# Voices from the Field:
## *Ethics Challenges in Financial Advisory Practices*

THE AMERICAN COLLEGE
CARY M. MAGUIRE
CENTER FOR ETHICS
IN FINANCIAL SERVICES

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# Executive Summary

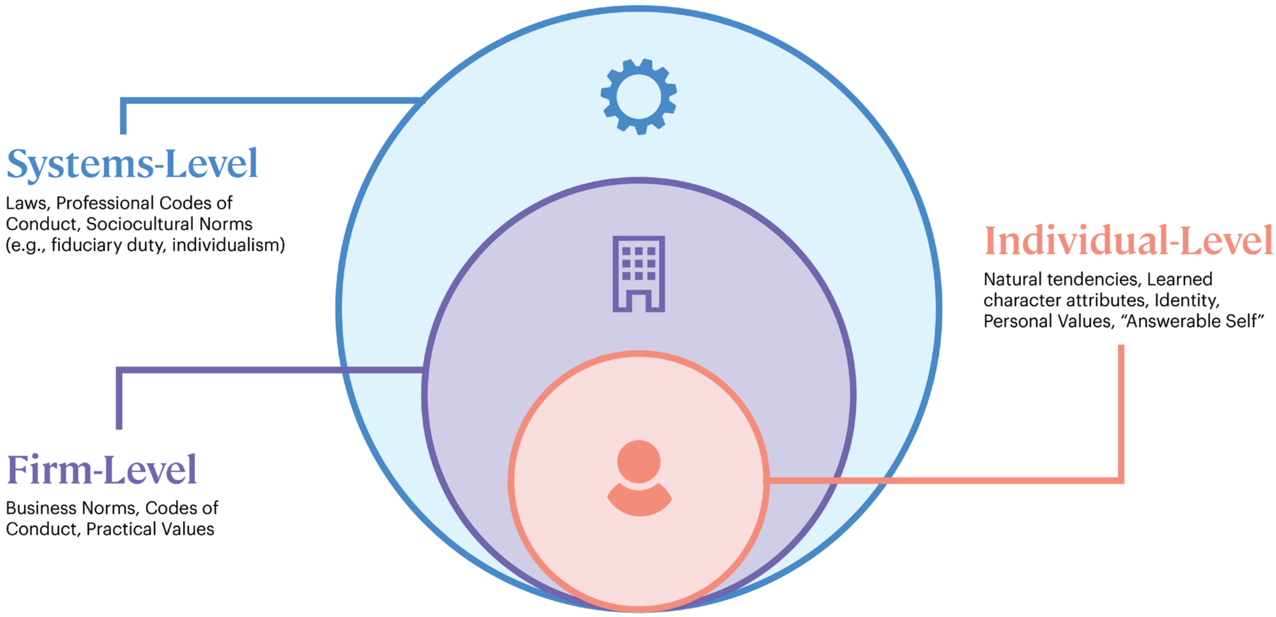
The financial services industry is dynamic, complex, and perpetually in disruption. The American College Cary M. Maguire Center for Ethics in Financial Services conducted this research project, *Voices from the Field*, to illuminate perspectives about ethics challenges as expressed by the financial professionals themselves. Financial professionals are central participants of the industry by helping clients navigate opportunities for financial security and wealth, alongside financial firms, government agencies, regulators, and associations.

This project was motivated in part because our review of existing research didn't yield any studies about the self-reported personal values of financial advisors. Most studies extrapolate advisor values from secondary sources (e.g., codes of conduct, regulatory approaches) or discuss values within theoretical frameworks, in terms such as "principles" or "orientations."[1] In this project, we interviewed financial advisors and agents to identify the ethical values at the core of the advisor-client relationship, and how these values guide the development of those relationships. Furthermore, we aim to capture perspectives about social and economic contexts (e.g., business models; corporate culture) that may influence advisors' choices relating to client services, and their own professional trajectory.

When it comes to financial choices, personal values have an impact and should be a feature of ethics education and research. One study derived from our literature review found that individual ethical perspectives influence a person's perception of questionable financial decisions, and whether they are acceptable.[2] It suggests that one's ethical viewpoints shape their tolerance for potentially unethical practices in the financial industry. This is important because it underscores the relationship between personal values and decision-making within the financial sector.

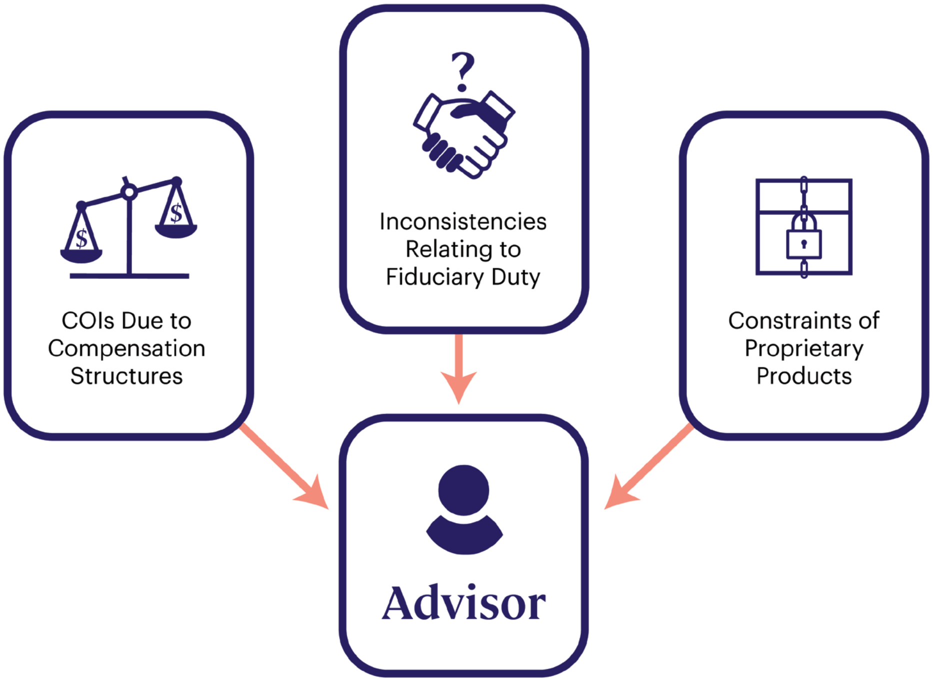
Yet, while personal values influence behavior, they are not the only factor in ethical decision-making. The visual in Diagram 1 demonstrates the interconnected systems that guide how financial advisors make ethical decisions. It challenges the popular view that ethics are purely about our upbringing and instead points to the interplay of one's identity (including personal values) and the environments that influence personal experience. The key themes presented in Diagram 1 offer a unified picture of the influences on financial advisory ethics. These themes include natural tendencies towards individual traits such as honesty[3] and learned character attributes such as professionalism;[4] firm-level practiced values like confidentiality;[5] and sociocultural norms such as individualism[6], fiduciary duty[7], and trust.[8]

