

STRATEGIC ANALYSIS: CREDIT UNION WEALTH MANAGEMENT OFFERING

by

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B.A., Simon Fraser University, 1993

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ABSTRACT

This paper is a strategic analysis of VanCity's wealth management business. VanCity, Canada's largest credit union is known for its corporate leadership and high service standards. The Credit Union has traditionally focused on core banking products but one of VanCity's business objectives is to grow its wealth management business. VanCity is pursuing a differentiated business strategy for its wealth management business based primarily on the positive member experience. Although, VanCity is positioned well as an organization to grow this business, it still faces some challenges.

This paper starts with the background of VanCity and its wealth management business. This is followed by an analysis of the industry, and an internal analysis of VanCity's wealth management business. Through this analysis, the success factors and issues, which are key to the successful implementation of a differentiation strategy, are identified. Finally, the paper ends with a series of recommendations to address the key issues identified.

DEDICATION

To Sascha:

Thanks to you for all your love, support, and understanding through this endeavour. You always challenged me and pushed me to achieve more. You always made me smile at my 11:00 phone call break and you always made me stay until the library closed, without that, I might have never finished writing this project.

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1 INTRODUCTION

1.1 Vancouver City Savings Credit Union

Vancouver City Savings Credit Union (VanCity) is Canada's largest and most successful credit union. A credit union is a financial co-operative where the owners are also the customers or members. As a credit union, VanCity offers a full array of financial products and services including investments, loans, mortgages, and savings accounts. A fundamental characteristic of a credit union is democratic ownership by individuals with a common bond, who voluntarily join. Each member owns one equal share regardless of his or her business with the Credit Union. The only shares outstanding are those held by members. The one share held by each member allows the member to have an equal vote in the election of the board of directors. The board of directors is responsible for the hiring of senior executive and the general direction of the Credit Union. Another fundamental objective of VanCity and all credit unions is to promote self-reliance and the economic status of the membership and communities in which they do business. As a credit union, VanCity is provincially regulated and is restricted from doing business outside of British Columbia.

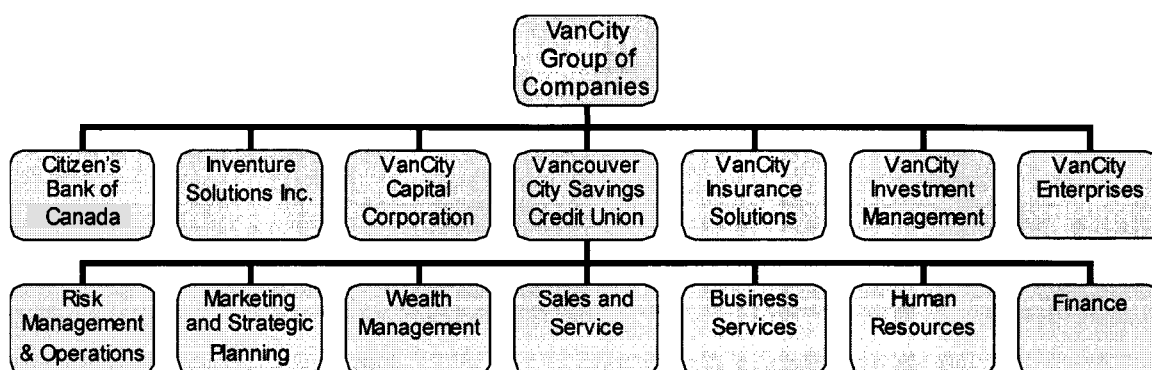
Since its inception, VanCity has offered innovative financial products and services. The Credit Union was founded in 1946 to provide financial services to all individuals in Vancouver, including those individuals who were not attractive to the big Canadian banks. It opened with \$22 dollars in assets and ended the year with almost \$3,000 in assets. VanCity was the first financial institution in Vancouver to offer mortgages on properties east of Cambie Street. In the 1960s, it became the first financial institution in Canada to offer mortgages to women and to offer daily interest savings accounts. In the 1980s, VanCity introduced the first socially responsible mutual fund and, more recently; it initiated the first interactive home banking system and the first branchless bank. These are just a few of VanCity's many firsts in Canadian financial services industry.

Today, VanCity has 41 branches throughout Greater Vancouver, the Fraser Valley, and Victoria. VanCity and its group of companies have over 301,000 members, 1950 employees, and over \$9 billion in assets. In terms of net earnings, 2003 was a record year for VanCity; earnings surpassed \$44 million and VanCity exceeded its previous record of earnings of just over \$39 million achieved in 2002.

1.2 VanCity Corporate Structure

VanCity primarily functions as a credit union but, in addition to Credit Union operations, VanCity has six fully-owned subsidiaries: Citizen's Bank of Canada, Inventure Solutions Inc., VanCity Capital Corporation, VanCity Enterprises, VanCity Insurance Services, and VanCity Investment Management. These operations and subsidiaries are referred to as the VanCity Group of Companies. The corporate structure is illustrated in Figure 1.

Figure 1: VanCity Corporate Structure



1.2.1 Citizen's Bank of Canada

Citizen's Bank was Canada's first branchless bank, offering a full range of financial services and products. Citizen's bank was originally Citizen's Trust but in 1997 VanCity transformed the trust company into a tier two federally legislated bank to provide another channel and banking experience for its members. All interaction with members is conducted through the Internet, email, mail, fax, or telephone. Citizen's Bank also allowed VanCity to diversify out of the Lower Mainland. As a federally legislated bank, Citizen's Bank can serve members across Canada. The bank focuses primarily on the markets in Ontario, Alberta, and British Columbia. Citizen's Bank currently has assets in excess of \$1.4 billion.

Citizen's Bank has four main lines of business:

1. **National Call Centre:** The National Call Centre (NCC) performs all the banking functions for the members of Citizen's Bank. This includes the opening of accounts, approving and funding loans, investing and transactional activities.

The NCC also provides call centre services for VanCity. Members calling VanCity's central number are routed to the NCC where all banking transactions are performed on behalf of the member and VanCity.

2. **Commercial Mortgages:** The Commercial Mortgages line of business underwrites, approves, and administers loans secured by income-producing properties across Canada. Originally, Commercial Mortgages was a part of the Credit Union operations but, in an effort to diversify its portfolio, it was moved to Citizen's Bank. This allowed the department to underwrite deals across Canada.
3. **Treasury and Foreign Exchange:** The Treasury and Foreign Exchange provides foreign exchange services for VanCity and the NCC, including cash services for 26 different currencies. This area also sends and receives foreign and domestic currency wires.
4. **VanCity Visa:** VanCity Visa provides the card services, underwriting, collections, and marketing for both VanCity and Citizen's Bank Visa Cards. CIBC originally provided Visa card services to VanCity and its members and, in 1997, VanCity Visa was launched.

1.2.2 Inventure Solutions Inc.

Surrey Metro Credit Union and VanCity formed Inventure Solutions Inc. in 2001. The subsidiary was formed to provide technology solutions to both credit unions in a cost efficient manner. After Surrey Metro Credit Union and Coast Capital Savings merged in 2003, the partnership was dissolved and VanCity became the sole owner of Inventure Solutions Inc. Currently, Inventure provides system operations, maintenance, development, project management, and technology consultancy skills for VanCity and its subsidiaries. While this is currently the primary focus of Inventure solutions, in the future, they may also provide technology services to other credit unions and affiliated financial services companies.

1.2.3 VanCity Capital Corporation

Founded in 1989, VanCity Capital Corporation (VCC) provides growth capital or mezzanine financing to smaller growing companies with a high potential for future success. VCC focuses on businesses located in British Columbia. The lending criteria for VCC are

largely the cash flow history and the capability of the business rather than the assets in that business.

1.2.4 Vancouver City Savings Credit Union

Vancouver City Savings Credit Union is the principal line of business for the VanCity Group of Companies. The Credit Union accounts for \$7.4 billion of the consolidated \$9 billion in total assets. There are seven main business units within the Credit Union:

1. **Risk Management and Operations** provides the back office support for the retail operations. The functions include administration, credit approval, collections, and treasury activities. The treasury department is responsible for pricing the deposits and loans as well as managing interest rate risk, market risk, liquidity risk, and foreign exchange risk.
2. **Marketing and Strategic Planning** performs all marketing, advertising, product development, public affairs, and strategic planning for VanCity and its subsidiaries. This division also works with treasury to set competitive prices for VanCity products.
3. **Wealth Management** offers advisory, insurance, and investment services. A strategic analysis of this wealth management division is the focus of this paper.
4. **Sales and Service**, the largest division in VanCity, has 41 branches and includes a mobile mortgage brokerage team. It is responsible for the delivery of core financial services and products to the membership. These include savings and chequing accounts, registered plans, term deposits, retail lending products, and automated services, such as automated teller machine (ATM) cards. The majority of employees belong to this division.
5. **Business Services** is responsible for the delivery of business loans and business deposit products to small and medium-sized enterprises in the Lower Mainland and Victoria. The Business Services Division is also responsible for the development and management of the business portfolio.
6. **Human Resources** support the human resource needs of the business units within VanCity. The Human Resources Division performs all payroll and

benefits activities, attendance management¹, organizational development, and human resource consulting.

7. **Finance and Administration** is in charge of the accounting and costing functions of the Credit Union. This division is also responsible for facilities management, purchasing, audit, and security functions.

1.2.5 VanCity Insurance Services

Purchased in 1994, VanCity Insurance Services Ltd. (VISL) is a subsidiary of VanCity, but operates under the Wealth Management Division. VanCity Insurance Services acts as a broker rather than an underwriter of policies. VISL offers a full array of insurance policies including life insurance, disability insurance, automobile insurance, home insurance, fire insurance, and pet insurance. VISL offers policies for both individuals and organizations.

1.2.6 VanCity Investment Management

Formerly Oliver and Moore Investment Management, VanCity Investment Management (VCIM) was acquired in 1994. The division provides discretionary investment management services to individuals, businesses, and organizations. Although it is a subsidiary, VCIM also operates under the Wealth Management Division.

1.2.7 VanCity Enterprises

VanCity Enterprises' focus is the development of affordable and accessible housing. It works in partnership with local groups and societies to develop commercial and housing projects.

1.3 VanCity Key Business Objectives

Six key objectives direct VanCity's business. These business objectives are: 1) to enhance the member experience, 2) to maintain a high level of employee engagement, 3) to be a community leader, 4) to increase membership growth, 5) to deepen the relationships with its members, and 6) to maintain financial sustainability. These six objectives are the foundation upon which VanCity's continued growth and financial success are built.

¹ Attendance management includes tracking of vacation allocation, vacation days carried forward from previous years, sick days, and unused sick days.

1.3.1 Member Experience

The most important contributor to VanCity's growth and success is member experience. The goal is to provide consistent error-free service to the membership, while going the "extra mile" for the member. VanCity closely monitors the level of satisfaction of its members. On a monthly basis, they survey the membership to gather feedback on their experience with the Credit Union. Having 35% of the members totally satisfied, with a rating of five out of five, is the goal. The focus on member satisfaction helps VanCity differentiate itself from its competitors, and drives the growth of the Credit Union. A totally satisfied member is likely to do more business with VanCity and, when members have a positive experience, they are more likely to refer business to VanCity.

Not only does VanCity look to provide outstanding service, but it also acts as an advocate for its members. Staff are encouraged to act in the member's best interest, thereby being consistent with VanCity's best interests. The idea is that this sense of advocacy builds credibility and trust in the member's mind. Like positive member experience, trust and credibility should lead to increased business and membership.

1.3.2 Employee Experience

VanCity maintains that engaged and satisfied staff are more productive, efficient, loyal, and enthusiastic; they provide better service and create a positive experience for the members. VanCity has identified three key components to ensure that employees are engaged. Firstly, VanCity endeavours to create a compelling vision of the Credit Union's future. The Credit Union's values and commitments are emphasized, so employees have a clear sense of purpose. Secondly, Staff are rewarded and recognized for their contributions. Thirdly, the staff are offered opportunities to grow and develop. VanCity is focused on creating an environment where staff are engaged which, in turn, has a positive impact on member experience and the success of the Credit Union.

1.3.3 Community Leadership

Another key component of VanCity's strategy is community leadership. One of its core commitments is helping the community thrive and prosper. Community leadership is also an important component of member experience and employee engagement as it provides purpose and meaning. Community leadership helps VanCity differentiate itself in the financial services

marketplace. Differentiation is critical for success in the industry, because the products offered are primarily homogeneous. Community leadership also builds credibility for VanCity and reinforces the advocacy message to the members. Credibility and differentiation help VanCity to grow and prosper, and to contribute to the success of the communities in which VanCity operates.

1.3.4 Membership Growth

Membership growth is another key objective for VanCity. After a number of years of low membership growth, in 2002, VanCity began focusing on membership growth as a key business objective. The goal is an annual rate of 6% and a market penetration of approximately 15% in the Lower Mainland. Increased membership raises more capital, increases liquidity, and lowers the average fixed-cost per member. A lower cost structure allows VanCity to remain competitive and better enables it to meet the needs of its membership and communities.

1.3.5 Deepening Relationships

The next business objective for VanCity is increasing the amount of business or share of wallet² the members have with the Credit Union. Currently, the share of wallet is approximately 36%, and the goal is to increase this share to 45% by 2008. Meeting this goal will not only lead to increased revenues and assets under management, it will motivate member's engagement. Members will enjoy greater convenience and more tailored, sophisticated financial solutions as the relationship between the member and VanCity strengthens.

Traditionally, VanCity has been perceived primarily as a savings-and lending-type of institution. For this reason, VanCity has good product penetration with its members for core banking products such as mortgages, savings, and lending. There is a great opportunity for VanCity to deepen relationships with its membership through non-traditional products, such as wealth management, small and medium-enterprise lending, and Visa product offerings.

1.3.6 Financial Sustainability

The final business objective for VanCity ensures financial sustainability through improvements in the efficiency of the organization, and prudent management and financial

² Share of wallet refers to the amount of business a customer has with their financial institution.

accountability. In turn, building a stronger financial foundation allows VanCity to re-invest in itself, its employees, and the community, furthering continued differentiation in the marketplace.

1.4 VanCity Wealth Management Division

1.4.1 Wealth Management Defined

In examining the Wealth Management Division in VanCity, it is useful to define the term “wealth management”. Wealth management is sometimes described as the activity of offering sophisticated investment products, such as mutual funds, stocks, options, money market instruments, and bonds. Although these products are a significant portion of the wealth management business, such a definition is not all-encompassing. Prince and Bavelas define wealth management as “the cross-selling of services and financial products”³. Wealth management is this and more. Wealth management is the activity of providing integrated advice, products and services to help members meet their financial objectives and improve their financial wellbeing. Some examples of financial objectives are protecting members’ assets, lowering their taxation, achieving a better rate of return on their portfolios, or decreasing their monthly mortgage payments.

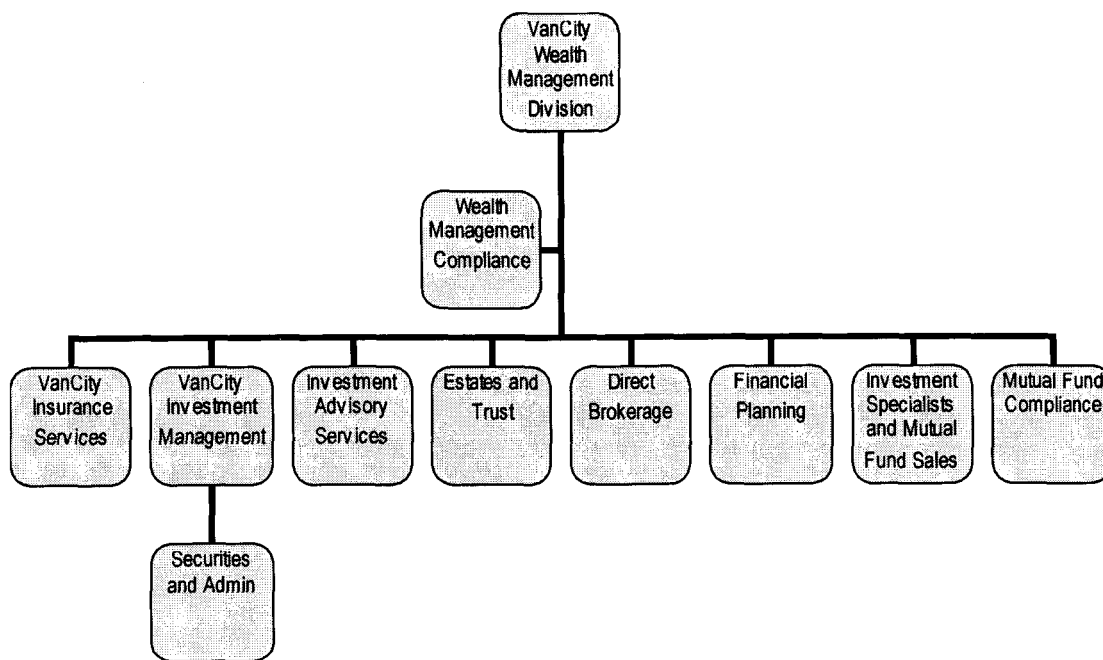
1.4.2 Description of Wealth Management Division

Formed in 2001, the Wealth Management Division is a relatively new division. VanCity brought together various business units that had been acting independently within different divisions. The consolidation of these units marked a new emphasis for VanCity as its new wealth management strategy developed. Although VanCity had always had various pieces of a wealth management business, VanCity had never focused on a consolidated strategy, and its importance to the organization had not been fully recognized.

The wealth management division is divided into 10 strategic business units. Together, these units offer VanCity members a full array of wealth management services (see Figure 2).

³ Russ A. Prince and Arthur A. Bavelas, “Wealth Management is Hot. Is it for You?” *National Underwriter*, July (2002): 24.

Figure 2: *VanCity Wealth Management Division Organizational Structure*



1.4.3 Wealth Management Compliance

Wealth Management Compliance monitors and oversees compliance and privacy issues for the whole organization. Formed in 2003, this unit responds to the increasingly complex government and securities regulations regarding the sale of insurance products and investment products. In 2003, federal privacy legislation came into effect and, similarly, in 2004, provincial privacy legislation came into effect. Through monitoring the wealth management division, Wealth Management Compliance ensures that VanCity complies with securities, insurance, and privacy regulations. The unit currently employs one person, who reports directly to the Vice-President of Wealth Management and VanCity's Board of Directors.

