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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 FINRA's broker regime, 79% were jointly registered in insurance upon exiting FINRA's regime. This could be efficient if it reflects bad actors who transition 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 additional 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.

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 et al., 2022). On the one hand, allowing "wandering" in financial services may be efficient if individuals preserve their human capital and skill in selling financial products but transition to lower-risk work. On the other hand, "wandering" 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

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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, although variable annuities are also sold by insurance companies, courts have recognized them to be securities that must be registered with the SEC, meaning that an individual who sells variable annuities will likely need both insurance and securities licenses.

Arguably, this regulatory framework invites self-selection, as "bad" advisors are incentivized to seek the most lax regulatory regime. Yet, the fragmentation also 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). The sale of either product allows the broker to make use of prior skills rather than finding a new industry altogether, but they pose differing risks to consumers.

This unique regulatory 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 et al., 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 prior 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 almost 36 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.

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 to sell annuities; 76% are licensed 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 traditional risk-reduction side. Second, we show that individuals with a history of insurance misconduct continue to commit misconduct in insurance. Further, 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%. 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.[2]

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 et al., 2019, 2022; Dimmock et al., 2018; Griffin et al., 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, many remain in financial services by transitioning to insurance. As noted previously, an individual who is jointly registered as a FINRA broker and insurance producer is 10 to 20 times more likely to withdraw from FINRA registration after serious misconduct than a FINRA broker who is not dual registered. 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 et al., 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 mandate consistent regulation across advisors.

[2] 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.

2. Institutional background

The regulation of financial advice generally seeks to constrain 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 et al., 2008; Christoffersen et al., 2013; Chalmers and Reuter, 2020).

To understand the problems that the law guards against, consider the case brought by the SEC against Jonathan Dax Cooke and Keystone Capital Partners (*SEC v. Keystone Capital Partners, Inc. d/b/a Federal Employee Benefit Counselors*, No. 1:17-cv-02873 (N.D. Ga. 2017); Scharf (2022)). 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.

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 is commonly considered to be higher than the prior suitability standard but lower than a fiduciary standard.

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 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, 2893 new requests for arbitration were filed and 4029 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. Of course, registered investment advisers may also be FINRA brokers, potentially leading to various conflicts that can impede the application of the fiduciary standard (Boyson, 2019).

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 any 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 (Honigsberg et al., 2022). Nonetheless, compared to the states, the SEC is considered to provide a more stringent 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 the 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 Fig. 1 shows, has more than tripled in size to over $550 billion in assets since 2010 when Dodd–Frank was passed. 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 and Koijen and Yogo (2022) reporting that variable annuities account for $1.5 trillion or 35% of U.S. life insurer liabilities in 2015, the potential overlap between securities professionals and insurance producers is substantial. Variable annuity 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. Unlike 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. The overlap between variable annuities and securities explains why the SEC states that a securities license is required to sell variable annuities. Nevertheless, we find numerous individuals (like Mr. Pippenhagen) who lack a securities license, but have an insurance license to sell variable annuities.

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,

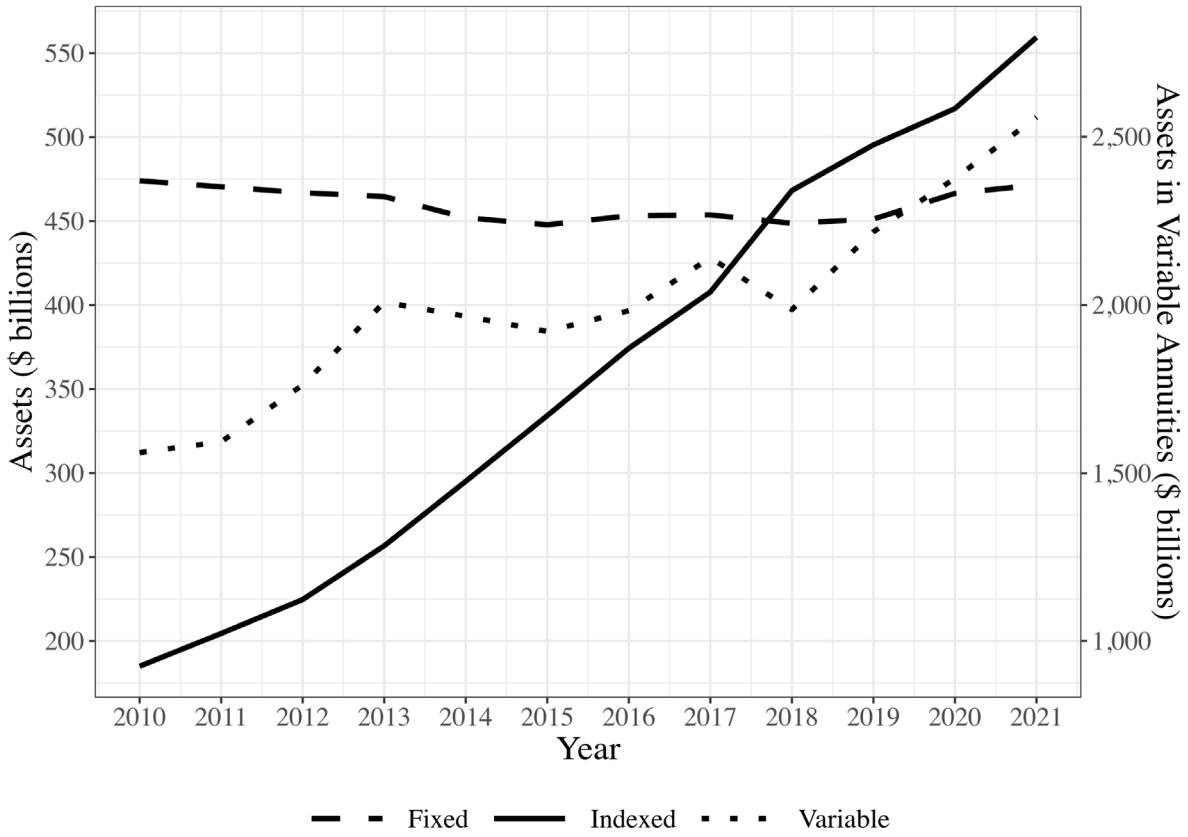

Fig. 1. Assets under management in annuities.
Source: LIMRA secure retirement institute.