## Diagram 1 - A Multilevel View of Influences on Financial Advisors' Ethical Choices




Our research yielded specific challenges that the industry, professional associations, and regulators should highlight in their ongoing work. We found that advisors view the industry through the lens of "a helping profession," seeking a values-driven professional identity that elevates client relationships. When they've been challenged by the ethical dimensions of their work, they lean on their personal values to navigate dilemmas. Yet, navigating the line between, on the one hand, a personal passion for helping people and on the other hand, high personal financial reward, encapsulates one of the primary ethical dilemmas of the industry, which is managing conflicts of interest. When asked about the top ethical challenges for the industry, advisors identified 1) conflicts of interest due to compensation structures; 2) inconsistencies relating to fiduciary duty; and 3) constraints on proprietary products.

## Diagram 2 - The Top Three Categories of Ethical Challenges




Advisors recognize the importance of trust in building client relationships and believe that appropriately designed regulation can further such trust; however, advisors see current regulatory distinctions as complex and potentially confusing to clients and therefore potentially counter to trust.

This white paper presents evidence from industry trends such as evolving regulatory infrastructures, and the drive towards dual-registration and "independence" among financial professionals. Moreover, we found that clients are confused about where to find trustworthy financial advice, and the industry jargon and infrastructure may be contributing to an aversion to engaging with the industry. Finally, the future of the industry relies on effective recruitment and retention of financial advisors. There are, however, challenges relating to recruiting, notably with respect to transparency around compensation practices, and approaches to inclusivity.

Our belief is that how financial professionals navigate trust will shape the future of the industry. Moreover, the strategic opportunities for the future of financial services will be shaped by how well firms and professionals can demonstrate trustworthiness by acting ethically, not only with clients, but also with new recruits into the field.

Our criteria for selecting interviewees included diversity across multiple dimensions among participants (see Methodologies section). As an interview-based, qualitative research study, this white paper does not intend to represent a generalizable view of the industry. The narratives shared here, combined with our literature review and policy research, lay the foundation for further quantitative research through surveys.

## A Helping Profession

Financial advisors have a heart for helping people and a relationship-oriented mindset. Participants shared that they were drawn to the industry because they see it as a helping profession, akin to being a therapist or a lawyer, striving to help people navigate life challenges.

For instance, one participant stated, “I feel strongly that money can reduce stress in your life and that is health-related. I enjoy helping people learn that finances are in their control.” Another stated, “I got into the industry with an altruistic, noble purpose … [I got into the business for] empowering and educating historically underserved communities in America, especially in a capitalist society. Having the economic means to meet your basic needs and higher-level needs is hugely important.” Another shared that the “ability to help people do things that they are unable to do themselves” is how they aligned their passion with financial services.

While financial advisors endeavor to provide transformational service to their clients, their aspirational purpose contends with the industry’s transactional nature. The space between these two forces can pose a personal conflict, testing their professional identity as well as their moral courage.

One advisor, who was drawn to the noble purpose of the industry, also found “the reality is you can make more money, way more money than as a diplomat or working for NASA.” Advisors have found benefit in the entrepreneurial aspects of the industry, with nearly unlimited upside potential. Those who are independent advisors, managing their own practice, appreciate the opportunity to “hang out a shingle” when starting a firm because they see long-term financial security for their own family, without directly relying on a traditional employer.

### Diagram 3 - Values Recognized by Financial Advisors


The advisors participating in this study expressed strong personal values that guide them when navigating ethical dilemmas. Participants shared that they value integrity the most, followed by beneficence and honesty (see Diagram 3).

Many of the participants shared that they’ve had their boundaries tested; through personal experience, they have come to find their own ethical voice. Their personal values served as protection, creating a boundary to help them maintain their identity and avoid moral injury. For instance, some shared at least one regrettable sale or product placement that was the source of ethical conflict. Participants shared stories about how either their current business models or ones they experienced earlier in their careers seemed to have been designed to push them towards unethical behaviors.

The gap between ideals and realities in navigating financial advising as a helping profession became apparent when we asked participants to tell us about a time when they, or someone they know, sensed they had compromised their inner moral compass – when they lost their way or did something they knew in their heart was wrong. One participant shared a sobering anecdote.

> *“I’m thinking of an advisor that I used to work for and with and we kind of separated. After he left, I had to work with one of his clients who he 1035’d – exchanged one of his old life insurance policies into a new one. It was crazy because this dude was on a fixed income, in an assisted living facility, and had to pay alimony. He underfunded his IUL [Indexed Universal Life Insurance], so it fit in with his budget. The policy lapsed. He dies. His ex-widow was supposed to have this life insurance policy to pay for her life once he passed. The executor didn’t get proper information from the financial advisor. This is a real-world effect. Altering this lady’s life because this dude wanted to make a little more money. The big problem is you don’t have to sit around and see the results of your actions...”*

The concepts that are top of mind for financial advisors as they reflected on their ethics challenges during these research interviews are literature-validated (see Rubin, 2015[9]). For instance, sales commissions and regulatory infrastructure are among multiple problems cited by Rubin, and were frequently mentioned by financial advisors in our interviews, demonstrating that the role of compensation models and the interaction between industry and the regulatory infrastructure are significant systems that should be addressed for advancing ethical behavior.

