



**BRIDGING BUSINESS AND ACADEMIA:**

***LONG-TERM ISSUES IN CLIENT-ADVISOR RELATIONSHIPS AND  
HOW TO ADDRESS THEM WITH ACADEMIC RESEARCH***

**PREPARED FOR: CANADIAN SECURITIES INSTITUTE RESEARCH FOUNDATION  
(CSIRF)**

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**THE BRONDESBURY GROUP, 5 OCTOBER 2011**

## EXECUTIVE SUMMARY

**The purpose of this research is to identify areas of study that could be funded by the Canadian Securities Institute Research**

**Foundation (CSIRF)**, which would help address long-term issues and challenges faced by the securities industry.

The report is based on 30 opinion leader interviews with experts in the securities industry and related professions. The interviews were conducted in late 2010 and early 2011. While opinion leader interviews were the basis for our findings, reporting on their views is not the major aim of the study. Views are only reported to the extent that they help understand the research issues identified.

Over the course of the 30 interviews, opinion leaders consistently identified five major industry needs. While many other issues and needs were mentioned in the interviews, these five needs were identified repeatedly in interviews with people actively serving advisors, as well as in interviews with affiliated organisations.

- A. Build better compensation models that support holistic professional advice.
- B. Build a better base for professional advice grounded in a more complete understanding of client risk.
- C. Understand the value of advice to clients.
- D. Better understand the needs of retirees and how to meet them.
- E. Identify strategies that motivate investors to learn.

These five issues generated a number of research issues. After some discussion, we pared down the list to ten researchable issues.

Underlying all of the research issues and industry needs is the aging of the Canadian population and the growing need to provide holistic advice to clients planning for retirement, in the process of retiring, or simply trying to manage their assets and lifestyle in the midst of retirement.

The aging of the population and the maturing of the advisory sector make the need for comprehensive advice more immediate and more visible. Opinion leaders see the need for advice built on a more complete understanding of clients and the risks they face at every stage of their life.

There is also a strong sense that investors must play a more active role in their own future by learning more about investments and thinking more about their choices. There is certainly an underlying belief that an informed investor working in cooperation with an advisor can develop a plan that is better than either party can do on their own. In the process of developing and executing that plan, it is important that advisor compensation mirrors the need for advice as well as the need for execution.

The ten research issues identified in this report respond to key industry needs. To help find answers to address these needs, we present a number of suggested methods for conducting related research. The report also identifies academic departments and interests that are aligned with the needs of the industry.

## 1. INTRODUCTION& METHOD

The Canadian Securities Institute Research Foundation (CSIRF) was established as a not-for-profit entity to fund grounded and creative propositions for research with a national and/or global perspective. The Foundation focuses on issues pertaining to the Canadian capital markets for the benefit of investors and other participants.

The Brondesbury Group was commissioned by CSIRF to conduct an Opinion Leader Study to identify areas of study that could be funded by CSIRF, which correspond to major needs for the industry. This assessment was based on the key long-term issues that affect the retail financial advisor-client relationship and the forces shaping change in advisor-firm-regulator relationships. The Brondesbury Group was selected to undertake the research because it is independent of both academia and the industry, yet it regularly applies academic skills to address industry issues.

The opinion leader interviews conducted for this study identified the most salient issues for financial institutions aiming to build strong and successful relationships between clients, their advisor and their firm. These were translated into research issues for this report.

The studies funded by CSIRF will likely be carried out by academics. Over the years, CSIRF has noted that a major barrier to knowledge exchange between the capital markets and academia is a lack of common understanding of the problems of business and how these translate into domains of academic expertise. Using this project as a starting point, the Foundation aims to bridge that gap.

The research was carried out in four phases:

1. Secondary Research -- Literature Review;
2. Identification of opinion leaders;
3. Interviews with opinion leaders; and
4. Summary/synthesis of findings.

### SECONDARY RESEARCH -- LITERATURE REVIEW

The Brondesbury Group conducted a literature review in the spring of 2010. The secondary research incorporated review of the literature on the topic of the advisor-client relationship in retail financial services. It included a review of articles, conference presentations, speeches, press releases, and white paper reports gathered online from newspapers, associations, institutions, and regulators. The objective of the secondary research was to identify the issues, challenges and concerns that affect the advisor-client relationship<sup>1</sup>. The literature review also provided a starting point for identification of opinion leaders.

Areas of concern identified through the Literature Review included:

1. Quality and suitability of advisor advice to clients;
2. Best practices in communications between advisors and clients;
3. Building qualified advisors including hiring and retention practices, training and incentives;
4. Oversight of client-advisor-firm relationships at every step of the way in advisory relationships.

