

When it comes to paying their advisors, Canadians are asking the wrong questions

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Do you know how your financial advisor came to be responsible for other people's money? Do you know how many hours he spends with your case? Do you know how he's paid, or how much? If you're like most Canadians, you probably don't. And it's not entirely your fault: if you asked your advisor these questions, he's not legally obligated to answer.

This is something Cary List, said the CEO of Financial Planning Standards Council (FPSC), would like to change. "Financial planning as a profession is still very much in its infancy," he says. "In Canada it really only came into existence as a concept in the mid-80s."

FPSC provides voluntary certification (CFP) to the financial planning industry. Students must pass a rigorous series of lessons and exams, covering the technical, practical and ethical aspects of financial planning.

Of the 70,000 active financial advisors in Canada, 18,000 have received FPSC training. CFPs are the only planners that are required to provide full disclosure on how they're being compensated, and the value that they bring back in return. They are not allowed to collect commissions on product or assets under management. Unfortunately, their "fee-only" label distracts from the bigger issue at hand.

"Whatever the payment model, it's important that the clients understand the compensation, and that they are receiving the full value for it."

List entered the financial planning world in the early 90s through his training as an accountant. The financially strapped days of Mike Harris cutbacks revealed a troubling reality.

"Most of my time and energy was spent delivering financial planning workshops to corporate clients that were being downsized or offered early retirement incentives. For so many of them, it appeared almost too late. I realized just how little Canadians understood the value and importance of financial planning. It was really disheartening to see people, so close to retirement, really have no idea what they were going to do with the next stage of their life, and not be prepared for it in any way."

At the same time, Canada was beginning to see a transition from independent deposit takers and mutual fund sales shops toward a more professional advisory model, more than a decade after the U.S. had gone the same way. Even so, Canadians weren't keeping up with the trend, and remained largely in the dark about their finances.

"As Canadians, it's not polite to talk about money," says Karin Mizgala, co-founder of the Women's Financial Learning Centre in Vancouver. "We're incredibly passive. We just don't dialogue about money. Planners are reluctant to discuss fees, and clients feel they're being taken advantage of somehow. It sets up an almost covert adversarial relationship."

While government continually failed to recognize the importance of the industry, it was allowed to grow without regulation or professional standards. As consequence, there are no rules governing how or how much a financial advisor should be paid. This has led to the commodification of product and mutual fund sales. Worse, it has prevented Canadians from realizing the long-term value of having a solid financial plan.

"Advisor's undervalue themselves," Mizgala said. "There's a huge amount of value they can provide, but instead they focus on discussions of rate of return and other things nobody has much control over. The clients want somebody that supposedly knows everything, because it makes us feel safer. Let's get real."

List was drawn to FPSC in its early years. He was an inaugural member of the panel of examiners that created the standards for the CFP's extensive exam. He later became their VP of Standards and Certification, where he led the development of standards of practice and a competency profile: a collection of over 100 skills and abilities a CFP professional must have. He was actively involved in developing the international planning framework used by CFPs around the world, some 117,000 professionals in 22 countries. In 2007 he became FPSC's CEO, where he is working to shape the future of the profession.

"The Tech boom really go people offtrack," he said. "That's when the advice started to really focus on picking the right stocks and mutual funds. The boom in the past 3-4 years has resulted in people losing focus on the Big Picture again." Mizgala adds, "People get lost in the sexy, interesting investing part, but it's actually the least important part of the planning process." As the recession grinds on, Canadians are once again paying dearly for putting investment planning ahead of life planning.

So what needs to change? "Until governments recognize the value themselves, until they see the societal cost of NOT undertaking financial planning, it's going to remain a challenge," List said. "The industry should be professionalized like any other professional advice: doctors, lawyers, accountants, even some of the new professions like personal training or massage therapy have professional certification."

Meanwhile, FPSC is doing their part to raise awareness. Last October they launched the first annual Financial Planning Week. "We want to show how financial planning can help alleviate stress, how it can help charter a course, how it can be much more than how much you're making month-to-month on your stocks." The organization continues to lobby both the government and industry to adopt higher standards of practice.

When it comes to fees, the issue isn't how advisers are paid, but rather how much. "Sure, regulations around selling product are important, but planning itself is a separate activity that has its own value," List says. "Accreditation would help, but even more than that I want to see government offering tax incentives or tax programs that Canadians to seek financial planning advice. It would be money well spent."

He doesn't want Canada to switch over to a completely fee-only model, like Australia did after a major scandal spooked its citizens last year--at least not anytime soon. "It's very easy to look at fees and say, 'Let's ban commissions and make everything fee-only paid on a per-house basis.' But that's just a Band-Aid in the absence of these other standards." In fact, creating a fee-only model may be detrimental to the development of the profession, he said. "People don't always want to get out their cheque books and pay out of pocket. Having a

choice is better." More important than revamping the fee model, he said, is establishing a code of ethics and best practices.

"Because financial planning is still a new profession, there are a lot of good people who are qualified but aren't certified. But by seeking someone who has the CFP designation, you're at least getting that extra layer of protection and assurance that this is somebody who has voluntarily stepped up to a higher standard, have agreed to be held accountable by an external third party (FPSC) and are required to abide by standards of practice and a code of ethics.

"We still have a long way to go to develop into a true profession," he said. "In an ideal world, it would make sense that planning is not compensated through product sales. But first, people have to recognize this isn't a \$20/hour service. But these things take a long time to nurture and develop. They don't happen overnight. Patience is a virtue I'm still learning."