Ready for Next

Securities-Based Lending Industry Report 2023

Executive Summary

RESILIENT GROWTH

Securities-Based Lending (SBL) balances continue to grow, even in the face of very different market conditions. While not immune to the combination of a bear market and higher interest rates, continued demand for liquidity and the ability to tap into relatively less costly and lighter-touch credit makes SBL a competitive choice in the context of the wider basket of available credit products.

Demand for SBL is also being driven by the growing number of advisors now comfortable with SBL. Advisors see SBL as an efficient way to provide liquidity to their client — in the process retaining AUM and extending the client relationship.

As comfort with SBL increases, advisors are writing more loans (typically over 20 loans p.a.) — a pointer that re-enforces the reality of the expected doubling of account penetration over the next three years. We hear it time and again: "untapped penetration in my existing business is the single largest growth opportunity for my firm". Wealth organizations are also gaining new business externally — attracting new advisors and investors who typically come with an associated demand for liquidity.

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Securities-based lending is becoming a differentiator

Investors are increasingly seeking securities-based lending, with loan balances rising at leading firms in the space. Wealth managers across all segments, from Raymond James to Robinhood, are building or acquiring offerings (along with broader cash management solutions) to meet their client's needs.

Client assets at US wealth managers increased by 17% in 2021, with key pockets of growth remaining in the independent channel overall.

Holistic advice no longer means simply offering a financial plan. Leading firms are incorporating a wider range of solutions, including cash management, lending, alternative investments and insurance, to solve for client needs across the financial industry.

An expanded SBL marketplace

A FULL BALANCE SHEET APPROACH

SBL is an effective tool in helping the advisor expand their client conversations. There is no new news here – but access to credit is absolutely table stakes for those firms that offer it, and those that don't face a real threat to their ability to effectively grow their wealth offering.

THE INDEPENDENT CHANNEL

Many large lenders are evolving their businesses to serve the independent channel which, for some firms, has been identified as a primary growth opportunity over the next 2-3 years. At the extreme, some banks have established an SBL business purely dedicated to the independents — an important signal of the growing importance of the channel in future years. With that in mind, our Wealth Lending Network (WLN) was launched to open up SBL opportunities, by bringing together lenders and unaffiliated advisors and wealth firms together in a competitive marketplace. We see an important role for the WLN in expanding the SBL market and in enabling access to SBL for those without a direct banking affiliation.

THE POWER OF THE ADVISOR

With credit now a mainstream wealth component, firms and advisors need to be able to scale safely, offering loans in an appropriate, reliable and streamlined way. This means connecting the advisor — and the lending process — across the organization in a seamless, end-to-end journey. Putting up-to-date client information, loan evaluations and proposals directly into the hands of the advisor powers adoption and fast-tracks the loan process for the client. Every firm wants and needs to take friction out of the on-boarding process. With increasing access to SBL, compliance is as key as ever, which means building intelligent tools to indicate the optimal level of strategic debt an investor should carry (based on their goals, appetites and best interest). Real value can be created for the advisor and the end-client by being able to demonstrate best practice and illustrate the impact of different lending options and what the client's best choices may be.

CONCLUSION

As a company, we have experienced a period of enormous innovation, driven in part by the pandemic. As we developed new ways to support the wealth lending business, we accelerated our roadmap as our customers took on aggressive transformation and digitization programs.

Like our customers, innovation is at the heart of what we do – whether it is launching our Wealth Lending Network, developing Machine Learning tools to enable intelligent prospecting to improve SBL utilization and performance, or building new ways of delivering premium content and education as part of the overall wealth relationship.

Everything that we do is about taking the friction out of SBL — whether in credit risk, operational risk, and critically as we collectively re-define how advisors and clients originate and fulfil SBL loans in a truly end-to-end, frictionless and digital fashion. As the market scales and lending models change and expand, those involved in the business need the systems and processes in place to secure and enable their business growth.

Our focus is on delivering a true digital experience maximizing the volume of loans that can be managed on a straight-through basis and helping our customers to scale, and to scale again.

Whether in innovation, removing friction, sharing best practice around credit and operational risk processes - or any other part of the SBL life cycle, we are at the forefront of SBL thought leadership underpinned by a rich and proven product. That is why some of the largest banks in the market trust us with their SBL business.

