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Financial adviser background checks

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Abstract

Using the 2009 National Financial Capability Survey, we identify demographic characteristics associated with financial adviser users who conduct adviser background checks and/or consider more than one adviser before making a choice, and if these activities improve their trust in financial advisers. We find that very few financial adviser users check backgrounds, but there is a positive relationship between adviser background checks and trust levels. Overall, these findings indicate that having a reliable background check system in place, allowing financial consumers to conduct adviser background checks in an easy and efficient manner, will help improve trust in financial advisers.

Jel classification: D18; D14; G18

Keywords: Consumer protection; Personal finance; Government policy and regulation; Financial advisers

1. Introduction

We investigate characteristics associated with financial consumers who conduct financial adviser background checks and/or consider more than one financial adviser before making a choice, and if these activities improve the level of trust financial consumers have in their financial advisers. Consumers typically search for information on products and services before they buy or sell them. When a product is more expensive, the time and cost associated with the information search usually increases. Financial decision-making is complex because consumers must understand the risks associated with their financial products and have the ability to project future economic scenarios and possible outcomes (Lin and Lee, 2004). As

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many retirement plans continue to transition from employer-managed defined benefit plans to employee-managed defined contribution plans, consumers are forced to make their own financial decisions. Consumers can make these financial decisions themselves, or they can rely on financial advisers to assist them.

As financial products and decision-making become more complex, an increasing proportion of financial consumers depend on the advice of financial professionals or advisers. Previous literature from the late 1990s and early 2000s reports that between 21% and 25% of households use financial advisers (Elmerick, Montalto, and Fox, 2002; Lin and Lee, 2004). However, the 2009 Financial Industry Regulatory Authority (FINRA) Investor Education Foundation's National Financial Capability Survey (NFCS) shows that 56.7% of households responding to the survey used a financial adviser between 2004 and 2009. As an increasing number of consumers rely on financial advisers in their financial decision-making, there has been an increase in the number of people offering financial adviser services, making it imperative that financial consumers spend time in selecting a financial adviser who can best serve their needs.

Consumers have the ability to verify that financial advisers are licensed or registered, determine if they have been involved in professional misconduct, and ensure that they have adequate education and professional experience to give a reasonable assurance about the adviser's competence, conduct, and reliability.[1] Some of this information can be obtained from the Securities and Exchange Commission (SEC). Organizations such as AARP,[2] individual state agencies,[3] and the Certified Financial Planner (CFP) Board[4] provide information regarding how to conduct background checks and what should be considered. Despite the availability of this information to facilitate financial adviser background checks, we find that only 14.2% of financial consumers responding to the NFCS survey who have used financial advisers have checked the background of a financial adviser in the last five years. However, we find that nearly 46% responded that they considered more than one adviser before making a choice, indicating they see the importance associated with choosing a competent financial adviser.

To the best of our knowledge, there is no academic study regarding financial adviser background checks. Our study fills this gap while also adding to the growing body of literature pertaining to financial advisers and financial consumer decision-making (Elmerick et al., 2002; Finke, Huston, and Waller, 2009; Lachance and Tang, 2012; Ligon, 2003; Lin et al., 2004; Jones, Lesseig, and Smythe, 2005). Using the NFCS survey, we identify the characteristics of consumers who have conducted a background check of a financial adviser in the last five years and/or considered more than one financial adviser before making a choice. We also consider if these activities improve the level of trust financial consumers have in their financial advisers.[5] Throughout our analysis we consider five different types of financial advisers to include *Debt Counselors*, *Savings and Investments*, *Mortgage and Loan*, *Insurance*, and *Tax Planning* advisers.

Our article is structured as follows. We provide an overview of the background check systems available for financial consumers in Section 2. We explain the NFCS survey and methodology used in our analysis in Section 3, and present empirical results in Section 4. We summarize and conclude in Section 5.

2. Background information

Based on the Investment Advisers Act, 1940, Sec. 211 (g) (1), investment advisers are required to register with the SEC, or with state agencies, based on the level of assets they manage. These registered investment advisers have fiduciary responsibilities meaning they must act in the best interest of their clients, and disclose any conflict of interest they may have to their clients. What is troubling is that not all types of financial professionals performing financial services have fiduciary responsibilities. For example, registered investment advisers have fiduciary responsibilities, but brokers do not have this higher fiduciary standard, only a relatively lower "suitability" standard.[6] Some financial planners, such as a Certified Financial Planner (CFP) have fiduciary responsibilities, but several other similar designations do not. The Dodd-Frank Act, 2010, Section 913 requires the SEC to consider changes in how different financial professional designations are required to have fiduciary responsibilities with their clients. The SEC is currently in the process of making new rules for retail investors.[7] Many financial consumers are not aware of these subtle legal differences. For example, Bernard Madoff was a registered broker-dealer having a significant amount of assets under management, but he did not register as an investment adviser until the SEC conducted an investigation in 2004. The Madoff fraud case highlights the fact that many investors blindly trusted him, not realizing he had no fiduciary responsibility towards them. This highlights how background verification of financial advisers is an important activity for financial consumers.

The costs associated with using financial advisers are usually transaction fees or fees related to total assets under management. Because the financial adviser serves as an agent for the consumer (principal) there is also an agency cost associated with using financial advisers. Finke et al. (2009) categorize transaction costs and asset management fees as direct cost and the additional agency monitoring costs as indirect costs. Jensen and Meckling (1976) subdivide the agency costs into monitoring costs, bonding costs, and residual losses.[8] Monitoring costs are incurred by the financial consumer (principal) when they go through the process of checking the background of financial advisers (agents) they are considering, and/or consider more than one financial adviser, before establishing a contractual relationship with a single adviser. We will refer to these activities as *pre-selection monitoring* to indicate they occur before choosing a financial adviser. Theory predicts that the financial consumer (principal) will stop monitoring their financial adviser (agent) when the marginal costs of monitoring equal the marginal benefits. If the cost of searching for a financial adviser is likely to be too high in terms of money, time, and effort it is very likely that pre-selection monitoring will not be completed.

Prior literature considers who actually uses financial advisers and what types of information is used by financial consumers when making financial decisions. Elmerick et al. (2002), using the 1998 Survey of Consumer Finances, find people with higher education, income, and personal net worth are more likely to use a financial adviser to assist them in making financial decisions. Lin and Lee (2004), using the 2000–2001 MacroMonitor dataset, find that education, income, risk tolerance, and the dollar amount of investment positively influence financial consumer's information search behavior to include what specific information sources (i.e., internet, professional advisers, etc.) are used in helping make financial

decisions. Lachance and Tang (2012), using the 2009 NFCS survey, examine determinants of trust in financial professionals and the impact that trust has on the use of financial advisers. They find that trust declines with age and increases with willingness to take investment risk; having some financial literacy increases trust but having too much decreases trust; and that trust and cost are the two most important determinants of financial advice-seeking behavior.

In this article we extend this prior literature by examining the characteristics associated with financial consumers who are willing to incur pre-selection monitoring costs before establishing a contractual relationship with a financial adviser, and if pre-selection monitoring improves the level of trust financial consumers have in their financial advisers. We consider two pre-selection monitoring activities associated with choosing a financial adviser: (1) conducting financial adviser background checks, and (2) considering more than one financial adviser before making a choice.

