

Why Ethics in Finance Matters — By Building Trust and Confidence in Capital Markets, Everybody Benefits

By Dr Jeffrey Stangl, CFA, President, CFA Society New Zealand

Worldwide, consumer faith in the financial services industry has been low for years. The situation is no different in New Zealand, where many people have an inherent distrust of the industry and its service providers.

An Ever-Moving Target

Because the financial services industry is important to the functioning of the economy, everyone in New Zealand has a vested interest in the industry in some way. In recent months, the media have extensively covered failings in the financial industry, such as compliance breaches and the mis-selling of financial products. According to the [2018 Edelman Trust survey](#), the financial services industry is one of the least trusted industries globally. Amongst the public in particular, only 54% of respondents indicated they would trust financial service businesses to “do what is right.”

However, a [similar survey by CFA Institute](#) revealed that while in 2013, both investors and the public were negative about the financial services industry, today, greater distinctions exist between the general view of trust of financial services and the personal view of trust related to actual experiences.

Maria Wilton, CFA, former managing director of Franklin Templeton Investments Australia and a current member of the board of governors at CFA Institute, spoke at the launch of the CFA New Zealand Associate Membership in June 2018. She noted several factors that affect trust in the financial services sector:

- **Bad headlines.** Wilton explained that such headlines are the *outcome* of poor practices and conduct, and not the *cause* of it.
- **Constant regulatory changes.** According to Wilton, although the constant tweaking of regulations is usually necessary, it does not inspire consumer trust. For example, Australia has seen the Cooper Review, the Henry Tax Review, the Murray Report, a few Productivity Commission reports, and the Royal Commission—all in the span of eight years. “Once again this is an outcome and not a cause,” she noted.
- **Market volatility.** Market downturns make investors nervous.

Restoring Trust is Key

The Chartered Financial Analyst® (CFA®) mantra is a belief in rebuilding, restoring, and generating confidence in capital markets. CFA Institute and CFA® Societies want to re-instil and regrow trust and confidence in financial markets, especially in those markets served by financial advisers.

These variables can influence trust and be used to improve it:

- **Competence.** Individuals must have the right skills and the ability to do the job. To offer financial advice in New Zealand, all you need to do is pass a basic test to get your qualifications as an authorised financial adviser. This test or test modules are equivalent to the first year of university—it’s basic finance 101. That’s the minimum standard, and quite a large percentage of those offering financial advice in New Zealand sit within this level of understanding. On the other side of the spectrum you have CFA® charterholders, who undertake extensive training and study to get their charter. People seeking financial advice don’t necessarily know what level of competency they are getting.
- **Care.** Individuals need to exercise diligence in their work. Clients need to know that as financial advisors, we are exercising care in the provision of advice in their best interest and not just selling them a product. Building strong client relationships is crucial to understanding our clients’ needs. Strong risk-management processes are an essential part of the exercise of care and diligence.
- **Ethics.** All conduct and behavior must put the needs of investors first. Individual accountability lies at the heart of this.

- **Culture.** Building organisational cultures where only the highest ethical standards are acceptable is fundamental to success and is a key topic on regulators' agendas. To drive a culture in the first instance requires good governance so it's got to be led from the top. This way, people in the organisation recognise and buy in to the ideology, the mission, and the vision. This is why it's crucial to have a good ethical grounding; standards need to be upheld. Yet, to change or maintain a culture is not something that happens automatically. But is it impossible? No. Is it difficult? Again, no. Does it take effort? Yes. Thus, effort needs to be led from the top and led by good governance. It won't happen automatically.

CFA Institute and CFA Society New Zealand pride themselves on advocating for the highest ethical standards. At the centre of this is the [CFA Institute Asset Manager Code](#). The Code is built around how we as financial advisors can add more value to what we bring to our clients and how we can be leaders in the financial services industry, creating positive change in how the industry conducts business. By building trust and confidence in capital markets, everyone benefits.

Find out how [CFA Society New Zealand Associate Membership](#) can help you inspire greater trust in your customers.