When asked about the role of codes of conduct or regulation in behavior, most indicated that while they thought they were important, they were often insufficient or sometimes provided conflicting guidance. Participants indicated that a source of ethical guidance for them was their own gut reactions relating to right and wrong.

One participant offered that, “ethics is a topic that is so complicated, yet is so simple. The rest falls into place when you do the right thing for the client. One size does not fit all, and yet, if your intentions are in the right place, you can get there.” They learned through practice, personal self-reflection, and instinct to determine how to work in the best interests of their clients.

Navigating this line between, on the one hand, a personal passion for a helping profession and on the other hand, high personal financial reward encapsulates one of the primary ethical dilemmas of the industry, which is managing conflicts of interest. Moreover, it raises important questions about the source of ethical guidance: if professionals rely heavily on personal values, how does the system address those who are not as self-reflective?; how can industry codes of conduct be more relevant?; what is the role of corporate policies for managing conflicts?; and can financial regulation effectively address ethical behavior?

## Complexity as a Barrier to Client Trust

Advisors recognized the importance of trust in building client relationships. A common sentiment expressed was that a negative reputation halo over the industry makes it more difficult for advisors to garner the trust of clients, even when the advisors believe that they are serving the client's best interests. One participant stated, "Sometimes there is this feeling of "you're guilty until proven innocent" – it's assumed that I'm trying to take advantage of people. I not only reject that, but it also gets my hackles up quickly."

Participants identified the industry's complexity as a barrier to client access and trust. They recognized that clients must navigate a dizzying "sea of" designations, disparate advisor types, complicated affiliation models, and various compensation structures. Participants suggested that, from the client's perspective, this intricate system, including its jargon and complicated explanations of products, strategies, and services can appear to be concealing dishonest actions, leading to distrust.

For instance, some participants struggled with determining a compensation model that enabled them to provide unconflicted advice while running an effective business. One advisor underscored this dilemma well, highlighting that social media and the "scattered" regulatory infrastructure have made it more intense.

> *"[The rules are] scattered, muddied. I don't think the average consumer knows the difference between someone who only sells insurance or someone on social media giving an opinion. I think having an ad that's sponsored would be helpful to be clear with consumers [...] I would feel differently about my doctor if I knew my doctor was getting kickbacks from specialists, or for certain prescriptions. Do they get paid for different services? I trust them enough to assume they are telling me what's best for me, not what's best for their pocket. Consumers don't realize there are both types of people in the financial industry – those that do what's best for you versus those that do what's suitable for you."*

Adding another source of ambiguity from the client's viewpoint are the varied use of terms such as "financial planner" or "wealth advisor." Some firms regulate this dynamic internally to help avoid client confusion but at the industry level, the challenge remains. For instance, one advisor in our study commented with regret on the client's lack of awareness and knowledge of the titles that financial advisors use when interacting with clients: "At our company, in the first year, you are a 'Financial Representative' until you are licensed. So, you can't say you are a 'Financial Advisor.' I feel bad about this from the client's perspective." This lack of transparency compounds complexity because it adds another layer of difficulty to an already complicated subject of personal finances.

From a client's point of view, complexity signals distrust whereas simplicity, if it's transparent and truthful, can be an attractive proposition. The Maguire Center for Ethics' consumer research on trust in financial services found that consumers' preference for financial products and services that are simple and easy to use was so strong (60%) that it outweighed fees associated with the product or service (58%), level of risk (57%), or guarantees offered by the company (50%).[10]

Moreover, other survey research shows that trustworthiness is the top quality clients look for in an advisor (72%), well beyond the advisor's investing skills (50%)[11] and other skills. Trusted advisors who are adept at simplifying complicated concepts, and offering useful recommendations add value through thorough analysis and clear communication.

As one participant noted, "When I'm building a plan, I explain all the products and the different cost structures. There's not one easy answer to 'What does it cost and how do I get paid?'—due to various fee structures." This same advisor emphasized, "Clients don't understand industry jargon, so it is important to understand how you explain ideas and understand your client."

In addition to being skilled at their jobs, the participants were also highly aware of the power of their own trustworthiness – comprised of their competence and character – in ameliorating client confusion. In their reflections, they acknowledged the vital role of building trust-based relationships in financial advising, recognizing that trust is about building relationships. They strive to connect with clients at an interpersonal and emotional level. Moreover, they understood that trustworthiness can ease communications, encouraging clients to share sensitive information about their lives, which can affect their financial lives and better advice.

One advisor recounted an experience helping a widow navigate her finances after the loss of her husband, remarking, "If it spills over from finances to all facets of life...you're building relationships, and it doesn't end with the dollars and cents. It's very interesting – the non-financial conversations with clients that are much more rewarding than the dollars and cents. There is nothing most of us are more sensitive about than our finances. If someone trusts you enough to let you inside to see all that."

## Concept Creep: Shifting Terminology Creates Confusion

Advisors viewed shifting terminologies as another barrier to trust. As context, the blurring of the lines between investment advisors and broker-dealers is a topic of interest in the industry (see callout section on Historical Context on Financial Regulation).

### Historical Context on Financial Regulation

A brief history of the origin of the conduct standards provides context for the evolution of fiduciary practices. The financial industry includes various financial entity types, offering products and services such as investment products, insurance, and financial planning. For purposes of this paper, we will focus on three: broker-dealers (companies that create and sell financial products); registered investment advisers (individuals registered under the Investment Advisers Act of 1940 ("Advisers '40 Act") to provide investment advice); or insurance companies (licensed to create and sell insurance products).

The rules governing investment professionals were put in place after the U.S. stock market crash of 1929, which led to the Great Depression of the 1930s. The federal Securities and Exchanges Commission was created at the time, as were the Securities and Exchanges Act of 1934, which regulates the trading of stocks, bonds or other investment securities through brokers and dealers; the Investment Company Act of 1940, which regulates companies that create mutual funds and other such investment opportunities; the Investment Advisers Act of 1940, which requires registration of investment advisers with the SEC and establishes conduct standards to protect investors. These laws were motivated by the need to restore trust in the financial markets, and to address the conflicts of interest that hobbled the industry at the time, wherein rogue advisers benefitted from affiliated transactions.

