

Who Should Manage Your Advisors?

Comparing the Performance of Managed Advisors with Dual-Employed Advisors

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Introduction

Financial institutions working with third party broker dealers face a choice of employing and managing their financial advisors or outsourcing the employment and management of the advisors to their broker dealer partner. CUNA Brokerage Services, Inc. (CBSI) commissioned Kehrer Bielan to analyze data that could inform that decision.

We compare institutions where the advisors are managed by the broker dealer to institutions where the advisors are its W2 employees but whose securities and insurance activities are supervised by the broker dealer and its insurance agency (a model that has come to be called “dual employees”) in terms of which model:

- Performs better in delivering investment services, and
- Results in more net revenue to the institution.

Methodology

We assembled data from two broker dealers that provide the option of both models to their partner institutions.

We used data on the 13 credit unions that CBSI nominated for the Kehrer Bielan Top Director Awards. Only four of them have managed advisors. We then randomly selected an additional 27 CBSI-affiliated credit unions, structuring the randomization so that half of the whole CBSI sample consisted of firms representing each model.

From LPL Financial, we identified 10 institutions with managed advisors, and then randomly selected 10 institutions with dual advisors.

The institutions included in the study are listed in the Appendix.

Delivering Investment Services

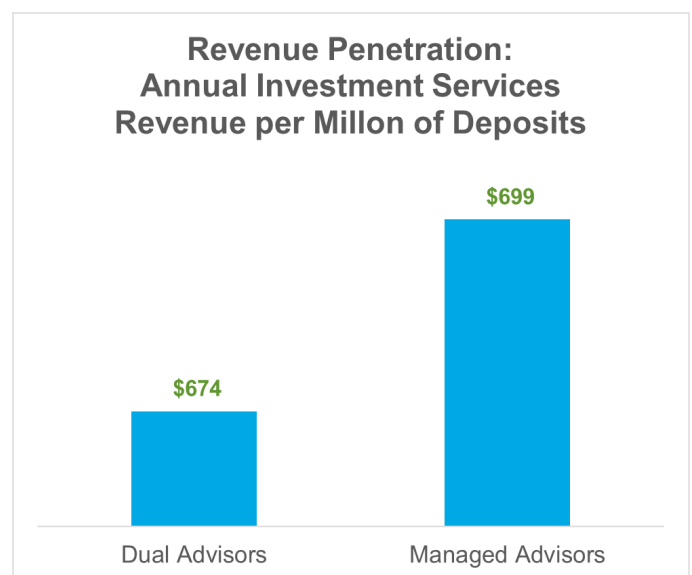
We compared the two delivery models in terms of:

- How much revenue they produced
- Year-over-year revenue growth
- Advisor revenue productivity
- The share of revenue from advisory business
- Advisor asset productivity
- ROA
- Advisor coverage

Revenue Penetration

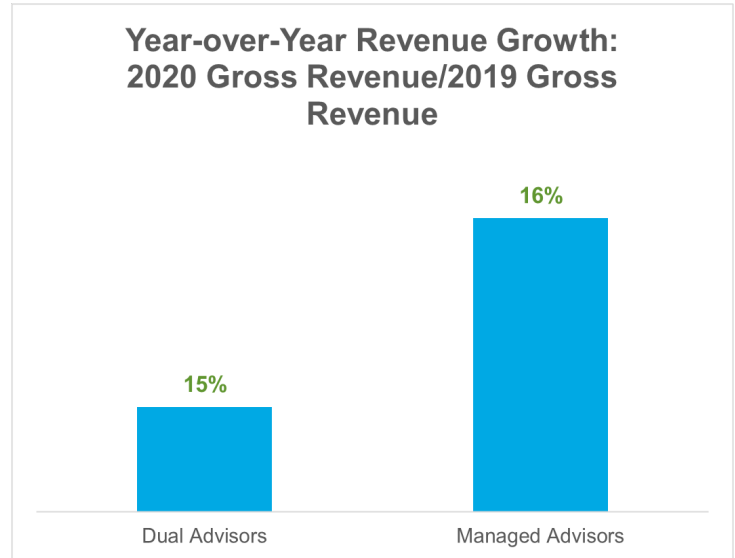
The institutions in the sample vary significantly in size, so we need to take into account the different opportunity each institution has to produce investment services revenue. Since the primary objective of a financial institution's investment services offering is to serve the investment needs of its members or customers, we used credit union share deposits or core bank deposits to account for the investment services opportunity of institutions of different sizes.

