The Real Hidden Risk for Advisers: Identify Theft

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Advisers should be aware of a growing identity theft scams that targets advisers to get to their clients' money. The scams use email to trick advisers into wiring cash out of their clients' accounts preying on the fact that e-mail is the go-to means of communication to correspond with advisers and authorize transactions.

Based on a recent USA Today article, it seems to be a real epidemic. In one case, an adviser was tricked into transferring $35,000 in client funds.

As anyone who has ever been the subject of a security breach knows, identity theft can lead to serious legal and reputational risks. To make matters worse, restoring investment accounts to make investors whole can be a lengthy and occasionally unresolved process.

Whether or not the proposed Identity Theft Red Flag rules under Dodd-Frank ever apply to most investment advisers, and it looks as if they won't, prevention is incredibly important. It is imperative that advisers have a system in place, whether manual or automated, to detect red flags and respond appropriately, whether by filing a report, notifying law enforcement and/or notifying the affected clients.

Of course, we will continue to monitor the rule proposal. Stay tuned.

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