It's Not All Fun in the Sun at Royal Bank of Canada

Description

Back in August the **Royal Bank of Canada** (TSX: RY)(NYSE: NY) appointed Dave McKay as its new CEO and a big part of his agenda was to grow the banks' wealth management portfolio. Wealth management has become the biggest source of growth in the banking sector and RBC is doing all it can to compete.

In its last quarter RBC earned $1.5 billion in revenues and $285 million in net income from its wealth management operations. So far this year the bank has made $4.6 billion in revenues and $798 million in net income, thanks to its over $442 billion of assets under management. While wealth management revenue growth has been in the double digits here in Canada, there are some regions that have become problematic and one area in particular has led RBC to shut its doors.

Caribbean shutdown

Along with a couple other Canadian banks, RBC once had high hopes for the Caribbean branch of its operations, but then the 2008 market crash hit. While many industries and countries have recovered, the tourism industry in the Caribbean still hasn't emerged from recession.

It has been reported but not confirmed that 300 wealth management-related employees will be affected by this strategic retreat from the sunny beaches of the Caribbean. This isn't the first setback RBC has faced in 2014 in this region, as it earlier sold its Jamaican operations at a loss of $100 million.

RBC isn't the only bank that has been experiencing troubles; the **Bank of Nova Scotia** (TSX: BNS)(NYSE: BNS) has announced that it would be closing 120 foreign branches, some in the Caribbean. Also **Canadian Imperial Bank of Commerce** (TSX: CM)(NYSE: CM), which has been in the region the longest of its Canadian competitors, has announced a plan to better manage its expenses in the Caribbean.

Just a bump in the road

While this could be construed as bad news, it could also be seen as a responsible reaction to risk. The fact that the bank has shown the willingness to mitigate its losses should comfort investors who are still feeling a little leery about its risk management. More specifically, the concern was about the growing push for the bank to remove the revenue cap on its capital markets segment. The capital markets segment is responsible for lending to large companies and providing advice on acquisitions.

The good news for investors is that RBC posted $2.4 billion in profits in the last quarter and the trend is expected to continue. The wealth management segment alone grew by 22% in the last quarter compared to last year, and even without the Caribbean this growth is expected to persist.

In my opinion, RBC still remains the top option for investors among the big six Canadian banks. Its strong domestic banking segment and a growing international portfolio are less checkered than some if its counterparts. RBC saw its stock close Friday at $82.53 leaving a bit of growth room compared to its average price target of $85.90, it also offers an annualized dividend of $3.00 with a yield of 3.6%.

For investors this news is merely an appetizer, as RBC's fourth-quarter results get released on December 3. Then we will get to see just how far this bank has come in 2014 and how important its wealth management operations have become.

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