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PRIORITY FINANCIAL GROUP

TOP 3 COMPLIANCE QUESTIONS

Credit Union CEOs Need to Ask Their Investment Services Department

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The need and demand from credit union members for quality financial advice has never been greater. To be competitive, credit unions are positioning themselves as leaders in financial education and literacy for members challenged to get started, and those blessed with higher net worth issues. Today, many credit unions (and banks) consider financial planning, investment services and wealth management to be core services contributing to member loyalty and non-interest income.

To minimize risk, credit union CEOs should ask these three important questions to keep members, staff, board members and regulators (NCUA, state, SEC and FINRA) happy and protected:

1 Why are we moving to advisory business?

Due to the potential negative impact on clients, "reverse churning" is an issue on the SEC hot list. This is the act of moving a client from an account where they already paid a sales charge to a new advisory account without demonstrating the benefit of the move for the member. From the outside looking in (i.e. attorneys and regulators), it would appear as though the credit union member was moved to an account where they now pay two, three or even four times more for similar services. Having a member centric process is strategic.

2 What does the "total compensation" plan look like for managers and advisors?

Review how your program manager/wealth management vice president is compensated. For instance, if your program manager has goals heavily based on gross revenue (often referred to as GDC), then advisors may be more likely to sell higher commission products and introduce fewer advisory options. Some credit unions still have over 40 percent of their business in annuity sales and less than 20 percent in advisory business. This could be a compliance red flag for regulators.

Similarly, advisors who have extreme GDC goals could be unintentionally encouraged to sell high commission products at the beginning of each month. Then, only after their GDC goals are met, they make advisory products available. Imagine if members knew it was better to meet with their financial advisor the last week of the month, but only if the advisor was meeting their goal.

3 What percentage of our business is in alternative/illiquid products?

Credit union members have been riding a strong bull market. But what happens when downturns and recessions hit? Typically, a flight to safety from investors occurs. Today, products are marketed to your advisors and in turn, your members, that lock up their money only offering liquidity "windows." Those windows can close when there is an increase in demand. If members can't access their money when they want, compliance issues and member dissatisfaction may result.

BONUS QUESTION

What is our reputation risk with this broker-dealer?

Vendors, product providers and broker-dealers can make credit unions look good or bad in the eyes of members. Oftentimes members and credit union executives pay little attention to their broker-dealer firms, because they "like and trust" their advisors. It's wise for CEOs to at least be aware of the reputation risk you currently face due to these partner relationships.

Reading recent news articles is a quick, easy way to check on the recent activity of outside firms. A good place to start is InvestmentNews.com. Simply type your broker-dealer name in the search bar and review articles from the past 24 months. Typically, you will see good news from their PR department, but other public issues may be of concern from a reputation risk perspective. See for yourself through the lens of a member, regulator or board member. Also, consider performing a broker-dealer RFP if you haven't in the past five years.

Members rightfully expect to receive high-quality advice when they visit their credit union. As a credit union CEO, ask questions and perform appropriate vendor management every five years so you can be confident your investment services program remains a value-added member service. If you don't like the answers you hear or are not comfortable with the reputation risk, fairly easy fixes can be made with the help of your leadership.

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