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 between 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, many states have modified the language of this standard upon adoption. In sum, although there is variation across states, it is common for insurance producers to be subject 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.[3] 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 1000 (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,

[3] 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.

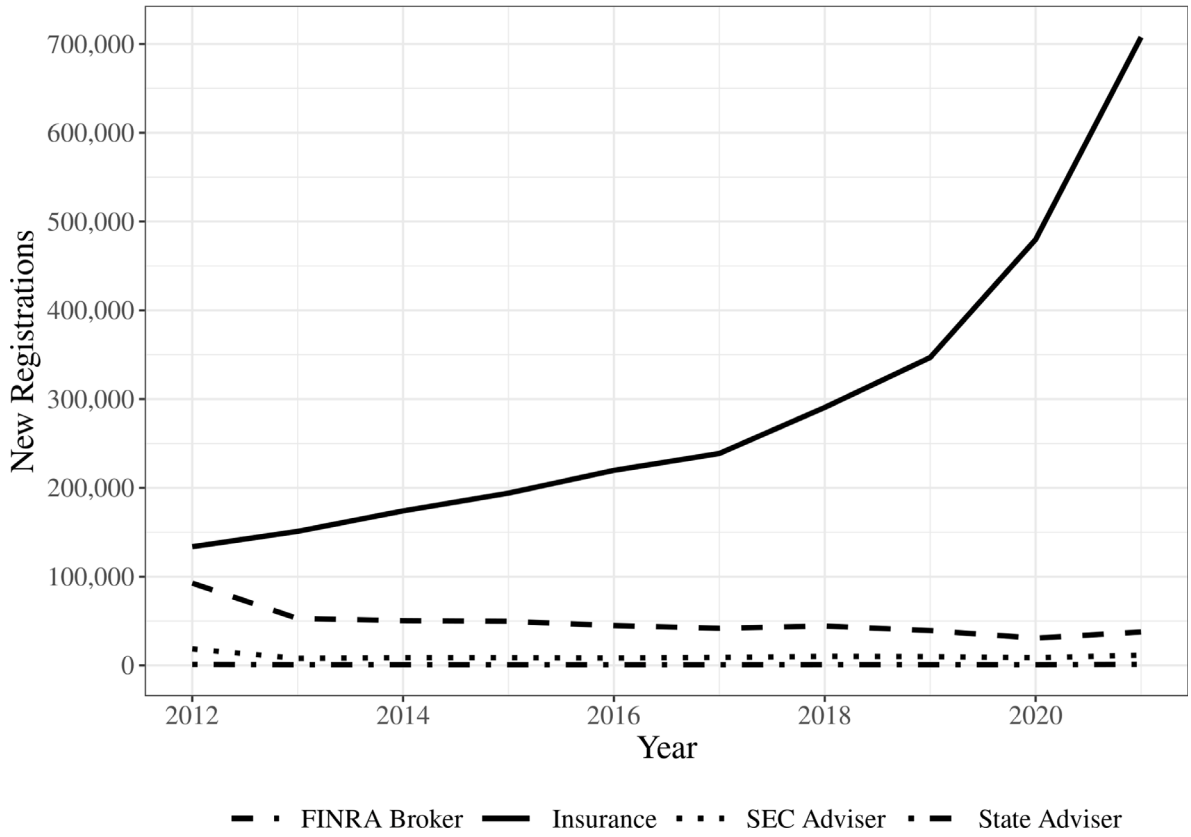

Fig. 2. New registrations per year. This figure shows the number of new registrations per year in each regulatory regime. Note that the figure reflects new registrations, not net registrations, due to data limitations.
Source: NAIC and author calculations.

2013). For example, prior work has noted that nearly 50% of state insurance commissioners 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. Fig. 2 provides a line graph showing the number of new registrations per year in each year from 2012 through 2021. Note that we show the number of new registrations, not the change in net registrations, because the NAIC provided us with the number of new registrations in each year but declined to provide the change in net registrations. 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.

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. 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 et al., 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 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. We first attempted to procure registration data in the summer of 2022. We downloaded publicly available data when available, and we filed public records requests in all states that do not provide data online. The registration 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 we received data from a state that did not contain this information, we used the partial information to scrape the state's website or the NAIC's State Based System.

Our attempts to obtain registration data were largely successful. We procured data on registered insurance producers from over 31 states, including major markets for financial advisors such as New York, Texas, Ohio, and Florida.[4] Because it is common for insurance producers to be registered in more than one state, our data includes individuals who are in states for which we did not receive data. In total, we acquired 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.

Nonetheless, there is a notable limitations to the registration data we obtained on insurance producers. 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.

In the winter of 2024, we attempted to supplement our registration data with information on producer misconduct. This data request was not successful. We returned to all the states that initially provided us with a response to request any data on producer misconduct, but most states declined to provide data on misconduct or consumer complaints, frequently noting that the information 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 (e.g., key information was missing or data was maintained for only a short period of time such as five days).

We address this limitation using two approaches. First, 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 (Financial Industry Regulatory Authority, 2025).

