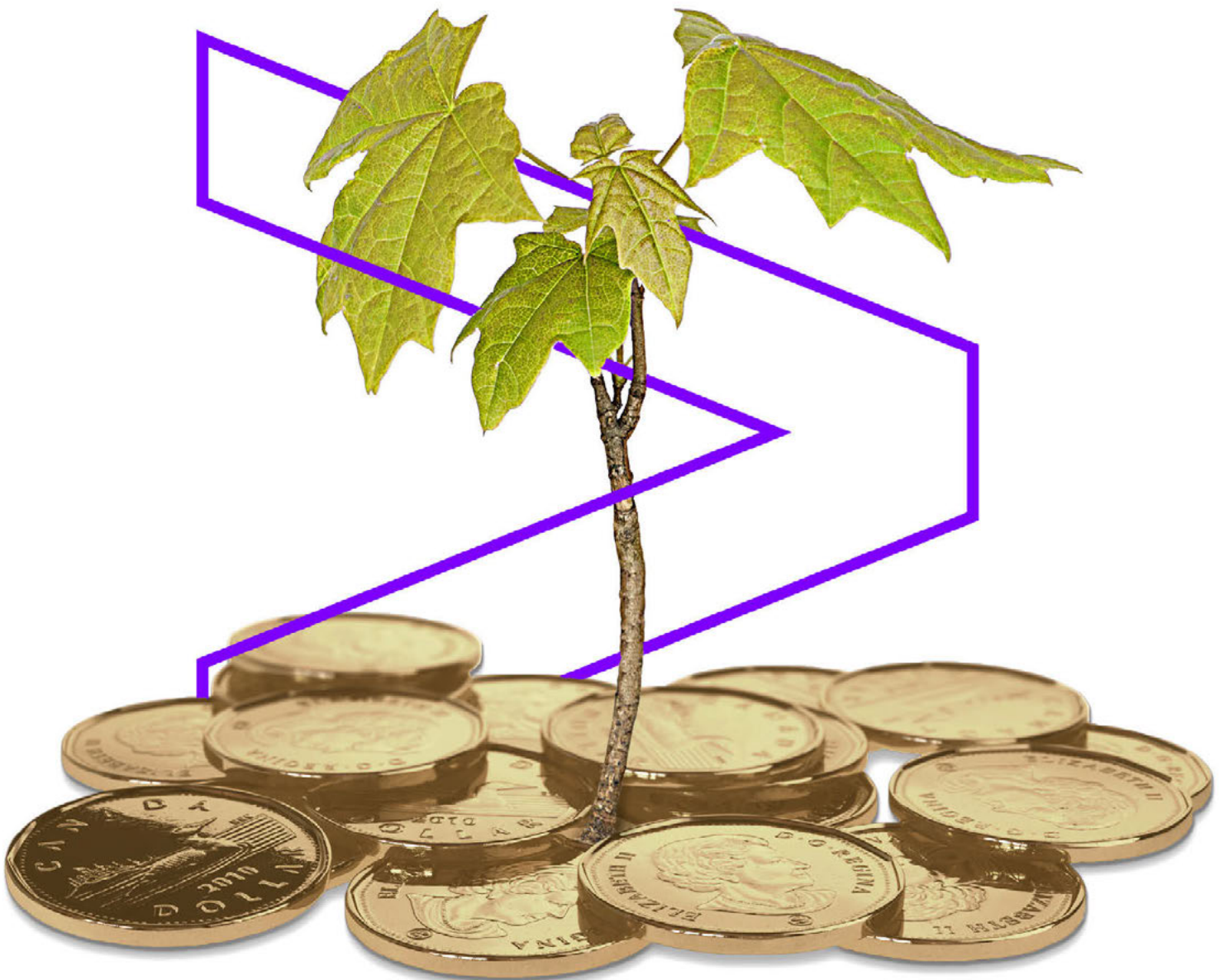


POWERING HYBRID ADVICE IN CANADA





CANADIAN INVESTORS,

typically conservative in their approach to wealth management, show an increasing openness to using technology to cut costs and maximize returns.

