Characteristics OF HIGH NET INCOME ADVISORS

The Harnessing Growth Series

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Introduction

What makes a successful advisor? While we cannot definitively predict who will become a successful financial advisor, we can examine the characteristics of those who have achieved success. Thereby, we may gain insight into the path to success. This report is based on data collected in a recent LIMRA-EY experienced advisor survey of approximately 1,500 advisors across seven different practice models.

Definitions

Successful

As used in this report, a successful advisor is one whose personal ***net income*** is in the top quartile of advisors in their practice model.

Successful Versus Peers

The tables in this report will show the difference in result between successful advisors and the other 75 percent of advisors for the named metric. A positive reported difference is shown when the metric for the successful advisor group is greater than that for the rest of the advisors by the amount reported. A negative reported difference conveys that the metric for the successful advisor group is less than that for the rest of the advisors.

Insurance-Oriented

Career agents, independent insurance agents, and multiple-line exclusive agents (MLEAs) are considered to be insurance-oriented advisors.

Investment-Oriented

Registered representatives of independent (IBD RRs) and full-service (FSBD RRs) broker-dealers, bank advisors, and registered investment advisors (RIAs) are considered to be investment-oriented advisors.

Practice Model

The seven different insurance- and investment-oriented types of distribution firms are called practice models in this report.

Key Takeaways

- **Successful advisors in all practice models** have more affluent clients, in terms of household income and investible assets, and thereby achieve significantly more gross revenue per client.
- The **path to success for insurance-oriented advisors** includes selling variable insurance products and investment products.
- A **key driver of success for independent agents** is having a majority stake in the firm.
- **Successful MLEAs** were much more likely to offer health and Medicare planning services.
- Advisory services are a larger part of the business mix of **successful IBD registered representatives,** which also makes them more likely to see income growth due to market gains.
- Working as a part of a team is an important path to success for **FSBD registered representatives.**
- **Successful RIAs** have the fewest number of clients and garner the greatest revenue per client.
- ***Companies can use the information in this report to:***
  - **Identify advisor segments** that are likely to be most receptive to selling their products.
  - **Share the characteristics of success** with their current advisors to help them grow their practices and thereby increase sales.
  - Determine how to **allocate limited distribution resources** to achieve maximum success.

"Measuring" Success

The meaning of success can differ by an individual's perspective, personal goals, role in the financial services industry, and many other factors. In this paper we have very specifically defined what we mean by saying an advisor is successful. **We have measured success by net income and the relative position of an advisor's net income versus that of the advisor's peers.** This makes sense for this purpose because advisors are driven by income goals and recognition.

This is not to say that those advisors who are not in the top quartile, by net income, are not necessarily successful. Money and recognition is not everything. Nor are we implying that the top-earning advisors are necessarily the most profitable for their firms or the companies whose products they sell. In fact, this may not be the case at all! That is another analysis for another time.

It is also not necessarily the case that the top-earning advisors are the best ones to serve every client. Again, that analysis is for another study at another time.

For now, we are very deliberately comparing the top-earning advisors to the rest of their peers and observing how they differ, for the purpose of understanding the characteristics of top earners, who are very often the leaders in their firms, companies, and the industry.

Success Across All Practice Models

The data show that there are characteristics of successful advisors that cross all practice models.

Net Income

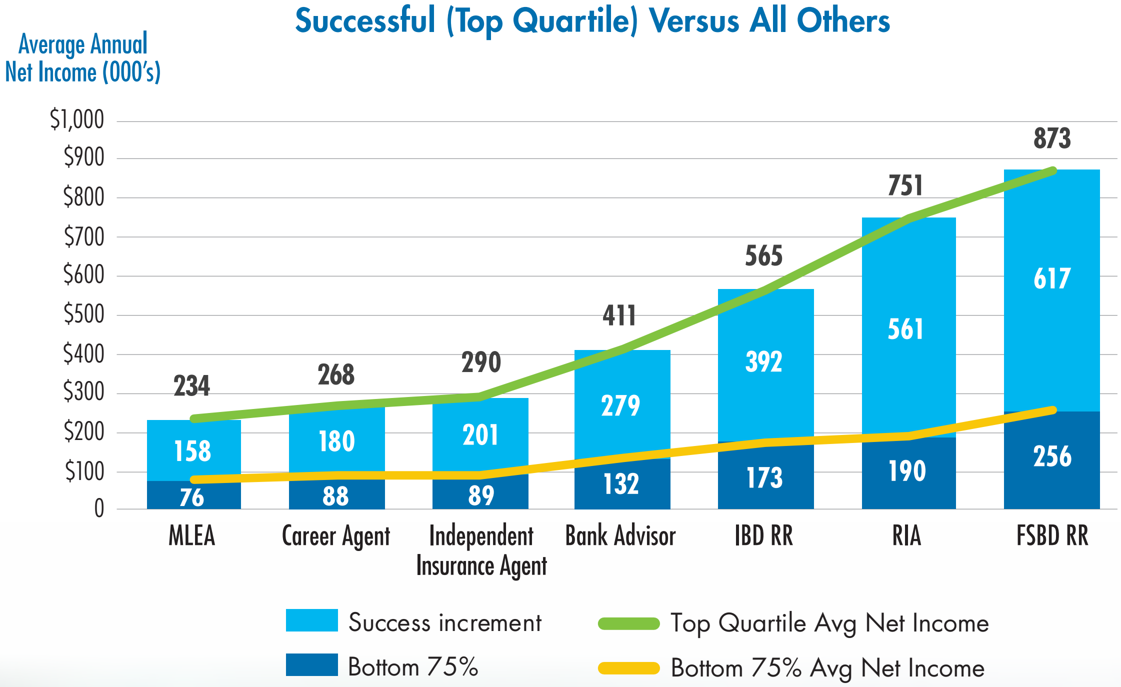
Because we've defined our analysis this way, successful advisors have a higher average net income than all other advisors (Figure 1). The average net income for successful advisors, the top quartile, is between two and three times that of their less successful peers.