1.4.4 VanCity Insurance Services Ltd.

VanCity Insurance Services Ltd. (VISL) has three major lines of business: personal insurance, life insurance, and business insurance. Personal insurance is the most significant. It

includes automobile insurance⁴, travel insurance, and home insurance and accounts for approximately 78% of the total revenue for VISL. Life insurance accounts for approximately 13% of the revenue and business insurance accounts for 9% of the revenue. VISL contributes over 30% to the Wealth Management Division's total revenue and, in terms of employees; it is the biggest business with over 88 employees.

VanCity Insurance Services Ltd. operates a call centre and six offices located in VanCity branches. The majority of personal and business insurance is underwritten from these locations. In addition to the branch locations, VISL has five mobile life insurance agents. These agents underwrite most of the life insurance business; most of the agents' business is sourced through internal branch referrals rather than via the call centre and other branch locations.

VanCity Insurance Services Ltd. has gone through some major transitions. In response to the increasingly difficult insurance services climate, the organization implemented new systems, relocated branch offices, changed underwriters, and has been restructured. Insurance premiums have been increasing and underwriting companies have been far more selective as to what they will endorse. These conditions have hampered the growth of VISL over the past 2 years.

1.4.5 VanCity Investment Management

VanCity Investment Management (VCIM) is VanCity's discretionary money manager. VCIM develops custom portfolios for each of its members, depending on their individual needs and investment goals. At the beginning of the relationship, the member and VCIM set out an investment and policy statement. This statement guides the money managers in the decisions they make regarding the portfolio. As a discretionary money manager, VCIM does not require the member to be involved in every transaction, but rather, VCIM reports to the member quarterly. VCIM primarily generates its business from existing VanCity members. Typically, a branch or wealth management business unit refers a member to VCIM. Usually, members employing VCIM feel they are not knowledgeable enough to take care of their own portfolios and, therefore, are not involved in the day-to-day transactions of their portfolio. It is essential that members have a trusting relationship with their discretionary money managers. For this reason, members with an existing membership with VanCity are more likely to be attracted to the service.

⁴ Includes both private auto insurance and auto insurance underwritten by Insurance Corporation of British Columbia

Typically, VCIM's clients are affluent members with a minimum account size of \$250,000. The management fee is typically 1.25% of the assets under administration per annum. Due to the low management fee, VCIM also attracts investors who are concerned about management fees on mutual funds and brokerage fees. VCIM can hold stocks, bonds, and money market money instruments, but VCIM currently only hold North American securities in the portfolios it manages. VCIM manages over \$100 million in assets and has six employees (an administrator, sales staff, and portfolio managers), and it is licensed and regulated by the British Columbia Securities Commission.

1.4.6 Investment Advisory Services

Investment Advisory Services (IA Services) is VanCity's full service brokerage service. IA Services targets the affluent member with \$100,000 or more to invest; IA Services offers a full range of investments including mutual funds, bonds, income trusts, and stocks. Although IA Services offers both stocks and bonds, approximately 80% of its business is in mutual funds. In addition to offering investment products, the IA Services team provides investment advice and financial planning to its members. It is a non-discretionary broker; the member must approve all transactions before the trade can be executed. Income for IA services is generated in the form of commissions and trailer fees.

In 2003, the IA Services business unit's asset under management growth was \$70 million dollars. Assets under administration are now in excess of \$300 million. Currently, IA Services has 22 employees, which includes 15 full-time investment advisors and 7 management and support staff. The advisors service and support the 41 VanCity branches, and each advisor is assigned to two or three branches. The majority of the business is based on referrals from VanCity branches, existing IA Service members, or new business from existing members.

In order to perform securities transactions in Canada, one must be a dealer registered with the securities commission of each province. VanCity does not act as its own securities dealer; it has partnered with Credential Financial Inc., which provides dealer services for VanCity through Credential Securities. Credential Securities Inc. receives a percentage of revenue for providing the dealer services. Credential Financial Inc. is partially owned by Credit Union Central of Canada, which, in turn, is owned by the credit unions across Canada. Credential Financial Inc. provides dealer services through its subsidiaries, Credential Securities Inc., and Credential Asset Management Inc. for the majority of the credit unions across Canada.

As of 2003, Credential Financial Inc. held \$5.6 billion in assets on behalf of the credit unions across Canada⁵.

The industry is regulated by provincial securities commissions, Mutual Fund Dealers Association (MFDA) and the Investment Dealers Association (IDA). Securities dealers offering only mutual funds are registered through the MFDA. Securities dealers offering investments, such as equities and bonds, are regulated through the IDA. Credential Financial has both an MFDA dealer (Credential Asset Management Inc.) and an IDA dealer (Credential Securities Inc.). Credential Securities Inc. is the dealer employed by Investment Advisory Services because it not only offers mutual funds, it offers stocks and bonds. IA Services' compliance manager reviews the new accounts and trades, and reports to the Wealth Management Compliance business unit.

1.4.7 Estates and Trust

The Estates and Trust business unit provides estate and custodian services to VanCity members. The Estates and Trust unit engages in the following four types of business activities: 1) acting as an executor on estates, 2) acting as an agent for an executor, 3) acting as a power of attorney, and 4) acting as a committee on an estate. The unit also provides support for the VanCity branch network in dealing with estates and powers of attorney. Business for the Estates and Trust division is primarily generated through referrals from other parts of the organization. Income is generated through estate and trustee fees. The department is relatively small with only five employees.

1.4.8 Direct Brokerage

Offered through Credential Securities Inc., Direct Brokerage is VanCity's discount online brokerage service. It is for those members who wish to own securities but need little advice, are concerned about fees, or have a smaller portfolio. Typically, the cost for a transaction on Credential Direct is approximately \$30 per trade, which is relatively low in the discount brokerage market segment. The overall Credential Direct product offering is strong; it was rated as the second best online brokerage by Gomez Canada in 2003⁶.

⁵ Keith Kalawsky, "Credential Direct Rises to Challenge Top Gun," *National Post*, December 16 (2003): FP1.

⁶ Ibid.

This discount online brokerage service completes the investment delivery portfolio at VanCity. Direct Brokerage's number of accounts and assets are limited. Its products are not heavily advertised or promoted by VanCity's branches, in part due to a lack of support in the past by Credential Financial. Members simply register for the product directly through the VanCity website. Credential Securities Inc. owns the online brokerage service and they incur the majority of costs associated with the business, therefore, the costs to VanCity are low.

1.4.9 Financial Planning

The Financial Planning department offers individual comprehensive financial plans for VanCity members. The plans are offered on a fee basis, and the fees run from no charge to \$1500.00 depending on the relationship that the member has with VanCity and the complexity of the plan. So the plans may be objective, planners are professionally accredited and do not receive commissions.

The Financial Planning department also supports the advice-giving activities of the wealth management and branch employees so these advisors may provide sophisticated and proactive financial advice to its membership. The Financial Planning department plays a critical role in achieving this objective through training, the development of financial planning calculators, and directly answering planning questions. The financial planning department consists of six employees and, while it generates some income through the generation of financial plans, this unit is generally considered a cost centre.

1.4.10 Investment Specialists and Mutual Fund Sales

The Investment Specialist and Mutual Fund Sales business unit has two distinct business functions: directly managing the Investment Specialist sales team within VanCity, and supporting and managing the mutual fund sales done through the branch network.

The Investment Specialist's role was launched in October 2002. This new service provides branches with a dedicated full-time expert to focus only on investments and financial planning advice. The Investment Specialist team was developed specifically to service the segment of the membership not being supported by the Investment Advisory Services team.

Unlike the Investment Advisors who service multiple branches, the Investment Specialists are dedicated to one branch. The Investment Specialists are part of, and report to, the Wealth Management Division, though each Investment Specialist is stationed at one branch. Prior to the launch of the Investment Specialist unit, members who had a smaller portfolio could

not purchase third-party mutual funds through an advisor at VanCity. The Investment Specialist unit offers a broad array of mutual funds intended for members with account sizes between \$25,000 and \$100,000, whereas accounts over \$100,000 are referred to the Investment Advisory Services team. Currently, 30 of the 41 branches have an Investment Specialist dedicated to the branch. VanCity projects that, by the end of 2005, each branch will have an Investment Specialist.

Investment Specialists currently generate income for VanCity primarily in the form of commissions and, to a lesser degree, through mutual fund trailer fees. As administration assets increase, the trailer fee income is expected to represent a larger portion of the income for the department. Investment Specialists are licensed through the MFDA and Credential Asset Management Inc. provides dealer services. As was the case with Credential Securities Inc., Credential Asset Management Inc. receives a percentage of the revenue generated by VanCity.

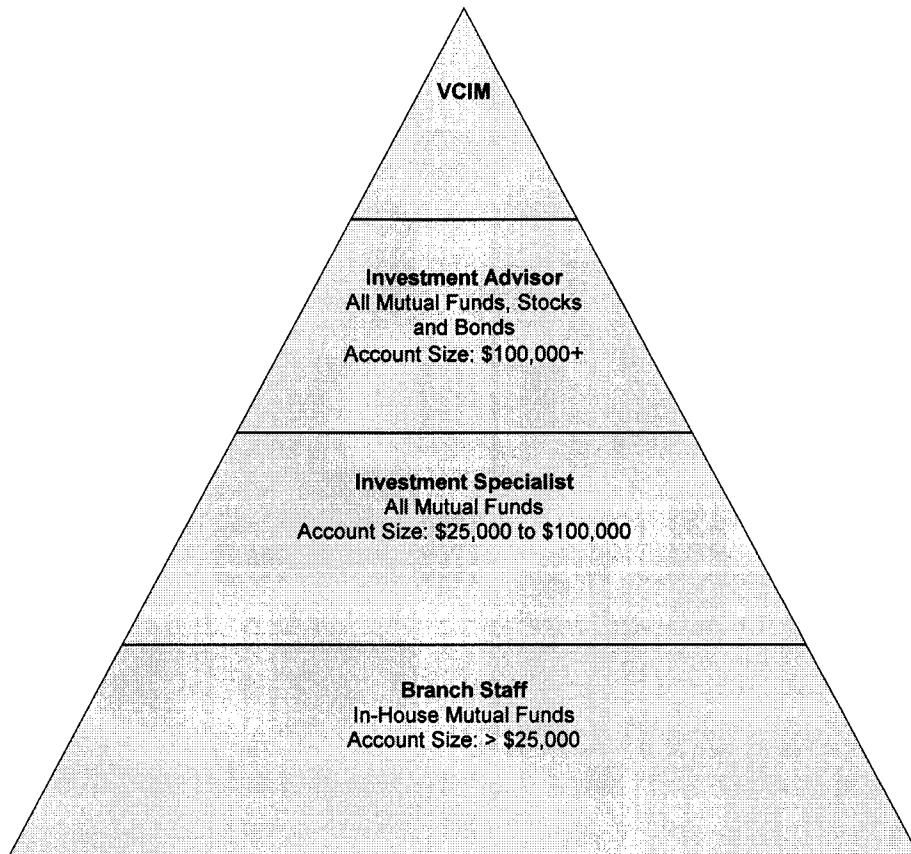
Since their launch in 2002, the Investment Specialists have had a significant success. The team has provided a high level of financial advice to the membership and has built a mutual fund portfolio of \$46 million in a little over 1.5 years. In addition to this, the team has referred over \$60 million in business to other parts of the organization, such as Sales and Service and Business Services.

The branch sales representatives also sell mutual funds. The representatives responsible for mutual fund sales are Financial Services Officers (FSOs) and Account Managers (AMs). Unlike the Investment Specialists and Investment Advisors, the primary focus of these sales representatives are the traditional core VanCity products, such as terms, mortgages and loans but in addition to this focus, they also sell mutual funds on a limited basis. For this reason, they are referred to as part-time mutual fund sales representatives. The part-time sales representatives focus on transactions below \$25,000. Mutual fund accounts above \$25,000 are referred to the Investment Specialist, Investment Advisor, or VanCity Investment Management, depending on the size of transaction and the needs of the member. Currently, 280 licensed sales representatives give VanCity a lower cost sales channel for the lower dollar-value mutual fund transactions. In 2003, each part-time sales representative completed, on average, only 20 mutual fund transactions for the year. Account Managers and Financial Services Officers also dealt with 'reactive sales opportunities'⁷, those members who do not have a relationship with an Investment

⁷ Reactive sales opportunities refer to members who walk into the branch without an appointment and want to complete a mutual fund transaction on the spot.

Advisor or Investment Specialists. Figure 3 outlines the hierarchy of investment services within VanCity and Wealth Management.

Figure 3: Investment and Securities Hierarchy



The branch part-time sales representatives offer only VanCity's in-house mutual funds. In comparison, the Investment Advisors and Investment Specialists offer a full array of mutual funds from all manufacturers. The selection offered by the branch part-time sales representatives has been limited to in-house mutual funds because the representatives spend a limited amount of time dealing with mutual funds. Focusing on the in-house mutual funds simplifies the product offering and allows the representatives to receive targeted training specific to those funds. Although the family of funds the part-time representatives offer are considered in-house, they are not manufactured by VanCity, but rather by Credential Financial Inc. The part-time sales representatives are also licensed through MFDA because they only deal with in-house mutual

funds. Credential Asset Management Inc. is employed as the dealer for the part-time sales representatives.

The mutual fund portfolio belonging to the part-time sales representatives has dramatically decreased since 2000. The portfolio has experienced negative growth in the past 4 years with redemptions and transfer-outs far outweighing purchases and incoming transfers. Several reasons can be offered for this negative net growth: poor fund performance, public lack of confidence in equities, and a lack of attention to the portfolio by the sales representatives. However, VanCity has had tremendous growth with lending and mortgages in the past several years. Consequently, the primary focus of the branch representatives has been lending and mortgages and they have not been able to spend as much time actively managing the mutual fund portfolio. In the last 4 years, ignoring market valuation, the total part-time sales representative's portfolio has decreased in excess of \$50 million. The introduction of the Investment Specialist role over the past year and a half has slowed the negative net growth because the Investment Specialists are taking over and actively managing the part-time sales representatives' accounts over \$25,000. As of April 2004, the total combined assets under management for the part-time sales representatives and the Investment Specialists was in excess of \$260 million, and the portfolio has experienced strong growth through 2004.

1.4.11 Securities and Administration

The Securities and Administration business unit provides administrative and custodial services for VanCity Investment Management and Estates and Trust. The Securities and Administration department consists of four employees and is considered a cost centre.

1.4.12 Mutual Fund Compliance

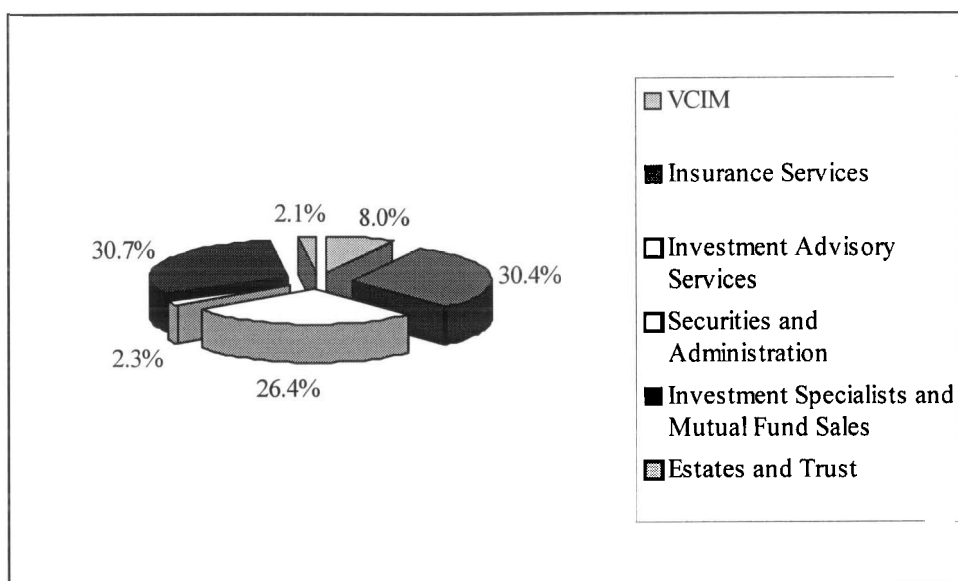
The Mutual Fund Compliance business unit provides all the compliance support to the Investment Specialists and part-time mutual fund representatives. They ensure that all transactions and practices are in-line-with regulations set forth by the Mutual Fund Dealers Association and the BC Securities Commission. Mutual Fund Compliance reviews trades and new accounts, provides training to the sales representatives, and audits the branch locations and paperwork. The Mutual Fund Compliance business unit has eight employees and reports to the Wealth Management Compliance business unit.

1.4.13 Wealth Management Contribution to VanCity

The Wealth Management Division directly contributes approximately 5% of the overall revenue to the VanCity group of companies. This contribution has been rising steadily and it is projected to continue to grow into the future. Although the contribution to revenue is currently relatively low, the Wealth Management Division plays a key role in developing and securing the member relationship with VanCity. Feedback from member service surveys shows a strong correlation between the level of financial advice and planning a member receives, and the total amount of business the member has with VanCity.

VanCity Insurance Services, Investment Advisory Services, and Investment Specialist and Mutual Fund Sales generate almost 90% of the total revenue for the division. Figure 4 depicts the contribution to revenue for each wealth management business unit.

Figure 4: Contribution to Revenue by Wealth Management Business Unit



1.5 Wealth Management Opportunity

VanCity is generally viewed as a provider of loans, term deposits, and transactional products. The majority of business that VanCity accomplishes is of this nature. VanCity has been slow to promote its wealth management services. For this reason, VanCity is not commonly recognized as a provider of wealth management products and services. It is estimated that

current VanCity members hold \$5.4 billion in Wealth Management products at other financial institutions; these products are primarily investments. Through focus groups, VanCity discovered that many of its members did not know they offer investments other than term deposits. Within the current membership, there is still a tremendous opportunity for VanCity to increase its assets in wealth management.

The opportunity in the Canadian marketplace is rapidly growing as well. As the population ages, the demand for retirement planning, insurance planning, and estate planning grows. The aging population currently controls the majority of assets in the economy. In 2000, it was estimated that 1.35 million Canadian households have more than \$100,000 in investable assets⁸ and this number is increasing. By 2010, it is estimated that total investable assets in Canada will reach \$4.3 trillion⁹. The opportunity for VanCity to expand its Wealth Management business, particularly in investments and securities, is great.

