Regulatory Leakage Among Financial Advisors: Evidence From FINRA Regulation of "Bad" Brokers*

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Abstract

The regulatory framework for financial advisors is fragmented, with multiple state and federal regulators. Prior empirical literature on financial advisors has largely focused on a single subset of financial advisors, but we create a database containing brokers regulated primarily by FINRA, investment advisers regulated by the SEC or state securities regulators, and insurance producers regulated by state insurance regulators. There is significant overlap across the regimes; more than 40% of the advisors in our data are registered with more than one regulator. This overlap has implications for labor allocation and market discipline. For example, of the individuals who exit

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FINRA's broker regime, 79% were jointly registered in insurance upon exiting FINRA's regime. This could be efficient if bad actors are transitioned to lower risk work, but our evidence shows that these advisors continue to engage in financial planning after they move to the insurance side, as over 90% maintain licenses to sell annuities. Moreover, those who committed misconduct when regulated by FINRA continue to have heightened levels of misconduct in insurance. Our findings have implications for regulatory discipline. In 2018 and 2019, FINRA proposed rules designed to nudge "bad" brokers out of the industry. We show that these proposals caused thousands of high-risk brokers to exit the FINRA broker regime, but that the majority of these individuals did not leave financial services—98% are currently registered with state regulators as insurance producers. (*JEL* D18, K20, K22, K23, G24, G28)

1 Introduction

There has been much focus on the so-called wandering police officer, a law enforcement officer who leaves one department after bad behavior only to find employment with a different department (Grunwald and Rappaport, 2020). Evidence suggests this pattern is not limited to police officers, but also exists in professions such as teachers, clergymen, and financial advisors (Honigsberg, Hu, and Jackson, 2022). On the one hand, allowing "wandering" in financial services may be efficient. It allows individuals to preserve their human capital and skill in selling financial products, and may transition those individuals to lower-risk work. On the other hand, it could reflect a form of arbitrage that allows bad actors to continue working in a similar function while evading market discipline.

The overlapping and fragmented legal regimes for financial advisors also raise questions about regulators' ability to discipline bad actors. Consider, for example, Terrence Reid Pipenhagen, who was previously registered as a broker with the Financial Industry Regulatory Authority ("FINRA"). In 2008, FINRA barred Mr. Pipenhagen from association with any FINRA-registered broker-dealer in any capacity. FINRA alleged that, after losing his clients' funds, Mr. Pipenhagen sent false account statements to his clients to prevent them from attempting to withdraw their depleted investments. Although Mr. Pipenhagen was not registered with the Commodities Futures Trading Association (CFTC) at the time, the CFTC later determined that he had also violated federal commodities law and brought additional enforcement of its own. In 2010, the CFTC imposed a fine of $150,000 and mandated that Mr. Pipenhagen never apply for CFTC registration nor claim CFTC exemption—effectively barring him from commodities. In effect, Mr. Pipenhagen was barred by two federal regulators. Yet, Mr. Pipenhagen remains in financial services. As of July 14, 2022, the Florida Division of Agent and Agency Services shows that Mr. Pipenhagen holds five types of insurances licenses, providing him the ability to sell life and health insurance products, including variable annuities. Notably, Mr. Pipenhagen's record shows that his insurance licensing dates back to 1978, meaning that he was already licensed in insurance before being barred by federal regulators. Following his discipline by the federal regulators, he merely maintained his insurance licenses and continued with that work.

Mr. Pipenhagen is not a lone example. Of the 456,906 individuals who withdrew their FINRA brokerage licenses during the years from 2012 to 2022 and remain outside the FINRA

regime, roughly 26.5% of these individuals are registered with another financial regulator. This contradicts a common assumption in academic literature that an exit from FINRA registration is akin to exiting the financial services industry. Instead, the regulatory landscape for what we colloquially deem financial advisors is fragmented, with multiple federal and state regulatory regimes. Individuals who withdraw their FINRA registration often remain registered with another financial regulator.

The specific tasks that an advisor can perform vary depending on that advisor's registration, but there is a great deal of overlap across the registrations, especially at the consumer level. In fact, consumers are generally not aware of the difference (SEC, 2010). For example, consider a broker-dealer representative versus an investment adviser representative. Broadly stated, broker-dealers buy and sell securities on behalf of clients after obtaining permission, and investment advisers are wealth managers who provide their clients with advice and recommendations. The line distinguishing these functions is increasingly narrow. Yet, broker-dealer representatives are regulated primarily through FINRA, while investment adviser representatives are regulated through the SEC. The line becomes even more blurred as it relates to insurance. Fixed annuities have long been deemed an insurance product. Likewise, in accordance with the Dodd-Frank Act, indexed annuities are deemed insurance products—even though the payout is driven by the return of an underlying basket of securities. By contrast, variable annuities typically require both securities and insurance licenses.[1]

Arguably, this regulatory framework invites self-selection, as "bad" advisors are incentivized to seek the most lax regulatory regime. Yet, the fragmentation has potential benefits, as it may allow higher-risk advisors with a history of misconduct to transition to lower-risk work, while preserving their human capital. A key question is thus whether advisors who transition to another regime continue in a similar role or whether they transition to lower risk activities. For example, an advisor who leaves the broker regime and transitions to insurance may sell products like car insurance (low risk) or products like variable annuities (high risk). Either allows the broker to make use of prior skills rather than finding a new industry altogether, but they pose differing risks to consumers.

[1]We say that variable annuities typically require a securities license because the SEC states that a securities license is required, but we find numerous individuals (like Mr. Pippenhagen) who lack a securities license but have a license to sell variable annuities. Variable annuities represent a significant source of business, accounting for $1.5 trillion or 35% of U.S. life insurer liabilities in 2015 (Koijen and Yogo, 2022). Jointly, life and variable annuity sales account for roughly one-third of total insurance sales.

This unique framework has been largely ignored in academic work, so our analysis begins with summary statistics on four different categories of financial advisors. First, we obtain data on registered representatives of broker-dealers (primarily regulated by FINRA) from BrokerCheck. Second, we obtain data on investment adviser representatives (primarily regulated by the SEC and state securities regulators) from the SEC's Investment Adviser Public Disclosure (IAPD) webpage. Within this category, we separate investment advisers by whether the primary regulator will be the SEC or a state securities regulator, as prior work has shown that SEC regulation in this area is more strenuous than state regulation (Charoenwong, Kwan, and Umar, 2019). Finally, we obtain data on state registered insurance producers through state websites and public records requests filed with state regulators. In terms of relative size, insurance is the largest regime, with over two million active insurance producers. This is followed by over one million active FINRA-registered broker-dealers, around four-hundred thousand SEC-registered investment adviser representatives, and around twenty-thousand state-registered investment adviser representatives. For our analysis, we merge the different data sources and track individuals who register in more than one regime. Cross-registration is common; roughly 42% of FINRA-registered brokers hold at least one additional registration in any given year.

We begin by asking whether financial advisors select into specific regulatory regimes following misconduct. This analysis extends prior literature finding that FINRA brokers are likely to withdraw their FINRA registration after misconduct (Egan et al., 2019). Our findings show that this result is driven by advisors who are jointly registered as FINRA brokers and insurance producers, and that these individuals continue to work as insurance producers after exiting FINRA's regime. Indeed, in the year following serious misconduct (defined as criminal or regulatory infractions, civil judgments, and employer terminations after allegations of improper conduct), a FINRA broker who is not jointly licensed in another regime is 1.6 to 3.3 percentage points more likely to withdraw from FINRA registration. By contrast, a FINRA broker who is also registered in insurance is roughly 35 percentage points more likely to withdraw his FINRA registration—in other words, these dual-registrants are 10 to 20 times more likely to withdraw from FINRA registration after serious misconduct.[2]

[2]We also study the likelihood that FINRA brokers add a registration, and we find that FINRA brokers are more likely to add an insurance producer registration in the year following serious misconduct. By contrast, we find no evidence that serious misconduct affects the likelihood that a FINRA broker will add an investment adviser registration.

To understand whether this flow from the brokerage industry to insurance poses risk to consumers, we make two inquiries. First, we look at the products sold by former FINRA brokers who operate in insurance. We show that 92% are licensed and have the authority to sell annuities; 76% have the authority to sell variable annuities specifically. Fewer than 15% have the authority to sell personal or casualty products (e.g., home insurance). In sum, these former FINRA brokers appear to be operating on the asset management side of insurance rather than the risk reduction side. Second, we show that individuals with a history of insurance misconduct continue to commit misconduct in insurance. Further tests show that individuals are more likely to withdraw their FINRA registration and work in insurance when the state insurance regulator is more lenient (as measured by the regulator's budget and total fines relative to the number of producers in that state), and in states with a smaller salary gap between brokers and insurance producers (brokers typically earn more than insurance producers). Jointly, these tests suggest that former brokers with a history of misconduct who transition to insurance continue to engage in similar behavior.

The overlapping regulatory regimes raise the additional question of whether an individual regulator can discipline wayward financial advisors who operate across multiple regimes. Consider two recent FINRA rule changes. In 2018, FINRA proposed that brokerage firms obtain FINRA's approval (a costly and time-consuming process) before hiring brokers with a substantial history of misconduct. Then, in 2019, FINRA proposed to designate firms with an unusually high number of previously disciplined brokers as "restricted," and to require some of those firms to maintain a reserve account with assets available for aggrieved customers—a penalty so severe that one industry blog likened it to expelling the firms in question. These rules were adopted largely as written in 2021. Assuming that the rules were effective at pushing bad actors out of FINRA's regime, it is unclear whether the effect of the rules would be to force bad actors out of financial services entirely—or to force bad actors into less regulated areas of financial services.

We study this question by identifying the set of FINRA-registered brokers who were targeted by the rules. Our identification strategy compares the likelihood that targeted brokers withdraw from FINRA registration after the rules were proposed, relative to brokers who are employed at the same firm, working in the same county, in the same year, with similar qualifications and regulatory registrations—i.e., those who are also registered insurance producers and may have records of misconduct, but do not fit the exact definition of "bad"

broker under the FINRA rule. Consistent with the rule's intent to crack down on these bad brokers, we find a significant increase in the likelihood that brokers who meet the definition of "bad" under the proposed rules withdraw after 2018. This pattern is almost entirely due to FINRA brokers who are jointly registered in insurance. Indeed, we trace the career outcomes for these individuals after they exit the FINRA database and find that 98% of them are actively registered as insurance producers as of this writing.

Our study provides three contributions to the literature. First, to our knowledge, we provide the first large-scale evidence on the significant overlap between insurance producers and other types of financial advisors. Relative to other categories of financial advisors, insurance is the largest in number and has seen the highest growth over the past decade. The overlap between FINRA brokers and insurance producers has also grown: in 2012, we estimate that around 14% of FINRA brokers were insurance producers; by 2022, that estimate more than doubled to 35%.[3] This trend reflects that the line between insurance and securities has become increasingly blurred since the passage of the Dodd-Frank Act, which caused indexed annuities to be regulated as insurance. The sheer number of insurance producers is also noteworthy. In some states, the number of insurance producers licensed to operate in that state exceeds 10% of the state's population.[4]

Second, we contribute to literature on market discipline of financial advisors. Prior literature on financial advisors has largely focused on individuals in the BrokerCheck database and thus regulated primarily by FINRA (e.g., Egan, Matvos, and Seru, 2019, 2022; Dimmock, Gerken, and Graham, 2018; Griffin, Kruger, and Maturana, 2019; Honigsberg and Jacob, 2021). These papers find evidence of market discipline. For example, Egan et al. (2019) finds that roughly half of brokers with misconduct exit the FINRA broker regime. By contrast, we draw data from multiple regimes and define financial advisors by job function rather than by regulator, allowing us to analyze whether these advisors leave financial services entirely or only leave the FINRA regime. Our results paint a more nuanced picture of market discipline: although FINRA brokers with misconduct have high rates of exit from the FINRA regime,

[3]This estimate reflects the number of jointly registered FINRA broker-insurance producers in our data in each year, divided by the total number of FINRA brokers in that year. Boyson (2019) examines the overlap between FINRA brokers and investment advisers, but not insurance producers.

[4]For example, the population of Alaska is an estimated to be 734,323 and the National Association of Insurance Commissioners reported that 86,268 individuals were licensed to sell insurance in that state. Of course, many of these insurance producers could be licensed in Alaska without living in Alaska.

many remain in financial services by transitioning to insurance. Our analysis shows that a FINRA broker who is not jointly registered in another regime has only a 1.5 to 3 percentage point increase in the likelihood of exiting the FINRA regime in the year following serious misconduct; by contrast, a FINRA broker who is already jointly registered in insurance is almost 36 percentage points more likely to exit following serious misconduct. In total, of those former FINRA brokers who exited to insurance, almost 14% had prior misconduct.

Third, we contribute to literature on regulatory leakage by highlighting the limitations of regulatory discipline when there are overlapping, fragmented regimes. Prior work has shown that when regulation allows for evasion (or leakage), the net effect of the regulation is unclear. For example, the Kyoto Protocol led to significant relocation of developed countries' energy-intensive production (Babiker, 2005), and tighter capital requirements on commercial banks increased shadow bank lending (Gebauer and Mazelis, 2019). We are the first to analyze this effect in financial advisory services. Because 98% of the "bad" FINRA brokers who withdrew from FINRA registration remain in insurance, where most continue to have authority to sell investment products, bad actors and regulators appear to engage in an ongoing game of whack-a-mole. The primary effect of the FINRA rules we study was arguably to cause the targeted set of brokers to be subject to lower levels of monitoring than before.

Finally, our study contributes to the continuing policy debate over the regulation of financial advisors. During the Obama Administration, the Department of Labor attempted to set a uniform fiduciary standard across brokers and advisers, and this effort led to changes in sales practices of high-expense annuities before it was ultimately struck down in court (Egan, Ge, and Tang, 2020). Since then, consumer advocates have continued to push for uniform standards of conduct (Consumer Federation of America, 2020), but regulators have continued to focus on regulatory distinctions rather than the economic realities of financial advice.

2 Institutional Background

The law of financial advice generally seeks to regulate two types of misconduct: outright fraud and more subtle conflicts of interest. The latter is particularly relevant because financial products, unlike most consumer goods, are often sold through intermediaries who have their own financial incentives to recommend products that pay a high commission but may

not be suitable for the consumer. A large empirical literature documents that conflicts of interest drive advisors to steer clients into worse-performing or more expensive products (Mahoney, 2004; Bergstresser, Chalmers, and Tufano, 2008; Christoffersen, Evans, and Musto, 2013; Chalmers and Reuter, 2020).

To understand the problems that the law guards against, consider the recently decided case brought by the SEC against Jonathan Dax Cooke and Keystone Capital Partners.[5] In 2017, the SEC alleged that Cooke (and Keystone Capital Partners, the firm he co-founded) fraudulently targeted federal employees nearing retirement, inducing them to roll over their retirement accounts into risky variable annuity products. Cooke and his associates, who acted as registered broker dealer representatives, investment adviser representatives, and insurance producers, identified themselves as representatives of "Federal Employee Benefit Counselors"—the pseudonym for Keystone Capital Partners—despite no affiliation with the federal retirement system. Using materials the SEC deemed misleading, they sold variable annuities to hundreds of federal employees, with a face value of $40 million dollars, earning themselves commissions and fees of around $1.7 million. At no point did they disclose their affiliations and respective duties as registered financial advisors. Nor did they disclose that they were selling higher-risk, higher-fee, higher-commission variable annuity products, compared to the lower-risk, lower-fee annuity offered to all federal employees for which they would collect no commissions. In 2022, after a jury returned a unanimous verdict against Cooke and Keystone for fraud, the SEC barred Cooke from the industry.

