

SENIOR CONSULTANT

The Voice of the Investment Management Consultant

Consulting In NationsBank's Future?

Stephen C. Winks

Ken Lewis, president of NationsBank, believes that over the next several years, there will be only five or six banks of a national stature that will remain as the consolidation within the banking industry continues. "When you look at the market cap of those banks versus any other player in the financial services industry, you can see the banks getting larger and some of the other players getting absorbed. When we talk of a leading bank of the 21st century, we mean a very diversified financial institution. The institutions that will do well will redefine what banks mean, and that means needs-based selling, not just in soliciting investment management business but in offering trust services, private banking and loans. The fastest growing unit of NationsBank is our Private Client Group which focuses on investment management, trusts, private banking and loans with clients with more than \$1 million in investable assets, which is only 1% of the market", says Lewis. Thus, needs-based selling or responding to the needs of the client will very likely be the financial product and services delivery methodology of a much more broadly defined and reconfigured banking industry, not product distribution.

On the investment side of this equation, being responsive to the risk, return, tax efficiency, liquidity and cost structure concerns of the investor in the context of their goals and objectives implies that a more broadly defined banking industry would be engaged in investment management consulting. Interestingly, the banking industry may be creating a culture that is far more conducive to investment management consulting than the brokerage industry, which is becoming the benchmark for product distribution.

How NationsBank has built its brokerage unit is indicative of how far banks have come. Lewis says "There is a large body of people who think of banks in a very narrow sense and think of brokerage firms as serving other needs. One way to change that perception was to create our mutual fund supermarket. We didn't feel that if we were narrowly focused that we could

change perception. We had to go beyond the thought of pushing proprietary products. This is different from other banks; it is an attempt to be needs-based in terms of selling, as opposed to proprietary products-based. This is not a profit play in thinking we were going to generate all that much more fee income, but an attempt to broaden the bank's offering and to be thought of as serving the customer." Though NationsBank does not

now have the technology, process and procedures in place to be responsive to all the financial services needs of all investors, Lewis is clearly charting the course that will shape what NationsBank will look like in the future. Lewis observed "We have a philosophy and a purpose of trying to make lives better and easier, and to help people realize their dreams. As we looked at attempting to do that, we saw you can't stop after making a loan or taking a deposit. Our customers have more needs than that, particularly as they get further into

their life cycles. We want to be the place where our customers can get all their financial needs taken care of."

This trend within the banking industry toward needs-based selling is confirmed by many major banks which will vie to be one of the five or six major national financial institutions which Ken Lewis envisions. For example, the Bank of America has just gone cold turkey with their sales force being converted exclusively to fee-based products called Fund Strategies. Yet, there are many banks that have not gotten past the notion of selling products or selling proprietary products which is the likely cultural sign of whether a bank will survive in some form or be acquired. This is even further complicated by banks now buying brokerage firms. Unless the brokerage firm is gearing its business toward investment management consulting services which is consistent with the bank's strategy of needs-based selling, then having the enhanced product distribution capability of a brokerage firm does not necessarily add value for the acquiring bank. In fact, it could have negative cultural implications in moving the bank forward.

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As Ken Lewis observes, "We all know the demographics and know the brokerage industry is going to grow. We plan to be a major player. I don't know if that means we pool our resources into what we already know or if that means an acquisition down the road. Even in bank acquisitions, you can't assume you're going to divide XYZ bank in a particular way, because it never quite plays out as you might think. You have to focus on what matters to you internally." And what matters to NationsBank is needs-based selling.

With NationsBank committed to needs-based selling and being responsive to the needs of their clients as their primary mission, it is inevitable they will embrace investment management consulting and its associated investment process technology through which it can address all the investment values most important to the investor.

Over the next several weeks, NationsBank will be introducing a new account which will incorporate all of their clients' assets custodied at the bank to include credit cards, home equity loans and checking accounts, as well as investments. This is as comprehensive as it gets in consolidated financial reporting. It is not a stretch for NationsBank to introduce an investment process technology enhancement which drives investment management consulting and which would allow its financial consultants to address the fundamental investment values of risk, return, tax efficiency, liquidity and cost structure of all their client's assets in the context of their goals and objectives. By linking all forms of credit (credit cards, home equity lines, mortgages, etc.) and checking into

a sophisticated investment process that includes trust services, NationsBank would create a virtual real-time income statement and balance sheet, which is the ultimate delivery platform for all financial products and services. With NationsBank addressing all the investment concerns of each individual investor in terms they understand, how could the brokerage industry compete in depth, breadth and sophistication of service?

Even if NationsBank just offered their financial services platform to independent advisors who had \$50 million or more under management, NationsBank could still sell their credit, checking and trust services, while empowering the advisor to deliver an unprecedented level of investment counsel and value. Importantly, each independent advisory would have the same asset base as the average bank branch (\$50 million) but without the bricks-and-mortar cost. Perhaps NationsBank is right, rather than buy a retail consumer-driven brokerage firm, they should stick to what matters to them internally: needs-based selling or as it is phrased in the investment business – investment management consulting.

In NationsBank, we have gained an important industry catalyst with a vested interest in fulfilling the promise of investment management consulting. NationsBank believes in building one culture united around a common vision of responding to their clients' needs. This vision will likely be pervasive throughout the banking, brokerage and insurance industries, and promises to pay handsome dividends to those who support and advance investment management consulting. ■

Notes

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