

Exclusive: Morgan Stanley to Shift Advisory Clients to Monthly Billing



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Morgan Stanley will begin billing customers with advisory accounts on a monthly rather than quarterly basis early next year, a shift aimed at providing more clarity on how fees reflect account performance.

The change was announced to the firm's almost 16,000 brokers on Thursday, giving them more than six months to prepare for the first-quarter 2020 shift, and will affect some \$1.16 trillion currently in fee-based accounts. While some brokers worry that monthly billing will provoke more calls from customers reactive to market and fee volatility, the benefits of the change will be far-reaching, firm officials said.

“For clients, monthly billing will provide more clarity, simplicity and consistency as the balance on their monthly statements will directly align to the fee they are charged,” Vince Lumia, head of field management, and Ben Huneke, head of investment solutions, wrote in a memo to Morgan Stanley Wealth Management employees.

Customers are currently charged on assets held at the beginning of each quarter, creating a disconnect when markets rise or fall significantly over the course of three months, officials and outside observers said. Monthly market changes are generally less dramatic than quarterly ones.

“Advisors will benefit as monthly billing also more accurately aligns the performance of a client’s account with their fee,” Lumia and Huneke wrote. “And, it is simpler, as client fees will be calculated off of prior month-end balances.”

Advisors’ compensation will not change significantly, since they are now paid monthly based on one-third of the beginning-of-quarter assets in client advisory accounts, but their pay will track more consistently with market performance, consultants and insiders said.

From a customer perception view, a smaller monthly fee is likely to be better received than the quarterly figure they now see, said Andy Tasnady, a compensation consultant.

Morgan Stanley is making a “significant investment” to adjust technology for the billing shift and has devoted six people to the project, according to people familiar with the change. The firm received “considerable feedback” over the past 12 months from advisors on the plan, Lumia and Huneke wrote in the memo.

The monthly billing cycle will not apply to commission accounts or accounts of the pension plans, small companies and endowments serviced through Morgan Stanley Wealth Management’s Graystone Consulting “institutional” unit.

Fee-based accounts made up 45% of client assets in Morgan Stanley’s wealth management division as of March 31, and the company expects the percentage to grow. Brokerage firms prefer fee-based assets because they are more predictable than commission-based revenue.

Morgan Stanley is not the first large firm to shift to monthly billing. Merrill Lynch adopted the cycle for fee-based accounts when it introduced its new Merrill One platform in 2013, a spokesman confirmed.

Wells Fargo Advisors has no immediate plans to change its quarterly billing cycle, a spokeswoman said. A spokesman at UBS, the fourth so-called national wirehouse brokerage firm, did not return a request for comment.

Ameriprise Financial Services is in the process of shifting from a quarterly to a monthly cycle for customers of the almost 10,000 brokers in its independent contractor and employee advisor channels.

“This adjustment will further streamline and simplify billing across our various advisory platforms, providing more consistency for clients,” Ameriprise spokeswoman Kathleen McClung said.



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