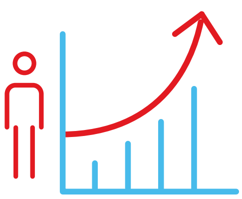
Why organic growth in Wealth Management is hard to find – yet vital

Low interest rates, coupled with rising compliance and technology requirements, mean that margins in the wealth management industry will continue to be under pressure. The high cost of recruiting experienced financial advisors (FAs) adds to that challenge, and to the importance of improving organic growth – including Net New Asset (NNA) flows.

This can be a difficult task, but is far less expensive than "buying" new assets. That said, firms are dedicating time, energy and resources toward tackling this challenge, understanding that organic growth is the foundation for sustainable top-line and bottom-line success. The most successful firms do not rely solely on recruitment to drive asset flows, but rather use strategic targeted external recruitment to complement their internal growth efforts.

Investment production is on the rise, on the back of increasing assets under management. Under that hood, however, is the ongoing challenge of improving NNA from "same store"[1] FAs. A huge stumbling block impeding progress toward that goal is that the largest FA segment, seasoned financial advisors with more than 15 years' experience, consistently generate flat or negative Net New Assets.

Put another way: The FAs best positioned to grow assets have the worst track record in generating organic growth, encouraging more reliance on recruiting experienced FAs to generate asset flows.



78% of total Net New Assets came from **29%** of Financial Advisors hired in the last 3 years

Source: Aon proprietary analysis, 2021

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[1] "Same store" FAs are defined as those who have been in role with their current firm for more than 3 years.

The industry has reached an inflection point, requiring fresh thinking

Demographics are catching up with the wealth management industry, both at the client and advisor ends. Aging advisors are not being replaced fast enough by a pipeline of younger talent, many of whom prefer increased income stability even at the expense of limiting the potential upside of typical FA pay.

Our data finds that 82% of production and assets reside with FAs that have at least 16 years of experience; one-third resides with FAs with more than 30 years' experience. This reliance on advisors nearing retirement is risky, without a steady pipeline of junior talent ready to support the transition of clients.

None of this is new, but firms are running out of road. 2020 was the first year where retirees formed 50% of the Baby Boomer population, signaling the start of a lengthy dissaving transition during which aging clients trigger outflows as a natural part of the investing lifecycle. Wealth transfer to the next generation is another potential hurdle, as younger clients are more likely to shop around, consider newer alternatives in the industry, and consolidate with providers who are prepared to win their loyalty on their terms.

Given asset attrition from aging clients is anticipated, the work starts now on replacement through a new pipeline of clients. Today, however, new clients are less frequently home grown and instead come to the firm through recruitment deals. While strategic recruitment certainly has its place as a way to grow market share quickly, it has a hefty price tag, given the expensive compensation deals required to attract and secure top performers.

This creates a vicious circle, in which margins are further suppressed by a strategy that relies on buying growth in assets. Over time, this can weigh heavily on a firm's financials.

What's the alternative to purchased assets under management? Growing assets organically. The cost to grow NNA organically (in terms of the FA payout on the production from these additional assets) is a fraction of recruiting it.

75%–80%

Estimation of how much cheaper it is to grow organically than to recruit new assets

Source: Aon proprietary analysis, 2021

But to cover annual "purchased" assets under management, which has a long break-even time horizon, "same store" FAs would need to triple their organic growth rate, going from 1% to 3% of total assets. So, the question remains: How can wealth management firms effectively address the challenge of organic growth?

On the surface, teaming is an effective way to grow NNA

Some FAs are already surging ahead and compounding their annual growth. **Sterling Shea, managing director and head of practice strategy at Morgan Stanley,** observes that the pandemic "exposed mediocrity," putting money in motion. This provided an opportunity for fewer teams — often bigger and better — to succeed. "We noticed that, in general, a smaller number of teams are increasingly taking a larger share of net new assets, and expect this concentration in the capture of growth to accelerate and intensify going forward," he says. "Many of these teams that are growing at a faster, more sustainable rate are taking a comprehensive approach to meeting multi-generational needs, which is driving referrals and translating into high levels of flows.

Teaming is certainly one approach relied upon by wealth management firms to kickstart organic growth. It involves grouping together FAs on the basis that the expanded skills and experience will be greater than the sum of its parts.

This is backed up by Aon's proprietary analysis, which indicates that average NNA for same-store FAs with at least 10 years of experience on teams is much higher than their counterparts who are not on teams.

$3.3M

Average NNA for experienced FAs on teams compared to ~$2.0M for FAs not on teams

Source: Aon proprietary analysis, 2021

The positive impact of teams isn't simply limited to more experienced FAs, whose track record on organic growth tends to be underwhelming. Our analysis indicates that FAs with less than 10 years of experience also seem to produce more when on teams, as evidenced by a 20% uplift in NNA performance, on average, compared to their counterparts operating solo.

Within the U.S. wealth management sector, 64% of advisors are on teams. Calculations based on the stronger asset flows displayed above indicate that if firms increased teaming by 10%, as a group they could see an additional $15 billion in net new assets. But wealth firms need to strike a careful balance and avoid treating teaming as a silver bullet. Not all teams are created equal, and plenty of firms have encouraged teaming to FAs only to see efforts eventually fail.

