Sun Life | Consulting

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Industry Insights

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Opportunities arise for advisors with younger investors impacted by market downturn

Younger investors are more attracted to zero-commission online brokerages than older investors

A British Columbia Securities Commission survey found that investors between 18 and 35 are more confident in active trading than their older counterparts. They're also less trusting of investment professionals, choosing to source financial advice on social media instead. Hence, the zero-commission trading at certain online brokerages is popular for this group. However, market downturn had a greater impact on younger generations. Accounts of 25- to 34-year-old investors at online brokerages declined by 24.2% on average. So there's an opportunity for investment professionals to demonstrate the value they can provide in this situation.

Source: Investment Executive

Takeaway: Seize the opportunity to reach out to younger investors who've been impacted by the market downturn. Demonstrate the value of your in-person advice and offer some non-trading revenue lines or investment vehicles.

Market volatility has an impact on all client assets

You need to query clients about assets that they don't directly oversee

Takeaway: As an advisor, it's wise to collect details about all of the client's assets, to meet your know your client (KYC) obligations, before you deliver a business succession plan for the client to execute. You should also include contingencies in the estate planning process that are flexible enough to deal with challenging cash-flow-related matters.

A real-life example shows the negative impact of an advisor overlooking assets other than the client's business. They focused on designing a business succession plan, without thinking about how other compounding factors (life insurance, taxation, market downturn, etc.) could impact the family's wealth situation.

Source: Investment Executive

Planning for business succession is a key factor in ensuring a healthy small business community

More than $2 trillion in corporate assets will be transferred over the next 10 years

Over 76% of small business owners expect to sell their business within the next 10 years. Yet, only a fraction of them have a formal succession plan. The risks of not having a plan in place can be big. That's why it's important to understand the challenges they face in creating one. They struggle with:

1. Finding a qualified buyer or successor
2. Gauging the worth of their business
3. Being overly dependent on day-to-day operations

Source: Investment Executive

Takeaway: Advisors need to work with centres of influence (COIs), such as accountants and attorneys. This can help small business owners create a formal, holistic business succession plan to address challenges and concerns.

The Quebec Autorité des marchés financiers (AMF) is proposing a ban

Penalties against individuals and corporations

Takeaway: If you have clients in Quebec, stay informed on the proposed ban and its implications (i.e. $1,000 in administrative penalties and $5,000 for corporate offenders).

The AMF is proposing a ban on deferred sales charges on segregated funds sold within the province. If it pushes through, Quebec's regulation would prohibit insurers from charging clients within the province certain fees for:

- withdrawing or transferring seg funds or
- switching to another purchase option.

Source: Wealth Professional

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Recommending an ESG or Sustainable Investment Solution?

Walk the talk by reducing your carbon footprint

Some clients, particularly younger ones, feel strongly about supporting businesses that are pursuing sustainable practices.

You can start by calculating your carbon footprint. There are many calculators ranging from simple to complex that you can use:

- SME Climate Hub calculator,
- Cool Climate, and
- International Civil Aviation Organization (ICAO) Carbon Emissions Calculator.

Once you have calculated your carbon footprint for the past year, you can work to reduce it in 2023. Here are some ideas:

- Reduce energy use in your office
- Reduce emissions from commuting
- Reduce emissions from business travel

Source: Wealth Management

Takeaway: Even if emissions reduction isn't at the top of your business objectives, it's important to practice what you preach. Especially if you're recommending ESG or sustainable investment solutions to clients. Reducing emissions can help cut costs and boost your ability to share emissions reduction knowledge with clients.

Subtle yet dramatic changes happening in the wealth space

Trends that will shape the industry, moving forward

Some under-the-radar developments that will have a significant impact on your strategic planning in the coming years:

1. **Innovative technology platforms originating from asset managers**
   Expect to see an increase in technology innovations originating from asset managers as they look to better control and cement their leadership.

2. **Artificial intelligence**
   Early results of ChatGPT are turning heads. It's only a matter of time before tech innovators unleash its potential to transform how financial services will be developed and delivered.

3. **Marketing automation combined with personal selling skills**
   Advisor education programs that improve personal marketing approaches and selling skills will be in high demand to supplement advisor marketing automation technologies.

4. **Technology integration**
   A digital ecosystem with the flexibility to accomplish what advisors want in an elegant user interface — something intuitive that provides a unified client experience — is increasingly within reach.