Cracks in the traditional wealth management value proposition are allowing companies offering technology investing platforms to make inroads with Canadian investors. According to our recent research on Canadian investors, four of 10 say they do not “get what they pay for” when using a traditional wealth advisor, leading investors to explore other options such as self-investing via robo-advice. And seven of 10 told Accenture they already use at least one digital tool or service when investing.

Canadians are not alone in this trend, but rather reflect what their counterparts in the United States are feeling (see “[The New Face of Wealth Management](#)”). Regulatory drivers opening the space for hybrid models continue to shift client expectations for transparency and low fees. A new set of rules from Canadian regulators, the Client Relationship Model – Phase 2 (CRM2),* has increased transparency to clients. But, at the same time, it erodes the value proposition for some high-fee advisors with clients who have lower asset bases and fairly simple advice needs.

One of the implications for wealth management firms doing business in Canada is that hybrid advice—combining humans and robots—could be a way forward. This is not only to retain current clients, but also to help develop relationships with digital natives just now coming into their own money. Offering clients the best of both worlds—the efficiency and algorithms of robo-advice and the human touch for more complex advisory situations—could be key to future success.

* http://www.iroc.ca/Documents/2015/aa5236f1-83e7-4b82-8564-28b2cd24f685_en.pdf

PROFILE OF CANADIAN INVESTORS

CONSERVATIVE

90%

do not consider themselves aggressive when investing

FOCUSED ON KEEPING MONEY SAFE

50%

view this as a priority

WANT COMFORTABLE RETIREMENT

63%

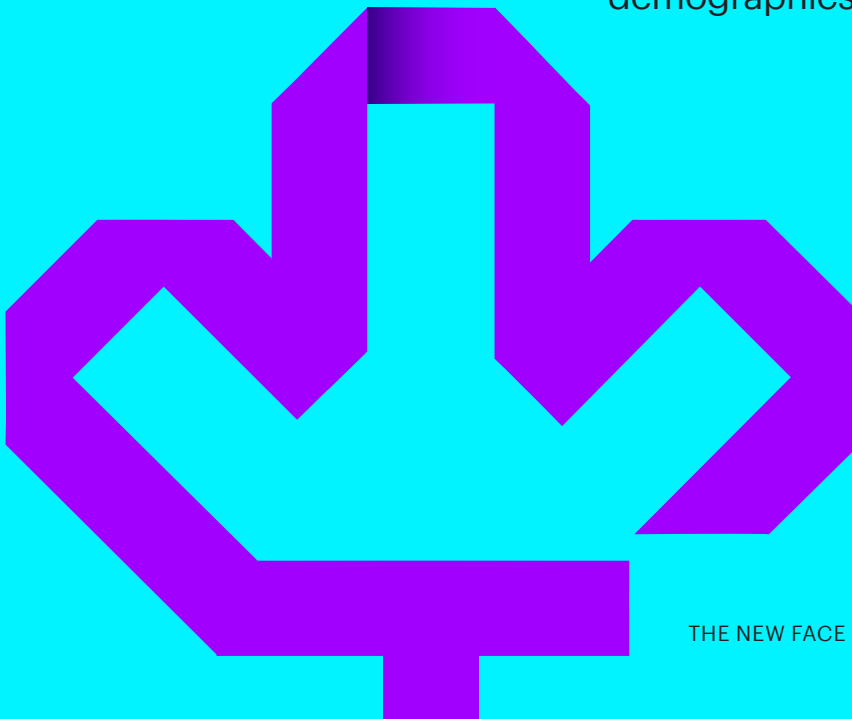
say retirement is a prime concern

COST CONSCIOUS

More so with age

49%

of Boomers are cautious about fees (**39%** across demographics)



HOW HYBRID ADVISING WORKS

Today's hybrid models are typically characterized by a digital platform used by the client alongside an advisor, brokerage, or robo-account that provides a periodic meeting with a Certified Financial Planner.

Looking ahead, hybrid models would likely do more than simply combine these elements—technology and human advice—under the same banner. Hybrid models, generally speaking, should allow for semi-dedicated relationships to exist with human validation of digital advice.