Survey Results 2023

SBL – A STORY OF RESILIENT DEMAND

2022 was another year of Securities-Based Lending (SBL) growth. Early 2023 is showing resilient demand for SBL despite bearish market dynamics and general market weakness, including the return of inflation and rising interest rates. Sustained demand signals are supported by SBL's innate product advantages:

- Speed to funding
- Competitive interest rates
- Avoidance of the need to cash in securities in a down market

Through the year, SBL loan books managed through Broadridge's platform have grown by a CAGR of 24%, with some customers experiencing greater expansion. Our survey results support continued forward growth projections: more than half of respondents expect 10% plus growth in the next year with nearly a quarter expecting more than 20%. Even in the final three months of the year, as investor caution was a headline theme, many firms continue to grow their loan books.

Where to in 2023? While the rate of SBL growth has slowed in recent months, absolute loan balances still trend upwards. Thus while SBL is not immune to market and economic conditions, it remains resilient to those conditions – and this resilience, buoyed by increasing advisor awareness of and comfort with SBL, points to continued adoption.

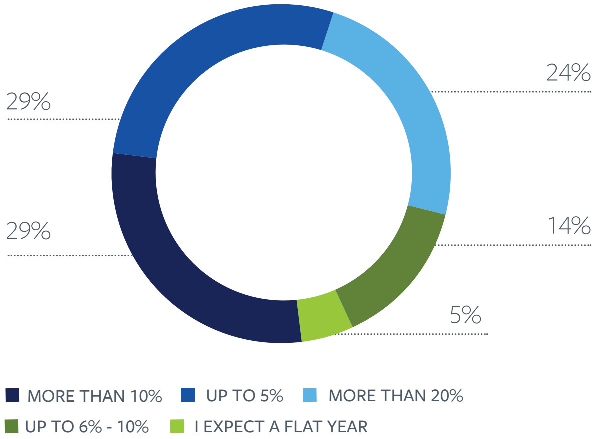
SBL TECHNOLOGY IS BECOMING EMBEDDED

SBL has long moved beyond being an accommodation product and, as a result, stand-alone, siloed systems are increasingly being replaced with API-driven systems that are fully integrated into the bank's core tech stack. End-to-end streamlining unlocks data across the ecosystem, delivering easy access to aggregated loan information – whether for the back office, front office or directly on the advisor dashboard.

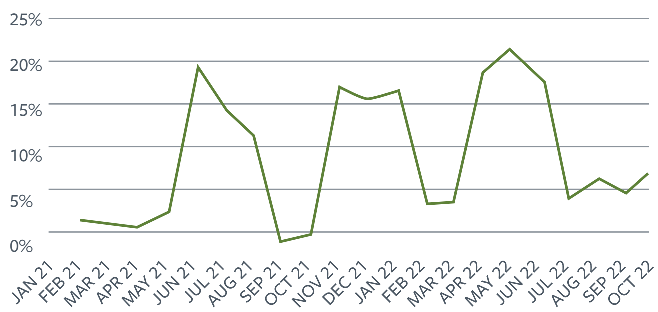
Evaluating a client's borrowing power against an aggregated view of their (local and held-away) assets and offering an optimized loan package selected from multiple products (SBL, margin, unsecured, etc.), potentially from multiple lenders is now increasingly achievable. This cohesive approach powers the advisor sales channel in new ways — enabling loan origination directly in the client meeting, delivering the actionable intelligence that advisors need to win good new business and reducing credit risk by removing manual steps and pre-populating the sales pipeline with reliable prospects.

System integration delivers the data and the analytics to drive improved loan performance and ensure that products are correctly offered within the parameters of the lender's risk appetite and the client's best interest, while also focused on removing the friction that exists in many of today's on-boarding processes.

IN THE NEXT 12 MONTHS, I EXPECT OUTSTANDING TO GROW BY:



FY21 TO DATE OUTSTANDINGS GROWTH, THREE MONTH MOVING AVERAGE



STRATEGIES FOR GROWTH AND EXPANSION

The existing customer base

Realizing the value in their existing accounts, wealth organizations are naturally looking inwards for growth. Tapping into the demand for liquidity with the existing customer base is valuable for income generation and for AUM retention.

