SPECIAL REPORT

Capitalizing on shifting consumer sentiment resulting from pandemic

Examining the impact of COVID-19 on consumer sentiment, financial attitudes, and engagement in digital and traditional wealth management now and in the future

2020

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Report Overview

This report focuses on North American consumer feelings, attitudes, and engagement in digital and traditional wealth management during the 2020 COVID-19 pandemic.

The wealth management business is in the midst of significant change. Technology has evolved in myriad ways that influence consumer expectations while enabling the businesses that aim to serve them. Despite a sea-change of vendors and software options, traditional financial advisors are struggling to optimize operations and customer experiences for the modern wealth management consumer.

Online self-directed investing services are now decades old but continue to evolve amidst increasing downward pressure on fees. In 2008, digital wealth management services were born into the US market but firms are still working to build engagement as the market matures.

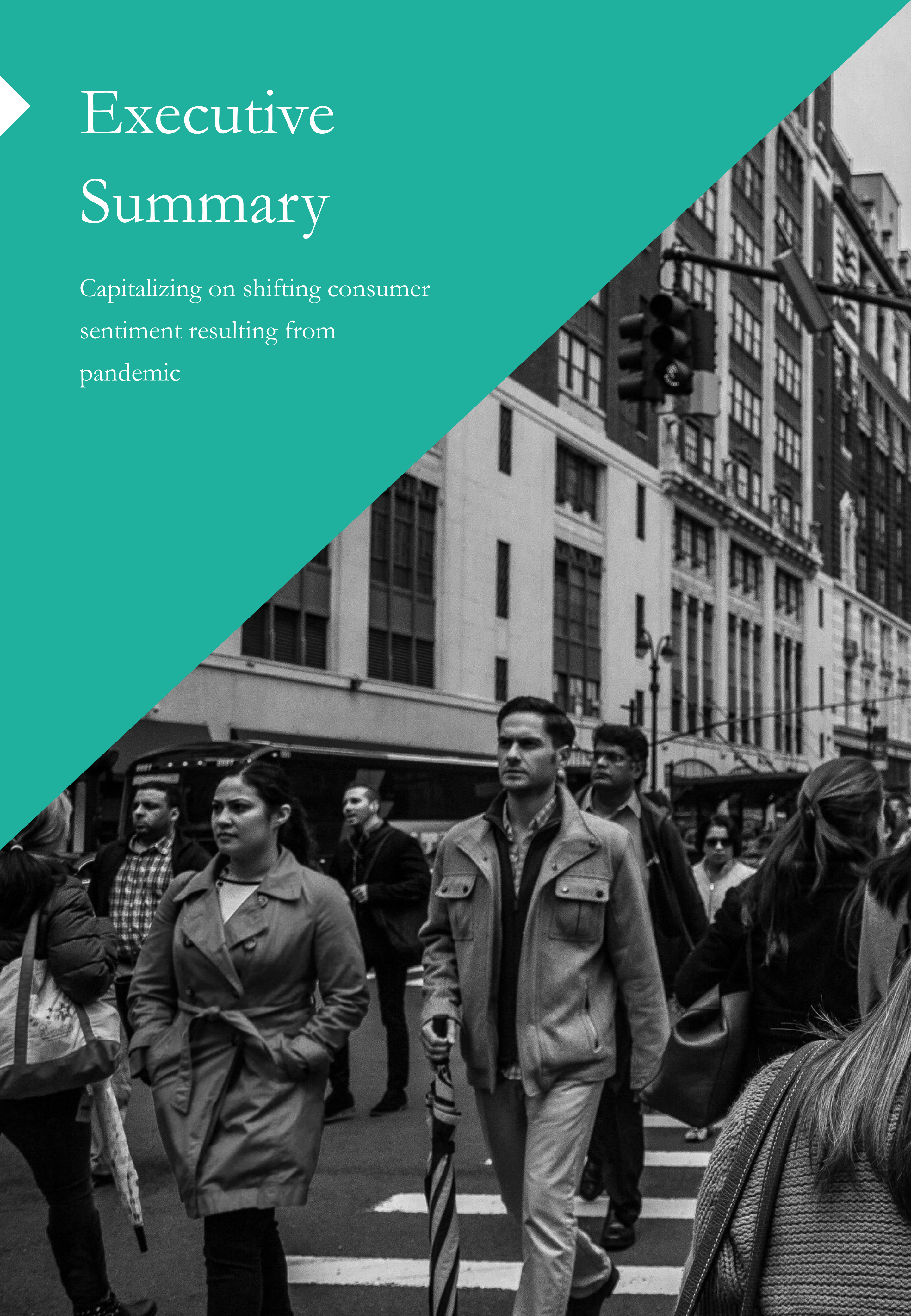
The proliferation of digital channels across consumer categories is driving the notion that wealth management innovation holds the potential to disrupt the competitive landscape of an important area of financial services. Traditional wealth managers, digitally led advice platforms, and online brokerages for self-directed investors are all modernizing and adapting to a vastly different consumer market because of the pandemic.