Second, we supplement our main analysis with focused study of insurance misconduct in one specific state (Texas), for which we were able to scrape data on insurance complaints and misconduct. Unlike other states, Texas makes its insurance complaints data public on its open data portal (Texas Department of Insurance, 2021). Although imperfect, this approach provides a consistent baseline across states, and Texas has a large number of insurance producers, including non-resident producers, who are licensed to sell insurance. Further, this type of single-state analysis helps to alleviate concerns about inconsistent enforcement across states. Indeed, 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.[5]

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 because, 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. 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

[4] 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 from the state.

[5] The occurrence and timing of misconduct is not random, nor is its detection. The opportunity to commit misconduct also 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.

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.

Variable name	Full sample		Wandering sample	
	N	Mean	N	Mean
Regulatory regimes				
FINRA broker	7,512,442	90.8	69,229	100.0
SEC investment adviser	3,276,746	39.6		
State investment adviser	164,095	2.0		
Insurance producer	1,716,903	20.8		
Joint registrations				
Any joint registration	3,464,695	41.9	55,857	80.7
FINRA broker & SEC adviser	2,927,523	35.4	2,742	4.0
FINRA broker & State adviser	61,849	0.7	222	0.3
FINRA broker & Insurance producer	1,377,294	16.6	54,122	78.2
SEC adviser & Insurance	902,716	10.9	1,142	1.6
FINRA broker, SEC adviser & Insurance	873,003	10.6	1,142	1.6
Advisor characteristics				
Female		27.4		29.0
Retail broker		26.0		0.0
Years experience		14.82		15.72
Misconduct				
Complaints (flow)		0.4		0.8
Misconduct (flow)		0.4		3.2
Serious misconduct (flow)		0.3		3.4
Complaints (level)		7.1		8.3
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		4.5
Series 63		71.5		73.1
Series 7		64.2		49.4
SIE Exam		44.1		80.6
NASAA Exam		45.4		42.4
Var. Annuity Exam		35.2		56.5
Supervisor Exam		21.5		15.4
NFA Exam		7.9		5.2
MSRB Exam		3.1		2.2

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% 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 within a year, and a total of 81.8% were registered with at least one other regime within a year. 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" challenge the assumption in academic 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. Almost half of the 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.[6] Those who exit 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 Fig. 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 former brokers' current registration. As shown, of the 58,034 former advisors who are now in insurance, 5984 (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

[6] 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.

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.

	All registered	State investment adviser	Insurance producer	SEC investment adviser	FINRA broker
Panel A. Currently registered advisors					
Number of individuals	1,183,984	22,523	256,512	409,253	1,056,119
Female (%)	28.22%	18.00%	26.73%	25.52%	28.69%
Years Experience	15	15	20	18	15
Num. Exams	4	3	4	4	4
NASAA Exam (%)	43.12%	65.35%	60.28%	78.95%	41.22%
Var. Annuity Exam (%)	34.92%	15.22%	47.31%	26.17%	35.31%
Misconduct (level) (%)	7.32%	7.74%	11.08%	8.28%	7.16%
Serious misconduct (level) (%)	4.67%	5.23%	6.01%	3.88%	4.47%
Suspended (%)	0.55%	0.92%	0.87%	0.42%	0.49%
Barred (%)	0.20%	0.15%	0.33%	0.02%	0.15%

	Total who exited BrokerCheck	Remain in other regimes	State investment adviser	Insurance producer	SEC investment adviser
Panel B. Advisors who exited BrokerCheck					
Number of individuals	451,765	127,865	14,059	65,384	52,964
Female (%)	28.99%	24.33%	16.23%	27.61%	21.99%
Years Experience	12	16	12	20	10
Num. Exams	3	3	2	3	2
NASAA Exam (%)	31.01%	58.76%	75.16%	45.04%	73.60%
Var. Annuity Exam (%)	37.33%	31.72%	8.86%	54.41%	8.57%
Misconduct (level) (%)	7.40%	8.61%	4.57%	13.77%	3.08%
Serious misconduct (level) (%)	5.51%	6.30%	3.15%	10.27%	2.02%
Suspended (%)	0.61%	1.09%	0.24%	2.01%	0.10%
Barred (%)	0.34%	0.65%	0.04%	1.24%	0.03%

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	−0.300	−0.317	2.495***	2.186***	1.659***
	(0.505)	(0.503)	(0.513)	(0.181)	(0.176)	(0.175)
Female		−0.334***	−0.377***		−0.107***	−0.080***
		(0.039)	(0.031)		(0.026)	(0.022)
Years of experience		−0.041***	−0.052***		−0.007***	−0.011***
		(0.004)	(0.004)		(0.002)	(0.001)
Number of exams		0.032	0.119***		−0.108***	−0.044***
		(0.020)	(0.020)		(0.011)	(0.007)
Retail broker		−1.587***	−1.500***		−1.119***	−0.998***
		(0.086)	(0.111)		(0.062)	(0.080)
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	0.005	0.052	0.0003	0.005	0.067

advisors add investment adviser or insurance producer licenses after serious misconduct using the equation below.

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

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 firm-county-year fixed effect. If the advisor's firm is unknown, we consider the individual self-employed and create a unique firm fixed effect for that individual. Standard errors are clustered by firm.

The firm-county-year 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).

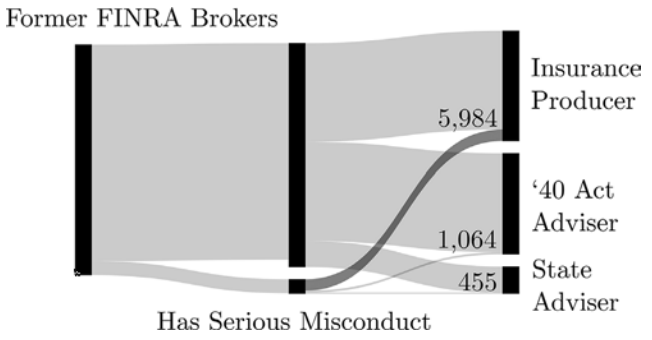

Fig. 3. Flow of former FINRA brokers. This figure reflects the flow of former FINRA brokers who, at the end of our sample period, remain in other regulatory regimes and have not reactivated their FINRA registration. The flow of individuals with serious misconduct is presented separately along the bottom of each subcategory. 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.

