High net worth investors in Canada

Opportunities and expectations

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Canada's 790,000 millionaire households represent a huge opportunity for advisors to grow their business. This white paper aims to give you the tools you'll need to have a competitive edge when prospecting for these highly lucrative clients.

Grow your business with HNW clients

Canada's high net worth investors are increasingly reluctant to invest without expert advice. Understanding their unique needs and concerns will open the door to considerable growth for your business.

The High Net Worth (HNW) population in Canada is a growth story that is becoming increasingly complex in terms of the wealth management needs and expectations of its members. This white paper addresses the opportunity for financial advisors represented by the 790,000 millionaire households in Canada and seeks to identify the key issues that need to be considered by advisors as they seek to attract and retain HNW clients. We analyzed the demand side – HNW clients and their families – then the supply side, including financial advisors and other providers of advice and investment-management services.

The primary focus will be on households with over $1 million in investable assets, although, from time to time, mention will be made of the feeder segment – the upscale – whose households own between $500,000 and $1 million in investable assets. Despite recent liquidity and inflation in the national real estate market, equity in real estate and in private companies are not considered in estimating investible assets. Millionaire households in Canada represent 4.4% of the total 17.9 million millionaire households worldwide and equal the total number of millionaire households in Africa and the Middle East[1] combined.

Millionaire households in Canada represent

4.4%

of the total

17.9

million millionaire households worldwide

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HNW demand for financial advice

It is becoming increasingly complicated to manage personal wealth. Longer life spans, rising health care costs, volatile capital markets, business succession planning, increasing education costs for children and ever-changing tax regulations impacting entrepreneurs all feed the expectation that demand for HNW advice will grow over the next decade.

Nervousness about the direction and mysteries of capital markets also drive the HNW to seek guidance from professional advisors. A 2013 research study by brokerage firm Charles Schwab found that 69% of advised HNW investors felt that financial markets had become too complex to invest in without professional advice,[2] and a similar number considered their financial skills to be no better than "intermediate". A lack of preparedness for retirement, or the need for a retirement funding strategy, are also strong drivers motivating HNW individuals to seek professional advice. A U.S. Trust study reported that 52% of wealthy Americans were not confident in their ability to save enough to fund their retirement.[3]

In Canada, the demand for HNW advice is also being spurred on by the aging of the HNW population and the subsequent wealth transfer between generations (see Figure 1). Over the next decade, Investor Economics estimates that almost $1 trillion in wealth – both financial assets and real assets – will be transferred from one generation to another. For the HNW segment, this cumulative transfer could reach $620 billion.

The unprecedented scale of this wealth transfer, and the desire of most HNW families to ensure the orderly and tax-effective passage of that wealth, will also stimulate the need for professional advice.

A number of studies have been undertaken in Canada and the United States in an attempt to assess the use of professional advisors by HNW individuals. While results differ, it is reasonable to assume from these studies that approximately 80% of HNW investors use a professional advisor of one sort or another. Among Canadian HNW investors, that finding would suggest that, at a minimum, approximately 625,000 HNW households have an advisory relationship with at least one professional.

Figure 1 | Transfer of wealth

	Number of transfers (in thousands)	Value transferred (in $ billions)
Mass market $0 – $100,000	700	$33.2
Mid market $100,000 – $500,000	360	$93.3
Upscale $500,000 – $1 million	170	$130.4
Affluent $1 million +	134	$465.9

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Approximately 625,000 HNW households have an advisory relationship with at least one professional.

The size of the opportunity

At the end of 2012, there were an estimated 616,000 HNW households in Canada and a further 647,000 aspiring millionaire households in the upscale segment. From 2012 to 2016, there was a net increase of 174,000 households in the HNW segment. The Upscale segment recorded a similar increase over the same period.

The outlook for the 10-year period ending in 2026 is for the HNW segment to grow at a compound annual growth rate of 6.4%, which will result in a total of 1.5 million households, a net increase of 723,000 (Figure 2). In relative terms, this would push the HNW share of total Canadian households from 5% to 8.2% by the end of that period.

