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## NEWS RELEASE

### BANKS NEED MORE RELATIONSHIP MANAGERS TO KEEP UP

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Last year CEOs of private banks and high-net-worth advisories the world over told PricewaterhouseCoopers that they saw industry-wide assets under management growing by 23% a year through 2009, with the rate of growth for ultra-high-net-worth client accounts increasing by about 30% through the same period.

It's possible that some of the assumptions underlying this rosy outlook have fallen victim to recent market turbulence, but the basic premise seems sound: there's a lot more growth in store for the wealth-management industry because the sheer weight of demographics -- all those boomers out there liquidizing assets in preparation for retirement -- trumps a bout of economic malaise.

Still, it remains to be seen how well the wealth-management arms of banks are prepared to cope with this growth in the face of competition from big-brokerage juggernauts, high-touch RIAs and boutique trust firms.

In the nine years though 2004, North American private banks saw their share of high-net-worth investors' professionally managed assets decline from around 86% in 1995 to 38%, says **Dan Seivert, CEO of Echelon Partners**, a Los Angeles-based investment-banking and consulting firm.

#### **Battleground**

To the extent that banks have adjusted their cultures -- by, for instance, coming to grips with the idea that successful staffers could make more money than their higher-ups -- expanded their investment platforms -- by, perhaps, providing access to outside managers -- and shored up their wealth-management offerings to include financial, tax and estate planning, their next significant challenge is getting and keeping enough relationship managers to keep growing numbers of clients happy.

That's no small point. If wealth management -- defined as a set of services and capabilities aimed at helping wealthy people retire in comfort and dispose of their legacies as they see fit -- is make its way out of national brokerages, private banks and white-shoe boutiques into financial-service venues like small- and middle-market banks, pure investment performance is taking a back seat to goals-based advisory.

And because the process of understanding goals is a function of direct communication, there's simply no gainsaying the need for relationship managers. Technology can help, but it can't replace person-to-person interaction.

A wealth-management firm with 100 relationship managers would need to hire 150 more relationship managers over the next five years to sustain a 15% growth rate, according to the VIP Forum, an Arlington, Va.-based association of senior wealth-management executives. Given the difficulties of finding qualified talent, however, the same source says that only a quarter of the wealth-management executive surveyed expect to be able to recruit that many. Meanwhile, ComPeer, a London-based firm that conducts performance-oriented research on wealth-managers, suggests that turnover among relationship managers -- at 10% last year -- is on the rise.

Attracting and retaining relationship managers starts with understanding what motivates them to stay put or jump ship, says David Campbell, a senior v.p. with SEI's Private Banking Solutions group.

#### **Disconnects**

But according to SEI's research on the topic -- based on a series of surveys of wealth-firm executives conducted in 2006 and 2007 -- firms and relationship managers sometimes don't see eye to eye on what motivates client-facing practitioners to stay or go.

For instance, executives figure the main reason relationship managers join a wealth-management firm is the "brand and reputation" of the firm, followed by the relationship managers' favorable sense of the firm's "culture and workplace environment." But from the relationship manager's point of view, the main reason to join a new firm is the "compensation package" on offer -- money, in other words.

"More than half of [the relationship managers] we studied retained 10% or less of their clients' AUM when they moved to a new firm, with the majority retaining none of their former clients' business," says SEI's War for Talent. "Similarly, executives report that when losing [a relationship manager] to a competitor, the firm managed to hold onto most of the assets."

In fact, only 3% of the executives SEI surveyed said they'd lost more than 25% of the assets associated with a particular relationship manager who had upped stakes.

But relationship managers tend to think they'll take more off the table than they actually do. SEI cites a ComPeer report suggesting that relationship managers think they'll keep between 25% and 50% of their client base when moving to a new firm.

"Though their estimations of client loyalty may be over-inflated, [relationship managers] commonly identify it as part of their value to a firm and, therefore, justification for hefty compensation packages," says SEI. "It's become part of the lore."

## Last thoughts

Though executives don't rate it especially high on the list of things that attract relationship managers to firms, they have a disproportionate view of the importance of a firm's "strategic business direction" -- ditto, to a lesser extent, on the value of a firm's "product and services offering." On the other hand -- and a bit confusingly -- relationship managers put more stress on the "wealth-management platform solution" on offer at a firm than their prospective bosses do.

But "culture and workplace environment" comes out over compensation as the primary reason relationship managers stay with a firm -- just not to the extent that executives think it does.

And though it falls down the list of priorities, relationship managers put less store on the quality of the wealth-management platform they're given to work with as a reason to stay put than executives do.

The bottom line, says Campbell, is that "executives are making a mistake if they think name alone is enough to retain and attract [relationship managers]." Meanwhile though, relationship managers might do well to understand that firms have made inroads in their quest to institutionalize the end-client relationship. -FWR

## ABOUT ECHELON PARTNERS

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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