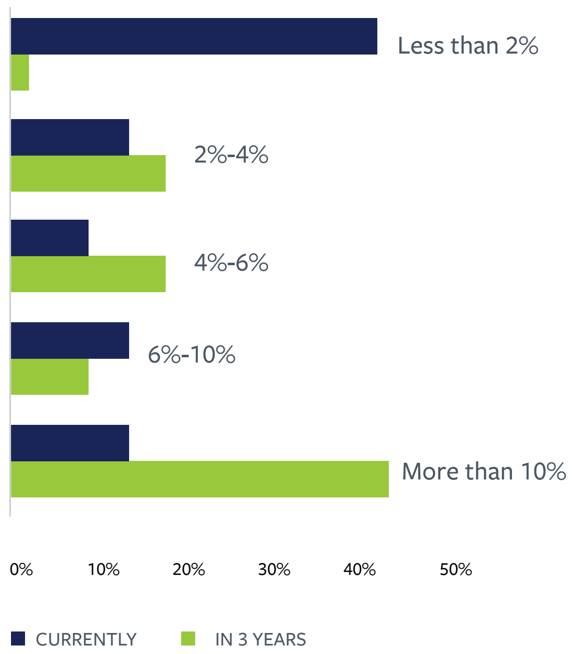
Wirehouse migration

Advisors migrating away from wirehouses and other wealth management organizations is an important growth opportunity. As well as looking for new clients, larger organizations are seeking to onboard new advisors with an SBL appetite.

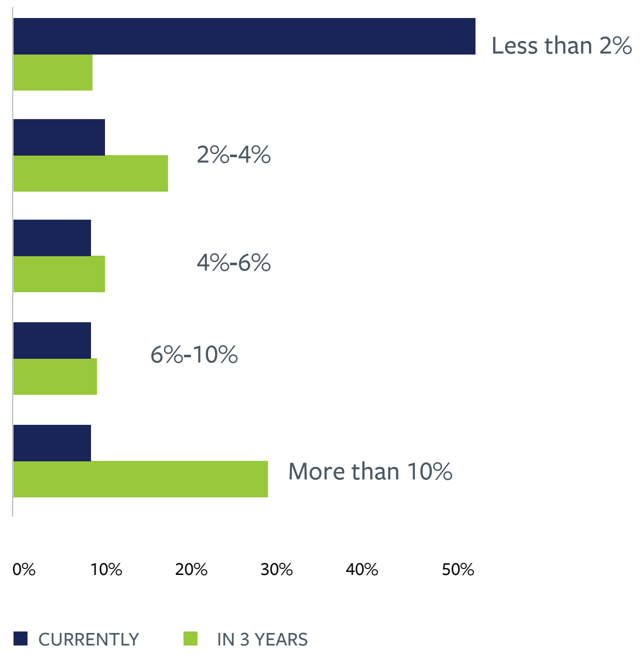
Expanded collateral eligibility

Lending against assets held away remains a black or white issue. Some organizations are not geared up for it, not seeing the need within their client base. Others are invested in the independent channel and in lending outside their current base. Securing portfolios and monitoring data on a daily basis are key concerns and obvious pre-requisites.

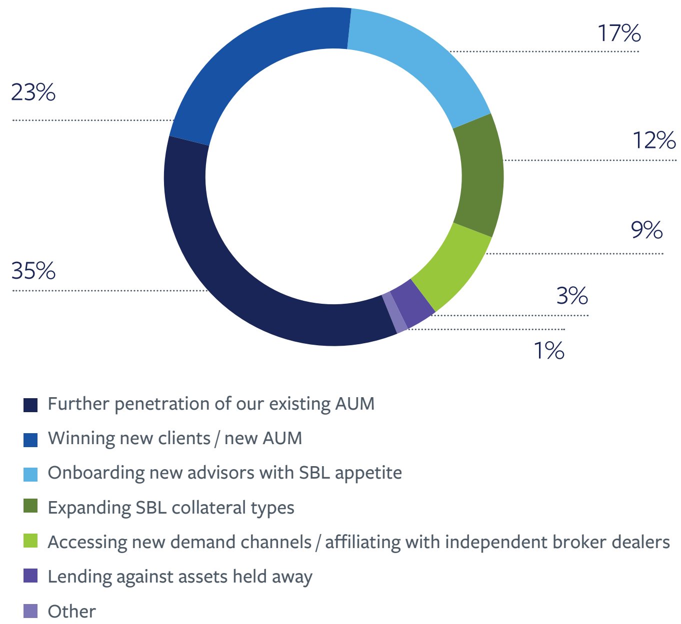
SBL PENETRATION IN WEALTH ACCOUNTS



SBL PENETRATION IN BROKERAGE ACCOUNTS



OUR STRATEGY FOR SBL GROWTH IS:



THE ADVISOR AS A GROWTH CHANNEL

According to our survey, the biggest impediment to SBL growth rests with the advisor and their awareness and comfort with the concept SBL and of debt as part of the wealth creation process. Reluctance based on a lack of familiarity with the product, a perception that SBL is too complicated or concerns about burdening a client with debt are all factors which can be resolved with advisor education.