Cooke's misconduct crossed many regulatory regimes— broker-dealer, investment adviser, and insurance. There are significant differences in these regimes. Activities that may constitute misconduct in one regime may be an accepted practice in another. Part of the difficulty of regulating financial advice is that consumers are commonly unaware of these distinctions (Securities and Exchange Commission, 2011; RAND Corporation, 2018). In this section, we begin with a brief discussion of each of the distinct regulatory regimes in our analysis, and we conclude with FINRA's recent rules designed to nudge brokers with significant history of misconduct out of the industry.

[5] *SEC v. Keystone Capital Partners, Inc. d/b/a Federal Employee Benefit Counselors*, No. 1:17-cv-02873 (N.D. Ga. 2017); SEC Wins Atlanta Trial Over $1.7M Retirement Savings Scam, Law360, Rachel Scharf (March 22, 2022).

2.1 FINRA-Registered Brokers

First, financial advisors can be registered representatives at firms subject to broker-dealer oversight. Popularized by movies such as *The Wolf of Wall Street* and *Boiler Room*, this classification is perhaps the most well-known type of financial advisor. In exchange for commission-based compensation, these advisors execute transactions on clients' behalf and offer limited investment advice. Broker-dealer firms are overseen primarily by FINRA with some contribution from the SEC, and the individual advisors who work at those firms are referred to as registered representatives of broker-dealers. For concision, we refer to these individuals as "FINRA brokers."

Broadly stated, FINRA regulation can be broken into three categories: substantive conduct, disclosure, and enforcement. First, as to substantive conduct, the law mandates that FINRA brokers abide by a specific code of conduct—in other words, FINRA specifies how brokers must weigh their personal interests against those of their clients. Historically, FINRA brokers were subject to a suitability standard, meaning that they could recommend investments based on reasonable diligence of the investor's needs. Today, however, FINRA brokers are subject to a "Best Interest" standard, which includes a duty to exercise reasonable diligence, care, and skill when making recommendations to retail customers. Although the exact meaning of the Best Interest standard is unclear, it appears that it is higher than the prior suitability standard but lower than a fiduciary standard.[6]

Second, FINRA uses disclosure to facilitate private market enforcement and monitoring. FINRA records scores of information on registrants in a centralized database known as Central Registration Depository (CRD), and much of the information in CRD is made available to the public for free through FINRA's BrokerCheck website. BrokerCheck provides information on each FINRA broker's background, work history, prior regulatory or criminal actions, qualifications, customer complaints, and the results of any related arbitration or litigation. Prior research has shown that the information in BrokerCheck can predict future misconduct and aids market discipline (Egan et al., 2019; Qureshi and Sokobin, 2015).

Finally, FINRA maintains a relatively robust inspection and enforcement arm to police

[6]The care obligation requires that brokers have a reasonable basis to believe that their recommendations "do[] not place the broker-dealer's interest ahead of the retail customer's interest," which in theory allows arrangements in which their interests are co-equal. A fiduciary obligation, such as under the DOL's ERISA, requires that the advisor make decisions for the client as though she were the client.

misconduct. In any given year, FINRA typically examines more than half of its registered broker-dealer firms, and bars, suspends, or fines hundreds of firms and individuals. In addition to the relatively high frequency of its inspections, there are two distinct features of FINRA's enforcement regime. First, FINRA primarily regulates at the firm-level, not at the individual-level. It holds firms responsible for bad actions of their brokers, and it will discipline firms for failure to supervise if individuals at the firm commit significant misconduct. Second, FINRA oversees an extensive arbitration program that allows consumers to bring claims against their brokers far more cheaply than the traditional court system, plausibly allowing for resolution of client disputes that would otherwise have been unresolved and unreported. In 2021 alone, 2,893 new requests for arbitration were filed and 4,029 cases were closed (Financial Industry Regulatory Authority, 2021). The results of these arbitrations typically show up in BrokerCheck.

2.2 Registered Investment Advisers

Second, financial advisors can be registered representatives at firms regulated under the Investment Advisers Act of 1940 and SEC rules promulgated thereunder. An investment adviser (spelled here as "adviser" rather than "advisor") is a firm or individual engaged in the business of providing securities-related advice, reports, or analysis for compensation. Investment advisers are required to register with either the SEC or the state in which the adviser maintains their principal place of business. In accordance with the Dodd-Frank Act, the determination is based on assets under management (AUM), with smaller investment advisers generally required to register at the state-level, and larger investment advisers required to register with the SEC.

Like FINRA brokers, regulation of investment advisers can be broken into regulation of substantive conduct, disclosure, and enforcement. First, as to substantive conduct, all investment advisers are fiduciaries—regardless of whether they are regulated primarily by the SEC or a state securities regulator. They are required to prioritize their clients' interests above their own, and to disclose any potential conflicts of interest. Although investment advisers differ from broker-dealers in that they provide ongoing advice and wealth management, whereas brokers are more typically transaction based, the standard of conduct is arguably the biggest difference between the two classifications, as investment advisers are

subject to a fiduciary standard and broker-dealers are not.

Second, as with FINRA brokers, regulators provide significant public disclosure on state- and SEC-registered advisers. All registered investment advisers must file Form ADV, which requires individuals to describe their professional background and conduct, employment history, and provide disclosures about disciplinary events. The information in Form ADV is made available to the public through the SEC's equivalent of the BrokerCheck database: the Investment Adviser Public Disclosure (IAPD) database. This website provides information on both state and SEC registered advisers. Despite the similarities between BrokerCheck and IAPD, BrokerCheck attracts far more web traffic (Honigsberg and Jacob, 2021). One explanation is that, until recently, limitations on the IAPD website made it difficult to access certain historical information, making the data provided in Form ADV less informative (Dimmock and Gerken, 2012).

Finally, as with FINRA brokers, investment advisers are subject to regulatory investigations and enforcement procedures, but these procedures have historically been much more limited than in the FINRA regime.[7] Relative to the states, the SEC is considered to provide a more strenuous enforcement regime (Charoenwong et al., 2019). Although private enforcement is arguably lower for investment advisers than for brokerage firms, as there is no SEC-sponsored arbitration system allowing for relatively cheap resolution of disputes, one similarity is that investment advisers are also regulated primarily at the firm-level, with regulators holding the firm responsible for misconduct of its employees.

2.3 State-registered Insurance Producers

Finally, firms and professionals offering financial advice may be insurance producers, who provide a wider range of financial services than their title suggests. Following more than a decade of lobbying, the Dodd-Frank Act included a provision guaranteeing that most fixed-indexed annuities would be regulated as insurance products rather than securities. This has been a boon for the nascent fixed-indexed annuities market, which as Figure 1 shows, has more than tripled in size to over $550 billion in assets since 2010 when Dodd-Frank was

[7]Investment-adviser oversight for SEC registered advisers is conducted largely by the SEC's Division of Examinations. Although the Division inspected more than 2,000 investment advisers in 2019, that figure amounts to just 15% of the advisers registered with the SEC. By contrast, recall that FINRA inspected roughly half of broker-dealer firms in that same year.

passed. Although variable annuities typically still require a securities license, they too are sold by insurance producers. Fixed-indexed annuities typically offer a guaranteed minimum rate with an additional potential payout that is determined based on a market index, while variable annuities are linked entirely to the performance of an underlying investment. Given that annuities are very popular products, with roughly 35% of FINRA brokers being qualified to sell variable annuities, the potential overlap between securities professionals and insurance producers is substantial. These products raise similar questions—and present similar risks—as those raised by securities more generally. As an example, consider that life insurance products are commonly complex financial products where the payout relies on the underlying securities. Rather than traditional types of insurance, such as car or home insurance, many insurance products are now a critical component of tax and financial planning—and many insurance producers are more akin to financial advisors than to traditional insurance salesmen.

Unlike the other regimes described here, insurance producers are regulated entirely at the state-level. State-level licensing and registration is required for those that sell insurance, and state-level licenses typically cover a specific category, or "line," of insurance, with many states requiring separate licenses for six separate lines of insurance: life, accident and health, variable products, property, casualty and personal insurance (National Association of Insurance Commissioners, 2011). As of 2022, about 2.45 million individuals, and 222,467 business entities were licensed to provide insurance services in the United States. Insurance producers are commonly registered with "resident" status in their home state and "non-resident" status in all other states in which they are licensed to sell insurance but do not reside. They typically operate in multiple states. In our dataset, the mean (median) insurance producer has 2.85 (2) state licenses.

As with FINRA brokers or investment advisers, insurance producer regulation can broadly be broken down into standards of conduct, disclosure, and enforcement, but there is significant variation across the states, especially with respect to enforcement. We try to summarize the main components here. First, as to standards of conduct, most insurance producers are subject to a type of suitability standard, meaning that they are expected to recommend products that are suitable for their clients. Although the National Association of Insurance Commissioners (NAIC) has approved a standard for insurance producers who recommend annuity products that is similar to the new "Best Interest" standard for FINRA brokers, not

all states have adopted this updated standard.[8] As such, although there is variation across states, many insurance producers are held to lower standards of conduct than either FINRA brokers or investment advisers.

The level of disclosure is also lower for insurance producers than for FINRA brokers or investment advisers. Unlike these other categories of financial advisors, there is no consumer-oriented centralized website containing information on insurance producers.[9] Instead, consumers seeking information on a state-licensed insurance salesperson must typically search each state's database, and there is considerable variation in the type and quantity of information made available to consumers in each jurisdiction. Few states allow consumers to identify producer-level misconduct through these databases, and those that do make that process far more burdensome than a search of BrokerCheck or IAPD (Brown and Minor, 2015).

Finally, as to enforcement, there is significant variation across states. For example, the frequency of regulatory actions varies widely, with some states taking action against as many as one out of 100 registered insurance producers each year and others taking action against as few as one out of 1,000 (Schwarcz and Siegelman, 2015). And, private enforcement is limited relative to FINRA brokers or investment advisers. An important distinction from these other regimes is that insurance producers rarely associate with a single firm; they sell products on behalf of a wide range of insurance companies. For example, Mr. Pipenhagen sells products for no less than 20 different insurance companies. Unlike the regimes for FINRA brokers or investment advisers, where the regulators discipline primarily at the firm-level and each firm is responsible for their advisors, insurance companies have little to no responsibility for their agents; consumers typically cannot successfully sue the company, and regulators rarely discipline companies for the actions of agents.

Much has been written on insurance regulation, and one explanation for why it appears to be relatively friendly to insurance producers—and less friendly to consumers—is that there has been substantial regulatory capture in this area (Randall, 1999; Schwarcz, 2010, 2013). For example, prior work has noted that nearly 50% of state insurance commissioners

[8] As of January 2024, 41 states had adopted the NAIC's model regulation.

[9] The closest parallel is the National Insurance Producer Registry (NIPR), a non-profit, national registry of insurance registrations created by the National Association of Insurance Commissioners (NAIC) in 1996. However, the NIPR offers a multitude of services for producers but does not provide background information on insurance producers for consumers that is akin to the information provided on BrokerCheck and IAPD.

go directly to the insurance industry after leaving government, that at least 7.5% of state legislators who sit on committees overseeing the insurance industry are active insurance producers, and that 11% of state legislators who sit on these committees were former insurance producers (Grace and Phillips, 2008; Honigsberg et al., 2022).

Of the different classifications of financial advisors that we study, insurance producers are both the largest and have seen the most growth in recent years. Figure 2 provides a line graph showing the number of new registrations per year in each year from 2012 through 2021.[10] As shown, new registrations in the securities regimes have largely remained flat, but new registrations in insurance have exploded in recent years.

3 Sample Construction

3.1 Data Sources

Our analysis relies on data from three sources: (1) FINRA's BrokerCheck; (2) the SEC's IAPD; and (3) state insurance regulators. We describe the steps we took to collect data from each source below.

FINRA's BrokerCheck: We scraped BrokerCheck in June 2022, so our BrokerCheck data contain information on all brokers with records available on BrokerCheck at that point in time. This yields an unbalanced panel of roughly 1.1 million unique brokers and 8.3 million individual-year observations. With limited exceptions, BrokerCheck maintains records for all individuals who were actively registered with FINRA at any point in the past ten years. This means that we have information on all brokers who were registered at any point from June 2012 through June 2022, including those who have withdrawn, but that we would not have a complete set of brokers if we were to extend the sample prior to June 2012. If a broker switched firms midway through the year, he was assigned to the firm that he spent the most time at in any given year. If a broker was registered at two or more firms for an entire year, he was randomly assigned to one firm for the year for the purposes of estimating firm-fixed effects.

[10] Although unable to provide the total number of active registrations or the change in net registrations, the National Association of Insurance Commissioners provided us with the number of new registrations in each year. We identified the number of new registrations in each other regime from our data.

Following Egan et al. (2019), we consider 6 of the 23 disclosure categories on BrokerCheck to be "misconduct." These six categories are as follows: Customer Dispute-Settled, Regulatory-Final, Employment Separation After Allegations, Customer Dispute - Award/Judgment, Criminal - Final Disposition, and Civil-Final.[11] To have more consistency across the different advisors, we create a subset of "serious misconduct" defined as the four categories of misconduct excluding Customer Dispute-Settled and Customer Dispute-Award/Judgment. By excluding customer complaints and restricting to more serious infractions, this definition helps to address concerns that certain complex or opaque products may be particularly prone to customer complaints. Further, following Qureshi and Sokobin (2015), we define retail brokers as those who hold more than three state registrations. In addition, to better reflect each advisor's expertise and job function, we group similar exams together and create five new dummy variables, with each set to 1 if the advisor has passed one or more relevant exams. NASAA Exam refers to the set of licenses required by the North American Securities Administration Association and likely captures retail focused advisors (the Series 65 and 66). Var. Annuities Exam refers to the set of licenses required to sell variable annuities (the Series 6 and 26). Supervisor Exam refers to the set of exams that can be necessary to serve in a supervisory capacity (the Series 9, 10, 4, 14, 16, 23, 24, 26–28, and 39). NFA Exam refers to the set of exams required for commodities brokers (the Series 3, 30–32, and 34). MSRB Exam refers to the set of licenses required to sell municipal securities (the Series 51–54). Finally, we use the World Gender Name Dictionary 2.0 to determine a broker's gender (Martínez, de Juano-i Ribes, Yin, Le Feuvre, Hamdan-Livramento, Saito, and Raffo, 2021). If the broker's first name was not in the database or was unisex, we matched the middle name or any other name excluding the broker's last name.

SEC's IAPD: We scraped the SEC's IAPD in July 2022, so our IAPD data contain information on all investment adviser representatives and firms with records available on IAPD at that point in time. This yields an unbalanced panel of just under 409,124 unique investment adviser representatives and roughly 3.2 million individual-year observations. We determine whether each individual is a SEC-registered adviser or a state-registered adviser based on whether the firm that employs them is subject to SEC or state oversight. Like

[11] Many of the other disclosure categories do not necessarily relate to misconduct but may reflect personal history such as liens or bankruptcies. Further, by limiting to these six categories, we have greater confidence that there was merit in the underlying complaint. For example, for an oral complaint to be included in the Customer Dispute – Settled category, the settlement must have exceeded $15,000.

