

Intelligence MEMOS



From: Chuck Grace
To: Canada's financial services regulators
Date: April 23, 2019
Re: **NEXT GEN FINANCIAL ADVICE FOR CANADA'S POLICYMAKERS**

When robo-advisors first showed up in Canada, I was intrigued but a little nervous. Intrigued because I knew technology offered some exciting opportunities. But nervous about some of the hype. I heard start-ups talk about multiples, unicorns, digital disruption and creative destruction. That's fine for video games or ordering a taxi, but when it comes to my retirement plan or my grandkid's RESP, creative destruction didn't sound like a good thing.

So, in 2017 we began research at the Ivey Business School to understand digital disruption in the context of financial advice, work outlined in greater detail in my recent C.D. Howe Institute [report](#). We sat down with a long list of stakeholders – about 90 in total – and, in confidence, asked them to walk us through the issues.

Participants were enthusiastic about innovation and the adoption of new technologies, but warned that over the next few years, their commitment to agility will be tested in keeping up as the rest of world is pursuing fintech at a dizzying pace. And while all change brings some nervousness, we need to understand that with digital technology the disruption is already well underway.

Our research taught us three things. First, that digital technology offers an opportunity for stronger client impact and better financial advice. Second, the future of financial advice is a human advisor complemented by digital collaboration – some tasks that are better performed by machines, others require human hands. If these are properly integrated, the evidence suggests they will lead to better client outcomes. And last, how much disruption, and by whom, matters. This involves more than nurturing a few exciting start-ups. Fintech and robo-advice cut to the heart of some of our largest and most respected institutions. They serve tens of millions of Canadians and we need to get it right.

So how can we get in front of the issues? Well, policymakers play an important role in this transformation, starting with the need to get in front of the innovations in order to understand their full implications. To that end, we identified four areas where we believe regulators need to take the lead.

Policymakers can take the lead by adopting open banking. Data are the oxygen for algorithms and Canadian firms are turning blue from a lack of it. Canadian firms simply do not have access to the external data required to fuel the algorithms that focus on holistic, client centric advice. Holistic, client-centric advice (i.e., client best interest) is impossible without functional access to banking, investment, debt and insurance data.

Policymakers can take the lead by breaking down regulatory silos. Data mobility is about more than open banking – it's also about open data architecture. Our regulations need to enable inter-company data mobility when it is in furtherance of holistic, client-centric advice. If the future of digital advice addresses a client's holistic financial needs, then our regulatory silos need to align. Our regulatory product silos (banking, securities and insurance) place Canada at a disadvantage on the world stage, but, more importantly, they seldom work in a client's best interest.

Policymakers can take the lead by modernizing advisor proficiency. We are currently training, recruiting and licencing advisors for a world that will not exist in three to five years. Regulators and self-regulatory organizations still heavily favour hard, technical skills in assessing advisor proficiency – precisely the tasks that are about to be automated. We need to update licensing and proficiency requirements for the new world.

And finally, policymakers can take the lead by making the decision to innovate less risky for start-ups and incumbents alike. By all means continue with sandboxes, but expand them into playgrounds or gymnasiums – places where multiple stakeholders, incumbents, start-ups, vendors, technologists and academics, can use an array of technologies to explore ideas at scale. Sponsor innovation that crosses regulatory boundaries – an all-Canadian sandbox if you will – and that works with start-ups and incumbents alike. Sponsor design sprints, networking events and hackathons.

A fairly well-known Canadian named Wayne Gretzky once said that the key to success is to “skate to where the puck is going to be, not where it is.” Our policymakers have the opportunity to take a lead role in claiming Canada's place in the global digital advice landscape by teaching the world how to play hockey.

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