1.6 Wealth Management Strategic Imperatives

The 5-year goal for the VanCity Wealth Management Division is to increase assets under administration by \$2.2 billion and wealth management revenue by 20% each year. To deliver these results, the VanCity and Wealth Management Division have identified three key strategic imperatives:

1. **Differentiate VanCity Wealth Management Services:** The goal is to differentiate its wealth management services through member advocacy, knowledge of socially responsible investments (SRI), and community leadership. The view is that members feel comforted knowing that VanCity and its advisors are an advocate for them, acting in their best interests and not the Credit Union's best interest. In a survey conducted in 2003, it was found that members like VanCity's approach to banking and members desire same approach in a wealth management relationship¹⁰. VanCity has partnered with several SRI mutual fund manufacturers in order to provide its members with the best selection of

⁸ Jonathan Chevreau, "Slicing Up the Money Pie: Industry Drooling Over 1.3 Million Wealthy Households," National Post, December 7 (2000): D1.

⁹ Human Alghabi, "A New Direction in Wealth Management" (Final Project, Simon Fraser University, 2002), 1.

¹⁰ Market Probe, *Understanding the Wealth Management Needs of VanCity Members – A Qualitative Study*-, Vancouver City Savings Credit Union, (2003), 35.

socially responsible products in the market. This will help further differentiate VanCity's wealth management service. Finally, continuing to capitalize on VanCity's reputation as a leader in corporate social responsibility allows the Credit Union to connect and promote wealth management services to organizations with similar values.

2. **Define the Opportunity:** VanCity would like to be able to identify the goals and needs of its members through all stages of the wealth management life-cycle and the continuum of financial products, so VanCity's plan includes taking a more holistic view of the member. The wealth management life-cycle can be defined as including three general stages: accumulation of wealth, preservation of wealth, and the transferring of wealth¹¹. The goal is to gather and use information about members in order to identify needs and build sophisticated customized solutions. The focus is on building business and relationships through financial planning and advice. Another important aspect of this plan is to enhance capabilities to share information between different areas of the organization in order to achieve a more complete picture of the member.
3. **Build the Foundation:** VanCity is creating a solid foundation for delivering wealth management products and advice. The educational requirements for advisors will continue to be addressed into the future, thus ensuring the advice delivered to members is sound. The organization is building tools and technology to facilitate assessing the member's needs and recommending appropriate solutions. The overall goal is to have the infrastructure and the knowledge in place to provide a higher level of service to the members.

These three imperatives are identified in VanCity's 5-year business plan as the factors that contribute VanCity's wealth management success in the future. The validity of these imperatives is discussed in the strategic analysis.

¹¹ Stephen Gresham, "The Lifecycle Explanation," *On Wall Street*, May (2002): 89.

1.7 Focus of This Strategic Analysis

The focus of this strategic analysis is to examine the Wealth Management Division of VanCity, to determine what aspects of the wealth management business VanCity should focus on, and to determine the best strategy for competing in the industry. Chapter 2 of this paper examines the wealth management industry in British Columbia. The chapter starts with a description of the key competitors and examines the trends affecting the industry. It ends with an examination of the five forces Michael Porter identified as shaping the potential profitability and attractiveness of an industry¹². Chapter 3 consists of an internal analysis of VanCity's Wealth Management strategy, and its strategic fit, culture, and value chain. The strategic fit analysis considers whether the current strategies are congruent with the culture, actions, and over-all direction of VanCity. The value chain analysis identifies the key activities associated with the delivery of an integrated wealth management product. Through strategic analysis and value chain analysis, key success factors for the Wealth Management Division are identified. In Chapter 4, key issues for VanCity's wealth management offering are identified. Chapter 5 concludes with strategic recommendations for VanCity's Wealth Management Division.

¹² Michael E. Porter, *Competitive Strategy*. (New York: The Free Press, 1980), 4.

2 WEALTH MANAGEMENT INDUSTRY ANALYSIS

2.1 Description of Industry

2.1.1 Wealth Management Definition

The retail wealth management industry is commonly defined as firms offering investments and advice, or asset accumulation. The analysis of the paper will focus on a broader definition of wealth management consistent with a fully integrated wealth management solution. A fully integrated wealth management solution is defined as a bundle of services including investment products, credit solutions, insurance solutions, estate and trust services, and financial planning advice. Investment products include mutual funds, savings accounts, term deposits (guaranteed investment certificates), and securities¹³. The investment aspect is the major component of the wealth management offering and is present in all stages of the wealth management life cycle. Credit solutions such as personal debt, as well as mortgages, are used primarily in the accumulation phase of the wealth management life cycle. Insurance solutions include personal insurance and life insurance products. Insurance products are important in the preservation stage of the wealth management life cycle. Estate and trust services are important in the transfer of wealth stage. The financial planning advice is the piece that brings it together for the client and provides strategies at each stage of the wealth management lifecycle. The analysis of this paper will specifically focus on those firms that can provide a consolidated wealth management package, which are primarily the chartered banks and credit unions across British Columbia.

It is important to examine an integrated wealth management model rather than just asset management because the financial planning process can uncover all types of banking opportunities. These sales opportunities ultimately contribute to the revenue and success of a financial institution. When examining financial institutions in North America and Europe, it was found that only forty-one percent of revenue generated by wealth management companies was generated through securities and non-cash investments; the rest of the revenue was derived from

¹³ Securities include debt instruments, money market instruments, and equities.

banking products, insurance products, and debt products¹⁴. There is great demand and opportunity for well-integrated wealth management solutions. Maguire, Dyer, and Orlander suggest, “By narrowly focusing on asset management...institutions forgo potential revenues...”¹⁵ Although asset management is a key component of the wealth management business, the other elements of wealth management must be considered when examining the industry.

2.1.2 Retail Wealth Management Market

The wealth management market in Canada is growing. In 2002, it is estimated that there was \$1575 billion in discretionary assets in Canada¹⁶. In 1992, the market was estimated to be \$770 billion¹⁷. This represents an annualized growth rate of 7.42% in discretionary assets over the ten-year period. In 2010, the wealth management market is projected to be \$3186 billion¹⁸. This equates to an annualized growth rate of 9.21% over the nine-year period of 2002 to 2010. The growth rate of discretionary assets is important when considering the industry because the assets act as the anchor for the complete wealth management relationship. The annualized growth rate of 9.21% represents an excellent opportunity for wealth management providers. In 2002, Alghabi comments, “...the wealth market offers good opportunities for firms that can achieve a competitive advantage.”¹⁹

Four segments often define the wealth management market. The four segments are referred to the mass market, mid-market, upscale market, and affluent market. The mass market is defined as those households with less than \$100,000 in discretionary assets. The mid market refers to those households with \$100,000 to \$500,000, and the upscale market is a household with \$500,000 to \$1,000,000. Finally, the affluent are those households with investable assets in excess of \$1,000,000. Table 1 illustrates the wealth each segment is estimated to hold in 2002 and 2012.

¹⁴ Andy Maguire, Andrew Dyer, and Paul Orlander, “Untapped Riches: The Myths and Realities of Wealth Management,” The Boston Consulting Group, May 2001: 5.
http://www.bcg.com/publications/files/Untapped_Riches_Myths_RealitiesWealthMgmt_Sept_01ofa.pdf (accessed July 2, 2004).

¹⁵ Ibid., 6.

¹⁶ Keith Sjogren, “Wealth Management Trends,” Presentation at Credential Financial Inc. User Group Meeting, February 2004, page 13.

¹⁷ Ibid., 18.

¹⁸ Ibid., 13.

Table 1: Investable Assets by Wealth Management Segment

Wealth Management Segment	Investable Assets	2002 (\$ Billions)	2002 Percentage of Total	2012 (\$ Billions)	2002 Percentage of Total
Mass Market	<\$100K	237	15%	410	13%
Mid Market	\$100K-\$500K	430	27%	772	24%
Upscale Market	\$500K-\$1M	179	11%	342	11%
Affluent	>\$1M	729	46%	1662	52%
		1575	100%	3186	100%

In 1999, it was estimated that 177,000 households belonged to the affluent segment, while 195,000 households fell within the upscale market. The majority of households belong to the mid and mass markets. In 1999, 11.8 million households belonged to the mass market and 973 000 households belonged to the mid-market segment²⁰. In respect to total assets, the mid market experienced the fastest growth through the nineties²¹. It is predicted that the affluent segment will be the fastest growing segment, with a projected growth of 128% until 2012.

The affluent and upscale markets in Canada have traditionally been the focus of the banks, investment counsellors, trust companies, and brokers. The bank's rapid expansion into wealth management services and private banking was squarely aimed at consolidating the assets of the upscale and affluent clients. The banks are focusing on the mid-market as well, but that has not been its main target market. Credit unions offering a wealth management solution have primarily focused on the mid and mass segments. The Boston Consulting Group, in 2001, identified these segments as "...a very attractive prospect for ambitious wealth managers who carefully attend to the economics of their business"²². The authors went on to note, "...they represent a huge segment – one that traditionally has been poorly served."²³

The insurance industry has experienced steady growth since 1992. In 2003, 77% of the Canadian population had some form of insurance, up from 70% in 2002²⁴. The growth in the industry has primarily been driven by a decline in the number of households having insurance

¹⁹ Alghabi, 24.

²⁰ Chevreau, D1.

²¹ Ibid.

²² Maguire, Dyer & Orlander, 7.

²³ Ibid., 7.

²⁴ Millward Brown GoldFarb, "Financial Tools and Institutions", *Consumer Trendz 2003*, Volume 2 (2004): 7-44.

coverage through their employer. As employers discontinue life and disability insurance coverage through the workplace, households are purchasing insurance on their own. However, the majority of Canadians still do not have a life insurance policy. It is estimated that only 41% percent of Canadians have a life insurance policy²⁵. It is estimated that only 29% of Canadians who sought insurance advice and products in 2003 turned to a bank or a credit union²⁶. Thus, the banks and credit unions have an opportunity for greater penetration into the insurance industry.

2.1.3 Key Competitors

VanCity, as a credit union, is provincially regulated and is currently restricted to carrying out business in British Columbia. As such, the industry analysis will examine the wealth management industry within British Columbia. The key competitors in the British Columbia wealth management market are the big five chartered banks²⁷, HSBC, ING, and the larger credit unions across British Columbia. The credit unions that are prominent in the wealth management business are Coast Capital Savings, Envision Financial, Westminster Credit Union, and Vancouver City Savings Credit Union. In 2001, it was estimated that chartered banks of Canada held 58.1% of the retail wealth market in Canada²⁸. The market share for the major Canadian banks is slightly lower in British Columbia. Table 2 illustrates the market share in British Columbia broken down by product for the banks and credit unions as of 2002²⁹.

²⁵ Ibid., 7-44.

²⁶ Ipsos-ASI, *2003 Products and Services Study*, Credit Union Central of BC, (2003), 63.

²⁷ The big five Chartered banks are RBC Financial Group, CIBC, BMO Financial Group, TD Group Financial Services and Scotiabank Group.

²⁸ Alghabi, 26.

²⁹ Ipsos-ASI, *VanCity Market Share: Financial Products 2003*, Vancouver City Savings Credit Union, (2003), 35.

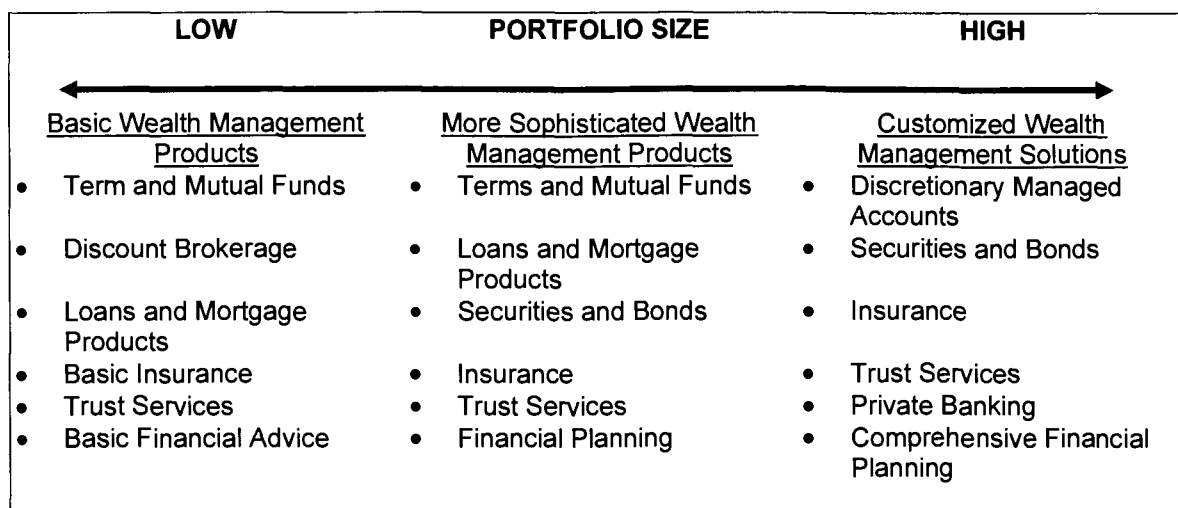
Table 2: 2002 Market Shares by Product of the Major Banks and Credit Unions

Market Share In British Columbia	Banks	Credit Unions	Total Market Share
Terms/GICs	66%	22%	88%
Mutual Funds	46%	9%	55%
Stock and Bonds	43%	3%	46%
Insurance	10%	4%	14%

The key competitors identified offer similar fully integrated wealth management packages. The primary relationship usually resides within the banking operations; subsidiaries or other business units are used to deliver the full range of wealth management products. Generally, the client will have a relationship with a banker or an advisor. In most cases, the advisor would be considered a generalist. If the generalist identifies a need through the financial planning process, the client would be referred to a specialist in a supporting business unit. For example, if an advisor identified that an RBC client needed a life insurance product, the member would be referred to RBC Insurance. The products and services offered through the banker or advisor vary between the financial institutions. For example, the advisors at Coast Capital can complete all investment and insurance transactions, but cannot complete lending transactions. Other financial institutions, such as CIBC's Imperial Service Advisors, can complete lending transactions and basic investment transactions.

The continuum of wealth management products offered by the key competitors is very similar. With lower value portfolios, only the basic wealth management products are offered to the client. As the client's business and overall portfolio size increase, the sophistication of products, advice, and level of service from the advisor also increases. A differentiating factor between the key competitors is the level of service at lower portfolio levels. Typically, the credit unions do not require as large a portfolio size to receive a higher level of sophistication and customization. Figure 5 illustrates the general wealth management offering by the key competitors.

Figure 5: *Wealth Management Product Offering Continuum*



2.1.4 *Industry Profitability*

The overall profitability of the banking industry is high relative to other industries. Wealth management revenues have positively contributed to the profitability of the banking industry. The revenue contributions from wealth management services for financial institutions in 2001 were 8.75% to 23.3%³⁰. In 2003, the wealth management revenue contributions for financial institutions were as high as 32.9%. In the United States, where banks have embraced the full integration of banking, insurance, and investments, the revenues from wealth management in some cases are greater than the revenues from the banking operations. The financial services revenue from an average American household in 1999 was 16% from investments, 45% from insurance, and 39 % from banking³¹. As the financial institutions in British Columbia and Canada focus more on wealth management, the wealth management revenues will continue to contribute more to the total banking revenues.

The revenue from wealth management operations is becoming increasingly important for financial institutions. The traditional banking products, i.e. loans and savings accounts, have become commodities where the only form of differentiation is price. The price of these basic products continues to be driven down by competition in the industry. The margin or spread³²

³⁰ Alghabi, 28.

³¹ John Garabedian and Robert Morette, "Banking on Insurance," The Boston Consulting Group, June 1999: 1. <http://www.bcg.com/publications/files/82159323.pdf> (accessed July 3, 2004).

³² Spread refers to the difference between the interest rates on loans and interest rate on deposits

between loans and deposits, once the primary source of income for financial institutions, has steadily decreased over the past several years. Wealth management products and services allow financial institutions to diversify its revenue from spread-based revenue to fee based revenue. In addition, wealth management revenue generally helps diversify risk for the financial institution. The fee based revenue streams flowing from wealth management do not have the interest rate and credit risk associated with the traditional lines of business.

An integrated wealth management product offering is attractive for the banks and credit unions because it requires limited capital, as the existing banking infrastructure is used to support the wealth management operations. As Gordon Sheldon points out, "Wealth management is particularly appealing because...it does not place substantial amounts of capital at risk, and it generates a higher return on equity."³³ It is important, however, that financial institutions recognize that the wealth management operations are, in effect, being subsidized³⁴. To fully gauge the profitability of the wealth management operations, an appropriate amount of overhead costs must be allocated to the wealth management lines of business. Banks and credit unions traditionally have not been effective at allocating these costs correctly. For this reason, the profitability of wealth management operations may be over estimated.

The wealth management business is also important to financial institutions because it increases the loyalty of a client to the financial institution. The greater number of products and services a client has with a financial institution, the less likely he/she will move his/her business to a competitor. An integrated wealth management solution combined with core banking products is attractive to a client because of the convenience of this package. The presence of a wealth management relationship, particularly where the client has a strong connection with the advisor, increases the likelihood that a financial institution can consolidate the business of its client. For example, if a client has a wealth management relationship with one financial institution and a mortgage relationship with another, it is likely that the advisor will be able leverage the relationship to lure away the mortgage product from the other financial institution. The ability to offer an integrated wealth management solution increases the ability of a financial institution to consolidate business. As well, it protects the current business from being lured to another financial institution. The loyalty created through a wealth management relationship has

³³ Gordon Sheldon, "Seamless Service for the Wealthy Client," *Canadian Banker*, Vol. 106, Iss. 4 (1999): 18.

³⁴ Maguire, Dyer & Orlander, 3.

a positive effect on total income, but it is difficult to estimate the total impact on the earnings of a financial institution. This effect of loyalty combined with the poor allocation of wealth management costs, makes the estimation of the true profitability of the wealth management business difficult.

2.2 Industry Environment

2.2.1 Economic Trends

A major economic trend affecting the wealth management industry is interest rates in the economy. Interest rates impact the growth and earnings an investor receives from savings invested fixed income investments. The lower the rates of interest in the economy, the lower the earnings from fixed income investments. Interest rates in Canada are at its lowest since 1956. Canada's bank rate has hovered around 3% for the past three years. This extended period of low interest rates has negatively impacted the growth of Canadians' savings. Many individuals who were basing their retirement savings and income on interest rates of 6 to 8 percent are now concerned about not having enough savings for their retirement. Low interest rates and concerns about retirement savings have led to an increase in the demand for investment and retirement planning advice. The low interest rate environment is also causing many Canadians to invest in riskier investments with higher potential returns. In 1992, Canadians had 13% of their total wealth in equities; this weighting in equities is projected to increase to 48% by 2012³⁵. The migration from traditional savings instruments to equity investments has increased the wealth management opportunities for an organization that can deliver an integrated wealth management solution. Table 3 illustrates the projected shift in the mix of financial assets for Canadians from 1992 to 2002.

