



2019-2020 Regional & Community Bank Study

Trends from the Annual Benchmarking Survey of Investment
Services in Banks that Partner with 3rd Party Broker Dealers

May 2020

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Annual Kehrer Bielan Benchmarking Survey of Investment Services in Banks that Partner with 3rd Party BDs

Conducted annually since 2015. Data was obtained during the first quarter.

- » 193 Banks participated in this year's survey
 - Collectively employ 1,948 advisors
 - A full list of participants is in the appendix
- » Participants can obtain a customized dashboard comparing their performance to their peers across four dozen benchmarks

For more information about the survey:

<https://kehrerbielan.com/original-award-winning-research/2019-2020-regional-community-bank-study>

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Key Findings from the 2019-2020 Regional and Community Bank Study

- » During 2019 the equity markets climbed back from the crater of the fourth quarter of 2018, gaining momentum as the year unfolded.
- » Investment services revenue in regional and community banks followed suit, growing quarter over quarter, but did not quite fully recover from the first quarter hangover, ending the year up 4.3% over 2018.
- » Advisor revenue productivity was up 6.4% and asset productivity grew 16%, but both metrics benefitted from a shrinkage in advisor headcount.
- » The number of advisors deployed in regional and community banks declined for the second year in a row. This resulted in a thinning of advisor deposit coverage, a decline in deposit revenue penetration, and a continued creep upwards in the number of clients served per advisor.
- » The stock market rebound boost assets under management significantly, but that in turn undercut ROA, which returned to typical levels.

Key Findings from the 2019-2020 Regional and Community Bank Study (continued)

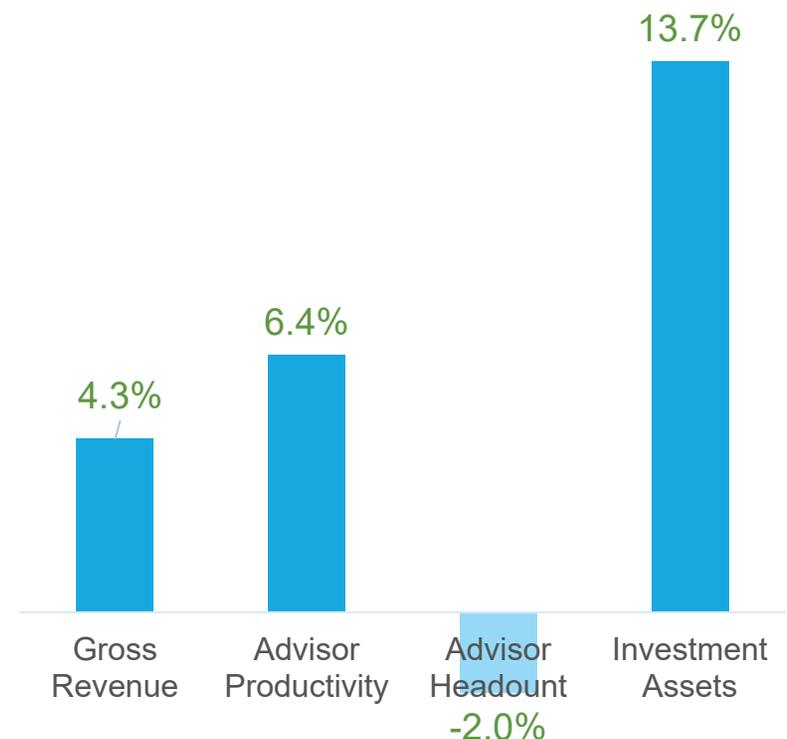
» But there was also positive news:

- Profit margins improved to 20%.
- Asset acquisition was up 26%, after deteriorating for two years.
- The decade-long transition from transaction business to fee-based business appears to have reached a balance. For the past two years regional and community banks have earned an equal share of investment services revenue from commissions and advisory fees.
- And the secular decline in branch referrals appeared to have stabilized. Of course, the health crisis has forced banks to restrict access to branches, and advisors working remotely face challenges in communicating with their banking partners, once again raising questions about the long-run viability of the traditional branch referral model—the foundation of investment services in banks.

Year-Over-Year Metrics for Banks that Partner with 3rd Party Broker Dealers

- » Investment services revenue increased in regional and community banks, but growth was stunted by a sharp reduction in advisory fees in the first quarter.
- » Advisor headcount decreased for the second year in a row.
- » Advisor productivity increased faster than gross revenue, as revenue was spread across fewer advisors.
- » Assets under administration bounced back following the market correction that occurred at the end of 2018.

Trends in Regional and Community Banks: 2018 vs 2019



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*2017/2018 Kehler Bielan TPM Survey. Based on financial institution market share.

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Deposit Revenue Penetration— Self-Reported Consumer Deposits

- » Since the core objective of banks offering investment services is to capture the investment business of the banks' customers, we use the size of the consumer bank (self-reported by the banks) as the yardstick to measure their penetration of their opportunity.
- » In 2019, regional and community banks in the survey saw deposit revenue penetration increase 7%, slightly faster than top line revenue.
- » Is revenue growth exceeding growth in deposits in the bank?

