Corporate IAR vs Independent RIA… It's All About Choice.

As more and more advisors embrace the benefits of the hybrid approach to best serve their clients and grow their practices, they are looking for committed, truly unconflicted Broker-Dealer partners that not only provide full assistance and support of this business model, but more importantly, embrace it with open architecture, full transparency, and the flexibility for advisors to choose and if necessary, change over time the fee-based model that best supports their particular needs.

— Michael A. Baker, President and CEO of United Planners Financial Services

United Planners Financial Services

In today's world of increased market volatility and ever-changing regulatory environment, the need for sound financial stewardship is in great demand. Clients across all demographics are becoming more sophisticated, with increasing awareness regarding the complexity of their financial needs, and the myriad of strategies and solutions available from the financial professionals positioned to service them. They are asking for and expecting, not just the management of their retirement assets, but comprehensive wealth management and holistic guidance with access to strategies and products that may utilize and incorporate the benefits of insurance and even less traditional, potentially low correlated solutions in the alternative space or even small account situations. For these reasons, amongst others, many financial advisors and financial planning professionals today are gravitating toward the "hybrid" business model; equipping themselves to meet the diverse needs of their clients with a broad array of fee-based advisory platform programs coupled with the essential packaged products associated more with traditional commission-based offerings.

The "Hybrid" business model is gaining considerable traction in the independent space and the more nimble, forward-thinking Broker-Dealers are differentiated by offering unique and exciting solutions under which the hybrid practitioner and their clients can flourish.

Per Michael A Baker, President and CEO of United Planners Financial Services, Scottsdale, AZ, "As more and more advisors embrace the benefits of the hybrid approach to best serve their clients and grow their practices, they are looking for committed, truly unconflicted Broker-Dealer partners that not only provide full assistance and support of this business model, but more importantly, embrace it with open architecture, full transparency, and the flexibility for advisors to choose and if necessary, change over time the fee-based model that best supports their particular needs."

In many instances, advisors looking to adopt the hybrid model for the first time simply do not have past or first-hand experience in knowing which approach is best suited for running the

Advisors must start by weighing the pros and cons of their choices. Some RIAs are very restrictive, while others provide the IAR with a broader range of choices that allow them to best service their clients. Most frequently, I find advisors create their own RIA to allow them to best serve their client in a low cost environment while reducing conflicts of interest. However, aligning with the right Corporate or Firm RIA can achieve the same results without the burden, cost and added responsibility of creating your own ADV.

— Sheila Cuffari-Agasi, Executive Vice President of Partner Development with United Planners Financial Services

fee-based side of their practice. They quickly find themselves faced with a puzzling question… **Should I structure the fee-based portion of my practice as an Independent RIA or position myself as an IAR of my Broker-Dealer's RIA?**

Executive Vice President of Partner Development with United Planners Financial Services in Scottsdale, AZ, Sheila Cuffari – Agasi readily speaks to this dilemma from inquiring prospective advisors. "Advisors must start by weighing the pros and cons of their choices. Some RIAs are very restrictive, while others provide the IAR with a broader range of choices that allow them to best service their clients. Most frequently, I find advisors create their own RIA to allow them to best serve their client in a low cost environment while reducing conflicts of interest. However, aligning with the right Corporate or Firm RIA can achieve the same results without the burden, cost and added responsibility of creating your own ADV."

Numerous factors play a role in tackling this quandary. In most cases, the decision is informed by preferential matters regarding such considerations as:

- The degree of independence desired
- The risk appetite for ensuring regulatory and supervisory compliance
- The integration and maintenance of necessary technologies
- The prospect of maximizing financial reward
- Business continuity and succession planning opportunities

The flexibility in which many Broker-Dealers are allowing their advisors to "Co-Brand" or conduct business under "private label" is yet another factor blurring the lines in delineating the advantages of one model over the other.

This paper does not attempt to profess one fee-based approach in favor of the other, nor does it intend to present an exhaustive list of topics that deserve consideration. It does, however, hope to enlighten the reader to some of the most important factors that should be considered and analyzed in making an informed decision.

Desired Independence

Often difficult to quantify, a "feeling of independence" is wholly subjective; however, it can be readily experienced both as an IAR of the right Corporate RIA, as well as through setting up your own Independent RIA.

For those leaning toward the pre-established, Corporate RIA model, remember that not all Corporate RIA models are alike. More restrictive Corporate RIA models, while still providing the appearance of choice to their advisors, may position "proprietary" fee-based offerings or structure IAR compensation in a way to entice the use of one fee-based platform more readily over another as a strategy to more favorably benefit the Broker-Dealer. Others may frown more heavily on allowing their IAR's to exer-

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cise discretion in managing client assets or require such activity to be conducted on their Broker-Dealer's clearing platform, potentially restricting what may be an essential "value-added" component of your practice.