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. The dependent variable in columns (1)–(3) reflects whether the individual added an investment adviser registration in the following year, and in columns (4)–(6) reflects whether the individual added insurance producer registration in the following year. 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 comparing the likelihood of exiting the FINRA regime after serious misconduct for 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:

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

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. As before, X_{ijlt} represents our controls, and μ_{jlt} is a firm-county-year fixed effect.

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 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. These individuals must be active insurance producers in 2022 for them to be included in our sample, so this result 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.[7] 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.

[7] The interaction terms in Table 4 reflect only brokers who already had an adviser or insurance license at the time they dropped their FINRA registration. Table A.2 in the Appendix replicates this specification but also captures brokers who later added an adviser or insurance license (i.e., the insurance and adviser variables in Table A.2 reflect brokers who were jointly registered at the time they exited the FINRA regime and those brokers who added the registration after exiting the FINRA regime). Under this specification, advisors who are jointly registered as FINRA brokers and insurance producers (or become insurance producers after exit) are roughly 43 percentage points more likely to drop their FINRA registration in the year following serious misconduct. This finding suggests that the results in Table 4 reflect a conservative estimate of the frequency with which former brokers with misconduct leave to practice in insurance.

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	7.734***	7.286***	5.716***	3.789***	3.320***	1.885***
	(0.397)	(0.383)	(0.348)	(0.194)	(0.182)	(0.149)
SEC adviser				−2.009***	−2.103***	−1.748***
				(0.097)	(0.093)	(0.089)
State adviser				−0.829***	−0.943***	−1.579***
				(0.099)	(0.110)	(0.523)
Insurance producer				3.978***	3.897***	3.523***
				(0.232)	(0.220)	(0.218)
Serious Mis. × SEC				−13.724***	−13.321***	−11.745***
				(0.766)	(0.757)	(0.764)
... × State				−3.361***	−3.157***	−1.701
				(0.919)	(0.909)	(1.229)
... × Insurance				36.190***	36.065***	36.982***
				(1.524)	(1.526)	(1.731)
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	0.014	0.148	0.041	0.050	0.172

Together, these findings raise questions about 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 transition to a regime where the potential for causing harm to consumers is negligible, this may be evidence of optimal labor allocation.

5. Labor outcomes for former brokers

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 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 risk (e.g., car insurance). The financial consequences of working with a "bad" insurance producer are likely to vary depending on the products in question.

Fig. 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 (for example, structured settlements for personal injuries and long-term care insurance are annuities from an economic perspective). 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 reflect the traditional role of insurance risk sharing. Appendix A.2 provides additional details on the data construction for this analysis.

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 remain registered to sell insurance. In particular, we are interested in the distribution of insurance misconduct and the risk posed by repeat offenders. Due to the aforementioned data limitations, this analysis is limited to Texas, where we scraped data on insurance misconduct. Like Charoenwong et al. (2019), we start 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 civil or criminal referrals, as well as complaints that were resolved against the producer.

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, Fig. 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. Using the same sample, we study the relationship between the flow of new complaints (misconduct) and the stock of prior complaints (prior misconduct) using the following linear probability model for individual i, in county l, in year t:

$$Complaints_{ilt} = \beta_0 + \beta_1 PriorComplaints_{ilt} + \beta X_{it} + \mu_{lt} + \epsilon_{ilt}. \quad (3)$$

The dependent variable $Complaints_{ilt}$ measures the flow of new 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; it is a dummy variable indicating if the producer has a record of complaints prior to year t,

