Guide to Growth: Leveraging Research and Industry Experience to Achieve Best Practices

Rightsizing Advisor Territories

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Background

The banking crisis and additional restrictive regulations have increased pressure on depository institutions to enhance fee income. But the income opportunity in meeting the investment and insurance needs of the bank's clients or the credit union's members has remained underdeveloped. Some depository institutions make poorly informed decisions about whether and how to offer investment and insurance services to their clients.

Banks and credit unions have now accumulated three decades of experience with investment and insurance services. Cetera Financial Group and PrimeVest Financial Services Inc. (PrimeVest) commissioned Dr. Kenneth Kehrer to examine this body of experience to help individual banks and credit unions and the broader financial services industry better leverage this opportunity. The resulting white papers, as part of the *Guide to Growth: Leveraging Research and Industry Experience to Achieve Best Practices* series, help capital markets, the management of investment and insurance services businesses in banks and credit unions, and the management of their host institutions, understand the scope of the opportunity as well as industry best practices.

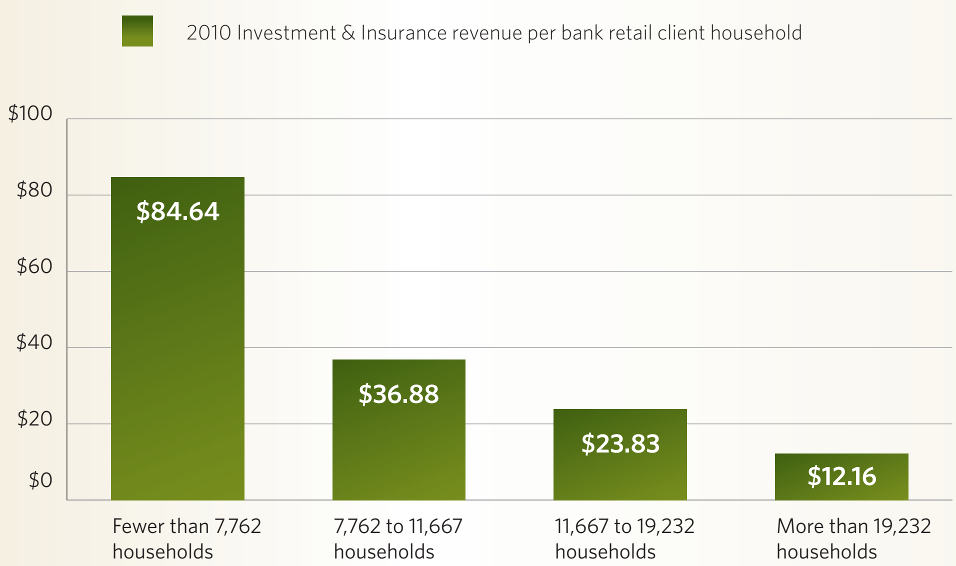
Rightsizing Advisor Territories

Research over the past two decades has consistently demonstrated that the typical bank or credit union has under-penetrated its opportunity to capture the investment and insurance business of its client base. According to the 2010 *Kehrer-LIMRA Financial Institution Investment Program Benchmarking Survey*, the latest data available and the source for all the data presented in this paper, the average financial institution investment services unit deploys only one advisor for every 16,188 client households of the host institution. But adding additional advisors appears to be the best path to increasing revenue penetration.

Because the core objective of a financial institution's investment and insurance unit is to capture that business of the institution's own client base, we use the client base as the yardstick to assess how well the bank or credit union is penetrating its opportunity. In 2010 the typical financial institution's investment services unit generated $44.87 in investment and insurance revenue per bank or credit union client household. But household revenue penetration varied widely based on how many advisors the financial institution deployed relative to its client base.

To illustrate this, we compared the household revenue penetration of each institution in the survey with the household coverage by its advisors, by quartile. Reading the chart from right to left demonstrates the dramatic impact of adding advisors to an institution with a fixed client base.

FIGURE 1 | HOUSEHOLD REVENUE PENETRATION BY HOUSEHOLD COVERAGE



The banks and credit unions with more than 19,232 households per advisor (the bottom quartile in the distribution of household coverage) had average household revenue penetration of only $12.16, which is 73 percent less than the average investment and insurance revenue per household of $44.87. Financial institutions in the second quartile of households per advisor, from 19,232 to the median of 11,667, had investment and insurance revenue penetration of $23.83, almost double the revenue of institutions in the thinnest quartile of household coverage, but still 47 percent below the average. Even banks and credit unions with households per advisor in the third quartile, above the median but below 7,762, had average revenue penetration 18 percent below the average for all institutions of $44.87. But institutions in the quartile with the thickest household penetration had investment and insurance revenue that was almost double the average for all banks and credit unions.

