

DIVERSITY & INCLUSION IN FINANCIAL ADVICE 2020



PATHWAYS FOR IMPROVING THE INDUSTRY'S PERFORMANCE



THE
**AMERICAN
COLLEGE**
OF FINANCIAL SERVICES®

IN Research

INTRODUCTION

For anyone paying attention to national trends in demographics, financial security and diversity, the survival and growth of the financial advice industry is a concern. While progress has been made, the general perception and reality of the business is that it is overwhelmingly aging, male and Caucasian. Fortunately, despite its many challenges, 2020 has served as a catalyst for the transformational work long discussed by financial advisors to advance the industry's diversity and inclusiveness. In an effort to take advantage of the current opportunity, The American College of Financial Services' Diversity & Inclusion in Financial Advice Survey, conducted by IN Research, goes beyond restating known problems to seeking actionable solutions. It is intended to give advisory firms an in-depth view of current industry demographics in the face of national demographic trends, an understanding of the obstacles to greater diversity and inclusion, and suggestions for the steps firms can take to effect change.

The American College of Financial Services has a 93-year history of delivering applied financial knowledge and education to professionals across the industry, while maintaining the highest standards of academic rigor as a non-profit accredited institution of higher education. The College's mission focuses on how applied financial knowledge and education can have a measurable, lasting benefit for society. As a neutral player in the financial services industry, The College envisions this survey as a benchmark to measure how individual and business choices change the collective reality of our industry. The American College of Financial Services is committed to diversity and inclusion through economic access, financial empowerment and upward mobility for the benefit of society.

Give advisory firms an in-depth view of current industry demographics in the face of national demographic trends, an understanding of the obstacles to greater diversity and inclusion, and suggestions for the steps firms can take to effect change.



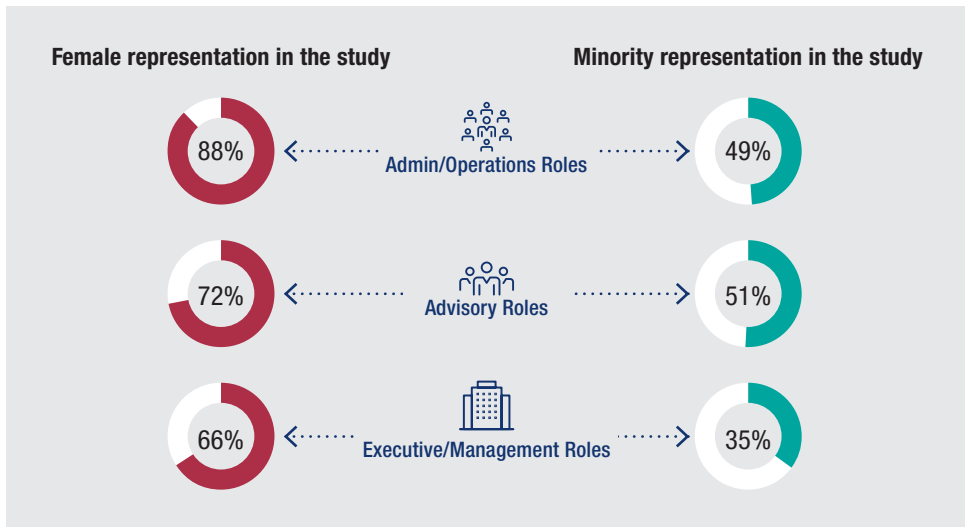
WHERE THE ADVICE BUSINESS IS NOW

While women enjoy an increased presence in the financial advice business, results of The American College of Financial Services Diversity & Inclusion in Financial Advice Survey show that there is much room for improvement. Currently, 88% of firms employ women in administrative or operations roles, 72% have women in advisory roles and 66% of firms have women in executive and management positions. On median, however, respondents said that only about a third — 35% — of the client-facing roles at their firms were held by women.

A similar situation prevails with regard to minority representation. Here, 49% of firms reported having minority members in administrative or operations roles, 51% said there were minorities at their firms in advisory roles, and 35% reported employing minorities in executive and managerial positions. On median, however, only 25% of client-facing roles at those firms were held by racial or ethnic minorities.

