Ending Catch and Release: Growing Your Advisor Force

a Kehrer Bielan virtual dialogue

April 13, 2021

Growing Your Advisor Force: a continuation of the Kehrer Bielan virtual leadership study group

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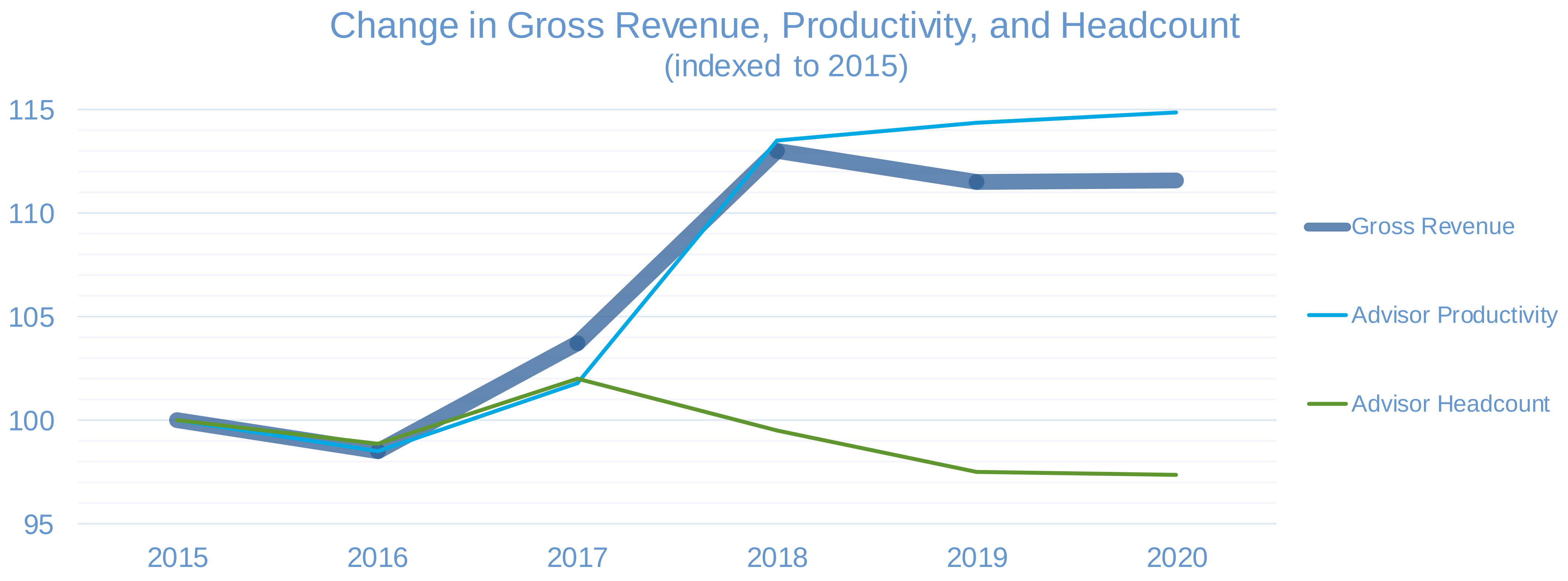
Virtual Round Table

To start the discussion, we've invited some of your peers from the bank securities community to sit with us at the virtual table:

- Lisa Becher, HFA Region Manager, VP, Huntington Financial Advisors
- Gregg DiGeronimo, EVP, National Sales Manager, InSource, Inc.
- John Gagliardi, Administrative Vice President, Regional Manager, M&T Securities
- Jay McAnelly, Group Vice President—Ameriprise Financial Institutions Group, Ameriprise Financial
- Alex Sarafianos, SVP/Regional Sales Director - Regions Investment Services, Regions Financial Corporation
- Michael Smyth, Chief Financial Officer, Wintrust Wealth Management
- KB Team Members – Ken, Peter, Denise, and Tim
- And… all of you in the audience!

Advisor Recruitment

Financial Institutions Are Not Growing Advisor Headcount



Source: Kehrer Bielan Annual Industry Checkup [2016-2021]

Fidelity Investments

- Fidelity is hiring 4,000 employees — including 2,500 financial consultants and customer service reps.
- As it moves into over 20 new market areas, the brokerage firm aims to bring on 1,000 remote licensed financial planners to serve clients in cities such as Los Angeles, Phoenix, Houston, Minneapolis, Chicago, Atlanta, Orlando, Detroit, New York and Washington, D.C.
- Other new employees will focus on building digital solutions for clients and help the firm enter more than 20 new U.S. markets. It expects to fill more than 2,000 of the new positions by midyear.
- The firm says that over the past year, it increased the number of client-facing associates by over 5,000, or 77%.
- Overall, Fidelity boosted its hiring in 2020 by 7,200 due to growing call volumes, as well as new accounts among RIAs who custody assets with the firm, it said in a statement.

Merrill Lynch

- B of A has reinforced its effort to sell wealth management services and loan products across its client base by combining career development programs for advisors across Merrill Lynch and the Merrill Edge unit.
- Merrill Edge's FSA force of about 3,000 advisors is expected to grow by 25%, or some 700 within three years
- The new structure, which has the dual purpose of developing Merrill advisors schooled in selling bank products along with investments, and of providing a career path for women and minority group members who begin at the bank and want to be full-service advisors to the wealthy.
- Casey Knight, a Houston, Texas-based financial advisor recruiter, "Merrill knows exactly what they want and how to accomplish it over the next 20 years," he said.

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Rethinking Advisor Acquisition

Understanding how the market values an advisor helps put it in perspective within our firm:

Morgan Stanley: $3.24 billion of loans with15,950 advisors - $203,135 outstanding balance per advisor

UBS: $1.87 billion of loans with 6,146 advisors - $304,262 outstanding balance per advisor

How many advisors could your firm add if it utilized its balance sheet similarly to recruit more competitively?

What will you do in place of competitive financial incentives to acquire the number and talent levels you desire?

Recruitment:
The Ramp Up Period

Advisor Level Data Provides New Insights, Reinforces Others

Kehrer Bielan proprietary advisor database

- 2625 advisors from 150 banks and credit unions
- age and tenure
- production and AUM, by product line
- quantity and quality of financial planning
- deposit territory and client book
- branch-based or second story
- part of a team?

