

# Sound Advice for Ontario's Households, Economy & Government

Small Business Financial Advisors Helping Middle Class Families

MAY 2015



# Sound Advice for Ontario's Households, Economy & Government

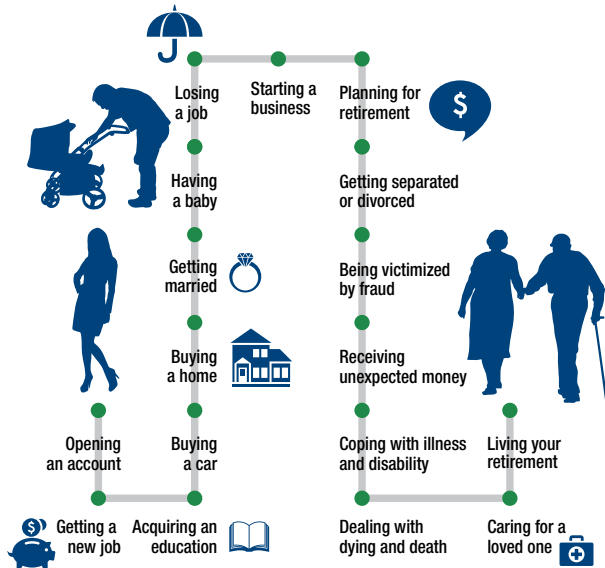
## **Small Business Financial Advisors Helping Middle Class Families**

### **CONTENTS**

- 3 Value of Financial Advice**
- 4 SMB Financial Advisors Serve 'Main Street' Households**
- 5 Economic Impact of Ontario's SMB  
Financial Advice Industry**
- 5 The Need for Appropriate Regulation**
- 6 A New Way Forward – Raising Financial Advisor  
Professionalism to Protect Consumers**
- 8 About Advocis and its Members**

# Value of Financial Advice

## Financial Advice Spans Entire Life Cycle of Ontario Families



Source: Task Force on Financial Literacy Report

Financial advisors help people to prepare for important events and needs throughout their lives, become more financially self-sufficient, save and plan for their future, and protect their savings. They do this through comprehensive planning and offering a wide range of life and health insurance solutions that protect the savings of clients and their beneficiaries, provide a stream of income well into retirement, and assist in difficult times of disability or critical illness. Financial advisors are experts who provide financial services including retirement and estate planning, wealth management, risk management, and tax planning. People with greater access to professional financial advice enjoy a higher level of financial literacy.

## Benefits of Working With a Small Business Financial Advisor

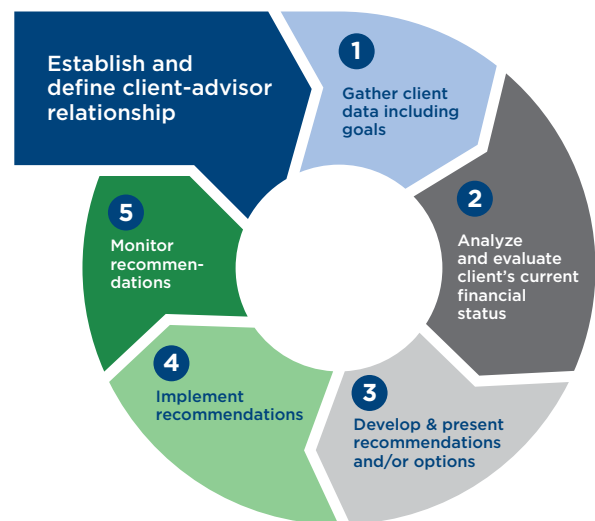
Small and medium-sized business (SMB) financial advisors help people make sound financial decisions, manage their daily finances, and adapt to changing circumstances. Many individuals, families and small businesses lack the time, training or inclination to achieve sufficient comfort in their financial knowledge to make important financial decisions on their own. Financial advisors offer the benefit of their knowledge and experience, and help clients achieve financial security and peace of mind.



Source: Sound Advice, PricewaterhouseCoopers LLP (PwC) Study on Insights into Canada's Financial Advice Industry, July 2014

## Building a Long Term Relationship – The Financial Advice Process

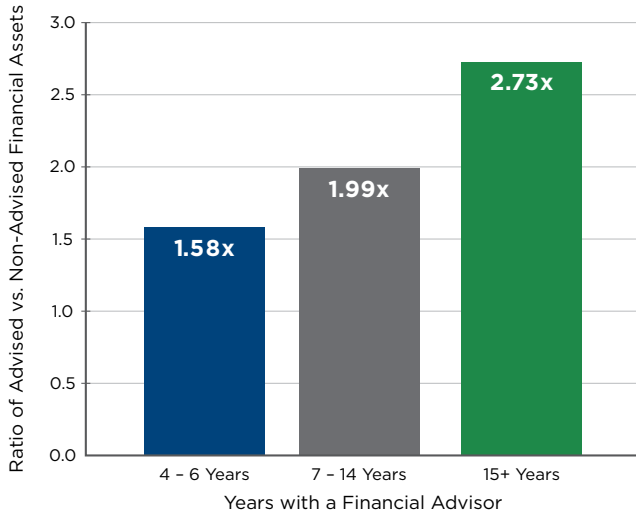
The process by which SMB financial advisors provide advice, products, and services can be considered a cycle, requiring a commitment by both the advisor and the client in order to develop a lasting relationship.