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<sup>1</sup> Bridging Business and Academia Study, Phase 1, Secondary Research, The Financial Advisor-Client Relationship in Retail Financial Services, The Brondesbury Group, July 27, 2010.

## THE OPINION LEADER METHODOLOGY

### **Opinion leaders are the people who make the future happen.**

Because of their leadership role, their views of the future are often more informed than others. The study is based on interviews with 30 opinion leaders from across the country. They represent the investment industry, governance/legal experts, associations, investor educators and investor advocates.

The opinion leader method is derived from the Delphi method, which was pioneered by the Rand Corporation for defence futures. In contrast to the paper-based Delphi method, face-to-face interviews are used to gather more detail in a single session. The interview structure itself incorporates a common futures model called PEST (Political-Regulatory, Economic, Social-demographic, Technology) for assessing the environment, which was developed by the Harvard Business School. Other analytical techniques are used to improve the objectivity of the analysis.

Each opinion leader interview took about 90 minutes to complete. The steps in the interview process are as follows.

- Discuss the PEST forces (Political-Regulatory, Economic, Social-demographic, Technology) that affect the achievement of their organization's objectives.
- Identify their strategies for overcoming obstacles and building on supports.
- Summarize views on a pre-defined set of key strategic issues.
- Capture the major themes expressed in the discussion;
- Identify areas of academic research that would correspond to a need in the industry and that would be worthwhile for the CSIRF to fund.

## IDENTIFYING OPINION LEADERS

The success of the entire opinion leader process relies on the diligent and thorough pursuit of the "right people" to interview. The 'right people' are often people behind the scenes who are 'quiet influencers', known better to their colleagues than the public. The process starts with the names that emerged from the literature review during the secondary research phase. We call and/or email those names and ask them to identify people who have the biggest impact on how people think about advisor-client-firm relationships. We typically ask for several nominees. We then call these people and repeat the process. The calling process stops when there is reasonable consistency in the names that are cited. This is often not enough to identify the full complement of opinion leaders needed. To remedy this, we contacted respondents again with an Internet survey, asking them to vote for 'opinion leaders' from a slate of candidates that we proposed. The vote typically recognizes regional coverage and specialized roles.

**LIST OF OPINION LEADERS AND AFFILIATION  
(AT THE TIME OF THE INTERVIEW)**

**On behalf of the Canadian Securities Institute Research Foundation (CSIRF) and The Brondesbury Group, we would like to thank the opinion leaders who gave their valuable time and opinions to this study.**

Cary List, Financial Planning Standards Council (FPSC)

Clay Gillespie, The Rogers Group

Dave Pickett, TD Wealth Management

Dave Velanoff, MGI Financial Inc

David Nicholson, CIBC Asset Management

David Shymko, Macdonald, Shymko & Company Ltd.

Ellen Bessner, Cassels Brock & Blackwell LLP

Gilles Sinclair, B2B Trust

Glorianne Stromberg

Graham Carter, Cap Advisors

James Burton, PPI Financial

Jeff Kehoe, Investment Industry Regulatory Organization of Canada (IIROC)

Jim Rogers, The Rogers Group

Jim Ruta, Author

John De Goey, Burgeonvest Bick Securities Ltd

John Nicola, Nicola Wealth Management

Jonathan Chevreau, National Post

Ken Kivenko, Kenmar Associates

Laurie Campbell, Credit Canada

Lawrence Geller, Geller Insurance

Martin Dupras, L'Institut québécois de planification financière (IQPF)

Patricia Lovett Reid, TD Waterhouse Canada

Paul Balthazard, RBC Dominion Securities

Preet Banerjee, Pro-Financial Asset Management

Robert Fleischacker, Stonehaven Financial Group

Roberta Wilton, CSI Global Education Inc

Susan Murray, Task Force on Financial Literacy

Terri Williams, DundeeWealth

Tom Hamza, Investor Education Fund

Warren MacKenzie, Weigh House Investor Services

## 2. MAJOR ISSUES

Opinion leaders consistently identified five major industry needs. While many other issues and needs were mentioned in the interviews, these five needs were identified repeatedly in interviews with people actively serving advisors, as well as in interviews with affiliated organisations.

- A. Build better compensation models that support holistic professional advice.
- B. Build a better base for professional advice grounded in a more complete understanding of client risk.
- C. Understand the value of advice to clients.
- D. Better understand the needs of retirees and how to meet them.
- E. Identify strategies that motivate investors to learn.

In this chapter we will introduce and briefly discuss the five major industry needs. We will also identify the ten research issues that we view as offering achievable and valuable results to address these issues.

