CFP BOARD

STRATEGIC
CONVERSATIONS:

DESIGNATION POLICY TO DESIGNATION STRATEGY

A ROADMAP FOR FIRMS

A RAPIDLY CHANGING FINANCIAL LANDSCAPE

The proliferation of personal finance technologies—from self-directed investment platforms to artificial intelligence-led financial planning—has occurred at a breathtaking pace. As these tools and services emerged, the future role and the value of human advisors was called into question. Yet the threat that automated investing and online advice might supplant the need for a human touch has not materialized, due largely to important shifts in consumer expectations about financial planning services.

WHY HAVE EXPECTATIONS CHANGED?

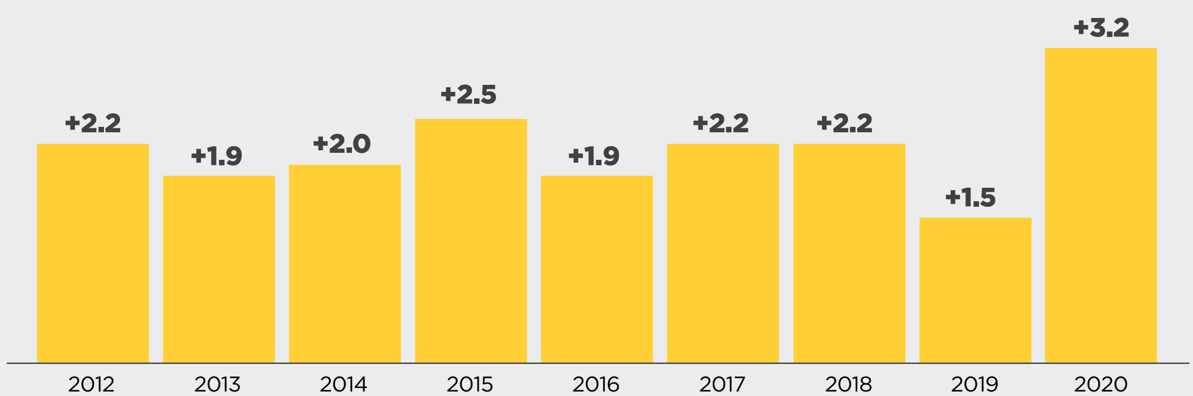
The financial stress caused by the COVID-19 pandemic (beginning 2020) has been a catalyst for consumers to engage or re-engage with financial advisors. Even those who did not experience a loss of income realized they needed greater financial awareness and wanted competent financial advice from a reliable source. A Nationwide Financial survey fielded in April 2020 found that 1 in 4 Americans were looking for a financial advisor for the first time ever due to the pandemic's impact.[1] Cerulli Associates[2] and ThinkAdvisor[3] also highlighted consumers' increased willingness to work with a financial advisor and to have a comprehensive financial plan that can help them withstand economic challenges like those posed by the pandemic.

At the same time, the population of retired or retiring baby boomers continues to grow, with about 3.2 million of them leaving the labor force in 2020. These consumers need answers and advice about how to maintain their preferred lifestyle in retirement while meeting other financial goals.

As a result of the drastic increase in consumer demand, comprehensive financial planning services have become table stakes for today's firms.

The number of retired Baby Boomers rose more from 2019 to 2020 than in prior years

Annual increase in the retired U.S. Baby Boomer population (in millions)



Note: "Retired" refers to those not in the labor force due to retirement. Baby Boomers are those born between 1946 and 1964. Each year's retired Boomer population is based on the average of the July, August and September estimate.

Source: Pew Research Center. "The Pace of Boomer Retirements has Accelerated in the Past Year." November 2020.

[1] Nationwide, "How COVID-19 is Impacting Americans and U.S. Investors (Infographic)," May 2020, https://news.nationwide.com/how-covid-19-impacts-americans-and-investors/.
[2] Cerulli Associates, "U.S. Retail Investor Advice Relationships 2020: Accentuating the Value of Advice," 2020.
[3] Matthew Schulte, "Why Planning-Led Advisors are Better Positioned During a Pandemic," *ThinkAdvisor*, June 2020, https://www.thinkadvisor.com/2020/06/05/why-planning-led-advisors-are-better-positioned-during-a-pandemic/.

HOW ARE FIRMS ADAPTING?

