

Solomon Exam Prep | White Paper

# Optimizing On-Boarding in 2021: 7 Key Trends for the Securities Industry



# Introduction

The securities industry has experienced rapid change in recent years and the securities exam and securities licensing process has undergone substantial change as well. Solomon Exam Prep has been helping people pass securities licensing exams for nearly 20 years, and with the enormous change in the industry, Solomon sees increased need for a unified registration exam prep solution for broker-dealers, insurance companies and investment advisers. Some of the specific trends Solomon has observed include: the introduction of the SIE exam, increased dual registrations, more registered representatives who are independent contractors, onboarding challenges, and pandemic exam testing challenges.

To Solomon, a “unified exam prep solution” is one that is:



**Scalable**



**Remote optimized**



**Usable with many exams**



**Provides actionable insights for supervisors as they support their employees or affiliates.**

Ideally, a financial firm should have a securities exam prep provider that can help employees or affiliates pass their exams from anywhere, anytime, no matter the individual’s education or experience.

# Changes in the Industry

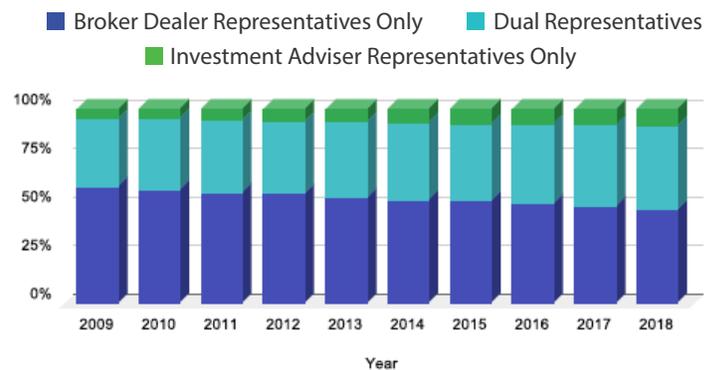
## INTRODUCTION OF THE SIE EXAM

In 2018, the securities exam registration world was rocked by the introduction of the Financial Industry Regulatory Authority (FINRA) Securities Industry Essentials (SIE) exam. This new basic level exam meant that individuals wanting to become registered with FINRA or the MSRB had to take two exams instead of one: the SIE and a “top-off” registration exam such as the Series 6 or Series 7. Importantly, in an effort to encourage more young people to consider working in the securities industry, FINRA made the SIE exam open to anyone at least 18 years old.

## INCREASED DUAL REGISTRATIONS

Another major shift in the security industry is an increase in the number of dually-registered firms and dually-registered representatives. Dually-registered firms are firms that are registered as both broker-dealers and investment-advisers.

According to FINRA, since 2009, the proportion of dually-registered representatives has increased from 34.95% to 42.65% of total registered representatives. This has also been accompanied by a 4.2% rise in the proportion of individuals who are *only* registered as investment adviser representatives.<sup>1</sup>



When viewing data in the same period from Solomon Exam Prep, we see a similar trend. Since 2018, the number of people taking the SIE, Series 7, and Series 66 combination has surpassed the number of people taking the SIE, Series 6, and Series 63 combination.<sup>2</sup> Additionally, the Series 65 has surpassed the Series 79, Series 7, and Series 24 exams in popularity during the same time frame.



# Onboarding Challenges

## MORE EXAMS

These shifts in registration mean a more challenging onboarding process for several reasons. First, with the introduction of the SIE, in order to become a registered representative, you now need to take **two** exams instead of one. Second, the SIE, Series 7, and Series 66 track is more demanding than the SIE, Series 6, and Series 63 track. Also, there are representatives who choose to take the SIE, Series 6, Series 63, *and* the Series 65. This allows the individual to get registered with less difficulty initially, but the individual must take four instead of three exams in order to achieve investment adviser representative (IAR) status. For any of these reasons, the onboarding process has become more difficult and more time consuming, and thus requires a greater degree of oversight.

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## MORE OVERSIGHT

The oversight of representatives has also become more challenging because many firms in the securities industry have opted to classify their employees as independent contractors. In the U.S., approximately 64% percent of all practicing registered representatives operate as self-employed independent contractors.<sup>3</sup>



**64%**

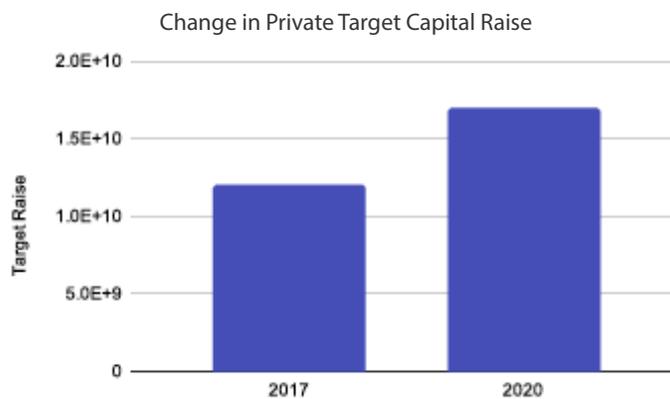
of all practicing registered representatives are independent contractors.<sup>3</sup>

