THE CHANGING FACE OF THE WEALTH MANAGEMENT BUSINESS

IAN RUSSELL | Significant demographic shifts require the industry to evolve

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There has been an unprecedented increase in savings and accumulation of financial assets in the 10 years since the financial crisis, buoyed by the tailwind of a bull market. Much of the increase in savings has been channelled into the investment industry by baby boomers to build retirement nest eggs. Client financial assets held by investment dealers vaulted 85 per cent since 2009, reaching $1.6 billion in 2017. Revenue earned from retail operations virtually doubled in the period, accounting for almost two-thirds of total firm revenue, up from a roughly 50 per cent share in 2008-09.

While the consensus is for a positive outlook for the wealth management business, it masks an undercurrent of change driven by stiff competition, fee compression, regulatory obligations, evolving investor needs and preferences, and applications of new technologies. In this environment, industry operating costs have escalated, and margins have been squeezed. Further, there is no end in sight to rising costs.

How do wealth-focused investment dealers position themselves for a new phase of growth and profitability?

First, they need a solid understanding of emerging client bases, including millennials and women, and their needs, preferences and behaviours.

Second, they need to assess and invest in emerging technologies and analytics – "big data," artificial intelligence, robotic process automation and blockchain – that are at the cusp of transforming the wealth management business and can improve productivity and the adviser-client experience.

Third, and most importantly, they must not lose sight of the adviser.

Millennials (individuals born between 1980 and 2000) account for the largest share of Canada's population. They will receive the greatest transfer of inherited wealth ever. The financial crisis has made members of this generation relatively cautious when it comes to investing. They are not as financially knowledgeable as previous generations, they hope to achieve life goals at the same age their parents did, they demand greater transparency in fees and they are increasingly demanding socially and environmentally responsible investments. But what distinguishes this group more than any other is that they grew up with technology and have often been called digital natives. Consequently, they are quick to use technology and online platforms to obtain and use financial advice. Yet they also value face-to-face advice. When it comes to wealth management, they want both. In other words, access to hybrid advice models.

Women are fast becoming an important client segment for wealth-focused investment dealers, with unique needs and preferences. According to Investor Economics Inc., by 2026, women in Canada will account for about half of all accumulated financial wealth. Their financial needs and objectives, attitudes towards risk and willingness to plan and engage with professional advisers are generally different from those of men. Research shows that women prefer human interaction. Face-to-face advice takes precedence over investment products. They want advisers to understand their life goals – getting married, buying a house, paying for children's education, funding retirement – and how to attain them. Achieving personal goals is more important than investment performance. They are open to digital platforms.

These trends demand a new business model – one that provides holistic advice, access to an array of customized products and services, tools and software, and an integrated multi-channel experience.

The adviser-client relationship becomes central and key to a firm's competitiveness. Dealers need to focus on promoting professional accreditation, training in specialized financial products and services, and techniques for effective client communication. Meeting the expanding and evolving needs of the client can be realized only if the adviser can understand, identify and articulate the utility of financial products and services to the client.

Dealers need to retain high performers and recruit and integrate younger advisers and women advisers into teams to transition from older advisers, many of whom are approaching retirement age. The transfer of wealth from baby boomers to their children will upset many established adviser-client relationships, and this must be managed well.

Regulators have an important role to play. First, the existing proficiency standards for advisors need to be updated. Second, regulators should recognize existing rules and requirements can interfere with advisers carrying out their responsibilities across an integrated wealth platform. Registration requirements should be streamlined and legal barriers removed so that advisers have the scope to meet the needs of their clients. Finally, while new rules should encourage best-interest, client-first conduct, care should be taken not to obstruct the flexibility of advisers.

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