

SENIOR CONSULTANT

The Voice of the Investment Management Consultant

SEC Approves FA Service Rating

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The Security and Exchange Commission has agreed to allow financial advisors to advertise their clients' ratings of their service. Dalbar, the Boston-based research firm, which has been providing the mutual fund industry with customer service surveys and brokers/dealers with client surveys, is the first firm to win approval from the SEC to survey the clients of financial advisors and to evaluate and rate the service being provided. This is an extension of SEC chairman Arthur Levitt's work in helping the consumer achieve a higher level of investment counsel in making investment decisions. Levitt has long been an advocate of advisors addressing a broad range of issues such as risk, tax-efficiency and cost structure of their investment recommendations. The Dalbar rating of service will likely become a significant, consumer-driven "good housekeeping seal of approval" for financial advisors. As consumers inquire more about an advisor's Dalbar rating, becoming Dalbar service-rated will become an increasingly important measure in clients engaging the services of a financial professional.

The survey will evaluate 40 areas of the advisor's practice and will allow the financial advisor to differentiate themselves based on their service. Dalbar will have a web site and directory of Dalbar-rated financial professionals, and provide advisors with leads of investor inquiries in their area. Dalbar will also provide feedback to advisors on their practice which will provide insight into the likely future behavior of their clients. Advisors can control whether to make their rating public or not. As with their mutual fund and broker/dealer clients, Dalbar feels it is a conflict of interest to rate an advisor and then consult with them on how to improve their service rating. With 10,000 advisors in the first year anticipated to use the evaluation service initially priced at \$500, a whole new profession of consultants will emerge which will advise financial advisors and their firms on how to improve client service. The significance of the Dalbar rating is that the consumer will drive the service model.

The Dalbar rating will require the financial advisor to have five years of experience, a clean compliance record and to be active in the business in terms of clients and assets under management. The client survey

will evaluate four primary elements of the advisor's practice: performance, trust, satisfaction and quality of service. Dalbar measures performance relative to client expectations which implies investment policy or some manner of performance expectation is established. Trust is defined by putting their client first and incorporates all the soft values of objectivity, accountability and suitability around which long-term relationships are built. Satisfaction is a subjective measure based on the client's sense of being well-served. Because education is the most important concern of the investor, it is important that the client be an active participant in an investment process through which they will achieve their long-term goals and objectives. Quality of advice

is defined as whether the level of investment counsel is credible and acceptable. Though investment management consultants who address all the values most important to each client in terms they understand in the context of their goals and objectives, will rate extremely well, Dalbar believes you will only know for sure the level of service provided by inputting the client variable into the equation. Thus, Dalbar has not specifically incorporated the

hard tangible quantifiable values of risk, return, tax-efficiency, etc. into the Dalbar rating, but those values will be reflected in the client's sense of service.

Louis Harvey, chairman of Dalbar, says, "This is a once-in-a-generation opportunity. In the same way that MorningStar changed the mutual fund industry, this too could change the personal financial advisor industry. There is a clear trend toward advisory services for a fee, which address the investment values most important to each client. The evolution of the financial services industry from trade execution to advisory services will redefine our industry. With the Dalbar rating, it will become increasingly clear to the consumer which financial professionals are providing the highest level of service, investment counsel and value. Every consultant in the industry has a vested interest in becoming service-rated and making the rating and the level of service they provide a significant point of differentiation relative to their competitors. Dalbar has brilliantly created a consumer-friendly measure of service which truly could redefine the financial services industry. ■

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