The purpose of this Special Report is to measure and analyze consumer sentiment and key elements of wealth engagement during COVID-19. The findings and insights will help executives chart a course through the rapidly evolving consumer landscape.

We acknowledge the formal distinction between the terms "advisor" and "adviser" but use "advisor" consistently throughout this report to refer generally to entities providing financial services or guidance to clients.

Executive Summary

Capitalizing on shifting consumer sentiment resulting from pandemic

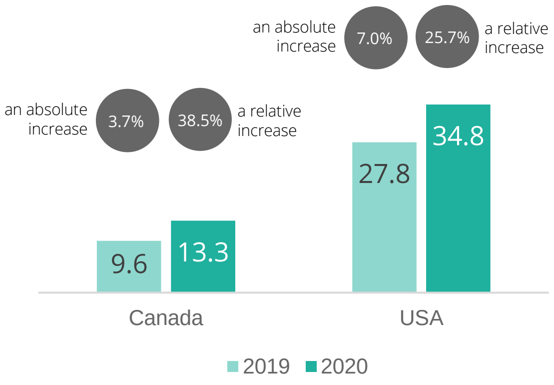


Executive Summary

The unfolding pandemic has wreaked havoc on financial markets, disrupted global supply chains, devastated economic stability, and shifted consumer behaviors. All these variables continue to change, leaving the world looking dramatically different compared to just a few months ago.

With a long history of studying consumers in the modernizing wealth management context, ParameterInsights is uniquely positioned to provide meaningful data and insights during the global pandemic.

Yr/Yr increases in digital platform net usage among 18-54 yr olds



Such increases in digital advice engagement during a global upheaval prompted ParameterInsights to study the impacts of COVID-19 on those aged 18-54 in North America. Specifically, a new piece of research was conducted in late April 2020 to examine feelings, attitudes, and engagement in wealth management broadly.

The findings and insights reported here provide important clues for wealth executives seeking to chart a successful path forward in the face of so much uncertainty.

Disruption from the pandemic is having a sizeable impact on consumers as they navigate employment disruptions, revisit their financial situations, and evaluate choices for the planning and management of their wealth.

Many in the 18-54 age group are engaging in wealth management services for the first time or revisiting existing wealth advice relationships with an evaluative eye to various components of modern options and services.

The phrase “money in motion” is gaining popularity as shorthand for describing the re-evaluation of wealth advice in the face of a massive shock to the economy. In the previous shock of 2008/2009, the industry saw asset flows away from traditional advisor channels and toward lower-cost self-directed trading platforms.

Today, there are more options for access to advice than before, and many traditional advisors have modernized their businesses. At the same time, self-directed investing platforms have become very inexpensive while offering more elegant customer experiences and features than ever before.

As competition heats up and consumers increasingly demand modern wealth management experiences, advisors (traditional, hybrid, and digital-only) are being put to the test to drive new engagement while retaining existing clients. Money in motion is one of the key themes that will be explored in this special report.