BrokerCheck, IAPD maintains records for individuals who have been active at any time in the past ten years, allowing us to collect a complete sample of investment adviser representatives, including those that have withdrawn, over the period from July 2012 to July 2022. FINRA and the SEC completed the convergence of BrokerCheck and IAPD prior to our scape of the database, allowing us to define variables available in BrokerCheck consistently across the two databases. Although BrokerCheck and IAPD may report different years of experience for individuals who are included in both databases (BrokerCheck reports their years of experience as a registered representative, and IAPD reports their years of experience as an investment adviser), we compute years of experience based on the earliest registration year reported in either database.

State Insurance Producers: We obtained data on insurance producers from state insurance regulators. First, in the summer of 2022, we gathered data on registrations. We downloaded publicly available data when available, and we filed public records requests in all states that do not provide data online. The data includes name, address, lines of authority, state of registration, registration start date, registration expiration date, license number, and National Producer Number—a unique identifier for each insurance producer that is common across states. If the data we received from the state did not contain this information, we used the partial information to scrape the state's website or the NAIC's State Based System. Second, in the winter of 2024, we returned to all the states that initially provided us with a response to request any data on producer misconduct.

Our first data request was largely successful. We were able to get data on registered insurance producers from over 31 states, including major markets for financial advisors such as New York, Texas, Ohio, and Florida.[12] Because it is common for insurance producers to be registered in more than one state, this process allowed us to obtain data on individuals who are in states for which we did not receive data. In total, we obtained data on 2,336,771 million insurance producers. For comparison, the National Association of Insurance Commissioners reported to us that there were roughly 2.45 million active insurance producers across the U.S. in 2022, thus indicating that we received data on 95% of the total sample. By contrast, our follow-up request in 2024 for data on misconduct was not successful. Most states declined to provide data on misconduct or consumer complaints, frequently noting that the information

[12]The distribution of insurance producers in our sample is presented visually in Figure A.1. All states that are shaded with vertical lines are the states for which we did not receive data.

was confidential or was not tracked. The few states that provided any data provided data that was so sparse and inconsistent that it was not usable.

There are two notable limitations to the insurance data we received in response to our initial request for data on registered producers. First, unlike our other datasets, the insurance producer dataset includes only individuals who are currently registered. We do not have historical time-series data that includes those individuals who have exited the regime. This means that any estimate of crossover between FINRA brokers and insurance producers will be biased downward. For example, consider a hypothetical individual who exits the FINRA broker regime in 2015, but remains an insurance producer until he retires in 2020. This person would not show up in our insurance data because he retired in 2020. He would, however, show up in our FINRA data. Thus, this individual would be recorded as having exited financial services after exiting FINRA because we would have no record of his time in insurance. Second, as noted, misconduct data are very limited. Most states were unable to provide us with any misconduct data, either because the data were confidential or were not recorded in a shareable format. Of the states that provided any misconduct information, the data was not usable for a variety of reasons (e.g., key information was missing, data was maintained for only a short period of time—e.g., five days). Thus, in building our main sample, we rely on the records in BrokerCheck to identify misconduct for insurance producers. Because former FINRA brokers are required to report to FINRA any infractions that occur in the two years after exiting BrokerCheck—and that two-year period will be extended if any infractions are reported—the BrokerCheck data should reliably capture infractions of former FINRA brokers for at least two years post exit.[13] We supplement our main analysis with focused study of one specific state (Texas), for which we were able to scrape data on insurance complaints and misconduct. Although imperfect, this approach provides a consistent baseline across states.

3.2 Combined Dataset

To construct our final dataset, we started with the BrokerCheck universe, and merged in data from IAPD and state insurance regulators. We start with FINRA's BrokerCheck be-

[13]Individuals who withdraw from FINRA registration remain subject to its jurisdiction for at least two years, and are required to update their conduct disclosures. `https://www.finra.org/registration-exams-ce/manage-your-career/formerly-registered-reps`

cause, as noted previously, our dataset on insurance producers lacks information on producers who have withdrawn. This prevents us from being able to merge all datasets in all years.[14] The merge between BrokerCheck and IAPD is straightforward because both databases identify advisors using CRD (a unique 8-digit identifier). Merging the BrokerCheck data with the data on insurance producers is more difficult. As described in Appendix A.1, we performed a fuzzy match based on name, state, and zip codes. We disambiguated matches by requiring that matches be in the same zip code or state. This process identifies roughly 230,000 individuals who were, at some point over the past ten years, in BrokerCheck and are currently registered with a state insurance department.

For each individual in our sample, we pulled the individual-level variables shown in Table 1. As noted previously, we focus on the BrokerCheck data and examine the career trajectories for all individuals who appeared in BrokerCheck in any year from 2012 to 2022. During our sample period, 91% of individual-year observations are actively registered as FINRA brokers, meaning that 9% of the individual-year observations in our dataset correspond to people who were no longer registered with FINRA, but were registered investment advisers or insurance producers. In any given year, 0.44% (0.34%) of individuals in our sample have new misconduct (serious misconduct) disclosures, and 7.4% (4.1%) of individual-year observations have a record of misconduct (serious misconduct). Half of the individuals in our sample have more than 13 years of experience, and 27% are female.

The first two columns of Table 1 show the full sample, but the remaining columns include only those FINRA brokers who left FINRA and show up as registered in another regime within one year. The first set of columns shows that a total of 41.7% of our sample was jointly registered in more than one regime, with 35.2% of individuals jointly registered as FINRA brokers and investment advisers, and 15.9% are jointly registered as FINRA brokers and insurance producers.

There is a striking increase in the percentage of joint registrations when we examine the sample of FINRA brokers who exit FINRA and are registered in another regime within a year. Of this population, 79% were jointly registered as insurance producers at the time of exit, and a total of 81.8% were registered with at least one other regime at the time of

[14]We decided to start with either FINRA's BrokerCheck data or the SEC's IAPD data so that we begin with a full, unbiased set of advisors. Of the two options, we started with BrokerCheck rather than IAPD because BrokerCheck data has been far more commonly analyzed in prior literature than the SEC's IAPD, allowing us to be more consistent and integrated with prior literature on financial advisors.

exit. This shows that FINRA brokers who move from one regulatory regime to another are commonly jointly registered in that other regime—overwhelmingly insurance—at the time they withdraw their FINRA registration. These "wandering advisors" present a unique problem for policymakers and scholars because they challenge the assumption in the law and the literature that advisors who leave the securities industry also leave the business of financial advice.

4 Regulatory Overlap

4.1 Career Outcomes and Misconduct

In Table 2, we examine individuals' registration status in the final year they appear in our data (typically 2022, but earlier for those who are not presently registered in any regime). The table shows descriptive statistics for each unique individual in our sample. Panel A includes the full set of individuals, and Panel B includes only the subset of individuals who have exited the FINRA broker regime. As highlighted in Panel A, FINRA brokers who are jointly registered in insurance have relatively high rates of misconduct. For the full sample of FINRA brokers, just over 7% have any history of misconduct, and roughly 4.5% have a history of serious misconduct. This rises to 11.26% and 6.05% for insurance producers. Notably, almost half of jointly registered FINRA brokers-insurance producers have taken a qualifying exam to sell variable annuities, more than any other category, indicating the importance of these products in the overlap between insurance and FINRA brokers.

Panel B of Table 2 examines only those advisors who have exited BrokerCheck—i.e., they no longer maintain an active FINRA registration. Of the 456,932 individuals who exited BrokerCheck over our ten-year sample period, 121,208 (27%) remained in other regimes. Perhaps most striking, advisors in this subsample have higher levels of misconduct than those who exit financial services entirely or those who remain in BrokerCheck—and these elevated levels of misconduct are driven entirely by insurance producers.[15] Those who exit

[15]Table 2 captures misconduct and serious misconduct only as a dummy variable (i.e., the presence of misconduct), so one question is whether individuals who withdrew from FINRA had a single instance of misconduct, or whether these individuals are recidivists. As shown in Figure A.2 in the Appendix, the former FINRA brokers are more likely to be recidivists. A greater percentage of former FINRA brokers have one, two, three, and four+ misconduct disclosures—more at every level—than currently registered brokers.

BrokerCheck but remain as investment advisers (either SEC-registered or state-registered) have lower levels of misconduct than those still registered with FINRA. By contrast, almost 14% of FINRA brokers who have exited the FINRA regime but remain insurance producers have a history of misconduct; just over 10% have a history of serious misconduct. And 2% of insurance producers were suspended during their time as a FINRA broker, while another 1.25% were barred in some capacity. For comparison, 0.13% of former FINRA brokers who are now investment advisers were suspended, and 0.03% were barred in some capacity.

This table is presented visually in Figure 3. Starting from the left, we identify 121,208 former FINRA brokers who remain in insurance or as investment advisers. We divide the population of former brokers into those with and without a history of serious misconduct. On the right-hand side, we identify the current regime where the former brokers are registered. As shown, of the 58,034 former advisors who are now in insurance, 5,984 (10.3%) have a history of serious misconduct. This is far greater—in terms of both magnitude and percentage—than the level of serious misconduct for former FINRA brokers who are now solely investment advisers (either SEC- or state-registered).

4.2 Brokers Transitioning to Insurance

We begin our regression analysis by examining which FINRA brokers transition to other regimes—and how. Table 3 examines whether advisors add either investment adviser or insurance producer licenses after serious misconduct using the equation below.

$$Add\ Registration_{ijlt+1} = \beta_0 + \beta_1 Serious\ Misconduct_{ijlt} + \beta X_{ijlt} + \mu_{jlt} + \varepsilon_{ijlt}. \quad (1)$$

We follow Egan et al. (2019) in approximating the comparison between individuals with serious misconduct and those without within the same firm-county-year. The dependent variable, *Add Registration Status* $_{ijlt+1}$ is one of two dummy variables indicating whether the advisor added an insurance producer or investment adviser registration in year t+1. We restrict our sample to currently registered FINRA brokers who do not have insurance or adviser registrations in year t. The main independent variable of interest $Serious\ Misconduct_{ijlt}$ is an indicator for whether an individual had a serious misconduct disclosure in year t, X_{ijlt} represents our controls, and μ_{jlt} is a fixed effect. Standard errors are clustered by firm. The dependent variable in columns (1)–(3) reflects whether the individual added an invest-

ment adviser registration in the following year, and in columns (4)–(6) reflects whether the individual added insurance producer registration in the following year.

As shown in Table 3, FINRA brokers are more likely to add an insurance registration after serious misconduct, but the economic magnitude appears relatively small. Serious misconduct increases the probability of adding insurance producer registration in the following year by roughly 1 to 2 percentage points, where the unconditional probability of adding an insurance producer license is 0.5–0.7 percentage points, meaning that individuals are 2–4 times more likely to add insurance registrations *after* serious misconduct. By contrast, Table 3 provides no evidence that FINRA brokers add an investment adviser registration in the year following serious misconduct. The results for investment advisers are unsurprising—scrutiny designed to safeguard against "bad actors" is typically most substantial when an individual applies for a new registration. What is surprising is that advisors are more likely to add an insurance producer registration after misconduct. We also see that women are less likely to add both insurance and, especially, investment adviser registration, and that advisors typically add these registrations earlier in their careers.

Another way that brokers with serious misconduct can end up in the insurance industry is if brokers who are jointly registered withdraw their FINRA registration after serious misconduct. Table 4 examines this possibility by running a cross-sectional regression. To examine the likelihood of exiting the FINRA regime after serious misconduct, we follow Egan et al. (2019) in approximating the comparison between individuals with serious misconduct and those without within the same firm-county-year. We estimate the following linear probability model for individual i, at firm j, in county l, in year t:

$$\begin{aligned} Drop\ FINRA_{ijlt+1} = \beta_0 &+ \beta_1 Serious\ Misconduct_{ijlt} + \beta_2 SEC\ Adviser_{ijlt} \\ &+ \beta_3 State\ Adviser_{ijlt} + \ \beta_4 Insurance_{ijlt} \\ &+ \beta_5\ SEC\ Adviser{\times}Serious\ Misconduct_{ijlt} \\ &+ \ \beta_6\ State\ Adviser{\times}Serious\ Misconduct_{ijlt} \\ &+ \beta_7 Insurance{\times}Serious\ Misconduct_{ijlt} \\ &+ \ \beta X_{ijlt} + \ \mu_{jlt} + \varepsilon_{ijlt}. \end{aligned} \tag{2}$$

The dependent variable is an indicator for whether the advisor dropped their FINRA

registration in year *t+1*, so the sample is restricted to currently registered FINRA brokers. $SeriousMisconduct_{ijlt}$ is an indicator for whether an individual had a serious misconduct disclosure in year *t*. $SEC\ Adviser_{ijlt}$ represents whether the FINRA broker is jointly registered with an SEC investment adviser in year *t*, $State\ Adviser_{ijlt}$ represents whether the FINRA broker is jointly registered with a state investment adviser in year *t*, and $Insurance_{ijlt}$ represents whether the FINRA broker is jointly registered as an insurance producer in year *t*. $SEC\ Adviser \times Serious\ Misconduct_{ijlt}$, $State\ Adviser \times Serious\ Misconduct_{ijlt}$, and $Insurance \times Serious\ Misconduct_{ijlt}$ represent the interactions of these variables. X_{ijlt} represents our controls.

Following Egan et al. (2019), we include controls for experience and qualifications, including our additional controls grouping together common qualifications, and per Egan et al. (2022) we include a control variable for gender.[16] Finally, μ_{jlt} is a fixed effect, which accounts for potential differences across different firms and local economies. This fixed effect absorbs variation that may arise if, for example, some firms have affiliated insurance or SEC advisory businesses that make it easier for FINRA brokers to be jointly registered and/or switch regimes. This fixed effect also absorbs any common variation at the state-level that may influence the decision to change regulatory regimes (e.g., lax state securities or insurance oversight). Finally, the fixed effect absorbs any aggregate variation in regulatory status changes or misconduct (e.g., spikes in misconduct investigated after the financial crisis). If the advisor's firm is unknown, we consider the individual self-employed and create a unique firm fixed effect for that individual. Following Egan et al. (2019), standard errors are clustered by firm.

We include six specifications in Table 4. The first three columns include only the *Serious* $Misconduct_{ijlt}$ variable, and the next three columns include the joint registration dummies and interaction terms. For each set of three columns, the first includes only the main variable(s) of interest, the second adds advisor-level controls, and the third adds firm-county-year fixed effects. In general, the probability that an individual will withdraw their FINRA registration in any given year is very low—between 0.3 and 0.8 percentage points. However, columns (1)-(3) show, consistent with prior literature, that serious misconduct increases the likelihood

[16] Prior work has found that women with misconduct reflect 22% of those who exit financial services entirely but only 10% of the advisors who join other regulatory regimes (Honigsberg et al., 2022). Perhaps women are less likely to receive (or to pursue) the second chance offered by a different regulatory regime.

that a FINRA broker will withdraw her registration in the year following that misconduct by between 5 and 7 percentage points.

Columns (4)-(6) show that exit following misconduct is particularly pronounced for FINRA brokers who are jointly registered insurance producers. Under this specification, a FINRA broker without any joint registrations is 1.5 to 3.3 percentage points more likely to exit the FINRA broker regime in the year following serious misconduct—much lower than the estimates in columns (1)–(3). The difference appears to be due to the inclusion of the interaction between serious misconduct and jointly registered insurance producers. Advisors who are jointly registered as FINRA brokers and insurance producers are almost 36 percentage points more likely to drop their FINRA registration in the year following serious misconduct. Given that all these individuals must be active insurance producers in 2022 for them to be included in our sample, this shows that jointly registered FINRA brokers-insurance producers cannot be assumed to exit the financial services industry after misconduct, but are instead likely to drop their FINRA registration while they remain in insurance. By contrast, the pattern is the opposite for jointly registered FINRA brokers-investment advisers; this subpopulation is roughly 10-12 percentage points less likely to withdraw their FINRA broker license in the year after serious misconduct. Even jointly registered FINRA brokers who are also state-registered advisers are less likely to withdraw their broker registration at the margin.

