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

How to Maximize the Impact of Sales Assistants and Junior Brokers

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Cetera® FINANCIAL INSTITUTIONS

Introduction

This white paper examines the value and advantages of using sales assistants and junior brokers (less experienced advisors partnered with more experienced advisors) in banks and credit unions offering investment services. As demonstrated in *Optimizing the Advisor-to-Client Ratio*, an earlier analysis in the *Guide to Growth* series, to maximize the revenue opportunity in their customer base, many financial institutions should double the number of advisors they employ. In today's very competitive market for advisors, however, recruiting and even retaining advisors is not only challenging, but often very costly.

In this environment, there is heightened interest in generating more revenue from the current advisors. One way to make existing advisors more productive is to provide them with sales assistants who can take over a variety of administrative and processing tasks. Similarly, pairing less experienced advisors with more experienced advisors can offload a range of customer care activities from the advisor with a large book of clients. The senior advisor, in turn, can mentor the less experienced partner, cultivating their investment and client management skills, and ultimately alleviating the need to bid for a more experienced advisor in the marketplace.

In the following paper, we examine how banks and credit unions are using sales assistants and junior brokers and analyze their impact on the following:

- the productivity of advisors
- the revenue penetration of the host institution's opportunity
- the profit margin of the institution's investment services business
- the profit contribution relative to the institution's opportunity

To prepare this analysis, we have used data from the annual *Kehrer-LIMRA Financial Institution Investment Program Benchmarking Survey*, primarily the 2011 survey, which is the latest available. Sixty-four banks and credit unions participated in the 2011 survey.

Use of Sales Assistants

In 2011, 88 percent of the financial institutions surveyed reported using sales assistants, about the same prevalence as in recent years.

Sales assistants with a securities registrations are more common than non-registered assistants. Seventy-eight percent of the institutions reported using registered sales assistants, compared to 63 percent with unlicensed (i.e., non-registered) assistants. Fifty-five percent deployed a combination of registered and non-registered assistants. For the programs that have sales assistants, 29 percent employed only registered assistants, 11 percent used only non-registered assistants and 61 percent deployed both.

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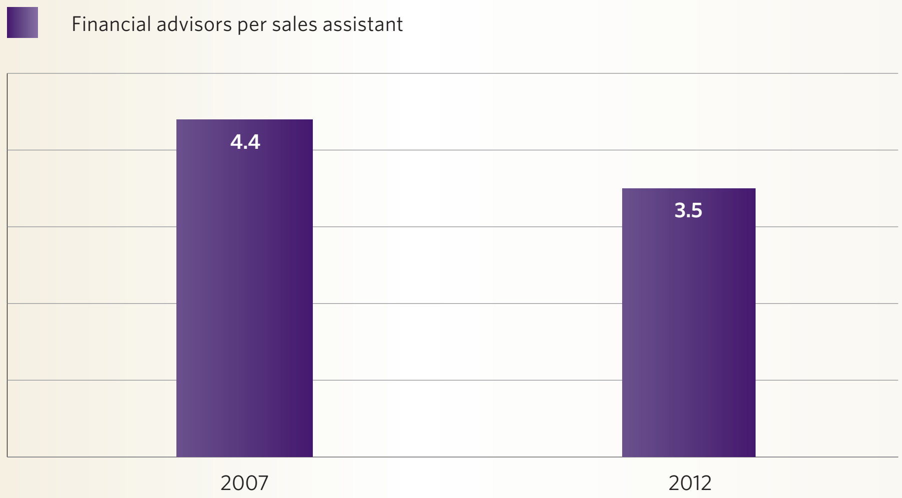
Sales Assistant Coverage

On average there are 3.5 advisors per sales assistant in financial institutions. This average is distorted by two outlier institutions that have more than 10 advisors per sales assistant. The median number of advisors per sales assistant is 2.8.

Almost half (46 percent) of the survey participants with sales assistants have at least one sales assistant for every two advisors. Two programs provide each advisor with a sales assistant.

Figure 1 | Sales Assistant Coverage of Financial Advisors



While the prevalence of sales assistants has not changed over the past five years, they are now being used more extensively. In 2007, the ratio of advisors to sales assistants was 4.4.