These laws separately regulated activities relating to those who sell securities (brokers and dealers), and those who advise on investing in securities (investment advisers). In addition, professionals in the securities markets hold licenses from FINRA, which includes competency exams. In recent decades, however, the traditional distinctions between firms have faded; there is more heterogeneity in models and services offered by firms. A 2008 research study conducted by RAND analyzed the nature of services and fees provided by financial companies, finding that the complexity in the data offered by the firms "suggest[ed] that financial professionals themselves are confused by how to describe their activities."[12] They also found that clients were confused, indicating that they did not understand the distinction between firm types, the fees charged, and the professional conduct duties.

In contemporary firms, a web of affiliated relationships and activities conducted through common control or subsidiaries appear to drive towards one stop shops to address all client needs. Our research affirms the heterogeneity among financial professionals; the participants in our study represented a broad range of advisor types, and no two advisors described their practice in the same way. Diagram 4 provides self-reported data of the types of financial professionals that were interviewed for this research.

Regulation Best Interest, effective in 2020, was motivated in part to address client protection by elevating the conduct standards for brokers and dealers, requiring brokers to act in the best interest of clients when making recommendations. Investment Advisers are already required to act as a fiduciary to clients under the Advisers '40 Act.

In December 2024, the North American Securities Administrators Association (NASAA) proposed revisions to one of their model laws, which is used as a blueprint for state regulation, suggesting that broker-dealers be prohibited from using the term "advisor" or "adviser" for professionals that are not licensed to provide fiduciary advice to their clients. This revision is intended to address confusion between wealth managers who operate as brokers (selling products), and those who are licensed to provide advice (registered investment advisers).

Some professional associations support regulating titles used by financial professionals. A comment letter written to NASAA jointly by the Financial Planning Association and XY Planning Network affirms their support of this approach because titles such as wealth manager, financial consultant, and financial planner, can confuse clients. Their membership is primarily certified financial planners who hold the CFP designation (for the Financial Planning Association), and fee-only financial planners who register as RIAs (for XY Planning Network). Moreover, these organizations highlight that the NASAA proposal may not go far enough to address hybrid environments: "...it doesn't alleviate potential confusion for consumers whose financial intermediary is a dually registered broker-dealer and investment adviser who may simultaneously engage in a relationship of trust and confidence with the client as an investment adviser while also selling products to their customer as a broker."[13]

***Dual registration***, sometimes called hybrid, refers to firms and/or individuals that register as both a broker-dealer and an investment adviser. This approach represents a growing segment of financial services. FINRA's 2024 Industry Snapshot reports that dual registered representatives were the largest number of registration types, at 319,597 individuals, compared to 309,405 broker-dealer only, and 85,184 investment advisor only representatives.[14]

There was acknowledgment that the term "fiduciary" has diminished in practice. Historically, it had been a way for investment advisors to distinguish themselves and their business models. But now, as regulatory standards are becoming more stringent for the entire market, paradoxically, some believe it may have watered down practices and created client confusion.

Moreover, some advisors maintained that companies using the term "fiduciary" as a marketing approach can further confuse the market. They emphasized that having the word "fiduciary" in a title, educational designation, or role does not immunize a practice from violations of ethical duty. They shared anecdotes relating to how fiduciary advisors "lean into their continuing education more for marketing" and that they've observed some being terminated for ethical violations.

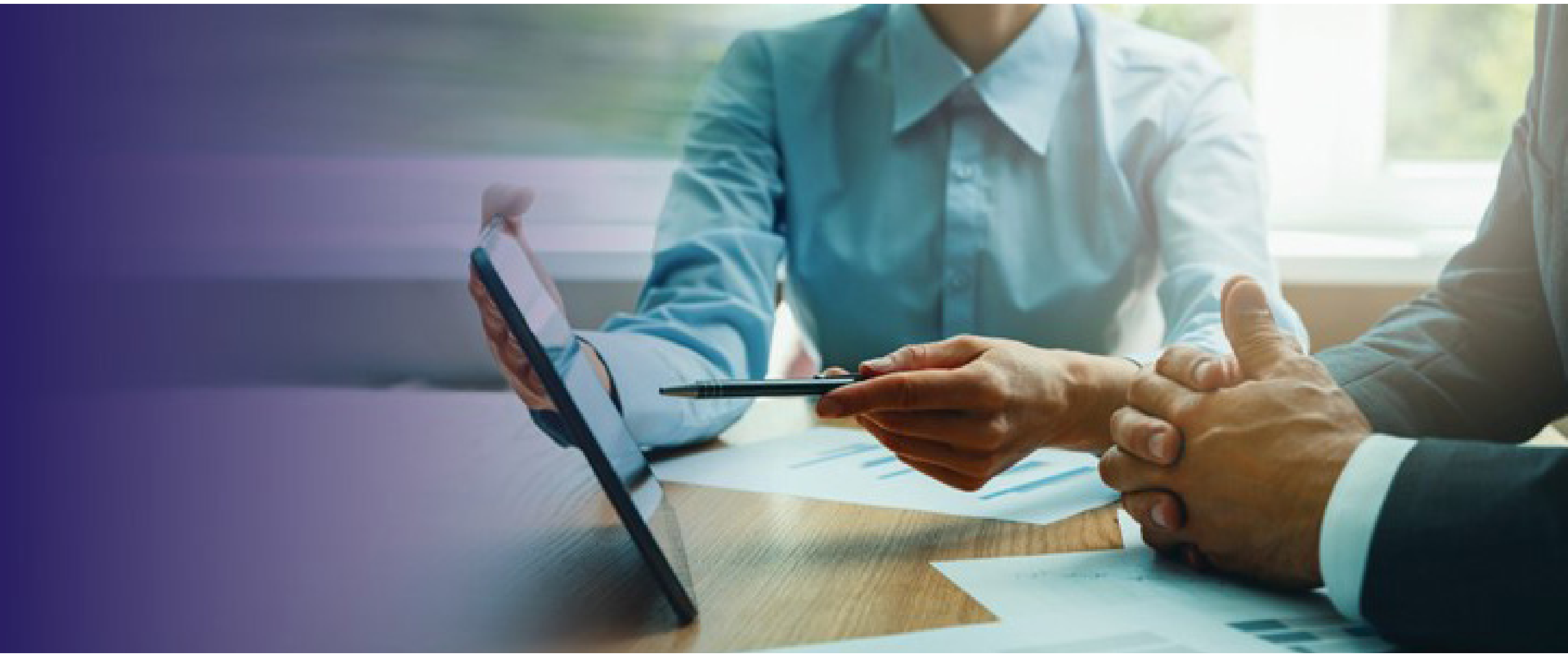
As the Financial Planning Association and XY Planning comment letter highlights, even if title regulation proposals like NASAA's are adopted, the confusion will remain with the dual-registered firms.[15] In some hybrid models, an advisor who is licensed to serve as a fiduciary may be working in a financial firm that is not regulated as a fiduciary firm. At times, professionals are required to "flip hats" because they hold a designation as a fiduciary, likely as a certified financial planner, but are working at a broker-dealer that is not regulated as a fiduciary.

