

Advice: Reduction of Wealth Management Costs

Specialised Providers Negotiate Fees and Kickbacks on Behalf of Clients

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The majority of private banking clients underestimate the cost saving potential of their mandate in detail analysed in our [report on wealth management costs](#) clients pay their wealth manager various direct and indirect fees that all in all significantly reduce the long-term performance of portfolios. Not all costs are obvious to the clients and more often than not they don't utilize them for negotiations with their wealth managers to cut the fees.

However, new service providers are emerging to assist the client in gaining more cost transparency and realizing the savings potential. They negotiate on the client's behalf with the wealth manager focussing on reducing the costs for the management of the client's mandate in two fields: First direct costs a client pays for custody, transactions and account management. Research has shown that less than one-third of clients negotiate the direct costs. While, in fact, they could negotiate the stated fees without any difficulties. Secondly the indirect costs, namely the kickbacks a wealth manager receives from issuers of funds and certificates. After negotiations often a full reimbursement of front loads as well as ongoing retrocessions to the clients can be achieved.

The Swiss-based company [GoodValues](#) is a pioneer in this field of optimizing the conditions of management on behalf of the clients. Founded by former private bankers it offers its clients the partners' experience and insights to analyse the various cost drivers to determine the savings and subsequently negotiate new conditions directly with the wealth managers. If required they control the fee agreements continuously.

Following two examples of cost saving that can be realized by optimizing the conditions for wealth management.

Example 1: Cost Savings Potential of Mandate CHF 1 Mio (Dynamic, Private Bank)

Fee description	Fees p.a. pre Optimization	Fees p.a. post Optimization	Savings in % p.a.	Savings CHF
Custody	0,45%	0,10%	77,77%	
Transactions	1,50%	0,50%	66,66%	
Account Management	1,20%	0,80%	33,33%	
Total Direct Costs	3,15%	1,40%	55,55%	
Kickbacks / Retrocessions	0,50%	0%	100%	Depend
Front load new issues	up to 5%	0%	100%	on Shar
Total Indirect Costs		0%	100%	Funds e

Example 2: Cost Savings Potential of Mandate CHF 10 Mio (Dynamic, Private Bank)

Fee description	Fees p.a. pre Optimization	Fees p.a. post Optimization	Savings in % p.a.	Savings CHF
Custody	0,30%	0,10%	66,66%	
Transactions	1,00%	0,30%	70,00%	
Account Management	1,00%	0,50%	50,00%	
Total Direct Costs	2,30%	0,90%	60,86%	1
Kickbacks / Retrocessions	0,50%	0%	100%	Depend
Front load new issues	up to 5%	0%	100%	on Shar
Total Indirect Costs		0%	100%	Funds e

Source: GOODVALU

Of course, such services are not for free and are either charged on an hourly base or as a success based fee. GoodValues for instance is taking about 38% of the cost savings as a one-time charge.

However, if the optimization of conditions of wealth management is made correctly, it is a very good investment. The apparently small numbers for fees can add up immensely over time and any reduction goes straight to the bottom line. If one invests CHF 1 million and achieves an average perform

7% p.a., a cut of wealth management costs by 2% a year will generate a stunning additional CHF 300k after ten years. ([more examples on the effect of costs on the long-term returns](#)).

Overall, services of independent providers to optimize the wealth management costs are emp the client and reducing the imbalance in information which normally benefits the wealth mana Clients should make sure to employ experienced providers, preferably former wealth manage have all the insights, and that the cost optimization is monitored continuously to have long las effects.