

UNLOCKING THE POWER OF PRICING

Trends and Revenue Opportunities

NYBA Trust & Investments Conference

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FINANCIAL TRENDS

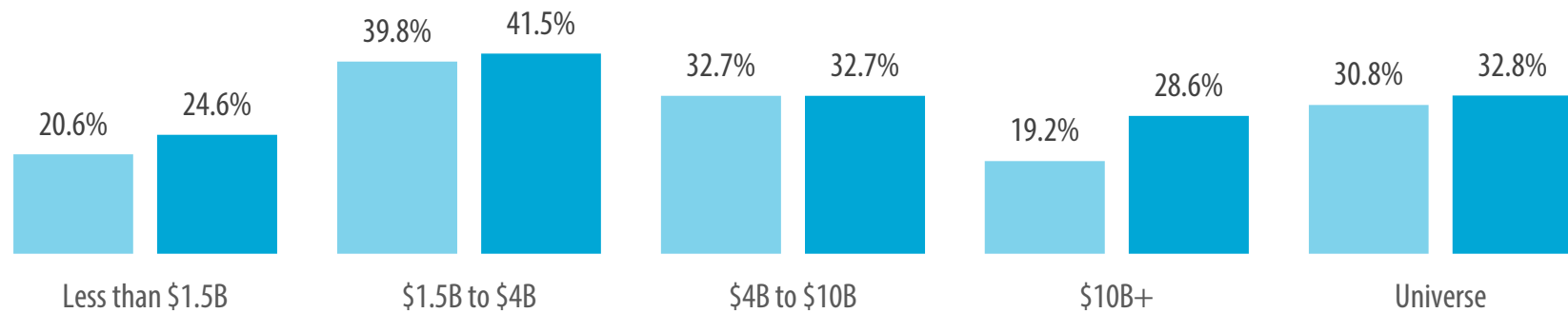


GOOD TIMES

MARGINS NEAR HIGH-WATER MARKS

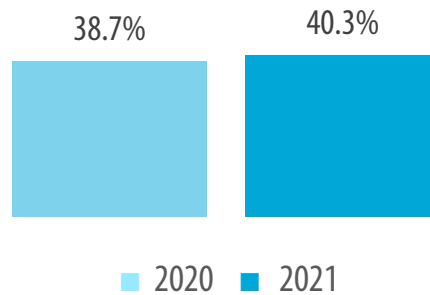
Operating Margins, Investment Management and Trust, 2020–2021

By Total Assets Under Management



Operating Margins, Wealth Management, 2020–2021

All Firms

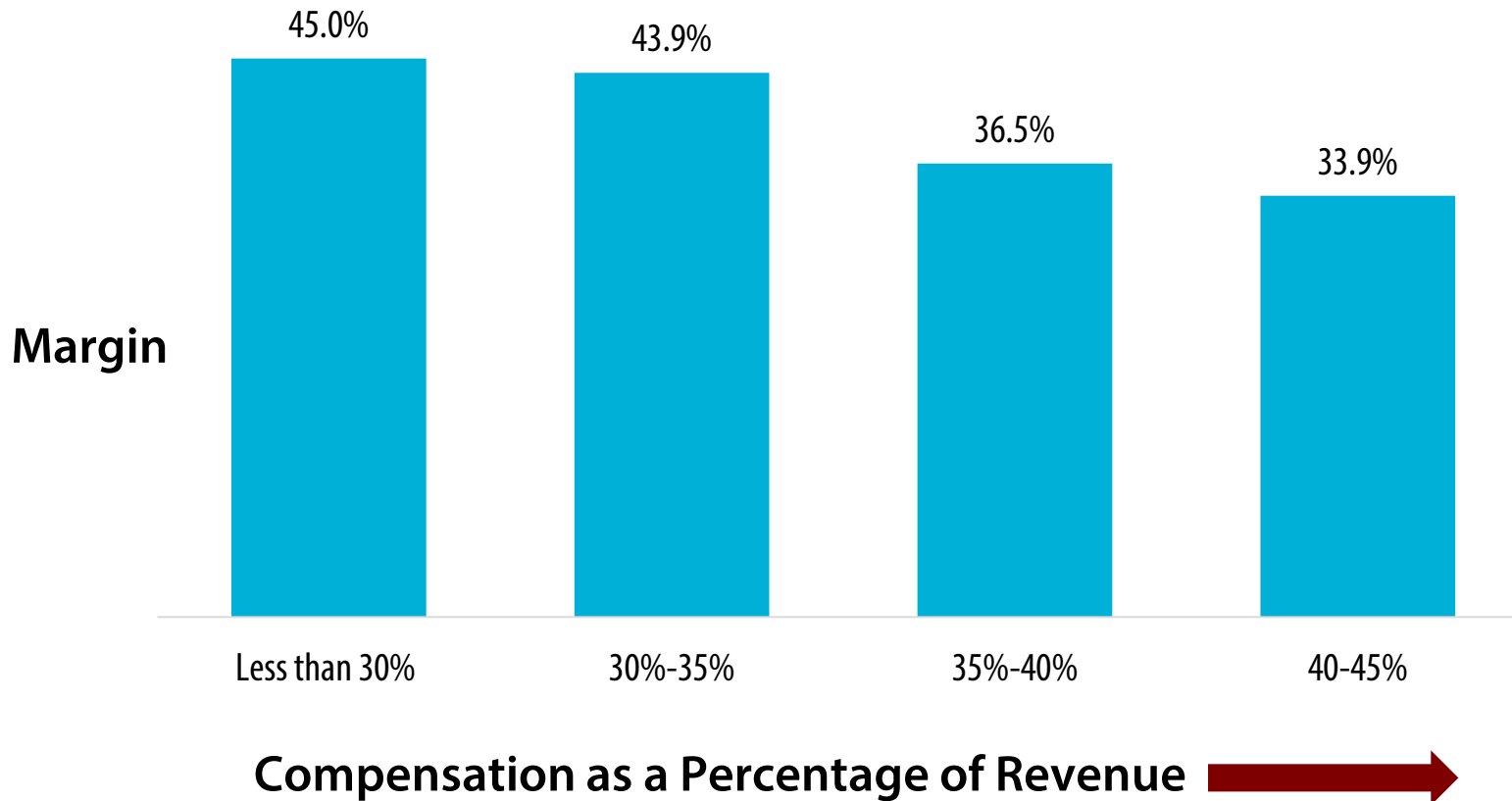


Notes: Investment Management and Trust: trust, fiduciary, and investment-related services provided to high-net-worth individuals, including services such as personal trust, investment management, custody, irrevocable, revocable trusts, individual retirement accounts, etc.; Wealth Management: the highest-level business unit in a firm that is dedicated to serving the needs of high-net-worth individuals. It may be comprised of several discrete lines of business, such as private banking, trust, and investment management. Data exclude brokerage.

WHAT THE PAST PORTENDS FOR THE FUTURE

COMPENSATION AS A PERCENTAGE OF REVENUE

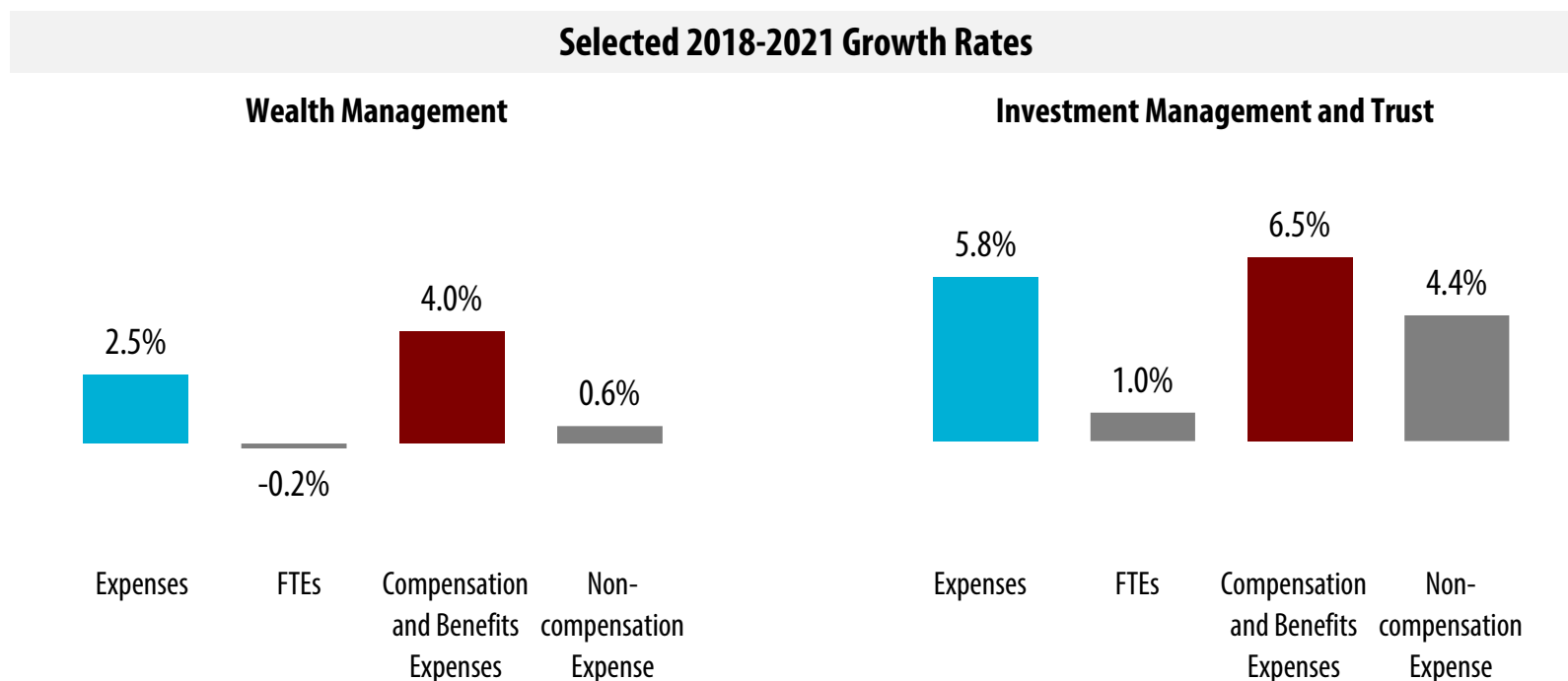
Median Pre-tax Operating Margin
by Compensation as a Percentage of Revenue



