Raising the Bar:

Understanding the New CFP Standards and How Technology Can Help

Practifi

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Financial planners and advisors always strive to provide the most accurate and useful guidance to their clients. New industry standards give yet another reason to behave responsibly and follow ethical guidelines when informing clients' financial decisions.

In October 2019, the Certified Financial Planner Board of Standards released the most recent update to its ethical standards. The organization gave CFP members until June 30, 2020, to align their practices with these new recommendations before enforcing them in earnest. That long grace period has come to an end, and financial planners now face repercussions if they fail to comply with CFP Board guidelines.

With more than 80,000 professionals certified with the CFP Board, this development has far-reaching implications across the financial planning community. Members who violate the new CFP standards could lose their CFP-certification status, which could, in turn, lead to a loss of reputation and business.

The new updates cover a lot of ground, and many financial planners and advisory firms will need help finalizing their compliance strategies and addressing every new requirement. In this white paper, we will address:

- Why CFP-certified financial professionals need to comply with the new standards.
- How the CFP Board will enforce these standards.
- What changes will have the biggest impact on advisory firms.
- How technology can help financial planners follow the new CFP guidelines.

1. CFP Standards Build Trust

Since 1986, the CFP Board has set the standard for ethical practices and behavior in the financial advisory world. All CFP-certified professionals and firms are expected to adhere to the organization's rigorous guidelines to instill trust in their clients and reflect the broader industry in a positive light.

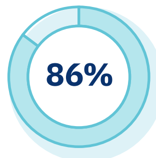
Establishing trust between financial professionals and their clients is essential for both parties to enjoy a long and successful working relationship. Without that confidence, clients might question the financial advice they receive or avoid financial planning services altogether. By doing so, they'd miss out on beneficial services that could lead to a more stable financial future.

Financial planners fill a critical role for both individuals and businesses, helping them effectively navigate the often stressful task of sound financial management. This relationship depends heavily on establishing trust between financial professionals and their clients.

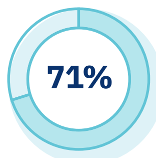
A 2018 survey commissioned by the CFP Board found that 41% of people who did not have a financial planner felt stressed out about their finances. Working with a qualified professional can help alleviate concerns and build a plan to properly manage money, investments and other assets for the foreseeable future.

In particular, the survey revealed that a CFP-certified financial planner often delivers the best results:

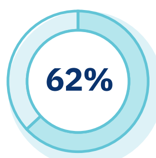
of consumers were satisfied working with a CFP-certified professional.



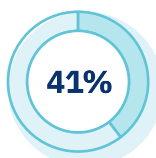
wanted the assistance of a certified financial planner.



felt confident when their finances were being managed by a CFP advisor.



described CFP professionals as "knowledgeable."



said CFP-certified financial advisors completely addressed all of their financial concerns and needs.

Consumers and businesses alike view CFP-certified financial planners in a positive light precisely because they are held to high standards. Clients trust that their financial advisors always have their best interests in mind and will act in an ethical manner at all times. If that trust ever deteriorates, it would be extremely difficult to win back clients who felt they were misled or wronged by their financial planners in the past.

2. Overview of CFP Board Standards

The spirit of the CFP Board's ethical guidelines have remained consistent over the years, directing financial planners to act with integrity when providing clients with their professional services and expert advice. Those standards establish a comprehensive list of expectations regarding general conduct:

Duty of Loyalty

Financial planners must always keep the clients' interests in mind when giving financial advice. That includes avoiding conflicts of interest whenever possible and notifying clients about any conflicts that can't be avoided before working for them. In all situations, financial planners must place the clients' needs above their own, even if those decisions don't benefit themselves or their firm.

Duty of Integrity

CFP-certified financial professionals are expected to always be honest and truthful with their clients. While the CFP Board provides some flexibility for errors and misjudgments made in good faith, it takes a hard line against any deception on the part of the advisory firm. Examples of this kind of behavior can run the gamut from recommending investment vehicles that don't align with clients' long-term financial goals to intentionally hiding commissions and other incentives to committing wire fraud.

Lies of omission fall under the organization's definition of deceit as well, meaning financial planners must disclose all available information at all times to meet integrity standards.

Duty of Competence

Customers expect CFP-certified advisors to be capable of providing knowledgeable guidance on any financial issue. The CFP Board stipulates that all certified individuals must meet a high standard of professional competence, even in subjects that fall outside of their areas of expertise. In those cases, financial advisors must either:

- Seek out assistance from a more qualified professional.
- Obtain the necessary knowledge to provide accurate guidance.
- End their professional relationship with the customer.
- Refer the customer to a more qualified financial advisor.

Financial planners need to be completely transparent about the assistance they can provide and notify clients when requested services fall outside their experience, expertise and capabilities.

Duty of Diligence

CFP-certified professionals are expected to respond to any customer queries in a timely manner. The exact definition of what that constitutes is not clearly stated in the CFP Board's Code of Ethics, but advisory firms must act in good faith to reach out to clients as quickly as possible.

