[Market Mover]

WHY FEES WILL GO UP

Ian Russell, CEO, Investment Industry Association of Canada on the real upshot of technological and regulatory change

Advisers and managers will move up the value chain rather than compete with robots, Russell says

IF THERE'S ANYONE who knows just how much the finance industry has changed over the years, it's Ian Russell. When Russell, president and CEO of the Investment Industry Association of Canada (IIAC), got his start 30 years ago, there were hundreds of small investment firms, fees were rarely discussed and there was no such thing as Internet-based investing.

Times have changed. Perhaps the biggest difference between 2006, when he was senior vice-president at the Investment Dealers Association of Canada (a predecessor to the IIAC), and today is the demand for lower fees. With the rise of low-fee alternatives such as discount brokerages, exchange-traded funds (ETFs) and robo-advisers, clients are wondering why advisers and active managers charge so much.

Many industry watchers think fees will continue to fall, but not Russell, who spent the first six years of his career at the Bank of Canada and then edited *The Bank Credit Analyst*, a trade publication. He believes fees will actually rise over the next few years. Why? Because investment firms' costs keep rising; regulatory compliance is costlier than ever, companies are investing in technology and clients are demanding more services, such as legal, mortgage and estate planning. And while some companies can afford to drop fees in today's long bull market, a downturn could force them to hold the line. "As long as the cost side of the business continues to move up, you're going to see pressure [on margins], especially if markets move sideways," he says. "It's inevitable that you will see some upward move in fees and charges."

One consequence of the rise in ETFs, which this year surpassed $100 billion in assets in Canada, is the pressure for active mangers to show their worth. So-called closet index funds will struggle going forward; people have become wiser to the fact that they can pay a fraction of the management expense ratio for an S&P 500 ETF versus a U.S. equity mutual fund. Russell says managers will offer more alternative investments, whether that's real estate, infrastructure or private-equity-like instruments, in order to differentiate themselves.

Another change he's seen is the decline of the independent brokerage. "The industry was once small, private partnerships, and everyone was very entrepreneurial and intensely competitive," he says. "Now the industry is divided among large financial groups." Russell isn't lamenting the loss, though. He thinks the more rigorous regulatory system has made the markets fairer and more transparent, yet investors still have a lot of product choice. Many of the small dealers of yore would sell speculative offerings, he says. "Canadians are focusing less on risky investments and more on discretionary managed business," such as financial and estate planning, he says. "As people age, you see this shift away from speculative investments and this move to larger firms that offer a wider array of services."

Technology will continue to drive change. More advisers will target high-net-worth clients and end service to small account holders, he says. "With all the costs coming into the business, it's difficult to take a client who doesn't have north of $100,000," he says. For advisers who do want smaller clients, though, robo-advisors will come in handy. The technology can oversee clients' portfolios, giving the adviser a free hand to focus on financial planning.

This is indeed what's been happening down south, says Russell. "If you look to the States, the investment industry has wholeheartedly embraced [automation] for its more conventional clients." In another 10 years, he says, "the industry's structure is going to look quite different than it does today."

–BRYAN BORZYKOWSKI

> **"It's inevitable that you will see some upward movement in fees and charges"**