Clearly, the industry is not as diverse as the country as a whole or other businesses that deal directly with the public.

On median, only **25%** of client-facing roles at those firms were held by racial or ethnic minorities.



WHAT STANDS IN THE WAY?

If the financial advice industry's relative lack of diversity and inclusion is to be addressed, the first step is acknowledgment that it should be a concern. On that front, 59% of all respondents agree that lack of diversity is a problem within the advice business. Significantly, 70% of female respondents and 70% of minority respondents agree it is a problem.

Overall, however, only about one in three of all respondents — 35% — said that their firm tries to foster racial diversity in its staff, although 59% of those at firms with minority members in management positions responded to that question affirmatively.

Similarly, just 36% of all respondents said their firm works with suppliers committed to diversity, while slightly higher percentages at firms with women- and minority-held management positions - 42% and 48%, respectively - said their firm was working with such suppliers.

The survey found three chief obstacles standing in the way of greater diversity and inclusion: limited industry entry points and, in connection with advisors specifically, a lack of transparency in client distribution and a bias toward having newcomers “earn their keep” in the form of an emphasis on incremental revenue creation.



Limited entry points

Hiring habits in the financial advice business tend to perpetuate its current demography, the study found.

For advisory positions, networking is the preferred method of finding new talent at 44% of firms, followed by online postings (19%). For management and executive positions, networking is the method used by 37% of firms. Even for administrative and operations roles, networking is the way 33% of firms say they fill open positions. Only for administrative and operations jobs is online posting — a way to cast a wide talent net — the dominant talent-seeking choice for firms, noted by 39% of respondents. By relying so heavily on networking for new talent, advisory firms tend to replicate the demographic mix of their current advisors and staff.



For advisory positions, networking is the preferred method of finding new talent at 44% of firms, followed by online postings (19%).



Business-building expectations

Another obstacle to diversity and inclusion in the ranks of advisors involves expectations at many firms is that advisors essentially will pay for themselves, if not immediately then in very short order. That puts a premium on attracting current, successful advisors who arrive with their own book of business, a practice expected at the firms of 22% of advisors. This transfer of advisors from one firm to another results in no change in the industry's current demographics.

At 28% of firms, new advisors are expected to rely on their own network of affluent investors to build a book of business and to generate and pursue their own leads. In fact, the survey found that 42% of firms require meeting business development targets within the first three months of an advisor's employment. These expectations and requirements likely disadvantage candidates from less privileged backgrounds who often don't have a network of affluent potential investors to tap.



Lack of transparency in distributing sales leads

New advisors work on leads distributed by their firms, according to 22% of survey respondents. But how those leads are distributed and to whom is not transparent, with 37% of respondents saying the leads are distributed at the discretion of a branch manager and 34% saying they were unsure as to how leads are distributed — meaning that 71% of firms lack a visible process for distributing a departing advisor's business.

Importantly, 60% of advisors said they felt leads and new clients were distributed fairly at their firm, with no significant differences among women, minorities and all other respondents. Still, in addition to the lack of transparency, there is little accountability in the current process at most firms.

At 28% of firms, new advisors are expected to rely on their own network of affluent investors to build a book of business and to generate and pursue their own leads.

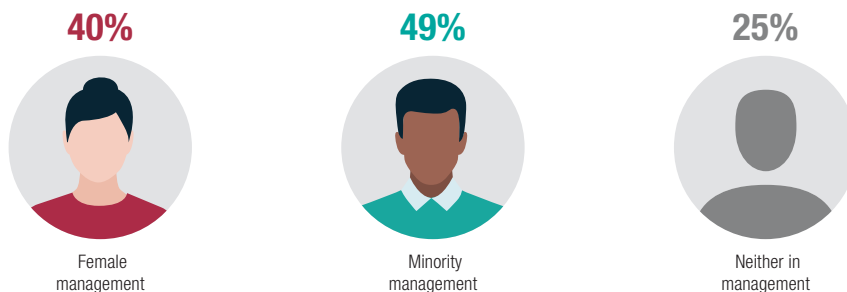
PREPARING THE INDUSTRY FOR DEMOGRAPHIC CHANGE

The demographics of the United States are changing. Greater female longevity, especially among affluent women, means that wives are increasingly likely to outlive their husbands, putting more wealth in the hands of more women. In addition, millennial and boomer women are more likely to have and to have had careers than women in earlier generations. That is why, according to recent data from McKinsey, women today control more than a third of US household financial assets — more than \$10 trillion — and by 2030, American women are expected to control much of the \$30 trillion in financial assets owned by baby boomers.