2.1. Current system of background check

Elmerick et al. (2002) show that 50% of households use stock brokers, 25% use financial planners, 6% use accountants, 4% use bankers, and 2% use attorneys for financial advice. Standards of professional conduct exist for CPAs, attorneys, insurance agents, CFPs with fiduciary responsibilities, and financial brokers without fiduciary responsibilities.[9] Zweig and Pilon (2010) point out that according to FINRA, there are more than 95 professional designations for financial advisors, and 115 others not tracked by FINRA. Ligon (2003) predicts that in the long run these various qualitative credentials will distinguish themselves through performance.

Brokers must be registered with the Security and Exchange Commission (SEC) and maintain membership with the FINRA. FINRA is committed to investor protection and market integrity through effective and efficient self-regulation of the securities industry. They accomplish this through enforcing rules governing the activities of security firms and brokers, enforcing educational standards such as the Series 6 licensing examinations, promoting market transparency, and educating investors. FINRA also maintains the BrokerCheck[10] system that can be used to check background information on brokers. BrokerCheck has information on 1.3 million current and former FINRA-registered brokers, 17,400 current and former FINRA-registered brokerage firms, ~441,000 current and former investment adviser representatives, and 45,700 current and former investment adviser firms.

For financial advisers, the SEC adopted rule 204A-1 requiring SEC-registered investment advisers to adopt and enforce codes of ethics[11] that establish standards of conduct expected of supervised persons and reflect the adviser's fiduciary duties. The SEC offers the Investment Adviser Public Disclosure (IAPD)[12] website that can be used by consumers to check the backgrounds of registered investment advisers and the firms with which they are associated. The SEC also maintains the Investment Advisers Registration Depository (IARD) jointly with the North American Securities Administrators Association (NASAA). FINRA is also responsible for maintaining the IARD website, and distributes information on financial advisers from the IARD database through their BrokerCheck system.

Out of 50 states, only 21 states have enacted regulations, or issued special notices, regarding the use of professional designations by registered investment advisers.[13] The SEC

permits financial advisers to satisfy their filing and registration obligations under state and federal law using a single electronic filing available at their website.[14] The NASAA also advises that consumers should check with state regulators[15] when conducting background checks of financial advisers. This would require the consumer to check 50 different regulators to verify whether the financial adviser has any complaints filed anywhere in the United States. Considering the numerous and varied databases of financial professionals and firms that are maintained, it becomes apparent how time consuming it would be to complete a thorough background check of financial advisers.

In a September 19, 2013, Wall Street Journal article, Daisy Maxey (Maxey, 2013) reports that there are several online directories that aggregate basic financial adviser background information from FINRA, IAPD, and various state databases, but she warns about the "impartiality, conflict of interest, and possibility of abuse" that may exist in these online directories because of financial advisers having the ability to pay money to have their names included. In addition, it is possible for financial advisers to influence the priority of search results on these websites. Financial consumers must pay a fee to access these aggregated background check lists, and it is possible they are getting inaccurate or incomplete information from these unofficial lists.

Besides the fragmentation of data for background verification among the SEC, FINRA, and the various states, Eaglesham and Barry (2014a), in their *Wall Street Journal* article, point out that securities brokers and investment advisors fail to disclose their personal bankruptcies and other criminal charges. Such critical information is not recorded in BrokerCheck. Numerous educational and job designations mislead financial consumers to trust financial advisors, which is exacerbated particularly among senior citizens. Improving the financial literacy of consumers is also emphasized in the Dodd-Frank Act, 2010 along with establishment of institutions for consumer protection such as the Consumer Financial Protection Bureau (CFPB). We suggest including financial adviser background checks as part of the financial literacy campaign.

3. FINRA survey and methodology

3.1. FINRA 2009 financial capability survey

We use the 2009 FINRA Investor Education Foundation National Financial Capability Survey (NFCS)[16] that was developed in consultation with the U.S. Department of Treasury and the President's Advisory Council on Financial Literacy (FINRA, 2009). The FINRA Investor Education Foundation (FINRA Foundation) conducted the online survey of 28,146 respondents (~500 respondents per state and the District of Columbia) over a five-month period between June and October of 2009. The survey provides an unprecedented level of data pertaining to financial behaviors across all 50 states and the District of Columbia.

The first survey question we consider is if the respondent had sought any advice from a financial adviser in one of five specific areas within the past five years. The five specific adviser areas included are *Debt Counseling*, *Savings and Investments*, *Mortgage or Loan*, *Insurance*, and *Tax Planning*. Possible responses included: *YES*, *NO*, *Do not know*, and

Prefer not to say. After limiting our sample to 27,273 respondents (from a total of 28,146 surveyed) who answered either *YES* or *NO*, we find that 15,466 of the respondents (56.7%) used at least one of the five types of financial advisers in the past five years.

Focusing on these respondents who have used a financial adviser in the past five years, we consider the survey questions that ask if they have ever checked with a state or federal regulator regarding the background, registration, or license of a financial professional, and if they typically consider more than one financial adviser before making a choice. Possible responses to these questions include *Yes* and *No* only. We then consider how these respondents answer the question of if they trust financial professionals and accept what they recommend with possible responses being on a 1 (Strongly Disagree) to 7 (Strongly Agree) scale with 4 (Neither) being the middle option. From the 15,466 respondents who have used a financial adviser in the past five year, we have a final sample of 15,188 respondents who also answered these additional questions of interest that we will use throughout our analysis.

3.2. Methodology

Using a univariate analysis, we first identify the percentage of respondents in several demographic characteristic categories who have used a financial adviser within the past five years and have checked the background of a financial adviser, considered more than one adviser before making a choice, and have done both. We report these results for respondents who have used at least one type of financial adviser (*FA User*) and for each specific type of financial adviser (*Debt Counselor*, *Savings or Investments*, *Mortgage of Loan*, *Insurance*, or *Tax Planning*) separately. The demographic characteristics considered include *Gender*, *Age*, *Ethnicity*, *Education*, *Marital Status*, *Income*, *Employment*, and *Region*. These demographic characteristics have been shown to impact personal financial behavior and the probability of using a financial adviser when making financial decisions (Barber and Odean, 2001; Elmerick et al., 2002).

We then estimate a multinomial logit regression model using the same sample of respondents who used at least one type of financial adviser to determine what demographic characteristics impact the probability of a financial adviser user checking the background of financial advisers. The dependent variable, *Financial Adviser Background Checks*, is set equal to 1 if the financial adviser user checked the background of a financial adviser in the past five years, and 0 otherwise. We also estimate a multinomial logit model to determine what demographic characteristics impact the probability of a financial adviser user considering more than one adviser before making a choice. In this model, the dependent variable, *Considered >1 Financial Adviser*, is set equal to 1 if the financial adviser user considered more than one financial adviser before making a choice, and 0 otherwise. The demographic characteristics included are *Female*, *Age*, *Black (Non-Hispanic)*, *Education*, *Marital Status*, *Income*, *Employment*, and *Region*. The categories within each demographic characteristic (i.e., high school within the education demographic characteristic) are set equal to 1 if the respondent identifies themselves to be in that categorical group, and 0 otherwise. Positive (negative) coefficient estimates indicate that demographic characteristic is more (less) likely to check the background of their adviser, or consider more than one financial adviser before making a choice, compared to the reference category.