This success increment is largest, in absolute dollars, for FSBD registered representatives at $617,000. However, the success increment, when expressed as a percentage of the average net income of the bottom 75 percent of advisors, is greatest for RIAs, at nearly 300 percent.

FIGURE 1

AVERAGE ADVISOR ANNUAL NET INCOME

Successful (Top Quartile) Versus All Others



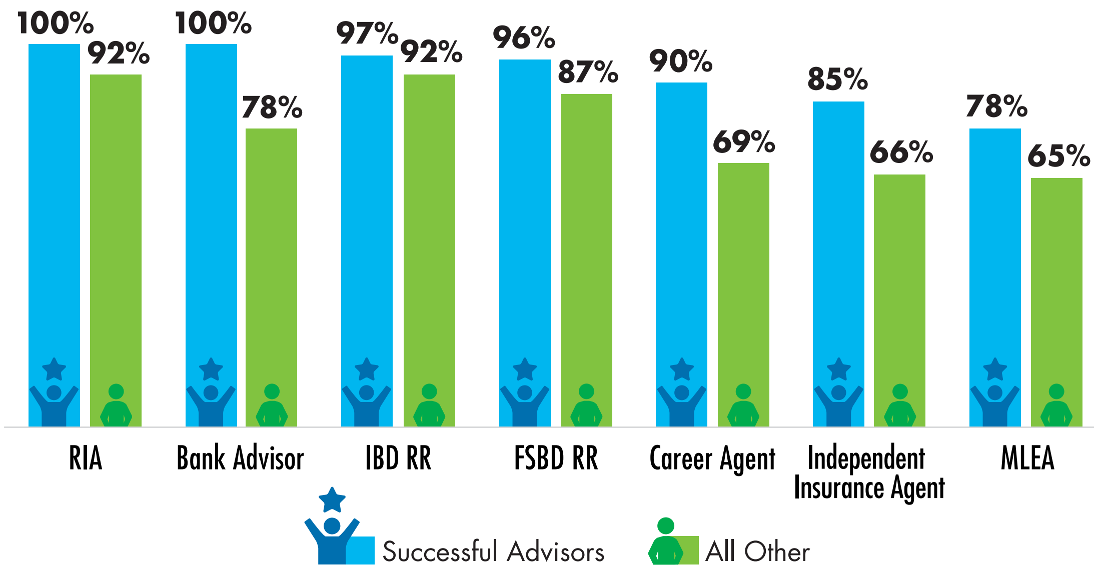
Advisor Experience and Number of Clients

Achieving success takes time and experience. Regardless of practice model, successful advisors are more likely to have at least 10 years of experience in the industry (Figure 2). This is particularly true for insurance-oriented and bank advisors. Broker-dealer registered representatives and RIAs are more likely to achieve success in the early years of their careers.

FIGURE 2

IMPORTANCE OF ADVISOR EXPERIENCE TO SUCCESS

Percent of Advisors Who Have 10+ Years of Experience

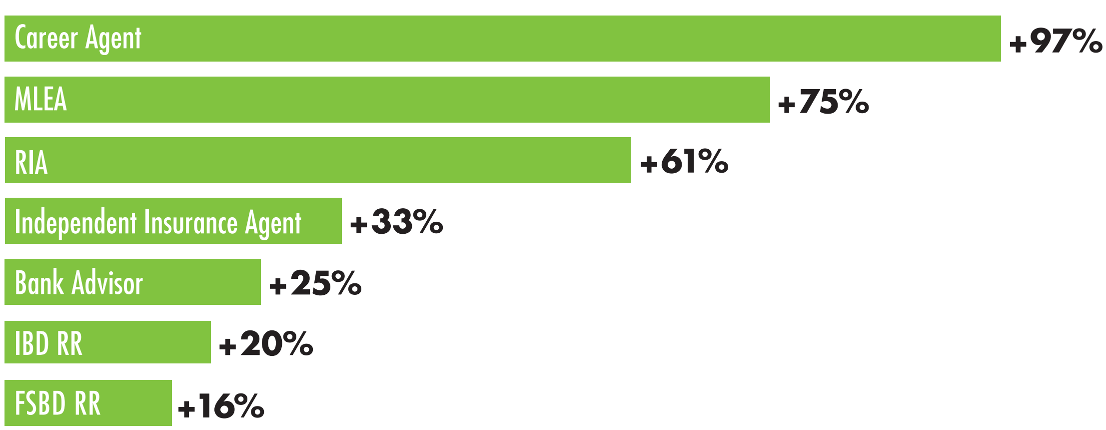


Successful advisors, across all practice models, have more clients than their peers (Figure 3). However, the degree to which this is true varies greatly. Successful career agents have a 97 percent greater number of clients than their peers, while for FSBD registered representatives this differential is only 16 percent.

