Private Trust Group of America

Wealth Management Services
An Opportunity for Community Banks

Competition for providing personal trust and related financial services has never been more intense than it is today.

The final decade of the last century experienced some of the most dramatic changes ever to occur in the area of personal trust management. Advances in technology and the consolidation of the banking industry through mergers and acquisitions have forever changed the competitive landscape for providing trust services, which now fall under the broad category of "wealth management services".

The confluence of these two major events presents community banks with unusual opportunities to make significant inroads into this lucrative market. The purpose of this article is to explore ways to capitalize on those opportunities and to address some of the challenges that lie ahead.

Opportunities and Challenges

Technology – Advances in technology have clearly leveled the playing field by giving community banks a cost-effective means of delivering wealth management services in real time – something that was previously too expensive, except to their larger counterparts. Costs are still a hurdle for some community banks, but outsourcing companies that provide the infrastructure and supply information to customers on a private label basis are rapidly lowering the bar.

While technology has substantially improved the ability of community banks to compete with larger institutions, it has also created a much more competitive environment by making it affordable for non-traditional providers to offer trust and wealth management services. Lawyers and accountants, a traditional referral source for banks and other financial institutions, are now competing directly with banks by offering wealth management services in-house or through strategic alliances.

With the expanded opportunities to compete with larger financial institutions having been largely mitigated by the challenges of a much more competitive field of service providers, one could argue that it is difficult to see how such advances in technology have been helpful to community banks. If the expanded services market were the sole result of these technological advances, that argument may have some merit. However, one must look at the second dramatic change that has occurred in the past decade, bank mergers and acquisitions, to understand that community banks have a unique opportunity to solidify their positions within their local communities and to gain significant market share across all of their traditional banking lines.

Bank Mergers & Acquisitions – Consolidation of the banking industry through mergers and acquisitions has resulted in a deterioration of customer loyalty and undermined the ability of large institutions to provide truly personal services to their wealth management clients – and that could not be better news for community banks.

A recent survey conducted by Greenwich Associates found that 30% of small businesses (annual revenue of $1 million to $10 million) and 23% of mid-sized businesses (annual revenue of $10 million to $500 million) consider reducing future levels of business with banks involved in merger rumors because of an anticipated decline in service quality. Moreover, the same survey found that over one-quarter of those small business owners surveyed actually transferred their business to another institution after their bank had gone through a merger. Sixteen percent of mid-sized companies claimed to have made a similar decision.

Similarly, a small, unscientific Internet poll taken a couple of days after Bank of America and FleetBoston announced their merger plans, 35% of 3,265 respondents said they would leave FleetBoston as a result of the merger. Only 3% said they would become a new customer of the new entity.

The results of these and similar surveys are supported by the proliferation of new community banks and independent trust companies that are sprouting up all over the country. Small, locally owned and operated financial institutions are seeing a surge in new business as a direct result of the larger institutions being created by bank mergers and acquisitions.

One of the key reasons that small and mid-sized businesses shy away from larger banking relationships is that service, the lifeblood of any small organization, declines significantly as banks expand beyond their local roots. After all, a business with $25 million in annual revenue is more likely to command a higher level of respect at a local community bank or a small regional bank than it is with a large, super-regional bank where $25 million in revenue is considered a "micro-business" and decisions are made in a place far removed from the local community.

The Keys to Success

With advances in technology making it easier than ever before to deliver highly sophisticated financial services to wealthy clients, the characteristics that distinguish one service provider from another become more difficult to define. Since virtually anyone with a computer and experienced in any of the various wealth management disciplines can easily deliver a complete suite of services through various alliances, it is critical to focus on those areas where there is a perceived advantage.

The keys to success are not found in the desk drawer of the CEO; nor are they found in the slick marketing materials explaining the rainbow of services that are so universally available in the marketplace. They are found in the core foundations of any successful wealth management business – vision, shared ownership and responsibility, personal relationships and an unyielding commitment to providing personal service.

