

# WEALTH MANAGEMENT FEES AND PRICING

Driving Superior Realization: Research Excerpts

Sample Bank & Trust Company

"There is **no victory** at **bargain basement prices.**"

- Dwight D. Eisenhower

Eisenhower was not talking about wealth management, of course, but the relevance of his insight is obvious. More so than at any time in the recent past, firms need to revisit longstanding pricing practices. Demographic trends are siphoning revenues, service and infrastructure upgrades are endless, and bosses too often fail to provide the funding that wealth managers need to grow and thrive.

Fortunately, for many, there is a controllable source of relief, one that does not require huge capital expenditures or the unpredictable beneficence of markets and managers. That source of relief is better pricing and discounting practices.

### **The End of Cultural Diffidence**

Our pricing and discounting research yields two unifying themes, the first of which is the notion that discounting is cultural. At a minimum, about 25-30 percent of new clients that firms acquired over the past year are already off schedule. Firms who give sales discounts often hand out many other kinds of discounts, and they too-infrequently review discounting practices or raise fees. Charging for high-value, labor-intensive services like financial planning often runs afoul of internal roadblocks, as do fee increase campaigns. Yet other providers are seemingly unencumbered by such concerns (quote box).

### **A Confidence Crisis?**

"Brokers are so confident in their prices. They feel way less pressure. They get a premium for the same stuff that bank guys are giving away. It's not the market, it's what's going on in our firms."

- Bank A

Perhaps more ironically, compelling anecdotal evidence suggests that many clients are not overly concerned about fees, either.

### **Turning Off the Spigot**

Our second theme: thousands of discrete data points—stated fees, revenue yields, survey data—lead us right back to a set of tactics that we have always known to be good for our businesses. Firms need to unapologetically charge for what they are worth, keep their fee schedules current, limit discount discretion, codify rules, inculcate accountability, review discounts, and track everything. These practices may be commonsense, but they are inconsistently applied. More importantly, they work. Our best estimate is that, for two firms with similar client sizes, achievable improvements in pricing discipline are associated with an 8-10 basis points difference in their revenue return on average assets under management. For the many firms who could use a boost to topline revenues, this is good news indeed.

### **Participate in Our Work**

WISE uses high-quality data analysis to provide wealth managers and trust companies with affordable, customized insight about their performance. The goal of WISE is to bear the burden of data analysis for member firms, making it easy to identify key insights.

## EXECUTIVE SUMMARY

### Eight Observations About the Industry

#### External fee pressures get all the headlines, but the real opportunity is internal

Few firms are reporting fee compression in their core high net worth businesses, but many are rightfully worried about product commoditization, service differentiation, and competition from an array of known and new competitors. If external trends will likely put pressure on fees, now is an essential time to revisit controllable practices. Our research suggests that wealth managers can significantly increase revenues through better management of pricing and discounting strategies.

#### Discounting really *is* ubiquitous

No less of an authority than the *Wall Street Journal* counsels its readers to ask their advisors for fee discounts.\* *Journal* staffers must know that 25-30% of recently-acquired wealth management clients pay less than standard fees. For the most "generous" among us, that number is more than 40%. And that's just new clients: the total number of discounted clients is higher still, considering sales discounts, relationship pricing, old fee schedules, and favorable pricing for family members.

#### The need is nothing less than a cultural shift

Our view is that discounting is cultural: find a firm that gives a lot of sales discounts and you will likely find a firm who gives many other kinds. Farther removed from the sales process, the same firm probably doesn't update its fee schedules very often nor does it review discounts once granted. For an industry whose growth often depends on uncontrollable market performance, this is actually good news. Pricing and discounting practices are a controllable lever for improving near-term revenue outcomes.

#### Pricing, discounting, sales, and return on assets data call three myths into question

##### Myth #1: Aiming for the middle is the best strategy

As stated fees go, our vote is to aim somewhat higher than market, yet almost nobody professes to do this. About 80% of firms say their pricing strategy is to aim for the middle. Firms who aim high, however, have higher revenue returns on assets as a group. More importantly, firms whose fees *actually are high* also have higher returns (i.e., they earn more revenue per dollar of assets).

##### Myth #2: Discounting is necessary to drive sales

Our research finds no evidence that firms who discount more heavily are rewarded with better sales and growth outcomes (a finding that is true on both an asset and revenue basis). Rather than compete on price, many leaders believe with conviction that firms need to improve the way that they communicate service value in sales conversations, as well as the way they position themselves vis-à-vis new and known competitors.