FIGURE 3

IMPORTANCE OF SIZE OF CLIENT BASE TO SUCCESS

Relative Size of Successful Advisor's Client Base Compared to Peers



Gross Revenue per Client and Number of Clients

Successful advisors in all practice models get significantly more gross revenue per client. This, combined with their greater numbers of clients, drives the significantly higher net incomes of successful advisors. In the charts below, the larger bubbles represent the top quartile of advisors in each practice model.

The charts show that independent insurance agents and FSBD RRs tend to grow their incomes by increasing their revenue per client. MLEAs grow primarily by acquiring more clients. The other practice models achieve growth by a blend of increasing the number of clients served and the revenue per client. (See figures 4 and 5.)

FIGURE 4

INSURANCE-ORIENTED ADVISORS
Successful Versus All Others

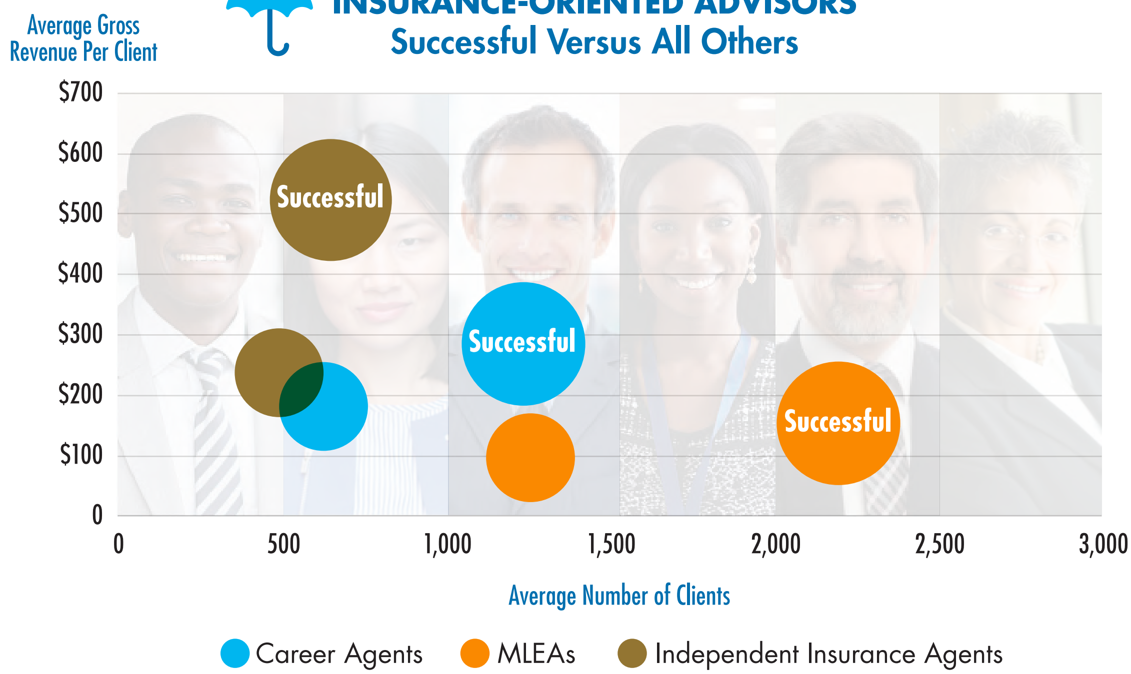
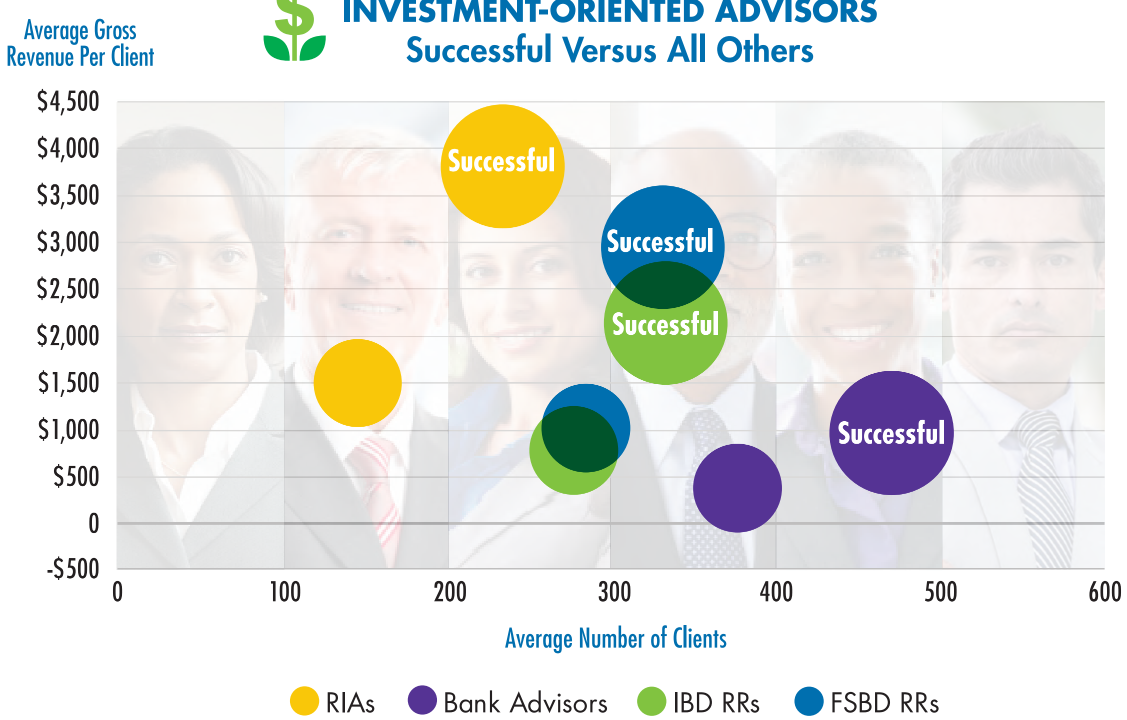


