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The Quality of Financial Advice: What influences client recommendations?

Practice Notes

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Research conducted by:



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.

The research concludes that bias is at play in the recommendations that financial planners provide to their clients. This is not surprising as bias affects everyone. That said, since financial planners are held to high standards of professional responsibility, it is important to be aware of the potential impacts of bias to help ensure that advice and recommendations to clients are the most appropriate for them. These practice notes outline practical steps professional financial planners can take to minimize the impact of bias on client recommendations and provide instructions for the use of a “professional validation tool” planners can use to check for the presence of bias in formulating client strategies.

All individuals are prone to bias. Planners are no different but should be vigilant as to the potential impacts of bias on their advice to clients.

Ultimately, if a recommendation doesn't satisfy your client's priorities, it may lead to challenges in the implementation stage and your advice may be abandoned.

Financial planners should always be mindful of how their own personal financial situation might inadvertently influence how they develop potential strategies to recommend to clients. For example, if you own a certain investment product, your spouse also owns the product and you are licensed to sell it, you need to be aware that familiarity bias is more likely to be active, especially if your client asks about that same product for themselves. Or suppose that you receive a sales bonus for a particular product—it is more likely that bias will influence your recommendations. Where a client demonstrates high interest in a product or service, that heightened interest may also influence your recommendations.

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

One method you may find helpful to check for the potential impact of bias is discussed in the FP Canada continuous professional development (CPD) course, **“Validating Your Analysis”²**, focused on human behaviour tendencies. The course refers to a process called **“Strategy Validation Testing”** to help planners check for possible human bias or other human tendencies that may impact client recommendations.

The Validating Your Analysis course describes “Cognitive Effort Reduction,” a method your brain uses to help process large amounts of information, such as the information you gather during the discovery process. Instead of cataloguing and considering all the information, the human brain often relies on biases and other tendencies to mark certain information as more salient. For example, information that is repeated often by the client; is particularly emotional; or that is associated with a financial planning strategy you are more knowledgeable about, can implement yourself or have personal experience with, may be labelled as more salient. Your brain may focus on this information and avoid other information that may be equally relevant to the financial planning engagement. Further, once you've formed a potential idea or strategy, your brain looks for evidence to support it (this is known as “confirmation bias”).

As well, when bias is active, information that you have more comfort with or knowledge about might also be marked as important, while information that requires further effort to examine may be reduced in importance. To be clear, the presence of bias doesn't mean the information your brain selects as important is the wrong information. Rather, the key is to be aware of the possibility that, unbeknownst to you, your brain may have overlooked information gathered during the discovery process and jumped too quickly to a solution.

Just because you may have been influenced by natural human biases or tendencies, you should not reject a recommendation – rather, you need to take a little extra time to make sure you got it right.

You can practice “strategy validation testing,” a process to make sure your bias is not undermining the quality of your analysis and the recommendations you make. The process can be undertaken using a table such as the one shown below, which is also available to FP Canada certificants through their FP Canada portal in the form of a digital tool. The strategy validation process involves three steps:

STRATEGIES	FAMILIARITY BIASES			OTHER BIASES & TENDENCIES						TOTAL SCORE PER STRATEGY	POTENTIALLY DISQUALIFYING INFORMATION
	Planner Owns	Planner's Spouse Owns	Licensed to Sell Product	Client Involvement	Client Gender	Compensation	First/Last	Emotion	Frequency		
Strategy 1: _____	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	0	_____
Strategy 2: _____	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	0	_____
Strategy 3: _____	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	0	_____
TOTAL SCORE PER BIAS	0	0	0	0	0	0	0	0	0	0	

² Get more information on enrolling for this course at <https://fpcanada.ca/planners/continuous-professional-development/AC3HFP> or read the detailed course description at <https://fpcanada.ca/docs/default-source/professional-practice/course-description.pdf%22>

Step 1: For each strategy you identify for a client (which can be listed in the first column of the table), use the table to assess whether the strategy might have been the result of bias. Did the client ask about a certain product as a possible solution? Do you or your spouse own the same product the client asked about? Will your compensation be impacted by the strategy? Place a checkmark under each bias that may be at play for the strategy. If several checkmarks result meaning bias may have been more influential—you should not reject the strategy, but you should be more skeptical of it as a solution. Once a strategy has been identified as potentially being influenced by bias, it's important to complete the remaining steps.