Notes: Margins are median pre-tax operating margins and include allocated (indirect) expenses where applicable. Data are drawn from data years 2017 to 2021. Does not include firms who spend more than 45% of their revenues on compensation and benefits.

BIG AND BIGGEST

CHANGE IN EXPENSES, 2018-2021



Notes: Growth rates are compound annual growth rates.

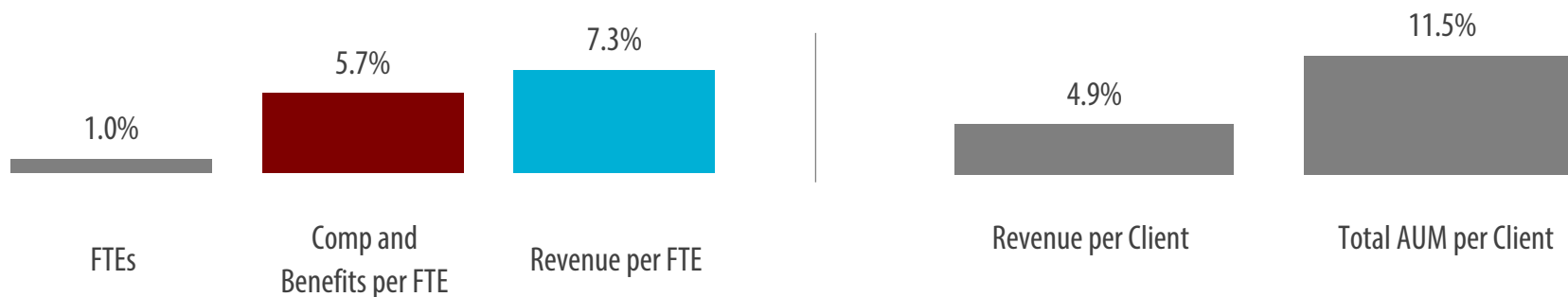
BIG AND BIGGEST

CHANGE IN EXPENSES, 2018-2021

Selected Growth Rates, 2018–2021 (Weighted Averages)

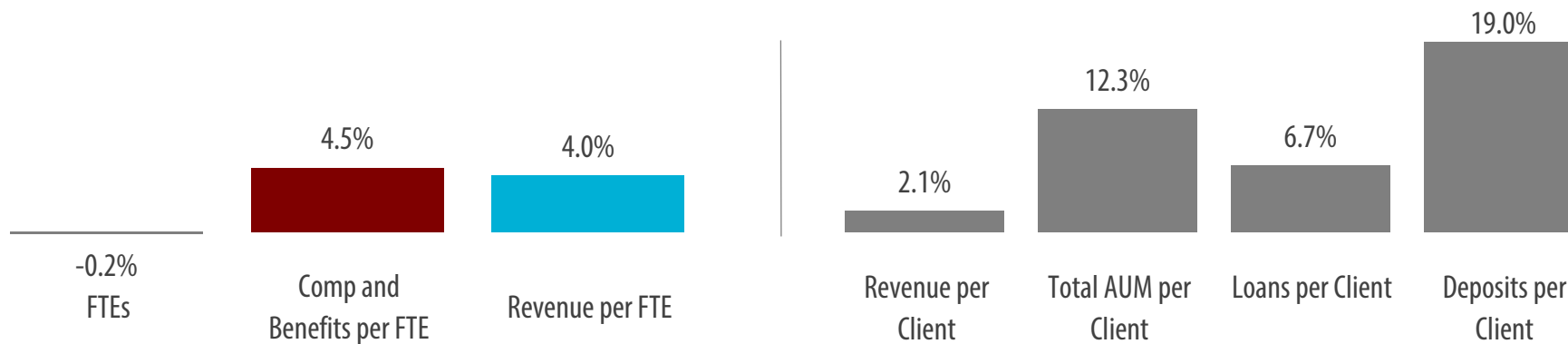
Investment Management and Trust

All Firms



Wealth Management

All Firms



Notes: Growth rates are compound annual growth rates. Full-time employees (FTE).

SITUATION - ACTION

RESPONDING TO KEY TRENDS

SITUATION

1. Disappearing revenue dividend
2. Most valuable resource becoming more valuable (expensive)

ACTION

3. Do nothing (margin squeeze?)
4. Drive organic growth improvements (sales, expansion, retention)
5. Free up capacity
6. Cut non-compensation expenses

WHAT OTHERS DO

Capitalize on Strong Perceived Demand

Business succession planning

Perceived Opportunity

"We see money in motion again. Businesses are starting to sell and a lot of owners are thinking about selling."

Action

1. Encourage new accreditations for RMs (build bench), new coaching, interview guides, teach advisors how to be around deal flow. "We are very intentional in talking through transition...what are the words, what specific things should you be talking to owners about?"
2. Use an acceptance committee to target/acquire early-stage business owners
 - Early-stage owners are identified by BDOs, vetted for fit by committee using disciplined approval process: "we organize around business owners as a multi-generational client acquisition strategy."

Wealth transfer and estate planning

Perceived Opportunity

"There are a lot of client-side changes. [Clients] are aware of mortality, at home with their spouses and have easy access to documents and plans. **These have been the busiest two years for trust and estates lawyers ever.** Combined with planning and uncertainty about political and tax changes, it has been an unbelievably good environment."

Action

1. Remove organizational impediments to make needs identification and sales easier (trust is a complex sale, a lot of advisors are good at credit and banking, they are not comfortable having wealth transfer conversations)
2. Enlist dedicated sales officers to educate/promote services internally
3. Streamline and digitize sales and fulfillment processes, simplify onboarding: "do not ask for same data more than once"
4. Enlist wealth strategies group to review family situations for estate planning opportunities; include wealth strategists in client meetings
5. Assign an estate planning attorney to every client

WHAT OTHERS DO

Capitalize on Strong Perceived Demand (continued)

Credit, especially mortgages and securities-backed loans

Perceived Opportunity

“Loan growth has exploded at our firm”

Action

1. Simplify internal processes; clean up underwriting standards; national pricing, not regional
2. Reduce the time to get approved for a new loan
3. Leverage credit to acquire new relationships and cross-sell investments: “Loans help create the initial conversation”

Niche Opportunities

Agent for trustee, successor trustee, co-trustee

1. Many clients want to maintain control to some degree = lower demand for corporate trustees
2. Promote agency-type services to support individual trustees; educate them about their responsibilities; build partnerships; get named as successor trustees. “This strategy has been a big focus for us.”

Capitalize on higher-growth/underserved fiduciary opportunities

1. “We are trying to ID gaps in the market for fiduciary services that are underserved”
2. Example: special needs trusts. “There are so many families in this segment and a lot of corporate trustees will not touch it”

Directed trusts and partnerships

- Partner with RIAs and other advisors

WHAT OTHERS DO

The Evergreen

Existing clients: maintain high levels of engagement

1. Service is the new sales. "A lot of our business has been net new additions from existing customers rather than new acquisitions. Clients are consolidating more of their assets. Also, we did not lose clients in 2020."
2. Maintain elevated levels of client engagement; in 2020, firms redesigned client outreach and communications strategies: higher volumes, more systematic, more tracking—born of necessity, but some firms express a desire to maintain more structured approaches to service and sales.

A Retention 'Dividend' in 2020?

	Revenue Retention	Asset Retention
Improved in 2020	54% of firms	59% of firms
Declined	28%	24%
No change	18%	16%
Change if Improved	+2.6% points	+3.1% points

Commercial referrals: more data, more targeted

1. Strengthen incentive programs (scorecards, metrics, higher incentives, "social" rewards); segment and target specific bankers
2. Use data to create more targeted client referral requests

Stronger Sales Cultures

More production-based and 'at-risk' compensation

1. Widespread support for higher incentive payouts (especially for top performers), while maintaining or strengthening incentives for team sales
2. Lead generation using data and analytics
3. No consensus around sales models, although there are strong proponents of dedicated sales

2 THE CASE FOR REALIZATION



WITHIN OUR CONTROL

TWO TRUTHS ABOUT PRICING, DISCOUNTING, AND RETURNS ON ASSETS

It's Not the Market

Wealth management fee and discounting practices **are only modestly influenced by external factors.**

It's Us

Where a firm **chooses** to set its fees and **the processes it creates to govern discounts** are disproportionately determinative of its returns on assets.

