

FCAC FINDS 'INSUFFICIENT' CONTROLS IN SALE OF FINANCIAL PRODUCTS

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Canada's financial consumer watchdog says there are "insufficient" controls in place at the country's biggest banks to prevent sales of financial products that are misrepresented or unsuitable for consumers, and the banks' sales-focused culture elevates the risk that employees may flout consumer protection rules.

The Financial Consumer Agency of Canada (FCAC) released the findings Tuesday after completing a review of business practices across Canada's Big Six banks following media reports last year alleging questionable sales tactics, such as selling services without the

consent of customers.

The FCAC added it is investigating alleged breaches of rules of conduct—designed to protect consumers, and which banks are required to follow—that may have been identified during its review and will take action where appropriate.

"Banks are in the business of making money. We know that. But the way they sell financial products and manage employee performance, combined with how they set up their governance frameworks can lead to sales cultures that are not always aligned with consumers' interests," FCAC commissioner Lucie Tedesco said in a statement.

The review examined the Royal Bank of Canada, Toronto-Dominion Bank, Bank of Nova Scotia, Bank of Montreal, Canadian Imperial Bank of Commerce and National Bank of Canada.

The FCAC said it did not find widespread mis-selling, defined as selling products that are unsuitable or where the consumer is provided with incomplete or misleading information, at the banks.

However, it concluded that retail banking culture is predominantly focused on selling and rewards employees for doing so and that increases the risk that client interests are not always given the appropriate priority.

The agency also said the controls these banks have in place to mitigate the risks of mis-selling are "insufficient" and "underdeveloped," particularly compared to the banks' robust corporate

governance policies.

The Canadian Bankers Association said Canada's banks are client-focused with a commitment to high ethical standards and complying with the law when providing products and services to help customers meet their financial goals.

"The six largest banks in Canada co-operated fully with FCAC and we are encouraged that the review found no widespread mis-selling and that banks get this right the vast majority of the time," association president Neil Parmenter said in a statement.

The Canadian Foundation for the Advancement of Investor Rights and the Public Interest Advocacy Centre, said the government should work towards having one, national, statutory ombudservice for financial services complaints that can issue binding decisions.

Marian Passmore, director of policy at FAIR Canada, said the rules are inadequate.

"There is inadequate protection for Canadians at banks and reform is needed. FAIR Canada calls for a best interest standard so Canadians get the advice they expect and deserve," Passmore said in a statement.

The FCAC review was launched last April after CBC reported that some bank employees alleged they felt pressure to upsell, trick and even lie to customers to meet sales targets. The reports also prompted the House of Commons' Finance committee to hold a series of hearings examining the allegations last June.

The federal banking regulator, the Office of the Superintendent of Financial Institutions, also last summer said it was reviewing domestic retail sales practices at Canada's key banks, focusing on "risk culture" and "the governance of sales practices."

TD Bank, the focus of the initial CBC, has conducted its own internal review and concluded it did not have a widespread problem with aggressive sales tactics.

Meanwhile, banking-related complaints last year handled by an industry ombudsman last year surged by 28 per cent, with credit cards, mortgages and personal accounts drawing the most customer grievances.

The Ombudsman for Banking Services and Investments (OBSI), which handles customer disputes for Scotiabank, CIBC and Bank of Montreal, says it opened 370 banking-related investigations in 2017 to handle customer disputes for its clients, compared with 290 a year ago. The dispute resolution firm says last year's surge in new cases marks the highest level the industry ombudsman has seen in the past five years.

The FCAC said in its report Tuesday that the banks are in the process of enhancing their oversight and management of sales practices' risk.

However, the watchdog also plans to "implement a modernized supervision framework that will allow the agency to proactively ensure banks have implemented the appropriate frameworks, policies, procedures and processes to mitigate sales practice risk." The FCAC will also increase its resources for supervisory and enforcement functions, it said.

The federal government said in its budget last month it would introduce legislation that "would strengthen the Financial Consumer Agency of Canada's tools and mandate and continue to advance

consumers' rights and interests when dealing with their banks.”

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Here are some additional findings.

- Retail banking culture is predominantly focused on selling products and services, increasing the risk that consumers' interests are not always given the appropriate priority.
- Banks' financial and non-financial incentives, sales targets and scorecards may increase the risk of mis-selling and breaches of market conduct obligations.
- Certain products, business practices and distribution channels present a higher sales practices risk.
- Governance frameworks do not manage sales practices risk effectively.
- Controls to mitigate the risks associated with sales practices are underdeveloped. The report also proposes a number of measures banks can take to reduce these risks.

FCAC plans to buttress its supervisory and enforcement teams, and implement a modernized supervision approach that will allow it to monitor banks more proactively. It will also enhance its consumer information by highlighting consumers' rights and responsibilities and the importance of asking the right questions when purchasing new financial products and services.

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