The key here is finding a Broker-Dealer whose Corporate RIA does not restrict your ability to bring forth choice to your clients, and does not prevent you from adopting and running the business model that fits you best. Fee transparency, custodial flexibility, open architecture, unbiased access and choice in platform offerings and best-of-breed technology are essential ingredients. Furthermore, "private label" options for marketing your brand can provide all of the foundational essence of independence you may ever need.

Michael A. Baker, President and CEO of United Planners has spoken to numerous advisors throughout his career and believes "Advisors are looking for a hybrid broker-dealer that offers true open-architecture to strategically leverage the best of brands in the marketplace. The right strategic partners enable the broker-dealer to advocate flexibility and choice in a conflict-free environment so independent financial professionals can serve the best interests of their clients knowing their broker-dealer is providing invaluable compliance, technology, cybersecurity and operation support that is crucial for their ongoing success."

For many, the desire to run their own business is reason enough to set up their own Independent RIA. For them "true independence" is best realized, and most effectively conveyed to clients, through autonomous control over all decisions tied to their practice from internal operational decision-making to technology adoption and to the selection of platform offerings. RIA owners want to feel less encumbered from future decisions made by their Broker-Dealer that could adversely affect their unique and often customized offering to clients. This sense of freedom is critical to their psyche and business model. As such, they are willing to take on the additional burdens and costs relative to simply plugging in as a Corporate IAR.

So which model is best for achieving that "feeling of independence" as a financial professional? While proponents of the Independently operated RIA may aim for and ultimately claim a lesser dependence on their Broker-Dealer, do your homework. The forward-thinking Broker-Dealer, whose Corporate RIA best exemplifies freedom of choice, could provide all the independence and flexibility you may be in search of.

Compliance and Regulatory Responsibility

The challenges of mitigating the risk of adherence to the dynamic and increasingly complex regulatory environment would seem to tilt in favor of the Corporate RIA model over the Independent RIA model.

Whether an advisor is under a BD's Corporate RIA or their own Independent RIA, the FINRA mandate for oversight is the same in that the BD is responsible for the supervision of the advisor's fee-based business. In most instances, advisors under a BD's Corporate RIA have more time to spend on revenue-generating activities such as acquiring new clients, getting larger share of wallet from existing clients and retaining assets, especially during generational wealth transfer scenarios. On the other hand, advisors that choose to run their own Independent RIA may feel shackled with all the non-revenue producing activities of compliance, registration and administration to maintain their own Independent RIA, which takes them away from these client-facing activities. Utilizing the Broker-Dealer's Corporate RIA infrastructure relieves the IAR from having to file and maintain the Form ADV with the SEC or the State. Furthermore, since the Broker-Dealer's Corporate RIA files the Form ADV, the IAR is relieved from the regulatory audit requirements involved in maintaining the ADV. "Based on what is described above, industry studies consistently support the trend of outsourcing non-revenue producing activities and to redirect such energy to client management and business development. The advisor's value proposition to their clients is mission critical in this highly competitive marketplace as well as the heightened regulatory environment that is focused on fiduciary standards. The advisor's time management and client centric service model will help drive success in terms of revenue and profitability," says Billy Oliverio, Executive Vice President and Chief Marketing Officer at United Planners Financial Services.

As the regulatory responsibilities of Broker-Dealers to supervise their fee-based business offerings continue to escalate, their platform offerings may, over time, become more restrictive in the eyes of the Independent RIA owner. For advocates of RIA ownership, this can be an important consideration that may validate taking on these additional duties and assuming more liability, including product and platform due diligence and the cost of staffing an in-house CCO. This usually makes more sense for SEC registered RIAs that reach several hundred million dollars in assets under management, which are required under the auspices of the SEC's Investment Advisers Act of 1940 to have written supervisory policies and procedures in place, a designated CCO to oversee them, and the financial wherewithal to make the economics viable. However, in the confines of the "hybrid" model, this is still a lesser consideration to most hybrid practitioners since most Broker-Dealers today, due to their requirement to supervise all fee-based business associated with their Corporate RIA, are going to confine all models to a menu of fee-based platforms and offerings approved under the auspices of their in-house due diligence.