In chapter 3, we will discuss suggested methods for addressing each of the ten research issues. We will also identify some academic departments with a demonstrable interest in this type of research issue. Chapter 3 also presents some ‘academic keywords’ associated with many of the research issues.

### A. Build Better Compensation Models

**The industry sees itself in the midst of transforming from a sales culture to one of professional advice.** In part, the change is driven by the evolving needs of clients and consumers. There is a greater need for holistic financial advice and planning across client segments. As well, advisors often hold multiple licenses (e.g., life insurance and mutual funds) that involve advice across traditional pillar lines.

**There is a strong sense that the industry has to move towards more advice and planning to meet client needs and expectations.**

At the same time, there is recognition that most advisors are compensated for selling financial products. Transaction-driven compensation has the potential to distort the advice that advisors offer their clients. Many organisations are trying to find alternative methods of compensating advisors that are geared to a more holistic advice-driven environment. Opinion leaders see a real need to develop and test compensation schemes that are better suited to the emerging advice-driven environment.

In order to build better compensation models that support holistic professional advice, we propose our first researchable issue:

- 1. Develop compensation models that support long-term holistic advice.**

As with other research issues, the “how to” will be discussed in Chapter 3.

## **B. Build a Better Base for Professional Advice**

Opinion leaders tell us that risk tolerance is complex and difficult to assess, and particularly after retirement, it is generally not well understood. Presently, suitability and KYC (Know your client) focus on assessing risk in terms of investment volatility. Yet advisors are increasingly aware that clients' perceptions of risk change depending on life events, economic conditions and personal financial circumstances. As well, clients sometimes hold back information or mislead an advisor about their risk tolerance, whether intentionally or not. It is becoming clearer that client perception of risk is more complex and multi-faceted than previously suspected.

At the same time products are becoming more complex. They require a greater level of knowledge and understanding around suitability and risk, both on the part of the client and the advisor. Improving our understanding, knowledge and perception of risk based on more comprehensive indicators is an area of research that could lay the foundation for more professional advice.

The aim of building a better base for professional advice grounded in a more complete understanding of client risk leads us to our next two researchable issues.

- 2. Find out how personal risk profile changes in response to economic news and personal life events. Identify the impact of these changes on behaviour.**
- 3. Identify realistic and complete indicators of client risk and knowledge to guide suitability of advice.**

## **C. Understand the Value of Advice**

Opinion leaders expect to see more partnership between financial advisors and clients. It is anticipated that over time, clients will become more informed and educated about the need for long-term planning but they will still need to be motivated to stay on track.

Managing transitions and life events, and how these impact finances, will become increasingly more important. Relationships will become more consultative as clients age but there will be less execution/transactions. Building generational relationships with clients and their families becomes increasingly more important, and those advisors who do it well will be valued and rewarded accordingly.

While the industry knows that advice is becoming more important, the historic client-advisor relationship is based on the value of transaction execution. Research that can quantify the value of advice and identify its impact is important. Work that can help build the value proposition for advice to investors is a top priority for the industry. Getting information to build this value proposition leads us to our fourth researchable issue.

- 4. Identify strategies that show how to motivate clients to pay for advice (instead of just execution). Identify the characteristics of people who place high value on advice.**

## D. Better Understand and Meet Retiree Needs

**Opinion leaders believe that most people are unprepared for retirement.** Advisors don't have all the information they need to help them. **There are still many unanswered questions about the stages of retirement and how they affect finances.** There is transition to retirement, full retirement, potential physical limitations or partial disability, sickness, death of a spouse, outliving savings, and long-term care to name a few potential financial issues.

Opinion leaders feel there is little information about real-life retirement scenarios. What is needed at minimum level for different lifestyle scenarios? What do you need to live a specific lifestyle in full comfort? What are alternative ways of saving for retirement? What are the long-term impact of withdrawal rates on RRIFs, annuities, and other investments?

Retirement needs are a major area of focus for advisors and their questions are eminently researchable by academics. It is in this area more than any other that we see the potential for "quick wins" through collaboration between the industry and academia. This leads us to our next three researchable issues.

5. **Identify real returns that a cross-section of the population has earned in the past.**
6. **Gauge retirement savings needs for different scenarios to establish true minimum needs.**
7. **Identify the long-term impact of different withdrawal rates from RRIFs, annuities and other investments.**

## E. Motivate Investors to Learn

Opinion leaders stated that **more information is available to clients than ever before, but access to information does not necessarily make consumers wiser.** Much of the information available is difficult for investors to understand. As research has repeatedly shown, annual reports and the prospectus are often ignored, even though they are readily available and delivered to investors.

