

# A NEW PERSPECTIVE TO CAPTURE TRUE WEALTH MANAGEMENT

Originally Published By Dan Seivert

To best capture the potential for true wealth management, private bank and trust companies need to look at their businesses with new perspective. This often necessitates the development of a new model to appropriately match products, services, and business strategies with a broader range of high-net-worth clientele. A Third-Party Platform solution will help firms optimize this new model to more effectively reach their target market.

## PB&T CHALLENGES

In their efforts to serve the millionaire market, private bank and trust companies face some distinct challenges. One of the most difficult challenges is the development of the appropriate fee schedule for the entire range of HNW clientele. There is a delicate balance between what products and services are offered to the range of wealthy investors and the appropriate breakpoint levels for fees and assets. As noted, most platforms are geared towards the mid-tier millionaire and firms often have difficulty managing revenue and expense levels at the other tiers of wealth. In fact, the first and top-tier millionaire segments tend to deliver a lower return on investment relative to the mid-tier. Exhibit 1 details the relative fees, revenues, and expenses across the tiers of wealth, highlighting the proportional gap in current industry models relative to overall profitability.

**Exhibit**  
**1**

### Financial Profile by Market Segment

Category	First Tier – \$1-5 MM in Assets	Mid Tier – \$5-30 MM in Assets	Top Tier – \$30+ MM in Assets
Fees	High	Medium	Low
Revenues	Low	Medium	High
Service Needs	Mostly Low*	Mostly Medium*	Mostly High*
Expenses	High given revs (higher fees don't make up for lower assets and expensive service delivery)	Okay...most platforms are designed to address this group and expenses are managed with this client segment in mind	High given extraordinary needs (demands of this group can push expenses very high)
Difficulties with Profitability using Existing Platform	High	Average	High

\*There are individual exceptions where smaller clients have needs that are beyond their size and larger clients have needs that are light relative to their peers.

Source: 3C Financial Partners

Different levels of wealth necessitate different product and service requirements and the delivery of these offerings has a powerful impact on the resulting financial profile of PB&T companies. Firms need to take advantage of platform structures that allow them to avoid overspending or undercharging for each level of

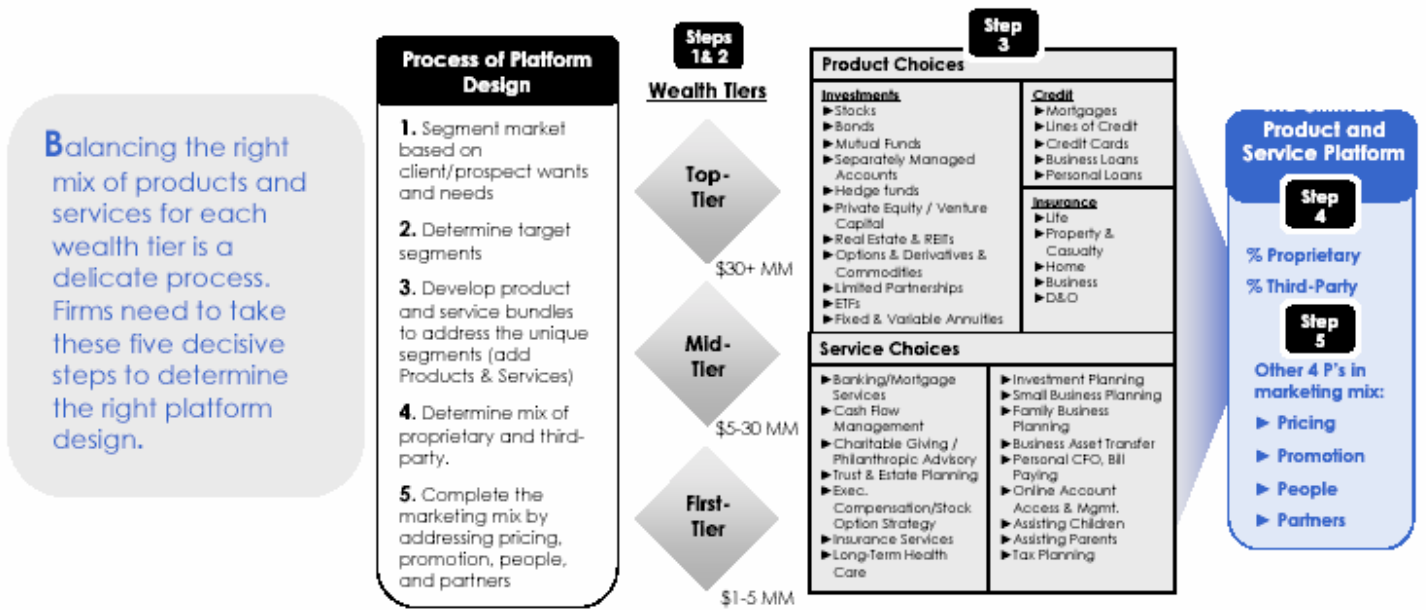
products and services offered to each wealth tier. These platform solutions will be detailed throughout *Platform Specifications and Profitability*.

