

DEFINING THE

WEALTH MANAGEMENT

INDUSTRY AND PRACTICE
IN CANADA

A Report Prepared by
The Canadian Securities Institute
and Investor Economics

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Canadian Securities Institute
Credentials That Matter.

INTRODUCTION AND PURPOSE

The term *wealth management*, which first appeared in Canada's financial industry in the early 1990s, is by now in common use. Generally speaking, it is seen as the provision of financial products and services to high-net worth (HNW) clients. However, the precise meaning of the term in Canada is vague compared with financial hubs such as London, Switzerland and Singapore, where the wealth management industry is more highly evolved.

The complex structure of the Canadian financial services industry has made it challenging to establish a single definition of wealth management as an industry and practice. And, perhaps because the term itself has not been clearly defined, the role of the wealth manager and the skills required of the role have never been formally established.

Advisors catering to the HNW market operate through different channels at various types of firms and under various regulatory regimes. They offer a broad range of products and services, including business and personal banking and credit strategies, investment management, philanthropy strategies and estate and trust services.

In recent years, there has been tremendous growth in the number of HNW clients and a corresponding growth in opportunity for financial institutions. Consequently, there has been a greater effort in the industry to create more effective and profitable approaches to integrate the various channels that cater to this client base. This effort is most apparent within the large financial institutions. For example, private banking now largely operates with or under private wealth management (PWM) divisions that offer integrated services to HNW clients. Furthermore, full-service brokerages (FSBs), particularly the bank-owned ones, increasingly target HNW clients and are being structured to offer a full range of products and services. In some cases, these include credit and treasury products offered through referral programs with the commercial banks. Finally, even private investment counselling (PIC) firms are adding increased expertise in trust services and advanced financial planning to serve the HNW market.

The purpose of this report is to describe the trend towards greater integration of products and services catering to the HNW market and to demonstrate that with this trend the wealth advisory role is becoming a distinct field of practice similar to what is evident in countries where the wealth management industry is more highly evolved. Specifically, this report:

- Provides a demographic overview of the HNW segment
- Describes the evolution toward integrated HNW services
- Describes the various channels and integrated business models and the various types of products and services they offer
- Identifies and presents the competencies, tasks, knowledge and skills of the wealth manager role

This report highlights different channels and business models that cater to HNW clients and describes the high level of expertise necessary to serve these clients with full credibility.

PROCESS AND METHODOLOGY

The Canadian Securities Institute (CSI) has leveraged its 45 years of experience in providing education and credentials across the financial services industry to lead this effort to bring clarity to the term and practice of wealth management.

CSI collaborated with **Investor Economics** (IE) to assemble the data about the wealth management industry used in this report. IE sourced information from their proprietary databases and through relationships with Canadian financial institutions and businesses.

The report also benefited from discussions with executives of leading private wealth management service providers. These firms included major banks and investment and advisory firms that offer services to affluent investors on a local, regional, national or international basis.

CSI commissioned **Friesen, Kaye and Associates** to validate the professional skills and knowledge associated with the competency profile of a wealth advisor.

The steps in the process were as follows:

- Create a draft competency profile.
- Assemble a focus group of wealth managers to review and validate the draft profile.
- Conduct a survey of 600 wealth managers holding the CIWM designation (of which more than 30% responded).

The competency work done in developing this report will help fine-tune and validate the curriculum of the globally recognized Certified International Wealth Manager (CIWM) designation offered in Canada by CSI and the Swiss-based Association of International Wealth Management (AIWM).¹

DEFINING THE WEALTH MANAGEMENT CLIENT

The most common (but not universal) criterion used to define an HNW individual or family in Canada is the ownership and/or control of at least \$1 million of investable assets.² The term investable assets describes liquid assets only; it does not include real estate or equity in a private company, nor does it consider the short or long-term liabilities of the individual or family that, in determining net worth, would be offset against total assets.

The most common (but not universal) criterion used to define a HNW individual or family in Canada is the ownership and/or control of at least \$1 million of investable assets.

¹For more about the Association of International Wealth Management (AIWM), visit its website: www.aiwm.org.

²Information provided by Investor Economics based on cumulative research it has conducted on the HNW segment.

OCCUPATIONAL GROUPS

The major occupational groups that make up the HNW client segment are entrepreneurs, professional service providers, senior business executives, media, entertainment and sports professionals, wealth inheritors, and wealthy immigrants and retirees.

Individuals from each of the occupational segments bring particular challenges and problems the financial advisor must address. In fact, it is generally accepted that the two fastest growing occupational groups within the segment are entrepreneurs and retirees, two sub-segments with diametrically opposed financial goals.

For this reason, some leading HNW advisory providers have established specialist units that deal exclusively with a specific occupational group to ensure that they offer only the highest level of understanding and service to their clients. For example, a firm that focuses on entrepreneurs might need to help monetize equity in a family-owned business, whereas a firm that focuses on professional athletes might need to help a client manage significant cash flow in a foreign currency.

NUMBERS OF MILLIONAIRE HOUSEHOLDS

In aggregate, these various occupational groups were associated with approximately 653,000 households in Canada at the end of 2013. This represented 4.2% of total Canadian households. The count of individuals is not available, but would be lower. The most recent edition of the World Wealth Report suggests that the count of millionaire individuals may be approximately half the number of millionaire households.³

There is no simple method of sub-segmenting the millionaire households. However, using Canadian surveys and recent U.S. and U.K. studies as a guide, it is evident the bulk of Canadian millionaire households are in the \$1 million to \$5 million sub-segment, with another 48,000 having investable assets between \$5 and \$10 million.

THE HNW SEGMENT OUTLOOK

Investor Economics projects that opportunities for private wealth managers in Canada will expand significantly over the next decade. Based on IE's analysis, the total number of households in Canada is projected to increase from 15.4 million in 2013 to 17.4 million by 2022, an increase of approximately 14%. By contrast, the number of HNW households is expected to grow from 653,000 at the end of 2013 to 1,147,000 by the end of 2022, an increase of 76% over the same nine-year span. The number of households and the wealth they control are identified in **Table 1**.

The two fastest growing occupational groups within the HNW segment are entrepreneurs and retirees, sub-segments with diametrically opposed financial goals.

653,000 Canadian households are considered to be HNW

The number of HNW households is expected to grow by **76%** by the end of 2022

³ Capgemini and RBC Wealth Management – World Wealth Report 2014.

TABLE 1: Canadian Households and Wealth by Wealth Segment

Wealth Segment	2013		2022	
	Number of Households	Total Wealth (millions of dollars)	Number of Households	Total Wealth (millions of dollars)
Total	15,420,577	3,409,548	17,438,606	5,460,389
\$0 – 100 K	12,194,157	246,050	12,376,427	271,029
\$100 – 250 K	1,103,000	172,480	1,617,111	263,714
\$250 – 500 K	766,769	270,811	1,157,896	429,830
\$500 K – 1 million	703,066	510,307	1,140,276	893,557
\$1 million +	653,585	2,209,900	1,146,896	3,602,260

DEMOGRAPHICS

Investor Economics categorizes Canadian households by six distinct age segments, which helps to show the concentration of wealth at different life stages (**Table 2**).

