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FEATURE: How The Wealth Management Sector Is Dealing With Its "Talent Crisis"

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This publication looks at some of the issues wealth managers are facing around recruitment and talent management today, and what steps the industry is taking to tackle these.

With concerns over an aging advisor workforce and claims of an industry "talent crisis," *Family Wealth Report* spoke to industry experts to identify the forces at play and how the wealth management sector is responding.

James McLaughlin of J H McLaughlin & Co previously told this publication there is "no doubt" the industry is seeing an attrition of aging advisors across all channels. What is unclear, however, is how well or at what rate they are being replaced by new, younger advisors, he said. Meanwhile, investor demographics, habits and their advisory needs are changing, and the impact of technology on the sector is increasingly clear.

These are indeed global trends, but the US market in particular is "highly competitive and mature," causing an interesting struggle as firms look to grow their businesses and assets, said Jane Swan of the executive search firm Sheffield Haworth. "The industry is trapped in a cycle where they seemingly have little choice but to continually trade talent."

Facts and figures

Jylanne Dunne, senior vice president of practice management and consulting at Fidelity Clearing & Custody, highlighted that for every eight advisors that retire, only three are trained to replace them (citing Cerulli Associates). And according to Harvard's 2013 career statistics, the industry's talent pool has shrunk by 10 per cent since 2008, Dunne said.

However, while Cerulli data shows that total advisor headcount dropped for a fifth consecutive year in 2014 – by 1.9 per cent – the workforce in the RIA and dually-registered channels actually rose. This has been attributed to factors shaping the "breakaway" trend, which has seen scores of advisors exit the broker-dealer sector in favor of the flexibility and autonomy offered in the independent space.

Indeed, Swan, a managing director at Sheffield Haworth, noted that wirehouses are almost under a double threat as they "continually hire from each other to grow their assets while at the same time they are losing advisors to the independent channel." The independent channel is also dealing with the attrition of aging advisors, and the additional impact of poor succession planning and how to keep these RIAs thriving once the founders retire, she said.

Recruitment strategies

Of course, each firm will have its own strategy for recruitment and talent retention – one that reflects its unique model and philosophy. Marianne Young of Market Street Trust Company, for instance, said her firm looks for "the best athlete" and then commits to investing in their training, rather than "insisting" that new employees have a "fully-developed background." Young added that having a robust, customized employee onboarding program is essential to the long-term success and retention of employees.

"It is so important to engage employees who will work closely with the new employee in the onboarding education process," she explained. "We assign a 'buddy,' who is a peer, and a 'mentor,' who is instrumental in making sure that the new employee is coming up to speed and is successful."

The firm also periodically conducts an employee satisfaction assessment to build on its organizational strengths and make improvements where needed. “Providing opportunities to grow through stretch projects and ongoing training and higher education programs promote overall job satisfaction,” Young, who is president at Market Street, said. Retention strategies at the firm include ensuring that benefits are competitive and that employees are recognized for the important work they do. “In addition to base compensation, Market Street provides individual and company-wide incentive compensation to reward performance, and we have a generous defined contribution plan,” Young added.

Another trend relates to how some industry roles may be becoming more crucial for firms in light of, for example, the digital revolution, and tighter scrutiny around compliance.

“We’ll likely see more digital native candidates rise to the top of resume stacks, as more firms look for digital-savvy talent to tackle client acquisition, reporting and servicing,” said Dunne. “More firms may seek out candidates that demonstrate clear ‘hunting’ abilities to fill roles like business development officer, as they begin to dedicate positions to finding new business.”

She added: “We also may see firms looking for candidates with more specialized skill sets as they move beyond practices to successful businesses requiring more non-advisor talent to help run that business, such as an operating officer or marketing director.”

Similarly, Swan said the need for “best-in-class” technology leadership is strong across the industry and among players of all stripes.

Thinking outside the box

A poll taken at Fidelity Institutional’s Executive Forum in Arizona last month showed that while most organizations are using “standard” methods of recruiting, many are starting to recognize the need to cast a wider net when looking for candidates. The consensus is that competition for good talent is intensifying, and as firms look to attract younger professionals, they will increasingly need to reach beyond traditional sources.

