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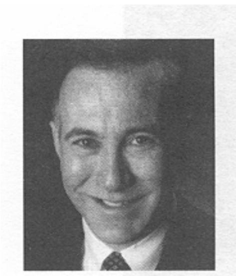

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The Myth of "The Million Dollar Revenue Producer"

By the end of this year, it is projected that global private wealth will reach the unprecedented level of $23.1 trillion, potentially generating private banking fee revenues of over $100 billion annually. It is therefore easily understandable that Private Banking is receiving an ever-growing importance among the same major financial institutions that once regarded it as a lost leader. With an almost exponential increase in U.S. high-net-worth clients over the last decade, asset managers have been faced with both a maturation of client sophistication, and an increase in product and performance expectations. To further complicate matters, the HNW market has become increasingly segmented spawning the need for a tailored product mix.

As each institution races to introduce and perfect new investment products, the battle for market share is fought by an army of HNW sales professionals. Like professional athletes, they are increasingly better-remunerated, constantly solicited to change teams, and often owe their allegiance to the highest bidder, both in terms of compensation and platform. Yet, as many institutions rush out to recruit their contingent of these sales superstars the questions soon arise: Who are these people? How is their performance evaluated? How do I get one? And, inevitably, how do I keep the ones I have?

In answering these questions, it might become apparent that the criteria used to define the great HNW revenue producers are often based on faulty assumptions, and unfair comparisons of the means of evaluation. Statistically, it has been reported that only 8% of all HNW sales people are "million dollar producers". Armed with this nebulous title, armies of search firms are retained to comb the nation for "million dollar producers", offering increasingly surrealistic compensation packages to compete for the same 8% of the sales population. It has become tantamount to placing these producers on EBAY and simply auctioning them off.

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Recently a large Northeastern Bank asked my firm to study the various private banking models among the top 10 private banks and create a multi-dimensional means of evaluating sales success and relative compensation. The results of our research were startling. In actuality, the level of success of a HNW professional is based on several factors that are, for the most part, beyond their control. The first factor is client ownership. Is the role of the sales person complete after conclusion of new client acquisition; or, does the relationship continue indefinitely? The next factor is whether the private banker's revenue calculations are limited to the sale of traditional investment products, or, if his revenue count might also reflect transactions in loans, hedges, derivatives, and even private equity. Finally, the degree of sales support is crucial in determining success.

Let us begin with ownership and support of the relationship. About half of the larger private banks and private client groups allow the sales person to maintain the client relationship indefinitely as the relationship manager. Two of the leading private banks that subscribe to this philosophy have implemented a team configuration to support the private banker. The banker is given both an organic team of support specialists as well as an extended team of product specialists. The organic team will control the client's daily logistical needs while the product team (comprised of specialists in Trust and Estates, loans, and investments) will satisfy all the private banking needs of the relationship.

There are two advantages to this model that benefit the revenue performance of the sales person. The first is the obvious fact that the private banker can generate additional revenues by cross-selling products into the book of existing business and continue to generate sales from the same clients. The second advantage is that the sales person has access, through the product specialists, to valuable market information regarding the clients. Mortgage applications, for example, provide an inexhaustible stream of information about the location and size of the client's assets under management by other financial institutions.

There are still a large number of institutions that "hand-off" the relationship immediately after the sale. The sales person is forced to recreate his book each year and a relationship manager (sometimes a portfolio manager) is tasked with maintaining the existing relationships. This is often frustrating for both client and sales person. One private banker saddled with this structure sardonically complained "it is like flirting with a beautiful woman, inviting her to have dinner with you and when she arrives, another man is waiting for her at the table". To ameliorate the negative impact that this system has on recurring revenues some of the institutions will pay trailers. The percentage and the duration of trailers vary by institution with the most generous generally structured as 100% for the first year, 50% for year two, then nothing thereafter. It is easy to see why a "million dollar producer" in such a structure is actually creating considerably more new sales than a comparable producer who begins each year with a massive revenue stream from existing relationships. Strangely, this disparity seems lost to the majority of firms in compensating and evaluating their sales forces.

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The next factor in evaluating relative performance is the platform of products. It is necessary to point out that even the name of the platform is significant. Newly minted millionaires do not limit their collection of fine brand names and labels to their clothing and vehicles; prestigious bank names still hold a strong cachet. The diversity of products offered by the sales person as well as the method of revenue calculation and remuneration is essential in evaluating relative sales performance.

The majority of private banks still focus on traditional investment management products for their HNW clients. But a much more sophisticated array of products is becoming necessary to facilitate the more complex transactions required by larger private investors who often begin to resemble the size and sophistication of institutional investors; and thus have been dubbed "insti-viduals".

Many of these investors have the majority of their assets comprised of one large holding of stock in their own post-IPO companies. Often these stocks are restricted and quite volatile. One of the most rapidly growing product lines has been the "monetization" of these illiquid assets. Among the methods of accomplishing this, the more intricate and costly method is to collar the downside of the equity with a derivative, lend against the stock, and then reinvest the proceeds in a more diversified portfolio. This method generates at least three billable transactions. A sales person who focuses on this market niche requires a platform that offers loans and derivatives at competitive prices. Additionally, in order for the sales person to profit from all three transactions it is necessary to have an employer that will count the loan and derivative fees toward revenue production. Sadly, there is simply no consistency among the top 10 national institutions in crediting or compensating their sales force for these various product types. Generally, the bank will provide a payout or bonus based on the sale of traditional products and often neglect or undervalue compensation for derivatives, hedges, or loans. In the compensation wars that have raged over the "million dollar producers" most institutions have been raising their percent payout on traditional products. The most extravagant is the decision (soon to be announced) by a large northeastern regional bank to stagger the payout with an unprecedented crescendo of 65% for revenues in excess of $500,000. At first glance this might seem exorbitant, but on closer examination one finds that it excludes compensation for all but the minimal processing fees of loans and excludes all non-traditional products. Therefore, a sales person in the same city, employed by a smaller regional bank might seem to generate a much larger production number based on the bank's decision to calculate and remunerate him at a rate of 8.5% for hedges, and 15% for annual loan revenues. And so the $350,000 producer of one bank is the "million dollar producer" of another- with exactly the same performance.

It appears that the HNW private banking industry has evolved too quickly to develop either an optimal model to maximize sales success or a viable means of calculating individual sales performance. Our study has resulted in the creation of a theoretical matrix for relative performance appraisal. Until such a model is universally implemented it is pointless, and even misleading to try to compare the relative success of sales professionals that come from divergent sales models and product arrays based purely on their annual revenue production. So for the moment "the million dollar producer" must remain more a mythological construct than an industry benchmark.