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For Immediate Release:

Banks and Credit Unions Affiliated with TPMs Continue March Towards More Fee-Based Business

Growth in Advisory Revenue Represents Bright Spot During Difficult Year

CHAPEL HILL, NC MAY 4, 2017: The 2016 revenue derived from fees on advisory accounts increased for the sixth year in a row in bank and credit union investment services firms that work with the largest third-party broker dealers, representing a bright spot during what was otherwise a challenging year. That is one of the key findings of the Kehrer Bielan Annual TPM Report: 2016/2017, released this week.

Among the 10 largest third-party broker dealers, also known as TPMs, advisory revenue increased 12% year-over-year in the financial institution channel. Revenue from advisory fees now accounts for 23% of the total revenue from financial institutions in the TPMs, up from 19% in 2015 and 10% in 2010.

"The TPMs began emphasizing advisory business years ago, drawn to the recurring revenue that managed accounts generate year after year for their advisors and partner institutions," explained Tim Kehrer, author of the Annual TPM Report. "The Department of Labor's fiduciary standard rule for qualified retirement accounts, which was announced in early 2016 and was set to go into effect in April of this year until the Trump administration intervened, spurred the TPMs and their partner institutions to accelerate the transition."

By most measures the TPMs endured a difficult 2016, during which they suffered declines in total revenue from financial institutions (down 4%), financial advisor headcount in financial institutions (down 5%), and number of financial institution partners (down 1%).

Although the fate of the DoL's fiduciary standard rule is now uncertain, its impact was acute in 2016. Preparations to comply with the rule, and concerns about what life under the rule would be like, undoubtedly contributed to the drop off in revenue and headcount in the TPMs, according to Kehrer.

"Building a base of recurring revenue from advisory fees makes sense in the long run, but making the transition from selling transaction products to conducting primarily advisory business hurts revenue in the short run," commented Kehrer. "As firms scrambled to shift their mix of business towards advisory ahead of the rule going into effect in 2017, they were sacrificing current year revenue."

The impending rule also likely impacted advisor headcount. "As the TPMs contemplated recommending potentially dramatic changes to the advisor compensation plans being used in their partner institutions, some advisors chose to leave the industry rather than deal with the disruption," said Kehrer.

Another factor that may have contributed to the contractions in revenue and headcount that the TPMs experienced 2016: acquisitions by the large banks.

"A handful of the largest banks working with third party broker dealers were acquired by even larger banks that own their broker dealer, explained Kehrer. "Because these banks represented an outsized share of the revenue and advisors associated with their former TPMs, their departure left a significant hole that has yet to be filled."

Significant acquisitions during 2016 included First Niagara, which outsourced its broker dealer functions to LPL before being acquired by Key Bank, and National Penn Bank, which outsourced to Cetera Investment Services before being acquired by BB&T.

The Kehrer Bielan Annual TPM Report is based on the annual survey that the firm has conducted since 2006 of the third-party broker dealers that support investment services in banks and credit unions. The 2016/2017 survey encompasses 2,544 banks and credit unions that work with 10 large TPMs, collectively employing 6,365 financial advisors.

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