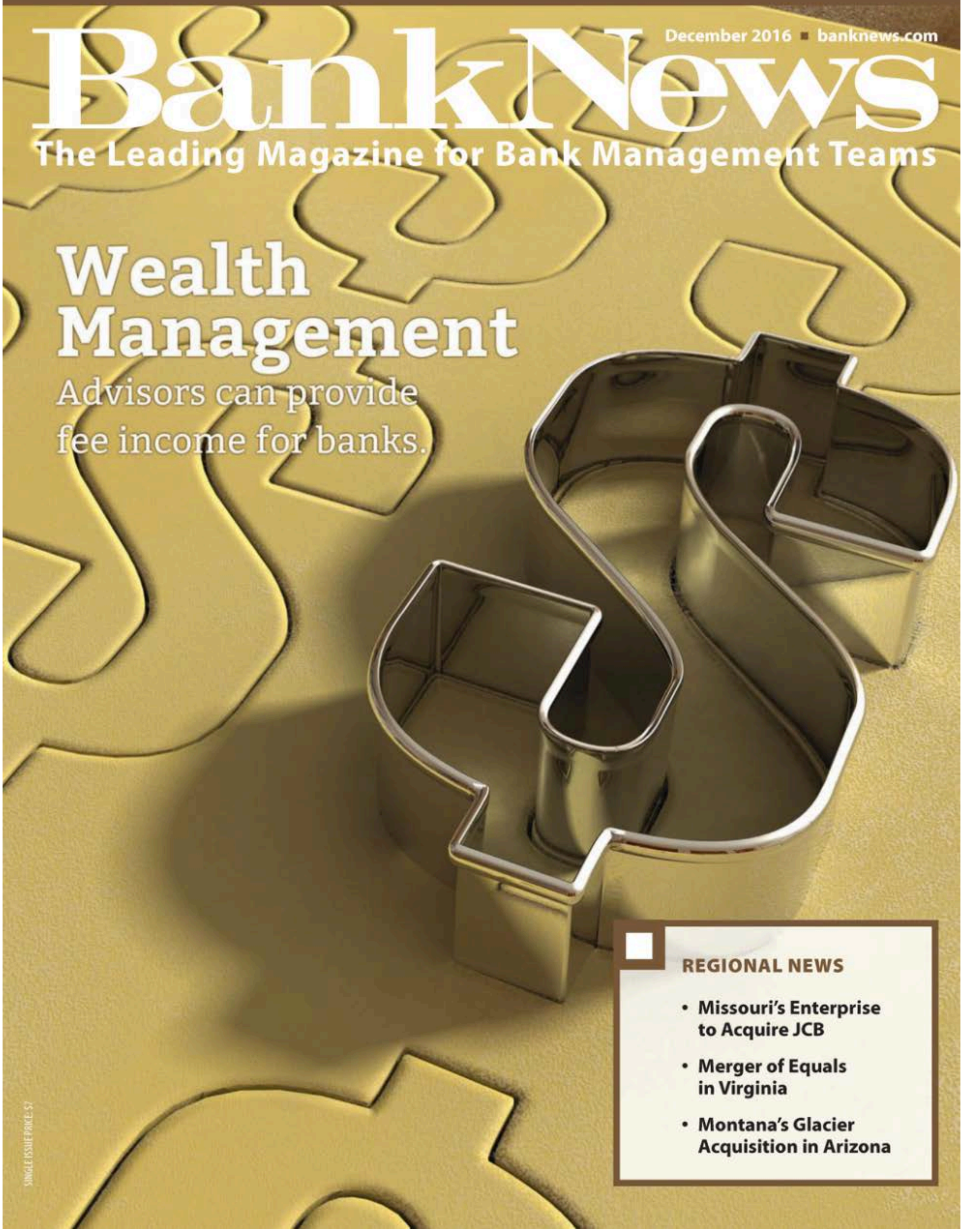
Analyze Your Website ▪ An Intranet That Rewards ▪ Mobile Deposits

December 2016 ▪ banknews.com

# BankNews

The Leading Magazine for Bank Management Teams



## Wealth Management

Advisors can provide fee income for banks.

**REGIONAL NEWS**

- Missouri's Enterprise to Acquire JCB
- Merger of Equals in Virginia
- Montana's Glacier Acquisition in Arizona

SINGLE ISSUE PRICE: $7

# Wealth Management

banknews.com/blog/wealth-management/

### Advisors can generate fee income for banks.

**By Dan Overbey**

Several weeks ago, I exchanged emails with the chief financial officer of a $1.2 billion bank. In response to our wealth program administration proposal, he responded, “We’re not interested. We had a relationship with your broker dealer several years ago and we walked away because of poor performance.”

The executive went on to explain that the program failed due to the misalignment between the broker dealer, the advisor type and the bank’s DNA. Meanwhile, a number of wealth programs flourish in community banks generating non-interest fee income and building franchise value. Why do some banks succeed and others flounder?

**A New Paradigm**

Many broker dealers will advocate a templated solution for how the bank will succeed with wealth management — top-down management support, branch visibility, hiring the right advisor, contests and incentives. While this roadmap may still hold true for some retail-oriented banks, a paradigm shift has occurred that a majority of broker dealers haven’t countered.

