

HOW AMCORE'S WEALTH MANAGEMENT VESSEL REVERSED COURSE

BY ANDREW SINGER

BACK IN 2004, Amcore Financial's (Rockford, IL) wealth management unit was a 'proprietary shop.' It owned its own investment advisory firm, Investors Management Group, Ltd. It managed its own proprietary mutual funds—Vintage equity funds. But then the \$5.2 billion (assets) banking company changed course 180 degrees and moved toward a 'client-centric,' open-architecture product model. This proved a wrenching experience, but one that was clearly necessary, according to Patricia Bonavia, who led the bank's wealth management segment through the transition.

"Had we not made the changes, our line of business would have been put up for sale in two to three years," Bonavia recounted at the recent BISA Annual Conference in Hollywood, Florida.

Why move to an open architecture? Revenues were declining. Growth was stagnant. Their proprietary funds were underperforming. And "compliance costs were going through the roof," she says.

With \$5 billion or fewer of assets under management, it really becomes difficult for an institution to achieve critical mass, suggests Bonavia, who recently retired as executive vice president and chief operating officer of AMCORE Investment Group. To some extent, it takes the same infrastructure to run a \$500 million fund as it does to run a \$10 billion fund.

And with regard to fund performance, "if you're not a four or five star, it puts you in a vulnerable position." Performance *has* to be high. "Our competition used our proprietary focus against us all the time," recalls Bonavia.

What did clients want?

AMCORE began scouting alternatives. It conducted focus group sessions: What did its clients want?

What they wanted was an objective, trusted adviser, the bank learned. Clients also wanted access to alternative investments, including private equity, real estate, and hedge funds. They desired greater ETF (exchange traded funds) exposure, as well as access to top-quality separately managed accounts (SMAs).

On December 30, 2005, Amcore sold Investors Management Group, Ltd., the largest Iowa-based manager of pooled public funds, to West Bancorporation, Inc. It sold its Vintage equity funds to Federated Investors, Inc., also in 2005.

The transition to this 'open architecture' took place over a two-year period. There were short-term financial implications. The bank faced lower profit margins. "You do give up some profit," says Bonavia, when outsourcing. There was staff turn-

over, too, although AMCORE kept some portfolio managers for existing clients.

Which outside SMA provider did Amcore settle on? Concord Wealth Management (Matawan, NJ), Bonavia answered at the conference session, even though FundQuest "was close." Why Concord? It had 75 managers and more systems technology, she added.

Did Amcore increase its fee structure when it began outsourcing the individually managed accounts? Yes, it raised fees 55 basis points. Customers didn't complain at all.

"Change is difficult," says Bonavia. "We had held on to under-performance for too long." Did they have any regrets? "None



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whatsoever." The move stabilized profitability. Sales are now picking up, she says.

Seeking SMA specialists

While the AMCORE case is more dramatic than most, it isn't the only recent example of a bank abandoning or trimming its proprietary products and services. Synovus Financial, a \$31 billion (assets), 40-bank holding company based in Columbus, Georgia, has also been heading in this direction.

"We're selling our [proprietary] funds," explained Rob Varner, executive vice president of Synovus Securities, another speaker at the BISA "Assembling the Right 'Product Set' for the Wealth Management Market" conference session. Synovus hadn't had great success with its proprietary funds, and the compliance and regulatory issues "were hell," he recounted.

The process has been more drawn out at Synovus than at AMCORE. Indeed, they have been on the 'open architecture'

road for a number of years. Nine years ago, Varner went to Lockwood, the Pennsylvania-based SMA specialist now owned by Pershing. Synovus signed with Lockwood, its first bank client at the time.

The Lockwood partnership “didn’t work out well” for the bank, however, and they’ve since been to other SMA providers, like FundQuest, recounts Varner. Synovus has \$9 billion in assets under management within its wealth management group.

Varner also went to Prudential for the broker/dealer some time back, but Varner’s brokers “were not interested at all.” Prudential offered only about eight SMA choices at the time. The trust and family office segments were interested, however,

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and they now do substantial business with Prudential.

The Synovus family office, for clients with \$25 million in investable assets, was built years ago for the family of the bank’s founders. The recent acquisition of Southtrust by Wachovia has “unleashed a lot of talent” in the family office area, says Varner. Synovus recently recruited a professional for their family office who has an expertise in hedge funds, for instance.

In early 2006, Synovus launched an SMA product using the Prudential platform, designed to be used by *both* brokerage and trust (and to include the family office). The broker/dealer is also moving toward the launch of National Financial’s MAS (Managed Account Solutions) suite of products. One attraction, among others, is the suite’s breadth of SMA choices, said Varner.

Synovus has 58 Series 7-licensed dedicated reps working in the branches. Of these, 56 have Series 65/66 licenses. (This does not include Synovus’ ‘registered’ individuals who work in Creative Financial, the bank’s financial planning firm, or in trust or Capital Markets.) “Mostly, our financial consultants do not actively sell to trust clients,” Varner told us.