We also consider the likelihood of checking the background of a financial adviser, or considering more than one financial adviser before making a choice, based on the type of financial adviser the survey respondent has used in the past five years while controlling for demographic characteristics. This is accomplished by estimating a similar multinomial logit model for both *Financial Adviser Background Checks* and *Considered >1 Financial Adviser* where we include independent dummy variables for *Debt Counseling*, *Savings or Investments*, *Mortgage or Loan*, *Insurance*, and *Tax Planning* that are set equal to 1 if the respondent used that type of financial adviser in the past five years, and 0 otherwise. We include the demographic characteristic variables as control variables in this model.

Finally, we consider the impact that conducting a background check on financial advisers, or considering more than one financial adviser before making a choice, has on the level of trust survey respondents have in their financial advisers. We use a Tobit regression model where the dependent variable, *Trust in Financial Adviser*, is a categorical variable ranging from 1 (Strongly Disagree) to 7 (Strongly Agree) based on the survey respondent's answer to the question "I would trust financial professionals and accept what they recommend." The independent variable of interest in the first Tobit model is *Background Check* that is set equal to 1 if the respondent checked the background a financial adviser in the past five years, 0 otherwise. We also estimate a second Tobit model where the independent variable of interest is *Considered >1 Financial Adviser* that is set equal to 1 if the respondent considered more than one financial adviser before making a choice, 0 otherwise. We also include the demographic characteristic variables as control variables in both models as it would be expected that these characteristics would impact trust levels in financial advisers.

4. Empirical results

4.1. Summary statistics

We present the summary statistics in Table 1. Of the 15,188 surveyed who responded that they used the services of a financial adviser in the last five years (FA Users), only 14.2% claimed to have checked the background of a financial adviser (*% Checked Background*) during that same time period. However, 45.9% of financial adviser users considered more than one adviser before making a choice of who they used (*% Considered >1 Adviser*). There were 10.5% of financial adviser users who did both of these pre-selection monitoring activities (*Do Both*). We also provide these details for each category of financial adviser that was used such as *Debt Counseling*, *Savings and Investments*, *Mortgage or Loan*, *Insurance*, and *Tax Planning*. Higher percentages of financial consumers using *Debt Counselors* and *Tax Planning* services engage in pre-selection monitoring than those using other financial adviser types.

In Table 2 we present the number of financial adviser users (#) and percentages that checked financial adviser backgrounds (*% BG Check*), considered more than one adviser (*% >1 Adviser*), and that did both (*Do Both*) in each demographic characteristic. The demographic characteristics considered include *Gender*, *Age*, *Ethnicity*, *Education*, *Marital Status*, *Income*, *Employment*, and *Region*. Out of 8,115 (7,073) females (males) who have

Table 1 Panel A: Presents the analysis of the 15,188 survey respondents who have used a financial adviser in the last five years

Panel A	YES	NO
Have you ever checked with state or federal regulators regarding the background, registration, or license of a financial professional?	14.2%	84.3%
Did you meet with or talk to more than one adviser before making a choice?	45.9%	45.7%

Panel B: Presents the results for each of these adviser types separately and whether the respondents verified the background and considered more than one adviser (*Do Both*)

Panel B				
Variable	#	% Checked Background	% Considered >1 Adviser	Do Both
FA User	15,188	14.2%	45.9%	10.5%
Debt Counselor	2,720	20.4%	54.0%	16.3%
Savings or Investments	8,647	17.5%	49.8%	13.1%
Mortgage or Loan	7,294	15.2%	49.0%	11.4%
Insurance	9,291	16.6%	50.3%	12.6%
Tax Planning	5,060	21.0%	52.7%	16.0%

We report the percentage of survey respondents that answered *YES* or *NO* to the specified question. *FA User* indicates the survey respondent used at least one or more of the five different financial adviser types to include *Debt Counselor*, *Savings or Investments*, *Mortgage or Loan*, *Insurance*, and *Tax Planning*. In Panel A, we present the percentage of respondents who used financial adviser and checked the background of their adviser (*% Checked Background*) or considered more than one adviser (*% Considered >1 Adviser*).

used a financial adviser, 12.7% (15.9%) conducted background checks, 42.9% (49.5%) considered more than one adviser, and 9% (12.3%) did both, indicating that males engage in more pre-selection monitoring when choosing a financial adviser compared with females. Fewer financial adviser users in both the youngest (18–24) and oldest (65+) age groups engage in the pre-selection monitoring, while financial consumers between 35 and 54 engage in the most pre-selection monitoring when choosing a financial adviser. Even though there are fewer Blacks (3,477) than Whites (11,711) using financial advisers, a much higher percentages of Blacks (18.2%) conduct pre-selection monitoring compared with Whites (13%). There is a monotonically increasing percentage of financial consumers engaging in pre-selection monitoring across higher levels of both education and income. There is a larger number of Married financial adviser users (9,542) compared with single users (3,092), but there is a larger percentage of Single users (15.2%) conducting pre-selection monitoring. There are a larger number of financial adviser users who have full-time employment, but a much higher percentage of users who are self-employed engage in pre-selection monitoring (19.9%). Results are mixed across the geographical regions with a higher percentage of financial adviser users in the Northeast who check backgrounds (16.7%), a higher percentage in the south (47.6%) and west (48.1%) who consider more than one adviser, and the highest percentage in the northeast who do both (12.7%).

We present the same information for each demographic characteristic for each financial adviser type in Table 3. The results are generally consistent across the different financial adviser types when considering *Gender*, *Ethnicity*, *Education*, *Marital Status*, *Income*,

Table 2 Percent of the 15,188 survey respondents that used at least one of the five types of financial advisers (*FA User*) in the last five years and claimed to have checked the background of their adviser (*% BG Check*), considered more than one adviser (*% >1 Adviser*), and did both (*Do Both*) in each of the demographic characteristic categories to include *Gender*, *Age*, *Ethnicity*, *Education*, *Marital Status*, *Income*, *Employment*, and *Region*

	FA User			
	#	% BG Check	% >1 Adviser	Do Both
Gender				
Male	7,073	15.9%	49.5%	12.3%
Female	8,115	12.7%	42.9%	9.0%
Age				
18–24	1,277	13.7%	46.0%	10.2%
25–34	2,688	14.4%	49.0%	10.8%
35–44	2,998	15.0%	49.6%	12.1%
45–54	3,283	14.7%	46.9%	10.9%
55–64	2,601	14.6%	44.1%	10.5%
65+	2,341	12.1%	38.7%	7.8%
Ethnicity				
White	11,711	13.0%	43.5%	9.2%
Black	3,477	18.2%	54.4%	14.9%
Education				
< High school	250	10.4%	37.2%	7.2%
High school	2,876	10.8%	43.0%	8.0%
Some college	5,163	13.4%	47.0%	10.0%
College graduate	4,135	15.4%	46.3%	11.5%
Post graduate	2,764	17.7%	47.4%	12.9%
Marital status				
Married	9,542	14.2%	45.6%	10.4%
Single	3,092	15.2%	48.5%	11.5%
Separated	214	14.5%	50.0%	10.7%
Divorced	1,682	12.4%	44.9%	9.3%
Widowed	658	14.9%	40.4%	10.8%
Income				
<$15,000	1,071	11.3%	43.1%	8.7%
$15K–$24,999	1,502	11.6%	43.1%	8.6%
$25K–$34,999	1,697	11.8%	44.1%	8.8%
$35K–$49,999	2,426	13.0%	45.3%	9.7%
$50K–$74,999	3,252	13.7%	45.8%	9.6%
$75K–$99,999	2,081	16.4%	47.4%	12.3%
$100K–$149,000	1,930	16.8%	47.7%	12.6%
$150,000	1,229	19.3%	51.3%	14.5%
Employment				
Self employed	1,536	19.9%	53.1%	14.8%
Full-time	6,422	14.2%	46.4%	11.0%
Part-time	1,376	11.4%	44.1%	8.6%
Homemaker	1,205	12.3%	45.4%	9.0%
Student	536	14.9%	49.3%	11.4%
Disabled	462	14.3%	43.9%	8.9%
Unemployed	1,070	14.5%	48.7%	10.6%
Retired	2,581	13.0%	40.4%	8.6%
Region				
Northeast	2,637	16.7%	45.3%	12.7%
Midwest	3,655	11.6%	42.0%	8.1%
South	4,927	14.0%	47.6%	10.6%
West	3,969	15.2%	48.1%	11.1%

The five adviser types include *Debt Counselor*, *Savings or Investments*, *Mortgage or Loan*, *Insurance*, and *Tax Planning*.