These results are consistent with similar analyses conducted since 1991. Most banks and credit unions can substantially increase the investment and insurance penetration of their client opportunity by increasing the number of advisors they deploy.

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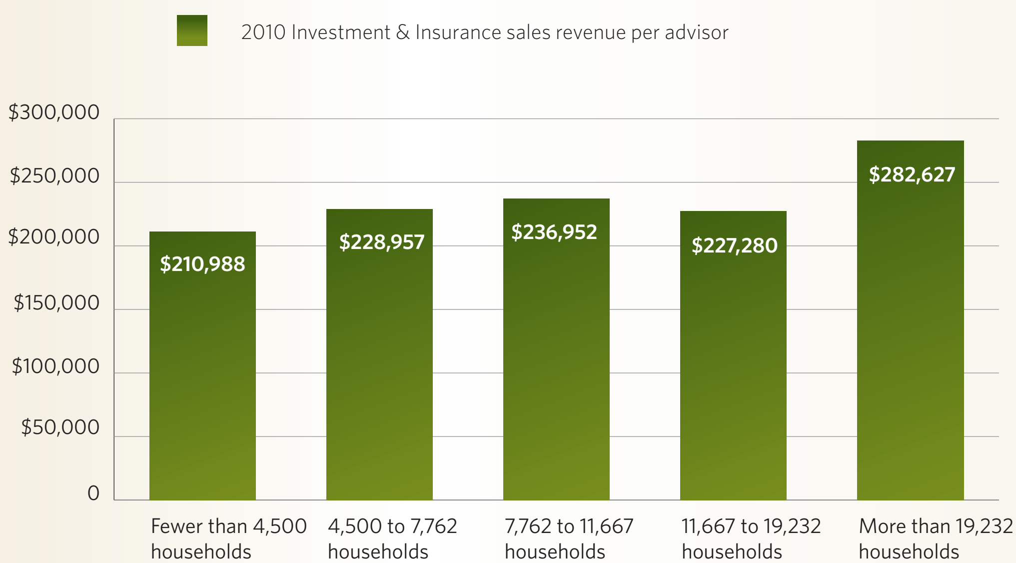
Impact on Advisor Productivity

If this conclusion is so clear, why don't banks and credit unions with relatively thin household coverage hire more advisors? There are many reasons why the typical household coverage tends to lag behind the opportunity. On the one hand, many financial institutions responded to the financial crisis by cutting expenses or staffing across all business units, or imposing a moratorium on hiring. Elsewhere, other institutions that have been trying to expand their headcount of advisors have found recruiting challenging amidst a growing shortage of candidates, increasing demand from competitors, high sign-on bonuses, and the existence of long-term employment contracts.

One major reason why banks and credit unions do not add more advisors and shrink the territories of their existing staff is because the advisors resist this. Many of them see the number of branches or clients assigned them as their opportunity, and naturally view reducing the size of their territories as hurting them in the wallet. Advisors tend to view their initial branch assignment as an entitlement. This perspective often receives a sympathetic reaction from their sales managers, almost all of whom have been advisors working in a bank or credit union themselves. Moreover, in the challenging recruiting environment, sales managers are loath to risk turnover.

But, for the most part, shrinking territories does not adversely impact the production of advisors, beyond the extreme thinnest coverage. Reading Figure 2 from right to left, the average sales revenue (excluding trail commissions and fees on managed money) per advisor does not change much below the second quartile. The average sales productivity in institutions in the quartile with the thickest coverage is $224,964, only five percent less than the average for all financial institutions of $237,348. We have to look at the relatively few institutions with the very thick coverage of fewer than 4,500 households per advisor before we see a significant fall off in sales productivity. The average sales productivity in institutions with between 7,762 and 11,667 households per advisor is essentially equal to the overall financial institution average. Adding advisors to increase household coverage beyond 19,232 (i.e., moving up from the bottom quartile) does impact sales productivity negatively, but maintaining such a low level of coverage comes at great cost in foregone revenue for the enterprise.

Figure 2 | Sales Productivity of Advisor by Household Coverage



For example, if an institution assigns 20,000 households to an advisor, on average he or she will produce $282,627 in annual revenue. Dividing that territory in half and assigning it to two advisors will produce, on average, $473,904 a year (i.e., $236,952 times two), an annual revenue increase of two-thirds. In other words, the opportunity cost for the institution with one advisor for every 20,000 client households is $191,277. The annual opportunity cost of not deploying one advisor for every 5,000 households would be approximately $633,201 (i.e., $228,957 times four minus $282,627).