Beyond the advisor, lack of scalability and systemic friction are impeding growth. As advisors face a competitive need to offer SBL as part of their offering, poor scalability and process friction will increasingly become a limiting factor.

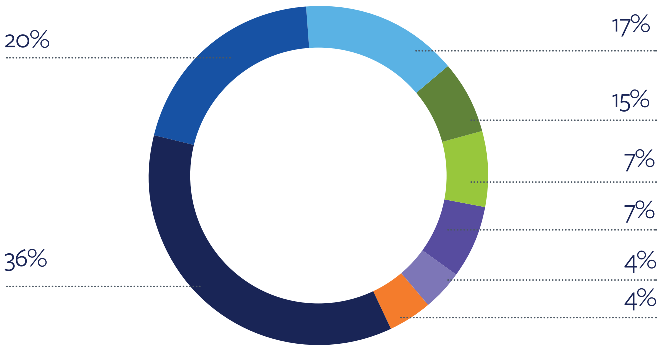
EMERGENCE OF THE LENDING ADVISOR

Identified as a trend last year, organizations are increasingly supporting their financial advisors with lending specialists to help expedite the sales and loan fulfillment process. Backstopping busy advisors with the specialist skills needed to negotiate and close large loans smooths the path to adoption while mitigating risk and ensuring that the client is getting the service they need.

There is no doubt that the advisor is under pressure to retain AUM. Investors looking for liquidity will find it in the market and will most likely move their assets to their new lender. As a result a whole-wealth offering which spans both sides of the balance sheet and identifies opportunities to offer the client savings and efficiency, is clearly a robust approach. A liquidity offering turns wealth clients and investors into cash buyers and puts them in a stronger negotiating position – whether they are looking to finance a new home, a business investment or working capital.

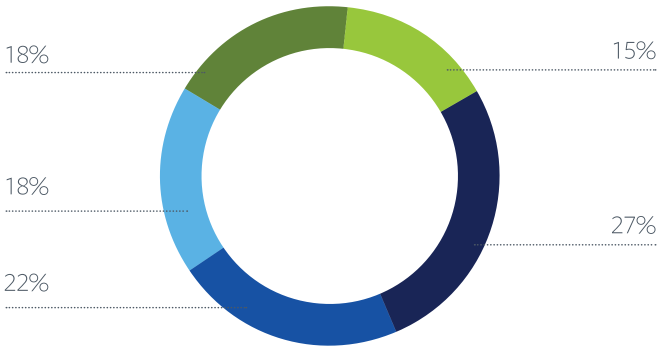
At an individual advisor and client level, the need to protect AUM may be paramount in the SBL decision. At the firm level, wealth lending is associated with asset growth and acquisition. When we look at our scaled customer base, including clients who have grown their books from hundreds of millions to many $billions, 30% or more of their growth has come from net new advisors, with the balance from their existing advisor base.

SBL GROWTH IS HAMPERED AT OUR ORGANIZATION BY:



- Advisor reluctance – not sufficiently comfortable or familiar with SBL as a product
- Non-scalable processes & friction in our loan origination processes
- Advisor reluctance – SBL is too complicated
- Corporate risk appetite
- Our incentive systems are misaligned
- Lack of experience outside the immediate team
- Lack of client demand
- Advisor reluctance – nervous of burdening a client with debt

TO ENCOURAGE SBL GROWTH, THE THING I WOULD MOST LIKE TO CHANGE IN THE ADVISOR ORGANIZATION IS:



- Getting advisors more comfortable with SBL through education
- Promoting an understanding of the lending needs of our clients
- Reliable suitability metrics and sales signals
- Establishing Lending Advisors to support the wider advisor population
- Streamlined delivery of SBL from the advisor dashboard

SBL Education Program >

Broadridge wealth lending network

As demand for wealth lending and, particularly, for securities-based lending, increases the availability of credit has become an important element in attracting and retaining AUM. Not all firms have access to the streamlined SBL services they need.

Broadridge's Wealth Lending Network (WLN) was launched to improve the availability of SBL to previously underserved parts of the market – community and regional banks, independent broker-dealers and unaffiliated advisors and RIAs.

