

THE FINANCIAL ADVICE INDUSTRY IN CANADA

An Economic Profile

September 2012

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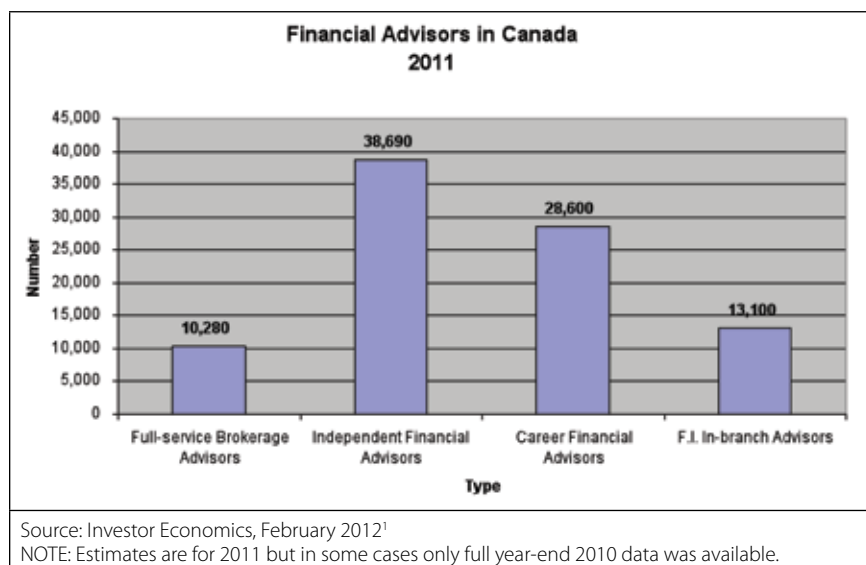
Financial Advisors in Canada – Overview

Financial advisors are professionals who work with their clients to achieve desired financial goals. Drawing on their expertise in financial planning including needs analysis, recommendations and ongoing review, their ability to navigate the complexities of the financial services landscape is the foundation for the trust-based relationships they build with their clients. Financial advisors provide millions of Canadians with a wide array of comprehensive financial advice services including: retirement and estate planning; risk management through insurance protection solutions; tax planning; employee benefit plans; disability coverage; and long-term care and critical illness insurance.

Most financial advisors hold licenses (or registrations) to sell life and health insurance, securities or mutual funds — or some combination of the three. Appropriate licensing allows advisors to transact in these key financial services on behalf of their clients. Financial advisors use products such as stocks, bonds, mutual funds, deposit instruments, and life and health insurance products to meet the needs of their clients.

Most financial advisors receive a commission payment for the financial products that they offer to clients. There are other forms of compensation depending on the advice channel. Fee-based planning is common in the financial services industry. Fee-based advisors often charge asset-based fees (e.g., a percentage fee based on the assets managed for a client) but may also collect commissions. Fee-based financial advisors should be distinguished from fee-only financial planners, who are compensated solely by the client, typically through some combination of hourly fees (including retainers), financial planning fees and asset management fees. Fee-only financial planners make up a very small percentage of the financial advice industry in Canada.

There are just over 90,000 financial advisors representing four primary channels of advice in Canada. These include: advisors working through full service brokerages; independent financial advisors; career or exclusive financial advisors; and advisors that are working in-branch for a financial institution.² The vast majority of financial advisors are either licensed to sell life and health insurance (licensed by provincial insurance regulators), or registered to sell mutual funds (licensed under the Mutual Fund Dealers Association of Canada – MFDA) and securities registrants (under the Investment Industry Regulatory Organization of Canada – IIROC). Many advisors hold more than one license (typically dual licensed for mutual funds and life and health insurance but other combinations are also common).



Independent advisors are typically small business owner-operators of single-person or small advisory firms (groups of more than one advisor). They are independently-contracted to distribute life and health insurance and wealth products (e.g., mutual funds and securities) and services through multiple financial services manufacturers (e.g., life insurance companies, fund managers). Career advisors, on the other hand, are affiliated exclusively with a major insurance company or investment firm but are also independently contracted and are considered to be

¹ All data in this profile is from Investor Economics, February 2012, unless otherwise indicated.

² There are additional individuals in the industry licensed to sell life and health insurance or registered as securities and mutual fund representatives. However, this data provides an estimate of individuals that are actively providing financial advice to Canadians as opposed to inactive advisors or individuals who are processing transactions.

small businesses (i.e., their contract is not based on an employee-employer relationship). Career advisors generally distribute proprietary products of their firms. However, some product offerings in this channel are available from third-party financial services manufacturers.