Institutions with managed advisors average investment services revenue of \$699 per million in share or core deposits, just 4% higher deposit revenue penetration than institutions that employ the advisors directly.



Revenue Growth

The institutions with managed advisors experienced revenue growth of 16% during 2020, slightly better performance than the institutions with dual-employed advisors.



Advisor Revenue Productivity

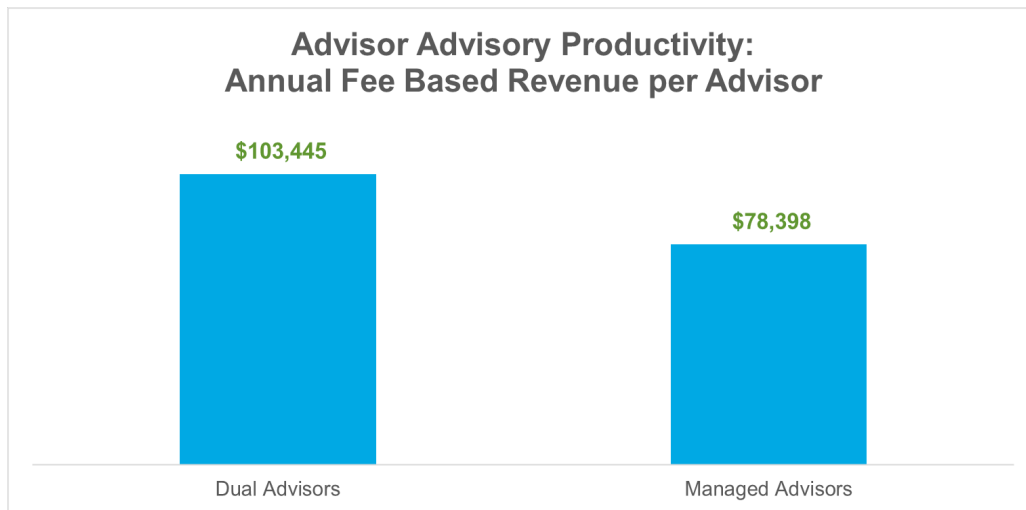
The average gross revenue per advisor in institutions that outsource management of their advisors to their broker dealer was \$327,424— a little more than 4% higher than average revenue productivity in the dual-employee institutions.



Advisory Revenue

Many firms encourage their advisors to do more advisory business, because they believe that advisory products are a better investment solution for many clients and are a better fit for a financial advice model than transaction business. Moreover, advisory products appear to engender more client loyalty, and provide a foundation of recurring, sustainable revenue for the advisor and the firm.

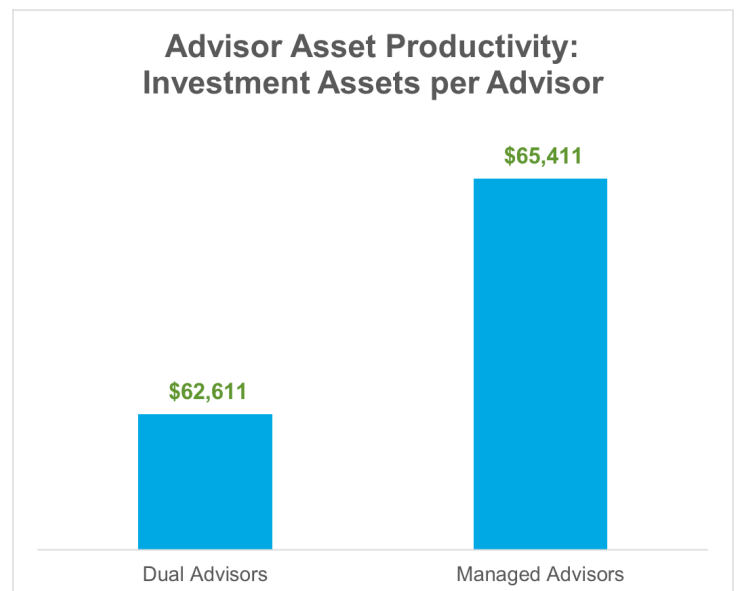
While dual-employee advisors produce somewhat less revenue, on average, a much greater share of that revenue comes from advisory business; one-third of a typical dual advisor's revenue is from fee-based products, compared to 24% for managed advisors.



