Embedded commissions: the affordable way?

Here, here, advisors! Your support for embedded commissions may be ensuring affordability for clients who otherwise would miss out. Here’s why.

The Canadian Securities Administrators are considering restricting embedded commissions. **Greg Pollock, president and CEO of Advocis, The Financial Advisors Association of Canada**, argues that this will leave many Canadians without affordable financial advice:

The Canadian Securities Administrators (CSA) issued a discussion paper on mutual fund fees last December that considers whether consumers would benefit from the removal of embedded commissions.

In my mind, banning commissions outright would solve nothing, and in fact would harm Canadian consumers, who in the wake of a possible exodus of advisors out of the industry would find themselves with less access to financial advice.

Those who believe Canada should ban embedded fees have not given the matter enough thought, especially if they are holding up the UK and Australia – two countries where similar bans have had negative effects – as two examples to follow. Recent reports tell us that the UK has lost 25% of its advisor distribution network, and that as much as 80% of UK consumers are no longer able to access financial advice. Even the possibility of such a scenario unfolding in Canada should be enough to set us on a different course.

The cost of banning embedded commissions would far outweigh any perceived benefit of consumer protection. Simply put, while those who would advocate the ban may have their hearts in the right place, they’re not seeing the full picture, which is that less advisors in practice means less access to financial advice. This is unacceptable, especially at a time when Canadians are struggling to manage debt while saving for retirement.

Over 10 million Canadians receive advice from financial advisors, most of whom are paid by the providers of the products they recommend. This form of advisor compensation allows “Main Street” Canadians to access affordable advice that will put them on the road to a secure financial future. Studies tell us that consumers actually prefer to pay for their financial advice through fees that are part of their mutual funds.

This is especially true among young investors with less money to invest. Giving consumers choice ensures a competitive marketplace. In this light, we can see how banning commissions, which is but one of many compensation models, would be unwise.
Advocis supports many business models and a variety of compensation structures because it’s the right thing to do from the perspective of the consumer.

If protecting consumers is at the heart of the matter for regulators, then why not require all advisors to adhere to a higher professional standard? Advocis’s proposed Professions Model calls for financial advisors across the country to meet ongoing proficiency standards, satisfy continuing education requirements, and adhere to a code of professional and ethical conduct.

We believe membership in an accredited professional association is the best way forward. The different compensation models available in Canada today offer consumers choice in how they pay for financial advice. Those who believe that by banning embedded commissions they are doing Canadians a favour fail to realize that we best protect people not by removing their choices but by making sure the choices they make are the best choices for their particular situation.

**GREG POLLOCK, CFP, is president and CEO of Advocis, The Financial Advisors Association of Canada, and can be reached at gpollock@advocis.ca.**