

Bankers Discuss Efforts to Get More Share

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By Bill Stoneman

Despite their best efforts, bankers continue to struggle to become the primary financial adviser for wealthy clients.

True, banks are increasingly emphasizing financial planning to offer prime affluent customers that most valued and lucrative of services: help from a trusted source. But recognizing what consumers want is not the same as providing it.

Leading with financial planning has worked for others in the industry. Registered investment advisers, the fastest-growing sector of the investment services market, are known for using sophisticated advice to generate more business from the affluent. Traditional brokerage firms also have moved from a focus on buy-and-sell transactions to an advice-based model.

But it remains to be seen how well banking companies, whose investment businesses often have generated lackluster results, can do with this approach.

"Everyone would say our objective is to be our clients' comprehensive objective financial adviser," said David Hanson, the president and chief executive officer of Fulton Financial Advisers, a unit of Fulton Financial Corp. in Lancaster, Pa. "Whether they can really deliver on that is a far different question."

Observers say that affluent customers want the person sitting across the desk to be an expert on subjects like estate and income taxes, insurance, and asset allocation.

However by many accounts, the skill levels at banking companies are uneven at best.

"Some banks have relabeled their private bank as a wealth management unit," said Robert R. Vokes, a managing vice president with First Manhattan Consulting Group, a New York firm that serves financial services companies. "But if you peel back, it's still a private bank. It's focused on deposit and credit instruments."

In the past 10 to 15 years banking companies have made an enormous commitment to the investment business — and they continue to do so. Bank of America Corp. recently bought U.S. Trust Corp., and Wachovia Corp. has a deal to acquire A.G. Edwards & Sons Inc.

But customer satisfaction research suggests that they still have plenty of work to do.

A new survey by J.D. Power & Associates, a Westlake Village, Calif., unit of McGraw-Hill Cos., suggests modest use of banks' investment offerings. And, that investors who do turn to banks tend to be less satisfied than they are with familiar brokerage names.

Among financial services firms or their parent companies, only Wachovia was named by more than 100 of the 3,043 respondents to J.D. Power's survey as their primary provider of investment services.

Wachovia, which would have the second-largest brokerage network when it closes the A.G. Edwards deal, ranked fifth in customer satisfaction. Citigroup Inc., JPMorgan Chase & Co., Wells Fargo & Co., and Bank of America were named by too few respondents to be ranked, but all had satisfaction scores that were below the average for the survey, according to J.D. Power.

Topping the 2007 customer satisfaction rankings were Edward D. Jones & Co. LP, A.G. Edwards, and Vanguard Group Inc. — all traditional brokerage service providers.

Satisfying existing customers, the survey's exclusive topic, is not the same thing as attracting new ones. But bankers seem to be acknowledging, through the regular rejiggering of their businesses, that their investment units are falling short of expectations by either measure.

Two or three years ago banking companies were sending platform officers off to get licenses to sell securities as fast as they could. Today many of the companies expect those workers to do little more than refer investment business to full-time brokers.

Citi recently announced plans to roll its bank-based broker-dealer, Citicorp Investment Services, into its Smith Barney. The New York parent company would not say whether it was frustrated with the branch-based brokerage unit's performance, or whether it simply believed that Smith Barney would do better. Analysts and executives said a combination of the two might have been the reason.

Banks are unlikely to find a single answer for attracting and retaining investment business, and investment executives do not entirely agree about which issues loom largest. However, one widely seen as near the top of the list is understanding the financial challenges that professionals and business owners face.

Helping customers answer a broad array of questions requires understanding that the investment business covers a wide swath of territory. Also, what they expect and the cost of delivering on those expectations is quite different from one end of the landscape to the other.

Of the 110 million households in this country, 3% to 4% own about 65% of all financial assets, said First Manhattan's Mr. Vokes, and those households on average hold more than \$2 million. Another 30% of all financial assets are held by about 42% of all households, he said, and they hold about \$100,000 to \$2 million each.

Though the first group, truly affluent people, generate the biggest chunk of business, competition for those individuals is fierce, Mr. Vokes said.

The second group, often labeled mass affluent, is growing rapidly and may offer an opportunity to more banks, he said.

Both are seeking advice, he and others said, though affluent investors typically require considerably more specialized and sophisticated information than others. In addition to gaining knowledge about stocks and bonds, these investors want help figuring out how to minimize income taxes, how to transfer their savings to their offspring, and how to avoid burdening their children if they need long-term care, several executives said.

Some banks, like First Tennessee Bank, are using free financial planning to get customers in the door. "For the most part," the mass affluent "have not done a good job of planning," said Rhomes Aur, an executive vice president with First Tennessee's parent, First Horizon National Corp., and the head of its wealth management business. "They have not done a good job of finding a financial adviser they trust."

The Memphis bank offers free planning to customers with roughly \$500,000 to \$5 million of liquid assets. Certified financial planners with the bank approach them and offer to walk them through a series of questions about their situation and their objectives. The planners then produce a document outlining the steps a consumer can take to get closer to those goals.

These employees do not sell the bank's investment products or services, but customers can be referred to others at First Horizon for such offerings.

Mr. Hanson at Fulton Financial said that advice on asset location — choosing legal entities to hold various funds — is one of the most valuable services a wealth manager can provide affluent people. Different types of assets will be better suited for trusts, personal foundations, retirement accounts, and direct ownership, he said.

Analysts said that before it even makes sense to talk about an effective investment plan, affluent and mass affluent investors want help with more basic choices.

