Fee Payment in Islamic Wealth Management Services

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INTRODUCTION

Islamic Wealth Management (IWM) is a relatively new term in the wealth management industry except for those who keep updated on developments in the global financial industry. The phenomenal growth in the Islamic Wealth Management industry both in Malaysia and worldwide has resulted in a parallel increasing need for professionally qualified human capital. To meet this need, IBFIM was set up in 2001 and INCEIF was set up by Bank Negara Malaysia (Central Bank of Malaysia) in 2006. IBFIM and INCEIF have trained students from 70 countries around the world, helping to ease this shortage.

MALAYSIA OUTLOOK

Various Islamic Wealth Management products are introduced each year to satisfy the growing need. However, as mentioned earlier, the challenge lies in meeting the growing need for more professionally qualified Islamic Financial Intermediaries. In Malaysia today, there are only a very small number of Independent Wealth Management Intermediaries and only 19 firms have so far been approved by Bank Negara Malaysia.

IWM is a controlled industry in Malaysia. Bank Negara Malaysia approves Financial Adviser firms and Securities Commission Malaysia issues the licence to Financial Planning firms to practice IWM business.

Many firms still focus on product peddlers since most of the firm’s founders were formerly Agency Leaders from various Insurance/Takaful and Unit Trust companies. They cannot just instruct their agents who are insurance/takaful or unit trust agents to simply transform their way of doing business from single product selling to multi products selling without preparing them. The agents need to be transformed from being agents to being advisors. They must understand the clients’ needs rather than just understand the products. Time will be needed to provide them with the required training and knowledge.

INCOME SOURCE FOR FINANCIAL INTERMEDIARIES

Insurance/Takaful Agent

Insurance/Takaful agents are contracted with insurance/takaful companies as agents representing the company. They are paid commission based on the products sold to clients. How is the commission derived? It comes from the fee charged to the client and the cost is borne by the client. Can Insurance/Takaful companies reduce that cost if there is no agent’s commission? They certainly can. But the challenge is that if the agent is not paid, no one would want to be an agent and thus the products cannot be sold via intermediaries.

Let us look at another issue. The insurance/takaful agent has a commitment to the company they represent as stated in the ‘Maintenance of Contract’. The agent must generate a certain amount of sales to maintain the contract with the company they represent, failing which the contract can be terminated. Once the contract is terminated, the client list which was originally brought into the company’s account by the agent is owned by the company. This leaves the agent with nothing; all their efforts in getting clients for the company will stop generating any income for them.
This is a real issue since the agents will need to strive for new business, which is translated into new clients every year and being unable to provide their services to the clients due to their limited capacity to serve each client, they may thus end up neglecting their clients. This will eventually result in neglected clients having a negative impression of the industry. A study by LIMRA highlights that the optimum number of clients per agent is 300 clients per agent, a number that productive agents can easily reach within less than 3 years.

**Unit Trust Agents**

Unit trust agents face a similar issue concerning their earning as they, too, receive their remuneration through commission from the unit trust company they represent. The unit trust company will need to charge a fee to clients in order to pay the agents their commission. The commission can be up-front or as trailer which is annual and depends on the amount of funds staying in the Unit Trust company's book.

These agents also need to maintain their contract with the unit trust company by bringing a minimum amount of new business to the company, failing which the agent's contract can be terminated.

**Financial Advisers**

Financial Advisers are intermediaries who represent the client and provide advice regarding their insurance/takaful needs. They must not represent any insurance/takaful company as then they will be advising the client on which insurance/takaful product or company that suits the client's needs. They must represent the interest of the client to seek the best solution available.

They cannot maintain a contract with any insurance/takaful company since that will be in conflict with their main task which is to represent their client and not any insurance/takaful company.

They will ensure that insurance/takaful company will not have direct access to the client's details unless the client allows it and the financial adviser is willing to provide those details. The financial adviser must protect the clients' information and must not reveal it to any third party including any insurance/takaful company unless required by law or allowed by the clients.

Insurance/takaful companies are not allowed to directly communicate with the client without the knowledge of the intermediary since client ownership is the financial adviser's and not insurance/takaful company's.

**Financial Planners**

Financial Planners are intermediaries who represent clients, giving them financial planning advice and they may charge fees. Financial planners may recommend any product available to best meet the client's need. The product provider must not communicate with the client unless with the knowledge of the financial planner.