³⁵ Sjogren, 18.

Table 3: Canadian Wealth by Asset Class

Asset Class	1992	2002	2012
Cash and Equivalents	44%	30%	20%
Fixed Income	42%	35%	32%
Equities	13%	35%	48%

Closely related to the interest rates in the economy is the rate of inflation. The rate of inflation impacts the purchasing power of an investor's savings in the future. If inflation rates rise, the future purchasing power of an investor's savings decreases. High inflation rates increase the demand for investments other than term deposits and savings accounts. In particular, high inflation rates increase the demand for equity investments as consumers want investment vehicles that have greater growth potential. Similar to low interest rates, high inflation rates increase the demand for wealth management advice and products. Inflation rates in recent years have been relatively low but it is expected the rate of inflation will increase as Canada enters an expansionary economic cycle.

Another factor affecting the wealth management industry is the level of taxation in Canada. The higher level of taxation, the greater the negative impact on the wealth accumulation of Canadians. The high level of taxation will increase the number of individuals seeking tax advice, and estate and trust services. Clients will also migrate to investments such as equity investments, which have a preferred tax treatment. The level of taxation in Canada and British Columbia has increased the demand for wealth management services.

Also increasing the demand for wealth management services is the decreasing level of pension security offered by the government and Canadian employers. The growing trend in Canada is for employers to move away from offering defined benefit pension plans where an employee's income is guaranteed in retirement. Increasingly, employers are offering a defined contribution plan, which effectively shifts the risk of ensuring enough savings for retirement to the employee. Many Canadians are also concerned about the availability of the retirement safety nets offered by the Canadian government in the future. This concern combined with the shift away from guaranteed pensions is leading to an increase in the demand for wealth management products and advice in Canada.

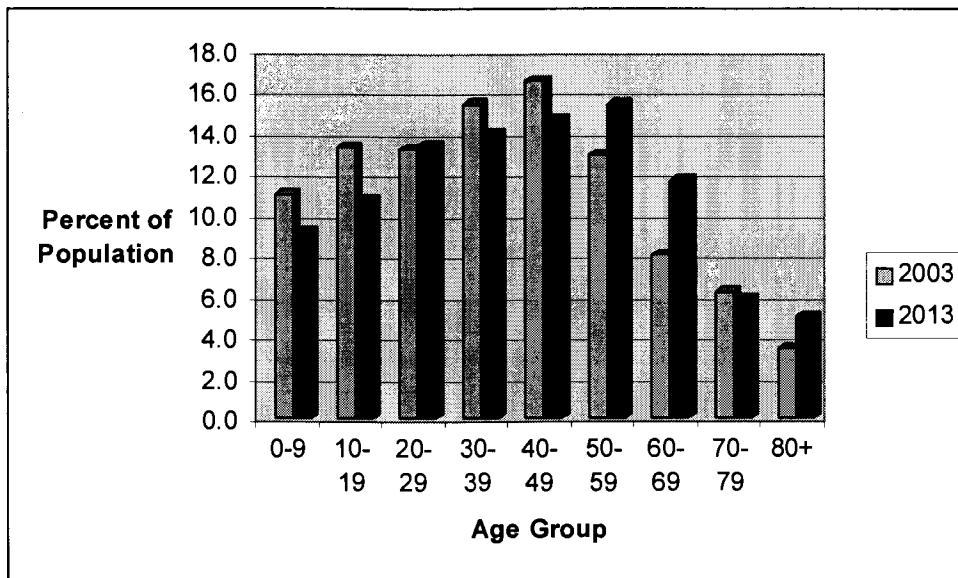
2.2.2 Demographic Trends

Another important factor influencing the wealth management industry is the age of the population. As the population grows older, investors shift from borrowing money to a greater focus on wealth accumulation and wealth preservation. As an individual progresses through these stages the overall wealth of an individual increases. The Canadian population is aging; as of 2003, the largest segment of the population is between forty and forty-nine; this segment of the population represents 16.5% of the British Columbian population. The age group thirty to thirty-nine is the next largest population segment accounting for 15.4% of the BC population³⁶. These two segments account for over thirty percent of the BC population, and their demand for wealth management products is great. In 2013, it is projected that 52.7% of the population will be over forty³⁷. This large percentage of the population will continue to demand wealth management products and services as they move into the period of their lives where they spend their wealth. Products such as insurance, tax planning, and estate and trust services, will become increasingly important. Figure 6, illustrates the projected shift of the demographics in British Columbia from 2003 to 2013. As the population ages the demand for wealth management products will increase.

³⁶ BC Government, "2003 BC Stats," BC Government, <http://www.bcstats.gov.bc.ca/data/pop/pop/project/bc0401tab10.htm> (accessed Jun 15, 2004).

³⁷ Ibid.

Figure 6: Percent of British Columbia Population by Age Segment



2.2.3 Regulatory Trends

The regulatory environment for the wealth management industry is changing within Canada and British Columbia. The federal government is reviewing the possibility of bank mergers. Recently introduced privacy legislation has complicated the banking and wealth management industry. There is increasing pressures and monitoring from the regulatory bodies regulating the wealth management industry. These bodies often work independently of each other and, at times, conflict.

In 2001, the federal government introduced Bill C-8, which reviewed the financial services industry in Canada. Bill C-8 included a review process to address the ongoing issue of bank mergers. The federal government in 1998 blocked an attempted merger between the Bank of Montreal and Royal Bank based on concerns that a merger would limit the competition within the Canadian financial services industry. The big five banks have long argued that they should be allowed to merge because they are not currently large enough to compete in a global market. Since blocking the merger in 1998, the federal government has encouraged increased competition within the financial services industry. For example, the federal government has opened up the industry to increased foreign competition. The federal government is still debating the issue of mergers, but it is expected that mergers will eventually be allowed. The merging of banks will

not dramatically impact the wealth management industry within British Columbia. The strong presence of HSBC and credit unions in the province will keep the wealth management landscape competitive. It is unclear what efficiency gains will be gained in the domestic wealth management operations through any banks mergers. Many argue any competitive or efficiency gains as result of any mergers will impact foreign operations rather than domestic operations.

There are three organizations regulating the sale of securities in British Columbia. The three bodies are the securities commission and the two self regulated organizations, the Investment Dealers Association (IDA) and the Mutual Fund Dealers Association (MFDA). The presence of the three bodies increases the costs of selling securities as organizations implement three sets of different procedures to meet the requirements of each body. Currently, the Ontario Securities Commission (OSC) is working to develop national regulation standards for the sale of securities. The goal of the OSC is to have a consistent application of regulations between provinces and the regulatory bodies. The initiative undertaken by the OSC is in the development stages, but any advances would likely benefit the financial institutions offering securities in British Columbia.

The privacy legislation, which was introduced federally in 2003, and provincially in 2004, has limited the degree to which information can be used and shared between business units within the financial institution. A financial institution must disclose to a client what his/her personal information will be used for, and the organization is limited to that constraint. In addition, an organization cannot transfer information between subsidiaries without written consent of the client. For example, if the client is referred to the insurance subsidiary of an organization, the insurance representative cannot use the information already in the banking system to identify the needs of the client. Rather, the insurance subsidiary must go through the process of collecting information on the client again. Not only is this inconvenient for the client, it also creates inefficiencies for the financial institution as advisors duplicate work collecting data.

2.2.4 Technology Trends

There is a continuing trend of British Columbians increasing their Internet usage for banking and investing. This increased usage of electronic forms of banking negatively impacts the ability of the financial institutions to have face-to-face contact with its client base. Financial institutions have typically relied on this contact to cross-sell its wealth management services. As clients increase their usage of electronic banking forms, the financial institution has fewer

opportunities to identify the wealth management needs of its client base. Thus, financial institutions need to be able to identify the wealth management needs of its membership without interaction with the client. The banks and credit unions need to improve its ability to identify the needs of the client base based on demographics and behaviours. Financial institutions must also improve its ability to keep in touch with its clients by leveraging channels such as the telephone or email.

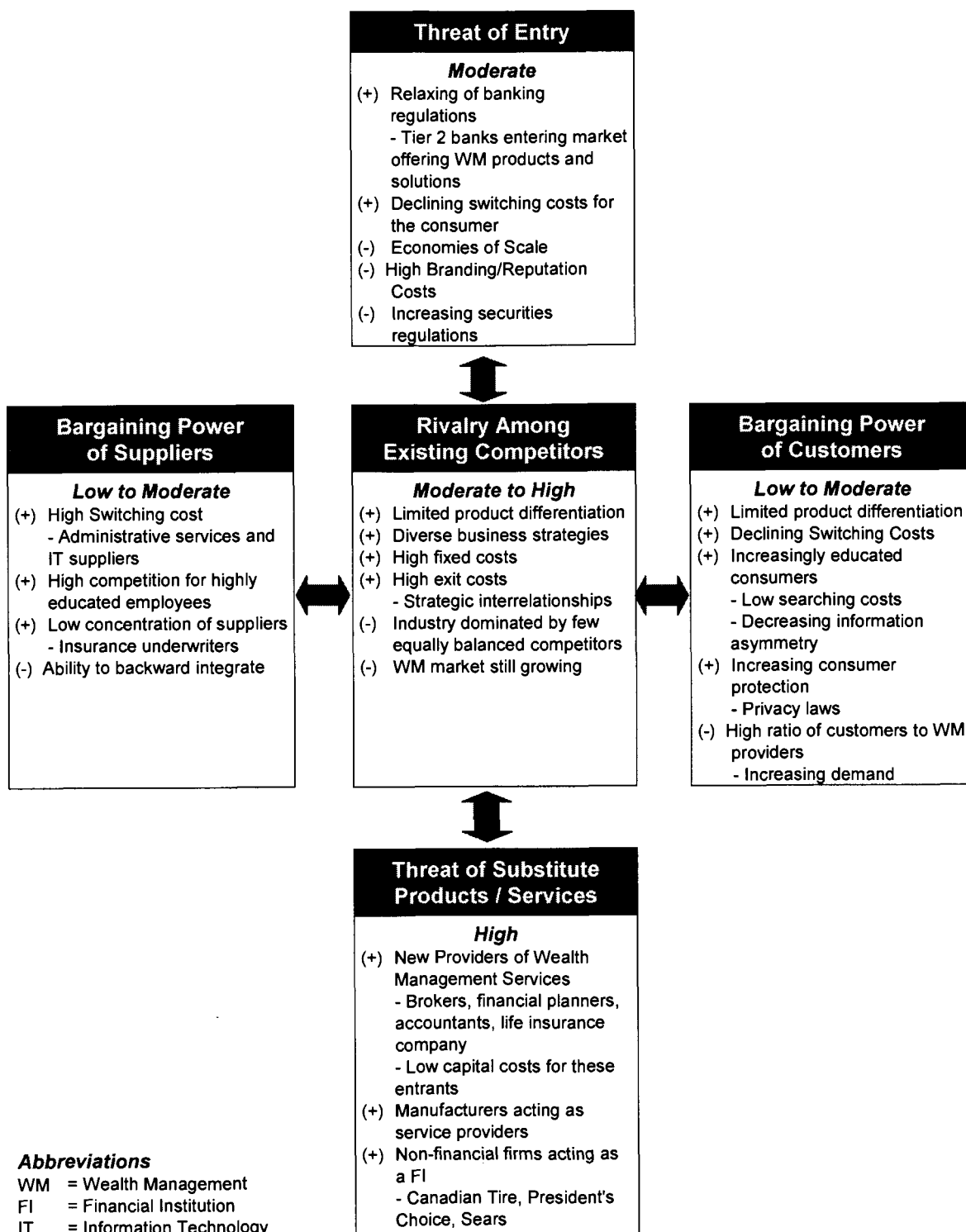
British Columbians are also using electronic tools for their investing needs. The electronic brokerage services provide the client a low cost channel for investments. The electronic brokerage service also allows financial institutions to service the client base that does not want financial advice in a cost effective manner. This channel is ideal for the financial institution if the client is price sensitive, has limited financial needs, or has limited financial assets. The disadvantage of the discount brokerage channel is that it limits the contact the financial institution has with the client. The limited contact makes it difficult to identify if the wealth management needs of the client are being met. In addition, the client has a limited relationship with the financial institution, thereby making it difficult to consolidate business from other organizations. The client who does not have a relationship with an advisor will have limited loyalty to the financial institution, making his/her business vulnerable to competitors. The continued usage of electronic forms of banking provides convenience for the member in a cost effective channel. The challenge for wealth management providers is being able to offer integrated wealth management products to those interested clients without face-to-face contact.

2.3 Competitive Analysis

In developing an industry analysis, this section will examine the five competitive forces Michael Porter identified. These five forces shape the industry and determine the potential profitability of the industry. The five forces are rivalry amongst existing competitors, bargaining power of suppliers, bargaining power of the consumer, the threat of potential new entrants, and the threat of substitute products and services³⁸. Figure 7 summaries the strength of these forces and the elements influencing each force. The section will examine each force in turn and discuss its individual affect on the industry. Finally, the section will close with a discussion of how attractive the industry is given the five competitive forces.

³⁸ Porter, *Competitive Strategy*, 4.

Figure 7: Summary of Forces Driving Competition in the Wealth Management Industry³⁹



³⁹ Ed Bukszar, "Industry Analysis Lecture," MBA 607 Business Strategy Lecture, February (2004).

2.3.1 *Intensity of Rivalry*

The first competitive force the section will examine is the rivalry amongst the current incumbents. Typically, the higher the rivalry amongst competitors, the lower the average profitability of the incumbents will be. The rivalry or competition between the existing competitors in the wealth management industry is moderate to high.

The first factor contributing to the level of rivalry is the perceived homogenous nature of wealth management products. When considering only the wealth management product and not the associated advice and service, there is very little differentiation. Often, one financial institution offers the same or very similar product as that of another financial institution. For example, the exact same mutual fund purchased at VanCity can also be purchased at TD Canada Trust. The only way a consumer may be able to differentiate between the products is the pricing, advice, and service offered with the associated product. The more similar the products are between rival firms, the more necessary it is for the company to cut prices to increase its sales⁴⁰.

The presence of diverse business strategies within an industry increases the level of competition within the industry⁴¹. In the absence of diverse strategies, firms are can easily predict what one another will do. This predictability creates restraint in the market. However, when the firms introduce differing strategies due to different constraints or objectives, this creates uncertainty in the market, which increases the level of competition. This is the case of the wealth management industry in British Columbia. For example, ING, a foreign newcomer into the marketplace with a different business model, increased the competitive nature of the industry. As one incumbent reacted to the different business strategy, the other banks, credit unions, and wealth management providers followed suit, but not only did they react to the new strategy, they also reacted to what the other firms were doing. The differing strategies bring an element of uncertainty to the industry and create an environment where competition increases as firms in the face of uncertainty try to out manoeuvre one another.

The large wealth management providers, such as RBC, CIBC, and TD Canada Trust have invested heavily in its wealth management operations over the last decade. Many of the expenditures such as buildings and technology are fixed in nature. These high fixed costs will

⁴⁰ Robert Grant, *Contemporary Strategy Analysis: Concepts, Techniques, Applications* 4th Ed. (Malden Massachusetts: Blackwell Publishers, 2002), 74.

⁴¹ Michael E. Porter, *Competitive Advantage: Creating and Sustaining Superior Performance*. (New York: The Free Press, 1985), 4.

lead to greater rivalry and competition amongst the incumbents. As fixed costs increase, a firm has an incentive to increase output, so the fixed costs of the firm are spread out over more output, and average costs fall. The firm ideally wants to have output at a level where it reaches its minimum efficient scale. This is the output where average cost is minimized⁴². Wealth management providers try to increase its client base or asset base to spread out its fixed costs over a greater output and, hence, reduce average cost. For example, a bank will try to spread the high cost of becoming an issuing broker over many clients. The more customers and assets the wealth management provider has, the greater the ability of the financial institution to recoup fixed costs. Wealth management providers strive to increase its asset and customer base to decrease its average costs; this increases the competition within the industry.

High exit costs also contribute to a high level of competition amongst the competitors. High exit costs exist for the banks and credit unions because of the strategic relationships that exist between insurance, brokerage, and financial planning and retail operations. If incumbents were to vacate the market, this would adversely affect the image of the organization, including the retail operations. As Michael Porter explains, “interrelationships between the business unit and others in the company...cause the firm to attach a high strategic importance to being in the business.”⁴³ The will to remain in the business increases the level of overall competition in the industry.

Offsetting some of the previous factors increasing the rivalry amongst existing competitors is the existence of few firms who are major players in the BC market. In 2001, 71% of the revenue in the securities industry was earned by securities companies owned by the major banks⁴⁴. A recent research study by Ipsos-ASI, found that 42 % of those who sought financial planning advice did so through a bank or a credit union⁴⁵. As the presence of competitors decreases, there is a greater chance of coordination amongst the industry leaders. The coordination is a form of discipline where it is unlikely that one of the firms will act as a maverick. This is evident when examining the pricing on guaranteed investment certificates. As one bank lowers or raises its rates, the competitors follow within a day. The concentration of a

⁴² In perfect competition, this is where profit is maximized.

⁴³ Porter, *Competitive Advantage*, 20.

⁴⁴ Department of Finance Canada, “Canada’s Securities Industry,” Department of Finance Canada, http://www.fin.gc.ca/toce/2002/cansec_e.html (accessed Jun 15, 2004).

⁴⁵ Ipsos-ASI, *2003 Products and Services Study*, 58.

few large players in the integrated wealth management industry acts as a mechanism to decrease to competition.

The wealth management market is still growing within British Columbia, and this growth slightly lessens the rivalry amongst the competitors. As noted earlier, the aging baby boomer population is moving away from the basic financial products such as mortgages to a more integrated wealth management product. The discretionary financial assets of this group, as well as insurance and financial planning needs, are growing. It is estimated that wealth in Canada will grow from \$1575 billion in 2002 to \$3186 billion in 2012⁴⁶. It is also estimated that 17% percent of this wealth exists in British Columbia⁴⁷. This expected growth in investable assets represents a huge opportunity for integrated wealth management providers in both Canada and British Columbia. Although the industry is still growing, it should be noted that increases in the wealth management market share are usually at the expense of a competitor. A wealth management relationship is usually developed after a client has the basic of banking products; as the client's needs grow, other wealth management providers actively pursue these clients.

2.3.2 Threat of Entry

The threat of entry to an industry increases the competitiveness of an industry, making it less attractive. The wealth management industry in British Columbia has a moderate threat of entry. Although the industry has traditionally had a low threat of entry, technology changes and the relaxing of government regulations have made it possible for new entrants to join the industry.

