March 15, 2010

Banks In Wealth Management - Is Now The Time?

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The proverbial window of opportunity for bankers who want to be in the wealth management business has never been wider.

And bankers can't say they haven't been alerted: the seize-the-moment theme was repeated throughout last week's American Bankers Association's annual Wealth Management and Trust Conference in Phoenix, both from the podium and on the exhibit floor.

In fact, the conference began with the keynote speaker exhorting bankers to "switch to offense this year."

"A lot of consumers are disenfranchised, and there is a big wide-open door right now," said Charles "Chip" Roame, managing principal for San Francisco-based Tiburon Strategic Advisors. "This is as good as it gets for client acquisition."

"This is a phenomenal opportunity for local banks to bring in new business that they haven't had before," agreed Richard Aguiar, director of business development for the community and local bank market for outsourcing giant SEI.

Advantages for banks

What do banks, especially local and community banks, have going for them right now?

"We're a part of the community and a known quantity," said James Szewc, vice president and senior trust officer for First Keystone National Bank in Berwick, Pa. "We are very well positioned for wealth transfers."

"Banks really do have trusted relationships, especially local banks," said Mr. Aguiar. "They haven't changed their stripes, and that is reassuring."

And in the wake of the financial crisis, banks that didn't get into trouble have emerged with enhanced reputations.

"Their biggest advantage is their perceived stability," said Jeff Davis, a Nashville-based banking analyst for Guggenheim Partners. "That counts for a lot in a time of economic insecurity."

Banks also have an advantage as fiduciaries, maintained Dave Coffaro, chief fiduciary officer and head of trust and fiduciary services for Wells Fargo Wealth Management.

Emphasizing fiduciary values of prudence, loyalty and risk management were the keys to leveraging bankers' potential competitive advantage to get more wealth management business, Mr. Coffaro told the ABA Conference attendees.

“The opportunity has never been greater than it is right now,” he said.

Nor should a banks’ existing customer base be overlooked, said industry veteran Craig Madsen.

“Banks still have a lot of clients,” said Mr. Madsen, who was a senior vice president and managing director at Union Bank in Los Angeles before becoming a consultant in January. “And it’s easier to sell a second product than a first.”

Banks' ability to lend is also seen as a lynchpin of future success.

“When the economy comes back, they will have the ability to lend and others can’t,” said Linda Lubitz Boone, a wealth manager who also sells investment policy software to banks as co-founder of IPS Advisor Pro. “That’s their big ace in the hole.”

“It’s harder to lend now,” said Mr. Davis, “but when it returns, this is where the money is going to be made.”

Headwinds for banks

And what kind of headwinds are banks facing?

One of their biggest challenges is the lack of a sales culture and a willingness to pay market rates for top wealth management talent, say industry observers.

“Bankers' biggest problem in wealth management is competing against RIAs who are more aggressive,” said banking analyst Gerard Cassidy, managing director for equity research for RBC Capital Markets. “Until they incentivize people more it will be tough for them.”

“Talent follows money,” agreed Mr. Davis. “The question is whether the banks will pay up.”

Bankers at the conference confirmed that talent acquisition was a big problem for them.

“It’s very tough because you have to pay asset managers so much money,” one banker complained during a question-and-answer session. “We wanted to hire someone, but their salary would have been second only to the CEO.”

More regulations and compliance also worry bankers.

“We’re going to have more and they take up quite a bit of time and resources,” said Mr. Szewc. “It will be very challenging.”

Bankers are also hampered by offering a narrower range of products, according to industry observers.

“Bankers don’t have enough flexibility,” said Ms Lubitz Boone. “Wealth clients want creative solutions, and bankers can’t offer products like managed futures. They’re still just offering plain vanilla.”

In his keynote speech, Mr. Roame urged bankers to offer different types of investment products, such as low cost index funds, guaranteed income products and “hedge fund-like products.”

Time is right for acquisitions

What else do bankers need to do to capture wealth management business?

Think about acquiring an RIA firm or a team of advisors, say industry observers.

“You should switch your talent focus to acquisition,” said Mr. Roame. “There are tons of firms for sale, and they come with clients and assets.”

“As the market recovers, there will be great buying opportunities,” according to investment banker, Dan Seivert, chief executive and managing partner for Echelon Partners .

The recent dislocation in the markets has produced “the biggest bumper crop of [available] talent this industry has ever seen", Mr. Seivert told conference attendees.

Bankers who do buy or partner with an existing wealth management firm need to be cautious about the cultural differences in the firms, he warned.

“The key to successfully integrating wealth management into banks is the less integration the better,” Mr. Seivert said. “Let them leave their name on the door, let them keep their compensation structure. They’re coming from a very different place.”

Referrals key

Bankers also need to better leverage client referrals, industry executives say.

Noting that referrals consistently account for over half of new wealth management business, Mr. Roame urged bankers to launch proactive programs for asking for client referrals.

Bankers agreed.

“We need to exploit bank channels more,” said Mr. Szewc. “We should use existing trust customers for referrals.”

While bankers need to “tell their story better,” said Wells Fargo’s Mr. Coffaro, that doesn’t mean more marketing or advertising.

“The best marketing is the people in this room,” he said, referring to the bankers at the conference. “They know the story and need to tell it convincingly to anyone who will benefit.”

Trusts also need to be better leveraged by bankers who want more wealth management business, Chris Heilmann, managing director and fiduciary solutions executive for U.S. Trust said in his closing remarks at the conference.

“A trust needs to be better positioned as a modern product,” Mr. Heilmann said. “The platform must have relevance.”

“Clients lack awareness of the depth of service around trusts,” he concluded. “We need to be doing a better job talking to clients who need solutions.”