Source: Think Advisor

Takeaway: Consider these industry-shaping developments as part of your strategic planning. They could potentially alter the direction of the financial industry.

Propel your business forward with valuegraphics

Go beyond demographics and understand clients and prospects on a deeper level

As part of a "values economy," where values drive decisions, it's important to understand the deeper "why." If you align your business strategy with these values, you open the door to selling to and supporting a wider range of clients and prospects.

Strategies from the past focus on collecting generalized demographics. They categorize people into binary buckets — male/female, young/old, educated/uneducated. Yet, if you dig a bit deeper you can find that Canadians, for example, value family and belonging. High-net-worth clients value a sense of personal responsibility. These valuegraphics, when combined with demographics, can help remove binary barriers and expand the potential of your business.

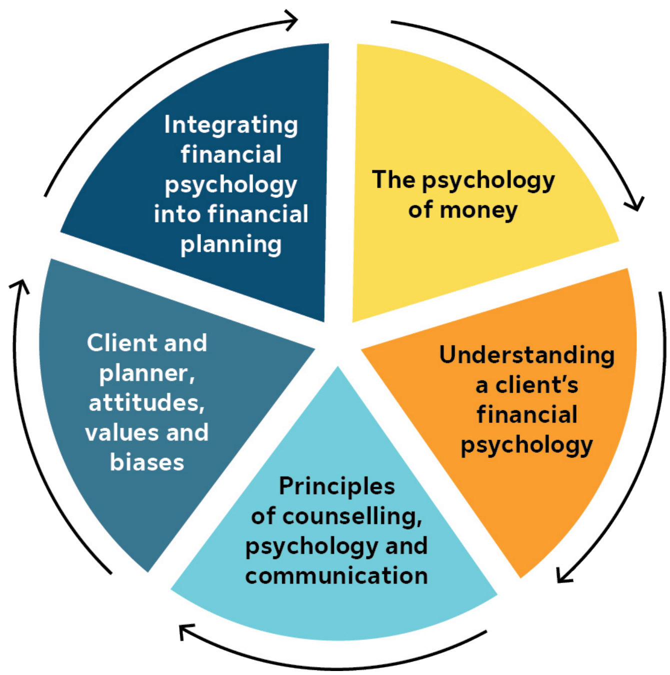
Source: [Wealth Professional]

Takeaway: Integrate valuegraphics and demographics to help you dig deeper and better align with ideal clients and prospects.

Consider behavioural finance during your fact-finding

A new paradigm in financial planning

Being a holistic advisor starts with your ability to understand the behaviour of clients. In 2021 the Certified Financial Planner (CFP) Board acknowledged that financial psychology is a key component of providing financial advice. They've even added it to the CFP exam curriculum, which includes:



1. Client and planner attitudes, values and biases
2. Behavioural finance
3. Sources of money conflict
4. Principles of counselling
5. General principles of effective communication
6. Crisis events with severe consequences

The financial planning profession adopted behavioural finance years ago, but with a focus on cognitive psychology. It helped advisors understand the reasons behind clients' financial decision-making. However, it didn't consider how life dynamics, behaviors or relationships factored in. The larger topic of the psychology of financial planning integrates these aspects. It gives advisors a more holistic understanding of individual clients and their circumstances.

Source: [Journal of Financial Planning]

Takeaway: Becoming well-versed in financial psychology means you're able to understand the reasons behind a client's financial decisions. It helps you tailor your advice around what motivates and encourages each person.

The good and bad of the current business climate

Factors affecting the financial services sector

Interest rates and inflation continue to rise, which are not favourable conditions for clients. Clients face tough decisions with their spending habits and insurance isn't always a top priority.

When meeting with clients, review their current investments and what solutions your product recommendations can provide, based on their needs and the current financial climate.

For larger companies, this climate is beneficial. For life insurance companies, their revenue is increasing from investments. From an insurer's perspective it provides an opportunity to pitch income guarantees to combat inflation hikes. However, inflation does hit companies hard as it puts pressure on both product prices and expenses.

Keep an eye on market volatility as it may decrease demands for equity-based insurance products. Volatility can also increase the interest in fixed future income products.

Source: LIMRA

Takeaway: Take the opportunity to demonstrate the value of your advice. Proactively share how insurance products can help clients in the current business climate.

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