The Art and Science of **Paring Down a Book of Business**

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When it comes to your book of clients, bigger is better, right? Not always. A book of business that becomes too unwieldy for a financial advisor can have unfortunate consequences.

"This is the biggest problem facing banks and credit unions today with their financial advisors," warned Robert Comfort, executive vice president of business consulting for LPL Financial. The bank brokerage industry is at a crossroads, he said, in that "our advisors as a whole have such large books of business that we're in danger of crossing the point of no return and actually having a negative impact."

Not only can that big book "compromise the client experience," Comfort said, but "it can actually hurt the advisor's overall productivity because he or she is trying to serve a book of clients way beyond what their capacity is."

Advisor burnout is another consequence. "I've seen that," Comfort said.

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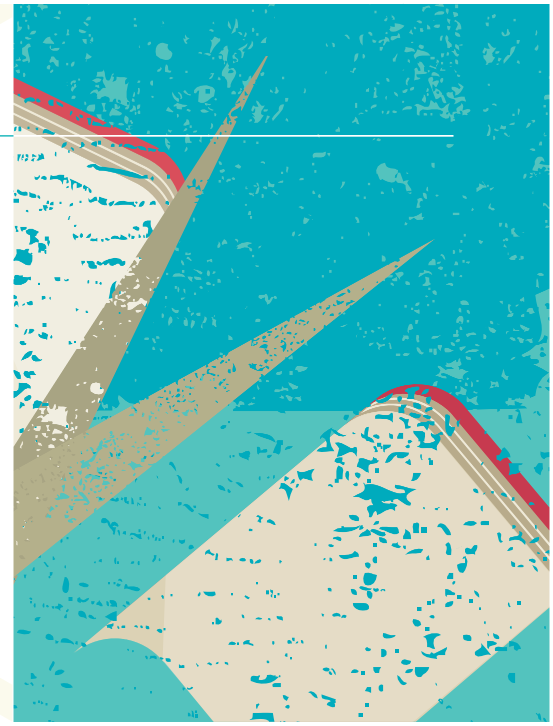


"They don't feel good about trying to serve so many clients and to serve them well."

Kevin Mummau, EVP, program development, CUSO Financial Services, LP (CFS) and Sorrento Pacific Financial, LLC (SPF), agreed that tackling the issue of overly large books of business is a challenge.

The issue is drawing more attention as investment programs look to take their client service and overall program performance to the next level, according to Mummau. In the early days of bank brokerage—the early 1990s—the focus was on getting referrals and doing transactions without a lot of thought to managing and building the business. Now, the emphasis is on taking a consultative approach with clients and allowing more time for in-depth planning with higher net worth clients. "To do that, you can't be saddled with all the service work of 1,500 people," he said.

Why so Big?

So what's responsible for these bulging books, and what are some solutions?

Several factors have contributed to oversized books, Comfort said. For one, advisors have done a good job of integrating themselves into banks and credit unions and building relationships with branch employees, private bankers, commercial bankers, business bankers and so on. "And that has accelerated the building of these books of business," Comfort said.

Another factor, although perhaps not as acute, is that banks and credit unions have long accepted virtually all potential clients that walk in the door.

"Banks and credit unions are committed to serving all clients, regardless of size, therefore there is not really the type of segmentation or certain types of minimum qualifications that are put on a client for dealing with their financial advisor," Comfort said.

Dr. Betty Moon, principal, Moon Consulting Group, LLC, who has worked as a senior executive leading several large bank investment programs, said another factor contributing to the advisor workload is the changing dynamics of platform programs or licensed bank employee (LBE) programs, which have put less emphasis on selling in recent years. In 2008, the number of referral-only programs was only 8 percent; in 2014, 34 percent of programs were referral-only, meaning the LBEs can only refer prospects to an advisor, according to BISRA data. "That means the burden is potentially even greater on the financial advisor," she explained.

"Years ago, platform programs were created to support the FAs [financial advisors] by working with the small customers. But if we're not letting them sell to the smaller customers, now we have to come up with alternative solutions," Moon said. Those solutions might be call centers, online trading platforms or simply adding more licensed financial advisors. Other ways to reduce advisor overload are to add licensed sales assistants, junior (or associate) advisors and/or technology that can streamline paperwork and back-office processes that free up an advisor to spend more time with clients.

But how willing are advisors to let go of clients in their book, and how do you approach advisors who are resistant?

"Delicately," Mummau conceded.

"Sometimes you have to back up and get buy-in from the advisor because inherently, to most advisors, less is not more; more is more," Mummau added. In other words: more branches, more lists, more referrals. But the key objective now is to work the book, take a consultative approach and get a deeper wallet share from current clients.