On average, HNW households that use dedicated channels or that seek out specialist advisors are likely to be older than clients from lower wealth segments. Accordingly, their needs and expectations are likely to be different from those of the market as a whole. For example, there is, overall, a lower demand for credit facilities and a higher demand for estate planning within the HNW segment than there is with other investors. And unsurprisingly, because wealth is accumulated through savings and investment activity until retirement, average HNW household wealth increases with age.

TABLE 2: Canadian Households and Wealth by Age

Age	Number of Households	Total Wealth (millions of dollars)	Number of HNW Households	Total HNW Wealth (millions of dollars)
Total	15,420,577	3,409,548	653,585	2,209,900
0 – 24	867,481	21,065	2,344	3,725
25 – 34	2,215,397	125,910	25,436	61,072
35 – 44	2,649,253	368,139	73,748	247,865
45 – 54	3,180,615	781,677	145,311	558,365
55 – 64	2,770,559	902,365	164,192	622,430
65+	3,737,271	1,210,391	242,553	716,443

Investor Economics also observed that HNW opportunities are not uniformly spread across Canada. In fact, 91% of HNW households are in the provinces of Quebec, Ontario, Alberta and British Columbia. Ontario is home to 37%, or 241,000, of all Canadian HNW households, followed by British Columbia with 19%, or 125,000. Alberta and Quebec have similar numbers of HNW households; however, in Alberta, those numbers represent 6.8% of all households, whereas in Quebec, the concentration rate is just 3.0%. When household age is taken into consideration, HNW households are disproportionately younger in Alberta and British Columbia.

In Canada, households that have \$10 million or more in liquid wealth are considered to be ultra-HNW. (In countries where the HNW threshold is higher than the Canadian threshold, the ultra-high designation is also higher.) The number of Canadian households that fit this criterion is estimated to be 29,000, a relatively small group in number, but one that is influential in terms of the wealth that they control. As a result of the limited size of this elite tier, only a few firms and advisors are solely focused on providing ultra-HNW clients with financial advice and services.

CHANGING ATTITUDES

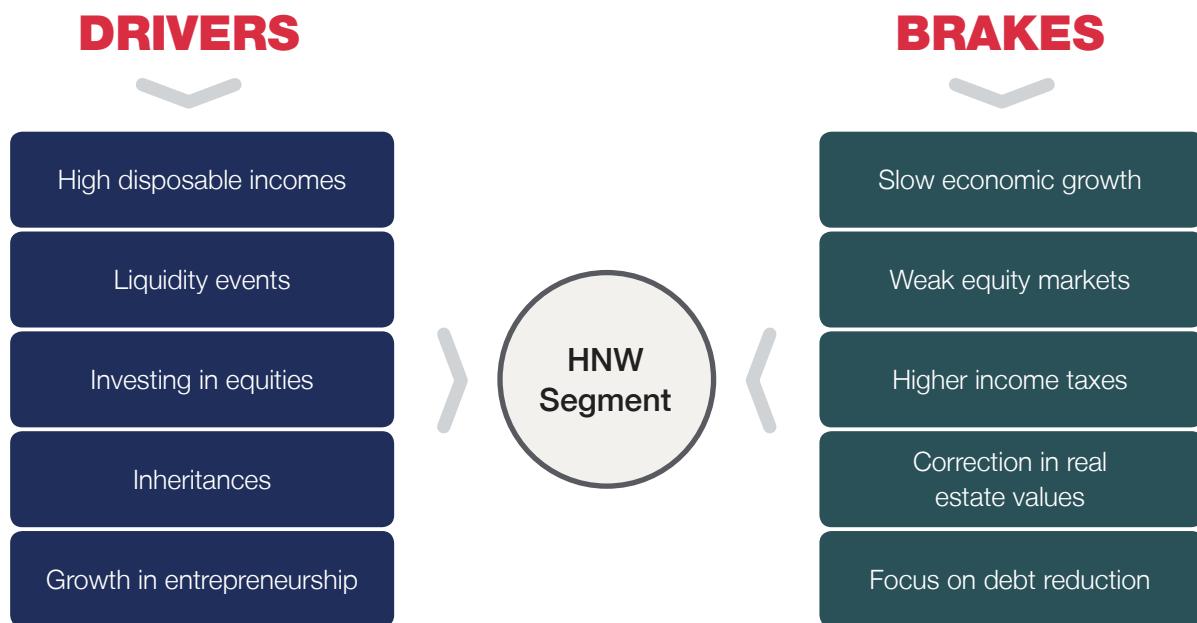
Over the past few decades, financial products and markets have grown in sophistication. At the same time, individuals looking towards retirement are becoming more reliant on their own investments to supplement government and corporate pension plan benefits. In addition, the need for effective planning in specialized areas (such as ownership of foreign property, insurance solutions, alternative investments, leveraged investing, small business issues, executive compensation, charitable giving, and estates and trusts) is increasing. As a result, many HNW investors now look for guidance from experienced and competent advisors.

As a general rule, HNW clients seek opportunities to consolidate their financial dealings with fewer providers, and are ready to take advantage of integrated wealth service platforms that allow them to do so. Consolidated advice offered by many deposit-taking institutions and independent firms confers economic advantages through lower fees and greater convenience. Also important for clients is the increasing level of and access to expertise they receive.

Many factors affect the HNW segment's demand for wealth management service. **Figure 1** illustrates the drivers and brakes on this demand. However, when it comes to differentiating between wealth advisors, proven expertise remains the key driver.

HNW clients seek opportunities to consolidate their financial dealings with fewer providers, and are ready for integrated wealth service platforms

FIGURE 1: Drivers and Brakes on Demand for Wealth Management Services



WEALTH MANAGEMENT SERVICES IN CANADA

There is ample evidence that a number of major institutions, as well as national and regional independent firms, have highlighted the need to target the HNW segment and to develop a network of offices and advisors focused on this segment. The very presence of such offices in affluent communities, as well as media attention and advertising activities, has raised the profile of such service providers. As a result, HNW householders are increasingly aware that they have access to and are qualified to receive the highest level of advice and service at reasonable fees.

HNW service providers recognize that relationships with HNW clients tend to be more lasting and more profitable (in an absolute sense) than relationships with mass and mid-market households. HNW relationships also tend to be fee-based rather than commission-based, and therefore are less capital intensive. This factor further endears the HNW clients to their growing number of providers.

There are three main channels dedicated to the HNW segment:

- **Private wealth management (PWM)**

For purposes of this report, PWM integrated services consisting of private banking, investment counsel and personal trust services offered by the banks and other deposit-taking organizations.

- **Full-service brokerage (FSB)**

This channel is dominated by the large bank-owned dealers. They increasingly focus their product and service offering on the HNW segment.

- **Private investment counsel (PIC)**

These firms are outside of PWM and focus entirely on the HNW segment. Most are mono-line firms only offering investment management, while others have broadened their offering to include financial planning and trust and estate services.