FIGURE 5

INVESTMENT-ORIENTED ADVISORS
Successful Versus All Others

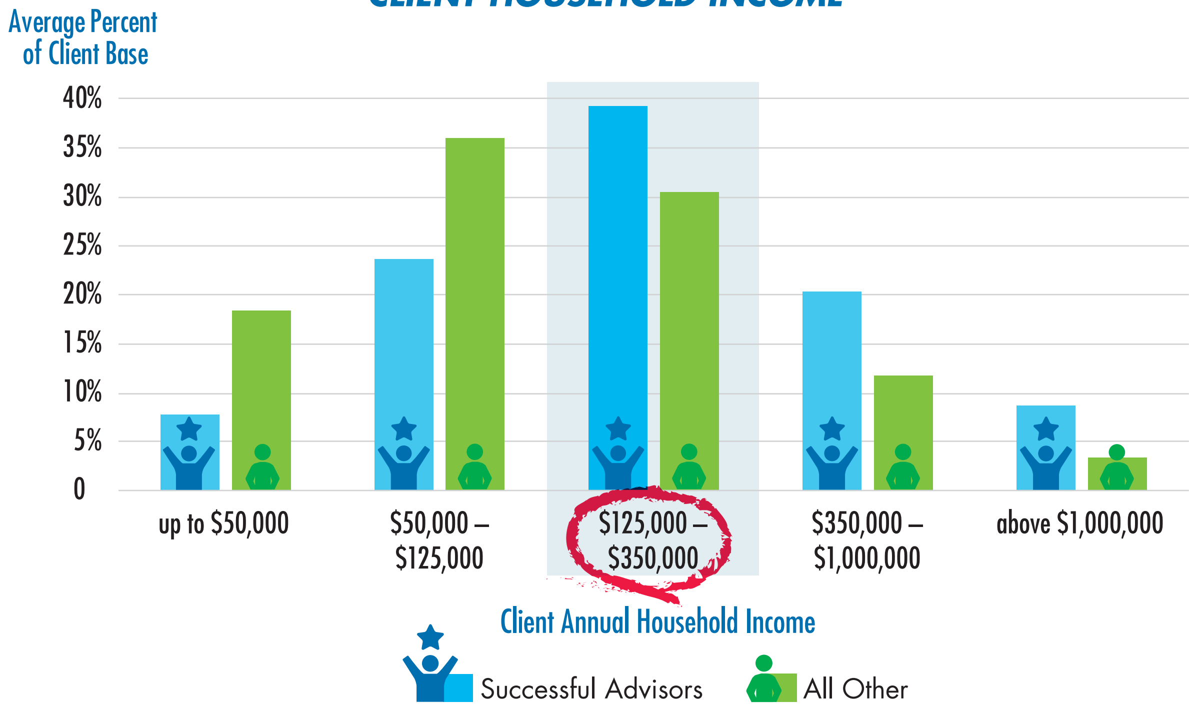


Client Profile

Successful advisors have more affluent clients, both in terms of household income and investible assets. This makes perfect sense. Perhaps what is more interesting is to look at where the "breakpoints" are between the client bases of successful advisors and their less successful peers. Both insurance- and investment-oriented advisors have a similar distribution of clients by household income. Figure 6 shows the breakpoint in household income for both advisor groups, combined. Successful advisors begin to have more clients at the $125,000 to $350,000 household-income band.

FIGURE 6

SUCCESS "BREAKPOINT" IN *CLIENT HOUSEHOLD INCOME*



Insurance- and investment-oriented advisors exhibit distinctly different compositions of their respective client bases by client investible assets. (See figures 7and 8.) Successful insurance-oriented advisors begin to have more clients at the level of $250,000 to $499,999 of investible assets and successful investment-oriented advisors at the level of $500,000 to $999,999 of investible assets.

