

# Brazilian Financial Institutions

## Views from investment advisors: balanced competition, more diversified revenues

Industry Overview

### Highlights from event with financial advisors

We recently hosted a virtual meeting with members from the Brazilian Association of Investment Advisors (ABAI), two of which were also principals in offices related to BTG and XP (c.R\$8bn in AUC combined). The group highlighted that: i) the core investment business remains pressured in the short-term (limited net inflows due to higher churn and not much rotation into equities), ii) the offer of banking products is gaining traction as it improves client relationship and revenues, iii) the competitive environment appears to be in balance, with focus shifting from client growth to improving client service, and iv) regulatory changes made in '23 are fostering the growth of the fixed fee model and boosted the market transformation.

### A more balance market

The advisors noted that AUC growth over the medium-term is more likely to be driven by increasing share of wallet of existing clients rather than attracting new clients, as the Market seems to be in balance with traditional banks closing the gap in product offering and investment platforms becoming more commoditized (as concentration increased). In the short-term, net inflows are being pressured by outflows, while allocation into equities is only likely to improve once the Special System for Settlement and Custody (Selic) rate falls below double digits.

### Regulatory changes fostering industry transformation

CVM resolutions approved in '23 gave more flexibility to the scope of the advisory profession. They i) allowed non-investment advisors to become partners in advisory offices and increased the flexibility to hire IFAs (as partners, employees, or contractors), ii) ended the exclusivity between the IFA office and investment platform, although this had limited impact as most advisors had already settled contractual exclusivity lasting 5-7 years, and iii) increased transparency of fees, which is promoting a shift into a fixed fee model (reducing conflict of interest between clients and advisors).

### Cross-selling is key to support revenue generation

With ROA of investment offices pressured by weak inflows, competition, and more conservative investment allocation, financial advisors see the offering of banking products as paramount to support revenues. Auxiliary products such as insurance, consortium, and credit cards improve the relationship with clients, help to grow AUC, and reduce churn. This focus on cross-selling could increase the contribution of auxiliary revenues to 50% of office's revenues from 30-40% currently.

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AUC: assets under custody

BTG: BTG Pactual

CVM: Brazilian securities commission

IFA – independent financial advisors

ROA: return on assets

XP: XP Inc.

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