In sum, whether a FINRA broker is jointly registered in another regime has a substantial impact on the likelihood that the advisor will exit the FINRA regime after serious misconduct. Although FINRA brokers without a joint registration are more likely to exit the FINRA broker regime in the year following serious misconduct, the economic magnitude of that finding increases substantially for jointly registered FINRA brokers and insurance producers—this subpopulation of advisors is almost 36 percentage points more likely to exit the FINRA regime in the year following serious misconduct, compared with 1.5 to 3 percentage points for a FINRA broker who is not jointly registered. Moreover, the insurance regime seems to permit individuals to add insurance licenses after serious misconduct—a trend not present for state or SEC investment adviser regimes.

Taken together, these findings raise questions regarding labor allocation and market discipline. On the one hand, this could reflect incomplete market discipline, as advisors with misconduct seem to leave the FINRA regime but continue in financial services. On the other

hand, if these advisors leave a regime where they can inflict significant financial harm but transition to a regime where the potential for harm is negligible, this may be evidence of optimal labor allocation.

5 Optimal Labor Allocation

A key question is therefore whether former brokers continue to engage in the same types of activity when operating in insurance. To evaluate this question, we analyze the behavior of former FINRA brokers and the products that they sell.

5.1 Products Sold by Former FINRA Brokers

First, to understand the activities of former FINRA brokers who migrate to insurance, it is necessary to understand what products they are licensed to sell. As explained earlier, insurance products may be akin to asset management where customers assume risk of loss (e.g., variable annuity products) or to traditional insurance where customers pay the insurance company to assume risks (e.g., car insurance). The financial consequences of working with a questionable insurance producer are likely to vary depending on the products in question.

Figure 4 shows that nearly all former brokers who remain in insurance are licensed to sell annuities products—and more than three-quarters are licensed to sell variable annuities. A majority are also licensed to sell Accident & Health insurance, which often features products structured as annuities.[17] Only 12-13.5% are licensed to sell products that fall under Property, Casualty, or Personal lines, indicating that few of these former FINRA brokers engage with products such as home or car insurance that are reflective of the traditional risk-sharing role of insurance. Appendix A.2 provides additional details on the data construction for this analysis.

[17]For example, structured settlements for personal injuries and long-term care insurance are annuities from an economic perspective. As a result, many states bundle life and accident & health licenses.

5.2 Misconduct by Former FINRA Brokers

Second, to understand the behavior of former FINRA brokers, we examine misconduct rates for former FINRA brokers who leave but are registered to sell insurance. Before proceeding, two caveats about the data are necessary. First, due to our aforementioned failure to obtain data on insurance producers' misconduct through public records requests, the analysis is limited to insurance producers registered in Texas (where we could scrape the data).[18] Although Texas may not be representative of the entire country, it has a large number of insurance producers, including non-resident producers who are licensed to sell insurance in Texas. Given the wide variation in enforcement and record-keeping across states, there is reason to expect varying levels of recorded misconduct across states even if actual misconduct is constant. Limiting to one state helps mitigate this concern.[19] Second, any finding of recidivism is likely to be biased downward because the insurance data are limited to currently registered producers. Any former brokers who were expelled from the insurance industry prior to 2022 are likely to be missing from our dataset, meaning that we would not capture recidivism in this subset.

With these caveats in mind, we examine the distribution of insurance misconduct and risk posed by repeat offenders. Like Charoenwong et al. (2019) we begin with customer complaints. Complaints are most often customer-initiated, can be filed for free on the Texas insurance department website, and are made available through the open data portal. However, life and annuity complaints, at least in Texas, are most often associated with alleged poor financial advice such as misrepresentations of policy terms or unauthorized acts. Infractions captured by these complaints may be minor, so we further identify a subset of complaints that we classify as insurance misconduct. Like Egan et al. (2019), we define misconduct as the subset of complaints that lead to investigations, regulatory sanctions, and

[18] As noted previously, our public records requests for insurance misconduct were unsuccessful. By contrast, Texas makes its insurance complaints data public on its open data portal. `https://data.texas.gov/dataset/Insurance-complaints-All-data/ubdr-4uff/about_data`.

[19] The occurrence and timing of misconduct is not random, nor is its detection. The opportunity to commit misconduct likely varies across different products, as some products allow for more obfuscation of terms such as commissions, and the detection of misconduct likely varies across regulatory regimes. We control for joint registrations and licenses in our regressions to better address these concerns. Further, the definition of serious misconduct likely mitigates some variation across product types by restricting to more serious infractions.

civil or criminal referrals, as well as complaints that were resolved against the producer.[20]

Most insurance producers in Texas do not have any customer complaints filed against them; less than one in one-hundred and fifty have any record of complaints. Instead, a small number of individuals, many of whom are repeat offenders, account for nearly all complaints in the data. Using the subset of FINRA brokers (current and former) who are jointly registered as insurance producers in Texas, Figure 5 shows that former FINRA brokers are both more likely to have customer complaints filed against them than currently registered FINRA brokers and to be repeat offenders.

The relatively high rates of recidivism suggest that, like brokers and investment advisers, insurance producers' (mis)conduct should be predictable.[21] Using the same sample, we study the relationship between the flow of new complaints (misconduct) and the stock of prior complaints (misconduct) using the following linear probability model for individual i, in county l, in year t:[22]

$$Complaints_{ilt} = \beta_0 + \beta_1 PriorComplaints_{ilt} + \beta X_{it} + \mu_{lt} + \varepsilon_{ilt}. \tag{3}$$

The dependent variable $Complaints_{ilt}$ measures the flow of new insurance complaints over a 1-year period and is a dummy variable indicating that the producer received one or more complaints in year t. $PriorComplaints_{ilt}$ is our main independent variable of interest, which measures the stock of complaints and is a dummy variable indicating if the producer has a record of complaints prior to year t. X_{it} is a set of insurance producer controls for gender, experience, and licensing qualifications; and μ_{lt} is a set of county-year fixed effects.[23]

Table 5 presents the results from the model in Equation 3. The main coefficient of interest measures whether an insurance producer with a record of complaints is likely to receive

[20] In general, insurance complaints are most often filed for accident and health insurance policies, and are related to claim handling including delays, denials, and unsatisfactory settlement offers. `https://content.naic.org/cis_agg_reason.htm`.

[21] Likewise, Figure A.2 shows that, in general, former FINRA brokers have higher rates of recidivism than those who remain registered.

[22] Unlike our broker regressions, we do not include firm information because the majority of life insurance contracts are sold by independent agents who represent multiple firms. See `https://www.iii.org/fact-statistic/facts-statistics-distribution-channels`.

[23] Complaints and misconduct may be driven by consumer confusion related to the types of insurance products they purchase (e.g., annuities contracts can contain complex fees and payout structures, which consumers may not understand (Browning, Finke, and Huston, 2012)). Accordingly, we control for the type of license that the insurance producer holds.

future complaints, relative to producers in the same county, and with similar qualifications. In column (1) we start with the full sample of insurance producers in Texas, then in columns (2) and (3) we restrict our sample to the universe of current insurance producers who match with BrokerCheck. The coefficient in column (3) of 4.172 percentage points suggests that the propensity to reoffend is large. The baseline rate of misconduct is 0.871 percentage points, so this coefficient indicates that producers with a record of complaints are nearly five times more likely draw complaints compared to the average insurance producer. Similarly, column (6) shows that producers with a record of misconduct are more than twenty-five times more likely to reoffend ($2.160/0.086 = 25.12$).[24]

In sum, there is evidence that former FINRA brokers sell investment management products as insurance producers, that former brokers are more likely to have insurance complaints filed against them, and that those with misconduct are likely to reoffend in the future.[25] This suggests that the flow of former FINRA brokers into insurance looks more like regulatory arbitrage than optimal labor allocation.

5.3 FINRA Broker Exits and State Characteristics

Our evidence on recidivism is limited to one state: Texas. However, insurance is a state-level regime, with potentially important variation across states. If former FINRA brokers strategically exit FINRA but continue to work in insurance in states with lax regulatory oversight, it could either exacerbate or mitigate the prior concerns regarding consumer harm. To examine whether broker exit is related to state-level characteristics, we hand-collected data on state-level insurance department resources and activities from the NAIC's Insurance Department Resources Reports from 2011-2021. Table 6 presents results from cross-sectional

[24]This coefficient likely underestimates the degree of recidivism because our data consists of only currently registered insurance producers. Those that commit misconduct who have their licenses revoked prior to our sample will not be reflected in our data.

[25]It is possible that these individuals are not selling insurance even if licensed to do so. To investigate this possibility, we randomly selected 100 individuals who were registered in insurance after exiting BrokerCheck and hand-checked their online profiles. We found that at least 60 were selling insurance products, while the remainder were generally ambiguous. From a regulatory perspective, however, whether registered insurance producers sell insurance may be purely academic. For example, when asked about this possibility, the former deputy head of enforcement at FINRA responded "[A]s a regulator, I wouldn't care if they were not currently selling insurance ... [T]hey still have the ability to do so" (Saitz and Smith, 2024).

regressions under the following specification:

$$\begin{aligned} Drop\ FINRA\ \&\ Work\ in\ Insurance_{ijlt+1} = \beta_0 &+ \beta_1 Serious\ Misconduct_{ijlt} \\ &+ \beta_2 State\ Charateristic_{ijlt-1} \\ &+ \beta_3 Serious\ Misconduct_{ijlt} \\ &\times State\ Characteristic_{ijlt-1} \\ &+ \beta X_{ijlt} + \ \mu_{jlt} + \varepsilon_{ijlt}. \end{aligned} \tag{4}$$

We focus on the following state-level characteristics: (1) the state insurance regulator's budget relative to the number of insurance producers registered in that state, (2) the total fines imposed by that regulator relative to the number of producers registered in the state, and (3) the difference between the median broker's annual wages minus the median insurance producer's annual wages within each state. On average, states have a budget of around $155 dollars per producer, impose fines of $2.73 per producer, and the median FINRA broker earns $13,235 more than insurance producers per year.[26] As before, X_{ijlt} reflects controls for broker characteristics, and μ_{jlt} reflects firm-county-year fixed effects.

Table 6 shows that insurance producers are less likely to exit the FINRA broker regime and continue working in insurance in states with higher regulatory enforcement (as proxied by the state's budget and fines relative to total producers). They are also less likely to exit FINRA in states with a larger pay gap between brokers and insurance producers. Coefficients are standardized, such that a one standard deviation change in a state insurance department's budget corresponds to a 0.928 percentage point decrease in the probability that a broker with serious misconduct will leave the brokerage regime and continue working in the insurance regime. The analysis raises further concern related to FINRA broker exit, as it suggests that bad brokers who continue in insurance operate in states with less scrutiny.[27]

[26]Full summary statistics are presented in Appendix Table A.1.

[27]The average state-year in our sample has a budget per producer of $155, with a standard deviation of just under $120. Thus, a one standard deviation increase is approximately a 77% increase in budget relative to the average state-year budget. A one standard deviation increase in fines per producer is approximately a 280% increase relative to the average state-year. Finally, a one standard deviation increase in the broker-producer pay gap is approximately a 110% increase in the average pay gap, which corresponds to a 2.8% percentage point decrease in the likelihood that brokers with misconduct will leave and continue working in insurance.

6 Regulatory Leakage

The overlap across regulatory regimes, and the ease with which brokers appear to move from one regime to another, raises questions about the ability for regulators to discipline bad actors. This section examines the effects of a regulatory shock which increases scrutiny of brokers at the federal level. Specifically, we examine the effect of FINRA Rules 1017(a)(7) and 4111, which were designed to make it more costly for firms to hire and employ "high-risk" FINRA brokers. As we show, the rules effectively pushed many high-risk brokers out of FINRA's regulatory purview, but not out of financial services more broadly; 98% remain in state insurance regimes.

6.1 Recent Changes to FINRA Rules

In 2018 and 2019, FINRA proposed significant changes to its rules governing brokers with a history of significant misconduct. As is keeping with FINRA's regulatory strategy, the proposals target the firms that would hire such brokers, but would likely affect the individual brokers through the firms. The first proposal introduced Rule 1017(a)(7), which imposed additional constraints on firms seeking to hire brokers with a significant history of misconduct, defined as two or more "specified risk events" during the prior five years or one or more "final criminal matters" (Financial Industry Regulatory Authority, 2018).[28] Under the proposal, any firm attempting to hire brokers meeting these requirements would be required to consult with FINRA to determine whether the firm would be required to file a Continuing Membership Application (CMA).[29]

To give context for the importance of Form CMA, this same form is also required when a firm seeks to undergo a merger or acquisition, or has major changes in ownership. In other words, it is used for material changes in business operations. By threatening that brokerage firms may be required file Form CMA if they attempt to hire high-risk brokers,

[28]Under the proposal, "specified risk events" included any final, investment-related (1) arbitration award or civil judgment against the broker for $15,000 or more, (2) arbitration or litigation settlement for $15,000 or more, (3) civil sanction against the broker for $15,000 or more, or (4) regulatory sanctions involving fines of $15,000 or more or a bar from the brokerage industry. A "final criminal matter" was defined to include a conviction, guilty plea, or plea of no contest in a criminal matter required to be disclosed on BrokerCheck.(Financial Industry Regulatory Authority, 2018)

[29]FINRA's proposal, known as Regulatory Notice 18-16, is available here: https://www.finra.org/rules-guidance/notices/18-16.

FINRA's proposal highlighted the significance, in its view, of hiring a broker with two or more "specified risk events" in the past five years or one or more "final criminal matters." In response to FINRA's proposal, attorneys advising brokerage firms noted that the proposals made clear that "FINRA is focused and will continue to be focused on high-risk brokers" (Bressler, Ross, and P.C., 2018).

Although the initial 2018 proposal to add Rule 1017(a)(7) focused only on firms proposing to hire brokers with significant disciplinary history, in June 2019, FINRA proposed a new rule targeting firms already employing high-risk individuals. The determination of high-risk was similar to that used in the 2018 proposal.[30] Under the 2019 proposal, creating a new FINRA Rule 4111, firms employing a significant number of high-risk individuals would presumptively be deemed "restricted," and restricted firms could, in turn, be required to maintain a deposit account necessary to "protect investors and the public interest" (Financial Industry Regulatory Authority, 2019). In other words, FINRA could require these firms to maintain cash and securities in reserve to ensure that the firm could pay fees and settlements incurred from arbitration awards. An industry blog concluded that it would be "so expensive and onerous to remain in business" if a firm were deemed restricted that a restricted designation was the equivalent of a "back-door expulsion[]" from the industry (Wolper, 2022). Others noted that the proposals 'set[] the equivalent of a financial penalty for firms hiring brokers with negative [BrokerCheck] histories" (Bryan, Leighton, and LLP, 2021). Indeed, in anticipation of these rules, senior FINRA executives noted that some firms began firing high-risk brokers (Braswell, 2022).

