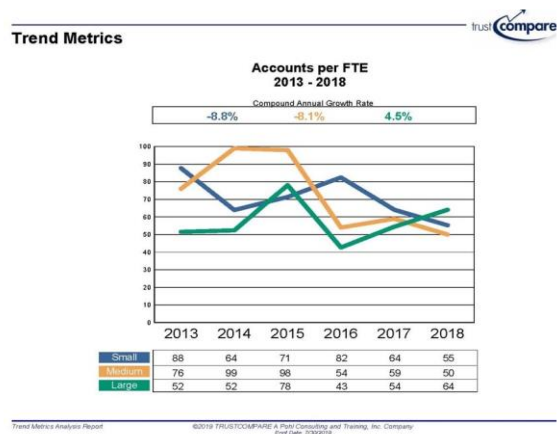
How Banks and Trust Companies Can Solve the *Small Wealth Management Account* Problem

This white paper is designed to help decision makers at banks and Trust Companies understand and solve the Small Account Problem by answering five key questions:

1) What problem(s) are you trying to solve?
2) What retention or growth opportunities are you missing?
3) How do you define small accounts in your organization?
4) What is the trust cost of an account?
5) How do you evaluate potential solutions?

Let’s start by sharing some Top Performer metrics: *Top Performers are those organizations that have grown revenue (percentage wise) the most over the last five years and have maintained the highest average profitability for the same period.* Top performers are the most productive when looking at the per FTE metrics. They have the highest revenue per FTE and the highest revenue per Relationship Manager. We have identified another account related metric in analyzing the Top Performers: ***They have the highest average account size.***

Another interesting observation about ACCOUNTS comes from our trend analysis. The Accounts per FTE metric shows a clear decline over the last 5 years for organizations small and large. That would suggest that the industry is dealing (albeit slowly) with the small account Problem.



Another issue relating to accounts comes from our work on Trust Fees. We have a Trust Fee comparison tool called PRICECOMPARE and do a significant amount of Fee schedule work in our consulting practice. One of the things we have learned is that – regardless of the fee schedule– the minimum fee is rarely applied to small accounts within a large relationship. Thus, practically speaking, the account minimum fee is in most cases a relationship fee minimum.

We talk a lot about Fee Integrity and one component of that conversation is the enforcement of the minimum fee. The enforcement of the minimum for a one-account relationship does vary widely, but generally is fairly well applied. Of course, we are all good at coming up with reasons why that account might someday maybe possibly grow if all the stars align – to justify an exception to the minimum. The enforcement of the minimum for multiple accounts within a large relationship frankly does not vary much. It is generally not enforced.

So, you bring in or have a large account relationship who wants to bring in two small IRAs and one of their grandkids' college fund accounts and those three accounts average $25,000. What will you do? You will NOT let the (bank retail) broker have those accounts because you do not want to risk losing the relationship. You will NOT say no because you want all of this client's business. What most bankers and trust officers do is make exceptions to the minimum because of the relationship. See, it is a really a relationship minimum. This is why many organizations find it hard to deal with their small account problem. And, it is why you need to figure out your small account solution!

There are a number of ways to deal with this problem that allow you to maintain the total relationship but not negatively impact the operational and administrative productivity of your organization.

Reasons to Consider a Small Account Solution

A board member in a strategic planning session made a great point that applies here! "What problem are we trying to solve?" Until we define the problem(s), we are floundering!

Small Account Problems or Opportunities to Address:

	To provide a self-serve digital **solution for the younger generation** of Bank Clients (and beneficiaries of current Trust Clients). Implied in this purpose is an intent to market this solution to that segment of the market. This might also be a scenario where the Bank (or financial institution) does not have an NDIP program, but needs a solution to meet the described needs and wants to avoid getting into a Non Deposit Investment Program arrangement.
	To provide a small investment account solution for prospective Trust Clients who do not have enough wealth (assets to invest) to meet the minimum fee but whose relationship is worth capturing as they are likely to become wealth accumulators. This might be referred to as an **incubator** need.
	To provide an alternative to the Retail Investments (NDIP) for the small investor (**To compete with that program's solutions)**
	To provide an alternative to the Retail Investments (NDIP) for the small investor **(To eliminate or significantly change the role of that business unit.)**
	To provide a low cost small investment account solution for **existing Trust Clients** who for whatever reason have a **small total relationship**. Examples are small fiduciary accounts that are "wasting" or small legacy accounts.
	To provide a low cost small investment account solution for existing Trust Clients who have a **large relationship within** which are (always) 1-2 **small accounts**. A variation of this or above is a client with large special asset balances but a small investment portfolio.

You might have "checked more than one box" - this is the first step. The next step is to define small accounts in your organization and understand the true cost of servicing them.