Vision – Absent a well articulated vision of a bank's overall strategy and stated purpose, adding wealth management services (or improving upon such services that may already exist) will become an exercise in futility. Wealth management services must be an integral part of a bank's overall philosophy of serving the local community. Without a mandate from the Board of Directors, and the complete and unequivocal support from management, it will be viewed as a stepchild by bank employees and customers alike, and never attain its full potential.

The same expectations should be placed on a bank's wealth management division as any other. While the success of a wealth management division cannot always be judged on profitability alone, it nevertheless should be held to the same profitability standards as other divisions within the bank. More importantly, wealth management services must be fully integrated into the cross marketing efforts with all other banking divisions. It is only then that a true value can be placed on this important link in the chain of intersecting customer relationships that are so vital to a small community bank.

Shared Ownership and Responsibility – Including wealth management services in the overall strategic vision of the bank cannot successfully be accomplished without a clear understanding of how its success will be measured against overall bank results. This requires an internal debate on the relative value of various bank/customer relationships and how the benefits of those relationships are credited back to the various divisions of responsibility. As with any other task involving territorial ownership, the ancient walls erected to create an environment for individual success must be replaced with an open vision of shared success for the organization.

The ultimate success of this debate requires a bold new approach that maintains traditional areas of ownership and responsibility, but with a new dependency on the success of the bank as a whole. The very nature of the debate, therefore, requires the full support of the Board of Directors and the CEO, as well as the services of an independent third party facilitator to maintain a tightly focused vision, remove barriers to success and promote teamwork. Shared ownership and responsibility helps create an environment that encourages everyone to cross market all of the bank's services, thus ensuring that every bank customer has one less reason to consider an alternative banking relationship.

Personal Relationships – Perhaps the most important key to success walks out the door every night to go home to their families. In the wealth management business, human capital is the indispensable key to success. Personal trust and estate planning services rely more than any other financial discipline on personal relationships, which are one of the greatest strengths of community banks and, paradoxically, one of its greatest weaknesses.

One distinct advantage that community banks have over their larger competitors is the ability to make customers feel important. Despite the expanded use of the Internet to conduct financial transactions it has not eliminated the need for customers to interact with their bank officer when the occasion presents itself. Everyone from the CEO and Board of Directors to the receptionist must be expected to be goodwill ambassadors for the organization.

However, the ability of small, traditional institutions such as community banks and independent trust companies to forge close personal relationships with their wealthy clients is now being undermined by the ability of front-line professionals such as attorneys, accountants and other personal advisors to offer an alternative solution. That alternative may not be a truly "independent" solution, but it is nevertheless one that is appealing to clients because of the close personal relationship and trust typically associated with those advisory relationships. Therefore, it is incumbent upon the bank to recognize that new and existing client relationships must be steadfastly maintained and nurtured from within.

As technology continues to lower the barriers of entry and the market continues to expand, personal relationships become the single most distinguishing feature that can differentiate one bank from another. It is imperative, therefore, that valuable resources are allocated in a way that improves the ability of community banks to attract and retain these vital keys to success – people who can develop and maintain important client relationships, and an efficient, cost-effective delivery system to support them.

Personal Service – At a time when technology has narrowed the information gap by making it more affordable to compete with larger institutions, so too has it lowered the barrier of entry for non-traditional competitors. At a time when clients are being turned off by mega mergers, community banks and independent trust companies are springing up all over the landscape and reaping the rewards of disenfranchised customers looking for a "personal" touch. And at a time of mutual fund scandals and other corporate malfeasance, clients are turning more and more to a "trusted advisor".

While advances in technology, bank mergers and mutual fund scandals have all helped create opportunities for smaller institutions and other non-traditional wealth management service providers, personal service ranks a close second to personal relationships as a key distinguishing characteristic separating one from another in a vast sea of choices for wealth management customers. Personal service has always been a strength of smaller organizations – now it is its lifeblood. Increased competition has made it more important than ever before to pursue the highest standards of personal service.