There are other channels as well, some of which focus entirely on the HNW and ultra-HNW segment (such as multi-family offices) and some that do not restrict their business to this segment (such as the mutual fund distribution channel).

Among all these delivery channels, there is no single channel in Canada that dominates the HNW segment, although approximately three out of every four HNW households maintain a relationship with at least one FSB firm.

BUSINESS MODELS: THREE PRIMARY TYPES

Each of the various delivery channels falls under one or more of three business models active in Canada:

- **Fully integrated**

Fully integrated firms include the major banks and some other large financial institutions that offer a comprehensive range of on and off balance-sheet private wealth services.

- **Semi-integrated**

Semi-integrated firms offer a limited range of HNW services. This group includes FSB firms, financial advisor firms, a limited number of foreign banks and a few PIC firms that provide financial planning or trust services.

- **Mono-line**

Mono-line firms offer a single set of services, such as discretionary management. This group includes most PIC firms, family offices (offering advice only) and other foreign banks.

Each model is discussed in detail in this report.

FULLY INTEGRATED: THE PRIVATE WEALTH MANAGEMENT MODEL

Private wealth management (PWM) is the term used by banks and other deposit-taking financial institutions to describe an integrated set of services offered to HNW clients. In addition, a small number of major foreign banks offer some domestic services, as well as various cross-border services associated with business units within their global networks. PWM is one of the fastest growing channels in terms of clients and account balances.

Approximately 3 out of every 4 HNW households maintain a relationship with an FSB firm.

Private wealth management (PWM) is the term used by banks and other financial institutions to describe an integrated set of services offered to HNW clients

PWM is one of the fastest growing channels for clients and account balances

Primary PWM Services Offered

High net worth bank clients can access services through multiple bank channels. However, the only dedicated, fully integrated channel is private banking or, as it is known at some banks and referred in this report, PWM. Through this channel, eligible clients have access to a variety of products and services including:

- Credit and treasury products
- Discretionary investment management
- Trust and specialized planning services
- Estate administration
- Business succession planning
- Philanthropy strategies
- Concierge services

The only wealth products not available to HNW clients are those with insurance features (although the Bank Act does permit banks to own insurance subsidiaries). The banks' focus has shifted from deposits and lending to discretionary investment management and other fee-based services. However, customized banking services, such as those used to assist with cash flow management and liquidity, remain an important aspect of the bank channel's value proposition.

Relationship Management at PWM Institutions

Among the major banks, the following relationship structures exist:

- **Integrated team relationships**

All client issues are handled by a dedicated team that includes a banker, an investment counsellor and a trust officer.

- **Co-located relationships**

Teams are not formalized but emerge as the result of intra-private banking referrals. This approach may support better matching of specialists with clients' needs. In these cases, there is a lead relationship manager who may call for specialist involvement when clients' needs go beyond the relationship manager's fulfilment capability. In most cases, the relationship manager is a private banker or wealth manager, although, by client request, the relationship could be held by an investment counsellor or a trust officer.

- **Referral-based relationships**

The various disciplines are not necessarily represented in each private banking office. Instead, clients are referred to specialists in other bank divisions or outside the bank.

Clients may be more effectively served by the integrated team model, but there is no evidence that any one model dominates in terms of profitability or revenue per relationship.

At the end of 2013, there were approximately 900 professionals with relationship management responsibilities within the PWM units of the major banks. Of these, 450 were private bankers and the rest consisted of investment counsellors, trust specialists and financial planning professionals.

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On average, each private banker managed about 480 individual clients representing approximately 220 to 240 households. Investment counsellors, on average, carried a lower client load.

The private banking units rely to a great extent on referrals from both internal and external sources for new business (**Table 3**). Internal sources include the retail, commercial and agricultural banking units. Referrals from investment banking units and those flowing from FSB advisors are less frequent, because full-service advisors view private bankers and investment counsellors as direct competition. External sources of business include professional centers of influence, such as accountants and lawyers, and referrals from existing clients.

TABLE 3: Bank Referral Sources to HNW Clients

INTERNAL

EXTERNAL

	Primary	Secondary
Agricultural banking		•
Direct prospecting		•
Existing clients	•	
Investment banking		•
Private banking	•	
Retail branch networks	•	
Commercial banking	•	

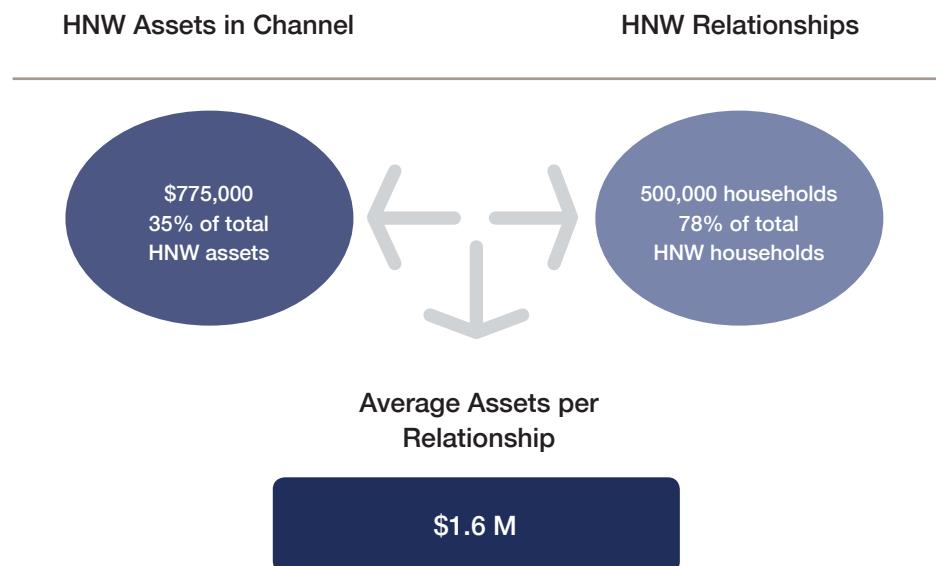
	Primary	Secondary
Accountants		•
Lawyers		•
Client referrals		•
Walk-ins/websites/ other media		•

SEMI-INTEGRATED: THE FULL-SERVICE BROKERAGE MODEL

Semi-integrated offerings targeting HNW individuals and households are becoming a core part of the business activities of leading FSB firms and some other large firms in the financial advisor channel. The FSB channel, particularly at the bank-owned firms, has aggressively turned its attention toward the higher end of the retail market to maximize the profitability of the channel. Because of this shift in focus and the extensive national coverage enabled by the network of FSB offices, it is estimated that 78% of all HNW households, or a little more than 500,000, have a relationship with at least one FSB firm (**Figure 2**).

The full-service brokerage (FSB) channel contains the greatest concentration of advisors to HNW clients in Canada. It is estimated that approximately 6,200 advisors in this channel dedicate some effort to managing the financial needs of HNW clients. Advisors who are specifically dedicated to HNW clients, who use the wealth manager title and who have access to HNW resources and referrals are still relatively small in number, but that number is growing.