PRICING BEST PRACTICES

IMPROVING RETURNS ON ASSETS: PRACTICES

Evidence-based Pricing and Discounting Best Practices

1. ACTIVELY MANAGE PRICE

Observations

- Prices are often static/unmanaged ("set and forget"); schedules are old
- Clients are accustomed to price increases
- Firms face continual expectations to improve the service experience (e.g., digital)

Action

- Empower a senior manager (or committee) with responsibility for managing pricing outcomes, not just approving discounts.

2. MAINTAIN FEE INTEGRITY

Observation

- Discounts remain widespread; they impair business economics and create brand and discrimination risks

Action

- Oversight committees, codified rules, discount tracking, discounts that expire are examples of good practice
- Put in place 'hard' minimum fees (non-circumventable) at the account or household level, as well as minimum annual revenue thresholds
- Firms need transparency around relationship pricing practices to limit their substantial costs, e.g., codified rules and prices

3. LIMIT PRICING DISCRETION

Observation

- Many firms trade fees for short-term new business goals
- Discretion causes variability in outcomes, which yields subpar results
- Most employees lack information to make good pricing decisions

Action

- RMs, FAs, sales officers, and also managers should be given only limited or no discretion to give discounts or set fees without approval

4. PRICE WITH PRIDE

Observation

- Wealth management is a premium service. In sales situations, conversations about fees often reflect a failure to convey value
- Firms are better off losing poorly-price business; "No" helps strengthen culture

Action

- Firms need to practice effective value conversations at the individual RM/sale officer level (sources of differentiation)
- Employees must be empowered to say no (if not, they are price takers).

5. MEASURE PRICE PERFORMANCE

Observation

- Median realization rates are only ≈ 70 percent of stated fees
- Individual employees develop pricing habits. When pricing outcomes are opaque, effectiveness is difficult to measure

Action

- Quantify your gap to industry realized fees, set recapture goals
- Include gap to industry realization as a core metric for evaluating sales
- Create transparency around pricing and realization outcomes to enable coaching and development, e.g., percent of fee schedule realized by employees

6. DEBUNK MYTHS

Observation

- Pricing myths help people avoid difficult conversations and explain suboptimal outcomes ("It is different in my market")
- There is no evidence that 1) firms pay a sales penalty for having higher fees or 2) that pricing outcomes vary significantly by geography

Action

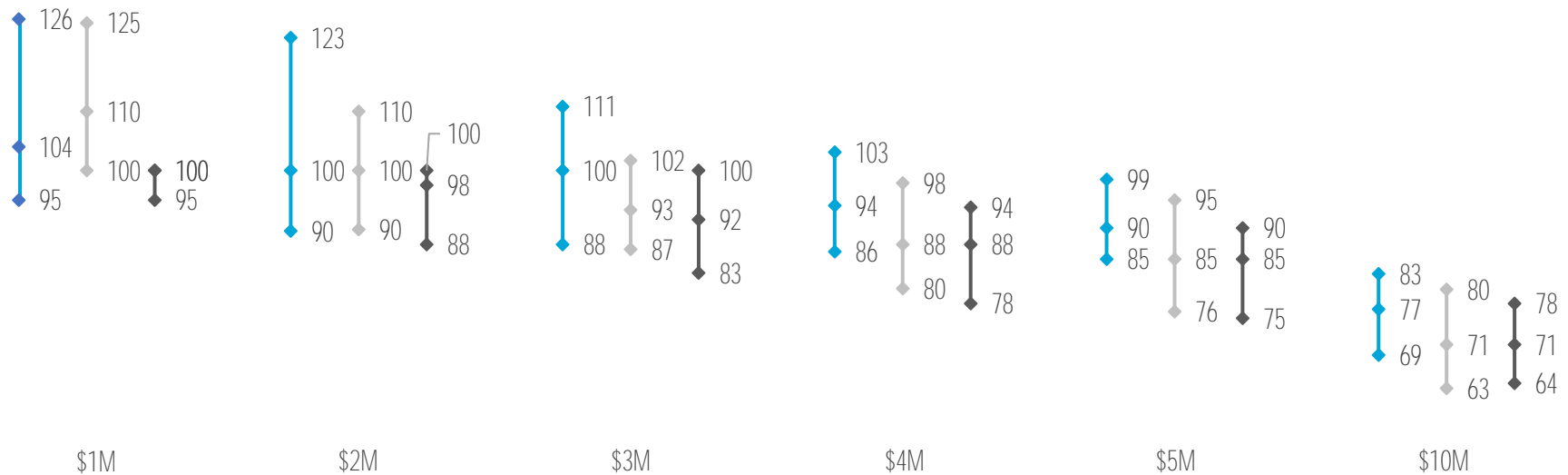
- Myths fill leadership vacuums; adopt a posture of polite skepticism

STATED FEES

INVESTMENT MANAGEMENT

Blended stated fee ranges for investment management for three groups of firms show considerable variations. Depending on the account size, the difference between high and low stated fees ranges from about 15% to more than 30% (where "range" is the difference between the 75th and 25th percentiles). Our view is that these ranges are suggestive of only weak external fee pressure. We would expect greater degree of convergence for an industry with stronger price competition or more elastic demand (i.e., price sensitive consumers). From a regulatory standpoint, the standard for fees—that they are “reasonable”—also provides a lot of latitude.

Blended Fee* by Account Size, Investment Management Agency
Interquartile Range, by Firm Type



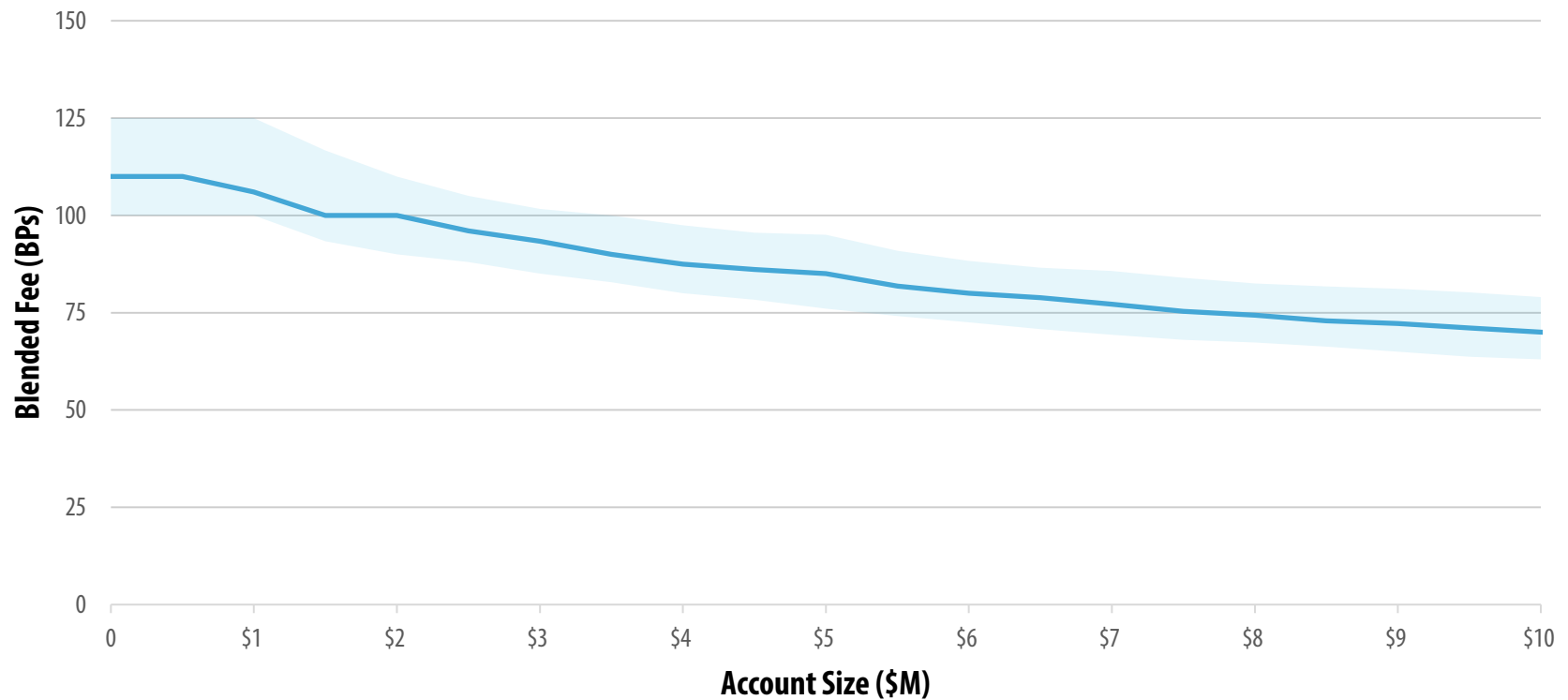
Notes: *Blended fee: the blend of all asset-based fee tiers for a given account size, including base or flat-dollar fees. The interquartile range is the middle 50% of each sample shown, i.e., the range from the 25th to 75th percentiles.