Defining a Small Account:

Typically, the Trust definition is driven by the firm's minimum fee. That minimum in the community bank trust department space ranges from $2,500 to $5,000. In many organizations, this is a guideline. In many cases, it is actually a relationship minimum rather than an account minimum.

In the Brokerage space, the definition of a small advisor account can also vary widely. The brokerage firms all created an advisory solution with a low minimum (typically $5,000) in anticipation of the DOL Fiduciary rule, and those new parameters still exist. Generally, a small advisory account in the Brokerage industry would be under $50,000.

Understanding the True Cost of an Account:

When you look at any type of Wealth Management account, there are three "delivery" costs. These are the same cost categories that have to be analyzed for a small account solution.

1. **The platform costs** (TAS/Custody/platform fee)
   In the Trust space, this is primarily the TAS plus Custody cost. Most TAS contracts are now being written with an AUM only fee. Some (not many) current TAS contracts have a cap on the number of accounts for which the AUM fee would be applied. Many of the other technology costs in the Trust space are flat fees. Portfolio Management software and investment performance reporting tools are examples. If the TAS solution does not provide the technology (and services) required, the add-on costs (while fixed) can be significant. Obviously, those fixed costs are spread over AUM beyond just the small account solution.

2. **The Investment Cost**
   In the Trust space, this is generally the time the investment department staff has to commit to developing and managing the small account solution. This can vary widely! Organizations that already have a strong Mutual Fund and ETF component to their investment solution may find this a very modest time commitment – in some cases virtually zero. Some organizations have a strong securities focus and do not as a matter of course use MFs or ETFs – these organizations may find that the time investment to build and manage the Mutual Fund models is more significant. Some organizations find that they need to purchase fund selection and due diligence services and, in some cases, model development and maintenance. There are a number of organizations who will provide these services for a flat fee (as opposed to an AUM fee).

3) **The Service Cost**
   In both the Trust and Wealth Management space, the categories of the cost in this component are the same: a) the proactive time spent, and b) the reactive time that a client demands.
   We suggest that an organization define very carefully the standards of service for this type of account, and those standards need to be expressed during both the sales and onboarding processes so as to manage the client's expectations. The costs of delivering those standards of service can be calculated!

   The primary consideration in service delivery costs are the MEETINGS! There is a common attitude: any client that is paying an ongoing fee should get (or at least be offered) an annual meeting.

   One way to moderate the service costs is to designate a Relationship Manager for these types of accounts that is different than the Trust Officer that might have the account now, or who might sell the account. The biggest cost problem with small accounts is breaking the pattern of service that has been established and the client has come to enjoy. Two things can help break that pattern: a) reassigning the account to another Relationship Manager, and b) "reselling" the customer on a different "packaged" account.

Small Account Solutions

We categorize the possible solutions as four choices described below. It is quite possible that an organization would have multiple solutions for various segments of the Small Account market.

I. Retail Brokerage Platform Solution

Use the Non-Deposit Investment Program platform for the small accounts. Use the BD advisory platform. Refer all these types of customers to the Financial Advisor who will manage the investments and the relationships. Some BDs will allow the Trust investment models to be loaded into the advisory platform so the investment fulfillment is the same regardless of the platform. With a liberal BD, some organizations might have licensed Wealth Advisors who use the brokerage platform for these accounts and continue to manage the relationships with clients who have accounts on both platforms.

Financial Considerations

You generally pay the Financial Advisor 33% +/-, the Broker Dealer’s haircut (10-25%), and, if you use the advisory platform, there is often an underlying sub-advisory fee. This can actually be a solution that does not provide any significant profit advantage to the organization.

Advantages

- It is easy. The brokerage industry has the technology and systems to make it efficient to open and manage accounts.
- The brokerage industry generally has no or very small minimums.

Disadvantages

- Most successful Financial Advisors DO NOT WANT THESE ACCOUNTS.
- Many Broker Dealers have annual fees for IRAs and in some cases for small accounts.
- The clients who also have large(er) accounts on the trust platform will get two very different statements.
- The investment fulfillment for a client with accounts on two platforms will be very different.
- The client will probably be assigned to two different people. The Trust Relationship Manager (if that is where the bigger accounts are housed) will be very (very very very) reluctant to have a client with a small account be serviced by a broker – even a broker who is also an employee of the bank. This issue is why even with a retail brokerage program in a bank the Trust Department still (usually) has a small account problem.

II. Trust Platform Solution

Use the Trust platform for small accounts. Create a separate account type with limited investment options and clear standards of service. The account is actually on the books as an IMA but has a unique account type code and fee code. With the use of a Harvest Savings (fka Trizic)-type overlay on the TAS you can streamline the account opening and the ongoing investment and account management and lower the minimum size of the accounts considered for the small account solution. This creates a robo-like account option on the trust platform.