Table 3 Percent of the survey respondents that used a specific type of financial adviser in the past five years and claimed to have checked the background of their adviser (*% BG Check*), considered more than one adviser (*% >1 Adviser*), and did both (*Do Both*) in each of the demographic characteristic categories to include *Gender*, *Age*, *Ethnicity*, *Education*, *Marital Status*, *Income*, *Employment*, and *Region*

Panel A: Debt Counselors and Savings or Investments

	Debt Counselor				Savings or Investments			
	#	% BG Check	% >1 Adviser	Do Both	#	% BG Check	% >1 Adviser	Do Both
Gender								
Male	1,238	23.8%	58.3%	19.6%	4,199	19.4%	53.9%	15.3%
Female	1,482	17.6%	50.4%	13.4%	4,448	15.7%	46.0%	11.1%
Age								
18–24	236	26.3%	60.2%	20.3%	694	17.7%	50.4%	13.7%
25–34	660	21.7%	55.2%	18.5%	1,415	20.1%	55.9%	15.4%
35–44	659	20.2%	55.7%	15.8%	1,541	19.8%	54.6%	16.2%
45–54	626	19.0%	51.6%	15.0%	1,770	17.3%	51.4%	13.2%
55–64	350	19.1%	51.7%	14.6%	1,635	17.3%	48.0%	12.4%
65+	189	16.9%	48.7%	12.2%	1,592	13.3%	39.6%	8.7%
Ethnicity								
White	1,815	18.0%	49.9%	13.4%	6,779	15.8%	47.1%	11.3%
Black	905	25.4%	62.2%	21.9%	1,868	23.8%	59.5%	20.0%
Education								
<High school	55	12.7%	47.3%	5.5%	94	19.1%	43.6%	11.7%
High school	584	16.6%	55.5%	13.4%	1,301	13.8%	46.3%	10.5%
Some college	1,045	17.7%	53.0%	13.9%	2,778	17.0%	51.7%	12.6%
College graduate	692	24.3%	53.9%	19.8%	2,534	18.6%	49.7%	14.1%
Post graduate	344	28.8%	55.8%	23.0%	1,940	19.1%	50.0%	14.5%
Marital status								
Married	1,553	20.5%	53.6%	15.9%	5,526	17.2%	49.2%	12.7%
Single	669	22.4%	58.4%	18.8%	1,748	19.2%	53.8%	15.2%
Separated	63	20.6%	60.3%	17.5%	93	21.5%	60.2%	15.1%
Divorced	352	15.3%	48.3%	11.9%	878	15.7%	48.4%	12.1%
Widowed	83	24.1%	44.6%	19.3%	402	16.4%	41.0%	12.2%
Income								
<$15,000	255	22.0%	51.4%	16.9%	488	15.6%	48.8%	11.9%
$15K–$24,999	371	15.9%	51.8%	12.7%	663	14.8%	48.7%	11.2%
$25K–$34,999	401	15.5%	55.9%	12.2%	836	14.6%	46.8%	11.4%
$35K–$49,999	497	18.9%	53.3%	15.5%	1,250	17.0%	49.9%	13.0%
$50K–$74,999	600	18.3%	52.5%	14.0%	1,872	17.2%	48.8%	12.3%
$75K–$99,999	311	24.4%	57.6%	19.6%	1,304	19.2%	50.7%	14.5%
$100K–$149,000	201	33.3%	55.2%	26.9%	1,335	18.5%	50.9%	14.2%
>$150,000	84	38.1%	61.9%	32.1%	899	20.5%	53.2%	15.2%
Employment								
Self employed	284	26.1%	64.8%	21.1%	929	22.9%	58.2%	17.3%
Full-time	1,257	20.3%	52.4%	16.6%	3,689	17.9%	51.2%	14.2%
Part-time	236	15.7%	52.5%	13.1%	779	14.8%	47.0%	11.4%
Homemaker	205	17.1%	47.8%	11.2%	586	15.0%	49.3%	10.8%
Student	107	28.0%	58.9%	20.6%	320	18.1%	54.1%	13.8%
Disabled	121	17.4%	38.0%	10.7%	170	20.0%	44.7%	10.6%
Unemployed	259	23.2%	62.9%	18.1%	506	19.6%	52.6%	14.0%
Retired	251	17.5%	52.6%	14.7%	1,668	14.7%	42.4%	10.0%
Region								
Northeast	436	26.8%	53.4%	21.6%	1,613	21.1%	49.3%	16.2%
Midwest	669	14.5%	51.4%	11.7%	2,116	14.0%	45.4%	9.6%
South	934	21.7%	55.6%	17.2%	2,712	17.3%	52.1%	13.5%
West	681	20.4%	54.8%	16.0%	2,206	18.4%	51.6%	13.9%

