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Vying for dollars

Banks, which traditionally have cornered the private-banking market, encounter increasing competition to serve affluent customers.

By Judith Messina
Staff Writer

Young entrepreneurs Lenore Minerva began banking two decades ago with Manufacturers Hanover Bank, now part of Chemical Bank, after Manny Hanny lent Minerva and her late husband the money to start their ambulance and ambulette services.

That loan and a checking account were followed by additional services until a few months ago when Minerva, looking for financial and estate planning advice, also became a Chemical private-banking client.

"I wanted a different approach and a different perspective," Minerva said. "And I don't have to go to three different people — an accountant, an attorney and a banker."

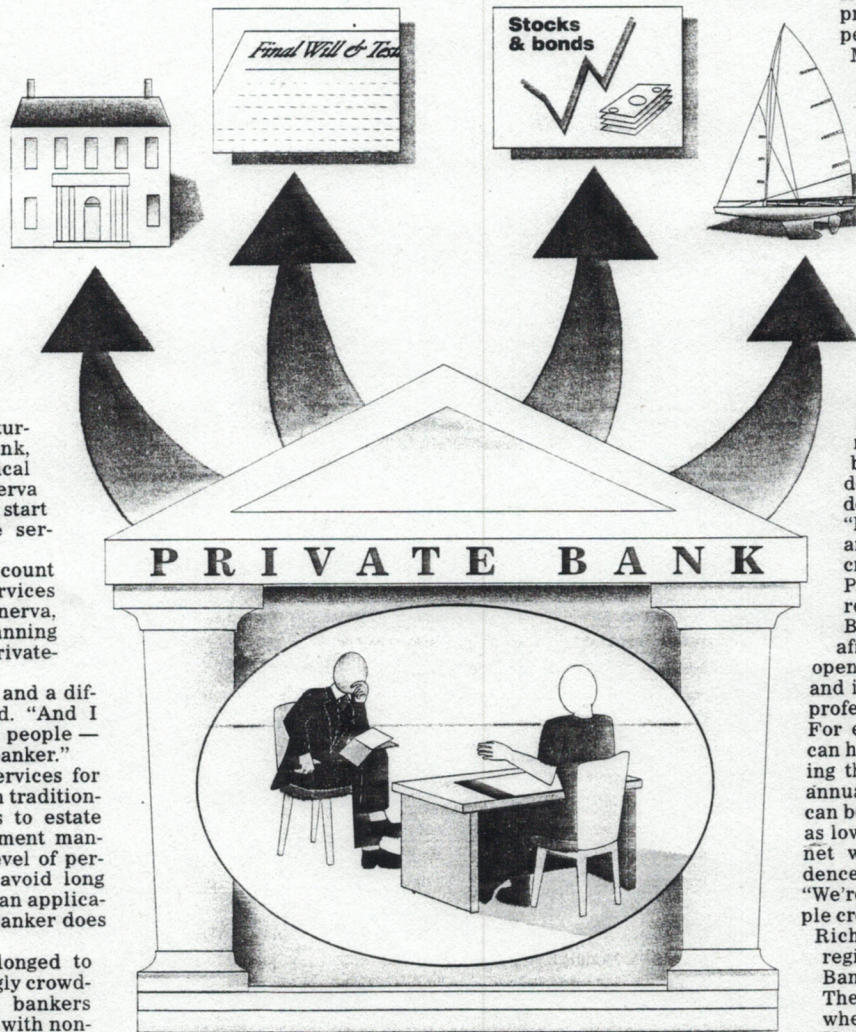
Private banking — financial services for the affluent — runs the gamut from traditional checking and deposit services to estate planning and professional investment management, delivered with a high level of personal service that helps clients avoid long teller lines and time-consuming loan applications. In many cases, the private banker does the work.

The turf traditionally has belonged to banks. But today, on the increasingly crowded financial-services landscape, bankers have found themselves competing with non-bank interlopers for old and new money. For every 100,000 households a retail bank serves, it loses \$35 million in private-banking revenue a year to the competition, estimates David Ross Palmer, a bank consultant specializing in the affluent market.

Banks with established private-banking units are skilled at delivering the customized service that affluent clients demand, but the banks lack the sales culture — the overall approach and attitude — to counter encroachment by aggressive brokerage houses, mutual-funds companies and even newer banks eager for a piece of the action, analysts say.