##### Myth #3: Clients are price-sensitive

Strong anecdotal evidence suggests that clients are not especially fee-sensitive and that their decisions to sign-on, expand their relationships, and stay, are largely driven by factors other than price. For example, fee increase campaigns targeting existing relationships almost never adversely impact attrition. When sales conversations are effective, many firms similarly report that prospective clients aren't fee-sensitive.

\* Michael Pollock, "Six Questions to Ask a Financial Adviser About Fees," *Wall Street Journal*, March 25 2018

## EXECUTIVE SUMMARY

### Eight Observations About the Industry (Continued)

#### Best practice is the consistent application of a set of commonsense pricing and discounting tactics

Firms should consider implementing a number of pricing best practices. Our research suggests firms need to unapologetically charge for what they are worth, keep fee schedules current, limit pricing discretion, codify rules, inculcate accountability, review discounts, and track everything (see pages 6-7 and section 4).

#### An 8-10 basis points improvement in returns on assets are an achievable gain for many

Ultimately, a more disciplined approach can deliver outsized gains in top line performance. Our best estimate is that for two firms with similar client and account sizes, achievable improvements in price discipline are associated with an 8-10 basis points difference in average return on blended AUM. These data suggest that an average firm could see a revenue increase in the neighborhood of 5-15% over time.

#### Note to Members

As noted above, we strongly believe that price optimization strategies can yield significant improvements in top line performance for many members. We encourage you to review your firm's performance in this study and to consider implementing the practice recommendations in Chapter 4. In addition, if you are interested, WISE would be happy to work more closely with you and your team to determine if there are additional ways we could help your firm achieve the benefits of a more disciplined approach to pricing.

**Did You Know?** This research documents key service model characteristics to understand what clients are paying for and how service models are changing.

#### Selected Service Model Data

Estimated Percent of Client Assets Unless Otherwise Noted

	All Firms	Small	Midsized	Large	Very Large
Custom Portfolios*	44%	40%	41%	50%	50%
Standard Portfolios*	56%	60%	59%	50%	50%
Third-Party Mutual Funds*	54%	63%	47%	49%	55%
Proprietary Mutual Funds*	26%	N/A	28%	N/A	27%
Fixed Income*	38%	34%	40%	42%	41%
ETFs and Index Funds*	26%	28%	27%	20%	28%
Financial Planning* (% of Clients Receiving)	25%	25%	23%	28%	27%

Notes: Small Firms: Less than \$1B in AUM; Midsized Firms: \$1B-\$5B in AUM; Large Firms: \$5B-\$10B in AUM, Very Large Firms: \$10B+ in AUM. N/A: Not applicable or insufficient data. \*At firms that offer.

## EXECUTIVE SUMMARY

### Pricing Practices Scorecard: How Sample Bank Compares to the Industry

This page and the next summarize how your key pricing and discounting practices align with industry practices, starting with the table (below) that helps you make inferences about how your fee levels and pricing discipline impact returns on assets.

The gray shaded boxes represent practices that we think contribute to good fee outcomes. Each practice is summarized in brief here, and explored more fully in Section 4.

<b>Return on Assets</b>	<b>Low</b>
Sample Bank's returns on assets are low across the board.	
<b>Client and Account Size</b>	<b>High</b>
Sample Bank's client and account sizes are higher than the peer median.	
<b>Fee Levels</b>	<b>Median to Low</b>
Sample Bank's IM agency fees generally sit near the middle for all account sizes, but irrevocable trust fees are low (see pp. 17-19, "Average Price by Account Size").	
<b>Pricing Discipline Score</b>	<b>Median to Low</b>
Across a range of categories, Sample Bank's discounting self-assessment suggests that it discounts about as often as the industry, but it discounts more frequently than its peers.	

#### Aim high

Firms who set their fees above market generally have higher returns on assets. At a minimum, managers should have a good sense for their relative fee levels in relation to their discounting habits to avoid the risk of discounting heavily off of a low starting point (summary table to the left). Example: as a group, large firms have higher-than-market fees (often significantly), yet they also discount more frequently than others.

- Sample Bank aims to set fees about the same as the market

#### Oversight, rules, and tracking are "minimum practices"

About 90% of firms have at least one of the following controls in place: a senior manager or committee reviews discounts; formal rules for granting discounts; or discount-tracking at the business unit level. Approximately one-third have all three, whereas a small number (about 1 in 10) are living dangerously, with none at all.