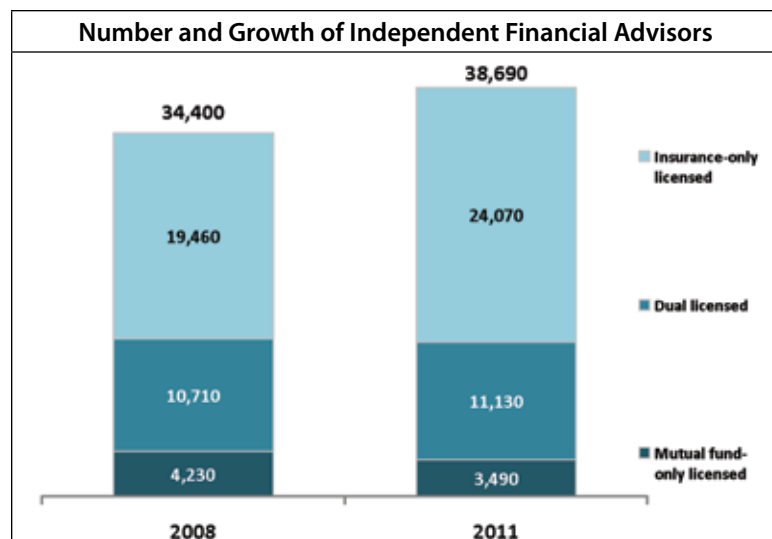
Canada's financial institutions, including banks and credit unions, dominate the full-service brokerage and in-branch advice channels, employing thousands of advisors. There are a number of independent brokerages that also represent a sizable amount of full-service broker advisors. In-branch advice is also available through Canada's credit unions.

Secondary Financial Advice Channels in Canada – 2011		
Type	Number of Advisors	Assets Under Administration (\$billions)
Deposit Brokers	1,540	\$30.0
Private Investment Counsel	1,050	\$163.8
Private Bankers	360	\$40.9
Estate & Trust	330	\$31.1
Exempt Market Dealers	420	Not available
Fee-only Planners	150	Non-applicable
Multi-family Offices	50	\$7.0
Scholarship Plan Distributors	2,520	\$1.4

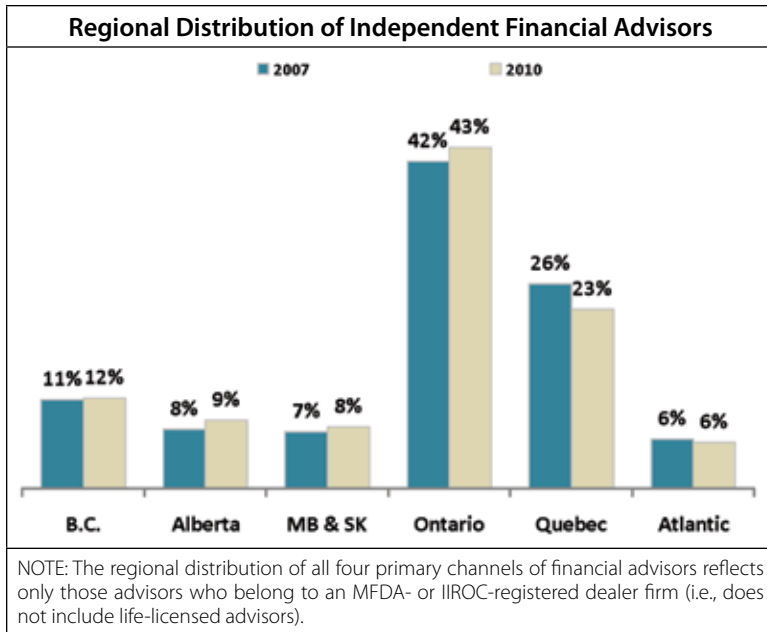
Other categories of financial advisors include: deposit brokers; private investment counsel; private bankers; estate and trust; exempt market dealers; fee-only planners; multi-family offices; and scholarship plan distributors. In total, these groups of advisors total approximately 6,400 — less than seven per cent of the total number of individuals providing financial advice to Canadians.

The remainder of this profile provides a summary of key economic characteristics of the four primary channels of the financial advice industry in Canada.