"I'm a big believer that you start with the facts, and you help them understand where their business is coming from because most representatives don't analyze their business that way," Mummau said.

"It is really tough," Comfort concurred. "Historically, that is why we are in this place as an industry—because we've been afraid to challenge our advisors to make those changes." Advisors need to take a closer look at their book of business and make adjustments.

Using Analytics

A growing number of programs are turning to technology and analytics to help. Several broker/dealers interviewed by *BISA Magazine* use tools within their technology platforms to break down and analyze an advisor's book of business. LPL uses its Program Growth Model for this purpose.

"We can show those advisors very scientifically what their books of business look like," Comfort said. The tool can segment clients into various investable net-worth categories and show advisors how much revenue each of the segments is driving for them. In addition, it can identify the advisor's wallet share of that client or segment. If advisors cover retail branches, it can show them what type of household penetration they have within those branches as well.

According to Comfort, there are two ways advisors can grow their business internally: Gain wallet share of the clients already in their book and increase household penetration of clients within their bank or credit union. The breakdown of the book can show advisors, for example, how they can scale back on the number of branches they cover and focus on certain segments of their book, so they can "actually gain wallet share, produce more and provide a higher level of client service."

The process can allow an advisor to specialize or focus on a certain segment of clients, perhaps partnering with a few private bankers and becoming more of a "wealth manager," Comfort said.

At CUSO Financial Services and sister broker/dealer Sorrento Pacific Financial, reporting capabilities within their in-house account management system (dataVISION) are used to create an assets-under-management (AUM) analysis, which gives advisors a breakdown of their book in terms of AUM, gross dealer concession (GDC) and recurring revenue in four different asset categories (all accounts, accounts above $25,000, accounts above $50,000 and accounts above $100,000).

The report can show what happens, for example, when a rep reduces his or her book by accounts under $25,000. An analysis using actual numbers shows that a rep with 1,838 contacts in their book and approximately $165 million in total AUM would give up about 46 percent of their existing relationships, but only lose about 5 percent of their AUM, 6 percent of their trailing 12-month GDC and 5 percent of their recurring revenue. Further analysis then can be done to determine what would happen if the rep reduced his or her book by all accounts under $50,000, $100,000 and so on.

Mummau emphasized that this is only one way of segmenting. There are other factors to consider, such as a client's longevity with the advisor, number of referrals, likability, standing with the bank or credit union and known future business. "AUM/revenue is a start, but for other reasons accounts may be kept or let go," he said. "For example, a small account that is a great referral source would be kept, but a large account for many reasons may be passed on."

Moon agreed that there are many ways to segment a book, and it is not just based on income or assets. "There's an art as well as a science to the process, but the outcome everyone is looking for is serving clients better and serving clients in a cost-effective manner."

Analysis reports can go a long way in convincing advisors that trimming their books is a smart strategy. When reps see that report, most of them say, "Where do I sign up?" Mummau said.

Financial Advisor Teams

John Marx, vice president, Wealth Management – Wealth Management Services at Elevations Credit Union (Boulder, Colorado) agreed that analysis reports can make a difference. (Elevations uses CFS as its third-party broker/dealer.) Marx has relied heavily on the AUM analysis to make the case for growing the financial advisor team at Elevations. "When you sit down and look at the numbers in black and white," Marx said, "it's difficult for any advisor to say, 'That doesn't make sense.'"