In sum, by proposing to add Rules 1017(a)(7) and 4111 in 2018 and 2019, respectively, FINRA put both individual brokers and firms on notice that hiring or employing high-risk brokers would soon become considerably more costly for firms. In 2021, after a public comment period, FINRA adopted both rules largely as proposed.

[30]The rule proposed to designate certain firms as "restricted" on the basis of the frequency of six categories of events, including (1) adjudicated events per broker, defined similarly to the "specified risk events" described above, (2) pending events per broker, (3) termination events per broker, defined to include broker terminations following certain customer allegations, (4) firm adjudicated events, including firm-level events meeting the "specified risk event" definition described above), (5) firm pending events, including firm-level events meeting the "specified risk event" definition described above, and (6) brokers associated with firms that have been expelled from the brokerage industry (Financial Industry Regulatory Authority, 2019).

6.2 Effect of FINRA Rules

We begin our analysis on the effect of FINRA Rules 1017(a)(7) and 4111 in 2018, when the former was proposed.[31] In total, we identify 4,062 FINRA registered brokers in 2018 who were deemed high-risk and thus potentially affected by the proposal. This amounts to roughly 0.6% of the total number of FINRA brokers. Figure 6 shows the distribution of individuals across states who ever qualify as high-risk brokers under these rules (i.e., brokers with two or more specified risk events or one or more final criminal matters). Although such individuals are spread across the U.S., they appear particularly concentrated in the Southeast and Southwest. Nevada had the highest percentage of high-risk brokers, at 4.9%, with Florida and North Dakota close behind with around 4%.

We proceed by estimating whether FINRA's tightening standards caused high-risk brokers to withdraw from FINRA regulation. However, because our prior analyses suggest that jointly registered brokers behave differently, we use a triple interaction that controls for joint registration. This allows us to examine the effects of the rules on jointly registered, high-risk brokers, and to identify any incremental effects on high-risk brokers due to joint registration. We separately examine (1) FINRA brokers who were jointly registered as insurance producers, and (2) FINRA brokers who were jointly registered as SEC investment advisers. Table 5 presents this analysis using the equation below.

$$\begin{aligned} Drop\ FINRA_{ijlt+1} = \beta_0 &+ \beta_1 High\ Risk_{ijlt} + \beta_2 Post\ 2018_{ijlt} + \beta_3 Joint_{ijlt} \\ &+ \beta_4 High\ Risk \times Post\ 2018_{ijlt} \\ &+ \beta_5 High\ Risk \times Joint_{ijlt} \\ &+ \beta_6 Post\ 2018 \times Joint_{ijlt} \\ &+ \beta_7 High\ Risk \times Joint_{ijlt} \times Post\ 2018_{ijlt} \\ &+ \ \beta X_{ijlt} + \ \mu_{jlt} + \varepsilon_{ijlt}. \end{aligned} \tag{5}$$

As before, the dependent variable is an indicator for whether an advisor dropped their FINRA registration in year *t+1*, so the sample is restricted to currently registered FINRA

[31] Anticipating the effects of impending rules in the brokerage industry is common: for example, in 2016 the Obama Administration's Department of Labor developed rules to hold brokers to the fiduciary standard that applies to investment advisers—and this rule caused significant changes in sales practices even though it was invalidated by the courts before federal enforcement efforts could begin (Egan et al., 2020).

brokers. $High\ Risk_{ijlt}$ is an indicator for whether a broker would be deemed high-risk under FINRA's 2018 proposal. $Post\ 2018_{ijlt}$ is an indicator set to 1 for all observations after 2018. $Joint_{ijlt}$ is an indicator set to 1 in Panel A if the broker was jointly registered as an insurance producer, and set to 1 in Panel B if the broker was jointly registered as a SEC investment adviser. The remaining variables represent the interactions of these variables. X_{ijlt} represents our controls, and μ_{jlt} is a firm-county-year fixed effect. Standard errors are clustered by firm.

Our identification strategy relies on the fact that, while many brokers may have misconduct, the FINRA rules target only a narrow subset of individuals who meet specific criteria. By using firm-county-year fixed effects and controls for joint registration, our control group is, in essence, the subset of individuals who are not "high-risk brokers" under the rules and do not share the same joint registration, but who work at the same firm, in the same year, located within the same county. Differences across firms, such as the propensity to employ "high-risk brokers" or to sell annuities are absorbed by the fixed effects, as are changes in local economic conditions. We also control for each individual's experience, qualifications, and gender.

Table 7 presents two panels. Both panels include the full sample of FINRA brokers, but Panel A examines FINRA-registered brokers who were jointly registered as insurance producers, and Panel B examines FINRA-registered brokers who were jointly registered as SEC investment advisers. Consistent with our earlier findings that broker-producers with misconduct are more likely to drop their FINRA registration, high-risk brokers who are joint insurance producers are roughly 4 percentage points more likely to leave in any given year. However, the triple interaction indicates that high-risk brokers who were jointly registered insurance producers were even more likely to leave after FINRA proposed Rule 1017(a)(7) in 2018—after 2018, brokers-producers were an incremental 2 percentage points more likely to withdraw their FINRA registration. Notably, the coefficient on the interaction term, $High\ Risk \times Post\ 2018_{ijlt}$, is statistically indistinguishable from zero, which suggests that high-risk brokers who were not insurance producers were no more likely to exit after FINRA proposed Rule 1017(a)(7).

Panel B repeats the analysis for jointly registered SEC investment advisers. Unlike Panel A, the interaction term, $High\ Risk \times Post\ 2018_{ijlt}$, is significant, indicating high-risk brokers who were not SEC investment advisers were almost 1 percentage point more likely to exit

after FINRA proposed Rule 1017(a)(7). Given that the coefficient on this variable was not significant in Panel A (and was slightly negative), it appears that the jointly registered FINRA broker-insurance producers are driving this result in Panel B. By contrast, high-risk, jointly-registered FINRA brokers and investment advisers were almost 1 percentage point less likely to withdraw their FINRA registration. Taken together, the two panels show that high-risk brokers who are jointly registered as insurance producers are more likely to withdraw their FINRA registration, but that other high-risk brokers are not.

6.3 Event Study

Our identification in Table 5 relies on the assumption of parallel trends between high-risk and non-high risk FINRA broker-insurance producers. Although there may be differences in the propensity of each group to leave the industry, the fixed effect will absorb those differences as long as they are constant. Using only the sample of FINRA brokers who are jointly registered as insurance producers, Figure 7 tests this assumption by plotting event-study estimates from the specification below.

$$\begin{aligned} Drop\ FINRA_{ijlt+1} = \beta_0 + \beta_1 High\ Risk_{ijlt} + \beta_2 Year_t + \ \beta_3 High\ Risk \times Year_t \\ + \beta X_{ijlt} + \ \mu_{jlt} + \varepsilon_{ijlt}. \end{aligned} \tag{6}$$

Year represents a series of year dummies for each year from 2012 through 2021 (2018 is excluded). The figure plots the coefficients on each interaction between the year dummy and the high-risk variable. The figure shows no significant difference between the high-risk and non-high-risk brokers prior to 2018, but there is a notable increase in the percentage of high-risk brokers who exit the FINRA regime after 2018. This is consistent with FINRA's proposals causing high-risk FINRA brokers—and specifically those FINRA brokers who were also jointly registered insurance producers—to withdraw their FINRA registrations.

The event study plot also shows that the effect of the shock is immediate. In 2019, individuals who are jointly registered broker-producers targeted by the Rule are nearly 7.5% more likely to drop their FINRA registration compared to their colleagues who are also jointly registered broker-insurance producers but are not targeted by the rules. The estimates for 2020 and 2021 are lower, as the highest risk brokers may have left in 2019, but the difference between high-risk and non-high risk brokers remains statistically significant throughout the

entire post period. In sum, our evidence is consistent with broker representatives anticipating higher federal scrutiny, and responding by immediately leaving the FINRA regime. This is consistent with anecdotal evidence that firms began firing high-risk brokers to avoid the costs of complying with Rule 4111.[32]

6.4 Regulatory Status of Former High-Risk Brokers

We trace the regulatory registrations for all high-risk brokers who withdrew their FINRA membership after 2018. As shown in Figure 8, 98% of these individuals remain in insurance. Of those in insurance, over 90% have a license to sell annuities, and over 75% have a license to sell variable annuities. Further, almost 15% have reactivated their FINRA registration by finding a new firm that is willing to employ them, and almost 6% are SEC investment advisers. None remain as state investment advisers, and none have left the industry. In sum, although Table 7 and the event study in Figure 7 show that the rule effectively nudged a subset of high-risk brokers out of FINRA registration, these individuals remain in financial services (primarily insurance).[33] Arguably, a primary effect of FINRA's Rules 1017(a)(7) and 4111 has been to push a subset of the highest risk brokers into a regime with lower regulatory scrutiny.

7 Conclusion

By providing the most comprehensive overview of the financial advisor industry, our paper demonstrates how regulatory fragmentation can affect labor outcomes and regulatory discipline. We combine data on FINRA brokers, SEC investment advisers, state investment advisers, and state registered insurance producers to show that more than 40% of FINRA brokers are jointly registered in more than one regulatory regime. The overlap with the insurance industry is particularly important in this context, as it is growing rapidly and most FINRA brokers who withdraw their FINRA registration but remain in financial services remain in insurance. Further, insurance seems to attract FINRA brokers with a history of misconduct.

[32] Firms Fire High Risk Brokers as Finra Takes Aim at Rogue Actors, AdvisorHub (2022).

[33] Consistent with our full sample results in Figure 4, we find that 92.3% of these high-risk brokers continue to hold annuities licenses.

The descriptive finding that "bad" brokers flow to insurance is consistent with our analysis of the effects of FINRA's Rules 1017(a)(7) and 4111, which significantly increased the costs that FINRA-registered firms bear to hire and employ high-risk brokers. Although we show these rules caused a subset of targeted brokers to withdraw from FINRA registration, none of the targeted brokers who left following 2018, when Rule 1017(a)(7) was proposed, have exited financial services. Notably, 98% of these individuals remain in insurance.

This finding shows that leaving the brokerage industry may not be a career death-sentence as the literature generally assumes—instead, it is arguably an opportunity for a second chance in a related career. In this sense, it may be efficient for former FINRA brokers to transition to selling insurance products, as it preserves their human capital. However, as we show, these former FINRA brokers commonly sell insurance products that are more akin to asset management (variable annuities) than traditional risk-management (car insurance). Moreover, the former FINRA brokers with misconduct continue to have higher rates of recidivism in insurance, raising concerns of future harm. In sum, the behavior of these former FINRA brokers who exit to insurance looks like a form of regulatory arbitrage.

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Figure 1: Assets Under Management In Annuities.

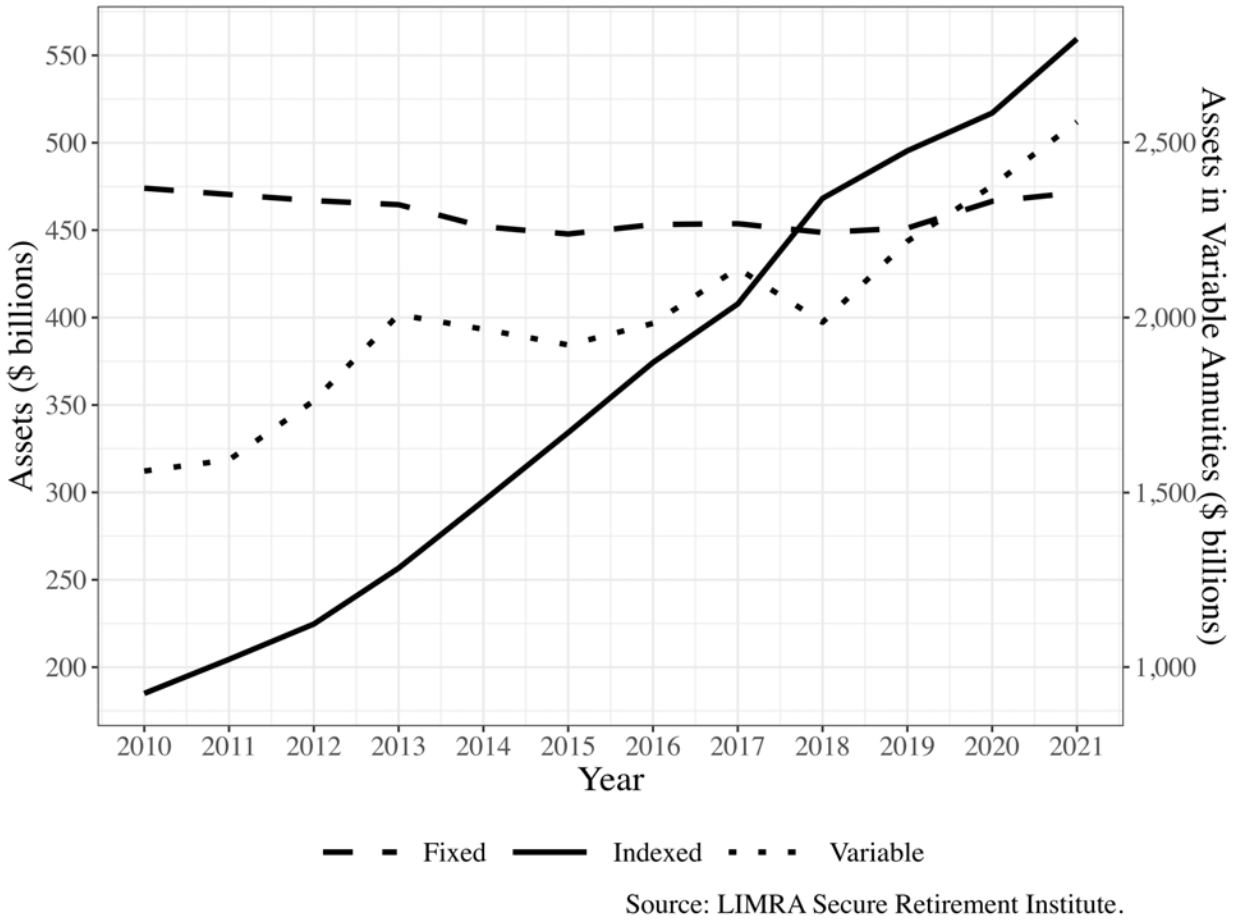
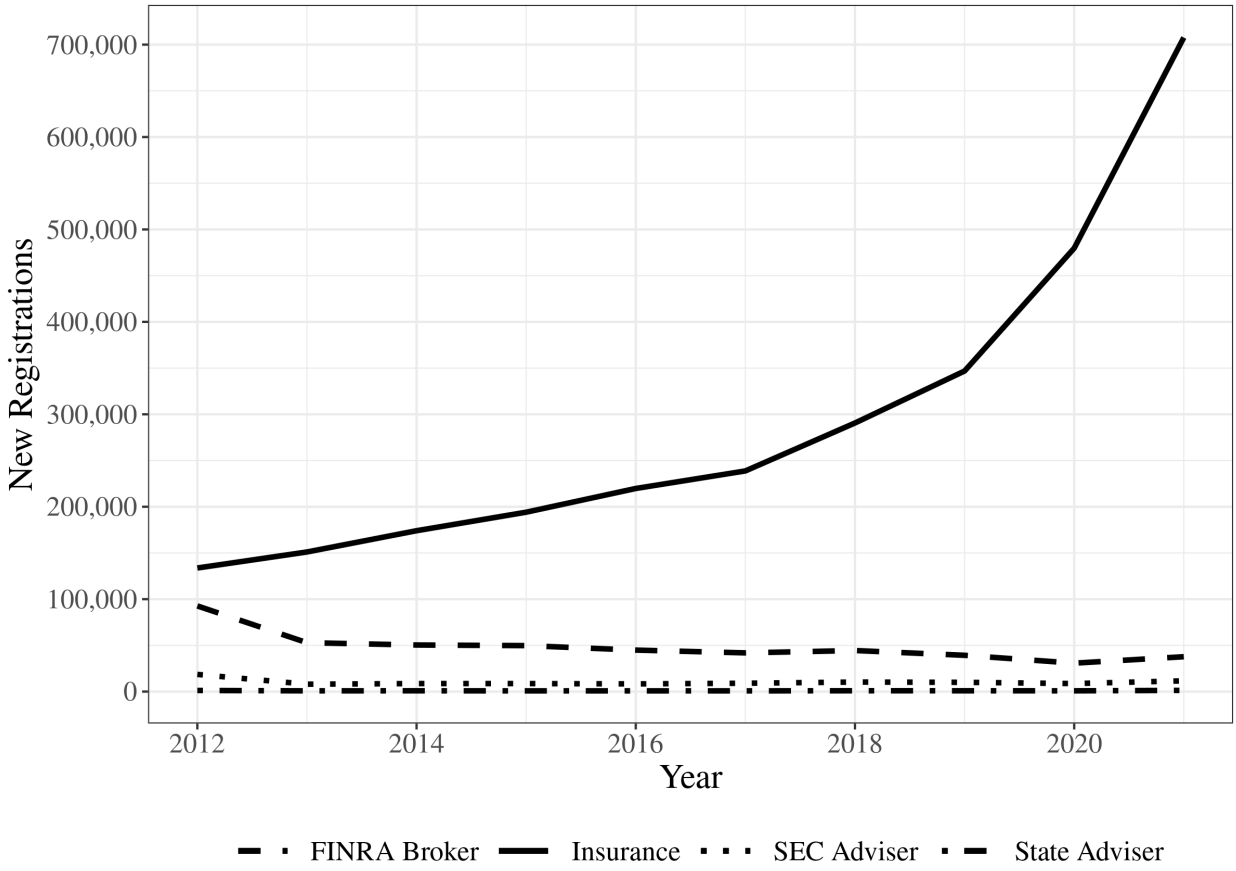


