

# WEALTH MANAGEMENT UPDATE: ADVISORS FLOCKING TO BANKS

BY ANDREW SINGER

**T**HE GREAT RECESSION continues to offer opportunities to banks looking to upgrade their brokerage and wealth management sales forces.

“A number of good, high quality advisors are going independent, or going to banks,” Nicholas Mariniello, executive managing director, Concord Wealth Management (Matawan, NJ), tells us.

When bank wealth management units recruited in the past, they usually got advisors who expected to develop a book of business at the bank. Now advisors are joining banks, *and bringing their clients with them*, often with significant assets, Mariniello reports.

Many mid-size banks with \$500 million to \$10 billion in assets are attracting financial advisors who are leaving large firms like Smith Barney and UBS—as well as some of the regional brokerages. “The trend has been accelerating in the last six months,” says Mariniello.

Financial advisors recruited last year by Raymond James’ bank division averaged over \$415,000 in GDC (gross dealer concession), the highest level ever, according to John Houston, managing director, Financial Institutions Division, Raymond James Financial Services (St. Petersburg, FL).

Indeed, four recruited advisors had more than \$1 million in annual GDC. Newly-recruited reps typically had 8 to 10 years of industry experience. Many came from wirehouses, says Houston.

“Last year there was a lot of movement” among advisors, he adds. Many bailed out of wirehouses and large brokerages as firms changed hands. “We were very pleased with the quality of financial advisors who joined our affiliated institutions last year,” says Houston, whose firm works with more



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than 200 banks and credit unions.

“It’s a great opportunity for banks,” says Mariniello of the

recruiting climate, provided banks can provide the fairly advanced wealth management platform needed to support these experienced advisors, including the requisite technology.

## A more skilled bank advisor?

Does this make for a more sophisticated, experienced bank advisor generally? “I think they’re improving,” says David Robinson, managing director, National Accounts, FundQuest (Boston), a BNP Paribas company.

In the past, the only wirehouse reps that went to work in banks were unsuccessful ones. “That’s not the case now,” says Robinson. With the economic crisis, some wirehouses and larger regional brokerage firms have encountered



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“reputational issues.” Their advisors may be looking for some place else to hang their hats.

There was “turmoil in the markets” in the past year, which led to more advisor movement, adds Anthony A. Guthrie, president and managing principal, Reliance Trust Company (Atlanta). The big firms were squeezed financially, and they in turn pressured their advisors compensation-wise, he suggests. Compensation structures changed in some instances. Advisors decided they could make more money as independent advisors, particularly if they could bring their existing clients with them.

## Breaking down silos

Elsewhere, banks continue to work at breaking down so-called silos, including those that separate brokerage and trust. “We’re working with more banks than usual on brokerage/trust integration issues,” says Houston. “We see more openness on

this front than in the past,” less mutual suspicion between the departments. Raymond James has worked with some dozen banks on breaking down these ‘silos’ in the past year.

How exactly does one do this? Each bank is unique, answers Houston. At some, product changes are needed, while other banks need to explore compensation changes or internal reporting changes, says Houston. What is clear is that a bank requires ‘buy-in’ at every level of the institution.

An example of a “product change”? The trust department has a mutual fund (MF) wrap account. The brokerage unit has an MF wrap, too. But the products have different providers, different minimums, different investment strategies, and the like.

Why not try to be more consistent—making available to clients of *both* trust and brokerage a single MF wrap product with “a more coordinated approach?” asks Houston.

Banks still have some distance to go on this score, according to FundQuest’s Robinson. The typical bank B/D finds a \$1 million client, and the trust department becomes annoyed. Trust still believes that customer should be under *its* care, not the broker/dealer’s.

### Room for improvement

When it comes to wealth management, banks need to stress the importance of technology more, says Robinson. To compete with the RIAs (registered investment advisors), wirehouses, and others, they need “more robust” planning and reporting tools, he says.

Banks are still not seen as real asset managers, adds Tim Clift, senior vice president and chief investment officer of FundQuest. Banks are places where people go to get loans, in the public’s view. In some cases, banks had asset management arms, but many of them were spun off. They now sell mostly third-party products.

