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## Getting Outsiders' Help In Wealth Management

■ BY STEVE GARMHAUSEN

Sovereign Bancorp Inc.'s wealth management business is young — it was started just six years ago — and, with only about \$1 billion of assets under management, it remains a relatively small part of the \$82-billion asset Philadelphia company.

But Sovereign plans to boost that figure to \$5 billion within five years with a new platform that allows it to offer institutional and wealthy individual investors access to dozens of outside money managers.

"We had to figure out a way to place ourselves on a level playing field with some of the largest providers in the wealth management industry," said Ira J. Brower, the president of Sovereign's trust and wealth management division.

Many small and regional banks say they are doing the same thing as Sovereign and positioning themselves to win over institutional and affluent customers by offering outside expertise across a wide range of investing styles and asset classes.

Rather than build in-house programs, they often use the platforms of firms such as Global Bridge Inc., SunGard, SEI



**Murphy:** Certain aspects are "just cost-prohibitive without a partner."

Investments, and **Concord Wealth Management**, a Matawan, N.J., unit of Concord Capital Partners.

Broadway National Bank of San Antonio started using **Concord's** platform in December, said Mike Zwartjes, executive vice president of the bank's investment management group.

"When we competed for endowment and high-net-worth customers, there were areas where the competition offered a broader array of services than we could offer," Mr. Zwartjes said. "We feel this has given us a couple of extra arrows in our quiver."

Broadway hopes the platform will help it increase its wealth management assets from \$1.2 billion to \$2 billion within five years, he said.

**Concord's** separately managed account platform includes 65 independent managers. A typical community bank uses about 15 of the managers, according to Dick Trumpler, the chief executive of the company's banking services group.

For a fee of 0.15% to 0.25% of assets under management, **Concord** does everything from due diligence on money managers to helping banks make pitches for institutional investors' business.

Using a third-party platform was essential for Countybank Trust Services of Greenwood, S.C., said Fredrick Murphy, its senior vice president for wealth management.

Hiring additional money managers directly would be "very costly," he said. And directly arranging subadvisory relationships with outside managers is difficult because community banks lack the heft to get their attention.

Also, Mr. Murphy said, creating the technological infrastructure and tracking the managers' performance would be

expensive and cause headaches. "It's just cost-prohibitive without a partner."

Banks have to employ open-architecture wealth management if they want to compete, said Charles "Chip" Roame, the managing principal with the San Francisco consulting firm Tiburon Strategic Advisors.

"In the long haul, if you want to grab greater share of clients' wallet, you need to offer more than your own proprietary strategy," he said. "Investors are getting smarter every year, and there are just some clients who are never going to believe you are good at everything."

Brokerage firms are far ahead of banks

in open architecture, he said. Seventy-eight percent of brokerage firms' fee-based investment assets are managed by third parties, compared with just 4% for banks, Mr. Roame said.

Mr. Murphy said banks remains concerned that the third-party platform that they use could also partner with competing banks.

Countybank, which has \$700 million of trust assets and \$125 million under management through its retail broker-dealer, worked out a "gentlemen's agreement" with **Concord**, Mr. Murphy said.

"If they want to partner with someone else in the geographic area, we agreed on restrictions against one or two banks that

we really compete with," Mr. Muphy said.

Using outside money managers without alienating banks' in-house portfolio managers can also be tricky, said Mr. Brower of Sovereign, which has gathered \$100 million under its outside-manager platform since it began using it nine months ago.

Sovereign's solution was to persuade its portfolio managers that choosing the right mix of outside managers for their clients is as important as choosing the best securities for them, Mr. Brower said.

"I liken it to us picking a mutual fund," he said.

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