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THE COMPREHENSIVE GUIDE FOR FINANCIAL PLANNING IN THE BANK CHANNEL.

By Doug Strott

make your TRUST DEPARTMENT more profitable

The merger between Indianapolis-based Union Federal Bank and Sky Bank in Bowling Green, Ohio, is an untold success story. It wasn't so much that Union Federal Bank had more than $3.5 billion in assets, 60,000 customers, and was one of the more profitable banks in the Midwest. The real success story is how Union Federal turned its struggling trust department (with losses of more than a half million dollars a year) around and into the black.

If you were to look at the bank today, albeit under different ownership and name, and work backward, the right steps to profitability seem obvious — you would see that the bank had put in structures that created a profitable trust department. On the other hand, start back several years earlier and work forward, recreating the decisions in the same order, and a very different picture emerges.

In the winter of 2003, I was hired as manager of Union Federal's trust department and given the dubious assignment of determining whether the bank should be in the trust business or not. The problem: a $2.5 billion trust department losing $639,000 a year.

My first step was to look closely at all the different bank departments and see how each department worked together. We found there was no communication between our bank departments, heads, or personnel. The worst finding was department heads had no understanding of what the bank customers really wanted. There was an overall take-it-or-leave-it attitude and no concern for finding the best way to develop client relationships.

In the absence of a feedback process, you look at existing models. But I couldn't find any.

We began by conducting a profitability analysis by determining the annual fees received from each account, the cost of each account's assets on the trust accounting system, and asking each administrator to estimate the amount of time spent per trust account. Our findings: more than half of the trust accounts were not profitable and were draining the bank's money.

Historically banks look at trust services as a commodity needed to be competitive even though they're not profitable. Some try to identify the department that is not profitable and turn it around, but this strategy almost never works.

They continue to make the same mistakes, often with the same people, by copying what everybody else is doing. It always amazes me that perceived "best practices," even when they are unprofitable, are what are copied. This is most evident every year at the ABA Wealth Management Conference where you see the same people teaching the same investment strategies and tactics. Most of the time the advice is to increase complexity and cost, which usually further alienates the client.

But our objective was to decrease complexity, increase communication, and deliver a more cohesive client experience, not to compete against Wall Street. Our objective was simple, and would lead to profitability. We presented our plan to the bank president and CEO, which was met with approval and support.

Our next decision was to hire an outside money management firm to oversee the investments of the bank's trust account customers. Each survey says the same thing; that there is no competitive, economically viable, advantage to deliver proprietary investment management. But hope springs eternal and we still see it in abundance.

Most managers overseeing a bank trust department are led to believe that somehow they are entitled to insights into the financial markets. The truth is no one (not even Warren Buffett) is given a crystal ball. Instead of trying to have the best investment performance, we focused on hiring an investment firm that would give our customers consistent, scientifically-proven market returns without taking active market risks.

That allowed us to reduce cost and to consolidate our trust department. Next, we weeded out all the unprofitable trust accounts and conducted exit interviews of both profitable and unprofitable customers. What we discovered surprised everyone. Our customers told us they were not interested in having a one-stop bank shop; they were not looking for traditional wealth management or an organization with built-in legal advice, tax advice, investment advice, or trust advice. They simply wanted a bank where people were friendly, and a customer could call a real person and ask for a trusted referral. What they really wanted was a concierge service, someone to handle everything by bringing in experts, but it didn't mean they had to be employed by the bank.

Building Strategic Alliances

Once we understood this we were able to cut our operations from five people to two. We began a proactive internal campaign to prove to the other bank departments that the new wealth management department was worthy of their clients' business. We presented our new value proposition and offered one-on-one meetings with each employee. Externally, instead of having a CPA or an attorney on retainer for the wealth management group, we built a network of local outside financial experts (Strategic Alliances). When a customer came in and asked for legal advice, we'd establish a joint meeting with someone from our hand-picked list of our pre-approved attorneys. Plus, our strategic allies began referring business to the bank. This one simple step eliminated costly overhead and stopped the banks income drain.

The added benefit: more time to focus on our customer needs and build on our existing banking relationships.

We began not only managing their investment portfolios but we increased their deposits and consolidated their loans. Before we made this shift, the trust department value was seen only from the assets under management (investments) point of view where we might gross 80 to 82 basis points, leaving on the table the depository side that would gross the bank 120 to 250 basis points. Once we made these kinds of structural decisions our profitability tripled that first year. It wasn't about "cross selling" it was about integrating the services that help our clients manage their wealth. There is a huge difference, and one that banks need to restructure to capitalize on.

The biggest insight came after discovering that the the farther we got away from making day-to-day investment decisions and instead focusing on client needs and wealth management, the more profitable the bank became.

The following six-step process can help your trust department become more profitable as well.

Step One — Conduct a profitability analysis of your trust department accounts, which includes the amount of time being spent per account.

Step Two — Weed out all the unprofitable trust accounts.

Step Three — Conduct interviews of both profitable and unprofitable customers.

Step Four — Outsource the investment management activities.

Step Five — Build a referral network via internal bank departments as well as local outside financial experts.

Step Six — Integrate client account management to be client focused.

Once you deliver on an outstanding relationship experience with the client, asking for referrals comes easy.

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