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Ethics and Financial Services

By Neil R. G. Young, CLU, ChFC

A sense of ethics or as some describe it, a "moral compass," is something we all assume is hardwired in each of us. Yet every day, financial planners and investment and insurance professionals find themselves mired in ethics-related issues that can result in fines, loss of credibility, being barred from doing business and possibly even jail time.

There have always been unethical people and people have been cheating each other since the first deal was made over a campfire before the wheel was invented. However, there was always the sense that "this just wasn't done" and people who violated ethical standards were avoided.

Most people don't start out thinking they will violate ethical standards, but because of either greed, fear of consequences, or a simple ignorance of regulations, they make an error or omit something that gets them in trouble. An understanding of ethics has evolved from "doing the right thing" to a matter of professional survival in an era of complex regulations, multi-tasking and easily disappointed, litigious clients.

I would submit that Greed, Fear and Ignorance are the Big Three when it comes to ethics violations. There are others, of course, but of all the cases I've seen, these three are the prime movers.

Let's talk about each of these and how they can get us in trouble.

Greed - I've never met anyone who admitted to being greedy. However, Greed's sidekick is Rationalization. I don't think I need to say anymore about this. Greed stands in the background, smiling while Rationalization does all the dirty work.

Misrepresenting the investment or life insurance policy is probably the leading result of greed taking over. Life Settlements, the practice of hypothecating or selling an unwanted life insurance policy with large a death benefit (and commensurate broker commissions) to a group of investors, has

come to the fore lately. Life insurance companies are concerned and now ask a question on the application asking if the owner intends to sell the policy. If the answer is "Yes," the underwriters will not issue the policy. I recently saw a case where a broker sold a policy touting the benefits of selling the policy later as a Life Settlement and then checked "No" to the question in order to get the policy issued. The owner then decided to sell the policy several years later and found out there was no market. The broker now has to scramble, trying to get the policy rescinded and the client his money back, which probably won't happen.

Fear - Every action has a consequence and fear of the consequence can be a motivator for good or bad. When you make a mistake, you can do one of two things: admit your mistake, face the consequences and try to rectify the situation or cover it up, which eventually leads to fraud. Usually, the cover-up begins with a lie - telling someone you never received an e-mail or changing the date on a document. Once you've started down that path, you will eventually have to confess or be caught. Or worse yet, you might get away with it, forming a callous on your conscience.

One example of how Fear can get financial

We are happy to announce that on a somewhat regular basis our members will be writing articles focused on ethics for publication on our website, with the hope of fostering among our members a better understanding of the ethical issues involved in our respective professions. The first article is written by Neil R. G. Young titled "Ethics and Financial Services" and is posted on our website at www.baltimoreeepc.org. We invite you to read the article and submit thoughts or comments about it to becp@rxassociationmgt.com. If you would like to write an article dealing with a specific ethics issue, discuss a case or fact pattern concerning ethics, or simply explain specific rules of ethics unique to your profession, please contact Michael Friedman or Jeff Glaser.

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services professionals in trouble involves trying to make the client whole when there is a loss because of misrepresentation or ignorance. Usually this involves new, inexperienced financial services professionals and relatively small sums of money. The financial services professional tells the client not to worry, that the client will be made whole and then writes a check for the assumed loss and compounding the problem, doesn't report it to the Broker/Dealer. This is illegal and could end up in fines and being barred from the business. If a client complains about losing money and demands satisfaction, it must be reported to the Compliance Officer. If any reimbursement is authorized, it is paid by the Broker/Dealer and comes out of the financial services professional's commission account.

Ignorance - The Financial Services profession is a complicated maze of rules and regulations that gets more complicated and convoluted every day. Money Laundering has become a huge issue in recent years and often inexperienced financial services professionals are the marks. Money

Laundering is how terrorists and drug cartels make their ill-gotten gains "clean." Their tactics are sophisticated and are aimed at the greed factor of the professional. Financial services professionals are required to take Anti-Money Laundering courses each year, and that's a good thing because terrorists and drug dealers are constantly coming up with new strategies as tried-and-true methods are identified. The basic self-protection rule for a financial services professional is "Know Your Customer." Ask a lot of questions before you take the order and if it doesn't smell right, you can never go wrong by talking to your Compliance Officer.

A sense of Ethics may be hardwired into your conscience, but it is still a good idea to continually study the subject and analyze case studies because sooner or later through study or CE courses, you will come across something and you will say to yourself, "I didn't know that!" It could save your career.

Mr. Young is President of Young & Company, LLC and a member of BEPC.

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