This report covers five key areas of inquiry

- Personal financial sentiment
- Wealth management needs
- Attitudes toward saving and investing
- Money in motion
- Financial planning

Special Report Summary

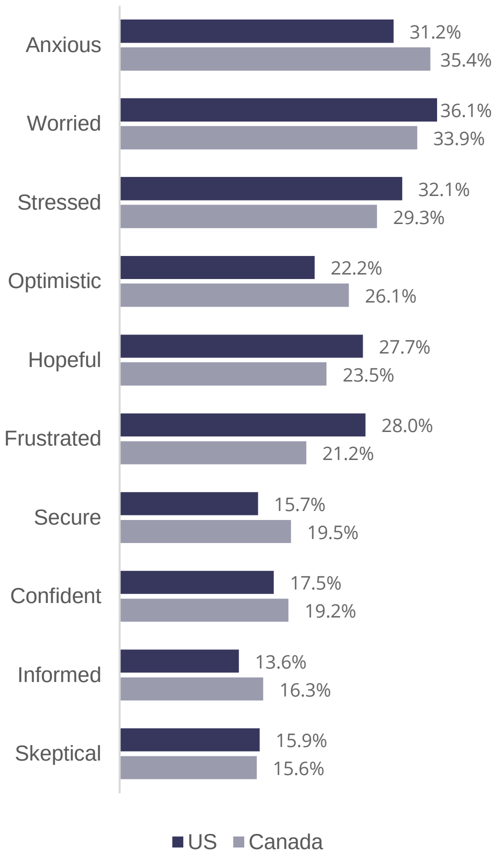
Examining the impact of COVID-19 on consumer sentiment, financial attitudes, and engagement in digital and traditional wealth management now and in the future

Personal financial sentiment

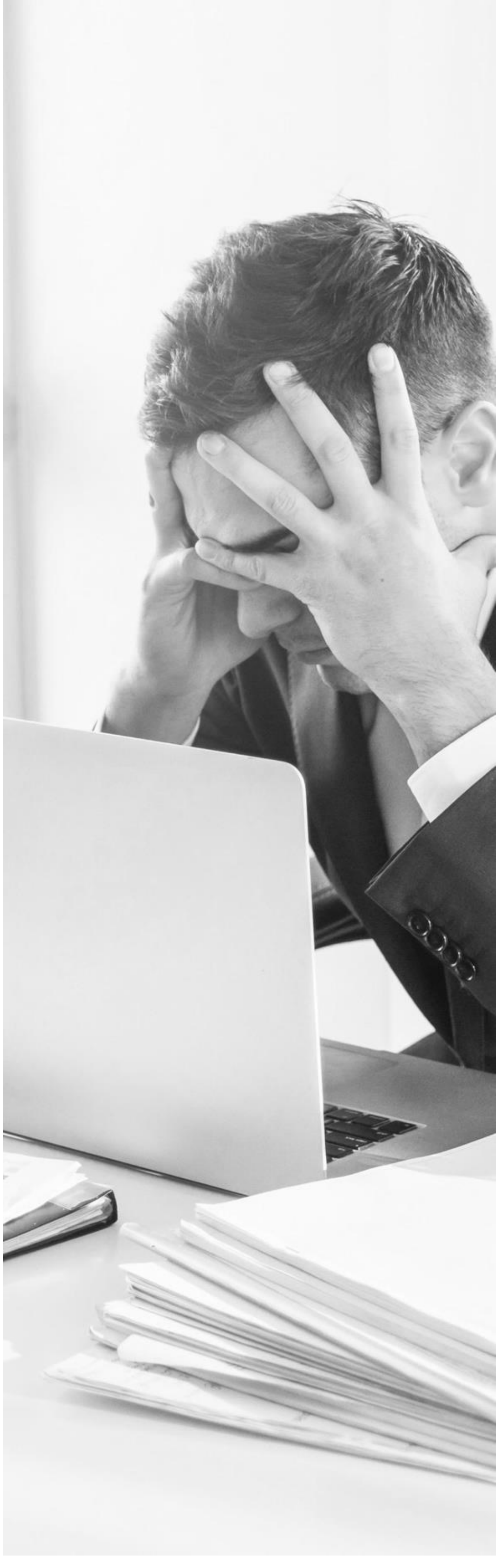
In the midst of the pandemic, how are consumers feeling about their financial situations? Not surprisingly, the top three sentiments are all negative.

Figure 1 shows that the most common feelings expressed in both countries are anxiety, worry, and stress. Nevertheless, and despite an increased level of frustration in the US compared to Canada, many on both sides of the border also say that they are feeling optimistic and hopeful.