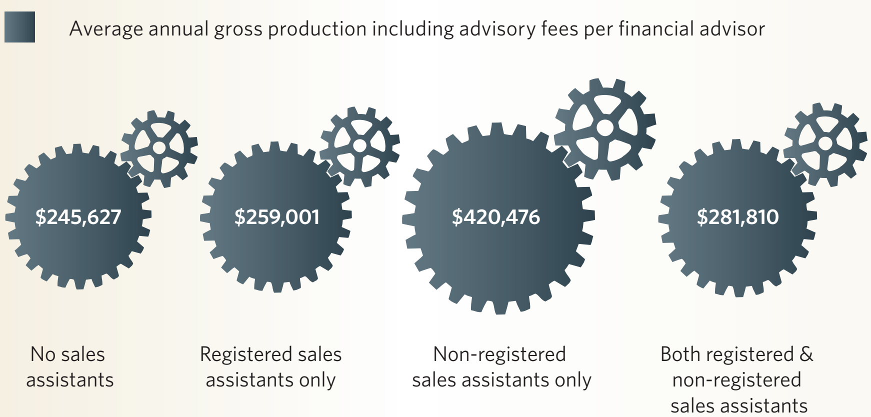
Fifty-six percent of the investment programs with sales assistants co-locate them with the advisors they support and the rest house the assistants in a central location, except that one program uses a combination of co-located and centralized sales assistants. Another deploys the sales assistants in hubs that serve two or three advisors.

Advisor Productivity

Advisors in the banks and credit unions whose investment services programs employ sales assistants are more productive than their counterparts in programs that eschew sales assistants. The average annual gross, including advisory fees but excluding trail commissions—which we will refer to as "average production"—of advisors in programs with sales assistants is $283,141, which is 15 percent more than the average for advisors that do not use sales assistants.

These productivity gains, however, are concentrated in programs that use unlicensed sales assistants. Banks and credit unions that use a combination of registered and non-registered sales assistants have a 15 percent productivity advantage over those that do not use sales assistants. Programs that rely on registered assistants have average production per advisor that is a mere five percent better than programs not using assistants at all. In programs that deploy unlicensed sales assistants only, however, the average production is $420,476—a striking 71 percent better than programs that have no sales assistants.

Figure 2 | Impact of Sales Assistants on Advisor Productivity



These findings suggest that offloading paperwork and other administrative duties (the functions of non-registered sales assistants) is a more important driver of advisor productivity than the tasks that require an assistant to have securities registrations. On the other hand, as we will see, differences in productivity tell only part of the story.

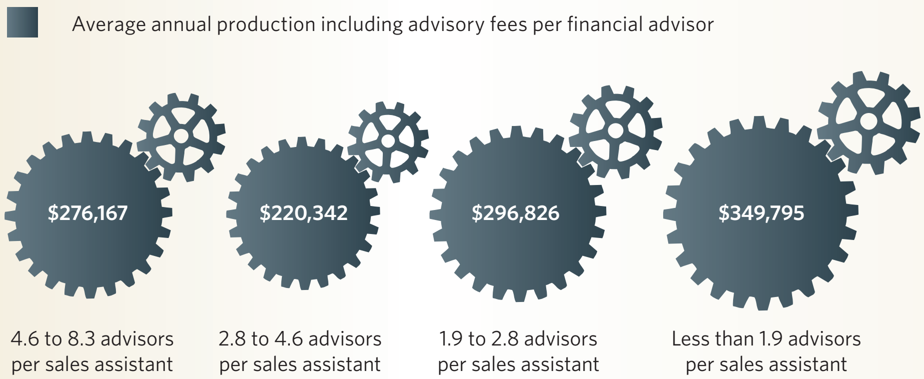
Direction of Causation

It is not clear that all of these productivity differences can be attributed to the use of sales assistants. First, there are other factors that influence the sales productivity of an advisor. In previous *Guide to Growth* series white papers, we have demonstrated how the size of the advisor's customer territory, the level of referrals from the host institution, and the extent to which the advisor has incorporated life insurance or advisory business into his or her practice all influence the advisor's annual gross.

The way most investment programs award sales assistants may also confound our analysis of their impact on advisor productivity. Typically a program will provide a sales assistant to the advisor who achieves a threshold of production. Thus, advisors with sales assistants already have a higher average annual gross than those without sales assistants, even before the sales assistant has had an opportunity to have an impact on the advisor's productivity.

This confounding effect is largely mitigated because our analysis is conducted on a program-by-program basis, rather than an advisor-by-advisor basis. We do not expect that program-wide average productivity influences whether it chooses to use sales assistants, or what kind to use, especially since it appears that programs with very high average productivity set higher thresholds to qualify for a sales assistant.

Figure 3 | Impact of Sales Assistant Coverage on Advisor Productivity



If the use of sales assistants improves advisor productivity, we would expect to see even higher average production in investment programs that have a richer sales assistant coverage of their advisor base. Figure 3 displays the average advisor production of programs by the quartiles of their sales assistant coverage. Moving from left to right on the chart demonstrates the impact of adding sales assistants to a fixed advisor base. Investment programs with between 1.9 and 2.8 advisors per sales assistant have average production that is 35 percent higher than those with an advisor/sales assistant ratio between 2.8 and 4.6. And programs with even richer sales assistant coverage (less than 1.9 per advisor) have average production of $349,795, which is an 18 percent improvement over somewhat thinner coverage.