Average Advisor Age:

Industry Estimates:	47
Financial Institutions:	46

Tenure of Bank-Based Advisors:

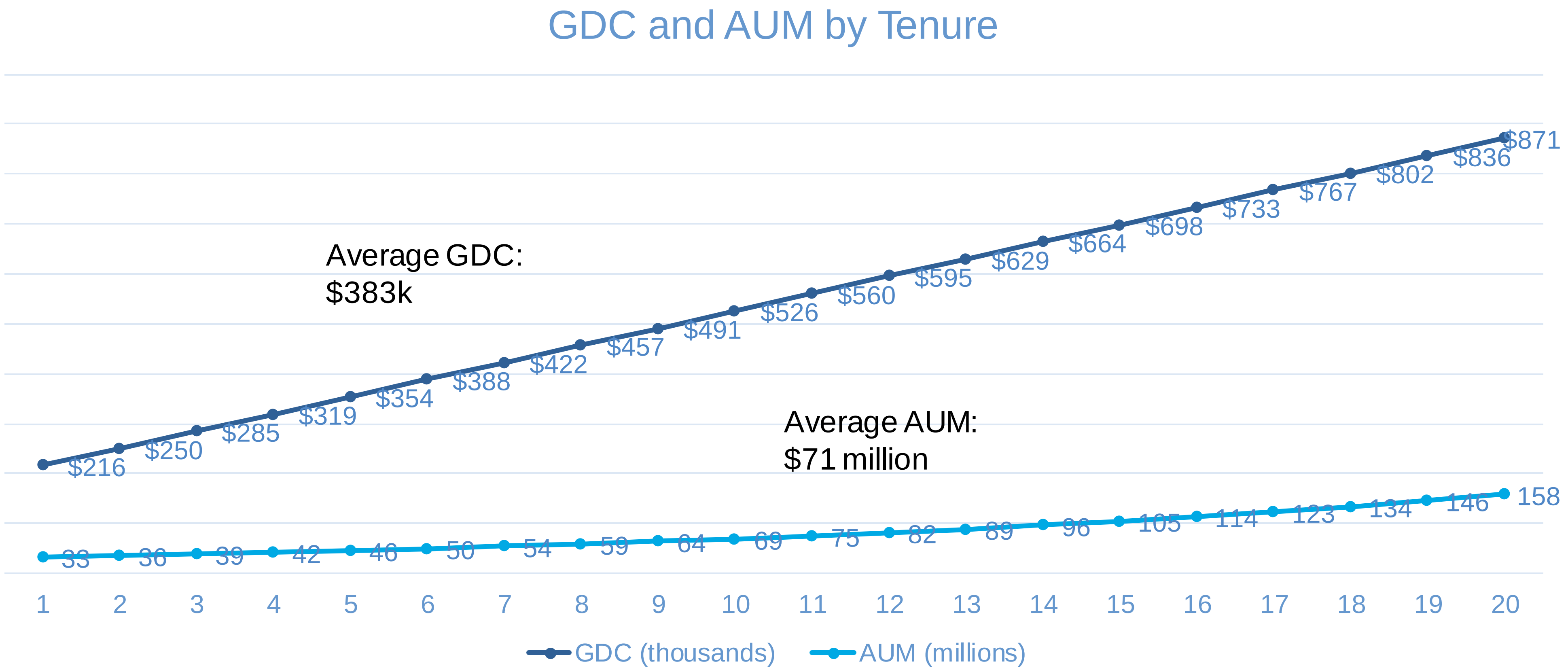
Average:	5.8 years
Median:	4.5 years

Half of bank-based advisors have no more than 4.5 years of tenure at their current institution

Banks and credit unions have relatively short tenure. Why is this important?

Advisors are a drag on firm average performance for the first 4 to 5 years

Apparent straight-line improvement in GDC year-over-year belies the steep ramp-up in the first few years