Figure 1. Top consumer feelings about financial situation during COVID-19 in Canada and the US



Source: ParameterInsights' COVID-19 Consumer Survey



Personal financial sentiment

A more comprehensive analysis of the data reveals deeper insights. Tables 1 and 2 compare sentiments in Canada and the US among consumers with vs. without a financial plan, a digital wealth advisor, a self-directed investing account, or a traditional wealth advisor.

In Canada, having a financial plan, self-directed account, or digital advice account are all associated with decreases in negative feelings (i.e. anxiety, worry, and stress) and increases in positive feelings (i.e. optimism and hopefulness).

What's surprising is that the effect does not translate as clearly or consistently for clients of traditional financial advisors.

One of the most striking features of Table 1 is the extent to which clients of digital advisors feel less worried and stressed (and more hopeful and optimistic) than non-clients. The implication is that digital advisory firms have done well to handle the turmoil in the markets while also providing reassuring communications and a steady client experience.

As markets dropped precipitously in early 2020, doubts that digital advisors could survive a significant downturn were amplified among various wealth management circles. Evidence to the contrary continues to mount, however, indicating that such platforms are more than weathering the storm during one of the most complex system shocks faced in decades.

Table 1. Top financial sentiments in Canada by engagement in wealth management

PERSONAL FINANCIAL SENTIMENT												
	Financial Plan			Traditional Advisor			Self-Directed Account			Digital Advice Account		
	Yes	No	Difference	Yes	No	Difference	Yes	No	Difference	Yes	No	Difference
Anxious	32.6%	37.5%	-4.9%	35.4%	35.3%	0.1%	25.7%	38.5%	-12.9%	28.6%	36.7%	-8.2%
Worried	27.7%	38.7%	-11.0%	33.6%	34.0%	-0.5%	25.8%	36.5%	-10.8%	19.6%	36.8%	-17.1%
Stressed	26.0%	31.9%	-5.9%	26.2%	31.1%	-5.0%	20.7%	32.1%	-11.5%	14.9%	32.2%	-17.4%
Optimistic	28.8%	23.9%	4.9%	26.9%	25.6%	1.3%	39.1%	21.8%	17.3%	32.8%	24.7%	8.1%
Hopeful	26.5%	21.2%	5.3%	21.4%	24.8%	-3.3%	29.2%	21.7%	7.5%	33.1%	21.6%	11.5%

Source: ParameterInsights' COVID-19 Consumer Survey

Personal financial sentiment

Table 2 paints a different picture for the US. Though the presence of a financial plan is associated with improved sentiment, the differences are modest at best. Results are mixed, however, when it comes to engagement in traditional advice, self-directed investing, or digital advice.

None of these channels provides a consistently positive impact on consumer sentiment. Perhaps most surprisingly, having a traditional advisor in the US is associated with more worry, less optimism, and less hopefulness.

Several factors, some existential, may help explain the between-country differences. Not only has the pandemic unfolded differently in each country, but the response at many levels of government has provided sharp contrasts in terms of the impact on consumer confidence and personal financial situations.

Nevertheless, wealth management businesses in both Canada and the US have an opportunity to better help consumers navigate these difficult times. To succeed, firms must use technology, data, and digital channels to create engagements that reassure and instill a sense of hopefulness among clients and prospects alike.

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Table 2. Top financial sentiments in US by engagement in wealth management

PERSONAL FINANCIAL SENTIMENT												
	Financial Plan			Traditional Advisor			Self-Directed Account			Digital Advice Account		
	Yes	No	Difference	Yes	No	Difference	Yes	No	Difference	Yes	No	Difference
Anxious	30.3%	31.8%	-1.5%	36.6%	29.7%	6.9%	34.0%	29.5%	4.5%	31.0%	31.2%	-0.2%
Worried	34.4%	37.6%	-3.2%	34.5%	36.6%	-2.1%	38.0%	35.0%	3.0%	41.3%	34.5%	6.8%
Stressed	29.3%	34.5%	-5.2%	35.0%	31.3%	3.7%	31.9%	32.3%	-0.4%	34.6%	31.4%	3.3%
Optimistic	23.1%	21.5%	1.6%	14.5%	24.3%	-9.8%	19.5%	23.8%	-4.2%	17.8%	23.6%	-5.7%
Hopeful	29.4%	26.2%	3.2%	24.7%	28.5%	-3.8%	27.4%	27.8%	-0.5%	27.9%	27.6%	0.3%

Source: ParameterInsights' COVID-19 Consumer Survey

Attitudes toward saving and investing

Figure 2 presents consumer attitudes toward saving and investing among those aged 18-54 in North America. In both Canada and the US, though many are worried and feel like they don't have enough to invest, many also report being comfortable making financial transactions online.