The WLN connects unaffiliated wealth managers to banks and other financial institutions, better enabling these managers and advisors to offer light-touch, competitive SBL to their clients. This easy access to optimized SBL choice means that the advisor can offer a more holistic, and differentiating, service while safeguarding AUM.

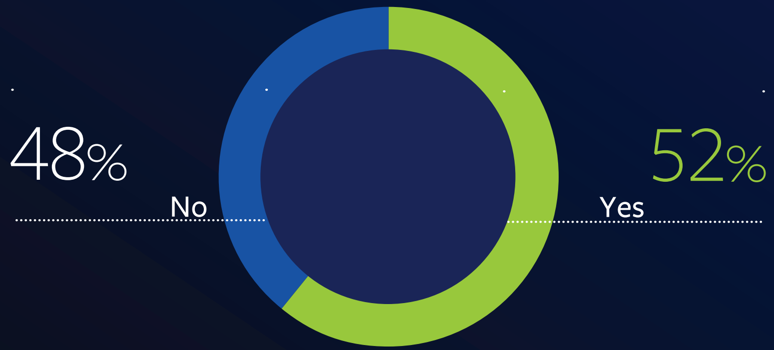
LEARN MORE HERE

GROWING WITH THE INDEPENDENT CHANNEL

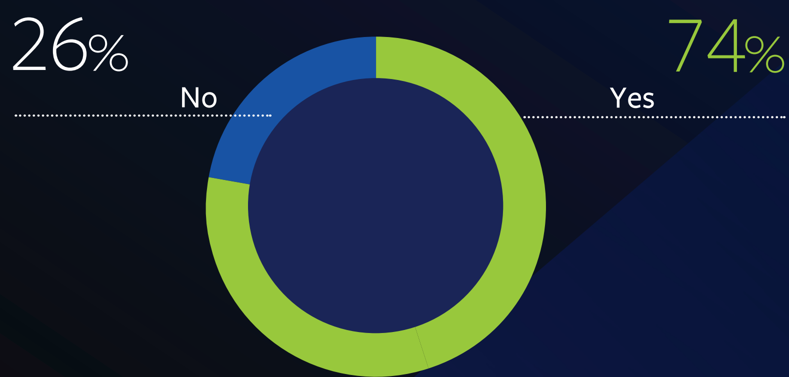
As advisors continue to migrate away from the wirehouses and larger wealth organizations, many of those advisors may have loan books which need to be supported as part of their transition to the new firm. The growth of "lending advisors" in the independent channel has been evident for some time – and a large number of wealth management firms have pre-existing relationships with firms who have designed their business to lend through the channel. The Bancorp, Goldman Sachs and TriState are all established examples. What has been less evident is the willingness of the established SBL banks are to lend through that same channel. Historically, banks have seen significant growth potential within their own client base and have prioritized this strategy over other strategies to lend against assets held away.

This situation is now changing. When we speak to many of those banks, we see increased appetite to lend through the channel. And our survey re-enforces this: more than half of our client firms consider the independent channel a potential source of business. This is no surprise, when we know that advisors familiar with SBL will write approx. 24 loans p.a. and often more. With the continued migration of advisors to the independents, the implicit growth message – and opportunity – is clear.

