WEALTH MANAGEMENT

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As clients embrace holistic lending, some advisors hesitate

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Ready for Next

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Loan products like Securities-Based Lending (SBL) are attracting growing interest from liquidity-minded investors. Are too many wealth managers ignoring the role such debt can play in the prudent expansion of purchasing power?

While examining wealth client uptake of debt products, a major Bancorp study[i] a few years back pointed out a curious feature: while 61 percent of all clients said they would consult their investment advisor about selecting a debt product, that number jumped to a staggering 91 percent when Millennials were asked the same question.

Today, offering lending capabilities alongside other wealth management services is a growing trend among wealth managers. According to a Broadridge Survey of the SBL Industry,[ii] 77 percent of private banks polled believe that Securities-Based Lending (SBL) is a "must-have" product. "With wide-scale adoption of SBL as a standard wealth credit product, the picture of an established SBL marketplace is firming up," the Broadridge report noted.

However, there's a gap between what private banks and wealth managers "say" about lending and what their advisors are actually "doing." Just under a fifth of advisors in the Bancorp study reported that they were ready to initiate conversations about collateralized loans or liability management. If credit capabilities are increasingly viewed as a prerequisite for building relationships, advisors who are reticent to discuss SBL as part of their service offering will likely find themselves at a competitive disadvantage.

SBL: WHY DON'T ADVISORS WRITE MORE SBL LOANS?

As algebra students know, solving half an equation is no solution at all. Similarly, many financial professionals only see half of their client's financial picture when they focus exclusively on asset management. Advisor reluctance to assume a more rounded wealth management role for their clients appears to be grounded in three causes:

- **Avoidance of complexity:** For many wealth managers, arranging client loans may be justifiably perceived as an unfamiliar and somewhat convoluted task. Their reasoning might be summarized as: "I like to keep life straight-forward for me and my clients – and loans create complications." With the right technology, however, SBL loans can be processed in a way tat's straightforward as well as on a "straight-through" basis directly from the advisor's own dashboard. Once portfolio evaluation, loan offer, processing and client communication are simplified like this, funds can be made available quickly and easily. By putting the right information into the advisor's hands and streamlining the process, complexity is eliminated and loan adoption becomes much easier.
- **Managing assets, but not debt:** Some of the most comforting habits are those that are the hardest to break. You could express the reason for this obstacle as: "I feel better doing things the way I have always done them. The last thing I would want to have to deal with during a market downturn is a client with falling portfolio values and a debt problem." SBL provides a useful, relatively low-cost opportunity for advisors to arrange a new and inexpensive source of liquidity for their clients. If the client's circumstances change, sensible credit policies with cushions and

haircuts can mitigate market influences as well as give plenty of opportunity for exploring alternatives to SBL if needed.

- **Struggling with contradiction:** "The way I have always done things" may harbor a hidden trap. The principle of portfolio diversification has been a traditional asset management driver for advisors. When the client's overall best interest is fully considered, the role of diversification actually extends beyond asset management to include a more rounded management of the client's entire balance sheet. In this broader diversification scenario, SBL offers rapid access to liquidity at a lower cost than other credit products without disrupting the client's portfolio strategy or triggering a tax event. Advisors add significantly more value to client relationships when they grasp each client's full financial picture, by capturing and managing both sides of the diversification equation, liabilities as well as assets.

WHY SBL NOW?

SBL provides a way to unlock the liquidity that lies in client portfolios while leaving investment control in their hands. Based on credit policies with debt-to-asset ratio haircuts that offer a cushion to protect against market volatility, SBL is a particularly valuable tool for those advisors committed to acting holistically in the client's best interest. Beyond the introduction of last year's Regulation Best Interest (Reg BI), maintaining a higher standard of client care is a theme that echoes throughout the digitization of the advisor workplace, where the ability to implement SBL-at-a-distance can provide another way to temper the impact of Covid-19 on financial decisions.

In addition to introducing suitable investment products to their clients, advisors who assume the role of loan facilitator can expect to advance to "rainmaker" status in the eyes of clients looking to meet business funding needs, consolidate loans, take advantage of a new investment opportunity or make a real estate purchase.

SBL acceptance is growing and is extending from the High Net Worth and Ultra-High Net Worth segments to the growing numbers of Mass Affluent Millennials. According to Broadridge's SBL survey[ii], 61% of wealth managers believe that "it is inevitable that the Mass Affluent will enter the SBL market in the next three years".

CULTIVATING THE HOLISTIC LENDING HABIT

One important habit that contributes to enriching client relationships is "staying flexible." With an agile, forward-looking attitude, advisors can pivot quickly between the client's need to grow their investment portfolio while simultaneously accessing a prudent source of liquidity to support other objectives. Another habit worth nurturing is the development of a holistic mind-set toward wealth clients: One in which advisors solve for both the asset and liability sides of the wealth management equation.

Once the barrier of the unfamiliar has been overcome, a new solution set springs up for the entrepreneurial advisor looking to present SBL's advantages:

- **An end-to-end, digitized lending experience**
  With Broadridge's comprehensive SBL dashboard in the advisor's hands, a range of possibilities are unpacked that harness AI and machine learning for identifying suitable SBL candidates, facilitating easy loan origination and rapid funding – often within just two or three days instead of weeks. Rather than focusing exclusively on financial advice and investments, advisors can be equipped with stress-testing, monitoring, risk management tools and more. By receiving integrated client data, insights and analytics directly through the advisor dashboard, lending decisions can be made in a faster, more informed and streamlined manner.

- **End-to-end processing empowers sales channels** While the wealth industry awaits a post-Covid-19, in-person world, Broadridge's digital SBL tech utilizes electronic signatures and remote loan origination to keep clients safe. This digital interface is particularly user-friendly – meeting the expectations of younger wealth clients who have grown up with the expectation that customer experiences should be digitized and interactive.

> "Utilizing the efficiency of straight-through processing, SBL delivers loan evaluation and origination capabilities direct to advisors so that they can grow their business while improving the customer experience.
> Through Broadridge's integration of solutions, data and systems, advisors get what they need to lend with confidence and complete credit risk control."

And, because they can let their workstations perform their lending chores for them, advisors can keep their focus on what they do best: personalizing the client experience and creating tailored strategies. Optimizing end-to-end SBL delivery has the net effect of attracting even more AUM into a wealth management program; assets that may also help keep the client's loans correctly collateralized. Alongside a typical book of business, many advisors report between 10% and 15% in additional SBL-driven AUM coming into their firm.

SBL-AT-A-DISTANCE

Between fully programmable APIs and the advisor workstation, Broadridge's end-to-end platform is making SBL a solution that's easy to fund, monitor and manage. In short, SBL can offer a better, friendlier and more engaging way to do business – especially during a pandemic.

We've heard SBL lenders driving for a "meet once, sign once" or "Drive Thru" model for SBL – something that the Broadridge platform delivers with faster turnarounds on most SBL loans.

For SBL entrepreneurs, the field remains fertile for another reason: While SBL is offered by a growing range of institutions, most still actively approach only a small fraction of their client base with SBL's empowering solutions. Advisors who seize this multi-faceted opportunity to deliver a fresh, new holistic wealth creation strategy to their clients now will find that – with the right systems in place – the time has never been better to build their business.

For more information, please contact jeff.leone@broadridge.com or visit broadridge.com/navigator i Bancorp The Advice Gap, How Wealth Advisors Are Missing out on Half the Wealth Picture P. 3

ii Broadridge Market Insights for your Securities-Based Lending strategy https://www.broadridge.com/report/rockall-sbl-industry-survey s