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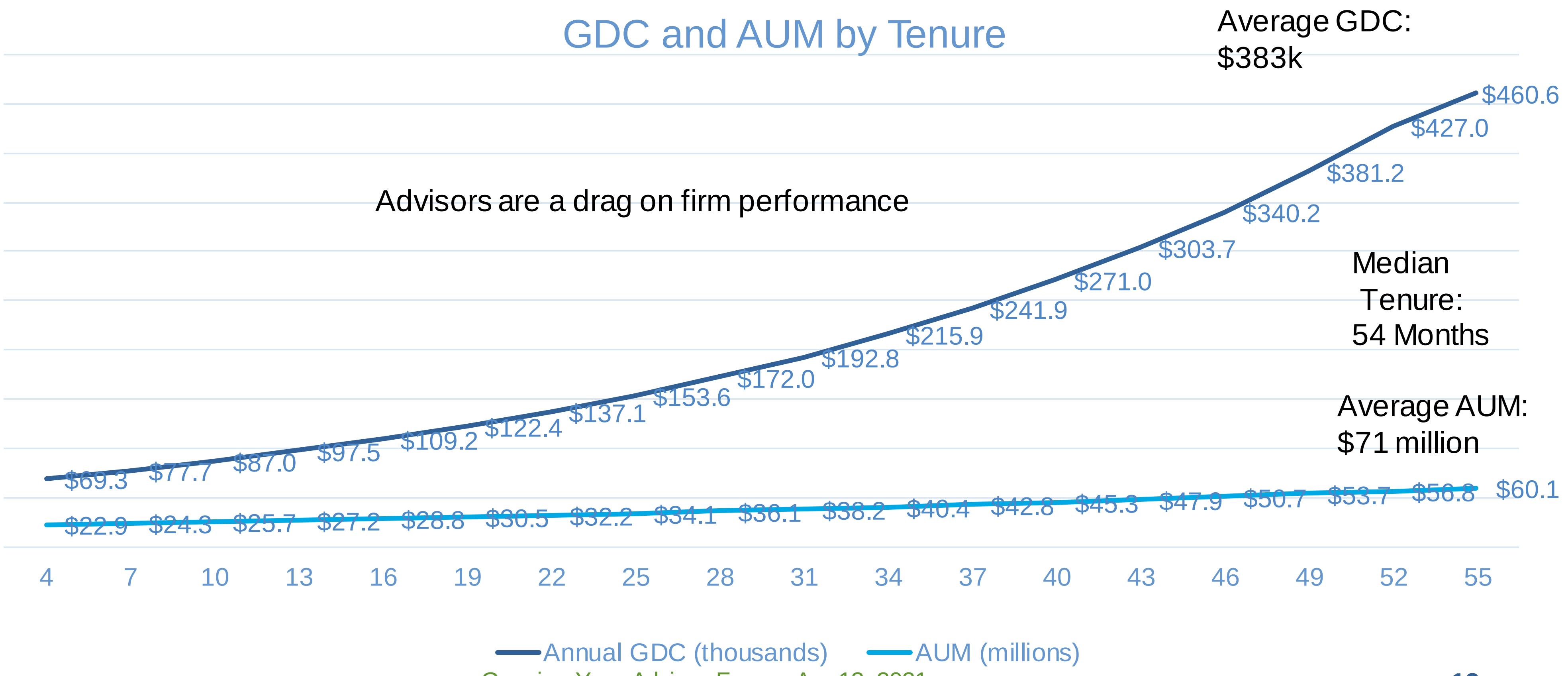
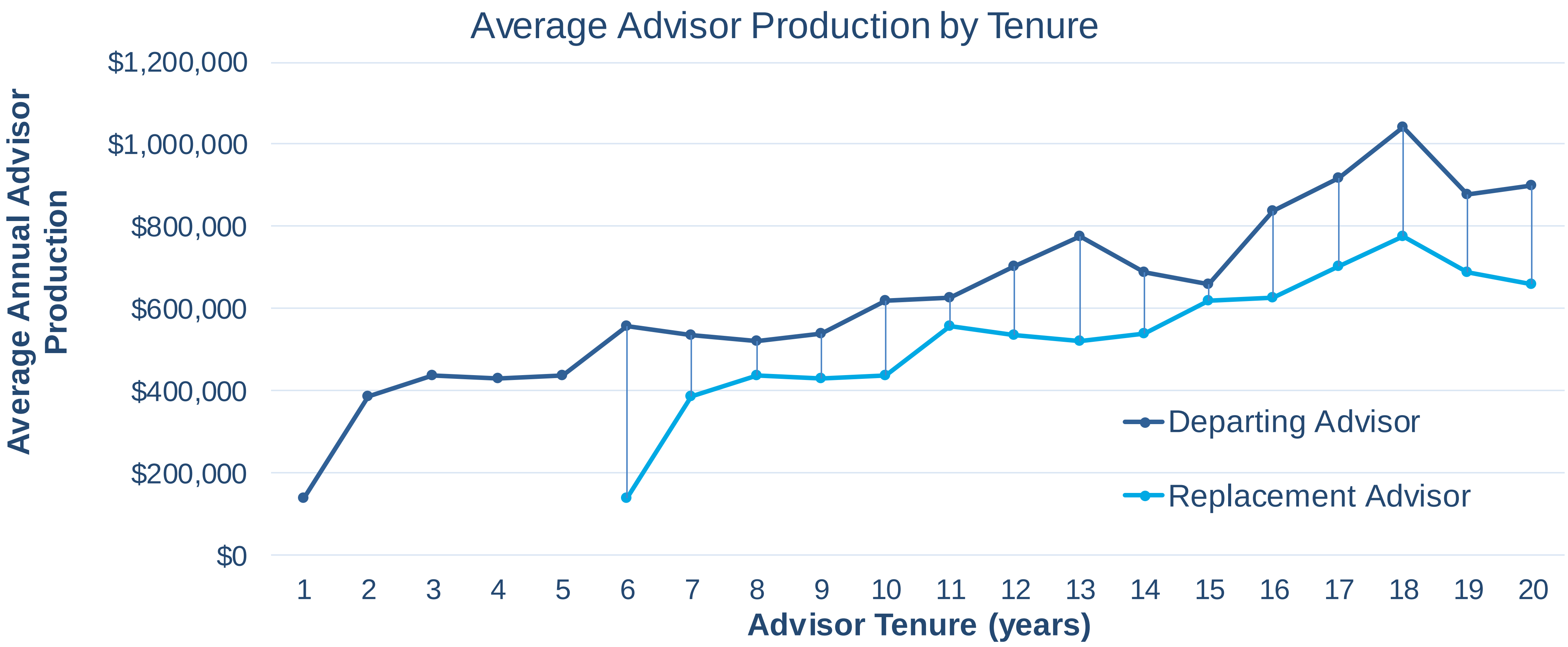
Typical advisor doesn't achieve financial institution average production level until the 50th month

