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Frontline News

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Citi Embracing Fee-Only Model

Citigroup last month said it began transitioning the bulk of its financial advisors at its retail bank locations away from commission-based compensation and into a fee-only model. The advisors are part of the Citi Personal Wealth Management unit, a recently branded network of branch-based advisors led by Deborah McWhinney, former president of Schwab Institutional.

As part of the new makeover, Citi's fee-only advisors are to comply with a fiduciary standard and will charge fees based on assets under management. The goal is to convert the 600 advisors at Citi Personal Wealth Management to the fee model by 2011. Currently, advisors are paid a percentage of the commissions charged to clients. A Citi spokesman said the new compensation plan hasn't been finalized yet.

Citi plans to form investment advisor teams comprised of its top in-house advisors. Other advisors, who will be called investment consultants, will be the so-called gatekeepers to help gauge the financial needs of prospective clients and place them in their choice of investment team—both within Citi and outside the firm. These consultants will be paid a salary and bonus.

The company plans to partner with some of the nation's top independent registered investment advisors to form alliances to help leverage Citi's service offerings and build its geographic footprint. Given McWhinney's background at Schwab, her address book will likely come in handy as her advisory group looks to partner with outside RIA firms.

"It fills out our skill set, and we can partner with outside firms on a referral basis," says Citi spokesman Alex Samuelson. Outside advisors will pay a percentage of their fee to Citibank for a successful referral. That fee could be in the ballpark of the 2.5% asset-based fee that Schwab gets in its referral program from its brokerage network, although Samuelson says Citi hasn't yet determined what it will charge. Citi also expects to recruit advisors from other firms who want to work in a fee model.

"It's a great idea, but the execution might be difficult," says Chip Roame, managing principal at Tiburon Strategic Advisors in Tiburon, Calif. "The world is moving toward fee-based accounts, and I've got to give them [Citi] credit for trying to move its sales force in that direction. But I think someone who might be successful in making such a move would be a high-end brokerage sales force like Morgan Stanley because they serve wealthier clients."

Samuelson says Citi's advisory service hasn't set an asset minimum for its existing Citi customers. But he notes that accounts from outside advisors looking to partner with Citi must have a \$500,000 minimum.

Clients of Citi Personal Wealth Management have the option to work with the firm's in-house advisors, or tap into Citi's National Investor Center for self-directed transactions involving no-load or commission products.

Citi still has 13,000 advisors at its Smith Barney retail brokerage unit, which are now part of a joint venture with Morgan Stanley's wealth management business. Morgan Stanley holds a 51% stake in the business. In a speech in September, Citi CEO Vikram Pandit said the company will ultimately sell its stake. So in a sense, Citi is getting a fresh start in the advisory space with its fee-only approach.

"Every firm to some degree is trying create an in-house, RIA-only type of option," says Dennis Gallant, president of GDC Research, a consulting firm in Sherborn, Mass. "This is the first Wall Street organization to do it."