Even before this increased consumer demand for more holistic advice relationships, firms were making changes to their service models. Most have adopted technology that makes engagement in the financial planning process scalable and repeatable, fostering deeper client-advisor collaboration, and allowing greater flexibility in a client's financial plan. Additional and sometimes complex technology requires training, so firms are also adjusting their service and support models. Sometimes firms are even altering their structure, adopting a team approach to financial planning or adding a virtual advice center. The technology, support and structure changes can only take a firm so far in the desire to fully meet the consumer's demand for holistic financial advice.

THE FIRMS THAT STAND OUT TO CONSUMERS *are those that require their advisors to obtain professional certifications and designations that demonstrate their ability to meet demands for comprehensive financial planning.*

The real differentiator for firms is the qualifications of their advisor workforce, and not just the required licenses to sell securities or insurance products. The training necessary to obtain such licenses is essential, but it does not equip advisors with the skills and experience to provide holistic financial advice and to use firm-provided tools—like technology and other resources—to their fullest financial planning potential. The firms that stand out to consumers are those that require their advisors to obtain professional certifications and designations that demonstrate their ability to meet demands for comprehensive financial planning.

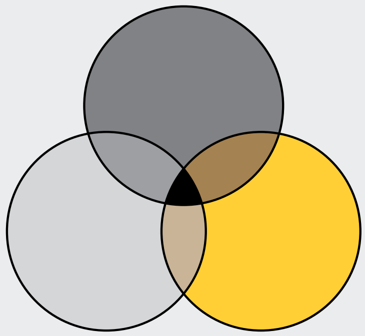
A PARADIGM SHIFT IN THINKING ABOUT DESIGNATIONS: FROM POLICY TO STRATEGY

Before this change in consumer expectations, firms may have been agnostic about certifications and designations. They may have had a loose policy in place that encouraged advisors to consider some form of additional training and education, but did not provide concrete guidance on which certifications or designations held the most value and were most likely to strengthen advisors' skills.

However, not all designations are created equal. Some are more recognized or involve more rigorous requirements than others, and some are considered the established standard in a particular area. Firms have begun to realize that they must be more strategic about directing their advisors on which certifications and designations to pursue to ensure they are receiving consistent and quality training.

FIRMS MUST BE INTENTIONAL *in their consideration, approval and promotion of designations and certifications.*

Adaptation to new consumer expectations requires firms to do more than set a policy allowing advisors to obtain and hold any certification—firms must be intentional in their consideration, approval and promotion of designations and certifications. And, aligning these choices with a firm's values, policy, goals and business strategy is the only way to ensure sufficient advisor buy-in to deliver the higher value proposition of the financial planning service model.



DESIGNATION STRATEGY *means aligning designations with a firm's strategic priorities.*

A designation strategy that demonstrates a firm's commitment to equipping advisors with the education and skills to best serve their clients' financial planning needs is a valuable tool for business growth. Because it shapes advisor training, it also shapes client expectations and experience. According to research by Cerulli, integrity, transparency and empathy—standards and competencies closely tied with certain designations—are the top characteristics prospective clients seek in their financial advisors. Firms that fully commit to offering fiduciary financial planning services, supported by a thoughtful designation policy, can expect a significant boost to their business.[4]

In short, a designation strategy is the baseline level of a firm's communication to its advisors and clients—both current and future. It sends a message about the firm's values and goals, which is why the strategy must be crafted with intent and purpose and communicated to the field in an ongoing basis.

ROADMAP: ALIGNING WITH STRATEGIC PRIORITIES

Moving from a designation policy to a strategy, or developing a strategy where policy does not exist, may pose challenges for some firms. To support firms making this transition, we provide a roadmap outlining the critical steps of strategy development to help simplify and streamline the process.

ALIGNING WITH STRATEGIC PRIORITIES

A firm's designation strategy must be aligned with its goals and key performance indicators to be effective. Before developing such a strategy, consideration should be given to how a firm (or a department) measures success. Is the driving goal to increase the number of households with a financial plan in place? Is advisor or firm success measured by the number of financial planning agreements submitted annually? Does the firm seek greater advisor adoption of its financial planning model and tools? Generally, if increasing financial planning activity is the firm's or department's focus, then the designation strategy should similarly focus on credentials that provide the best training for advisors to provide comprehensive financial planning services.