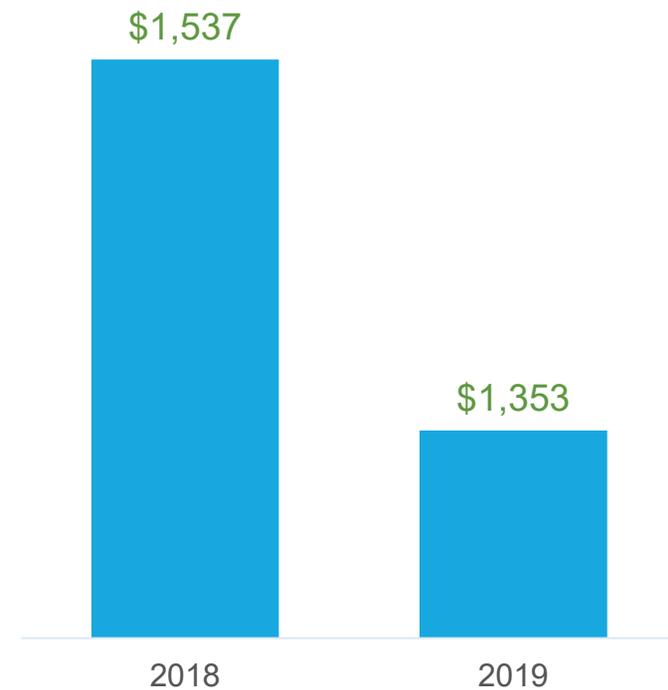
Deposit Revenue Penetration



Deposit Revenue Penetration— FDIC Core Deposits

- » If we use core deposits as reported to the FDIC as the yardstick to measure penetration, a different picture emerges.
- » Investment services revenue relative to core deposits decreased by 12% in the banks in the survey, despite growing revenues.
- » Core deposits are an imperfect measure of the size of the opportunity for retail investments because they include some small business deposits.

