WHITE PAPER

Addressing Advisor Movement in the Wealth Management Industry

November, 2024

Executive Summary

Advisor attrition poses a critical challenge in the wealth management industry, causing significant financial losses and disrupting client relationships. In 2023, the advisor movement rate surged by 7.5%, ***resulting in over $100 billion in AUM being transferred within 90 days.***

This trend, exacerbated by the FTC's ban on non-compete agreements, is expected to grow in 2024.

Traditional strategies for retaining advisors, such as compensation and performance-based bonuses, are no longer sufficient. They fail to address the underlying causes of attrition or anticipate when an advisor is at risk of leaving. As a result, wealth management firms must adopt a more proactive approach.

Artificial intelligence (AI) has emerged as a powerful tool, enabling firms to predict advisor attrition with more than

90% **accuracy up to three months in advance.**

This white paper explores the key trends driving advisor movement, the multifaceted impacts on wealth management firms, and the strategic role AI plays in reducing attrition. By focusing on early warning signs like trading activity, account management, and advisor tenure, AI allows firms to intervene early and prevent attrition.

Introduction

The wealth management industry, a cornerstone of financial services, faces increasing pressure as advisor attrition rates rise. In 2023, a 7.5% increase in advisor movement resulted in significant AUM loss, and the Federal Trade Commission's (FTC) ban on non-compete agreements, set for September 2024, is likely to intensify this trend. These factors, coupled with evolving client expectations and a competitive recruitment market, make it more crucial than ever for firms to adopt innovative retention strategies.

With advisors becoming more mobile and competitive pressures increasing, firms must ***shift from reactive retention strategies to proactive measures*** that identify and address advisor disengagement before attrition occurs. This paper explores the underlying causes of advisor attrition, the emerging trends in the industry, and how AI-driven solutions can mitigate the problem by predicting advisor behavior and risk. By understanding these factors and leveraging data-driven insights, wealth management firms can not only reduce attrition but also improve overall advisor satisfaction and performance.

Optimizing Operational Efficiency to Curb Advisor Attrition

Advisor attrition in the wealth management industry is influenced by various factors, including the ease of doing business within a firm. A study by J.D. Power in 2024 highlighted that 34% of employee advisors and 41% of independent advisors, who are more than two years from retirement, expressed uncertainty about remaining with their current firm in the next one to two years.

Operational efficiency and technological support are critical components of ease of doing business. Advisors often seek firms that provide robust digital tools and streamlined processes to enhance client service. A report from Wealth Management in 2023 noted that advisor attrition has become the second leading cause of business loss for Registered Investment Advisors (RIAs), underscoring the importance of operational efficiency in retaining talent.

Technology adoption plays a significant role in enhancing operational efficiency. According to a report by EY, 37% of clients who prefer advisor-led relationships plan to use more digital tools in the future, indicating a shift towards digitalization in wealth management. Firms that invest in modern technology and streamline workflows enable advisors to focus more on client relationships, thereby improving job satisfaction and retention.

In summary, enhancing the ease of doing business through improved operational efficiency and technological support is vital for wealth management firms aiming to reduce advisor attrition and maintain a competitive edge.

Current Trends and Insights

1. Increased Advisor Mobility

In 2023, advisor transitions increased by 7.5%, with over

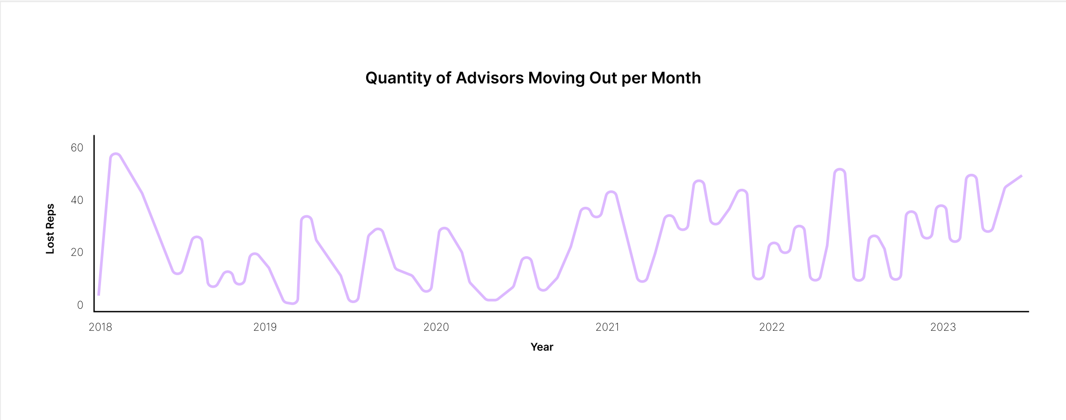
9,600 advisors switching firms[1].

