

## HOW DIFFERENTIATION WITHIN THE FINANCIAL PLANNING PROFESSION AFFECTS CFP® PRACTITIONERS AND THE CFP® MARK: A Concept for Consideration and Comment

### An Educational White Paper

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#### *Background*

The fact that financial planning is a process and not a product now finds wide acceptance among financial planning groups and financial professionals. Consumers are beginning to understand what kind of services they should expect from someone identifying himself or herself as a financial planner, based on the following six-step financial planning process adopted by CFP Board.

- Establishing and defining the client-planner relationship.
- Gathering client data, including goals.
- Analyzing and evaluating the client's financial status.
- Developing and presenting financial planning recommendations and/or alternatives.
- Implementing the financial planning recommendations
- Monitoring the financial planning recommendations.

However, consumer research has shown confusion still exists among members of the public regarding the differences between financial planning and other elements of financial services or related disciplines. For example, CFP Board consumer research conducted in 1993 found few consumers could articulate significant differences between the practices of a financial planner and those of other types of financial professionals. In 1995, follow-up research showed improvement in consumer understanding of financial planning, but confusion still existed between financial planning and other financial services such as:

- Investment advising
- Securities sales
- Asset management
- Tax planning
- Insurance sales
- Annuity sales

Much of this confusion stems from the fact that, although financial planning can be practiced as a distinct and separate function from other financial services, it is quite often performed in conjunction with providing other financial products or services. Furthermore, terms such as "financial planning" and "financial planner" are not yet fully understood by the public. "Financial planner" is often used interchangeably with financial advisor, financial consultant, financial counselor, or other similar terms.



Given the interdisciplinary nature of the practices of many planners, the financial planning profession itself has yet to make clear distinctions among many of the commonly used terms. As a result, many unqualified individuals operate as "financial planners," to the detriment of those qualified to provide financial planning, as CFP Board defines the term.

To compound the issue of consumer uncertainty, while all CFP<sup>®</sup> licensees are qualified to provide general financial planning services, many are choosing to concentrate their practices in one or more specialized areas. Given the difficulty consumers already experience in identifying a "financial planner," questions have been raised about how CFP<sup>®</sup> certificant's actions to differentiate their practices, according to areas of concentration, from other financial planners and financial service providers will affect consumers' ability to choose a financial planner. While most people can agree that someone following the financial planning process is acting as a financial planner, it appears that there is less consensus as to how concentrated a practice can be and still be considered financial planning.

Furthermore, if specialized areas of practice were to evolve without an initial grounding in the financial planning discipline, would the benefits of the planning process be lost to the public? Consider the discussion above in light of the following research:

- CFP Board consumer research suggests that financial planners do not stand out from others, even among higher income households. According to research conducted by the Institute of Certified Financial Planners (ICFP), about 60% of the market recognize the term "financial planner."
- About 25% of the consumers surveyed by the ICFP who had heard of "financial planner" correctly identified a "CFP<sup>®</sup> professional." In 1995 CFP Board research, 56% of those surveyed strongly agreed that if they were to retain the services of a financial planner, they would insist that he or she be certified.
- According to research conducted by CFP Board, it is estimated that 12% (100,000) of the total number of financial advisors in the U.S. are providing financial planning and that 26% (26,000) of that group hold the CFP<sup>®</sup> certification.
- Approximately 20% of CFP<sup>®</sup> certificants have designations in addition to the CFP<sup>®</sup> mark.
- It appears that competition to the CFP mark is basically "no mark," not another designation.
- The trends and findings listed above have led CFP Board to pose the following questions:

Should the financial planning profession serve consumers by identifying or differentiating financial planning practitioners from others in financial services who may declare they provide financial planning to the public, but who, in fact, do not?

- Is the marketplace demanding "differentiation" among financial planners?
- Should areas of concentration in financial planning practices be identified?

- Can the financial planning profession deliver information about specialization or areas of practice concentration in a manner that is meaningful and useful to the public?

Given the apparent confusion about what financial planning is and what CFP® practitioners do as opposed to others who do not practice similarly, differentiating financial planning professionals in some manner may be appropriate. "Differentiation" could distinguish financial planning professionals on several levels by:

- Serving as a framework to help consumers understand the "holistic" approach of financial planning compared to investment advice, insurance sales, retirement advice, securities sales, etc.
- Distinguishing financial planning from other financial services.
- Distinguishing financial planning practitioners who have met CFP Board's education, examination, experience and ethics requirements and license renewal standards from those who provide services other than financial planning and act in other capacities.
- Recognizing areas of practice concentration or specialties under the general practice of financial planning.

In other words, differentiation could distinguish:

- Practitioners who follow the financial planning process from those who simply claim to be financial planners;
- CFP® practitioners from CFP® certificants; (i.e., individuals licensed by CFP Board who practice financial planning from others who hold the designation)
- CFP® practitioners who concentrate in certain areas of financial planning practice and meet determined specialization requirements. Potential Features of a Differentiation Program

The process of CFP® practitioner practice differentiation might involve the following steps, which are listed to encourage readers' thoughts and comments.

1. Advocate that all persons wishing to practice financial planning strive to meet certification requirements. Continue to promote the fact that CFP® and CERTIFIED FINANCIAL PLANNER™ are not entry-level requirements for those wishing to practice, but rather, are credentials of excellence, signifying that financial planning can be practiced for the public "without supervision." Furthermore, advocate that persons practicing financial planning with the public should be under the supervision of CFP® certificants if they have not met the certification standard.

2. Continue to urge that the public seek out a CFP® certification to receive financial planning services. Help the public understand that not all CFP® certificants are in the practice of financial planning. Publicize the names of those who practice on a public listing, perhaps "The Registry of Financial Planning Practitioners" or "The Registry of CFP® practitioners." Make this listing widely available to the public and others, and keep it current. Promote the availability of this listing through CFP® Board's Web site and in other ways.
  3. Discourage the concept that there are "advanced" designations in financial planning beyond the CFP® and CERTIFIED FINANCIAL PLANNER™ marks. State publicly that differentiation in the practice of financial planning is occurring in the marketplace.
  4. Include specialties/areas of practice concentration in the registry listing, under the name of each CFP® practitioner, for a specified period of time.
- At a future date, identify specialties/areas of practice concentration for such a listing, in cooperation with the ICFP, International Association for Financial Planning (IAFP) and other organizations, if they choose to do so.
  - From that selected date onward, publish only the names of those who meet the listing specifications in the specialties and areas of practice concentration.
  - Between now and the future date referenced above, develop appropriate qualification standards for areas of practice with the ICFP and IAFP organizations.

Appropriate qualification standards would be set for initial listing, and must be met to be maintained on the list. Potential requirements might include, initial education or experience requirements;

- the submission of the practitioner's public documentation;
- an affidavit that a threshold level of time in practice is devoted to the specialty(ies).
- additional ethical conduct rules.

Allowing a CFP® practitioner to remain on a voluntary specialty list might require continuing education appropriate to the specialty.

It may be possible to recognize other credentials to qualify for a specialty.