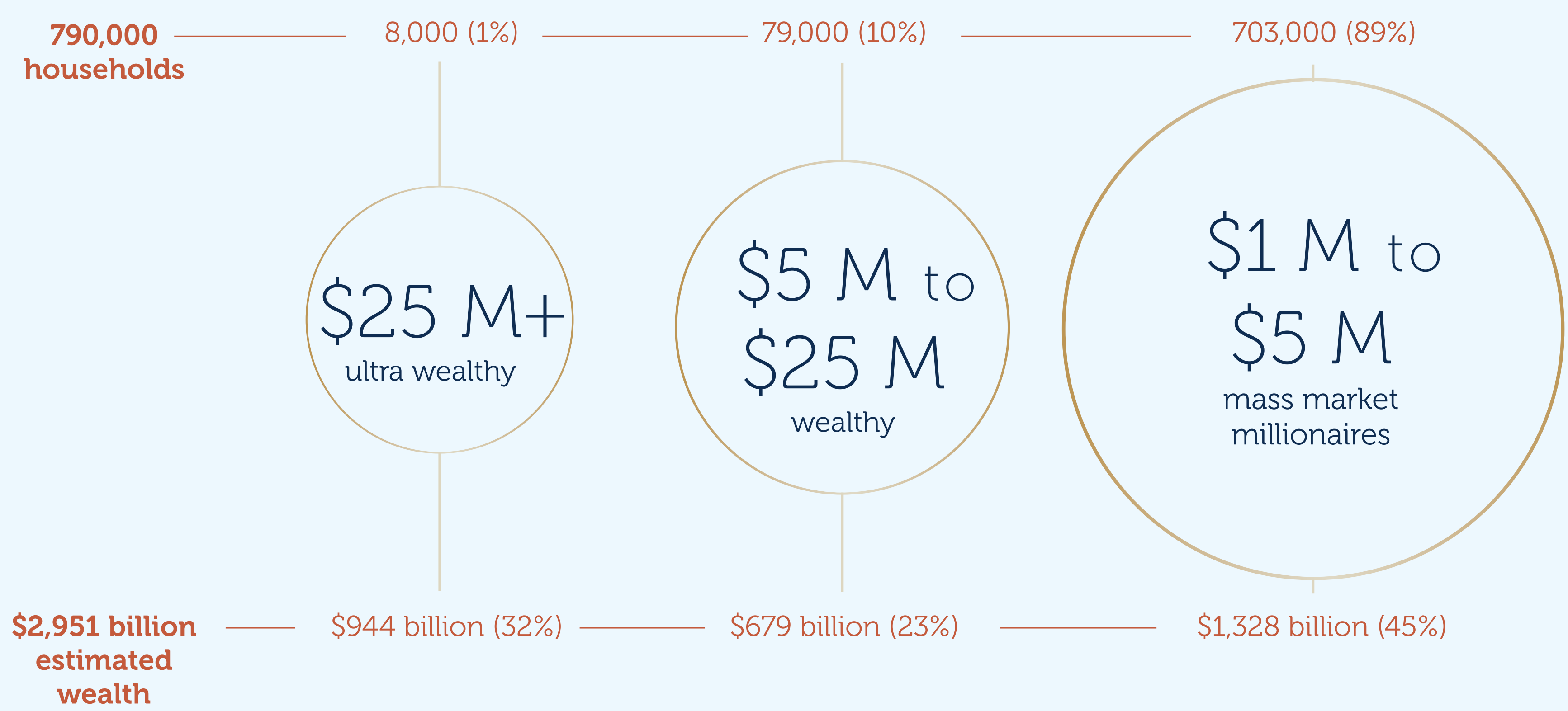
A significant majority of HNW households – 89% or 703,000 – held between $1 million and $5 million in financial wealth and, combined, controlled $1.3 trillion at the end of 2016. While impressive in its own right, this amount is approximately $295 billion less than that controlled by the 87,000 Canadian households whose financial wealth is in excess of $5 million.

Figure 2 | Household wealth segmentation 2016 – 2026 (households in millions)

Wealth level	2016	2026	10-year CAGR*
$0 – $100K	12.5	12.3	-0.2%
$100K – $500K	1.7	2.7	4.6%
$500K - $1M	**0.8**	**1.4**	**5.6%**
$1M+	**0.8**	**1.5**	**6.4%**

* Compound annual growth rate

Figure 3 | HNW Segmentation - Estimated distribution of HNW households (2016)



At the end of 2016, HNW households in Canada, representing 5% of all households, controlled 71.4% of total financial wealth. By 2026, total wealth controlled by these households – $5.6 trillion – will represent 74.9% of total wealth in Canada.

Who are HNW Canadians?

There is no precise grouping of the 790,000 HNW households in terms of occupations or life stage. That said, it is generally accepted that the two most prominent groups are entrepreneurs and retirees.

One group builds wealth more rapidly than most, and the other is likely to see their wealth decline. Other occupational groups well represented in the HNW segment are:

- corporate executives
- members of the legal and accounting professions
- medical professionals
- investment and consulting professionals
- entertainers and professional athletes
- inheritors

Individuals from each of these occupational segments bring particular challenges and problems with which the financial advisor must deal. For example, entrepreneurs may seek assistance in monetizing equity in a family-owned business, while professional athletes may seek counsel on the management of a significant cash flow in a foreign currency.