At the same time that women’s wealth is increasing, it’s important to note that between 2016 and 2019, median wealth for Black and Hispanic families rose at rates that exceeded wealth growth generally, according to figures gathered by the Federal Reserve. Black and Hispanic family wealth rose 33% and 65%, respectively, compared to a wealth increase of 3% for white families and 8% for other families. While the gap in the absolute level of family wealth between Black and Hispanic families and white families remains wide, the increase in wealth among minorities is promising, and hopefully a sign of more positive change in the future.

Given these changes, there is a strong business case to be made for increasing the diversity of advisory firms to better reflect the industry’s changing potential customer base, as well as the increasingly diverse American workforce. Although not a majority, a significant 41% of respondents to our survey at firms without minority professionals in advisory roles say the lack of internal diversity makes it more difficult to build a diverse client base. At firms with neither women nor minorities in executive positions, just 25% of survey respondents said their firm’s client base is reflective of the nation’s diversity.

Does your client base reflect the nation’s diversity?



Moreover, the lack of diversity at firms tends to create a closed loop of thinking about the issue of diversity in general. Respondents at firms with diversity in management are more likely to feel their culture is inclusive; more likely to feel comfortable broaching these issues; and more likely to develop and promote their minority professionals.

Respondents at firms with diversity in management are more likely to feel their culture is inclusive; more likely to feel comfortable broaching these issues; and more likely to develop and promote their minority professionals.

TAKING STEPS THAT WORK

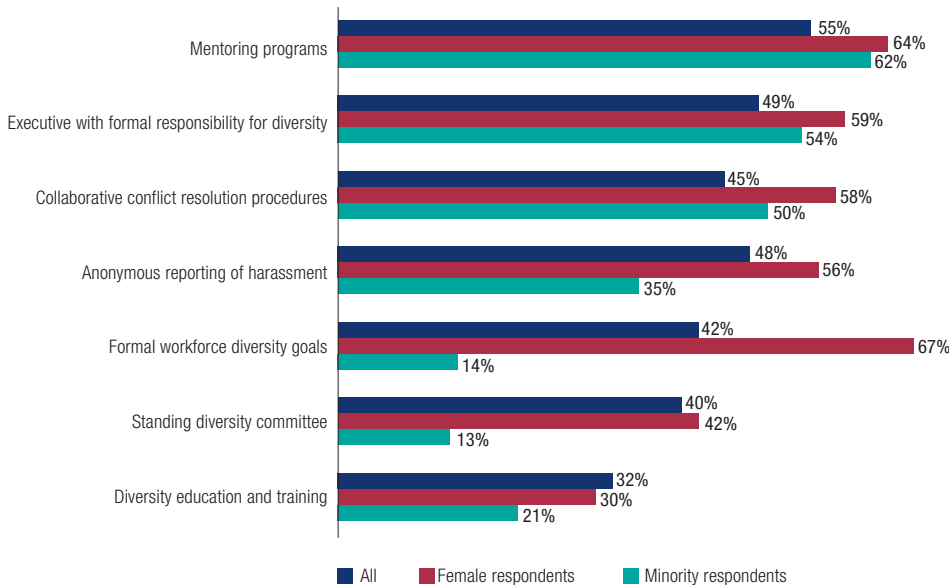
For advisory firms wishing to become more diverse and inclusive, a sensible jumping off point is trying to learn the views of those to whom such efforts would be directed, namely women and minorities. Our survey, therefore, asked the question: Which policies are very effective in fostering diversity?

The responses could form the basis for action. For example, simply talking about the issue does not seem productive in the view of minority respondents, who felt that diversity training and standing committees were not especially effective.