STATED FEES

INVESTMENT MANAGEMENT AGENCY - STATED FEES

Blended Fee by Account Size, Investment Management Agency

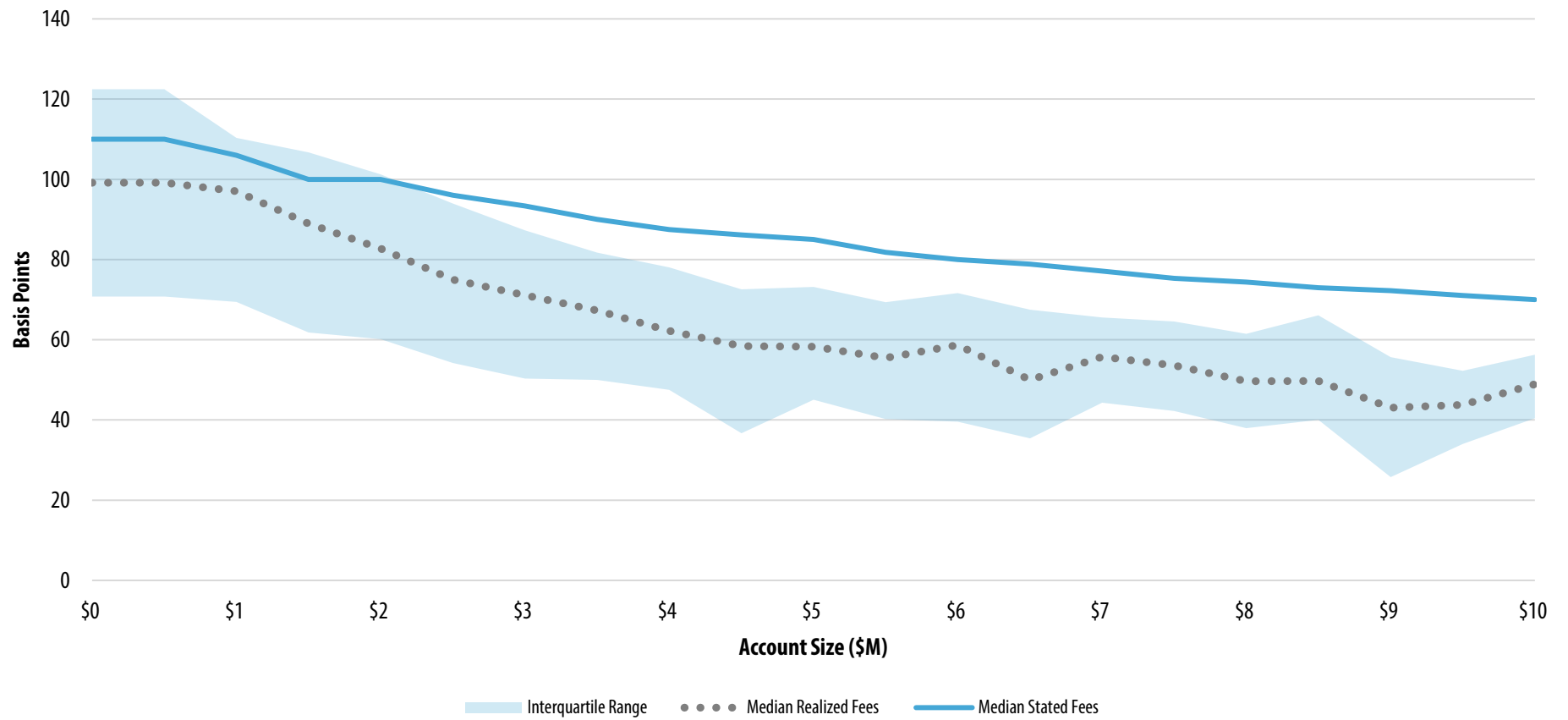
Blended fee refers to the total implied fee revenue for an account of a given size, including any base or flat-dollar fees (e.g., on a schedule that charges 120 bps under \$1M and 100 above \$1M, a \$2M account will have an implied average fee of 110 bps).