Small banks have historically trailed in some key wealth management areas, such as offering alternative investment solutions, notes Guthrie. A small bank today does mostly stocks and bonds, with some asset allocation modeling, maybe a mutual fund wrap account, but historically “not a



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lot of alternatives.” Guthrie isn’t talking about hedge funds and other exotic alternatives here, but about the need to add more ‘fee-income solutions’ to their offerings.

### A difficult year

What sort of year was 2009 for bank wealth management?

Banks were really focused on retention, says Robinson, i.e., holding on to existing clients. Many held their ground in 2009. FundQuest’s two largest bank clients actually added assets under management (AUM). They did this by expanding their product lines—adding UMAs (unified management accounts), for instance—and also increasing advisors.

Last year, the bank division of Raymond James had a “decent year”—indeed, better than most brokerage firms. Overall assets in the bank division did not change substantially from October 2008 to September 2009, the firm’s fiscal year and the heart of the bear market, notes Houston. They even



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grew a “smidgen.” It helped that they brought in new banks, and added advisors at existing client banks.

2008 was a difficult year for small bank wealth management divisions, as it was for large banks, because of declining market values, says Guthrie. Their revenues are based mostly on some percentage of market assets, even if they are only providing custodial services. The first half of 2009 also presented more “revenue challenges,” said Guthrie. The rise in the stock market in latter 2009 was a help, however.

AUM has been up at Concord’s client banks, as it has at Concord itself, both because of increased market valuations and new customers. Product-wise, there’s been growth in the municipal bond side. Hedge funds were never a big part of the bank business, but there is even “less of a conversation” in banks about hedge funds now, says Mariniello

Some banks went overboard with ETFs (exchange-traded funds) in recent years, says FundQuest’s Clift. ETFs didn’t do well in 2009. Margins disappeared. Banks began trimming back on them. They favored active money management. ETFs tracked the benchmarks in 2009, but active managers beat the benchmarks, says Clift.

### Looking ahead

In the longer term, demographics may be moving in banks’ favor. Baby boomers are aging, and many are looking for more conservative types of investment. “The go-go years are over,” says Mariniello

Is there an opportunity, then, for smaller banks in wealth management? “Yes, there is,” but they have to have solid products and services, on a par with what wealth management clients are used to, says Guthrie.

Clift doesn't see any flight to safety with regard to banks in wealth management. On the contrary, there's a perception out there among some high net worth (HNW) clients that "banks are not the safest place to be" these days, although customers recognize that many traditional bank products like CDs with government backing might be safe.

Some larger bank wealth management clients moved to small banks, says Guthrie. Why? The publicity regarding the financial services industry today is "terrible," he says. "All you hear is negative." Some customers moved their money out of TARP banks, for instance.

Guthrie says Reliance Trust's own bank business will grow in 2010. In fact, the firm saw some of its best new-business-development results in 2008 and 2009.

Many HNW clients will still face challenges in maintaining their lifestyle in retirement, observes L. Kelly Lavigne, vice president, AXA Distributors Advanced Markets (New York), the annuity wholesale



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distribution unit of AXA Equitable Life Insurance Company. This is a key area for HNW client advisors. How do they bring

up the retirement conversation? Do they know something about Social Security? About IRA distribution planning? About the impact of taxation and inflation on their clients' investments, as well as taxation with regard to the distribution of those assets?

Increasingly, it behooves advisors to demonstrate expertise in different



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facets of retirement. Education "will be more critical than ever before," says Lavigne. "Advisors can *not* learn too much."

Studies have shown that during their accumulation phase, HNW clients have two or three financial advisors. But when it's time to retire, they typically settle upon a single advisor. Banks want to be that one post-retirement advisor who might be working for the client for the next 30 years, says Lavigne.

Looking ahead, "retirement income is something the industry is dealing with and will continue to deal with," says Raymond James' Houston. Banks need to continue to embrace an advisory process that encompasses the distribution of assets—not just the accumulation of assets, their main focus in the past, he says. □