While RIAs are not currently under the same level of scrutiny and regulation that Broker-Dealers are today, the trend is clearly pointing toward a more level playing field in the future. Moving forward, the RIA model will encounter an increase in the sheer number of audits;

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audits with increased granularity, more comprehensive disclosure requirements and more scrutiny of marketing practices and social media use. The concept of "regulatory harmonization" continues to be a theme across the regulatory community. State regulators have increased their staff and are increasingly more active in monitoring and auditing their respective jurisdictions. Most importantly, advisors who run their own Independent RIAs will have to grapple with the highly controversial and ambiguously defined definition of compliance with the DOL Fiduciary Rule and other ensuing efforts to define a fiduciary standard.

The wealth management business is becoming increasingly more complex each and every year and, with that, the resources of time and personnel to stay on top of the regulatory requirements can be a daunting challenge. While each advisor's practice is unique, from a compliance and regulatory standpoint, the Corporate RIA model may be a less onerous option for most hybrid advisors.

Technology

Whether you are new to the independent contractor space or a seasoned practitioner, remaining on the forefront of cutting-edge application software to handle workflow, required document safekeeping, storage and retrieval, client relationship management, planning and reporting can be a daunting task. With endless options to chose from and a plethora of new FinTech service providers promising improved practice efficiency, most advisors do not have the time, nor the expertise, to prudently evaluate which solutions may most efficiently serve their needs or to adequately implement them. Most advisors are more focused on maximizing their time spent on client-facing activities which is directly tied to revenue and profitability.

For the hybrid advisor, taking the Corporate RIA route can be extremely beneficial in this critical arena. Most Broker-Dealers have the centralized IT infrastructure already in place with the experience and due diligence expertise to evaluate sophisticated vendor software and application offerings. Equally critical, they have the required expertise to ensure that all these different technologies can be integrated and work seamlessly with one another. The best financial planning and reporting tools available may not create the functionality or efficiencies you may had hoped for if they do not communicate seamlessly with the other essential applications of your practice.

In the Independent RIA space this task usually rests with the owners who, in most instances, do not have the financial wherewithal, time or expertise. Some Independent RIAs, however, may be tech savvy or possess the financial resources to hire in-house IT or outsource this critical component. In this instance, they may be quicker to adopt and adapt more desirable, cutting-edge technologies. As Broker-Dealers grow in size and their bundled solutions to advisors mature, moving in a different direction or incorporating the

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— Aaron Spradlin, United Planners Chief Information Officer with United Planners Financial Services

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latest and greatest new technology can be costly, more cumbersome and take longer to adopt.

In most instances, the in-place infrastructure of the Broker-Dealer will bring efficiencies to the hybrid advisor practice that cannot be easily or economically replicated, allowing the advisor to spend more time focusing on the client facing activities they enjoy to best facilitate the growth of their business. Once again, open architecture and choice among technology solutions is integral in evaluating the Broker-Dealer's Corporate RIA offering. For example, you may have a relationship management database tool that you are intimately familiar with or a financial planning tool that you can't live without. Search for a firm who offers a well integrated robust bundled solution, yet still remains nimble and has an open architecture design to support the use of tools important to you.

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Economic Reward

Regardless of the fee-based approach you chose to adopt, one thing is certain; in exchange for offering your clients unbiased, prudent financial guidance and advice, you naturally want to maximize the financial rewards from your efforts. Many factors play a role in ultimately determining your financial outcome, such as your level of production in a Broker-Dealer tiered compensation payout structure, your share in the costs of available platform programs, your expenses in marketing your services and operating your practice.

In differentiating between the Corporate RIA and Independent RIA models, however, the overall size of your practice could be the overriding consideration that outweighs all others. Advisors in the earlier stages of asset gathering may determine their time is best spent in front of clients, and not minding the nuances of forming an RIA. Hiring staff or even outsourcing these responsibilities can be quite costly. Independent RIAs require greater funding from an operational standpoint, including the need to hire additional employee head-count, and may have higher platform fees than those leveraging the scale and resources of a larger Corporate RIA. Independent RIA practitioners may be more resistant to changes in technology and infrastructure, requiring them to maintain a higher level of AUM to keep their incomes at par with their Corporate RIA counterparts. However, Independent RIA owners who are willing to make the required adjustments to improve their expense structure and operational efficiency can typically surpass their counterparts in profitability as AUM continues to increase.

Branding and Succession Planning

In the analysis and discussion of financial reward, the consideration of practice succession is oftentimes overlooked. How you brand and structure your practice can have a significant impact on its future valuation and its attractiveness to potential suitors.