Table 3 Continued

Panel B: Mortgage or Loan and Insurance

	Mortgage or Loan				Insurance			
	#	% BG Check	% >1 Adviser	Do Both	#	% BG Check	% >1 Adviser	Do Both
Gender								
Male	3,374	17.4%	52.0%	13.6%	4,347	18.8%	53.6%	14.9%
Female	3,920	13.2%	46.5%	9.4%	4,944	14.7%	47.3%	10.6%
Age								
18–24	563	16.0%	47.4%	12.4%	694	16.4%	50.6%	12.5%
25–34	1,622	15.0%	50.6%	11.0%	1,756	16.5%	53.4%	12.8%
35–44	1,718	15.2%	51.3%	12.1%	1,896	18.2%	53.3%	14.5%
45–54	1,574	16.3%	49.9%	12.5%	2,125	16.6%	50.6%	12.6%
55–64	1,058	15.9%	47.3%	12.0%	1,563	17.7%	49.1%	13.1%
65+	759	11.5%	42.6%	6.5%	1,257	13.2%	42.2%	9.0%
Ethnicity								
White	5,662	13.4%	46.7%	9.6%	7,116	15.1%	47.8%	11.0%
Black	1,632	21.2%	57.2%	17.5%	2,175	21.6%	58.3%	18.0%
Education								
<High school	91	8.8%	35.2%	4.4%	153	11.1%	34.6%	7.2%
High school	1,213	12.4%	45.6%	9.3%	1,701	12.6%	47.5%	9.6%
Some college	2,430	14.4%	50.0%	10.9%	3,168	15.0%	51.0%	11.4%
College graduate	2,160	16.0%	49.9%	12.0%	2,564	18.4%	51.1%	14.3%
Post graduate	1,400	17.9%	49.9%	13.3%	1,705	21.5%	51.8%	15.9%
Marital status								
Married	5,014	14.3%	48.4%	10.5%	5,988	16.4%	49.7%	12.4%
Single	1,264	18.2%	52.6%	14.4%	1,789	17.7%	53.7%	13.9%
Separated	103	18.4%	49.5%	14.6%	131	19.1%	50.4%	13.0%
Divorced	684	14.9%	49.1%	11.4%	1,016	15.3%	49.3%	11.5%
Widowed	229	16.2%	43.2%	11.4%	367	17.2%	45.8%	12.5%
Income								
<$15,000	331	15.7%	47.7%	11.5%	625	12.8%	47.0%	9.8%
$15K–$24,999	552	13.4%	47.6%	10.3%	897	12.9%	46.9%	9.8%
$25K–$34,999	676	12.9%	46.6%	9.5%	1,019	12.9%	50.2%	10.1%
$35K–$49,999	1,165	13.9%	48.1%	10.6%	1,494	15.7%	49.6%	11.8%
$50K–$74,999	1,684	13.5%	49.3%	9.8%	1,954	16.6%	51.1%	11.9%
$75K–$99,999	1,163	17.3%	48.9%	13.2%	1,305	18.8%	51.5%	14.6%
$100K–$149,000	1,081	16.4%	50.7%	12.3%	1,203	19.5%	49.7%	15.2%
>$150,000	642	19.5%	52.0%	14.6%	794	22.8%	54.7%	17.1%
Employment								
Self employed	793	21.2%	54.9%	15.9%	1,037	22.1%	55.5%	16.3%
Full-time	3,552	14.6%	48.5%	11.5%	3,967	17.2%	51.1%	13.7%
Part-time	559	13.1%	48.3%	10.6%	839	13.6%	47.3%	10.6%
Homemaker	647	12.7%	48.5%	9.4%	758	13.5%	49.9%	10.0%
Student	219	18.3%	53.4%	14.6%	293	17.1%	58.4%	13.7%
Disabled	195	18.5%	48.2%	10.8%	310	15.8%	45.5%	9.4%
Unemployed	464	16.4%	51.5%	11.0%	646	16.9%	53.7%	12.5%
Retired	865	13.2%	44.7%	8.3%	1,441	14.6%	44.0%	10.1%
Region								
Northeast	1,195	18.6%	48.2%	14.5%	1,535	19.9%	49.1%	15.8%
Midwest	1,689	12.1%	44.6%	8.5%	2,262	13.3%	45.9%	9.3%
South	2,361	15.0%	50.7%	11.6%	3,025	16.5%	52.5%	13.0%
West	2,049	15.9%	51.3%	11.7%	2,469	17.8%	52.3%	13.2%

Table 3 Continued

Panel C: Tax Planning

	Tax Planning			
	#	% BG Check	% >1 Adviser	Do Both
Gender				
Male	2,457	23.8%	56.0%	18.8%
Female	2,603	18.3%	49.6%	13.3%
Age				
18–24	383	23.0%	53.0%	17.5%
25–34	905	23.5%	56.5%	18.0%
35–44	959	22.7%	55.5%	18.1%
45–54	1,034	21.3%	55.1%	16.6%
55–64	903	19.6%	51.6%	15.0%
65+	876	16.7%	44.1%	11.1%
Ethnicity				
White	3,937	18.5%	49.8%	13.4%
Black	1,123	29.6%	62.9%	25.0%
Education				
< High school	56	19.6%	33.9%	10.7%
High school	713	19.1%	48.8%	15.1%
Some college	1,522	19.6%	55.0%	14.5%
College graduate	1,521	21.4%	52.5%	16.2%
Post graduate	1,248	23.2%	53.4%	18.2%
Marital status				
Married	3,496	19.9%	52.4%	15.0%
Single	867	24.8%	56.2%	19.4%
Separated	58	34.5%	55.2%	25.9%
Divorced	425	20.5%	52.9%	16.2%
Widowed	214	21.5%	43.5%	15.4%
Income				
<$15,000	217	23.5%	52.5%	16.6%
$15K–$24,999	331	18.1%	49.2%	13.0%
$25K–$34,999	392	19.9%	51.8%	16.1%
$35K–$49,999	691	20.8%	53.1%	15.5%
$50K–$74,999	1,099	19.4%	52.0%	13.7%
$75K–$99,999	794	21.9%	52.0%	18.0%
$100K–$149,000	830	21.7%	53.9%	17.3%
>$150,000	706	22.9%	55.2%	17.1%
Employment				
Self employed	729	22.2%	58.4%	17.7%
Full-time	2,055	22.4%	54.1%	17.7%
Part-time	464	18.8%	49.1%	14.2%
Homemaker	377	15.9%	52.3%	10.9%
Student	151	25.8%	58.3%	18.5%
Disabled	74	28.4%	47.3%	16.2%
Unemployed	286	25.2%	52.8%	19.9%
Retired	924	17.4%	46.6%	12.1%
Region				
Northeast	964	24.6%	52.8%	19.2%
Midwest	1,212	16.1%	47.9%	11.3%
South	1,547	21.3%	54.3%	16.7%
West	1,337	22.5%	55.3%	17.1%

Panel A reports results for *Debt Counselor* and *Savings or Investments* advisers, Panel B reports results for *Mortgage or Loan* and *Insurance* advisers, and Panel C reports results for *Tax Planning* advisers.

Employment, and *Region*. However, the results are more mixed when considering *Age*. There is a higher percentage of the 18–24 age group conducting pre-selection monitoring when considering *Debt Counselors* (Panel A). All other results regarding *Age* are mixed.

4.2. Regression results

In Table 4 we present multinomial logit regression results that indicate how the different demographic characteristics impact the probability of conducting a background check on a financial adviser in the past five years (left side of Table 4) and the probability of considering more than one financial adviser before making a choice (right side of Table 4). We find that *Females* are 20% less likely to have checked the background of financial advisers compared with males. We do not observe any significant differences among age groups except in the 65+ age group that is, on average, 21.7% less likely to check financial adviser backgrounds compared with the 18–24 age group. We also find there are no significant differences among the different education groups except that financial adviser users with post-graduate education are 50% more likely to check financial adviser backgrounds compared with those who did not complete high school. Compared with married financial adviser users, living with partner (single) users are nearly 20% (14%) more likely to check financial adviser backgrounds. Financial adviser users with more than $35,000 are more likely to check financial adviser backgrounds compared with users earning less than $35,000, with this probability increasing monotonically across higher income levels. All the employment categories are less likely to check financial adviser backgrounds compared with self-employed users with full-time users being 37.4% less likely to check financial adviser backgrounds compared with self-employed users. Finally, financial adviser users living in the Midwest, south, or west are all less likely to check financial adviser backgrounds compared with those living in northeast, with those in Midwest region being 30% less likely compared with those in the northeast region.