DECIDE ON DESIGNATIONS

There are more than 200 designations and certifications that a financial representative may hold, according to a listing maintained by FINRA.[5] Designation strategy development must therefore begin with a review of the credentials that are rigorous, accredited, have stood the test of time,

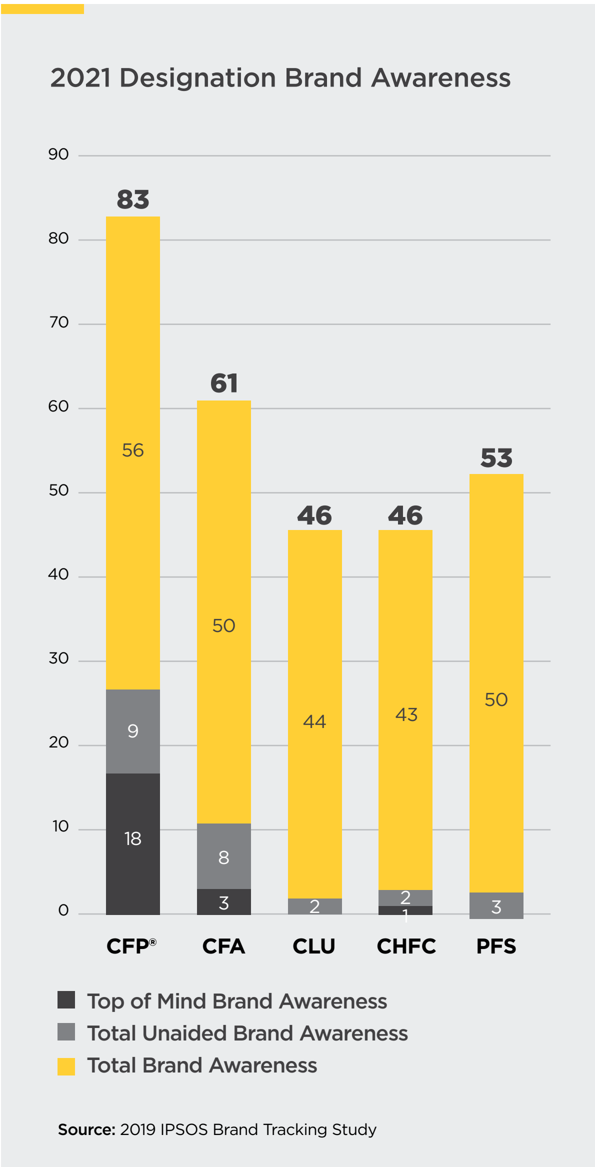
THERE ARE MORE THAN 200 *designations and certifications that a financial representative may hold; only 8 are accredited.*

https://www.finra.org/investors/professional-designations/accredited-designations

[4] Cerulli Associates, "Cerulli Edge – U.S. Retail Investor, 2Q 2021," 2021.
[5] FINRA, "Professional Designations," https://www.finra.org/investors/professional-designations.

have high awareness and align with the firm's strategic financial planning priorities. This evaluation should consider the perspectives of all organizational stakeholders to support firmwide buy-in.

- **Which designations do current advisors find valuable when working with existing clients and/or approaching prospective clients?**
- **Which certifications are next generation advisors seeking to earn?**
- **Which designations meet firm values and standards?**
- **Which designations do clients recognize and trust?**



Firms must also understand the structure surrounding a particular designation before approving it for advisors' use. This includes whether a designation is accredited by a third-party organization, such as the National Commission for Certifying Agencies. Of the more than 200 credentials listed by FINRA, only 8 are accredited by a nationally recognized accreditation organization. Accreditation enhances a designation's credibility and legitimacy by signifying that the credentialing program has not only met a set of accreditation criteria, but it is also committed to continuous improvement and updating their requirements to align with changes in the practice area it represents.

In addition to confirming a credential's accreditation, firms must ask key questions about the program's structure.

- **Is the issuing organization primarily a marketing or sales-driven organization?**
- **Is an examination required to obtain certification?**
- **Does the credential involve meeting requirements for education and/or work experience?**
- **Are there continuing education requirements?**
- **Can a financial professional's certification status be verified online?**
- **Do advisors who hold the designation commit to standards of professional conduct, including ethical and practice standards?**
- **Is there an investor complaint process?**
- **Is there a public disciplinary process for the designation?**
- **Are the certification standards rigorously enforced?**
- **Is the designation recognized by the public? Advisors, and Firms?**

Firms should consider establishing an advisory board or other committee tasked with reviewing and approving certifications and designations on the firm's behalf. A point of focus for this committee should be confirming that approved certifications and designations include an education requirement that ensures advisors obtaining the credential are building the knowledge and skills necessary to support the firm's goals. The CFP® certification, for example, requires both a bachelor's degree and completion of CFP Board-approved coursework in 8 major areas of personal financial planning.