In the Corporate IAR model, the advisor tends to be the focal point that clients identify with and clients pay less attention to the operational workings of the Broker-Dealer behind the scene. In essence, the advisor is the brand. This may create more hesitancy for potential suitors, resulting in a potentially lower valuation, since client retention can be more challenging in replicating or replacing a long-standing trusted relationship that is centered upon the advisor. Keep in mind, however, that Broker-Dealer firms have a vested interest in retaining these assets upon an advisor's exit from the business. Their financial wherewithal may provide for funding mechanisms that can quickly assist other associated IARs of the firm in purchasing the practice, allowing you to realize the full value of your succession over a shorter time period.

In the Independent RIA model, the RIA will often take a team "ensemble" approach with multiple advisors each rooted in a similar investment and planning process collaboratively handling the needs of their clients. While this approach still creates strong relational bonds, clients may tend to focus more on the entity as the brand, providing them a higher level of comfort should one advisor exit. This business model often results in better retention of client assets, potentially prompting a more favorable valuation from potential suitors.

Likewise, the Independent RIA model, due to the more independent nature of its structure, presents the opportunity to put a succession plan in place for your benefit that is straightforward, clean and easily defined.

The discussion of financial reward would be remiss without forethought toward the future value that can be garnered from your hard effort in building, growing and branding your practice. Take the time to research your Broker-Dealer's succession and continuity mechanisms to ensure that they clearly define your options, they are understandable, and ensure the future reward you deserve.

Conclusion

Clients demand unbiased advice and freedom of choice from the professionals they hire to address their financial needs. The hybrid practitioner is uniquely positioned to reap the benefits. Both the Corporate IAR and Inde-

Use the tool on the next page to weight factors important to you while transitioning your business to, or enhancing your existing fee-based business. Rate each row and column using a neutral, positive or negative number 0-10. The result will assist in your choice to join an existing RIA or create your own INDY RIA while evoking thought as to the pros and cons of each option.

pendent RIA models have been leveraged with great success and one model is not inherently better than the other. One model, however, may be better suited for your particular skillset, personality and preferences to some of the aforementioned considerations. However, a very important consideration is the value of your time and where it is best spent. As a Corporate IAR, you will have more time to spend on client facing activities that strengthen your overall value proposition and contribute to bottom line profitability. Under the Independent RIA model, you will likely spend more time working behind the scenes (away from your clients) on the maintenance and administration of managing your Independent RIA. While the decision to go IAR vs RIA may be more a matter of preference, one thing is certain; it's all about choice. Seek out Broker-Dealer partners that are model agnostic, offer choice, transparency, openness and a unwavering commitment to support the business model that you feel is best for you.

Contact Partner Development for a consultation on how open architecture can be of value to you and your clients.

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Use the attached table to rate the importance of each category with a grading scale using a positive, negative or neutral number from 0-10. Apply the appropriate number in each applicable column, as a starting point for determining if joining an existing Corporate RIA or creating your own Independent RIA is the right step for you.

CATEGORY	CORP / Existing RIA	INDY RIA
Branding Importance	May have restrictions	
Custodial Choice		
Proprietary Platform Avoidance / Open Architecture Options		
Ability to Exercise Discretion		
Reporting Requirements/Choice		
Ease of Billing		
Billing Choice: Monthly/Quarterly, Advance/Arrears, Proration/Rebating		
CCO Responsibilities: Supervision, Code of Ethics, Privacy Policy, AML Testing & Training, Proxy Voting, Annual Internal Review/Audits, Due Diligence, Legal, Contract Negotiations, Fidelity Bond	May be turnkey	
WSP Responsibilities and Customization		
Registration/Filing Requirements & Fees		
Affiliation Fees		
Override		
Platform Cost		
Managed $$ Options Outsource/Inhouse		
E&O Inclusive or @ Additional Cost?		
Operational Cost		
Audit Costs		
QPTR & Annual Holding Reporting (Automated vs. Manual Tracking)		
Compliance Duties		
Books & Records, Portfolio Oversight, Research Tools, Trading Tools, Marketing Tools		
ADV Customization		
Client Service Agreement or Financial Planning Agreement Customization		
Cyber Security Compliance		

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continuation

Use the attached table to rate the importance of each category with a grading scale using a positive, negative or neutral number from 0-10. Apply the appropriate number in each applicable column, as a starting point for determining if joining an existing Corporate RIA or creating your own Independent RIA is the right step for you.

CATEGORY	CORP / Existing RIA	INDY RIA
Technology Choice		
- CRM		
- Financial Planning		
- Dashboard		
- Email Hosting		
- Email/Social Media Archiving		
Website Creation/Customization Ability		
Staffing Costs		
Valuation of the Practice		
Buyout/Succession Planning Opportunity		
Total For Each Column:		

NOTES