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Is point-of-sale disclosure a winning strategy?

The introduction of the Fund Facts documents presents a great opportunity for the industry to make some wholesale changes to the disclosure landscape

By Anthony Boright | October 31, 2013 06:00

Few issues cause the same exasperated response from financial advisors as the prospect of heightened compliance and increased regulatory disclosure obligations.

In fact, I often hear from many advisors, who say, "What's the problem that regulators are trying to fix?" Others, such as an industry veteran on the verge of retirement a few years ago, say, "Point-of-sale (POS) disclosure will be the death knell of the mutual fund industry."

But is POS disclosure truly that negative? Or is it possible that it can be a winning customer strategy? I believe it to be the latter.

In the wake of the 2008-09 global financial crisis, it's clear that regulatory complexity and increased disclosure requirements are transforming firms and client dynamics. In fact, in Capgemini's *2013 World Wealth Report*, the firm contends that the volume and pace of regulatory change is the single largest challenge facing wealth-management firms today.

Increased regulation is causing shifts in the wealth-management industry, with increased consolidation resulting from firms struggling to keep up with the added costs and administration necessary to remain compliant. And although the costs of compliance related to adding more people, more documentation and more technology are substantial, the costs of non-compliance — including penalties, legal or reputational — can be worse.

That sounds pretty gloomy, doesn't it? Well, there is a silver lining in all of this added compliance.I am neither pro-regulation, nor opposed to it. As a solution provider in the financial services and insurance space, I try to walk the fine line between satisfying the needs of the investor, industry and the regulators.

Sometimes, change can be good. But not all organizations, nor individuals like to change, especially in situations in which change involves new processes.

By June 13, 2014, Stage 2 of the POS regulation will require that dealers and their advisors deliver the new two-page *Fund Facts* document to investors after the mutual fund purchase instead of the prospectus.

Sometime after that — regulators have re-stated their commitment to Stage 3, but without assigning a timeline — advisors will have to start delivering the document at the same time or prior to the investor's purchase. This represents a greater challenge to the sales process as there are more than 25,000 *Fund Facts* documents for you to choose from, so this becomes a potential sales disruption.

However, wealth-management firms and advisors that use POS regulation and the new regulatory landscape as a catalyst to tie information technology investments to more holistic improvements will be in a position to gain in this challenging environment. The benefits to dealers and their advisors who embrace the new disclosure regulation are many, including:

- Improved communication and greater transparency with investors.
- Higher financial literacy levels.

- Stronger client relationships.
- Cost savings.

Dealers and advisors that look at such disclosure events as an opportunity to improve communication with clients will benefit. The *Fund Facts* is a new document for clients and represents an opportunity to start a new conversation. Explain the benefits of the mutual fund in simple terms; confirm the fund's suitability; gain express consent from your clients and migrate them from the print to the electronic channel as a more sustainable and cost-effective medium.

Then, there's also the cost benefit to dealers and manufacturers as they move to the shorter *Fund Facts* document. A two-page *Fund Facts* document costs less to print and mail than a 28-page prospectus. Although the relative difference in print costs for the reduced page count may be insignificant, the postage savings are substantial.

In my estimation, the savings to dealers delivering the printed *Fund Facts* in lieu of the prospectus is about 60%. And firms that can migrate their clients from the printed prospectus to a *Fund Facts* presented electronically could see cost savings of more than 90%.

Generally speaking, well-informed clients are good clients, as they know what they want, don't waste your time and recognize the value of what they're being sold. Although stories such as the recent suitability scandal concerning the Money Concepts clients who filed and won a $10 million class-action lawsuit against their advisors are not new — and while such unscrupulous salespeople represent a tiny percentage of all financial advisors — the mainstream media will always pick up on the stories and regulators will do all they can to improve disclosure and suitability of retail investments.

Firms and advisors who respond to the evolving disclosure landscape will distinguish themselves in a new world in which fiduciary responsibility is increasingly expected.

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