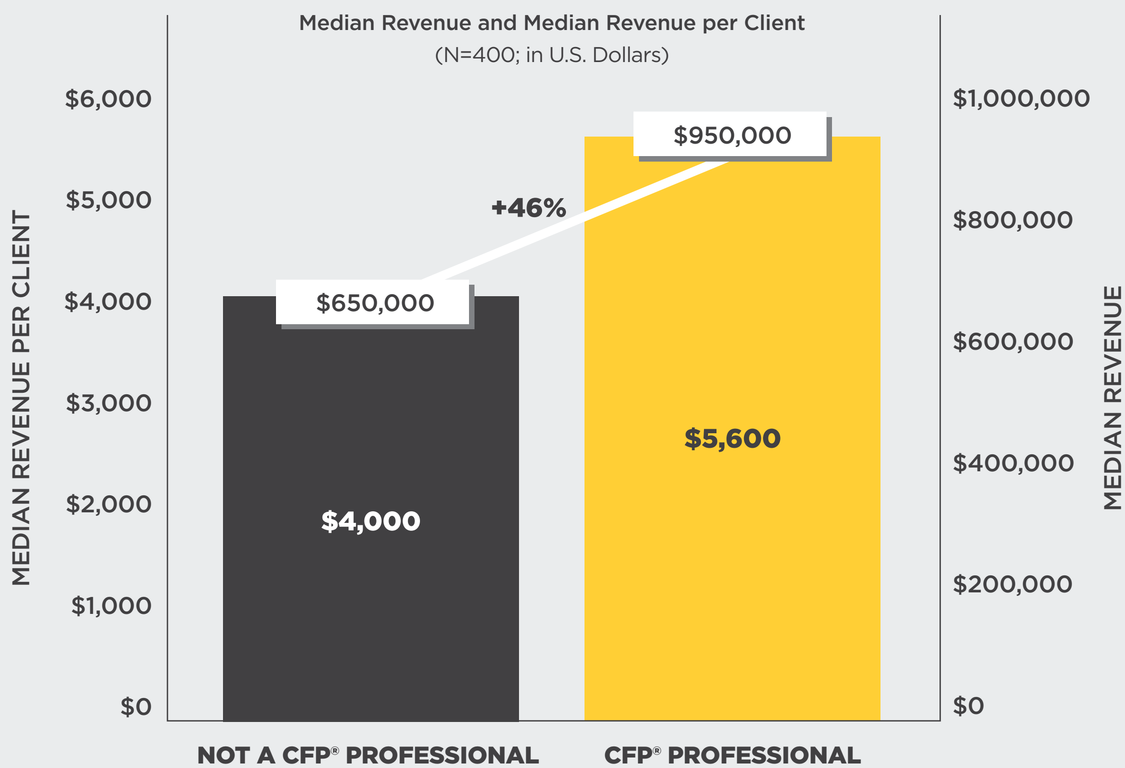
INCENTIVIZE ADVISORS

A designation strategy is only effective if it can be implemented, which means advisors must understand its value and be willing to follow it. Firms that clearly communicate the benefits of their chosen designations to advisors will see the highest rates of acceptance and adoption. Firms may also consider providing financial incentives for advisors' certifications. For example, tuition reimbursements are offered by many firms; these can be used to cover the costs of advisors' designation education and/or examination. CFP Board's post-exam survey (November, 2021) of CFP® candidates revealed that 71% of candidates were receiving full or partial reimbursement of the costs related to obtaining certification. Some firms also offer additional financial rewards, such as a certification bonus, although these incentives are not necessary to create an effective designation policy.

EVALUATE COSTS

Firms must also consider both the costs and potential financial gains associated with encouraging advisors to pursue approved credentials. Costs may include tuition or examination fee reimbursements, or other financial incentives offered to advisors to support their further training. Potential gains may include increased revenue generated by advisors who obtain the designation. Research has repeatedly shown, for example, that CFP® professionals generate a higher median revenue and median revenue per client than financial advisors without the credential.