FIGURE 2: Estimated HNW Share of Full-Service Brokerage Channel (Assets in Millions)



By contrast, strategies being adopted by the financial advisor channel (primarily non-bank MFDA firms) are mainly defensive and designed to limit erosion of their market share of the HNW segment. IE estimates that on a per-relationship basis, assets under administration are on par with those at a full-service brokerage. However, only 18% of HNW households have a relationship with one or more financial advisor firms.

Primary FSB Services Offered

To attract HNW households, FSB firms and their advisors have found it necessary to enhance their investment offerings and to broaden the range of services available to clients. To do this, they are developing in-house capabilities, leveraging the expertise of other divisions within the financial institution they work for and pursuing referral arrangements with outside professional services firms. Additionally, through compensation strategies, they are attempting to eliminate low balance accounts while focusing efforts on clients with large books of business.

The primary services offered by FSB firms to HNW households continue to revolve around investment planning and investment management services, both discretionary and non-discretionary. As focus on the HNW segment has become more intense, the industry has worked hard to develop fee-based and discretionary services that can compete on price and features with those offered by the fully integrated PWM and mono-line PIC channels.

To attract HNW households, FSB firms and advisors have had to enhance their investment offerings and broaden the range of services offered.

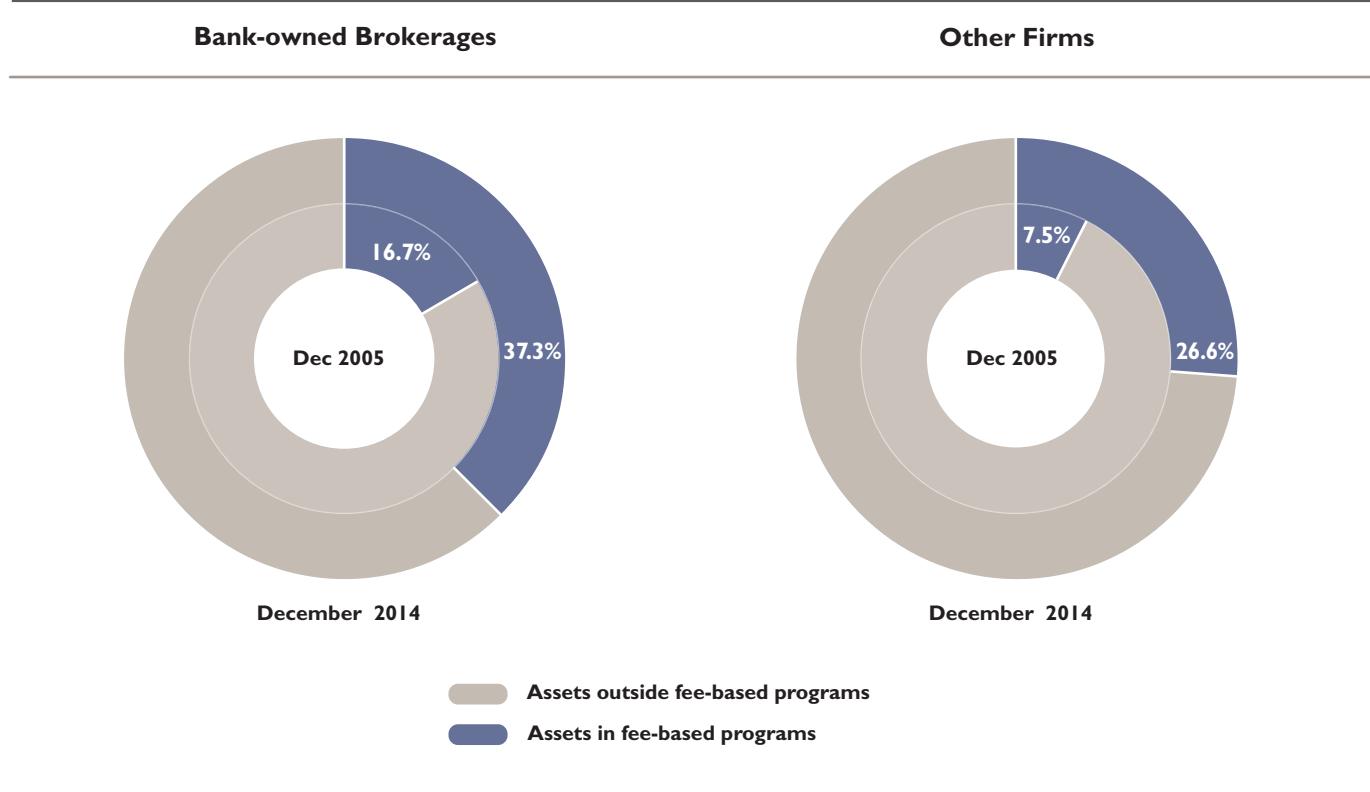
The FSB investment services fit into three distinct categories:

- Fee-based transaction services
- Separately managed accounts
- Advisor-managed accounts, where the advisor has discretion over the client's account

Fee-based services account for about 37% of assets at bank-owned brokerages (up from 16.7% in 2005) and approximately 26% of assets at independent firms (**Figure 3**).

Without question, the fastest-growing services that target the HNW investor are those in which the individual advisor is also the portfolio manager. Over a three-year period ending June 2014, assets managed on this basis grew at an annual rate of 25%. Accounts managed separately by one or more managers grew at just over half that rate.

FIGURE 3: Fee-Based Asset Concentration at FSBs in 2014 Compared to 2005



Specialized HNW Services at FSB Firms

Alongside conventional investment management services, most FSB firms have positioned themselves to offer retirement planning, estate planning and insurance services. Although these services are gradually growing in popularity with HNW clients, their development has lagged investment services, partly because clients typically have relationships with outside professionals.

The leading FSBs have built up impressive resources to support their advisors. For example, each bank-owned FSB employs an average of 25 insurance specialists beyond the number of brokers licensed to sell insurance services.

Bank-owned FSBs have the advantage of being able to make referrals to other business units, such as commercial banking and personal trust. Thus, they can appear to offer as comprehensive a suite of products and services as are available from fully integrated providers. Through personal choice or absence of financial incentive, FSBs have not yet universally adopted a business model that automatically links their HNW clients to these associated businesses, although most are moving in this direction.

Relationship Management at FSB Firms

Full service brokerage advisors are increasingly forming teams to attract HNW clients. In this way, they broaden the collective expertise they can offer and capitalize on economies by sharing administrative resources.

The FSB teams fall into two models:

- **Shared expertise but specialized registration**

Two or more investment advisors, one of whom may have a discretionary registration, become a team.

- **Differentiated expertise and service specialties**

A single investment advisor joins forces with other specialists, typically an insurance specialist and a dedicated financial planner, although variations may occur

In most cases, particularly when the client (or client family) has significant assets, the relationship with the client is managed by the investment advisor, who seeks specialist support as required. Full-service advisors working with HNW investors typically have one or more employees who provide administrative support and deal with routine client relationship matters.

