Working Longer And Robotic Advisors

by Steve Brown

It used to be that when you hit 65Ys old you could retire and feel pretty comfortable where you were. These days though, research by the Bureau of Labor Statistics (BLS) finds people are working longer. The BLS found that as of the end of last year about 18% of the workforce was age 70 to 74 and another 8% were age 75 or older. Reasons vary, but one certainly has to do with wealth management.

When it comes to wealth management, fee-based income has been an important focus for banks over the past 10Ys. One way to do so is by offering financial planning services perhaps - especially for the bigger banks.

FDIC data and research by Kehrer Bielan finds 69.2% of banks with more than $10B in assets offer wealth management services vs. just 54.1% of banks with assets between $500mm and $1B. The difference is at least partially due to the expense involved in hiring and training a qualified wealth management team. After all, experienced financial advisors aren't cheap.

But wealth advisors also don't have to be human. Algorithm-based software systems (robo advisors) are now the rage and they provide clients with automated investment advice. These can be cost-effective and efficient. Robo advisors are much less expensive than building an asset management department from scratch or partnering with another firm's personal wealth management offering.

Though it's certainly possible, most community banks won't want to develop their own robo-offerings. Instead, if this is something that interests you, you may want to consider buying a third-party solution from a growing marketplace. Software-based advice is just a small part of the wealth management industry, but Deloitte forecasts that it will be worth $5-$7T by 2025.

Right now, approximately 20 robotic advisor solutions are on the market, with no single model that works for every bank. There are different robo personalities and portfolios available as well. According to an article in Time.com, TD Ameritrade has 5 portfolios in its robo offerings while WiseBanyan apparently has over 90. Costs are all over the map, depending on the provider and the amount of customization the bank wants.

The right product for a given bank depends a lot on what you plan to do with it. For community banks, software can be the beginning or even the sum of a wealth management offering. Larger banks or those with more established wealth management services might deploy software-based wealth management as an option for customers, freeing up human wealth managers to serve high-end clients.

Some automated products give clients a set number of emails or telephone calls with live wealth managers, offer more human interaction for a greater percentage of assets under management, or let clients choose the services they want from a fee-based menu. A robo advisor can focus on retirement or shorter-term performance; it can invest in mutual funds or individual securities.

Those aren't the only things that can make a product right or wrong for you and your customers, so spend significant time checking out potential vendor partners, their business models, and their cultures.

Any real contender for your business needs to also have proper cybersecurity in place. Partner with a robo advisor and you have the same regulatory vetting responsibility that you would have with any other vendor, so be careful and be robust.

Remember that no wealth management offering guarantees that clients and assets will pour through your door. Robo advice is part of a long-term, asset-retention strategy for current customers and their heirs. As such, It will take some research and due diligence to review all the options available. The good news is, depending on your retirement date you probably still have plenty of time to get on this.

BANK NEWS

Huge Issue

Insurer Lloyd's of London estimates a malicious cyber outage at a major cloud service provider would cost about the same as a major hurricane. Lloyds also projects only 17% of losses would be covered and only 7% of economic losses would be covered.

Demand Impact

An RMA survey of midsize and large banks finds the biggest impact from heavy regulatory demands are: slower response time to meet customer requests (38%), less product flexibility to meet individual customer needs (19%), increased costs (14%), difficulty explaining regulations to customers resulting in a lack of understanding (14%) and fewer products offered to the market (10%).

M&A Activity

1) Equity Bank ($2.4B, KS) will acquire The Eastman National Bank of Newkirk ($254mm, OK) for about $48.91mm in stock (100%). Meanwhile, Equity will also acquire Patriot Bank ($320mm, OK) for about $50.5mm in cash and stock.

Divesting

In an effort to drive more return to shareholders and focus on client opportunity, the CFO of Wells Fargo said the bank will divest more businesses and collapse 50 regional offices into larger consolidated centers.

Treasury Rate

The Alternative Reference Rates Committee has selected a broad range of Treasury repo rates to eventually replace Libor for derivatives and other financial contracts.

Retirement

CNBC reports Alight Solutions research finds that while 79% of 401(k) participants receive a full match from their company, 21% do not.

DEPOSIT OPPORTUNITIES

In an effort to expand our relationships, PCBB is pleased to offer community banks a money market deposit account rate of 1.10%, subject to availability. Contact operations@pcbb.com