



PRIVATE TRUST GROUP OF AMERICA

A Strategic Resourcing Partner for Wealth Management Professionals

Sharing Ideas ~ Building RelationshipsSM

Change is the incubator for success. We can embrace change and be energized by the opportunity, or we can shy away from it and become paralyzed by inaction.



Bridging the Profitability Gap

With fee income under constant pressure from increased competition, the single greatest opportunity to successfully increase profitability is to aggressively manage costs. One client recently reported that his department's average annual internal rate of return went from a consistent 8% - 10% to 32% the first year he outsourced trust operations. Selective outsourcing not only improves the bottom line, it increases overall efficiency and allows trust executives to concentrate on developing new business opportunities and managing client relationships. The following excerpts were taken from a 2004 PTG article entitled "Wealth Management Services — Five Steps to Profitability".

Understanding the Marketplace

Most geographic areas that currently support general banking activities can support some basic form of wealth management services. However, a careful study of the marketplace is necessary to gain a clear understanding of the specific types of services being sought by current bank customers, and to determine the bank's ability to provide the infrastructure to support those services. Two key areas to be considered are:

Geographic Location - Generally speaking, the bank's service area footprint defines the marketplace for the bank as a whole, and will become the early recruiting grounds for suitable wealth management clients. Once a wealth management office has been established, services will usually expand outward to clients well beyond the borders of that footprint through direct sales efforts and referrals from existing clients and their

families. Therefore, it is important to look beyond the imaginary boundaries of the bank's current customer base to gain a perspective of possible expansion opportunities.

A clearly defined, well articulated wealth management services program is essential to meeting customers expectations and preserving the institutional integrity of the bank. It is better to do a few things well than many things poorly.

Demographics - A study of local demographics plays an essential role in determining the viability of a successful wealth management office. An ideal demographic matrix should be constructed on a broad regional basis, which will help determine future growth opportunities. A good rule of thumb is to extend the demographic coverage area outward from existing branches to include all adjacent population centers or counties.

Defining Wealth Management

Wealth management services mean different things to different people, which makes it necessary to clearly define the types of services being offered. It is often not necessary, and may indeed be counterproductive to offer a full range of financial service products. Limited services, such as traditional trust administration and estate settlement, may be of far more value to the bank and its institutional identity than providing additional services for which the bank cannot or is unwilling to support.

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Building a Support Structure

Wealth management, perhaps more than any other segment



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of banking, is built around institutional trust and personal relationships. First and foremost in the minds of wealthy individuals is the need to ensure the safety of their personal information and the security of their financial assets (institutional trust), followed closely by their sense of who best fits the role of understanding their intergenerational financial goals and objectives (personal relationships).

Institutional Trust - Unlike many large banks, brokerage houses, mutual funds and insurance companies that have been caught up in highly publicized scandals in recent years, community banks still enjoy a high degree of trust among their customers. In many cases, trust in smaller institutions is well founded and is, in reality, one of the primary reasons community banks continue to draw customers from their larger competitors.

Institutional trust is not a concept uniquely suited to high net worth individuals, but it is crucial to serving their needs. In a real sense, institutional trust defines the bank and gives the community a sense of pride and ownership.

Personal Relationships - The institution offers a public identity and provides a sense of permanence, but it is the individual who molds the customer

into a successful, long lasting relationship with the bank.

Central to the question of whether or not wealth management services should be an integral part of the bank's service offerings is the extent to which the Board of Directors and the Executive Committee recognizes the importance of personal relationships to the success of the endeavor.

Recruiting good, qualified personnel with a clear interest in growing the business is of the highest priority. The costs of all other support ser-

With proper service provider support, it is possible to substantially improve services, increase customer satisfaction and achieve a dramatic improvement in overall profitability. According to one client's estimate, his bank trust department's average annual rate of return has gone from 8% to 32% as a result of outsourcing trust operations.

vices, including routine administration, operations and even investment management can be shared with competent service partners with fee structures designed on the basis of shared economic interests.

Pricing

A careful examination of current fee schedules and other pricing models is necessary to secure baseline revenue that properly reflects the value of services offered and the costs associated with them. It is not practical, for example, to unilaterally cap revenue under a traditional fixed fee schedule (whether it is based on

a percentage of assets under management or otherwise) while expanding normal trust department activities to include other services.

Adhering to a single pricing structure while demands for additional services continue to expand will increase customers' expectations and inevitably lead to declining profits. Pricing flexibility is the only sure way to guarantee that existing fee structures are not being diluted by covering services outside the scope of the original agreement.

Managing Costs

With fee income under pressure from increased competition, the single greatest opportunity to successfully increase profitability is to aggressively manage costs. Outside service providers can more efficiently and cost-effectively provide the administrative and technical expertise necessary to support wealth management services, thus allowing wealth management professionals to focus more of their financial resources and human capital on the critical areas of growing assets under management and managing client relationships.

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Private Trust Group of America specializes in providing administrative and operational support to trust departments and wealth management offices nation wide. Our executive staff has over 100 years of combined trust and related technology experience, and our professional staff's average experience exceeds 22 years. Please take a moment to review our website at www.privatetrustgroup.com for an overview of our services.