Deposit Revenue Penetration

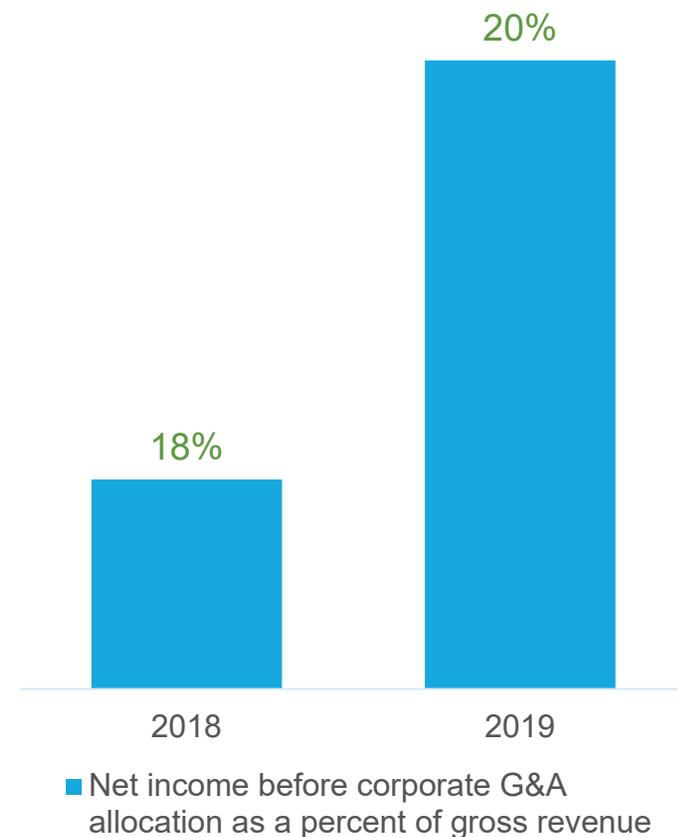


■ Gross revenue from investment services per million of FDIC core deposits

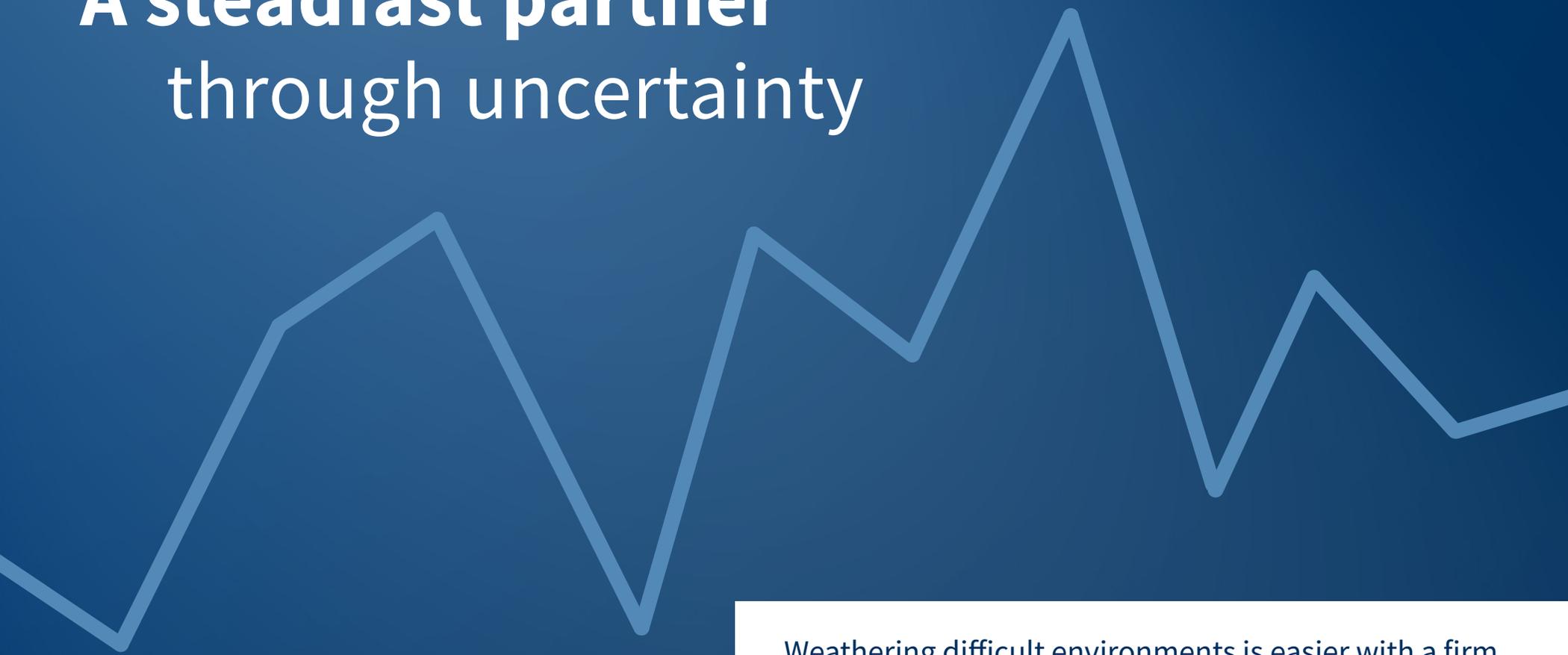
Profit Margin

- » Net Income Contribution Margin is revenue minus direct and allocated expenses before corporate G&A allocation and taxes.
- » Average net income margin improved slightly in 2019 among the regional and community banks in the survey.
- » Growing revenues, coupled with a dip in headcount, helped to offset increasing regulatory and compliance costs and drive wider profit margins.

Net Income Contribution Margin



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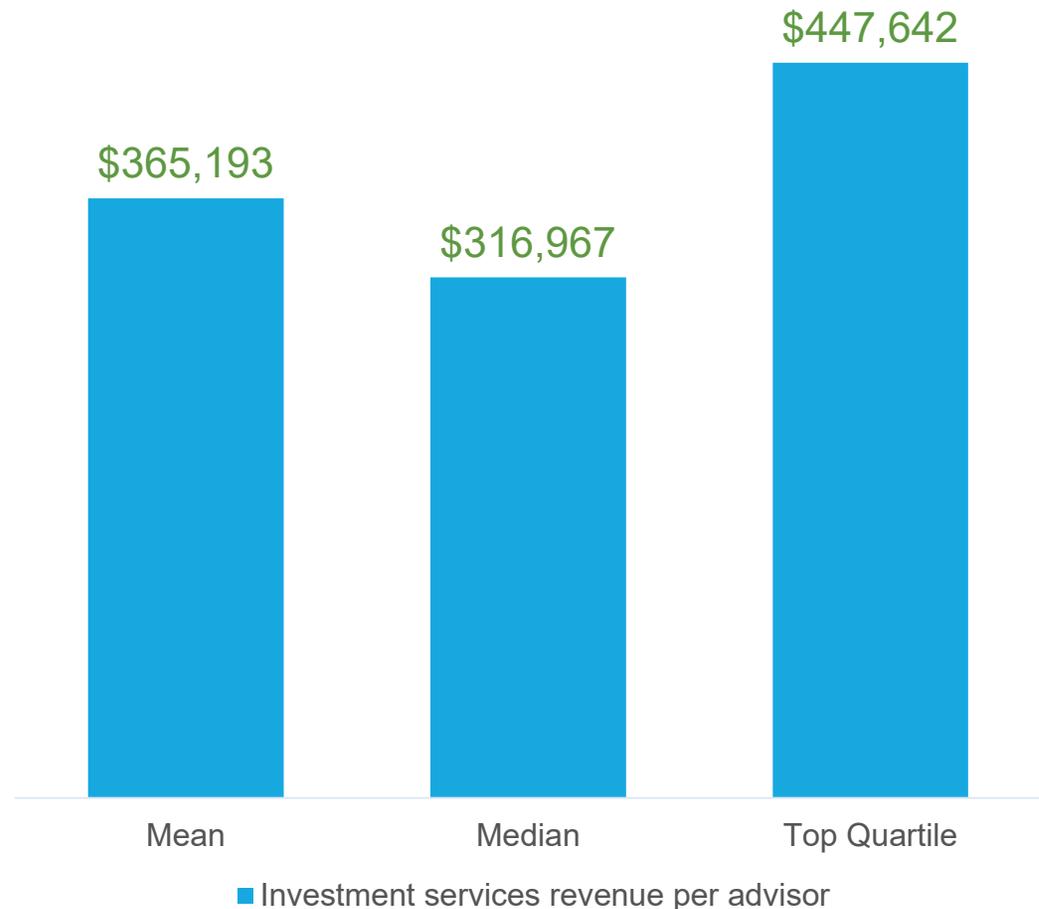
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Advisor Revenue Productivity