The results for the multinomial logit regression that considers the probability of considering more than one financial adviser are reported on the right side of Table 4. Consistent with the background check results, females are 20% less likely than males, and Blacks are over 40% more likely than Whites, to consider more than one financial adviser before making a choice. There also remains a monotonic increase in the probability of considering more than one adviser across higher income levels, no statistically significant difference across education levels, and married couples remain less likely to consider more than one adviser compared with those that are living with a partner or single. Self-employed financial adviser users remain more likely to consider more than one adviser which is also consistent with the background check results. However, we find financial consumers between the ages of 25 and 44 are more likely to consider more than one financial adviser compared with the 18–24 age group whereas those 65+ are almost 22% less likely to consider more than one financial adviser. This is somewhat different for the 25 to 44 age group, but also points out that the 65+ age group is the least likely to conduct any pre-selection monitoring before choosing a financial adviser. We also find that financial adviser users from the Midwest are less likely to consider more than one adviser compared with those from the northeast that is consistent with our background check tests, however, there is no significant difference between the

Table 4 Multinomial logit regression using 15,188 survey respondents who have used a financial adviser in the past five years where the dependent variable, *Financial Adviser Background Checks*, is set equal to 1 if the respondent checked the background of a financial adviser in the past five years, 0 otherwise

	Financial Adviser Background Checks				Considered >1 Financial Advisers			
	Coefficient	*z*-stat	Standard error	Odds ratio	Coefficient	*z*-stat	Standard error	Odds ratio
Constant	−1.849***	−7.21	0.256	0.157	−0.152	−0.85	0.179	0.859
Female	−0.219***	−4.45	0.049	0.803	−0.227***	−6.31	0.036	0.797
Age group (reference category: 18–24)								
25–34	−0.045	−0.42	0.107	0.956	0.175**	2.26	0.078	1.192
35–44	−0.043	−0.40	0.108	0.958	0.163**	2.09	0.078	1.177
45–54	−0.042	−0.39	0.108	0.959	0.057	0.74	0.078	1.059
55–64	−0.070	−0.61	0.115	0.932	−0.056	−0.67	0.083	0.946
65+	−0.244*	−1.83	0.133	0.783	−0.242**	−2.57	0.094	0.785
Black	0.421***	7.63	0.055	1.523	0.345***	8.11	0.043	1.413
Education (reference category: Did not complete high school)								
High school	0.013	0.06	0.218	1.013	0.137	0.93	0.147	1.147
Some college	0.197	0.91	0.215	1.217	0.261*	1.79	0.146	1.298
College graduate	0.291	1.34	0.217	1.338	0.171	1.16	0.148	1.186
Post graduate	0.405*	1.84	0.220	1.499	0.191	1.27	0.151	1.211
Marital status (reference category: Married)								
Living with partner	0.181**	1.98	0.091	1.198	0.181***	2.60	0.070	1.198
Single	0.128**	2.10	0.061	1.136	0.073*	1.65	0.044	1.076
Income (reference category: Less than $15,000)								
$15,000–$24,999	0.119	0.92	0.130	1.126	0.058	0.66	0.088	1.060
$25,000–$34,999	0.186	1.44	0.129	1.205	0.134	1.51	0.089	1.144
$35,000–$49,999	0.296**	2.38	0.124	1.345	0.159*	1.85	0.086	1.172
$50,000–$74,999	0.355***	2.86	0.124	1.426	0.162*	1.88	0.086	1.176
$75,000–$99,999	0.529***	4.04	0.131	1.697	0.216**	2.32	0.093	1.241
$100,000–$149,999	0.546***	4.04	0.135	1.726	0.197**	2.04	0.096	1.218
$150,000 or more	0.685***	4.80	0.143	1.985	0.360***	3.45	0.104	1.433
Employment (reference category: Self employed)								
Employed full-time	−0.468***	−6.21	0.075	0.626	−0.345***	−5.64	0.061	0.709
Employed part-time	−0.509***	−4.67	0.109	0.601	−0.275***	−3.45	0.080	0.760
Homemaker	−0.309***	−2.68	0.115	0.734	−0.129	−1.50	0.086	0.879
Full-time student	−0.287*	−1.88	0.152	0.751	−0.167	−1.44	0.116	0.846
Disabled	−0.133	−0.87	0.153	0.876	−0.205*	−1.76	0.116	0.815
Unemployed	−0.219**	−1.96	0.112	0.803	−0.122	−1.41	0.086	0.885
Retired	−0.244**	−2.37	0.103	0.783	−0.277***	−3.54	0.078	0.758
Region (reference category: Northeast)								
Midwest	−0.357***	−4.79	0.074	0.700	−0.127**	−2.35	0.054	0.881
South	−0.213***	−3.15	0.068	0.808	0.072	1.41	0.051	1.075
West	−0.139**	−1.99	0.070	0.870	0.080	1.49	0.053	1.083

The dependent variable, *Considered >1 Financial Adviser*, is set equal to 1 if the respondent considered more than one financial adviser before making a choice, 0 otherwise. The independent variables include *Female*, *Age*, *Black (Non-Hispanic)*, *Education*, *Marital Status*, *Income*, *Employment*, and *Region*. Positive (negative) coefficient estimates indicate that demographic characteristic is more (less) likely to check the background of their adviser, or consider more than one financial adviser before making a choice, compared with the indicated reference category. ***,**,* denote significance at the 1%, 5%, and 10% levels, respectively.

remaining regions indicating that users in the south and west are just as likely to consider more than one financial adviser as those in the northeast.

Table 5 reports results where we estimate the same multinomial logit model with additional dummy variables included that indicate if the financial adviser user used that specific type of financial adviser. This allows us to estimate the probably of checking the background of a financial adviser (left side of table), or considering more than one financial adviser (right side of table), based on the type of financial adviser that was used while controlling for the demographic characteristics included earlier that have already been shown to impact these same probabilities. There are five different financial adviser types included: *Debt Counseling*, *Savings and Investments*, *Mortgage or Loan*, *Insurance*, and *Tax Planning*. Consistent with the univariate results reported in Table 1, we find, after controlling for all demographic characteristics, those using *Debt Counseling* or *Tax Planning* services are more likely to check the backgrounds of their financial advisers. Those using *Insurance* advisers are the least likely to check backgrounds, whereas there is no statistically significant relationship between checking backgrounds and using *Mortgage or Loan* services. However, we find that those using *Debt Counselors* and *Insurance* advisers as most likely to consider more than one financial adviser before making a choice. Those using *Savings or Investments* and *Mortgage or Loan* advisers are least likely to consider more than one adviser before choosing. All of these results are statistically significant at the 1% level.

4.3. Do financial consumers who conduct pre-selection monitoring have higher levels of trust in their financial advisers?

Next, we consider if those financial adviser users who conduct some form of pre-selection monitoring before choosing a financial adviser have a higher level of trust in the financial advisers they use. We use the responses to the survey question: "*I would trust financial professionals and accept what they recommend.*" We report the percentage of financial adviser users who selected each of the available responses to include *Strongly Disagree*, *Disagree*, *Neither Agree nor Disagree*, *Agree*, and *Strongly Agree* in Table 6. Overall, out of the 15,188 financial adviser users, there are nearly 40% who agree, 34% who neither agree nor disagree, and over 23% who disagree with this statement (some users did not answer this question).