The trend is expected to accelerate with the FTC ban on non-compete agreements, which removes barriers that once prevented advisors from moving more freely between firms. The elimination of these contractual barriers is expected to lead to even greater competition among firms to attract and retain top talent.

2. Impact of Mergers and Acquisitions

Mergers and acquisitions in the wealth management industry often trigger spikes in advisor attrition. For example, a sharp increase in advisor movement followed several major mergers in 2019. Firms undergoing such transitions must prepare for increased turnover, as organizational changes can create uncertainty and lead to advisors seeking stability elsewhere. The Monthly Lost Advisors graph (Exhibit 1) highlights these peaks, showing a correlation between structural changes and higher attrition rates in a US firm.

Exhibit 1



3. Client Expectations and Technological Change

Clients increasingly demand personalized advice supported by advanced technology. Advisors are gravitating toward firms that offer robust digital tools, as these technologies enhance their ability to meet client expectations. Firms that fail to invest in technology risk losing advisors to competitors with better technological infrastructure. This shift in client demands also places pressure on advisors to continually improve their service offerings, making firms with strong tech platforms more attractive.

4. Recruitment Costs and Challenges

Recruiting new advisors to replace those who leave is not only time-consuming but also extremely costly. ***The financial burden of replacing an advisor can range from 300% to 400% of their trailing 12-month production*** [2]. Additionally, the time required to onboard and train new advisors can lead to operational inefficiencies, further straining resources.

[1] WealthManagement.com. (2024, March). Advisor movement increased by 7.5% in 2023. https://www.wealthmanagement.com/careers/advisor-movement-increased-75-2023

[2] Source: AdvisorHub. (n.d.). Wells Fargo's broker recruiting deals can hit 400%, Sommers says. https://www.advisorhub.com/wells-fargos-broker-recruiting-deals-can-hit-400-sommers-says/

5. Private Equity Involvement

Private equity firms have ramped up their investments in Registered Investment Advisors (RIAs), offering substantial financial incentives to attract top talent. This influx of capital has intensified competition among firms for recruiting advisors, often leading to higher compensation and more attractive transition packages. As a result, many advisors are opting to move toward private equity-backed RIAs, where they can benefit from more lucrative deals and resources. This trend has reshaped the recruitment landscape, creating new challenges for traditional wealth management firms to retain their advisors.

6. Shifting Business Models

Independent advisory firms and RIAs are gaining favor among advisors seeking greater autonomy and flexible compensation structures. These business models allow advisors more control over their client relationships and often provide more tailored financial incentives than traditional firms. As a result, many advisors are leaving larger institutions in favor of the freedom and entrepreneurial opportunities offered by these independent firms, accelerating a shift in the wealth management industry.

Defining the Challenge of Advisor Movement in Wealth Management

Advisor movement is a multifaceted challenge for wealth management firms, affecting their financial health, client relationships, and operational efficiency. The departure of advisors, particularly those managing large books of business, results in significant AUM outflows. These movements not only disrupt client trust but also drive up recruitment costs. Current strategies, such as compensation-based retention, are many times reactive and fail to address the individual needs of advisors, highlighting the need for a more proactive approach to reduce advisor attrition.

Risk Factors and Early Indicators

Identifying risk factors and early indicators of advisor attrition is crucial for wealth management firms to mitigate potential losses. AI-driven models can analyze vast amounts of data to detect patterns that indicate when an advisor is likely to leave.