By the close of 2016, HNW retiree households (identified as those with at least one member over the age of 65 years) numbered 340,000 or 43% of total HNW households. That share compares unfavourably with the 27% share that retirees of all wealth levels represent of total households. By 2026, one third of all households will include at least one retiree and at least half of HNW households will be classified as retired. This change will heighten the focus on capital preservation and income security rather than a concentration on capital accumulation.

Inheritances, once a main driver of personal wealth, are now considered to have enabled less than 20% of HNW households to join the segment. The other side of that coin is that four out of five HNW households are made up of self-made men and women.

Irrespective of how wealth is generated, women will be an increasingly important HNW group. The share of wealth held by women is growing rapidly and by 2026 it is estimated that women will control approximately 48% of all wealth in Canada (see Figure 4). This will be the result of higher incomes, greater participation in the professional workforce, a growing number of female entrepreneurs[4] and the fact that women stand to be the primary inheritors, either as wives, daughters or granddaughters, of much of the wealth transfer that will take place over the next decade.

Figure 4 | Wealth controlled by women

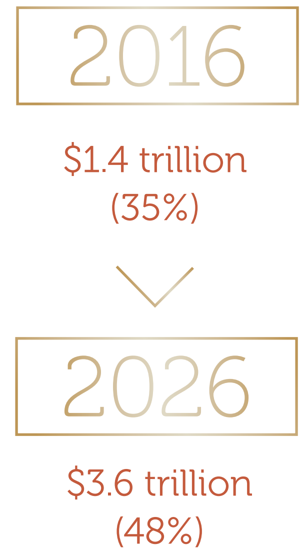


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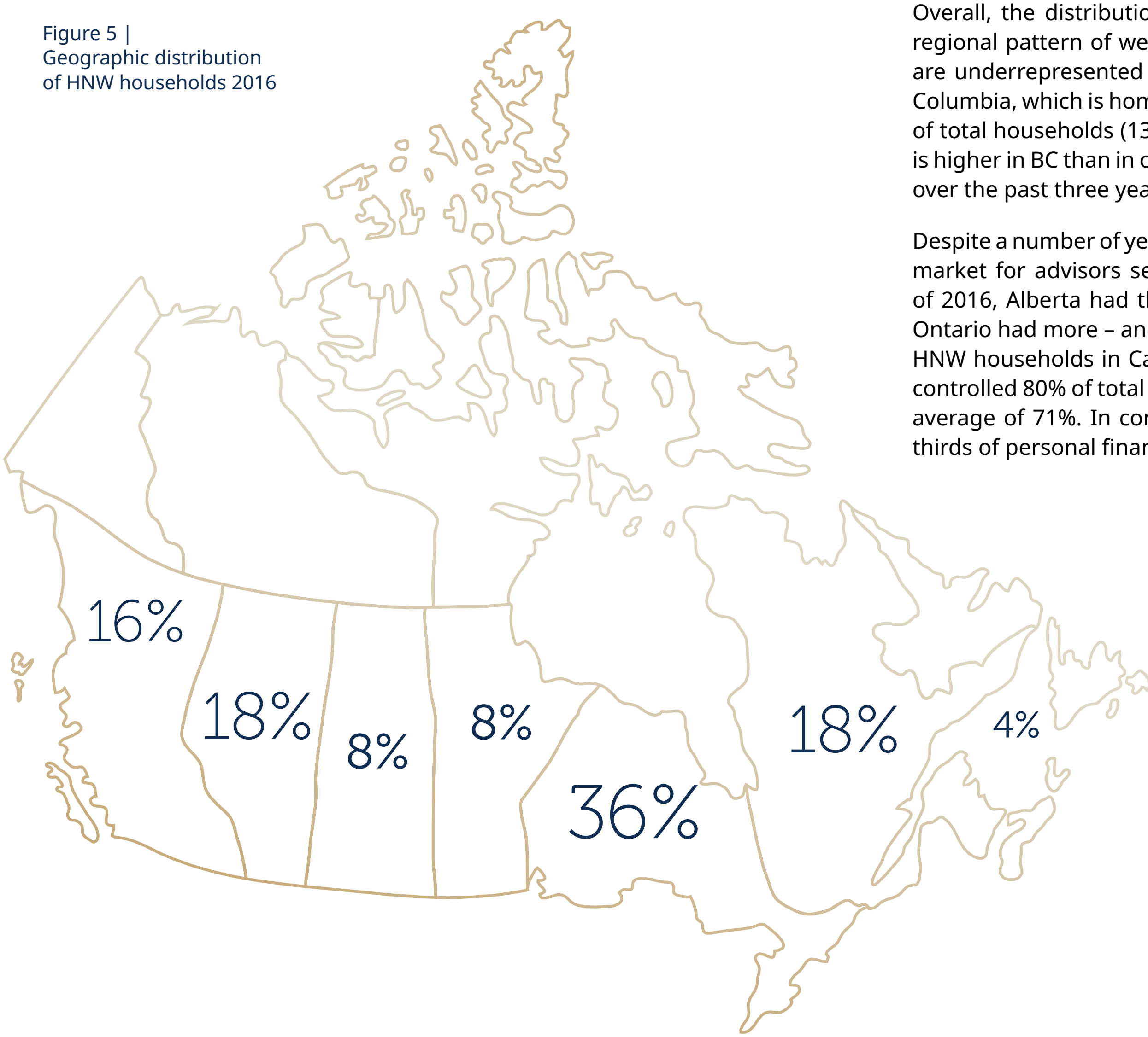
Figure 5 |
Geographic distribution
of HNW households 2016



