The Evolution of the Financial Industry

A look at the shifting needs of investors

Every fall, North American brokers look forward to reading the Self-Directed Investor Satisfaction Study published annually by J.D. Power. Considering themselves to be the voice of the consumer, J.D. Power's survey tracks broker performance year over year, using customer satisfaction as its key metric. The study identifies broad changes in investor needs, market conditions and the competitive landscape to guide brokers to deliver superior value.

Attendees of this month's TRADING CENTRAL Online Broker Summit had the pleasure of hearing Mike Foy, head of the North American Wealth Management Practice speak on recent shifts in the industry from the perspective of today's investors. Leveraging data from last month's Canadian survey, Mike offered insight on how brokers can improve the experience for their customers and better differentiate their platforms. He reviewed how today's disruptors are shaping the industry, the new segment forming and what brokers can do to leverage these as new opportunities.

The top three industry disruptors

1. **Mobile:** There's a common misconception that investors are only comparing your platform with other investment platforms, but their expectations are being set by absolutely all their online experiences. This includes the interactive and communicative platforms typical in social media and the powerful, personalized suggestions from Amazon. Look outside the brokerage industry for inspiration on how you can best meet the needs of your account holders.

2. **Robo-advisors:** Not only have most already experimented with robo-advisors, but many are reporting positive experiences. Approximately 50% of investors rated robo as equal or better than their self-directed experiences. These individuals often view it as a low-cost alternative to full service portfolio management. Unsurprisingly, this is drawing younger investors, whose smaller capital doesn't yet rationalize the cost of traditional services. Mike believed the high satisfaction score to mainly reflect the user experience of their modern user experience, rather than through actual portfolio returns.

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3. **Regulation:** Recent changes in fiduciary legislation such as CRM2 and DOL, have pushed the need for an increase in disclosure and transparency… but has this been successful in helping investors? Mike said there's been little evidence to support the premise that this is achieving the desired outcome. "Disclosure doesn't automatically translate into transparency", he says, because the bulk of investors still aren't truly understanding the materials provided to them. Almost 56% of your investors still don't understand their fees, however with those who do, J.D. Power saw a significant increase in satisfaction. Use your on-boarding procedures, he suggested. "It is a trigger moment where investors compare the value proposition to what they're paying."

Emerging Investor Segments

Recently, there's been a rise in online brokerage customers who do not match the traditional profile. It's important to understand these new segments, and the extent to which their needs and expectations may differ.

Millennials

Traditionally, millennials haven't been a large focus for brokers because they don't yet have the level of wealth to warrant the attention, however the upcoming transfer of baby boomer wealth could greatly affect this space over the next few decades. It's estimated that 30 trillion dollars will change hands over the next 30 of years in the US alone.

But are millennials really that different? There's insufficient data to suggest that our younger generation won't be investing similar to their elder counterparts once they reach the same age. That being said, brokers should prepare for the characteristics that will persevere such as comfortability with technology and a hybrid service approach.

Women

Long considered a male domain, the investment space has seen a massive upswing in female participation. Women presently control 33 to 40 percent of all investable assets within North America, a figure that poised to swell given the growth rate of female owned firms. This trend is further supported by inheritance and longevity statistics.

Both genders are similar in terms of overall satisfaction in their investment experiences, however Mike suggested there appear to be different drivers. Despite the research suggesting equal levels of financial literacy, women appear less confident in their skillset. This fuels a greater need for disclosure, open conversation and accessible educational materials.

The "Validator"

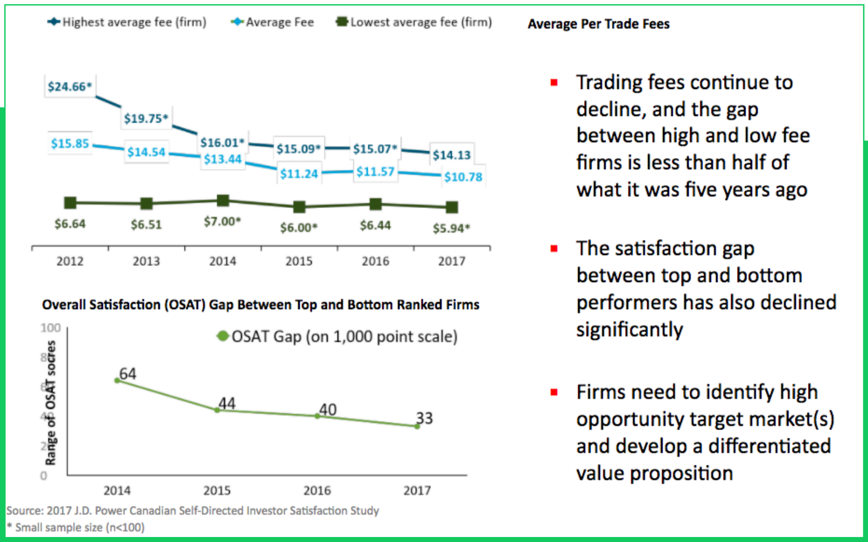
The traditional assumption was that investors were interested in either a full service or a self-directed experience, however these lines are blurring. Today's investors are looking for the best of both worlds— on demand access to advice and guidance, in a way that empowers them to make their own decisions. J.D. Power tokened this broad trend as the "rise of the validator".

Seeking Success in a Competitive & Undifferentiated Sector

J.D. Power's annual survey, which ranks brokers on a 1,000 point scale in terms of overall satisfaction, demonstrated very little differentiation amongst online brokers. Where other industries saw gaps as large as 200, the online trading world experienced only 33 points separating today's leaders from those at the bottom of the rankings. This indicates a feeling of "sameness" across the board from the perspective of investors.

In an era of ever evolving technology, Mike looked to Amazon CEO Jeff Bezos for inspiration, advising that brokers build their business strategy around things stable in time.

Mike said investor satisfaction indicated a feeling of "sameness" across the board:



Success in differentiation will be dictated by who is able to best leverage technology to accommodate core customer needs. Mike shared the five he found to be universal:

1. **Convenience:** Your customer's perception of convenience is constantly evolving, however today's key components are the ability to accomplish all their investment needs with a single provider, and to easily verify portfolio performance or execute a trade on the go. (efficient & flexible)

2. **Recognition:** How well you recognize each customer's unique needs and goals, and offer an intuitive experience tailored to this.

3. **Advice:** The ability to recognize when an investor needs assistance and connect them with suitable support. Most investors aren't aware of the resources available to them, meaning more effort needs to be allocated to connecting them with what already exists.

4. **Trust:** Your customers need to have confidence you'll deliver on your promises. Make it easy for them to review their portfolio performance, be transparent with any fees and be careful to only set realistic expectations.

5. **Value:** Make your platform a worthy investment of each customer's time and capital. Self-directed investors are less interested in finding the lowest possible fee, than they are in achieving the highest perceived value. Mike estimated on they're own, that fees accounted for less than 20% of overall satisfaction.

Onboarding is a critical moment for delivering value, as newly acquired customers are forming both initial and lasting impressions of your brand. This is your golden opportunity to show the full range of resources available and ensure they are satisfied with their choice of you as a provider. Less than 50% of those surveyed felt all the boxes were checked during their onboarding process, but the majority remembered the experience.

Mike Foy is Senior Director of the Wealth Management Practice at J.D. Power. He is responsible for the company's syndicated research studies on both investors and financial advisors. He is also responsible for developing research-based solutions that drive measurable results for clients within the wealth management industry in North America.