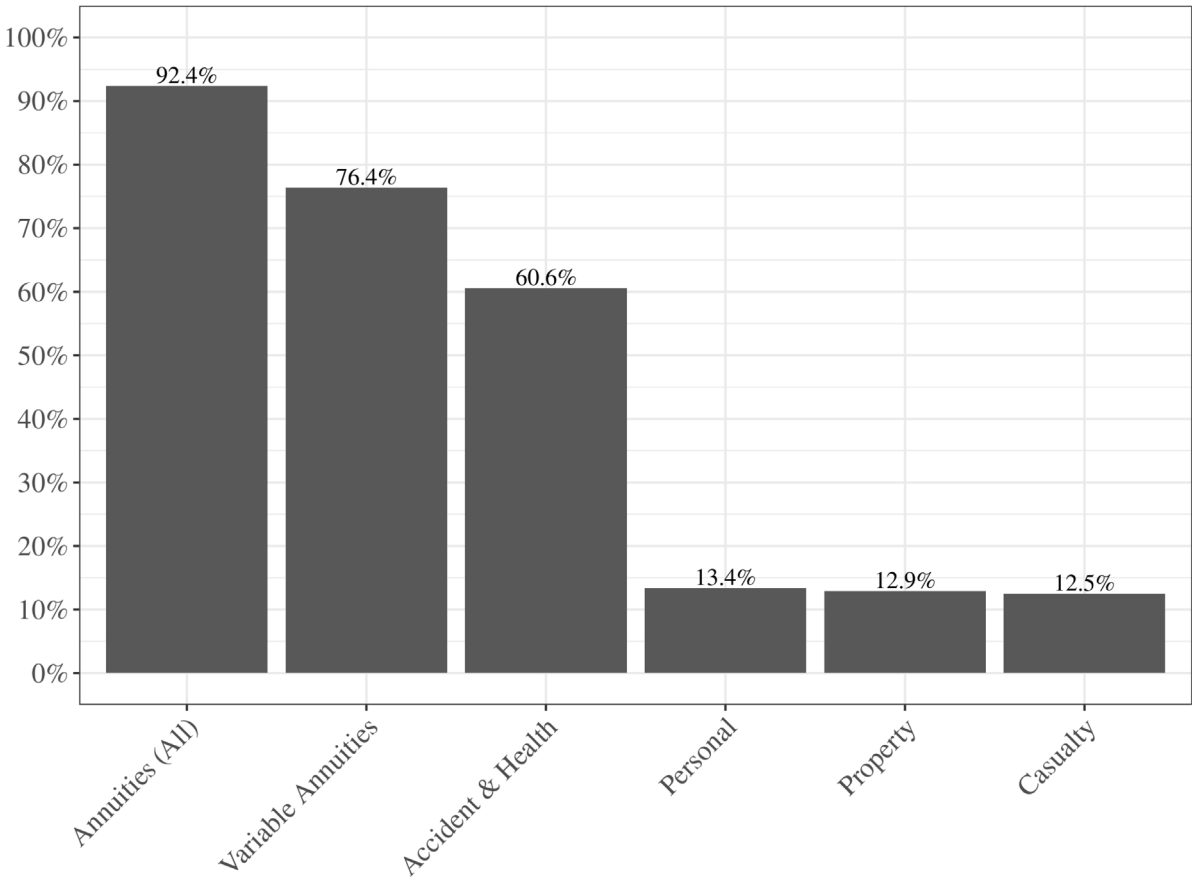

Fig. 4. Lines of authority for former brokers. This figure shows the lines of insurance that former FINRA brokers who exited to insurance are licensed to sell as of the end of our sample period. Because an individual may be licensed across multiple states, the numbers reflect whether an individual is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

where those complaints are sourced from both the Texas insurance data and BrokerCheck. X_{it} is a set of insurance producer controls for gender, experience, and licensing qualifications, and μ_{lt} reflects a set of county-year fixed effects. We control for the type of license that the insurance producer holds because complaints and misconduct may be driven by consumer confusion related to the types of insurance products they purchase (Browning et al., 2012). Unlike our other analyses, we do not include firm-county-year fixed effects in this model; not only do we lack sufficient data to identify the firm(s) each insurance producer represents, but independent insurance agents commonly represent multiple firms.

Table 5 presents the results from the model in Eq. (3). The main coefficient of interest measures whether an insurance producer with a record of complaints is likely to receive future complaints, relative to producers in the same county and year, and with similar qualifications. The sample for this table includes the full set of registered insurance producers in Texas, where that dataset is supplemented with misconduct data from BrokerCheck for those advisors who appear in both datasets. The coefficient in column (3) of 1.582 percentage points suggests a significant propensity to reoffend relative to the baseline rate of misconduct is 0.871 percentage points. Similarly, column (6) shows that producers with a record of misconduct in either BrokerCheck or the insurance data are more than twelve times more likely to reoffend (1.087 relative to an unconditional baseline of 0.086 = 12.64). If anything, this coefficient likely underestimates the degree of recidivism because our data consist of only currently registered insurance producers, meaning that brokers who had their licenses revoked prior to our sample will not be reflected in the data. Notably, $FormerBroker$ is negative and statistically significant in all specifications, suggesting that former brokers without a history of misconduct are less likely to offend in insurance—even if "bad" former brokers are still "bad" in insurance. In sum, there is evidence that former FINRA brokers sell investment management products as insurance producers and that former brokers with misconduct continue to have higher rates of recidivism in insurance.[8]

5.3. FINRA broker exits and state characteristics

The prior 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 (or rigorous) 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 regressions under the following

[8] 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).