and doesn't reach average AUM until 64th month

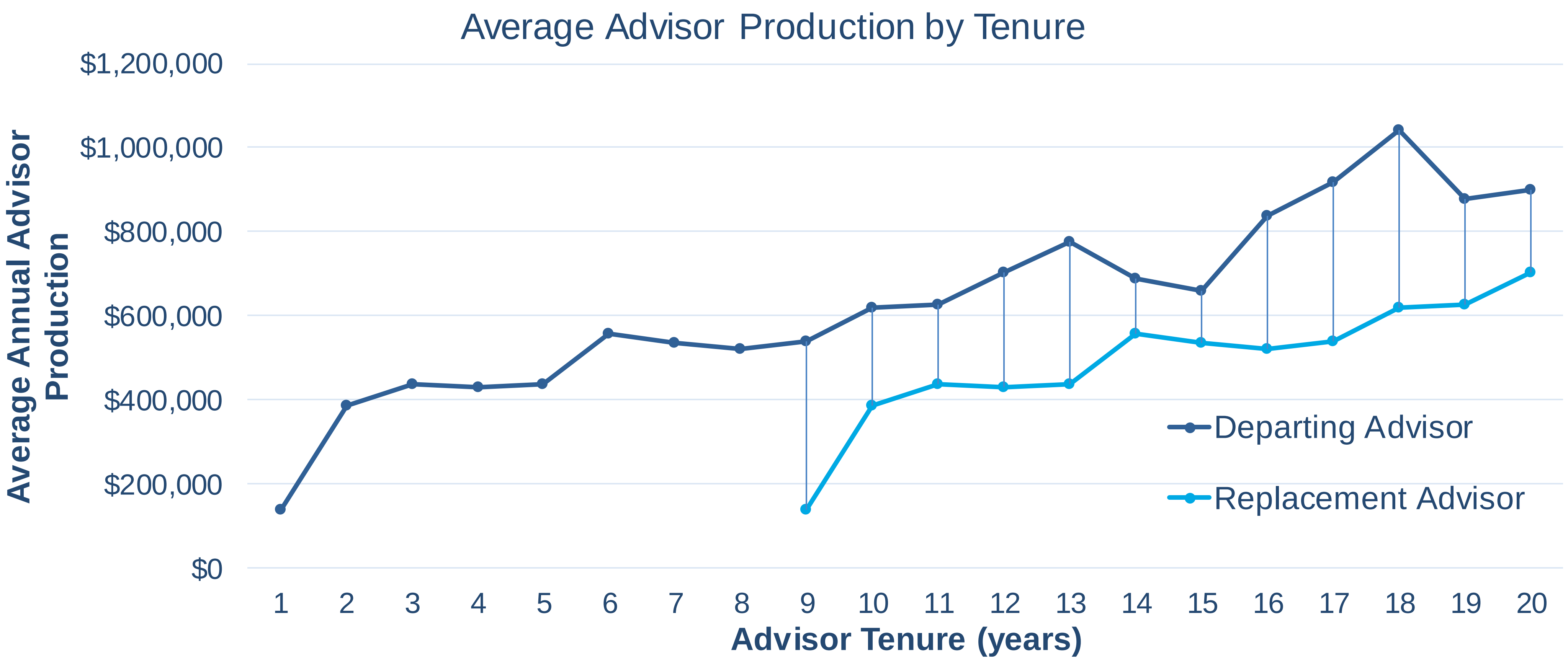


Advisor Retention

Calculating the Cost of Advisor Attrition: Shortfall When Advisor Leaves After 5 Years



Shortfall When Advisor Leaves after 8 Years



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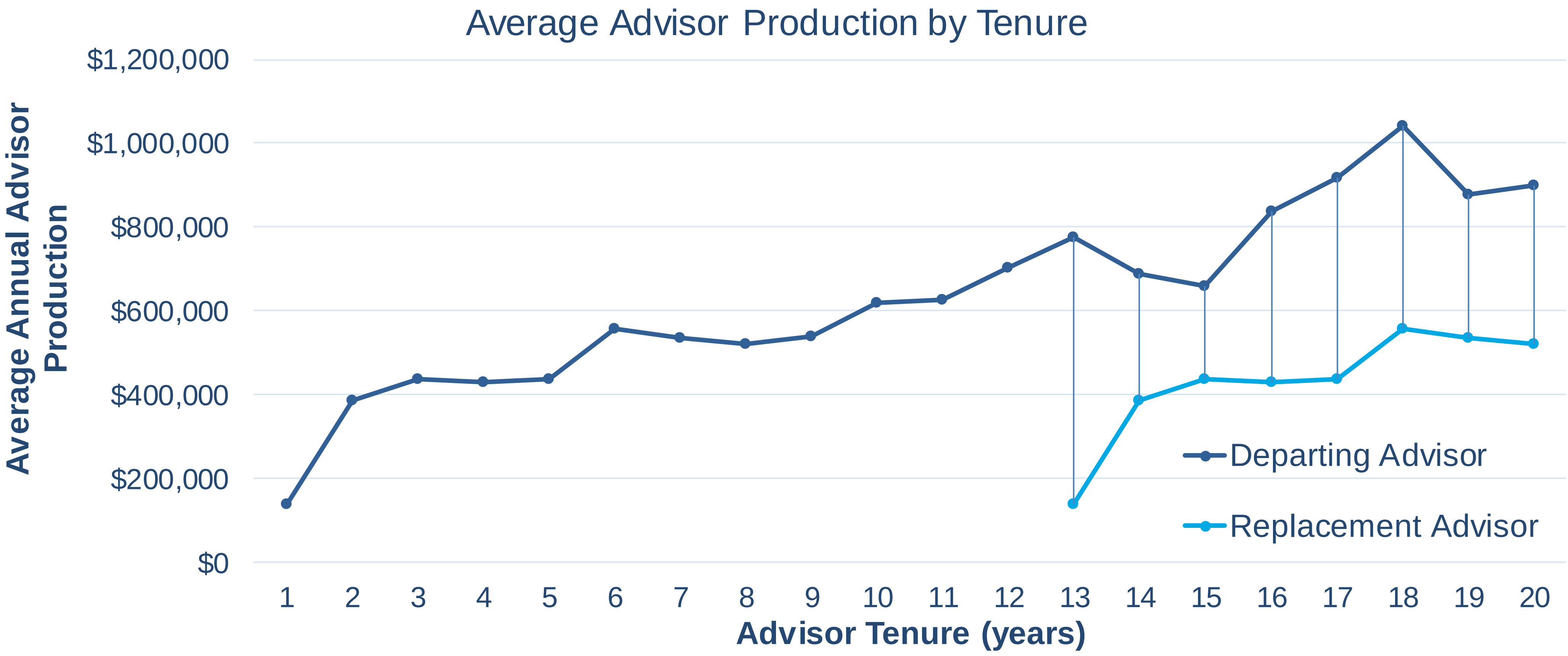
Shortfall When Advisor Leaves after 12 Years