FIGURE 7

INSURANCE-ORIENTED ADVISORS:
Success "Breakpoint" in *Client Investible Assets*

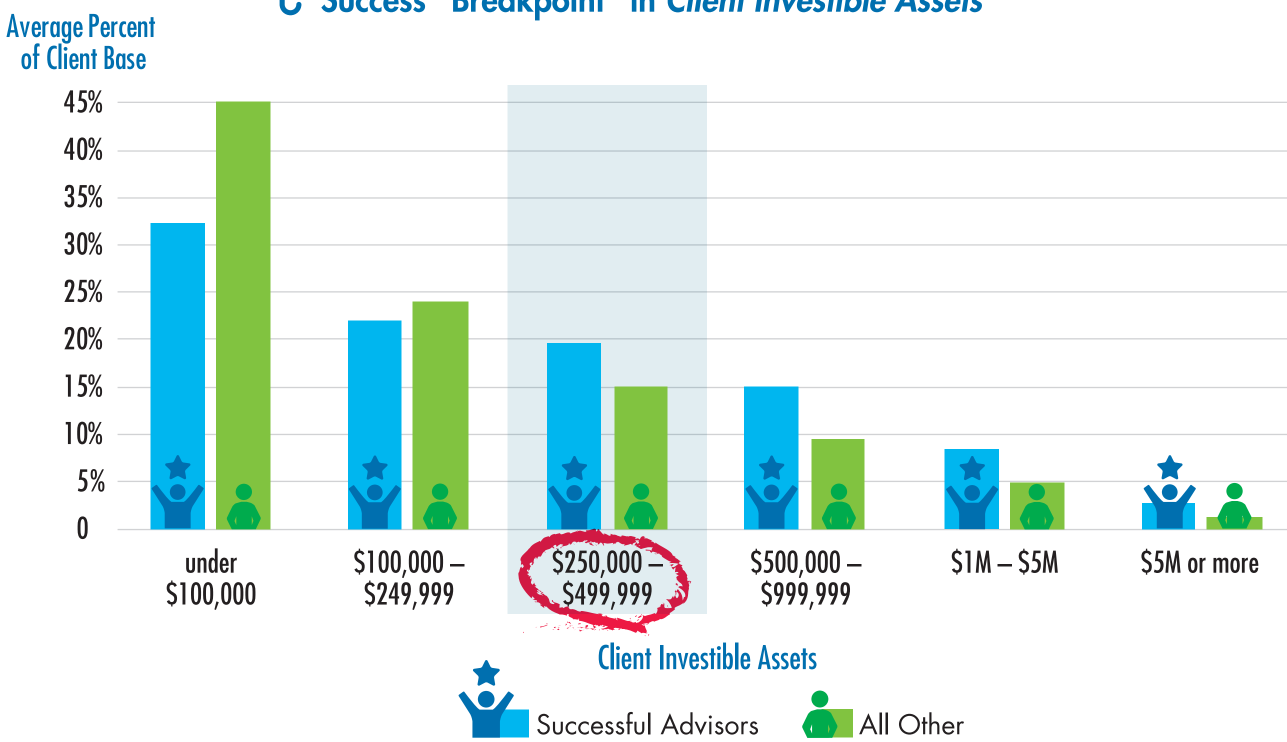
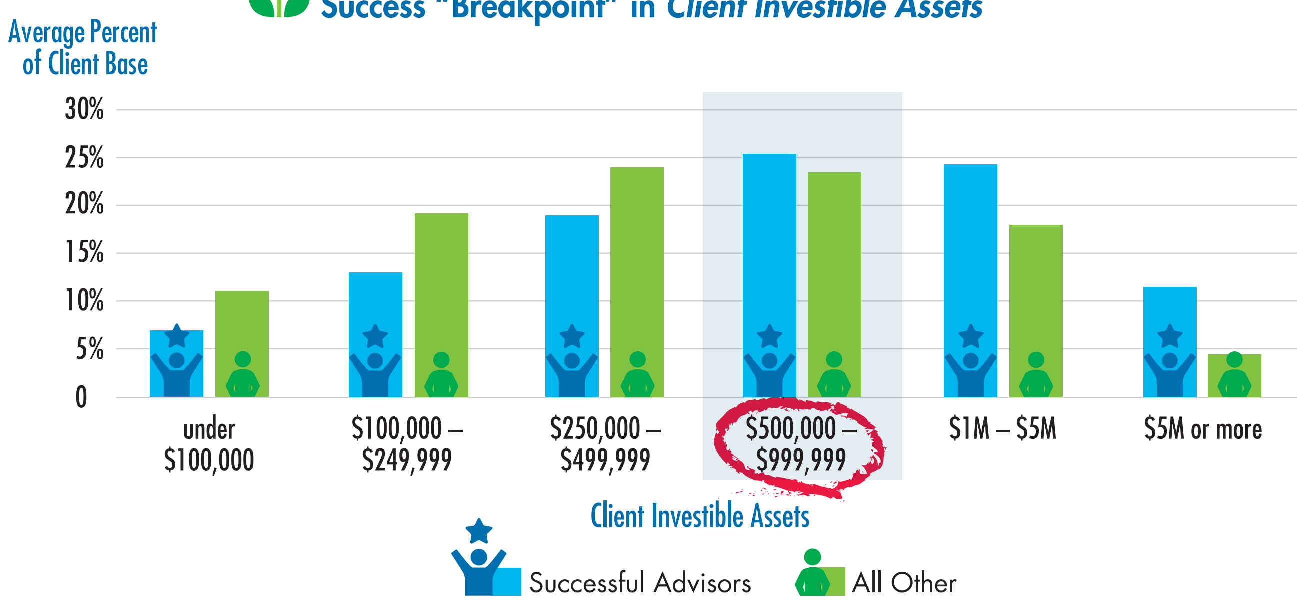