The number of integrated wealth management providers is increasing as the federal government relaxes banking regulations for tier two and foreign banks. The relaxing of banking regulations has led to the entry of foreign banks such as ING Direct into the Canadian marketplace. A recent survey found that 13% of the wealthy individuals were clients of ING Direct. This is up from 10% in 2002 and 5% in 2001⁴⁸. ING Direct, like the credit unions and banks, can offer its clients an integrated wealth management package including insurance and mutual funds. Other entrants such as Citibank are also starting to have a presence in British Columbia. Citibank Canada has introduced Citigroup Private Bank in Vancouver, which is

⁴⁶ Sjogren, 13.

⁴⁷ Ibid., 12.

⁴⁸ Kalawsky, FP1.

offering an integrated wealth management solution. Although Citibank is focusing on the affluent and its market presence is low, Citibank has the ability and resources to quickly expand its presence in British Columbia and Canada. The relaxing of banking regulations and legislation has led to new entrants into the market, giving consumers another alternative.

While Canadian banking regulations are becoming more attractive, the rules and regulations regarding the sale of securities, the issuance of insurance, and the provision of financial advice are becoming increasingly complex due to the number of regulatory bodies involved. Providing an integrated wealth management product requires the firm to deal with numerous regulatory bodies. A firm must deal with the Insurance Council of British Columbia, Financial Planners Standards Council (FPSC), MFDA, IDA, and the British Columbia Securities Council (BCSC). A wealth management provider must adhere to the unique practice standards and regulations of each of these regulatory bodies in addition to those set out by the Financial Institution Commission (FICOM) and the Office of the Superintendent of Financial Institutions (OSFI). In recent years, the regulations surrounding financial advice, securities, and insurance have become increasingly stringent, as the regulatory bodies are taking aggressive steps to protect the public. The regulations and rules create inefficiencies for the firms in the industry, making it a less attractive industry to enter.

The ability to switch between wealth management service providers is increasing for consumers. For instance, many of the products offered by competing wealth management service providers are also the same. Consequently, the assets are easily transferred between the firms. The client is required only to complete a transfer form to move assets between firms. In an effort to retain assets, many firms charge a transfer-out fee, but the receiving firm usually covers the cost for the client. The same holds true for insurance products, after a policy is underwritten, the policy can be transferred between firms. Often a client is unlikely to leave a wealth management service provider if the client has invested considerable time and effort in developing a plan and strategy with an advisor. If the client has provided detailed personal and financial information, and he/she perceives that this information has led to a customized solution, the client is not likely to want to go through the process again with a new advisor. Wealth management providers have not been able to fully capitalize on the desire of the client to remain with the same advisor after submitting information. On the other hand, a client will not hesitate to leave a wealth management provider if it is felt the advisor is not using the client's detailed information or if the client's advisor has left. Often, advisors do not stay in the same location or role for an extended period; this movement reduces the customer loyalty. The reduced loyalty combined with

decreased switching costs allows customers to easily switch between competitors, making the industry more attractive to new entrants.

Protecting incumbent wealth management service providers from new entrants to the industry is the existence of economies of scale. Although the costs to provide financial advice and act as distributor are limited, the costs to offer a fully integrated wealth management product array are great. To act as the manufacturer of loans and term deposits, the firm must have strong financial backing, and the financial institution must have a large and diverse portfolio in order to minimize risk. To be effective, these high start up costs need to be spread over a large customer base and dollar value. The large economies of scale necessary for a fully integrated wealth management provider act as a barrier to entry.

Limiting the entry of new firms to the industry are high branding and reputation costs. A client will be wary to entrust an unknown wealth management provider with his/her savings or possibly even their personal information. If an incoming firm does not have the credibility in the industry, it must heavily invest in building trust with potential new clients. This fixed cost acts as a barrier to entry. In addition, if the client perceives any additional risk with a new firm, the consumer will demand a premium on his/her investments or a discount on fees. These price premiums or discounts will reduce the profitability of a new entrant. The reputation advantage of the existing financial institutions acts a deterrent to new entrants.

2.3.3 Threat of Substitution

The threat of substitution, like the threat of entry, increases the competitiveness of the industry and decreases the potential profits of the industry. The threat of substitute wealth management service providers is high.

Substitutes to the banks' and the credit unions' fully integrated wealth management product are emerging as traditional single product or service providers partner with other providers to offer a consolidated package. Financial planners, accountants, and brokers who have traditionally only have been seen as planners or advice givers are now offering a consolidated package by partnering with a financial institution to deliver the financial products. In this case, the planner or accountant acts as broker to deliver the financial products. The capital costs for these parties acting as broker are low, and they capitalize on the reputation of the firm they are partnered with. The financial planners and accountants have an advantage over the traditional wealth management provider in that they are not directly associated with a product, so

their advice is perceived to be more objective⁴⁹. Insurance companies are also starting to offer a complete wealth management product. Clarica, for example, introduced mutual funds and financial planning services to compliment its insurance products. Consumers who do not have lending needs see them as a viable substitute. The emergence of these alternatives is giving the consumer an alternative from the traditional wealth management provider.

Manufacturers of investment products are also entering the distribution and financial advice giving market. Firms, such as Altamira, have expanded from a traditional mutual fund manufacturer to a wealth management provider. Altamira now offers savings accounts, brokerage services, financial advice, and mutual funds. Investors Group also provides financial planning services in addition to its mutual funds. Although these firms are focused on asset accumulation, and have not yet developed a fully integrated package, they are providing substitutes to many consumers in the market place.

Another substitute for the consumer is the emergence of non-financial firms acting as financial services providers. Retail outlets such as Canadian Tire and Sears Canada leverage its customer base, loyalty, and reputation to offer financial services. Sears Canada not only offers basic financial services, they are also offering wealth management services. A client can obtain tax planning, credit advice, insurance products, and investments through Sears Canada Bank. Sears Canada Bank complements these products with a lifestyle club that focuses on seniors. The lifestyle club offers such items as discounts on travel and hotels, senior vacation packages, seniors' community events, and advice on nutrition and exercise. Many older clients find this is an attractive compliment to the wealth management services and are willing to consolidate business to take advantage of this attractive feature.

2.3.4 Supplier Power

This section will examine the effect of bargaining power of the supplier on the industry. If the bargaining power of the supplier is high, the supplier can exert pressure on the firms and extract profits from them. The greater the power of suppliers relative to the firms in the industry, the less attractive the industry is. The suppliers to the integrated wealth management service providers have low to moderate bargaining power.

Wealth management service providers, such as banks and credit unions, experience high switching costs from back office suppliers. Many firms in the industry outsource its

⁴⁹ Sheldon, 21.

administrative functions to a supplier. For example, VanCity uses Credential Financial Inc. as its securities dealer rather than completing the securities transactions themselves. Once a wealth management provider has forged a relationship with a back office supplier, the switching costs are high to change the relationship. To switch suppliers, normal business practices are interrupted, there are inefficiencies as the organization adjusts to the new supplier, and the client is usually negatively impacted. The high switching costs allow some suppliers in the industry to have greater bargaining power.

Over the last decade, the consumer's knowledge has increased. Due to the increased knowledge of the consumer, there is a greater expectation of expertise from their wealth management advisor. To meet these demands, wealth management providers and financial institutions are endeavouring to hire advisors with a financial planning educational background or who have an accreditation such as Certified Financial Planner (CFP). Consequently, there is an increased demand for such advisors. This trend is increasingly becoming a problem as more wealth management providers are trying to differentiate themselves on the level of advice they give. Also in great demand are those advisors with a strong sales background who are effective at building relationships with clients and consolidating assets. The increased demand for these employees has created a shortage in the labour market, allowing top sales performers or highly educated individuals to demand more remuneration. These higher wages influence the profitability of the wealth management provider.

Another factor adversely affecting the profitability of the industry is the low concentration of suppliers. This is particularly true with insurance suppliers, as there are only a few underwriters who dominate the industry. Due to a lack of choice between underwriters, the insurance underwriters can impose strict eligibility requirements and high premiums. This power negatively impacts the ability of the broker to issue new policies and affects the profitability of the business. This has been particularly evident since 2001. Insurance companies faced with low interest rates⁵⁰ and increased risks have been increasing premiums while declining a higher percentage of applications.

Decreasing the bargaining power of suppliers in the wealth management services industry is the ability of the incumbents to backward integrate. Wealth management providers, in particular the banks, have access to a great deal of capital. This capital allows the firm to backward integrate if the need arises. In the late nineties, RBC, for example, developed its own

⁵⁰ Insurance underwriters are very dependent on interest rates as this is a primary source of income.

contact management software instead of purchasing a software package from a supplier. RBC developed the software internally in response to a perceived lack of functionality and the high costs of the products offered by suppliers. The banks have also purchased brokerage and trust companies limiting the number of suppliers to the banks. The threat of backward integration deteriorates the bargaining power of suppliers.

2.3.5 Buyer Power

This section examines the bargaining power of the customer. The greater the bargaining power of the customer, the greater likelihood the customer will be able to have firms compete against each other and drive prices down. The bargaining power of the customer in the wealth management industry has traditionally been low, but this trend is changing and the bargaining power of the buyer is gravitating to a moderate level.

As noted earlier, the products offered by wealth management service providers and financial institutions are homogenous in nature. A consumer can easily choose between competitors and receive very similar products. The major differentiating factor between providers is the delivery and advice associated with the wealth management products. The ability of the consumer to switch between vendors without adversely affecting their product selection erodes the power of the firm.

Closely related to the factor of homogenous products are the declining switching costs for the customer. A customer can switch to another financial institution with very little inconvenience; in fact, most wealth management providers will pay all associated fees to transfer assets to their company. Wealth management providers try to increase the switching costs for its customers by consolidating its client's business and by developing a personal relationship with the client. The low switching costs combined with the homogenous nature of the product create an environment where the consumer has more power. The low switching costs are the most significant factors contributing to the power for the consumer.

Increasingly, the consumer is becoming more educated about the products and prices offered by financial institutions and wealth management providers. One of the primary drivers of this increased knowledge is the decreased searching costs associated with investigating wealth management products. The consumer can explore prices, products, and services with little effort on the Internet. In addition, in recent years, the media has focused on educating the consumer about wealth management products. For example, the Canadian financial papers have focused on

the management expense ratio⁵¹ of mutual funds. Consequently, members have become very price sensitive to this ratio. The additional focus by the media has helped educate consumers. This increased education helps eliminate the information asymmetry that exists in the industry. As Michael Porter, states, “with full information, the buyer is in a greater position to insure that it receives the most favourable prices offered to others and can counter suppliers’ claims...”⁵² Today’s consumer has a better understanding of the options and prices he/she can obtain in the market, thereby increasing the power of the consumer in the relationship.

In 2003 and 2004, privacy legislation was put into place for Canada and British Columbia. The privacy legislation severely restricts the financial institution’s ability to share information across business units. Prior to the legislation, wealth management providers and financial institutions were very good at using customer data to determine appropriate product pricing and offerings. They were able to segment its customer base into profitable and not profitable groups. The ability to segment the customer base deteriorates the power of the customer. Through the privacy legislation, the firm’s ability to use customer’s information is limited. Unless the client gives consent, a wealth management provider cannot use the data for his/her purposes.

The aging baby boomer population has shifted away from lending products to wealth management products. The increase in the demand for an integrated wealth management product decreases the buying power of the consumer. Many more consumers will be searching for a similar product, which will increase the scarcity of a good integrated wealth management solution. This, in turn, gives the firm more power in the relationship. Also decreasing the bargaining power of customers is the large number of customers relative to the number of wealth management providers. Very few individual customers will impact the performance of a financial institution because the institution’s customer base is so broad. The cost of losing a customer to a financial institution is small. This greatly shifts the power from the customer to the wealth management provider.

⁵¹ Management expense ratio (MER) is the management fees of a fund in a year relative to the total value of the fund. The lower the MER the less costs deducted from the returns of the fund.

⁵² Porter, *Competitive Advantage*, 28.

2.4 Overall Assessment of Attractiveness of the Industry

The overall attractiveness of an industry can be determined by examining several criteria: size and growth potential of the market, socio-economic trends, the five forces determining the competitive nature of the market, and industry profitability. When examining these criteria, it is evident that the integrated wealth management industry is attractive.

The wealth management industry is a large and a growing industry with an estimated annualized growth of 9.21% over the next nine years. A major factor fuelling the growth in the industry is the aging of the population. As the population grows older their wealth increases and their wealth management needs increase. Financial institutions that developed relationships with its client base by providing basic banking products can leverage these relationships to offer a fully integrated wealth management solution.

The current economic environment is also driving the growth in the industry. Low interest rates, high tax rates, and uncertainty about government safety nets in the future are increasing the demand for wealth management products. The regulatory trend within the industry is changing. A changing regulatory environment has made it more difficult for organizations to operate in an efficient manner; however, the regulations are having a positive affect on the overall industry demand. The regulations designed to protect the customer are increasing the confidence of the public and, thereby, increase the demand in the industry. There is an increasing trend of customers using electronic channels for their banking and investing. The emergence of online discount brokerage has allowed the industry to add a low cost sales channel for customers that do not need or want a greater relationship. The challenge with electronic banking is it limits the ability of the financial institutions to identify its client's needs and to cross sell its wealth management solution.

The competitive nature of the industry is moderate. The threat of substitutes is high for the industry, but banks and financial institutions can differentiate its products from the substitute products by focusing on an integrated wealth management solution rather than single products or solutions. The rivalry amongst the incumbents is moderate to high based primarily on the limited differentiation of the product and the high exit costs. The key for the financial institutions is to be able to differentiate its products on the advice and service they deliver with the products. The threat of entry is moderate as the federal government encourages competition within the industry. The bargaining power of customers and suppliers is low to moderate. The power of the groups is kept in check by the strength and size of the financial institutions. Given the overall moderate nature of the competitive forces, the industry is attractive.

The wealth management industry revenue and profitability is growing. The direct revenue from wealth management operations lowers the risk of a financial institution by diversifying the revenue stream for the financial institution. In addition, the wealth management operations help protect the other profitable business the wealth management client has with the financial institution. If a financial institution did not have a wealth management offering, the customer base would be forced to develop relationships with another financial institution that would actively try to consolidate the clients other profitable business. Through the wealth management relationship, the financial institution would be able to consolidate business from competitors. With the proper strategy, an integrated wealth management offering can be lucrative for a financial institution, but it is important to account for and control the associated costs.

3 INTERNAL ANALYSIS

3.1 VanCity Wealth Management Generic Strategy

VanCity is pursuing a differentiation strategy. The primary differentiating feature for VanCity is its delivery of a high level of member service. In 2002, an independent survey found 39% of VanCity members rated their service as excellent while the average service rating for banks was 23%⁵³. In the five-year business plan developed in 2003, VanCity identified service delivery as a key to the organization's success. The business plan states, "[we] not only focus on providing outstanding quality service, but [we] also create a sense of advocacy in the minds of our members..."⁵⁴ Through a high level of member service, VanCity will be able to increase the members' share of wallet and the number of wealth management products. In a survey conducted in 2003, it was found that VanCity members believe that service is more important than the product⁵⁵. By focusing on member experience, it is projected that referrals and word of mouth will increase VanCity's membership base. To a lesser degree, VanCity and the wealth management division differentiate itself with its product array and corporate leadership.

VanCity's overall cost structure is much higher than its competitors' cost structure. The efficiency ratio of a financial institution measures how much it costs to earn a dollar. A lower efficiency ratio is better, as it indicates lower expenses are incurred relative to revenues. In other words, the greater the net earnings will be available⁵⁶. Canada's second largest credit union, Coast Capital Savings, was in the process of merging together three credit unions (Richmond Savings, Pacific Coast Savings, and Surrey Metro) in 2002 and had an efficiency ratio of 79.6%⁵⁷. On the other hand, the big five banks, with whom VanCity competes in the wealth management industry, had an average efficiency ratio of 67% in 2002⁵⁸. VanCity's efficiency

⁵³ VanCity, *VanCity 2002 Annual Report*. (Vancouver: 2003), 13.

⁵⁴ VanCity, *VanCity 5-Year Plan 2004-2008*. (Vancouver: 2003), 2.

⁵⁵ Market Probe, 38.

⁵⁶ Steve Davidson, "Banking Beyond the Numbers." *Community Banker*. Feb., Vol. 10, Issue 2 (2001): 42.

⁵⁷ Coast Capital Savings, *Coast Capital Savings 2002 Annual Report*. (Vancouver: 2003), 11.

⁵⁸ BMO, *BMO 185th Annual Report 2002*. (Toronto: 2003), 12.

ratio is expected to be 79% in 2004⁵⁹. Typically, the wealth management division of financial institutions has higher efficiency ratios than the banking operations. VanCity is conscious of its costs and is focused on keeping the efficiency ratio below 80%; however, due to the small size of the Credit Union relative to the banks and the differentiation strategy it pursues, VanCity will invariably have a higher efficiency ratio than its bank competitors.

Michael Porter defines a differentiation strategy as a strategy where the organization creates something that is perceived to be unique⁶⁰. This uniqueness can take many forms, but one of the more common strategies is customer service or quality. Porter goes on to state, “differentiation...creates a defensible position for coping with the five competitive forces, albeit in a different way than cost leadership.”⁶¹ VanCity’s focus on member experience, corporate responsibility, and unique product array differentiate the Credit Union from its competitors; however, these strategies come at a high cost. Consequently, VanCity focuses on controlling costs but does not strive to be the lowest cost provider in the market. Given VanCity’s commitment to differentiating features and its higher cost structure, it is clear that they are pursuing a differentiation strategy, namely, a high quality adequate cost strategy.

3.2 Strategic Fit

The effectiveness of an overall business strategy is dependent on the strategic fit of an organization. Strategic fit refers to how well the structure and practices of the dimensions of an organization are aligned with the business strategy. For example, an organization with a low commitment to research and development is more suited to an overall cost-based strategy than a differentiation strategy. An organization has many dimensions. A greater alignment of these dimensions with the business strategy the greater likelihood of success of the overall strategy. It is important to identify the dimensions that are not congruent with the differentiation strategy, as they can adversely affect the success of this strategy. The next section will examine the strategic elements of VanCity and its alignment to the overall differentiation strategy. Figure 8 summarizes the strategic elements of VanCity and the alignment to the differentiation strategy.

⁵⁹ VanCity, *5-Year Plan*, 56.

⁶⁰ Porter, *Competitive Strategy*, 37.

⁶¹ *Ibid.*, 38.