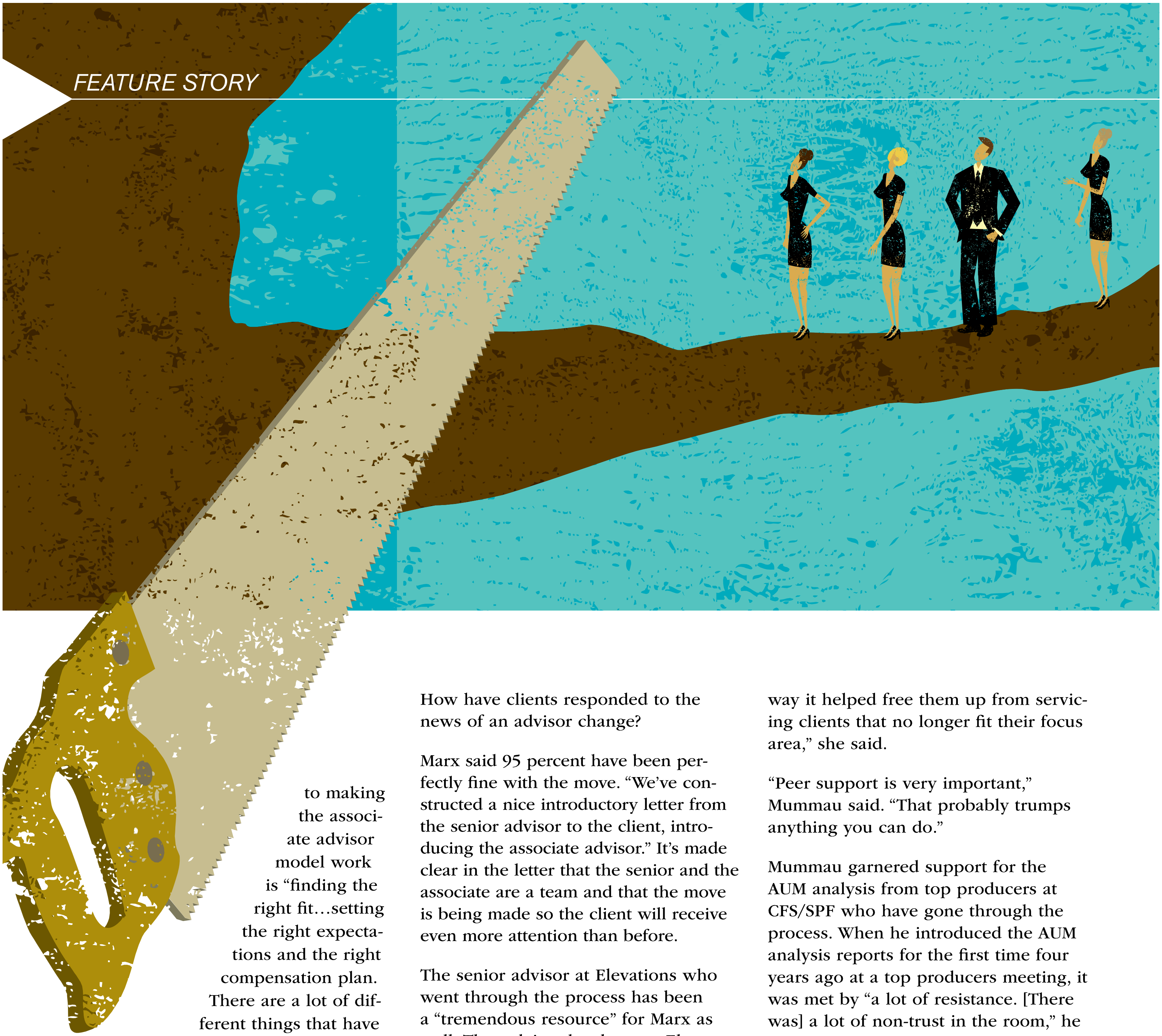
According to Marx, Elevations has been able to grow its financial advisor team by utilizing that analysis, by pulling some of the lower-asset clients away and using an associate advisor—teamed up with a senior advisor—to work that new book.

Marx said the program has grown from $1 million in revenue in December 2011 to nearly $3 million in 2015. The credit union, with $1.5 billion in assets and 11 branches, serves about 110,000 members. "It's been internal growth and bringing on more advisors and getting the right people in the right place," he said.

Marx has constant discussions with advisors about working their books, making sure they have the time to manage their clients and become their primary trusted advisor.

He said he has some great examples of how an associate on a team was able to work with a carved off portion of a book and really work with those investors, "do reviews and find lots of additional assets and business…that would never really have been found had we continued on the same path of 600, 700, 800, 1,000 clients." He added: "We've been able to grow quite a bit just because of that strategy and the associate advisor business model."

Although none of the associate advisors have yet moved into the traditional advisor role, "it's getting close, and it may happen in 2016," Marx said in an interview in late November. He says the key



to making the associate advisor model work is "finding the right fit…setting the right expectations and the right compensation plan. There are a lot of different things that have to fall into place."

The senior advisor, who is giving up a portion of his book of business to the associate, continues to work closely with the associate and receives a portion of the revenue the associate brings in. "Not only does the senior advisor mentor the associate advisor, but his or her comp plan also has a component to it where he or she gets a percentage of the revenue that the associate advisor does," Marx said. So it benefits the senior advisor to "build this person" and help that individual increase production.

How have clients responded to the news of an advisor change?

Marx said 95 percent have been perfectly fine with the move. "We've constructed a nice introductory letter from the senior advisor to the client, introducing the associate advisor." It's made clear in the letter that the senior and the associate are a team and that the move is being made so the client will receive even more attention than before.

The senior advisor at Elevations who went through the process has been a "tremendous resource" for Marx as well. That advisor has been at Elevations for about 12 years, and his business is primarily fee-based. He shares his practice experience with others. "He's good at talking about what he was doing when he was fairly new in the business and what his day looked like then versus today."

