Is Wealth Management The Key For Your Institution?

third party regulatory customer acquisition

Summary: The wealth transfer of $68.4T is coming. Do you have the wealth management services to support this? Community financial institutions with these services gain a new revenue stream, strengthen existing client relationships, and attract new customers. Here are the opportunities and obstacles when planning for wealth management services.

Did you know that from 1912 to 1954, the Olympics included events for different types of art? Aside from the traditional sporting events, Olympians could compete in painting, sculpture, architecture, literature, and music — provided their submissions were "inspired by the concept of sport." These events may have been eliminated due to a lack in the number of competitors.

Community financial institutions (CFIs) definitely don't see a lack in the number of their competitors. With more and more intense competition, they need to continually find new ways to adapt and thrive. Providing wealth management services is one way to compete in an increasingly crowded market.

Once regarded as the realm of larger banks serving only the most affluent clients, the rise of new technology platforms and robo-advisors has made wealth management much more accessible and it is increasingly appealing to a wider customer base.

As of 2019, the ABA reported that 37% of community banks included wealth management services in their offerings. Some CFIs are providing these services through their existing trust departments or by partnering with third-party service providers. Others are buying or partnering with wealth management firms to provide these services.

Is a wealth management service the key to meeting the broader financial needs of your customers and safeguarding your institution's long-term success? Here are some of the opportunities and challenges to help you decide.

Seizing the opportunities

Protecting and deepening existing customer relationships. Growing competition from all directions for customer wallet share means it's more important than ever to respond to changing customer needs. As your business customers grow, they may need help managing their investments. If your institution can't help them, they are likely using a competitor, with the potential threat of losing them as banking customers. Offering wealth management services alongside your traditional banking services can help protect and deepen existing relationships with your long-standing, loyal customers, particularly those looking for "one-stop-shop" service.

Appealing to new audiences. Similarly, by providing these services, you will be better positioned to attract new customers, particularly those on the receiving end of the $68.4T that is expected to be passed down to heirs in the next two decades. Gen X is expected to receive 57%, with millennials receiving the remaining 43%. Reaching out to these new customers now could provide you with long-standing, lucrative customers.

Diversifying revenue streams. Finally, some CFIs are increasingly seeing a wealth management offering as a means to diversify away from NIM spread revenues and grow their fee-based income. This is especially important given the current environment of low interest rates and tight margins. But, even as the margins normalize, the increased fee income remains. Furthermore, fee income based on assets under management tends to be less volatile and more stable compared to other sources of income.

Reality check

While broadening a CFI's service offering to include wealth management clearly presents significant benefits, institutions will also need to consider likely obstacles.

Increased regulation and compliance. Setting up a wealth management service will involve meeting and complying with additional regulations, being open to increased levels of scrutiny from both external regulators and internal compliance teams, and developing stringent compliance reporting functionality. These extra layers of compliance and regulation may require new administrative and back-office processes and potentially unforeseen costs. Centralizing these functions through a digital platform or through a third party could help manage associated costs and relieve the administrative burden.

Staffing and expertise. CFIs will likely need to recruit new staff members with different skillsets or train current employees to support their wealth management offering. It will take more resources and effort to ensure you have suitably qualified investment managers, financial advisors, and compliance officers.

Third-party limitations. Given the various costs involved with setting up an in-house wealth management service, some CFIs may prefer to work with a third party that has experience, credibility, and proven technology in this area. While this may be a good choice for some, such partnerships are likely to limit an institution's potential returns and control.

Although adding wealth management to your offering will not be without challenges, it increasingly goes hand-in-hand with traditional banking services. After all, CFIs typically embody some of the key characteristics — personalized service, trust, and long-term relationships — that are essential for successful wealth management.

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ECONOMY & RATES

Rates As Of: 09/02/2021 05:16AM (GMT-0700)

Treasury	Yields	MTD Chg	YTD Chg
3M	0.05	0.01	-0.04
6M	0.06	0.00	-0.03
1Y	0.07	0.00	-0.03
2Y	0.21	-0.01	0.08
5Y	0.76	-0.02	0.40
10Y	1.29	-0.03	0.36

30Y	1.90	-0.03	0.26

FF Market	FF Disc	IORB
0.06	0.25	0.15
SOFR	**Prime**	**OBFR**
0.05	3.25	0.05