Investment programs with very thin coverage of more than 4.6 advisors per sales assistant do have higher average production than those with between 2.8 and 4.6 advisors per assistant, but that level is essentially the same as the average for all survey respondents—$279,481. We conclude, therefore, that factors other than the use of sales assistants impact the productivity of advisors in banks and credit unions with thin coverage of sales assistants, but there are clearly gains from adding sales assistants above the median of 2.8 advisors per assistant.

If sales assistants improve productivity, why doesn't an investment program provide sales assistants to all of its advisors? The prevailing logic in the industry seems to be that an advisor has to earn a sales assistant by achieving a threshold of production. There appears to be a sense that a less productive advisor will waste the money that the program pays for sales assistance. In some programs this is partially mitigated by requiring the advisor to pay for part of the sales assistant's compensation. And some programs let advisors decide for themselves whether to have a sales assistant.

But the clear productivity gains from the use of sales assistants indicate that programs should experiment with providing sales assistants to relatively low performing advisors, and withdraw the support, or take other corrective action, if advisor productivity does not improve enough to more than cover the expense. While improving advisor productivity is important, it is not the overriding objective in managing the investment services business inside a bank or credit union.

Household Revenue Penetration

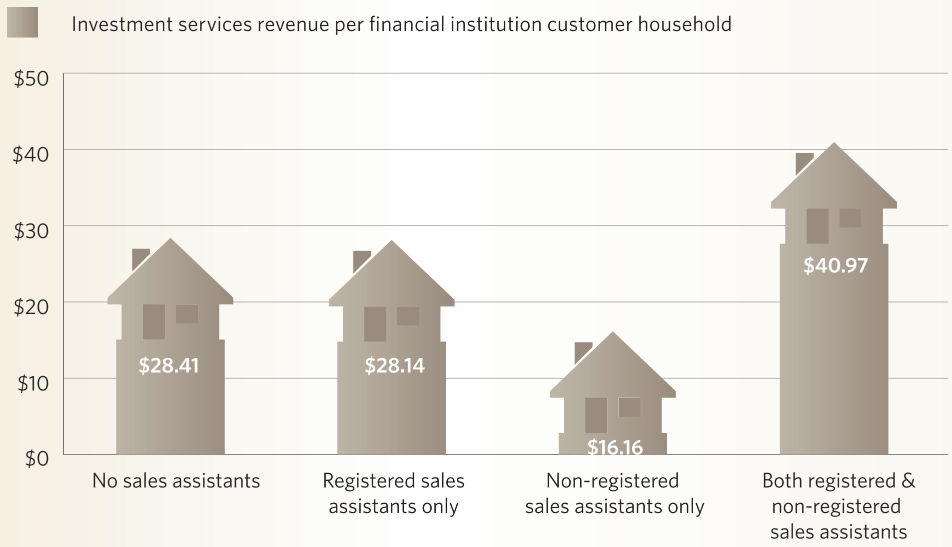
Advisor productivity is universally used as a measure of performance for the securities industry. But it is not the best measure of success for the investment services business of a financial institution. The primary objective of a bank or credit union's investment services offering is to capture the retail investment business of its customers or members. Therefore, the yardstick we use to measure performance should be how well it is penetrating that opportunity. One such metric is how much revenue the investment services program produces relative to the institution's number of customer or member households.

Banks and credit unions that deploy sales assistants have average household investment services revenue penetration of $34.53, which is 22 percent higher than institutions that do not use sales assistants. The higher revenue penetration, however, is concentrated in the institutions that use a mix of registered and non-registered sales assistants. These institutions have household revenue penetration that is 44 percent greater than banks and credit unions with no sales assistants.

Investment programs that rely on registered sales assistants have revenue penetration of households only similar to those that eschew sales assistants altogether, while those with only non-registered sales assistants have by far the lowest investment services revenue per bank customer household—indeed, a penetration of their household base that is 43 percent below those with no sales assistants.

"The higher revenue penetration, however, is concentrated in the institutions that use a mix of registered and non-registered sales assistants."

