Sun Life | Consulting

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Industry Insights

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Understand client values to drive responsible investing conversations

Clients are caring more about what is in their portfolio but need help navigating the environmental, social and governance (ESG) space.

Understanding clients' preferences for sustainable investing comes from asking the right questions. Some clients have industries they don't want to invest in due to personal beliefs while others prefer ESG driven companies. However, when discussing ESG strategies there is an elevated risk of less diversification and higher fees which may not settle well for some investors.

There are some trade-offs the client will need to be aware of if they want to avoid entire sectors such as mining or fossil fuels. If a client is adamant they only want ESG funds in their portfolio, advisors should inform them it wouldn't be the most optimal strategy in terms of returns. Instead, diversification in sectors which are aligned with the clients' values would help offset that risk.

Source: Investment Executive

Takeaway: Clients are on different spectrums when it comes to ESG investing. Advisors should understand their values and viewpoints prior to recommending sustainable investing options.

Get answers to questions on the First Home Savings Account (FHSA)

It's important that clients understand what happens when an FHSA holder dies.

FHSA has been legally available since April 1 but only a few financial institutions have made them available to clients due to the complexity of launching the account. Some of these issues were around understanding the various trigger points for closing an FHSA.

Some issues include:

- The account holder turning 71
- The last account holder's death
- 15th anniversary of opening their first FHSA
- The year after the account holder makes their first qualifying withdrawal

Another issue comes from aligning withdrawals through multiple FHSA accounts. If an account holder has multiple FHSAs with various institutions activity is not shared among them. Moreover, the FHSA must close at year end after the account holder's first withdrawal.

Any un-withdrawn savings can be transferred on a tax-free basis to RRSP or RRIF the year after their qualifying withdrawal.

Source: Investment Executive

Takeaway: Ensure clients are aware of the rules for FHSA when contributing or withdrawing from the account as it is different from an RRSP.

Transition planning in family businesses

Various factors affect succession planning for family businesses.

Preparing the next generation to play a role in a business is everyone's responsibility. However, according to the Family Enterprise report, the top concerns that are present in intergenerational transfers include:

- Next generation is not ready nor interested
- Tax implications of transferring business to family member(s)
- Family disagreement or conflict
- Senior generation not letting go

For clients interested in intergenerational transfers, here are some considerations they may wish to explore and discuss with the appropriate advisors:

- **Early involvement and emotional connectedness**
  - Getting the younger generation involved early can help build awareness as well as gain understanding and appreciation for entrepreneurship.
- **Training and preparation**
  - As the next generation gets older, training them into more important tasks for the business provides them with a sense of ownership and builds continued interest. This can be achieved through formal education while also ensuring soft skills are developed.
- **Mentorship and peer interactions**
  - Mentorship plays a key role in growing the next generation to help navigate their roles and careers. As well, communication, listening, understanding relationship dynamics, and morale levels of family members is extremely important.
- **Finding the right role**
  - Don't force a family member to play a role in the business if they don't want to. Get them interested by providing rotational business experience where they get a chance to learn different parts of the business and can understand what area best suits their passion and skills. This approach better prepares them for leadership roles.
- **Trusted advisors, learning and accountability**
  - Having a trusted external advisor can help make the learning, transition planning and flow of information smoother for the business. According to Alchemy and the Family Enterprise, only 17% of respondents would seek external advice and support after internal approaches are exhausted.

Source: Family Enterprise

Takeaway: Be a trusted advisor to clients who own a family business. Indicate the importance of transition planning along with understanding how emotional connection is important for the continuation of intergenerational businesses.

Enhance your referral network with your elevator pitch

It's time to start connecting and communicating.

Differentiate yourself with a strong referral network that works for you. Connecting and communicating with other professionals will help you become the go-to advisor as you'll have the network in place to direct clients to a variety of different experts.

To establish this network once you've identified connections use these questions:

- How does each connection describe me and the value I provide?
- Do they know my unique value proposition and the processes I have?
- What are the benefits for them to work with me?
- Why will their clients benefit from working with you?
- Do they know the role they play and are aware of any potential risks?

Once you have the answers create an elevator speech for the different types of connections you have. Ensure it's clear by practicing your pitch with a trusted colleague who can provide feedback. This feedback should be twofold.

- **Content** – does your pitch provide meaning in a conscientious and effective way to your intended audience?
- **Context** – how well is your presentation tailored to your audience, ensuring it answers what's in it for them?

After these steps, you're ready to make your referral network work for you!

Source: Wealth Management

Takeaway: Connect and communicate with other professionals to strengthen your referral network.

What is your retirement picture?

Tips to help you initiate your succession plan.

You help others prepare for their retirement, but have you prepared for yours? Preparing your succession plan early can help you manage unforeseen situations later. Here are four ideas to consider while initiating your succession plan:

1. **What do you want retirement to look like?** Are you picturing leaving the practice completely or staying involved in some way? This question will help you decide how to transfer your business whether it's a clean exit or planning a new role at the firm.
2. **Who will be the successor?** Do you want an internal or external successor? Both come with pros and cons.

Internal:

- Culture is likely to stay the same not hindering service levels for clients.
- It can take longer to shape the leader, but you can gradually increase their responsibilities while you phase out yours.
- A higher chance to continue in some role at the firm.

External:

- Culture may change, and you have less control over what happens to your business legacy.
- Less time consuming.
- Less likely to continue in a new role at the firm.

3. **Have you connected with a succession planning coach?** These experts can provide insights you may have not considered. They can also help assess the value of key parts of your firm to ensure you receive a fair price.
4. **When do you plan to communicate?** You will want to communicate your plan once you have the details. When you address clients and staff make sure you clearly address what this change means for them. Sharing information and encouraging questions can help ease nerves that come with change.

