

Best Time for Wealth Management?

While the past year certainly has been one of the most difficult in the financial services industry, this may be the best time for many banks to enhance and expand their wealth management business.

For most banks, the prospect of a new or growing source of fee income is particularly welcome given the current economic and financial environment. With margins compressed and good lending opportunities limited, banks are even more focused on non-interest income to shore up earnings and provide an increased cushion for balance sheets. Wealth management represents a rich opportunity to increase income, and many banks have excellent prospects among existing customers, particularly business customers, to provide wealth management services.

Two factors make this an ideal time for banks to focus on wealth management: market demographics and the uncertain economy. An aging Baby Boomer population, combined with a widespread need for increased stability, is creating an opportunity for community, commercial, and private banks to expand the breadth and depth of their customer relationships and to provide value-added services that benefit the bank's bottom line.

Driving Factors

Banks are surprisingly well positioned to make a big push into the wealth management business in the current environment. There are two factors combining to create this opportunity:

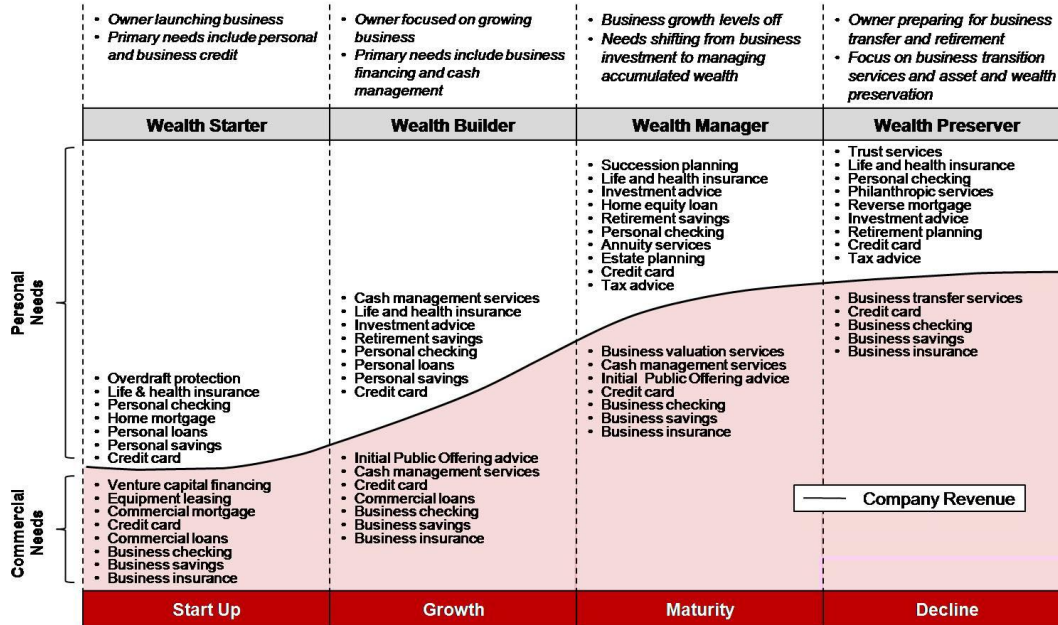
1. Attractive Demographics

Since 2006, 11 million Baby Boomers have turned 60, and another 65 million are following quickly behind them. As the Baby Boom generation moves into retirement, their need for wealth management services such as personal and generational wealth planning dramatically increasing. In addition, many in this group are business owners or partners of privately held firms that are selling their businesses or experiencing other liquidity events, such as buyouts, which again create an opportunity for banks to provide wealth management services.

The key to capitalizing on these opportunities is identifying potential prospects—both those who are not yet customers of the bank, and, even more importantly, those who have a relationship with the bank, but have not been identified as having wealth-management needs.

From a wealth management perspective, banks need to recognize that customers' needs actually start much earlier than they may realize, and should consider personal and business needs jointly. The chart below provides a good overview of the lifecycle of a customer from both a personal and business perspective.

Lifecycle of Customer Needs



Source: Trump Bank; Spectrum Group; Business Banking Board research.

The first category, Wealth Starter, combines the business need for credit with the personal need for basic banking products and services. Phase 2, Wealth Building, addresses the business need for cash management and possible preparation for a public offering to raise capital for expansion, as well as personal needs for insurance and products that can replace earnings if necessary. In the third phase, Wealth Management, the focus is on increasing the value of the business and readying it for a sale or some other liquidation event, while, on the personal side, there is increased planning for tax issues and future requirements. Finally, the last stage, Wealth Preservation, is designed to make sure the business retains value until a sale or transfer, while focusing on retirement products and services to ensure a desired quality of life on the personal side.

Again, the best opportunity is to recognize where a customer is in their lifecycle and develop a relationship with them to help meet not only their current needs, but future needs as well as those of their beneficiaries.

2. Uncertain Economic Times

Since mid-2008, the financial services markets have been in chaos. Long-time Wall Street and investment management firms such as Bear Stearns, Merrill Lynch and Lehman Brothers either have been absorbed or acquired by commercial banks or disappeared completely. Others, such as Goldman Sachs and Morgan Stanley, have become commercial banks. All financial markets have experienced the most fluctuation seen since the Great Depression. Both institutional and individual investors have taken a beating and experienced dramatic volatility.

