MARKET INSIGHTS

NURTURING THE NEXT GENERATION OF WEALTH CLIENTS

FIS Wealth Management Series
Perspectives for Community and Regional Banks

November 2015
This paper is the first in a series from FIS™ that provide wealth management market insights to community and regional banking executives. Upcoming papers will profile specific opportunities to drive profitable growth and will feature thought leadership from bankers who are successfully growing their wealth management practices.

Not Just for the Rich Anymore

Technology is driving trends in wealth management toward better targeting of prospects, faster response to dynamic investment markets and more democratic access to investment opportunities once reserved for the rich. Behind the scenes, the new services can do the “heavy lifting” of aggregating information and providing sophisticated tools so that wealth advisors can focus on what they do best: building client relationships. As competition heats up among various wealth management innovators, from the aggregators and providers of personal financial management tools to the “robo-advisors,” costs will drop and accessibility will expand. The market is changing, and community and regional banks that invest in the business and maintain highly skilled client-facing staff will be positioned to thrive as the market continues to evolve.

Smaller Banks Also Need to Incubate Millionaires

According to a recent study by KPMG, 48 percent of community bank executives say they have diversified significant income streams into wealth management to generate fee income. In addition, 32 percent believe that asset and wealth management will be among the three biggest drivers of near-term revenue growth.\(^1\)

One-third of community bankers think that asset and wealth management will be a big driver of near-term revenue.

Q. Which of the following areas do you believe will be the three biggest drivers of your company’s revenue growth in the next 1 – 3 years?

<table>
<thead>
<tr>
<th>Area</th>
<th>Percentage</th>
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<tbody>
<tr>
<td>Asset and wealth management</td>
<td>32%</td>
</tr>
<tr>
<td>M &amp; A activity</td>
<td>28%</td>
</tr>
<tr>
<td>Cross-selling services</td>
<td>28%</td>
</tr>
<tr>
<td>New market segments (e.g., underserved)</td>
<td>25%</td>
</tr>
<tr>
<td>Credit cards</td>
<td>24%</td>
</tr>
<tr>
<td>Emerging market lending</td>
<td>23%</td>
</tr>
<tr>
<td>Commercial and industrial loans</td>
<td>22%</td>
</tr>
<tr>
<td>Emerging technologies such as mobile payments, social media</td>
<td>22%</td>
</tr>
<tr>
<td>New geographies</td>
<td>21%</td>
</tr>
<tr>
<td>Residential mortgages and consumer loans</td>
<td>17%</td>
</tr>
<tr>
<td>Broker-dealer and capital market activity</td>
<td>16%</td>
</tr>
<tr>
<td>Construction lending</td>
<td>15%</td>
</tr>
<tr>
<td>Deposit fee income</td>
<td>14%</td>
</tr>
<tr>
<td>Commercial mortgages</td>
<td>13%</td>
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Bankers know they need to gain wallet share, especially from the small business clients they already serve. They know they must obtain all the business they can from their trading areas because, frankly, there are few “pillars of the community” to tap. Bankers need increasingly sophisticated services to attract and retain affluent retail customers. But what they really must begin now is sowing the seeds for the next generation of wealth clients; they need to incubate millionaires among Gen Xers and millennials as the baby boomers draw down their accounts during retirement.

Depending on who’s counting and how, the number of millionaires in the United States ranges between 4.3 million and 10.1 million. That’s not many millionaires for a country with approximately 320 million people. And the average age of a millionaire is 62, which strongly suggests that wealth is typically built over time. Community and regional banks cannot manufacture millionaires overnight, but they can help consumers make better spending and savings decisions. They can borrow from the 401(k) playbook of automating savings to fund investments that help consumers reach their life goals. They can also help small businesses manage their companies better.

“Smaller banks must target their market appropriately. They might have some super high net worth clients, but they’ll need to grow their business from a different market segment than what the big banks are going after.”  
Scott Parry, Executive Vice President, General Manager, FIS

**Good News, Bad News**

FIS PACE Index™ research confirms that community and regional banks still hold the advantage over bigger banks in offering in-person service and some of the basic building blocks of trusted relationships, such as fairness and reliability. If smaller banks have competitive wealth management services, they have the distribution in place to own more of their customers’ business.

The bad news is that customers’ expectations regarding digital access keep rising, and smaller banks, on the whole, aren’t keeping pace. According to Javelin Strategy & Research, wealthy customers are heavy users of digital banking. Among the new crop of investors, digital disruptors are changing the “rules of engagement.” As a result, community banks are not attracting enough of the consumers who will be shortly inheriting wealth and the young entrepreneurs who will grow their own wealth.

“Smaller banks should focus on the generational transfer of money and put programs in place to show younger customers what the bank can do for them before they get their parents’ money. Educate them, because many will feel they are victims of trust agreements that they don’t understand. Otherwise, when they finally get their hands on the money, they will go elsewhere.”

John Francis, FIS

To succeed in wealth management, smaller banks need to do more than simply try to accommodate the current client base.

“Often, banks will put in a mutual fund model because of the lower cost and the ability to do it themselves. This methodology has risks, because clients can easily take assets elsewhere and get something more comprehensive from a different provider for the same price.”

Kevin Crawford, Director, FIS
Next-gen Wealth Customers Talk Digital

FIS’ research also confirms that less developed digital delivery is the Achilles’ heel of community and regional banks. While the “average” customer of a smaller bank is perfectly satisfied with a middling digital offering, neither the next generation of wealthy consumers and business owners nor the next generation of wealth managers hired by the bank will be satisfied. Banks need to embrace digital in order not to be displaced by rising numbers of digital registered investment advisors (RIAs).

“The digital capability for the end client is obviously important, but the digital engagement of the advisor is equally important. If the advisor has the ability to be mobile and have digital tools, it also helps attract the next generation of advisors.”
Scott Parry, FIS

The move to more sophisticated digital services in wealth management is occurring concurrently with the market shift toward goal-based frameworks. This opens opportunities to fashion digital tools and present account statements that tell customers how well they are doing in reaching their goals instead of how much they’re worth.

“Many banks need to figure out how to better present statements and account information to clients. It should say, ‘This is how close you are to reaching your goals.’ The way that information is delivered is changing to give people a better picture of their life as a whole.”
John Francis, FIS

Wealth Management Must Be a Collaborative Effort

Community and regional banks need investment managers who can take a holistic view of how customers’ financials align with their goals. They need to structure the reward system to deconstruct silos between commercial account managers who own and want to continue to control relationships with the clients who are growing their businesses and the investment manager who can boost the bank’s share of wallet with those clients.
If community banks are located in trading areas that justify participation in wealth management, they need to capitalize on their distribution advantage, focus on front office, relationship-building activities and outsource pieces where they can’t add value.

“It’s a question of the bank identifying where they can add value and differentiate their offer versus what are commodities that should be outsourced in the most cost-efficient way.”
Scott Parry, FIS

Learn More

For additional information on this topic, please contact our experts.

Scott Parry
Executive Vice President, General Manager
Wealth
FIS
704.561.8285
scott.parry@fisglobal.com

John Francis
Vice President, Client Services Manager
Wealth Outsourcing Solutions
FIS
414.815.4447
john.francis@fisglobal.com

Kevin Crawford
Director
Wealth Outsourcing Solutions
FIS
678.274.1889
kevin.crawford@fisglobal.com

About FIS

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Endnotes