Wealth & Asset Management Alert: Conflicts of interest - In-house investment products

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Last week the FCA published the findings from its review of conflicts of interest arising from the use of in-house investment products by wealth management and private banking firms. The findings were broadly positive. The FCA reported that firms generally recognised the potential risk to their customers from conflicts of interest when using in-house investment products and had taken steps to manage them.

The FCA's review looked at products manufactured by a firm or another company in the same group. The description 'in-house investment product' also covers cases where a distributor of investment products has a commercial interest in a firm manufacturing those products and vice versa.

A conflict of interest arises with in-house products because a firm acts as agent for its customer, making discretionary investment decisions on its behalf or advising the customer to invest in certain products. At the same time, the firm will seek to maximise its revenue. With in-house products, the group may get paid once for the advice or discretionary management and once for the fund management.

Good practice that was observed included:

- Focus by senior management on the potential for conflicts of interest in relation to in-house investment products;
- Remuneration structures that did not encourage selection of in-house products over third party products;
- Engaging an independent consultant to report on conflicts of interest procedures; and
- Procedures for selecting and monitoring products that were consistent between in-house and third party products.

The main shortcomings the FCA found were:

- Firms did not articulate clearly enough how in-house products fitted with their business model and strategy;
- Monitoring of the level of in-house products in customer portfolios could be improved;
- Firms not being clear in their customer communications about the nature of their services and the inclusion of in-house products in customer portfolios.

As the FCA's findings were generally positive, the FCA is not planning to undertake further thematic work into this issue. However firms which have access to in-house investment products should review the report and consider whether their own procedures need to be improved. In particular, we recommend that firms examine (and then put into writing) how the use of in-house products forms part of their business strategy.

The FCA's report is relevant to all firms that provide in-house investment products to retail customers through their discretionary and advisory services. The full FCA report can be found here.

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