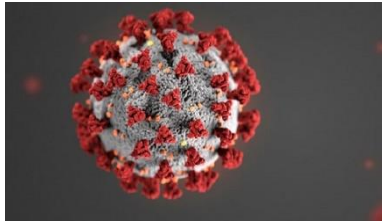


2021

ADVISOR PERCEPTION

26TH YEAR ANNUAL EDITION

Advisor Respondent Report: State of the Industry: COVID-19 Edition



FOR ADVISOR-USE ONLY.

The Advisor Perception Study

In its 26th year, the annual Environics Advisor Perception Study is the most comprehensive study of Canada's investment and insurance advisors. The study looks at advisors, their practices, and the brands they choose to work with, including what is driving brand loyalty.

Challenge and Success During COVID-19

In 2020, the study took place at the beginning of the pandemic, a time when advisors were beginning to pivot their practices to meet new challenges - continue to serve clients, and deal with uncertain markets - but permanent impacts had not necessarily become clear.

In 2021, the study paints an updated picture of advisors whose businesses are being impacted by the ongoing pandemic, but who are evolving their practices and adapting to a new reality. Advisors are feeling increased time pressures and client demands. They are responding by focusing their time and efforts on tasks, clients, and growth activities that will help to move their businesses forward.

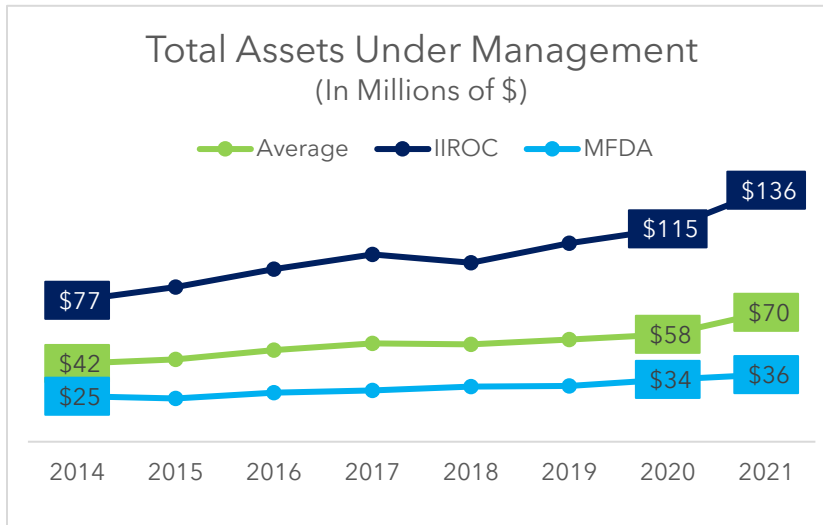
As much as advisors are facing challenges, they have been rewarded with strong success in their practices. 2021 was a year of strong sales and growing AUM as advisors increasingly focused their practices on attracting and retaining higher-asset clients.

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2021

ADVISOR PERCEPTION

26TH YEAR ANNUAL EDITION

Advisors also resume focus on other critical practice issues – including continuing to think about who they will serve in their practice, what brands they will support and what types of service and support they will expect from the manufacturers with which they choose to move forward.

Evolving Advisor Needs

So, what are advisors focusing on to help them in 2022? As advisors seek to deal with external pressures and continue to drive their business forward, they are continuing to focus more attention on a shorter list of manufacturers.

These include brands that advisors believe are doing the most to build their trust and support their practices – brands with a strong wholesaler experience, the right products for their clients, strong personal relationships and those from whom they expect strong product performance.

Wholesaler meetings have been an ongoing challenge for advisors. In the current environment, advisors are limiting wholesaler meetings in favour of spending more time with clients. While they are often continuing to meet with top wholesalers – the 1-2 wholesalers who provide the best or most relied-upon service and support – they meet much less frequently with those who have not developed the same level of support. Because wholesalers are a critically important communication channel for many brands, this means that companies that had strong wholesaler



2021

ADVISOR PERCEPTION

26TH YEAR ANNUAL EDITION

support prior to COVID effectively have a head start in communicating with advisors. However, brands that were not in a strong position now see greater challenge in continuing to communicate and advance their brands with advisors. Omicron delayed a much anticipated re-opening of in-person meetings, but when wholesalers are able to meet face-to-face for the first time in two years for coffee or lunch meetings, we anticipate seeing realignments in brand support among those with compelling offerings.

- **Product shelves** are important to advisors. However, as advisors increasingly focus on more demanding higher-asset clients and respond to specific client needs and challenges during COVID, having a large list of products is becoming less critical. Instead, companies need to focus on differentiation – having the right products for specific client needs and then helping advisors to communicate product benefits to clients and better integrate specific products into portfolios. As advisors fight to be more client-centric, manufacturers need to support their efforts.
- **Personal relationships** matter more as advisors are focusing attention on brands



that can not only provide the products and support they need to serve clients, but also that they believe can add real value and they will enjoy working with. This means that brands need to provide more personal service or at least connections to 'real' and relatable people – from friendly, well-trained and efficient customer service reps in call

centers, to relatable, intelligent PMs and accessible senior executives with strong and unique points of view. Advisors want to connect brands to people, values and relationships. Right now, this is more important than broader marketing or advertising efforts.