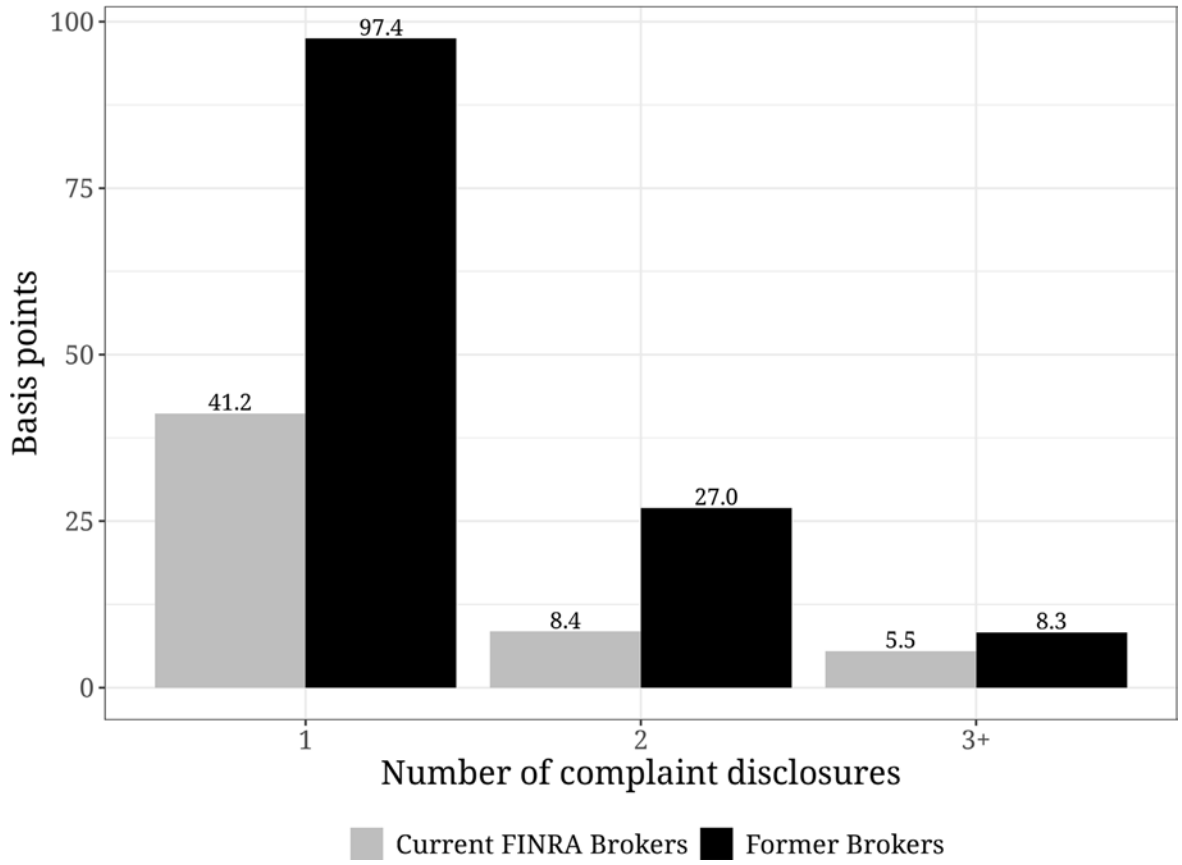

Fig. 5. Insurance customer complaints. The figure shows the percentages of current insurance producers with 1, 2, or 3+ customer complaints (in basis points). The data are separated by whether the advisor is formerly a FINRA broker or currently remains a FINRA broker. The sample consists of the subset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

specification:

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

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 the median insurance producer per year (full summary statistics are presented in Appendix Table A.1). 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.[9]

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 proposed 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.

[9] 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.

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 complaints (columns 1–3) or allegation of 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. For both the stock and flow of misconduct we combine misconduct records from BrokerCheck with analogous insurance records from Texas. The sample includes all registered insurance producers in Texas, where that dataset is supplemented with broker data from BrokerCheck (if applicable). 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.

	Complaints			Misconduct		
	(1)	(2)	(3)	(4)	(5)	(6)
Prior complaints	3.009***	1.578***	1.582***			
	(0.282)	(0.077)	(0.080)			
Prior misconduct				1.176***	1.104***	1.087***
				(0.062)	(0.062)	(0.062)
Former broker		−0.350***	−0.344***		−0.167***	−0.135***
		(0.043)	(0.043)		(0.038)	(0.039)
Annuities		0.271***	0.379***		0.087	0.126
		(0.079)	(0.084)		(0.078)	(0.079)
Controls		Y	Y		Y	Y
County-year FE			Y		Y	Y
Observations	343,475	342,628	342,628	342,702	342,619	342,619
R^2	0.012	0.005	0.001	0.003	0.003	0.007

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$_t$	11.224***	11.216***	11.188***
	(0.284)	(0.284)	(0.281)
State Characteristic$_{t-1}$	0.014	−0.040***	0.018
	(0.014)	(0.011)	(0.019)
... × Serious Mis.$_{t-1}$	−0.946***	−1.032***	−2.836***
	(0.305)	(0.146)	(0.246)
Controls	Y	Y	Y
Firm-county-year FE	Y	Y	Y
Observations	7,795,319	7,795,319	7,832,319
Adjusted R^2	0.819	0.820	0.820

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).[10] 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).

To give context for the importance of Form CMA, this same form is 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, 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 and Ross, 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. 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 et al., 2021).

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.

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. We use the proposal date as our event date because industry publications noted that firms began firing high-risk brokers after the proposals were made public in anticipation of these rules. For example, a Senior Director at FINRA noted during an industry conference that "[w]e have heard and we have seen representatives being terminated at this point prepping for the rule" (Braswell, 2022). In this regard, our analysis is consistent with Egan et al. (2020), which also examined the effects of a proposed rule and noted that the securities industry began complying after the rule was proposed and before it was finalized.

In total, we identify 4062 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. Fig. 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

[10] 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).