REALIZED FEES

INVESTMENT MANAGEMENT AGENCY - REALIZED FEES

Realized Fees by Account Size

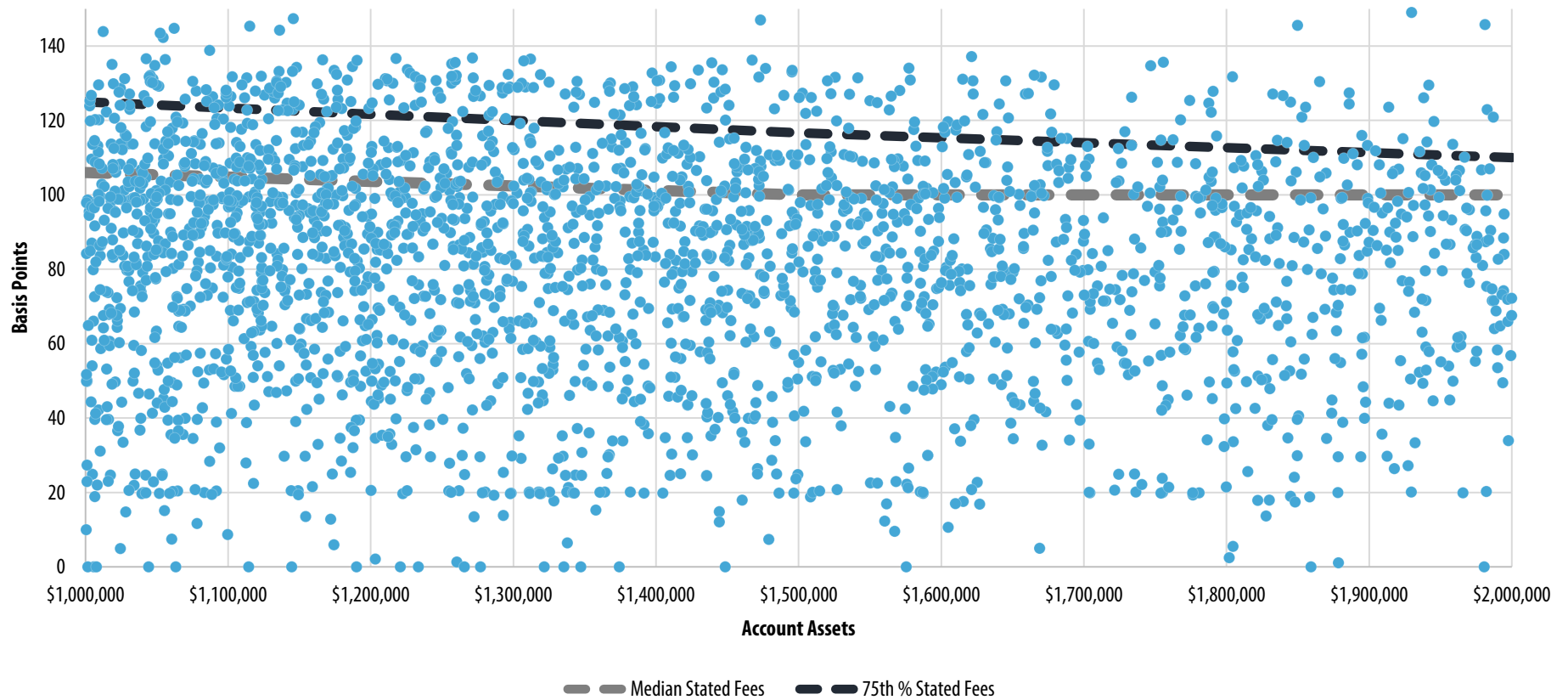


SETTING THE STAGE

VARIATIONS IN OUTCOME

Investment Management Revenue

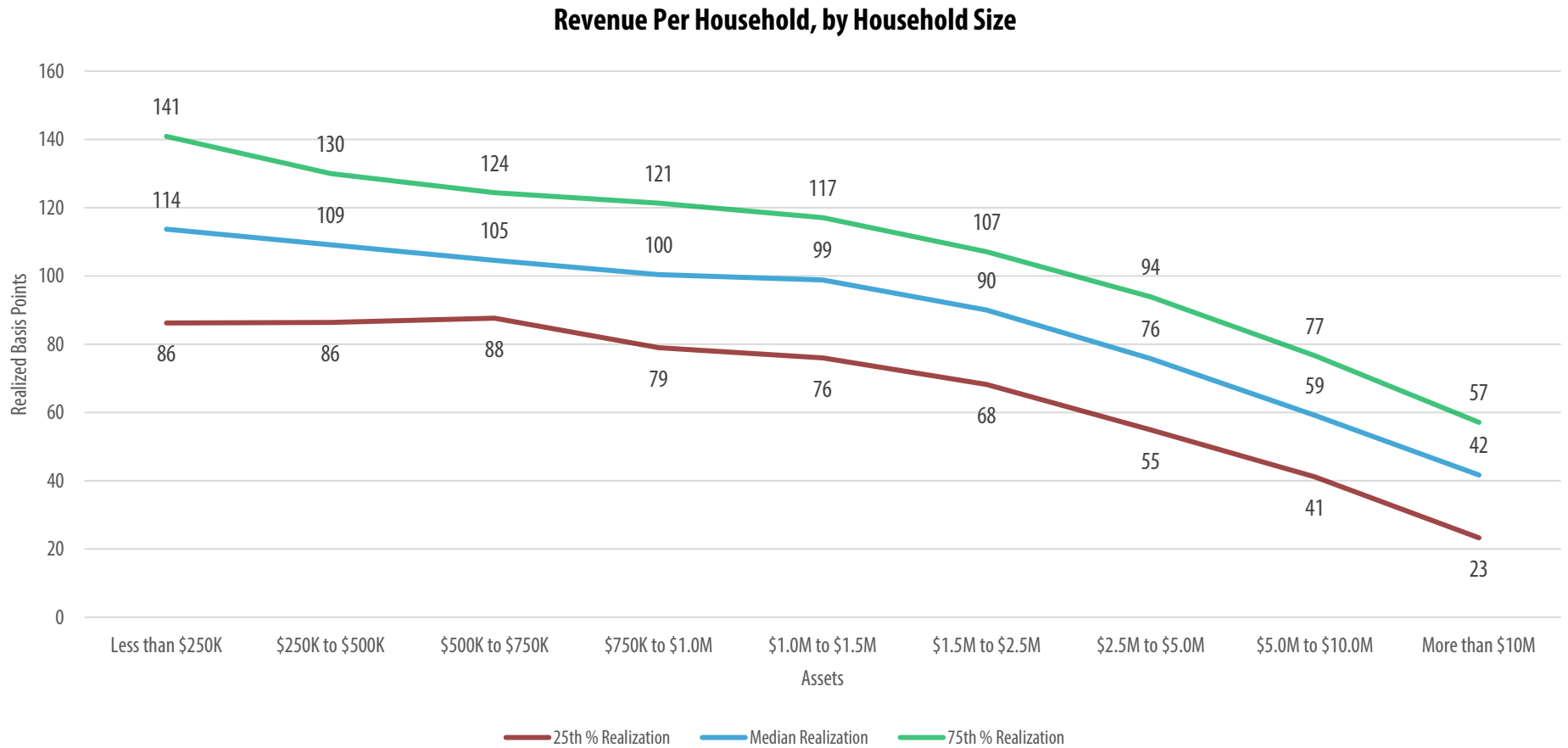
Accounts with Assets between \$1M and \$2M



Notes: Y-axis capped at 140 basis points for visual purposes. Accounts with revenue over the stated fee line were likely charged for additional services, are in the process of being drawn down, or their price was set at a fixed basis point rate regardless of assets.

SAME INPUTS, DIFFERENT OUTPUTS

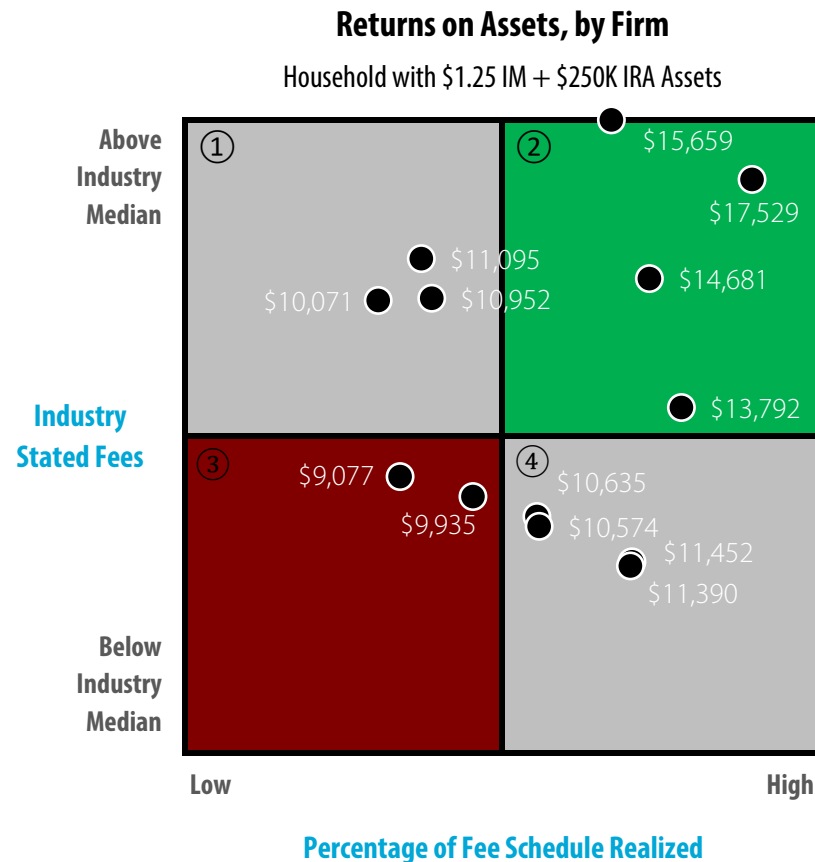
REVENUE PER HOUSEHOLD



SAME INPUTS, DIFFERENT OUTPUTS

REVENUE OUTCOMES FOR A GIVEN HOUSEHOLD

Two firm-specific characteristics disproportionately impact fee realization. The first is the level at which a firm chooses to set its fees. At left, stated fees (blue) imply a 24% difference between high- and low-fee firms for the same relationship. A firm's discounting practices also impact the realization rate of its stated fees. *Layering variations in realization on top of variations in fees implies substantially different revenues for the same relationship.* At right, revenue for the same-sized household at different firms varies by 90% or more.



Notes: Y-axis coordinates found by calculating stated fees from firms fee schedule. Y-axis mid-line is industry median stated fees. X-axis coordinates is a weighted percent of realization between the two services: Investment Management accounts between \$1M and \$1.5M and IRA's up to \$500K. Percent of realization is actual revenue divided by stated revenue. X-axis mid-line is median industry realization percentage.

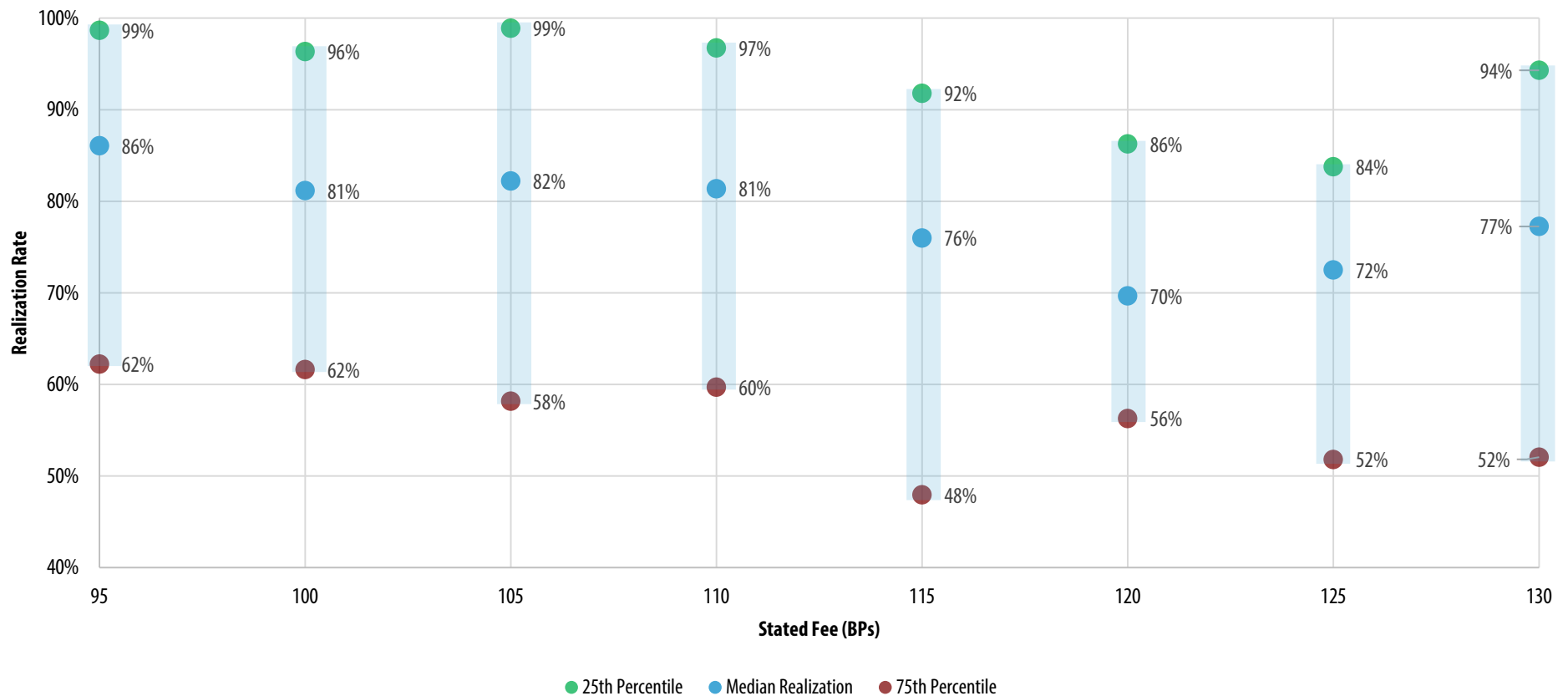
REALIZATION INFLUENCERS

REALIZATION BY STATED FEE

A firm's stated fees do not have a significant impact on realization rate. For example, having low stated fees does not imply higher realization (e.g., in the graphic below, 100 BPs on IM Agency accounts between \$1M and \$2M in assets). More importantly, having high stated fees doesn't necessarily imply lower realization rates, either.

