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For Immediate Release:

Bank Investment Services Execs Expect Revenue Hit in 2017

Growing Gap between Bank Management and Reality

CHAPEL HILL, NC OCTOBER 20, 2016: The executives responsible for managing investment services in banks and credit unions expect their firm's revenue to fall 7% to 20% next year due to the disruptions caused by the introduction of the Department of Labor's Fiduciary Standard, fewer commissions from transactions, and shrinking advisory fees. At the same time, bank management is expecting them to *grow* revenue by 4% to 6%. This was one of the conundrums discussed at the Kehrer Bielan Fall Forum on DoL Readiness last week.

"This is a larger gap than we usually see during the annual budgeting process in banks," notes Peter Bielan, a principal of Kehrer Bielan and director of the firm's DoL Readiness consulting practice. "The bank CFO typically wants the investment unit to grow revenue by more than it can reasonably expect, particularly since the CFO also wants investment services to cut expenses to widen profit margins."

According to Tim Kehrer, the firm's senior research analyst, the participants actually expect margins to shrink next year due to the cost of reengineering the firm's systems to comply with the rule and the need to provide incentives to retain advisors in the face of uncertainty and aggressive recruiting by other firms.

Bielan points out that the investment services executives have to develop budgets without knowing what the commission rates and fees will be on their product offerings, and the overall impact the pricing has on product mix. "They also have to decide whether they will design compensation plans that enable their top performing advisors to make as much as they usually do, even if they produce much less revenue, to help them through the difficult transition ahead. That would likely compress profit margins further."

One participant offered an approach to bridging the gap that might resonate at other banks. In discussions with bank management, he pointed out that the DoL Rule was similar to the major disruption that Dodd-Frank had on the reduction of bank fees and the increased expenses for compliance. "They aren't giving us a free pass, but they have been more understanding," he reported.

Jonathan Gabriel, Kehrer Bielan's managing director and a former bank executive, suggested that banks recognize the severity of the disruption and take a restructuring charge, which would facilitate repositioning investment services to thrive in 2018 and beyond.

The participants also discussed the impact of the DoL Rule on product offerings, the use of bankers providing investment advice as a supplement to their banking duties, advisor compensation, and ways to demonstrate that investment recommendations are in the client's best interest and justify the fees charged.

The Kehrer Bielan Fall Leadership Forum—the study group for top executives who manage investment services in financial institutions—was held Oct 13-14 at the Fearrington House Inn near Chapel Hill.