Advisor Revenue Productivity

» Advisor productivity increased 4.3% in regional and community banks on average in 2019.



Advisor Asset Productivity

- » The average advisor managed investment accounts with \$59 million in assets, a 16% increase over 2018.
- » The increase in assets per advisor was helped by the decrease in advisor headcount.
- » How much new assets did the typical bank advisor acquire?

Advisor Asset Productivity



New Assets per Advisor

- » This measure controls for market fluctuation.
- » The average advisor acquired \$8.6 million in new assets during 2019, up 26% from the previous year.
- » This represents a sharp reversal following two years of slowing asset acquisition.

Advisor Asset Accumulation



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You know banking. We know financial planning and investment solutions. Together, we can offer a more holistic experience to clients and by doing so, deepen client relationships and help drive revenue.

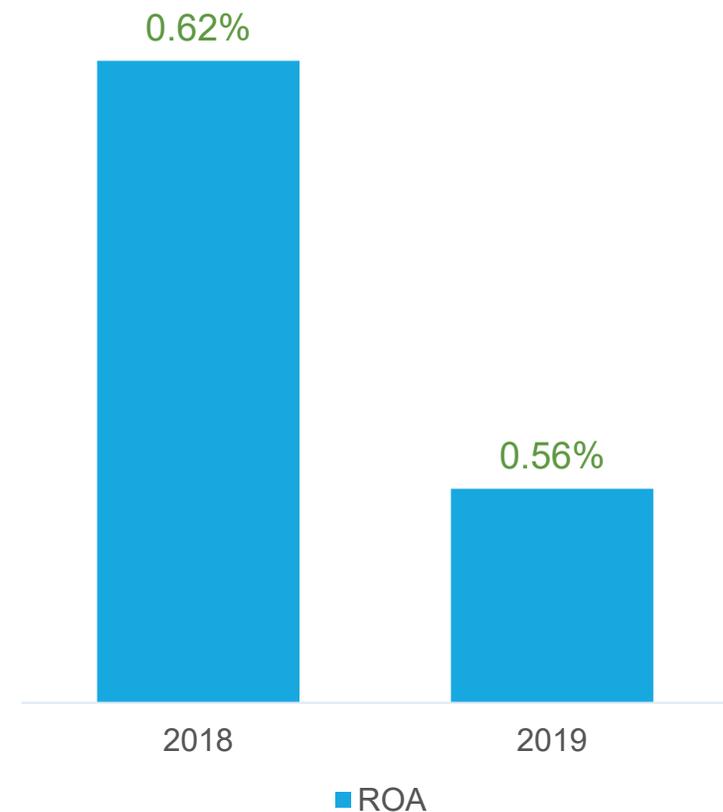
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Revenue on Assets

- » Revenue as a percent of assets is becoming an increasingly important metric for bank investment services, as more business is transitioned to fee-based.
- » Revenue on assets fell in 2019, as growth in assets under administration far outpaced revenue growth.

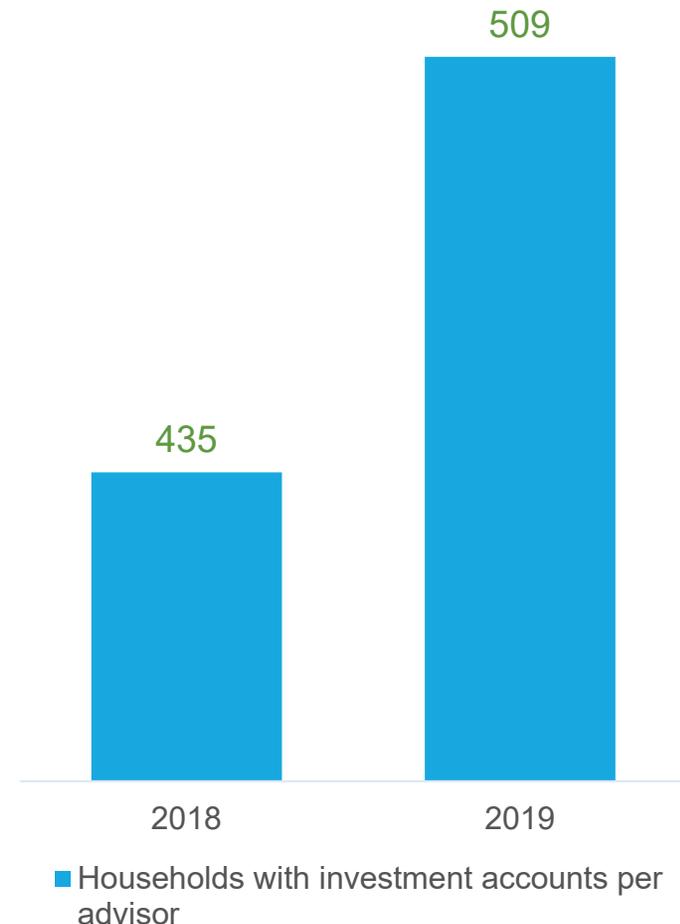
Investment Services Revenue as a Percent of Assets