Realization Rate Per Account for Different Stated Fee Levels

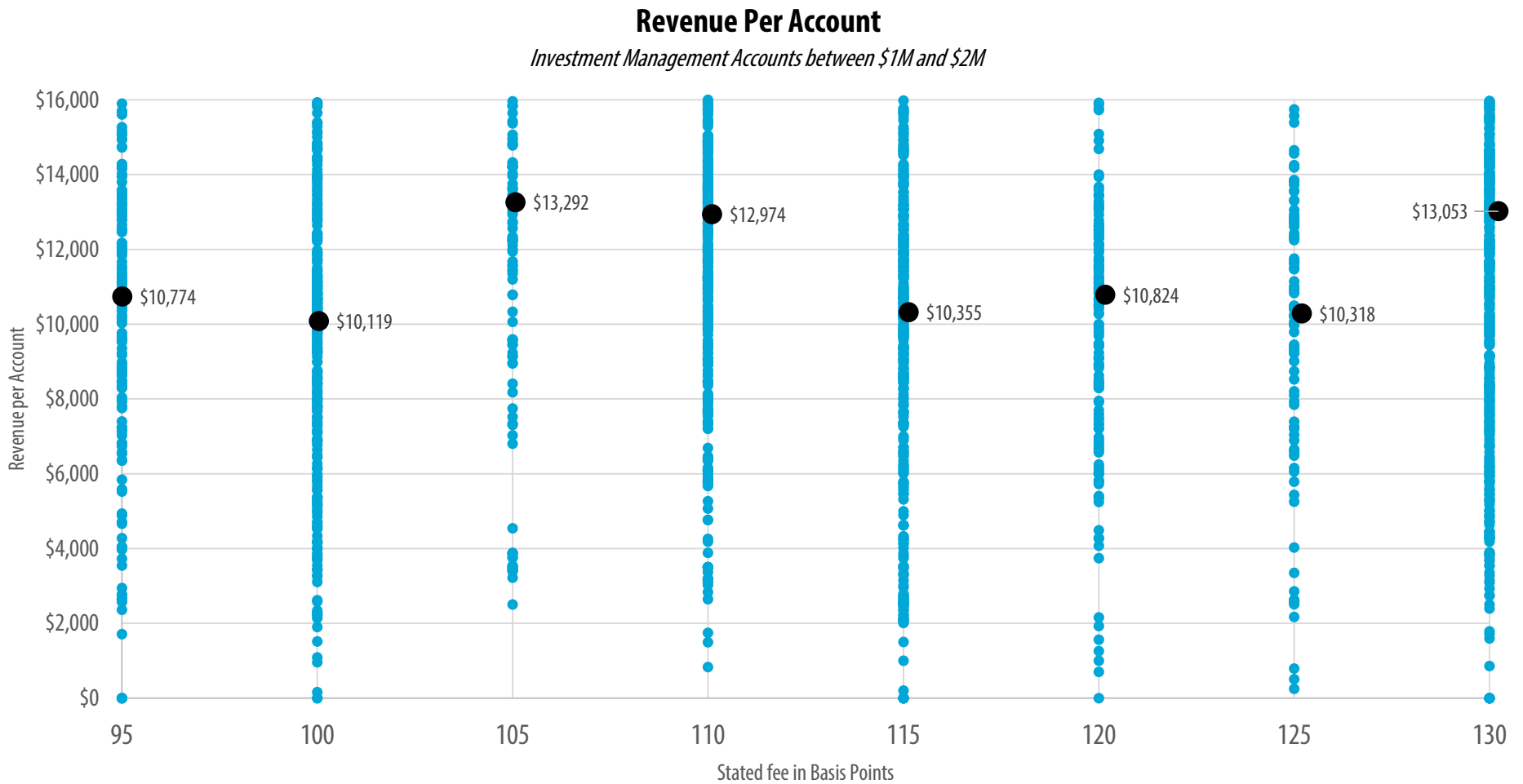
IM Accounts between \$1M and \$2M



SETTING THE STAGE

REVENUE BY STATED FEE

A firm's stated fees, surprisingly, do not have a strong effect on revenue per account. The positive implications: firms with high stated fees do not receive a penalty in the form of lower realization rates. The revenue-maximizing strategy seem likely to have high (or somewhat high) stated fees and to assiduously focus on managing realization rates.

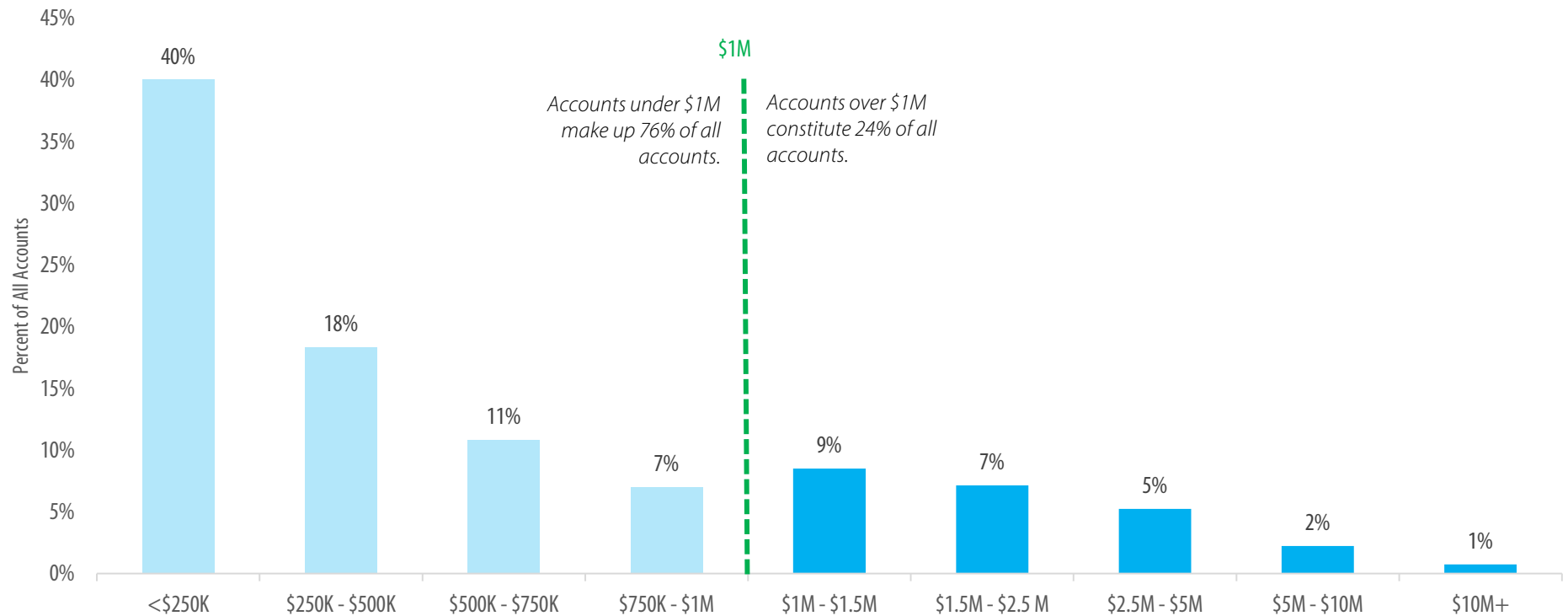


PRACTICES FOR THE BOOK YOU HAVE

ACCOUNTS BY ASSET SIZE

Firms serve a high percentage of small accounts. 76.1% of accounts have less than \$1M in assets. Many of these accounts consist of only a single account (gray box, below).