One participant described a desire for more clarity by the industry: “Draw a line in the sand as to who is truly a fiduciary and what requisites you must complete to hold yourself out as a fiduciary. It can’t be one and the same. Working in the independent broker-dealer space, I get frustrated with people who come on board [...as...] a relationship manager relying on the back office to educate them on what’s best for the client.”

In such circumstances, the ethical dilemma for advisors that are exclusively affiliated with a single broker-dealer is that “If a client brings in a question outside of what we can offer, we can’t give that client advice because we are selling away even if I believe it’s in the client’s best interest because I will get in trouble.”

Can professionals in dual-registered environments still act consistent with their personal values of integrity and beneficence? One participant shared the following: “We’re in a rabbit hole now. I don’t know. The person in a hybrid environment, if they are a strong personality they could thrive but if you flip the scenario, they may succumb to an ethical challenge.”

Participants in this research study were asked to self-describe their affiliation models. One common term they used was “independent” (see Diagram 4). The term “independent” among financial professionals appears to have a variety of meanings. Some independents affiliate exclusively with a single broker-dealer, thus using contract arrangements to replace former employment relationships. Others are individually licensed as a hybrid (both as a broker-dealer and an RIA), creating their own financial products and charging AUM fees although affiliating with insurance companies as needed for product sales. And still others indicated that their compensation is both as an employee with a larger financial company, to engage in home office management roles, as well as an independent financial professional for client advisory services.



## Diagram 4 - Participant Profiles [Self-Reported]

| Participant # | Firm Type | If RIA, AUM Range[1] | Affiliation Model | Compensation Type | Primary Type of Clientele | Primary Location of Business (State) | Gender | Age | Race/ Ethnicity |
|---|---|---|---|---|---|---|---|---|---|
| 1 | Broker-Dealer + RIA | Large[2] | Broker-Dealer + RIA Employee | Commissions on non-managed (retail) accounts and management fees on AUM | Mid- to High-Net Worth | Virginia | Male | 61 | White |
| 2 | Insurance - Life & Annuity + RIA | N/A | Insurance Firm Owner Independent | Commission and fees for AUM | High Net Worth | Georgia & Illinois | Male | 56 | White |
| 3 | Broker-Dealer | N/A | Independent Broker-Dealer + Insurance Agency/Broker | Salary, fees, commissions | High Net Worth | California | Male | 61 | Filipino |
| 4 | Hybrid Broker-Dealer + RIA | Mid-Size | Independent; broker-dealer employee; RIA owner/ employee; insurance company owner/ employee | Salary; AUM; Planning Fee; Commission; | Middle Market; Emerging Market | Washington State | Female | 47 | Caucasian |
| 5 | Broker-Dealer + RIA | Mid-Size[3] | Broker-Dealer/ Corporate RIA + Independent Contractor | AUM, planning fee, commission; 80% of income is financial planning and AUM | Middle Market | Suburban Washington, DC (Maryland) | Female | 57 | Asian |
| 6 | Broker-Dealer/ Insurance company | N/A | Insurance Company Employee | AUM, planning fee, commission | Middle Market | Kentucky | Male | 42 | Black |

[1] Small firms (<$25 Million AUM), Mid-size firms ($25-100 Million AUM), Large firms ($ >$100 Million AUM), Source: https://www.sec.gov/files/transition-mid-sized-investment-advisers.pdf

[2] $11.2 Billion

[3] $62 million

| Participant # | Firm Type | If RIA, AUM Range[1] | Affiliation Model | Compensation Type | Primary Type of Clientele | Primary Location of Business (State) | Gender | Age | Race/ Ethnicity |
|---|---|---|---|---|---|---|---|---|---|
| 7 | Fee-only insurance consulting firm (do not manage money) | N/A | Independent | Hourly Fees | High and Ultra High Net Worth individuals as well as businesses needing unconflicted insurance advice. | California | Male | 77 | Caucasian |
| 8 | Broker-Dealer | N/A | Broker-Dealer Employee | AUM, planning fee, commission | Middle Market & High Net Worth | California | Female | 64 | White |
| 9 | Broker-Dealer/ Insurance Company | N/A | Independent contractor | AUM, commission, bonuses, leadership compensation | Middle Market, business owners, women | Florida | Female | 33 | White |
| 10 | Broker-Dealer/ Insurance Company & Investment Company | N/A | Independent contractor | Subscription-Based financial planning fees, asset under management fee, commissions from life insurance, disability insurance, annuities, and long-term care insurance | High-earners not rich yet (HENRYs) / Business Owners / Retirees | Charlotte, NC (and nationally via virtual platform) | Male | 34 | White / Hispanic |
| 11 | RIA | Small | RIA Owner | AUM & Planning Fee | Emerging Wealth | Georgia (and nationally via virtual platform) | Male | 38 | Black |

## Conflicts Meet Compensation: Regulating Ethical Behavior

The confluence of dynamics from firm heterogeneity, shifting terminology, and hybrid practices puzzles not only clients, but some financial professionals as well, resulting in calls for more regulation. Some participants indicated that having more regulation would help clients understand who is, and is not, motivated to act in their best interest. One stated, "You can't say you're a lawyer just because you read a book. I wish there was legality in how you identify yourself to clients."