**Another stumbling block is the lack of interest in financial matters** and the associated task of improving financial literacy. Motivating investors to learn is one of the biggest challenges facing the industry.

Opinion leaders believe that clients need to take more responsibility for their financial well-being. This begins with motivating clients to pay attention, learn and act. Work has been done on identifying life events that trigger people to think about making financial decisions. Now it is time for next steps. Our three final research issues push in that direction.

8. **Find out what motivates people to pay attention to fees and their impact.**
9. **Identify how people respond to different types of disclosure and how it impacts their decision-making.**
10. **Identify specific behaviours and attitudes that either foster or interfere with attaining 'financial success'.**

### 3. GETTING RESEARCH STARTED

As professional researchers ourselves, we can safely say that all of the issues identified in Chapter 2 can be researched by academics. In our judgement, the easiest research to execute is that related to retiree needs. Building a better base for professional advice grounded in risk comes second. Addressing investor motivation is the most difficult issue and the subject of considerable research already. Regardless of ease, however, all ten research issues offer good opportunities for academics and the industry to work together to find solutions.

On the following pages, we offer a number of suggested methods for getting answers to the ten research issues. These methods are certainly not all of the possible methods that academics might identify. As always, there is necessarily some bias based on the training and work experience of the authors.

To offset this bias, we also present a number of academic departments where research related to our ten issues is already being carried out. To help ensure that interested people become aware of the kind of work the Foundation would like to sponsor, we also suggest ‘specialities’ or ‘keywords’ that will help alert academics.

The academic departments where related research is likely to be done now include several schools or departments:

- Business;
- Psychology;
- Economics;
- Sociology; and
- Actuarial sciences.

Some of the sub-specialties interested in these research issues are as follows.

- **Business schools:** Finance, Organisational behaviour, Behavioural finance, and Marketing.
- **Psychology:** Industrial-Organisational Psychology, Mathematical Psychology (decision theory, game theory), Social Psychology, and Consumer Psychology.
- **Economics:** Behavioural economics, Game theory, Risk and Choice models.
- **Sociology:** Sociology of consumer behaviour.

This is not an exhaustive list, but this does provide a starting point for identifying academics with interests in the ten research issues. We can state with certainty that a number of these research issues have already received grants from organisations like the Social Sciences and Humanities Research Council (SSHRC), so the challenge for the Canadian Securities Institute Research Foundation (CSIRF) is identifying projects that will have a clear and relatively certain impact on answering some of the research issues.

As a strategy, we suggest that CSIRF identify suitable academics using university websites. Departmental websites typically provide a guide to research interests on a person-by-person basis. Once suitable academics have been identified, we believe that a campaign of targeted letters will help build interest among both academics and their doctoral students. Other opportunities, like a presence at the annual Learned Societies Conferences are also good venues for making contact.

Now, we present the five key industry needs translated into both research issues and suggested research methods. This should be the starting point for finding answers to address the long-term issues identified by opinion leaders.

## RESEARCH ISSUES AND SUGGESTED METHODS

Industry Needs	Research Issues	Suggested Methods	Academic Focus
<b>A. Build better compensation models that support holistic professional advice</b>	1. Develop compensation models that support long-term holistic advice	1. Comparative survey of business organizations focusing on compensation schemes and effectiveness. 2. Build models based on theory and test response in 'lab situations.' 3. Build models in cooperation with industry HR and test in limited settings.	Organizational behavior; Industrial-Organizational Psychology
<b>B. Build a better base for professional advice grounded in a more complete understanding of client risk</b>	2. Find out how personal risk profile changes in response to economic news and personal life events. Identify impact on behavior.	1. Interview advisors about typical client responses to key life and economic events. 2. Longitudinal study interviewing advisor clients on start-up, after significant life events, and after major economic events. 3. Compare income and debt sources and amounts for different demographic groups by year using public use microdata files from Statistics Canada such as Survey of Financial Security or the T1 Taxfiler database. 4. Lab studies looking at decisions under different economic conditions and perceptions of potential wins and losses.	Economics (including game theory); Behavioral finance; Behavioral economics; Mathematical and social psychology; Sociology of consumer behavior  Decision theory Choice models
	3. Identify realistic and complete indicators of client risk and knowledge to guide suitability of advice.	1. In-depth interviews with advisors and clients to identify best variables. 2. Search of research literature on financial risk.	Economics (w/ game theory); Behavioral finance; Actuarial sciences; Mathematical and social psychology