Moon said once an advisor has gone through the segmenting process and pared down his or her book of business, that advisor can become a "champion" for others who haven't been through the process. "They can speak from personal experience about the way it helped free them up from servicing clients that no longer fit their focus area," she said.

"Peer support is very important," Mummau said. "That probably trumps anything you can do."

Mummau garnered support for the AUM analysis from top producers at CFS/SPF who have gone through the process. When he introduced the AUM analysis reports for the first time four years ago at a top producers meeting, it was met by "a lot of resistance. [There was] a lot of non-trust in the room," he recalled. This past year, after the personalized AUM studies were distributed at a top producers meeting, any time a naysayer opened their mouth, one of their peers would quash their concerns. Some would say bluntly: "I felt the same way, too. Get over it."

Comfort said LPL's studies from the Program Growth Model have had a similar impact. "It really shows them the math," he said. "And it's amazing to see their eyes light up."

The process also helps initiate conversations with advisors about their

future. "Where do you want to be in three, five, 10 years?" Comfort would ask. "Do you want to be on a treadmill or practice this business in a way that's fulfilling, satisfying?" Advisors are more open to change when they see the opportunities that a more focused book of business can offer.

Another benefit of regularly re-examining those books is to get advisors to think about how they may want to transition their business. "I think the last piece of it has to be: What's your succession plan going to be?" Comfort said.

Moving business to a junior advisor can be one option. "Hiring a junior advisor and bringing him in underneath a senior who's getting ready to retire is an important strategy for the sustainability of the firm, but it's a strategy that a lot of firms are just coming to terms with," Moon noted.

How Big is Too Big?

Industry executives struggle with the question of an optimal size for a book of clients. It depends, some say. Factors to consider are number of clients, total assets, whether referrals are coming from branches or not and whether the advisor is primarily fee based.

Mummau attended a roundtable last year where this question was asked. Participants were program managers from around the country in programs ranging from large banks to small credit unions. The answers ranged from a low of about 150 clients to a high of 500, he says. He posed that same question to his top producers in a meeting last February. "It was almost lockstep. They all fell probably between 300 and 500," he said. "I thought I'd get a much higher number from them, but I didn't."

Mummau said one of the questions he hears more frequently from programs around the country is, "When do I start?" His answer: "Day one." Reps need to re-evaluate their clientele as they build their business—even in that first year. Also, "this has to be best practice, part of your recruiting process," he said. New reps are told at the beginning: This is how we help you build your business. That way there's no push-back when it's time to consider carving off some of their book. "They've bought in from day one," he said.

Tony Cole, president of Anthony Cole Training Group, suggested another way of looking at a book of business to impress upon advisors the need to shed clients. He said advisors need to take a look at both the top and bottom segments of their book and ask themselves how much time they are taking to sell to a top client versus a bottom-tier client. The question becomes: How many bottom tier clients do you have to sell to in order to equal a top tier client? "Does it take you as long to sell to a $2,500 investor as a $50,000 investor?" Cole asked. The answer is "yes" every time, he said. "Selling one at the bottom is every much as time consuming as selling one at the top." Look at it from an hourly wage perspective, he said.

Establish a client profile, Cole said, and every time you take on a client who fits that profile, go to the bottom 20 percent and reduce your book by somebody "or a number of somebodies," from the bottom tier. Then the program manager and the bank or credit union have to make sure they've come up with some numbers in terms of "how much book of business do we need to transfer to a new person to justify hiring somebody. And it doesn't take a lot," he added.

But bringing in someone to take over a portion of an advisor's big book points to another dilemma in the industry: finding new advisors. "I think oversized books are becoming a bigger problem because there is a lack of talent to bring into the marketplace," Cole said.

Encouraging advisors to scrutinize their books of business is becoming increasingly important because of a number of pressures on the industry. "There's a lot of things on the horizon that are going to change the business whether we like it or not: the Department of Labor proposal (proposed fiduciary rule), pricing pressure, technology… and those changes line up with helping advisors deal with these large books of business," Comfort said.

Both LPL and CFS/SPF are looking into online investment platforms, often referred to as robo-advisors, as a way to serve younger or mass market investors. "I want to stress that it will be another tool in the toolkit for our advisors, not a competing offering," Comfort said.

Mummau said CFS/SPF is in the process of vetting vendors to integrate with. He had no details beyond that. "It's something we want to get on the (firm's) platform most definitely because it really fits into this business model," he said. The robo solution would be for those investors just getting started. "It's not a solution for financial planning," he emphasized. ▲

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