Client Households per Advisor

- » Advisors in the average firm had 509 client households at the end of 2019, up for the third year in a row.
- » Banks talked a big game about culling the books of their advisors so that they could provide enhanced advice to their clients, but banks appear to have de-prioritized that initiative.
- » The top quartile of firms have reduced average book size to no more than 363 client households per advisor.

Clients per Advisor





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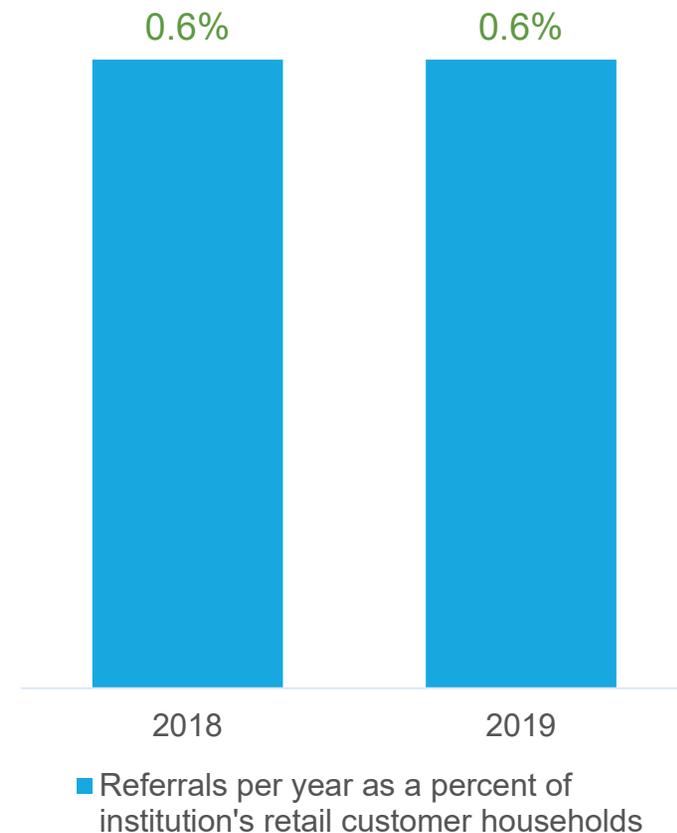
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Household Referral Penetration

- » After declining precipitously the previous two years, the average percentage of a bank's customer households referred to an advisor leveled off in 2019.
- » Sixth tenths of one percent of bank clients were referred to the brokerage unit in 2019, the same as the year before.
- » Has the secular decline in branch referrals stabilized?

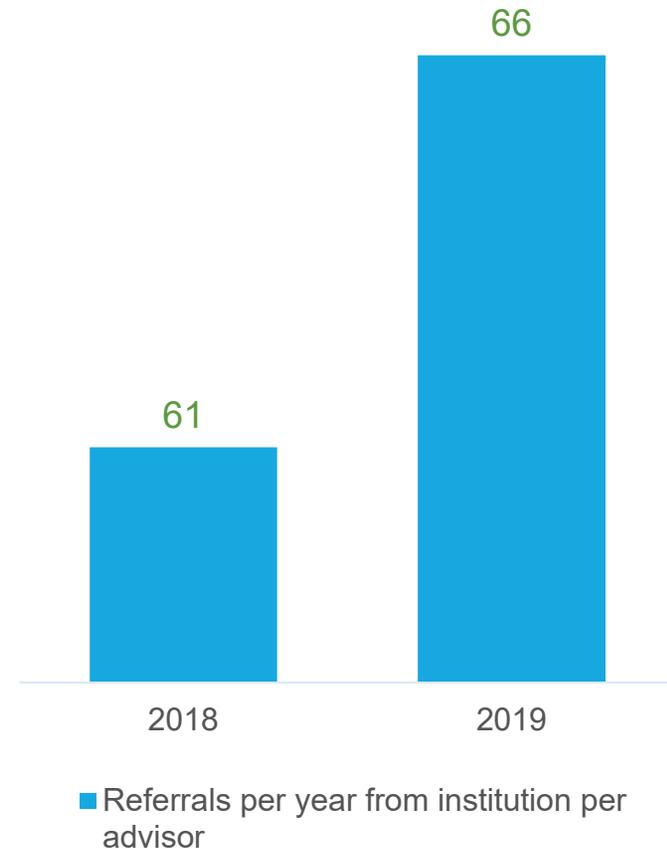
Household Referral Penetration



Branch Referrals per Advisor

- » The typical advisor working in a regional or community bank received 66 referrals in 2019, up slightly from the previous year.
- » Branch traffic, and the flow of referrals to the investment unit, have been dwindling for years; three years ago the typical bank advisor received 150 branch referrals.
- » The increase reflects referrals being spread across a somewhat smaller advisor headcount, but nonetheless suggests that the referral flow has stabilized.

