FROM MAINTAINING THE ‘RELATIONSHIP FENCE’
TO PROVIDING COMPLEX WEALTH MANAGEMENT SOLUTIONS:
FACTORS TO CONSIDER
WHEN CHOOSING A TRUST OUTSOURCING PROVIDER

For institutions, such as community banks and independent trust companies with assets of $2 billion or less, the many compelling reasons to outsource back-office trust operations are as diverse as these institutions themselves. Consider the following “real life” examples:

- A highly respected West Coast bank has a trust department managing more than $800 million in assets. Management determined that key trust employees were underutilized in trust operations; at the same time, the administrative staff had grown and was operating at full capacity. Rather than hire additional department staff to handle the excessive workload, management outsourced its back-office operations.

  The outsourcing provider absorbed the bank’s trust operations without changing the bank’s way of doing business or disrupting its clients. The bank redirected its resources to revenue-generating functions, and the reduction in systems and staff expenses significantly increased its bottom line.

- A rural Midwest bank, which maintains a small trust department solely to keep a “relationship fence” around a few key customers, faced rising costs and the pressure to keep its sole department employee abreast of rising regulatory demands. Instead of adding staff, the bank turned to a trust operations outsourcing provider to perform its back-office trust operations.

  The bank has since doubled its assets under management without adding personnel. It continues to provide high-quality fiduciary services to its principal customers without the associated management oversight headaches and the expense of maintaining its own staff.

- A large Northeast national trust company, with $600 million in assets under management, recognized that its growth had stalled, and that it was at a competitive disadvantage technologically in distributing its premier products. The trust company hired an outsourcing provider to determine the most effective way to distribute its top products and services using the most current technology.

  The outsourcing provider bundled a suite of products that enabled the trust company to offer to its nationally positioned sales force world-class investment management solutions, proposal generation systems and compliance tools. The provider also offered “à la carte” solutions to lower the trust company’s operating costs. The trust company is now well-positioned to facilitate electronic communication and deliver its premium wealth management products to customers.

STAYING FOCUSED ON YOUR CORE BUSINESS

Because of industry consolidation, stiff competition for ultra-affluent customers and rising regulatory and compliance demands, trust
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companies and trust departments must try hard to remain profitable and relevant. The main reason for outsourcing trust operations is to allow trust institutions to focus on the core business of serving and retaining trust customers, while reducing the costs of staffing and oversight, and shifting some of the increasing burden of audit compliance to the provider.

The advantages of outsourcing back-office trust operations, including the resulting efficiencies, lower costs and superiority of staffing and technologies, are recognized industry-wide. Another benefit is that the trust company gains increased access to additional tools and resources. Decision makers at trust companies and other trust institutions should evaluate their core business carefully when shopping for a superior operations outsourcing vendor that will be compatible with the trust company’s interests and business. In the growing marketplace of operations outsourcing providers, many of which are trust institutions that may be selling excess capacity or are investment firms selling proprietary investment products, trust company management should seek a partner who will serve, but not compete, with its business.

What to look for? Flexibility, customization and alignment are key. In the above examples, one trust operations outsourcing provider, Texas-based Trust Management Network (TMN), which offers its clients the benefits of a national network, devised the solutions to service the trust clients in each of the three outsourcing scenarios and in many others.

A DUE DILIGENCE CHECKLIST

Following is a “checklist” of questions trust company management should consider when conducting its due diligence on operations outsourcing providers. Factors to consider in evaluating a given provider’s answers to such questions are critical to determining whether a particular provider will be a suitable “match.”

✓ How long has the provider been performing operations outsourcing?

Business longevity itself may not, necessarily, be a definitive criterion. Moreover, while the provider may be a well-known firm, operations outsourcing may be a new segment of their business model. The operations outsourcing industry has existed for 20-plus years.

The marketplace consists of trust companies selling excess capacity, investment management firms selling their own investment products, and independent companies serving as a partner to the trust company or department seeking outsourcing services for back-office functions.

While a provider’s longevity may indicate long-term business viability, the quality and years of trust experience of a provider’s key management personnel and those who service client accounts may be of equal or greater significance.

✓ How many assets under management do they service?

Assets-under-management figures, while potentially impressive, are not an indicator of superior client service. A more significant consideration is whether the provider has a scalable solution that benefits all sizes and types of clients equally and effectively. For example, does the provider target a business size that a trust company seeking its services is not; does the provider seek out clients with assets under management in a certain range, say $500 million and up, that the prospective client is not; is the provider flexible and accommodating with all the clients with whom they work?
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What is the provider’s culture/value proposition, and how does it align with our trust company’s model?

In order to make an optimal match, a trust company’s decision makers need to be attuned to whether the values of the outsourcing provider are aligned with their institution. Is the provider competing with its clients for trust customers, or is the provider a partner providing back-office operations solely for the success of its clients?