Personal service also means becoming actively engaged in life-changing decisions for clients and their families by becoming a watchdog that protects their privacy, preserves their wealth and serves as an advocate in advancing their interests. In an historic sense, personal service meant exercising one's fiduciary responsibility by working within the four corners of a will or trust instrument and carrying out the basic dispositive provisions as contained therein. That is no longer the case. Personal service now includes dealing with such activities as property management, eldercare, conflict resolution and business succession issues, to name a few.

Personal service cannot just be a catch phrase or a hollow slogan, just as it cannot be a reactive response to a customer's complaint or inquiry. To have any meaning at all, personal service must be a conscious and consistent pro-active effort on the part of all bank employees. If one waits to hear from a customer with a problem, it may be too late to save the relationship. Many times customers simply do not take the time to register a complaint – they simply voice their dissatisfaction by moving their business to another bank. Time spent pro-actively gauging the satisfaction of customers is a very inexpensive way of proving that "personal service" is not just a catch phrase or hollow slogan, and it shows that the bank really does value the relationship.

<u>Meeting the Challenge</u>

Community banks that fail to provide wealth management services to local business owners, wealthy clients and their families are missing out on a significant opportunity to capture a segment of a rapidly growing market. More importantly, they may be inadvertently providing their customers with a reason to move their banking relationships elsewhere.

There are many steps along the path of providing efficient, cost-effective wealth management services, many of which have already been discussed in this article. However, one must look inwardly at the organizational structure and philosophical makeup of the bank's owners, directors and executive management to determine if it has the capacity to meet the significant challenges likely to be encountered in undertaking such an endeavor. Some of the critical issues that must be decided involve the importance of promoting <u>inter-bank relationships</u>, forming <u>strategic alliances</u>, offering <u>single-source solutions</u>, embracing <u>change</u> and making the <u>commitment</u> necessary to succeed.

<u>Inter-Bank Relationships</u> – In addition to the importance of personal relationships between bank personnel and wealth management customers that was mentioned earlier, there is an internal banking relationship that must be nurtured.

Despite a high-cost, low-margin profile, providing wealth management services is essential for most banks because of its relationship appeal to other bank services. Given a choice, for example, most bank customers would prefer to have all of their banking needs handled by a single bank rather than having their checking account, mortgage and business loans in one bank and their investments in another.

The intrinsic value that various bank services have on one another should not be underestimated. It is essential, therefore, that management confront the issues of integrating all of the bank's services to promote the maximum exposure for cross marketing among the various service groups, and to provide a means for measuring the relative value of each to the bank's bottom line. Until that is accomplished, various divisions within the bank will work at cross-purposes with little reason to look beyond their own balance sheets for shared relationship opportunities.

There are also external relationships to be explored if a bank is to provide wealth management services in an efficient, cost-effective manner. Virtually all successful businesses now recognize the need to focus on their organization's core competencies and outsource everything else. In the wealth management business there is no greater core competency than the ability of a bank's staff to forge close personal relationships with its client base. Consequently, the establishment of key external relationships through strategic alliances is essential in providing an efficient, cost-effective support structure for the bank's key personnel.

Strategic Alliances – Notwithstanding the expanded opportunities that clearly do exist, community banks are finding it more and more difficult to provide cost-effective solutions in an increasingly competitive marketplace. While the cost of technology has come down, greater demands are being made by clients more sharply focused than ever before on "one stop shopping" and personal service. It is becoming essential, therefore, for community banks to form key strategic alliances with other service providers as a means of controlling costs and delivering personalized services.

Although strategic alliances generally mean that the same revenue pie is being divided into smaller pieces, they can also provide a marketing advantage by bringing together specialists from key wealth management disciplines that make the whole greater than the sum of its parts. Community banks' sphere of influence creates a natural repository for such strategic relationships to reside.