Financial Considerations

If you use the core TAS, the accounting costs are rather low as are the investment costs if the organization has the Mutual Fund models already in place. If you use an overlay technology solution, there will be additional fixed costs as well as additional variable costs. Typically, there is a flat monthly license fee plus a per-account per-month fee.

Advantages

- It tends to leverage fixed costs of the department, specifically Trust Investment Staff cost.
- The clients only get statements from one system.
- The clients' investments are more likely to be very similar (at least philosophically) for all of their accounts.
- It lessens the organization's reliance on a third party firm (the Broker Dealer).
- All of the organization's accounts are on the same platform, which does not complicate the books and records reporting.

Disadvantages

- Breaking the pattern of service with a trust client and a trust officer is going to be difficult.
- Some TAS contracts have a per account fee or a max account number provision that can negatively affect the breakeven calculations.
- Not every Trust department has the well-defined Mutual Fund/ETF models needed for this solution, and not every firm has investment professionals.
- Most Trust Accounting System solutions do not provide a great digital client experience without expensive add-on technologies.

III. Outsourced Small Account Trust Platform Solution

Engage a 3rd party firm to provide the Small Account solution. The accounts are still trust "agency" accounts but they are typically NOT on the TAS platform. A firm such as RobustWealth can be engaged to provide a robo-type account solution for the small accounts that is "white labeled" for your organization. The accounts are still trust "agencies" so they are "trust accounts".

Financial Considerations

There is typically an AUM fee for the outsourced solution. Sometimes there might be a set up/white labeling fee up front.

Advantages

- You "own" the clients. You have access to the client information.
- Breaks the pattern of service as the accounts have to be repapered and "re-sold", which is easily done digitally.
- Generally low cost solution for the organization as the back office tasks (trading, billing, and reporting) are outsourced.
- You can generally charge a management fee (1% plus) that allows a significant profit margin.
- It provides a simple solution that might be especially beneficial if the organization does not have a Mutual Fund model system in place.
- If you have a Mutual Fund/ETF model, you can (probably) incorporate those models in the 3rd party solution so ALL of your clients get the same "Investment Solution". Some of the 3rd party solutions have Mutual Fund/ETF models available.

Disadvantages

- The organization has to obtain and collate financial information from multiple sources for the books and records reporting (Call Reports/Internal Financial Reports).
- A client with a small account AND a larger account on the Trust platform will get two different statements.
- You still have to do Account Reviews since they are "trust platform" accounts. You can do bulk reviews of the models thus streamlining the process.

IV. Robo Account Referral Solution

Contract with a Robo solution provider to provide a Robo solution to your clients. Vendors include Betterment, NEST and Schwab. There are various levels of white labeling available. The accounts are NOT on the TAS platform. Your customers are referred to these vendors – they are NOT going to be your customers anymore.

Financial Considerations

The institution will get a modest revenue sharing percentage. There may be an upfront set up fee for white labeling.

Advantages

- The familiar names for a Robo Solution may be well received by certain segments of your market.
- It is easy and takes virtually no resources from your organization.

Disadvantages

- The clients in this scenario are NOT yours! They will be exposed to the providers' marketing without consideration. You have no right to information about the clients and the book that might be developed on these platforms.
- The revenue sharing will be modest. This is unlikely to be a solution that provides significant revenue.
- These vendors are not (yet) very familiar with how to work with the Bank/Trust channel. Their processes and reporting may be cumbersome. Getting the information needed for Vendor Management and IT Security may be challenging.
- A client with a small account AND a larger account on the Trust platform will get two very different statements.
- Since the Robo accounts are self-advised, the investment portfolios are unlikely to be similar (if a client has both a Trust account and a Robo account) unless the client chooses to mirror the investments in the Trust account in their Robo account.

Where do you go from here?

First, go back to page 2 – what problems are you trying to solve? What are the opportunities that a small account solution could provide your organization? It is our experience that there are always multiple aspects of an organization's small account issue.

Next, really dig into the metrics of your small accounts. How many are tied to larger relationships? How many are Irrevocable trusts that are wasting?

Then, answer these questions:

1. Where did they (the small accounts) come from – were they from banker referrals?
2. Are they from 401k rollovers?
3. How important is it to your organization (the institution) to have a solution for smaller investors – and what is small?
4. How important is it to your organization to be able to provide a Robo (like) solution?
5. Does the institution have a digital experience task force?
6. Does your department have a task force devoted to a digital client experience?
7. Do you have low maintenance cost Mutual Fund/ETF models already established?
8. Do you have the technology to manage those models efficiently?

Then, consider getting some help to strategize and implement your small account solution. We at Pohl Consulting and Training, Inc. have been working with organizations who are addressing this need for decades.

Thanks for your time and interest! If you have any questions, please feel free to reach out and ask!

E. Loyd Pohl, CEO
Pohl Consulting and Training, Inc
Trustcompare©
elpohl@pohlconsulting.com
www.pohlconsulting.com