



BUILDING TRUST

Community banks
diversify revenues by
offering wealth
management services.

BY CHARLES KEENAN

SINCE STARTING ITS TRUST DIVISION IN JANUARY 2004, Cape Cod Five Cents Savings Bank has never looked back. The \$1.6 billion asset thrift, headquartered in Harwich Port, Mass., has tapped into an affluent market of individuals, many of whom have chosen to live on the Cape for retirement. In just three and a half years, the trust division has amassed \$490 million in assets.

The move into trust helped Cape Cod Five in a couple of ways. It allowed the bank to continue to build its non-interest revenue stream. But it also helped it answer the needs of its customers, who had been asking for trust services.

“It’s critical for a financial institution to diversify its revenues,” said Warren Marsh, chief wealth management services officer at Cape Cod Five. “This was a way to diversify our sources of revenue. It’s also important as a financial institution to get as large a share of the customer’s wallet as possible. The larger the share [is], the more profitable the customer [is to us].”

"We are looking for **BANKERS** who understand the community," Hogan said. "We are using the same **APPROACH** with the wealth management business to create the kind of core infrastructure [needed] to support **CLIENTS** across the board."



No doubt, community banks are increasingly turning to wealth management services to build their business. While wealth management has traditionally taken place in trust departments, banks have expanded into other areas such as asset management, private banking, brokerage, and insurance. Community banks are finding that their high-touch roots are helping them expand the services they provide.

Increasing Income

Many banks have moved into the area of investment management because they are not generating the interest margins of the past. "A lot of banks have been struggling with the flat or inverted yield curve," said Andrew Singer, managing director of the Bank Insurance Market Research Group, a consulting firm in Mamaroneck, N.Y. "So increasing fee income has been like the Holy Grail at some institutions."

Some community banks have been so successful in wealth management that the fees generated make up more than 50 percent of non-interest income. At Alerus Financial Corp., a \$748-million asset bank in Grand Forks, N.D., fees from its wealth management arm generated 86 percent of non-interest income in 2006, according to Bank Insurance Market Research. At Washington Trust, a \$3.5 billion-asset bank in Spokane, Wash., they represented 66 percent of fee income.

Community banks can also give larger peers some strong competition. Despite community banks' smaller size, evidence shows they are doing a better job in terms of performance compared with their larger peers. Average gross sales revenue per financial consultant was \$271,000 in 2006 versus \$250,000 for large banks and \$256,000 for all banks, according to a 2007 study by Kehrer-LIMRA, a consulting firm based in Windsor, Conn.

Starting Up Services

While not easy, starting up a wealth management

division is perhaps less difficult for banks than ever before, thanks in part to affordable software and systems. Their availability has wiped out most of the advantage that big brokerage houses held 20 years ago, noted Bob Hogan, president and chief executive officer of Capitol Wealth Advisors, a North Carolina-based asset management arm of \$4.1 billion-asset Capitol Bancorp. (Capitol, headquartered in Lansing, Mich., has been opening de novo banks across the country, keeping a community bank feel.) "All the core products you need are available off the shelf," Hogan said. "If you can demonstrate the relationship with the community, you can easily compete with the big players."

How banks go about starting wealth management units varies, but generally banks rely on outside partners to some degree, particularly firms that provide services such as accounting, compliance, and technology. These services also can help banks screen money managers. "You have got to leverage third-party support where it makes sense to do so," Hogan said. "You need to weigh the advantages and disadvantages of it. But to get started, you can put together a pretty robust model leveraging that [support]."

Carver Bancorp, a \$735 million-asset thrift in New York, recently struck a deal with New York-based Merrill Lynch & Co. to start building a broader relationship with its customers. Merrill Lynch offers investment products, research, strategies and services to residents of communities served by Carver. At two of Carver's 10 branches, there is a Merrill Lynch advisor on the premises; customers at other branches are referred to the advisors when they want to have an initial conversation.

The deal with Merrill has helped Carver improve its offerings for urban communities in Manhattan, Brooklyn, Queens and the Bronx. Carver's previous wealth management partner only served customers by telephone, with only one person on call, and the primary focus being insurance and annuities. The set-

up with Merrill Lynch means that advisors will sit down with customers and devise a money management plan, whether someone has \$10,000 or \$1 million.

"It's a bigger conversation now," said Susan Ifill, senior vice president and chief retail officer at Carver. "What we really look to provide is the full range: 'Let me talk to you about what you want to do.' There is a really big education piece. This is something that is necessary. Neither one of us could do it as well as us doing it together."

Ifill said that providing wealth management services to its customers is a critical component of thinking longterm. "One of the things you can't buy at some of the larger banks is loyalty," Ifill said. She noted that banks need to take the time to get to know better their longtime customers with \$25,000 in passbook savings accounts. That in part can be through wealth management conversations. "If we don't get to know them and their families, then the next generation comes in with the money left to them and has no connection to us."

Some community banks have chosen to acquire a firm in order to jump-start their wealth management arm. Susquehanna Bancshares Inc., a holding company based in Lititz, Pa., that owns three community banks totaling \$8 billion in assets, purchased Valley Forge Asset Management in 2000 to provide a well-rounded platform of products and services to its bank customers. "We now have something to offer to every type of customer," said William Reuter, chairman, president and chief executive officer of Susquehanna. Through organic growth and acquisition, the investment management arm has amassed \$3.5 billion in assets, up from \$700 million in 2000.