- ✓ Sample Bank has a committee or senior manager review discounts
- ✓ Sample Bank has formal rules for providing discounts
- ✓ Sample Bank tracks discounts for the whole business

Notes: Your peer group is composed of small banks and trust companies. Small Firms: Less than \$1B in AUM; Midsize Firms: \$1B-\$5B in AUM; Large Firms: \$5B-\$10B in AUM, Very Large Firms: \$10B+ in AUM. N/A: Not applicable or insufficient data. \*At firms that offer.

## EXECUTIVE SUMMARY

### Pricing Practices Scorecard: How Sample Bank Compares to the Industry

#### Less discounting discretion is more

The amount of discretion firms give their employees to provide discounts is a big differentiator in fee and return on asset outcomes. More than half of the most disciplined firms in our sample (in our parlance, the "Fee Enforcers") give no discretion to relationship managers and sales officers to give discounts—they are required to appeal to a manager or committee. More discretion makes discounts easier to give and is associated with a higher prevalence of discounts. Anecdotally, discretion is also associated with less consistency in fee outcomes.

- ✓ Sample Bank does not give any discount discretion to relationship managers or sales officers.
- ✗ Sample Bank's senior managers have more discount discretion than peers.

#### Penalties and accountability show promise

The evidence isn't unequivocal, but our research and the experience of WISE members favor the "stick" more than the "carrot". Firms whose incentives discourage discounting and who track discounts at the relationship manager or sales officer level have a lower incidence of discounts. Positive incentives (e.g., counting fee increases as sales or financial rewards for fee lifts) are more common at firms who discount heavily; it may be the case that firms use these tactics to rectify past bad habits.

- ✗ Sample Bank does not penalize advisors for providing discounts
- ✗ Sample Bank does not track discounts by relationship manager or sales officer

#### Update schedules or risk falling behind market prices

There is a negative relationship between schedule age and prices: older schedules tend to have lower prices. More than 40% of firms, however, are using a schedule that is more than five years old and are assuming a sizable risk of falling behind market benchmarks.

- ✗ It has been more than five years since Sample Bank revised its fees for new clients

#### Revisit the terms for granting discounts at least every 2-3 years

Not only are discounts ubiquitous, firms infrequently revisit them. The consensus of our members is that firms should reevaluate the rationale for a client's discounts about every 2-3 years (some do this more frequently). As with most kinds of updates and revisions, large numbers of companies rarely revisit or raise an individual client's fees.

- ✗ Sample Bank rarely revises its fee schedules
- ✗ Sample Bank rarely increases fees for a typical client

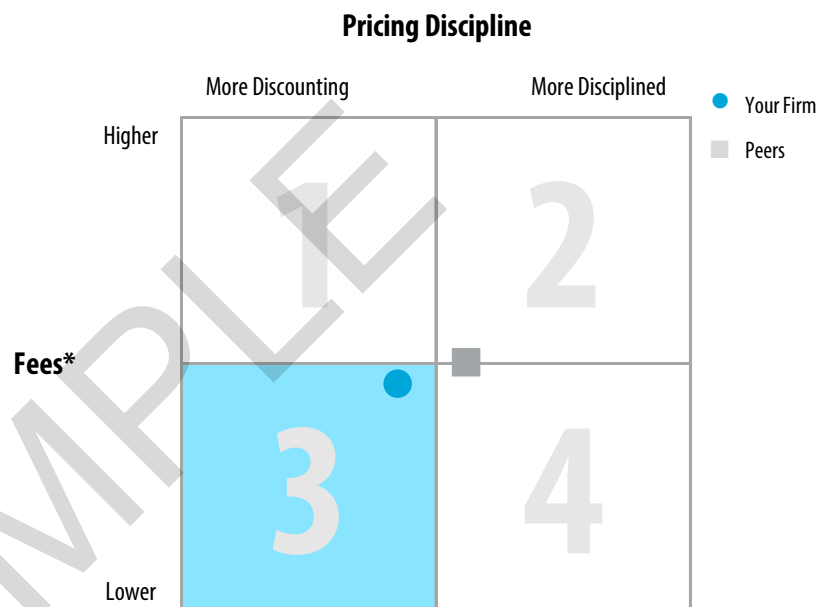
### MAPPING YOUR FEES AND PRICING DISCIPLINE

Relative to the industry, our research suggests that Sample Bank sets its fees lower than the total market and discounts more often than many others (industry map, quadrant 3). As a group, revenue returns on assets\*\* for firms who share these characteristics are generally lower than industry aggregates.

