

Intelligence MEMOS



From: Jeremy M. Kronick
To: Financial Advice Community
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Re: **THE IMPORTANCE OF CHANGES TO FINANCIAL ADVICE**

Disruption is coming to the financial services and advice sector, and not just on the stock market. Technology is fundamentally changing how financial services firms operate and the client experience in financial advice – think robo-advisors. While this disruption is very real, it is by no means the only thing shaking up financial advice and is not limited to technology.

By definition disruption means a disturbance or problem that interrupts an event, activity, or process. What other disruptive trends are affecting financial advice in Canada? For one, the financial services sector faces a worldwide economic environment that, notwithstanding some recent increases, features low rates of return. Furthermore, there have been changes at the regulatory level including CRM2 and the push towards the Cooperative Markets Regulatory Authority, as well as changes to desired and optimal investment strategies, e.g., active versus passive.

With these disruptions in mind, what are some of the questions that need to be front and centre for public policy to take advantage of the changing financial advice landscape?

Top of the list is whether financial advice actually provides real value and how this may change in the future if volatile markets persist. Both simple surveys and complex econometric academic papers have shown mixed historical results when it comes to the value of financial assets for the advised versus the non-advised. Such divergence in opinions makes continued study of this question even more imperative as we grapple with the impact of these disruptive trends and how best for policymakers to react.

Next, is the role of fintech. The benefits of fintech in this sphere are numerous. Among others, they include giving financial advice to many who otherwise would not have sufficient funds or access to high-priced advice. Now, they need only download an app. However, questions remain for public policy including safety and security of the technology itself, as well as the level of willingness and preparedness of traditional intermediaries to incorporate these innovations.

Finally, there is much interest on the active versus passive investment management debate. As low returns have made it difficult to justify high-cost, active investment strategies, demand for other options including passive investment strategies, e.g., exchange traded funds, has grown. With this change, policymakers must ask whether there are any unintended consequences worth considering. One concern, which we might be seeing now, is the degree to which these passive strategies lead to asset investment concentration, which could generate financial stability concerns should this narrow set of assets lose their value, and trigger a “rush to the exits” by investors.

Many questions on the future of financial advice remain, and many ideas are floating around on how best to proceed. New ideas are emerging, such as regulatory sandboxes for fintechs, along with an assessment of the international experience of countries such as the US, UK, and Australia. Perhaps the most important tool for generating optimal public policy responses is for all stakeholders to get involved.

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