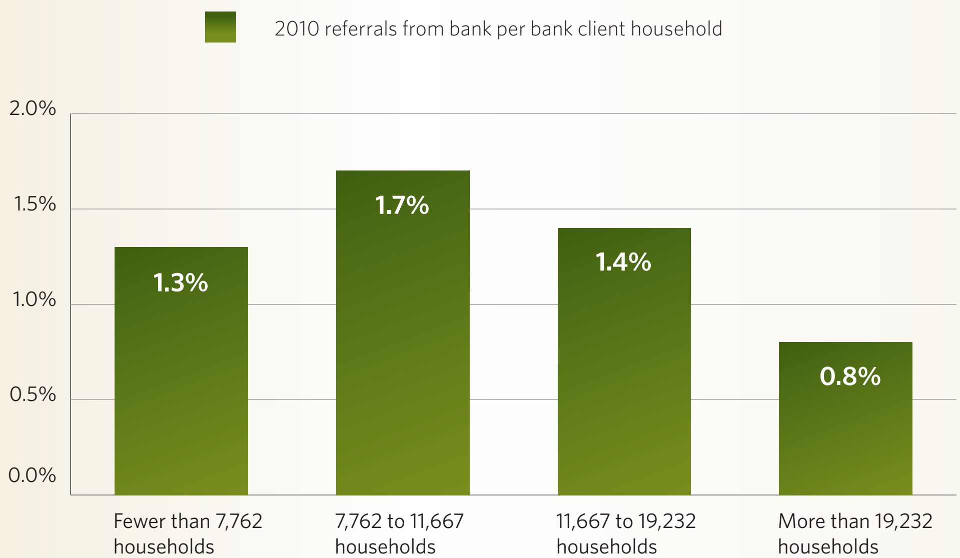
Decreasing the size of territories from 19,332 households to 4,500 appears to help the advisor focus more on a smaller pool of potential clients, and on serving existing clients better, hence obtaining more of their investment and insurance business. In addition, advisors spend less time traveling from branch to branch and can build more rapport with staff in their remaining branches.

Impact on Referrals

That rapport with staff has a salient effect on referrals. Branch staff in the typical financial institution referred an average of 1.3 percent of their client households to the investment and insurance unit in 2010. Reading the chart below from right to left, increasing household coverage up from the bottom quartile increases referral penetration from 0.8 percent to 1.4 percent, which is above the industry average. Increasing the advisor headcount further boosts referral penetration even more, until household coverage exceeds the third quartile. But even with the thickest coverage, referrals as a percent of client households are nonetheless just equal to the industry average.

This appears to be an example of the principle of "out of sight, out of mind." By spending more time in fewer branches, the advisor is able to cultivate a team relationship with branch staff and help them understand the value of investment and insurance services to the institution's clients, learn how to identify investment and insurance prospects, and acquire referral skills.

Figure 3 | Household Referral Penetration by Household Coverage



In a forthcoming white paper in this series, we will estimate the value of a referral to the advisor's productivity and the household revenue penetration of investment and insurance services.

Unfortunately, while the smaller territories increase the quantity and quality of referrals, this does not fully substitute for the lost client opportunity. The referrals available for each advisor decline as the advisor headcount increases, because the number of advisors increases proportionately faster than the number of referrals. Reading the chart on the next page from right to left, the average referrals available to an advisor falls from 288 per year at the thinnest coverage to only 133 with the thickest coverage. The average advisor across all institutions received 200 referrals in 2010.

So while increasing the number of advisors increases referrals from the host institution to help support the headcount expansion, sales management needs to provide other support to the advisor during this transition. The advisor should expand contact time with existing clients to deepen that relationship and obtain client referrals. In addition, other sources of business—seminars, referrals from centers of influence, community involvement—need to be developed. Sales management can provide the tools and support for this transition.

Figure 4 | Referrals per Advisor by Household Coverage

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Summary

Most financial institutions can increase their investment and insurance revenue substantially by adding more advisors. Our research suggests that an institution can maximize its revenue without undermining sales productivity with a coverage ratio of 7,762 households per advisor. Some banks and credit unions are able to achieve coverage ratios as rich as 4,500 without straining the production of their advisors. Since the median coverage ratio is 11,667 households per advisor, half of all institutions selling investments today would have to increase their advisor head count by at least 50 percent to get to the 7,762 threshold, and by more than 150 percent to have a coverage ratio of 4,500 client households per advisor.

