MoneyVoices: Asset Portability Isn't What it Used to Be

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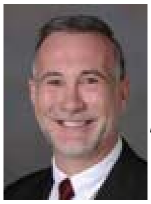

Guest Columnist: Allan Starkie is a partner at Knightsbridge Advisors, an executive recruitment firm specializing in wealth management.

Asset portability has declined drastically since the beginning of the financial crisis. Even the historically steadfast portability of asset management relationships among the great wirehouses has somewhat declined, while portability among private banks has suffered drastically.

In this environment, the majority of wealth management firms have struggled to better estimate the portability of relationships, often with frantic and even eccentric attempts at analyzing the advisor's book of business. Most objective analyses have proven only slightly less disappointing than the reading of tea leaves. Conclusions based on recent anecdotal information would tend to associate higher levels of portability with the individual qualities of each successful private banker. Fine bone structure, attractive eye color and engaging wit seem especially key.

As such criteria seem somewhat subjective, I suggest a more structured approach. The first two questions that the hiring company must consider are:

1. Does the wealth advisor believe his or her own portability assessment?

2. Do you believe the wealth advisor?

Shocking as it might sound, a private banker might at times err on the side of optimism when representing the degree of asset portability. Then there are other cases in which the banker's estimates were clearly sincere, yet the results were still disappointing.

The first task, therefore, is to assess the signals that often reveal a lack of sincerity or lack of objective thought on the advisor's part. I recommend focusing on discussions about the book of business in terms of specificity and connectivity.

Specificity

Does the private banker speak of the assets under management in his "book" as a single and absolute number? We often hear advisors comfortably throwing around billion dollar assets under management numbers, when in actuality the book is comprised largely of credit, investment management, custody, trust and some brokerage accounts. Many candidates will have severe difficulties in breaking down the distribution of these products and delineate the relative profitability of each.

The typical reasons provided for this absence of specificity are attributed to the inaccessibility of such reporting from the candidate's current institution. Some advisors will even make the claim that the institution itself is incapable of such detailed reporting. The inability or evasiveness of candidates to provide such information is a significant warning that they are either uninformed or deliberately obtuse.

Connectivity

The largest error in logic when analyzing a book of potentially portable business rests not simply in understanding the composition of the book, but in assessing the inter-relationships of the holistic product mix and its significance to each client.

Even in the best of times a private bank enjoys significant advantages in client retention over a wirehouse, because of the wider mix of products it can offer. That's why inter-bank portability numbers average about 20% while brokers generally maintain a much higher range of around 85%. This "institutionalization" of the client, by binding him into a web of products and services, has taken on a new and sinister importance since the crisis's onset.

As the credit markets tightened, clients became ultra-cautious about risking the loss of their credit facilities. The primary reason for the drastic decrease in private banking portability is the terror among clients that by transplanting their relationships they will lose a term credit facility at their current institution.

It's therefore no longer possible to simply subtract the raw credit number from total assets and focus on the movement of investment management relationships. The assets simply will not accompany the wealth advisor without assurance of exactly the same or better facilities being offered. This sacred connection can be lethal when moving a banker from an international money center or strong regional bank focused on balance-sheet lending, to virtually any other peer group within wealth management.

After assessing the structure of the book and the product connectivity, one must continue the portability assessment in earnest. They must do so by remembering that regardless of the hiring company's analysis, the two people best suited to judge the strength of the client-banker relationship are the client and the wealth advisor themselves. Therefore, it's extremely important to pay close attention during the interview process, not simply to what the private banker says, but how, and for what he or she negotiates. This will go a long way in ensuring that portability assessments live up to expectations. However, remember that until we witness a true renaissance in lending, we will continue to see astonishingly poor performance in portability.