A Spinach Approach To Wealth Management

by Steve Brown

Spinach is good for you. Research shows it is not only good for your skin, hair and general health, but it might even improve blood glucose control for diabetics, lower the risk of cancer, reduce blood pressure and even reduce the risk of asthma. As if this green leaf weren't doing enough work for humans, scientists have now used its plant cells to create beating heart tissue that might one day treat heart attacks. This breakthrough and the very plant itself are truly amazing. After all, the CDC ranks heart disease as the #1 cause of death in the US and cancer is right behind it at #2. Sounds like a good time to eat a spinach omelet perhaps.

Community bankers do lots of good things for people too and wealth management is one area where they are helping more and more. While you may not plan on advising billionaires on yacht purchases or direct investments in overseas infrastructure, there is plenty you can do. After all, you are in an excellent position to offer every day folks some basic wealth management services. They need assistance just as much as the rich ones, as they too plan to educate their children, enjoy their retirement, arrange their estate, construct basic trusts and meet financial goals.

Bankers have lots of company in this. By the end of 2016, 25% of US banks were set to offer their customers wealth management services, according to an American Banker survey. Wells Fargo alone employs more than 15,000 financial advisors. Consider as well that a survey by Fidelity Investments showed 55% of senior bank executives thought their revenue from wealth management would grow by at least 25% by 2021.

Research by McKinsey finds private banks earn financial planning revenues of about 1% of assets under management. After expenses, they keep about 0.35% of assets under management. That revenue is also free of the fluctuations caused by interest-rate and credit quality issues.

If you decide to build a wealth management department, the job may be easier than you expect. Capital requirements can be low and the market is large and increasing. This is especially true if you're willing to serve clients with between $500,000 and $3mm in assets - a market segment the big banks often ignore.

Building a wealth management department requires knowledgeable financial planners and an investment platform with broker/dealer support. Typically, both banks and independent financial planners outsource this to a third-party provider, but make sure to do your due diligence first.

Though there's perceived value in isolating liability by putting wealth management in a separate entity, you can enjoy regulatory simplicity (and associated cost savings) by perhaps making the department part of your bank and adjusting your insurance coverage accordingly. Also, keeping the department inside the bank may reduce compliance burdens if you offer either trust services or investment advice.

You could also build referral partnerships with other wealth managers or perhaps even buy a wealth management practice.

No matter which route you choose, exploring wealth management offerings can be a smart way for community banks to serve healthy relationships to existing customers as you boost revenue along the way.

BANK NEWS

M&A Activity

1) Central Valley Community Bank ($1.4B, CA) will acquire Folsom Lake Bank ($200mm, CA) for about $33.6mm in stock (100%) or about 1.71x tangible book. 2) First Commerce Bank ($65mm, KS) will acquire The State Bank of Blue Rapids ($46mm, KS) for an undisclosed sum.

Bank Closed (4 YTD)

Last Friday, the FDIC closed First NBC Bank ($4.7B, LA) and sold it to Whitney Bank ($25B, MS). Whitney picks up 29 branches, deposits excluding CDs, IRAs and brokered (for a $35mm premium), and $1B in assets. This is the largest bank failure since 2015 (Doral).

Consolidation

Mid-America Financial Corp (KS) will merge Morgan Federal Bank ($113mm, CO) into Golden Belt Bank ($138mm, KS).

M&A Analysis

S&P Global Market Intelligence reports the number of banking sector deals for Q1 2017 was 58. This compares to 61 (Q1 2016) and 65 (Q1 2015) for the same quarter in the prior 2Ys.

IT Exam Prep

The FDIC updated its information technology and operations risk (IT) examination procedures to provide a more efficient, risk-focused approach. The InTREx Program also provides a cybersecurity preparedness assessment and discloses more detailed examination results using component ratings.

Card Fraud

Javelin Strategy & Research reports card not present fraud jumped 40% in 2016 vs. 2015. Higher mobile payment activity, weak authentication and compromised payment credentials were all cited as drivers for the increase.

Novo

Bank Director reports the FDIC has approved 5 de novo bank applications since 2009 or about 1 per year vs. an average of 154 per year for the 8Ys prior to the crisis.