
Succession planning a challenge for advisors

By Editor Test Mon, Jul 22, 2013

Independent broker dealers, independent advisors/planners, and career agents all hold similar views toward and preparation for succession, a new survey shows. Advisors' hesitation in planning may come in part from not knowing how they want to retire from their practice.

Few financial professionals are fully prepared for succession, according to a new survey by Mathew Greenwald and Associates for broker-dealer Signator Investors, Inc., a unit of John Hancock Financial Network.

The survey also found that most advisors feel that the broker-dealer industry does a poor job helping with succession planning, even though nearly three-quarters of advisors prefer to join a broker-dealer with a succession planning platform.

Although many (56%) advisors have a disability plan, few have a completed succession plan or have an excellent estimate of their firm's value. According to the survey:

- Only 11% have completed a succession plan. About a third (34%) have started but not completed a plan, while 44% said they've thought about making a plan but not started one; an additional 12% haven't even started thinking about creating a succession plan.
- Only one in ten has an excellent estimate of the value of their practice (10%), though 33% have what they consider to be a good estimate. More than four in ten say they have some sense of the value of their practice, but not a good estimate (44%), and an additional 12% say they do not have any idea how much their practice is worth.

Why unprepared

While 81% of advisors surveyed believe the industry does *not* do a good job of helping representatives plan for succession, most admit that they themselves are roadblocks in planning for their succession. Fifty-five percent agree that they are too busy with their practice to think about succession planning, and 53% agree that they have procrastinated too much when it comes to this issue.

The different channels of advisors surveyed – independent broker dealers, independent advisors/planners, and career agents – hold similar views toward and preparation for succession. The survey also showed that some of the advisors' hesitation in planning may come from not knowing how they want to retire from their practice. For instance:

- Only 20% are very certain about what they will do with their practice when they retire, though it appears few plan to retire all at once. Many plan to reduce their practice activities before they retire (52%), and 42% currently have a plan in place to continue working with key clients (another 45% say they *intend* to create a plan to continue working with key clients). Most either have a protégé now (30%) or are likely to hire one in the future (among those who do not have a protégé, 67% plan to hire one). Sharing a philosophy with the protégé and working with them for a number of years are key considerations in hiring someone to take over their practice (important to 96% and 94% of advisors, respectively).

Lack of knowledge

Many advisors do not feel knowledgeable about the aspects of succession planning they consider to be most important. This includes finding a successor, important to 85% of respondents, with 41% not feeling knowledgeable about it; obtaining a valuation of an investment business, which 83% feel is important, and 42% not knowledgeable; valuation of a fee-based business (72%, 49%); access to financing (71%, 60%); valuation of an insurance business (66%, 56%); and arranging third-party management of the transition (57%, 71%). In addition, at least seven out of ten responding advisors consider each of those issues to be a challenge for them.

Advisors cite a number of concerns in succession planning, including obtaining cash for their business (80%), maintaining relationships with key clients (70%), financing a transition (69%), annuitizing their business (69%), and bringing along a younger rep (66%).

Client service is also a key consideration: 56% list leaving clients with a lower level of service as a concern, and another 47% agree that they do not believe they will be able to find someone who will service their clients as well as they do.

Valuable forms of support

When presented nine services that a succession planning platform might offer, best practices for making a practice more valuable is by far the most popular with 79% of advisors interested in this service, though majorities are interested in each of the other tested services as well.

Two out of three advisors would be interested in receiving assistance in structuring an acquisition on either the buy or sell side (67%), assistance in designing and implementing a transition plan (67%), receiving support with a continuity plan (67%), or third-party evaluation of their entire practice (65%).

Slightly fewer – roughly six in ten – would be very or somewhat interested in ongoing valuation (63%), financial support for the transaction (62%), or finding someone to purchase their practice (59%).

Survey methodology

Conducted by Mathew Greenwald & Associates online, the survey represents responses from more than 500 financial professionals who were working either as a career agent, IFP/IFA, or independent broker dealer rep; planned to retire within 20 years; and had worked in the financial services industry for at least five years, owned at least half of their practice and generated at least \$80,000 in gross income in the 12 months prior to the study.