The average HNW household relationship at an FSB firm represents approximately \$1.6 million in administered or managed assets. This amount is considerably higher than the average for all clients (**Figure 3**), but it is estimated to be roughly \$200,000 lower than the average assets managed by an investment counsellor at a PIC firm.

MONO-LINE: THE PRIVATE INVESTMENT COUNSEL MODEL

Most PIC firms fall within the mono-line model in that they focus solely on investment management.

Mono-line firms include small, independent, regional boutiques catering to the HNW segment and small not-for-profit organizations, and large asset management firms with a national focus. The larger firms might also manage assets for pension plans and sub-advise on mutual funds.

Some wealth management firms and institutions, such as fund companies and insurance companies, have acquired or built PIC divisions to target the HNW client.

FSBs are increasingly forming teams to service HNW clients.

The average HNW household relationship represents approximately **\$1.6 million** in managed assets.

The private investment industry is fragmented, with more than 200 PIC firms competing for business in Canada. Given the limited need for capital, there are few publicly listed firms that are solely focused on private clients, and those that are listed have multiple lines of business. Privately owned firms are held either by a group of individual shareholders, often referred to as partners, or by a wider group of employees.

Primary PIC Services Offered

Most PIC firm counsellors offer discretionary investment management to their clients through segregated accounts and pooled funds, typically in traditional mandates. In many firms, segregated accounts are offered only to clients with assets above a certain threshold, which can range between \$1 million and \$5 million.

In most cases, PIC firms only offer solutions managed by in-house portfolio managers. Increasingly, however, they use sub-advisors to manage asset classes for which the firm does not have in-house expertise, either directly or through a model. In other cases, counsellors will discharge their fiduciary responsibility by referring investors to other asset managers who may be better positioned to manage a portfolio in a particular asset class.

Some firms also offer alternative asset classes, such as hedge funds and private equity, or infrastructure pools, either exclusively or as a corollary to their primary offering. The number of Canadian HNW investors using alternative asset classes is low, estimated by IE at not more than 15%. Such investments are also unlikely to represent more than 15% of the investor's total portfolio. Recently, however, major institutional investors are being increasingly exposed to alternatives. Evidence that they are uncorrelated to public equity and fixed-income markets may convince HNW investors and advisors to hold more of these assets.

Investor Economics projects that, over time, it will become necessary for PIC firms who want to establish HNW client relationships to offer sophisticated planning services. Some semi-integrated PIC firms already do offer financial planning and trust services. However, it is likely that many will continue to formally outsource the responsibility to external specialists. As the HNW population ages, and such planning combinations become more popular, some PIC firms may seek to merge with one or more independent private trust companies.

Relationship Management at PIC Firms

PIC firms do not enjoy the benefit of internal referrals, other than those from pension plan trustees or satisfied clients. As a result, they rely heavily on word of mouth and referrals from professional centres of influence. Some firms also have formal or informal referral agreements in place with financial advisors.

Investor Economics predicts that over time PIC firms will need to offer **sophisticated planning services** to establish HNW client relationships.

However, although they do not gain from internal sources of referrals, they also have no internal sources of competition, as is the case with bank-owned firms.

Among several approaches to relationship management at PIC firms there are three that are most common:

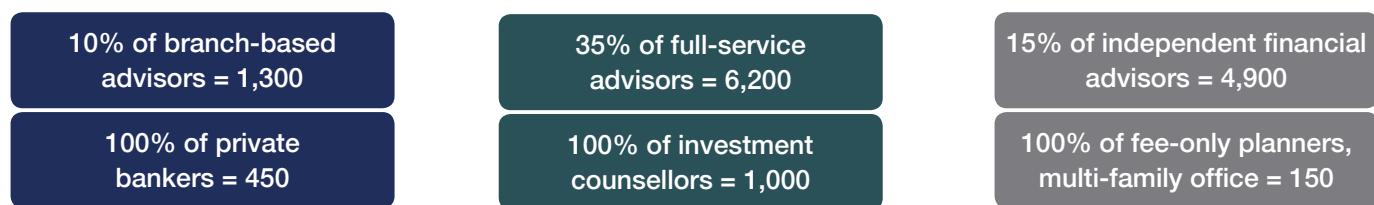
- Small firms frequently merge investment counsellor and portfolio manager roles such that partners frequently have a client management role, while also being responsible for a specific asset class.
- Firms with assets under management of \$750 million plus usually prefer to clearly separate client and portfolio functions. HNW investors deal with a dedicated investment counsellor who is responsible for client acquisition and service. They interact with asset class experts or senior executives only through their assigned relationship manager.
- A third approach separates sales and relationship management functions to the point that there are a small number of “hunter-gatherers” who pass on new clients to an investment counsellor.

As would be expected, each approach has a unique compensation structure associated with it.

HOW INVESTABLE ASSETS ALIGN BY CHANNEL

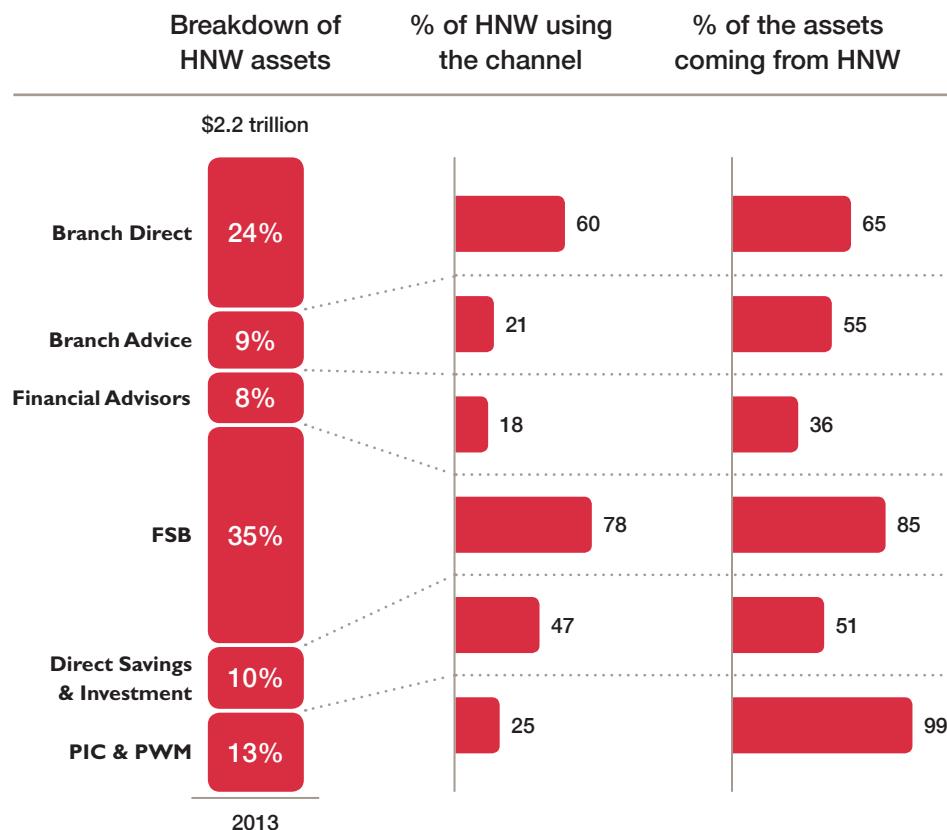
Investor Economics estimates that there are 14,000 advisors in Canada who dedicate some or all of their efforts to managing the financial needs of HNW clients. The breakdown of advisors by channel is illustrated in **Figure 4**.

