Jail time needed for wrong-doing to resonate in India

A Hubbis survey of local market practitioners reveals that many people believe punitive action must be taken against wrong-doers if the industry is going to be able to avoid long-term damage to its reputation.

Nearly three-quarters of the 125-plus respondents to a Hubbis survey on enhancing the wealth management industry in India believe individuals in breach of rules should face stricter penalties from the regulator – including going to jail.

It seems to be important to market practitioners that those advisers and other professionals found to be violating rules get reprimanded properly.

This is based on the belief that the harmful actions and wrong-doings of one individual run the risk of tainting the entire industry for a long time. And in the minds at least of the survey respondents, heavy financial penalties are considered a good deterrent.

REGENERATING TRUST

The vast majority of them believe that a violation of client trust deserves strict punishment in order to rebuild what gets lost.

Where it can be proved there was any intent to harm client interests deliberately or through negligence, exemplary punishments are a must, add practitioners.

One respondent noted that dishonest practices are economic crimes and must be dealt with punitively.

Many others also shared such a view added that the law should be unforgiving in matters such as financial fraud.

SEBI STANCE

Certainly, the securities regulator is doing its part to caution the public to deal with only SEBI-registered investment advisers and research analysts while seeking advisory or research services.

For instance, in 2016, it urged the public to check the registration status of the entity/person on the SEBI website before seeking investment advisory or research services.

The watchdog also warned the public to be wary of trading in the securities markets based on tips or recommendations provided by unregistered entities or persons.

NO CONSEQUENCES YET

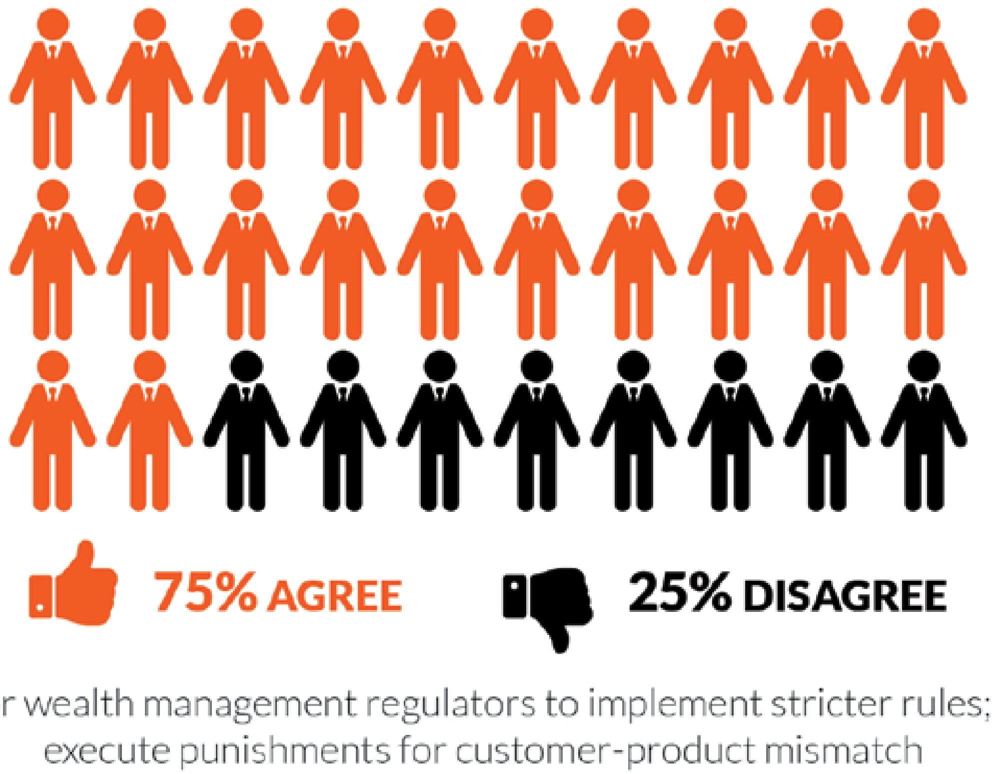
While SEBI has been encouraging self-regulation to a large extent, it does not remove the need for monitoring and punishing breaches, some respondents noted.

Indeed, there is a sense among some industry practitioners that it is currently easy for individuals and firms to break the rules and get away with it.

For example, there have been instances of mis-selling in the wealth and asset management industries, creating a pressing need to address these convincingly and dispassionately.

One big problem plaguing the wealth management segment, in particular, is

Market Practitioners in India



that entry barriers are very low and anyone can join this industry.

To improve adviser quality and reduce instances of mis-selling, however, it's important to raise educational and other requirements, according to some respondents. Education, for instance, remains key to ensuring advisers realise their fiduciary responsibility to clients.

A clear code of conduct and suitability framework, with appropriate consequences for non-adherence, is also needed for the wealth management industry, add practitioners.

Even steps such as banning firms or individuals from the industry for a period of time in extreme cases of wrong-doing, could be considered, they added.

MORE REGULATIONS NEEDED

As one respondent noted, India is in an adolescent phase when it comes to wealth management. Although there is huge scope for growth, strong regulations and platforms are required to make this scalable.

Meanwhile, there were some who believe a jail sentence is too harsh for wrong-doers, and that other penalties would do the trick, especially as the country's judicial system is already burdened with a multitude of pending cases.

An alternative point of view among respondents is that financial penalties are simply an easy way out. They believe that punishment for rule breaches should be even harsher.

Then again, opinion was split on the topic of extremely strict punishment.

As one respondent noted, the more punitive the law, the lower the likelihood that it will be implemented.

Also, some of the survey participants noted that it is important to remember that if the intent behind a breach of rule is not to deceive, it should be treated accordingly.

Ultimately, according to some respondents, the regulator needs to make the rules clear and easier to follow. ■