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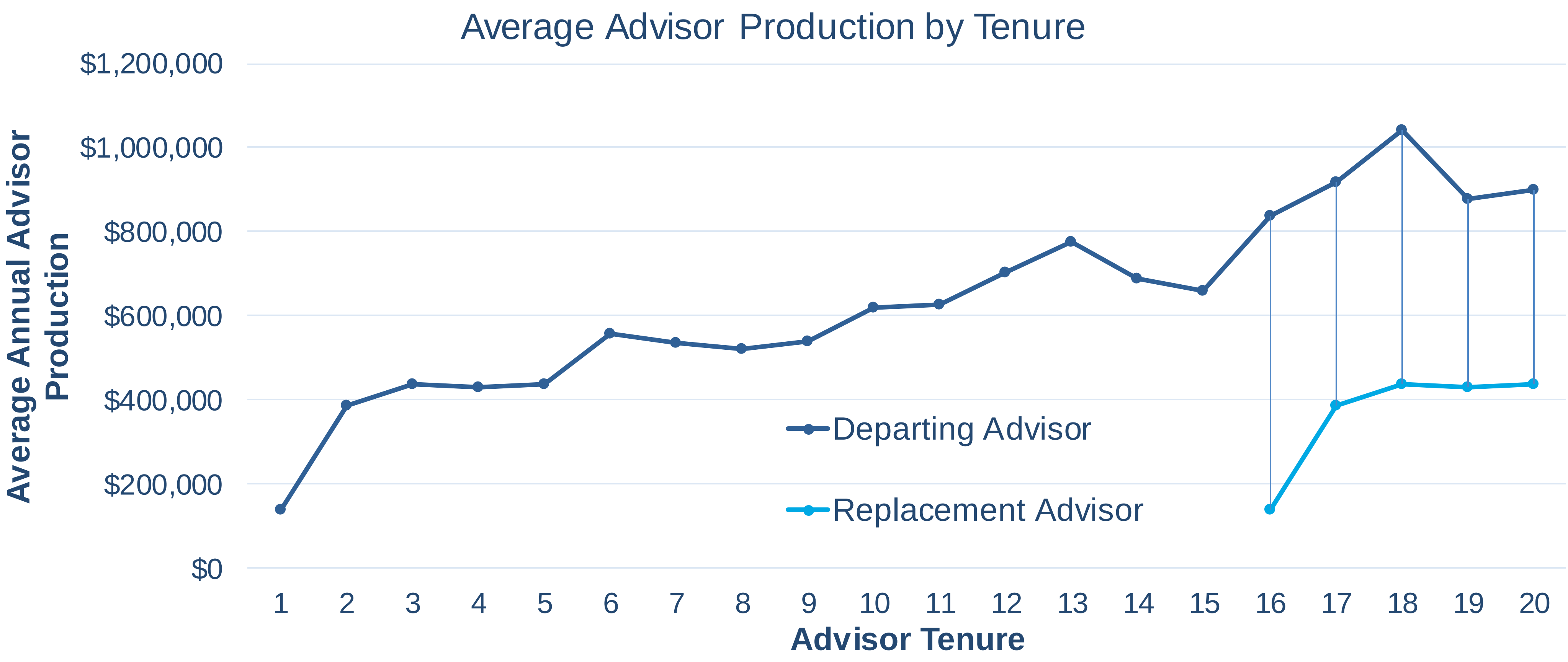
Shortfall When Advisor Leaves after 15 Years



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Revenue Lost from Regretted Attrition, by Tenure of Advisor Who Left (millions)

Tenure at Attrition	Cumulative Revenue That Departed Advisor Would Have Produced	Cumulative Revenue Replaced by New Advisor	Shortfall	PV of Shortfall
5 Years	$10.8	$8.1	$2.7	$1.9
8 Years	$9.2	$5.9	$3.3	$2.4
12 Years	$6.7	$3.4	$3.3	$2.6
15 Years	$4.6	$1.8	$2.8	$2.4

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Retention: Driving Growth By Stemming Advisor Attrition

Advisor Retention Drivers Beyond Compensation – Essential Requirements

- Appropriate and available office space and virtual resources
- A technology platform and tools that enable business
- An approved product set to fully meet client needs
- An active referral environment - Top quartile is 154 per advisor
- Timely and accurate commission and administrative services
- Competent internal client service and operations support

Advisor Retention Drivers Beyond Compensation – Advanced Requirements

- Sales support - Top quartile is 1.9 advisors per sales assistant
- A sharing on costs that support business building activities
- An environment where they are viewed as more than a production number
- Visibility and recognition within the bank or credit union
- A positive company attitude toward advisors and their role
- Confidence in their direct manager

Retention: Succession Planning

Deal Structures

Retiring/Acquiring Partnership	Sale and Loan	Purchase and Distribution
Advisors split revenue between the retiring and acquiring advisors over a set number of years	Retiring advisor receives payment, acquiring advisor has loan from financial institution and uses future commission for loan repayment	Financial institution or OSJ purchases the book from the retiring advisor and distributes it to a single or multiple advisors who receive a lower payout on the business
• This the the most common structure since it removes the firm from financial risk in the transaction	• Most typical in wire-houses and for larger books where the retiring advisor can command a guaranteed payment	• Used in a market where there isn't a replacement advisor readily available or book needs to be divided
• Positive: All parties are aligned as is to the benefit of the retiring advisor, acquiring advisor and firm for the transition to be successful	• Positive: Competitive, guaranteed payment amount and sale amount uniquely calculated for the retiring advisor	• Positive: The financial institution or OSJ can distribute the book to multiple advisors and at a low enough payout for a positive return
• Negative: There is financial uncertainty since the exact amounts of future payments are unknown and retiring advisor doesn't receive revenue up-front	• Negative: Retiring advisor has no financial involvement in success or ongoing business, and financial institution has outstanding loan risk	• Negative: Financial institution or OSJ have to finance the book so have return risk and cash flow outlay

