



The Wealth Management Business in the United States: Improving the quality of financial advice when it is most needed

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Since the financial crisis the wealth management business in both the United States and Canada has made enormous strides -- improving business practices, meeting higher regulatory standards for disclosure, transparency and proficiency, identifying new products and investment strategies, and adopting new financial and estate planning tools and techniques. The priority business objective is now to harness this increased professionalism and technology to meet evolving client demand and build successful multi-generational advisory businesses.

The annual SIFMA private client conference provided a timely opportunity to review the broad themes influencing the wealth management business in U.S. capital markets and gain insights on the challenges and opportunities unfolding in the business, the competitive positioning of large and small firms, and adjustments to business models in response to changing demand. Despite the smaller scale of the retail business in Canada, and greater concentration in the industry, Canadian firms confront similar demographic and technology trends, and face the same business opportunities and challenges.

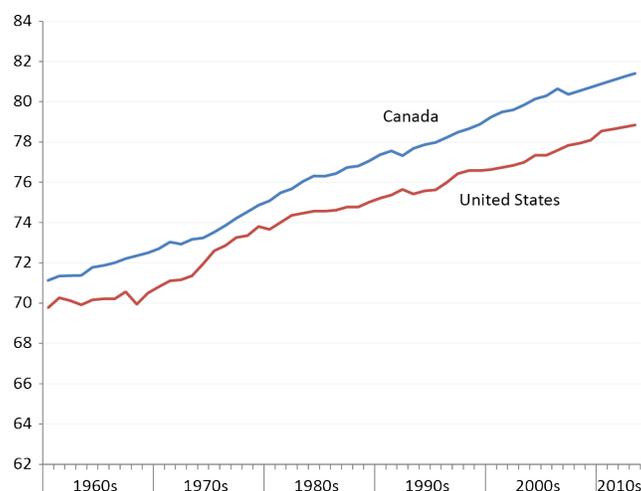
Dealing with shifting demographics, growing client demand and aggressive regulation

In recent years, four broad trends have influenced business conditions and performance, and forced adjustment in wealth management practices and business models.

1. Demographic patterns among the investing public are changing dramatically, reflected in the aging baby boomer -- the biggest and wealthiest cohort -- the rapid emergence of the millennial investor into the earnings mainstream, and the widening diversity in investor profile, notably the growing dominance of women in the investing process, now leading nearly half of U.S. households. Advisors and firms are responding with greater sensitivity and customization in the delivery of financial advice, and employing professionals that match the diversity of their clientele. Women professionals are now taking centre

stage among advisors and management in the securities industry.

Life Expectancy at Birth



Source: World Bank

2. Firms are responding to growing client demand for greater flexibility to connect with their advisors, anticipating the robust application of technology to deliver products, provide financial statements and communicate at client initiative outside conventional working hours. Clients expect interactive communication with their advisors on a 24-7 basis, not unlike other Internet service providers like Amazon, Google and Trip Advisor. Advisors and clients see frequent communication via email, mobile device and social media as the means of building needed relationships to guide clients through complex and volatile markets to achieve their financial and life objectives. While the key challenge for advisors is communicating with tech-savvy millennial investors, many aging investors have adapted effectively to modern technology requiring advisors to step up the

application of communication technology to all clients.

3. Clients are living longer. This longevity increases the complexity of the financial planning process and investment decision-making, requiring high yielding investments in a world of zero interest rates as well as effective balance between ongoing asset accumulation and income-generating investments to meet cash needs, a balance tailored for the personalized phased-in retirement of many clients.
4. Government and regulators have intervened more aggressively in the wealth management business than ever before. Reform has moved at a faster pace in the U.S. in response to the more serious collapse in investor confidence brought on by the financial crisis. The risk for the industry in both countries is that regulators fail to effectively balance investor protection and interfere with the efficient and cost-effective delivery of financial products and advice. The top priority for regulators in the United States is implementation of a uniform fiduciary standard for advisors, a requirement of the Dodd-Frank legislation. The U.S. industry is working collaboratively and constructively with the SEC and the Department of Labor to find an outcome that deals with the inherent conflicts in the advisory business and yet avoids interfering with investor choice or adding client costs.

Opportunities – and how firms are taking advantage of them

The U.S. wealth management business sees enormous business opportunities on the horizon. The baby-boom generation has accumulated record financial assets throughout an extended period of savings and investment. This cohort, the largest in the industry, is now on the verge of retirement, or has already embarked on it, demanding sophisticated financial and estate tax planning to manage phased retirement plans, finance education for children, meet health-care demands of an elderly parent, arrange for the inter-generational transfer of wealth and meet their philanthropic interests.

At the same time, the industry has built out a substantial and sophisticated wealth management infrastructure, from financial and estate planning tools, to sophisticated management structures, such as regional complexes, to oversee branch managers and advisors, emphasize coaching and modern management techniques, ensure good compliance practices and push professionalism deep into the organization.

Moreover, the industry is at the fulcrum of the investor and the capital needs of government and corporations. Large and small firms alike are engaged in the origination and distribution of new securities and market-making of debt securities for retail and institutional clients. The retail marketplace is an active participant in state and municipal bonds, and in debt and equity securities for small and mid-sized businesses.