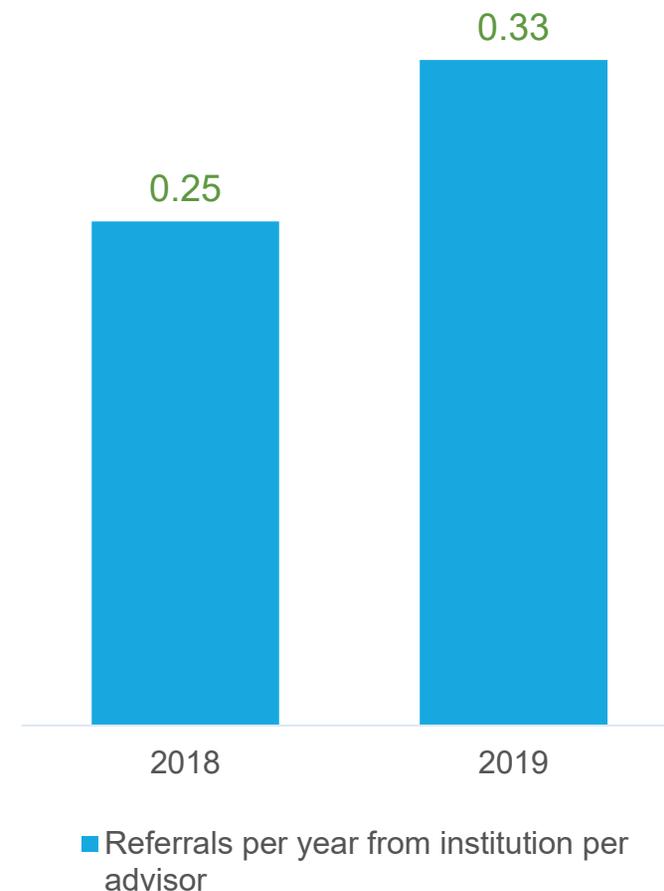
Branch Referrals per Advisor



Deposit Referral Penetration

- » Branch referrals relative to the bank's consumer deposit base jumped 32% in 2019, adding to the evidence that the referral flow may be recovering.
- » But alas, the trend is destined to be short-lived; the COVID-19 pandemic will likely further erode branch referrals in 2020, as banks have been forced to limit branch activity.

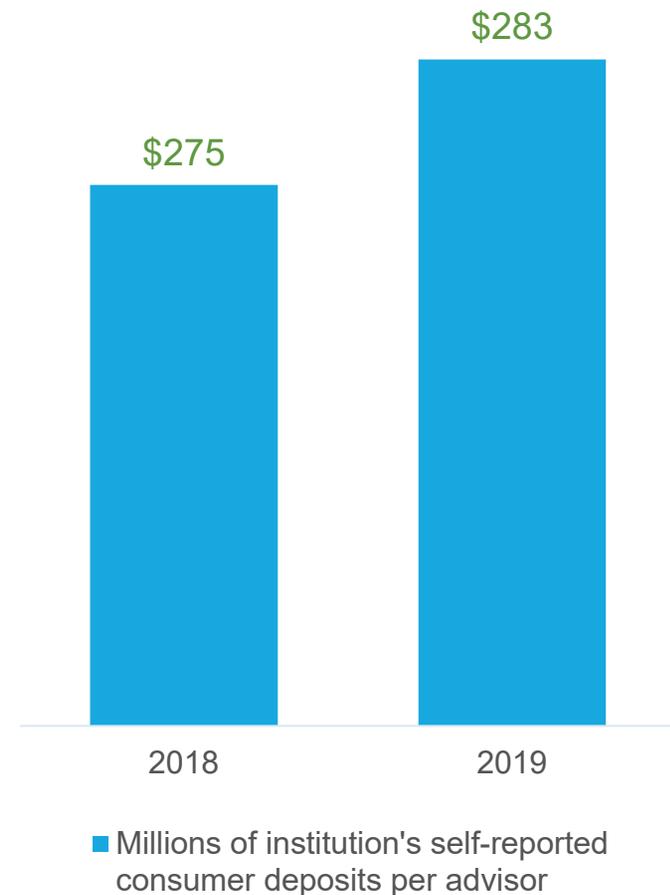
Deposit Referral Penetration



Advisor Deposit Coverage

- » Advisor coverage of deposits was slightly thinner from the previous year, as advisor headcount slipped.
- » Regional and community banks averaged one advisor for every \$283 million in consumer deposits at the end of 2019.
- » Kehler Bielan estimates that the best practices coverage ratio is in the range of \$125-\$150 million in consumer deposits per advisor.