Distribution of Accounts by Total Assets

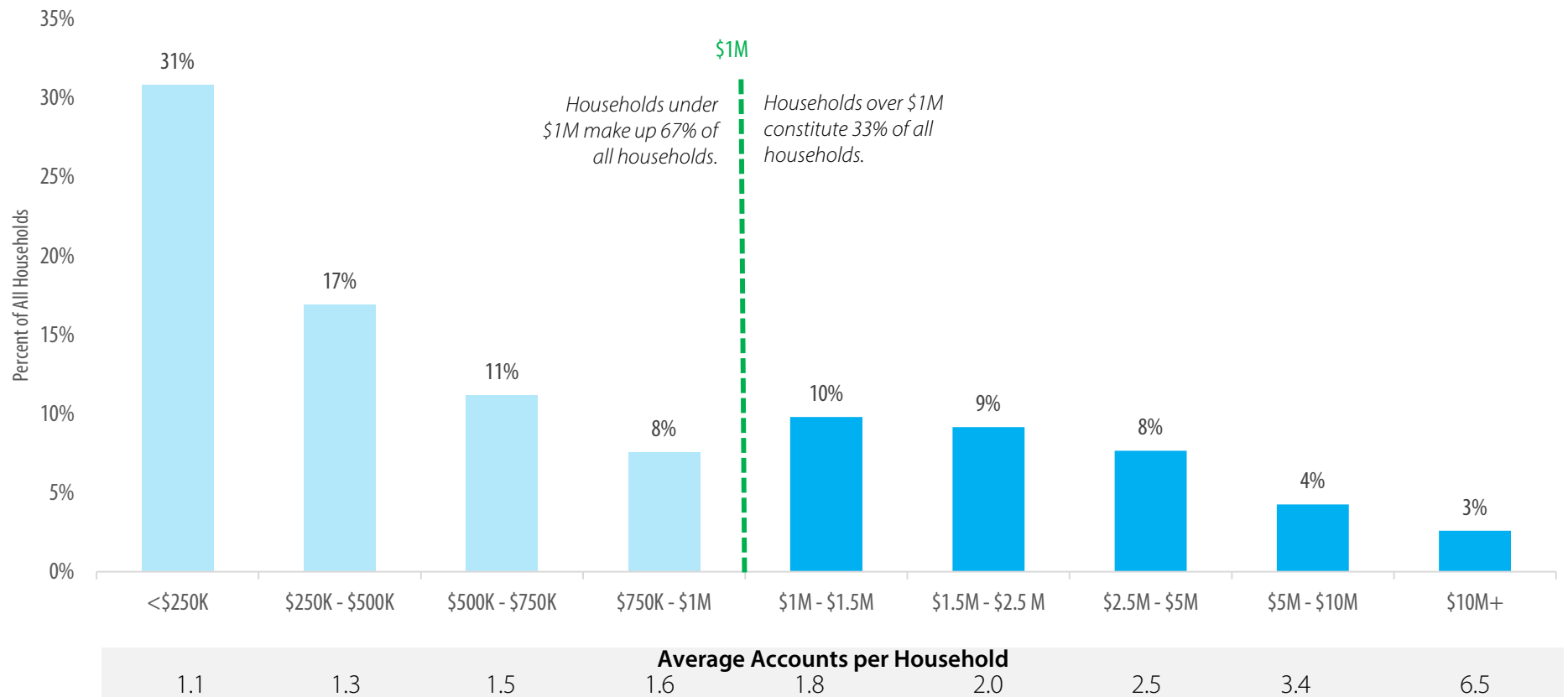


PRACTICES FOR THE BOOK YOU HAVE

HOUSEHOLDS BY ASSET SIZE

Firms serve a high percentage of small relationships. 66.5% of households have less than \$1M in assets. Many of these households consist of only a single account (gray box, below).

Distribution of Households by Total Assets



PRACTICES FOR THE BOOK YOU HAVE

Q. WHY ARE THERE SO MANY SMALL ACCOUNTS?

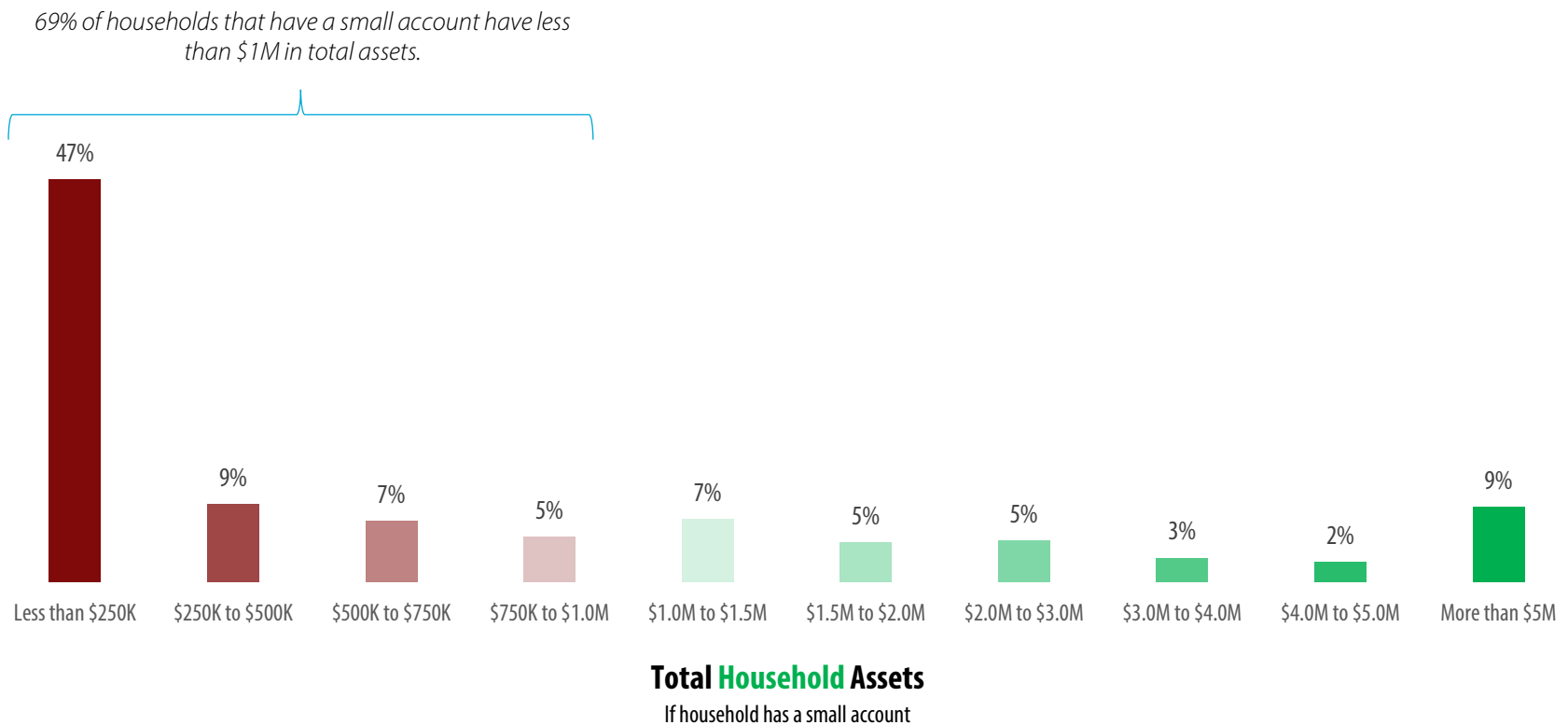
- A. Family relationships
- B. Depleting trusts
- C. Large credit relationship
- D. Other uncontrollable: "There's nothing I can do"
- E. "At least they pay our minimum fee"

SMALL ACCOUNTS, SMALL HOUSEHOLDS

DISTRIBUTION OF SMALL ACCOUNTS

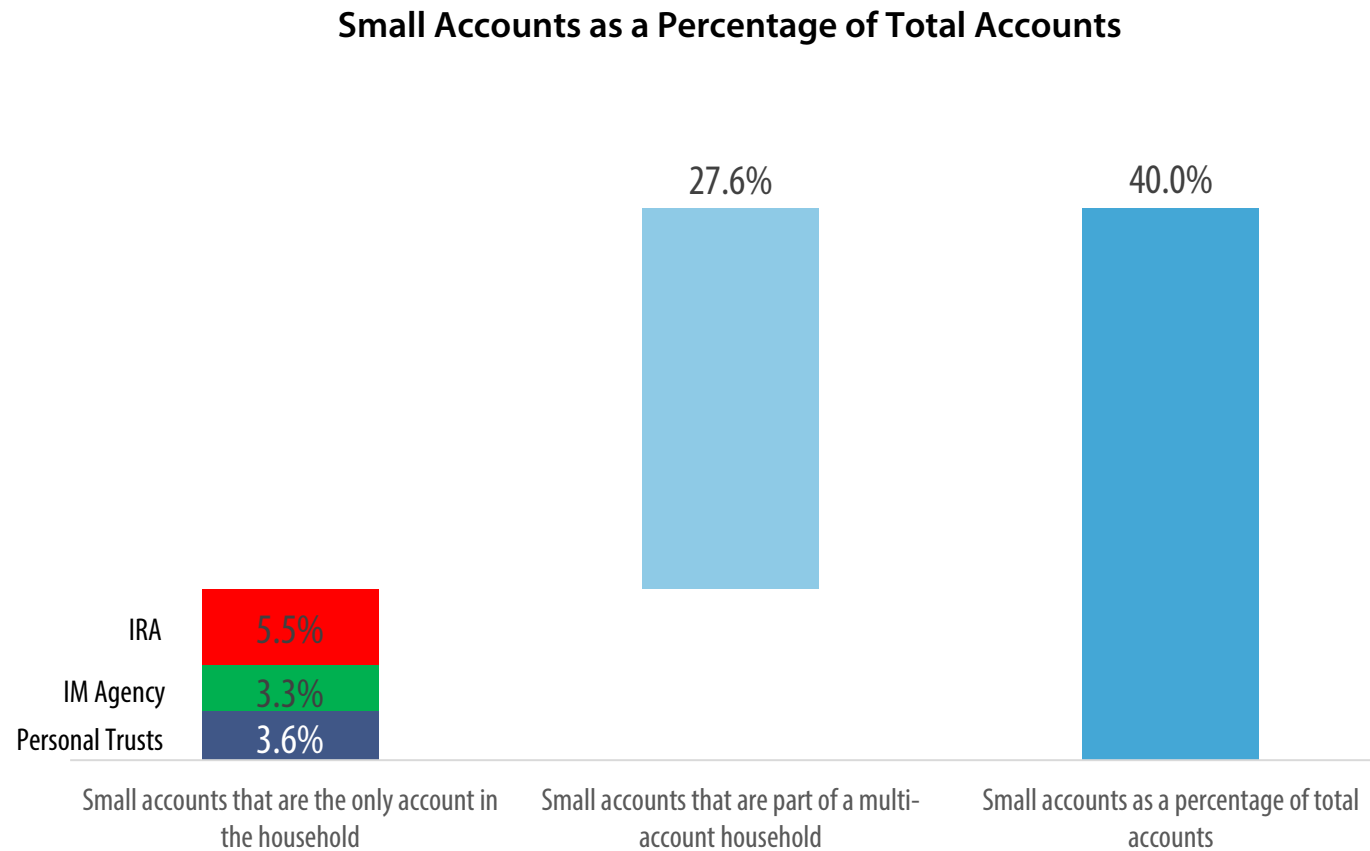
Many small accounts are also part of a small relationship. This chart shows the distribution of small accounts by size of the total household. A high percentage of small households also have at least one small account. For firms who apply relationship discounts liberally (including to small accounts), it is imperative that the fees for the 'primary account'—the one providing the subsidy—have high realization rates.