FIGURE 8

INVESTMENT-ORIENTED ADVISORS:
Success "Breakpoint" in *Client Investible Assets*



The "breakpoint" occurs where the average percentage of a successful advisor's client base first exceeds that for their less successful peers. With the client household income and investible assets shown in bands, we don't know exactly where the breakpoint is within the band, but let's estimate the household income breakpoint at $125,000 to simplify the discussion. The client base of a successful advisor has a greater share of clients with annual household incomes of at least $125,000. Similarly, the client base of a successful insurance-oriented advisor has a greater share of clients with investible assets of at least $250,000. And, the client base of a successful investment-oriented advisor has a greater share of clients with investible assets of at least $500,000.

Now, let's take this one step further and look at where these breakpoints are by individual practice model. (See Figure 9.)

The success bar rises as you look across the table from left to right. Successful MLEAs have more clients with household incomes greater than $50,000 and investible assets greater than $100,000 than do their less successful peers. This is consistent with the MLEA practice model where the economics are driven by smaller sales to a great many more clients (Figure 4). On the other end of the spectrum are RIAs, whose economics reflect the greatest revenue per client and the smallest number of clients (Figure 5). Successful RIAs have more clients with household incomes above $350,000 and investible assets above $1,000,000. The rest of the practice models lie on the spectrum in between.

FIGURE 9

SUCCESSFUL ADVISOR BREAKPOINTS

	PRACTICE MODEL				
	MLEA	Career Agent, Independent Agent	Bank Advisor, IBD Registered Representative	FSBD Registered Representative	RIA
HOUSEHOLD INCOME	$50,000	$125,000	$125,000	$125,000	$350,000
INVESTIBLE ASSETS	$100,000	$250,000	$500,000	$1,000,000	$1,000,000

Professional Designations

Successful advisors invest more in their own education and expertise. They have more professional designations than their less successful peers (Figure 10). These achievements not only enhance their ability to serve clients but also their image in the marketplace.

FIGURE 10
AVERAGE NUMBER OF DESIGNATIONS

Success Characteristic Unique to All Insurance-Oriented Practice Models

All successful insurance-oriented advisors are more likely to be registered representatives and/or RIAs than their less successful peers. The path to success for insurance-oriented advisors includes selling variable insurance products and investment products.

Difference: Successful Versus Peers	Difference in % of advisors who are RRs and/or RIAs
Career Agents	+18%
Independent Insurance Agents	+27%
MLEAs	+35%

Career Agents

The most significant difference between successful career agents and their less successful peers is in the affluence of their clients, which has been discussed above. Sixty-two percent of the clients of successful career agents have household incomes of $125,000 or more, and 59 percent have investible assets of $250,000 or more. These same statistics for the less successful career agents are 39 percent and 37 percent, respectively. Our survey data show that this is true even after adjusting for the fact that successful career agents are a bit older with more experience. Successful career agents are also more likely to get at least half of their new business from existing clients, although this is, in part, driven by their greater tenure in financial services.

While all career agents are growing their businesses through client acquisition, successful career agents are more likely to say that their practices are growing due to larger value sales and stock market growth (see Figure 11).

FIGURE 11
SUCCESSFUL CAREER AGENT
Primary Growth Driver Versus Peers

Independent Insurance Agents

It is not a surprise that successful independent insurance agents are 24 percent more likely to be majority owners in their firms than their less successful peers. (Figure 12) They have chosen a culture of independence, and the pinnacle of success is to be an owner of the firm. As owners, they not only make more money, but are also experiencing greater growth in their income. Interestingly, the correlation between success and being the sole owner of the firm is not as strong. So, it would appear that having a majority stake in the firm, without necessarily being the sole owner, is a key driver of success. Sole owners of independent insurance agencies should take note and be willing to grant ownership stakes to their associates in order for all to be more successful!

