



## CASE STUDY

# The Impact of Best Interest Recommendations and Comparing Reasonably Available Alternatives

InvestorCOM examined two years of product recommendations data across financial professionals using InvestorCOM PeerCompare™ and observed that using technology to assess costs and reasonably available alternatives (RAA) made a positive impact in investor outcomes.

Since coming into force on June 30, 2020, wealth firms and financial professionals have struggled to define and demonstrate how Regulation Best Interest's (Reg BI) assessment of reasonably available alternatives (RAA) is improving investor outcomes.

We looked at two years of recommendation data from financial professionals using InvestorCOM PeerCompare and analyzed how the best interest requirements have impacted investors over time. The results of our analysis show that InvestorCOM's technology is making a positive impact on helping the industry change outcomes.

## A Peer-based Approach to Assessing Best Interest

InvestorCOM PeerCompare takes a peer-based approach to assessing costs and RAA. Rather than head-to-head comparisons of a limited number of product alternatives, PeerCompare provides a comparison of a product against all its peers in a single-click. An instant rating of a product relative to its peer group keeps the ultimate decision with the financial professional but shrinks the universe of RAA to a meaningful and manageable set of alternatives.

Using InvestorCOM's proprietary Peer Rating algorithm to assess the relative rating of a recommendation, we observed an improvement to the average relative "quality" of a recommendation by 1.5 points on our 10-point rating scale over a 2-year period, a 29 percent improvement.

While the improved trend on recommendation quality was a positive outcome, we examined the data further to test the impact of the assessment of alternatives across cost, risk and return metrics.

## Comparing Alternatives Results in Lower Cost Recommendations

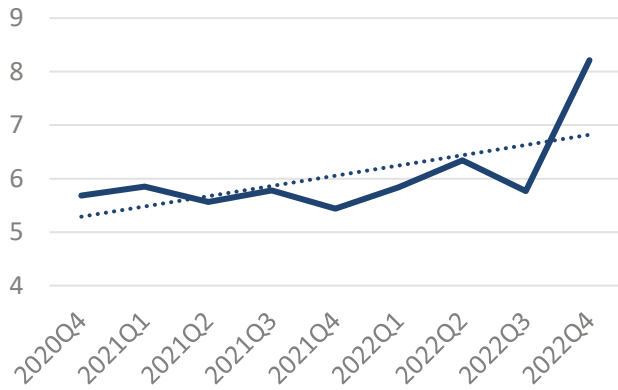
One of the variable components of the Peer Rating is the Net Expense Ratio (NER), a significant factor in conflicts and best interest considerations. In our analysis, we explored whether the Care Obligation's requirements would drive recommendations to the lowest cost products.

**35%**  
**decrease**  
average cost of  
recommendations

The data showed that when financial professionals use PeerCompare as part of their recommendations workflow they tend to recommend products with relatively lower investment costs over time. Over the study period, the average relative peer rank of the cost of the recommendation dropped by 35 percent from approximately the 37th percentile to the 24th percentile. This is a significant trend that ultimately benefits the investor and one which we will continue to monitor over time.

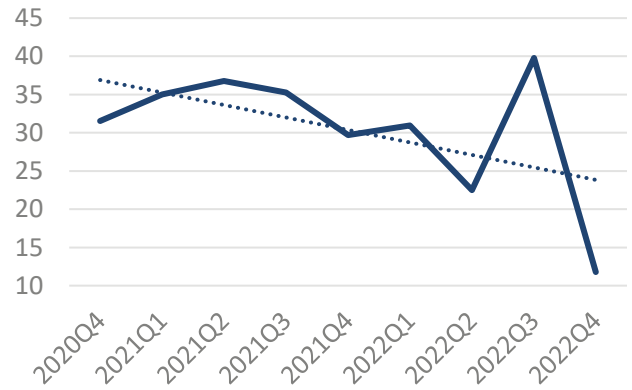
Recommendation Peer Rating increased by 1.5 points on our 10-point rating scale or 29% over a 2-year period.

