



FILLING THE TALENT GAP WITH PRIVATE BANKERS

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My brokerage clients tell me that it is increasingly difficult to attract client advisers from the same old talent pools. The war for brokers between mega brokerage firms, fought with giant recruiting checks, simply can't sustain the industry's growth. And so, some brokerage firms have asked me to help them attract private bankers. Why not? These days, brokerage firms offer their retail clients private-banking like products and services, including alternative investment management, fiduciary services, complicated wealth strategy solutions and customized credit capability.

When looking at the brokerage firms, private bankers have shown particular interest in the private wealth management or private client divisions. These tend to be more exclusive and cater to higher net worth clients. Private bankers also often have securities licenses and certifications that most brokers do not, such as CFA, CFP, CPA, JD, and Masters in Taxation that are attractive to these divisions. And the private wealth divisions tend to seek clients with a minimum of \$2 million in assets, which is similar to the minimums at most private banks.

But here's the rub. While I've successfully identified and introduced a number of private bankers to brokerage branch managers, the recruiting deals don't get done. This is partly due to stubborn misconceptions about brokerage culture on the part of private bankers, and it is partly due to an inflexibility surrounding the way pay packages are structured on the part of brokerages.

Private bankers tend to think the brokerage model is about sales and product pushing, with pressure to get numbers up on the board. This is reinforced during the recruiting process, as the banker is likely to hear that success is measured monthly (12 new starts a year). It doesn't help that Charles Schwab and other discount brokerages have been running ads that suggest the game is stacked against the client at the big Wall Street brokerages.

Meanwhile, even though most retail brokers would argue otherwise, private bankers tend to think that retail brokerage houses don't take their fiduciary responsibility to clients as seriously as private banks do. (Of course, all this could change if the SEC extends a fiduciary standard to brokers some time in the next year or so, as it is authorized to do under Wall Street reform legislation recently passed in Congress.)

And finally, even when we are able to overcome the negative perception issues, we are then confronted with the brokerage compensation model. The private bankers tend to be slotted into one of two categories: those with a book of clients and those without.

Experienced bankers who are not confident that their client book will follow them to a new firm are typically considered trainees and offered \$75,000-\$100,000 declining unrecoverable draw against commission for about two years. But this formula does not appeal to the bankers; they feel their technical expertise and extensive contacts are totally discounted and that they are being asked to take on the majority of the risk. Assuming the branch manager sees the individual's potential, the firm should offer a hybrid compensation plan—salary plus bonus—so that the risk is shared.

If the private banker does have a book that will follow him, the book is evaluated, discounted and handicapped and a

payout of 1 to 2 times revenue is offered with a formula for ongoing additional incentives based on revenue generated. Most contracts range between seven and nine years. While attractive to some, most bankers seem to prefer a smaller buyout of their book and a smaller incentive for new business in exchange for a reasonable base salary. This would help the banker ease into a brokerage business model. It might even cost the brokerage firms less to acquire the talent. Today, even private banks are willing to write a check for a book, plus pay salary and incentives.

Branch managers often throw up their hands at such an idea, saying private bankers are risk averse, and hence they don't belong in the brokerage industry. But if that were the case, the private bankers wouldn't consider such moves in the first place. Such bankers are motivated by the higher incentives and the opportunity to take control of their destinies, but they want to take smaller, less drastic steps. In the process of transporting their book they need to be financially supported.

The same can be said for RIAs who want to hire private bankers: A hybrid compensation model must be created. In a placement at one of our larger RIA clients, we created a compensation model we believe is attractive to bankers that could be adopted by brokerage firms. The RIA client hired a private banker with 14 years in the business, \$175 million in client assets and \$1.4 million in revenue. The RIA offered him a salary of \$185,000, plus 25 to 30 percent of all revenue he generates. There is also a discretionary bonus to reinforce company values. Over the next two years, this balance will be evaluated. If the banker reaches designated revenue levels, his salary may be reduced and his commissions increased. The salary and incentives are competitive with the commissions paid to brokers. Smaller firms have been willing to provide lower base salary with higher pay out for the first two years as assets are brought in the door.

There hasn't been a great deal of hiring yet but I can see that changing. When the market picks up there will be a tremendous demand for client service talent with the sales and relationship management skills found with private banker, brokerage firms and RIAs. To be competitive, firms need to be flexible enough to meet the needs of the talent available.



Anthony Riotta is the founding partner of Riotta-Jones & Company, a NY-based national wealth management, executive search and consulting firm founded in 1982