Placing Sample Bank on an industry map is our starting point for exploring the firm’s pricing and discounting practices. The map also foreshadows several themes:

- Although firms are loath to “go high,” higher fees are associated with better financial outcomes.
- About 25-30% of new clients are off schedule from the outset of their relationship; many will rarely see a fee increase. The industry likely loses billions of dollars annually in fee revenue due to widespread discounts.
- Managers have the ability to improve revenue outcomes by strengthening fee and pricing practices. Unsurprisingly, firms who have higher fees and high discipline also earn the highest returns (quadrant 2). Returns for quadrant 3 firms such as Sample Bank are lower on average and more varied. It is that is unlikely that many such firms are closing the gap with higher sales volumes.

**Industry Map: Fees and Pricing Discipline**



Quadrant	Description	Percent of Firms	Returns on AUM	Firm Types
1	<b>Start High, Go Lower</b>	24%	Higher	<b>Most very large firms</b> , some large and midsize firms; <b>few small firms</b>
2	<b>Start High, Stay High</b>	19%	Higher	Companies of all sizes
3	<b>Danger Zone</b>	25%	Lower	Companies of all sizes
4	<b>Start Low, Hold the Line</b>	32%	Mixed	<b>Many small firms</b> ; some midsize and large firms; <b>few very large firms</b>

Notes: \*Fees on a \$1M irrevocable trust account. In aggregate, fees between service types (e.g. IM agency and personal trust) and between different account sizes are highly correlated. \*\*Blended revenue return on assets is defined as investment management and trust revenue, less custody, divided by average AUM.

# STATED FEES

Sample Bank

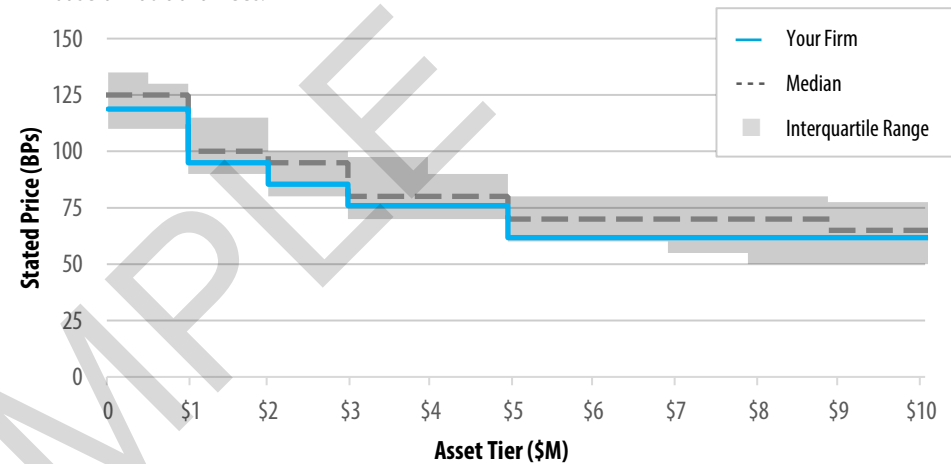
## PEER GROUP COMPARISON: IRREVOCABLE TRUST

### Stated Price by Asset Tier vs Peers

Your peer group is composed of small banks and trust companies. Stated price refers to the price that appears on the schedule. It does not include base or flat-dollar fees.

Account Size	You	Peers Median	Peers 25th	Peers 75th
Under \$500K	— 119	125	110	135
\$500K-\$1M	— 119	125	110	130
\$1M-\$2M	— 95	100	90	115
\$2M-\$3M	— 86	95	80	100
\$3M-\$4M	76	80	70	98
\$4M-\$5M	76	80	70	90
\$5M-\$10M	— 62	70	55	80
\$10M-\$25M	57	60	50	75
\$25M-\$50M	57	60	50	75
Minimum	\$2,000	\$3,750	\$2,500	\$5,000