Leveraging technology

Over the past seven years the U.S. securities industry has invested extensively in technology to facilitate financial and

estate planning, improve securities clearing and record keeping. The carrying brokers in the industry have provided a wide range of sophisticated technology to assist smaller firms compensate for scale and compete effectively for wealth management services. The industry has also leveraged existing technology to improve communication with existing clients and aggressively build out the next generation of millennial investors.

The general view at the conference is that the industry challenge in coming years will be to leverage investments in the professional practice and in technology to expand business with existing and new clientele. Restoring client trust and confidence has always been a consistent priority for the U.S. industry, which recognizes trust and confidence reached rock-bottom seven years ago. While much progress has been made across the industry, both in building investor confidence and business efficiencies, technology and advisory practices now offer the opportunity to deepen and strengthen further existing client relationships through real-time contact with the advisor, broaden relationships with other baby-boomers and connect with the next generation of investors.

The business approach will focus on:

- i. Exploiting existing technology including mobile phone apps and the use of social media;
- ii. Proactively coaching advisors to improve productivity through identifying competitive advantage, building scale and designing marketing plans;
- iii. Adapting sophisticated planning tools and techniques to identify financial objectives and to map progress in reaching financial and life objectives;
- iv. Providing online advice as a complement to conventional advisory services. For example, online advice can provide smaller clients with limited portfolio size and fee income with cost-effective financial planning and investment choices through online investment allocation and portfolio re-balancing.

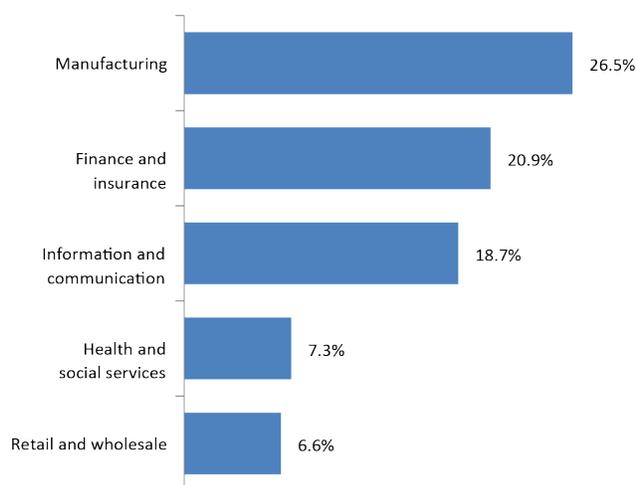
Dealing with the evolving cyber threat

A quickly emerging threat to the wealth management business is the risk of cyber attack on individual firm infrastructure. The frequency and seriousness of cyber attack has increased dramatically in recent years, prompting a priority effort by SIFMA. Client funds, confidential client information and access to trading algorithms are vulnerable to computer hacking. SIFMA has developed a four-point program of defense and industry coordination against the cyber threat: i) increase firm awareness of the seriousness of real-time cyber threats and its global dimension, ii) improve information sharing among firms about real-time threats and remedial action in the event of security breaches, iii) develop industry best practices for risk controls over secure assets, and iv) put in place protocols and practices for industry notification and recovery through contingency plans in the event of hacking.

SIFMA encourages member firms to consider the cyber threat a systems risk control problem, not an IT issue. Comprehensive risk controls should cover controlled access to confidential client

information and proprietary trading systems, proper third-party testing and business continuity plans in the event of security breaches. SIFMA has offered a free subscription for smaller firms to access the cyber security platform FS-IASC, a non-profit organization that provides firms with real time detailed information on cyber attacks, the various institutional responses to attacks and access to analysts to assist firms manage cyber threat controls and deal with possible penetration of IT systems. The IIAC will provide a similar subscription for our small firms (assets less than \$1 billion).

Cyber Attacks by Industry



Source: IBM

Implementing a uniform standard of care

The U.S. wealth management industry has not made much headway on the implementation of a uniform standard of care for brokers and investment advisors in providing personalized financial advice, a central plank of Dodd Frank. The SEC is still examining the merits of a rule that can meet a fiduciary interest and properly address conflicts in brokerage accounts and enable dealing as a principal for distribution of new issue securities and debt securities from firm inventory. The industry has argued that restrictions on principal dealings in capital markets could impair retail participation in state and municipal debt securities and corporate debt securities, interfering in the capital-raising for small business.

The Department of Labor has just issued extensive details of its revised proposal for a fiduciary standard for the investment industry. The new rule re-write would appear to permit the charging of a transaction fee in certain cases, subject to

written statement the advisor is acting in the client's fiduciary best interest. The industry will be scrutinizing the extensive department rule carefully and engaging constructively with government officials. The industry has been successful in convincing Congress that the fiduciary standard must be designed to avoid the unintended consequences of limiting choice or raising transactional costs for investors.

Conclusion: Progress since 2008

Substantial investment has been made in the U.S. wealth management business in the seven years since the financial crash in 2008. The increased professionalism, new financial planning tools and techniques, the application of technology for front and back-office operations, and higher standards of disclosure and transparency have strengthened the quality of investment advice for all investors, at a time when good advice is most needed, given increased volatility in capital markets, an uncertain outlook and prevailing low interest rates. The industry is well positioned to exploit these improvements to the advisory business and deliver cost-effective and high quality professional advice to existing and new clientele.

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Yours sincerely,

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 President & CEO, IIAC
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