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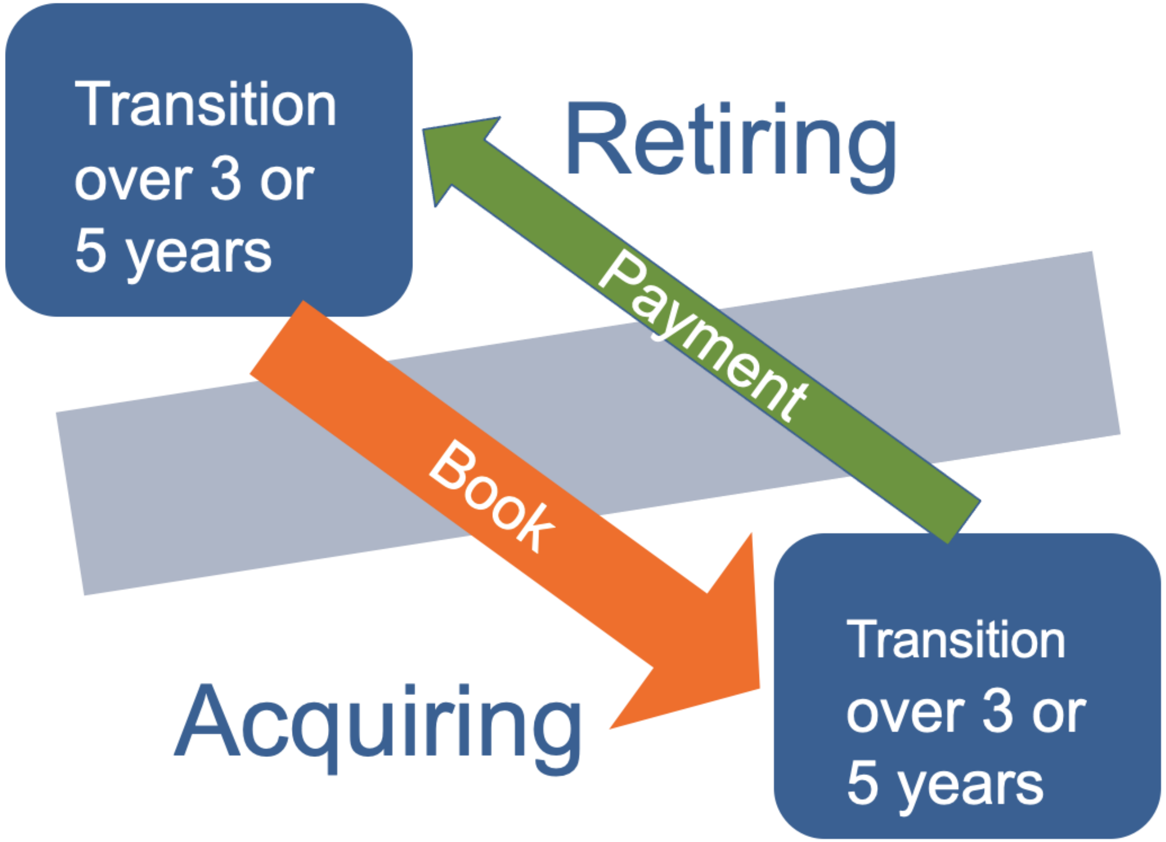
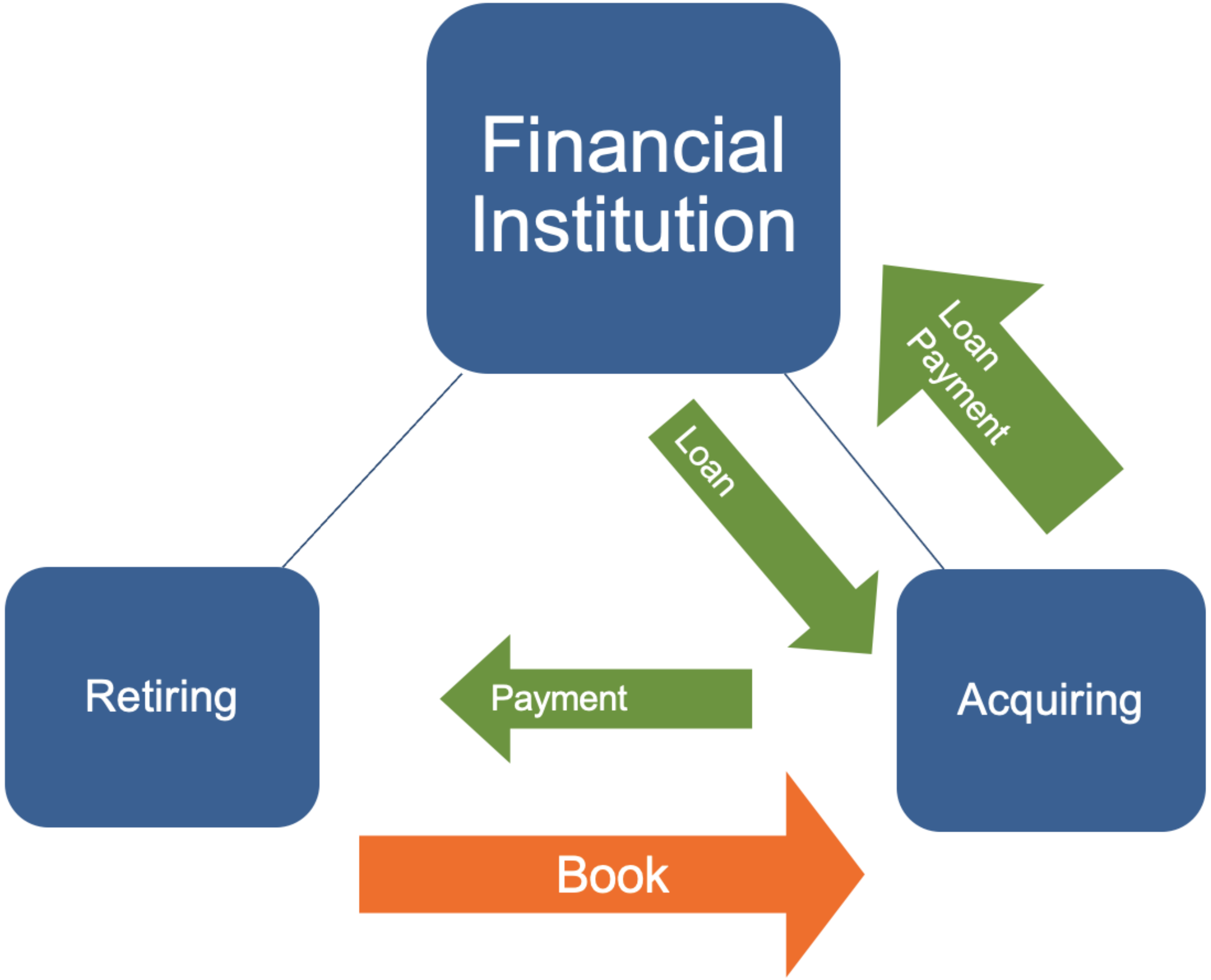
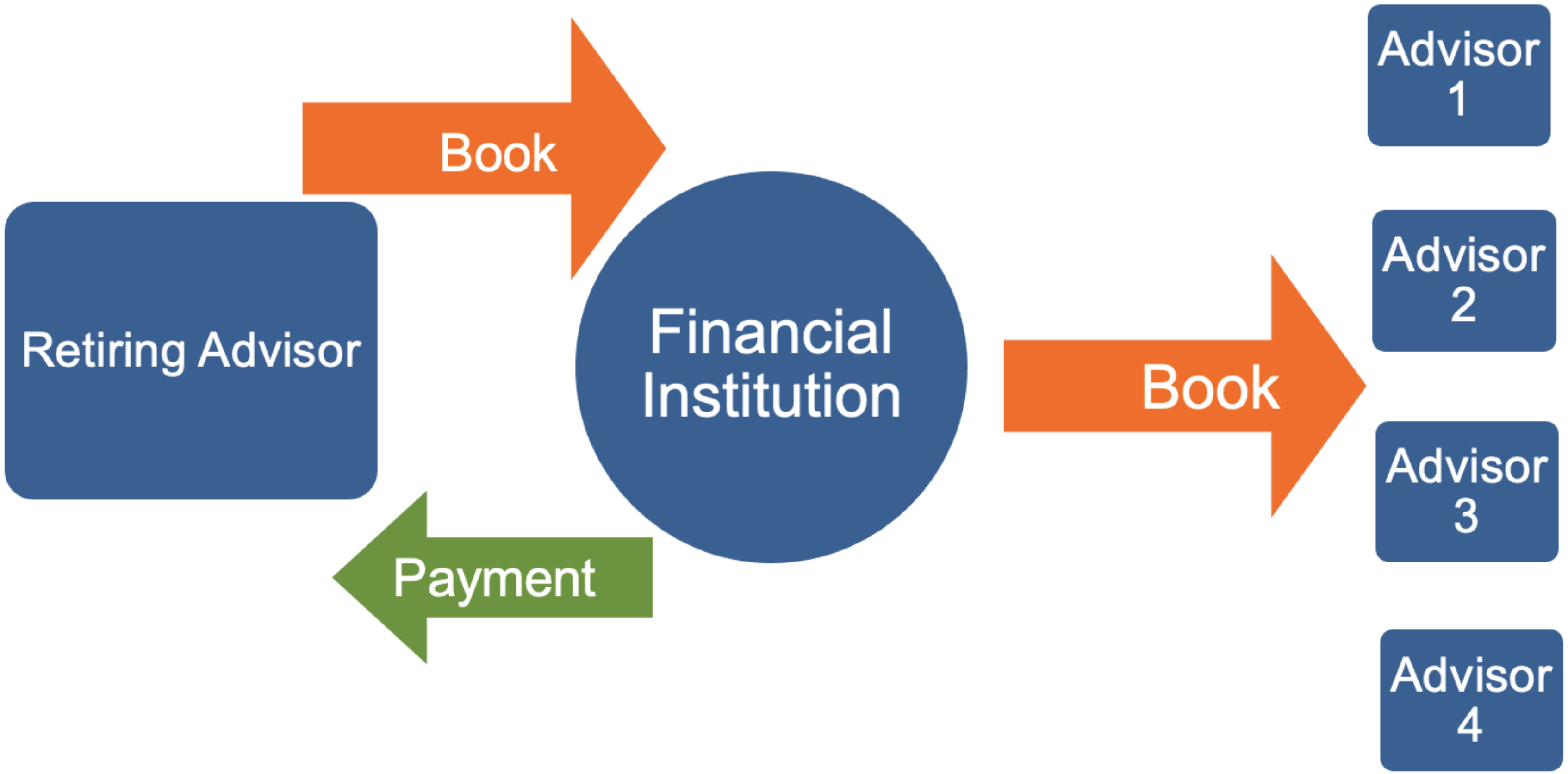
Retiring and Acquiring Partnership



