Advisors identify conflict of interest

by Jordan Maxwell | 09 Apr 2015

Even veterans of the fee-based model say it won't be enough to protect clients from unscrupulous advisors fixated on investments.

"If you go to a bank and it shows that you have thousands of dollars in your account, the representative would ask if you want to open a TFSA, but at the same time they also know you have a credit card," said Rona Birenbaum, a noted fee-based advisor with Caring for Clients. "They know that you pay 19 per cent of interest on that card, but will recommend you invest the saving in your account. I hear it all the time. The waters have really been muddied where people think fee transparency will solve conflict-of-interest issues, but that's just not the case. You may know how much you're paying if an advisor tells you, or has a responsibility regarding fee transparency but that doesn't eliminate COIs."

Her comments come on the heels of a report released by Kenmar Associates, citing a series of recommendations for the OSC and the industry such as establishing a seniors' advisory committee to protect retirement funds, a crackdown on selling DSC funds, and creating an investor restitution fund.

“Much of the debate has centered on conflicts-of-interest and the argument that embedded commissions gives rise to conflicts-of interest and skewed investment advice recommendations,” the report notes. “There is another important dimension to consider. Commission–based and fee-based advice can also cause excessive leveraging, discourage debt reduction, ignore household spending patterns and downplay savings (as opposed to investing).

“True wealth management would not focus exclusively on investments. This is why we strongly support the idea of revealing the actual financial advisory services provided by any fees or commissions charged. This would give investors the opportunity to assess the value delivered by the advice.”

Kenmar’s report was in response to the OSC Statement of Priorities study that was released last week, which addressed five regulatory goals for 2015 – delivering investor protection and completing research in regards to embedded fees are just two of those goals.

Birenbaum says that crappy advice is still crappy advice and regulating conflicts of interests won’t go very far in protecting clients being taken advantage of by rogue advisors.

“It will exist until we make it a fiduciary responsibility, not by making fees transparent. Regulations on DSC funds will go a long way to help that goal as well.”

COMMENTS

- Kevin O'Brien on 10/04/2015 8:13:28 AM

  Advisor's - either commission based or fee based can also cause: For the vast majority of Canadians - A secured retirement by encouraging contributions to RRSPs, advise on the proper asset allocation and risk tolerance for individuals we also encourage saving money, reduce debt, Help clients reach financial goas (home, education, trips) properly protect families with insurance products and advice Canadians how to save taxes and to get Wills and POA for estate planning...and yet I see no mention of this in your article.