RESEARCH NOTES

Managing advisor succession

Nicsa explores how financial institutions are thinking about advisor retirement trends and succession planning.

A Report By: Nicsa Product & Distribution Committee

Wealth managers and fund complexes alike have taken strategic business preparations for an aging investor set and the impending wealth transfer between aging baby boomers and their children and grandchildren. What must not be overlooked, however, is the looming transfer of assets due to an aging advisor population. The message to product and distribution executives: get ready for the next generation of investment advisors.

45% of assets under management in the United States are controlled by advisors 55 and older, according to new research by Cerulli Associates, Inc.[1] See Cerulli Associates' presentation here. What does succession planning look like? And how will it impact how asset managers interact with advisors? **Nicsa's Product & Distribution Committee** recently explored these questions.

RIAs and advisors are aging, and sales and mergers of wealth management practices are on the rise. As a result, advisors and assets will continue to be in transition for the foreseeable future. This report is offered as a framework to asset managers to evaluate their best practice guidelines as they pertain to intermediary engagement and building and retaining advisor relationships.

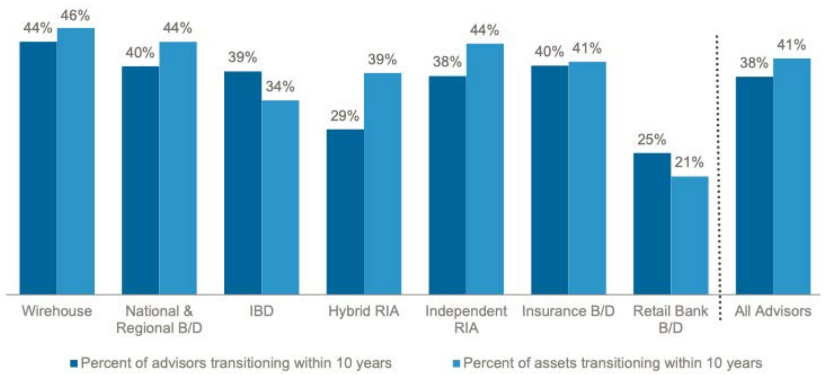
Plan for the Unknown

When the bottom of the industry fell out during the financial crisis of 2008/2009, many financial planning firms could not survive and there became fewer, but more productive, investment advisors. This trend is now being exacerbated by an imminent demographic reality that puts a significant population of Baby Boomer advisors at retirement age in the near term.

These tenured advisors manage a large portion of assets. They are often the most profitable for their employers and the most sought after by fund distributors. Financial product distribution processes will be tested and the shift will challenge firms without effective strategies to mitigate risk.

> **40% of assets under management in the United States will be in motion and up for grabs if aging advisors transition out when they plan.**

ASSETS IN TRANSITION, 2017



Source: Cerulli Associates

Cerulli Associates' surveying of financial advisors demonstrates that 40% of assets under management in the United States will be in motion and up for grabs, if aging advisors transition out when they plan. "Although some advisors' plans for retirement may be aspirational, greater than one-third of advisors and assets could be in transition over the next 10 years," according to Cerulli research. A startling number of these aging advisors do not have a succession plan. One-quarter (26%) plan to elect an existing advisor in the same practice; 19% plan on passing the assets to a junior advisor or family member; and 26% are unsure. Emotional aspects of transferring the assets and finding a qualified buyer were listed as the top challenges to succession planning.

Mega Teams Dominate

Cerulli sees a trend in advisors working in teams that will help with succession planning. Given that there is a significant failure rate for rookie advisors, pairing new advisors with more experienced ones will help with retention and growth. When exploring mega team size by channel, which Cerulli defines as having greater than $500 million in AUM, the RIA channel has the largest concentration with over 70% of assets being controlled by mega teams for independent RIAs and hybrid RIAs. Greater than half (55%) of hybrid RIA advisors are part of a mega team, as opposed to 27% across all channels.