Source: Sound Advice, PwC Study on Insights into Canada's Financial Advice Industry, July 2014

## Ontario Households are Much Better off When They Have Professional Financial Advice

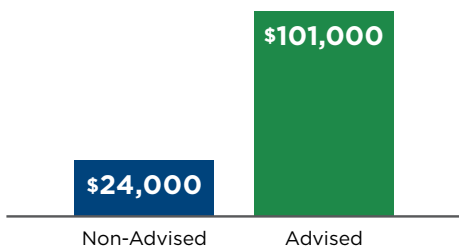
### GROWTH IN FINANCIAL ASSETS OVER TIME OF HOUSEHOLDS THAT RECEIVED ADVICE COMPARED TO THOSE THAT DID NOT RECEIVE ADVICE



Source: Econometric Models on the Value of Advice of a Financial Advisor; CIRANO; July 2012

People who receive financial advice accumulate significantly more financial wealth, are better protected, and are better prepared for retirement and unexpected events than people who do not receive advice.

### FINANCIAL ASSETS HELD BY ADVISED AND NON-ADVISED HOUSEHOLDS



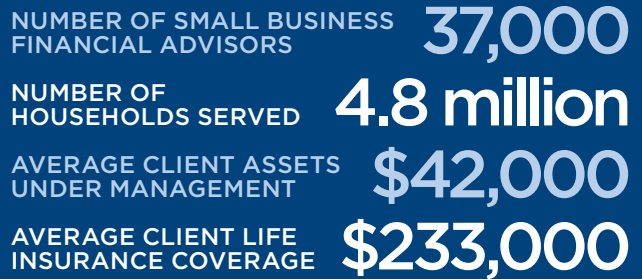
Source: Sound Advice, PricewaterhouseCoopers LLP (PwC) Study on Insights into Canada's Financial Advice Industry, July 2014

Studies have shown that, on average, advised households have three to four times the financial assets of non-advised households across all income levels and number of years working with an advisor.

## SMB Financial Advisors Serve 'Main Street' Households

SMB financial advisors, who operate out of independent mutual fund and securities dealers, independent insurance agencies, and as exclusive agents of life insurance companies, are uniquely positioned to provide advice to 'Main Street' households. SMB advisors enhance consumer access and choice in financial services by offering their clients a comprehensive range of advisory disciplines, products and services that can be tailored to a client's objectives and lifestyle needs.

### SMB FINANCIAL ADVISOR REACH IN ONTARIO



Source: Investor Economics, 2014

## Greater Access to Financial Advice Means Less Reliance on Government

The financial security and independence of middle-class households is vitally important since they will become less reliant on the government for future financial needs such as retirement income, health needs, long-term care, and disability. This ultimately helps the government to deal with the mounting fiscal pressures of an aging population.

### ONTARIO HOUSEHOLDS RECEIVE

# \$34.6 BILLION

ANNUALLY IN LIFE INSURANCE, ANNUITY AND HEALTH BENEFIT PAYMENTS (2013)

## CONSUMERS THAT WILL NEED FINANCIAL ADVICE

### MASS MARKET

(<\$100,000)

**80%** OF CANADIAN  
HOUSEHOLDS  
(12.4 MILLION)

**\$320 BILLION**  
IN FINANCIAL WEALTH

### MASS AFFLUENT

(\$100,000 - \$500,000)

