Schulich
School of Business
York University

Schulich School of Business
York University
4700 Keele Street
Toronto, Ontario
Canada M3J 1P3

Web: www.schulich.yorku.ca

December 6, 2024

Financial Services Regulatory Authority of Ontario
25 Sheppard Avenue West, Suite 100
Toronto, Ontario M2N 6S6

RE: Submission to FSRAO on its Statement of Priorities

The Financial Services Regulatory Authority of Ontario (FSRAO) should be commended for working towards improving Canadians' access to financial advice, financial advisors and financial planners. Timely access to financial advice may be akin to timely access to justice, since justice delayed is often considered to be justice denied.

However, the quality of justice (legal system) and the legal advisors' incentives are presumed to be uniform and sound whether delayed or provided on time. The same uniformity of financial advice quality may not always apply, in part because of the different incentives among financial advisors. It is not a secret that many advisors credentialed by the FSRAO are compensated and incentivized based on new business (e.g., either additional mortgages or additional savings products) brought in from existing or new customers into the advisors' institution. Such advisors may also be more readily available at point of product sale.

In late November, The Ontario Securities Commission (OSC) and the Canadian Investment Regulatory Organization (CIRO) launched an investigation of sales practices at Canadian bank branches.[1] This follows a June 2023 *Globe and Mail* story that explored how the sales culture at Canadian banks is designed to nudge customers into high-fee products, and a 2018 review of bank practices by the Financial Consumer Agency of Canada (FCAC) that found branches have become more like stores selling investments. At that time, FCAC found that banks' efforts to prevent sale of unsuitable products to customers were insufficient.

FSRAO appropriately claims that it will remain "consumer-centric when formulating its regulatory approach toward regulated … individuals,"

---

[1] Stefanie Marotta, "Regulators launch review of banks' in-branch sales practices." *The Globe and Mail*, November 26, 2024

UNIVERSITÉ
YORK
UNIVERSITY

Schulich
School of Business
York University

Schulich School of Business
York University
4700 Keele Street
Toronto, Ontario
Canada M3J 1P3

Web: www.schulich.yorku.ca

and that "FSRA will focus on the impact on consumers." But it seems that other regulators are calling out the harm to customers when FSRAO may not be seeing the harm.

There is a large body of literature from finance and accounting (including my own research) that has empirically established that "what gets measured, gets managed." Advisors working at banks are evaluated on sales targets, which can pit their own interests against those of the customer.

FSRAO has done a great job in highlighting which financial advisors may not be in good standing with their credentialing body. But sales pressures and sales incentives have largely been neglected by regulators as well as by FSRAO. FSRAO may now want to consider publicizing how various different types of financial advisors may be compensated (or incentivized). There is sufficient variation in compensation *across* credentialing bodies that needs transparency, even if some variation *within* members of a specific credentialing body may continue to be less transparent.

While I am not presuming that most advisors are motivated or influenced by their compensation, FSRAO should at least be making financial consumers aware that self-interest could be clouding some advisors' judgment, at least on a subconscious level. The 2024 Forum Research[2] reports on survey-based consumer awareness about various aspects of financial advisors but is conspicuously silent on asking financial consumers on whether they are aware of differences in incentives among different financial advisors.

By approving Credentialing Bodies, FSRAO may come across to the public as approving multiple credentials on an equal footing even though all Credentialing Bodies do not assess members' competencies equally broadly, monitor equally rigorously, enforce equally diligently, or are incentivized similarly.

Some credentialing bodies have made and continue to make significant long-term investments in competency framework. This includes involving academic and industry participation in their standard setting and competency framework discussions, resulting in a framework that remains applicable in practice for a broad range of clients.

---

[2] FSRAO Research on Financial Advisor & Planner Survey Report.pdf released in November 2024.

UNIVERSITÉ
YORK
UNIVERSITY

Schulich
School of Business
York University

Schulich School of Business
York University
4700 Keele Street
Toronto, Ontario
Canada M3J 1P3

Web: www.schulich.yorku.ca

We may need more research to document the consumer harm faced by inadequate standards for financial planning by credentialing bodies that do not have competency frameworks or enforce their standards as diligently. Sales orientation can also detract some financial advisors from focusing on the client's best interests. A survey by the Financial Consumer Agency of Canada found 49% of respondents lived on a budget and a large percentage of Canadians continue to avoid the subject of financial literacy. FSRAO needs to accommodate the public's lack of financial literacy rather than try to correct it.

One of the top three most common questions asked by financial consumers goes along the following lines: "I have managed to save an additional $10,000 this year. What should I do with it: pay down my 7% mortgage by $10,000 on its anniversary or contribute the $10,000 to my RRSP earning 6%?"

I have anecdotally investigated such advice from financial advisors working at banks and for-fee financial planners. Financial advisors at banks often advice such customers to invest in RRSPs - perhaps because they are incentivized to maximize new money brought in and not to decrease mortgages outstanding. For-fee financial planners usually recommend that the customer pay down the mortgage instead of investing in a RRSP. The answer in the customer's best interest depends on factors such as the respective rates of return, current marginal tax rate and expected marginal tax rate at retirement. Some customers may need help in estimating some of these input variables. However, a client-specific optimal solution does exist. And the stakes are fairly high over the term of the mortgage. And yet many advisors follow generic rules of thumbs that seem to serve advisors' interests instead of consumers' interests. FSRAO claims that they "measure success through outcomes, not inputs," even though faulty advisory output may not be difficult to assess independently or objectively.

In its job postings, FSRAO states that "our vision is to ensure financial safety, fairness, and choice for Ontarians. As a financial services regulator, we're passionate about protecting consumers. Our principles-based approach means we can quickly and effectively respond to the changing needs of consumers and the industry."[3] These principles-based approach can work

[3] https://www.fsrao.ca/media/26021/download

UNIVERSITÉ
YORK
UNIVERSITY

effectively if advisors' compensation was not so skewed towards their self-interest.

FSRAO may need more independent research to document the consumer harm faced when advisors do not keep the public's interest foremost in mind. FSRAO's narrow focus on consumers' access to advice may not be as meaningful if the quality of the advice and incentive compensation is so variable across credentialing bodies.

This situation may get worse. A November 2024 survey by Intuit Canada revealed that 73% of Canadian high schoolers are aware that they lack the knowledge to make informed financial decisions, with only 20% comprehending basic financial concepts such as debt.[4] Suboptimal financial advice to this group of customers could harm them for a long time to come.

Thank you for this opportunity to submit this feedback on FSRAO's Statement of Priorities.

Sincerely,

Amin Mawani, LL.M, PhD
Professor of Taxation and Schulich Research Excellence Fellow

[4] https://www.cpacanada.ca/news/features/high-school-finance November 12, 2024