WealthTech Research & Advisory Service: Self-Directed Investing

SECOND INSTALLMENT 2019 SERIES

Loyalty rising: Good news for online brokerages in the era of zero-commission trading

About ParameterInsights' WealthTech Research & Advisory Service

Innovation in the North American financial services market is fast approaching a point of inflection. Near-ubiquitous mobile access, multi-channel delivery, and technological evolution are rapidly altering consumer attitudes, behaviors, and expectations.

ParameterInsights' 2019 WealthTech Research and Advisory Service comprises two separate annual reporting series. The first is a four-part series covering digital wealth advice (i.e. robo-advisors). The second is a two-part series covering self-directed investing via online discount brokerages. Both series provide timely and relevant analyses that surface unmet consumer needs, evaluate current market participants, and provide in-depth discussion and implications of key results aimed at giving our subscribers an edge.

About ParameterInsights

ParameterInsights is where data meets strategy: simply and reliably. We combine deep sector expertise with custom research to provide our clients with data-driven and highly consultative solutions.

Table of Contents

Report Overview

This reporting series focuses on self-directed investing via online discount brokerages. Such brokerages are registered investment dealers that allow consumers to trade (i.e. buy and sell securities) over the Internet. Typically, such firms offer investors access to both registered and non-registered accounts, thus making low- or no-commission brokerages an ideal platform for experimentation or for the careful construction of investment portfolios for retirement and other wealth goals.

The broader digital wealth management space has become increasingly crowded since the advent of online brokerages in the 1990's. Many firms now also provide low-fee automated investment portfolio construction and management to complement other digitally delivered wealth management services. The proliferation of digital channels is driving the notion that innovation within wealth management holds the potential to completely disrupt the competitive landscape within financial services.

The purpose of this research is to measure and analyze consumer demand, behavior, and interaction with these changing services over time. The report is divided into three sections, each addressing a key topic supported by empirical data and in-depth discussion of managerial implications.

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

Executive Summary: Loyalty Rising

The world of digital investing is developing in myriad ways. In the face of such change, it is imperative that firms bring reliable and comprehensive data to bear on decisions related to forward-looking strategic choices.

Digital disruption doesn't occur overnight but rather over long stretches filled with pivots, adjustments, and innovations that coalesce in the form of winning business models. This relatively drawn-out progression incites cognitive biases among executives, pushing them to rush towards the latest trends and technological developments in fear of missing out or becoming irrelevant.

As the pace slows, the challenge becomes one of maintaining focus and commitment. Upstarts and incumbents that stagnate, however, will ultimately be disrupted by firms that continue to invest in new and innovative ways to delight investors.

The second installment of ParameterInsights' 2019 WealthTech: Self-Directed Investing reporting series provides an in-depth analysis of consumer loyalty within the space of online discount brokerages. Category satisfaction, net promotion, and the relative importance of platform features are examined from the standpoint of consumers in Canada and the US. Consumer preferences are also analyzed to determine the relative importance of various considerations for saving and investing in general.

FEATURE: DRIVERS OF LOYALTY IN ONLINE SELF-DIRECTED INVESTING

The feature section provides a comprehensive examination of category satisfaction and net promotion for online brokerages. Results are discussed at the market level with strategic implications for driving loyalty in a space where fees are no longer a key differentiating factor.

Category loyalty measures are generally strong for online brokerages in North America. In Canada, satisfaction and net promotion both increased in 2019. Trends in the US mirror those in Canada with the exception that the NPS held steady from 2018 to 2019. Results in the US suggest that self-directed investors are struggling to find new reasons to recommend their brokerages of choice.

Feature-specific satisfaction provides a concrete set of dimensions along which to unpack overall satisfaction. Executives at online brokerages will be.....Subscribe to learn more.

Question: Which self-directed investing platform features are the strongest drivers of overall satisfaction?

Answer: Satisfaction and net promotion are crucial to monitor but firms must also understand which platform features are the strongest drivers of loyalty. he top driver of overall satisfaction in 2019 is .....Subscribe to learn more.

Question: Which self-directed investing platform features are the strongest drivers of recommendation?

Answer: Positive word-of-mouth from loyal clients is one of the most potent forms of referral-based growth. In 2019, satisfaction with.....Subscribe to learn more.

SPOTLIGHT: ADVISOR LOYALTY AND THE ADVISOR EFFECT ON CONSUMER PREFERENCES FOR SAVING AND INVESTING

Consumers in North America are increasingly faced with more and better options for saving and investing. The overall evolution in wealth management, coupled with the modernization of traditional advisory businesses, provides new and established investors with myriad considerations.