During the years of business operations, has the provider’s objectives and quality of service remained constant?

As businesses come and go in the dynamic trust marketplace, it’s necessary to determine whether an outsourcing provider is “in it for the long haul,” and whether it has been successful in servicing clients within this niche.

Is outsourcing operations the provider’s only business, or does it provide other services (such as wealth management, trust and asset management and/or trading)?

Decision makers should be mindful that an outsourcing provider focused solely on the business of trust operations, such as TMN, is not offering its services with the goal of obtaining its clients’ customers, or the company’s assets under management, for its own platform.

How is the provider aligned organizationally (e.g., does it have open architecture) and is this compatible with the trust company?

For example, a prospective client likely would not be comfortable outsourcing its back-office functions to an outsourcing provider that is, say, a nationally chartered trust company that would have access to its client’s customer information. Look for a service-driven company that will not become a competitor.

What is the provider’s financial condition; can it support a multi-year contractual relationship, and can the provider furnish prospective clients with audited financials on the profitability of its outsourcing operations business segment?

A large company that offers back-office outsourcing services may be able to show that its overall business is profitable; however, it may not be able to show prospective clients financials that demonstrate that it is profitable in the operations outsourcing segment of the business.

What is the provider’s pricing model?

A provider should offer pricing flexibility for different-sized companies and their needs. In devising the pricing plan, a provider needs to assess a client’s transaction drivers, or points of excess that can be reduced.

Compatibility and Customization

Does the client have the opportunity to customize wealth management solutions?

Decision makers should ask a prospective provider whether the trust company may use its own money managers or products, or whether they are required to use the outsourcing companies’ personnel and products only. Many providers offer proprietary products that they enforce or otherwise require clients to use.

Is the trust company required to use specific investment brokers, tax reporting tools, money market and mutual fund trading, or does the client have the freedom to pick among the suites and solutions that benefit the client’s specific trust department?

Prospective clients need to know in advance whether they will only be offered solutions provided by the outsourcing company, or whether they can roll up the outsourcing company’s solutions with open architecture and customize with their own systems and products.
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Will the outsourcing provider enhance the client’s trust department though its own aggregated buying power; will the client benefit from an outsourcing company’s products and services that the client does not have access to on its own?

Optimally, all-sized clients should benefit from a trust outsourcing company’s largest and most demanding customer. With the aggregate buying power of an outsourcing provider, smaller clients should be able to reap the advantages of products and solutions they could not access on their own.

Does the provider allow for feedback from the client to remain compatible with the client’s business needs over the duration of the contract? Is the solicitation of feedback from the client formal, informal, or both?

Communication and feedback between the outsourcing provider and client are critical to effective service. An outsourcing company focused on client service will offer formal opportunities for feedback, such as surveys and annual client conferences. At the same time, trust company management should be able to pick up the phone on a daily basis to communicate its needs to the provider and have other informal opportunities to provide feedback.

What is the duration of a typical outsourcing contract?

Typically, outsourcing contracts are offered for a term of three years. However, if a prospective provider is confident it can prove to be a successful partner, a new client may ask for a one-year contract with a three-year renewal, if the client is satisfied at the end of the one-year term.

Can the provider adapt to changing conditions as the client’s business requirements change in the competitive environment? How can a prospective client make this assessment?

Part of the advantage of an open-architecture model is that clients are not pigeonholed into core products. If the client can use best-of-breed products in the open market, it will remain competitive.

DAMAGE CONTROL

How does the provider correct faulty back-office operations and mistakes?

Not only must a provider have systems in place to correct the errors of a client’s staff, but sometimes a provider must “clean up” another provider’s mistakes.

Consider this example. A new trust department in a well-established West Coast bank selected an outsourcing provider based on geographic proximity and low price. As the department grew and approached $100 million in assets, the service and quality of the outsourcing provider dropped precipitously. The department found itself spending a large amount of time on operations and damage control, resulting in mistakes in back-office operations. The department could not grow because management spent too much time dealing with the deficiencies of the outsourcing provider. Not surprisingly, management turned to a different outsourcing company to resolve these numerous difficulties.

The new outsourcing provider converted the bank’s platform quickly and economically. The provider facilitated all aspects of coding and reporting configurations and, in the turnaround, halted further damage to the client’s reputation. Within three months, the bank’s trust department was back on track. Six years later, the department has tripled in size, offers high-quality products introduced by the provider—and still remains with the same outsourcing provider. The name of the provider? It’s TMN.

Founded in 1996, Trust Management Network, www.trust-mgmt.com, 800-900-5853, is a leading provider of trust operations services and wealth management solutions and serves clients nationwide. The company is focused solely on this business segment.