Financial institutions brace for DOL haircut

By Editorial Staff *Wed, Dec 21, 2016*

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With its controversial fiduciary rule, the Department of Labor quite openly intended to trim the cost of investment services for IRA owners. Little surprise, then, to find that some financial institutions are bracing for a revenue haircut next spring.

For example, a recent survey of executives at banks and credit unions showed that the typical U.S. financial institution can expect a 17% fall in revenue from investment services because of the impact of the DOL rule—assuming that the rule survives within a business-friendly Trump administration.

The executives were participants in the *Kehrer Bielan DoL Readiness Roundtable: Gut Check at the Halfway Mark*. A proprietary calculator enabled them to estimate the impact of the DOL rule on their firm, based on specific details about the firm's investment services business (characteristics of its advisor force, business mix, pricing, etc.) and the firm's efforts to comply with the rule, which takes effect in April 2017.

"The calculator will let [each firm] specify the parameters of its business model and assess the impact of the actions it is contemplating… By identifying the revenue shortfall it will help quantify the actions needed to close the gap," said Peter Bielan, a principal of the firm.

One participant in the survey argued that net revenue might fall even further at firms that have already standardized payouts to their advisors. If annuity providers subsequently levelize (and reduce) payments to the firms, the firms could be squeezed between reduced revenues and fixed expenses.

Another participant doubted that the "reasonable fees" requirement under a Fiduciary Standard would necessarily reduce revenue. Under the DoL Rule, he argued, firms would have to eliminate discounting of fees.

The loss of revenue from small accounts was taken into account in the projections, as was the potential increase in advisor productivity because advisors may no longer service less-productive accounts.

The *Kehrer Bielan DoL Readiness Roundtable: Gut Check at the Halfway Mark* was held December 13-14 at Fearrington Village near Chapel Hill, North Carolina.