At times, the expressed desire for regulation was to draw boundaries around licensing of areas of practice, akin to law or accounting. One participant suggested that unregulated financial advice through media should be better addressed: "I don't think the average consumer knows the difference between someone who only sells insurance or someone on social media giving an opinion. I think [indicating] an ad that's sponsored would be helpful to be clear with consumers."

Advisors also expressed frustration with inconsistencies and gaps in the regulatory infrastructure. Indeed, this was among the top three ethical challenges referenced by participants (see Diagram 2). One participant stated, "I think sometimes ethics are different from the laws. If these were closer, it wouldn't be as difficult for advisors."

One participant lamented that those who are "in it for the money" will be attracted to the industry because of the nature of the business. The seemingly unlimited upside potential, and the financial nature of the job may be one reason why, despite being highly regulated, the rules have not eliminated unethical practices in the industry.

Thus, while participants frequently called for more regulation, they were simultaneously frustrated with the industry rules that create hurdles and sometimes confusion. One participant criticized rules that can be a barrier to constructive communication: "There are complications involved for clients to get all the paperwork completed. It's ridiculous how, in every mailing, most of what I send to clients have more pages of disclosure than in the information I'm trying to share with them. I don't want to send it, yet I need to because if I don't, I'm not following the rules. Very few clients read disclosures. It's also things about how we can...we have to be so careful if we go out and give public talks or inviting people or in my case, giving tax advice."

Despite the rules, opportunities for misuse abound. A recent article in The Wall Street Journal (Tergesen, 2024)[16] based on research by American College professors Michael Finke and David Blanchett underscores how compensation motivates advice. They found that advisors who are compensated based on asset-based fees recommend clients draw Social Security earlier than those who are paid only via planning fees. The fee-based advisors also recommended that clients hold onto mortgages longer, since paying down a mortgage would reduce assets held in investment accounts, thus reducing fees received for assets under management by the advisor.

Compensation for professional services is a common feature of any profession. In the context of this research, one question asked about compensation was the role of incentives in influencing behavior. We asked participants whether an advisor's compensation type (fee-based; commission; or hybrid) changes their advising behavior?

Participants highlighted the ways that systems design can influence outcomes. One participant shared: "We have a natural conflict of interest. We take care of the book of business. The more assets, the more money we make. Often, they're aligned. If they [clients] make money, I make a little more. There is still a conflict of interest, a disconnect. A lot of people are aware of it, but others are not…I tell clients, 'I need to make a living, and you're not paying me.' [Some clients] are not paying me for planning; they are not in a fee-based account."

Another stated: "Incentives make people sell. I see it out there. It's not for me." Specifically, this participant shared, "with proprietary products, I see it regularly. I can tell who their advisor is. They have these proprietary products with inferior things, and I know there are more options available for the client. If you work for a captive firm, and all you have are hammers, then all you have is a nail… People [advisors] are selling things that grant them more commissions."

Another response: "Humans are humans. Rational humans will respond to incentives. You hear stories about CFPs being bad actors all the time. Same goes for doctors and lawyers. The hope is that if you are going through this level of education and continuing education, now ignorance is not an excuse. When you do something like this you are willingly breaking the law."

Participants shared various ways that they've observed unethical behavior that nevertheless technically complied with the rules. One shared "Compensation is an ethical challenge. Some of the ethical issues could be what's shown to clients. I see a lot of manipulated illustrations that are not ethical. The numbers work in an illustration, but not in real life. I like working with [Company Name Redacted] and appreciate pressure testing what we're working on. I see a lot of interesting stuff that is not pressure tested, and I can't believe it's being shown to clients."

The same participant shared observations of double-dipping in compensation. Some advisors receive additional fees to place a bank-financed insurance policy; while the policy may be in the best interest of the client, and thus in compliance with law, the advisor can be paid by both the bank and the insurance company. This raises client costs, sometimes without client awareness of the layered fees. This participant recognized the limits of regulation to address ethics: "you can't regulate [certain practices] because it relates to the integrity of the business."

These sentiments are consistent with existing knowledge on the fiduciary duty debate (see Rubin), demonstrating the importance of compensation as a component of ethics and behavior. The words “sales commissions” and “sales incentives” were among the most used words throughout our research interviews. This does not imply that commissions as an approach to compensation is necessarily viewed as the least ethical type of compensation, but that when it comes to thinking about ethics, sales commissions are top of mind.

### Comp Types

Financial professionals are compensated in a myriad of ways. This non-exhaustive list includes: fees based on assets under management; commissions based on product sales; financial planning fees; retainer fees (e.g., a subscription service); consulting fees for advice; and salaries. This non-exhaustive list of approaches demonstrates one reason why participants in this study highlight compensation as the most important topic of ethical dilemmas. Sometimes compensation comes directly from the client for advice-based services – such as a retainer fee for hourly advice, or a lump sum planning fee. Other times, an advisor is paid by the firm or a third-party (commissions; assets under management) even when the money is coming from the client (who is paying the third-party).

There are differing perspectives on whether one type of compensation is “superior” to another. While some participants indicated a belief that compensation through a fee based on assets under management (typical of RIAs) is more aligned with client interests, although another indicated that an asset-based fee is a commission by another name. When comparing product commissions, like insurance, versus fees collected on investment accounts, they stated, “The AUM folks feel superior because fees are easy to disclose. “I charge .8% annually” doesn’t feel overwhelming compared to an annuity commission of 6% upfront. Yet, over time, the AUM person has made more money than the annuity agent!”