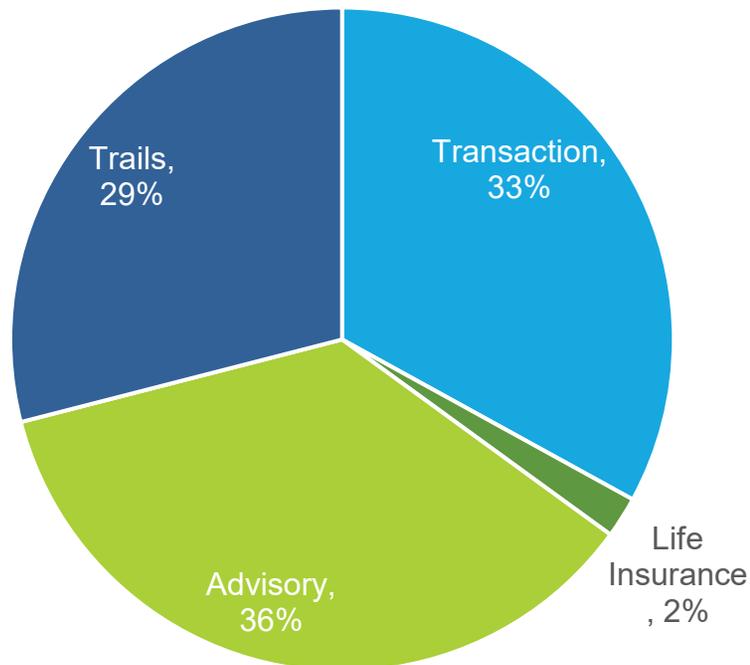
Advisor Deposit Coverage



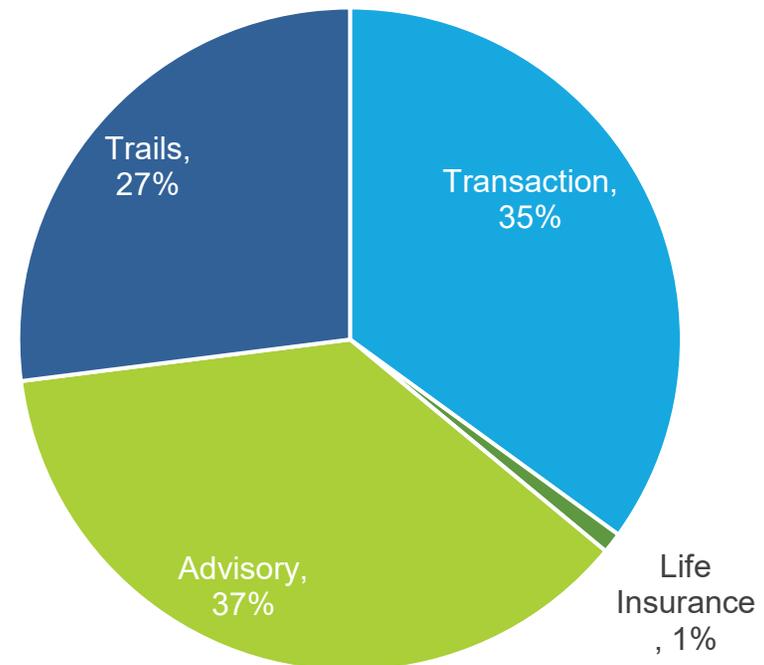
Trends in Product Mix:

Sixty-four percent of revenue in regional and community banks is now recurring, essentially the same as the previous year. But the share of revenue from life insurance sales continues to decrease, down from 4% three years ago.

2018



2019



Participants in 2019-2020 Survey of Regional and Community Banks

1st Central State Bank	Bell Bank	Central Pacific Bank
1st Source Bank	Better Banks	Central Trust Bank
1st State Bank of St Charles	Burke & Herbert Bank	Choice Financial
American Federal Bank	Business First Bank	Citizens and Farmers Bank
American Nat'l Bank of Texas	Cadence Bank	Citizens Business Bank
Atlantic Union Bank	Callaway Bank	Citizens National Bank
Austin Bank	Camden National Bank	Citizens National Bank of Bluffton
Avidia Bank	Capital City Bank	Civista Bank
Bank Midwest	Capstar Bank	Coastal Commerce Bank
Bank of Putnam County	Cashmere Valley Bank	Columbia Bank
Bank of Springfield	Cathay Bank	Commercial Bank & Trust
Bank of Stockton	CBI Bank and Trust	Commonwealth Bank & Trust
Bank of Tennessee	Cedar Rapids Bank & Trust	Community Bank
BankPlus Wealth Mgt Group	Centennial Bank	Community Financial Services Bank
Banner Bank	Centier Bank	Community National Bank
Baraboo State Bank	Central Bank	Community Trust Bank

