

Comment: Why In-House Funds Are a Problem

Stop the Product Pushing

Oct. 16, 2009



Our [latest report](#) indicates that about 80% of wealth managers' equity funds underperform their index benchmark. We have looked at the most common funds, invested broadly in equities across the regions of Europe, Asia, USA and globally. The result is hardly shocking or even new. Dozens of research studies in the past have come to the same conclusion.

The real scandal is that private banks and wealth managers still push these products in large numbers to fill the portfolios of their private clients. MyPrivateBanking.com performed a "mystery shopping" study at the beginning of this year. We asked the 20 largest European private banks to provide a potential client with an investment proposal. About a third of the banks proposed 50% or more in-house products to this prospective client. A client potentially has a vast universe of investment products to choose from. Countless asset management companies offer funds and other products. There is tough competition amongst them. Particularly, passive index products, like ETFs, have proven their superiority time after time. So it is definitely not in the interest of clients to be lumped with 50% in-house products.

What should be done about this problem? The European Union has taken a big step forward with respect to consumer protection with its MiFiD (Markets in Financial Instruments Directive) in 2007. But these rules are not enough. Wealth advisers must be compelled to offer their clients a broad range of products as opposed to a portfolio laden with in-house funds. The simple reason is that most clients are just not skilled enough to say "no thanks" if their wealth adviser explains all the "exceptional advantages" of their in-house products. So, it is about time that banks think about self-regulation in this respect. If they are not able to make binding rules about open platform policies, the EU or the national governments should think about an appropriate framework. This would also be to the long-term advantage of the banking industry. Because truly independent advice is something that delivers true value to a client. The value for which, a client would be willing to pay the significant fees charged by the wealth managers.