FIGURE 4: Advisors By Channel Seeking HNW Clients



The estimated breakdown by channel of investable assets of the HNW investor is shown in **Figure 5**.

FIGURE 5: Channel Usage by HNW Investors



The branch direct category is made up of front line advisors at bank branches, whereas the branch advice category is made up of bank branch advisors who provide investment recommendations and financial planning to clients. These two groups represent the substantial deposit and retail investment business that HNW households conduct with banks and other deposit takers through branch networks, but which is outside the PWM delivery structure.

The relatively low level of penetration by the branch advice channel is as much by design as by client choice. The banks have deliberately followed a strategy of encouraging HNW clients to move to their private wealth or FSB units to take advantage of a broader array of wealth planning and solutions, closer personal attention and an overall higher level of service.

Figure 5 underlines the importance of the FSB channel to the HNW segment as well as the emerging importance of the direct channel. The direct channel consists partly of investment fund companies that distribute directly to investors at all wealth levels. It also includes online discount brokerages, some of which have a service dedicated to the HNW and high-volume traders.

Only 13% of HNW assets are in the PWM and PIC channels (including PIC within the PWM channel and outside of it). However, this number has been growing steadily, particularly within the PWM channel, and is expected to continue to grow as HNW clients seek to concentrate their activities within these channels.

Banks are encouraging HNW clients to move to their private wealth or FSB units.

Figure 5 also underscores the fact that the financial advisor channel, such as those within mutual fund dealer networks, deals with a relatively small number of HNW households. As a whole, this channel is reliant on HNW clients for only a small part of its business volumes. Financial advisors as a group have seen their share of HNW investors decline in recent years, despite attempts to strengthen their product range and to meet their competition with attractive pricing levels. These initiatives, which have involved fund manufacturers and dealers, have not yet proven to be successful in preventing a loss of market share. The HNW investors they target prefer more sophisticated services and the opportunity to work with more highly qualified advisors with a specific focus on clients with significant financial resources. This position of relative weakness has driven specific initiatives by major institutions in this channel to strengthen their value proposition for HNW investors so as to prevent further market share erosion.

SUMMARY OF HNW ADVISORY BUSINESS CHANNELS

Increasingly, HNW advisory business models feature common characteristics. As the market matures, successful firms within each of the three main channels—PWM, FSB, and PIC—will have to offer comprehensive, family-focused wealth planning and discretionary investment management. Firms serving the Canadian HNW market recognize that their clients want service from experts. Those clients will not typically expect a single individual to meet their needs in distinct but related areas. However, they will require their primary relationship manager, in whichever channel they choose to concentrate their relationship, to provide access to experts qualified to handle all aspects of their financial lives.

As the market matures, firms within each of the three main channels – PWM, FSB, and PIC – will have to offer *comprehensive wealth planning and discretionary investment management*.

THE ROLE OF THE WEALTH MANAGER

ASSOCIATION OF INTERNATIONAL WEALTH MANAGEMENT

In 2014, the Canadian Securities Institute partnered with the Swiss based Association of International Wealth Management (AIWM) to offer the internationally recognized Certified International Wealth Manager (CIWM) program in Canada. Through this partnership, CSI was able to elevate its existing training in this area in anticipation of the continued evolution of the Canadian wealth management industry towards international standards.

To further refine the program so that it addresses the unique and broad array of knowledge and skills required of an advisor dealing with the HNW client in Canada, CSI sanctioned further work to define the wealth manager role, which is described below.

CAPTURING THE KEY ATTRIBUTES OF THE WEALTH ADVISOR

As the HNW market matures, it is evident that firms operating in each of the three models offer, or will offer, a broad range of wealth management products and services. Additionally, Canadian HNW advisory firms recognize that their clients require specific expertise. It is unlikely that they expect a single individual to meet all of their financial needs. However, in whatever HNW channel they choose, HNW clients increasingly expect their wealth advisor to be their primary relationship manager and, as such, to either be the expert, to work with experts or to refer them to experts for all aspects of their financial affairs.

With this in mind, CSI worked with qualified subject matter experts to do two things:

1. Create a competency list that captures the role of a wealth advisor acting as a client's primary relationship manager.
2. Identify the knowledge and skills that are necessary to perform those competencies.

SURVEY METHOD AND STUDY POPULATION CHARACTERISTICS

A focus group of wealth management practitioners and business unit heads reviewed the list of competencies and approved them. The competencies were then sent for validation to more than 600 Canadian holders of the CIWM designation.⁴

Nearly 200 respondents completed and submitted the survey. Of these, more than 50% were investment advisors; the rest were divided among investment counsellors, private bankers, and financial planners. Approximately two-thirds stated that they worked for a bank or a bank-owned firm, and 60% had 15 years or more of experience in a financial advisory capacity.

Almost 60% of respondents said they thought the minimum investable assets required to be considered HNW was in the \$1 million to \$3 million range, whereas 10% thought it was above \$3 million. Based on how they defined HNW, almost half of respondents reported that about 50% of their clients would be considered HNW. The research specifically sought to capture only that portion of an advisor's business represented by HNW clients.

HNW clients increasingly expect their wealth advisor to be the primary relationship manager and to either be the expert, work with experts, or refer them to experts for all their financial affairs.

⁴ CSI introduced the CIWM to Canada in February 2014: https://www.csi.ca/student/en_ca/news/news/CSI-CIWM_NA.xhtml

COMPETENCY PROFILE OF A WEALTH ADVISOR IN CANADA

The subject matter experts and focus group participants that CSI worked with identified 66 tasks, organized into nine different competency domains, that defined the wealth advisor role. Of the nine domains, five reflect technical competencies (**Table 4**), and four relate to general professional practice responsibilities (**Table 5**).

