Time for fee-based trading?

A NEW WEALTH-MANAGEMENT BUSINESS MODEL MAY HELP KEEP CUs COMPETITIVE

By Darah Hansen

For financial services cooperatives, competing against the Big Banks has never been easy. To cope, credit unions have been expanding their services and their scope, as well as their presence in the community. Those tactics certainly help, but they might not be enough.

Consider: These days, more and more members are approaching CUs looking to trade up on their considerable assets. They want to keep their investment portfolios active and generating strong returns – and they're being wooed by a wide range of banks and discount brokers, all promising to make that happen. To keep pace with the big boys, then, some financial services co-ops have begun to reassess a key element of their business model.

The element in question? One way to move forward, according to some industry leaders, is by charging an upfront, transparent fee for trades that wealth advisors make on behalf of members. This approach could presumably put old-time stock jockeys out to pasture – the kind who earn their keep every time they both buy and sell a stock for their clients. Under the new model, they would be replaced by something more akin to relationship advisors. The goal would still be to maximize a member's money, but the fees would be set out in advance, rather than directly tied to the trading as they traditionally have been.

"The fee-based model, or philosophy, encourages more of a holistic conversation because you are not earning revenue as an advisor just by trading the account," says Kim Thompson, senior vice-president of advisory services at **Credential Financial**.

Credential Financial, a national wealth-management firm that provides online brokerage services and insurance packages, among other things, to credit unions across the country, began last year to expand its fee-based offerings. Since then, it has been strongly advocating the strategy to its credit union partners. Thompson points out that fee transparency ensures recurring, predictable revenue – something not easily achievable with a transactional model. Annuitizing their revenues streams in this way can help stabilize credit unions, she says.

Thompson also feels that investors are given more valued, regular advice – and when the price of that advice is clearly set out, they're more likely to seek it. According to a 2012 PriceMetrix study, advisors who increased their assets in fee-based accounts by 25 percentage points or more have seen revenue growth of 47 per cent over three years, more than double the average growth rate of 21 per cent.

BlueShore Financial is one of the believers. The $3-billion B.C. credit union, formerly named North Shore Credit Union, with 40,000 members, has already converted about 10 per cent of its accounts to fee-based, with the aim growing that substantially over the next five years. Chris Catliff, BlueShore president and CEO, says the credit union made a decision early on to adopt the model before federal regulatory bodies, such as the Canadian Securities Administrators (CSA) and the Investment Industry Regulatory Organization of Canada (IIROC), force the change – a move that could come within the next two years. Catliff didn't want the organization to be caught out, but to take its time to phase in the model slowly and strategically, building capacity among advisors along the way. "This is a tsunami of change for wealth management within the credit union industry," he says.

Catliff rejects suggestions that the shift further blurs the lines between credit unions and banks, which have long offered fee-based service to clients. "We are totally different," he says, noting credit unions remain member-focussed, not profit-focussed. Rather, he believes the change is needed to help the industry stay relevant in the wake of competition and changing consumer demands.

"We need to up our game when it comes to investment advice. We still need to move forward, hire the expertise and be paid for it," he says. "It's logical and it's fair and it's right, and it puts the advisor on same side of the table as the investor." E

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