In 2019, 41.1% of adult Canadians and 30.7% of adult Americans are engaged with one or more traditional financial advisors. The presence of an advisor is much higher, however, among clients of online discount brokerages compared to non-clients. In both countries, roughly half of investors with a brokerage account also engage with a traditional advisor.

In both Canada and the US, the most popular advisor-led services include.....Subscribe to learn more. Compared to brokerage non-clients, clients engage more with their advisors for .....Subscribe to learn more. Non-clients are more engaged with advisors for.....Subscribe to learn more.

Question: How does traditional advisor loyalty compare between brokerage clients and non-clients?

Answer:.....Subscribe to learn more.

Question: What are the top consumer considerations for saving and investing? How does advisor engagement impact the relative importance of those considerations?

Answer: As the battle heats up between digital and traditional alternatives for wealth management, a detailed understanding of how consumers prioritize among considerations for saving and investing becomes crucial to success......Subscribe to learn more.

CONSUMER FOCUS: FINANCIAL PLANNING AND TOP FINANCIAL GOALS

ParameterInsights' segmentation comprises four distinct attitudinal segments within Canada and the US. Savvy firms use segmentation to give their platforms a winning edge by equipping executives with a detailed understanding of the nature and composition of important consumer groups. A solid understanding of important differences in consumer attitudes enables firms to align products and services with segment preferences and desires.

Question: How are loyalty measures trending among target attitudinal segments in North America?

Answer: ..... ubscribe to learn more.

Decades of innovation in the North American brokerage industry have opened the door for investors across income and asset spectrums. Self-directed investing is already one of the most cost-effective ways to save for retirement but with the rapid pace of digital innovation in wealth management, it is imperative for firms to monitor changing attitudes and shifting consumer preferences.

Introduction

Financial Technology, or FinTech, is a term used to describe technology for delivering financial services over the Internet. WealthTech, a sub-category driven by innovations in the wealth management space, has emerged to further delineate services related to self-directed investing, investment management, financial planning, and overall wealth advice.

Historically, financial markets in North America have been closed to all but the wealthiest consumers. The democratizing force of online self-directed investing came to fruition in the late 1990's. Competition escalated significantly during the early and mid-2000's with the expansion of the Internet allowing an ever-increasing number of online discount brokerages to offer trading services digitally. Market access is now virtually ubiquitous and competition for customers in digital wealth management has never been as fierce.

The financial crisis of late 2008 saw a rush of money flood into self-directed accounts. Concurrent with feeling an urgent need to take better control of their finances, investors began to seriously question the expensive status quo in wealth management. Today, large and well-known incumbents like Schwab and Fidelity grapple with existential decisions affecting established revenue streams as rival upstarts like RobinHood have led the charge toward zero-commission trading for a wide range of securities.

Though still comparatively small in terms of total assets under management (AUM), the growing ecosystem of startups supporting self-directed investors increasingly encroaches on domains historically dominated by large financial institutions. The road ahead for the challengers is not an easy one, however. Startups may be able to set strategy and make tactical choices in a relatively unfettered manner but those same firms typically cannot benefit from many of the advantages available to incumbents: large extant client bases, technological infrastructure, long-standing strategic relationships, and economies of scale

The net result is a highly varied market in which some onine brokerages choose to emphasize price appeal whereas others focus on providing advanced platform features and elevated service. From the point of view of the incumbents, the potential for scale among the challengers portends the type of disruption that has already occurred in other markets (think Airbnb and Uber). All the while, media hype and fawning articles in the business press do little to assuage concerns.

ParameterInsights' WealthTech Research and Advisory Service: Self-Directed Investing cuts through the noise. Our research combines deep market knowledge with rigorous consumer survey data to examine trends in consumer attitudes, perceptions, brand engagement, and loyalty.

Feature: Drivers of Loyalty in Online Self-Directed Investing

Options for self-directed investing continue to evolve in North America. Thematic ETFs and ESG funds continue to permeate the market and excitement is building for the launch of new non-transparent and semi-transparent ETFs. At the same time, brokerages face increasing demands for transparency and new revenue challenges as trading commissions disappear and regulatory pressures continue to mount.

The twin imperatives for the long-term survival of brokerage firms are strong client satisfaction and driving positive referrals. Loyal customers sustain a greater share of wallet with their firms of choice, are less likely to churn, and more likely to engage with expanded product/service offerings.