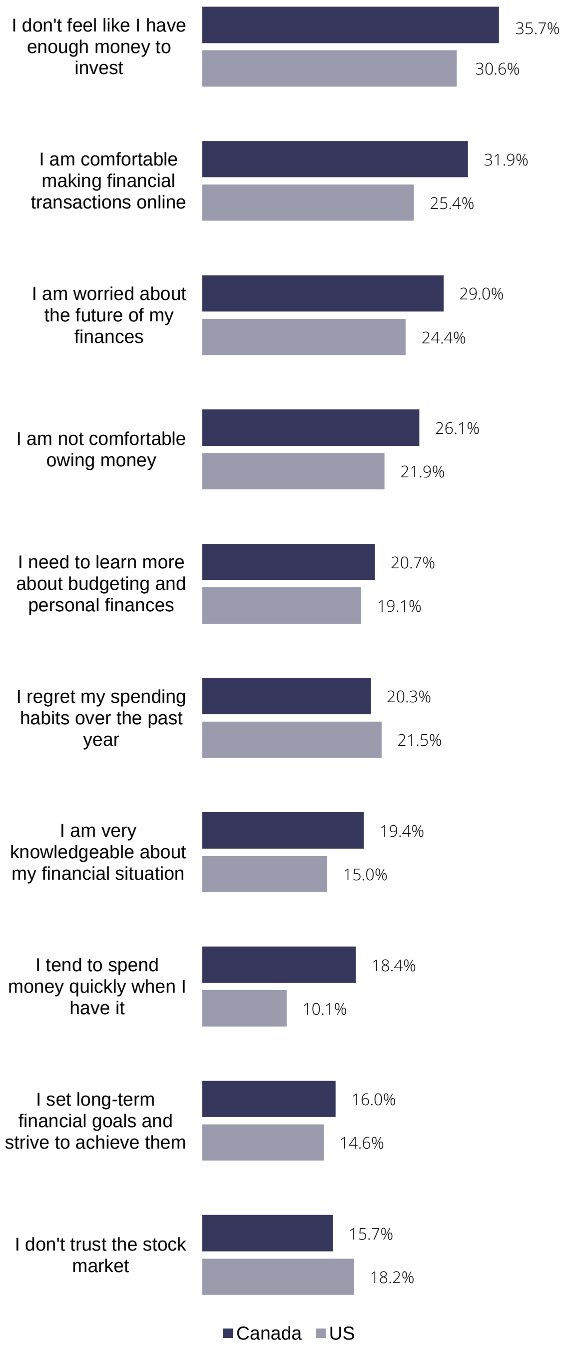
Between-country comparisons offer some interesting insights. One striking difference is that 31.9% of Canadians are comfortable making financial transactions online compared to only 25.5% in the US. Despite a more mature digital payments market, skepticism is elevated among American consumers.

Numbers in both countries lower than expected, however, which implies that wealth businesses must do better to showcase the structural safety of their digital financial offers.

When it comes to attitudes toward spending, slightly more Americans than Canadians report regrets about spending habits of the past year (20.3% Canada, 21.5% US) but nearly twice as many Canadians than Americans admit to spending money quickly when they have it (18.4% Canada, 10.1% US).

The pattern of attitudes toward saving and investing during the pandemic highlights a key area of opportunity for wealth executives. ParameterInsights' research shows that the feeling of not having enough to invest persists during prosperous times and across income levels.

Figure 2. Top consumer attitudes toward saving/investing during COVID-19 in Canada and the US



Source: ParameterInsights' COVID-19 Consumer Survey

Attitudes toward saving and investing

Notwithstanding the immediate economic impacts of the pandemic, firms must continue to educate consumers about democratized access to markets via self-directed accounts and digital advisors.