Indeed, Swan noted that identifying individuals that are making a mid-career change, and finding a way to successfully integrate them into client-facing/asset-gathering roles, is something the industry is trying to do. “Additionally, I see a big change in what leadership looks like across the industry and there is a definitive talent trend to leaders that didn’t necessarily grow up in the wealth management world,” she said.

David Canter, executive vice president of practice management and consulting at Fidelity Clearing & Custody, previously said his firm is seeing firms thinking outside of the box when it comes to finding candidates. “Some of the professions are ones we’ve heard before, such as accounting and law, but several firm leaders cited human resources, military and even education, as sources for talent,” he said, speaking about the aforementioned poll.

Meanwhile, there is a growing cohort of young professionals with an average of 2.6 years in a non-advisory career, which Fidelity sees as a potential target group for industry players looking to recruit. Research carried out by the firm suggests that nine in ten of these individuals plan to be in the job market within the next few years, and, of those, around three in ten plan to stay in financial services, Dunne said.

But besides direct sources of talent, there are a number of things firms can do from the “core” to make themselves stand out from their competition.

“A simple way for firms to make themselves more appealing to the new generation of talent is to take a look at how they are positioning their open job descriptions,” said Dunne. “Firm leaders and recruiters have an opportunity to re-position how they talk about the profession to cater more to Gen Y interests.”

For example, they may benefit from de-emphasizing the focus on sales, finding new clients and working on commission – traits that don’t appeal as much to Gen Y – and instead underscoring attributes such as growth potential, job security and good work/life balance – traits Gen Y is looking for, she added. “We found that a simple revision of a job description can help to make the profession up to 50 per cent more appealing to candidates.”

Training and education

McLaughlin said he has observed a dramatic shift in the interest and visibility of college-age students in “wealth management” - a term that he noted did not exist 25 years or so ago when the primary role was a broker. One correlated indicator is the rate of credentialization across various designation, he said, and it seems efforts are well underway at the enterprise level, too.

“We’re seeing a lot of creativity with how advisory firms are working with academia to bridge the talent supply and demand gap that we are facing,” said Dunne. “For example, many firms are heading into the community to reach talent sooner, as waiting for college graduates seems to be too late (60 per cent of college students cannot name a company that employs advisors). They are working with high schools in order to recruit a more diverse group of college and CFP applicants. We are also seeing firm executives literally ‘stepping into the classroom,’ volunteering as guest lecturers or serving as adjunct professors to demonstrate what it is like to be an RIA in the ‘real world’.”

With that said, Swan believes a gap remains when it comes to training in the wealth management world, as the whole movement is still in its infancy. She noted that taking on a university graduate and getting them to the point where they can fully replace existing talent that’s inching slowly to retirement is a long process.

Family office

Many of the aforementioned issues are also occurring today in the family office space, if not more so. According to *Family Office Exchange’s Family Office Compensation & Benefits* report – released in November 2013 – finding and retaining talent is a family office’s top challenge when it comes to human resources.

“Given the proliferation of wealth advisors now calling themselves family offices, I agree that there are potentially more options for those looking to enter the family office field. It has always been, and probably always will be, a challenge to find exceptional talent with a true client service orientation,” said Young.

But traditional pipelines of talent from law firms and corporation training programs are also drying up, said David Toth, director of advisor research at Family Office Exchange, at the organization’s Wealth Advisor Forum in April.

The macro picture of the talent crisis is being driven by unfavorable, inevitable demographic trends, Toth said, creating growth issues including scaling around teams, RIAs moving into the space and escalating client demands. An increase in the number of overall providers has created a vacuum for talent, he said.

In five years’ time the Millennials will be double the size of any other age cohort in the workforce; Baby Boomers are retiring and many Gen Y/Millennials are spending only two years on the job, Toth added.

“The importance of this to the business we’re in is that we value that ‘seasoning;’ advisors need the time to get to know the technical as well as relationship aspects of the business,” he said. “Technical aspects can be taught, but, oftentimes, the relationship part takes years. It also takes clients a long time to adapt to the advisor changes.”

Indeed, it has been argued that in a client service-based industry such as wealth management, it is the people that make or break the business.