## MORE COST

Another challenge that firms face is that onboarding employees in the security industry is more costly than other industries because each representative level hire must undergo a substantial background check via the U4 filing process and each individual who wants to become registered must devote significant time and effort to passing securities qualifying exams. For this reason, turnover is a more serious business challenge. According to data collected by FINRA, on average, there was a 7% annual turnover rate in registered representatives between 2010 and 2018, meaning each year roughly 7% of the registered representatives enter the industry, but roughly 7% also leave the industry. Given this turnover, a unified exam prep strategy where representatives pass their exams the first time is critical to an efficient and less expensive onboarding process.

In addition to the increased demand for IAR exams, Solomon expects more demand for the exams that afford Accredited Investor status. Recently, the SEC extended Accredited Investor status to those individuals who work in the industry and have passed a Series 7, 65 or 82 exam. We expect that this may lead to an increase in these exams.<sup>4</sup>

In addition, there has been an explosion in the issuance of exempt securities. In fact, the amount of annual private capital raised through private placements has more than tripled since 2011. We expect that more representatives will seek registration that allows them to sell and underwrite private placements (Series 79 and Series 82).<sup>5</sup>



# Pandemic-Related Trends

## REMOTE TESTING

While all of the trends indicate increased complexity in licensing, there have been changes to the licensing process that have *decreased* complexity. Foremost is the new, remote testing channel that Prometric has introduced in their tool, “ProProctor.”<sup>6</sup> By allowing an employee to take an exam online, there is now an unprecedented level of flexibility during the testing process. For the first time, the exam experience can feel like an extension of the study experience.

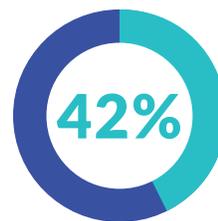
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## WORK-FROM-HOME

A related trend has been the pandemic-induced move toward work-from-home (WFH). Prior to the COVID-19 pandemic, 25% of workers reported working from home at least occasionally.<sup>7</sup> Currently, it is now estimated that 42% of the U.S. labor force is working from home *full-time*.<sup>8</sup> While many researchers have posited that the extent of this WFH increase is temporary, there will invariably be an overall increase in telework moving forward. As with the introduction of ProProctor, this demands an exam prep solution that has adapted to the realities of onboarding in 2021 and beyond. Many firms have begun onboarding employees completely remotely, increasing the need for a dynamic exam prep program that provides continuous student monitoring and reporting for employers and managers.



of workers worked from home occasionally Pre-COVID.



of workers currently working from home full-time.

# Conclusion

A greater number and variety of securities exams being taken, as well as a wider range of subjects being tested, calls for a unified exam prep strategy that can take advantage of economies of scale. The high cost of turnover rates, increases in telework, and increases in remote testing all call for an exam prep solution that can support new hires anywhere, at any time. Solomon Exam Prep has crafted an exam prep platform with these market conditions in mind. Students can enjoy premier study materials on Solomon's website, perfectly synched with the free Solomon mobile app. With Solomon, students can study according to a schedule of their choosing using premier tools and learning techniques, increasing the chance that they pass their FINRA, NASAA, MSRB and NFA exams on the first try.

## References:

<sup>1</sup>Financial Industry Regulatory Authority, "Industry Snapshot, 2019," <https://www.finra.org/rules-guidance/guidance/reports-studies/2019-industry-snapshot/representative-data>

<sup>2</sup>Solomon Exam Prep, <https://solomonexamprep.com>

<sup>3</sup>Cerulli Associates via "FINRA Proposed Fee Increases," <https://www.sec.gov/comments/sr-finra-2012-028/finra2012028-8.pdf>

<sup>4</sup>Securities Exchange Commission, "SEC Modernizes the Accredited Investor Definition," <https://www.sec.gov/news/press-release/2020-191>

<sup>5</sup>AI Insight, "Private Placement Industry Insights as of September 30, 2020," <https://www.aiinsight.com/private-placement-industry-insights-as-of-september-30-2020/>

<sup>6</sup>Prometric, "Welcome to ProProctor," <https://www.prometric.com/PrometricProUserGuide>

<sup>7</sup>Bureau of Labor Statistics, "29 percent of wage and salary workers could work at home in their primary job in 2017-18," <https://www.bls.gov/opub/ted/2019/29-percent-of-wage-and-salary-workers-could-work-at-home-in-their-primary-job-in-2017-18.htm>

<sup>8</sup>Stanford News, "Stanford research provides a snapshot of a new working-from-home economy," <https://news.stanford.edu/2020/06/29/snapshot-new-working-home-economy/>