

# Letter from the President



## Getting the Facts: What Clients Actually Value – and Demand – from Financial Advisors

Investment dealers in the Canadian securities industry are finding they must provide increased value at competitive rates. The Investment Industry Association of Canada's (IIAC) members are well aware that consumers of financial services firms today have not just become more price-conscious but more value-conscious, demanding better service. Particularly at the premium end of the market, clients prize quality, trust and long-term relationships. For that reason, the IIAC has commissioned a survey to find out specifically what clients value in their financial advisor relationship.

### A Busy Regulatory Agenda

The demand for high-quality service at a reasonable price is augmented by an increasing drumbeat of reform proposals across both the retail and institutional businesses, forcing firms to respond with expanding resources.

These regulatory proposals have focused on bolstering investor protection and instilling market confidence, both in response to regulatory gaps evident in the 2008 financial crisis and the structural changes that have unfolded in domestic equity markets. The regulatory agenda has embraced detailed client disclosure related to the investment process, enhanced suitability oversight and portfolio performance reporting – all embedded in the Client Relationship Model; documentation and distribution of mutual fund disclosure (Point of Sale); due diligence requirements for new products; proficiency standards for registrants dealing with retail investors; and client “best execution” requirements. The list goes on.

The IIAC has played an important role in response to proposals for new rules, forging industry positions on specific proposals to persuade and assist regulators in the design of practical and cost-effective rules to meet defined outcomes without causing negative unintended consequences. The IIAC is also working with firms to identify improvements to mandated compliance procedures for existing rules to reduce unnecessary regulatory costs. We have recently written to IIROC with recommendations for reforming specific compliance requirements in the self-regulator's rule-book.

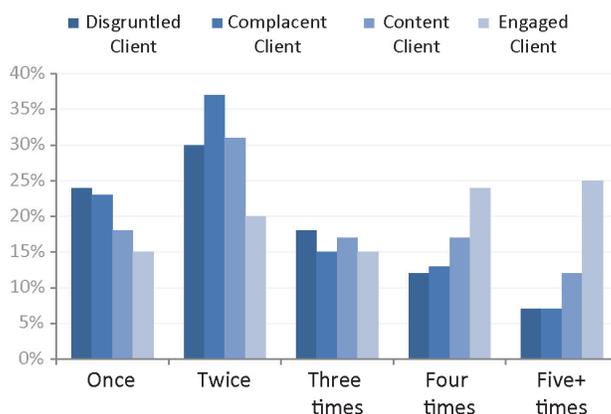
It is evident regulators have embraced regulatory reform vigorously and with the best of intentions, with their efforts aimed at strengthening market liquidity and investor confidence, particularly through better disclosure and rules for client dealings. An effective rulebook and vigilant regulators, however, will not prevent the next financial crisis, as past events have shown, nor will it alleviate the damaged confidence caused by the financial crisis. In particular, while market confidence can respond positively to improved regulations, notably better transparency, confidence will be influenced more by the behaviour and interaction between advisors and their clients. In fact, despite the flurry of rule-making, many clients of IIROC-regulated firms and brokers have remained steadily more confident and resilient in the face of market volatility and weak market performance than generally understood, and have taken advantage of timely investment advice in these difficult markets.

### Service Isn't Everything – It's the Only Thing

We need to know what drives client loyalty and how well firms are pursuing that goal. In a recent speech, Howard Grosfield, President of American Express Canada, stated: “It's not *sort of* about service or even *mainly* about service – it's *all* about service and the end-to-end customer experience.”

### Client Engagement

Q: How often did you meet with your advisor?



Source: The Economics of Loyalty Canada, Advisor Impact, 2011

We know member firms have responded positively to clients' increased demands for improved service and deeper relationships, reflecting competitive pressures in the wealth management industry. We also know that advisors, recognizing the potential risk of losing clients, are engaging more extensively than ever before – not just with clients but also with their spouses and other members of their family. This is especially important given statistics that indicate 80 per cent of widows shift to a new advisor after their spouse's death, often based on their children's advice.

Because the dynamics of client loyalty is so important to our members, the IIAC, in partnership with the research firm Advisor Impact, is conducting a detailed examination of the advisor-client relationship in the financial industry, an *Economics of Loyalty* survey. How do clients define the value of advice? What are client expectations related to service delivery? How important is financial planning to the advisory process and what should it entail? What factors cause clients to switch advisors? The survey will uncover what constitutes satisfaction, loyalty and engagement for today's client. It will also define the core drivers of engagement. It will determine the extent advisors are dealing with clients on a multi-generational basis, and how and when clients make advisor referrals.

The founder of Advisor Impact, Julie Littlechild, was named one of the 25 most influential people in the U.S. advisor community by Investment Advisor magazine in 2011 and 2012. Her firm has surveyed investors in Canada, the U.S. and the U.K. as part of her "economics of loyalty" research.