Figure 2: New Registrations per Year. This figure shows the number of new registrations per year in each regulatory regime. Note that the figure reflects new registrations, not net registrations, due to data limitations.



Source: NAIC and author calculations.

Figure 3: Flow of Former FINRA Brokers. This figure reflects the flow of former FINRA brokers who, at the end of our sample period, remain in other regulatory regimes and have not reactivated their FINRA registration. The flow of individuals with serious misconduct is presented separately along the bottom of the figure. The numbers reflect individuals with serious misconduct who withdrew their FINRA registration but remain in each other regime at the end of our sample period.

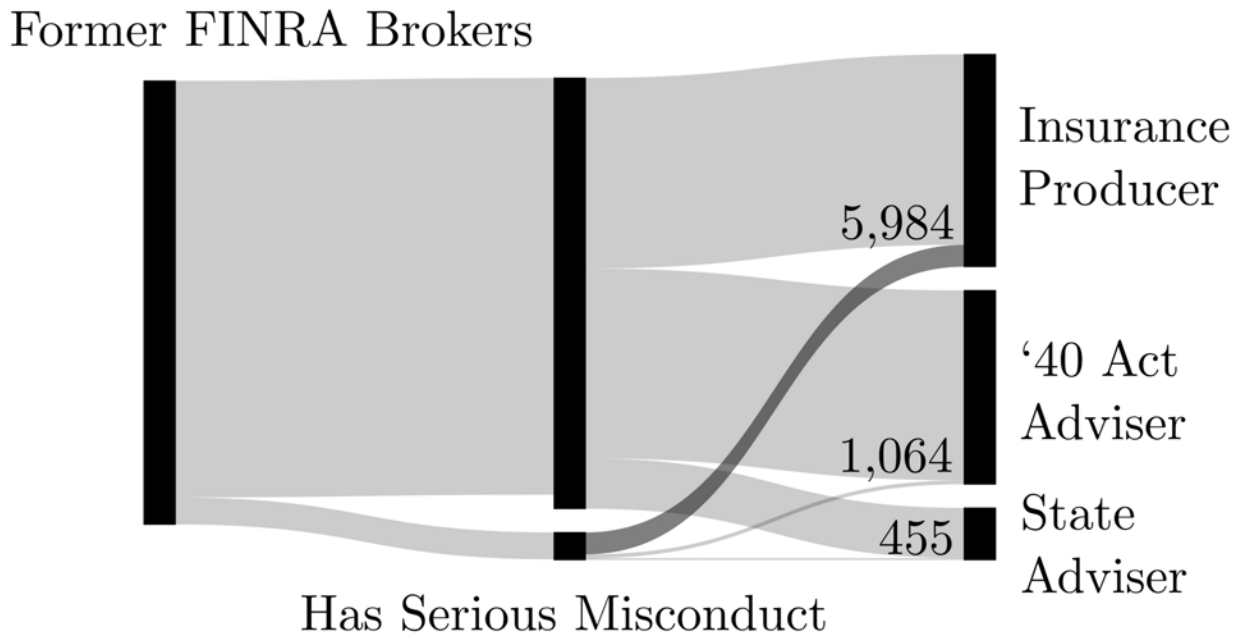


Figure 4: Lines of Authority for Former Brokers. This figure shows the lines of insurance that former FINRA brokers who exited to insurance are licensed to sell as of the end of our sample period. Because an individual may be licensed across multiple states, the numbers reflect whether an individual is licensed to sell a line of insurance in at least one state.

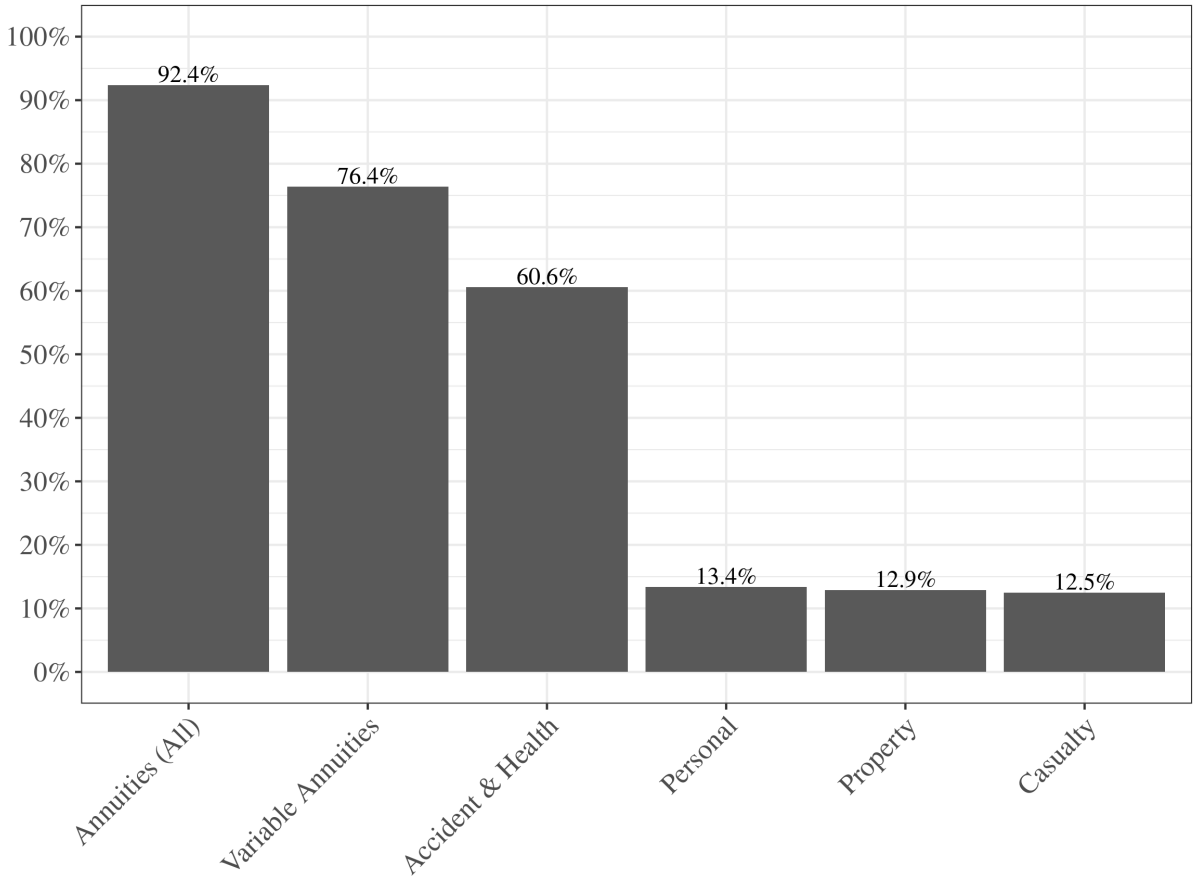


Figure 5: Insurance Customer Complaints. The figure shows the percentages of current insurance producers with 1, 2, or 3+ customer complaints (in basis points). The data are separated by whether the advisor is formerly a FINRA broker or currently remains a FINRA broker. The sample consists of the subset of insurance producers who are currently registered as insurance producers in Texas and can be matched with BrokerCheck.

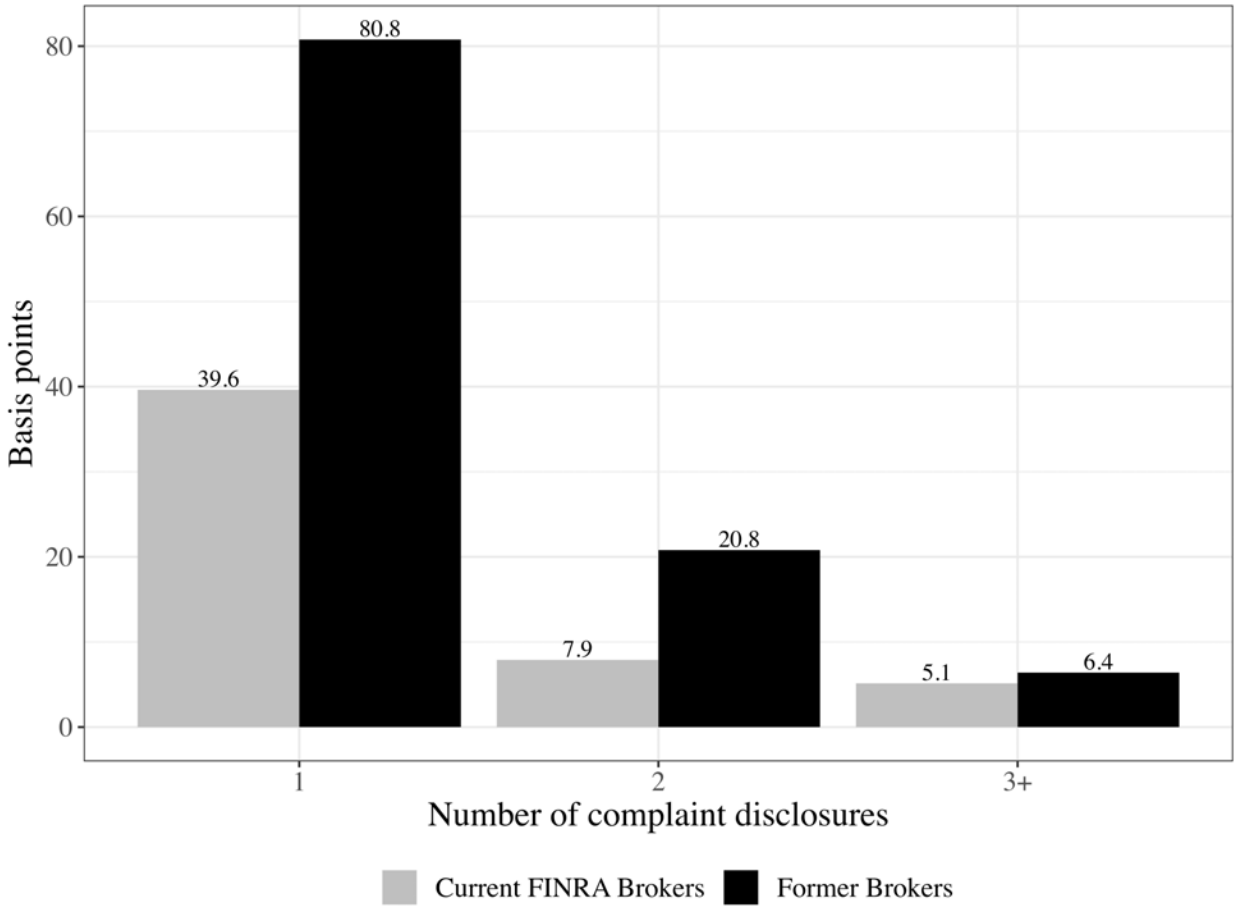


Figure 6: Distribution of High-Risk Brokers. This figure shows the percentages of current FINRA brokers deemed high-risk under FINRA Rules 1017(a)(7) and 4111 (i.e., the broker has two or more Specified Risk Events or one or more final criminal matter).

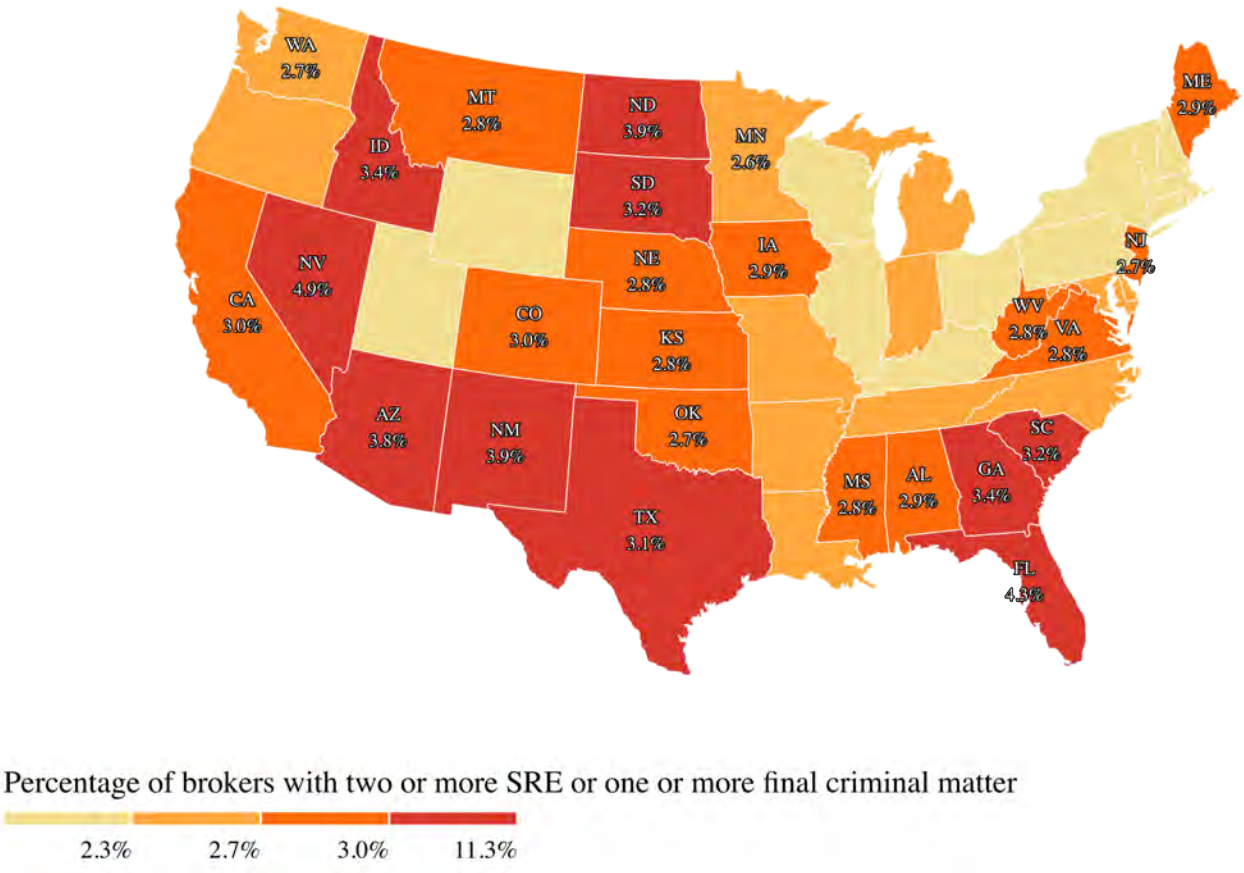


Figure 7: Effect of FINRA Rules Targeting High-risk Brokers. This figure shows the effect of FINRA's 2018 and 2019 proposals on high-risk FINRA brokers who were jointly registered as insurance producers. The figure plots the coefficients on each interaction from Eq. 6. The Y-axis reflects the percentage of high-risk brokers who withdrew their FINRA registration in each year.

