



How firms are competing on the other great wealth transfer: advisor succession

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The great wealth transfer is underway, with aging baby boomers passing their wealth onto the next generation. But another wealth transfer is emerging among aging advisors with hundreds of billions of dollars in client assets under management, potentially requiring new financial shepherds.

As advisors look to retire, a recent report sheds light on the challenge of a graying industry in transition.

“The advisor force is definitely, en masse, getting older,” says Vince Linsley, associate director with Investor Economics, an ISS Market Intelligence company.

He’s the author of a report on succession planning among advisors published last month. “There are a lot [of advisors] retiring in the next five to 10 years,” he says.

The report found advisors over the age of 55 represent almost 40 per cent of all full-service brokerage advisors in Canada, managing about 50 per cent of all assets.

The average advisor age increased to almost 53 from about 50 in 2015, and succession is indeed a worry, with the report finding more than half of advisors over 55 are concerned to some degree.

The issue is front and centre for wealth management firms, many of which have succession support plans in place.

“Part of the implicit contract we have [with clients] is that we’re going to be with them for decades,” says Craig Meeds, head of wealth advice for BMO Private Wealth in Toronto.

“If we don’t have a maniacal focus” on advisor succession, he adds, “then we’re going to break that contract.”

Typically, the succession process involves older, retiring advisors selling their books to younger peers, he says.

But firms and advisors are seeking alternatives as the aforementioned approach can prove challenging, as younger advisors may be hard-pressed to afford retiring advisors' lucrative books.

One strategy is hiring associate advisors to take over the practice gradually and eventually purchase the books. While it's proven successful, the process often requires years to complete, Mr. Meeds says.

Still, the approach appeals to many firms because it brings new, younger professionals to the aging industry.

"As an industry, we've struggled to bring in young talent at the pace we did 20 years ago," Mr. Meeds says.

Firms have good reason to pay attention to succession and cultivating new talent, given how much revenue successful older advisors generate. Not planning properly for business transition risks losing clients to other firms.

The Investor Economics report reveals that, on average, an advisor aged 55 and older generates revenue exceeding \$2.1-million annually at the Big Six bank-owned brokerages. Among independent brokerages, the revenue is more than \$1.7-million per older advisor.

The report also shows a rise in the number of advisors with independent firms, while the numbers at bank-owned brokerages have fallen over the past decade. Although there are still more advisors at the Big Six than with independent brokerages, the growth at independents may partly be attributed to campaigns to lure veteran advisors away.

Investment Planning Counsel (IPC) is among those aiming to win over aging advisors. It launched a suite of succession services about four years ago.

John Novachis, executive vice-president of advisor growth and succession at IPC, notes that retiring advisors in Canada represent roughly a \$400-billion opportunity in client assets under management (AUM).

Although many senior advisors choose to partner with junior advisors who eventually buy their way in, the strategy involves "a lot of risk" and may not even work out, he says.

"If you have a \$100-million book, your business could be worth \$4-million, so how many [young advisors] can write that cheque?"

Through its Pinnacle program, IPC serves as a "strategic buyer," giving advisors different options such as selling their book to IPC with a brief transition period before

retiring, or profit-sharing, whereby advisors stay for a few years, continue to grow the business, “and we reward them for that growth,” Mr. Novachis says.

So far, more than 125 IPC advisors have used the succession program, accounting for \$10-billion in client AUM, and the firm is now trying to get the message out to retiring advisors at other firms.

Seeing an opportunity to win over investor assets, new competitors have entered the wealth advice space, Mr. Linsley says, including asset manager Fidelity Investments Canada ULC.

The firm launched Fidelity Wealth last year, providing client advisory services while positioning itself as a succession solution for advisors. More recently, it has begun purchasing books from advisors and then pairing clients with salaried advisors, an approach used increasingly by other firms, Mr. Linsley says.

The focus is often more on attracting the thousands of “financial planners who also provide investment advice for clients,” he adds, as opposed to advisors at full-service brokerages.

Sun Life Financial Investment Services (Canada) Inc. is a competitor for both types of advisors, offering several ways to transition practices, including solutions for those who haven’t planned for it.

“Any Sun Life advisor could say, ‘I am ready to go next month,’ and, because of our size, scale and the number of great advisors we have across the country, we can manage that transition seamlessly,” says Daniele Farinaccia, senior vice-president of distribution and channel management at Sun Life in Toronto.

For its 2,600 advisors, succession planning is “built in” from the start of their careers. “We view this as one of the strongest recruiting value propositions,” he says.

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