

## Other Voices

Views from beyond the Barron's staff ■ by Jon Picoult

# Reforming a Tone-Deaf Industry

**T**HERE ISN'T A LOT OF LOVE OUT there for financial-services firms. For the past five years, diversified financial companies have ranked dead last in the Reputation Institute's annual consumer survey of industry reputations—scoring even lower than the widely despised cable companies.

Financial services is an industry that many consumers love to hate, thanks to hidden fees, complex documents, and a generally poor customer experience.

Yet many financial-services professionals feel their industry gets a bad rap—that the negative reputation is undeserved, or merely the consequence of peddling an unglamorous product that must be sold, rather than bought.

That view is a bit too self-excusing. The financial-services industry is often its own worst enemy. Few others antagonize consumers the way this one does, with business practices that alienate rather than endear.

At its core, this is a story about an industry that's increasingly disconnected from the needs, wants, and emotions of its customers. It's an industry that seems to disregard how its words and actions are perceived in the marketplace. It's an industry that is tone-deaf.

That shortcoming is currently on display in the industry's vigorous fight against the application of a "fiduciary standard" to a wider body of financial professionals, such as insurance agents, investment brokers, and retirement advisors. A fiduciary standard obligates the financial professional to act in the best interests of his or her customer.

**President Barack Obama** last week endorsed such a standard for financial professionals who handle retirement accounts. He directed the Labor Department to resurrect its proposed regulations on the matter—rules that were shelved back in 2011 due to fierce opposition from the financial industry.

Then as now, many financial-services providers want to be held to a looser standard—selling products that are merely "suitable" for the customer, but not necessarily best for the customer. Why would they do that? They might get a higher commission for recommending one product over another.

Fiduciary standard. Suitability standard. These are just more terms of jargon that make the average person's head spin.

Here's what most consumers will take away from the debate, as crystallized by a 2014 New York Times headline: "Brokers Fight Rule to Favor Best Interests of Customers." With press like this, is it really any wonder that financial firms have a reputation problem?

Some in the industry will argue that the headline is unfair; that it oversimplifies a complex issue. Their position is that the higher regulatory costs imposed by a fiduciary standard would lead brokers to stop servicing lower-value clients.

**In the arena of business reputation,** perception is reality. If financial firms' position in this debate is simply too convoluted to explain to the average consumer, then the industry has already lost the battle for consumers' minds.

Perhaps there are legitimate circumstances when adherence to a "suitability standard" actually makes sense, not just for the provider but also for the consumer. But if those circumstances truly exist, financial firms have done a poor job describing them, and an even worse job managing the appearances.

What will matter to consumers is whether the companies they patronize put the customers' interests first.

When Costco proactively notifies its members of product recalls, or Amazon alerts customers when they're about to make a duplicate purchase, or L.L. Bean exercises its no-questions-asked return policy for duck boots that aren't holding up a year after purchase, these are actions that speak volumes about how these companies care for their customers.

Comparable demonstrations of customer advocacy are hard to find within the financial-services industry. Of course, these firms can't just make an investor's losses disappear, the way L.L. Bean does with a frayed hammock. But at every turn available, so many financial firms seem to signal a disregard for customers and their interests.

If it's not fighting fiduciary duty, it's resis-

tance to fee disclosure—or an objection to some other practice that serves the interests of consumers. Instead, the industry relies on lengthy, dense, jargon-riddled disclosure documents as evidence of customer advocacy. Such disclosures serve no useful purpose to consumers if they cannot be easily understood.

There is a ripple of hope, however, in the form of financial-services companies that embrace the fiduciary standard, rather than run from it, firms that choose simplicity over complexity, firms that seek to create informed customers, rather than confused ones. It's with such companies that the future of the industry lies, as consumers become astute about what it really means for a financial provider to act in the customer's best interest.

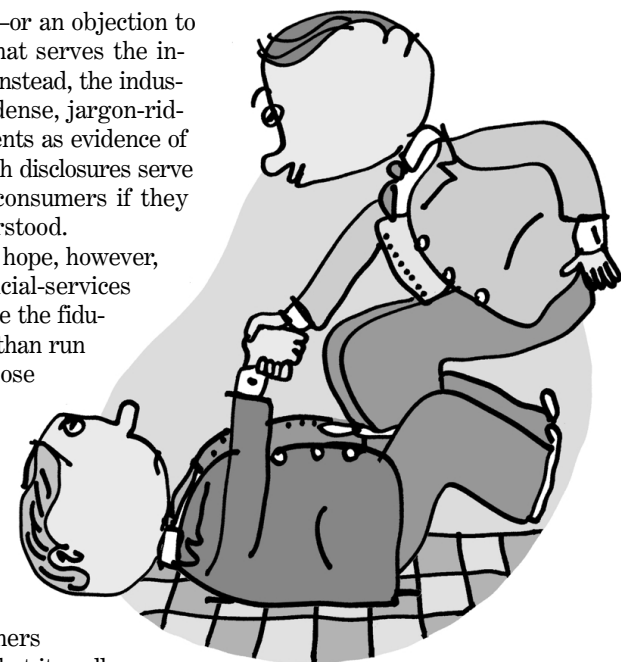
**It's time those firms** clinging to the suitability clause and other traditional ways of doing business to get on the right side of history.

It means embracing the fiduciary standard, or at least making a cogent case to the customers about why brokers who aren't fiduciaries can diligently serve their needs. It means rejecting unintelligible disclosures, instead engaging consumers in an honest, straightforward way that builds trust. It means stepping back, considering the customer's point of view and shaping business decisions and operating models accordingly.

Until more firms embrace these types of changes, the financial-services industry will continue to find its messages frequently falling on deaf ears. ■

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