In just over a year, U.S. banks have made great strides in selling wealth management products to their retail customers, both by overcoming organizational barriers and by tailoring the operating model to reach key customer groups. Can they keep it up?

Certainly the signs are encouraging. As measured by the portion of retail customers who have purchased at least one wealth product from the bank, “wealth penetration” rose from a general range of 3% to 5% in 2013 to a range of 6% to 8% in early 2014, according to a Novantas/BISA survey of 19 major institutions. Some of the best performing banks have reached penetration rates of 15% or more.

This is welcome progress, but banks need even more. Since the Great Recession, banks have been under tremendous pressure to reach prior levels of profitability. But this has proved next to impossible in an era of low interest rates and margins, anemic overall loan growth and regulatory pressures on fees.

To offset the drag, banks have looked to other lines of businesses — elevating wealth management to a growth priority at many institutions. In fact, according to the Novantas/BISA research, three-fourths of the surveyed banks ranked wealth growth as either the number one or number two strategic priority.

Importantly, this intensity is being translated into specific action.
along the two main fronts of business line integration and a targeted operating model for marketing and sales. In setting the wealth performance agenda for 2014–2015, banks need to continue this push, and there is good reason to believe that more progress is possible.

**WHAT'S CHANGED?**

Historically the wealth and retail banking businesses operated independently, each sourcing new customers through its own initiatives while rarely referring clients to each other or developing coordinated marketing strategies. Of the wealth management growth impediments cited by bankers in recent years, in fact, five of the top seven were related to organizational barriers such as senior management commitment, shelf space in branches, and standoffs between organizational silos.

Apparent bank management teams have taken notice, putting resources against these issues and using cross-organizational teams to ensure that the retail and wealth units work together to gain sales traction. As evidence, the most recent executive survey feedback traces only one out of the top seven perceived growth impediments to internal organizational issues.

A second, parallel round of change has centered on the operating model for marketing and sales, based on a realization that one approach will not be appropriate for all customer segments, either on the basis of needs or provider economics. Mass market customers, for example, are looking for more packaged solutions and tend to be more risk-averse to protect the smaller amount of investment dollars they have. By contrast, affluent and mass affluent customers tend to divide up their investment wallets and use a broader array of products and methods, both advised and self-directed. Banks are tailoring offers to meet these differing segment requirements and refining product manufacturing and delivery economics accordingly. To engage customers in the branch and via the contact center and other channels, banks are finally moving beyond lip service with more structured and disciplined cross-selling programs.

There also is a sharper focus on targeted marketing programs with the established customer base, where there is a lot of untapped potential. While wealth management units will continue to seek new customer referrals from satisfied clients, the larger opportunity rests with current customers — both retail and small business — who already have developed a trusted relationship with the bank.

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battle to win the necessary marketing support from the parent bank to build a distinct wealth brand.

**MID-TIER SURGE**

Though banks of all sizes have boosted revenues from the wealth business, mid-tier banks have seen the greatest improvement. Since 2008, banks with assets of $10 billion to $50 billion on average have exceeded a 12% annual growth rate. That compares with growth of less than 2% per year among larger banks with more than $50 billion of assets.

In our view, this demonstrates the continued relevance of regional brand strength, established branch distribution networks and core customer relationships. Regional wealth teams have a strong performance basis to win further organizational support and gain further ground with established customers.

Across institutions of all sizes, surveyed executives agreed on many themes for building the wealth management business among retail and small business customers. These include an emphasis on needs-based selling; a trend toward open architecture products; transitioning to more AUM-based fees; training and licensing field staff to sell investments; and using a hub-and-spoke distribution model.

Though challenges will continue in growing the wealth business among retail and small business customers, bank executives seem quite committed to making the necessary long-term changes, and many have already begun seeing their efforts pay off.

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