

# TECHNOLOGY SOLUTIONS REDUCE COMPLIANCE RISK, ENHANCE PROGRAM SUCCESS



BY MATT ESSIEH

**I**N TODAY'S intense regulatory and competitive environment, compliance is a hot issue for financial services companies. While compliance has always been a critical behind-the-scenes function, it has moved to the forefront of worries that keep executives awake at night. No organization wants to deal with the damage that results from a stiff NASD fine or an unsatisfactory OCC audit.

Earlier this year, PricewaterhouseCoopers hosted a financial services forum; 350 finance and compliance managers attended. When asked to name the biggest issues facing U.S. financial services companies in the next three years, these industry leaders cited intensified competition, and the cost, burden, and risk associated with compliance. A full 30 percent said compliance was the *single biggest* issue their organizations were dealing with.

It's no wonder. If you are responsible for a bank retail investment or insurance program, compliance touches all aspects of your operation, from data security and privacy to product/customer suitability and sales rep licensing. As the number of reps you manage and products you sell increase, so does your exposure.

With the cost and complexity of managing compliance becoming progressively more burdensome, retail investments program managers and compliance professionals are turning to technology. This is more than a defensive move to manage risk and show regulators that you take your compliance responsibilities seriously. It also is a smart offensive strategy. Ultimately, the effectiveness of your day-to-day compliance program impacts your ability to meet annual sales goals, recruit and manage a high-performing staff, smoothly integrate the brokerage into your banking organization, and manage your institutional reputation.

## Meeting expectations

As some unfortunate organizations can attest, all it takes is one high-profile problem to undermine a previously solid reputation and deliver a financial blow to your business. For customers, reputation derives in part from trust, which has been a long-standing element of competitive advantage for banks. Customers

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of bank retail investment programs expect you to protect and secure their financial data, offer them appropriate products, and manage their investments with their best interests at heart.

The OCC, NASD, and state regulators expect these same things, with added scrutiny. They want you to provide detailed information about client history, products recommended and sold to each client, and assurance that those products were suitable for the client. They want to know that you are keeping track of whether your sales representatives are appropriately licensed for the types of products they sell, and that you are monitoring their

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continuing-education requirements. Regulators expect that you will be able to identify and correct problems of account churning, co-mingling of funds, or outright fraud if and when they occur. And of course, they demand a clear audit trail.

Organizations that try to meet these rigorous expectations through some combination of manual data management and cobbled-together IT systems are putting themselves at risk, not to mention adding tremendously to their staff costs, as compliance burdens are heaped on by regulators.

While the large clearing firms are beginning to offer some level of surveillance on securities trades and profiles through their electronic feeds, a custom-designed system can provide banking organizations with much richer information, including rights of accumulation, 1035s and transfers.

A comprehensive and systematic compliance surveillance process is best achieved by working with a technology partner whose core competency is the delivery of customized software for financial institutions. This frees up your organizational resources to pursue your core competency: increasing market share through the sale of investment products and services.

Effective compliance-review software that is fully integrated into the sales and marketing functions will support several

important objectives:

## Customer privacy and data security

Banks today operate in a complicated environment where regulators demand greater transparency, while customers express heightened concern about the privacy of their personal and financial data. Addressing these concerns in a systematic and thorough manner is critical to inspiring confidence in both customers and regulators. This is one of the areas where technology can add significant value to a compliance program by addressing important considerations such as:

- Who has internal access to customer information? What safeguards (e.g., passwords and permissions) are in place to ensure that data is available only to appropriate staff and only on a 'need to know' basis?
- How is customer data protected from infiltration from outside the organization? Are there controls in place to authenticate individuals who have legitimate access to data?
- How is the transmission of electronic data secured as it moves between the bank and outside vendors, such as clearing firms?

## Product suitability

With the myriad of products available and the relentless pressure on sales reps to perform, you must demonstrate to regulators that you are not selling inappropriate products to customers. Robust compliance technology systems allow you to apply surveillance rules that automatically red-flag questionable trades. You can tailor these rules to the particular needs and concerns of your organization. For example, if you want to move compliance closer to the source of sales, you can use Web-based technology to give branch managers actionable data on particular types of OSJ (Office of Supervisory Jurisdiction) trades on a daily basis.

By decentralizing some of the daily compliance oversight, you free up your compliance officer to actually manage the function, rather than chase questionable suitability trades. Decentralization also encourages individual reps and their branch managers to take greater responsibility for the suitability of individual transactions.

Furthermore, when organizations want to track suitability by a particular group, a sophisticated technology system also will allow dynamic, ad hoc queries of the database by customer type and/or product type. This illuminates undesirable trends or specific compliance violations in real time. Catching these problems early helps you manage risk and resolve issues before an audit.

One large national bank has streamlined its compliance review of annuity sales by using technology that allows for a two-tiered flag system. As transactions are entered into the system, the compliance engine and principal review desk flags are activated. If a trade is inappropriate because of licensing issues or product switching, those flags stop the trade. Any other flags allow the trade to occur, but forward the details to the principal review desk, where officers can check the transaction online and either clear it or respond with additional action.

Prior to adopting the technology solution, the bank manually reviewed 100 percent of its transactions. That number has now been reduced to about 25 percent of fixed annuity sales and 50 percent of variable annuity transactions, allowing for a dramatic shift of staff resources.

## License and renewal tracking

With the increased level of accountability and scrutiny by regulators, you need a reliable system for timely identification of agent license expiration dates, fulfillment of continuing-education requirements, and product appointments. This is especially critical for growing organizations that operate in multiple states with hundreds or thousands of branch reps.

The complexity of managing this key oversight function is best handled with a software solution that ties into compliance surveillance of trades. It enables an organization to address suitability issues at the same time it monitors licensing schedules of individual reps. Branch managers or reps themselves can see when their licenses are up for renewal, when renewal has been completed, and the status of specific product appointments. This is a critical tool for ensuring that agents are selling only those products for which they are authorized.

A large East Coast bank uses compliance software as its primary tool for monitoring the licensing of insurance agents. The system provides timely reports to ensure that all transactions meet licensing requirements.

Working with a technology system that aggregates and integrates customer data and compliance requirements also allows you to better manage other issues, such as updating client profiles and documenting customer mailings required under the Bank Securities Act.

## Finding the right technology partner

If your organization is ready to embrace a technology solution to meet your compliance requirement needs, here are some things to look for in an IT partner:

- An established company that can provide reliable, responsive service.
- Internal controls and procedures based on SAS 70 and Gramm-Leach-Bliley guidelines.
- A Web-based system that allows access to real-time data.
- Functionality to manage compliance across multiple lines of business, including annuities, mutual funds and securities, and insurance.
- Reasonable cost to deploy, and scalable to accommodate future growth.
- Dynamic, ad hoc querying capability for customer and/or product data.
- Automated review features, and flags that can be tailored to the needs of your institution and provide principal reviewers or branch managers with actionable data.
- Ability to track agent licensing, continuing education, and suitability for specific transactions.
- Ability to track complaints against an agent, product, or office.
- Features that easily allow regulators to see data security—who is allowed to see information and at what level.

With the right application of technology, retail investment and insurance program managers and their banking organizations can streamline their compliance functions, reduce their exposure, and demonstrate to regulators that their organization has the capability to protect investors—as well as maintain the integrity of the market. □