The capability for self-directed investing is already a major requirement to service Emerging Wealthy and High Net Worth investors. Considering clients' high expectations for digital tools, firms should not fear giving more control to their clients while emphasizing the role of advisors as decision validators. This could be a foundation for a highly-differentiated experience, enabling regular and continuous—rather than periodic—discussions with advisors. It could even enable firms to implement innovative business models. Advisors with a differentiated value proposition should still be able to demand high fees for their services.

According to our research, Canadians are slightly less cost conscious than investors in the United States—44 percent say they value a company that will save them time over a company that charges the lowest fees. (The same statistic is 55 percent in the United States) Fee structures that emphasize “pay-by-the-drink” options—either a flat rate coupled with extra fees for service options or a true “a la carte” model—appear to be popular with investors and could represent a natural fit for hybrid advice.

These fee options could also help alleviate investors' concerns over cost while improving transparency. In Canada, more than half of survey participants (53 percent) said they would prefer a flat fee with additional costs for add-ons. Only 17 percent preferred a commission-based model, while 29 percent preferred paying a percentage of assets under management.

HOW INVESTORS ARE SERVICED TODAY

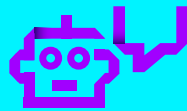
Accenture studied multiple advising scenarios (see below). While demographics such as age and net worth affect the perception of each model, we found that—across the board—investors responded best to a hybrid model.

CURRENT WEALTH ADVISORY MODELS



Traditional advice

Human advisors offering one-to-one, product-based counsel



Robo-advice

Algorithm-based platform provides advice based on client goals



Hybrid models

Clients have access to digital tools that facilitate self-investing, but also can tap into human advice on a periodic basis, or as necessary



DIGITAL IS CHANGING INVESTOR PERCEPTION

Canadian investors are split on whether wealth management advice is a specialized skill requiring human advisors or if it is something they could do for themselves with some training. While 48 percent consider it a special skill, 52 percent say anyone could match the performance of a professional given the right tools and training. This change in attitude may underlie investors' increasing willingness to use non-financial service companies—even technology companies like Google or Amazon—for financial advice (30 percent).

Wealthier investors are more likely to feel they can invest as well as their advisor, with half of \$650K+ bracket clients saying so. Just one of four investors with \$250K or less feel the same way.

As clients' comfort level with technology and robo-platforms increases, the definition of advice morphs. While robo-advice seems to be working for general advisement and wealth accumulation, many investors still prefer human advisors for situations that are nuanced and of higher complexity. These situations include wealth transfer after a death in the family, complex business interests, tax optimization, the transition to retirement, decumulation, and philanthropic plans. Not surprisingly then, more than half (58 percent) of Canadian investors feel human advisors provide the best customized advice.

CAPTURING MILLENNIAL INVESTORS

Millennials are, by far, the most digitally savvy investor group overall. And with their preference for digital interactions, they are bringing wealth management firms into a future rife with technology.

Millennials are likely to feel that some of the most cutting-edge technology tools would be basic requirements of a service offering, rather than a bell/whistle:



38%

OF MILLENNIALS SAID

Computer-generated recommendations (robo) should be a basic offering

(This is twice more than Boomers.)



45%

OF MILLENNIALS PREFER

A self-directed investment portal with advisor access

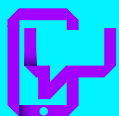


36%

OF MILLENNIALS FAVOR

Chat features for quick/real-time access

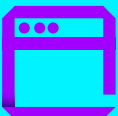
Millennials want even more sophisticated tools to help them with their investments.



45%

OF MILLENNIALS PREFER

A mobile platform that connects directly to advisors



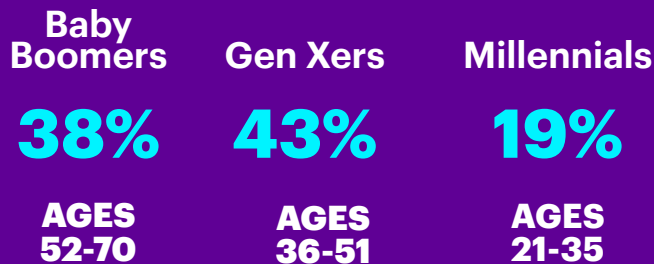
47%

OF MILLENNIALS WANT

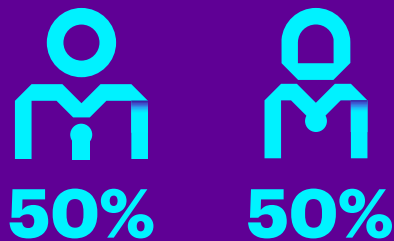
An app that enables tracking of transactions, payments, and other financial data in realtime

