

Financial Advisors v. Insurance Agents: Does One Want to Scam You?

Posted: 10/21/2013 9:55 am

A financial advisor and an insurance agent may sell similar products, but they can have very different motives. The worst agents will be beholden to their company's profit margin more than they are to your financial wellbeing.

Although the distinction between the two professions is porous, there is a general rule thumb for understanding who does what: "The financial advisor has a more comprehensive view of the clients situation and is tasked with helping the client achieve one or more defined financial goals," said Mark Smith, a certified financial planner in Glen Allen, Va.

"An insurance agent is more focused on finding a need that their insurance product can address. It is important to start by asking, 'What am I trying to accomplish?' before going to any potential service provider."



Blurred lines: financial advisors v. insurance agents

Again, though, it's hard to distinguish between financial advisors and insurance agents with a hard and fast definition, of being good and the other bad; this is because, in the last few decades, lines have blurred between professions in financial advisory. "Anyone who provides advice on a financial topic is an 'advisor' to them," said Jim Lorenzen, a certified financial planner in Simi Valley, Calif.

"With the demise of the Glass-Steagall Act" — see more detail on this below — "combined with competitive revenue pressures and mass consolidations, the definition of agent and financial advisor have blurred as many advisors can be agents and vice versa," said James Hiles, a chartered financial consultant in New York, N.Y. "The real issue here is finding out

who actually does What and is good at it. Interview and ask for trial periods and work samples."

In essence: it's more important to understand who your advisor or agent is as a professional more than their title.

Understand their business model

"I'd urge you to seek out fee-only advisors and fee-only insurance agents. Both exist, although they are a very small percentage of the financial profession," said Steven Podnos, a certified financial planner in Merritt Island, Fla. "Ask how any advisor is paid, and if they are paid by anyone other than you, watch out!



Fee-only advisors charge only you, the client. Many other financial advisors and insurance agents are compensated by their employer. Their pay structure isn't necessarily based on services to you but more so the financial products they sell to you for a commission.

Sometimes this imbalance, between fiduciary responsibility to you and responsibility to the company, is so extreme that you in fact lose money on your investments. Andy Tilp, a certified financial planner in

Sherwood, Ore., has worked with a client who also had a relationship with an insurance agent, who plainly took advantage of her.

"She had been sold several annuities and loaded funds that, even in an up market, were not returning enough to even pay the fees," Tilp said.

A history lesson: how the lines blurred

Hiles says this blurring of lines is due in part to the dissolution of the Glass-Steagall Act. That controversial piece of legislation enforced a separation of commercial and investment banks, between those that accepted deposits and others that underwrote securities and took more risks.

As that barrier grew more and more thin in the late 20th century, and as banks became more engaged in activities beyond deposits, offices were consolidated.

"You get merged and the next thing you know you are in a different culture with a different product set, maybe a different market focus or none at all," Hiles said. The financial advisor's newly consolidated company may then sell another array of products, and so he or she only needs to pass a test, get a license and sell that product.

In short, it's more important to interview a financial advisor and find the right one rather than rely on titles.

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