Banks misleading clients on mutual funds

Bank advisers give confusing advice to investors, Marketplace finds

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Canadians already pay some of the highest mutual fund fees in the world, but poor transparency from some financial institutions might be costing customers even more, a CBC investigation has found.

A *Marketplace* report looked at Canada's five biggest banks — CIBC, Royal Bank, Toronto-Dominion Bank, Bank of Montreal and Scotiabank — and found most offer little clarity on how the fees work and how much they cost.

Freelance finance columnist and broadcaster Preet Banerjee told *Marketplace* host Erica Johnson that investor advocates want more openness, but the banks won't oblige.

"We want full disclosure," he said. "Of course, there's a lot of resistance from the industry, because if people start comparing fees, that means fees will go down. If fees go down, profits go down."

Not that Canadian banks are just scratching out a profit. The Big 5 reported a combined profit of almost $28 billion in 2011-2012, and a chunk of that comes from Canada's notoriously high mutual fund fees.

Canadians' investments can take a major hit from what are known as management expense ratios (MERs), the percentage deducted for administering the fund.

The median MER in Canada is around 2.5 per cent, one of the world's highest.

A 2011 report by U.S. investment research firm Morningstar gave Canada an "F" for its mutual fund fees, the only country out of 22 to get a failing grade.

'Patently false' investment advice

As part of its investigation, *Marketplace* used hidden cameras to record investment advisers at different banks and analyze the quality of information given to clients.

Financial columnist Preet Banerjee says Canadians need to 'push back' and fight for lower bank fees. (CBC)

After reviewing the information from each bank, Banerjee said only one representative gave a clear explanation of fees. An investment adviser at TD Bank was clear about costs, but that proved to be the exception.

A counterpart at BMO said fees are "the least part to worry about," a claim Banerjee disagreed with.

"If you have a fund that has an MER of 2.5 per cent, that's going to consume almost 50 per cent of the potential value of the portfolio over 25 years," he explained. "When you frame it that way, it becomes very clear that fees are a big deal."

He also blasted a CIBC representative who said that "in the long run, [mutual funds] always go up."

"That's not true at all," Banerjee said. "There have been a lot of funds that lost so much money, they got shut down. Saying that [they always go up] is patently false.

"It's disingenuous to say that you don't have anything to worry about. You have to explain the risks associated with these investments."

CIBC responded to *Marketplace*'s findings with a written statement, saying, in part, that the "isolated example you have brought to our attention is not aligned to our usual practices."

Watch *Marketplace*'s episode, Busting the Banks in the video above

TD, Royal and Scotiabank also responded with general statements, saying customers are always provided with the necessary documentation on mutual fund fees.

But that information is often too complex for the average investor, says money coach Melanie Buffel.

"The bank language that's used, it's really to separate people who are in the know from people who aren't," she said. "So, if I go on about asset allocations and MERs, and I use a lot of weird language, a lot of customers will just nod and say, 'OK'."

Regulators to the rescue?

Banerjee agrees the banks aren't transparent enough but worries that there is no motivation to change that.

"I think there needs to be a much higher level of discourse between the financial advisers and the clients, [but] who is going to push for that?" he said. "The industry isn't really going to do that, are they? Because the more in the dark people are, the better for them."

The Canadian Securities Administrators (CSA), the professional association of provincial and territorial securities regulators, is pushing for more clarity.

In 2011, the CSA required banks to provide a new document called "Fund Facts" for each class or series of mutual funds. CSA guidelines state each "Fund Facts" document should be "in plain language, no more than two pages double-sided and highlights key information important to investors."

An email from the Ontario Securities Commission also stated that the CSA is preparing new requirements that it hopes to publish later this year that, if approved, will provide more detail to clients about the costs of investing.

Even if those changes come, say Banerjee and Buffel, Canadians need to educate themselves to ensure they get all the information they need from banks.

"If you don't understand the language that's being spoken at you, you need to educate yourself and ask good questions," Buffel advised. "Sometimes, the financial advisers are a little uncomfortable about those questions because they're opening up and being more transparent about the fees, but that's what a good consumer asks for."

Banerjee also encourages unhappy bank customers to "vote with their wallets."

"Canadians love to gripe about fees, but, ultimately, don't do anything about it," he says. "Consumers have to push back and … either negotiate for a lower banking fee package or move your business to alternatives which do offer cheaper banking fees."