Only then will investors across the wealth complexity curve be poised to reap the rewards of the inevitable rebound in the markets.

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Financial planning

Figure 3 shows that among those aged 18-54, 55.9% of Canadians and 55.4% of Americans do not have a financial plan. Of those who do, most created it on their own (19.7% Canada, 26.7% US) or with help from a professional financial advisor (12.2% Canada, 7.5% US). Relatively few had their plan entirely created by a professional.

Though the prevalence of professionally developed financial plans in North America is low, the pandemic is clearly having a positive impact on how consumers think about planning.

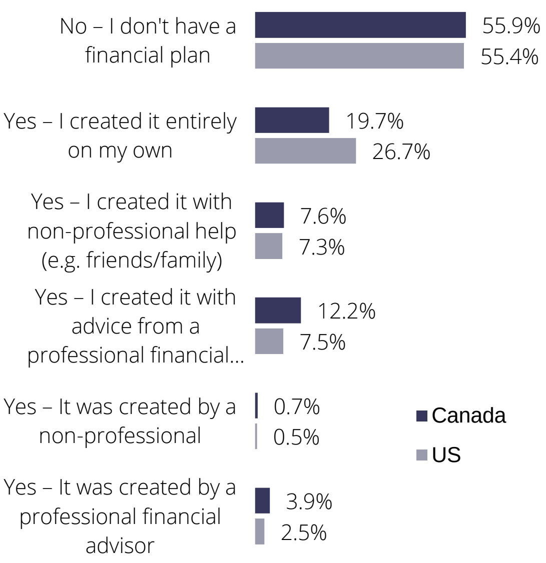
Figure 4 shows that roughly two-thirds of North Americans aged 18-54 are now thinking more about financial planning than they did before the pandemic. In Canada, 29.9% are thinking “a lot more” about planning compared to 31.8% in the US.

Though the prevalence of professionally developed financial plans in North America is low, the pandemic is clearly having a positive impact on how consumers think about planning.

Figure 4 shows that roughly two-thirds of North Americans aged 18-54 are now thinking more about financial planning than they did before the pandemic.

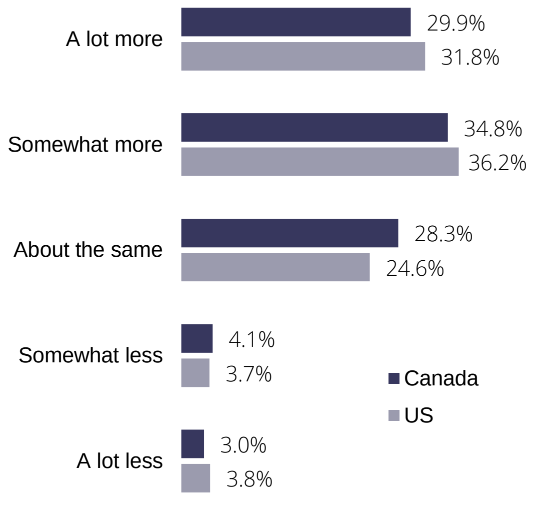
In Canada, 29.9% are thinking “a lot more” about planning compared to 31.8% in the US.

Figure 3. Presence of a financial plan in Canada and the US



Source: ParameterInsights’ COVID-19 Consumer Survey

Figure 4. Thinking about financial planning during the pandemic in Canada and the US