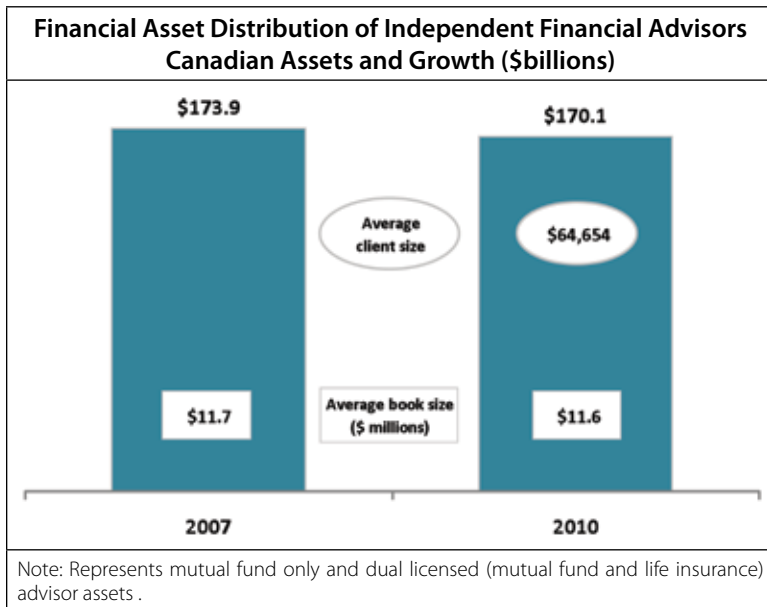
Independent Financial Advisors



Insurance-only licensed advisors currently make up 62% of total advisors in this channel, compared to 56% based on the estimated number of advisors in 2008. The number of insurance-only licensed advisors grew by 23.7% during this period. Challenging economics in the wake of the 2008 to 2009 market downturn forced some firms to rationalize their mutual fund sales forces. At the same time, some advisors previously registered with an MFDA dealer opted to move to an IIROC registration.

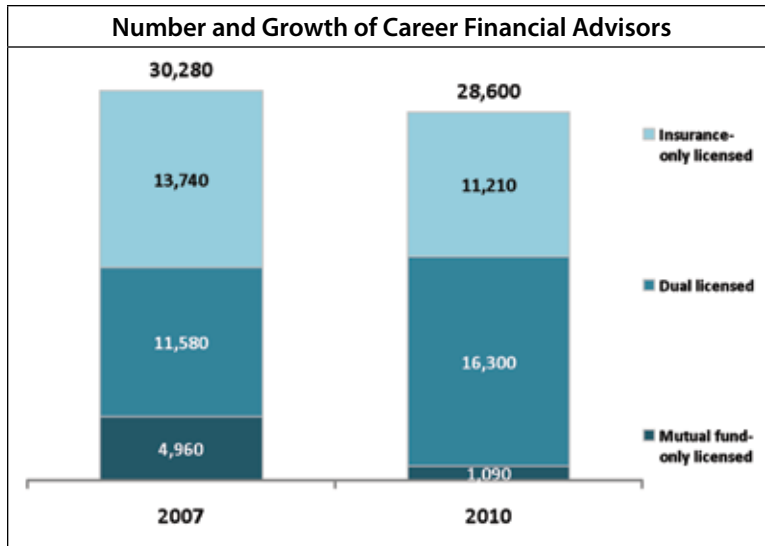


Two-thirds of all advisors in this category are based in either Ontario or Quebec. The number of independent financial advisors in Quebec has declined by three percentage points since 2007. The share of independent financial advisors in the three western regions increased from 26% in 2007 to 29% in 2010, reflecting the growing wealth management opportunity in that region.