### How the Survey Will Work

The IIAC and Advisor Impact will launch the study in September, surveying 1,200 investors who work with a financial advisor and contribute to the financial decisions in the household. The investor sample will be segmented by age, education, income, wealth, gender, investment knowledge and geographical region to enable in-depth analysis. The industry survey results will be released publicly in November.

The results of the client survey will test our hypothesis that advisors are adopting tactics to build deeper client relationships through proactive engagement to strengthen client confidence and take advantage of timely investment opportunities. The survey will provide insights on what clients expect from their advisor and how advisors are responding.

### How Firms Can Benchmark Against the Overall Industry Sample

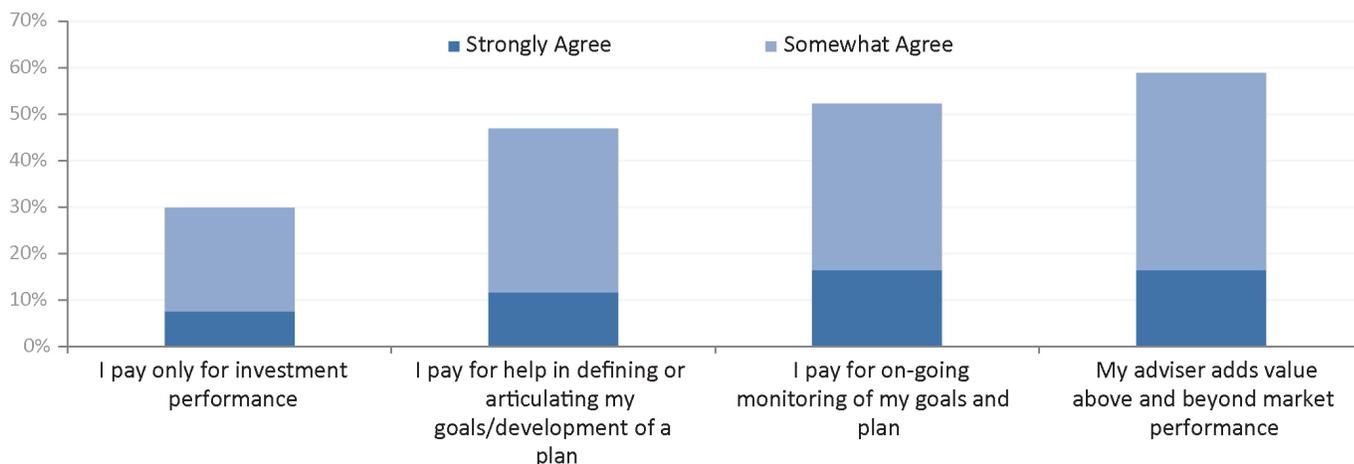
In tandem with this research project, individual firms will have the opportunity to benchmark against the industry sample by executing a similar survey of their clients, customized to assess the firm's effectiveness in delivering value of advice. These individual firm benchmark surveys will be conducted from October to December of this year. In the next several months we will be canvassing firms for their interest in participating in the benchmarking survey.

### What the Survey Will Tell Us

The industry survey will yield valuable information to the IIAC and our member firms. First, the survey will identify the expectations of consumers of financial advisory services, the factors that contribute to a more engaged relationship, and the benefits of deeper, more engaged relationships. This will give firms the necessary information to develop tactics and strategies to compete more effectively in the wealth management business – in terms of retaining existing clients, giving clients greater confidence to participate more actively in markets and benefitting from client referrals to build business. Second, the survey will provide the IIAC and member firms and investment advisors with the information needed to precisely articulate the specific value delivered to clients.

*“The survey results will make it clear that the engaged client-advisor relationship is not just about providing advice on a specific financial transaction or managing a client portfolio. In an engaged relationship the advisor is the fulcrum of the client's financial decision-making.”*

### Value Beyond Investment Performance



Source: The Economics of Loyalty Canada, Advisor Impact, 2011

The advisor is at the epicenter of the client's financial life – building the financial plan, designing investment strategy and execution, overseeing other professionals such as lawyers and accountants to meet financial objectives, and addressing needs for the client's family, across generations.

The costs of financial advice are often the focus of discussion and debate in the media. However, constructive debate about cost, to be credible, must take into consideration the value of the advisory service provided. The survey will shed unique light and important detailed information on the services advisors provide and the value of these services to the client.

Yours sincerely,

A handwritten signature in black ink, appearing to read "Ian C. W. Russell". The signature is fluid and cursive, with a long horizontal stroke extending to the right.

Ian C. W. Russell, FCSI  
President & CEO, IIAC  
August 2012