Canada's HNW map

Overall, the distribution of HNW households in Canada follows the general regional pattern of wealth, although both Quebec and the Atlantic provinces are underrepresented (Figure 5). At the other end of the spectrum is British Columbia, which is home to a higher share of millionaires (16.1%) than its share of total households (13.2%). In addition, the growth rate of the HNW segment is higher in BC than in other regions as a result of buoyant economic conditions over the past three years.

Despite a number of years of economic weakness, Alberta remains an attractive market for advisors seeking to build business with HNW clients. At the end of 2016, Alberta had the second highest number of HNW households – only Ontario had more – and the province had the second-highest concentration of HNW households in Canada. At the end of 2016, HNW households in Alberta controlled 80% of total financial wealth in that province compared to a national average of 71%. In contrast, HNW households control slightly less than two-thirds of personal financial wealth in Quebec.

British Columbia:	16%
Alberta:	18%
Manitoba & Saskatchewan:	8%
Ontario:	36%
Quebec:	18%
Atlantic:	4%

What's pushing HNW growth?

The expansion of wealth in any segment, particularly one that is more likely to invest in equities than any other, requires domestic economic expansion. After two sluggish years in which national economic growth failed to climb higher than 1.4%, many observers – including the governments of Canada and Ontario[4] – expect the Canadian economy to post growth rates of between 2.1% and 2.4% over the next two years. Even in slow-growth periods, the number of HNW households grew at a faster rate than any other wealth segment in Canada.

Clearly, economic growth is not the sole driver of HNW expansion. Moving from the upscale segment to the HNW segment often requires the exchange of hard, long-term assets, such as the sale of a large home[5] or family business,[6] into liquid assets or the receipt of lump sums from sources such as an inheritance (see previous section). Lump sums are also generated through severance settlements, retirement allowances and large pension plan withdrawals. The source of new liquid assets and the sudden increase in these assets often represent a challenge to financial advisors. Advisors find themselves faced with the need to develop a new financial, tax and estate plan for a newly-wealthy client as well as a new approach to the structuring of the client's investment portfolio.

A further stimulus to segment growth in certain cities will be the arrival of millionaire immigrants. The federal government has increased its immigration targets and, in 2015, started a program specifically aimed at wealthy immigrants. In 2016, Canada attracted an estimated 8,000 millionaire immigrants, not counting those who merely invest in property.[7] The settlement flows of these immigrants (and personal capital) focused on Vancouver, Toronto and Montreal.

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What might dampen growth?

On the surface, the outlook for the HNW segment and those advisors that seek to manage their assets or provide other financial services looks rosy. But there are influences who can slow down the growth of the number of HNW households or, if not the number, the level of wealth held by each household (Figure 6).

If the economic forecasts referred to earlier prove to be overly optimistic, the outcome could be lower levels of wealth. Incomes could grow at a slower pace, the amount of surplus income available for savings and investments could be less than projected, and equities unlikely to rise in value. Furthermore, if real estate values return to more normal levels as a result of an economic downturn, liquidity events could be fewer and/or the proceeds would be reduced.

Even if there is no economic slowdown, higher interest rates could lead to the diversion of cash flows away from investments towards debt reduction. Based on Strategic Insight surveys, approximately 30% of HNW households have some form of indebtedness, most of which would be sensitive to any upward movement in borrowing costs.

HNW households are increasingly seeking advisors who are positioned to provide advice on the household balance sheet and household cash flow, not just household investments. Not only are interest rates expected to rise further but taxes on both employment income and capital gains may increase at both the federal and provincial levels. Such moves could also divert income away from investment portfolios.

On balance, however, the positive influences are expected to outweigh the negative, and the projected expansion of the HNW segment over the next decade will provide opportunities for advisors.

Figure 6 | Drivers and brakes on HNW segment growth

Drivers

- Growth in the number of high-income households
- Ability/propensity to save
- Affluent immigration
- Liquidity events
- Wealth transfers

Brakes

- Slow economic growth
- Increased taxation
- Focus on debt reduction
- Correction in Canadian real estate values
- Capital withdrawals

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Taking care of wealth

Many advisors indicate that the primary concern of their clients is the need and ability to preserve accumulated capital. This concern reflects the underlying need expressed by HNW investors to maintain a similar standard of living and level of income into their retirement, as well as to have sufficient capital for other purposes, such as meeting unexpected health care costs, leaving an adequate estate for future generations or making a philanthropic bequest.