OUR SURVEY RESPONDENT PROFILE

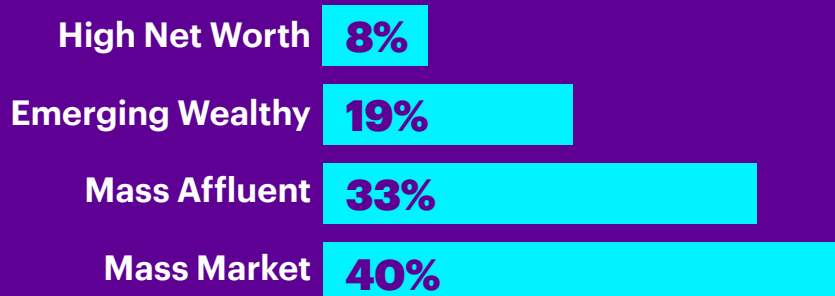
AGE GROUP



GENDER BALANCE



WEALTHY INVESTORS



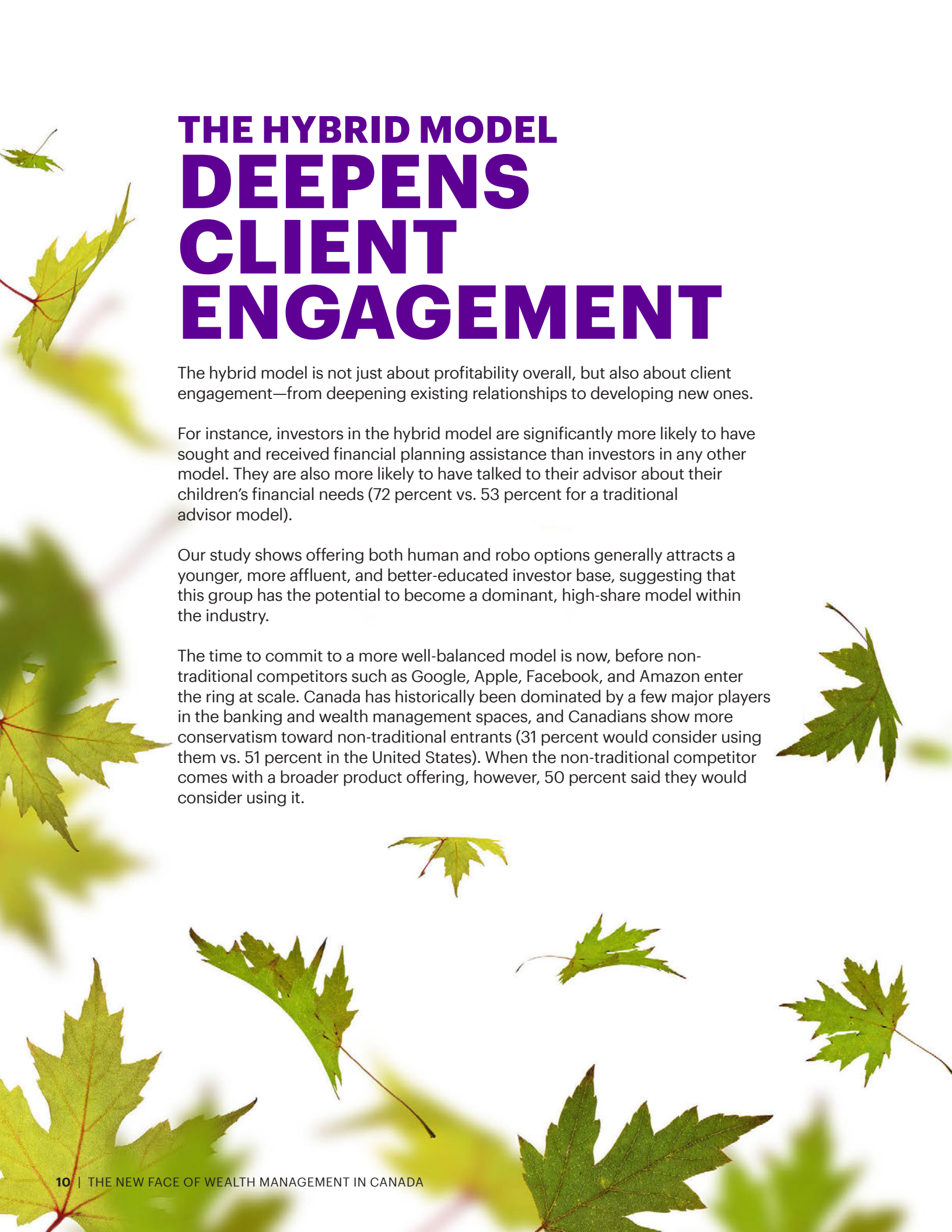
CLIENTS WANT THE FLEXIBILITY OF A HYBRID MODEL

