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For Immediate Release:

Bank Brokerage Revenue to Shrink 17% in 2017?

Consensus of CEOs on Impact of DoL Rule

CHAPEL HILL, NC DECEMBER 19, 2016: Top executives of investment services businesses in banks and credit unions considered 18 different variables to assess the impact of the Department of Labor's Fiduciary Standard on next year's revenue. The consensus? The typical financial institution can expect investment services revenue to fall 17%.

The executives were participants in the *Kehrer Bielan DoL Readiness Roundtable: Gut Check at the Halfway Mark*. They were using a new interactive calculator that enables a firm to specify details about its investment services business (e.g., characteristics of its Advisor force, business mix, and pricing) and estimate the impact of the DoL Rule and the actions the firm plans to take to comply with the Rule.

"While this exercise was instructive," said Peter Bielan, a principal of the firm, "it will be more useful to an individual firm, because the calculator will let it specify the parameters of its business model and assess the impact of the actions it is contemplating. Not only will the calculator provide a customized result for each firm in the business planning process, but by identifying the revenue shortfall it will help quantify the actions needed to close the gap."

Tim Kehrer, who created the interactive calculator, explained that it was built on the experience that Bielan has been accumulating consulting for banks and credit unions on preparing for business under the DoL Rule. "We have heard from program managers that they expected to take a revenue hit next year, but were having difficulty quantifying how large it would be," he commented.

"We also know that many program managers have difficulty convincing the institution's top management and financial officers that the DoL Rule means the end of business as usual. We think that using our interactive calculator will help educate top management and enable program managers to bridge the expectation gap about investment services revenue next year," he added.

There wasn't complete agreement on some elements of the projection. For example, one participant argued that net revenue might fall even further for firms that already levelized annuity payouts if annuity providers universally levelize commissions. Firms that levelize annuity payouts tend to keep the difference between what the annuity provider pays and the levelized payout to the Advisor.

Another participant disagreed with the consensus that the "reasonable fees" requirement under a Fiduciary Standard would necessarily reduce revenue. Under the DoL Rule, he argued, firms would have to eliminate discounting of fees.

The interactive nature of the *Kehrer Bielan DoL Revenue Impact Calculator* came into play often during the discussion. For example, the loss of revenue from small accounts was taken into account, but so was an increase in Advisor productivity because they no longer had to service less-productive accounts.

The *Kehrer Bielan DoL Readiness Roundtable: Gut Check at the Halfway Mark* was held December 13-14 at Fearrington Village, near Chapel Hill, North Carolina. The discussion helped participants assess the decisions they are making to meet the requirements of the DoL Fiduciary Standard and challenge each other's assumptions and conclusions.

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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