MY FIRM IS INTERESTED IN THE INDEPENDENT CHANNEL AS A NEW SOURCE OF BUSINESS



MY FIRM IS INTERESTED IN DEPLOYING SBL TO CLIENTS IN A SELF-SERVICE PORTAL

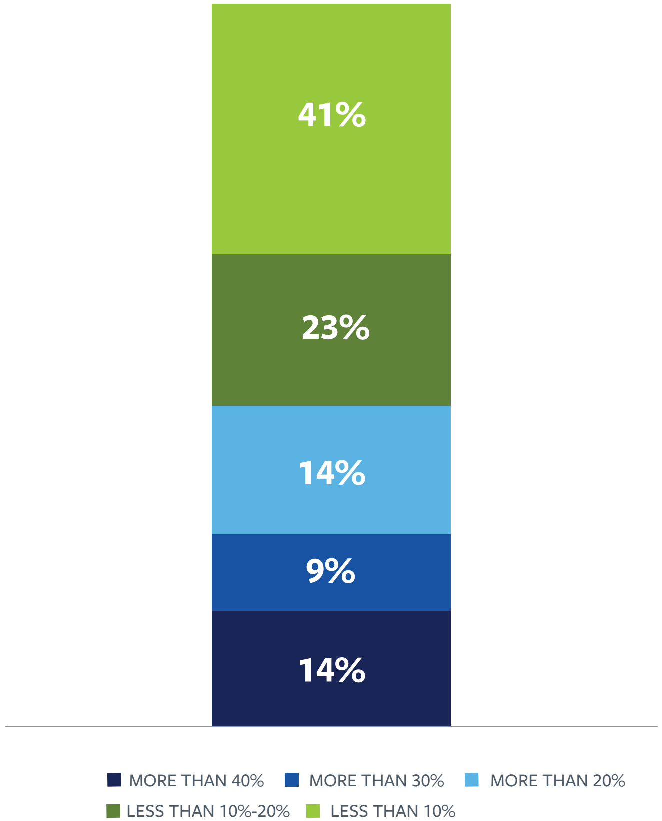


THE MASS AFFLUENT GROWTH OPPORTUNITY

Enthusiasm for the Mass Affluent segment is strong among those firms already supporting it. While our survey indicates modest interest, our experience is that those with a tailored offering see the Mass Affluent as an important growth opportunity.

This segment requires scalability and strong credit control – suitability is an increasingly important aspect, requiring advisor education and robust credit policy rules. As the market expands, firms want to be able to deliver a flexible combination of white-glove and self-service for a smoother execution model for all segments.