As an example, imagine a scenario where a client shared an emotional story of a friend who suffered significant financial loss when his wife died suddenly at a time when they had infant children and a heavy debt load. The client referenced the story several times during your meeting with them and asked about insurance. The client has no insurance coverage and three young children. You may be inclined to put forward a strategy to purchase a high level of life insurance. In addition to the client's heavy focus on their friend's situation, both you and your spouse own permanent life insurance policies that are sufficient to protect your family and you are licensed to sell life insurance and are very knowledgeable about it.

Step 2: Add up the checkmarks for a strategy and enter the result in the column "Total Score Per Strategy." The total score is a simple rating of how likely it is that biases were a contributing factor in putting forward the strategy as one that will inform your ultimate recommendation. Next, you can validate the strategy by examining the information you have from your discovery meeting. In the table, under the "Potentially Disqualifying Evidence" column, write down pieces of evidence that would cause you to rethink the strategy. Specifically, think to yourself: "If I discovered X, it would show that this strategy isn't appropriate for this client."

Once you have listed these pieces of potentially disqualifying evidence, the next step is to go back through your discovery notes and see whether you can find any trace of this evidence that you are looking for. As you survey your discovery notes, remember that your brain is more likely to accept information that fits with your strategy and discount information that does not. To overcome this tendency, you should be thorough in looking for information that may counter or otherwise disqualify your strategy, either partly or wholly.

...continuing the example from above, use of the table will reveal that bias may play a significant role in formulating a strategy of purchasing a high level of life insurance. Client involvement is high given that the client asked about insurance and all three familiarity biases are present. However, in validating your strategy, you realize that the affordability of an insurance solution may cause you to re-think this solution. Imagine that a search of your discovery notes reveals evidence that the client's employment is unstable, and their cash flow is fragile.

Step 3: As you search your discovery notes, write down information that is aligned with your strategy and information that is at odds with it. There are three possible outcomes:

- There is little disqualifying evidence and mostly supporting evidence. This would suggest that the strategy is wholly suitable for the client, and it should be analyzed as a possible recommendation.
- There is some disqualifying evidence and some supporting evidence. This means the strategy is partially suitable and other strategies should be considered before bringing a recommendation to the client.
- There is a lot of disqualifying evidence and little supporting evidence. This would indicate the strategy may not be suitable for the client and needs to be reconsidered. A bias may have been too influential, potentially causing you to jump too quickly to a potential solution.

This three-step process helps to minimize the risks associated with making recommendations that are unduly influenced by your natural biases or tendencies.

...continuing the example from above, there is a mix of disqualifying evidence and supporting evidence. The strategy is partially suitable. The amount of life insurance may need to be scaled back or the application postponed until affordability can be more certain.

In Conclusion

Financial planners who hold the Pl. Fin.³, QAFP™ or CFP® designation must adhere to the highest standards of competence, ethical behaviour and professionalism, meaning they must make only those recommendations that are both prudent and appropriate for the client. Readers can refer to [the Canadian Financial Planning Definitions, Standards & Competencies for more information](#).

The research paper highlights that planner bias can be a factor in the recommendations that planners provide. To deliver the highest quality of advice to their clients, mitigate the potential undue influence of bias, and continue to adhere to their professional obligations, planners need to be aware of these factors, be mindful of how bias can influence the advice they provide, and take steps to help ensure that their recommendations are objective, appropriate, and in the client's best interests.

FP Canada™ certificants can also use the process of "strategy validation testing," including leveraging the digital tool provided by FP Canada, to help check for the presence of bias in the strategies they consider for a client. The process can provide increased confidence that the recommendations put forward are the most suitable based on the client's priorities and needs.

³ Through Institut québécois de planification financière. <https://www.iqpf.org/>

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