Wealth Management: In-House or Third Party?

profitability advisory

Summary: By offering wealth management services, CFIs find they can provide a one-stop shop to handle more of their customers' financial needs, ultimately building loyalty. Institutions can develop their offering by building their own teams or through partnerships/outsourcing. We give you some examples of organizations that have succeeded with these different models.

Switzerland is known for its luxury watches, fine chocolate, and green alpine pastures dotted with grazing cows. Yet in November 2022, due to increased cheese consumption — 48 pounds per capita per year! — and lower-than-anticipated levels of milk production, butter was running scarce. So much so that the government, with a general preference for Swiss products, allowed a further increase in its butter import quota. No doubt consumers will not mind where the butter comes from, so long as it's there.

The same could be said for wealth management services. Despite the current short-term economic uncertainty, the wealth management sector is expected to continue to grow. Bain estimates global wealth management revenues will be worth $509B by 2030, up from $255B in 2021. According to McKinsey, this will be driven by fast-growing segments, changing customer needs, new products, and new business models.

Including Wealth Management

According to CSBS's annual survey, one in three community banks offer wealth management services. For credit unions, the number is lower: one in six, per CUNA Brokerage Services. Yet, customers are increasingly demanding a one-stop shop from their financial institutions (FIs) — one where all their banking, financial planning, and investment needs are served. Across all age groups and levels of wealth, there has been a marked increase in customers consolidating relationships with their financial institutions. This is true particularly for younger households, where over half of those under age 45 express this preference and are generally found to consolidate with their primary FI, as opposed to older investors, who are more likely to consolidate with their wealth manager.

Community financial institutions (CFIs) that offer wealth management services can do so in one of two ways — develop the capability in-house, or partner with a third party. We explore both models and give you some examples of CFIs who've successfully implemented them.

The In-House Model

Building a wealth management offering internally allows financial organizations to truly integrate these services into their customer relationships. Some CFIs start from scratch and build over time — particularly those that entered the space a long time ago. Others may choose to acquire a wealth management firm, adding to their existing competencies.

- An IN-based CFI with $598MM in assets chose to develop its own in-house wealth management solution. Built over decades, it now has five financial advisors offering a range of services, from financial planning and investment management to trust services, estate planning, and more. The organization prides itself on its knowledge of each client and the personalized service they're able to offer.

- A CO-based, $5B-asset CFI increased its wealth management footprint by acquiring a third party, boosting its assets under administration by $800MM. *"We're primarily an organic-growth bank, but this group fit well within our geographic footprint and skill capabilities,"* says the CEO.

The Outsourcing Model

Outsourcing to one of the many third-party brokers in the wealth management market — such as Cetera, Infinex, LPL, and Cuna, among others — allows organizations to focus on their core business and remain the first point of contact. *"Some banks have decided that what they're really good at in the wealth management space is marketing, and [they'll] rely on the broker-dealer to provide the advisors, manage them and provide the technology,"* says a partner at Kehrer-Bielan. Technology is, of course, a key requirement to compete with the larger FIs and a potential barrier to entry for smaller CFIs with tighter budgets.

Typically, wealth managers at CFIs are registered with the outside broker but are a direct employee of the bank. Working alongside a CFI's other employees makes for a more seamless and holistic customer experience.

- Such is the case for a $3B-asset CFI offering full-service financial and wealth advisory services in ID. The organization found that enlisting a third party to handle the administrative work for the wealth management service allowed their advisors to focus on client relationships while making their overall process more efficient.
- Outsourcing need not compromise personalized service, according to many CFIs that have gone down this route. *"Given the size of the department, we can offer a boutique experience. Customers are able to speak with one of the two department employees when they call, and decisions are made locally. We are able to provide an efficient personalized experience,"* says an exec of a $496MM-asset CFI based in WY.

Offering wealth management services gives CFIs an opportunity to boost non-interest income, cross-sell to existing customers, and deepen relationships. Whether they do so by building an in-house capability or by outsourcing to a third-party broker — and both clearly have their merits — customers will not mind. So long as they have the option to condense wealth management into their existing financial relationship with an institution they already trust.

ECONOMY & RATES

Rates As Of: 02/27/2023 06:42AM (GMT-0700)

Treasury	Yields	MTD Chg	YTD Chg
3M	4.86	0.16	0.44
6M	5.06	0.26	0.30
1Y	5.04	0.37	0.33
2Y	4.79	0.58	0.36
5Y	4.18	0.56	0.18
10Y	3.93	0.42	0.05

30Y	3.94	0.30	-0.03

FF Market	FF Disc	IORB
4.58	4.75	4.65
SOFR	**Prime**	**OBFR**
4.55	7.75	4.57