INVESTMENT INDUSTRY ASSOCIATION OF CANADA
ASSOCIATION CANADIENNE DU COMMERCE DES VALEURS MOBILIÈRES

# LETTER FROM THE PRESIDENT

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## Keeping Track of Change: Evolving Trends in the Wealth Management Business

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HIGHLIGHTS:

Investors and clients are placing greater emphasis on an interactive, comprehensive relationship with their financial advisor.

Women represent an important and growing component of the wealth management business. Failure to adapt to this reality will have significant bearing on business success.

There is a shift in investor preference to new types of indexed products.

Firms are adding millennial advisors to advisory teams to cater to millennial investors.

Brand loyalty is less entrenched and more transient than ever.

Demand in the U.S. market for greater transparency of products and services, and the related fees and charges.

The 2016 Private Client Conference—the flagship event of the U.S. Securities Industry and Financial Managers Association (SIFMA) for over 30 years—focused on five ongoing and emerging industry trends. These trends, taken together, define the future course of the wealth management business in America, and paint a picture of the shape of the business 10-20 years from now.

Drawing speakers and panelists from among the leaders of the wealth management business in the United States, and delegates from the ranks of senior executives at the large and small retail firms across the country, the conference offered differing perspectives on client relationships, customization of client services, client demands for new types of investments, shifting brand loyalty, and the demand for greater transparency.

**A virtuous cycle: Client relationships and financial planning**

The first trend in the wealth management business is that investors and clients are placing greater emphasis on an interactive, comprehensive relationship with their financial advisor. At the same time investors—many on the verge of significant lifestyle change, such as retirement—recognize a detailed financial plan, or roadmap, is needed more than ever to guide their savings and investing and achieve their long-term objectives. Clients look to their financial advisor to collaborate on a customized detailed financial plan framing their financial goals and risk tolerance. A good plan defines goals and objectives both in financial terms, and in fundamental and visceral terms—how the financial results translate into tangible objectives: Will I have enough money to retire and maintain my lifestyle? Will I have sufficient funds to meet known and unknown healthcare needs? Will I have enough money to meet my philanthropic objectives? As the baby-boomer generation transitions into pre- and full retirement, these questions and others resonate with the client and a financial plan has to provide a path to the right result.

Integral to a comprehensive financial plan is periodic review of the plan's performance and ongoing adjustments for changes in financial objectives and risk tolerance. Advisors recognize a financial plan and related interaction with the client on the plan's assumptions and performance are self-reinforcing, forging a stronger client-advisor relationship. Through this process the advisor moves to the fulcrum of the client's financial decision-making. The client benefits and so does the advisor and firm.

**What clients want: Value and personal service—supported by technology**

The second trend in the retail business is that investors and clients demand financial services customized to their needs, and expect to obtain these services at fair value. At the same time, clients want user-friendly access to technology to monitor their financial statements, communicate with their advisor and execute transactions. Investors are pushing for a higher standard of advice and personalized service, and are increasingly value-conscious in their search.

The onus is on the advisor and firm to deliver these needed financial services, notably financial planning and estate and tax planning, anchored in a sound client-advisor relationship. Advisors and firms must have a good knowledge of the changing complexion of the retail business to design and tailor the right products and services, and achieve the right level of comfort with the client. This means advisors and firms must be sensitive to the growing diversity of clientele. In particular, women represent an important and growing component of the wealth management business, often an understated fact in the business. The failure to adapt to this reality will have significant bearing on business success. Surveys in the U.S. market indicate that women aged 30-39 now account for the majority of household decision-making in that age group while women 70+ control the majority of accumulated wealth. Surveys also show most women are more comfortable dealing with a woman advisor. It should not be a surprise, therefore, that the wealth management business has placed a top priority on recruiting female advisors and promoting women leaders in the retail business. For the same reasons, the recruitment and training of advisors from minority groups has expanded to meet the financial needs of a diversified clientele.

IN THE UNITED STATES, WOMEN CONTROL **$11.2 TRILLION**, OR **39%** OF THE NATION'S INVESTABLE ASSETS, AS DECISION MAKERS – NOT JUST INFLUENCERS

Source: Centre for Talent Innovation; "Harnessing the Power of the Purse: Female Investors and Global Opportunities for Growth."

The other major change influencing delivery of financial advice and related services is the evolving profile of the aging baby boomer, transitioning into pre-retirement or full retirement, and the millennial generation steadily building earnings power and wealth. Firms must understand the distinct and different profiles of these generational groupings to deliver appropriate financial advice and services, and the necessary technology demanded by these client segments. For the aging baby boomer, the financial plan is key as the client shifts from asset accumulation to a mix of accumulation and distribution. In an environment of low interest rates, financial plans will be monitored closely and recalibrated often to adjust financial goals, moderate lifestyle to boost savings, and adjust risk tolerances. A focus with the baby boomer generation is to extend the client-advisor relationship across the family generations to plan for the estimated $40 trillion in wealth transfer from the baby boomers to the millennials over the next 30-40 years.

