

OUTSIDE THE BOX

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An erosion of trust

Commentary: How financial services firms can regain consumer confidence

By Jon Picoult

SIMSBURY, Conn. (MarketWatch) -- Deep inside the Obama administration's plan for financial regulatory reform is a rather significant proposal to hold investment brokers to a "fiduciary" standard in their dealings with customers. That means they need to act in the best interests of their clients.

Don't they have to do that today? No, under current rules, brokers are only legally required to offer products that are "suitable" for their customers. While that means no emerging market funds for 80-year-olds who need a fixed income, it doesn't necessarily mean customers get the best product for their needs.

Investors could be steered toward a product that is technically suitable, but perhaps more expensive. Brokers might be inclined to do that based on how they're compensated or rewarded for selling certain products, such as proprietary offerings from their parent company.

Consider the context in which the Obama proposal has been floated. Consumer opinions of financial services firms dropped to an all-time low in Forrester Research's latest annual survey of customer advocacy. The study -- which gauges the degree to which customers think brokers are looking out for their best interests -- offers even more evidence that consumers are increasingly cynical and distrustful about this industry.

But here's the real kicker: Many consumers have no idea their investment broker or insurance agent doesn't have to act in their best interest. Imagine what customer advocacy ratings would look like if the public fully appreciated the difference between fiduciary and suitability standards. It's like bad news that's not yet been baked into a stock price -- the other shoe that someday, somewhere is going to drop on the financial services industry with a loud thud.

Yet not everyone in the industry embraces this proposal. Many have resisted the change, viewing "fiduciary" as a four-letter word, fearing the impact the standard would have on their company's business model and profitability.

Those who oppose the shift likely focus on the increased oversight accountability and associated expenses required to support a fiduciary standard. What they're not focusing on is that this, quite simply, is the right thing to do for the investing public. And the cost of not doing it could be far greater once the average consumer wises up.

Half satisfied

Think of it this way: At most of the firms that scored the highest ratings in the Forrester study, only half of all consumers surveyed thought those companies were acting in their clients' best interests.

Could you imagine going to a doctor's office where half the patients don't think the physician acts in their best interest? How about a law firm? Most people would find this premise absurd. And indeed it is, because doctors, lawyers and some other types of professionals are held to standards requiring that they put the interests of their clients first.

Becoming a trusted advisor to a client -- in much the way a doctor, lawyer or accountant is -- has long been the Holy Grail for financial services firms. But if you want to create that level of engagement with a client, you need to earn it with intensive training, rigorous standards, straightforward disclosures and truly customer-oriented business practices. That's what the fiduciary standard is all about.

This is a huge opportunity for the industry -- or at least a handful of smart, forward-thinking competitors -- to take the high road and send an unmistakable signal to consumers that their interests really do come first. The Obama administration proposal is a great start, but this industry needs to go even further.

Apply to insurers, too

A fiduciary standard should be applied to financial professionals who assist people with their investments as well as their insurance planning. Both, after all, are key components of a comprehensive personal finance strategy.

And if that doesn't happen, there at least needs to be very prominent, plain-English disclosures which make it clear to the consumer if they're talking to a professional advisor or just a salesperson.

When it comes to securing their financial future and that of their family, consumers aren't just looking for investment opportunities or insurance protection. They're looking for objective advice they can really trust. The tragedy is, too often that's not what they're getting and they don't realize it.

If the financial services industry fails to address that, its stature in the eyes of consumers will always remain precarious at best. And if you think consumer trust in this industry has eroded over the past year, just wait until people figure out where some financial professionals' real allegiances lie.

It'll make the current crisis of confidence look like a walk in the park.

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