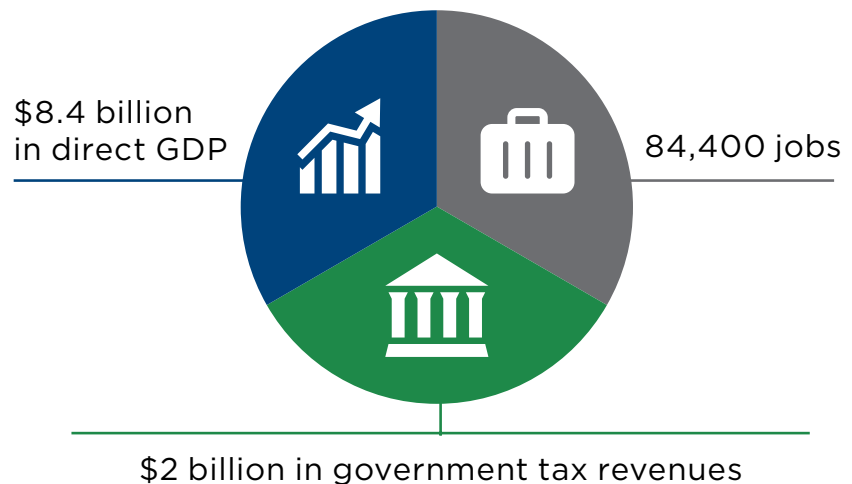
**12%** OF CANADIAN  
HOUSEHOLDS  
(1.8 MILLION)

**\$408 BILLION**  
IN FINANCIAL WEALTH

### Economic Impact of Ontario's SMB Financial Advice Industry

The SMB financial advice industry is a vital part of Ontario's economy, and is crucial to the long-term financial health of families and small businesses. Ontario needs a competitive market for financial services that offers consumers a range of choices, including access to SMB financial advisors.

### ECONOMIC FOOTPRINT OF ONTARIO'S SMB FINANCIAL ADVICE INDUSTRY



## The Need for Appropriate Regulation

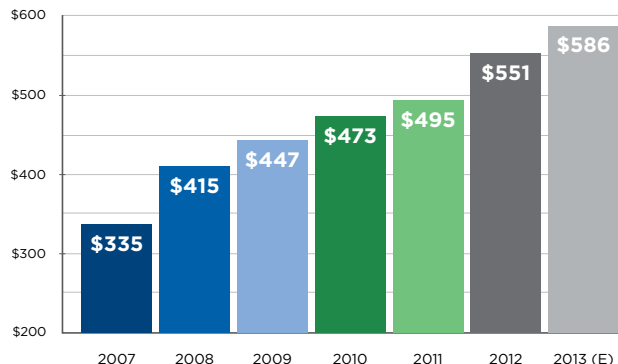
### Cost of Regulating the Financial Advice Industry is Skyrocketing

At a time when growth in the industry has been relatively slow, regulation has been a growth business. Red-tape compliance costs continue to rise sharply, threatening the business model of SMB financial advisors who serve middle-class households and small businesses.

Regulatory red tape makes financial advice less affordable and less accessible. If compliance costs are not reined in, consumer choice and access to professional financial advice will diminish. The current regulatory trends are creating significant barriers to entry for new advisors. More appropriate and streamlined regulation is needed that will protect the public without hampering the ability of financial advisors to serve their clients.

## Canada's Rising Cost Of Compliance

### COMBINED PROVINCIAL REGULATOR OPERATING BUDGETS (IN MILLIONS)



Note: Includes Investment Industry Regulatory Organization of Canada and Mutual Fund Dealers Association; Excludes most provincial insurance regulators  
Source: Fusion Consulting, 2014

## Current Regulatory Reform Proposals Will Widen the Advice Gap

Regulatory proposals by the Ontario Securities Commission such as **banning embedded commissions** on all investment products, when full commission disclosure and transparency is already being implemented, will drive financial advisors out of business, leaving significantly more consumers without access to professional financial advice. According to a recent PricewaterhouseCoopers LLP jurisdictional review, the banning of embedded commissions and introduction of a statutory fiduciary standard in the UK and Australia have resulted in a major advice gap – millions of middle class consumers are now without access to professional financial advice.

## ADDITIONAL INCREASED COMPLIANCE COSTS (INDUSTRY /NON-REGULATOR)

- Increased regulatory tracking, compliance and administration
- IT system and reporting process changes
- Customer disclosure statements and communications
- Staff hiring and training
- Litigation and legal costs

## UK REGULATORY REFORM IMPACTS

- Overall reduction in advisors by 25 per cent
- Advisors shift focus to high net worth clients, leaving mass market, “Main Street” clients without sufficient access to financial advice

## AUSTRALIAN REGULATORY REFORM IMPACTS

- 30 per cent increase in costs of serving clients, which has been downloaded to consumers
- Industry estimates initial compliance cost at \$700 million (AUD) — and growing to \$1.5 billion (AUD) when fully implemented

## A New Way Forward – Raising Financial Advisor Professionalism to Protect Consumers

### Raising the Bar for all Financial Advisors – An Effective Regulatory Approach

The most effective way of regulating financial advice is through a requirement that all financial advisors belong to an accredited professional association with a code of professional and ethical conduct and high education standards. Industry-led professional standards will assist in protecting consumers by removing unethical advisors and tracking down

fraudsters, and by instilling greater public confidence that consumers are dealing with a professional.