+ Above Median — Below Median

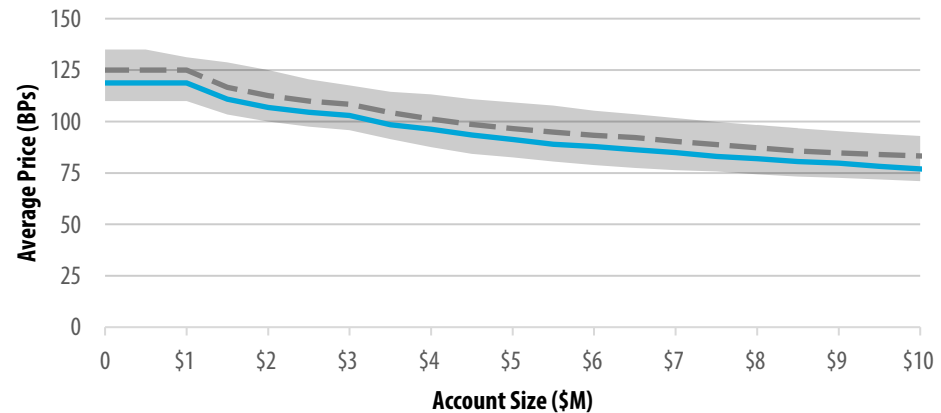


### Average Price by Account Size vs Peers

Average price 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 implied average fees of 110bps).

Account Size	You	Peers Median	Peers 25th	Peers 75th
\$500K	— 119	125	110	135
\$1M	— 119	125	110	131
\$2M	— 107	113	100	125
\$3M	— 103	108	96	118
\$4M	— 96	101	88	113
\$5M	— 91	97	83	109
\$10M	— 77	83	71	93
\$25M	64	68	59	82
\$50M	— 59	64	54	80

+ Above Median — Below Median



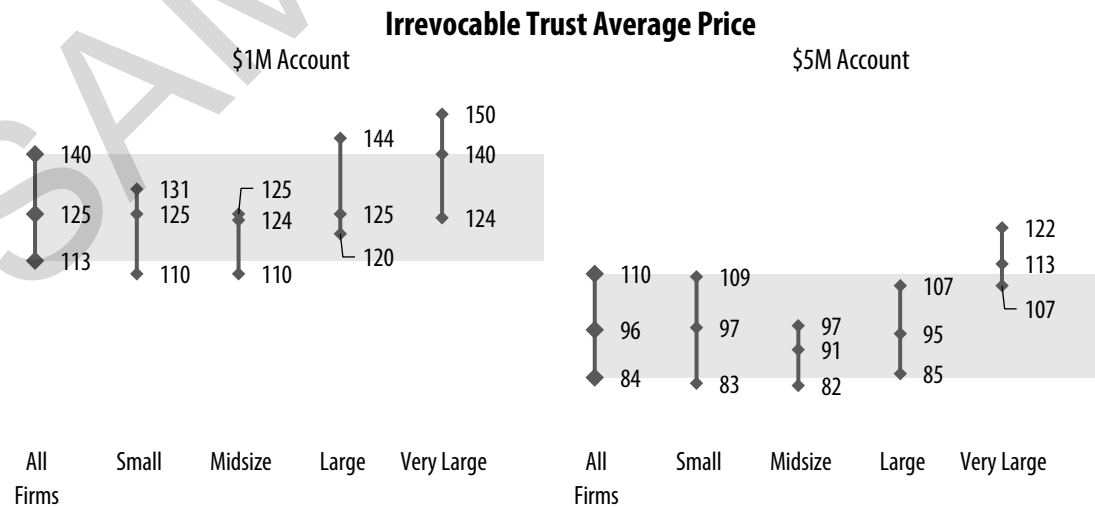
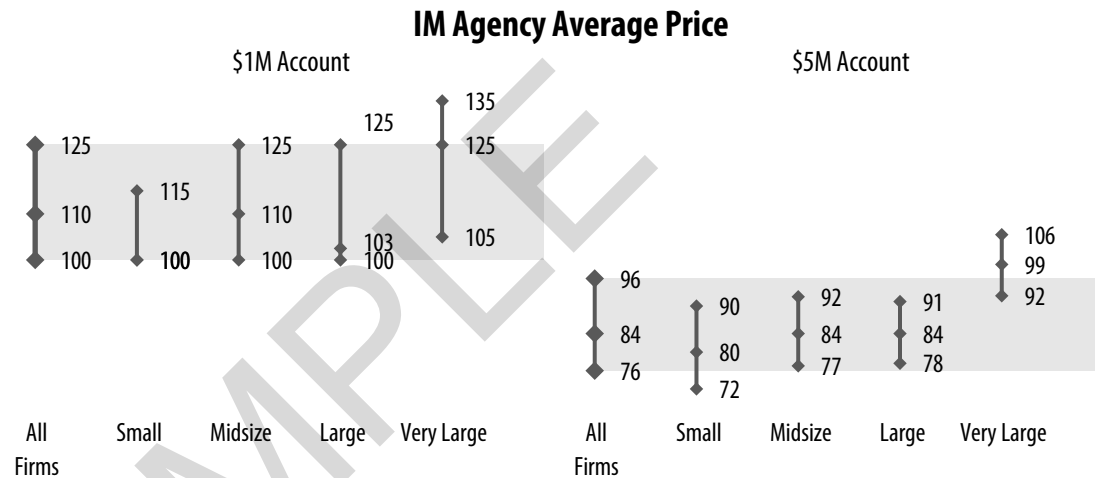