Sale and Loan



Purchase and Distribution



Other Considerations

There is an advantage to putting the transition plan in place before advisors are ready to retire so they know what the future holds and don't feel the need to shop their book

Any firm that has lost a long-term advisor just prior to retirement knows how financially costly and how long it takes to replicate that lost business

Understand that by putting these activities in place a firm accepts that it is reinforcing to advisors a contentious concept that the book is theirs, to an extent that some firms have declined to establish these programs simply to protect their positioning as the owner of the client

There is great benefit in the retiring advisor being invested in the selection and training of the acquiring advisor when choosing a model

For newly hired advisors, there is a significant advantage to receiving a retiring advisor's book and worth the financial investment they make, especially when compared to the length of time it would take to equal those assets and revenue on their own

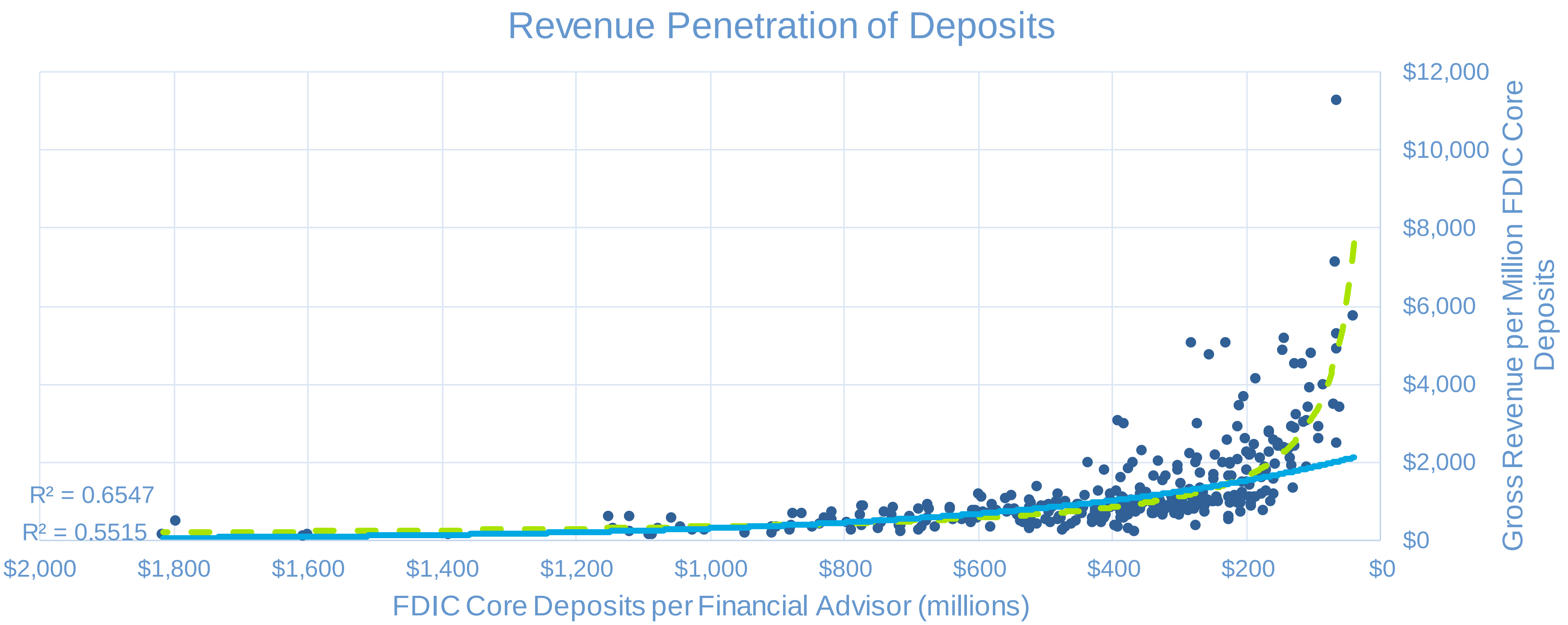
As important as financial considerations are to the transition, the attitude, cooperation and overall alignment of the retiring and acquiring advisor will make or break the program

