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NEWS RELEASE

BANKS ALTER PRODUCT MIX DUE TO LOSING WALLET SHARE

BANK MUST MATCH PRODUCT MIX TO MARKETS

November 8, 2005

Originally Published By Tom Coyle, Family Wealth Report

Banks are losing high-net-worth wallet share to sales-savvy brokerages and high-touch advisory boutiques. To staunch that asset flow many banks are forming wealth-management units that aim to match their clients' financial and personal needs and goals with appropriate strategies and actions. A common first step in that direction is bringing in outside asset managers to complement in-house offerings, mitigate performance risk and provide clients product menus on a par with those offered by national, regional and local competitors.

But a new report by Los Angeles-based investment bank and consulting firm 3C Financial Partners suggests that finding the right product and service mix to support a sustainable wealth-management platform calls for careful market segmentation and a mix of products and services that meets, as precisely as possible, the needs of each bank's particular client base.

The report, *Platform Made Perfect*, was commissioned by Prudential Financial's Managed Account Consulting Group, a third-party investment platform provider.

Goals-based

Banks that are attempting to claw back wallet share by enhancing their investment and service platforms are doing so with little time to spare. In the 10 years through 2004 North American private banks and trust companies saw their share of professionally managed high-net-worth assets slide from 86% to 38% – even as global high-net-worth assets more than doubled, says Dan Seivert, 3C's managing partner and co-author of *Platform Made Perfect*. By 2010, he adds, banks' share of those assets will have fallen to 29% – just as the lucrative leading edge of the baby boom generation tilts into retirement.

Capturing assets from well-off investors calls for wealth management rather than old-line investment planning for several reasons. "The goal of investment planning is to try to maximize returns within the confines of a client's allocation of assets and tolerance for risk," says Seivert. "Wealth management starts with an understanding of the client's goals and timeframes. It has to do with the client's investments, certainly, but it also with the client's spending goals and overall budget."

The consultative, goals-based nature of wealth management also makes it attractive to clients who may require additional products and services to keep pace with new infusions of liquid capital as they sell businesses, exercise options, roll over retirement savings or come into legacies. "Things like that can completely change the formula," says Seivert. "Wealth management is more attuned to the client and therefore more apt to keep up with such changes in the client's life [than investment planning]."

And many banks are well placed to succeed as wealth managers. They often have strong local brands, access to high-net-worth clients through their business banking units and, in many cases, reputations as solid "safe money" havens through their trust departments.

But if a bank isn't targeting the right wealth tier, that kind of positioning counts for little in its effort to become a dynamic wealth manager, says Seivert. 3C divides high-net-worth investors into four tiers.

Wealth tiers

The first tier includes 7.45 million individuals worldwide with investable assets between \$1 million and \$5 million. This bracket accounted for \$17.8 trillion in total assets or a 58% share of global high-net-worth wealth at the end of 2004. The mid-tier, with \$7.4 trillion and a 24% share of high-net-worth assets, is made up of about 745,000 investors with between \$5 million and \$30 million. Top-tier millionaires are those with between \$30 million and \$1 billion; they number roughly 80,000 and account for \$3.7 trillion or 12% of all high-net-worth assets. The billionaire tier, with \$1.9 trillion in all, numbered fewer than 600 at the end of 2004 and owned 6% of all high-net-worth assets. For practical purposes 3C merges the billionaire tier with the top tier for its discussion of the bank channel's approach to wealth management.

Absent segmentation, a bank's mix of wealth-management products and services can be too broad or too narrow to meet the needs of the clients it actually serves – and too unwieldy from an operations viewpoint to deliver a compelling return on investment for the sponsoring institution. 3C's roster of wealth-management product offerings features 11 investment vehicles in addition to five types of credit and five types of insurance. Service-menu offerings include options ranging from personal banking to estate planning, executive compensation strategies and long-term health care.

"A client with \$5 million might have 10 distinct needs, calling for 10 distinct products or services" says Seivert. "A client with \$30 million might have 20 distinct needs. The trouble [a bank] faces trying to service both tiers is that few of those needs overlap."

Ground level

Kathy Maher, a trust-channel specialist with FundQuest, a Boston-based third-party investment platform provider, agrees. "There really needs to be segmentation in order to get optimal products to the client," she says.

Steve DeAngelis, president of Advisorport, a Plymouth Meeting, Pa.-based third-party provider says distributors of high-end investments products like separately managed accounts (SMAs) "really need to spend time thinking about who their bread-and-butter clients are and how that syncs up with the products they're offering." Otherwise, he says, they risk wasting time and money on training intermediaries to sell specific products that few of the bank's clients see much need for.

Distributors should certainly resist the temptation to overload their platforms, says Kelly Thomas Coughlin CEO of Minneapolis-based GlobalBridge, a third-party provider that specializes in providing investment platforms to middle-market trust banks. But platform providers should be nimble enough to deliver specific investment products and vehicles to fulfill any end-client request.

That kind of flexibility relieves the platform provider of serving as a wealth-management consultant to its bank-channel prospects, according to Coughlin. "We're there to help in one specific area of wealth management, and we try to stay out of telling [banks] how to run their businesses," he says. "The ones we work with are very thoughtful about who they're serving, and they know their markets better than we do."

Newark, N.J.-based Prudential Financial has nothing to do with Prudential plc, a U.K.-based insurance, banking and asset-management company. –FWR

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ECHELON Partners (ECHELON) was formed in 2001 to offer investment banking and consulting to a subset of the financial services industry known as "investment product developers and distributors" (IPDADs). Since that time, ECHELON's professionals have helped hundreds of senior executives envision, initiate, and execute a multitude of complex business strategies and transactions. ECHELON's business is making companies more valuable through delivering advice and orchestrating transactions. Accordingly, ECHELON measures its success in the enterprise value it creates for its clients. Companies that strive to outperform their peers choose to work with ECHELON because we are as passionate about their results as they are.

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