		3. After qualitative research, develop test instruments for use by advisors. Compare ability to advise for revised versus traditional questions including both advisor and client satisfaction and outcomes relative to goals.	
<b>C. Understand the Value of Advice</b>	4. Identify strategies that show how to motivate clients to pay for advice (instead of just execution). Identify the characteristics of people who place a high value on advice.	<ol style="list-style-type: none"> <li>1. Stepped comparison of clients by value of advice from those using fee-only advisors to typical transaction-based advisors to discount brokerage. Methods include bank database mining, purchase of private databases, and/or survey.</li> <li>2. Broaden stepped comparison with life insurance by contrasting those that buy life insurance via direct marketing and those who buy more expensive product from an advisor.</li> <li>3. Develop theories about drivers of value for advice. Test with offerings to new clients.</li> <li>4. Develop theories about drivers of value for advice and test in lab settings.</li> </ol>	Marketing; Behavioral economics; Behavioral finance; Consumer psychology; Sociology of consumer behavior
<b>D. Better Understand the Needs of Retirees and How to Meet Them</b>	5. Identify real returns that a cross-section of the population have earned in the past	Analysis of existing databases, especially the T1 Taxfiler database. Other government databases are also likely to be available to academics.	Finance; Behavioral economics; Behavioral finance; Consumer psychology;

	6. Gauge retirement savings needs for different scenarios to establish true minimum needs	Analysis of existing databases. Financial assets of people at retirement age or thereafter are available in the Survey of Financial Security and several other Statistics Canada databases. Lifestyle can also be linked to income through data made available from several cycles of the Statistics Canada General Social Survey including the Time Use Survey. These are a starting point for realistic scenarios. The rest is calculation.	Finance; Behavioral economics; Behavioral finance; Consumer psychology; Actuarial science
	7. Identify the long-term impact of different withdrawal rates from RRIFs, annuities and other investments	Analysis of existing databases. Financial assets of people at retirement age or thereafter are available in the Survey of Financial Security and several other Statistics Canada databases. These are a starting point for realistic scenarios. The rest is calculation.	Finance; Behavioral economics; Actuarial science
<b>E. Identify Strategies that Motivate Investors to Learn</b>	8. Find out what motivates people to pay attention to fees and their impact	<ol style="list-style-type: none"> <li>1. In-depth interviews/Focus groups with advisors and clients.</li> <li>2. Survey of investors.</li> <li>3. Testing of specific ideas in behavioral labs.</li> </ol>	Marketing; Behavioral economics; Behavioral finance; Consumer psychology; Sociology of consumer behavior
	9. Identify how people respond to different types of disclosure and how it impacts their decision-making	<ol style="list-style-type: none"> <li>1. In cooperation with an industry member, provide different types of disclosure and compare response.</li> <li>2. Get reactions to different forms of disclosure in focus groups or quantitative surveys.</li> <li>3. Test specific ideas about disclosure in behavioral lab simulations.</li> </ol>	Marketing; Behavioral economics; Behavioral finance; Consumer psychology; Sociology of consumer behavior

	<p>10. Identify specific behaviors and attitudes that either foster or interfere with attaining 'financial success'</p>	<ol style="list-style-type: none"> <li>1. In-depth interviews with advisors and clients. Focus groups with investors.</li> <li>2. Survey of investors.</li> <li>3. Analysis of existing databases beginning with definitions of 'financial success.'</li> <li>4. Testing of specific ideas in behavioral labs.</li> </ol>	<p>Marketing; Behavioral economics; Behavioral finance; Consumer psychology; Sociology of consumer behavior</p>
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## 4. CLOSING

On behalf of the Canadian Securities Institute Research Foundation (CSIRF) and The Brondesbury Group, we would like to thank the 30 opinion leaders who gave their valuable time and shared their opinions to help create this report.

While the opinion leader interviews themselves were quite detailed and often discussed the forces at work in the environment in detail, it is the aim of this report to identify the most critical areas where academics and business can collaborate to find solutions that will benefit advisors and their clients in the future. The identification of the 'most critical areas for research' is a combination of industry needs and a judgment about how well a topic can be effectively researched.

There are a number of topics that the industry identifies as significant, which can only be addressed through discussion among professionals. Facts gleaned through research will not address the issues. Necessarily, while these issues may be equally or more important, they are not the subject of this report.

Regardless, this report does identify major and consistent industry needs. We believe that the translation of these needs into suggested research methods will help move the industry toward finding and funding solutions. The guidelines to identify interested academics should help create a bridge to get the right researchers interested in working with the industry. By doing this, CSIRF can actively contribute to the growth of the investment industry and the solution of key issues that the industry will face in the years to come.