bankinvestmentconsultant
Updated Friday, October 31, 2014 as of 3:31 PM ET

Help Wanted: Bank Channel Needs Young Advisors

The first step to recovery is admitting you have a problem.

That being the case, the bank channel deserves a brief moment to pat itself on the back. Everyone acknowledges that the industry is facing an existential challenge: There are not enough financial advisors entering the profession and rising through the ranks to replace retiring veterans.

Even the dilemma's various causes appear evident. Young people know little about the job or are not interested in it; wirehouse training programs that historically provided the entire industry with fresh faces, all shiny and licensed, were greatly reduced following the financial crisis; and training is costly, so with substantially less spillover from the wirehouses, most firms have relied on a strategy of poaching.

"Banks are struggling to find new talent, and they're resorting to recruiting from each other, or trying to recruit from other brokerage organizations, but that's a zero-sum game," says Scott Stathis, managing director of Bank Insurance & Securities Research Associates. "Stealing from each other is never going to work as a long-term recruiting strategy."

Though banks have been slow to implement strategies beyond poaching, that has finally started to change.

The industry as a whole has begun seeking out ways to step up recruitment by educating and enticing young people to the field. Efforts are being made to reduce costs by moving some training online.

And more banks are bulking up recruitment and training efforts, offering new advisors a clear career trajectory, and hanging on to mid-level advisors through proactive succession planning.

Indeed, Merrill Lynch Wealth Management has recognized the need for evolution. The wirehouse has spent the last few years overhauling its three-year advisor training program, which dates back to 1940s. Earlier this year it promoted Racquel Oden, formerly a managing director in charge of business development, to head it up and improve retention.

In 2013, the firm brought in roughly 1,000 recruits but garnered a graduation rate of only 35% for the advisors who made it past the first seven months. (Though seemingly low, this is actually one of the highest success rates among broker-dealers.) That goal has increased to around 1,700 trainees per year and a graduation rate of 50%.

Lest the rest of the industry read such news and think it can once again sit back and wait for the wirehouse spillover, it can't. The problem is too big for that now.

Pershing projected earlier this year that 25% of advisors industrywide are planning to retire in the next decade, meaning that the industry will need some 237,000 new entrants to replenish their ranks.

The question is: How can the industry as a whole and individual organizations implement solutions wisely and effectively?

"For starters, I think financial institutions are going to have to take a different tack in terms of attracting young talent into training programs that eventually produce advisors. It starts with how they recruit," says Dan Overbey, president of Fort Lauderdale, Fla.-based Atlantic Capital Advisors, and president of industry association Bank Insurance & Securities Association.

"I think that, far too often, financial institutions have generalists who are recruiting within their human resources department. And they're more focused on recruiting bankers than advisors. There have to be more resources dedicated to creating that sort of platform for wealth advisors at the college recruiting level."

INTERNSHIPS THAT STICK

The word is out on the millennials—how they're more interested in work-life balance and launching sexy start-ups and saving the world than in a career in the financial services industry. Indeed, concern stretches beyond the bounds of the bank channel.

The CFP Board of Standards and Fidelity Investments recently joined forces to create a CFP Board Career Center, meant to entice young people into the profession.

The two organizations announced the move in September, along with the results of a Fidelity study that showed Gen Y college students and young professionals don't appear to be very interested in becoming financial advisors. The Fidelity study found that only two out of 10 surveyed are familiar with the profession.

The good news is, after learning more about the job, nearly half say they would consider it.

Tom Howe, president of Webster Investment Services in West Hartford, Conn., believes the best way for young people to learn about the job comes in the form of a good, old-fashioned internship.

But internships don't always result in a full-time employee, much less a full-time advisor down the road.

So the Webster program, which started roughly six years ago, has a few key elements that help improve retention, Howe says.

The process begins much like other internship programs, with visits to college campuses and job postings online. The firm, a wholly owned, broker-dealer subsidiary of Webster Bank, brings in an average of 15 students each summer.

The students are paired with full-time advisors and given several responsibilities: administrative work, scheduling appointments and making telemarketing calls. In return, the interns are paid $11 an hour, which comes out of the advisors' compensation.

And this is okay with the advisors? "Yes, they actually clamor for these kids," Howe says. "They recognize that if you get a talented kid to work for you for those eight or 10 weeks in the summer, it changes everything in terms of how efficient and productive you can be."

Another key point: The firm requires the advisors to give the interns a reasonable amount of face time with clients, not alone, but sitting in on customer meetings.

The experience gives the students an opportunity to see the interaction, the way an advisor listens and works with a client, and exposes them to the various types of products the bank offers, Howe says.

"For a young person to judge whether this is a career opportunity, they have to sit in on those meetings. They can't know otherwise," Howe says. "I think it's what takes some of these young people over the finish line. [They realize] that this is what they want to do. They think, 'I want to be able to help clients, to help them fulfill their goals, and I want to be able to do it in a thoughtful way that addresses their needs.'"

Of course, it also gives both the bank and the student the opportunity to see if they have the interpersonal skills necessary for the job. "We had a brilliant kid one year, very analytical," Howe says. "He added a lot of value to the team he worked with, but in the end he just didn't have the interpersonal skills. … He just didn't like meeting with clients."

According to Howe, the firm has hired an average of two interns from each year's crop. The company pays for them to be licensed—a Series 7 and/or insurance license—and they start out as sales assistants working for a full-time advisor.

As an assistant they receive an hourly wage and qualify for a quarterly bonus paid if the advisor they work for hits certain goals.

Typically, they're in that position for two to three years before they move into a junior advisor position, assigned to a full-time senior planner and working the bottom half of that person's book.