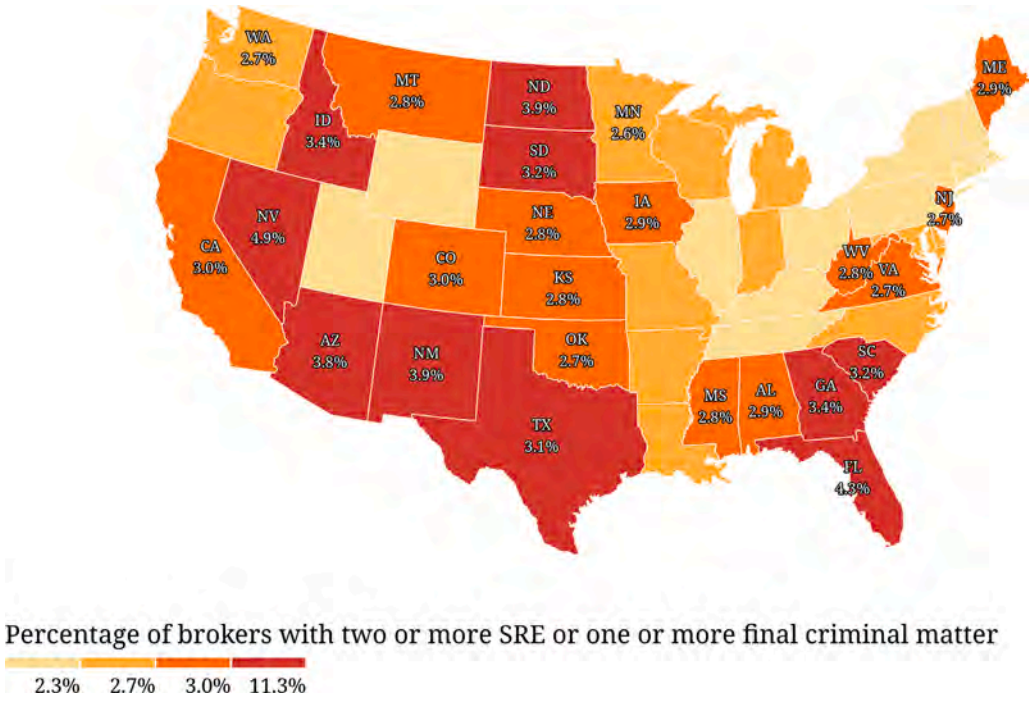

Fig. 6. Distribution of high-risk brokers. This figure shows the percentages of current FINRA brokers deemed high-risk under FINRA Rules 1017(a)(7) and 4111 (i.e., the broker has two or more Specified Risk Events or one or more final criminal matter).

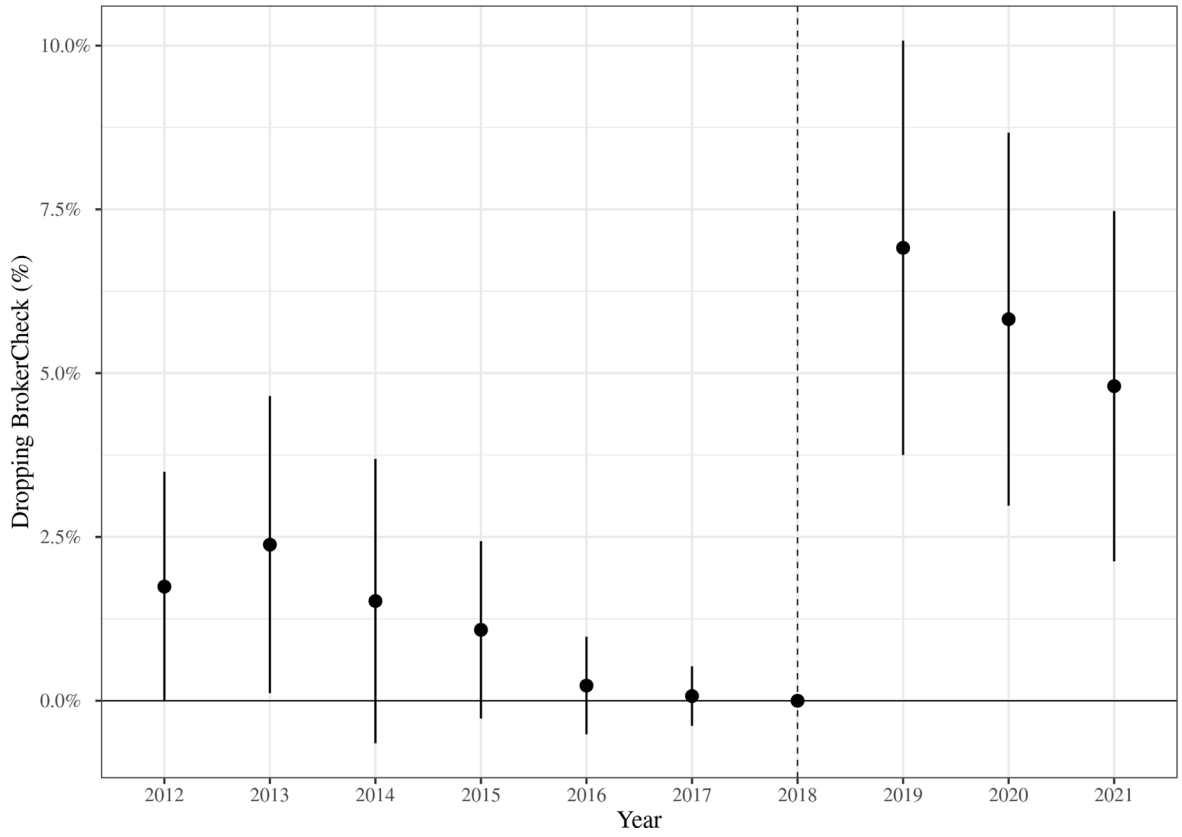

Fig. 7. Effect of FINRA rules targeting high-risk brokers. This figure shows the effect of FINRA's 2018 and 2019 proposals on high-risk FINRA brokers who were jointly registered as insurance producers. The figure plots the coefficients on each interaction from Eq. (6). The Y-axis reflects the percentage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

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 proposals 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.

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

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 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.

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***	0.179***	−0.068
	(0.066)	(0.064)	(0.061)
Post 2018	−0.085***	−1.847***	
	(0.010)	(0.119)	
Insurance producer	3.174***	3.480***	3.221***
	(0.243)	(0.219)	(0.220)
High Risk × Post 2018	−0.191**	−0.202**	−0.076
	(0.090)	(0.096)	(0.105)
High Risk × Insurance	4.301***	4.245***	3.571***
	(0.532)	(0.517)	(0.510)
Post 2018 × Insurance	1.303***	1.397***	1.078***
	(0.177)	(0.178)	(0.153)
High Risk × Post 2018 × Insurance	1.874**	1.861**	2.425**
	(0.942)	(0.920)	(1.020)
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	0.365***	0.179***	−0.068
	(0.066)	(0.064)	(0.061)
Post 2018	−0.085***	−1.847***	
	(0.010)	(0.119)	
Adviser	3.174***	3.480***	3.221***
	(0.243)	(0.219)	(0.220)
High Risk × Post 2018	−0.191**	−0.202**	−0.076
	(0.090)	(0.096)	(0.105)
... × Adviser	4.301***	4.245***	3.571***
	(0.532)	(0.517)	(0.510)
Post 2018 × Adviser	1.303***	1.397***	1.078***
	(0.177)	(0.178)	(0.153)
... × Post 2018 × Adviser	1.874**	1.861**	2.425**
	(0.942)	(0.920)	(1.020)
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

Our identification in Table 7 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, Fig. 7 tests this assumption by plotting event-study estimates from the specification below.

