McLagan Alert

Further Ramifications of New DOL Fiduciary Ruling on FA Training

In addition to the compensation implications discussed last week, another area demanding firms' attention will be roles and training. Compliance departments will require additional staffing, including new roles dedicated to all things fiduciary.

Employees will need training on items such as BIC compliance documentation, and front office and client education will be needed to explain the new model. At the center of it all, firms should institute FA readiness programs to train and test FAs on how to remain compliant in their new roles as fiduciaries.

While essential, FA training and education only provide a partial solution. Firms should also consider proactively assessing their sales force to identify high risk individuals more prone to falling short of the increased fiduciary standards and enrolling them in education and training programs meant to mitigate compliance risk. This profiling can be built into improved ongoing assessment programs for the entire FA population, and should also play an integral role in the hiring process. New FAs should be hired with the fiduciary standard in mind, and firms can use talent selection tools to identify individuals that fit their new desired profile, especially since firms were already looking to strengthen their bench in the face of aging FA populations.

Performance management will strengthen its position as a pillar of business success as it becomes increasingly important in the new environment. Over the last several years, firms had already taken steps to increase productivity of lower performing FAs, with various compensation- and resource-based initiatives meant to "manage up or out." From a compensation angle, firms have lowered payout rates and increased requirements to escape those rates within their commission "penalty boxes." From a resources approach, firms have bolstered their business development groups in an attempt to bring best practice information to all FAs. Other initiatives include deploying product specialists more regionally, and testing somewhat of a call center model in the field, with more junior FAs on base plus bonus focusing on smaller households, allowing more senior Advisors to focus on gathering more assets and new higher net worth clients.

How you can respond

For direct consultation on these implications, please contact us:

Peter Keuls,
Partner, Head of Private Client, McLagan can be reached on 1.203.602.1201 or pkeuls@mclagan.com

Todd Crowley,
Associate Partner, McLagan can be reached on 1.312.381.9706 or tcrowley@mclagan.com

Paul Wagner,
Senior Manager, McLagan can be reached on 1.312.381.4843 or paul.wagner@mclagan.com

With additional pressure on firms' profit margins due to both FLSA and DOL, performance management will only continue to grow in importance. This is especially true for marginal performers who will feel the squeeze of the higher production levels needed to cover their soon-to-be higher fixed pay. Firms will be quicker, even with FA Trainees, to drop low performers. This also underscores the importance of rigorous assessment and selection processes to increase the success rate of new hires and of all FAs. One last note should be obvious, but all increased productivity initiatives will need to be compliant with the regulations themselves, or there will not be any performance left to manage!

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