Get serious about suitability

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WOULD A SURGEON recommend an appendectomy to fix your pesky gallbladder?

Would an accountant propose amending your taxes when what you really need is to file an extension?

Would an attorney recommend that you sue somebody when you just require a new will? (Sorry, this one's arguable — but please read on ...)

These are outlandish examples, but they illustrate a key point: True professionals make suitable recommendations to their clients. If they begin recommending products or services that serve other agendas, they no longer are true professionals.

Suitability implies a practitioner has listened to a client's desires, personal resources and constraints. It also implies the practitioner's recommendations fall within generally accepted standards of practice. Finally, it implies the professional serves the client's agenda, not his own.

Life insurance agents, annuity salespeople, financial planners, registered reps — none of these are professionals in the classic sense (doctor, attorney and accountant). But they must subscribe to the same suitability philosophy those professionals share. To do otherwise is foolish.

Sadly, some in the financial services industry have pushed the suitability envelope, if not broken through entirely. We've all read of cases where agents have sold illiquid contracts to seniors who require steady income; or of securities reps who have hawked limited partnerships or options accounts to unqualified investors; or of financial advisors who shoehorn their clients into investments that are self-dealing, such as a stock that their firm has a contract to sell.

This industry does have its share of bad apples. And when they surface, they sow public mistrust and damage the reputations of all. But once the regulators catch wind, watch out.

Cases in point:

- California's Insurance Commissioner has asked life insurers doing business in the state to follow suitability standards when selling senior annuities. Will these standards impose barriers that good agents must now hurdle in order to make a living?
- There's talk of expanding the NAIC's Senior Protection in Annuity Transaction model regulation to cover consumers of all ages, not just those over age 65.
- NASD has not only proposed specific suitability and supervision requirements for variable annuities, it also has encouraged registered reps to treat EIAs as if they were securities.

While the regulators duke it out, what can you do as insurance and financial advisors? The most important thing is to get serious about suitability. Let's not give the regulators any more ammunition. Let's recommit ourselves to doing careful fact-finding. Let's encourage our clients to talk freely about their personal and financial lives. Let's get the client's family involved. Let's always document the needs we hear expressed. Let's get super familiar with the products we sell and what's available elsewhere. Let's think long and hard before we make recommendations to our clients. Let's do what's right.

And when all else fails, let's just say no to unsuitable sales. Your good name depends on it.

STEVEN MCCARTY IS A DIRECTOR OF THE NATIONAL ETHICS BUREAU, A CONSUMER RESOURCE FOR ETHICS-QUALIFIED INSURANCE AND FINANCIAL ADVISORS. TO QUALIFY FOR MEMBERSHIP, GO TO WWW.ETHICSCHECK.COM OR CALL (800) 282-1831.