### Recommendation Peer Rating



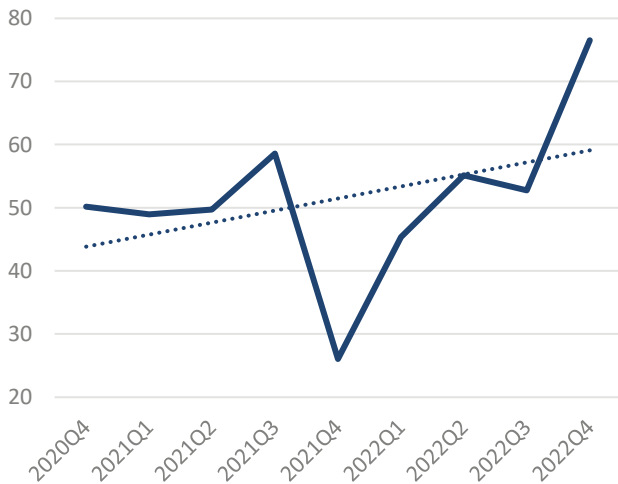
Average relative peer rank of the cost of the recommendation drop from 37th to 24th percentile or 35%.

### Recommendation Net Expense Ratio Ranking



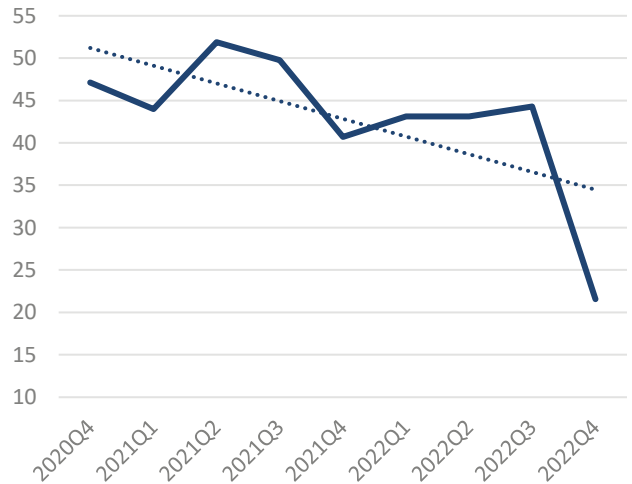
When observing historical 3-year returns on mutual fund recommendations, there was a 15-percentile improvement on the average recommendation.

### Recommendation Return Ranking



The average 16-percentile decline in the relative risk metric indicates that among reasonable alternatives, recommendation patterns also began to reduce the risk.

### Recommendation Risk Ranking



Results from InvestorCOM's study which analyzed recommendations made by financial advisors over a 2-year period (2020-2022) using InvestorCOM PeerCompare.

## Will Returns Justify the Cost?

**39%**  
**increase**

historical returns  
using a 3-year  
historical ROI

To justify or offset a possible conflict of interest on recommending high-cost products, we originally planned to test whether financial professionals would begin focusing on products with higher historical returns. With the observed reduction in relative costs, we decided to test if the converse would be true – a sacrifice of historical performance in exchange for a lower cost.

When observing historical 3-year returns on mutual fund recommendations, there was a 15-percentile or 34 percent improvement on the average recommendation. This suggests that financial professionals are leveraging PeerCompare beyond making suitable recommendations and exploring and recommending alternatives that are delivering a better cost-return balance.

## Continuing to Manage Risk

**31%**  
**decrease**

risk of  
recommendations  
using a 3-year  
standard  
deviation

The third dimension of Peer Rating is risk as measured by a fund's 3-year standard deviation. Applying InvestorCOM's balanced scorecard methodology, we tested further to determine whether the observed overall improvement in recommendation quality would also be reflected in the risk dimension.

The data indicated a gradual and consistent decrease in the relative risk level of recommendations during the analysis period. The average 16 percentile decline in the relative risk metric indicates that amongst reasonable alternatives, recommendation patterns also began to reduce the risk by 31 percent.

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