

## Topic: Compliance Headache – Solving by Technology

LPL Financial was fined \$11.7MM for widespread supervisory failures. What can we make of this? If you deal in annuity and alternatives, what can you do to help? How does technology help? Will a technology solution require me to revamp everything I've acquired?

These questions are real and relevant across every wealth management firm in the US. The news regarding LPL Financial has just set the tone for everyone else. Thanks to FINRA and their decision on LPL, it now creates the value of having surveillance systems in place to govern the sale of variable annuity products, sale of alternatives and sale of complex products, including certain ETFs, variable annuities and non-traded REITS.

### **The Break Down:**

Examining the \$11MM + fine against LPL Financial, we see that the firm did not have a system (technology) in place to monitor the length of time customers held securities in their accounts nor did the firm have a system (technology) in place to enforce limits on concentrations of those complex products in the customer accounts.

Overall, it is imperative for any SEC registered firm to ensure that the IPS (Investment Policy Statement) is not only followed but **enforced**, as with any regulation, what good is a law if it cannot be enforced? Rather than basic guidelines, having a systemic framework in place to automate and oversee the customer accounts and its holdings is imperative to a successful firm.

The second issue that arises out of the LPL Financial fine was their failure to generate proper anti-money laundering (AML) alerts, and they did not have a system (technology) in place to deliver trade confirmations on 67,000 customer accounts.

While many advisors (Fee Based) will not have the customer trade alert issues, and limited AML alerting requirements, the key takeaway was the lack of notifications and client profile monitoring systems to help automate the firm's transactions with their clients.

### **System = Technology Automation:**

Enough of the robo-advisors! While the need to listen and see what might happen 5-6 years out is important, what value is the long term if we are unable to address compliance and revenue challenges of today?

From what we have seen today, the automation needs to begin on the home office level (internal office only), and then graduate to the customer (Robo-Advisor).

### **Here is what a good system needs:**

1. Automated Monitoring of Customer Holdings and their Risk/Liability (Real Time)

2. Integrated CRM that consumes financial account, holdings and transaction details (updated daily)
3. Governance process in place for post new account opening workflow and automated maintenance system to ensure the IPS is enforced on each account
4. Reporting: Perhaps the biggest business takeaway from LPL, is the ability to generate real time relationship reports and alerts that touches every aspect of the relationship (quantitative vs. qualitative). No longer is this about having the prettiest financial statement or graph, rather its about having a holistic view of the customer account; transactional and relationship wise. Simply put, advisory firms need to go deeper and beyond the numbers to put together “360 degree” view of the relationship in fine detail that’s updated every single day. Easy right?

**Let’s Talk:**

AppCrown’s technology around transforming your CRM with Salesforce.com and enhanced data processing and holdings risk management software will help any SEC registered firm scale their business and automate the controls and compliance needed to successfully supervise each account.

At the end, it's never about compliance, it’s about relationship management. Supervision, Surveillance, whatever the moniker that exist, it’s about doing right by the client, by the relationship, by the families you oversee.

Let’s talk, let us show you our surveillance and relationship solutions to automate your home office.