Choosing a Partner

Banks that decide to work with a partner need to choose an investment platform, which offers banks the software solutions required to get off the ground. They can help banks

skip the unwieldy step of screening through the thousands of managers and can provide assistance with accounting and compliance tasks. Investment platform firms include Concord Wealth Advisors, GlobalBridge Inc., Infinex Financial Group, SunGard, and SEI Investments Developments Inc. "It is definitely an opportunity for banks to step up and get very competitive," said Nick Mariniello, executive managing director at Concord Wealth, a division of Concord Capital Partners, Matawan, N.J.

CountyBank, a \$252 million asset institution in Greenwood, S.C., uses Concord for the bulk of its customers. Concord helped CountyBank develop a list of 20 managers it uses for its clients. "We try to do most of the management through the Concord platform," said Fred Murphy, senior vice president of wealth management. "We wanted a partner that was willing to work with us and help design an investment approach that we could internalize with our [own] process."

Using investment platforms can also help community banks compete for institutional dollars. Outside vendors can help them win big accounts. CountyBank recently won a \$37 million mandate for a foundation. Murphy said the bank won the account in part by showing how it had a blend of money managers from the Concord platform and the expertise to handle a large sum of money.

Finding Talent

Finding the right talent is no easy task. Personnel in trust and wealth management need several licenses to conduct business, such as Series licenses administered by the National Association of Securities Dealers. As a result, training can be an expensive proposition. "It is costly and time consuming to develop talent within," said James Lively, president and chief executive officer of Bridgewater Savings Bank, a \$370 million-asset bank in Raynham, Mass.

Yet community banks might have an edge. While 53 percent of community banks said it was either very or somewhat difficult to recruit financial consultants, 85 percent of all other banks said so, according to Kehrer-Limra.

Community banks can also benefit from bank mergers. When a neighboring bank to Cape Cod Five was bought by TD Banknorth Inc., the mutual was able to hire five officers to help start up its trust division in 2004. "It allowed us to achieve a critical mass far earlier than otherwise," Marsh said.

As Capitol Wealth Advisors has grown, it has hired asset managers from competitors or bought consultants outright. The company looks for consultants with a minimum of \$250,000 in trailing 12-month revenues, an industry measure that takes into account commissions and fees generated. Yet with managers that are higher up on the pay scale—those with \$750,000 in trailing revenues—attracting them requires purchasing them as though they are a business. "Hiring someone with \$750,000 to \$1 million in revenue is difficult," said Hogan of Capitol Wealth. "But when you offer to buy and monetize them you can do it."

Hogan said Capital Bancorp's approach leaves open plenty of opportunity, given that its community banks are going after the wallets of small- and medium-sized businesses owners. "We are looking for bankers who understand the community," Hogan said. "We are using the same approach with the wealth management business to create the kind of core infrastructure [needed] to support clients across the board."

Compensating Appropriately

Banks must also make sure they pay their personnel to retain them over the long haul. One common mistake is trying to shift financial consultants over to a bank's pay-scale model, which usually means compensating mainly with a base salary. That goes against the grain of the way financial consultants are paid, usually by commission based on assets under management, returns, and new business generated.

"We have learned over time that when community banks try to run asset management companies, they often don't understand the business," said Reuter of Susquehanna. "They tend to try to make the asset management company follow the same compensation model that the bank has."

"The real success we have had with Valley Forge is that we allowed it to continue to operate relatively autonomously," Reuter said. "We provide consolidated resources to their employee base, but we let them really be the face under the umbrella called Susquehanna Wealth Management. You have to be willing to look at different compensation strategies, different levels of compensation, and different ways of doing business. That is typically something that small community banks haven't understood."

In essence, bank executives can't let their egos get in the way when it comes to

developing a compensation formula for their wealth management division, Reuter warned. "You can't be afraid that the head of the asset management company might make as much as the CEO of the bank."

Generating Leads

Banks must also find the best way to get their traditional divisions to help generate leads. Many experts say the best leads often come from the commercial business. "A lot of people think they start by saying 'The big win is marriage of retail and their wealth management group,'" said Terrence Roche, a partner at Cornerstone Advisors, a consulting firm in Scottsdale, Ariz. "Yet banks need to recognize the bigger marriage might be commercial banking and wealth management."

Sales goals must also be integrated across the bank. Often bank customer representatives will hesitate to refer business if there's not a payoff, experts say. Referring business between the wealth management division and the bank must be fully integrated. CountyBank uses a sophisticated referral tracking system to monitor lead generation. The bank also has assigned an employee to monitor progress. Every position, from the president of the bank to the tellers, has referral goals. "We are integrated across the lines," Murphy said.

Overall, the approach is working at the bank, which has accumulated \$750 million in assets under management since it started the division five years ago. Its secret to success? Systems and people. "There are thousands of financial planners out there," Murphy said. "What is going to bring people to our shop and ultimately help them manage their portfolio? It's not just opening the door, but having the capabilities where people will feel comfortable letting you manage a couple of million dollars."

To be sure, having a wealth management arm can help community banks spread their roots deeper into their markets. "It is a high-touch process," Murphy said. "Community banks have the opportunity to really carve out a niche in wealth management because we are relationship driven." **B**

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