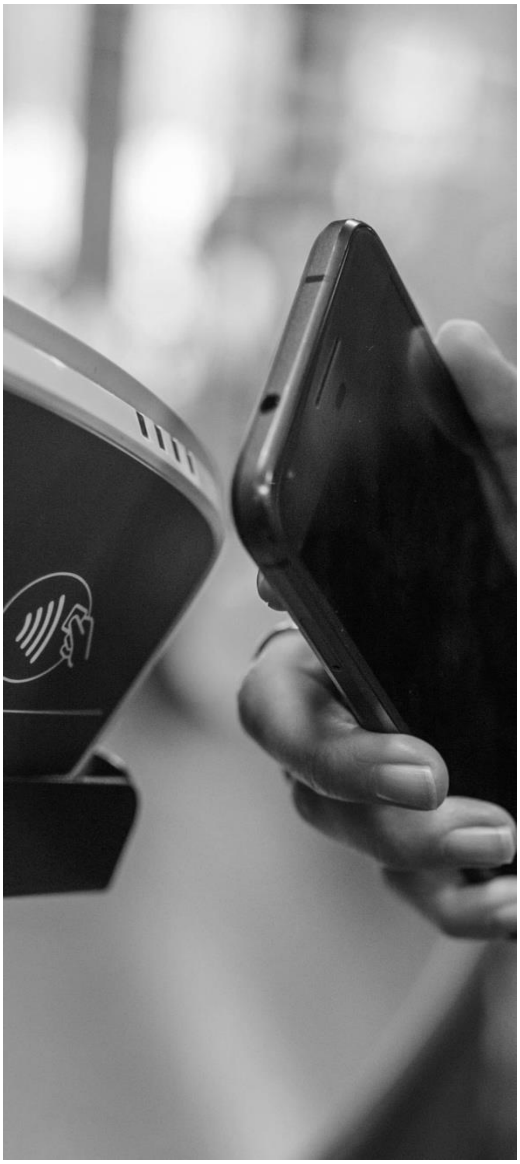


Source: ParameterInsights’ COVID-19 Consumer Survey

Financial planning

Financial planning is an important frontier for the modernization of wealth businesses generally but with several important implications for advisor value propositions. Facilitating a meaningful financial planning experience can help firms more completely intertwine with clients' financial well-being which results in the opportunity to have more proactive client engagements, more relevant discussions and advice all of which culminate in what can be called more "value moments". More of these higher relevance, proactive client engagements drive client perceived value and enhance trust. These lead to growth.

Firms combining elements of behavioral finance, machine learning, and AI are already laying an exciting foundation for planning to become a more scalable component of wealth management businesses. There is tremendous opportunity for the industry to increase access and innovate on experience and capabilities for a modern financial planning experience.



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Wealth Management Needs

Figure 5 illustrates the top ten consumer considerations for modern wealth management offerings among those aged 18-34 in Canada and the US.

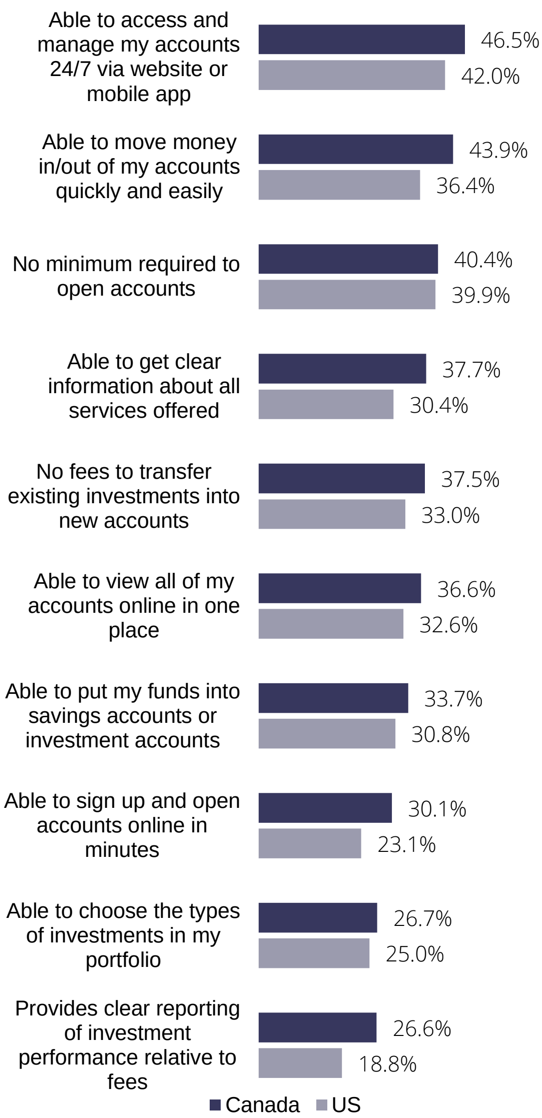
Account access, frictionless money movement, and account minimums are all key considerations in both countries. Needs for access and reduced friction are elevated in Canada compared to the US, however.

