Cross-Selling

Cross-selling by banks and investment firms is a growing concern for securities regulators. At its best, this is a way for banks or investment firms to inform clients about the range of financial products and services available. At its worst, this common sales technique can take advantage of loyal clients.

What is Cross-Selling?

Cross-selling, similar to upselling, lures investors into purchasing securities related to the original investment. Cross-selling may be mutually beneficial when done properly, providing best value to the customer and increasing revenue for the adviser, without added marketing costs. However, advisers may try to push a product outside their scope of knowledge, or an unregistered product, which can lead to problems in many cases.

What Might a Cross-Selling Scheme Look Like?

Suppose a pre-existing client is casually approached by their investment adviser or bank representative about a new type of investment opportunity with the investment firm or bank. In this scenario the adviser or bank representative would use the pre-existing positive relationship to influence the client to increase their investments or advance with a new product.

Financial services companies claim this is a fair and highly effective marketing strategy, simply informing the client of the products and programs available to them. However, aggressive cross-selling has been reported as misleading the client, particularly when the client is financially vulnerable, elderly or suffering from diminished capacity, or otherwise easily swayed by sales tactics. If an adviser or bank representative is not acting in the client's best interest, this could be considered a breach of fiduciary duty.

In several cases, bank representatives steered elderly clients towards the bank's securities branch, which encouraged the clients to sell CDs and use that money to invest in high-risk investment vehicles.

For example:

Investment Adviser A, a previously licensed insurance adviser whose license had been revoked, has partnered with Investment Adviser B to continue working with his clients.

Investment Advisor B offers insurance policies and Investment Adviser A offers private investment opportunities.

Their clients are cross-sold the private investment opportunities, neither Investment Adviser B nor the private investment product is registered.

This scheme is successful for Advisers A and B due to their strong and previously established trusting relationships with their clients.

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Red Flags to Watch For

- **Unregistered Investment Professionals and Unregistered Products** – Federal, state and provincial securities law require both the investment and investment professional to be registered or qualify for an exemption. If either the professional or investment product is unregistered, you should investigate further.

- **Aggressive Sales Tactics** – "once in a lifetime", "must act now" or "limited availability" are examples of high pressure sales pitches which create a false sense of urgency for investors.

- **High Returns with Little to No Risk** – classic warning sign of fraud, be suspicious of any investment that is said to be risk free.

- **Unsolicited Investment Offerings** – consider the motivation, be careful if contacted about an investment opportunity, when you didn't request the information from the provider.

- **Limited Information, No Written Documentation** – a legitimate investment should be confirmed in writing. Sloppy offering documents (such as documents with grammatical errors or that appear carelessly put together) should be a warning sign that the offering could be a scam.

How to Protect Yourself

- **Check** with FINRA's BrokerCheck database and your state or provincial securities regulator to evaluate the bona fides of the financial advisers and offering materials. Regardless of how long you have known a person or been conducting business with an individual, it's worthwhile to do a quick search in the database to confirm up-to-date licensing and compliance.

- **Ask Questions** about the offering and research the ostensible investment opportunity. Find out how the investment will generate returns, timeframe for pay out, costs associated, and how your adviser will be commissioned. Enlist the help of a financial professional, lawyer or accountant who is independent from the adviser or bank offering the investment, to help you determine if the investment is a good fit for you.

- **Be Skeptical of High-Pressure Sales Tactics.** Sales pitches that seem too good to be true are part of the art of persuasion con artists use against unwitting victims. Know that all investments carry some risk and the higher the return generally the greater the risk. If you are contacted out of the blue, be suspicious, especially if asked to keep the investment a secret. Lastly, resist the pressure to invest quickly, any reputable investment professional should respect your time, allow you to do research and not press you for an immediate answer.

The Bottom Line

Cross-Selling is a very common sales strategy and it's emerging more into the banking and investment world. Investors may be easily swayed to invest in products not in their best interest. Look out for dubious sales pitches. Before making any financial decisions, ask questions, and do your homework.

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