While strategic alliances make it possible to compete more effectively, each must be monitored carefully to manage expectations and to provide the desired results. It is critical, therefore, to establish a clear and unambiguous protocol for managing the intersecting relationships in order to provide a seamless process and to protect the customer's interests. Furthermore, a level of trust must be developed among the parties that protects and preserves each partner's unique role in managing the underlying client relationships on a personal level. Even the slightest hint of impropriety, inadvertent or otherwise, has the potential to sour the strategic relationship beyond repair.

Strategic alliances are clearly gaining in popularity as smaller financial institutions and professional groups look for ways to enter the wealth management business. Community banks that fail to recognize the need to form strategic alliances to fill this critical void in their service offerings, or fail to streamline existing services, do so at their peril.

The benefits of well-designed, strategic resourcing partnerships are well documented and should be reviewed in the course of conducting a thorough examination of the value of providing wealth management services. In addition to providing the benefits of improved efficiencies and reduced overhead, a true resourcing partnership requires a firm commitment to examine current business methods that could simultaneously reveal potential revenue enhancement opportunities. A strategic resourcing partnership that is based on shared economic interests can mean the difference between offering wealth management services and sitting on the sidelines.

Single-source Solutions – As with practically any other facet of their daily lives, customers are looking for convenience. In terms of wealth management, that means the ability for customers to conduct all of their financial and related affairs with a single-source provider. Strategic alliances have made it possible for community banks to become a single-source provider of virtually all wealth management and related products and services through various outsourcing initiatives or managed partnership arrangements.

With today's technology it is possible for a lawyer, an accountant, a retired bank executive or any number of other financial professionals to provide a wide range of wealth management services without the necessity of building a costly infrastructure to support such efforts. All that is required is a PC or laptop computer, a printer and Internet access. All of the supporting elements for providing wealth management services (from experienced back office operations and administration staff to custody and daily pricing of assets; and from investment management to legal and accounting services) can be accessed through a single-source provider, thus allowing financial professionals and their clients access to information in real time via a secure website from practically anywhere in the world.

The same technology provides institutional wealth management service providers with similar flexibility, thus allowing them to divert important financial resources from back office operations and administration to the highly critical task of developing the human capital necessary to build and maintain important client relationships.

Change – One of the greatest inhibitors to success in any organization is an instinctive resistance to change. Bankers, perhaps more than any other group in the financial profession, have historically been the most reluctant to embrace change – even on a moderate scale.

Change creates opportunity, which is the incubator for success. We can embrace change and be energized by the opportunity, or we can shy away from change and become paralyzed by inaction. We can be content with our lot in life and deny that new opportunities exist, or we can strive for success with an entrepreneurial spirit that turns a dream into reality. If banks are to succeed in the ever expanding wealth management services market their boards and executive management must demand that their managers embrace change, not shy away from it.

Commitment – As low-cost technology opens the window of opportunity for traditional trust departments to compete more effectively with larger ones, so does it open a new door of opportunity for non-traditional providers of trust services, such as lawyers, accountants and other financial executives. Consequently, increased opportunities for community banks have been met by increased competition from non-traditional sources, which puts a strain on financial resources and reduces already thin profit margins. The challenges are many, and the ability of community banks to meet those challenges depends on how seriously management addresses these and other critical issues.

The challenge of meeting the dual demands of increased competition and remaining profitable is not necessarily one of increasing the number of accounts under management or increasing the aggregate market value of those relationships. Organizations with only a handful of accounts can be highly profitable while those with several hundred (or even thousands) of accounts can be unprofitable. *The challenge is commitment.* Without the full commitment and ongoing support of management at the highest levels, profits will suffer and the organization will not reach its full potential.

Once the commitment is made, the organization should engage the services of an experienced outside partner to conduct a thorough top to bottom review of its business practices and assist with the development of a comprehensive business plan. Regardless of the internal structure of any organization, barriers to success are often created through the preservation of self-interests (real and imagined), stale ideas and lack of entrepreneurial spirit. An experienced outside partner will uncover those barriers to success; help promote fresh ideas, and introduce a series of benchmarks designed to encourage growth for the individual and overall success for the organization and its shareholders.