PROPORTION OF SBL HELD MASS AFFLUENT IN 3 YEARS

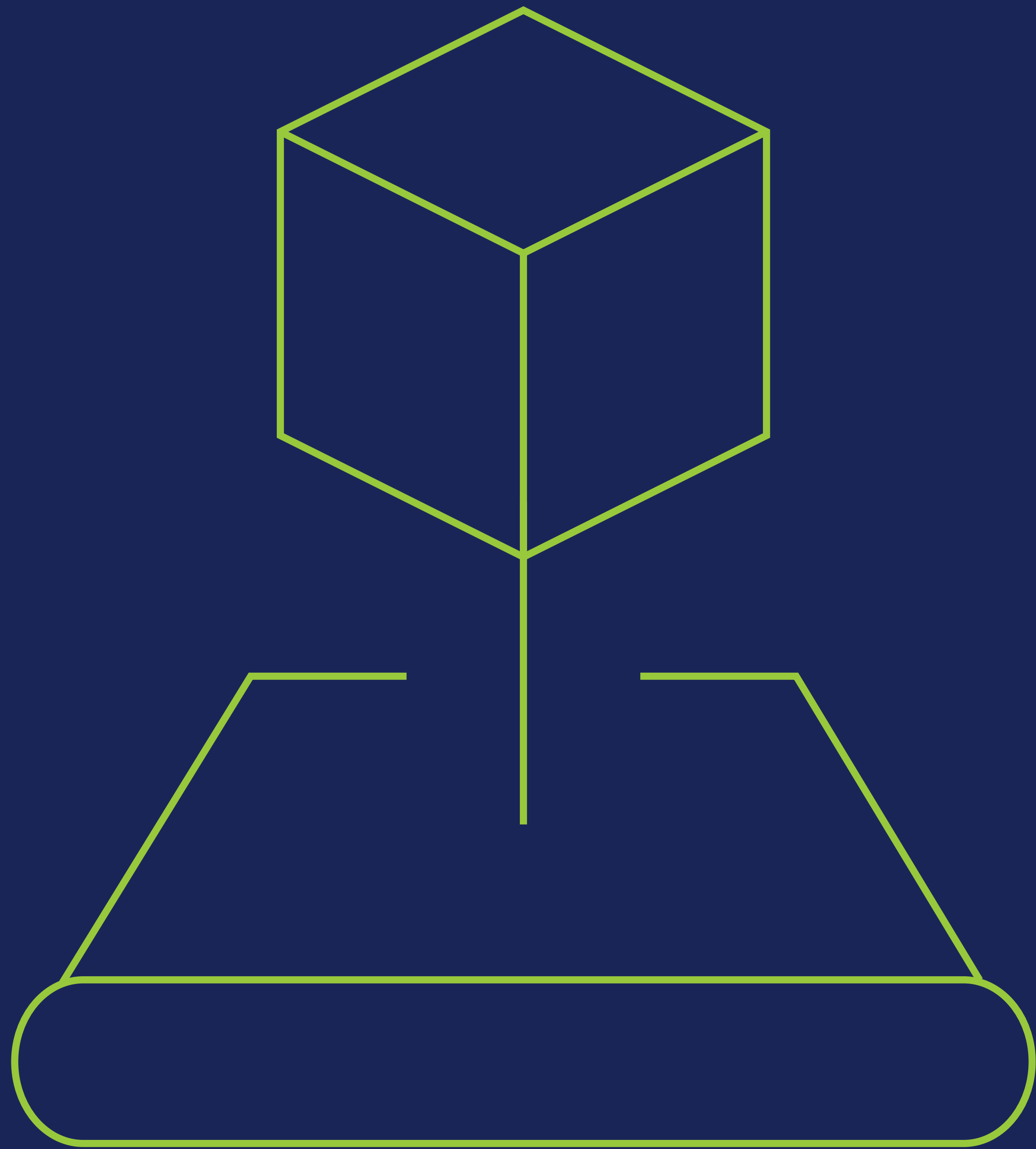


A self-service lending model

Whether to support client-empowerment at the HNW level or to enable scaling for Mass Affluent, deploying SBL directly to clients in a self-service portal is a focus for 70% of our respondents.

70% of our respondents

Giving the client the ability to evaluate and assess loan options for themselves directly mirrors a general trend towards empowering clients through self-service capabilities. Enabling the client to service their own account and make quick decisions regarding release requests etc., will enhance their sense of control and, with the right technology, ensure a consistent client experience, even without direct advisor involvement. There is no question that a younger investor cohort wants to be empowered and wealth lending must evolve to meet that demand. We need to be able to answer the question: “If all of my banking and wealth management services are available to me on whatever device I choose, why shouldn’t SBL and lending be available in the same way?”



INCREASING AWARENESS IS DRIVING STRONGER ACCOUNT PENETRATION

Today, approximately 5% of wealth management accounts are used to collateralize an SBL loan. Our survey predicts that this will double to 10% over the coming three years. This points to greater uptake by financial advisors in lending organizations, new models of lending and the technology-enabled widening of available asset classes to include new securities and alternatives. Most of all, we believe that advisors increasingly understand the benefits of SBL to their clients, and the role a more holistic practice can play in securing and retaining AUM. Notably our highest performing firms have achieved closer to 30% penetration today – if those firms can achieve that level of penetration, we expect others to follow.

GROWTH WILL ALSO COME FROM WITHIN

Where will future growth come from? The opportunity to capture significant SBL growth from within their own customer bases is at the top of our clients' strategic agendas, nearly 40% predict that they will have over 10% account penetration within three years. This is not to ignore the several large lenders who, as above, already have 30% (and higher) of their wealth/brokerage accounts secured against a loan.

ONE LOAN BRINGS MORE LOANS

Lending growth is correlated with advisor education – as they get comfortable with SBL, they will write more loans, increase account penetration and bring in more assets. Our survey indicates that advisors familiar with SBL and already arranging loans will write up to approximately 24 loans per annum, with many writing up to 60 and more.

How do we get advisors up and running? Simpler, more intuitive systems that give accurate and up to date client borrowing information directly on the advisor dashboard is only the start.

Powering up machine learning to populate the sales pipeline and automate marketing messaging is already helping advisors to scale efficiently and safely. Best value calculators that show optimized lending options also work well on the borrower side.

Likewise, build-in education and FAQs support the sales process by giving advisors the answers to their questions in a hands-on way. Similarly, indicators that align a client's risk capacity with their investment goals and their portfolio can expose a strategic borrowing requirement which SBL can fulfill.

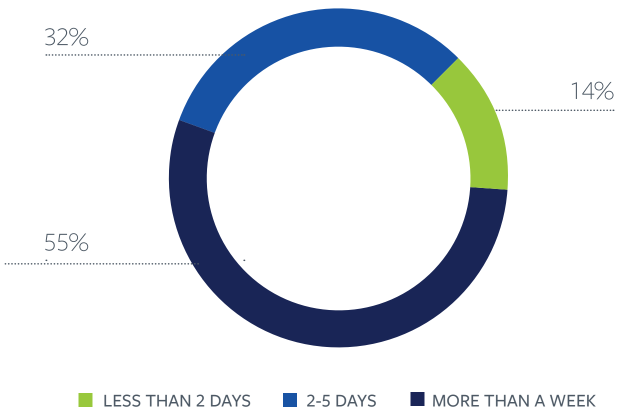
In short – wherever there is any potential for friction in the lending process, we must eliminate that friction. Like any credit product, the ease with which the lending process can be executed is key to the success of that product.

