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Why a Culture of Compliance is Critical

In an age of heightened consumer demand for fiduciary advice, retaining assets and protecting your firm are complementary strategies

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The financial industry's reputation was hit broadside by the financial crisis, eroding trust and opening the door for new industry players offering transparency, convenient service models and lower fees. We remain in a general environment of distrust.

Regulators have attempted to address this loss of trust with proposals that set higher standards of conduct for companies and advisers. These efforts are especially timely, given the industry's aging client base that will require even greater care in the coming decades. The SEC's reform actions already face challenges from consumer groups determined to strengthen the standards at both federal and state levels. Some financial advisors support a fiduciary standard they believe will strengthen their industry's credibility and value. The more than 80,000 CFP professionals must incorporate the fiduciary duty when providing financial advice into their practices next year. States will continue adopting their own fiduciary standards. Will some advice firms really leave those states as a result?

We are already aboard a moving train to higher standards and the expectations of fiduciary care by financial advisers. Lost in the scramble to challenge the new proposals and avoid the costs of systems changes needed to comply with their requirements is the rising tide of "consumerism." Consumers understand a fiduciary standard of care for the management of their assets. They might not be able to describe it using the arcane language of the financial services industry, but they have a pretty good idea of what a good adviser should do. Disruptors listening to those clients have consistently driven down transaction costs and increased investor choices — and without any pressure from lawmakers. A quick survey of asset flows over the past 10 years pretty much tells the story of how consumer demand has changed the landscape. Clients vote with their dollars and the "winners" bring innovation in product features, convenience or pricing, while the "losers" try to hang on to their legacy game plans.



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The marketplace paces innovation while regulatory efforts mostly lag trying to fix rule flaws or stop bad actors. But much of the current regulatory activity has picked up on the demands of a more educated investing public and is at some level advocating as policy what many consumers already enjoy — a high standard of suitability, loyalty, care and service from their financial adviser.

Advice industry leaders now have the opportunity to define "best interest" and choose the standard of care they will provide clients, but there are challenges. The solution is a bit of a Rubik's cube, given the variety of client preferences and the range of digital and human advice capabilities. There are important perspectives about the cheapest solutions, the richest benefits, and different service platforms for different types of clients. Technology use varies widely. The greatest hurdle of all may be the record results from a historic bull market. All these friction points slow the wheel of change.

We think culture leads the way. Culture is the primary role of good organizational leadership. Create the right culture and it attracts the right professionals and the right clients. Leading in the future means establishing trust with our clients, moving to the highest standards, and providing the best advice, best products and best relationships possible. We will need to make it easier and more convenient to manage a household, multiple generations and multiple accounts. We will have to educate new clients and care better for older clients. Our best guides for our best efforts will be our best clients and our best advisers. Establishing a "culture of compliance" is a concept offered by the Financial Industry Regulatory Authority Inc. that recognizes a company's efforts to serve clients' best interests, but it establishes only the baseline of client expectations.

High standards have costs. An unavoidable issue facing the advice industry is that too many "advisers" do not meet the professional standards exemplified by our best professionals and expected by our best clients. Another challenge is the scale of some service models in which the best clients get top notch attention and others never hear from anyone. Great technology exists to improve customer service, but leadership is required to drive adoption. Taxes are the greatest expense paid by clients in their lifetime, and health determines the length and quality of life. Neither topic gets much attention across the industry, which often cites concerns about liability for the failure to address these critical client issues. Can't we do better? The clients are waiting.