Wirehouse, Independent, and Individual Advisors Have Different Approaches

According to Cerulli, wirehouses are making the most progress on succession plans for established practices. More than 40% of wirehouse advisors within 10 years of retirement have identified an existing advisor in their practice as their successor, compared with only 27% across all advisor channels. Over 20% of retirement-age wirehouse advisors plan to transition their practices to a junior advisor or family member. Independent firms may have greater difficulties with internal succession plans because junior advisors may not have the means to finance an acquisition deal. In turn, consolidators, who historically have targeted breakaway teams from wirehouses, may capitalize on the opportunity to target established RIAs who wish to benefit from a centralized scale, according to Cerulli. Individual advisors also face challenges with internal succession planning because, unlike wirehouses, they lack a centralized home office to help identify and groom a successor. Individual advisors nearing retirement age seem to favor transitions to independent options over transferring assets to insurance and wirehouse advisors, according to Cerulli. That means that Hybrid RIAs and RIAs could see a surge in assets over the coming years. This is especially true among advisors at broker/dealers that want to scale and build greater financial value in their practices as part of their eventual exit strategy.

What it Means for Wealth Managers

With limited visibility into the retirement plans of their aging advisor base, most wealth management firms have not fully developed their strategies. In the near term, wealth managers will face human capital issues as older advisors will increasingly need to attract, train, and retain quality talent in order to keep their assets intact. Firms will need to consider the needs and preferences of "next gen" advisors in terms of company culture, professional training and mentorship opportunities, and compensation models, according to Cerulli. Wealth managers will need to commit some level of investment in addressing succession issues. Some firms will use the opportunity to address structural issues in their operating models. Traditional operating models grounded in direct ownership of client relationships may need to be examined. An overall approach that encompasses capabilities and branding can create a more robust operating model that sustains business through transitional phases, including the imminent shift in the advisor workforce.

What it Means for Asset Managers

What do these trends mean for asset managers? Distribution executives within fund complexes need to recognize the "assets in motion" phenomena and understand what advisors are most productive, which have succession plans in place, and who is "teaming" with new recruits. Identifying these trends may help drive the strategic decisions about which firms to partner and maintain strong relationships with. By aligning objectives with those of a younger intermediary base, asset managers can develop beneficial product development and distribution models that ultimately help shape the future of the financial services business.

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Committee Overview

The Nicsa Product and Distribution Committee is comprised of investment managers whose purpose is to identify key trends and challenges resulting from the changing business environments within intermediary home offices. The committee addresses product trends, product development, intermediary engagement, data/reporting and organizational realignment in order to address the changing business environment.

Committee Member Firms:

American Century Investments
BlackRock
Columbia Threadneedle Investments
Federated Investors, Inc.
Foreside Financial Group, LLC
Franklin Templeton Investments
Goldman Sachs
Janus Henderson Investments
J.P. Morgan
Legg Mason, Inc.
Lord, Abbett & Co.
MFS Service Center, Inc.
PIMCO
Putnam Investments
TCW Funds
Thornburg Investment Management
USAA Investment Management Co.
Virtus Investment Partners
Wells Fargo Asset Management

About Nicsa

Nicsa is a not-for-profit trade association striving to connect all facets of the global asset management industry in order to develop, share, implement, and advance leading practices. For over fifty years, Nicsa has promoted an open and collaborative environment, where members' and partners' deep expertise and unique perspectives have come together to help strategically implement and support the industry's most vital issues. Click here for more information about membership.

Nicsa aims to help firms operating in all segments of the global asset management industry meet the changing needs of their clients by aligning and educating industry participants through formal education programs, interactive forums, networking opportunities, and initiatives such as the Diversity Project North America. The Diversity Project's goal is to accelerate progress towards a diverse and inclusive culture in the asset management industry to deliver the best possible results for clients, reflect the society we serve, and ensure long-term business sustainability. Click here for more information on Nicsa's Diversity Project North America initiative.

[1] *Source: Cerulli Associates, Inc.; Advisors' Retirement & Succession Plans, 2017 data.*

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