These uncertain economic times are causing many consumers to rethink financial planning strategies and relationships with financial advisors. In addition, the changed financial services landscape, evidenced by transactions such as Bank of America's acquisition of Merrill Lynch, is providing another reason for long-time customers to seek "new" and trusted advisors they feel can safely guide them through these changes. Banks with wealth management resources and capabilities are getting inquiries from brokerage and investment customers who have lost faith in previous providers. For many consumers, there is a strong attraction to replace former investment providers with banks. This is due, in part, to the belief that banks offer more conservative investments such as CDs and municipal bonds, as well as the comfort provided by FDIC insurance, including the temporary coverage of money market accounts. It also comes from a feeling of trust by working with someone, either the banker or the bank, that they know.

Independently, each of these trends creates an opportunity for banks. However, it is the convergence of these two drivers that makes *now* the ideal time for banks to focus on the wealth management business. Combine the fact that so many business owners or partners of privately held firms are selling or experiencing some other liquidity event such as a buyout, with the fact that they are actively looking for guidance and advisors they can trust, and banks have never been better positioned to win in this space.

Key Enablers

The key for banks is to have a strategy ensuring they are well positioned to take advantage of the wealth management opportunity -- whether turning existing bank customers into wealth management clients or acquiring new clients seeking a different wealth management experience, or both. This means being aware of pending transactions and liquidity events well in advance, planning for customers' lifecycle needs and the generational passing of wealth, and most importantly, ensuring current and prospective customers are aware of, and comfortable with, the bank's wealth management resources, capabilities, and products.

Unfortunately, many banks in the wealth management business are missing these opportunities because of a lack of information about their customers, lack of training to identify customers' potential needs earlier, and/or misalignment of incentives with customer lifecycle needs. These issues can be addressed, but it requires a conscious effort on the part of management to understand their customers, their needs, and how best to execute against them.

To this end, there are three key enablers that will help banks address and capitalize on the opportunity in wealth management:

- Master Data Management (MDM)
- Team selling
- Incentive compensation plan alignment

Master Data Management

Master Data Management (MDM) is a business solution requiring orchestration of people, processes, policies, and technologies to control the quality of "master"

data across an enterprise. Banks with well-developed MDM capabilities have a tremendous edge in taking advantage of the current opportunity in wealth management.

MDM is critical for key business needs for information such as financial planning and analysis, and gaining insights into markets and customers. It is critical to creating a true business competency center with formal governance over data to facilitate activities such as data analysis, search, and security. In addition, a Master Data Management program helps ensure data harmonization, consistency of workflow and related data rules, and data integration.

While many of these terms address technical issues related to data management from a business perspective, they also constitute the means by which customers and customer information can be related to understanding relationships, needs, and opportunities. As banks look to convert customers into wealth management clients, or as banks acquire brokerage and investment management firms and wish to cross-sell bank products and services, having a strong, well-developed MDM program and capability is essential. MDM also helps ensure key information, such as relationship profitability, is available as the framework for gaining deeper insight into both the business and customers. MDM also provides the data to support the strategy, measure its effectiveness, and monitor key metrics .

Team Selling

Another critical enabler for banks wanting to grow their wealth management business is the ability to successfully execute team selling. Relationship managers, whether part of the personal or private banking unit, business or commercial unit, or wealth management unit, must be comfortable working together for a client's best interest. While this starts with "warm" introductions between the various business units (depending on where the initial customer relationship resides), it really requires a willingness to spend time developing and understanding a client's profile of their personal or business lifecycle. It also requires analyzing key data, and working with other product and service providers to develop a plan of action. As identified earlier, one of the drivers causing individuals and businesses to rethink relationships with their financial services providers is finding a trusted advisor to act as a guide through the current chaos and uncertain times. Existing bank customers as well as new prospects seeking this comfort will expect this level of enterprise-wide service and their economic contributions merit it.

Incentive Compensation Plan Alignment

The third, but perhaps most important, enabler is an aligned compensation plan. Though many banks offer banking and wealth management services, few do a good job of reinforcing the behaviors that optimize the ability to both meet the client's need and the bank's bottom line. Implementation of an MDM program can assist in providing key information about performance metrics on which compensation plans can be based, such as customer or client "buyer values" and needs, and overall relationship profitability. Team selling can encourage proper planning and cooperation among bank and wealth management relationship managers, as well as product and services providers. However, the relationship information and the required behavior of the selling team participants must be reinforced through appropriate compensation plans. The most successful plans recognize the contributions of all the team members and reward them

accordingly. This often results in “double counting” to recognize the efforts of several business units. But in the end, a properly aligned compensation plan allows banks to more easily broaden and deepen their customer relationships - going both ways between banking and wealth management.

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Today’s difficult times may indeed be one of the best times for banks to grow and expand their wealth management business. The opportunity certainly seems to be there for those ready to seize it.

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