

# Best Interest Standard focus group results



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## Background



- The ASC engaged Innovative Research Group to conduct a series of focus group on investors' understanding of and views on a proposed Best Interest Standard
  - This was done as part of our ongoing consultation process on issues raised in [CSA Consultation Paper 33-404 Proposals to Enhance the Obligations of Advisers, Dealers and Representatives Toward Their Clients](#), which proposes regulatory action to improve the client-registrant relationship
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## Background

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- In total, 44 total Albertans participated in six focus groups over three locations in September 2016
  - 86% of participants either currently work with a financial advisor, or have worked with one in the past
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## Findings - Investor experience

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Of the 38 participants who use/have used an advisor in the past, 21% have used multiple advisors at the same time. Reasons for doing so included:

- Diversification
  - Different advisors for different types of accounts
  - Gaining additional advisors through family and friend recommendations
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### Findings - Investor experience

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- Of those investors who had problems with an advisor in the past, the three most common were:
    - Bad advice
    - Advisor did not listen to their concerns
    - Lack of communication from advisor
  - Less prevalent but also mentioned were issues of greed, fraud, dishonesty, lack of disclosure, acting without client consent and aggressive sales techniques
  - Generally, those who had had problems with advisors had rectified them by leaving that advisor
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### Findings – Investor priorities

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When asked what was important to them in an advisor, participants listed:

- Returns
  - Knowledge/Expertise
  - Disclosure/Clear communication
  - Trust/Understanding
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## Findings - Investor beliefs

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- Investors in our focus groups supported the concept of a Best Interest Standard, but it's important to note what this standard meant to them
  - The term "Best Interest Standard" implied something broader to them than what is actually being proposed in CSA Consultation Paper 33-404
  - In particular, participants thought that "best interest" = "best returns" and described more about financial results than standards of professional behaviour
  - Conversely, participants thought that the term "fairly, honestly and in good faith" meant acting in an ethical manner
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## Findings - Investor beliefs

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Even those participants who liked the idea of a 'best interest' standard were concerned that:

- the rules and regulations pertaining to the standard would not be enforced
  - they were unenforceable or
  - they would be very expensive to enforce
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## Findings – Investor behaviour

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If a Best Interest Standard is implemented, what happens?

- According to our focus groups, there will be no effect on investor complacency
  - Participants who are already engaged investors/do their own research etc. would continue to do so, perhaps even more if the Best Interest Standard resulted in more information being disclosed to them
  - Those who aren't engaged/don't do their own research, wouldn't start
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## Findings – Investor behaviour

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If a Best Interest Standard causes advisor fees to go up, what happens?

- Most investors in our groups would not leave their advisor over a “small” fee increase, but they were divided on what constituted “small”
  - If they left their current advisor, some would attempt to find another advisor whose fees were more palatable, others would attempt DIY investing, whether they felt comfortable/qualified or not
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## Findings – Investor views



The following topics came up repeatedly from participants in our focus groups without being asked:

- There is a need for increased financial education in Alberta, particularly in the school system
  - The enforcement of ANY standard, existing or proposed, as well as the penalization of those who break it, is of utmost importance
  - Repeated mentions of enforcement and penalties suggests investors are not only concerned with standards, but with real-world application of those standards, suggesting enforcement initiatives might be as welcome as new standards
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