# FEE LEVELS

## FEE INFLUENCER: FIRM SIZE

Stated fees are relatively consistent by size of firm, with one notable exception: national and super regional firms generally charge higher fees, especially for larger account sizes. This cohort of firms is also the most likely to discount.

The charts to the right show the median and the range by firm size (the shaded rectangle represents the range for all firms). Here and elsewhere, there is very little variation in stated fees for a \$1M investment management agency account. Stated fees for other services and account sizes, however, are often considerably higher at larger firms.



**What to Watch For:**

- ◆ 3rd Quartile
- ◆ Median
- ◆ 1st Quartile
- ▭ Middle 50%, All Firms

Notes: Small Firms: Less than \$1B in AUM; Midsize Firms: \$1B-\$5B in AUM; Large Firms: \$5B-\$10B in AUM, Very Large Firms: \$10B+ in AUM.

### SAMPLE BANK'S PRICING DISCIPLINE SCORE

Sample Bank's discounting self-assessment suggests that it discounts about as often as the industry, but it discounts more frequently than its peers. This is reflected in Sample Bank's Pricing Discipline Score which aggregates its self-assessment across a range of discounting activities into a single numerical value which is then compared to other firms'. The Pricing Discipline Score is positively associated with revenue return on assets. As a group, firms with higher scores have higher returns (table, bottom right).

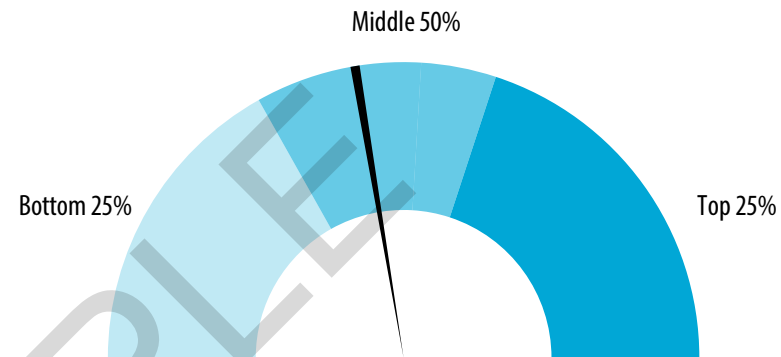
Observations:

- About half of all scores are between 30-60.
- Larger firms discount more and have lower scores; they also have higher fees.
- A small improvement in your score implies increased returns of about 3-5 BPs on AUM.
- A moderate improvement implies a 5-10 BPs improvement.
- A significant improvement, 10-15 BPs or more.

#### Pricing Discipline Score Inputs

- Discounting frequency
- New clients paying less than standard fees
- Sales discount prevalence
- Relationship discount prevalence
- Family discount prevalence
- Legacy discount prevalence
- Sales discount size
- Relationship discount size
- Number of clients on old and acquired fee schedules

### Sample Bank's Pricing Discipline Score



44.2

#### Discounting Score by Firm Size

	Median	Bottom 25%	Top 25%	Average Realization Difference
<b>Small</b>	<b>56.7</b>	48.3	69.3	6.1
<b>Midsized</b>	<b>51.6</b>	29.2	57.8	8.3
<b>Large</b>	<b>56.1</b>	33.7	62.0	8.2
<b>Very Large</b>	<b>33.8</b>	23.8	46.9	6.7
<b>All Firms</b>	<b>51.9</b>	<b>33.7</b>	<b>60.1</b>	<b>7.7</b>

Average realization difference is the predicted difference in the return on AUM for the 25th and 75th percentiles, in basis points.