1. Trading Activity as a Key Indicator

Trading activity often times can be a strong indicator of potential advisor attrition. The Median Number of Trades per Month graph (Exhibit 2) illustrates an example of a firm where active advisors consistently maintain higher levels of trading activity, while those at risk of attrition show a noticeable decline. In this example, Advisors who attrite in a given month have zero or near-zero trades some time before they leave. This drop in trading activity can serve as a signal

2. Tenure Distribution and Attrition

Tenure can be another relevant factor in predicting advisor attrition. For example, the majority of advisors of another US firm leave within their first 10 months, as shown in the Tenure Patterns Among Departing Advisors diagram (Exhibit 3). In this case, after this period, the likelihood of attrition decreases significantly. Very few advisors depart after reaching 60 months of tenure, highlighting the importance of strong early retention efforts.

3. Managed Accounts as a Predictor

A reduction in the number of managed accounts can also be an early indicator of advisor attrition. Advisors who manage fewer accounts in the months leading up to their departure can be more likely to leave. The Managed Accounts Median: 3 Months Pre-Attrition vs. Prior 3 Months graph of disengagement, allowing firms to intervene early and re-engage advisors before they decide to leave.

(Exhibit 4), shows that advisors who leave might manage fewer accounts before their departure in some US firms. This decrease in account management may indicate reduced engagement or client loss, signaling a heightened risk of attrition.

Exhibit 2

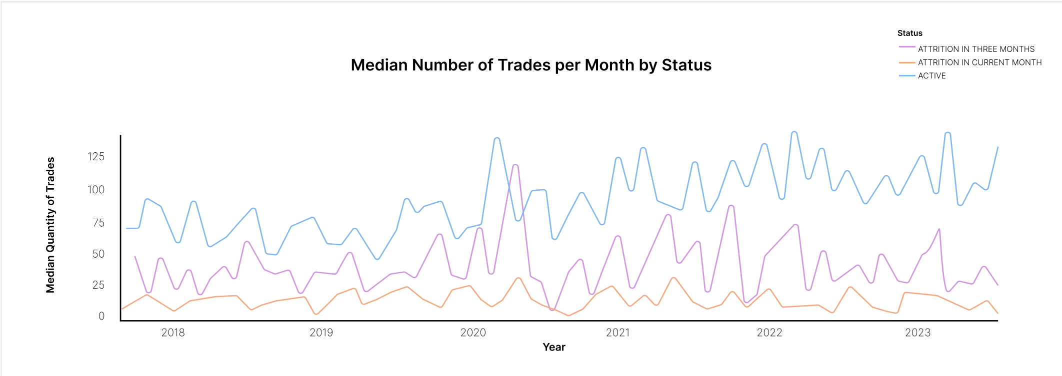


Exhibit 3

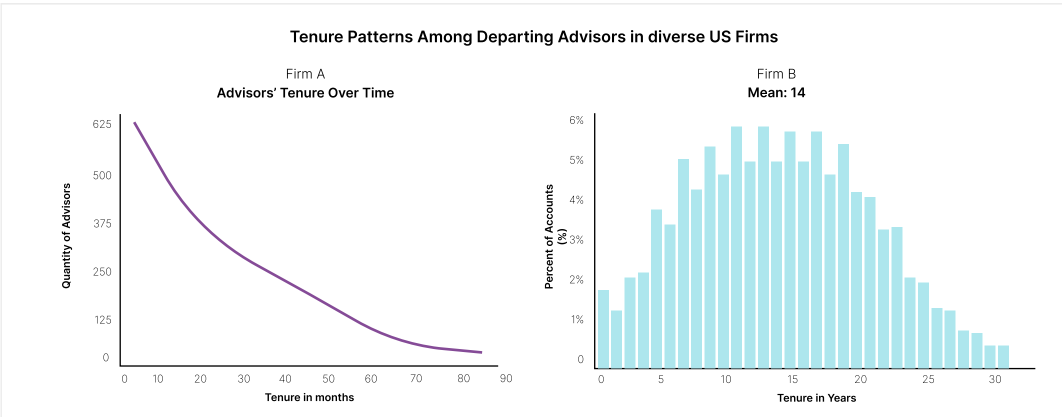
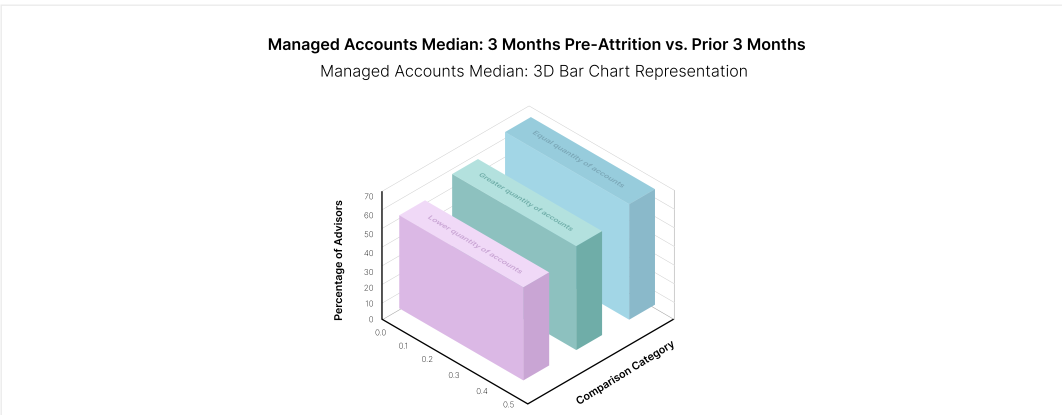