To some current members of the HNW community, however, preservation of existing capital over their lifetime is almost a luxury. This small group is concerned they may outlive their assets and become a financial burden on their children.

Against a backdrop of an aging cohort and market/economic uncertainty, it is not surprising that financial priorities have shifted for many HNW households from capital accumulation and growth to wealth preservation. A 2015 U.S. Trust study found that 73% of HNW investors under the age of 50 focused on asset growth, while only 44% of those over 50 were likely to share the same objectives.[8]

Connected to the concern registered by some HNW households about the need to preserve, rather than to grow, wealth is the fear of another major market correction, such as the Global Financial Crisis in 2008. This concern may reflect a lack of investor confidence in their own knowledge about the causes of such market events, and a belief by some that investment professionals were caught unaware by the downturn. This fear of a bear market and/or significant volatility is a driver behind a shift by HNW investors to a more conservative positioning in terms of risk, as well as a willingness to look at asset classes, such as real estate, that are more tangible and seemingly more reliable than, for example, equities.

Preserving wealth is a concern shared equally among various occupational groups, albeit for slightly different reasons. For example, inheritors often consider themselves to be the temporary stewards of family wealth and have a strong sense of duty to safeguard these assets for future heirs. On the other hand, for newly wealthy entrepreneurs, the ability to maintain a privileged lifestyle through wealth preservation may be of greater importance than is the passing of wealth down to future generations. Female HNW clients are more concerned with the preservation of strong family relationships, irrespective of the capital cost, whereas male HNW clients seem more concerned with the preservation of capital.

To some current members of the HNW community, preservation of existing capital over their lifetime is almost a luxury. This small group is concerned they may outlive their assets and become a financial burden on their children.

A comfortable retirement

Concern about the funding of their retirement has not necessarily driven HNW individuals, particularly entrepreneurs, to establish a detailed plan well ahead of retirement. Studies suggest that a minority of entrepreneurs (41%) have started to establish a pool of retirement savings outside their equity in the business, despite the existence of tax-efficient vehicles designed with that purpose in mind.[9]

One of the complicating factors for entrepreneurs is the need to undertake business succession planning as well as retirement and estate planning. Corporate executives, particularly those with public companies, are often well cared for by generous defined benefit pension plans that eliminate any concern about outliving a pool of personal savings.

Entrepreneurs often wait too long to establish succession plans, a situation that can complicate their retirement expectations. Furthermore, an increasing number of children are unwilling to inherit the family business. It is apparent that inheriting the family business is being viewed as an undesirable duty by some children, who are seeking a greater work-life balance and who have differing interests or skill sets than their parents.

Without solid business succession plans in place, owners may be forced to stay longer than anticipated or, in serious cases, the business may fail if a viable succession plan is not implemented. One recent study found that only 20% of Canadian family businesses have documented succession plans in place.[10]

Figure 7 | HNW households 65 years and older 2016 – 2026

2016
340,000
households

43% of total
affluent households

2026
745,000
households

51% of total
affluent households

2016
$1.1
trillion
households

36% of total
affluent wealth

2026
$2.4
trillion
households

43% of total
affluent wealth

Transferring wealth

Another major concern raised by HNW investors relates to the transfer of assets in various forms to the next generation and other beneficiaries. To most Canadians, the planning associated with the transfer of wealth, while often delayed, is relatively straightforward in that their estate will flow from one spouse to another, or from a surviving spouse to the next generation.

As mentioned earlier, the projected value of intergenerational transfers over the next decade was identified as being close to $1 trillion. Of this amount, about $620 billion is expected to flow from HNW individuals to their families. Given the amounts in question, and the desire to transfer the assets in a manner that does not make the Government of Canada a major beneficiary, the importance of estate planning to HNW clients is no surprise.

HNW couples frequently mention concerns about:

- The amount of wealth that may be passed to their heirs.
- The manner in which that wealth should be transferred.
- The amount that should be available immediately to beneficiaries and amounts that should be held in trust for future distribution.
- The amount that should be used to establish a legacy or to make a one-time gift to charity.

Furthermore, HNW individuals often raise concerns about how their children will react to, and manage, the receipt of significant wealth.

A survey undertaken by a major financial institution found that 27% of HNW Canadians surveyed were concerned about their children's ability to manage their future inheritance, with the main reason being that their children would spend money wastefully.[11] HNW parents, of all ages, are often worried about passing too much wealth to their children for fear of either promoting a sense of entitlement or a lack of appreciation for the value of wealth.[12]

Tax concerns

Minimizing the tax implications of various courses of actions related to succession planning, estate planning and philanthropy are concerns frequently raised by HNW investors with their advisors (Figure 8). These concerns have abated in recent years as achieving core objectives, such as distributing wealth in a fair and equitable manner, now come well ahead of any tax consequences. In other words, there is an acceptance that taxes have to be paid and that tax minimization will not stand in the way of more fundamental goals.