Over the last 10 years, much has changed in community banking. Newly formed banks are no longer bricks-and-mortar, retail institutions. Based on FDIC call report data, more than 70 percent of banks characterize themselves as having a commercial banking specialization.

Unfortunately, bank executives today are often reluctant to introduce wealth services because of what’s being passed off as “wealth management.” This paralysis is the result of many community bankers having worked at larger banks with traditional, retail-oriented wealth programs. The reluctance stems from a perception that a branch referral-based program will not work in a commercial bank.

Referral programs are on life support, and they should be. As if recent news stories related to cross-selling aren’t enough incentive to avoid potential pitfalls related to referral and cross-selling programs, consider this: when was the last time your wealth advisor made a referral back to your commercial banker?

Today, advisors should be expected to “earn” referrals by adding value. Successful programs have integrated advisors as a part of the commercial banking team. If the advisor adds value through competency or skillset, the team succeeds. Advisors must recognize the bank as a center of influence, not a cash cow where bank clients are tripped as they exit the branch.

Look for a partner, not a broker dealer. Only a handful of large, independent broker dealers control the bank space but little has been done to respond to the changing paradigm. So how do bank execs identify a partner that matches their DNA?

Some financial institutions that opt to launch a program will utilize a model where the broker dealer will provide regulatory guidance, supervision and compliance, operations and trading support. Under this model, advisors can be W2 employees or 1099 contractors. The latter approach enables the bank to launch a wealth program with zero capital outlay. While lower risk, this approach may still not guarantee success.

Here’s where the problem arises. Chances are, if your bank works directly with one of these top broker dealers, the institution will be just one of 200-plus banks employing the same cookie-cutter approach, recruiting the same type of advisors and likely getting mixed results. The chance of receiving much-needed, specialized guidance from the broker dealer is relatively low.

What size bank will benefit most from having a direct relationship with a broker dealer? A handful of super community banks and a considerable number of regional and "big box" banks can derive benefit from a direct relationship with a major broker dealer to outsource back office, clearing or other services. Many good-sized regional banks are weighing the increased costs to operate a full-service broker dealer against increasing pressure on program profitability.

**A Program Administration Partner**

So, if aligning with one of the large broker dealers does not ensure success, what's the best blueprint? A program administration partner enables the bank to leverage its smaller, nimble size.

Basically, a program administration partner is an intermediary between the broker dealer and the community bank. If your bank is contemplating the launch of a wealth program, or re-engineering an existing program, consider these tips in identifying a program administration partner:

- Understanding of the bank's DNA. The bank's due diligence should focus less on due diligence per se, and more on identifying a partner that understands community banking and your bank's DNA.
- Marketplace differentiation. Equally important to launching a program, consider a partner that will help differentiate your bank's value proposition.
- Advisor competency. Under the new paradigm, bank-based advisors must demonstrate value through enhanced skillset and competencies specific to the bank's DNA.
- Leading-edge technology. Robo will take its share of investors, but there are other, tremendously enhanced technology applications across the broker dealer space.
- Customized programs. If you buy off the rack, plan to introduce a retail-like program. If you truly want to leverage your unique DNA, look for a tailored, custom-fit approach.

Generally speaking, if a bank selects a program administration partner, there will be little if any reduction in revenue shared back to the bank. In some cases, the bank will earn even higher revenue.

**Every Bank**

Unless your bank has a "For Sale" sign in the front yard, you need wealth management. Competition, for any bank engaged in chasing commercial loans and deposits, will continue to accelerate. Community banks play an important role in lending to U.S. businesses, but "lead-bank" relationships have diminished and larger banks employ a team selling effort. A commercial lender may still originate the relationship, but ensuing meetings will serve to tee up treasury management, merchant sales, trust and wealth management. The end result is consolidation of financial services through increased wallet share.

Mid-size to larger banks are increasingly looking to outsource key program components while maintaining front-line sales management or advisors considered to be essential to the DNA of the institution. With outsourcing of certain operational functions or clearing, incremental profits fall to the bottom line.

For smaller community banks, W-2 employee advisors continue to be an extravagance. Outsourced models with a program administration partner provide a lower-cost entry, control and customization, and a structure that permits you to "lease" your advisors.

**Five Steps to Success**

In planning the launch of a wealth program or the re-engineering of your current program, here are several key program attributes:

1. Broker dealers, while strategically important, must be tactically proficient. Look for a partner, local or national, that adds value to your culture and DNA.
2. Consider a firm that is capable of truly customizing a program to your bank.
3. Does your partner firm promote an open architecture, both in terms of products and leading edge technology solutions?
4. Avoid advisor candidates who change jobs every two or three years. Most firms provide advisors 18 to 24 months to succeed.
5. A true program administration partner works alongside the bank's executive team to strive for continual improvement and outside-the-box solutions.

*Dan Overbey is the managing director for Tampa-based IFF Institutional Services, a wealth program administrator with 500 advisors in 38 states. IFP is affiliated with LPL Financial, a major independent broker dealer with more than 14,000 advisors and providing a wealth platform for more than 750 banks and credit unions. Contact him at don.overbey@ifpartners.com.*