Source: Wealth Management

Takeaway: Get an early start on your succession plan to ease future challenges.

Are your clients prepared for retirement?

Plan early and review often to keep clients on the right track.

Many clients falsely believe that financial planning ends when they retire. The truth is, without proper planning before and during retirement, clients may find themselves – or their beneficiaries – financially struggling through the next few decades. As trusted financial partners, advisors play a critical role in creating the ideal retirement lifestyles.

1. **Optimize different sources of income considering their withdrawal limits and tax consequences.** Clients may expect to receive multiple sources of income in retirement, from government benefits, pension plans, and registered and non-registered savings. It's important to understand age and income eligibilities, minimum and maximum withdrawal limits, and the tax consequences for each to optimize when and how much income to take.

2. **Account for inflation**. The inevitable impact of inflation on income is particularly prominent in retirement when income may not be growing as much as before retirement. Periodic reviews of cash flow and retirement plans are key to staying on the right path.

3. **Manage exposure to market movements**. Economic changes and market volatility can also impact clients' retirement income. As clients get closer to retirement, they may want to revise their asset portfolio composition to align with their changing risk appetite.

4. **Don't forget health care needs**. Health conditions can change quickly and unexpectedly during retirement, and those changes would affect the intended retirement lifestyle and/or expenses. Annual reviews of health conditions and coverages should be conducted to prepare for this.

5. **Regularly review the paperwork**. A well-thought-out estate plan requires all necessary documents in place, including powers of attorney, trusts, wills, beneficiary designations and a trusted contact person. These documents should be reviewed annually by the client to ensure their relevance, and the team of professionals trusted to carry out the estate plan should be introduced to family members and beneficiaries.

Source: Forbes

Takeaway: Advisors play a critical role in helping their clients prepare for retirement, even after retirement begins. Plan early and review often to keep clients on the right track.

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Proactive vigilance to increase confidence in the financial industry

Assuris and Canadian Securities Administrators (CSA) announcement will help with public confidence.

Takeaway: New announcements from Assuris and CSA will help increase public confidence in the financial/insurance industry.

Announcements from Assuris and the CSA should strengthen the public's confidence in the insurance industry. Assuris announced an increase to the guaranteed protection levels and the CSA shares tools to avoid fraudsters.

Assuris is an independent not-for-profit organization protecting Canadian policyholders from life and health insurance company failures. All Canadian carriers that write life and health policies must be a registered Assuris member. As of May 25, benefits are now covered up to the greater of 90% of the promised benefits, up from 85% prior to the change, or the following amount:

- Death benefit: $1 million (up from $200,000)
- Health expense: $250,000 (up from $60,000)
- Monthly income (e.g. from annuities): $5,000/ month (from $2,000/ month)
- Cash value and segregated fund guarantees: $100,000 (from $60,000)

Accumulated value benefits were also raised to full protection up to 90% or $100,000, whichever is higher.

Regulators and the CSA note a spike in advisor impersonators who often use the name of real registered advisors. The CSA urges investors to check advisors' backgrounds and history with these tools:

- CSA's Investor Alerts list
- CSA's National Registration Search
- Industry Regulatory Organization of Canada's Advisor Report tool

Source: Investment Executive 1 & Investment Executive 2

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How to leverage artificial intelligence (AI) as a tool to automate and help with advisor tasks

AI can be a strong tool for advisors to improve task efficiency.

Advisors can use AI to improve their practice, increase efficiency and provide clients better service. Here are some ways a financial advisor can leverage AI:

- Can help with time-consuming tasks such as research, data analysis and report generation[1]
- Provide insights by analyzing data and identifying trends and patterns that would be cumbersome for humans to identify
- Personalize advice to ensure that each client receives relevant information
- Can help with research about investments, insurance and financial products
- Provide information about markets, the economy and other financial topics to help clients stay informed
- Respond to client queries quickly and easily
- Manage risk to protect clients from losses and achieve their financial goals
- Can help meet legal obligations and protect clients by reinforcing regulations
- Oversee that investments are performing as expected

[1] This article is sourced from the US. AI can be used to assist but not substitute an advisors' research

Source: Wealth Management

Takeaway: Utilize AI to help automate certain tasks so you can focus on solving different client issues.

The positive effect new insurance sales regulations can have on clients

New regulations can help strengthen advisor and client relationships.

Insurance professionals say that total cost reporting (TCR) enhancements, the ban on deferred sales charges (DSC) and the potential chargeback ban are good for the industry. These regulations should create more educated and informed clients and eradicate rewarding bad practices.

Fee transparency and TCR enhancements should alleviate instances where the product yielding the highest commission is the most sold. Enabling clients to understand management fees and trading expenses will create better informed clients and better investing outcomes.

Prohibiting upfront sales commissions paid to dealers by fund organizations may lead to the decline in segregated fund sales. In turn, it should also significantly reduce the potential for misselling. Rather than avoiding segregated fund sales, these rules create transparency for the client and accountability from the advisor on the right time to use/sell specific products.

The chargeback ban would limit the rewarding of bad practices and ultimately prioritize clients' best interests. Situations such as talking a client out of cancelling their policy to avoid the advisor from having to pay back the commission would no longer be a concern. Furthermore, the chargeback ban would cut back instances where advisors simply recommend the segregated fund paying the highest commission upfront.

Source: Investment Executive

Takeaway: Regulating fee transparency will undoubtedly bolster more educated clients while increasing accountability, credibility and trust between advisors and clients.

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