In Table 7, we estimate a Tobit regression model using the full sample of 15,188 financial adviser users to determine the impact that pre-selection monitoring has on the answer to this question. We control for the all the demographic characteristics used earlier and include either *Background Check* (left side of Table 7) as an additional dummy variable indicating if the user conducted a financial adviser background check, or *Considered >1 Financial Adviser* (right side of Table 7) as an additional dummy variable indicating if the user considered more than one financial adviser before making a choice. Overall, we find many demographic characteristics are not statistically related to financial adviser trust levels such as *Gender*, *Education*, and *Income.* Consistent with Lachance and Tang (2012), we find that trust levels generally decline with age. We also find that *Living with Partner* couples have lower trust levels, and people in the Midwest have higher trust levels than those from other regions. Most importantly, we find a positive and highly significant (significant at the 1% level) relationship between checking the background of financial advisers and financial

Table 5 Multinomial Logit regression using 15,188 survey respondents who have used a financial adviser in the past five years where the dependent variable, *Financial Adviser Background Checks*, is set equal to 1 if the respondent checked the background of a financial adviser in the last five years, 0 otherwise

	Financial Adviser Background Checks				Considered >1 Financial Adviser			
	Coefficient	*z*-stat	Standard error	Odds ratio	Coefficient	*z*-stat	Standard error	Odds ratio
Constant	−2.760***	−10.43	0.265	0.0633	−0.746***	−4.06	0.184	0.474
Debt Counseling	0.602***	10.21	0.059	1.825	0.364***	7.75	0.047	1.439
Savings or Investments	0.485***	9.02	0.054	1.624	0.221***	5.96	0.037	1.248
Mortgage or Loan	0.077	1.55	0.050	1.080	0.214***	5.94	0.036	1.239
Insurance	0.416***	7.85	0.053	1.516	0.388***	10.78	0.036	1.474
Tax Planning	0.561***	11.01	0.051	1.752	0.247***	6.44	0.038	1.281
Female	−0.209***	−4.16	0.050	0.812	−0.234***	−6.44	0.036	0.791
Age group (reference category: 18–24)								
25–34	−0.095	−0.87	0.110	0.909	0.119	1.51	0.079	1.127
35–44	−0.020	−0.18	0.110	0.980	0.153*	1.93	0.079	1.165
45–54	−0.009	−0.08	0.110	0.991	0.063	0.79	0.079	1.065
55–64	−0.020	−0.17	0.117	0.980	−0.024	−0.29	0.084	0.976
65+	−0.180	−1.32	0.136	0.835	−0.185*	−1.93	0.096	0.831
Black (Non-Hispanic)	0.368***	6.49	0.057	1.445	0.329***	7.60	0.043	1.390
Education (reference category: Did not complete high school)								
High school	−0.012	−0.05	0.221	0.988	0.139	0.93	0.149	1.149
Some college	0.110	0.50	0.218	1.116	0.222	1.51	0.147	1.248
College graduate	0.179	0.81	0.220	1.196	0.119	0.80	0.149	1.126
Post graduate	0.254	1.14	0.224	1.290	0.122	0.80	0.153	1.130
Marital Status (reference category: Married)								
Living with partner	0.212**	2.28	0.093	1.236	0.200***	2.84	0.070	1.221
Single	0.156**	2.50	0.062	1.168	0.109**	2.41	0.045	1.115
Income (reference category: Less than $15,000)								
$15,000–$24,999	0.107	0.81	0.132	1.112	0.042	0.47	0.089	1.043
$25,000–$34,999	0.149	1.13	0.132	1.160	0.109	1.21	0.090	1.115
$35,000–$49,999	0.234*	1.84	0.127	1.263	0.115	1.32	0.087	1.122
$50,000–$74,999	0.261**	2.06	0.127	1.298	0.106	1.20	0.088	1.112
$75,000–$99,999	0.415***	3.09	0.134	1.514	0.146	1.53	0.095	1.157
$100,000–$149,999	0.411***	2.96	0.139	1.508	0.123	1.25	0.099	1.131
$150,000 or more	0.497***	3.38	0.147	1.643	0.263**	2.46	0.107	1.301
Employment (reference category: Self employed)								
Employed full-time	−0.344***	−4.44	0.077	0.709	−0.280***	−4.51	0.062	0.756
Employed part-time	−0.415***	−3.73	0.111	0.661	−0.206**	−2.55	0.081	0.814
Homemaker	−0.165	−1.40	0.118	0.848	−0.046	−0.53	0.087	0.955
Full-time student	−0.162	−1.05	0.155	0.850	−0.079	−0.67	0.118	0.924
Disabled	0.038	0.25	0.156	1.039	−0.141	−1.19	0.118	0.869
Unemployed	−0.108	−0.94	0.114	0.898	−0.052	−0.60	0.088	0.949
Retired	−0.145	−1.38	0.105	0.865	−0.209***	−2.63	0.079	0.812
Region (reference category: Northeast)								
Midwest	−0.372***	−4.91	0.076	0.689	−0.143***	−2.61	0.055	0.867
South	−0.203***	−2.93	0.069	0.816	0.070	1.35	0.052	1.072
West	−0.120*	−1.68	0.071	0.887	0.071	1.32	0.054	1.074

The dependent variable, *Considered >1 Financial Adviser*, is set equal to 1 if the respondent considered more than one financial adviser before making a choice, 0 otherwise. The independent variables *Debt Counseling*, *Savings or Investments*, *Mortgage or Loan*, *Insurance*, *Tax Planning* are variables set equal to 1 if the respondents used that type of financial adviser in the past five years, 0 otherwise. The other independent variables include *Female*, *Age*, *Black (Non-Hispanic)*, *Education*, *Marital Status*, *Income*, *Employment*, and *Region*. Positive (negative) coefficient estimates indicate that demographic characteristic is more (less) likely to check the background of their adviser, or consider more than one financial adviser before making a choice, compared with the indicated reference category. ***,**,* denote significance at the 1%, 5%, and 10% levels, respectively.

Table 6 Responses from 15,188 survey respondents who have used a financial adviser in the past five years to the question regarding their level of trust in financial professionals and if they would accept what they recommend

I would trust financial professionals and accept what they recommend.	
Strongly Disagree	5.4%
Disagree	18.2%
Neither Agree nor Disagree	34.0%
Agree	32.7%
Strongly Agree	6.6%

Total percentages to answer in each category ranging from 1 (Strongly Disagree) to 7 (Strongly Agree), with the middle category 4 indicating that they neither agree nor disagree.

adviser trust levels. However, we find no significant relationship between considering more than one financial adviser and trust levels in financial advisers.

In summary, these results may indicate that checking a financial adviser's background helps develop trust in that financial adviser. However, simply considering more than one adviser does not necessarily develop higher trust levels in the financial adviser that is eventually chosen. Perhaps post-selection monitoring is more important for financial adviser users who only consider more than one adviser as their only pre-selection monitoring activity. Overall, our results indicate that having a reliable system in place that allows financial consumers to conduct background checks of financial advisers in an easy and efficient manner may help develop trust in financial advisers.

5. Summary and conclusions

Using the 2009 NFCS conducted by FINRA we identify demographic characteristics associated with financial consumers who conduct prescreening monitoring when choosing financial advisers. The two prescreening monitoring considered include checking the background of financial advisers and considering more than one financial adviser before making a choice. We also test if these prescreening monitoring improve the level of trust financial consumers have in their financial advisers. We consider five different financial adviser types throughout our study to include *Debt Counseling*, *Savings and Investments*, *Mortgage and Loan*, *Insurance*, and *Tax Planning*.

We find that only 14.2% of financial adviser users responding to the NFCS survey have checked the background of a financial adviser in the past five years, but nearly 46% of these financial adviser users considered more than one adviser before making a choice. Higher percentages of financial consumers using *Debt Counselors* and *Tax Planning* services engage in pre-selection monitoring than those using other financial adviser types. Based on multinomial logit regression estimates, we find that females are less likely, and Blacks (compared with Whites) more likely, to conduct pre-selection monitoring. We also find the probability of conducting pre-selection monitoring is monotonically increasing at higher income levels above $35,000/year, but decreases significantly for consumers over the age of 65. Finally, financial consumers who are self-employed, and those living in the northeast (compared with the Midwest, west, and south) are more likely to conduct pre-selection monitoring.