Indeed, dual-employee advisors produce 32% more advisory revenue than the \$78,398 generated by managed advisors.

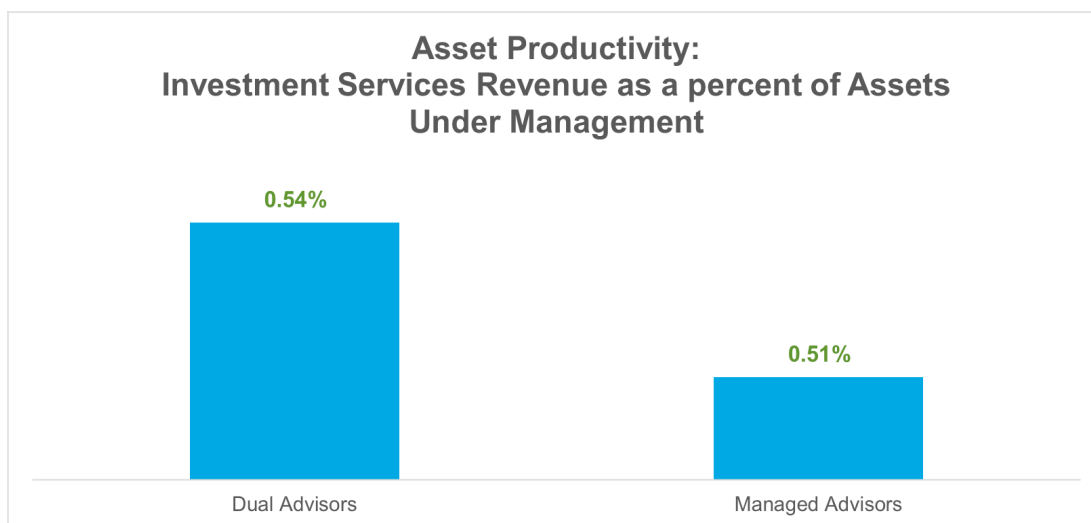
Advisor Asset Productivity

The slightly higher revenue produced by managed advisors may be due their small advantage in assets under management. The average AUM of managed advisors is just 4.4% higher than the average dual advisor AUM—the same percentage gap as for revenue productivity.