While robo-platforms are gaining ground, Canadian investors indicate technology itself is not a reason to choose a firm. For example, only 16 percent say digital tools would now drive their selection of an advisor or firm. Just two years ago, half of all investors considered digital tools deal clinchers.

But this response does not mean firms should lag on technology; a lack of it will hurt them. Survey participants told us that if a firm does not have the right digital tools, it won't make their short list. With 65 percent of clients using basic digital tools such as account transactions and summaries, this is not surprising.

When dealing with issues that require a customized approach, however, investors still indicate they want the human touch. Six in 10 Canadian investors still prefer a human as a source for new wealth management ideas, while seven in 10 say humans give the best customized advice. Only six percent believe a robot could offer customized advice.





THE HYBRID MODEL DEEPENS CLIENT ENGAGEMENT

The hybrid model is not just about profitability overall, but also about client engagement—from deepening existing relationships to developing new ones.

For instance, investors in the hybrid model are significantly more likely to have sought and received financial planning assistance than investors in any other model. They are also more likely to have talked to their advisor about their children's financial needs (72 percent vs. 53 percent for a traditional advisor model).

Our study shows offering both human and robo options generally attracts a younger, more affluent, and better-educated investor base, suggesting that this group has the potential to become a dominant, high-share model within the industry.

The time to commit to a more well-balanced model is now, before non-traditional competitors such as Google, Apple, Facebook, and Amazon enter the ring at scale. Canada has historically been dominated by a few major players in the banking and wealth management spaces, and Canadians show more conservatism toward non-traditional entrants (31 percent would consider using them vs. 51 percent in the United States). When the non-traditional competitor comes with a broader product offering, however, 50 percent said they would consider using it.

NEXT STEPS

Wealth management firms should negotiate the mix of humans and robots now. Given the changing preferences of Canadian investors, as well as the rise of non-traditional competitors, wealth management firms should consider shifting resources to a hybrid model. A few key considerations as you begin:

- 1 Evolve your firm's current capabilities into the building blocks of a hybrid model.** Key questions include: What role will robots play? What about humans? What is the best pricing model?
- 2 Get serious about a digital platform.** Continuous innovation via digital tools is necessary to keep pace with the competition. Invest now to create a dynamic digital platform strategy.
- 3 Invest in digital talent.** The future wealth management workforce will likely consist of professionals who see technology as a trusted co-worker—and know how to enhance it to clients' advantage.
- 4 Develop a partner ecosystem that can support your hybrid model.** It is unlikely that a firm could do it alone. Leveraging an ecosystem that can bridge the gaps is essential to giving clients the experience they are looking for when investing.

Capitalizing on Canadian clients' increased willingness to embrace technology, and marrying it with the best traditional human advisors have to offer, could be the key to future wealth management success. Getting on board now could help maximize your firm's chances of leading the competitive pack.

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DEFINITION OF WEALTH TIERS

Investible assets, not including value of home:

Mass Market: <\$250K in investible assets

Mass Affluent: \$250K-\$650K

Emerging Wealthy: \$650K-\$1.5M

High Net Worth: \$1.5M-\$10M

Ultra High Net Worth: >\$10M

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