Among the most effective efforts, from the perspective of all respondents, were mentoring programs, assigning formal responsibility for diversity to an executive at the firm, establishing conflict resolution procedures and enabling the anonymous reporting of harassment. For women respondents, most important of all was establishing formal workforce diversity goals, a policy chosen by 67% of female respondents. In contrast, only 14% of minority respondents indicated that establishing diversity goals is very effective in fostering diversity.

Only **14%** of minority respondents indicated that establishing diversity goals is very effective in fostering diversity.

Which policies are very effective in fostering diversity?

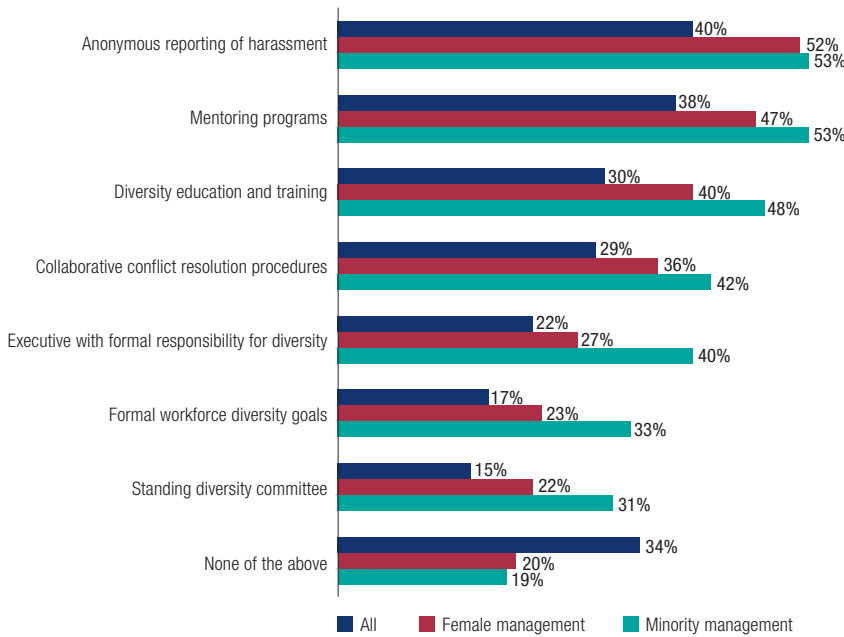


None of the policies identified in the survey had been implemented at a majority of all firms. In fact, at 34% of firms, not one of the policies was in place. Firms with minority representation in management, however, were consistently more likely to have formal policies in place, which is a sign that greater inclusiveness contributes to a broader approach to problem-solving.

The key point in taking steps that lead to greater diversity and inclusion is that accountability is central to effecting change. In order to move from a nebulous “good” to part of the fabric of how a firm operates, specific individuals must be held accountable for developing actionable strategies with stated goals and objectives that are measurable and achievable, and then they or others must be held accountable for getting it done. Unless there are specific, concrete ways for everyone at a firm to contribute to the solution, even well-intentioned people will stand on the sidelines because they are not sure what to do.

The key point in taking steps that lead to greater diversity and inclusion is that accountability is central to effecting change.

Which of the following policies are in place at your firm?



CONCLUSIONS

The arguments for greater diversity and inclusion in the financial advice business are strong. In addition to the compelling ethical case, there is also the persuasive business case given the nation’s changing demographics and the growing wealth of women and minorities.

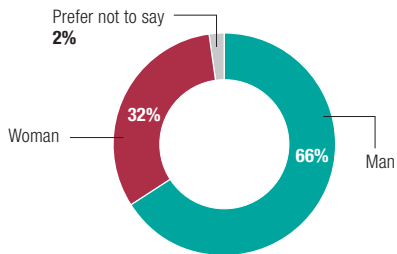
Although a narrow majority of those surveyed — 59% — believe that a lack of diversity is a problem in the advice business, just 35% of respondents said their firm attempts to foster a racially diverse staff. Much work, therefore, must be done to bring about the changes that so many in the business believe must be accomplished.

