Cetera Ideas Series

***Guide to Growth* series explores “the broker-dealer conundrum”**

By LeAnn Rummel - National Sales Manager, Cetera Financial Institutions

It used to be that almost every bank and credit union with more than $10 billion in deposits chose to build its own broker-dealer. In fact, according to our newest Cetera Financial Institutions white paper on the topic, exactly 98 percent of them had built their own broker-dealer as recently as 2010.

Their reasons are detailed in *To Partner or Build: The Broker-Dealer Conundrum*. Chiefly among them was *control*. Building a broker-dealer with its own employees and managing every aspect of the operation seemed necessary, even advantageous. But then the weight of that choice came to bear. Rising risk and regulatory costs proved onerous, technology development lagged, product training and due diligence requirements increased.

At the same time, third-party firms like PrimeVest, now known as Cetera Financial Institutions, continued leveraging scale and expertise to develop and enhance full-service programs that helped financial institutions mitigate risk, offload burden and dedicate resources to nothing but revenue-producing activities.

Bank and credit union executives, even those at large regionals, started taking a closer look. In their due diligence, they discovered that the best path to more profit and less headache might be outsourcing.

Our latest white paper, created in conjunction with Dr. Ken Kehrer, crunched the numbers. When measuring average expenses associated with compliance, operations, technology and product management against program revenue, the data indicated that the cost percentage to staff, deploy systems and manage an internal broker-dealer was considerably more than the typical percentage charged by a third-party firm -- even for large financial institutions with more than $50 million in revenue.

- For financial institutions with less than $10 million in annual program revenue, the cost of managing an internal broker-dealer could be up to 21 percent of the program’s total revenue.
- For financial institutions with between $10 million and $50 million in annual program revenue, the cost of managing an internal broker-dealer could be up to 15 percent of the program’s total revenue.
- For financial institutions between $50 million and $75 million in annual program revenue, the cost of managing an internal broker-dealer could be up to 12 percent of the program’s total revenue.

So not only were financial institutions seeing an opportunity to mitigate risk and unshackle themselves from other management burdens, they were also seeing a potential win on the bottom line. Not surprisingly, the tide started turning. More regional banks and credit unions have contacted us with an interest in outsourcing than ever before. In fact, in the past six months, we’ve signed three banks among the nation’s 50 largest.

While it’s true that outsourcing isn’t for everybody, the data from this study indicates that everybody should at least *consider* outsourcing. Our latest white paper presents an excellent examination of the factors on both sides of the decision. Interested in learning more? The fifth installment of *Guide to Growth* is available by clicking here.