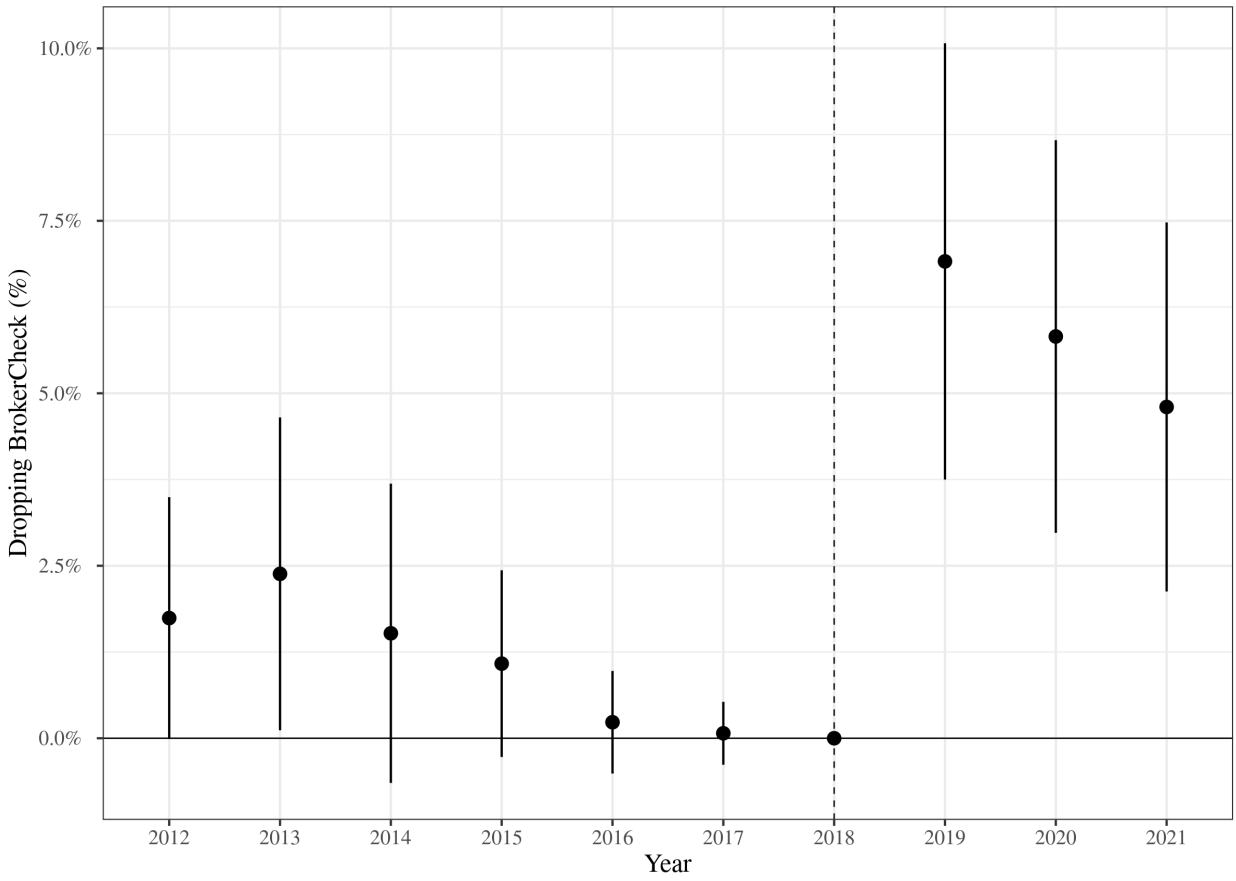


Figure 8: Career Outcomes for High-Risk Brokers. This figure shows career outcomes for the high-risk brokers targeted by FINRA's 2018 and 2019 proposals. The figure is based on all advisors who were targeted by the rules and withdrew their FINRA registration at any point after 2018. The percentages reflect the percentage of such individuals in each regime at the end of our sample period.

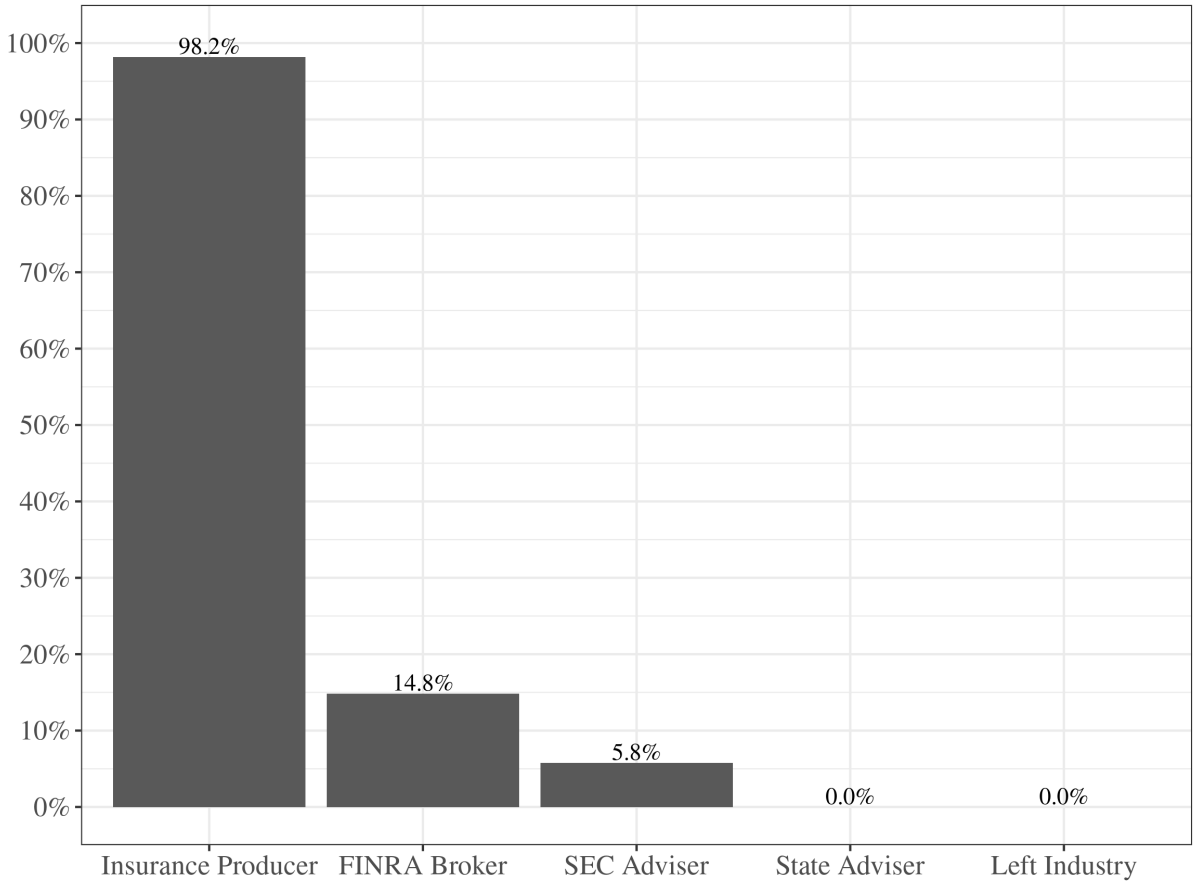


Table 1: This table displays summary statistics for all individuals in BrokerCheck at any point from June 2012 to June 2022 who remained registered as FINRA brokers, SEC or state investment advisers, or insurance producers in 2022 (the final year of our sample). Observations are by advisor and year. A person is included in the applicable regulatory regime in each year if they have an active registration. A person is jointly registered if they are actively registered in more than one regulatory regime in a given year.

	Full Sample		Wandering Sample	
Variable Name	N	Mean	N	Mean
Regulatory Regimes				
FINRA Broker	7,581,671	91.2	61,882	100.0
SEC Investment Adviser	3,277,930	39.4		
State Investment Adviser	1,631,925	19.6		
Insurance Producer	166,124	2.0		
Joint Registrations				
Any Joint Registration	3,467,851	41.7	50,626	81.8
FINRA Broker & SEC Adviser	2,929,640	35.2	4,349	7.0
FINRA Broker & State Adviser	63,044	0.8	205	0.3
FINRA Broker & Insurance Producer	1,324,810	15.9	48,880	79.0
SEC Adviser & Insurance	847,219	10.2	2,737	4.4
FINRA Broker, SEC Adviser & Insurance	820,240	9.9	2,737	4.4
Advisor Characteristics				
Female		27.4		28.5
Retail Broker		25.9		2.3
Years Experience		14.8		15.7
Misconduct				
Complaints (flow)		0.40		0.9
Misconduct (flow)		0.44		3.2
Serious Misconduct (flow)		0.34		3.4
Complaints (level)		7.2		8.5
Misconduct (level)		7.4		11.1
Serious Misconduct (level)		4.1		7.6
Ever Barred		0.1		0.3
Ever Suspended		0.5		0.8
High-Risk Broker		0.6		1.1
Advisor Qualifications				
Number of Exams		3.3		3.5
Series 63		71.6		73.4
Series 7		64.2		50.7
SIE Exam		44.3		80.4
NASAA Exam		45.4		43.7
Var. Annuity Exam		35.3		55.6
Supervisor Exam		21.5		15.7
NFA Exam		7.9		5.4
MSRB Exam		3.1		2.2

Table 2: This table displays summary statistics for each financial advisor in our sample. Panel A includes all individuals who were in BrokerCheck at any point from June 2012 to June 2022. Panel B includes only individuals who withdrew their FINRA broker registration during our sample period. Across both panels, observations are presented at the advisor-level and represent the advisor's status in the final year they appear in our data. The Years Experience and Num. Exams variables are presented at the mean.

	Registered Individuals	FINRA Broker	Insurance Producer	SEC Adviser	State Adviser
Panel A. Currently Registered Brokers					
Number of Individuals	1,183,702	1,062,494	229,446	409,124	22,839
Female	28.22%	28.70%	26.38%	25.52%	18.16%
Years Experience	15	15	20	18	15
Num. Exams	4	4	4	4	3
NASAA Exam	43.11%	41.20%	60.83%	78.95%	65.52%
Var. Annuity Exam	34.92%	35.47%	46.88%	26.16%	15.57%
Misconduct (level)	7.30%	7.18%	11.26%	8.28%	7.77%
Serious Misconduct (level)	4.65%	4.48%	6.05%	3.88%	5.28%
Suspended	0.54%	0.49%	0.87%	0.42%	0.93%
Barred	0.20%	0.15%	0.33%	0.02%	0.15%

	Exited BrokerCheck	Remain in Other Regimes	Insurance Producer	SEC Adviser	State Adviser
Panel B. Formerly Registered Brokers					
Number of Individuals	456,906	121,208	58,034	52,961	14,196
Female	29.02%	24.01%	27.42%	21.98%	16.29%
Years Experience	12	15	20	10	12
Num. Exams	3	2	3	2	2
NASAA Exam	31.09%	59.92%	45.40%	73.61%	75.21%
Var. Annuity Exam	37.59%	30.06%	53.99%	8.56%	9.03%
Misconduct (level)	7.42%	8.35%	13.91%	3.09%	4.60%
Serious Misconduct (level)	5.52%	6.07%	10.31%	2.01%	3.21%
Suspended	0.61%	1.04%	2.03%	0.09%	0.25%
Barred	0.34%	0.61%	1.25%	0.03%	0.04%

Table 3: This table displays the regression results for a linear probability model (Eq. 1). The dependent variable in columns (1)-(3) is a dummy variable indicating whether a FINRA-registered broker adds SEC adviser registration in the following year. The dependent variable in columns (4)-(6) is a dummy variable indicating whether a FINRA-registered broker adds insurance producer registration in the following year. Columns (1)-(3) exclude advisors who are already registered as SEC advisers, and columns (4)-(6) exclude advisors who are already registered as insurance producers. Coefficient units are percentage points. Serious misconduct measures whether the broker had a new allegation of serious misconduct in the current year. Observations are at the advisor by year level. Advisor-level controls include controls for the advisor's years of work experience (measured in years), qualifications (grouped as in Table 1), and gender. Standard errors are in parentheses and are clustered by firm.

	Add Adviser Registration			Add Insurance Registration		
	(1)	(2)	(3)	(4)	(5)	(6)
Serious Misconduct	-0.084	-0.265	-0.379	2.496***	2.291***	1.685***
	(0.505)	(0.506)	(0.517)	(0.184)	(0.179)	(0.178)
Female		-0.309***	-0.356***		-0.087***	-0.095***
		(0.042)	(0.032)		(0.028)	(0.022)
Years of Experience		-0.038***	-0.046***		-0.009***	-0.013***
		(0.004)	(0.004)		(0.002)	(0.001)
Number of Exams		0.140***	0.093***		0.044***	0.027***
		(0.033)	(0.033)		(0.009)	(0.005)
Retail Broker		-1.506***	-1.369***		-1.005***	-0.956***
		(0.088)	(0.101)		(0.053)	(0.077)
Constant	1.469***	1.856***		0.755***	0.822***	
	(0.081)	(0.176)		(0.039)	(0.065)	
Controls		Y	Y		Y	Y
Firm-County-Year FE			Y			Y
Observations	4,618,390	4,618,390	4,618,390	6,150,255	6,150,255	6,150,255
Adjusted R^2	0.00000	0.003	0.051	0.0003	0.003	0.066

Table 4: This table displays the regression results for a linear probability model (Eq. 2). The dependent variable is a dummy variable indicating whether a FINRA-registered broker drops her FINRA registration in the following year. Coefficient units are percentage points. Serious misconduct measures whether the broker had a new allegation of serious misconduct in the current year. SEC Adviser, State Adviser, and Insurance all indicate whether the FINRA broker is jointly registered in one of these other regimes in the current year. Observations are at the advisor by year level. Advisor-level controls include controls for the advisor's years of work experience (measured in years), qualifications (grouped as in Table 1), and gender. Standard errors are in parentheses and are clustered by firm.