"Banks have been handholders for customers who wanted hand-holding," said financial-services consultant Kurt Cerulli.

The private-banking divisions of large banks provide services to affluent customers, from loans and mortgages to investments and estate planning. Banks say the one thing they're selling is service, whether paying a client's bills or structuring a custom-tailored investment vehicle.



"But banks are in an increasingly competitive situation. Brokers are starting to chip into that territory."

There is much at stake.

Returns on private-banking fee-based products approach 40 percent to 50 percent, and the market is growing.

Many of America's 78 million baby boomers are entering their highest earning years and, in the next decade, stand to inherit an estimated half trillion dollars from their aging parents. As a result, many will join the ranks of the affluent, becoming prime targets for financial-services providers poised to help them save, increase and spend their growing wealth.

But banks are fighting back, pitching a relationship management approach that promises to deliver professionals from all parts of the bank to meet a client's business and personal financial needs. Bankers also talk about their internal referral systems that alert private bankers to potential clients and other departments of the bank to potential deals.

"People get compensated for referrals, and they have well defined goals to cross-sell," said Chemical Bank Vice President Frank Faeth. "We sell the relationship."

Banks also are targeting not just the affluent but the potentially affluent, opening more offices in upscale suburbs and in Florida to tap the market of young professionals and retirees.

For example, a Chemical Bank customer can have \$1 million in net worth, not counting the primary residence, or \$250,000 in annual income or \$500,000 in assets that can be invested, Faeth said. Other banks go as low as \$75,000 in income and \$300,000 in net worth, excluding the primary residence, or have no hard standard at all.

"We're more inclined to want to help people create wealth and grow with them," said Richard Prensner, vice president and regional trust manager for First Fidelity Bank New York.

They're also opening offices, moving to where the client is. Nearly all of New York's major banks, for example, have some kind of private-banking presence in Westchester County. NatWest, for example, which has been testing the local market for three years, has decided to commit more resources with plans to move into larger offices and beef up its staff, said NatWest Vice President Julie Ketterman. "People are interested in doing their banking where they live and work," Ketterman said. "A lot of men and women have built a business in Westchester and want you to understand their community and what they're up against."

But despite their push to organize better internally and broaden their target mar-

Increasing affluence

Except for 1993, the number of affluent households in the United States has grown. Affluence is defined as having at least \$75,000 in income and \$300,000 in assets, excluding primary residence.

Number of households:

1990	13.2 million
1991	17.4 million
1992	18.6 million
1993	17.4 million
1998	22.2 million projected

Source: Payment Systems Inc., Tampa Fla.

Profile of the typical private-banking client

Average age 51

79% married
24% retired

Average income \$105,000, of:

65% salary, bonus, profit sharing
7% interest income
6% dividend income
4% capital gains
6% rents, royalties, trusts
8% retirement pensions
4% other

Staff graphic/Marco Doelling

Please see BANKING, 8B

Bank: Competitions grows for affluent clients

Continued from page 5B

ket to the likes of Merrill Lynch and Fidelity Investments, analysts say.

Internal bank turf barriers still must fall before relationship management can really work well, said consultant Palmer.

"They say they will provide referrals, but it doesn't happen," Palmer said.

More importantly, others say, banks must develop a sales culture and a compensation system that supports that culture. Traditionally, it was the customer who had to sell the banker on his

creditworthiness, Palmer said. Now it's the banker who must convince the customer of the bank's ability to manage his money.

"Brokers get the business because they ask for it," agreed Paul Groncki, director of affluent-market research for Payment Systems Inc. in Tampa, Fla.

Even veteran bankers concede that a culture change is in order for banks to compete effectively.

"In the industry, we still have a long way to go in developing a sales culture," said Christopher Taylor, president of the West-

chester-Putnam Division of the Bank of New York. "In the long run, you have to change the compensation structure. We compensate by base salary by and large. People who take risk are compensated on a commission basis." Banks will need skill to pull it off as they strive to compete aggressively but retain the conservative image that many clients still seek.

"You need a trusted adviser who is working from your side of the table instead of trying to sell you something," said F. Daniel Prickett, head of Chase's Manhattan's U.S. private bank.