A few big IBD deals, lots of smaller RIA deals: Fidelity

By Editorial Staff *Thu, Sep 21, 2017*

The ten largest independent broker-dealers manage 65% of all b/d assets and 48% of all b/d advisors, according to a new report from Fidelity Clearing & Custody Solutions, a unit of Fidelity Investments.

So far in 2017, $136 billion in assets changed hands among independent broker-dealers (IBDs) as a result of five merger/acquisition deals, while $80 billion was spread across 82 deals between RIAs (Registered Investment Advisors) during the same time period, according to a new report from Fidelity Clearing & Custody Solutions, a unit of Fidelity Investments.

The report, “Insights from Independent Broker Dealers,” the latest in the Fidelity Wealth Management M&A Series, reveals that fewer, but bigger M&A transactions are changing the IBD channel. A press release about the report didn’t name the firms involved.

Large IBD acquirers (firms with $10 billion+ in assets) drove the five IBD deals to-date and are helping to shape the IBD channel into a concentration of a small number of large firms. The top ten IBD firms now manage 65% of all broker-dealer assets and 48% of all broker-dealer advisors, the report said.

What’s driving M&A in the brokerage and RIA worlds? Costs are rising as broker-dealers invest in technology, advisor education and oversight to comply with regulations. Lower advisor productivity is straining bottom lines: Average assets per IBD advisor are $32.9 million, whereas advisors at independent RIAs manage $66.6 million.

Drawing upon interviews with executives at Large IBD Acquirers, the report shows how M&A enables IBDs to:

1. Refine their growth strategies. The report found that two models are emerging in today’s IBD landscape – large firms with scale and focused firms with a distinct value proposition to serve a niche.

2. Balance size and culture. Post-acquisition, large IBD Acquirers are standardizing practices and procedures to improve efficiencies, while also maintaining advisor independence and choice. The report found that the large firms are focused on advisor engagement, management continuity and productivity improvements.

3. Strengthen value propositions. Large IBD Acquirers are creating additional value to appeal to firms looking to sell and to retain advisors post-acquisition through four key strategies:

- Leverage technology as a strategic advantage: The race for technology has IBDs investing in their platforms to improve the advisor and client experience.
- Reinforce advisor independence: A range of operating models supporting both fee- and commission-based business provides IBD advisors with the choices they need to stay in the channel.
- Ease the transition: Taking lessons learned from the past, firms help retain advisors by creating a

positive first impression with a smooth onboarding process.
- Help acquired advisors grow their businesses: Investing to help advisors expand their books of business strengthens ties with the home office, while creating more consistency in productivity levels across the firm.

4. Mitigate operating and regulatory risk. Reducing risk is top-of-mind for Large IBD Acquirers as they evaluate acquisition targets and the advisors affiliated with them. The report found that many Large IBD Acquirers are experienced buyers with well-defined strategies and thorough vetting processes, and they will decline deals that pose potential risks to their culture, sales record and firm value.

For more information, read Insights from Independent Broker-Dealers, the latest report from the Fidelity Wealth Management M&A series.