How Independent RIAs Outshine Private Banks

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Understanding some key differences between independent RIAs and private banks can help clients and financial advisors find the optimal environment, either for receiving wealth management services or for pursuing a career delivering them.

Having experienced both models as an advisor, executive, and client, I believe independent RIAs serve the interests of clients and advisors more effectively than private banks do by having the edge when it comes to personalized advice, transparent costs, open architecture, strong advisor/client relationships, and adherence to a strict standard of fiduciary care. Equally important, any legacy historical advantages of banks, or scale, in wealth management, have largely dissipated.

FIDUCIARY DUTY

Independent RIAs, overseen by the Securities and Exchange Commission, are bound by a fiduciary duty to act in their clients' best interests. As a result, they're required to disclose potential conflicts of interest, enhancing transparency and the alignment of their advice with their clients' needs.

For clients, obviously, this means that the advice they get must serve their best interests. For advisors, adhering to fiduciary standards fosters objectivity and builds trust and long-term relationships. Private banks, on the other hand, may have interests, such as those of the bank or the shareholders, that can lead to decisions at odds with clients' best interests.

PERSONALIZED ADVICE AND OPEN ARCHITECTURE

The financial advice independent RIAs provide may be more personalized than that which most private banks can generally muster. Less restricted by complex corporate agendas or managing to the least common denominator of thousands of clients, RIAs can source products and solutions from outside providers based solely on merit and fit. The independent RIA is free to craft comprehensive financial plans that are tailored to each client's needs, resulting in solutions most appropriate for the individual client.

For advisors, offering the broadest range of outsourced solutions enhances service quality, efficiency, and client satisfaction. Meanwhile, private banks are often the last vestige of proprietary-only solutions and may limit their offerings to in-house products which might not be the best fit for the client.

COST TRANSPARENCY

RIAs are required by regulators to provide transparency around fees, costs, and conflicts, and most derive their compensation exclusively from fully disclosed advisory, management, or planning fees. This approach can avoid hidden costs and encourages advisors to focus on providing the most appropriate products and services to clients.

For advisors, transparency fosters trust – and it can lead to higher rates of client retention and referrals. While a private bank may also charge (and fully disclose) flat or asset-based advisory fees, the private bank often charges other service and transaction-related fees as well.

It may likely earn most of its revenues and profits from net interest margins – the difference between what it pays on customer balances, or deposits (its cost of funds), and what it earns lending out or investing those balances.

This conflict can result in a significant "hidden cost" at a private bank vs. an RIA which can obscure the true costs clients have to bear. Independent RIAs do not generally earn spreads on client balances and, as a result, generally seek out the most advantageous cash solutions for their clients.

REGULATORY OVERSIGHT

RIAs are subject to regulatory oversight by the SEC and state watchdogs, which encourages high standards of conduct. These regulators impose detailed disclosure requirements and periodic examinations to ensure compliance – transparency around costs and conflicts is one example already mentioned. For clients, this may provide an added layer of peace of mind in their choice of an RIA-based advisor.

For advisors, the regulatory paradigm of a non-bank RIA allows them to focus exclusively on the best interests of their clients without the distractions of banking regulations that may or may not apply to the advisory services they provide.

FLEXIBILITY AND INNOVATION

Because they can act and make decisions swiftly and without bureaucracy, most independent RIA's can adopt new technologies and investment strategies as these innovations prove themselves in the marketplace.

Meanwhile, private banks often lag when it comes to adopting new technologies and investment products because they tend to be big and bureaucratic, and because anything new must be integrated into a very large and complex organization. So, where the lag between research and adoption can be a matter of months for an independent RIA, it can take a private bank years to replace obsolete technology or deploy something new and good for advisors and clients alike.

As a result, RIA clients often have access to the latest financial technology and innovative solutions and, for the advisors, the ability to adopt new tools and strategies quickly can differentiate their service offerings and improve client outcomes.

CLIENT RELATIONSHIP DYNAMICS

RIAs typically develop deep personal relationships with their clients and, importantly, the RIA deeply values the advisor-client relationship. For clients, this can mean a more personalized and responsive experience.

For advisors, strong personal relationships can lead to increased client loyalty and referrals, and the independent RIA creates a culture where their relationship with the client, not just that of the institution, is valued and nurtured. In contrast, client relationships at private banks are often viewed as being with the institution rather than the individual banker or advisor and may be assigned and reassigned based on management priorities, which can lead to less of a personal connection and potentially lower client satisfaction.

OWNERSHIP AND INDEPENDENCE

Often, independent RIA-based advisors are entrepreneurs with ownership stakes and an active voice in the management of their firms. For advisors, both the opportunity to act as stewards of their clients' experience and to build wealth and equity in their own firms offers significant professional and financial rewards. For clients, this means dedicated personal service in an ownership and partnership culture. In contrast, private bankers tend to be employees of large institutions and don't have as much of a personal stake or say in client outcomes.

Time and time again, mergers, acquisitions, integrations, or even outright bank failures (including several prominent private banks in 2023) can cause unnecessary inconvenience, risk, and disruption to the advisor-client experience, and are often a result of acts or circumstances having little to do with the individual private banking or advisory client.

Additionally, the ability to grow and scale a business inside a private bank, relative to an independent RIA, can often be stifled by restrictions on marketing activities, overly burdensome compliance paradigms, least common denominator management practices, management and personnel changes, and a culture of "peering around corners" for the next adverse corporate action or headline.

LENDING AND LIQUIDITY NEEDS

The primary historical, advantage to a private bank vs. an independent RIA, the ability to meet clients' lending and liquidity needs, has virtually disappeared with the advent of open architecture banking and lending solutions now available in the RIA channel. Not only do RIAs now have the ability to provide a full suite of banking and lending solutions from leading providers, but they also can identify, shop, negotiate, compare, and facilitate terms from multiple providers – a significant benefit to the clients without their advisor being exposed to institutional or systemic balance sheet risk. In fact, many private banks have now set up affiliates to provide the same lending product and solution set to RIAs as they do for their private bank clients.

CONCLUSION

Absent a few once-competitive advantages of large banks, independent RIAs now offer significant advantages for clients and advisors alike; adherence to a fiduciary standard in prioritizing clients' needs, personalized financial advice and transparent fee structures that build trust and satisfaction, strict regulatory oversight, flexibility in adopting new technologies that keep services on the cutting edge, deep client relationships that enhance loyalty and satisfaction, and the entrepreneurial nature of RIAs that incentivizes superior client service.

Together, these factors make independent RIAs a compelling choice for wealth management, both for clients and their advisors. The ability for an RIA to be owned by its advisors and employees, untethered from the risks, complexities, conflicts, and bureaucracy of large institutions, and free to focus exclusively on providing unbiased advice and on the goals and objectives of clients are force multipliers for both the client and advisor experience, and for growth and scalability.

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About PUREfi Wealth

Headquartered in Boston, PUREfi Wealth is an independent wealth advisory boutique. The firm is deeply committed to providing comprehensive, multi-generational advice, wealth planning, and investment management to individuals, families, and their associated entities, and operating under a fiercely independent and objective fiduciary standard through a state-of-the-art open architecture investment and technology platform.