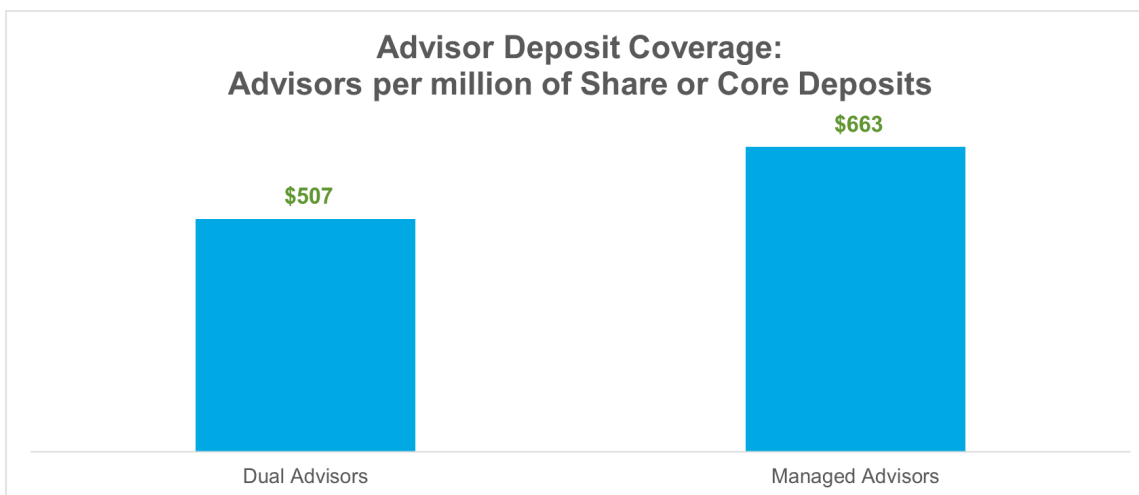
Asset Productivity

Despite managing slightly less assets than managed advisors, the assets of dual advisors are more productive. Revenue on assets in institutions with dual advisors averages 54 basis points, 3 basis points better than the ROA of managed advisors.



Asset Coverage

Most advisors in financial institutions are assigned branch territories, so we can assess how many advisors an institution has deployed to leverage the opportunity in its member or customer base by examining how much of the institution's deposit base is covered by each advisor, on average. The typical managed advisor is responsible for serving the investment advice needs of members or customers with \$663 million in share or core deposits. But that is substantially thinner deposit coverage than the dual-employed advisors.



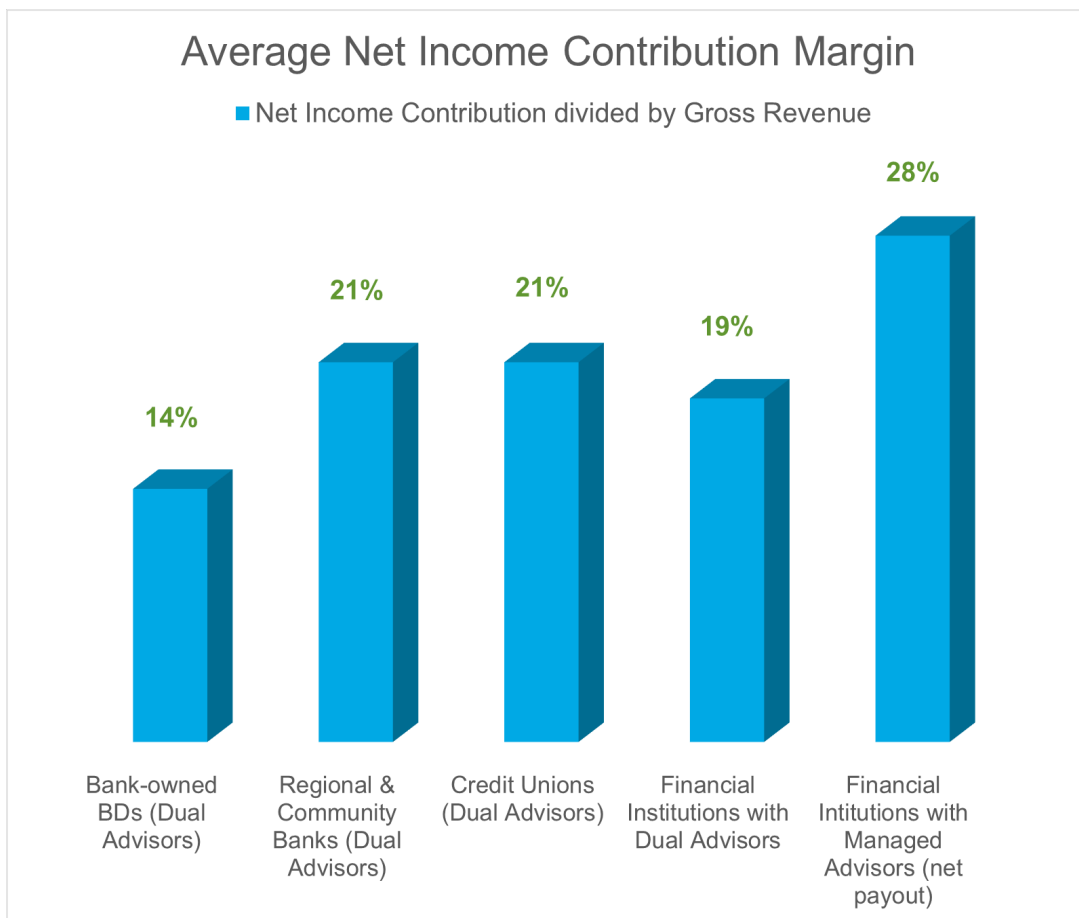
The thicker coverage of an institution's opportunity might explain why dual-employed advisors do more advisory business than managed advisors. Serving few clients and potential clients, they may be less distracted by responding to branch referrals that result in transaction business and are able to focus on deeper discussions and planning with fewer clients.