One participant provided an alternative perspective on how dual-registered advisors manage compensation related conflicts: “I am dually registered and hold multiple licenses. I am a Registered Investment Advisor. I have a Broker Dealer license, and I have my insurance license. No conflict there. No matter what I do, I get paid. Compensation doesn’t drive what I do because no matter what I do I will be compensated for it. On the securities side, it’s all fee based, or Assets Under Management. On the insurance side, whichever company needs what I’m looking for that’s the company I use. I have no loyalty to any company based on what they are paying for commissions…”

## Securing the Future of the Industry Through Recruitment

Participants shared challenges relating to sourcing new talent into the industry. Some shared that new entrants don’t fully understand the business, which can lead to disillusionment and early departures. Some find that there is a mismatch between the idea that they are entering a helping profession, and the business reality of sales cultures. Additionally, popular culture depicts the industry in a negative light; that reputation can turn off some new recruits who don’t see finance as an ethical industry.

One advisor spoke of how the compensation models were not fully transparent when joining the profession. The advisor reflected, "I did not understand the compensation package being offered to me or what I was getting into. This was due to how firms recruit when you are not a business owner. The sales incentives, the sales culture, the independent broker-dealers I worked for worked through different compensation structures – AUM, fees, and I'm being compensated by those insurance carriers. Coming into it, I didn't fully grasp what all that meant."

Another participant, who had recently decided to leave a large firm to start an independent practice, shared: "The average advisor doesn't understand how much they get paid for selling a proprietary product. My [spouse] and I went to an amazing trip to Aruba because I sold a lot of proprietary products."

These advisors' experiences underscore that an important ethical decision for any employee is choosing an employer whose practices match their personal values. It's a leap of faith, because early in one's career, they may not be aware of the various pitfalls. Moreover, these insights highlight an opportunity for firms to improve education about practice management with new recruits. Education relating to the chain of fees in compensation models, for instance, may be critical to retention. Filling this education gap can be a trust-builder for firms and the industry.

With respect to diversity, representation of women and minorities within the industry is a work in progress, and that's for both financial professionals and clients. A few of the participants were passionate and triumphant in turning their experience of being marginalized into personal purpose. One advisor confided, "When I started, I was the only female advisor. I felt alone. I was a single mom with two babies. The guys in the office were with their wives who stayed at home. They would tell me [with respect to early meetings], "Just wake up earlier." I didn't feel I could relate to anyone. I'm proud of bringing in 10 female advisors since I started. Inclusivity – internally and externally – is important to me."

Another advisor remarked, "Having the economic means to meet your basic needs and higher-level needs is hugely important. For a long time, whether it was women, blacks, or any minority communities, the historically underserved have not been allowed access to financial tools. Trying to close gaps is my personal mission and the mission of my firm."

Client selection as an ethical duty was reflected by another participant, who also tied serving historically underrepresented individuals directly to how firms are structured. This participant shared, "I like to go to the market for our clients. Instead of fitting them into a square in my company, we can go to the market and use this instead to work on behalf of clients. I like that we don't have a minimum of what we can work with, we can work with anyone. Meeting clients where they are."

These advisors demonstrate that difficult individual experiences can motivate people to find meaning and drive positive action to help others, while experiencing personal growth and fulfillment.

For many participants, a redeeming quality of their journey in the industry was the preservation of their personal identity. Their sense of self is what guided them and protected them in situations where their values were tested, helping them to be resilient and steadfast in living out their beliefs. As they confronted challenges, they pivoted towards opportunities to align with firms and affiliation models that empower them to be their authentic selves; where their integrity is celebrated, not injured.

One advisor commented, “Your name is your strongest asset. It’s all about your word, your integrity…I’m not putting my license at risk for you or anyone else – this is how I feed my family.”

Another emphasized, “For me personally, if it’s something that would question my faith or values biblically, regardless of the outcome, my role isn’t to please people, it’s to please who I serve [God]. I’m not going to change who I am to buy business.”

These anecdotes illustrate the concept of “the answerable self” from the research literature.[17] There are numerous approaches to managing ethical organizations. While some advocate for “value congruence” (ensuring employees values align with those of the organization), others propose that ethical cultures can be shaped through employee education. In particular, a study of sales cultures in retail banking found that employees can serve as moral agents if they are working in an “open” culture. That is, they can be morally questioning, critically self-reflexive, and answerable to themselves when it comes to their social relationships. These cultures empower employees to cultivate conscious choices in pursuing goals that are aligned with what’s personally important to them.

The value of education was highlighted by participants when we asked them about “early career mistakes,” lamenting that their lack of experience led to avoidable client recommendations. “Yeah! I’m sure that I didn’t make all the best recommendations early on. I think when I wasn’t choosing optimal it was from ignorance. But that’s part of the problem. I shouldn’t have been able to sell insurance four weeks after passing the test. I should have been working with the senior agent first.” At times, on-the-job training supplemented formal education.

Two participants lamented “scoldings” received from clients or friends, who indicated that certain recommended products were not suitable, particularly over the long-term. One shared: “I’m very cautious now. I’m very conservative; well below what the guidelines say. I’m seeing how [those products] have performed in the market. It’s not attractive to do those…I wish I wouldn’t have done those. It was a good opportunity then, not now. Reflecting in hindsight.”

In cultivating the "answerable self"[18], employees demonstrate that reflecting on their own behaviors is a part of their identity, and their identity is supported through self-direction. The participants in this research demonstrate how they managed their personal conflict between working in a helping profession, and workplace pressures. Some left their firms to begin independent practices; others migrated to workplaces where inclusivity is prioritized, and took on leadership roles to help encourage more inclusive cultures. While still others shared that they are still on the journey to resolve the incongruence they are confronted with in the industry.

## Conclusions

Despite the long history of the financial services industry, business models for providing advice are in perpetual disruption. Contemporary topics include heightened transparency, technological innovations, and regulatory convergence around best interest models.

