Raise advisor standards

Dean DiSpalatro / May 7, 2013

I recently talked with a small-business owner who stunned me with his impression of financial advisors.

“It seems like someone can become an advisor overnight,” he told me, “with hardly any knowledge of what he’s doing with his client’s money.”

I doubt his impressions match your reality.

But like it or not, they affect you, because it’s not just him—30% of Canadian CFAs who answered the institute’s Global Market Sentiment Survey said “mis-selling by financial advisors” was the “most serious ethical issue” facing the industry today.

Market fraud was next, garnering only 16%.

I asked my business-owner source what it would take to get him to work with a financial advisor. “My accountant would have to recommend one,” he replied.

For many Canadians, the rigours required by the accountancy profession lend it legitimacy and elevate it to the status of law or medicine. Which is why many call for a similar model for other financial services, including advice.

The question is how to get it done; and many say regulation won’t provide the solution.

“If you want to nip the notion of true professionalism in the bud, just put it in the hands of the regulator,” says Aegis Frumento, a New York securities lawyer and former in-house counsel at Morgan Stanley Smith Barney. “The lynchpin of a professional enterprise is public confidence.”

Instead, industry practitioners have to set barriers to entry and universal standards stringent enough to convince the public that the advisory business is a true vocation, and not merely an occupation.

Building blocks for such a solution are already in place: bodies like the CFA Institute, the Canadian Institute of Financial Planning, Advocis and others have the ability to push the process forward.

The problem is, there are far too many accrediting bodies, each issuing its own titles and designations. This confuses the investing public, which lacks expertise to determine which are credible or bogus. The problem is so bad that one regulator recently issued guidance on the use of designations.
40% of CFAs around the world say the global economy will expand in 2013, compared to 34% in 2012.

Source: CFA Global Sentiment Survey

A more effective solution would be to create a single, authoritative self-regulatory organization capable of overseeing all client-facing practitioners. And perhaps this is where the national regulator called for by the Finance Minister could come in handy, by setting guidelines for establishment of such a body.

Sound unlikely? It may be. But the status quo is unacceptable, and those who do nothing to change it deserve the results of their failure to act.

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