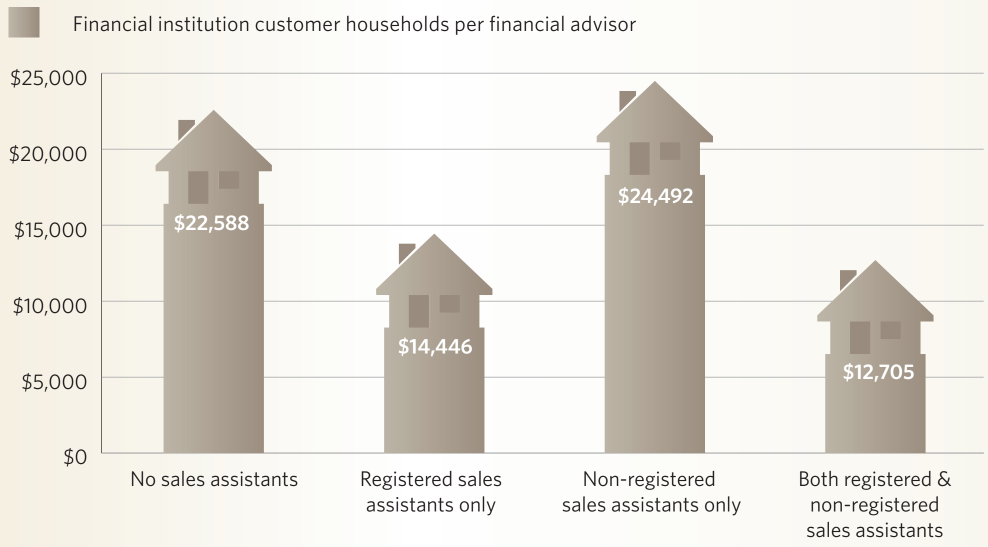
Figure 4 | Impact of Sales Assistants on Household Revenue Penetration



As we saw in Figure 2, non-registered sales assistants appear to have the largest impact on advisor productivity. But the investment programs that rely on non-registered assistants only have lower revenue penetration, on average, than other programs, with or without sales assistants. This anomaly highlights a key finding from the *Guide to Growth* series—that factors such as advisor coverage of the institution's customer base and the use of licensed bank employees (which is another form of coverage) are more important drivers of revenue penetration than advisor productivity.

Indeed, if we compare the household coverage of the advisors in the survey by their investment program's use of sales assistants, we see the explanation for this anomaly. The advisors in programs that rely only on unlicensed sales assistants have household territories—financial institution customer/member households—that are 70 percent larger than those that use only registered sales assistants, and almost twice as large as the household coverage of programs that use a mix of registered and non-registered assistants. No wonder investment programs with only unlicensed assistants have higher advisor productivity and lower household revenue penetration. Many of these programs need to hire additional advisors and reduce the household territories of their advisors.

Figure 5 | Household Coverage of Financial Advisors by Use of Financial Assistants



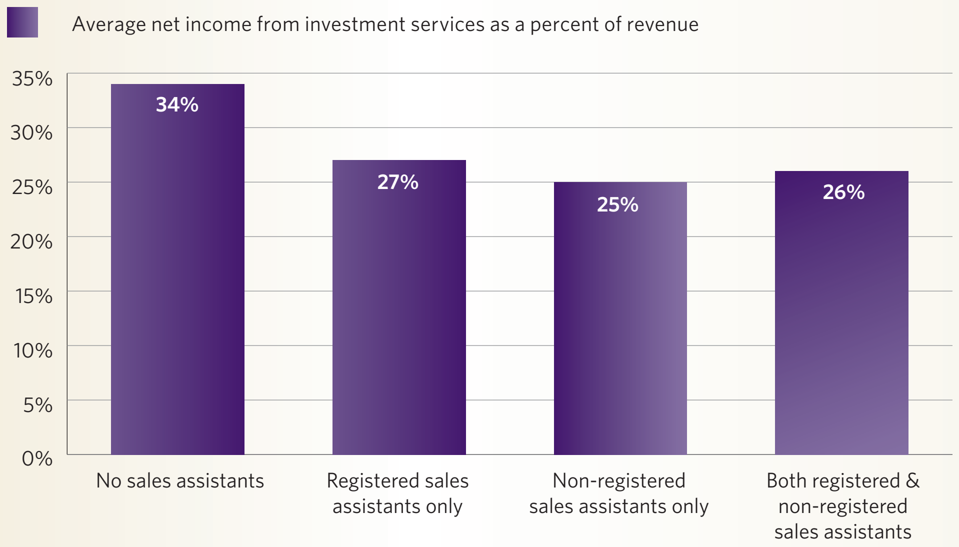
Profit Margin

Of course, banks and credit unions are looking for more than just top-line revenue from their investment services offering. But assessing the profitability of an investment services business inside a financial institution is challenging because of differences in overhead structures across the industry. Those differences can distort the net income contribution of the investment services business.

We have found "contribution to pretax profit" (sometimes called "contribution to overhead") to be the most useful measure of net income across institutions. This measure subtracts from revenue all direct and indirect expenses attributable to the investment services business, including allocations for such activities as legal, marketing, facilities, and technology, but not general corporate overhead.

Investment programs that use sales assistants have average net income margins—net income as a percent of investment services revenue—of 26 percent, which is eight percentage points less than those that do not use sales assistants. The shortfall in profitability exists whether the program uses registered assistants, non-registered assistants, or both.