ACCELERATING TIME-TO-LOAN

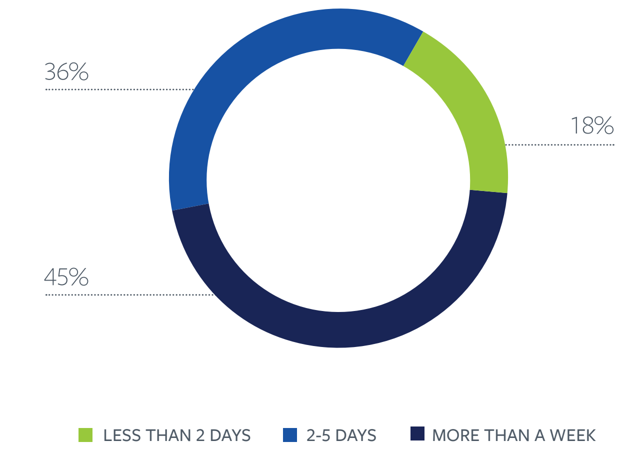
Time-to-loan rates have shortened, with most loans being funded within five days. There is still room for improvement for the 30% of respondents who take more than a week to fund a simple SBL loan. Ambition remains, across all of our clients, for funding within 48 hours – while many can achieve this on an exceptional basis, as outlined above there is still room for improvement beyond those exceptions.

Complex loans for over 80% of our respondents take more than a week. It is no surprise that SBL investment is focused on streamlining SBL processes with enabling the sales channel and accelerating time to loan top of mind.

CURRENT TIME-TO-LOAN FOR A STANDARD SBL AT MY ORGANIZATION IS:



CURRENT TIME-TO-LOAN FOR A COMPLEX SBL AT MY ORGANIZATION IS:



The market is evolving in many ways: uptake is expanding, the mass affluent segment is more engaged, lending models are changing to include multi-bank and multi-credit product offerings, the independent channel is a growth target and borrowers are becoming aware of the value of liquidity in their wealth strategies. How well are you prepared?

We support firms of all sizes to engage with the SBL and wealth lending market in a way that supports sustainable growth, frictionless origination and robust credit and operational processes.

Our technology, subject matter expertise and innovation are powering growth for our customers. If you would like to talk to us about any of the issues raised in this report, please get in touch.

Machine learning – the next generation growth driver

We have designed patent pending Machine Learning algorithms to work in conjunction with the Broadridge SBL Platform to provide a predicted advantage for growth and retention.

We partnered with a client to prove the value of Machine Learning in determining “next best action” across their entire SBL book, utilizing A/B control groups of existing SBL loans to:

- Optimize SBL retention for at risk loans or churn
- Drive SBL growth with a focus on underutilization

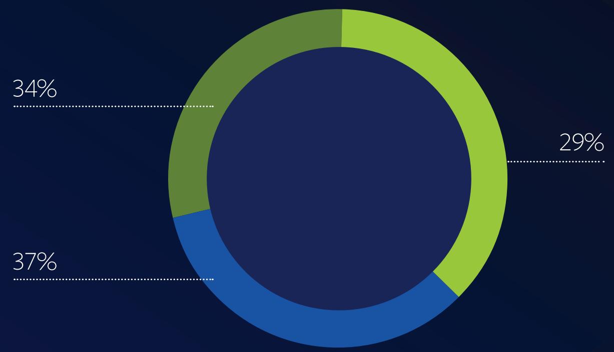
Machine Learning was utilized to target marketing campaigns, matching clients with the most meaningful messaging.

RESULTS:

Open rate of targeted campaign emails achieved 60%

Outstanding balance benefit vs. a non-messaged client 3.2%

HOW I WOULD LIKE TO APPLY MACHINE LEARNING IN MY SBL BUSINESS



- Increase the number of SBL borrowers through improved targeted clean prospecting & outreach messaging
- Increase the number of loans per advisors through more targeted advisor prospecting & outreach messaging
- Increase utilization of existing loans through more targeted drawdown messaging

Broadridge Financial Solutions (NYSE: BR), a global Fintech leader with $5 billion in revenues, provides the critical infrastructure that powers investing, corporate governance, and communications to enable better financial lives. We deliver technology-driven solutions that drive digital transformation for banks, broker-dealers, asset and wealth managers and public companies. Broadridge's infrastructure serves as a global communications hub enabling corporate governance by linking thousands of public companies and mutual funds to tens of millions of individual and institutional investors around the world. Our technology and operations platforms underpin the daily trading of more than U.S. $9 trillion of equities, fixed income and other securities globally.

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