Notes: The Discipline Scale is 0 (least disciplined) to 100 (most). Small Firms: Less than \$1B in AUM; Midsized Firms: \$1B-\$5B in AUM; Large Firms: \$5B-\$10B in AUM, Very Large Firms: \$10B+ in AUM.

### ACTION: SELL VALUE NOT FEES

Strong sales producers sell based on service value, not price. Firms are well-served to focus on their positioning, crafting effective service value communications, and coaching middling sales performers, not on reducing their fees.

#### Selling Solutions, Not Price

"I was promoted to [leadership] from the field, and I was surprised that our leaders think we don't have pricing power. **We do a deep discovery sales process. If we do it right, fees don't become much of an issue.**"

"Often in the sales process, pricing doesn't come up until prospects are ready to move forward. **If you are setting out a strategy to meet them, they don't even care about the cost.**"

#### Still a Winning Proposition

"We have to articulate the services that we provide really clearly. The bank investment management capability for \$1M plus is far superior when you look at fiduciary, concentration monitoring, and oversight. **We've been so bad at explaining what we do. All the capabilities strapped together, if you can articulate them, are still a winning proposition at 100 bps.**"

#### The HNW want what wealth managers can provide...

Market research consistently returns a reasonable set of "wants":

- **A goals-based financial plan** is the key to the wealth management value proposition for 87% of wealthy individuals<sup>1</sup>
- **Investors want advice for all forms of decision-making**, not just investments<sup>2</sup>
- **Demand for advice goes up rapidly as Millennials accumulate wealth**<sup>3</sup>
- **A personal one-on-one relationship** and **quality communications** are the most important characteristics of the client service experience<sup>4</sup>

#### ...firms are well-positioned to deliver<sup>5</sup>...

- **Service Breadth:** Investment management, trust powers, credit services
- **Delivery:** Service and staffing model supports delivery of integrated advice
- **Alignment of Interest:**
  - Commonplace practices often place firms on the side of the client
    - Adhere to fiduciary standards
    - Discretionary incentives (salary + bonus)
    - Pricing practices reward wealth preservation and accumulation
    - Consistent fees across delivery channels

#### ...but need to work on their messaging and positioning

##### Common Theme

- Frame message as integrated advice or solutions (rather than products)

##### What Other Firms Do

- *Bring rigor to market positioning:* map HNW consumer segment needs (e.g., wealth goals, desires for customization), test positioning in various segments
- *Strive for message and sales process consistency:* coach sales teams for message/process consistency; create collateral materials for all staff describing firm's value proposition
- *Demonstrate value in the sales process:* e.g., financial planning for business owners
- *Invest in collateral materials:* calendars of events, comprehensive activity reports, etc.

1 The Value of Premium Wealth Management by the CFA Institute, 2017, 16.

2 Winning at all Costs – Cost Management as a Success Driver by Oliver Wyman, 2016, 2.

3 Financial Behavior: Players, Services, Products, and Markets by H. Kent Baker, Greg Filbeck, Victor Ricciardi, June 2017, 247-248.

4 Advisor Authority 2017: The Future of Advice by Jefferson National, 2017, 9-11.

5 Adapted from presentation materials by Jamie McLaughlin, CEO of J. H. McLaughlin & Co., LLC

### STRATEGY: EMPLOY OVERSIGHT, RULES, AND TRACKING

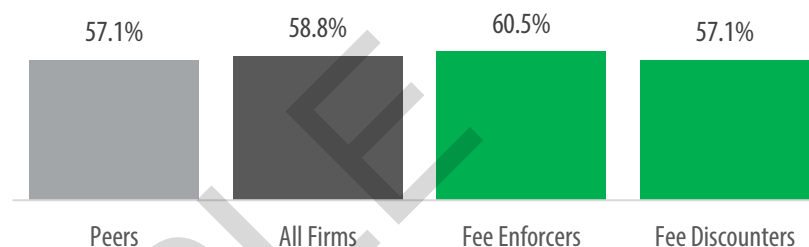
#### Track Discounts at Firm Level

Preferred by Small Firm Fee Enforcers

As with adopting clear rules, tracking discounts for the overall business is also a preferred approach by many. Nearly 60 percent of firms track discounts at the firm or business-unit level.