Percentage of Small Accounts by Size of Household



ALL TYPES

DISTRIBUTION OF SMALL ACCOUNTS BY PRODUCT



PRACTICES FOR THE BOOK YOU HAVE

RESPONDING TO KEY TRENDS

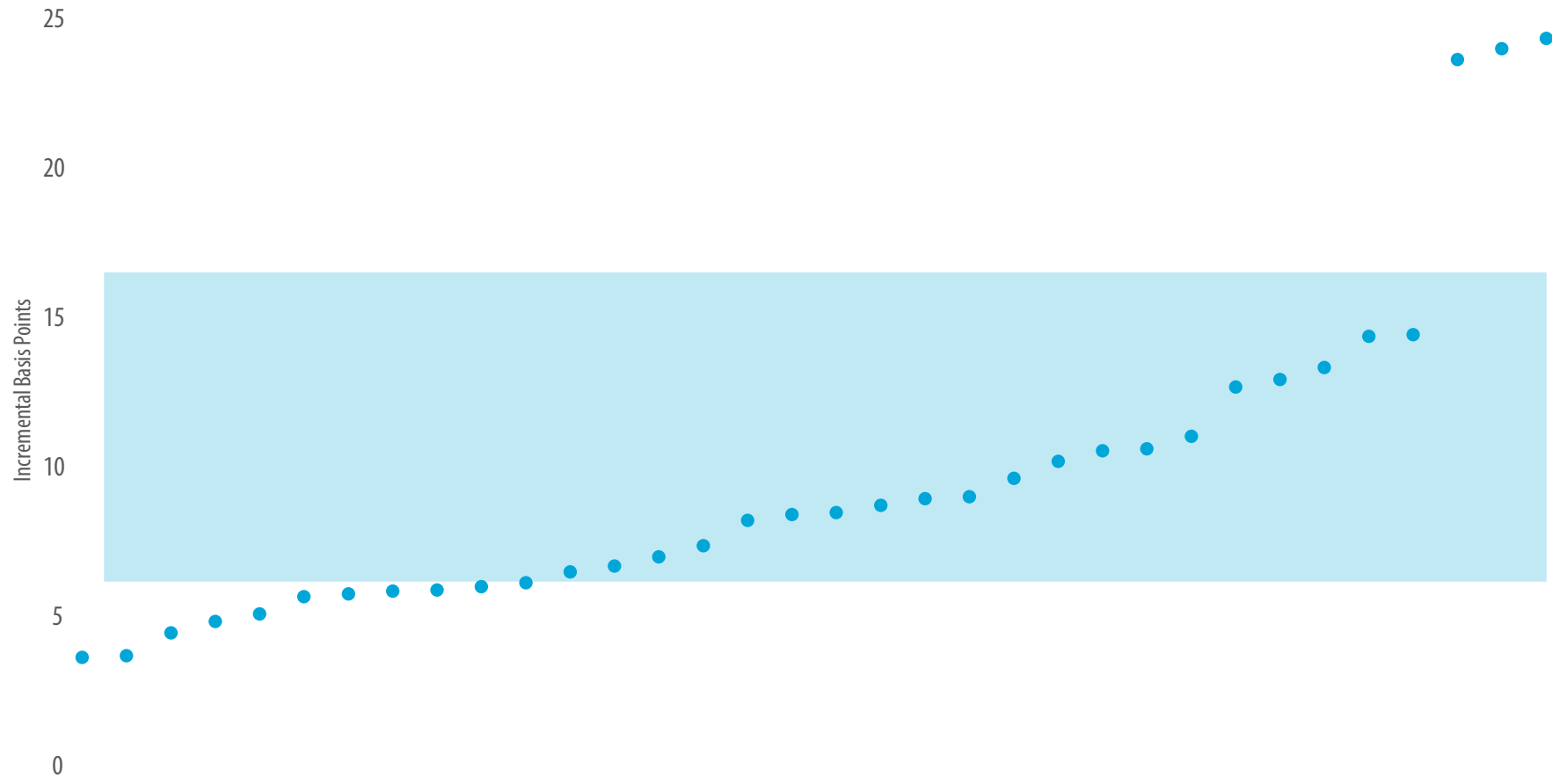
Q. WHY ARE THERE SO MANY SMALL ACCOUNTS?

- A. Family relationships
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- D. Other uncontrollable: "There's nothing I can do"
- E. "At least they pay our minimum fee"

NO DEFENSE FOR DISCRETION

GAP TO INDUSTRY REVENUE, BY RELATIONSHIP MANAGER

Gap to the Median Industry Realized Fees, by RM, 2020 (\$000s)



■ Middle 50% of Your Firm's Relationship Managers (25th to 75th Percentiles)

Range for Industry (\$000s)	
75th Percentile	16.4
25th Percentile	6.1

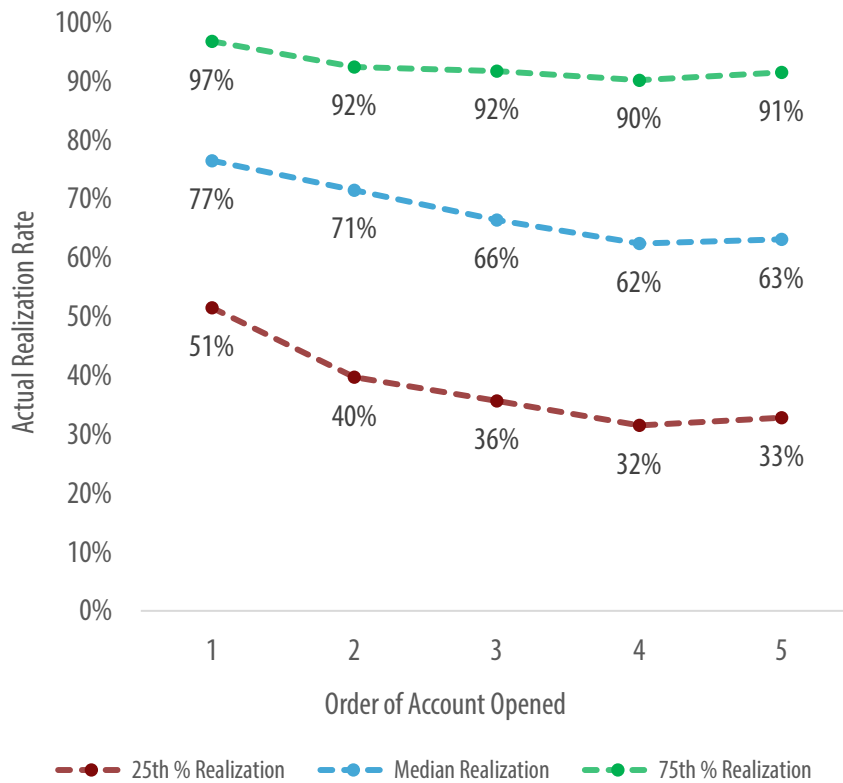
FAMILY AND FRIENDS

RELATIONSHIP PRICING

The first account in a household typically has the most assets and the highest realization rates. The realization rate for each subsequent account after the first typically goes down (gray line, below). Since the first account represents a relatively large share of household revenue, it is imperative that firms avoid discounts. In addition, firms should closely monitor the rate at which realization rates decrease for all other accounts. Steep decreases in realization rates for accounts 2-n may reflect overly generous relationship discounts.

Percent of Firm Fees Realized

By Account Open Order



Gap to Industry Median Revenues per Account

By Account Open Order





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FEE REALIZATION

REALIZATION BY SERVICE TYPE, INVESTMENT MANAGEMENT

Revenues per account imply a high degree of randomness in pricing and discounting practices:

1. Outcomes are random.
2. There is evidence of price inelasticity.