"If the question is should I pay down my mortgage, or should I take that \$100,000 bonus and buy some more stock with it, I want the adviser to have an opinion on that," said Alistair Jessiman, a managing director of Novantas LLC, a financial services consulting firm in New York.

Mr. Vokes said the mass affluent want help with two questions in particular: Does that person have enough money to retire, and how much will that person be able to spend in retirement?

Mike Mortensen, the president of PNC Investments, a unit of PNC Financial Services Group Inc. in Pittsburgh, framed the need more broadly.

In large part because of the disappearance of traditional defined benefit retirement plans, mass affluent and mass market customers want to learn more about building a nest egg for retirement, saving for their children's education, and where insurance fits in, Mr. Mortensen said.

Part of the challenge for bank-affiliated investment personnel is attracting people who don't even know how professionals can serve them.

"There are a lot of potential customers who don't know what they're looking for," said Mary Beth Sullivan, the managing partner of Capital Performance Group LLC, a consulting firm in Washington. "They have never sought out professional help in managing retirement money."

Almost all large banking companies, and many midsize ones, offer services to this expansive customer base through two channels: a wealth management unit and a brokerage business. Wealth management units tend to serve more affluent clients, though bankers draw the line for this service anywhere from \$500,000 of liquid assets to \$5 million. The units typically have full discretion over investment decisions and usually are staffed with experts on such subjects as estate planning, tax planning, insurance, and charitable giving to address the kind of issues that Mr. Vokes and Mr. Hanson said concern their clientele.

However, less affluent customers increasingly expect advice and hand-holding, too, even if their specific needs are simpler and served through the brokerage unit. Bankers say they are responding to that expectation, often with pre-packaged products and services.

"Today every one of our 400 financial consultants" at PNC Investments "has a full suite of planning tools," Mr. Mortensen said. "Not just retirement planning, but education planning, insurance planning, and more."

Mr. Aur said the distinction between wealth management and brokerage is fading at First Horizon, though the former is organized to serve customers who do not want to participate in specific investment decisions and the latter is suited to people who do. As is the case throughout the industry, fee-based service is gradually supplanting commission-based service at First Horizon, and brokers are expected to have significant knowledge of a broad range of issues.

If sound advice looms largest for investors choosing among service providers, then a couple of other considerations go right along with it, experts said. Ultimately, Mr. Jessiman of Novantas said, the relationship between a bank's investment unit or any other organization and its clientele rests on the trust that customers have in the people who actually talk with them. Customers expect advisers to draw on their firm's resources, but the adviser's own knowledge and communications skills are critical, he said.

Keeping in regular contact with clients makes all the difference in the world, by most accounts, especially when the stock market falls.

Access to a wide range of investment products — or open architecture, to those in the business — is crucial in demonstrating that advice is objective, rather than slanted toward making more money for the firm.

Eric Housman, director of sales and service for the wealth management business at BB&T Corp. in Winston-Salem, N.C., said frequent contact is critical.

He said that his unit tries to contact customers as often as 20 times a year through phone calls, letters, and e-mail.

His company's research shows that affluent investors who are contacted regularly are more satisfied with investment performance than investors who do not hear from their advisers as often, even when the performance is the same, Mr. Housman said.

But Chip Roame, the managing principal with the San Francisco consulting firm Tiburon Strategic Advisors, said that calling without a pointed reason is not a good idea, either.

"It's personalized contact" that counts, Mr. Roame said. "It's relevant contact."

Most executives say that even though investment performance is important, it is not the top priority for many customers. That may be in part because of a keener awareness of the trade-off between risk and return.

"When the market took a turn for the worse" earlier in this decade, "that shifted some people's perception of what investing is all about," said David Legeay, a senior vice president in KeyCorp's private bank.

Not everyone is so sure about that. David Pittman, the president of Fifth Third Investment Advisors, which houses both the wealth management and brokerage businesses of Fifth Third Bancorp in Cincinnati, said investment returns still matter the most.

Figuring out what customers want may be just part of the challenge for bankers interested in the investment business.

To begin with, as the slim representation of banks in the J.D. Power report suggests, investors still make little connection between a bank and investment services.

"When you ask someone what do they go to First Tennessee for, they're going to say a loan or a checking account," said Mr. Aur of First Horizon.

PNC's Mr. Mortensen said there is "an awareness challenge out there."

In addition, fulfilling the advisory role in which so many institutions are casting themselves is no easy matter.

"If I'm holding myself up as a comprehensive, objective adviser to a \$4 million client, I need to be pretty darn well versed on estate taxes, on income taxes, on insurance issues, on retirement planning issues, and to some degree on family issues," Fulton Financial's Mr. Hanson said.

By many accounts, that is a tough order to fill, and an expensive one. Hiring advisers, the best of whom command considerably more than most commercial bankers at the same level within an organization, is probably cost-prohibitive for serving clients with less than \$1 million of liquid assets.

Even keeping in regular contact with customers is more difficult than it sounds.

"Everybody has calling plans," Mr. Aur said. "The question is, how well do you execute them?"

Some brokers and some wealth managers do better than others, he said, but with employee portfolios that in some cases can include hundreds of customers, the trick is to keep closest to the 30% or 40% of customers for whom it will count the most.

Most traditional brokerage firms and registered investment advisers have committed themselves to advising and keeping in close touch with affluent investors, and they make little pretence of trying to service investors of more modest means.

Though bankers certainly want business from affluent customers themselves, they are not ready to forsake the mass market to do it.

Achieving a worthwhile return on investment from both groups is doubtless a challenge, but one that many bankers nonetheless say they are prepared to pursue.

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