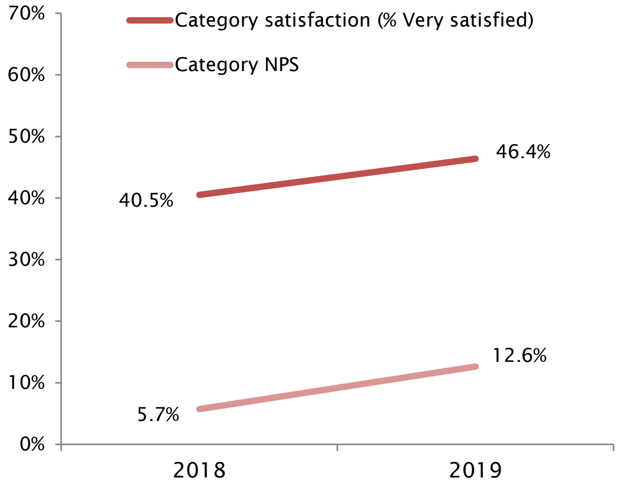
Two of the most popular survey-based loyalty measures are overall satisfaction and the Net Promoter Score (NPS). The NPS is based on a standard question asking “How likely is it that you would recommend [BRAND/FIRM] to a friend or colleague?” The 11-point response scale ranges from 0 = Not at all likely to 10 = Extremely likely. Responses are coded into three groups for analysis: value-creating “Promoters” (rating of 9 or 10), brand-neutral “Passives” (7 or 8), and value-destroying “Detractors” (0 to 6).

For a given sample of respondents, the NPS is calculated as the percentage of Promoters minus the percentage of Detractors. The NPS thus ranges from a low of −100% (all Detractors) to a high of +100% (all Promoters). A basic loyalty goal for any firm is to achieve a consistently positive NPS, which reflects the existence of proportionally more Promoters than Detractors within a group of interest. A general rule of thumb is that a score above 0% is good, above 50% is excellent, and above 70% is outstanding. NPS scores below zero are indicative of potential problems requiring intervention from the firm.

Figures 1 and 2 provide some positive news for the online brokerages in North America. Loyalty measures are strong in 2019 and scores generally increased year-over-year in both countries. Figure 2 also shows that category loyalty measures are generally higher in the US than in Canada.

Despite an increase in overall satisfaction in the US, the flat year-over-year trend for category NPS suggests that self-directed investors are struggling to find new reasons to recommend their brokerages of choice. Though the industry-wide move from low to no-commission trading has created a stir, opportunities remain for firms to better equip clients to engage in positive word-of-mouth about the benefits of self-directed online investing.

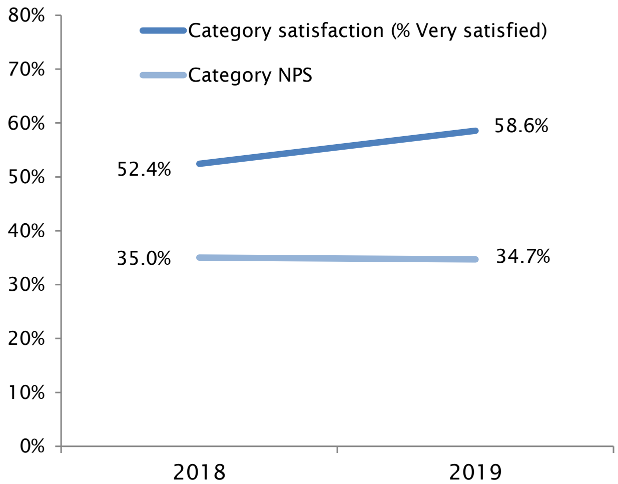
Figure 1. Year-over-year changes in category satisfaction and net promotion in Canada



Data source: ParameterInsights Consumer Survey.

Category satisfaction and net promotion are generally rising for online brokerages in North America.

Figure 2. Year-over-year changes in category satisfaction and net promotion in the US



Data source: ParameterInsights Consumer Survey.

Spotlight: Advisor Loyalty and the Advisor Effect on Consumer Preferences for Saving and Investing

Consumer Focus: Positive Loyalty Trends for Target Segments

Market segmentation provides a detailed understanding of the nature and composition of important consumer groups. Insights obtained via segmentation provide executives with insights on how to optimize the marketing mix, improve competitive positioning, and enhance overall marketing efficiency. Segmentation results thus help firms to identify and capitalize on areas of opportunity where the competition is weak.

The key tenet behind segmentation is that firms will be more successful by aligning products and marketing toward relatively distinct target groups. Attitudinal segmentation is an especially potent form of psychographic segmentation, in which consumers are grouped on the basis of differences in attitudes, interests, preferences, and values. Armed with a deeper understanding of target groups, firms can drive strong brand perceptions and increased loyalty.