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

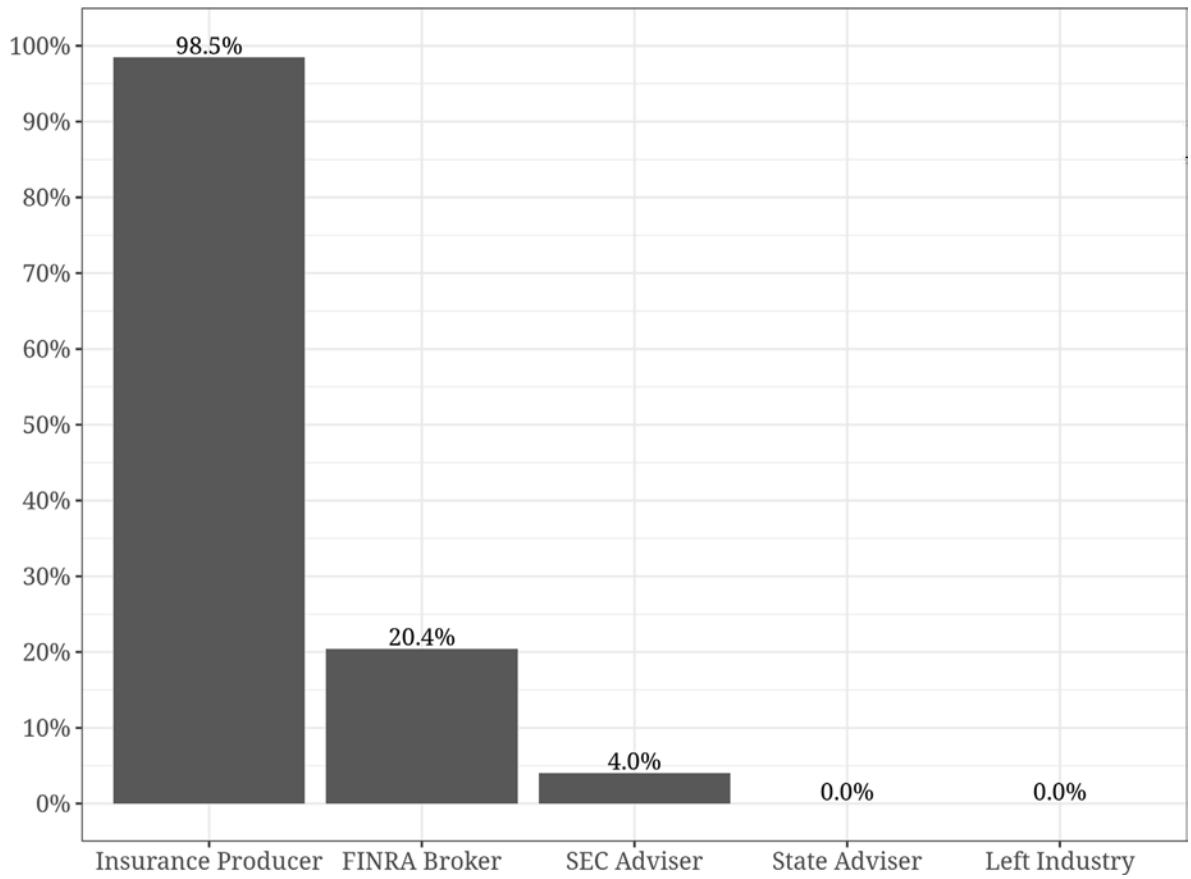

Fig. 8. Career outcomes for high-risk brokers. This figure shows career outcomes for the high-risk brokers targeted by FINRA's 2018 and 2019 proposals. The figure is based on all advisors who were targeted by the rules and withdrew their FINRA registration at any point after 2018. The percentages reflect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

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 the aforementioned anecdotal evidence that firms began firing high-risk brokers to avoid the costs of complying with Rules 1017(a)(7) and 4111.

6.3. Labor outcomes for former high-risk brokers

Consistent with our prior analysis, we are interested in employment outcomes for the high-risk brokers who withdrew their FINRA registration. The policy implications of "wandering" vary depending on whether these individuals are serving in roles that pose comparable, more, or less risk to consumers. Thus, we trace the regulatory registrations for all high-risk brokers who withdrew their FINRA membership after 2018. As shown in Fig. 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 Fig. 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). 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, as insurance 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.

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.

CRediT authorship contribution statement

Colleen Honigsberg: Writing – review & editing, Writing – original draft, Supervision, Project administration, Methodology, Investigation, Data curation, Conceptualization. **Edwin Hu:** Writing – review & editing, Supervision, Project administration, Methodology, Investigation, Formal analysis, Data curation, Conceptualization. **Robert J. Jackson:** Funding acquisition, Data curation.

Declaration of competing interest

The author is an advisory board member at AIMR Analytics, a fintech company that provides consumers with detailed background information on financial advisors.

Edwin Hu has nothing to disclose.

Robert Jackson has nothing to disclose.

Appendix A. Supplementary data

Supplementary material related to this article can be found online at https://doi.org/10.1016/j.jfineco.2025.104170.

Data availability

Replication Data (Reference data) (Link for replication)

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