Figure 6 | Impact of Sales Assistants on Net Investment Services Margin



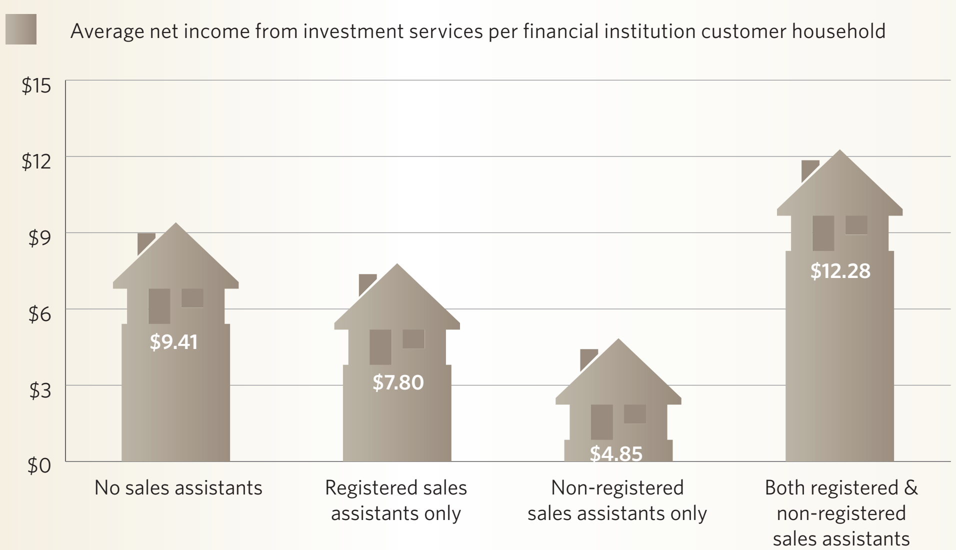
Of course, sales assistants are an expense, so it is not surprising that they are a drag on profit margins. The 34 percent and 26 percent net income margins imply expense ratios of 66 percent and 74 percent, respectively. The 12 percent higher expense ratio for investment programs with sales assistants is too high to be attributable entirely to the expense of sales assistants, but the net income margins by type of sales assistants deployed is consistent with the drag of sales assistant expense on profit margins—non-registered sales assistants are less expensive than registered sales assistants.

Household Profit Penetration

Still, profit margin alone can be a misleading measure for an investment services business inside a financial institution. A bank or credit union should want to maximize the ***net income contribution*** of its investment services business, not the margin on that business. And it should assess the size of the income contribution relative to its opportunity. One such measure is net income contribution relative to the size of the institution's household customer base.

This is an example where a focus on profit margins or expense ratios leads to the wrong conclusion. Investment programs with sales assistants have average household profit penetration from investment services of $10.19 per customer household of the host institution, eight percent better than those with no sales assistants. While the use of sales assistants squeezes profit margins, the additional revenue they help produce more than compensates for the additional expense.

Figure 7 | Impact of Sales Assistants on Household Profit Penetration



Here again, the profit contribution gains are concentrated in the programs that use a mix of registered and non-registered assistants. Their profit contribution is 31 percent better than those without sales assistants. The household profit penetration of programs that rely only on registered or only on non-registered assistants is 17 percent and 48 percent, respectively, below the income penetration of programs with no sales assistant support.

Use of Junior Brokers

In 2011, 37 percent of the banks and credit unions surveyed reported employing what the industry calls "junior brokers"—less experienced advisors who are paired with a senior advisor who mentors the junior broker and shares in the revenue the junior broker produces. Junior brokers are slightly less widespread than they were in 2007, when 39 percent of the programs surveyed had at least one junior broker, but the number of junior brokers employed is significantly greater. Five percent of the advisors now working in banks or credit unions are classified as junior brokers, up a striking 39 percent from 3.6 percent in 2007.