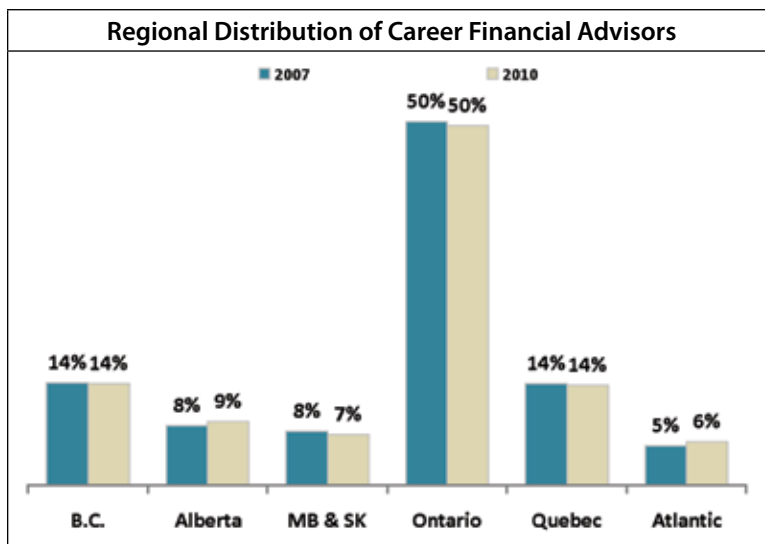


Assets under administration in this channel recorded a modest decline over the three-year period ended 2010. The branch advice and full-service brokerage channels added assets over the same period. In 2010, assets under administration per mutual fund-only/dual licensed advisor were \$11.6 million; little change since 2007.

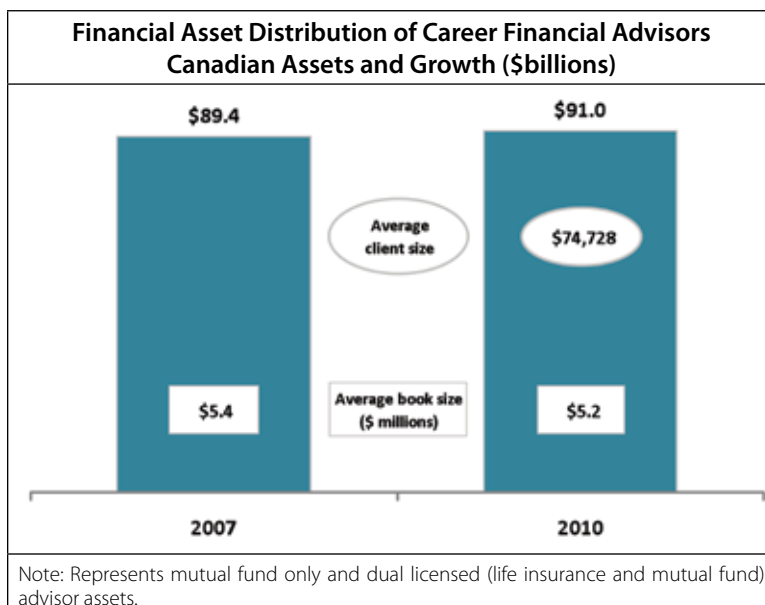
Career Financial Advisors



This channel is dominated by a small number of large career sales forces. Some advisors from these career companies shift to the independent channel at a point in their career. The career sales forces among these firms experienced an overall drop of 5.5% during this period.



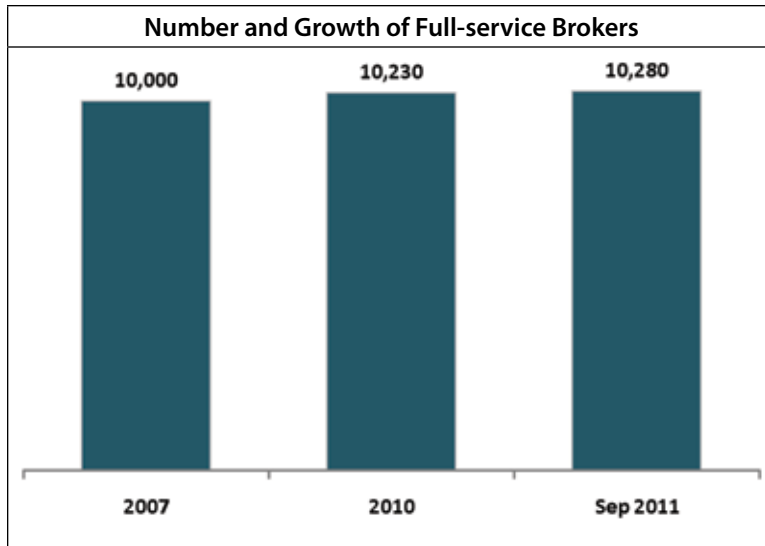
Despite a decline in the number of career financial advisors, the national distribution has remained relatively unchanged in three years. Compared to the other primary channels, career financial advisors have a larger proportion of advisors in Ontario.