Median Practice Revenue and Revenue per Client—All Advisors



Source: Aite Group's survey of 400 U.S. financial advisors, April to June 2019

ENGAGE THE MARKETING TEAM

Incorporating the designation strategy into firm or department marketing can bolster messaging to current and prospective clients. Communicating to clients that advisors are encouraged or required to obtain a particular designation that equips them to provide comprehensive financial planning lends credibility to a firm that positions itself as a financial planning firm. If they are not directly involved in the designation strategy's development, marketing teams should be informed of it and educated about the firm-approved credentials. In some cases, a designation's issuing organization may also support a firm's marketing efforts. As one example, CFP Board conducts an ongoing public awareness campaign that promotes CFP® certification and CFP® professionals via TV, radio and online advertising, as well as social media engagement and complementary public relations efforts. CFP Board also distributes campaign materials to all CFP® professionals to help expand the initiative's reach.

BENEFITS OF A DESIGNATION STRATEGY

The transition from being a firm with a designation policy to a firm with a designation strategy provides benefits across an organization:

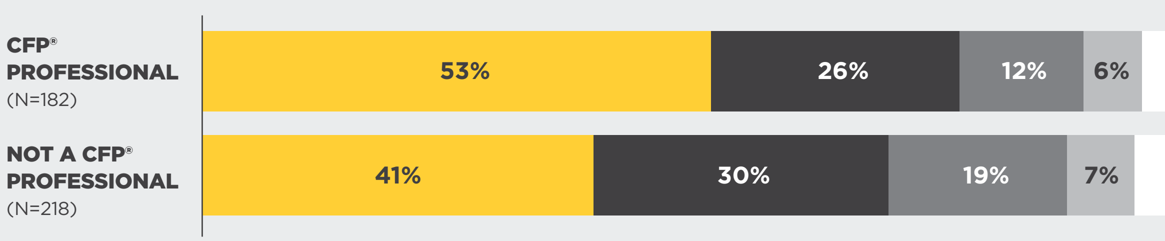
MORE SUCCESSFUL ADVISORS

The pursuit of additional training and education supports advisors' long-term professional success, and thus, the firm's success. Advisors who obtain rigorous credentials, such as the CFP® certification, are better prepared to meet the wide and varied needs of today's clients—and those of the future—and better positioned to provide the comprehensive financial planning services that are in such high demand. In short, they become more valuable to current clients and more attractive to prospective clients.

A designation strategy that communicates a professional investment in employees, advisors and advisor teams can increase retention. Valued advisors and staff are more likely to stay with a firm and advance through its ranks, allowing the firm to derive greater benefits from the advisors' enhanced knowledge and skill sets. Retaining advisors and staff saves the firm time and money; turnover-related costs can be significant for firms.

Average Share of Clients' Investable Assets

Q: Please estimate the average share of your clients' total investable assets (wallet share) under advisement.



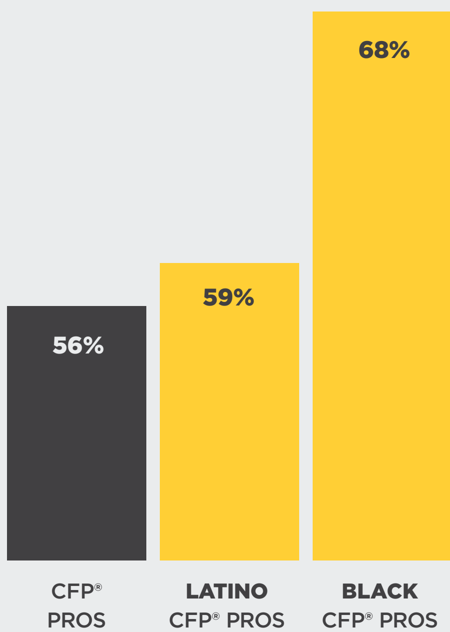
- **CLIENTS WITH 100%** of investable assets under advisement
- **CLIENTS WITH 75% TO 99%** of investable assets under advisement
- **CLIENTS WITH 50% TO 74%** of investable assets under advisement
- **CLIENTS WITH 25% TO 49%** of investable assets under advisement
- **CLIENTS WITH LESS THAN 25%** of investable assets under advisement

Source: Aite Group, "Transitioning to Financial Planning: The Benefits of CFP® Certification" p. 34

INCREASED DIVERSITY

If the firm's designation strategy includes reimbursement of costs or other financial incentives related to the pursuit of professional credentials, this may be a motivator for diverse populations. Removing or alleviating the financial burden of an investment in professional development expands the opportunity beyond those who can readily afford to make that investment. Increasing the numbers of female, Black and Latino advisors who hold out well-respected credentials can help embed diversity into the firm's growth strategy. Firms who encourage and incent their financial advisors to become CFP® professionals report that their CFP® professionals of color are very satisfied with their careers and are "very likely" to recommend financial planning to others as a career.