Figure 8: VanCity Wealth Management Strategic Fit ⁶²

Dimensions of Strategic Fit	Generic Business Strategy	
	Cost Based Adequate Quality/ Low Cost	Differentiation High Quality/ Adequate Cost
	←—————→	
Service Strategy	Low Level of Service	High Level of Service •
Product Strategy	Generic •	Unique
R&D Expenses	Low R+D •	High R+D
Employee Development	Low Employee Development	High Employee Development •
Structure and Decisions	Centralized	Decentralized •
Operations	Economies of Scale	Economies of Scope •
Marketing	Word of Mouth/Low Cost •	Heavily Advertised/High Cost
Risk Profile	Low Risk •	High Risk
Capital Structure	Leveraged	Conservative •

3.2.1 Service Strategy

The first dimension of the strategic fit for VanCity wealth management is the service strategy. The service delivery model for VanCity, including wealth management products and the basic banking products, is a full service model rather than an automated delivery model. VanCity has developed a strong network of full service branches. In addition, VanCity plans to continue to opening branches each year. In 2003, VanCity opened two new full service branches in the Lower Mainland. In addition to bank advisors at each of these branches, two or three wealth management specialists serve each location. Typically, the branch will have an Investment Specialist, an Investment Advisor, and a Life Insurance Specialist. In contrast, rather

⁶² Ed Bukszar, “Strategic Fit Lecture,” MBA 607 Business Strategy Lecture, January (2004).

than relying on full service branches, VanCity's competitors have increasingly focused on call centres, boutique outlets, and automated channels as the primary contact points for its clients. VanCity, like its competitors, has an automated telephone phone service, an on-line brokerage service, and a call centre, but these additional delivery channels are designed to supplement the branch network and are not designed to replace full service branches. VanCity provides its members with automated services as well as a strong branch network; the availability of both these options helps differentiate VanCity from its competitors.

The full service branch is a higher cost channel, but it allows the advisors to build stronger personal relationships because they are dealing with the member in person. Although this may not be important for a simple cash withdrawal, personal relationships are important to a client when he/she is discussing investments or financial planning concepts. When a client comes to the branch to perform a simple transaction, the teller can identify his/her needs and, if warranted, quickly refer the client to an advisor who is located at the full service branch. The client has the opportunity to meet with advisors at the same location, which provides a higher level of service and aligns with the differentiation strategy.

To ensure that a high level of service is delivered to VanCity's wealth management clients, the Credit Union monitors the level of member satisfaction. Each year, over ten percent of the membership is surveyed about their experience with VanCity. The organizational goal is to have 35% of the membership totally satisfied, and 80% of the membership satisfied or totally satisfied⁶³. Employee and management bonuses are tied to levels of member satisfaction, thereby reinforcing VanCity employees and managers to provide a high level of service. The bonus strategy to increase member satisfaction aligns well with a differentiation strategy.

The level of proactive advice a client receives is also an important factor in the overall service strategy. For example, a low cost provider focuses on reactive relationships, whereby the client identifies the product and service he/she requires and the wealth management provider fulfills the order. An online brokerage network is an example of a reactive type of sales channel. A differentiated service provider focuses on providing proactive advice, whereby the advisor identifies the client's needs and recommends a solution set. VanCity offers both online brokerage and proactive advisors; however, wealth management at VanCity emphasizes advice and a proactive relationship with the member.

⁶³ Totally satisfied members are those members who rate VanCity service five out of five and satisfied members are those members who rate the service four out of five.

VanCity focuses on delivering a high level of service and a wide product selection to all the wealth management segments. In particular, VanCity focuses on the mass and mid market wealth management segments or those individuals with discretionary assets under \$500,000. VanCity's competition typically focuses on the upscale and affluent segments or on those with discretionary assets greater than \$500,000; many of its wealth management products and services are only offered to these higher affluent segments. Conversely, VanCity offers similar products to the lower value segments. For example, VanCity offers discretionary management solutions to members with \$250,000 in discretionary assets. Most banks only offer discretionary services to clients with a minimum of a \$1 million dollars in discretionary assets. In addition, compared to the banks, VanCity provides a higher level of service and expertise to the mass and mid segments. The Investment Specialists who focus on members with under \$100,000 in investable assets are Certified Financial Planners (CFP). VanCity's competitors would typically only offer its clients the services of a CFP if they had significant investable assets. VanCity offers a much higher standard of expertise, service, and array of wealth management solutions to the mass and mid market segments than they would receive from competing integrated wealth management providers.

3.2.2 Product Strategy

The next element of strategic fit is product strategy. The organization adopting a differentiation strategy is likely to be responsive to its customers needs and quickly develop products to address those needs. A low cost provider will let other businesses develop and perfect a product, adopting the product after it has proven to be successful. VanCity is usually a follower in the development of core wealth management products; however, VanCity is a leader in the development of socially responsible investments (SRI). In 1984, VanCity launched the first SRI mutual fund product in Canada. In 2003, VanCity launched another SRI mutual fund product, which focused on shareholder activism rather than a screening process⁶⁴. In addition, to VanCity's innovative SRI products, VanCity offers some niche wealth management products, such as planned giving and pet insurance. Another example of an innovative program at VanCity is its partnership with the Planned Lifetime Advocacy Network (PLAN); PLAN provides network support and financial planning for families with disabled children. Although the core

wealth management products at VanCity are very similar to its competitors, VanCity also has some unique wealth management products and services.

3.2.3 Research and Development

VanCity invests relatively small amounts of capital in wealth management research and development. Unlike its competitors, VanCity does not act as its own securities dealer. Research and development costs associated with dealer operations are borne by the supplier. For example, VanCity depends on Credential Financial Inc. to invest in the development of securities research tools and trading platforms. By adopting this strategy, VanCity is not incurring research and development costs.

VanCity has focused on the research and development of tools to enhance the member experience. For example, the organization has invested heavily in the development of a robust financial planning software package, insurance brokerage system, and member relationship management system. The financial planning software allows advisors to provide sophisticated financial advice in a time efficient manner. The insurance brokerage system improves efficiencies with underwriter searching and the insurance renewal process. The member relationship management system provides the staff with an effective management tool by providing historic information, communication logs, and a holistic view across business units. VanCity's overall wealth management research and development efforts are not consistent with a differentiation strategy. VanCity's wealth management research and development would be more congruent with a low cost provider strategy. This element of strategic fit is inconsistent with the actions of VanCity and its overall strategy.

3.2.4 Employee Development

Employee development is important when assessing the strategic fit of an organization. An organization pursuing a differentiation strategy will strive to have a high level of employee development, whereas a firm pursuing a low cost strategy will likely invest less into employee development. VanCity focuses on employee development as one of its key business drivers.

⁶⁴ Typically, socially responsible funds review investments and do not hold the investment if the company or country is does not meet a certain standard. Mutual funds, which focus on shareholder activism,

They have identified education as an important tool to ensure that advisors can provide sophisticated advice to members. To encourage continuous learning, VanCity has developed a corporate university that provides on-line registration to courses, pre and post course skills evaluation, technical career paths, and links to outside universities⁶⁵. To support the staff in

work with companies to change their behaviours to a desired standard.

⁶⁵ VanCity, *VanCity 2004 Business Plan and Budget*. (Vancouver: 2003), 17.

obtaining an educational background, VanCity pays the employee's educational expenses and allows advisors time off to study for courses. The Financial Planning Department also supports the development of advisors by providing regular financial planning reviews and education sessions. Although VanCity's investment in employee development contributes to the high level of service that VanCity provides, employee development does not completely differentiate VanCity because VanCity's competitors, like TD Canada Trust and CIBC, have similar training programs.

3.2.5 Organizational Structure

Another element of strategic fit is in regards to the organizational structure, namely, the degree to which the organization is decentralized and the degree to which there is autonomy in the decision making process. VanCity's wealth management division is relatively flat and decentralized. With the exception of the insurance business unit, advisors and sales staff report to management who, in turn, report to the Vice-President of Wealth Management. The advisors operate with a fair degree of autonomy in how they interact with the members and how they develop business. This is important in a differentiated strategy, as it allows the advisor to develop customized and personalized solutions to meet the needs of the member. In contrast, a cost base strategy focuses on tighter controls and the consistent application of service delivery.

Although advisors currently work in a decentralized environment, the increasingly complex regulatory requirements threaten the ability of the advisors to be innovative in their roles. In an effort to adhere to compliance regulations, there is pressure to move to a standardized and centralized control system. In a centralized control model, standardized and consistent recommendations across the delivery channels help ensure all regulatory requirements are met and that the risk to the organization is minimized. A centralized approach also minimizes the costs of monitoring the advisors.

3.2.6 Operations

A cost based strategy is better suited to organizations that benefit from economies of scale, while a differentiation strategy is better suited for organizations with economies of scope. Economies of scale refer to efficiencies gained by increasing output. For example, when VanCity increases output and requires more inputs, it is expected that the average costs of inputs may fall, which, in turn, would lower the total average cost of the output. Presently, VanCity does not have significant economies of scale. Although VanCity has the largest asset base of all

the credit unions in Canada, this asset base is significantly smaller than the asset base of its larger wealth management competitors. Simply stated, VanCity does not enjoy all of the scale effects present at the banks; however, through the partnership with Credential Financial Inc., VanCity experiences some scale affects. Credential Financial Inc. provides wealth management dealer operations for most of the credit unions in Canada. This allows Credential to lower its average costs as Credential spread the costs over a greater output. The efficiencies gained by Credential indirectly benefit VanCity. Potentially savings are passed onto VanCity, due to Credential's lower cost structure.

Economies of scope refer to the efficiencies gained by creating multiple products and services jointly rather than separately⁶⁶. VanCity's wealth management representatives gain efficiencies by focusing on multiple wealth management products rather than on a single product. For example, the representative can interview the client once to identify multiple needs rather than several interviews each describing one product need. Overall, VanCity enjoys economies of scope by producing a multiple wealth management and banking products.

3.2.7 Marketing

The next strategic dimension is marketing. An organization that is highly differentiated will engage in higher cost marketing activities to highlight its differences to the marketplace. The low cost provider will usually adopt a low cost approach, hoping the lower cost will attract customers. VanCity has adopted a lower cost marketing strategy; it has limited wealth management advertising relative to the wealth management divisions at banks and other large credit unions. For example, similar to banks that have heavily promoted its wealth management offering, Coast Capital Savings has recently pursued aggressive television advertisement. Traditionally, VanCity's media presence focused on the core banking products. There was a limited marketing focus on the advice and wealth management integrated package available at the Credit Union. As noted earlier, VanCity clients have a relatively low awareness of the wealth management products that VanCity offers and this may be due to the past approach of having a limited wealth management marketing focus. Recently, VanCity has increased its wealth management marketing focus, but compared to its wealth management competitors, marketing presence is still relatively low. Ultimately, this lower presence does not reinforce VanCity's differentiation strategy.

⁶⁶ Jeffrey M. Perloff, *Microeconomics*. (New York: Addison-Wesley, 1999), 238.

3.2.8 Risk Profile

The risk profile for VanCity's wealth management offering is relatively low. VanCity has not invested heavily in dealer operations. This limits the risk of the Credit Union, as VanCity's supplier carries the high fixed costs associated with dealer operations. Compared to the big five banks in Canada, VanCity has a higher risk profile though. This higher risk profile, due to VanCity's relatively small size and lack of diversification in geographic areas, is consistent with a differentiation strategy.

3.2.9 Capital Structure

The final strategic dimension to be explored is capital structure. The more highly leveraged an organization is, the less likely the organization can pursue a differentiation strategy, and the more likely it is suited to a lower risk, low cost strategy. VanCity's overall capital structure is conservative; the capital comes primarily from its retained earnings and its membership shares. VanCity can also raise capital by borrowing from Credit Union Central of BC (CUCBC). However, due to the size of VanCity, CUCBC may not have the ability to meet VanCity's capital demands. This dependency on CUCBC increases the risk of VanCity's capital structure. This risk is offset by the final method for raising capital, which is the securitization⁶⁷ of assets (mortgages). This securitization process allows VanCity to readily raise capital at a low cost and with minimal risk. The capital ratio is the capital of the financial institution compared to the total assets of the financial institution. At the end of 2003, VanCity's capital ratio was 11.5%; the regulatory requirement for tier one banks in Canada was 7%. The capital structure of VanCity continues to be a strength of the organization, allowing it to comfortably pursue a differentiation strategy.

3.2.10 Summary of Strategic Fit

VanCity has adopted a differentiation strategy. VanCity's wealth management differentiation strategy is based primarily on providing exceptional member service, being a community leader, and having fully engaged employees. This section explored nine elements of strategic fit and assessed how they are aligned to an overall strategy of differentiation. Most of the strategic elements are in harmony with the differentiation strategy. The notable exceptions to

⁶⁷ Securitization is the process of selling VanCity's assets (loans) to a third party in exchange for capital.

this are the level of research and development, and the marketing strategy. The low level of research and development suggests VanCity is a follower in the development of products; the lack of broad media advertising suggests that many potential wealth management members are unaware of VanCity's offerings. Despite these shortcomings, VanCity has positioned the organization well for its differentiation strategy.

3.3 Culture

VanCity's culture aligns well to a differentiation strategy. As a credit union, VanCity has a strongly ingrained culture of helping members and the community. In 2000, VanCity staff developed their Statement of Values and Commitments (SOVAC) to formalize the culture of VanCity. SOVAC highlighted VanCity's commitment to its members and communities. The members of the Credit Union are seen as partners rather than clients of the Credit Union. There is a strong belief that the strength of the Credit Union will lead to the well being of the membership and the community. These commitments are reinforced by VanCity's shared success program. In 2003, VanCity distributed more than 30% of its profits to its membership and the community. This means the local community directly benefited from the success of the Credit Union. The culture of helping members is also reinforced by employee compensation. As previously stated, the bonuses of each employee are tied to the satisfaction of the members. Aligning corporate rewards to the satisfaction of the employees and members reinforces the co-operative spirit. VanCity also has a strong culture of community activism in that the employees are very involved in fund raising activities for the local communities. For example, each year, VanCity employees chose a local charity and raise money for this charity throughout the year. This employee commitment to the community also helps differentiate the Credit Union.

3.4 Value Chain

The value chain of an organization is a description of the discrete activities that a firm undertakes to deliver a product or service. The way these activities are performed and the way the activities interact within the organization can contribute to or create a basis for a firm's overall strategy⁶⁸. A value chain consists of primary and secondary activities. For VanCity, the primary activities are directly associated with the delivery of integrated wealth management

⁶⁸ Porter, *Competitive Advantage*, 33.

services. There are five generic categories for primary activities. These categories include: inbound logistics, operations, outbound logistics, marketing, and service⁶⁹. The secondary activities are those functions that indirectly support the primary activities. The generic secondary activity categories are: infrastructure, human resource management, technology development, and procurement. Figure 9 illustrates the discrete activities in each category that VanCity undertakes to deliver an integrated wealth management product.

3.4.1 Primary Activities

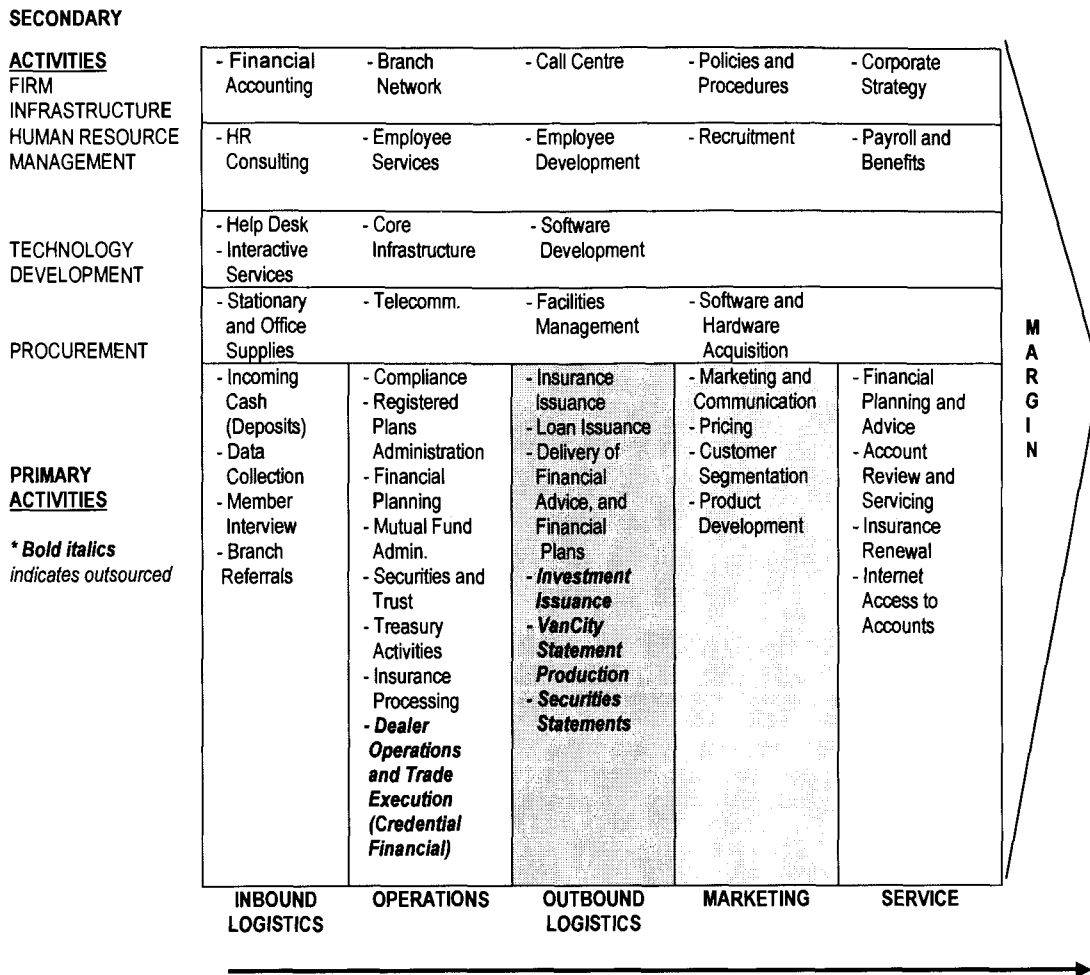
The first category in the primary activities of the value chain is inbound logistics. Generally, inbound logistics includes activities associated with receiving and disseminating inputs⁷⁰. For VanCity's integrated wealth management offering, the inbound logistics include gathering deposits, interviewing the member, collecting data, generating referrals to and receiving referrals from the transactional representatives, completing wealth management applications and documentation⁷¹. The activities in the inbound logistics category are primarily driven by the interactions between the sales representative and the member. The key in this stage is the ability of the sales representative to effectively interview the member and determine his/her wealth management needs. The collection of data in this stage is crucial for VanCity to differentiate its integrated wealth management product.