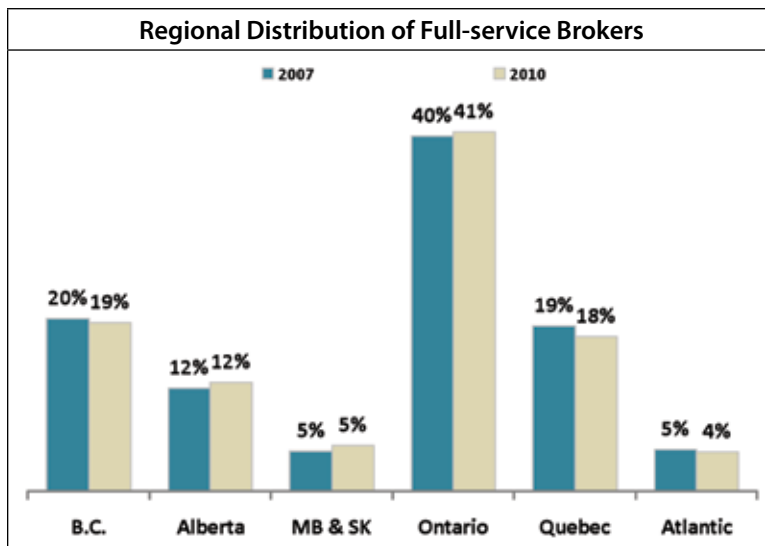
Notwithstanding the overall decrease in the number of advisors, there has been a modest increase in assets under administration in this channel during the period under review. The average book size per advisor declined by 3.7% during this period. The relatively small average book size reflects, in part, the fact that these firms undertake a significant amount of recruitment into the industry; newer advisors typically have smaller books of business in the early years of their careers.

Note: Represents mutual fund only and dual licensed (life insurance and mutual fund) advisor assets.

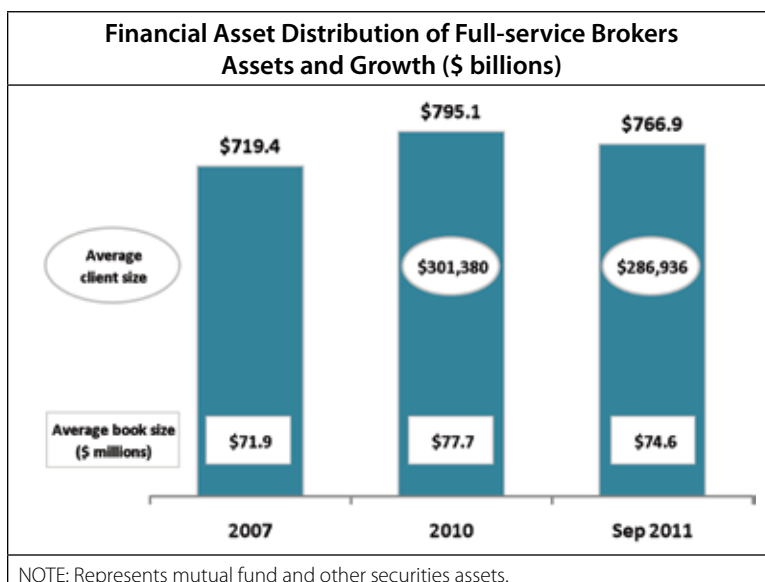
Full-Service Brokerage Advisors



The number of advisors in this channel has been relatively stable since 2007. The modest increase in the number of full-service brokerage advisors has been driven by an increase in the demand for advice and some movement of financial advisors to the full-service brokerage channel.



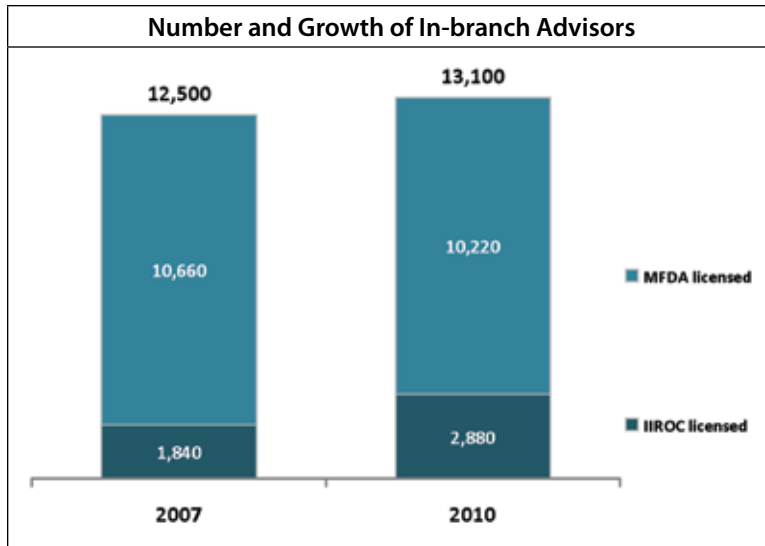
While the full-service brokerage advisor population increased moderately during the three-year period, the distribution of these advisors on a national level remained generally stable. Alberta and Ontario were the fastest-growing regions in terms of full-service brokerage advisors. Quebec witnessed the largest decline in full-service brokers over the same period.