"VERY LIKELY"
to recommend financial
planning to others as a career:



Source: CFP Board Center for Financial Planning, "Racial Diversity in Financial Planning" p 41, 2018

RECRUITING AND RETAINING

Across the industry, there is a strong demand for young and diverse talent who can replace an aging workforce—more than one-third of which is expected to retire in the next 10 years. A clear and thoughtful designation strategy that shows aspiring advisors what training is available to them, how a firm supports their pursuit of a credential, and how it will help them attract and retain clients can make a firm more appealing to jobseekers.

Firms encouraging CFP® certification, for example, could highlight how the credential helps build credibility with clients, enhance an advisor's knowledge of personal finance, and increase confidence in their capabilities as a financial advisor. These firms might also note that CFP® certification is the most recognized credential among financial designations.

Approved designations and certifications should also be built into clear career paths for a firm's advisors. This helps new and early career advisors understand the requirements and other expectations they must meet to reach the next step on their career ladder. Having set career paths can also improve employee motivation and increase productivity, as they work toward a clearly defined goal.

***Click here** for a comprehensive workforce development guide to help firms recruit, onboard, train, develop and retain the next generation of financial planners.*

[6] Cerulli Associates, "U.S. Retail Investor Advice Relationships 2020: Accentuating the Value of Advice," 2020.
[7] Aite Group, "The Pandemic, Financial Advisors, and the Financial Planning Opportunity," June 2020.

SATISFIED CLIENTS

Firm clients may not be aware of the designation strategy, but they will see its impact in their interactions with the firm's advisors. Designation strategies designed to recognize and incent financial planning-related credentials will result in advisors who have been trained to provide comprehensive financial planning advice. Further, if advisors follow their firm's designation strategy and obtain a certification requiring a fiduciary duty, like the CFP® certification, then clients will know they can trust their advisor—the leading factor in determining client satisfaction[8]—and that their advisor is working in their best interest.

Additionally, potential clients may search for an advisor based on a specific designation with which they are familiar. LetsMakeAPlan.org generates more than 500,000 searches for CFP® professionals each year. Approving publicly recognized and respected designations may give a firm an advantage in reaching new clients and retaining existing valued clients.

COMPLIANCE AND SUPERVISION

Some designations and certifications involve enforcement programs that provide an added layer of credibility to credential-holding advisors. Advisors who obtain CFP® certification commit to complying with CFP Board's *Code of Ethics and Standards of Conduct.* CFP® professionals who violate the *Code and Standards* may be sanctioned through CFP Board's defined process for handling allegations of misconduct. CFP® professionals must disclose to their firm if they have been publicly disciplined, but firms are not required to provide additional or modified supervision of these advisors. In fact, compliance and supervision departments may find the added level of accountability for CFP® professionals reassuring. CFP Board certifies individuals, not firms.

A MARATHON NOT A SPRINT

Implementing a designation strategy that invests in and promotes advisors' development of comprehensive financial planning skills is a differentiator for firms. Consumers increasingly demand holistic financial planning advice and are seeking trusted advisors who can competently and ethically meet that need. To succeed in this evolving landscape, firms must commit to educating and training their advisors through a designation strategy that is carefully aligned with firm goals and values and emphasizes recognized and respected professional credentials.

WHAT MESSAGE DOES YOUR FIRM'S DESIGNATION POLICY SEND?

Time is valuable. Allowing advisors to spend time pursuing credentials simply for the sake of "having letters behind their name" doesn't fully convey a commitment to providing competent and ethical financial planning. Being all-inclusive in approval of financial designations doesn't show advisors how important their training and skills are to the sustainability of their business (and the firm's). What message does your firm's designation policy send?

A firm's financial planning services can evolve into a ***quality*** offering when moving from a designation policy to an intentional, well-considered designation strategy focusing on the skills and knowledge advisors need to become competent financial planning professionals. Now that financial planning services are considered "table stakes" in our profession, this is an opportunity for firms to encourage, incentivize and motivate advisors to choose the certification that will set them apart from their competition.

[8] Cerulli Associates, "U.S. Retail Investor Advice Relationships 2020: Accentuating the Value of Advice," 2020.

CFP BOARD

CERTIFIED FINANCIAL PLANNER BOARD OF STANDARDS, INC.

1425 K St NW #800, Washington DC 20005 | CFP.net