In any case, coverage ratios remain low. A stack of Kehrer Bielan research has demonstrated that the typical institution should double its advisor headcount to achieve optimal advisor coverage.

Contribution to the Institution

We have seen that the institutions with managed advisors have slightly better revenue penetration, revenue growth, and revenue per advisor, but how much of that revenue contributes to the institution's bottom line? If the two models produce about the same amount of revenue, how much of it is spent on advisor compensation, sales management, and operations, or retained by the broker dealer.

For this analysis, we compared the net revenue paid to the 30 institutions with managed advisors with the net income contribution of investment services of the institutions that provided sufficient information in our annual benchmarking surveys for us to account for all their expenses. The 51 institutions included 18 bank-owned broker dealers, 21 credit unions, and 12 regional and community banks that partner with third party broker dealers, and all have dual-employed advisors. The list of these institutions can be found in the Appendix.



Overall, the net income contribution of investment services in those 51 dual advisor institutions averaged 19%, substantially less than the 28% average net payout received by the institutions with managed advisors.

The net income contribution of the dual advisor institutions is depressed by the thinner margins in the banks with their own BDs. The high compliance and technology expenses required to be successful in a highly regulated and fiercely competitive business squeeze profit margins even in the large banks. Many of the third party BDs that support investment services in credit unions and banks are much larger than most of the regional banks that operate their own BDs, and are able to spread the cost of operating the brokerage and RIA business over a much larger advisor base.

Summary

For an institution faced with the choice of employing advisors or outsourcing their management, there are considerations beyond which model is more effective in delivering financial services and capturing a larger share of the revenue produced. Issues of branding, control of the client experience, and alignment with the institution's strategy are also important.

But for the institutions in this study, there are not significant differences in performance between the delivery models. The managed advisor model produces slightly better revenue penetration of the institution's opportunity, revenue growth, and advisor revenue and asset productivity, while institutions using the dual advisor model experience more advisory business and higher ROA, perhaps because they have much thicker advisor coverage.

On the other hand, the managed advisor model delivers much more of the fruits of the business to the institution's bottom line; the institutions with managed advisors retained 25% more of gross revenue than the banks and credit unions that have W2 advisors who are supervised by a third party broker dealer.

About the Authors



Dr. Kehrler has been studying the transformation of banks and credit unions to financial services stores since the early 1980s. His research has influenced the metrics that a generation of industry practitioners use to assess their businesses and assimilate best industry practices. He also pioneered the concept of forming bank roundtable discussion groups that bring together professionals with similar job responsibilities to share experiences and react to the latest research. The work he formerly did through Kehrler-LIMRA was the foundation of Kehrler Saltzman & Associates and now Kehrler Bielan Research & Consulting.

Who Should Manage Your Advisors?

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About Kehrer Bielan Research & Consulting

Kehrer Bielan Research & Consulting provides the financial advice industry with insights based on a melding of research and experience in managing the delivery of investment, insurance, and wealth management services.

The firm's principals—Kenneth Kehrer and Peter Bielan—have participated in the financial advice industry as executives, researchers, analysts, and spokespersons for over 30 years. Together they bring a unique, unbiased resource and perspective through their original research, actionable advice, and keen understanding of where the industry has been and where it needs to go.

Meet the rest of the Kehrer Bielan team, check out our research library and study groups, and scan our client list and consulting engagements at <http://kehrerbielan.com>.