Figure 8 | Major tax issues of the HNW

A major study by U.S. Trust found that 66% of HNW individuals have little knowledge of tax changes on investment returns, while 70% have poor knowledge of tax-saving strategies available to them.[13] This lack of confidence regarding tax regulations is more pronounced in females than males. Younger HNW individuals are known to be more sensitive to tax issues than their older counterparts, possibly due to the fact that younger people are primarily concerned with accumulating assets and wealth, which is dependent on the availability of as much after-tax income as possible.

66%

of HNW individuals have little knowledge of tax changes on investment returns

70%

have poor knowledge of tax-saving strategies available to them

Creating a legacy

A majority of advisors interviewed for a recent Strategic Insight study indicated that many of their clients raised concerns about how best to leave a legacy or, if not something as formalized as a legacy, how to share some of their financial success with charities. To some, it is a case of an embarrassment of riches, while to others it is a question of moving from success to significance. While the priority of establishing a legacy often fell lower than ensuring that immediate family members are adequately provided for, it is an area of growing interest to a number of HNW families.

Among the HNW, philanthropic discussions are often initiated after a personal or family occurrence, such as a serious health issue or a birth or death in the family, rather than due to professional advice. Younger HNW individuals and HNW women were found to be more likely to raise the issue of a charitable gift or the establishment of a private foundation than were more senior members of the HNW community, particularly men.

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Income interruption

Another financial concern of the HNW is the potential for a sudden loss of income through job loss by corporate executives or business failure by entrepreneurs, the segments most likely to face such a situation. In one study, losing a job, or having a spouse lose their job, was a worry felt by a third of HNW individuals surveyed.[14] Various studies indicate that, over the past decade, job security for executives has declined and that almost 25% of departures are involuntary. According to Industry Canada, current survival rates for small- and medium-sized businesses in Canada decline over time. About 85% of businesses that enter the marketplace survive one full year, 70% survive for two years and only 51% survive for five years.

While income loss may be partially offset by severance or another type of monetary settlement, displaced executives who are not retiring or who are seeking a career in a different type of organization or market sector often face extended periods of unemployment. Surveys of HNW individuals have also found that younger respondents tend to worry more about losing a job than do older clients.[15]

Figure 9 | Leading concerns of the HNW and their advisors

HNW individuals worry about…

- Preservation of personal wealth
- Income security
- Market volatility
- Minimizing tax
- Education of heirs
- Legacy planning and charitable giving

The HNW seek…

- Integrated wealth management
- Customized solutions
- Greater value for fees
- Consistent returns
- Technical expertise
- Long-term advisorrelationships

Wealth advisors to the HNW worry about…

- Decision-making within wealthy families
- Inertia
- Asset concentration
- Client focus on short-term issues
- Over- and under-insurance

> Recent studies suggest that the highest concern of HNW individuals is their personal health and the health of their families.

The biggest worry of all

Not with standing the concerns discussed above, recent studies suggest that the highest concern of HNW individuals is their personal health and the health of their families. This concern transcends worries about outliving their wealth, the future direction of the global economy and their inability to maintain a particular lifestyle.

Younger HNW individuals, not surprisingly, rank health concerns lower than, for example, financial security. The rankings change significantly for baby boomers and those in retirement, the demographic sub-segments that comprise the majority of HNW individuals. In both these segments, health is the dominant and overreaching concern.

Delivering the service

Although there are service channels that rely exclusively on the HNW client, there is no single delivery channel in Canada that dominates the provision of services to the HNW segment. This reflects the nature and history of wealth in Canada, as well as a regulatory regime that has sought to separate, rather than integrate, the various service sets demanded by such clients.

There are five primary channels dedicated to the HNW segment:

- Private banking and private investment counsel (major channels).
- Multi-family offices (minor channel).
- Personal trust and full-service brokerage (channels increasingly concentrated on upper-end clients).

Additionally, there are a number of independent and dedicated advisors in other channels, such as the financial advisor channel, that serve HNW clients, but do not restrict their business activities to only that segment.

Intensely competitive

Strategic Insights estimates that there are currently approximately 14,300 advisors in Canada that dedicate some or all of their efforts to managing the financial needs of HNW clientele (Figure 10). Of this number, almost half are employed by one of the major banks, while the remaining advisors are aligned with other financial institutions, such as insurers, or privately owned firms, many of which only provide investment or planning services.

