



Research conducted by:



Introduction

FP Canada Research Foundation™ funded research¹ conducted by Philippe d'Astous, Associate Professor, Department of Finance and Director, Financial Education Lab HEC Montréal, Irina Gemmo, Assistant Professor, Department of Finance, HEC Montréal, and Pierre-Carl Michaud, Professor Department of Finance and Scientific Director, Retirement and Savings Institute, HEC Montréal, to investigate the impact of human tendencies and bias on recommendations made by financial planners. HEC Montréal is an internationally renowned business school in Montréal, Quebec.

Anecdotal evidence suggests that when advising clients, planners may be impacted by a number of factors, including the type of firm they work for, their licensure and their own personal financial experience. This bias is termed familiarity bias. In psychology, familiarity bias refers to the phenomenon where people opt for more familiar options, even though these may result in less favourable outcomes than available alternatives. Planners, like other professionals, can be influenced by other types of biases and natural human tendencies as well.

In a financial planning context, bias can inadvertently lead to:

- Providing recommendations in areas where a client need may not exist; and
- Providing recommendations in one area to the detriment of other areas' needs.

The research project explored the degree to which the above outcomes may be realized, based on a large survey of financial planners with either the QAFP™ (QUALIFIED ASSOCIATE FINANCIAL PLANNER™), CFP® (CERTIFIED FINANCIAL PLANNER®), or Pl. fin. (planificateur financier)² designations. Survey responses were received from across Canada representing a broad diversity of age, gender, level of education, place of employment, and areas of financial planning specialization.

¹ The full research, *The Quality Of Financial Advice: What Influences Client Recommendations?* is available at <https://fpcanadaresearchfoundation.ca/media/2bvozpir/fpcanada-hec-en-the-quality-of-financial-advice-paper.pdf>

² Through Institut québécois de planification financière. <https://www.iqpf.org/>

Background

The research carried out by the HEC Montréal team was designed to examine the impact of four main factors on planner recommendations:

- The degree of client involvement (where the client inquires about a product or solution);
- The gender of the client;
- The planner's compensation and how it relates to the recommendations made; and
- The extent to which planners recommended products they or their spouse owns, or which they are licensed to sell.

The planner survey presented eight client vignettes, and, for each vignette, it offered responses that were phrased as recommendations. The vignettes focused on four main areas: retirement, asset decumulation, long-term care and investment decisions. Some of the features of the vignettes, such as client gender, client involvement, planner compensation scheme, and product fees and characteristics were randomized. By varying these features, the researchers were able to weigh responses together with planner attributes to evaluate whether, and the extent to which, planner advice may have been influenced by their unique backgrounds and/or the client's gender or degree of involvement.

The research concludes that planners are more likely to recommend products they or their spouse own, or that they are licensed to sell. As well, as it pertains to investments, planners are more likely to recommend products that clients inquire about even when this type of solicitation is randomized across clients and options. Planners are systematically sensitive to the gender of the client even when gender is uninformative regarding which recommendation to make.

By pooling the answers to all scenarios together, the researchers could summarize across the different vignettes presented to respondents. The main results are provided below.

Product Familiarity

(ownership by planner or spouse)

1. Planners are significantly more likely to recommend universal life insurance, mutual funds, annuities, segregated funds, and ETFs when they own the respective product themselves.
2. Planners have a higher propensity to recommend repaying a mortgage when they own real estate. Analogously, planners holding debt themselves were less likely to recommend repaying a mortgage.
3. Ownership of RRSPs, TFSAs, LTC insurance, and GICs does not have a material impact on the recommendation of these products.
4. The biggest impact of product familiarity on recommendations comes from annuity ownership and ETF ownership. Owning these products increases the propensity to recommend them to clients by 12.5 and 12.3 percentage points, respectively.
5. When considering unique planner characteristics, planners who identified as 'very impatient' have a higher propensity than their counterparts to recommend products that they own; planners who are compensated primarily based on assets under management are more likely to recommend a product owned by their spouses than planners who are compensated by salary.

Product Licensure

1. The effect of holding a license to sell annuities, universal life insurance or GICs on recommending such a product is insignificant.
2. Holding a license to sell mutual funds, segregated funds, long-term care insurance, or ETFs significantly increases the likelihood of recommending the respective products to clients.

Planner Compensation

1. Overall, planners are about 10 percentage points less likely to recommend a product when the vignette suggests they are compensated for it. (Since no real financial incentive actually existed in the survey scenarios, it is possible this statistic is lower than actual outcomes.)
2. Planners who receive a bonus based on sales in addition to their salary, and those compensated primarily based on assets under management or commissions, have a higher propensity to recommend a product they are licensed to sell than their colleagues who are compensated exclusively by salary.

Gender

1. As it pertains to savings and decumulation recommendations, planners are more sensitive to the gender of the client even when gender is uninformative regarding which recommendation to make.
2. In the decumulation vignette, planners are about 4% less likely to recommend mutual funds to a female client.

Client Involvement

1. A product inquiry made by the client only has a significant impact on recommendations when the solicited product is an ETF.
2. Planners are about 5% more likely to recommend any product the client asks about when they own the product themselves (moving to 5.8% when the planner's spouse owns the product).
3. When a client asks about a certain product, holding a license to sell a product increases the likelihood of recommending the respective product by up to 4.5%.

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