⁶⁹ Ibid., 38.

⁷⁰ Ibid., 39.

⁷¹ For example, mutual fund transactions require the completion of Know Your Client or New Account Application Form.

Figure 9: VanCity's Integrated Wealth Management Value Chain⁷²



The second category in the primary activities section of the value chain is operations. Operations are the activities involved with transforming inputs into products⁷³. More specifically, the operations in VanCity's wealth management value chain involve the processing of the wealth management services and products. The majority of the back office activities are in the operations category.

⁷² Ed Bukszar, "Value Chain Lecture," MBA 607 Business Strategy Lecture, March (2004).

⁷³ Porter, *Competitive Advantage*, 40.

The compliance, mutual fund administration, and securities administration activities are included in the operations category. The compliance activity is a centralized function where trades and new securities accounts are reviewed and approved before being processed. The centralized Mutual Fund Administration performs data entry for the MFDA licensed sales representatives⁷⁴. After the compliance activity, the paper work for the mutual fund trade is forwarded to the Mutual Funds Administration area where the transaction is entered into the trading system by the Mutual Fund Administration department. After the trade is entered, Credential Financial Inc. executes the trade. In addition to entering trades, the Mutual Fund Administration area also processes and completes all mutual fund transfers from other wealth management providers to VanCity. The trades written by the Investment Advisors (IA) are processed in a similar fashion, except that IA sales representatives directly input the trades. After the compliance activity, Credential Financial Inc. executes the trade. In addition, Credential Financial Inc. performs the safekeeping and record keeping for all transactions and accounts.

The Financial Planning Department is part of the operation category of the value chain. The Financial Planning Department not only produces financial plans, it also supports the advice-giving activities of the sales representatives. The Financial Planning Department is a responsive in-house resource centre, where staff can get answers to more difficult wealth management problems. Wealth management recommendations and solutions are developed in this area, allowing the staff to deliver a high level of sophisticated advice.

Also included in operations are the treasury functions, registered plans administration, securities, and insurance processing activities of the value chain. The Treasury Department is responsible for managing incoming assets and liabilities for the Credit Union. The registered plans administration is a centralized support unit, which processes all registered transactions⁷⁵. Securities perform all the safekeeping and record keeping for VanCity Investment Management. The insurance processing function provides administrative functions for all the insurance underwriting activities.

The third category in the primary activities section of the value chain is outbound logistics. Outbound logistics are the activities associated with the delivery of wealth

⁷⁴ MFDA representatives are the Investment Specialists and branch licensed staff.

⁷⁵ Registered plans include: Registered Retirement Plans, Registered Education Savings Plans, and Registered Retirement Income Funds.

management service to the member. The actual issuance of insurance, investments, and loans belong in this category. The outbound logistics of investment and insurance issuance is the delivery of the trade confirmation or the insurance policy. The trade confirmations are completed by Credential, and the insurance policies are mailed to the member by the insurance processing centre. Loan issuance is the delivery of funds to the member's account, and this activity is completed by the Centralized Loans Administration function (CLA). The production of statements is also part of outbound logistics. The production of statements is outsourced to a third party. Finally, the wealth management strategies and financial plans developed by the sales representatives and the Financial Planning Department are delivered to the member. The financial plan or advice can be a comprehensive report, which would be written by the Financial Planning Department, or it could be a simple illustration developed for the member by a sales representative. The delivery of advice and plans is a key point in the value chain where VanCity can add value and differentiate its wealth management offering.

The fourth primary activity categorization of the value chain is the marketing function, which involves creating, then maintaining VanCity's wealth management public image. The marketing function is also responsible for the segmentation of the membership based on demographic and socio-economic trends. Segmentation also takes into account the actual and potential profitability of the member and the segmentation information can be used to help manage the member relationship with VanCity. Finally, the marketing function is responsible for analyzing member feedback to develop wealth management products and services to better service the members' needs.

The fifth and final primary activity category in the value chain is the service segment. The service segment involves the continuing management of the member's wealth management needs, including the advisors meeting with the member to periodically review his/her investments and insurance needs. The process also includes reviewing previous wealth management strategies and plans to ensure they are updated when necessary. The ongoing access to account information is also part of the service category. The service activities are another area where VanCity can differentiate its wealth management offering from the competition.

3.4.2 Secondary Activities

The firm's infrastructure refers to the support functions that contribute to the effectiveness of the primary activities. Included in the infrastructure are financial accounting,

branch network, call centre, policies and procedures, and corporate strategy activities. Financial accounting provides support to the wealth management's primary activities through reporting and tracking the referrals and assets under the management of the organization and the branches. The branch network and call centre are also important parts of the supporting infrastructure. These transactional touch points are sources for member information and member referrals. Through its high level of service, the branch network and call centre are able to strengthen the member relationship with VanCity. The stronger the relationship the member has with VanCity, the more likely the member will use VanCity's wealth management services.

Human resource management activities include recruitment, human resource consulting, employee services, employee development, payroll, and benefits. These activities are critical to the success of a differentiation strategy. To successfully implement this strategy, highly qualified advisors must be hired and developed. Through the advisors, the service can be differentiated from the competition. Human resource management activities are centralized, with the division supporting not only the wealth management functions, but also VanCity as a whole.

Technology development consists of the help desk, interactive services, software development, and core infrastructure activities. Like human resource management activities, technology development is crucial in delivering a differentiated wealth management product. Highly integrated systems with responsive software provide the staff with a quick access to a full member picture, enabling the staff to deliver a higher level of service to the member. The technology development activities are performed primarily in-house through Inventure Solutions; however, some the software applications are offered through third party suppliers such as Credential.

Procurement activities involve purchasing equipment and supplies to deliver the wealth management product. A key component of procurement is the Facilities Management Department, which is responsible for office and branch space. This department contributes to VanCity's ability to differentiate its integrated wealth management product by creating a professional environment in which to deliver advice. It is believed clients perceive a higher level of service if the setting in which the product is delivered has a professional atmosphere. The remaining procurement activities are also done through a centralized function, which closely examines suppliers to ensure its business practices fit with VanCity's values.

3.5 Summary of Key Success Factors

VanCity has adopted a differentiation strategy for its wealth management business based on superior service and member experience. To deliver this strategy, several key factors can be identified in the value chain. The first factor is the delivery of high quality advice and recommendations. Key to this is the expertise of the advisor. The advisors must be able to apply their educational background to the real world issues of their clients. The advisors must also be able to use their experience to identify issues that the clients may not have identified. The financial planning activity in the operations segment of the value chain is crucial to achieve this. The financial planning function assists and supports the advisors in delivering high quality solutions and must be efficient in disseminating knowledge to the member facing sales staff. The member interaction in outbound logistics is also important. The advisor must be able to deliver a high quality, professional presentation of his/her recommendations to the member. The recommendations should focus on integrated solutions, not single product solutions.

The second factor involving secondary activities of recruitment, employee development, and human resource consulting is critical in developing staff members who can deliver high quality advice. The recruitment activity is important to ensure qualified individuals are hired. Employee development is plays a key role in developing and educating staff within the organization. Human resource consulting activities are vital in designing compensation that effectively motivates staff to provide integrated wealth management solutions rather than focusing on product solutions.

The third key success factor, which contributes to a differentiation strategy, is the effective and efficient completion of transactions. Effective execution of transactions must be a core competency of the organization. In addition, due to the complexity of wealth management solutions, the operations activities must be able to process and fulfill customized solutions. This requires the operations activities to have flexible operating procedures to accommodate different situations as they arise. In addition, the operational procedures of the centralized functions should be designed to meet the business needs of the member and the advisors. For example, the priority in developing mutual fund processing procedures should be creating efficiencies for the advisor and delivering the best service to the member. This often requires the business units delivering wealth management service to the member to be responsible for the designing of processes.

Third party suppliers must also provide responsive service. Specifically, the third parties involved in the production of the wealth management service must provide responsive service

and efficient completion of activities. Furthermore, the communications between VanCity and the third parties must be effective so that any arising issues can quickly be resolved. Essentially, VanCity must be able to receive responsive service from the third parties in order to deliver a high level of service to its members.

The fourth factor contributing to a differentiated integrated wealth management solution is a highly functional information solutions infrastructure. The infrastructure should enable staff to effectively transfer information across the organization. Through this flow of information, staff will be better able to identify the needs of the member and recommend appropriate solutions. The information solutions infrastructure must also support processing activities. The effectiveness of the processing activities is often dependent on the associated systems. For example, an ineffective mutual fund order entry system may lead to increased errors in the processing of trades. A poor system will negatively affect the efficiency of the operations activities. Finally, to increase effectiveness and efficiency, the internal systems should also integrate with systems of third party suppliers.

The expansion of the wealth management business relies heavily on referrals from within the Credit Union. An effective referral network is dependent on effective information systems. As needs are identified, an effective referral system must be in place to ensure the member receives a prompt response to his/her needs. The referral system must also be effective in tracking and measuring referrals. If the referral system is ineffective in these aspects, will be less likely to refer business to the wealth management business units; staff will be unable to identify successful referrals; and management will not be able to effectively reward staff for successful referrals.

The fifth success factor for a differentiation strategy is the secondary activity of financial accounting. Specifically, the financial accounting must be able to effectively report the values of on-balance sheet items and off balance sheet items⁷⁶ to the branches and sales representatives. Without proper tracking or reporting, a sales representative may be reluctant to recommend an off balance sheet wealth management product for fear that a decrease in on balance sheet items may not be offset with a corresponding off balance sheet item. The financial accounting activity is key in estimating and allocating the benefits and overhead costs of wealth management

76 On balance sheet items refer to assets or liabilities held with VanCity, such as term deposits or mortgages. Off balance sheet items, refer to assets held outside of VanCity, where VanCity has acted as the distributor. An example of off balance sheet items would be mutual funds at a mutual fund manufacturer.

functions. The allocation of costs and benefits can help provide a more accurate estimation of the effectiveness of the functions.

The final key success factor is the marketing function in the value chain. Key to VanCity's wealth management success is leveraging the goodwill that VanCity members have with the organization. To capitalize on this opportunity, the public, and VanCity members must be aware that VanCity offers an integrated wealth management product. The primary activity of marketing plays a key role in raising this awareness.

Through the value chain and strategic fit analysis several key success factors were identified for VanCity. The key success factors include: the member interaction with advisors, the human resource activities, and the execution of the transactions in the operations segment of the value chain, the information solutions activities, financial accounting, and marketing. Marketing is important in both the strategic fit and the value chain. The member interaction is dependent on the ability and attitude of the advisors. This is VanCity's greatest strength in the value chain and strategic fit. The organization also has a strong human resources function and financial accounting functions. Some of the other key success factors are addressed in the issues and recommendations of this paper.

4 ISSUES

There are tremendous opportunities for VanCity in the wealth management business. Currently, it is estimated that the VanCity membership has \$5.4 billion in discretionary assets elsewhere and VanCity Insurance Services has less than 1% of the life insurance market in British Columbia⁷⁷. VanCity has identified growth in the wealth management business as key for the future success of the Credit Union. The organization has a targeted annual growth rate of 20% for wealth management revenues over the next five years. While the opportunities and expectations are great for VanCity's wealth management business, there are several issues challenging the organization. This section outlines the key challenging issues facing VanCity.

4.1 Investment Dealer Activities in the Value Chain

In order for VanCity to effectively execute a differentiation strategy based on service, the activities in the operations stage of the value chain must be effective and efficient. The positive experience a member has with an advisor will be offset with a negative experience, if the operations are not effective. For example, an advisor can provide a high level of service and good advice, but if the member's trades are regularly posted incorrectly in the operations activities, the overall member experience will be poor.

The delivery of investment dealer services is a key element of the value chain; however, VanCity uses Credential, a third party supplier for this activity. Using a third party may negatively influence VanCity's ability to carry out its differentiation strategy. Credential's core competency is not dealer operations but rather Credential's core competency is the manufacturing of socially responsible investments. While Credential performs the MFDA operations in-house, Credential out sources to a third party for its IDA operations. Unfortunately, the MFDA operations are not strong; in particular, the posting system for MFDA transactions is slow and difficult to navigate. On the other hand, the IDA dealer operations by Credential are more effective, but this effectiveness is a result of Credential partnering with a third party. Overall, the dealer operations are weak for Credential, which negatively affects the strength of VanCity's operations activities in the value chain.

⁷⁷ Ipsos-ASI, *VanCity Market Share*, 53.

Currently, Credential provides dealer services to virtually all the credit unions across Canada. Credential provides VanCity, the largest credit union in Canada, and one-branch credit unions the same solutions; Credential's broad focus negatively impacts its ability to provide customized and responsive solutions because the needs and strategies of VanCity and a small credit union are very different.

In addition, the priorities of Credential may not be congruent with VanCity's priorities. For example, VanCity may decide that an updated order entry system is key to a differentiated strategy. On the other hand, Credential, while trying to grow its business and trying to service different credit unions, may not see an updated order system as a priority. These conflicting strategies between Credential and VanCity may hamper VanCity's ability to deliver its differentiated strategy.

VanCity may experience negative externalities from Credential's other partner credit unions. For instance, Credential, in an effort to reduce the overall risk, has developed policies that are suitable for the riskiest operations. As a result, a credit union with an effective compliance regime may be penalized by a credit union with an ineffective compliance structure. The policies Credential has developed to address the ineffective compliance structures may negatively impact the cost structure, product selection, and administration processes for VanCity. Another example of a negative externality is the insurance coverage required by Credential. Currently, the insurance costs per representative are identical for all of Credential's partners. When determining the insurance costs for Credential, the insurance company will base insurance premiums on the highest risk credit union operation. As a result, credit unions with effective internal controls are over paying for its insurance requirements. Given the strength of VanCity's operations, VanCity is subsidizing higher risk credit union wealth management operations⁷⁸.

The employment of a third party for dealer services by VanCity adds another layer of administration to the processing of transactions. This additional layer lowers the effectiveness of trade processing because there is an additional party handling the trade, which slows down the execution of a trade and may lead to additional errors. The involvement of a Credential also hampers the ability to quickly, efficiently respond to member problems as an advisor must track down a transaction and may find that either VanCity's processing unit or the Credential made an error. Credential's involvement possibly could inhibit the Credit Union from delivering a high level service to its members.

⁷⁸ Paul Savage, interview by author, Vancouver, British Columbia, 22 July 2004.

4.2 Wealth Management Segment Service Delivery Levels

VanCity has not clearly defined the service level it will deliver at each wealth management segment. Often VanCity provides the same level of service regardless of the member's relationship or the size of the account. For example, an Investment Specialist will spend the same amount of time with a member who has \$25,000 in investable assets as the member who has \$100,000 in investable assets. If VanCity does not differentiate the level of service they deliver to each different profit segment they service, the wealth management business will soon become unprofitable. The unprofitable accounts may be over served while the higher profit accounts may be underserved. As a result, the more profitable relationships may be at risk.

The indirect costs and revenue of the wealth management business units are not effectively measured within VanCity. While this problem is consistent within the wealth management industry, the inability to allocate true costs and revenues inhibits the ability of VanCity to measure the true productivity of the staff. A true productivity measurement is important to determine the level of service that should be delivered to each wealth management segment.

4.3 Low awareness of VanCity's Wealth Management Offering

Through the analysis of the strategic fit and the value chain, the marketing activity was identified as a key success driver. Firms pursuing a differentiation strategy must highlight the features that make its product offering unique. Recent research has found that VanCity is not effectively communicating its unique offering and full range of available wealth management products⁷⁹. Specifically, a survey conducted by Market Probe (2003) indicated that there was a general lack of awareness of VanCity's wealth management products⁸⁰. Although there is good brand recognition for VanCity's core banking products, the Credit Union is rarely considered as an integrated wealth management provider. Even VanCity's staff, particularly the staff in the National Contact Centre and the staff that do not have face to face contact with members, seem to be unaware of the wealth management products. The lack of knowledge by the staff negatively impacts their ability to promote wealth management services to the members.

⁷⁹ Market Probe, 38.

⁸⁰ *Ibid.*, 26.

The low awareness of VanCity wealth management offering, particularly the investment products, is partially a result of the relationship between VanCity and Credential. Currently, when advisors sell securities, it must be done under the Credential banner. Due to securities regulations, all forms, correspondence, statements, promotions, and advertising material must be branded Credential because they are acting as the securities dealer. For example, when dealing with mutual funds, the advisors' business cards are Credential business cards rather than VanCity business cards, creating confusion for VanCity members⁸¹. This confusion has not helped customers become more informed about VanCity's wealth management group.

4.4 Internal Referrals

Another challenge, which hampers the effective delivery of an integrated wealth management product, is the channel conflict within the wealth management business units. The wealth management business units often compete for the same business. For example, both VanCity Investment Management and the Investment Advisors directly solicit the branches for referrals. The same problem exists with smaller accounts. Although the Investment Specialists' primary responsibility is the management of accounts under \$100,000, they will occasionally develop an account or be referred an account that is greater than \$100,000. The Investment Specialists have an incentive to keep these accounts as these accounts help the Investment Specialists achieve their business objectives, but these are the same accounts that are to be serviced by Investment Advisors. These conflicts sometimes reduce the cooperation between wealth management business units, thereby inhibiting the delivery of an integrated wealth management product. Additionally, the channel conflict reduces the number of qualified referrals from the banking representatives because the representatives are confused by inconsistent messages regarding where referrals should be directed.

Another problem is the lack of interaction between the life insurance advisors and the investment representatives. The life insurance advisors focus on referrals from the banking representatives rather than the referrals from other wealth management business units. Similarly, Investment Specialists and Investment Advisors do not solicit referrals from the life insurance advisors. In addition, the two groups of advisors do not proactively work together to develop

⁸¹ Ibid., 22.

wealth management solutions for the member. Overall, this lack of cooperation lowers the effectiveness of VanCity's wealth management product offering.

4.5 Information Systems

Information systems are key in the creation of the wealth management service. The information systems should facilitate the flow of member information throughout the organization and should enable the business units to easily refer and track referrals between business units. The current information systems are not effective at these functions. Specifically, the information systems used by Credential, VanCity Investment Management, and VanCity Insurance Services do not integrate well with VanCity's core banking system. The failure of the systems to fully integrate decreases the efficiency of the representatives, as they need to consult various platforms to obtain a full picture of the member relationship with VanCity. The lack of integration also negatively impacts the service VanCity delivers to the member. Without consolidation of all the member information, the advisor may not be able to fully understand the needs of the member. In addition, the product delivery may become fragmented, as the advisors cannot use one system to effectively communicate about the entire wealth management relationship. These shortcomings may jeopardize VanCity's ability to deliver a fully integrated wealth management solution in a differentiated manner.