Participants in 2019-2020 Survey of Regional and Community Banks

Dacotah Bank	First Columbia Bank & Trust	First State Bank of Shannon-Polo
Decorah Bank & Trust Company	First Community Bank	First United
Dubuque Bank & Trust	First Farmers and Merchants Bank	First United Bank & Trust
Equitable Bank	First Federal	Firststar Bank
Evans National Bank	First Federal Savings Bank	Five Star Bank
F&M Investment Services	First Financial Bank	Frandsen Bank & Trust
Farmers Bank of Northern Missouri	First International Bank	Franklin Savings Bank
First AmericanBank	First Interstate Bank	Fremont Bank
First Bank (NC)	First Merchants Investment Services	Fulton Financial Advisor
First Bank (MO)	First Midwest Bank	Gate City Bank
First Bank (TN)	First National Bank (IA)	Genoa Banking Company
First Bank of Owasso	First National Bank (PA)	German American Bancorp
First Bankers Trust Co.	First National Bank of Long Island	Glens Falls Nat Bank & Trust
First Citizens Community Bank	First National Bank of McMinnville	Glenview State Bank
First Citizens National Bank	First PREMIER Investment Services	Great Plains National Bank
First City Bank of Florida	First Savings Bank Northwest	Greenwoods State Bank

Participants in 2019-2020 Survey of Regional and Community Banks

GTE Investment Group	Kentucky Bank	N B T Bank, N.A.
Guaranty Bank	Lake Region	National Trust Company
Gulf Coast Bank	LCNB Investment Services	New York Community Bank
Gulf Coast Bank and Trust Company	Legends Bank	Nextier Bank
Happy State Bank	Lincoln Savings Bank	North Shore Bank
Heritage Bank	Lone Star National Bank	Northfield Bank
Home Bank	Lyons National Bank	Northwest Bank
Home Investment Services	Marquette Bank	Oconee State Bank
Independence Bank of Kentucky	Marquette Wealth Management	Old 2nd Nat'l Bank of Aurora
Internat'l Bank of Commerce	Martha's Vineyard Savings	Old National Bank
Internat'l Bank of Commerce OK	Mascoma Savings Bank	Old Point Trust and Fin. Svcs.
Intrust Financial Services	Midwest Bank, NA	Peapack Gladstone Bank
Ixonia Bank	Midwest Community Bank	Peoples Bank (WA)
Johnson Financial Group	Midwestone Bank	Peoples Bank of Codorus Valley
Jonah Bank of Wyoming	Mutual Bank	Peoples Security B&T
Kennebec Saving Bank	Mutual Bank of Omaha (FNB of AZ)	Pinnacle Bank

Participants in 2019-2020 Survey of Regional and Community Banks

Pioneer Bank	South Louisiana Bank	The PrivateBank and Trust Co.
Pioneer Bank & Trust	South State Bank	The Village Bank
Poca Valley Financial	Southbridge Savings Bank	Tioga State Bank
Premier Community Bank	Starion Financial	TNB Financial Services
Quad City Bank & Trust	State Bank of Cross Plains	Tompkins Financial Services
Regions Investment Services	Sterling National Bank	Trustmark Financial Services
Renasant Bank	Summit Community Bank	Two Rivers Bank & Trust
Republic Bank & Trust	Texas State Bank	United Bank of Michigan
Rockland Trust Company	The Bank of Missouri	United Community Bank (GA)
S&B Financial Services	The Bank of Tampa	Webster Services, Inc.
S&T Bank	The Community Bank	Western State Bank
Salem Five Cent Savings Bank	The Farmers & Mechanics Bank	Westfield Bank
Savings Bank Crest	The Fidelity Bank	WTB Investment Services
Seacoast Bank	The Fidelity Deposit & Discount Bank	ZNBA
Security National Corporation	The Heritage Bank	
Simmons Bank	The Nodaway Valley Bank	
SmartBank Investment Services	The Paducah Bank & Trust Co.	

Kehrer Bielan 2019-2020 Regional and Community Bank Study

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Tim Kehrer directs the firm's consumer research, and benchmarking research, which includes surveys of bank broker dealers, third party broker dealers, regional and community banks, and credit unions, and other wealth management firms. He is co-author of a study of the opportunity for credit unions in offering investment services, the landmark study of the value of an investment client to a bank or credit union, and a study of how to create an effective compensation plan for Financial Advisors in credit unions. Tim also consults for banks and credit unions on identifying opportunities to improve investment services performance by adopting best practices.

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Kehrer Bielan Research & Consulting provides the financial advice industry with insights based on a melding of research and experience in managing the delivery of investment, insurance, and wealth management services.

The firm's principals—Kenneth Kehrer and Peter Bielan—have participated in the financial advice industry as executives, researchers, analysts, and spokespersons for over 30 years. Together they bring a unique, unbiased resource and perspective through their original research, actionable advice, and keen understanding of where the industry has been and where it needs to go.

Meet the rest of the Kehrer Bielan team, check out our research library and study groups, and scan our client list and consulting engagements at <https://kehrerbielan.com>.



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