Exhibit 4



AI as a Current Solution

Artificial intelligence offers a transformative solution for predicting and preventing advisor attrition. By analyzing behavioral, transactional, and tenure data, AI can identify advisors at risk of leaving, often months in advance.

1. Predictive Accuracy of AI

AI-powered solutions, like Fligoo's have demonstrated a 90% accuracy in predicting advisor attrition up to three months in advance. This high degree of accuracy enables firms to implement targeted retention strategies before an advisor becomes fully disengaged. The Advisor Attrition Rate by Month graph (Exhibit 5) illustrates how AI can track trends over time and provide early warnings about potential attrition spikes during periods of structural change.

2. AI in Action: Trading Activity as a Primary Indicator

Trading activity can be another important data point for AI to predict advisor attrition. Advisors who are at risk of leaving can exhibit a significant reduction in trading activity in the months leading up to their departure. The Median Monthly Trade Count by Status graph (Exhibit 6) demonstrates how AI can flag advisors whose trading activity is below average, signaling a potential risk.

3. Real-World Impact of AI Predictions

In real-world applications, AI predictions have significantly reduced advisor attrition. By identifying at-risk advisors early and implementing personalized retention strategies, firms can prevent costly turnovers. The financial impact of retaining advisors through AI-driven insights is considerable, as replacing an advisor can cost, as we discussed, 300-400% of their trailing 12-month production.

Exhibit 5

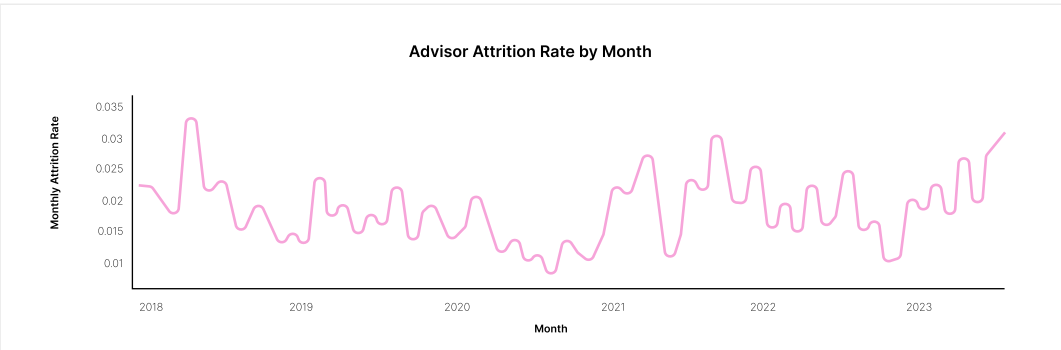
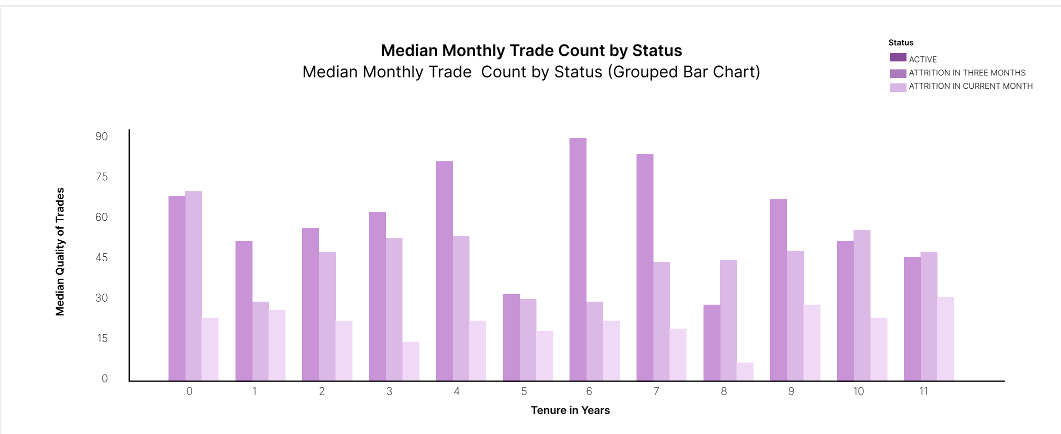