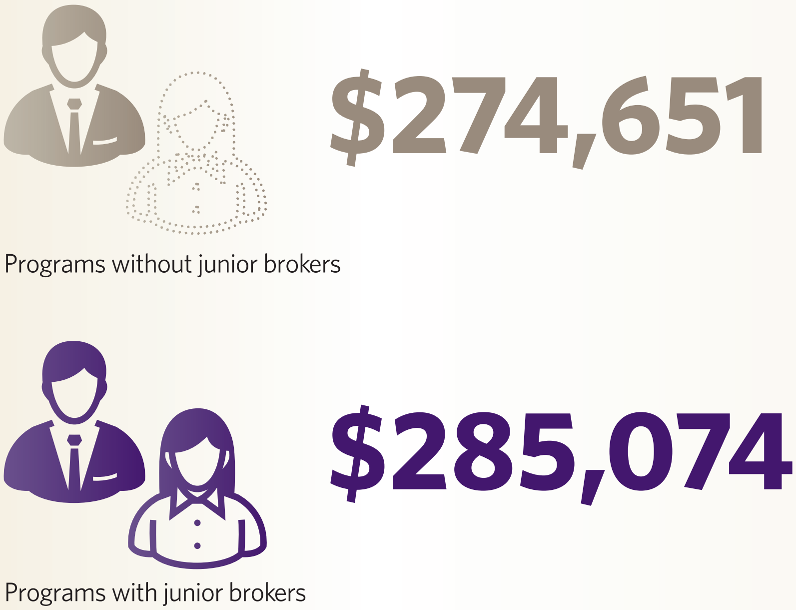
Advisor Productivity

Junior brokers can help senior advisors increase their production by taking responsibility for less fruitful clients, freeing up the senior advisor to spend more time on clients with broader or more complex needs for investment advice. Junior brokers can also offload some of the same administrative activities as a sales assistant—booking appointments, completing paperwork, etc., although the time that the senior advisor spends mentoring the junior broker may take time away from personal production.

The Kehrer-LIMRA/BISRA data are collected on a program-wide basis, not an advisor-by-advisor basis, so it is not possible to isolate the impact of a junior broker on the senior advisor's personal productivity or the performance of the team. We can examine only the impact on the overall program's advisor productivity. While the junior broker probably makes the senior advisor more productive, the junior broker undoubtedly produces less revenue personally than an established advisor. So it is unclear what to expect the impact of junior brokers is on the average advisor productivity in the program.

Figure 8 | Impact of Junior Brokers on Financial Advisor Productivity

Average annual gross revenue, including advisory fees, per financial advisor



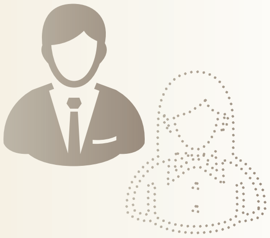
The banks and credit unions with some junior brokers have average advisor productivity, including the lower production of the junior brokers, of $285,074, which is 3.8 percent better than programs without junior brokers.

Household Revenue Penetration

But here it is clear that a more important measure of the value of a junior broker is the impact on overall penetration of the opportunity. Investment programs with junior brokers have investment services revenue of $43.47 per bank or credit union customer household, a striking 54 percent improvement over those that do not use the junior broker model.

Figure 9 | Impact of Junior Brokers on Household Revenue Penetration

Annual revenue from investment services per financial institution customer household



$28.29

Programs without junior brokers

$43.47

Programs with junior brokers

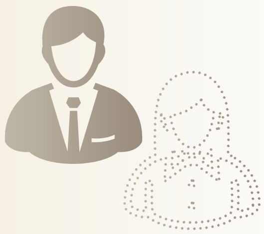
The junior brokers help expand the household coverage of the program's advisor force. In those with junior brokers, there are 11,172 financial institution customer households per advisor (junior, as well as senior) compared to 17,326 per advisor in programs without junior brokers. The programs without junior brokers would have to increase their advisor headcount by 48 percent to have as many advisors as the programs with junior brokers. The latter investment programs have recruited relatively more senior advisors as well as supplemented them with junior colleagues.

Profit Margin

Not only do the programs that use junior brokers produce more revenue relative to their opportunity, but they also bring more of that revenue to the bottom line. Banks and credit unions with junior brokers have net income as a percent of investment services revenue of 31 percent, which is a 24 percent wider profit margin than those without junior brokers.

Figure 10 | Impact of Junior Brokers on Net Investment Services Margin

Average net income from investment services as a percent of revenue



24%

Programs without junior brokers

31%

Programs with junior brokers

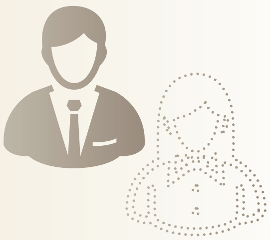
Part of the reason why profit margins are enhanced when junior brokers are deployed is that in some investment programs the combined payout for the team of senior advisor and junior broker is less than what the senior advisor would have been paid on that combined revenue if it had all been the advisor's personal production. Of course, the additional revenue in the programs with junior brokers spreads the overhead of the investment services business over a larger revenue base, increasing profit margins.

Household Profit Penetration

With much higher revenue penetration and wider profit margins, the programs that use the junior broker model have dramatically higher profit penetration of their opportunity. Net income contribution from investment services is $16.03 per financial institution customer household, 2.4 times the profit penetration of programs with no junior brokers.