- **Back-office** service is related to personal relationships and is also critical right now. In past years we have seen advisors reduce the numbers of manufacturers they are working with in the face of regulatory pressures and a desire to streamline practices and this is ongoing. As advisors focus more attention on a smaller number of manufacturers in their quest to provide better products, services and outcomes to clients, it becomes critical that these brands demonstrate that they

2021

ADVISOR PERCEPTION

26TH YEAR ANNUAL EDITION

can provide accurate and proactive support. This is a high bar, but for advisors who are feeling pressure to focus on clients and continue to grow practices in the face of a pandemic, managing back-office errors, underwriting issues or service frustrations are challenges that few are willing to endure.

- **Insurance support** is seeing similar pressures to the investment side of the industry. Competitively, the larger firms have gained advisor support. Although overall advisor ratings changed little, advisors have become more critical of the insurance industry's efficiency in underwriting and providing back-office service and support. This is driving some brand-switching activity where advisors feel frustration or impatience.



Evolving Product Usage

As needs and external preferences evolve, so do advisors' product needs and preferences. In particular, 2021 sees a shift towards both mutual funds and ETFs as well as strong movement towards ESG products.

- **Mutual Funds** are seeing strong flows recently as investor savings grow and many embrace active management in the face of market uncertainty. In 2021, advisors tell us that mutual funds made up an average of 40% of annual sales with gains in percentage of sales and sales volumes across all advisor types.
- **ETFs** see similar gains among IIROC advisors and now represent an average of 12% of sales. Interestingly, our research shows that advisors are adopting ETFs because of the cost and favourable fee structure, but also because of the efficiency and convenience. In general, advisors view ETFs and mutual funds as complementary products and are often looking for new and innovative ways to integrate both into client portfolios.
- **ESG** investing has been intertwined with the pandemic and is gaining considerable momentum among institutional and consumer investors and – to a slightly lesser extent – among advisors in recent years. However, as Canadians' interest grows and as more manufacturers offer increasingly sophisticated products and brand support for ESG, advisor adoption is accelerating. A much larger proportion of

2021

ADVISOR PERCEPTION

26TH YEAR ANNUAL EDITION

advisors now tell us that they have either already adopted ESG or see it as a significant near-term future opportunity.

- **Insurance** sees an increase in the share of sales to term products, and a shift from universal to whole life within permanent insurance. We also see a decrease in the proportion of advisors selling critical illness or disability insurance overall. Renewed focus in these categories may emerge post-pandemic.

Shifting Brand Support

The challenges of the past two years combined with shifts in product usage and advisor need is having a significant impact on which manufacturers advisors are supporting. As advisors increase focus on client needs and reduce time spent engaging with wholesalers or manufacturers' marketing efforts, the result is a growing split in the industry where a relatively short list of leading manufacturers are making gains in advisor usage, familiarity and ratings, while others are experiencing growing challenges in engaging with advisors and advancing their brands. The net effect is that market leaders are consolidating business while other brands are seeing losses.

It is interesting to note that while industry leaders are seeing growth within the investment industry and others see greater challenges, we also see a number of smaller brands with relatively concentrated product shelves – including brands like EdgePoint, PIMCO and Capital Group – making gains as well. These brands are typically viewed by advisors as having a combination of strong customer connections and compelling product performance across a short list of products.

So who is seeing growing loyalty among advisors in 2021?

On the mutual fund side of the industry, Fidelity, Mackenzie and Dynamic see a combination of strong advisor loyalty combined with high ratings. EdgePoint and Capital Group have smaller footprints, but also see impressive ratings among advisors.

For ETFs, RBC iShares, BMO Global Asset Management and Vanguard are the market leaders based on loyalty and ratings. However, while they have more limited ETF offerings, Fidelity and Mackenzie are both among the top-rated brands as well.

Within insurance, iA Financial emerges as the top-rated insurance firm overall and in each of the product lines surveyed. Manulife, Canada Life and Empire Life see sales incidence

2021

ADVISOR PERCEPTION

26TH YEAR ANNUAL EDITION

gains for life insurance, and iA Financial and Canada Life see gains within segregated funds.

Summary

Despite the hope there will be a reversion to “business as usual”, COVID-19 has had a profound impact on how Canadians work and conduct business and the advice industry is no different. The good news is that advisors are generally adapting well and the industry is working hard to understand their evolving needs and preferences and respond with improved service and support.

Thank you for the time you took in 2021 to participate in our research. Environics Research is working hard to ensure that when advisors like you speak, the brands you work with listen and respond.