Nearly half of all advisors seeking HNW clients are employed in the full-service brokerage (FSB) channel. The FSB channel also represents the largest share of HNW assets and relationships. The private wealth management (PWM) channel – which includes the private bankers and investment counsellors shown in Figure 10 – is dedicated to the HNW, although no more than 40% of HNW make use of the channel.

The ability to distinguish between the various delivery channels, other than through the lens of the regulators, is becoming increasingly more challenging. Private bankers remain in a unique position to directly provide cash management and credit facilities and trust companies remain the only businesses able to provide corporate trustee services. Beyond those areas of specialist and restricted activity, the various channels all claim to be able to offer sophisticated financial, tax and estate planning as a precursor to the development of a myriad of investment solutions.

Figure 10 | Advisors seeking HNW investors

Total advisors seeking HNW clients:
14,300

10% branch-based advisors: 1,300	100% private bankers: 460
60% full-service advisors: 6,600	100% investment counsellors: 460
15% independent financial advisors: 4,500	100% fee-only planners, multi-family offices (MFOs): 150

Competitive edges for advisors

The choice made by HNW investors between various channels depends increasingly on the technical skills of the advisor, the reputation of the firm and the breadth of the offer. For example, based on research undertaken by Strategic Insight, approximately 10% of Canadian HNW investors include alternative asset class investments (real estate, infrastructure, private equity) in their portfolios although many investment managers do not provide access to these types of investments.

In other cases, clients seek sophisticated planning services from the same source that provides their investment services. Successful wealth managers look at all items and all risks represented by the client's balance sheet.

Other than comprehensive wealth planning and investment services, HNW households are also focused on wealth-transfer services, business succession planning, legacy structuring and other services associated with the wealth of the family. There has been a significant shift in emphasis away from individual services to those that deal with the wider family, and advisors that ignore this trend risk alienating clients, particularly those in the baby boomer and retiree sub-segments.

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Products and services for HNW Canadians

Research into products and services available to the HNW segment indicate that, other than life stage, the major influence on product selection is the level of wealth. For example, services such as estate planning, the use of trusts and advice around philanthropy increase as wealth increases. Research in the United States conducted by Pershing points to survey results indicating that 59% of firms dealing with HNW clients in the $1 million to $3 million wealth bracket offer advice connected to charitable giving. This percentage rises to 80% for firms that target clients with wealth in excess of $5 million.

Conversely, the offering of services such as insurance and retirement planning declines as client wealth increases. The same survey suggests, for example, that 91% of firms focused on the lower wealth segment of the millionaire community offer retirement planning, whereas only 60% of firms dealing with the wealthiest segment ($5 million plus) offer that service.

It is also apparent that, even though an advisor may not be able to fulfill a particular need of a HNW client, they need to be aware of how that need could be addressed or how an issue could be resolved. Many HNW individuals may not have long-term debt, such as a mortgage, but many, according to Strategic Insight surveys, benefit from lines of credit to enable them to manage their cash flow in the most efficient manner. To assist their clients with cash management outside investment income, advisors should be familiar with the availability of private banking services in their region.

Similarly, an increasing number of HNW investors have a global outlook to both their professional and personal dealings. This may reflect family heritage or a desire to diversify their assets and sources of income. Irrespective of the drivers, advisors will be expected to be able to assist HNW investors with their global aspirations and to link them with experts – be it in the areas of taxation, real estate or portfolio investments – who can enable the client to make appropriate decisions.

91%

of firms focused on the lower wealth segment of the millionaire community offer retirement planning

60%

of firms dealing with the wealthiest segment ($5 million plus) offer that service.

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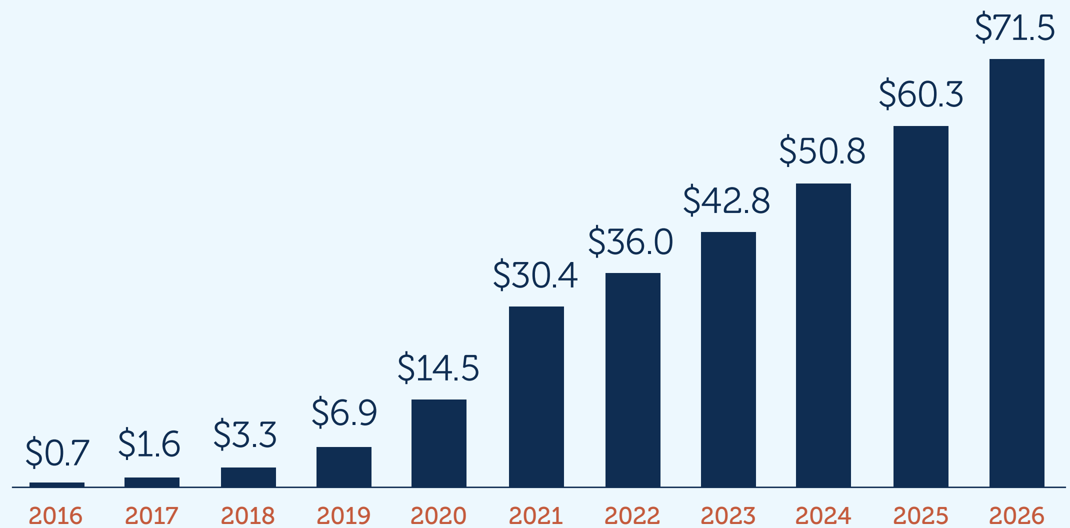
Digital advice platforms