In this research, the two concepts most top of mind for financial professionals when thinking about ethics challenges were sales commissions and regulatory infrastructure. When asked specifically about the top ethical challenges for the industry, advisors identified 1) conflicts of interest due to compensation structures; 2) inconsistencies relating to fiduciary duty; and 3) constraints on proprietary products. Participants shared their struggles with managing conflicts of interest when establishing compensation models that enable them to provide unconflicted advice while running an effective business. Moreover, the scattered regulatory infrastructure has made this challenge more acute, creating confusion and complexity for clients, as well as for some advisors.

We believe that how financial professionals navigate trust will shape the future of the financial services industry. The systems in which these professionals are embedded play a critical role in supporting and encouraging ethical behavior and better client outcomes. While it's clear that personal character and commitment to values is an important component, the research highlights various areas where systems need to be further analyzed and strengthened to support ethical values.

The American College Cary M. Maguire Center for Ethics will continue to study the implications of the dynamics uncovered in this research. Our future work program will include ideas for education and training relating to ethical challenges, opportunities for alignment on industry taxonomy, and considerations for aligning compensation systems with outcomes that benefit business and society.

## Methodologies

We employed a qualitative research design, utilizing in-depth interviews to explore the ethics challenges of financial advisors. This research technique was ideal because it allowed for probing of ethical challenges faced by financial advisors, which can be viewed as a sensitive topic by participants who may not want to divulge in front of a group or in a written format.

We created a matrix to visualize our purposive sampling guidelines and aid us in recruiting our ideal mix of participants (see Diagram 4). In addition to demographic diversity in gender, age, race/ethnicity, and employment status, we sought a mix of participants by advisor type, firm type, and firm size. We also convened an advisory council to ground truth this matrix and help us to recruit participants. Additionally, we recruited participants through our Center's professional network, including our Alliance for Ethics, a network of ethics-focused leaders in financial services.

Using a semi-structured interview format that we first pressure tested with a subset of our advisory council, we spoke in-depth to eleven financial advisors between June 6 and September 23, 2024. Each interview was 60 minutes long and conducted virtually via Zoom. All participants were adults living in the United States. Their participation was completely voluntary with no monetary incentive offered for their participation.

Topics in our interview discussion guide were informed by a thorough literature review and feedback from our advisory council. Topics included entry into a career in the financial industry; recognizing values; as well as reconciling values, moral injury, and recovery. We also used probes that were based on cognitive interviewing methods (e.g., think-aloud techniques) to get at how participants searched their memory for relevant information (i.e., retrieval) and how participants evaluated the information retrieved from memory and its relevance to the question (i.e., judgement). This approach to probing ensured that participants comprehended the questions they were asked. Additional advantages of this think-aloud technique included freedom from interviewer-imposed bias because the interviewer contributed only the reading of the interview question and interjected little else to bias responses from the participants; low burden on the interviewer, as the interviewer's time was mostly spent on listening and taking notes; and an open-format, which created space for information that was unanticipated.

With a focus on participant confidentiality, the interviews were not recorded through audio or video recordings. Instead, researchers' typed notes from the interviews were used for analysis and report writing. To protect anonymity, participants were instructed to not disclose any personally identifiable information such as employer, etc., and any such mentions were redacted in the notes.

Given that the research involved human participants with the intent of contributing to generalizable knowledge, we prepared a protocol that was reviewed and approved by the Institutional Review Board of the American College of Financial Services before any interviews were conducted.

Additionally, the following two verification procedures were used: (1) member checks i.e., sharing of interview field notes with the participants to make sure their thoughts/experiences were presented accurately; and (2) peer review and debriefing from a subset of members of our informal advisory council to provide external reflection and input on a draft of the interview guide, recruitment plan, and summary report resulting from this research.

A content analysis of the member-checked interview notes was conducted to classify themes that emerged from the interviews. Coding of interview data was conducted on two dimensions: coding informed by the literature and coding according to the pattern that emerged from the data covering topics from the interview guide.


## Thank You to Our Supporters

This research was made possible by the support of the American College Alliance for Ethics in Financial Services. We express our deepest gratitude to all research participants who generously shared their time and insights, as well as the expert advisory council who provided invaluable guidance throughout this study.


## Endnotes

[1]See for example, Lombard, E., & GibsonBrandon, R. N. (2023). Do Wealth Managers Understand Codes of Conduct and Their Ethical Dilemmas? Lessons from an Online Survey. Journal of Business Ethics, 1–20; Frecknall-Hughes, J., Moizer, P., Doyle, E., & Summers, B. (2017). An Examination of Ethical Influences on the Work of Tax Practitioners. Journal of Business Ethics, 146(4), 729–745. https://doi.org/10.1007/s10551-016-3037-6; Rogošić, A., & Perica, I. (2022). Affective professional commitment and accounting ethics principles: examining the mediating role of the code of ethics. Economic Research-Ekonomska Istrazivanja, 1–19.

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[9]*Rubin, G. D. (2015). Advisers and the Fiduciary Duty Debate. Business & Society Review (00453609), 120(4), 519–548. https://doi.org/10.1111/basr.12073

[10]The American College Cary M. Maguire Center for Ethics in Financial Services' research on consumer trust in financial services. See https://insights.theamericancollege.edu/ethic-trust-study-2022/trust-factors.

[11]https://www.wealthmanagement.com/industry/survey-investors-value-trust-advisors-more-performance

[12]https://www.rand.org/pubs/research_briefs/RB9337.html

[13]See NASAA proposal: https://www.nasaa.org/wp-content/uploads/2024/11/FINAL_Request-for-Public-Comment_Amendments-to-DU-Nov.-2024.pdf ; see also, FPA response, https://www.nasaa.org/wp-content/uploads/2024/11/NASAA-Prohibited-Titles-XYPN_FPA-Comments-121824.pdf

[14]https://www.finra.org/sites/default/files/2024-07/2024-Industry-Snapshot.pdf

[15]See also, from the FPA response letter: "..we suggest that not only should NASAA limit the use of the advisor title to those who are registered as an investment adviser, but that it would similarly be deemed a misleading marketing practice by a dual registrant using an advisor/adviser title when subsequently providing non-investment-adviser (i.e., brokerage) services to the same client."

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