Exhibit 6



Strategic Implications for Retention

1. Monitoring Key Indicators in Real-Time
AI enables firms to continuously monitor key indicators such as trading activity, book of business evolution, and accounts management. By setting up real-time alerts based on these factors, firms can intervene at the first sign of potential disengagement. Consistent monitoring helps prevent attrition before it happens, allowing firms to stay ahead of advisor turnover.

2. Focus on High-Value Advisors
High-value advisors, especially those managing significant AUM, represent a crucial segment of the firm’s business. AI models help firms identify these key players and prioritize their retention. Offering personalized incentives and support to these advisors ensures that the firm retains its most valuable talent.

3. Tailored Retention Programs
AI insights allow firms to develop personalized retention strategies by addressing the specific causes behind advisor attrition risk. Retention actions can be tailored based on the identified reasons for each advisor’s risk and the firm's catalog of available strategies.

For advisors at risk due to compensation concerns, firms can offer tailored incentives, such as profit-sharing or deferred compensation. Advisors seeking autonomy may benefit from more flexible work arrangements, while those facing client management challenges can be supported with advanced technology or administrative assistance. Career growth opportunities, mentorship, and wellness programs can also play crucial roles in re-engaging advisors. These targeted interventions can significantly reduce the likelihood of attrition and strengthen long-term advisor loyalty.

Recommendations for Wealth Management Firms

1. Adopt Predictive AI Tools
Wealth management firms should implement AI solutions to predict advisor attrition and identify at-risk advisors. Tools like Fligoo’s AI platform, with 90% accuracy, allow firms to intervene before an advisor leaves. Incorporating AI into the retention strategy is essential for preventing turnover and maintaining stability.

2. Focus on High-Value Advisors and Clients
High-value advisors should be the focus of retention efforts. By using AI to identify advisors managing large AUM or critical client relationships, firms can prioritize resources and create customized retention plans.

3. Strengthen Early Engagement Programs
With a portion of advisors leaving within their first 10-12 months for many firms, companies should focus on early engagement strategies. Strong onboarding programs, mentorship, and access to necessary tools are essential for reducing early attrition too.

Conclusion

Advisor attrition is a growing challenge for the wealth management industry, with significant financial and operational consequences. AI-driven solutions offer a proactive approach to identifying and retaining at-risk advisors, enabling firms to protect their assets and ensure long-term stability. By adopting personalized, data-driven retention strategies, firms can address the root causes of attrition and maintain competitive advantage in an evolving landscape.

For more insights on how AI can help your firm mitigate advisor attrition, we invite you to explore Fligoo's full range of AI solutions. Contact us for personalized demonstrations and pilots at www.fligoo.com

FOR FURTHER DETAILS, CONTACT

Lucas Olmedo
CEO
Fligoo
lucas@fligoo.com

Juan Cruz Garzon
COO
Fligoo
juancruz@fligoo.com

Marcos Martinez
CTO
Fligoo
marcos@fligoo.com

fligoo