"We see a cross-functional aptitude as critical," says Morgan Stanley's Shea. "It is effective to have teams of specialized experts, who are seen as capable of delivering that bespoke, high-touch service. They have well-defined roles and responsibilities, relating to client service, investment management, estate planning, banking and lending, and other areas like philanthropy and legacy planning. Conversely, teams that are loosely joined together but still essentially act as sole practitioners often tend to struggle to drive sustained growth."

A careful look needs to be taken at team composition, for instance. Traditionally, firms may have thought it sufficient simply to pair more experienced and fresher talent to create the magic success factor, perhaps even to attract younger clients. "The integration of younger talent must be done in a thoughtful manner, acknowledging that junior FAs can learn from experienced coworkers, and vice versa," adds Shea. "Internally, what's most important is to foster the team mindset to help FAs who join become more functionally aware, and to help younger advisors matriculate into bigger teams."

More attention needs to be dedicated to the advisor experience for these junior FAs. Do they feel part of the team? Do they feel they belong at the firm? Unless firms attempt to foster a culture when reshaping team composition, they are missing the chance to make the most of new capabilities.

Talent assessment contributes to successful team formation

The pandemic has forefronted specific attributes and capabilities that are more important than before. As a result, wealth management firms are more likely than ever to benefit from sophisticated talent assessment to identify advisor strengths and pair complementary skill sets.

For example, a well-known behavioral approach to teaming might match "hunters" with "farmers" to gain maximum benefit. An FA strong on relationship management can focus more on maintaining and growing current clients, freeing up an FA stronger on sales to hunt for brand new clients.

Forward-thinking firms should aim to go further and consider employing talent assessment tools when hiring advisors newer to the industry — for instance, by assessing new candidates' strengths and weaknesses against traditional workforce capabilities. There may be gaps in the old team composition that could be addressed through new hires and skills. In fact, firms may consider adding more non-advisor roles to teams.

One example cited by Shea is the role of a chief operating officer within teams, a newer role that has the potential to help FAs become more competitive about their use of technology, by acting as a conduit between teams and the firm's technology capabilities. "The COO is manifesting itself in different ways depending on the workflow. The importance of this role will increase as tools continue to evolve, to maximize all that the firm can offer to deliver an elevated client experience," says Shea.

New attributes that weren't recruited for in the past have similarly grown in importance since the pandemic. This includes a focus on authentic leadership and digital agility, as well as cross-functional expertise.

During a period of heightened uncertainty, authentic leaders addressed the emotional needs of teams through clear and concise communication. Digital agility was required to maintain a high standard of service to clients, who may have been accustomed to in-person interactions, while cross-functional skills helped address their evolving requirements for financial planning and investment management.

Mr. Shea concludes, "The pandemic has advantaged advisors who are authentic leaders of their teams, who lead with clear and concise communication, ensure processes are being followed, and help strengthen team cohesiveness. The pandemic has made this aspect of leadership all the more important. Such leaders frequently engaged with their teams via video meetings, and we saw teams that did the best were really working more closely than ever before. Processes were adapted to the virtual engagement and dysfunction was identified and addressed more quickly. This agility also translated to client interactions, enabling authentic leaders and their teams to become the trusted counsel their clients needed more than ever."

Other ways to boost client retention

In the quest to improve organic growth, another asset attrition mitigation strategy is for firms to develop advisor transition plans ("sunset plans") for FAs nearing retirement. Done well, this is a powerful way to retain client assets. As advisors retire, rewarding them for their service and success through a book buyout or production split results in an increase of around 85% in asset retention. The effect is compounded when these retiring FAs are already on teams, when asset retention jumps to more than 90%.

Ideally, wealth management firms pair retiring advisors with younger FAs, who would benefit from inherited assets and are later well positioned to handle client generational transition when that occurs. As an added advantage, sunset plans can be structured to essentially be cost neutral to the firm.

A stronger understanding of the client experience will also be critical. Our Aon proprietary research has uncovered that there are specific client journey moments highly correlated with increasing asset flows. This knowledge should be used to arm managers and business development teams with specific revenue-generating actions they can share as part of their coaching discussions with FAs.

Client experience is also an important part of the overall employee value proposition, giving talented advisors confidence they are working for client-centric organizations and a reason to stay committed for the long-term. (For more details on this topic, please see our article *Five Ways to Know If Your Firm Has a Client-Centric Culture' by Peter Keuls, global head of wealth management).*

Conclusion

Solving the organic growth puzzle in wealth management is far from easy. While firms will be tempted to revert to the tried and tested approach of recruiting advisors to buy NNA growth, they must realize that this puts financial performance on a very challenging path.

Effective teaming is one powerful weapon in the armory. But on its own, teaming is not a guarantee of success, especially if insufficient thought is given to team composition and responsibilities. Instead, firms should consider introducing talent assessment to formulate a comprehensive, data-led view of which skills, capabilities and attributes could support newly formed teams to flourish. Rather than simply relying on pairing junior and experienced FAs, they should monitor and track the advisor experience – acknowledging that both sides are likely to learn from each other but that a high-performing culture takes time to form and must be actively nurtured.

Finally, with clients accelerating their plans for wealth transfer and starting to dissave, firms need to consider the other side of the coin, which is asset retention. Sunset programs and client insight are additional ways of shoring up business performance without over-relying on FA recruitment.

A year of disruption, stabilization and recovery will eventually give way to sustainable growth for some wealth management businesses — that is, if they are prepared to do things differently.

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