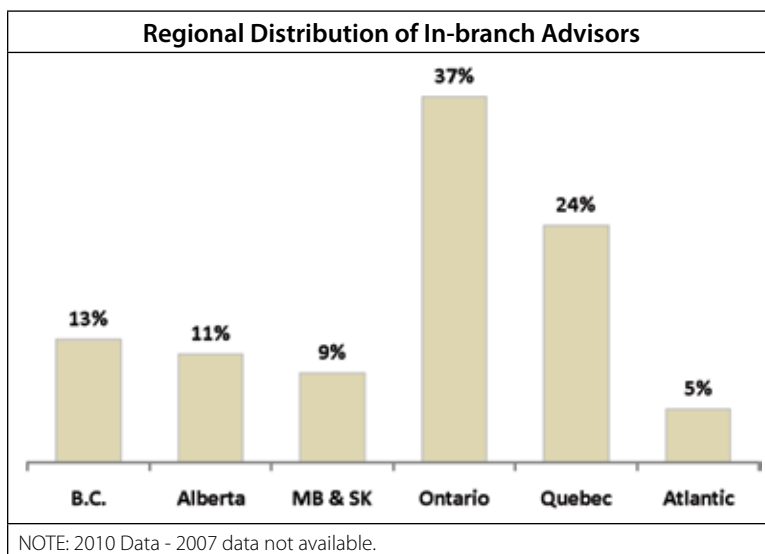
Assets under administration in this channel increased by approximately \$47 billion from 2007 to September 2011. The decline of approximately \$28 billion recorded in the first nine months of 2011 reflects weak equity markets and an outflow of invested funds. Full-service (IIROC-registered) brokers have significantly higher average client size and average book size, which is indicative in part of their target client market and their firms' business strategy.

NOTE: Represents mutual fund and other securities assets.

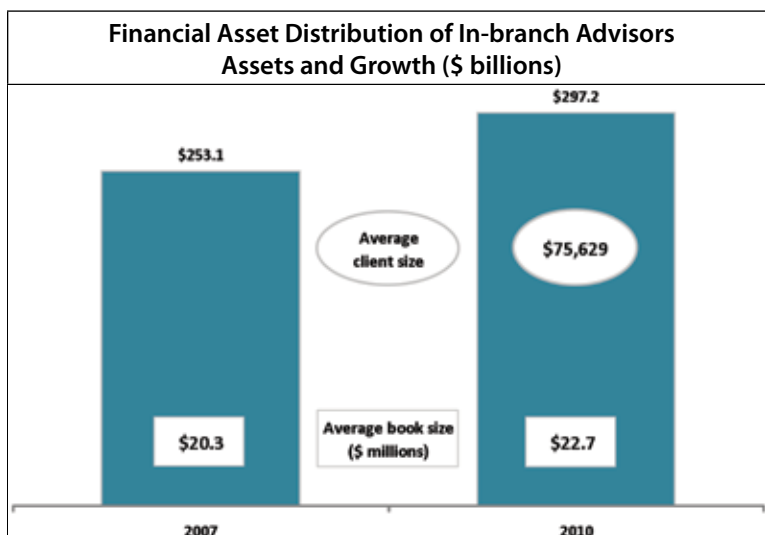
Financial Institution In-branch Advisors



From 2007 to 2010, the number of financial advisors in the financial institution in-branch advice channel grew by 4.8%. While the number of MFDA licensed advisors fell, the number of branch advice advisors holding an IIROC registration grew by 16% on a year-over-year basis during the same period (56.5% growth in total during the four-year period).



The distribution of branch advisors largely reflects the presence of bank branches and population patterns across Canada.



Despite a challenging environment, branch advice channel assets under administration grew by approximately \$44 billion in the three-year period ended December 2010. This asset increase represents a three-year 5.5% year-over-year cumulative growth rate, compared to an annual growth rate of 3.5% for the full-service brokerage channel for the same period.

Questions?

For information, please contact:

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