



Amid Surge in Demand for Financial Planners, Consumers Are Harmed by Lack of Appropriate Regulatory Standard

[October 20, 2014 Press Releases and Statements](#)

The Financial Planning Coalition – comprising Certified Financial Planner Board of Standards, Inc. (CFP Board), the Financial Planning Association® (FPA®) and the National Association of Personal Financial Advisors (NAPFA) – today released a [white paper](#) featuring comprehensive quantitative and qualitative research shining a light on the insufficient regulatory standards for financial planners. Drawing on both new research and analysis of existing industry data, the Coalition concludes that consumers are harmed by the lack of appropriate regulatory standards for those who hold themselves out as “financial planners,” but provide narrowly focused advice, single-product solutions, or advice that is not in the consumers’ best interest.

The Coalition’s research and analysis is a comprehensive response to the 2011 Government Accountability Office (GAO) study regarding oversight of financial planners and the professional designations they use to market themselves to consumers. The GAO concluded that no additional regulation specific to financial planners was warranted at the time.

“When the GAO conducted its study of gaps in the regulation of financial planners, it operated under an aggressive, Congressionally-mandated timeline that provided little opportunity to conduct the necessary original research to thoroughly address the issue,” said the Coalition. “Now, however, combining our research with an analysis of industry data not available in 2011, it becomes clear that common sense regulatory standards for financial planners are needed to protect consumers.”

As millions of “Baby Boomers” head toward retirement, consumer demand for competent, ethical, and integrated financial planning advice is surging. The current regulatory framework, however, takes a piecemeal approach and is weakened by significant regulatory gaps at the

federal and state levels. Such a regulatory framework that only protects consumers in limited circumstances and during limited timeframes does little to instill public confidence in an arena dominated by confusing titles and those who profit from using them.

Financial service providers are free to hold themselves out as “financial planners,” but only provide more narrowly focused advice to consumers, such as investment, securities, or insurance services. Consumers need and expect financial planners to provide competent, holistic advice that takes into account the impact of that advice across a broad range of financial subjects (retirement, investment, tax, insurance, education, and estate planning) and is provided under a fiduciary standard of care.

There currently is no uniform regulation that imposes rigorous competency and ethics standards on those offering financial planning advice to consumers. One state securities regulator, highlighting this disparity, remarked, “[We] can suspend brokerage licenses right and left, but there’s nothing to prevent these people from turning around and becoming financial planners.”

The absence of comprehensive regulatory standards harms consumers because it prevents them from being able to identify competent and ethical financial planners. For example, according to new research conducted by Fondulas Strategic Research on behalf of the Coalition, there is significant consumer confusion about the various titles associated with financial planning. The research shows that 82 percent of consumers believe that a financial planner is the same as a “financial advisor;” 70 percent believe a financial planner is the same as a “wealth manager;” and 68 percent believe a financial planner is the same as an “investment advisor.”

Given this confusion, consumers who are seeking financial planning services are unable to identify true financial planners and face the real risk they will not receive the services they seek. The Fondulas research found that approximately one-third of consumers who worked with an advisor on a financial plan did not receive the financial planning services they were seeking:

- 31 percent received two or fewer services as part of their financial plan,
- 30 percent believe they did not get the services they needed, and
- 27 percent wanted a financial plan but did not get one.

Consumers are also harmed when those who identify themselves as financial planners fail to provide the financial planning services requested. Data from Cerulli Associates, a leading industry research firm, reveal that in 2013, over 166,000 financial advisors self-identified as members of a financial planning focused practice. Cerulli then verified the practice type by analyzing additional data, and determined that only 38 percent of the self-identified financial planners actually had financial planning focused practices. In other words, over 100,000 financial advisors incorrectly self-identified as being part of a financial planning practice. This gap continues to exist and shows no sign of abating.

The Cerulli data also highlight the significant financial incentives that encourage many professionals to identify and to market themselves as financial planners, including their belief that advertising financial planning services:

- Increases asset retention (87 percent agree),
- Increases assets under management (83 percent agree),
- Generates greater revenues per client (76 percent agree), and
- Creates additional cross-selling opportunities (71 percent agree).

Although these findings show that consumers seeking financial planning services have difficulty finding a true financial planner and do not receive the services they seek, there is positive news. Additional Fondulas research found that those who work with CFP® professionals – financial planners who have met rigorous competency standards and who have agreed to comply with strict ethical standards – had higher levels of satisfaction, were more likely to say they received a plan with realistic financial goals, and were more likely to feel their financial needs and objectives were addressed.

“American consumers looking for financial planning services face an uphill battle when it comes to identifying a competent, ethical financial planner, and are harmed by the lack of appropriate regulatory standards,” said the Coalition. “Just as consumers expect a medical doctor to have a M.D., a lawyer – a J.D., an accountant – a CPA, they should expect their financial planner to demonstrate expertise, experience, and accountability, and be held to standards the public can understand and trust, as with the CFP® certification.”

For additional information on the Coalition’s research and analysis, please see the white paper, “[Consumers Are Confused and Harmed.](#)” as well as a [two-page graphic summary](#) of key findings.

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Research Methodology

Fondulas Research

In 2013 and 2014, Fondulas Strategic Research conducted a quantitative, online survey of 1,250 consumers from across the U.S. on behalf of the Financial Planning Coalition. To qualify for the survey, consumers were required to be age 25 or older, make or contribute to decisions about household finances, and have a household income of \$50,000 or higher. Included in the sample were 496 consumers who have worked with a financial professional in the past five years on one or more financial services goals and 250 consumers who could name the financial professional they worked with. From October 28 to November 11, 2013, Fondulas subsequently conducted interviews with the 496 consumers. Once interviews were completed, Fondulas independently verified the designations for the financial professionals named through online searches and phone calls.

Cerulli Associates Research

Cerulli Associates (CA) conducts the Cerulli Advisor Metrics Reports, an annual series of ongoing research and analysis of the advisor marketplace. The reports focus on advisor trends and consumer information, including market sizing, advisor product use and preferences, and

advice delivery. The 2013 Advisor Metrics Report leverages CA's continuous research and analysis of the marketplace, including proprietary surveys of more than 50 broker/dealers and more than 100 asset managers. In addition, the 2013 report relies heavily on CA's growing database of advisor surveys, which includes more than 8,000 individual advisor responses to CA's surveys. The proprietary data in the 2013 Advisor Metrics report is supplemented with government sources (Federal Deposit Insurance Corporation, Federal Reserve, Department of Labor, etc.), as well as third-party sources (Strategic Insight, Morningstar, etc.). CA obtained financial planner data by asking advisors participating in its annual survey to classify their practices – as money managers, investment planners, financial planners, or wealth managers – based on their perception of the services they offer. CA then reviewed the actual services offered (data also obtained through surveys) and the client base of each advisor to determine which classification best reflects the advisor's actual practice.