How to manage ethical dilemmas

An expert panel urged advisors to strictly adhere to a code of ethics

By: Michelle Schriver | October 19, 2021 | 16:06

Michelle Schriver

For a financial advisor, dropping a client or turning a prospective one away is no easy feat. However, upholding an ethics code may demand such actions.

At an ethics session on Tuesday presented by the Knowledge Bureau during its 2021 virtual Distinguished Advisors Conference (DAC), panellists shared their experiences with ethical dilemmas and building ethical practices.

Panellist Al Jones, president of A. Jones Wealth and Estate Planning, described ethics as "motivation to act based on the ideas of right and wrong." And panellist Robyn Thompson, president of Castlemark Wealth Management, said licensing provides a code-of-conduct benchmark, as well as a baseline understanding of the advisor's and client's responsibilities.

But when advisors start to put their own interests first, "that becomes a problem," Jones said. For example, an advisor's personal financial hardship could drive their business practices.

On the other side of the relationship, clients could withhold information or even lie. For example, Doris Woodman-McMillan, president of Numbers Unlimited in Abbotsford, B.C., said she discovered a couple had previously filed their taxes as though they were separated, despite living together. She told them she wouldn't lie on their tax returns, and they relented.

The result wasn't ideal: the clients had to pay back certain credits and never used her services again. Still, that was fine by Woodman-McMillan, given the stakes: "If I lie for that client, I expose every one of my clients to [CRA] review," she said.

Deviation between advisors and clients can also be the result of a communication breakdown following events such as death or divorce.

"Sometimes, clients are on a path that's changed dramatically from where they started," Thompson said, resulting in a transformed worldview or changed morals. Or perhaps a client's risk tolerance or capacity changes after a market crash.

Woodman-McMillan suggested advisors bravely ask questions to ensure complete client information, despite fear of client pushback. And sometimes the most ethical action is telling the client that you're not right for them, she said.

Tough conversations, like telling a client an investment they're keen on is too risky, may be particularly hard for new advisors struggling to earn income and please clients, Jones said. Yet, "we need to be frank, we need to be honest, we need to adhere to our code of conduct [...] to stay on track."

Thompson shared her own experience of ending a client relationship when a risk-averse client wouldn't accept her advice. Written notice was required to end the relationship, and the client was moved to another service provider, not left alone in a bad situation.

She suggested advisors who want to withdraw their services follow regulatory and professional body requirements, as well as their firms' engagement agreements. She urged advisors to understand regulatory rules and professional standards.

Compliance "is our business," she said, and can be used to create a sound practice. "If you can't get behind that, you are in the wrong business."

Advisor's Edge *and sister publication* Investment Executive *were media partners of the 2021 virtual DAC Acuity Conference.*