Wrap Up:
Winning Recruiting and Retention

Winning Recruiting and Retention

- Create a compelling value proposition
  - Competitive compensation package
  - Be able to hire and support advisors with their own book of business
  - Training & development opportunities
  - Multiple advisor roles for career paths
  - Sales support
  - Technology (e.g., digital client meeting resources, paperless client experience)
  - Internal brand
  - External brand
- Provide more flexibility
  - Remote work options
  - Flexible schedules
- Sales managers who are in tune with what advisors need today
  - Blend coaching AND managing
  - Find external resources to help their advisors (e.g., external training, product education, personal development)
  - Proactively optimize advisor territories

Revenue Increases Exponentially As the Firm Adds Advisors



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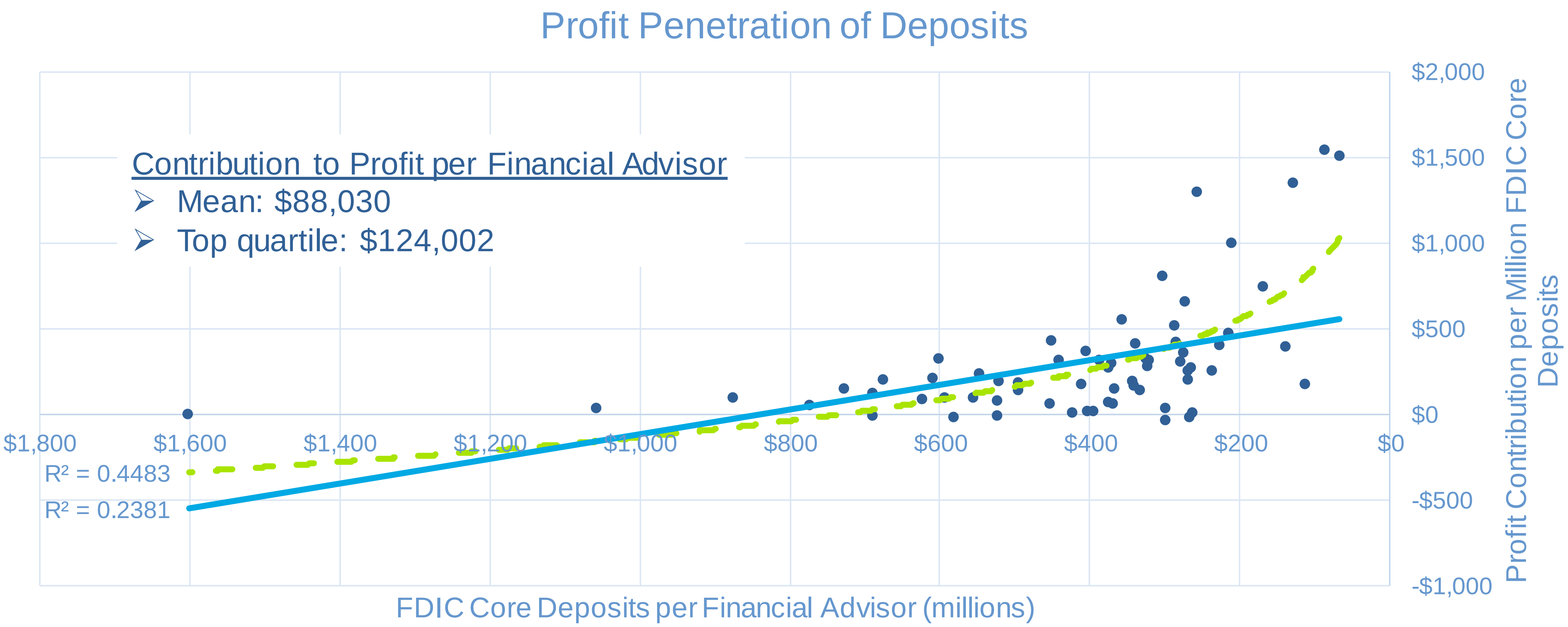
Contribution to Profit Also Increases Exponentially As the Firm Adds Advisors



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Thank You and Next Steps

Thanks to our on-screen virtual roundtable panel.

Thank you in the audience for participating in today's event. We hope you will join us again at future Kehrer Bielan Virtual Roundtable or Kehrer Bielan Study Group:

- May 13: Developing Holistic Advisors
- Summer:
  - Bi-annual Survey of Advisor Compensation
  - Insurance and technology
- Fall: a return to in-person study groups?
  - Leadership Study Group
  - Integrating Investment and Wealth Management Services
  - Developing Holistic Advisors
  - Managing Omni Channel Delivery of Investment Services

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