Actionable Consulting

Deep understanding, tailored solutions

Study Groups

Facilitated by experts, powered by data



Award Winning Research

Focused on you, designed to drive superior performance

Appendix

Comparative Performance Analysis

The Comparative Performance Analysis Is Based on Data from the Investment Services Practices in These Institutions

AmeriCredit Union

Armco Credit Union

Call Federal Credit Union

CAMPUS USA Credit Union

Canvas Credit Union

CEDAR RAPIDS BANK & TRUST

CEFederal Credit Union Investment Services

Centra Financial Services

Central Minnesota Credit Union

Chartway

Clearview Credit Union

Community Regional Credit Union

Covantage Credit Union

Crane Credit Union

DIGITAL FEDERAL CREDIT UNION

Dover Federal Credit Union

DOW CHEMICAL CREDIT UNION

EASTMAN CREDIT UNION

Education First Credit Union

Eglin Credit Union

FIRST COLUMBIA BANK & TRUST CO

First Credit Union Of Scranton

First Light Credit Union

First South Financial Credit Union

FRANKLIN MINT FEDERAL Credit Union

GHS Federal Credit Union

GULF COAST BANK

HarborLight Credit Union

Heritage Family Credit Union

HFederal Credit Union

Houston Credit Union

Ideal Credit Union

INTERNAT'L BANK OF COMMERCE

INTERNAT'L BANK OF COMMERCE (OK)

Interra

Matunuska Valley Credit Union

Memphis City ECredit Union

NEW YORK COMMUNITY BANK

NORTHFIELD BANK

NORTHWEST BANK

Old Hickory Credit Union

Pathways Financial Credit Union, Inc.

Reliant Community Credit Union

ROYAL CREDIT UNION

SchoolsFirst Federal Credit Union

SIKORSKY FINANCIAL C U

STANFORD FEDERAL C U

STATE BANK OF CROSS PLAINS

STERLING NATIONAL BANK

Summit Credit Union

Suncoast Credit Union

Teachers Credit Union

THE FIDELITY BANK

The Summit

Tropical Financial Investment & Insurance Services

TruNorth Federal Credit Union

VERVE CREDIT UNION

Wings Financial

Profit Contribution Analysis

The Profit Contribution Analysis Is Based on Data from The Investment Services Practices in These Institutions

Addison Avenue Investment Services	Commerce Brokerage Services
Allegacy Investment Group	Community Regional CU
American Airlines Credit Union	CoVantage CU
Armco CU	Credit Union of Southern California
Atlantic Union Financial Consultants	Decorah Bank & Trust Company
BancWest Investment Services, Inc	Dover FCU
Bankoh Investment Services (Bank of Hawaii)	Dow Chemical Credit Union
BBVA Investments	Eastman Credit Union
BCU Wealth Advisors	Eglin Federal Credit Union
Call FCU	Elements Wealth Management
Campus USA Credit Union	Fifth Third Securities
Canvas CU	First Bancorp
CEFCU Investment Services	First Citizens Investor Services
Centier investmentr Services	First CU Of Scranton
Central Investment Advisors	First Horizon Advisors, Inc
Chartway FCU	First National Investment Services
Citizens Securities, Inc.	First Premier Investment Services
Clearview FCU	FirstLight FCU
Columbia Credit Union	HancockWhitney Investment Services
Comerica Securities	Huntington Financial Advisors

International Bank of Commerce OK
International Bank of Commerce TX
Johnson Financial Group
Key Investment Services
Leaders Credit Union
Matanuska Valley FCU
Memphis City ECU
MUB
Navy Federal Investment Services
Northfield Bank
Northwest Financial Advisors
Old Hickory CU
OnPoint Wealth Management and Investment Services
Pathways Financial CU, Inc.
PSECredit Union
Regions Investment Services
Royal Credit Union
Santander Securities LLC
Sikorsky Credit Union
Sterling Bank
Summit Credit Union
Summit CU
Suncoast Credit Union
Synovus Securities
TCU Wealth Management (Teachers Credit Union)
The Fidelity Bank
The Summit
Tropical Financial
TruNorth FCU
United Brokerage Services, Inc.
University of Wisconsin Credit Union
Vytstar Credit Union
Webster Investment Services
Wescom Financial Services
Wilmington Trust
Wintrust Investments
WSECU