Industry News

Advisors squeezed by falling revenues

There’s a risk that the advisor population will shrink, limiting the availability of advice to Canadians

By Megan Harman | October 03, 2012 12:30

A combination of higher costs and declining revenues is squeezing profitability for financial advisors, and as a result, some talented advisors are exiting the business, a panel of industry leaders said on Wednesday.

At the Investment Funds Institute of Canada's (IFIC) 2012 leadership conference in Toronto, Robert Frances, president and CEO of Montreal-based Peak Financial Group, said the industry must carefully assess its distribution channels to ensure they're financially sustainable in the long run.

"Many of our advisors do feel that they're underpaid," Frances said. "If profitability of distribution is not there, we will hit a problem eventually."

Indeed, he said he's already seen talented professionals exiting the industry because they feel that they aren't being properly compensated for the advice they're providing.

"We've got advisors leaving the industry," he said, "and very few new ones are coming in."

The panelists said advisor compensation must be reviewed. The role of the advisor is evolving, with a growing emphasis on financial literacy and comprehensive financial planning, and less emphasis on sales transactions. Compensation structures may need to be adjusted to reflect this shift, the panelists said.

"I think the whole area of compensation has to be looked at," said Bill Rice, chairman and CEO of the Alberta Securities Commission (ASC) and chairman of the Canadian Securities Administrators (CSA). "If we're saying that what we as regulators would like to see is that investors are getting the best possible advice, we appreciate that takes time, that takes expertise…how do you properly compensate for that time, that effort, that training, that expertise?"

Frances said the industry should work with advisors to determine the type of compensation model that works for them. It's also important to understand the cost pressures advisors are facing, he added.

Contributing to the growing cost burden is compliance. Amid a variety of new regulations related to disclosure, client relationships, and various other aspects of an advisor's day-to-day operations, compliance-related costs are on the rise.

"They've had to deal with changing and ever-increasing compliance requirements," Frances said.

Oliver Murray, CEO of Toronto-based Brandes Investment Partners & Co., said the industry should take a step back and assess the regulatory environment to determine whether regulations are having the intended impact, and the ways they're affecting industry players.

"We're constantly dealing with the next round of change or regulation," said Murray. "It would be nice to pause and say ‘have we got it right?'"

Rice said regulators are very mindful of the impact of regulatory costs on industry players.

"Regulators are extremely conscious of costs," he said. "It's just, how do you get the balance right between imposing requirements that properly protect the integrity of the market, protect investors, and yet don't interfere with the industry, the business, the financial markets more than necessary? It's a challenge."

If the industry fails to address the profitability problem facing advisors, Frances said there's a risk that the advisor population will shrink, limiting the availability of advice to Canadians.

"People will not be able to find advisors," he said, adding that advice could become an expensive luxury available only to wealthy individuals.