Figure 11 | Impact of Junior Brokers on Household Profit Penetration

Annual net income from investment services per financial institution customer household



$6.62

Programs without junior brokers

$16.03

Programs with junior brokers

These large differences might not all be attributable to use of the junior broker model. Other analyses in the *Guide to Growth* series have demonstrated that advisor productivity, household revenue penetration, profit margin and household revenue penetration all are impacted by factors such as advisor coverage of the institution's customer base and the flow of quality referrals from the bank or credit union, the extent to which advisors have incorporated advisory business and life insurance into their practice and the maturing of the investment services business within the financial institution itself. We saw above that the programs with junior brokers have more extensive coverage of their respective institution's customer base, even beyond the number of junior brokers they deploy. But these findings certainly support the case for the junior broker model as a way to grow the advisor headcount and better penetrate the opportunity of offering investment services in a financial institution.

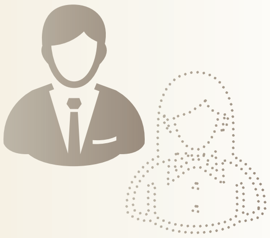
Sales Assistants and Junior Brokers

Of course, some programs use a combination of sales assistants and junior brokers. How does their performance compare with other programs?

The 33 percent of programs surveyed that deploy both sales assistants and junior brokers have average annual advisor production of $292,701, which is 8.4 percent higher than programs that use just sales assistants, junior brokers only or neither.

Figure 12 | Impact of Sales Assistants and Junior Brokers on Financial Advisor Productivity

Average annual gross revenue including advisory fees, per financial advisor



$270,117

Other Programs

$292,701

Programs with sales assistants and junior brokers

The investment programs with both sales assistants and junior brokers also have higher revenue penetration of their opportunity. Investment services revenue per bank or credit union customer household is $42.11 or 41 percent better than programs that do not take advantage of either model for extending their investment sales force.

Figure 13 | Impact of Sales Assistants and Junior Brokers on Household Revenue Penetration

Annual revenue from investment services per financial institution customer household

$29.81

Other programs

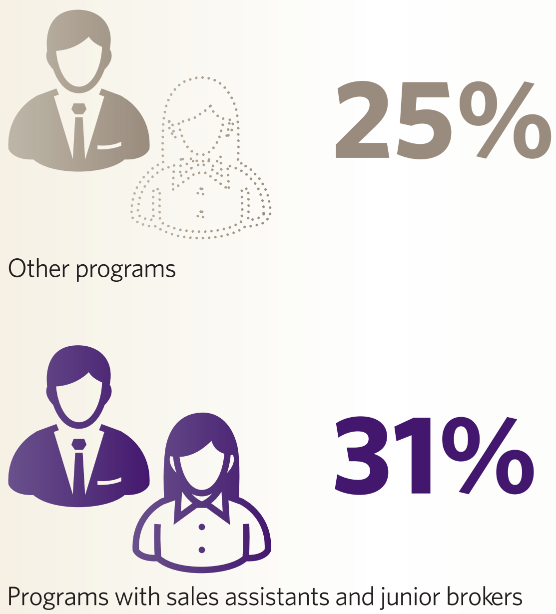
$42.11

Programs with sales assistants and junior brokers

But unlike investment programs that use sales assistants without deploying junior brokers, those that use both models have net income margins that are 24 percent higher than other programs. **The productivity gains and lower payouts for some junior brokers outweigh the expenses of sales assistants.**

Figure 14 | Impact of Sales Assistants and Junior Brokers on Net Investment Services Margin

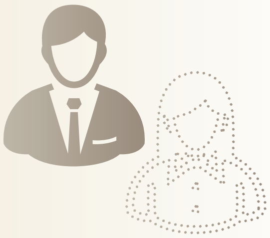
Average net income from investment services as a percent of revenue



Enjoying substantially higher revenue penetration and wider profit margins, the programs that deploy both sales assistants and junior brokers generate more profit relative to their opportunity. Net income from investment services is $15.51 per customer household of the host institution: 2.2 times the experience of programs that use one model or the other, or that do not employ either sales assistants or junior brokers.

Figure 15 | Impact of Sales Assistants and Junior Brokers on Household Profit Penetration

Annual net income from investment services per financial institution customer household



$7.19

Other programs

$15.51

Programs with sales assistants and junior brokers

So deploying some combination of sales assistants and junior brokers has an unequivocally positive impact on advisor productivity, profitability, and the institution's household revenue and profit penetration.

Summary

Sales assistants and junior brokers are both ways to relieve the shortage of advisors and help make the existing advisors more productive. The number of investment programs using either approach has remained fairly constant over the past several years, but the programs that use the junior broker model have been hiring many more junior brokers. This is because the strategy is clearly working—programs with junior brokers have slightly higher average advisor productivity, but much higher revenue penetration, fatter profit margins, and profit penetration of their opportunity that is a multiple of profit penetration than those without junior brokers.