TABLE 4: Technical Competency Domains

Domain	Related Activities Requiring Specific Expertise
C1. Assist client in growing, protecting and monetizing a closely held business	<ul style="list-style-type: none"> • Lending • Treasury management (including cash management, trade finance, foreign exchange and risk management) • Pros and cons of different business structures • Insurance • Taxation and corporate finance services (valuation and sale of a business)
C2. Establish and facilitate tax-efficient wealth accumulation and management strategies that may include sophisticated and complex approaches to achieve life goals	<ul style="list-style-type: none"> • Asset allocation • Investment analysis • Portfolio construction utilizing both traditional and alternative investments • Use of leverage • International investing • Performance evaluation, attribution and rebalancing • Managing portfolio risk
C3. Use advanced risk management techniques to create an optimal personalized and integrated wealth preservation plan	<ul style="list-style-type: none"> • Insurance in the areas of asset and earnings protection • Use of trusts • Tax minimization pertaining to executive compensation, including stock options and concentrated stock positions • International taxation principles and strategies
C4. Collaborate with clients to optimize the conversion of assets into income that will meet lifelong lifestyle expectations	<ul style="list-style-type: none"> • Pre-retirement planning • Tax-efficient executive retirement plans • Features and benefits of different conversion strategies • Managing longevity and health-related financial risks
C5. Develop and implement a wealth transfer plan that reflects the wishes of the client and the needs of the family	<ul style="list-style-type: none"> • Tax-efficient options for transferring wealth before death • Charitable giving strategies, including endowments and foundations • Multi-generational estate planning

TABLE 5: Professional Practice Competency Domains

Domain	Related Activities Requiring Specific Expertise
C6. Build and manage client relationships that result in successful partnerships	<ul style="list-style-type: none">• Duty of care through professional, ethical, legal and moral conduct• Sensitivity to family dynamics• Manage difficult client conversations: communication styles related to age, gender and ethnicity, verbal and non-verbal communications
C7. Evaluate client needs, goals and behavioural biases and link them to recommendations leading to the creation and implementation of an optimal comprehensive wealth management plan	<ul style="list-style-type: none">• Client's relationship to money, including emotional and cognitive biases• Investor personality types• Issues and opportunities related to family dynamics
C8. Co-ordinate and engage a trusted and respected team of experts to provide a fully integrated, well-rounded wealth management service	<ul style="list-style-type: none">• Leverage external and internal professional relationships to offer will and estate expertise• Comprehensive financial plans• Philanthropic services• Trust services• Other specialized wealth management capabilities
C9. Use custom business marketing techniques for building a wealth management practice	<ul style="list-style-type: none">• Identify unique value proposition• Managing a practice efficiently and profitably• Earning the right to ask for referrals

SURVEY RESULTS: TECHNICAL COMPETENCY DOMAINS

The survey for the five technical competency domains (**Table 4**) asked respondents to assess each task within the five domains and to indicate their level of expertise on the following scale:

- 1.** They are the expert
- 2.** They work with an expert
- 3.** They refer clients to an expert
- 4.** They do not include a particular task within their service offering

A primary goal of this analysis was to verify that a specific task fell within a participant's service offering and, where it did, to establish the participant's level of involvement in that task. This understanding would inform the competency profile, which would then drive the extent and depth of coverage of that task and related knowledge and skills on the CIWM designation curriculum and examination.

The three primary categories reflect varying levels of expertise and of advisory capability, as shown in **Table 6**.

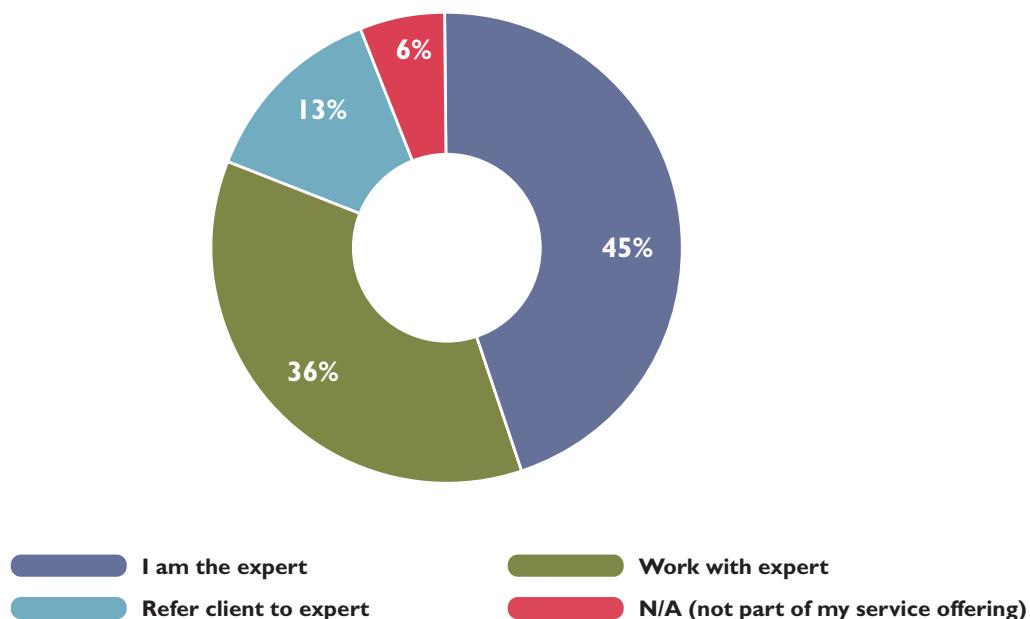
TABLE 6: Respondent Self-Identification

Respondent Self-Identification Category	Expected Advisor Expertise and Capabilities
Expert	Deep subject matter expertise to fully understand client needs and knowledge of products and services available to meet needs and construct solutions.
Work with Expert	Enough knowledge to identify and understand client needs and products and services to satisfy those needs, to intelligently describe the issue to an expert and to articulate solutions recommended by that expert to the client.
Referral to Expert	Enough knowledge to identify client needs and to articulate possible products and services to meet those needs before referring the client to an expert.

Wealth Advisor Survey Ratings

As illustrated in Figure 6, demographic data confirmed that more than 80% of respondents consider themselves to be experts or to be working with experts (expert ratings combined) to perform these tasks for their clients. Only 6% stated that some tasks were not applicable to their jobs and were not part of their service offering.