Now, out of the firm's 60 full-time advisors, 18 are junior advisors, and roughly two-thirds of those started as interns sometime in the past six years.

A COMPANY NEEDS A LADDER

Providing potential advisors this sort of clear career trajectory is key to properly developing and retaining the next generation of financial planners, industry experts say.

Legacy programs did a notoriously bad job at this, often tossing young advisors into the deep end with little more than a license. The financial services business as a whole has begun to recognize the importance of continued mentoring and a multi-tiered career path, but change has been slow in coming.

“Within individual firms, we haven’t really promoted a career path to get to the advisor role,” says Dan Rave, manager of the financial advisor in training (FAIT) program at Wells Fargo.

“Historically, you’d come in and take your shot, and it was sink or swim. There wasn’t really a developmental track to get to the advisor role.”

Wells Fargo hired Rave four years ago to run its bank branch-based FAIT program, which was promptly overhauled to emphasize mentoring. The program recruits financial services professionals who have five to 10 years of experience and a proven track record, typically in a business development-related role.

Roughly 70% of the more than 450 people who’ve entered the program in the last four years have come from within Wells Fargo. Of those 450 trainees, 85% remain, Rave says.

The first step for the recruits is licensing—Series 7/66 and insurance—and basic sales training that includes one-on-one mentoring from one of the group’s dedicated coaches.

Candidates are then paired with a senior financial advisor and provided an existing book of investment clients. The coaching also continues throughout the first year of production, so essentially each new advisor has two mentors: a coach and a senior advisor. Additionally, the new advisors attend various management and development programs for each of their first two years.

Depending on a trainee’s experience level when he or she enters the program, completion takes roughly two to three years.

And Wells Fargo continues to track the advisor’s progress through year five. “We’ve created a continuous learning path for the program duration,” Rave says. Advisors in training receive a declining salary over 24 months plus commission. Additionally, if they graduate the program above target, they receive a significant back-end bonus to bridge the gap onto full commission.

Wells Fargo’s bank-branch FAIT program provides significantly more guidance and is less sales-based than what is traditionally found at wirehouses and many regional brokerages.

In many cases, advisors in those other channels are expected to gather assets quickly or even have an existing book when you start.

ONLINE TRAINING

Of course, for smaller organizations, training can be prohibitively expensive. This is why one strategy for advisor training that is creating a lot of buzz is the online variety, industry sources say, which is a way to sharply reduce costs. (See related story here.)

One example now entering the pilot stage is called The Educated Advisor, an online training program geared toward banks that aims to turn licensed bankers into financial planners.

The program is the brainchild of Jack LaSalle, founder and principal of financial services consultancy Spinnaker One; and Jim Rensel, co-founder and president of Sales Quality Research Group.

Precision Information, a provider of financial online learning and publisher of The Educated Investor family of products, is supplying the program platform.

The program boasts three elements that are key to selling its efficiency to banks, LaSalle says.

First, it begins with an evaluation of the trainee’s level of financial literacy. It also allows management to easily monitor his or her progress. And it can be customized to fit in with a person’s daily schedule.
“Pulling licensed bankers out of production is always a problem, and bringing them to a central location to train them is expensive. Banks are spread all over the map,” LaSalle says. “If you can train remotely it eliminates some of those expense issues.”

Of course, it is up to the institution to continue training and provide the opportunities for face-to-face interactions with clients.

“Nothing takes the place of a manager coaching and developing a person,” LaSalle says. “Where the rubber meets the road in this business is sitting across from the client. This isn’t meant to take the place of that. This is just a way to create consistency and to ensure that everyone has the same level of initial instruction.”

THE LAST FRONTIER

Of course, attracting young people to the profession and offering them a career trajectory provides a long-term solution, but banks are also faced with a more immediate challenge: succession planning.

In other words, who is going to take over for all those senior advisors retiring in the next five to 10 years?

Atlantic Capital's Overbey finds that making succession planning part of his pitch when interviewing potential advisors works for his firm.

Given where the industry is today, he says, it would be naïve to ignore the fact that roughly half of the advisors who come in to talk with him about joining the firm are 50 years old or older.

"I'm trying to position myself as their last employer, basically telling them, 'this is going to be the last place you will work'," says Overbey, who was the president and CEO of Bank United Investment Services before it was spun off from Bank United as Atlantic Capital in July 2013. "I have a page in my pitch book entitled succession planning."

That plan includes valuation of the advisor's practice, pairing him or her with a junior advisor, establishing a revenue sharing agreement and eventually acquiring the practice. It is made possible largely by Atlantic's affiliation with LPL Financial, which has prioritized succession planning as a part of recruitment, Overbey says. And it works.

"I've found that the messaging… resonates very well with advisors who are 50-plus," Overbey says. "Many advisors are frustrated with their current program or current arrangement and they're looking to affiliate with an organization that understands … [their] time horizon and is going to help facilitate it."

In addition to those who knock on his door, Overbey identifies potential recruits through LPL, its wholesalers and his current employees.

Indeed, one of Atlantic's advisors—it has about 30—recently discovered a small advisory firm consisting of just one financial planner and his support staff.

The advisor, who is in his early 60s, didn't have a succession plan, and the three support people were not viable candidates. Upon discovering the situation, Atlantic's advisor, who is in his 40s, introduced himself and sold the firm's ability to transition the older advisor's team, expand his business and provide him with a successor, Overbey says.

"This is a ready-made succession plan for our firm and for the junior advisor to grow his practice. And we're also satisfying the senior advisor's needs by providing an exit strategy for him," he says.