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For Immediate Release:

Bank Focus on Profit Margins Crimps Brokerage Profits

Kehrer Bielan Analysis Highlights Problems with Flawed Metric

CHAPEL HILL, NC NOVEMBER 5, 2015: The focus by bank and credit union management on widening the profit margins of their investment services business often results in reducing profits from those business lines. That was one of the takeaways from analysis presented by Kehrer Bielan Research & Consulting at their semi-annual study group for executives responsible for managing investment services in a financial institution.

"We hear from the managers of bank and credit union investment services that they are judged primarily on what percentage of revenue their business unit brings to the bottom line," commented Peter Bielan, a principal of Kehrer Bielan. "But that is the wrong metric for a brokerage business operating inside a financial institution."

According to Tim Kehrer, the firm's senior research analyst, the primary objective of brokerage services in a bank or credit union is to capture the investment business of their customers or members. Consequently, the yardstick the financial institution should use to assess performance is how well they are penetrating that opportunity. "For most institutions, that yardstick is the amount of profit that the business is producing relative to the size of the institution's consumer deposits," he added.

Dr. Kenneth Kehrer, another principal of the firm, presented analysis that compared the profit margin and deposit profit penetration for 50 banks and credit unions last year. "There is almost no correlation between having high profit margins and high profit penetration," he noted. "Indeed, the focus on lowering expenses to improve profit margins can actually result in lower total profit."

The participants provided examples of how they ended up with lower profits because they were forced to cut or constrain expenses. Firms were not permitted to:

- Hire additional Advisors, because new recruits generally reduce overall profit margins for the first few years, even though they contribute incrementally to profits.

- Offer aggressive recruiting packages because of their impact on profit margins, limiting the opportunity to attract very successful Advisors who would make large contributions to profits in the future.
- Provide incentives to retain Advisors, who contribute incrementally more to profit each succeeding year.
- Invest in technology or sales assistants that will make Advisors more productive, and profitable, in the long run.

The study group also shared information about how much assets Advisors take with them if they are recruited away by another firm, and what firms are doing to retain Advisors. Peter Bielan presented a summary of his current study of trends in Advisor compensation, and Tim Kehrer provided consumer research on how the industry can attract millennials as they start to invest.

The group also discussed new metrics to measure the success of their businesses, including norms for assessing individual Advisor performance based on the Advisor's tenure, assets under administration, branch deposits, and referrals, and the need for independent due diligence of broker dealer and asset management platform providers.

The study group convened in the retreat setting of the Fearrington House Inn in Chapel Hill October 28-29. The next study group—The Fearrington Spring Tune Up—will be April 13-14, again in Chapel Hill.

About Kehrer Bielan Research & Consulting. KBR&C provides the financial advice industry with insights based on a melding of research and experience in managing the delivery of investment, insurance, and wealth management services. The firm provides performance assessment and benchmarking, human resource management and development, due diligence, consumer insights, and interpretation of industry trends through its original research, unbiased consulting, and peer study groups.

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