FIGURE 12
MAJORITY OWNERSHIP MATTERS

SUCCESSFUL
90% Majority Owners

OTHERS
66% Majority Owners

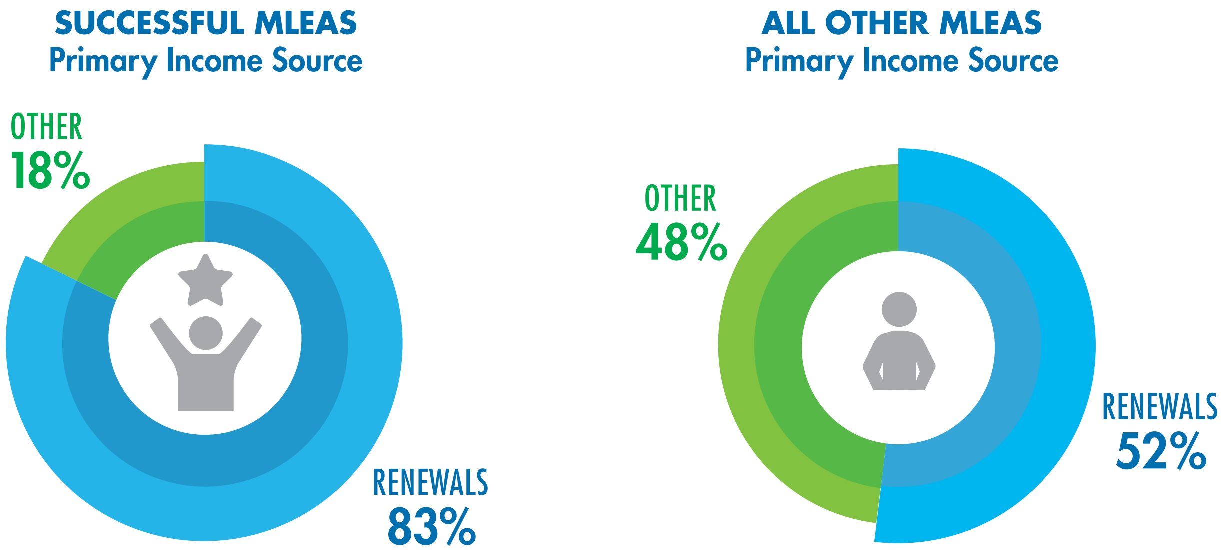
Even as self-identified insurance agents, these successful advisors reported having a lower share of their business mix from insurance. Their level of insurance sales is not necessarily less, but they have broadened the range of products and services they offer to their clients. In doing so, they are growing their practices by making higher value sales, rather than adding numbers to their client bases, just like career agents. All these characteristics of successful independent insurance agents are driving greater growth in their income as well.

	Difference: Successful Versus Peers
PRODUCTS AND SERVICES	
Share of business mix that is insurance	-19%
% offering retirement income planning to clients	+12%
% offering asset accumulation/portfolio management services to clients	+21%
% offering risk management (insurance planning) to clients	+12%
ADVISOR ECONOMICS	
Average % growth in personal gross income 2015 – 2017	+24%
% saying primary reason for income growth was increase in number of clients	-14%
% saying primary reason for income growth was higher average value sale	+14%
% of advisors reporting aggressive growth	+12%

Multiple-Line Exclusive Agents

Successful MLEAs are 31 percent more likely to cite renewal commissions as their primary income source. (See Figure 13.) Having a solid book of in-force business is key to income success. This is not a surprise, but it is interesting to note that this was true, even for advisors in the early years of their careers. Successful MLEAs, at all career stages, have more clients. When new MLEAs are able to acquire an existing book of business, they will have greater success, more quickly than those who start from scratch to build a business.

FIGURE 13



Successful MLEAs were much more likely to offer health and Medicare planning, as well as estate and trust planning services, to their clients. Offering a broader range of products and services to a large client base allows successful MLEAs to gain more business from existing clients rather than only driving income growth via new client acquisition.

	Difference: Successful Versus Peers
PRODUCTS AND SERVICES	
% offering estate and trust planning to clients	+14%
% offering health/Medicare planning to clients	+24%
AGENT ECONOMICS	
% saying primary reason for income growth was increase in number of clients	-16%
CLIENT PROFILE	
% of advisors getting 25%+ of new business from existing clients	+14%

Bank Advisors

Similar to career agents, successful bank advisors are 40 percent more likely to attribute their income growth to having higher average value sales, while their less successful peers grew their incomes by adding more clients. (See Figure 14.)

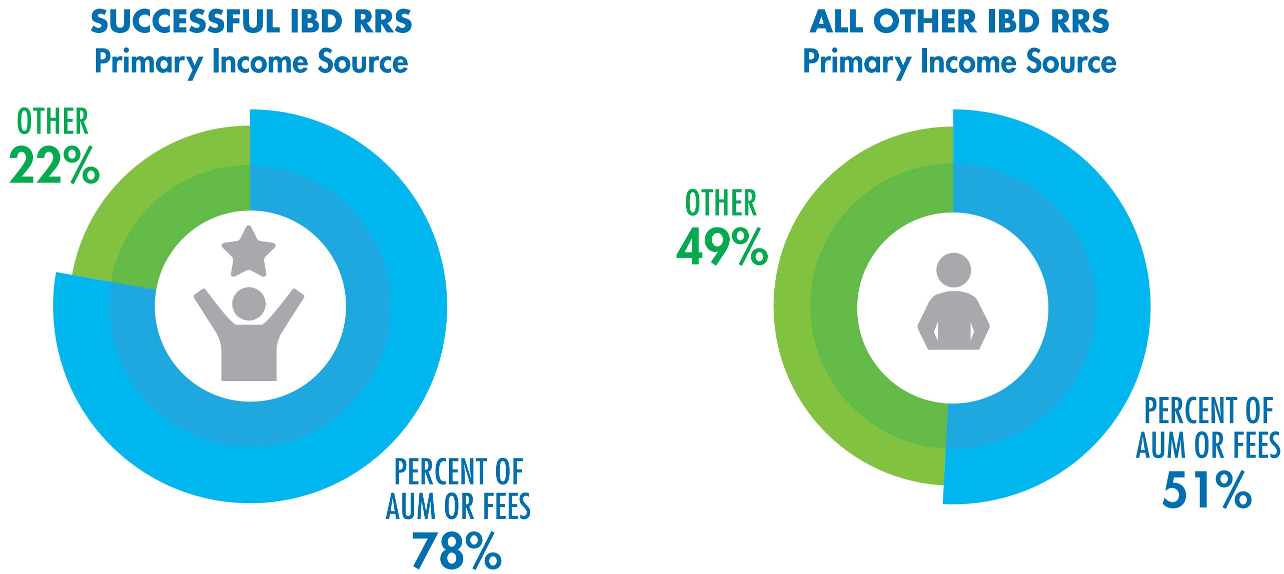
Successful bank advisors are more likely to work longer hours and give more attention to their existing clients. They are also more likely to offer risk management (insurance planning) to their clients. All of these characteristics combine to allow one third of successful bank advisors to acquire 75 percent or more of their new business from existing clients. Their less successful peers are very unlikely (only 5 percent) to reap such rewards from their current client bases.