FIGURE 6: Wealth Advisor Expertise Across All Competencies

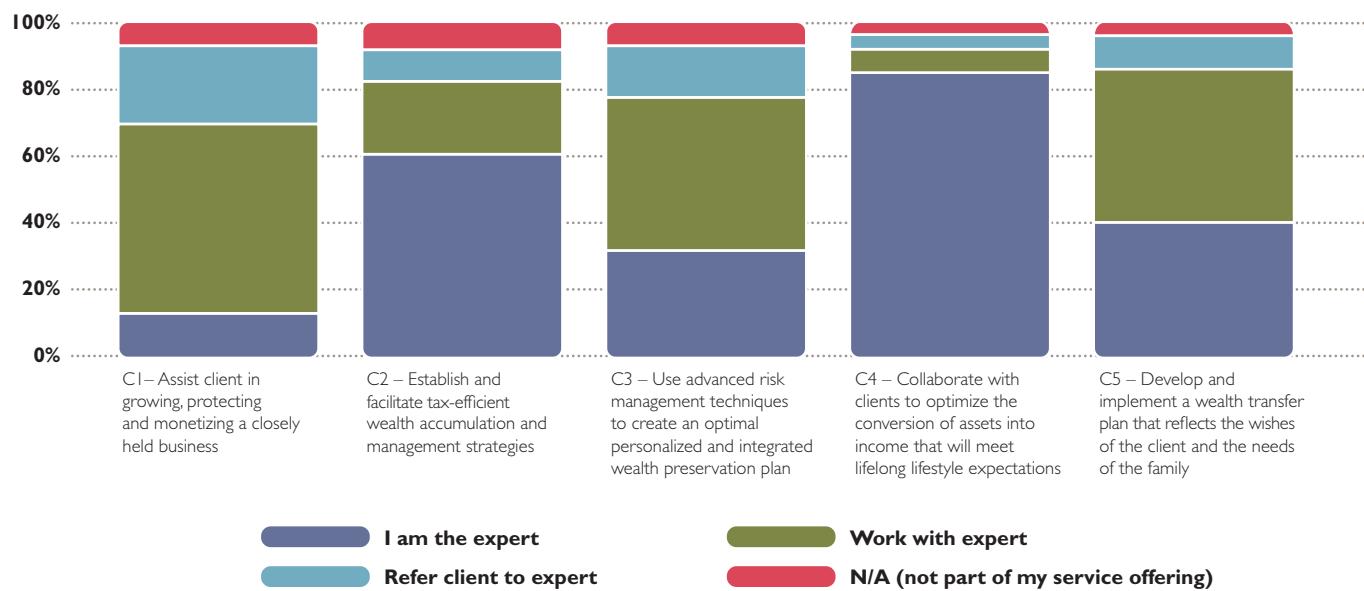


Wealth Advisor Areas of Expertise

The ratings of each of the five technical competency domains are seen in **Figure 7**. Given that investment advisors were by far the largest group of respondents, it is not surprising that the C4 and C2 competency domains (effectively retirement planning and investment management) scored the highest, with more than 80% and 60% respectively indicating they were the expert.

At the other end of the spectrum, a significantly lower percentage of advisors (14%) believed they were the experts in C1, which deals with closely held businesses. Surprisingly though, given that investment advisors formed a larger part of the respondents, more than 70% indicated they were the expert or worked with the expert (mostly “worked with the expert”). Only 7% said this was not part of their service offering. This would indicate some level of co-operation, including referral arrangements, between the bank-owned brokers and their commercial banking units.

FIGURE 7: Wealth Advisor Expertise by Technical Competency



SURVEY RESULTS: PROFESSIONAL COMPETENCY DOMAINS

The survey for the four competencies related to professional practice tasks (**Table 5**) used a different scale than the technical competencies survey. In this case, the respondents were asked whether they consistently or occasionally performed a task or did not perform it at all.

Overall, 86% of respondents indicated they consistently perform the tasks associated with the professional practice domains, and more than 95% indicated they either consistently or occasionally performed these tasks.

WEALTH MANAGER ROLE REQUIRES ENHANCED CAPABILITIES

Wealth advisors deal with clients who typically have complex financial issues, and they often serve as the one-stop relationship manager for addressing multiple financial needs. For these reasons, they require a broader and more advanced set of specialized capabilities than other relationship managers. They must possess both the “hard” technical knowledge and refined “soft” skills necessary to guide clients through every life stage, from wealth accumulation through to preservation, distribution or conversion and finally to wealth transfer. They must be able to focus on both sides of a client’s balance sheet in both business and personal situations. As such, the overall competency statement of a wealth manager might read as follows:

“As a professional wealth manager, I seek to understand my HNW clients’ personal lifestyle choices, business priorities, financial resources, family dynamics, and behavioural biases. I then draw on this understanding to provide ongoing advice and planning and offer products that are designed to nurture prosperity and financial security through every life stage.”

Tasks Unique to Wealth Management

Examples of specific tasks unique to wealth advisors include those identified in **Table 8**.

TABLE 8: Examples of Specific Tasks Unique to Wealth Management

Technical Competency Sub-Domains
<ul style="list-style-type: none">• Explain various methods of financing used by closely held businesses and potential solutions a financial institution may have• Evaluate strategies for maximizing after-tax income from closely held businesses• Identify tax-effective intra-family income shifting strategies• Recognize a client’s business treasury management needs, including cash management, foreign exchange and risk management; work towards appropriate solutions• Recognize a client’s corporate finance needs, including valuation of closely held businesses and possible sale structures and techniques; work towards appropriate solutions• Assess the benefits and risks of international investing; identify how to invest in a tax-efficient way internationally, including offshore strategies while considering the impact that foreign exchange has on asset value• Explain the risks and benefits of alternative investments, including hedge funds, private equities, commodities, real estate and collectibles• Discuss combining investment solutions with appropriate credit and leverage strategies; explain risks and benefits• Incorporate insurance for such purposes as asset and earnings protection, tax optimization and succession planning• Evaluate the use of trusts as an asset protection tool• Help minimize taxes and risks associated with executive stock options and concentrated stock positions• Recommend tax-efficient executive compensation plans• Develop and implement an optimal multi-generational estate plan• Develop tax-efficient charitable giving planning strategies, including the use of foundations and endowments

Wealth advisors should be able to focus on **both sides** of a client’s balance sheet in both business and personal situations.

TABLE 8 (Cont'd): Examples of Specific Tasks Unique to Wealth Management

Professional Practice Competency Sub-Domains
<ul style="list-style-type: none">• Be alert and sensitive to family dynamics, including potential conflicts regarding succession planning and/or the possible sale of a closely held business• Understand a client's relationship to money, including emotional and cognitive biases• Identify a client's investor personality type and understand how it may affect decision-making• Identify issues and opportunities related to family dynamics, including understanding individual goals versus family goals• Expand the breadth of wealth management services taken advantage of by leveraging professional relationships• Link financial solutions to a client's emotional needs and desired lifestyle at each life stage

CONCLUSION

In Canada, the distribution of products and services to HNW clients is converging around three main channels:

- Private wealth management (PWM)
- Full service brokerage (FSB)
- Private investment counsel (PIC)

In addition, there are channels that have a lesser share of the HNW segment, including firms that are not solely focused on HNW clients (i.e., mutual fund distribution) and firms that are entirely focused on HNW and ultra-HNW clients (i.e., multi-family offices).

HNW households increasingly prefer to deal with a primary or single point of contact. To take advantage of growing opportunities, firms operating in each of the three channels will be required to offer comprehensive, family-focused wealth planning and discretionary investment management. Clients will increasingly want their primary relationship manager (in whichever channel they concentrate their business) to be the expert or, if not the expert themselves, to provide access to experts to handle all areas of their financial lives.

Given these expectations, and regardless of channel, wealth advisors will need both broad and specialized competencies to serve the demands of the HNW segment. Although the depth of specialization may differ depending on the channel, there is a standard base of knowledge, as articulated in this report that a wealth advisor should have to completely service the HNW client.

Wealth management is a field of practice that requires a unique set of specialized knowledge and skills, as outlined in this paper and to which the Certified International Wealth Manager (CIWM) program was designed and developed to address. The CIWM is not the only route to elevating the capabilities of wealth advisors, however, it is an internationally recognized and respected program held by elite advisors and signifies a commitment to expertise in the growing practice of wealth management. For more information on the CIWM go to www.ciwm.ca.

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