In previous research we have calibrated the advisor coverage ratio in terms of millions of dollars of consumer deposits. But in an environment where some banks are shedding deposits while others are inhaling them, the size of the institution's client base may now be a better measure of the size of the institution's opportunity. For those who prefer to think of advisor coverage in terms of consumer deposits, in 2010, the average deposit balance per bank/credit union client household was $21,879. So a coverage ratio of 7,762 equates to $170 million in consumer deposits, while 4,500 client households is equivalent to $98 million in consumer deposits per advisor. In 2010 the typical bank deployed one advisor for every $311 million in consumer deposits, a substantial shortfall from best practices.

Such a dramatic increase in the investment and insurance sales force cannot be achieved overnight. Recruiting advisors today is very challenging, given the competition for successful advisors and a talent pool that is not growing to meet the needs of the industry. In addition to ramping up recruiting, sales management needs to provide support to the existing sales force to transition to smaller territories. But the fruits of these efforts are a substantial increase in the opportunity for revenue penetration and an enhanced client experience.

Finding the Right Fit for Your Business

If you are thinking about expanding your investment and insurance sales force and maximizing your revenue goals, PrimeVest is ready to work with you on finding solutions that fit your bank or credit union's needs.

As one of the largest broker-dealers exclusively focused on banks and credit unions, PrimeVest understands the importance of hiring qualified, productive advisors that meet the unique needs of financial institutions. We are taking the legwork out of your recruiting efforts with an array of recruitment tools and services within our SmartWorks® advisor workstation, including:

- Our online **Recruitment Resource Center** - Within the center, you can find interview guides, suggested interview questions, recruiting articles, a pre-interview checklist and reports. The center is constantly changing with new materials being added periodically. Additional materials include: Appropriate and Inappropriate Interview Questions, Successful Onboarding of New Reps, Sample Ads, Sample Job Descriptions, ROI of Recruiting the Right Person, Cost of Recruiting Calculator, sample compensation plans, and much more.
- A **national database** of advisors - These lists can be customized to fit target profiles including licenses required, years of experience, location, estimated annual production, etc.
- **Regional and national recruiting and consulting firms** - These firms have extensive financial services experience with offerings that span from full-service recruiting to consulting, advising and researching.

Furthermore, PrimeVest offers its new **Cost Benefit Analysis** tool aimed at helping its financial institutions make informed decisions about its sales force. The tool allows you to find out if you have the right number of advisors in your program, when it's time to bring on another advisor and most importantly, what that would do to your bottom line.

The Cost Benefit Analysis resource includes a built-in interactive calculator which will show you the projected one- three- and five-year net income to your financial institution of adding an advisor. It takes into account variables like compensation, expenses and start-up costs. We have also included an Advisor Opportunity calculator that will show you how much revenue you may have lost by not immediately filling an open position in your program. Once you have run the analysis, you can review all of the many resources PrimeVest provides to assist you in recruiting new advisors or filling open positions.

Let PrimeVest help you build your program for maximum effectiveness and profitability. To learn more about how we can help you achieve your goals, contact Sean Casey by phone at 800.245.0467, ext. 65014; by email at sean.casey@primevest.net; or visit us at www.primevest.com.

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About Kehrer-LIMRA

Dr. Kenneth Kehrer is a consultant to financial institutions and their product and service partners on the distribution of investment and insurance services. His research on sales penetration, sales force productivity, sales compensation, profitability, and sales management metrics has helped many institutions improve the performance of their investment and insurance businesses, and helped the industry identify best practices. In 2004, Dr. Kehrer received the prestigious Lifetime Achievement Award from the Bank Insurance and Securities Association. The research that his firm initiated on financial institutions as financial services stores 26 years ago is now carried on by the successor organization, Kehrer-LIMRA.

About Cetera Financial Group

Cetera Financial Group provides comprehensive broker-dealer services, innovative technology, and competitive advisory programs for approximately 5,000 independent financial professionals and more than 700 financial institutions nationwide. Through its multiple broker-dealer models, Cetera offers the scale-driven benefit of a large broker-dealer with the relationship focus and customized solutions of a smaller firm.

Based in Los Angeles, Cetera is committed to helping advisors grow their business and strengthen their relationships with clients. For more information, visit www.cetera.com.

About PrimeVest Financial Services

Founded in 1984, PrimeVest Financial Services Inc. is a self-clearing registered broker-dealer serving the clients of nearly 500 financial institutions throughout the United States. With its focus exclusively on financial institutions, PrimeVest delivers innovative investment and insurance solutions, comprehensive support and a flexible program structure built to strengthen client relationships.

PrimeVest is a member of the Depository Trust and Clearing Corporation (DTCC), the Securities Investors Protection Corporation (SIPC), and the Financial Industry Regulatory Authority (FINRA).

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