Table 7 Tobit regression using 15,188 survey respondents who have used a financial adviser in the past five years where the dependent variable, *Trust Financial Adviser*, is a categorical variable ranging from 1 (Strongly Disagree) to 7 (Strongly Agree)

	Trust in Financial Adviser			Trust in Financial Adviser		
	Coefficient	t-stat	Standard error	Coefficient	t-stat	Standard error
Constant	4.642***	31.97	0.145	4.671***	32.12	0.145
Background Check	0.108***	2.60	0.041			
Considered >1 Financial Adviser				−0.001	−1.30	0.001
Female	0.034	1.14	0.030	0.033	1.11	0.030
Age group (reference category: 18–24)				0	0	0
25–34	−0.194***	−3.01	0.064	−0.194***	−3.00	0.064
35–44	−0.506***	−7.78	0.065	−0.505***	−7.78	0.065
45–54	−0.680***	−10.53	0.065	−0.680***	−10.53	0.065
55–64	−0.776***	−11.28	0.069	−0.776***	−11.28	0.069
65+	−0.698***	−8.86	0.079	−0.701***	−8.90	0.079
Black (Non-Hispanic)	−0.007	−0.19	0.036	−0.003	−0.09	0.036
Education (reference category: Did not complete high school)				0	0	0
High school	−0.051	−0.43	0.118	−0.055	−0.47	0.118
Some college	−0.024	−0.21	0.117	−0.027	−0.23	0.117
College graduate	−0.008	−0.06	0.118	−0.009	−0.07	0.118
Post graduate	−0.021	−0.17	0.121	−0.022	−0.18	0.121
Marital Status (reference category: Married)				0	0	0
Living with partner	−0.170***	−2.95	0.057	−0.167***	−2.91	0.057
Single	0.022	0.58	0.037	0.022	0.60	0.037
Income (reference category: Less than $15,000)				0	0	0
$15,000–$24,999	0.011	0.15	0.073	0.011	0.15	0.073
$25,000–$34,999	0.085	1.16	0.073	0.085	1.17	0.073
$35,000–$49,999	0.090	1.27	0.071	0.091	1.28	0.071
$50,000–$74,999	0.114	1.61	0.071	0.115	1.62	0.071
$75,000–$99,999	0.131*	1.70	0.077	0.134*	1.74	0.077
$100,000–$149,999	0.095	1.18	0.080	0.096	1.20	0.080
$150,000 or more	0.124	1.43	0.087	0.128	1.47	0.087
Employment (reference category: Self employed)				0	0	0
Employed full-time	0.190***	3.74	0.051	0.184***	3.62	0.051
Employed part-time	0.077	1.16	0.066	0.069	1.04	0.066
Homemaker	−0.009	−0.13	0.071	−0.013	−0.19	0.071
Full-time student	0.233**	2.42	0.096	0.229**	2.38	0.096
Disabled	0.009	0.09	0.096	0.008	0.08	0.096
Unemployed	0.112	1.56	0.072	0.108	1.51	0.072
Retired	0.117*	1.78	0.066	0.111*	1.70	0.066
Region (reference category: Northeast)				0	0	0
Midwest	0.118***	2.62	0.045	0.114**	2.52	0.045
South	0.026	0.60	0.043	0.023	0.53	0.043
West	−0.036	−0.80	0.045	−0.037	−0.83	0.045

The independent variable of interest are *Background Check* that is set equal to 1 if the respondent checked the background of a financial adviser in the last five years, 0 otherwise, and *Considered >1 Financial Adviser*, which is set equal to 1 if the respondent considered more than one financial adviser before making a choice, 0 otherwise. The other independent variables include *Female*, *Age*, *Black (Non-Hispanic)*, *Education*, *Marital Status*, *Income*, *Employment*, and *Region*. Positive (negative) coefficient estimates indicate that variable is more (less) likely to trust their financial adviser compared with the indicated reference category. ***,**,* denote significance at the 1%, 5%, and 10% levels, respectively.

When considering the specific financial adviser types, we find that those using *Debt Counseling* or *Tax Planning* services are more likely to check the backgrounds of their financial advisers, and those using *Insurance* advisers are the least likely to check backgrounds. Those using *Debt Counselors* and *Insurance* advisers are most likely, and those using *Savings or Investments* and *Mortgage or Loan* advisers are least likely, to consider more than one financial adviser before making a choice.

We also consider how conducting pre-selection monitoring, controlling for demographic characteristics, impact the level of trust financial adviser users have in their financial advisers. We find that there is a positive relationship between financial adviser background checks and financial adviser trust levels. However, we find no significant relationship between considering more than one financial adviser and trust levels in financial advisers. We also find that trust levels generally decline with age, which is consistent with Lachance and Tang (2012) findings. We also find that *Living with Partner* couples have lower trust levels (compared with married couples and those who are single), and people in the Midwest have higher trust levels than those from other regions.

In summary, these results show that checking a financial adviser's background helps develop trust in that financial adviser. However, simply considering more than one adviser does not necessarily develop higher trust levels in the financial adviser that is eventually chosen. Overall, our results indicate that having a reliable and well-known background check system in place that allows financial consumers to conduct background checks of financial advisers in an easy and efficient manner may help improve trust in financial advisers.

Notes

1 http://www.sec.gov/investor/brokers.htm.
2 http://assets.aarp.org/www.aarp.org_/articles/bulletin/money/financialquestionnaire.pdf.
3 http://www.oag.state.md.us/Forms/checklist.pdf.
4 http://www.letsmakeaplan.org/cfp-pros-their-expertise/cfp-experts-corner/article/lets-make-a-plan-blogs/things-to-think-about-when-choosing-a-financial-adviser; http://www.letsmakeaplan.org/working-with-a-financial-planner/what-to-ask.
5 We do not use the 2012 Financial Capability Survey data because this survey does not contain any questions on whether the respondents verified the credentials or how much they trust their financial advisers or their advice.
6 http://online.wsj.com/news/articles/SB10001424052702304679404579459831342132534.
7 http://www.sec.gov/spotlight/investor-advisory-committee-2012/fiduciary-duty-recommendation.pdf.
8 Bonding costs are incurred by the agent (financial adviser) to signal to the principal of his fiduciary responsibilities through certifications and other binding constraints. Residual loss will include losses suffered by the principal (consumer) because of agent's (financial adviser's) action that may not maximize the consumer's wealth.

9 Appendix A provides details about various certification and maintenance requirements for various professional designations.
10 http://www.finra.org/investors/toolscalculators/brokercheck/.
11 http://www.sec.gov/rules/final/ia-2256.htm.
12 http://www.adviserinfo.sec.gov/IAPD/Content/Search/iapd_Search.aspx.
13 http://www.finra.org/Investors/ProtectYourself/BeforeYouInvest/p120759.
14 http://www.sec.gov/foia/docs/invafoia.htm.
15 http://www.nasaa.org/2709/how-to-check-out-your-broker-or-investment-adviser/.
16 Please see the following link for the complete questionnaire: http://www.usfinancial capability.org/downloads/NFCS_2009_Natl_Qre_Eng.pdf.

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