The picture for sales assistants is more complex. Sales assistants, particularly non-registered assistants, are associated with higher advisor productivity, but lower profitability. Investment programs with a mix of registered and non-registered assistants have higher revenue and profit penetration of their opportunity, but that success is not shared by programs that use either registered assistants or non-registered assistants exclusively. But these results are colored by the very thin household coverage of advisors in programs with non-registered assistants, which inflates advisor productivity, but degrades penetration of the institution's opportunity.

Using some combination of sales assistants and junior brokers has an unequivocally positive impact on advisor productivity, profitability, and the institution's household revenue and profit penetration. But all these ways of supplementing or enhancing the advisors have a significant impact on the institution's household penetration.

Impact of Sales Assistants and Junior Brokers on Household Penetration

Financial institution investment services programs that deploy:	Household revenue penetration:	Household profit penetration:
No sales assistants and junior brokers	$28.41	$9.41
Sales assistants	$40.97	$12.28
Sales assistants and junior brokers	$42.11	$15.51
Junior brokers	$43.47	$16.03

Sales management in the institution's investment services program can use these models in various combinations to fit local conditions, the existing advisor talent pool, and the institution's appetite for additional expenses as it seeks to maximize its opportunity in investment services.

Conclusion

Having the right people in the right positions has never been more critical for your business. Cetera Financial Institutions knows the importance of matching the culture of your financial institution to the type of personnel that will support the growth of your investment program. With its proprietary tools and custom solutions to help you better understand the opportunity—or opportunity cost—of adding sales assistants, junior brokers, or other advisors to better penetrate the book of business, Cetera Financial Institutions is your go-to partner.

We offer an array of tools and resources that support your recruiting efforts, including:

Cost Benefit Analysis – This innovative resource features 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 also includes 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.

Recruitment Resource Center – Our online Resource Center, found on the SmartWorks platform, is full of constantly updated information on sourcing, screening, interviewing, compensation and more.

Career Opportunities Map – Let us bring the right candidate to you. Our Career Opportunities Map posts job openings by location (city/state). Then, one of our recruiting managers screens information from interested candidates based on your criteria and sends you a list of potential recruits.

ReferralRewards Program – We know referrals make some of the best recruits. That's why we use our ReferralRewards program among our advisors to inquire about potential recruits that may be interested in your openings.

Additionally, we offer personal recruiters to source candidates for your open positions so you can get a financial advisor or associate/junior broker producing for you faster.

To learn more about Cetera Financial Institutions, contact Sean Casey at 800.245.0467, ext. 65014, or at sean.casey@ceterafi.com. You can also visit us at www.ceterafinancialinstitutions.com.

About Kehrer Saltzman & Associates

Dr. Kenneth Kehrer has been studying the transformation of banks and credit unions to financial services stores since the early 1980s. His research has influenced how a generation of industry practitioners assess their businesses and assimilate best industry practices. He also pioneered the concept of forming bank round table discussion groups that bring together professionals with similar job responsibilities to share experiences and react to the latest research. The research and consulting he formerly did through Kehrer-LIMRA is now a foundation of Kehrer Saltzman & Associates, a strategic management consulting firm for the financial advice industry.

About Cetera Financial Institutions

Cetera Financial Institutions delivers customized investment and insurance solutions to nearly 500 financial institutions. With its focus exclusively on banks and credit unions, Cetera Financial Institutions offers flexible program options that help deepen relationships with clients, grow fee income and fulfill financial institution goals. Cetera Financial Institutions is a member of Cetera Financial Group, Inc., which provides award-winning wealth management and advisory platforms and innovative technology for more than 7,400 independent financial professionals nationwide. For more information, see www.ceterafinancialinstitutions.com.

Cetera Financial Institutions is a marketing name of Cetera Investment Services LLC, a self-clearing, registered broker-dealer and registered investment adviser. Cetera Investment Services is a member of the Depository Trust and Clearing Corporation (DTCC), the Securities Investor Protection Corporation (SIPC), and the Financial Industry Regulatory Authority (FINRA). For more information, see www.ceterainvestmentservices.com.

About Cetera Financial Group

Cetera Financial Group, Inc. is one of the nation's largest privately held, independent broker-dealer and registered investment adviser families. It provides award-winning wealth management and advisory platforms, comprehensive broker-dealer and registered investment adviser services, and innovative technology for more than 7,400 independent financial professionals and more than 600 financial institutions nationwide. Through its four distinct broker-dealers, Cetera Advisors LLC, Cetera Advisor Networks LLC, Cetera Financial Specialists LLC, and Cetera Investment Services LLC, Cetera Financial Group offers the benefits of a large, established and well-capitalized firm, while serving advisors in a way that is customizable to their unique needs and aspirations.

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