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IBDs Will Continue to Get Closer to the Advisor in 2024

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The independent broker/dealers that tighten connections with their advisors and demonstrate flexibility in their affiliation models will be competitive in the year ahead.

When you think about innovation and creativity in the wealth management industry, the independent broker/dealer channel does not typically stand out. Industry observers expect more of the same from IBDs next year—continued consolidation among the larger players, more private equity flowing into the space, a fierce battle for advisor talent and the continued evolution toward the advisory model.

Matt Lynch, managing partner of Strategy & Resources, a financial services consulting firm, argues, however, that there are pockets of innovation in the channel. Firms that are connecting themselves more closely or more permanently to the advisor's business are setting themselves apart. That may take the form of acquiring their own offices of supervisory jurisdiction or providing capital for succession.

"A lot of the challenges, particularly for the larger firms, are to try to continue to have some sort of definition around what the affiliation with that particular firm means to a given advisor—the character, culture of the firm or how they're really helping them with their growth of their business and remaining relevant to them," Lynch said.

IBDs have been addressing that by taking ownership stakes in advisor practices. In 2022, Osaic (formerly Advisor Group) entered the M&A market for the first time, making a minority investment in Signature Estate & Investment Advisors, a Los Angeles-based hybrid RIA. This year, LPL expanded its liquidity and succession offering to unaffiliated advisors. Under that program, the IBD acquires practices with principals nearing—but not yet at—retirement and commits to spending 10 to 13 years supporting a next generation that will eventually have the option to take control without the steep price tag—or any cost at all. In February and April, respectively, Cetera announced minority investments in Prosperity Advisors and NetVEST Financial. And in June, the broker/dealer network announced the purchase of The Retirement Planning Group, its first acquisition of a pure RIA.

Industry observers expect to see more of those deals in 2024 as the large IBDs aim to stop advisors from leaving to get big checks to sell to someone else. That's a big fear for the large firms, given the average age of advisors in the industry, with many near retirement, said Jodie Papike, CEO and managing partner of Cross-Search.

"To stop any kind of bleeding, firms have got creative to say, 'We have all this capital, what should we do with it?' And if they invest it into purchasing a percentage of an advisor's practice or large OSJs' practices, I think it's all about keeping people with them so that they don't lose assets," Papike said. "And it also gives the advisors in the situation some capital to do whatever they want with it without having to make a move."

In recent years, some firms have launched affiliation options to provide their advisors with more choices in structuring their businesses. That's been a way for IBDs to keep those advisors under their umbrellas. Take LPL, for instance, with its W2 model, its RIA option, and, most recently, its W2 offering for high-net-worth advisors. There are other examples too, such as Commonwealth's RIA-only offering, and Kestra Financial's Bluespring Wealth Partners.

"The IBDs that are demonstrating flexibility and have maybe multiple affiliation options, where the advisor can tap into the services that they need for the structure they want to have are probably the ones that are going to continue to grow," Lynch said. "The ones that are coming out with some flexibility are going to hang onto the advisors longer and be more attractive to the advisors whose businesses are evolving and growing."

The trend will continue toward advisory, fee-based business, and a lot of advisors want to serve that business via their own RIA.

That said, IBDs will have to act more like independent RIAs, not just try to look like them, said Simon Hoyle, owner of RIA Choice, a recruiting firm in the IBD and RIA channels. There are wholesale differences between the two models, and those that have repositioned themselves carry the real advantages.

"IBDs who cling to higher profit margins from advisory platform and custodial access fees will have to adapt to be competitive," Hoyle said. "As the independent RIA gate swings more widely open we'll see increased numbers of IBDs lowering and possibly eliminating some practice-related fees."

Independent RIAs, for instance, typically charge a flat fee of between 8 to 12 basis points. IBDs will likely share more of their scale with the advisors to be competitive. They'll also outsource more of the big technology components, Hoyle argued.

"The legacy proprietary technology that worked a long time ago isn't typically as effective, nor does it seem to perform as well as the off-the-shelf solutions," Hoyle said.

For example, IBDs may use their technology budgets to enhance their Orion/Salesforce relationship via in-house or contracted experts, to further integrate internal functionality that not only frees up more of an advisor's day, but also enables clients to access account information with fewer login steps.

Three to four years ago, there were some emerging technology capabilities in the IBD space that might have tilted the scale in favor of one firm or another, Lynch said.

Now, all the tech stacks are pretty similar. But the support of that tech stack and consultative approach—the training, the help desk, ease of use, is where some IBDs can have an advantage over others in 2024.

"There's less room to carve out a distinction just based on tech," Lynch said.

"If we look at the IBDs that continue to thrive and grow—in the time certainly that I've been around the business—they've reinvented themselves 10 times. I see that continued, entrepreneurial spirit," Lynch added. "I think it's a bright future for the IBDs that have flexibility and are listening to their customers."