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This month's guest columnist is Albert E. Gibbons, CLU, ChFC, AEP. He specializes in estate planning and life insurance planning for high net worth individuals, high-level corporate executives, and successful entrepreneurs. He works with and through sophisticated tax professionals (attorneys, accountants, and trust officers) to serve their most significant clients. Mr. Gibbons is a nationally recognized speaker, writer, and expert on the estate planning process and is the inventor/creator of The 80/20 Estate Plan.™ Mr. Gibbons is a life and qualifying member of the Million Dollar Round Table and belongs to the Society of Financial Service Professionals and the Montgomery County and Philadelphia Estate Planning Councils.

—R.F.D.

The Ethics of Making Professional Referrals

by Albert E. Gibbons,
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Many of us are fortunate to have clients who have been financially successful beyond their wildest dreams. Their accumulation of wealth forces them to face complicated tax aspects of estate planning. This means that clients need estate planning teams. While they may have relationships with one or two members of a potential estate planning team, they often look to us to refer other professionals to fill out the team. Our clients need to be referred to advisers who are capable and trustworthy, and who will act in their best interests.

Referring other professionals is a serious responsibility, almost "fiduciary" in nature. Yet, too many professional referrals are made for the wrong reasons:

- Far too many referrals are made based on friendships (I will refer my neighbor, my buddy, my high school

Strictly Speaking

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or college classmate).

- Too often, referrals are based on marketing concerns (I should refer clients to particular professionals, or I won't get any additional referrals from those professionals).

- Very often, referrals are made to get an endorsement of a specific proposal (I will refer certain professionals because I know they won't "muddy the waters" and will do what I ask them to do).

- Finally, more and more referrals are being made because advisers are sharing fees and commissions, either disclosed or undisclosed to clients. This practice is becoming more and more prevalent and will continue to expand as multidisciplinary practices become more common.

I have no way of knowing for sure (I wish someone would do a formal survey), but I believe that a substantial percentage of referrals are made for wrong or inappropriate reasons. Too many interests are being served other than the client's. If I were the client, I would feel betrayed.

Great clients need great estate planning, performed by great estate planning professionals. Obviously, we need to refer the right professionals for the right reasons and put our clients' interests ahead of our own.

So, on what basis and using what criteria should professionals refer other professionals? Competence and integrity are two essential qualities an estate planner must possess to be refer-

able. These qualities are the essence of performance-based reputation.

"Integrity without knowledge is weak and useless. Knowledge without integrity is dangerous and dreadful."

—Samuel Johnson

Lets start with competence and look at concrete and specific criteria that accountants, lawyers, and trust officers might use when referring life insurance professionals:

- The selection process begins with the evaluation of the insurance professional's competence as evidenced by professional designations and credentials. Chartered Life Underwriter (CLU) and Chartered Financial Consultant (ChFC) designations would satisfy the minimum requirements. These designations are the ticket into the game.

- Accredited Estate Planner (AEP) and Masters of Science in Financial Services (MSFS) designations indicate technical proficiency and dedication above and beyond the norm. Additionally, Professional Achievement in Continuing Education (PACE) qualification is an important indication that the insurance professional is staying current in a fast-changing world.

- Additional evidence of competence and competitive advantage (i.e., separation from average and above average insurance agents) is demonstrated by membership in the Society of Financial Service Professionals (SFSP) and the Association for Advanced Life Underwriting (AALU). Publication of articles in respected journals, and speeches and presentations to professional audiences are further demonstrations of credibility.

- Life and Qualifying membership in the Million Dollar Round Table would attest to the fact that the life insurance professional has been successful over an extended period of time.

Life insurance professionals who

have the above credentials would certainly be regarded as competent, credible, and very referable. In referring other professionals such as attorneys or accountants, we would need to look at their credentials to find evidence that they have continued in their education. But, these competency credentials make them only “potentially” referable. They’ve made the first cut.

Remembering Johnson’s admonition, “Knowledge without integrity is dangerous and dreadful,” we recognize that there is more to being a candidate for a referral than competence. Let’s deal with the much more difficult issue of integrity. Andrew Carnegie said, “As I grow older, I pay less attention to what men say; I just watch what they do.” Integrity is demonstrated much more in action than by intent. Actions, good or bad, are the litmus test. Accountants, lawyers, and trust officers must know that the life insurance professional they are referring is going to act in the best interests of their clients. That is, they must be sure that the life insurance professional will understand the clients’ needs, recommend and provide appropriate products and solutions, and implement solutions by dotting all of the i’s and crossing all of the t’s. As stated in the CLU/ChFC Pledge, the ethical imperative for the life insurance professional is “...to render that service which, in the same circumstances, I would apply to myself.”

So, how does the referring professional know which life insurance professional to refer? It would be naive to think that all insurance agents are the same, i.e., one is as bad or as good as the others—and, by the way, that goes for other professionals as well. First, the referring professional should evaluate the insurance professional’s tangible qualifications. Look for evidence of competence, e.g., the designations and credentials previously listed. Why refer anyone less qualified? Second, before referring,

“watch” the insurance professional over an extended length of time in other venues. Does s/he seem to be of good character? Is s/he respected? Does s/he do what s/he says s/he is going to do? Does s/he perform?

Finally, I would submit that the life insurance professional’s “reputation” is the last and best means of differentiation from all of the other life insurance professionals who might be considered. If ethical behavior is defined by what you do when no one is looking, then reputation might be defined by what people say about you when you are not listening. As Henry Ford said, “You can’t build a reputation on what you are going to do.” A person’s reputation is built on what one has done. It is based on performance. It is built over a long period of time and encompasses many transactions and experiences and involves many people. A reputation can take years to build but can be destroyed in an instant by selling questionable products, performing shoddy work, or betraying a client’s trust.

Reputation is a forgotten way of doing business. An outstanding reputation can be a source of competitive

advantage and is sought by professionals who are interested in doing business for the long-term. The importance of reputation is demeaned and made light of only by those who can’t compete on its demanding terms.

A professional’s reputation for competence and integrity should be rewarded in the marketplace. It should be encouraged, sustained, and referred. It should be the basis for any referrals that professionals make to their clients, and clients should hold their advisers responsible for making the appropriate referrals.

Our clients have a lot at stake. They rely on us, their trusted advisers, to act in their best interests. Let’s make sure that we refer the right professionals for the right reasons. J
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