ESTIMATED **$40 TRILLION** WEALTH TRANSFER IN THE UNITED STATES OVER THE NEXT 30-40 YEARS

For the millennial investor, the focus is a relationship that delivers the right mix of financial services. As said frequently, the millennial investor has different priorities: less capacity to save and invest because of limited earnings power and high debt load; is highly value conscious, skeptical of the investment process, and sensitive to the diversity agenda; and is inclined to socially responsible investing. Firms are adding millennial advisors to advisory teams to cater to these millennial investors. The aging advisor, often with declining production, presents an opportunity to combine young advisors with these older advisors into teams to facilitate advisor transition, boost production and target the millennial generation. The firms providing direction and tools to assist both advisor groups improve their game, with the added stimulus of reaching out to millennial investors through the younger advisors on the team. Firms also encourage discussions among the different generations among the existing client base to facilitate the financial planning process and bring the millennial investor into the firm.

Clients want personalized financial advice delivered at value, but they also demand access to technology to assist them in monitoring their portfolios and making investment decisions. This is obvious for the millennial investor conversant and savvy with technology, particularly mobile apps for accessing accounts and statements, and communicating with the advisor. Millennials also want access to technology for trade execution and robo-investing. But the baby boomer wants similar access to technology. The over-65 generation uses the internet regularly. These investors want the same user-friendly and cost-effective access to their financial accounts, and to their advisor, and for self-directed trading and robo-investing. This technology access should be no more complicated than dealing on Amazon.com and TripAdvisor.ca.

**Client demand for indexed products**

The third trend is the steady shift in investor preference to new types of indexed products, investments for their own portfolios and within third party wrap accounts— passively managed robo-type portfolios or actively managed portfolios of indexed products. The appeal is the relative simplicity of the indexed product, the lower cost and the greater predictability of the results. These factors explain why robo-investing is popular with sophisticated investors, as well as investors with modest-sized portfolios. The securities industry in the U.S. views robo-investing as an important complementary financial service to discretionary managed portfolios and fee-based advisory accounts, for the full cross-section of clients.

**Brand loyalty – more transient than ever**

The fourth trend in the retail business is that brand loyalty is less entrenched and more transient than ever before. Informed clients will search for an alternative provider of customized and well-valued financial services, if dissatisfied with the product and service suite at their firm, or if it is difficult to determine the value proposition for financial services. As financial services and the related fees and charges become more transparent in the marketplace, the shift of client assets and accounts to competing firms will become more frequent.

**Transparency of products and services, and fees charged**

The fifth trend in the U.S. industry is a demand for greater transparency of products and services, and the related fees and charges. This demand for greater transparency and clarity will become a growing reality in the U.S. markets whatever form the new U.S. Department of Labor fiduciary standard takes. Clients expect this increased disclosure to make judgments on the value of offered financial service and assess performance results, and, if necessary, shift accounts elsewhere.

The implementation of the CRM rule framework in Canada later this year puts the Canadian wealth management business ahead of the U.S. in terms of mandated information on client investments. The likelihood of similar erosion in brand loyalty in Canada means greater incidence of client shifts in accounts across firms in the industry.

**Conclusion**

The wealth management business in the U.S. (and elsewhere) has evolved in recent years into a challenging business. The mix of clients and their demands for financial services is increasingly complex. The products and services demanded by the baby boomer generation have changed and become more challenging as the baby boomers move into pre-retirement and full retirement. The low interest environment makes it difficult to find adequate return without taking on more risk, just at the time risk tolerance should diminish and suitability requirements are under more intense regulatory scrutiny. Firms must pay close attention to the diversity agenda and increase the role and prominence of professional women in the firm, as women enhance their growing profile in the workforce and elderly women inherit existing portfolios and control the majority of retail financial assets.

Similarly, the millennial investors have become increasingly important, but with different needs. Firms must adapt financial services to cater to this expanding opportunity with millennial clients, often heavily indebted with limited savings power, skeptical of the investing process, tech-savvy and sensitive to the diversity agenda.

Despite the complexity of financial products and services, the differing profile of investing clientele, and the overarching impact of an ageing baby boomer generation and growing profile of women in the business, the five trends identified in this letter apply fairly consistently across all client segments of the wealth management business. While products and services differ significantly across client segments, responding to the five fundamental trends will facilitate success. The Canadian dealers have a competitive advantage over their U.S. counterparts, with full compliance with the CRM rule framework that imposes transparency on the investing process, products, fees and portfolio performance, and strengthens the conflict of interest and suitability obligations of the advisor.

Yours sincerely,

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