Hiring, mentoring and developing minority and women talent seem to be the best ways of addressing the industry’s diversity and inclusion challenges, as well as creating corporate cultures and work environments that attract and retain diverse talent.

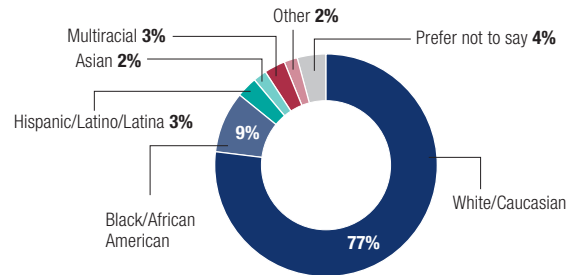
METHODOLOGY

This report presents findings from an online survey conducted by IN Research on behalf of The American College of Financial Services. Information for this study was gathered through a survey fielded via the Qualtrics platform between September 16, 2020 and October 9, 2020 to the InvestmentNews audience of financial advisers and closely-related professionals. The survey closed with a final sample of 275 qualified respondents. The following is a profile of those respondents.

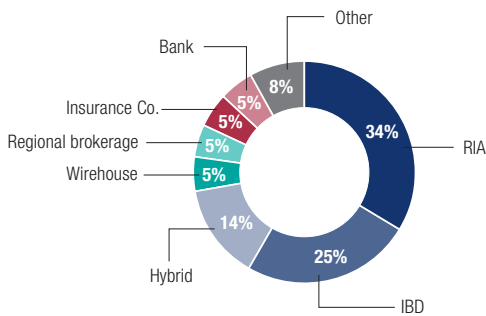
Respondents by Gender



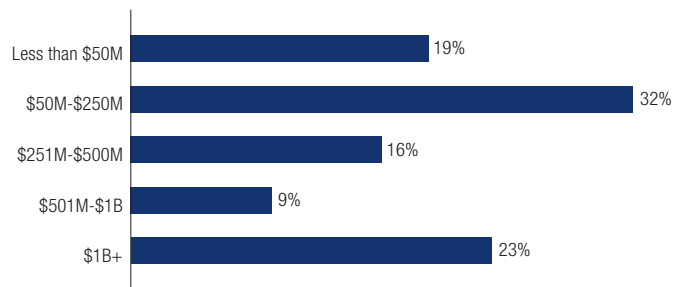
Respondents by Race/Ethnicity



Respondents by Firm Channel



Respondents by Firm/Branch AUM





FIND OUT MORE

Imagine the difference in our world when access and opportunity combine with an inclusive economic engine to empower and uplift underserved communities. The American College of Financial Services is joining with the financial services industry to think boldly, execute precisely and embrace the immense capacity of financial knowledge to support individuals and families, inspire communities, affect economies, move markets and impact business owners.

The American College Center for Economic Empowerment and Equality is the flagship center for research, thought leadership, course curriculum and development, programming and scholarship to lift-up underserved and underrepresented groups.

We will cultivate renewed relationships among the financial services business and these communities – beginning with Four Steps Forward to promote upward mobility and wealth building for Black America. This big, bold effort focusing on Black women, professionals and communities serves as a model for our work with other communities in need.

The Center's ability to catalyze, convene and promote evidence-based knowledge will lead to more informed economic policy decisions, financial services industry-led solutions for future generations and direct-to-consumer financial literacy programs.

You can learn more at www.theamericancollege.edu/equality.

IN Research

ABOUT IN RESEARCH

The mission of InvestmentNews Research is to provide advisory firms with the industry's most comprehensive and informative practice management resources, benchmarking reports and targeted research studies. Our benchmarking studies and tools are a leading source of strategic intelligence for the industry's top advisory firms, custodians, broker-dealers, consultants and professional organizations. InvestmentNews Research is a dedicated business unit of InvestmentNews, launched in 2009 with the acquisition of the former Moss Adams benchmarking studies. The business has grown to offer a subscription-based research dashboard, custom research services, dedicated research webcasts, national and regional workshops and in-person presentations.

For more information about InvestmentNews' benchmarking and custom research, please contact Devin McGinley at dmcginley@investmentnews.com.