The current referral system is slow and is not easy to use, therefore, it is likely that the staff will avoid making referrals, which negatively impacts the ability to service all the member's needs. If referrals are made, it is more likely that the banking representatives will make informal referrals to advisors, making it virtually impossible for VanCity to measure and track the referral. The inability to effectively track referrals may make banking representatives hesitant to refer business because they cannot track the progress of the referral; there may be a concern that a slow response by the wealth management team reflect poorly on the banking representative. Additionally, VanCity would be unable to remunerate for the referral due the limitations of the tracking system.

On the other hand, measuring and tracking referrals ensure identified wealth management opportunities are acted upon in a timely manner. A quick turn around time will reinforce VanCity's differentiation strategy because the member will receive responsive service. Additionally, tracking increases the ability to remunerate for referrals, which, in turn, would increase the number of referrals to the wealth management business unit, ensuring that VanCity

would be servicing all the member's needs. Finally, the increasing referrals would help drive the growth in VanCity's wealth management business.

4.6 Increasing Regulatory Requirements

The industry is becoming increasingly complex with the regulatory requirements. As previously highlighted, VanCity must operate in accordance to several regulatory bodies. In order to be a successful wealth management provider, the organization must effectively and efficiently manage the regulatory pressures in a cost conscious manner that does not adversely affect the member experience.

5 RECOMMENDATIONS

VanCity is in a good position to grow its wealth management business. VanCity has built a strong wealth management foundation with proficient advisors and a strong member service culture. The Credit Union also has a sophisticated set of wealth management solutions available for the member. VanCity has tremendous opportunities to forge wealth management relationships with members who already have a banking relationship with the Credit Union. Members of VanCity rate the service they receive from the Credit Union consistently better than the service they receive from VanCity's wealth management competitors. Results from 2003 study found, members felt a wealth management relationship was a natural progression from their banking relationship with VanCity⁸². The study also found that members are committed to the credit union concept⁸³. VanCity can leverage this goodwill to cross sell its integrated wealth management offering; however, VanCity's wealth management business faces some issues that were highlighted in Chapter 4. The current chapter presents some recommendations to address these issues and offers suggestions to enable VanCity to grow the wealth management business. Briefly, in order to strengthen the operations activities in the value chain, VanCity should review its supplier relationship with Credential. VanCity also needs to clearly define the appropriate service levels to enable a more efficient delivery of service to the different wealth management target segments. VanCity must increase the awareness of its wealth management product and services, improve internal referrals, set new priorities for information systems, and determine regulatory best practices. Finally, the Credit Union should increase its focus on life insurance products. Through these actions, VanCity will be better positioned to take advantage of its strengths.

5.1 Review Investment Dealer Supplier

VanCity should review its partnership with Credential. Although the partnership has several advantages, such as cost savings and risk exposure, there are limitations to the

⁸² Ibid.

⁸³ Ibid., 35.

partnership such as priority conflicts, and marketing limitations. There are two types of brokers, a carrying broker, and an introducing broker. A carrying broker holds a seat on an exchange and is responsible for the execution of actual securities transactions; an introducing broker would use the back office of the carrying broker to complete the execution of trades. Credential, an introducing broker, provides dealer services for VanCity. Canaccord Capital acts as the carrying broker for Credential. It is recommended that VanCity should explore the possibility of becoming an introducing broker rather than using Credential as its broker.

In the current relationship, Credential is the actual dealer and the VanCity advisors are employed with both Credential and VanCity. When performing any transaction involving securities, the VanCity advisors are acting as an employee of Credential; however, VanCity does not have any direct control of the operations of Credential. The policies and procedures for securities transactions are designed by Credential. Acting as an introducing broker, VanCity would be responsible for the dealer procedures and operations. VanCity would also be able to design procedures and policies that suit its strategy and the needs of the Credit Union. As an introducing broker, VanCity could also make decisions regarding product selection based on the needs of the membership. For example, VanCity as an introducing broker could offer derivatives to the membership, whereas now VanCity cannot offer this product because Credential has determined that this is a product they will not support. As an introducing broker, VanCity would only have a relationship with the carrying broker for the execution of the trade.

Currently, Credential sets priorities and policies to support all the credit unions they service. Credential's priorities do not always align with VanCity's priorities, which could negatively affect the ability of VanCity to achieve its differentiation strategy. On the other hand, as an introducing broker, VanCity could control setting the priorities of the dealer operations, thereby working towards its differentiation strategy. In addition, VanCity would have better control regarding the effectiveness of the dealer operations. For instance, at the present time, if there is a problem with the dealer operations, VanCity must contact Credential and work with Credential to get the problem rectified. If VanCity was acting as its own introducing broker, these problems could be dealt with internally and, therefore, could be resolved in a timely fashion.

Currently, members find VanCity's relationship with Credential confusing. If VanCity were to become an introducing broker, it could brand all the securities transactions as VanCity transactions rather than Credential transactions. This branding would allow VanCity to advertise investment services as a VanCity service rather than a Credential service. The investment

statements could be produced as VanCity statements rather than Credential statements. Furthermore, a member's investments could be included in the member's regular VanCity banking statement. A consolidated statement would reinforce the idea VanCity is an integrated wealth management provider and would provide a convenient service for the member. Additionally, VanCity would be able to leverage its current brand loyalty rather than confusing the membership with the Credential brand name.

VanCity should explore the option of partnering with a carrying broker whose core competency is the execution of trades. Partnering with such a broker would enable VanCity to deliver exceptional service to its membership and would reinforce the differentiation strategy. As the values of a potential partner must be consistent with VanCity's values, VanCity would need to carefully identify potential partners. The capital requirements would be low for an introducing broker, but VanCity would need to assume some additional risks and costs. To determine if it would be economically feasible to become an introducing broker, an in-depth analysis of the additional costs and potential revenues would need to be done. Then the costs, risks, and benefits would need to be compared to the current costs of dealing with Credential.

5.2 Define Appropriate Service Levels

A key to success for VanCity's wealth management business is defining the appropriate service level for the different wealth management segments. VanCity is primarily focusing on the mass and mid segments in the wealth management market. It is important VanCity deliver a differentiated service to these segments, but it is also important to deliver a service level consistent with their revenue potential. Although VanCity would like to provide everything to all members, the membership must be segmented and the service level must be appropriate to the different profitability levels. For example, an Investment Specialist may provide a segmented financial plan to a member who has less than \$100,000 in investable assets, whereas VanCity Investment Management may provide a full financial plan to a member who has more than \$250,000 in investable assets. If the member with less than \$100,000 in investable assets wants a full plan, then the service must be appropriately priced. To define the level of service that will differentiate it from the competition at an acceptable cost, VanCity must work to fully recognize the revenue contribution of each member and must fully reconcile the costs of the offered wealth management services.

It is also important VanCity set appropriate account minimums based on revenues to cover the cost of servicing the member. Once the account minimums and the associated service

levels are designed, VanCity must diligently enforce the account minimums. If the minimum account limits are not enforced, the accounts that meet the appropriate account size will be underserved and will subsidize the accounts that do not meet the account minimum. It is recommended that the accounts that do not meet the appropriate account size should be referred to a lower cost channel. For example, an account that does not meet the minimum account size for an Investment Specialist should be referred to a branch banking representative. It is important the account minimums set by VanCity are still at a level where the associated service and advice is better than the member would receive with a competitor, thereby differentiating VanCity from its competition.

5.3 Increase the Awareness

As described in the previous chapter, there is a low awareness of VanCity's wealth management offering; therefore, VanCity should develop a marketing program to increase awareness of its integrated wealth management offering to VanCity staff, VanCity members, and the public. VanCity members hold approximately \$5.4 billion in discretionary assets elsewhere. A significant portion of these assets is invested in the major mutual fund companies with other wealth management providers. It is important VanCity inform the members that VanCity offers the same products. VanCity should partner with a select few large mutual fund companies and co-brand marketing materials. These marketing materials would let members know that VanCity offers a broad selection of wealth management products, that VanCity is a serious player because it is partnered with these major mutual fund companies⁸⁴. VanCity would be able capitalize on brand recognition generated by the fund companies. Most major fund companies invest heavily in building its brand loyalty and VanCity would be able to take advantage of the investment by the fund companies in its brand by partnering with these companies. The advice and service associated with these wealth management products is a critical message because that is what differentiates the wealth management offering at VanCity. For this reason, any marketing material must also incorporate the message of VanCity's quality advice and service.

VanCity can also increase its marketing presence by building on its own brand name. For instance, if VanCity were to become an introducing broker, securities advertising could be branded as VanCity's securities rather than Credential. This would strengthen material because credential has limited brand recognition. Members do not deal have a wealth management

relationship with VanCity because they are associated with Credential; members have a wealth management relationship with VanCity because of the way VanCity conducts its business⁸⁵.

The marketing messages developed by VanCity should not focus on the term wealth management. Research completed by Market Probe in 2003 found that most members do not consider themselves as wealthy and, therefore, the term wealth management does not resonate well with them⁸⁶. In an effort to appeal to more members, VanCity should consider terms such as financial wellbeing, financial health, or asset accumulation in its marketing messages. In other words, the overall marketing message should highlight the difference VanCity can make in helping members achieve financial goals, thereby reinforcing the idea that VanCity has the ability to focus on advice and can offer integrated solutions. Finally, the marketing presence needs to be ongoing.

5.4 Improve Internal Referrals

Another challenge for VanCity is the channel conflict between the wealth management business units. As highlighted in the previous chapter, the channel conflict reduces the number of internal referrals from the banking representatives and the number of referrals between the wealth management business units. The reduced number of internal referrals represents missed wealth management opportunities for the member and VanCity.

In order to reduce the channel conflict, VanCity should design incentive packages for the advisors that encourage referrals and cooperation between the wealth management business units. The incentive packages for staff could be comprised of both individual targets and team targets. A team incentive could be paid if all the wealth management business units achieve its targets. It is believed this strategy would encourage the employees to also focus on the wealth management team targets and help ensure that the appropriate wealth management business unit services the member.

To further reduce the channel conflict, VanCity should develop a wealth management coordinator role. The wealth management coordinator would be responsible for meeting with members, determining the member's wealth management needs, and then, referring the member to the appropriate wealth management business unit. This process would simplify referrals for

⁸⁴ Paul Savage, interview by author, Vancouver, British Columbia, 22 July 2004.

⁸⁵ Market Probe, 24.

⁸⁶ Ibid., 38.

the banking representatives because the banking representatives would only have to identify a wealth management need and refer this need to the coordinator for further investigation. An easier referral process will likely increase the number of referrals the banking representatives make to the wealth management division. The remuneration for the investment coordinator should be designed to ensure the coordinator does not prefer any particular wealth management business units so that the member is directed to the appropriate delivery channel based on the member's needs. As each branch should have a wealth management coordinator, it is recommended that the Investment Specialist or Investment Advisors take on the role of Wealth Management Coordinator.

5.5 Information Systems

The key information system issues VanCity must address are the referral system and the integration of the wealth management systems with the core banking system. Due to the slow and difficult-to-use referral system, less referrals are made to the wealth management advisors. Improving the referral system would likely increase the number of internal referrals. Management could also hold staff more accountable to their referral targets if the referral system was reliable with respect to performance measurements and remuneration. If the wealth management systems could be integrated with the banking systems, it would allow advisors to more easily identify the needs of the member. Ideally, the wealth management business would be incorporated into the core banking systems so all staff could access the member's complete relationship with VanCity. Alternatively, VanCity could implement a stand-alone solution, which pulls data from the different wealth management and banking systems and provides a consolidated report of the relationship. VanCity will be better positioned to deliver a fully integrated wealth management product if the referral and integration issues are addressed by the organization.

5.6 Regulatory Environment

In order to succeed in the increasingly complex regulatory environment, VanCity needs to examine the best practices of its wealth management competitors. The best practices that fit VanCity's strategy should be implemented.

5.7 Increase Insurance Presence

Although this was not identified as an issue, VanCity has a good opportunity to grow its wealth management relationship with the membership through its insurance business. Insurance is an important element of an integrated wealth management product; VanCity has the potential to develop its insurance product offering and distribution channels. For instance, it is estimated that the potential insurance revenue from a household with an income between \$50,000 and \$100,000 is greater than the potential banking revenue from the same household⁸⁷. This represents a good opportunity because VanCity has low insurance market penetration with its membership. Building a stronger presence of a complete insurance product will strengthen the overall wealth management offering at VanCity, thereby helping VanCity differentiate its wealth management product and create a stronger bond with the member.

VanCity could improve its product offering through the introduction of segregated funds to the membership. As an insurance product, segregated funds have some unique features, which are unavailable in a regular mutual fund. These unique features include capital protection, an ability to bypass probate, creditor protection, and death benefits. Overall, a segregated fund portfolio provides a similar potential revenue stream to that of a mutual fund portfolio and is an effective compliment to mutual funds.

The distribution of segregated funds is regulated by insurance legislation in Canada. For this reason, a registered insurance representative must perform the sale of segregated funds. VanCity's relationship with Credential for securities distribution means the Investment Advisors and Investment Specialists cannot be insurance registered, and, therefore, cannot sell segregated funds⁸⁸. Therefore, it is recommended that the life insurance advisors at VanCity Insurance Services distribute the segregated funds. If VanCity would become an introducing broker, the possibility of Investment Advisors or Investment specialists selling segregated funds could be explored. Selling segregated funds means VanCity could offer its members a greater product selection; selling segregated funds further differentiates VanCity's integrated wealth management product.

⁸⁷ Garabedian & Morette, 1.

⁸⁸ BC Securities regulations only allow a representative to be employed by two employers. The IAs and ISs are employed by Credential Financial Inc. and VanCity and therefore they could not also be employed by VISL. In order to sell insurance products they would have to an employee of VanCity Insurance Services.

To facilitate the distribution of segregated funds and to increase the penetration in the life insurance market, VanCity should expand its life insurance sales force. Currently, VanCity has only five life insurance advisors. The five advisors are required to service all 41 VanCity branches as well as Citizen's Bank. Due to the demands of servicing many locations, the life insurance advisors have a limited presence in the branch network and cannot work with banking staff to identify insurance opportunities. In addition, a life insurance advisor may not be able to quickly address any life insurance leads generated by the branch because the agent is responsible for so many locations. This slow response negatively impacts the member's experience. To determine the number of insurance representatives that are needed to provide an increase in service, VanCity should consider the associated costs, increased revenue, and its cost of capital.

To further increase the amount of life insurance and segregated funds business, VanCity should also develop a referral program for the Investment Specialists, Investment Advisors, and Insurance Advisors. Although the banking representatives have accountability to refer to wealth management business units, the wealth management business units do not have accountability to refer to one another. For the referral program to be successful there could be monetary rewards associated with achieving the referral targets. For example, an advisor could receive a bonus for reaching his/her referral target. Alternatively, the referral program could be managed as a performance issue with negative implications if the targets were not reached. To further facilitate referrals between the life insurance and investment teams, a simple life insurance needs analysis test should be developed. The Investment Specialists and Investment Advisors should be able to review four or five simple questions with the member to quickly identify the member's insurance needs. These questions should be developed by the insurance team and should be consistently applied by the investment teams. Developing a referral program between these groups will increase business for both teams and will ensure VanCity is delivering a truly integrated wealth management product.

The final recommendation to increase VanCity's insurance penetration is to simplify the insurance application process. The insurance application process intimidates many members. Wealth management providers who have been successful in delivering a fully integrated wealth management product that includes insurance have implemented a simple application process⁸⁹. The fewer application questions and the absence physical examinations will increase the members' comfort level. VanCity should explore opportunities to work with insurance

⁸⁹ Garabedian & Morette, 1.

underwriters who have developed a less intimidating insurance application process. Ultimately, the application process should be quick, convenient, and simple.

5.8 Summary

Several key issues were identified as barriers to VanCity's greater success in the wealth management industry. The main issues identified include low awareness of VanCity's wealth management product, third party investment dealer activities, delivering an effective differentiated service appropriate for the target market, wealth management business unit conflicts, increasing regulatory requirements, and weaknesses in the information systems.

To address some of these issues, VanCity should review its partnership with Credential Financial Inc. The costs and benefits need to be carefully measured before making the decision to proceed as an introducing broker or to continue the present relationship with Credential. VanCity should also develop strict account minimums and define service levels for the different wealth management segments within VanCity. Defining these service levels will help ensure VanCity's wealth management business is profitable. VanCity should develop an ongoing marketing campaign that focuses on wealth management offering. The wealth management marketing should highlight the VanCity difference and the sophisticated products that can be offered. VanCity should design incentives to encourage referrals and cooperation within the wealth management business units. Additionally, VanCity should consider introducing a wealth management coordinator within the branches who would be the first wealth management contact for the member. VanCity should improve the referral system and the ability of the wealth management and banking systems to integrate. Finally, VanCity should develop its life insurance network and focus on segregated funds.

These recommendations must be implemented in an increasingly complex regulatory environment. To ensure VanCity is effectively operating within regulatory environment, VanCity should identify best practices with the wealth management industry and implement them within VanCity.

Internally, VanCity identified three strategic imperatives to grow its wealth management business in the future. The first of these imperatives was to differentiate VanCity's wealth management product through an enhanced member experience and a unique product array of socially responsible investments. As previously discussed in the paper, an enhanced member experience is critical for VanCity because its differentiation strategy is built upon good service to members. The recommendations of the paper focus on further enhancing the member's

experience. Socially responsible investments are attractive to some members; however, it is not clear if this wealth management product array in itself will always attract members to VanCity. A recent survey found most members were attracted to socially responsible investments only if everything else was equal⁹⁰. In other words, most members were not willing to accept lower returns in exchange for a socially responsible agenda. A strong SRI product array will differentiate VanCity to a degree, but if the products do not perform this differentiating factor may not be effective.

The second strategic imperative was the need to identify and define the wealth management opportunities. Improvements in the information systems, continued emphasis of the development of advisors, and an improvement to internal referral processes will address this dimension.

The third strategic element is to build the wealth management foundation, namely, developing the sales staff, product array, and infrastructure to effectively deliver wealth management solutions as the advisors identify the needs. Recommendations to address building the management foundation include reviewing the dealer relationship with Credential, increasing wealth management awareness, improving the internal referral system, and defining the appropriate service levels for the different wealth management segments.

⁹⁰ Market Probe, 38.

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