Much has been written about the potential disruption by technology-driven businesses including the 15 or so robo-advisor firms in Canada. Collectively, assets under management at these firms are less than $1.5 billion (June 2017) or considerably less than 1% of total discretionary assets. In addition, based on proprietary survey data, Strategic Insight estimates the average account size to be $20,000 or 1% of the average account size within the private investment counsel sector.

Size aside, the recent growth rate and the projected growth rate of the robo-advice industry is high as is the interest being shown by major financial institutions (Figure 11). In addition, the technology platforms and speed of product development are causes for concern to the traditional providers to wealthy investors. Finally, if the enthusiasm shown by the HNW for online brokerages is a guide, there is every possibility that future growth of robo-advisors will be partially driven by the migration of younger HNW investors to digital platforms.

While that may be the case for HNW millennials, there is evidence from a recent study undertaken by the CFA Institute that only 12% of HNW investors believe that a digital offering is central to a wealth management offer. The reverse of that is 88% of HNW individuals see access to skilled professionals as being a critical feature of a wealth management service offer. The same study indicated that professionalism and integrity are considered five times more important than "tech savviness" by wealthy individuals.[16]

Figure 11 | Growth of robo-advisor assets 2016–2026 ($ billion)



> The recent growth rate and the projected growth rate of the robo-advice industry is high as is the interest being shown by major financial institutions.

> They seek out technical competence, a firm with a strong reputation, a record of reliable and consistent investment performance.

What do the HNW really want?

HNW households have fairly straightforward expectations when it comes to the nature of the relationships they have with financial advisors. They seek out technical competence, a firm with a strong reputation, a record of reliable and consistent investment performance and, increasingly, a firm and an advisor that are focused on the overall wealth of the client family not just the affairs of the primary breadwinner.

Generally, HNW clients are a very satisfied group. Using data from recent Strategic Insight surveys, 87% of HNW clients indicate that they are either very satisfied or satisfied. While that suggests that 13% may find services or performance to be lacking, the very low level of turnover of HNW clients in most dedicated channels suggests an even higher level of comfort. It should be pointed out that the level of satisfaction tends to decline as wealth increases suggesting that the challenge of managing relationships with the ultra-wealthy are not to be underestimated by advisors.

Despite high investor satisfaction with the industry, only 48% of HNW clients indicate that they concentrate their dealings with their primary advisor, leaving room for other advisors to participate in the client's wealth management activities. Again, the level of wealth has an influence, and there is evidence that as wealth increases the percentage of wealth held at a client's primary advisor declines.

As with any profession, there are areas of complaint and it is accepted that HNW clients are difficult to please. Their main area of complaint is the frequency of contact by the advisor and a below-average level of satisfaction with the portfolio-review process.

It is also evident from proprietary surveys that one in every five HNW clients would like to receive more wealth management guidance than they currently receive, and that only two-thirds of HNW clients are satisfied with the manner in which complex situations are managed. These complex situations can arise, for example, when business owners seek to develop plans to transfer ownership of the business to family members when some members of the next generation play little or no part in the success of the family enterprise.

Wealthy individuals and families are not expecting a single advisor to be able to answer all their questions and single-handedly solve all problems. Far from it. But, these individuals and families do expect financial advisors to provide access to other professionals who are able to deal with specific issues. The complaints arise when the financial advisors recognize the issue but fail to take steps to enable the client to resolve the matter.

Key takeaways

- The Canadian high net worth market is growing faster than any other retail segment.
- Entrepreneurs and retirees make up the two largest groups within the segment.
- The segment's average age is just below the normal retirement age of 65.
- Advisors must focus on the financial and lifestyle needs of the family, not the individual.
- Segment growth is being fueled by liquidity events, inheritances and lump-sum employment income.
- The emphasis of advisors should be extended beyond investments to include the balance sheet, cash flow, risk-management, tax planning and estate planning needs of the client family.
- The needs of HNW clients become more complex as their wealth increases.
- Capital preservation, limited volatility and income generation are the primary investment goals of HNW investors.
- HNW families are demanding ever-increasing expertise and commitment from advisors.
- The distinction between the various channels serving the needs of the HNW segment is becoming blurred.

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