**Corporate Unit Trust Advisers**

These are intermediaries who represent their client and provide advice on the unit trust product that best meets the client's needs. The product manufacturer or the unit trust company will pay them commission on upfront fee and trailer fee on the product sold to the client. Corporate unit trust advisers cannot represent any unit trust company since that will create a conflict of interest as the corporate unit trust adviser is representing the client and not the company.

**Fee Payment in Islamic Wealth Management**

In Islamic Wealth Management, the product is considered secondary and advice is the main concern. It is more process oriented for each client and therefore the advisor has a heavy responsibility as the client's future depends on the planning and implementation as the result of the process.

IWM cannot be on a commission basis since the licensed/approved IWM practitioners will need to take the client through the processes, which will be very time consuming, depending on the complexity of the client's situation. During the initial interview with the client, the practitioner needs to ascertain the terms and conditions of the engagement to avoid misrepresentation. Once the clients understand these, they will generally agree to the fee involved as long as there is a basis for it. If they do not understand the basis for the fee, the client will in most cases reject the fee. However, it must be remembered that none of the financial services provided by financial intermediaries are free of charge. The cost must be borne by someone. In the case of insurance/takaful agents, the commission cost is already built into the premium and thus the
client actually bears the cost of the services provided by the insurance/takaful agent to enable the agent to receive the commission. The same is true in the case of unit trust agents where there's an upfront sales charge imposed per unit sold to the client, which varies from 3% to 6%. This will be used to pay for costs among which is the agent's commission.

Among the fee payment methods practised in the IWM industry are:

1. **Project Basis**
   IWM practitioners will inform the client of the work that needs to be performed to satisfy the client's objectives and thus all the cost involved will be borne by the client. This method requires the practitioner to tell the client of the time and the processes involved and the total cost upon completion of the project. The project can be "a la carte" such as only helping the client to plan their investment needs or it can be comprehensive, where the practitioners will look into every aspect of the client's wealth and produce comprehensive IWM reports and actions. The project time frame normally varies, depending on the task required and can be within a month to 24 months. The IWM practitioner will dictate the cost and once the client agrees, will start the work and normally, the client is required to pay the initial fee before the IWM practitioner begins the job.

2. **Hourly Basis**
   The IWM practitioner may inform the client of his hourly cost. The IWM practitioner will inform the client upfront regarding his time cost and the estimated time frame needed for the work the client needs so the client will know the total cost for the IWM practitioner to complete the task.

3. **Asset Value Basis**
   The IWM practitioner will inform the client the fee rate they charge the client, which is dependent on the value of the assets the client has. The IWM practitioner will show the client the band of assets value and the percentage of the fee charged. For example: for RM100K and below: RM2000, above RM100K to RM1Million: 2%, above RM1Million to RMSMillion: 1.5% and above RMSMillion: 1%.

4. **Package Basis**
   The IWM practitioner will inform the client of the cost of the package. For example, for a Risk Management package the fee can be RM2500: For an Investment package, the IWM practitioner will charge another RM2500 as a retainer fee. Normal case for this type of fee the IWM practitioners will limit the work they perform to avoid overpromising the client. There are a few other IWM packages offered to clients.

5. **Hybrid**
   This is the use of a combination of the methods above to charge the client. Upon the client's agreement, they will dictate whether to have an upfront fee or not.
   IWM thus gives practitioners and clients choices. Furthermore, with advances in technology and the widespread availability of the Internet, clients and practitioners can communicate almost instantaneously and a fast response by the practitioner is needed to enhance the client-practitioner relationship and provide a better understanding of the job agreed upon.

IWM practitioners cannot provide free services to clients since the only remuneration they receive is the client fee. They must therefore come up with a fair fee system. As for the clients, they will understand that the payment of fees is essential and will in return provide them value from the services provided to them by IWM practitioners. With this understanding, practitioners can better promote the industry and the clients can have a better understanding of what they can get by having IWM practitioners as their financial advisors to better strengthen their future financial position.

**CONCLUSION**

For the agency system, unit trust agents and insurance and takaful agents get remuneration in the form of commission. For IWM practitioners and conventional/Islamic Financial Advisors, their remuneration is in the form of a fee. Both costs are transferred to clients and for them, there is no difference between the two. The difference lies in the quality of service provided—whether the practitioner delivers quality service or does not deliver on their promises to the client. To be a successful Islamic Wealth Management Financial Advisor, one has to certainly provide quality services.