financial services industry is the Robo advisory. He admitted that the Robo advisory is a serious threat to the distributor community. Though there is a threat, advisors can do something by moving up the value chain what value advisor gives to the clients by giving much more holistic and detailed advice. He spoke about the existing Robo advisory platforms like Funds India and Scrip Box. He also said that they are advisory platforms coming up only for direct plans. There is a high possibility in the future that the AUM shrinkage will definitely happen which cannot be avoided. In the future fee charging is a must. The earlier we as advisors understand and appreciate it, the better it is.

Then Mr. Suresh Sadagopan answered questions from the participants.


He emphasized that advisors need to evolve on a continuous basis in the wake of changing environmental changes and become confident about charging fees by adding more and better value to the investors.

The council thanked Mr. Suresh Sadagopan for sharing his insights on the fee based financial planning model.

This was followed by Mr. Pradeep Hattangadi's introduction to Mr. K N Sridharan. Mr. Sridharan is a M.A in Economics. He started his career as a typist and rose up to a level of senior commercial manager.

He worked with many manufacturing companies like Widia. He moved to Financial services industry after his stint in the manufacturing sector. He handled Housing Loans initially and gradually transitioned to Mutual Funds and in 2010 he completed his CFP. Currently, he is running a firm called wealth creators and also setting up an organization called Winrich.

This was followed by a talk by Mr. K N Sridharan on commisson based model.

He initially gave his background and how he started selling Mutual Funds. He started selling Mutual Funds in 2003 when market was doing well which made his Job easy.

He opined that one need not worry too much about the changes in the regulatory environment towards a fee based advisory model. He started charging the fees in 2009 when the entry load was abolished. He always tried to keep the upper limit on the number of clients at 250. He works on Goal based model. He encouraged his clients to confirm with him for any kind of financial transaction be it buying a car or a house. He encouraged his clients to align their investments to a goal. He narrated few incidents where he didn't allow his clients to redeem the investments in MF's since it was not part of the planned strategy.

He spoke about his huge investments in IT/Software for supporting the business. He spoke about his succession planning which would take the business forward. He also spoke on how he leveraged the skills and expertise of his clients to optimize his business. It is a good idea to transfer parts of the work to experts in that filed rather than handling everything ourselves. He also spoke on how to effectively use the back office support, sales personnel to streamline the whole process which will lead to higher efficiency. He also spoke about his strategies of dealing with clients for a healthy and long term relationship. He also told that advisors also need to prepare the clients to move to a fee based model from commission based model. He feels ideally one should allocate one third of the income to expenses, EMI and investments.

Overall, the session was very lively, interesting and fun filled one. The insights Mr. K M Sridharan provided can come useful for those who are into commission led advisory model.

Mr. Suresh from the Knowledge Management(KM) Team made few announcements including the topic and the speaker for the February monthly meet. New members who joined the council introduced themselves.

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Once again, K M Sridharan spoke in the "In the spotlight" session. He spoke about the challenges he is facing from the IT infrastructure, security perspective. He sought help from the council for references to address the challenges currently faced by his business in IT.

He also suggested the council to study about the various platforms available in the market and suggest the merits/de-merits of each platform so that it would become easy for anyone to choose an appropriate platform. He also suggested members to leverage the professional help who would help us in social media marketing to scale the business.

Thus came to an end yet another interesting and fun filled session which gave lot of insights about the future of the advisory business. I am sure that the sessions left the participants with many take always which can be adopted in ones profession.

The KM teams thank the Management committee for reposing faith in the Knowledge Management team to conduct the January 2016 monthly meet.

Prepared by Srinivas B.

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