

Financial Advice and New Products, New Technologies and New Regulations

Opening keynote – Colloque Retraite, Investissement & Finances

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What advice really is

Investment Management

α Alpha

- Stock picking or mutual fund selection:
 - Which stocks?
 - Which funds?
- Market timing

Investment Policy

β Beta

- Asset allocation:
 - How much exposure to which markets?
 - How much local vs international assets?
- Investment style:
 - Active or passive management?
 - Suitability of investment to risk profile

Investment Behavior

γ Gamma

- Incentive to save:
 - Start saving
 - How much to save
 - Staying the course
- How best to save
 - How to take advantage of fiscal incentives
 - Best product structures

SOURCE: Morningstar: "Alpha, Beta, and Now... Gamma", 2012

Financial advice generates positive societal impacts

- ▶ **Better preparation for retirement**
 - ▶ Individual savings play an important role in our Canadian retirement system
- ▶ **Better financial well-being**
 - ▶ Positive impact on work attendance and health
- ▶ **Higher national savings rate**
 - ▶ Promoting investment, productivity, the growth of our economy, and domestic control of our businesses
- ▶ **Intergenerational transfer of assets**
 - ▶ Phenomenon poised to increase considerably in Canada

The new world of financial advice

- 1. Perception that the individual investor is getting a bad deal**
- 2. Technological advances in all aspects of the investment process**
- 3. Regulators very determined to take wide-ranging action**

1. Perception that the individual investor is getting a bad deal

- ▶ **Individual investors and their financial advisors**
 - ▶ Advisory services are said to be rather expensive and of varying quality
 - ▶ Alleged lack of transparency regarding the cost of services and the qualifications of advisors
 - ▶ Conflicts of interest?
- ▶ **Macroeconomic context**
 - ▶ Expected returns on financial assets...
 - ▶ ... vs the level of fees for financial advice
- ▶ **Concerns and confusion of the individual investor**

2. Technological advances in all aspects of the investment process

- ▶ **Products, portfolio, analysis**
 - ▶ ETFs, intelligent « beta » portfolios, quantitative approaches
- ▶ **Technological management tools**
 - ▶ Yodlee, Glidepath Portfolio Services, Wealthsimple for Advisors, Nest Wealth Pro
- ▶ **Product and service distribution**
 - ▶ Disintermediation and connectivity
 - ▶ Client acquisition and onboarding in a few clicks

3. Regulators very determined to take wide-ranging action

An avalanche of reforms in support of the individual investor

- ▶ The genesis: the 2008 economic and financial crisis
 - ▶ Preventing the collapse of the financial system and stabilizing it
- ▶ Followed by the regulation of incentives that can lead to excesses
 - ▶ « Market conduct »
- ▶ Now a focus on supervising interactions between financial professionals and their clients
 - ▶ « Professional conduct »

« Professional Conduct »

Increased regulatory initiatives throughout the world

- ▶ **United Kingdom**
 - ▶ Retail Distribution Review (RDR, 2013)
- ▶ **Australia**
 - ▶ Pay structure regulations (2013)
- ▶ **United States**
 - ▶ Department of Labor Rule (2010, 2016)
 - ▶ Securities and Exchange Commission
- ▶ **European Union**
 - ▶ MiFID II (2018)
- ▶ **Canada**
 - ▶ CRM1 (2009), CRM2 (2013)
 - ▶ Point of sale disclosure (2014)
 - ▶ Carrying out a reflexion on:
 - ▶ Pay structure (embedded commissions)
 - ▶ Client's best interest standard

The industry's response

1. Increase our client focus

- ▶ and accelerate the implementation of measures to place the client at the centre of our business model

2. Request a pause

- ▶ in order to complete our adaptation to this new world; and
- ▶ explore, along with regulators, how to implement the principles that will protect our clients while preserving access to financial advice

Increase our client focus

- ▶ Improve the cost-benefit ratio for the client
- ▶ Improve the transparency of advisory costs
 - ▶ CRM2
- ▶ Our collective responsibility: to properly police our industry
- ▶ Upgrade the training requirements for advisors to ensure the quality of financial advice
 - ▶ Already underway in Québec
- ▶ Defend our clients' rights to a range of choices in advisory services

A pause... to adjust and explore solutions

- ▶ Time needed to adjust to technological changes and new regulations
- ▶ Time needed to explore how to reconcile the principles of investor protection with the preservation of access to financial advice
 - ▶ Abolishing embedded commissions could have negative consequences on access to financial advice
 - ▶ Recent experience of New Zealand
 - ▶ Development of acceptable solutions

Conclusion:

An active dialogue

- ▶ **Ensure that the value of financial advice is recognized**
 - ▶ Raise awareness among political decision-makers about importance of preserving access to financial advice for all households, regardless of their level of income or initial assets
- ▶ **Ask for a moratorium on the implementation of new regulatory measures**
- ▶ **Explore, together with political decision-makers and regulators, ways to preserve access to financial advice while implementing principles to protect our clients**