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# Regions, Prudential Platform Deal Highlights Increased Banking Focus On Wealth Management

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*New York*
14 January 2013

Two big industry trends converged today in Regions Bank's new platform deal with Prudential Wealth Management Solutions: banks pursuing lucrative wealth management opportunities and service providers targeting banks as a growing wealth management platform market.

Regions, a regional banking powerhouse based in Birmingham, AL, with $122 billion in assets and branches spread across 16 states in the south, Midwest and Texas, named Prudential, the Newark, NJ-based financial services giant, as the provider of an integrated technology platform for its wealth businesses catering to institutions and individuals and families with over $500,000 in investable assets.

The open architecture platform will include overlay portfolio management technology, investment research, performance reporting and desktop tools.

Regions is the latest in a long line of banks to reorganize and shore up its wealth management business in the last few years. In June 2011 it created a Wealth Management Group anticipating the sale of Morgan Keegan, the bank's brokerage unit. Last fall Bill Ritter, head of the Wealth Management Group, brought in a new leadership team for its various divisions and began running focus groups "to see what clients were looking for in wealth management."

Advice and user-friendly technology were critical to growing the business, Ritter concluded, and after issuing an "extensive" request-for-proposal seeking a strategic partner, he settled on Prudential.

## Banks under pressure

In an era of miniscule interest rates, banks have been under pressure to produce non-interest income to boost earnings, and wealth management, with its relatively high margins and attractive recurring fees, has becoming an increasingly high priority.

The new platform, Ritter hopes, will spur both institutional revenue and growth at the Private Wealth Management division, which currently has $23 billion in assets, and will target individuals and families with $1 million to $10 million in investable assets. "We're not just selling product," Ritter said, "we want to offer the best advice." Regions' wealth management goal this year is to "deepen existing relationships and acquire new ones," Ritter said. He cited the bank's commercial lending group as an example, where a client may use Regions for lending and banking services, but not for investments or wealth management. "We want the opportunity to sell deeper into that relationship," he said.

For its part, Prudential believes partnering with banks as they try to grow their wealth management business is "a huge business opportunity," said John Yackel, senior vice president and director of business development, sales and relationship management of the company's Wealth Management Solutions unit.
Exploring outsourcing options

Prudential is hardly alone. Well regarded outsource service providers including Fortigent, Envestnet and SEI share Yackel's optimistic assessment, as do top technology vendors such as Advent, SmartLeaf and Orion. "We see tremendous opportunities with banks that are exploring outsourcing options for wealth management," said Gary Carrai, senior managing director for Fortigent, which already counts PNC, First Republic Bank and Signature Bank among its clients.

"Many banks have outdated wealth management technology and investment solutions which is making it harder to compete with RIAs and big brokerages," Carrai said. "For example, many banks that still offer a proprietary investment solution are warming up to the notion of hiring third-party managers."

In addition to technology and access to top managers, Regions choice of Prudential "came down to people," according to Ritter. "We were confident Prudential could partner with us, get the right tools in the hands of our associates and get [the platform] implemented quickly."

Yackel, who has been with Prudential for the past two years following four years at Fortigent and 15 at SEI, also stressed Prudential's focus on working with bank personnel. "The value we provide is dedicated people in the field to provide support and drive adoptions," Yackel said.

## Pricing Issues

Terms of the Regions-Prudential deal weren't disclosed, but Yackel said price is typically an asset-based fee determined by "scale and complexity and scope of the engagement" as well as the sophistication of the technology, degree of field support and "current and future asset potential." In addition, the agreement usually includes "incentives to get the organization to scale," Yackel said.

Negotiating pricing and "which institution gets which share of basis points" is one of the most contentious issues between platform service providers and banks, said industry consultant Tim Welsh, president of Nexus Strategy. Pricing can be "all over the place" because so many different sets of criteria can be used, according to Joel Bruckenstein, publisher of Technology Tools for Today.

But the price is sure to be considerably less expensive, Bruckenstein added, if a bank uses financial products manufactured by the platform provider.

"The strategy is to create another distribution channel through technology," Welsh said, "which is very smart. Once you have scale in your technology infrastructure, you can partner with other institutions that don't have manufacturing in the form of a managed account platform, such as banks, but do have advisors."

## Banks' advantages

Competition for the bank business is only expected to increase as the banks ratchet up their own focus on wealth management.

Consulting firm Booz & Co estimates that banks' wealth management business will grow 6 per cent to 7 per cent annually, and by next year retail bank revenue from wealth management should top $80 billion, the firm projects, up from $65 billion in 2009.

To be sure, banks are seen as having a number of advantages in the race for wealth management assets: a built-in base of plentiful and loyal customers; a plethora of other lines of businesses offering opportunities for cross-selling; a reputation for stability (perhaps tarnished during the financial crisis but mostly restored); and an established local presence in the community.

According to wealth management industry consultant Jamie McLaughlin, the "primary advantage" for banks when competing against RIAs is perhaps obvious but powerful: capital.

## Cultural challenges

But banks are also burdened by a reputation for having less than stellar talent, low pay by wealth management standards, lack of a sales culture and a narrow range of products.

"The key to growth is innovation, but this is hardly an innovative industry," Kenneth Thompson, senior vice president and division head of M&T Banks' Investment Group told an industry conference last year.

Thompson also pointed out that only 17 per cent of all accounts at M&T had an investment product. While that woeful statistic may underscore the headwinds banks face in wealth management, it also represents an enormous growth opportunity.

The good news for platform providers, as Bruckenstein points out, is that banks "need the right tools, right away," to have a fighting chance in the fierce competition for wealth management market share.