Duty of Confidentiality and Privacy

CFP-certified financial professionals have access to a variety of highly sensitive information, including financial records, client contact details and personally identifiable information. Advisors must protect the security and privacy of their clients' personal and business records at all times and avoid data leaks.

One exception to this rule is if financial planners come across illegal activity that they are obligated to report to law enforcement authorities.

Duty of Service and Payment Transparency

Clients should always know exactly what professional services they are receiving from financial planners and what those services cost. Advisors need to provide detailed descriptions of their services, including cost breakdown, payment plans, and the scope of engagement at the outset of every new account and project.

3. What Are the New CFP Standards?

The most recent round of changes is the most rigorous yet, putting more explicit standards of conduct in place. The CFP Board has expanded the scope of its guidelines to include activities that would have previously been outside the organization's overview.

The biggest change that CFP-certified financial professionals need to account for is that under the new guidelines, any financial advice they give, regardless of context, will fall under a fiduciary standard. Previously, that was only the case when advisors acted in an official capacity as a financial planner.

The latest guidelines also update financial advisor compensation definitions to more clearly distinguish fee-only and fee-based services. Previous allowances for ambiguous language made it possible for clients to believe they were paying financial planners a flat fee when those service providers were also receiving commissions.

With this broader standard, advisory firms are obligated to prioritize their clients' issues at all times, whether they are providing financial planning guidance or other professional services. Industry members have generally supported these changes, noting that they will help build public trust in financial advisory offerings and alleviate anxiety.

4. How Will the New CFP Standards Be Enforced?

Now that the CFP Board will enforce these new guidelines, advisory firms and financial planners need to fully understand what that process looks like.

Customers who believe their professional service providers have violated CFP standards can submit a written complaint online to the CFP Board.

The CFP Board's Disciplinary and Ethics Commission reviews each case to determine whether or not a financial professional has failed to comply with the organization's guidelines. If the panel finds that the advisory firm or professional has not acted in accordance with CFP standards, it may enforce a variety of disciplinary measures.

Those include private censure, a public letter of admonition or suspension of CFP certification. In the most extreme cases, the board will revoke the offender's membership and permanently bar them from applying for reinstatement.

Losing CFP-certification status even temporarily can have a significant impact on business prospects. Existing clients may drop their services in favor of a competitor that has retained its certification and maintained a spotless record of CFP compliance.

The CFP Board periodically announces disciplinary actions, detailing precisely how individuals or firms violated CFP standards.

Having this behavior released for public consumption compounds the fallout from noncompliance, as any prospective customer can easily find information about a financial planner's previous unethical behavior.

5. How Can Technology Help With Compliance?

Advisory firms need to update their practices to comply with the latest CFP standards. If financial planners or their firms are still struggling to meet the CFP Board's high threshold for diligence, transparency, responsiveness and security, the latest financial technology can help get them to the finish line.

Maintain Loyalty and Integrity

Business management platforms and customer relationship management (CRM) solutions keep a complete record of every client and account that a firm has ever worked with. That level of visibility helps financial advisors and planners proactively check for potential conflicts of interest. It's much easier to identify issues that might affect a firm's ability to provide high-quality services and notify the client at the outset of a working relationship.

With a comprehensive business management solution, firms can establish a complete record of the financial services they have delivered to clients over the years. Every communication, investment and piece of financial advice is fully documented so firms can flag potential conflicts of interest and make certain that every decision is made with their clients' best interests in mind.

Respond to Client Queries in a Timely Manner

Often, when financial advisors fail to quickly respond to a client's question or request, it's because they need more time to find the right solution. Business management platforms integrate with different applications and platforms to give advisors access to the most information available to help inform their financial guidance and decisions. Centralized access to critical financial records and client information means advisory firms can quickly respond to queries without delay.

In addition, automated responses and email notifications keep clients in the loop about matters that are still being worked on so they are never left in the dark. The automated tools built into business management platforms enable financial professionals to maintain constant contact with their clients without necessarily needing to write an email or pick up the phone.

Protect Client Data and Privacy

Leading CRM and FinTech solutions build in robust security features to help safeguard client information and prevent unauthorized individuals from accessing sensitive information. Upgrading business management platforms and other business software removes potential security risks and vulnerabilities that could otherwise result in a costly data breach.

Additionally, cloud-based business management solutions offer high levels of security and availability, backing up data on secure systems so it can be easily retrieved whenever necessary.

Meet CFP Standards With Practifi

With the CFP Board now enforcing the latest guidelines, many firms need to align with the new ethical standards. Complying with CFP standards should be approached from different angles, working to change the way advisory firms operate while incorporating new technology that can help them deliver a higher quality of service.

While the CFP Board is always working to make the financial advisory industry a more reliable and trustworthy place, having the right technology and tools in place can help make it easier to meet their high standards. Platforms like Practifi are designed with these rigorous standards in mind, automatically capturing and storing client communications, documents and accounts. All the while it has all the features and tools that financial advisors and planners need to provide an excellent client experience.

Contact Practifi today to learn how we can help.

To learn more about Practifi, visit practifi.com.

Sources:
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