	Difference: Successful Versus Peers
PRACTICE PROFILE	
% of time spent managing existing client relationships	+10%
% of advisors who work 50+ hours per week	+16%
PRODUCTS AND SERVICES	
% offering risk management (insurance planning) to clients	+11%
ADVISOR ECONOMICS	
% saying expense levels, as a percent of gross income, are staying the same or declining	+14%
CLIENT PROFILE	
% of advisors getting 75%+ of new business from existing clients	+28%

Independent Broker-Dealer Registered Representatives

Successful IBD registered representatives are far more likely to be primarily generating income as a percentage of their assets under management or from fees, rather than from commissions. (See Figure 15.) This is consistent with advisory services being a bigger part of their business mix, which also makes them more likely to see income growth due to market gains. Like independent insurance agents, successful IBD registered representatives are much more likely to be majority owners in their firms and to serve generally wealthier clients.

FIGURE 15



	Difference: Successful Versus Peers
PRACTICE PROFILE	
% who are a majority owner of their firms	+23%
% reporting they are part of a formal team	+12%
PRODUCTS AND SERVICES	
Share of business mix that is advisory services	+10%
% offering estate and trust planning to clients	+14%
ADVISOR ECONOMICS	
% saying primary reason for income growth was increase in number of clients	-10%
% saying primary reason for income growth was market/AUM growth	+11%
CLIENT PROFILE	
% of advisors getting 50%+ of new business from existing clients	+14%

Full-Service Broker-Dealer Registered Representatives

Working as a part of a team is an important path to success for FSBD registered representatives (see Figure 16). Successful FSBD registered representatives are more likely to offer health and Medicare planning to their clients, and three-quarters of those who do accomplish it through teamwork. These successful advisors are more likely to work longer hours, support wealthier clients, and be compensated primarily by fees or as a percentage of assets under management.

FIGURE 16
THE POWER OF TEAMS

SUCCESSFUL
68% Part of a Team

OTHERS
40% Part of a Team

	Difference: Successful Versus Peers
PRACTICE PROFILE	
% of advisors who work 50+ hours per week	+12%
PRODUCTS AND SERVICES	
% offering health/Medicare planning to clients	+12%
ADVISOR ECONOMICS	
% citing first year commissions as primary income source	-16%
% citing percentage of AUM or fees as primary income source	+15%

Registered Investment Advisors

Successful RIAs are among the highest paid advisors in our survey, with average 2017 net income of over $750,000. They also have the most experience with an average of 24 years in the industry. They have the fewest number of clients and garner the greatest revenue per client. While there are differences between successful RIAs and their less successful peers, these differences are the most modest of any practice model. There is more uniformity of practice characteristics in the RIA model. The most significant difference between successful RIAs and their peers is their focus on clients with investible assets of $1 million or more. It is easy to see how this is foundational for all the other success metrics.

	Difference: Successful Versus Peers
PRACTICE PROFILE	
% of advisors who work 50+ hours per week	+12%
PRODUCTS AND SERVICES	
% offering health/Medicare planning to clients	+10%
ADVISOR ECONOMICS	
Average % growth in income 2015 – 2017	+11%
% citing fees as primary income source	+13%
% of advisors reporting moderate growth	+10%
CLIENT PROFILE	
% of advisors getting 50%+ of new business from existing clients	+13%

In Conclusion

Many of the differences between successful advisors and their less successful peers are expected and logical. Some are a bit more intriguing. As stated at the outset, we cannot definitively predict who will become a successful financial advisor. However, this paper lays out the factors common to those at the top of the field. You can share this information with the advisors that sell your company's products to motivate them to grow their practices. You can also use this information as a guide to how your company can best deploy its resources to support advisors. In the words of Oscar Wilde, ***"Success is a science; if you have the conditions, you get the result."*** Understand the conditions of success and achieve it.

About the LIMRA-EY Experienced Financial Advisor Study

To explore the needs and attitudes of financial professionals, EY and LIMRA jointly conducted an online quantitative survey of approximately 1,500 financial advisors from seven common insurance, investment, and advisory practice models. Respondents had a minimum of three years of sales experience in the industry and met minimum income thresholds for their practice models. The questions focused on:

- Recent and future growth
- Drivers of productivity
- Technology usage
- Services and support they expect from their organizational partners

The survey findings can help insurance companies and other financial services organizations align their products and service models to engage with different types of advisors as traditional boundaries in the industry continue to blur.

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