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Press Release

J.D. Power Financial Advisor Study Finds Industry on Brink of Disruption

Firms Risk Losing Billions Due to Looming Advisor Retirement,
Low-Cost Robo-Advisor Adoption and Advisor Defection to Competitors

NEW YORK: 30 June 2016 — A confluence of generational, technological and consumer preference trends is driving a sea change in the traditional investment advisory business. According to the J.D. Power 2016 U.S. Financial Advisor Satisfaction Study℠ released today, an increase in expected advisor retirements, the growing consumer preference for robo-advisor models and the more favorable fee structure of independent advisory shops are setting the stage for a major disruption in the market for financial advisory services.

The study measures satisfaction among both employee advisors (those who are employed by an investment services firm) and independent advisors (those who are affiliated with a broker-dealer but operate independently) based on seven key factors (in alphabetical order): client support; compensation; firm leadership; operational support; problem resolution; professional development support; and technology support. Satisfaction is measured on a 1,000-point scale. Overall satisfaction averages 722 among employee advisors, up 21 points from 701 in 2015, and 755 among independents, down 18 points from 773 last year.

"No doubt, the wealth management industry is in the eye of the storm right now, and the implications are far-reaching for firms that have been rooted in the traditional financial advisory services business model," said **Mike Foy, director of the wealth management practice at J.D. Power**. "Financial advisors will obviously still be a critical part of the future of the business. However, key industry trends—such as the availability of low-cost robo-advice; the rise of so called "validators" who want to make more of their own financial decisions even while supported by an advisor; and the new fiduciary rules putting clients' best interests ahead of an advisor's own profit—set the stage for fewer and different kinds of advisors and an increasingly exclusive focus on the high net worth segment where FAs can add the most value."

Following are some of the key findings of the study:

• **Large Scale Retirement Is a Reality:** Nearly one-third (31%) of advisors are poised to retire in the next 10 years. Between 2014 and 2016, the number of advisors indicating they plan to retire in the next 1-2 years has risen to 3% from 2%.

• **Many Advisors Moving to Independent RIA Shops, Switching Firms:** The number of employee advisors indicating they will likely go independent in the next 1-2 years doubled from 6% in 2014 to 12% in 2016 Another 12% of advisors say they are likely to join or start an independent registered investment advisor (RIA) practice in the next 1-2 years, up from 7%.

• **Billions in Losses at Stake:** At the current expected rate of attrition due to retirement and firm switching, a firm with 10,000 financial advisors may have more than half a billion (approximately $585 million) in annual revenue at risk during the next 1-2 years, highlighting the critical need to retain top producers and to effectively manage succession planning to transition assets to newer advisors.

• **Cracking the Code on Advisor Retention and Loyalty:** Investment firms must crack figure out how to satisfy their advisors because the stakes are so high. Among employee advisors who are highly satisfied (overall satisfaction scores of 900 and above), only 1% say they "definitely will" or "probably will" leave their firm in the next 1-2 years, compared with 46% of dissatisfied employee advisors (scores of 600 and below) who say the same. The same trend holds true for independent advisors (2% and 45%, respectively).

"These changing dynamics in the advisory business create new challenges for firms to focus retention efforts on top producers; attract new talent with skills aligned with the direction the business is heading; and create or refine hybrid business models that incorporate more technology and self-service options into their offerings," Foy added.

For more information about the 2016 U.S. Financial Advisor Satisfaction Study, visit http://www.jdpower.com/resource/us-financial-advisor-satisfaction-study.

See the online press release at http://www.jdpower.com/press-releases/2016-us-financial-advisor-satisfaction-study.

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