Drop FINRA Broker Status						
	(1)	(2)	(3)	(4)	(5)	(6)
Serious Misconduct	7.735***	7.358***	5.720***	3.787***	3.528***	1.956***
	(0.397)	(0.380)	(0.347)	(0.195)	(0.184)	(0.149)
SEC Adviser				-2.009***	-1.573***	-1.483***
				(0.097)	(0.088)	(0.080)
State Adviser				-0.829***	-0.718***	-1.388***
				(0.099)	(0.100)	(0.521)
Insurance Producer				3.978***	4.018***	3.539***
				(0.232)	(0.226)	(0.218)
Serious Mis. × SEC				-13.739***	-13.529***	-11.824***
				(0.776)	(0.756)	(0.765)
... × State				-3.202***	-3.157***	-1.704
				(0.962)	(0.958)	(1.229)
... × Insurance				36.162***	36.023***	36.934***
				(1.555)	(1.557)	(1.765)
Constant	0.886***	0.556***		0.919***	0.389***	
	(0.055)	(0.071)		(0.061)	(0.050)	
Controls		Y	Y		Y	Y
Firm-County-Year FE			Y			Y
Observations	7,581,671	7,581,671	7,581,671	7,581,671	7,581,671	7,581,671
Adjusted R^2	0.002	0.012	0.148	0.041	0.048	0.172

Table 5: This table displays the regression results for a linear probability model (Eq. 3). The dependent variables indicate whether an insurance producer has a new insurance complaint (columns 1–3) or allegation of insurance misconduct (columns 4–6) filed against them in any given year. Our main covariates of interest are the producer's stock of misconduct as of the prior year. The sample in column 1 (column 4) includes all registered insurance producers in Texas, but the sample is restricted to the intersection with BrokerCheck in models with controls (columns 2–3 and columns 5–6). We include controls for the producer's licensing, experience, and gender where indicated. We also include county-year fixed effects where indicated. Standard errors are clustered by county.

	Insurance Complaints			Insurance Misconduct		
	(1)	(2)	(3)	(4)	(5)	(6)
Prior Complaints	4.006***	4.316***	4.172***			
	(0.261)	(0.641)	(0.620)			
Prior Misconduct				1.393***	2.106**	2.160**
				(0.254)	(0.993)	(1.015)
Former Broker		0.022	0.001		0.012	0.010
		(0.022)	(0.022)		(0.009)	(0.009)
Annuities		0.190***	0.282***		0.002	0.007
		(0.032)	(0.046)		(0.007)	(0.008)
Mean	0.871			0.086		
Controls		Y	Y		Y	Y
County-Year FE			Y		Y	Y
Observations	2,374,462	342,645	342,645	2,374,462	342,645	342,645
R^2	0.008	0.013	0.033	0.001	0.002	0.026

Table 6: This table displays the regression results for a linear probability model (Eq. 4). The dependent variable is a dummy variable indicating whether a FINRA-registered broker drops her FINRA registration in the following year and is registered as an insurance producer. We report standardized coefficients.

Drop FINRA & *Work in Insurance*$_{t+1}$	Budget ($/Producer) (1)	Dollar Fines ($/Producer) (2)	Broker - Ins. ($ Wage) (3)
Serious Misconduct$_t$	11.219***	11.217***	11.185***
	(0.284)	(0.284)	(0.281)
State Characteristic$_{t-1}$	0.004	-0.044***	0.008
	(0.015)	(0.011)	(0.019)
... × Serious Mis.$_{t-1}$	-0.928***	-1.039***	-2.837***
	(0.301)	(0.146)	(0.246)
Controls	Y	Y	Y
Firm-County-Year FE	Y	Y	Y
Observations	7,795,268	7,795,268	7,832,725
Adjusted R^2	0.819	0.820	0.820

Table 7: This table displays the regression results for a linear probability model (Eq. 5). The dependent variable in both panels is a dummy variable indicating whether a FINRA-registered broker drops their FINRA registration in the following year. High-Risk Broker is a dummy variable reflecting whether the broker was targeted by FINRA's 2018 and 2019 proposals. Post 2018 is a dummy variable that is set to 1 in all years after FINRA's 2018 proposal. Insurance and SEC Adviser are dummy variables capturing whether the individual is jointly registered in the applicable regime. Coefficient units are percentage points. Observations are at the advisor by year level. Advisor-level controls include controls for the advisor's years of work experience (measured in years), qualifications (grouped as in Table 1), and gender. Standard errors are in parentheses and are clustered by firm.

Panel A. Producers Dropping FINRA Broker Registration			
	(1)	(2)	(3)
High Risk Broker	0.365***	0.195***	-0.060
	(0.066)	(0.065)	(0.061)
Post 2018	-0.085***	-1.838***	0.000
	(0.010)	(0.122)	(0.000)
Insurance Producer	3.174***	3.523***	3.223***
	(0.243)	(0.218)	(0.219)
High Risk × Post 2018	-0.191**	-0.191**	-0.064
	(0.090)	(0.094)	(0.104)
... × Insurance	4.301***	4.228***	3.569***
	(0.531)	(0.518)	(0.508)
Post 2018 × Insurance	1.303***	1.399***	1.072***
	(0.177)	(0.178)	(0.153)
... × Post 2018 × Insurance	1.874**	1.864**	2.377**
	(0.940)	(0.920)	(1.019)
Constant	0.287***	0.346***	
	(0.018)	(0.048)	
Controls		Y	Y
Firm-County-Year FE			Y
Observations	6,934,272	6,934,272	6,934,272
Adjusted R^2	0.023	0.039	0.165

Panel B. Advisers Dropping FINRA Broker Registration			
	(1)	(2)	(3)
High Risk Broker	0.009***	0.009***	0.004***
	(0.001)	(0.001)	(0.001)
Post 2018	0.012***	-0.008***	0.000
	(0.001)	(0.002)	(0.000)
Adviser	-0.010***	-0.006***	-0.005***
	(0.001)	(0.0005)	(0.001)
High Risk × Post 2018	0.007**	0.008**	0.006*
	(0.004)	(0.004)	(0.004)
... × Adviser	-0.008***	-0.008***	-0.002*
	(0.001)	(0.001)	(0.001)
Post 2018 × Adviser	-0.013***	-0.013***	-0.024***
	(0.001)	(0.001)	(0.002)
... × Post 2018 × Adviser	-0.007*	-0.008**	-0.006
	(0.004)	(0.004)	(0.004)
Constant	0.011***	0.005***	
	(0.001)	(0.001)	
Controls		Y	Y
Firm-County-Year FE			Y
Observations	6,934,272	6,934,272	6,934,272
Adjusted R^2	0.006	0.016	0.154

A Appendix

A.1 Matching Brokers to Insurance Producers

The fuzzy name matching algorithm works by vectorizing names (full name, last name, middle name, and suffixes where available) into n-grams of three characters. Our fuzzy name matching approach has several benefits: rotation invariance and insensitivity to additions/deletions of common n-grams. This has the benefit of being "rotation invariant" in the sense that a name that is recorded FIRST LAST is treated the same as a name that is incorrectly recorded as LAST FIRST (this occurs when a state only gives us a single full name field, rather than multiple fields for each part).

We utilize term-frequency inverse document frequency vectorization, where the term is the n-gram, and the document is the full name string to de-emphasize common n-grams. This is particularly helpful when dealing with common suffixes such as Jr. because although an individual may be registered in FINRA using their full legal name, that may not be the case across various state insurance databases. Thus, for the string "Robert J. Jackson, Jr." we care more about matching the first and last name rather than the suffix, and thus our vectorization creates a lower penalty for missing the "Jr.", but a higher penalty for missing "ert" (e.g., if a nickname is used) or missing a middle name. To address nicknames and middle names issue, we use all aliases and former names recorded by FINRA in our training dataset, which we find increases the number of perfect matches in our sample. Former names also help us match female brokers who may have registered under their maiden name.

Match quality is based on cosine similarity between the name vectors from BrokerCheck and insurance. Thus, "Rob**ert**" and "Rob**ort**" can be counted as a "match" as long as they have a sufficiently high cosine similarity in the vector space. To reduce the number of false positives, we require a cosine similarity of greater than 0.7, and require that the broker-producer match be in the same zip code or state.

To verify the quality of matches, we randomly sampled 100 individuals and manually checked LinkedIn and other sources such as BrokerCheck's PDF employment history to see if we could validate our matches. We find that 98% of our matches identify a unique person employed both as a broker and insurance producer (Honigsberg et al., 2022). Anecdotally, mismatches tend to include fathers and sons with the same first and last name who work in the same family advisory business covering both securities and insurance, and where suffixes

and middle names are missing from one or both universes. This is an unavoidable artifact of our matching process, and is difficult to resolve without unique identifiers such as tax numbers.[34]

This match rate may appear high and raises concerns of false positives, especially for individuals with common names. However, individuals in our sample are not randomly drawn from the population, but are selected from the intersection of two closely related segments of the financial services industry. As Table 1 shows, in the BrokerCheck/IAPD universe more than a third of the individuals in our full sample have passed the exam necessary to obtain a variable annuities license, and more than half of former brokers have passed the exam necessary to obtain a variable annuities license. Similarly, in the NAIC universe, nearly one-third are licensed to sell variable annuities. Given that individuals in theory need both a securities license and an insurance license to sell variable annuities, we expect a high degree of overlap between this subset of brokers and insurance producers.

Consistent with this intuition, Figure 4 suggests that our data is capturing the intersection of the securities and annuities industries. Among former brokers in our sample, 92.4% have an annuities license and 76.4% have a variable annuities license. These numbers are comparatively lower for the full sample of insurance producers—around 58% of whom are licensed to a sell annuities, and 32% are licensed to sell variable annuities. Thus, annuities licenses appear to be (correctly) overrepresented in our name-matched sample, and our high match rate is likely reflective of the overlap in population.

A.2 Lines of Authority

An individual licensed to sell insurance must be authorized to sell specific products (i.e., lines of authority). Although states differ in the types and combinations of lines that an individual may be licensed to sell, the NAIC requires some uniformity in licensing requirements across five or six major categories—life and annuities, accident and health, property, casualty, and personal insurance.[35] Variable annuities are sometimes treated as a separate major category, but in practice nearly all states require individuals who wish to sell variable annuities to obtain at least a life and annuities license.

[34] In such cases, even business addresses or phone numbers may not help improve match quality.

[35] See National Association of Insurance Commissioners (2020) and `https://pdb.nipr.com/Gateway/ValidLoas`.

Most but not all states include lines of authority in the registration data that we obtained via public records requests. We observe 215 unique reported lines across our sample. We manually classify all lines reported by the states for which we have data into the six categories described above. In total, we have lines for 1,741,067 licensees or just under a three-quarters of the full sample of insurance producers (1,741,067/2,336,771).

Table A.1: State Characteristics.

	N	Mean	Std	P25	P50	P75
# Producers	550	160,948	90,854	98,260	137,853	199,511
Insurance Staff	549	220	299	85	118	223
# Fines	550	289	2,307	10	29	77
$ Fines	550	553,669	2,205,870	23,000	93,988	284,475
# Complaints	550	5,534	8,516	1,057	2,881	5,149
Median Adviser Wage	550	76,075	17,569	63,620	75,300	85,940
Median Broker Wage	550	61,960	18,025	51,030	58,490	67,440
Median Ins. Producer Wage	550	48,725	7,998	42,750	48,040	53,650

Figure A.1: Distribution of FINRA Brokers Jointly Registered as Insurance Producers. This figure shows FINRA brokers who are also jointly registered as insurance producers. Shaded states are those for which we were unable to obtain data on registered insurance producers from the state insurance regulator.

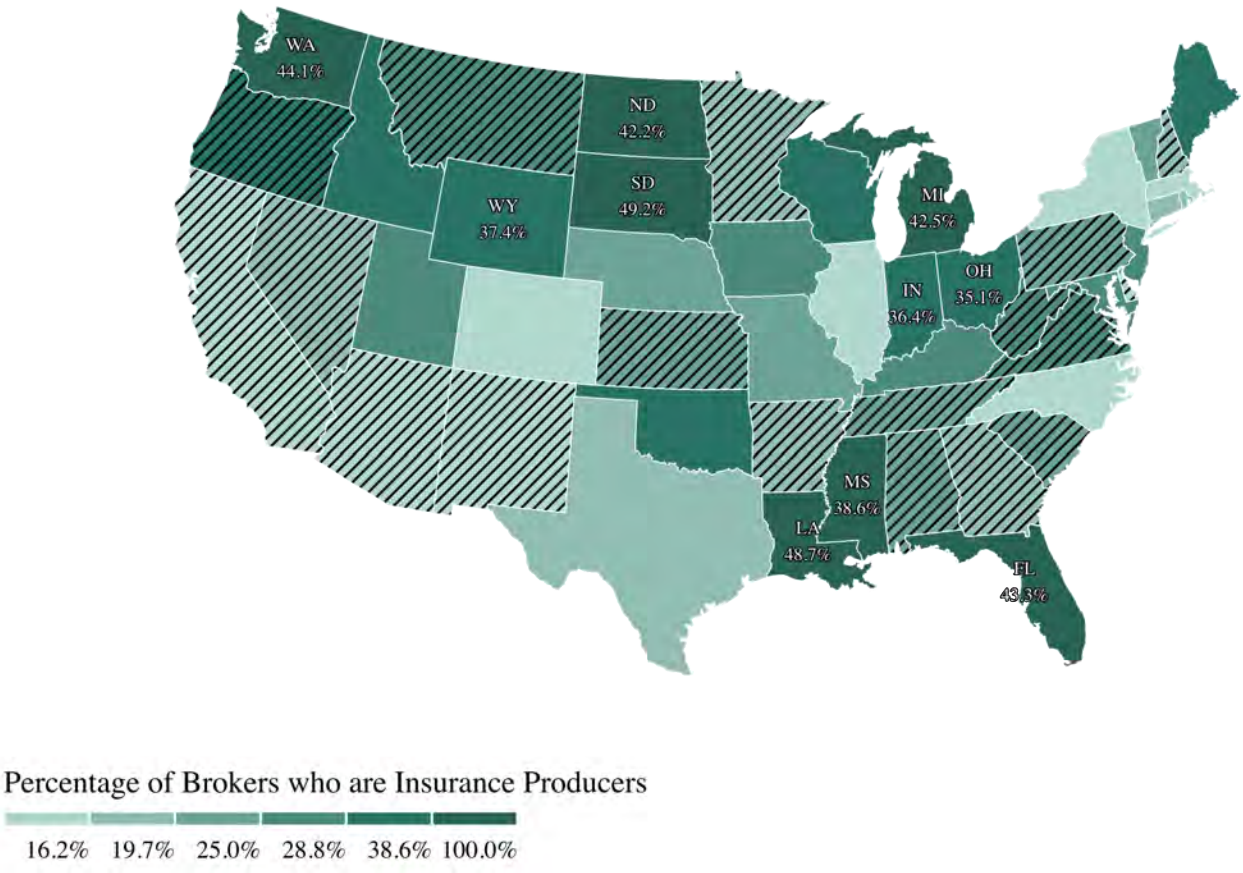


Figure A.2: Recidivism. This figure shows the percentages of current FINRA brokers and former FINRA brokers with 1, 2, 3, or 4+ allegations of misconduct.