PLATFORM DESIGN AND MODELING

Matching the tiers of wealth with the right products and services to improve profitability can be a daunting task. A common misconception in the industry is that by simply introducing more and more offerings, firms will increase the likelihood of serving all of their clientele. While there certainly can be value in delivering additional products and services, a wealth management firm needs to carefully assess its platform to precisely match client needs with its business model to avoid the cost overruns associated with too many offerings. 3C developed an analytical process detailed in Exhibit 2 to assist firms in determining the right mix of offerings to match with each wealth tier. In conjunction with the strategy outlined in *The Millionaire Market*, this practice can better prepare firms to offer the right mix of products and services. It is important to note that this process is dynamic and firms need to regularly analyze and update their product and service offering to align with the changing needs of its client base.

**Exhibit 2**

**The Process of Platform Design**



Notes: The above exhibit should be viewed as a framework and process that affords the development of the ideal platform. Performing steps 1-5 can be very difficult, detailed, and inter-related.  
Source: 3C Financial Partners

Private bank and trust companies should examine their current business model to better customize offerings for the range of requirements at each wealth tier. The current, or Old Model, has key efficiency breakdowns in matching resources with revenue streams. Exhibit 3 shows both the Old and New Models and details two strategies for firms to approach the tiers of wealth:

1. Bundle the products and services best suited for each of the wealth tiers (black arrows), therefore delivering three distinct offerings--one per tier.

2. Bundle products and services into two groups (grey arrows) -- the first groups top-tier and mid-tier clientele, with first-tier millionaires serviced separately. The second option is to service mid- and first-tier clientele as a group, with top-tier millionaires serviced on their own. Regardless of which tier-bundling option best suits each firm, this strategy involves two distinct platforms to service HNW investors.

#### THE OPTIMAL MIX OF PRODUCTS AND SERVICES

Partnering with a Third-Party Platform (TPP) provider to enhance an existing platform is a very efficient way of ensuring the delivery and support of the optimal range of available products and services that wealth managers require to serve the HNW market. Greater depth and breadth will likely increase both performance and client satisfaction. To develop this mix, private banks need to pinpoint their target market within the HNW space and tailor their product and service platforms accordingly. Decisions related to the inclusion or exclusion of products and services should be made by analyzing and weighing the economic and marketing factors associated with each offering. Relying on outside partners to supply some degree of products and services can often be more cost-effective and a TPP will help companies expand their reach as well as directly add to their bottom lines.

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#### ABOUT ECHELON PARTNERS

ECHELON Partners (ECHELON) was formed in 2001 to offer investment banking and consulting to a subset of the financial services industry known as "investment product developers and distributors" (IPDADs). Since that time, ECHELON's professionals have helped hundreds of senior executives envision, initiate, and execute a multitude of complex business strategies and transactions. ECHELON's business is making companies more valuable through delivering advice and orchestrating transactions. Accordingly, ECHELON measures its success in the enterprise value it creates for its clients. Companies that strive to outperform their peers choose to work with ECHELON because we are as passionate about their results as they are.

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