The high portion of Series 65/66 licenses, however, suggests that Synovus is serious about fee-based products—even within its brokerage unit. In fact, about one-third of the total revenue at Synovus Securities comes from re-occurring fee products, including wrap products and mutual fund trail revenue—an unusually high percentage for a bank brokerage program. (At the same BISA session, a representative from Chicago-based Harris Bank reported that *his* bank was doing 40 percent from fee-based products in their retail brokerage program.)

Integrating financial planning

At another conference session, “Planning Options and Trade-Offs,” bankers discussed how financial planning could be integrated into the wealth management process. In some instances, the challenge is to make brokers think and act more like financial planners. Or, as session moderator Standard & Poor’s Vice President William Glasgall noted, quoting Larry Silver:

“In today’s business environment, it’s not enough for financial advisors to simply hold a Series 7. Investors expect you to do more than just be a resource for placing trades. They can do that online. They need financial planners who understand estate planning, retirement planning, college planning, insurance trusts, and more.”¹

At First Interstate Bank (Billings, MT), where trust, insurance, and brokerage are grouped under one umbrella, they are doing something like that. The First Interstate broker is the chief ‘relationship’ person and the ‘information gatherer’ for these businesses. If the client has a need for estate planning, the broker brings in a trust officer. In other situations, the broker may bring in an asset manager or an insurance specialist.

One client recently had money to invest, but also had some Alzheimer’s issues to sort through, related Scott Hatler, who heads insurance at First Interstate Financial Services Division. A meeting was held with a trust representative, along with an insurance specialist and a broker. Eventually the customer purchased long-term-care insurance (LTC) and invested half a million dollars in the trust department’s asset management sector. An unusually frank conversation that touched on the client’s Alzheimer’s concerns had revealed the LTC need. “In my last 20 years, I never had a discussion like this,” the client later exclaimed.

In this instance, the trust, insurance, and brokerage representatives were all in close geographic proximity to the client. But in other cases this isn’t necessarily the case, given the vast distances between bank branches in Montana and Wyoming. What to do in such circumstances? The bank might use video conferencing, Hatler said, and then added that this would *only* happen after a first live meeting.

Susan Hirshman, a managing director at JPMorgan Asset Management, commented on the overall movement from a transaction approach to a more consultative approach in dealing with affluent bank clients. It has become difficult to differentiate oneself these days by product or process alone.

Everyone has access to asset-allocation software, after all, noted Hirshman. “The price of ‘wow’ has gone up.”

Conversations with clients loom larger. One has to listen and uncover needs. Hirshman, whose focus is on developing strategies to provide wealth solutions to the affluent market, notes that decisions are typically 80-percent emotion and 20-percent logic; she works with JPMorgan Chase financial advisors who have clients with \$750,000 to \$15 million in investable assets. One question some advisors might ask is, “What does money mean to you?” If the client answers, “Money means freedom,” that suggests one direction (e.g., saving money for travel). The advisor’s goal is to get that person to his/her freedom.

It is also critical to train advisors “to know enough to know when to call in an expert,” notes Hirshman.

A new paradigm

The new planning paradigm, noted Glasgall, focuses more on a client’s ‘interior’—“who you are inside, your intentions, and how you feel about things, including attitudes toward spending and saving, personal risk tolerance, and your vision

¹Larry Silver, former head of marketing for Raymond James Financial, quoted in *OnWallStreet*, August, 2006.

of ‘the good life.’”

In contrast, he added, the old model focused more on a client’s ‘exterior,’—that is, “what you own, who you owe, [and] all the objective facts about your life, including personal resources and realities, such as education, occupation, income, expenses, assets, and liabilities.”

A planning approach will differ depending on the client segment, of course. Retail and the mass-affluent clients are more “scalable,” Hirshman notes. They simply don’t have as many planning issues, and those that they do have are more on the order of saving for education or saving for retirement. The high-net-worth or ultra-high-net-worth client segments, though, also present issues like philanthropy or family business succession planning.

Panelists generally agreed that while financial planning really required a team approach, compensation issues could derail the

process. The best solution is to compensate all the members of a wealth management team for a sale (e.g., broker, trust officer, insurance specialist, etc.). This is the only way to get rid of so-called silos. “Until we reach the point where the players are compensated as a team, we will probably have silos,” said Hatler, who noted that at his bank, players are *not* compensated as a team at this point.

“It has to be about teams,” agreed JPMorgan Chase Senior Insurance Manager Patrick Edwards, who added that financial planning with regard to his bank’s wealth management clientele is “heavily incentive compensation-based.” Several bank players are typically rewarded when a sale is made.

Overall, financial planning “builds a client relationship based not on transactions, but on collaboration, trust, and building meaningful goals,” noted Glasgall. □