Consumers need to know that they are dealing with an ethical, professional financial advisor. While provincial insurance licensing and securities registration oversees life insurance and securities transactions, the advisory conduct of financial advisors remains an area of concern as it varies greatly among advisors. Financial advisors and



planners are one of the last groups of specialized practitioners whose professional title is not protected. Examples of practitioners whose titles are protected in law include doctors, lawyers, accountants, and engineers.

### **Advocis has a Detailed Proposal**

Anyone selling financial products to consumers in the province of Ontario should be required, as a condition of being licensed, to maintain ongoing membership in a recognized professional association. An accredited association would have:

1. Code of professional and ethical conduct
2. Requirement that members maintain errors and omissions (E&O) insurance
3. Enhanced minimum initial proficiency standards
4. Continuing education addressing substantive and professionalism matters
5. Published best practices manual
6. Governance structure that includes representation from the public
7. Complaints and disciplinary process, with powers to suspend an advisor's membership
8. Public database whereby consumers could conduct a one-stop check of advisor credentials and disciplinary history

### **Ontario has Committed to Moving our Profession Forward**

Following its 2015 Budget, the Ontario Government announced the appointment of its expert committee to review tailored regulation for financial advisors, including financial planners. The expert committee will consult with industry and consumers and will make its recommendations to the Minister of Finance within a year. Advocis strongly encourages the Minister to move quickly following the committee's final report to accredit qualified professional associations to raise professional standards. Advocis is working with other interested provinces, such as British Columbia, Alberta and Saskatchewan, to raise professional standards.

## **Key Benefits: All Stakeholders Gain From Enhanced Professionalism**

### **CONSUMERS**

- Assurance that financial advisors meet a consistently high level of professionalism and accountability
- Greater protection from unqualified and unethical financial advisors
- Complaints and disciplinary process when an advisor has violated their professional code
- One-stop online database to review credentials of financial advisors
- Greater access to professional financial advice that will assist in raising financial literacy

### **FINANCIAL ADVISORS**

- Enhanced public trust, status and confidence in advisors as professionals
- Professional standards would be set by financial advisors, just as lawyers oversee the legal profession and accountants oversee the accounting profession
- Streamlined regulation as current regulators will negotiate with accredited associations to eliminate regulatory duplication and overlap
- Removal of unethical individuals who tarnish the industry

### **GOVERNMENT AND REGULATORS**

- Delivery of enhanced consumer protection and the reining in of unethical advisors who can potentially move from sector to sector
- Additional protection of the wider public from unqualified and unaccountable individuals
- Implementation of a low-cost, industry-led regulatory option
- Benefit from the combined expertise of professional associations, all of whom will contribute to the development of public policy and implementation of effective regulation

### **PRODUCT PROVIDERS AND DISTRIBUTORS**

- Greater trust in the professionalism of financial advisors representing their firms
- Prevention of unethical advisors moving from one company to the next
- Stronger platform for supporting the recruitment of new advisors into the industry through enhanced professional standing

## About Advocis and its Members

### Who We Are

Advocis, The Financial Advisors Association of Canada, is the association of choice for financial advisors and planners. With more than 11,000 members across the country, Advocis is the definitive voice of the profession, advocating for professionalism and consumer protection. Professional financial advisors and planners are critical to the economy, helping consumers make sound financial decisions that ultimately lead to greater financial stability and independence. Advocis works with decision-makers and the public, stressing the value of financial advice and striving for an environment in which all Canadians have access to the advice they need.

### Working Cooperatively With Government

Advocis has a long-standing tradition of working cooperatively with government and regulatory bodies to ensure consumers of financial services are adequately protected, have ample choice and access to professional financial advice, and that the financial advisory business continues to be an important part of Ontario's economy.

Our 5,000 members across Ontario are a vital resource with a great deal of expertise in areas of importance to the government, including retirement planning, pension plans, health care, and employee benefit programs.

---

## QUESTIONS?

If you have questions or comments, please contact:

### Peter Tzanetakis

*VP, Government and Corporate Relations*

Advocis, The Financial Advisors Association of Canada

Tel: 416.342.9813 | 1-800-563-5822 ext. 9813

Fax: 416.444.8031

[ptzanetakis@advocis.ca](mailto:ptzanetakis@advocis.ca)

### Juno Da Silva

*Executive Assistant, Government and Corporate Relations*

Advocis, The Financial Advisors Association of Canada

Tel: 416.342.9860 | 1-800-563-5822 ext. 9860

Fax: 416.444.8031

[jdasilva@advocis.ca](mailto:jdasilva@advocis.ca)



390 Queens Quay West, Suite 209  
Toronto, ON M5V 3A2

[www.advocis.ca](http://www.advocis.ca)