In fact, needs across all considerations are generally higher for Canadians than Americans.

Figure 5 also shows that Canadians have a greater desire for clear information about service offerings compared to Americans (37.7% Canada, 30.4% US).

In Canada, wealth firms clearly have work to do to better communicate a modern value proposition that resonates across broad consumer groups.

Figure 5. Wealth management needs during COVID-19 in Canada and the US



Source: ParameterInsights' COVID-19 Consumer Survey

NOTE TO READERS: The full-length report investigates 18 different wealth management considerations broken out by demographics and different levels of wealth management engagement.

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Money in Motion

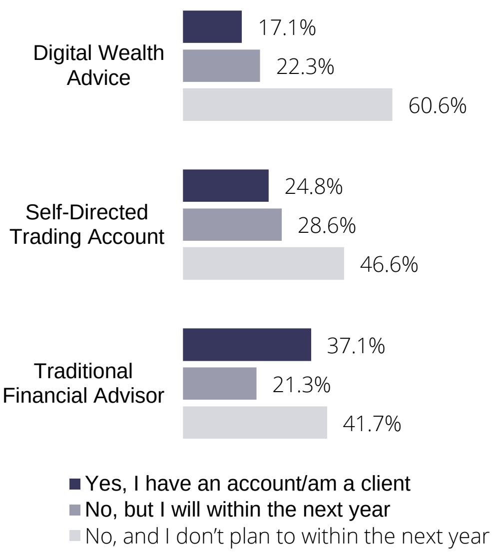
Competition for consumer assets continues to escalate. Amidst a rapidly changing environment, consumers are increasingly evaluating their financial choices vis-à-vis the many options available to improve their overall financial well-being. For many reasons, the net result over time should be positive for wealth management businesses.

First, the pandemic has been traumatic and shone a bright light on individual financial situations. This is forcing more attention and reflection on personal finances, while will ultimately manifest as action. Second, awareness and understanding are rapidly on the rise for low-cost wealth management options with minimal initial investment requirements. It has never been easier for consumers to put their money to work via an online brokerage account or digital wealth advice platform.

Money in Motion

Figures 6 and 7 show that in the midst of COVID-19, over one-fifth of consumers aged 18-54 in both Canada and the US intend to engage digital wealth advice, self-directed investing, or traditional financial advice.

Figure 6. Engagement in wealth management and intent during the pandemic in Canada



Source: ParameterInsights' COVID-19 Consumer Survey

Figure 7. Engagement in wealth management and intent during the pandemic in the US

Source: ParameterInsights' COVID-19 Consumer Survey

NOTE TO READERS: The full data set investigates 18 different wealth management considerations broken out by demographics and different levels of wealth management engagement.

Appendices

Methodology – Consumer Survey

Our COVID-19 consumer survey covers the following content areas:

- Consumer sentiment regarding personal financial situation
- Attitudes toward investing and digital wealth management
- Presence of a financial plan and whether consumers are thinking more or less about planning
- Relative importance of traditional and digital wealth management features
- Engagement in digital wealth advice, self-directed investing, and traditional wealth advice
- Intent to engage in digital wealth advice, self-directed investing, and traditional wealth advice
- Demographics (e.g. age, gender, household income, region, etc.)

Participants in our COVID-19 survey were sampled from Perksy user populations in Canada and the US. Perksy is a next-generation consumer insights platform powering rapid real-time research with everyday people through contextual, in-the-moment mobile research.

To ensure a high level of final data quality for final reporting, and before running any final tabulations or advanced analytics, we analyzed response patterns to identify and remove respondents exhibiting poor response behaviors (e.g. speeding and straight-lining). To ensure good sample balance and overall representativeness, we set quotas for age group, gender, and geographic region. We then weighted the final clean sample (n = 500 per country) to align with the respective population distributions within each country. The margin of error for percentages on a probability sample of n = 500 is +/- 4.4% at the 95% confidence level.

Supplementary Material

Special Report: Examining the impact of COVID-19 on consumer sentiment, financial attitudes, and engagement in digital and traditional wealth management now and in the future is published by ParameterInsights.

Website: www.ParameterInsights.com

General inquiries should be directed to: info@parameterinsights.com.

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