In practice, firms pair together multiple approaches to create strong institutional controls: 28% have a committee, have rules, and track at the firm level. Another 40% practice at least two of three. Unfortunately—in our view, at least—that still leaves a sizable minority, 32%, who have only one or no formal controls in place and are arguably most at risk of losing revenues due to excessive discounting.

#### Discounts Tracked for Overall Business



✓ Sample Bank tracks discounts for the whole business

Number of Controls	Percent of Firms	Committee or SM* Reviews Discounts	Formal Rules for Discounts	Track Discounts at Firm Level
Three	28.2%	✓	✓	✓
Two (40%)	21.2%	✓		✓
	11.8%	✓	✓	
	7.1%		✓	✓
One (22%)	12.9%	✓		
	7.1%		✓	
	2.4%			✓
None	9.4%			

■ Your Firm's Pattern

\*SM: Senior Manager

# ADDITIONAL RESOURCES

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## Need more information?

The full report, underlying data, and access to our team are available to all members of our community of bank wealth managers and trust companies. Please contact our team or [research@wisegateway.com](mailto:research@wisegateway.com).

### Schedules That Appear in Wealth Management Fees and Pricing, Volume 1

- Irrevocable Trust
- Revocable Trust
- Personal Trust w/ Co-Trustee
- Directed Trust
- Investment Management
- Fixed Income
- IRAs
- Self-Directed IRA
- Custody
- Estate Settlement
- Real Estate
- Oil and Mineral Assets

### Other Available Schedules

- ILITs
- Guardianship and Conservatorships
- Investment Advisory (No Discretion)\*\*
- Employee Benefits
- Institutional Investment Management\*\*
- Tax Preparation
- Closely-Held Businesses\*\*
- Special Needs\*\*
- Escrow\*\*
- Cash Management\*\*
- Ancillary and Hourly Fees

### Selected Topics and Exhibits from Volume 2, "Driving Superior Realization"

- SMAs, UMAs, and Custom Portfolios
- Mutual Funds, Fixed Income, ETFs, and Financial Planning
- Pricing Discipline
- Sales Discounts
- Relationship Discounts
- Family Discounts
- Legacy Discounts
- Fee Levels/Impact on ROA
- Schedules: Reviews and Revisions
- Discount Discretion
- Oversight, Rules, and Tracking
- Penalties and Accountability

# ABOUT WISE

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**EST. 2012**

## Contact Our Team

**David Lincoln**

Partner

david.lincoln@wisegateway.com

**Rachel Nessim**

Relationship Manager

rachel.nessim@wisegateway.com

(407) 276-6114

## About Our Company

WISE seeks to use high-quality data analysis to provide wealth managers and trust companies with affordable, customized insight about their performance. Our team believes that firms deserve the type of high-quality data analytics that are increasingly common elsewhere in the economy—especially regarding growth, sales, pricing, staff productivity, and profitability.

Insight from data is extremely valuable; however, it is also time consuming to generate. The goal of WISE is to bear the burden of data analysis for member firms, making it easy to identify key insights. In support of this goal, our firm has invested heavily in data presentation and analysis. We also regularly work with management teams to analyze firm-specific data and identify key strengths and opportunities.

WISE is a new firm that was founded by veteran industry analysts who have held leadership roles in CEB (now Gartner), The VIP Forum, and Family Office Exchange.

Although relatively new, WISE works with a wide variety of firms; from some of the largest firms in wealth management to innovative small and mid-size firms in every geographic region of the country. In total, the company has data from more than 120 wealth management firms nationwide, representing more than \$3 trillion in assets.

# Helping you make **WISE** decisions

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[www.wisegateway.com](http://www.wisegateway.com)

## CONTRIBUTORS

Jeff Tessin  
Statistical Consultant

Jamie McLaughlin  
J. H. McLaughlin & Co., LLC

Mike Kostoff  
WISE Gateway

David Irwin  
WISE Gateway

## AUTHORS

David Lincoln, Partner  
[david.lincoln@wisegateway.com](mailto:david.lincoln@wisegateway.com)  
(202) 997-5962

Alex Cartlidge, Senior Research Analyst  
[alex.cartlidge@wisegateway.com](mailto:alex.cartlidge@wisegateway.com)

Jack Miossi, Research Analyst  
[jack.miossi@wisegateway.com](mailto:jack.miossi@wisegateway.com)