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Appendices

Research Context

As an industry, online investing is in a transitional period. Reliable measurement of category familiarity, brand awareness, and brand engagement presents a unique set of challenges in the context of a changing market. Compared to relatively stable markets, transitional markets move quickly through multiple periods of change.

Self-directed investing is a rapidly changing space. Market access, digitally led investing products, and high-quality support services have never been more available to consumers. As incumbents and upstarts alike clamor for increased engagement and assets from an ever-widening consumer market, the importance of using data to help make better strategic choices is paramount. Executives must take heed of trends and developing opportunities to capture more wallet share by delighting consumers from across the wealth spectrum.

Methodology - Consumer Survey

Our WealthTech consumer survey covers the following content areas:

- Attitudes toward investing and digital wealth management
- Maximum difference scaling (MaxDiff) of wealth management features
- Choice-based conjoint (CBC) for digital wealth advice offers
- General familiarity with the concept of digital wealth advice
- Top-of-mind, other unaided, and aided brand awareness
- Brand usage, usage frequency, and preferred device type
- Barriers to adoption of digital investing platforms
- Overall and feature-specific satisfaction for digital investing platforms
- Likelihood to recommend (NPS) for digital investing platforms
- Financial goals, presence of a plan, and presence of a traditional advisor
- Current advisor services, overall satisfaction, and likelihood to recommend
- Demographics and types of savings and investment products

Participants in our online surveys are sampled from carefully managed online panels of Canadian and American respondents. Though online surveying precludes reaching respondents with no Internet access, official data for Canada and US indicate that over 80% of households currently have access.

For the purposes of our WealthTech research, we screen respondents on three key criteria. First, respondents must be between the ages of 18 and 79 years old. Second, respondents must have either sole or shared responsibility for their household financial decisions. Third, respondents must not be competitively employed (e.g. they cannot work for a market research department or company).

To ensure a high level of final data quality for reporting, and before running any final tabulations or advanced analytics, we analyze 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 weight the final clean sample (n = 2,000 per country) to align with the respective population distributions within each country. The margin of error for percentages on a probability sample of 2,000 is +/- 2.2%.

Brand coverage extends to an extensive set of competitive online discount brokerage firms in each market:

Canada:

1. BMO InvestorLine
2. CIBC Investor's Edge
3. Desjardins Online Brokerage
4. HSBC InvestDirect
5. National Bank Direct Brokerage
6. Qtrade Investor
7. Questrade Self-Directed Investing
8. RBC Direct Investing
9. Scotia iTRADE
10. TD Direct Investing
11. Virtual Brokers

US:

1. Ally Invest Self-Directed Trading
2. BancWest Investment Services
3. Capital One Investing
4. Charles Schwab Brokerage Accounts
5. E*TRADE
6. eOption
7. Fidelity Investments
8. Firstrade Securities
9. Folio Investing
10. Interactive Brokers
11. J.P. Morgan You Invest
12. Just2Trade
13. Lightspeed Financial
14. Merrill Edge Self-Directed Investing
15. Motif Investing
16. PNC Investments Brokerage Accounts
17. Robinhood Markets
18. SogoTrade
19. SunTrust Investment Service (STIS) Self-Directed Accounts
20. US Bank Self-Directed TD Ameritrade
21. TradeStation
22. Tradier
23. TradingBlock
24. US Bank Self-Directed Brokerage Accounts
25. USAA Investment Accounts
26. Vanguard Brokerage Accounts
27. WellsTrade by Wells Fargo
28. Zions Direct

Upcoming Research

The 2020 iteration of ParameterInsights' WealthTech Research and Advisory Service will expand to cover new consumer survey topic areas and more brands in Canada and the US in relation to a broadening category definition for self-directed investing.

Future editions of our WealthTech Research & Advisory Service: Self-Directed Investing will cover the following topics:

- Update on awareness and usage: how are engagement measures trending over time for online brokerages? What are the key barriers to engagement and how can they be overcome?
- Attitudinal segmentation refresh: how do changes in high-level attitudes toward investing and wealth management manifest as attitudinal consumer segments in North America? How are attitudinal segments engaging in self-directed investing?
- Category loyalty: what are the key drivers of digital advice overall satisfaction and likelihood to recommend? How are the drivers changing on a year-over-year basis as the category matures?

Supplementary Material

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Website: www.ParameterInsights.com

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

For inquiries regarding subscriptions, please contact Josh Book (416-809-3671) or send an email to: info@parameterinsights.com

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