

Compliance – E*Assist Solutions through Automation and Outsourcing

By Dan Young

For years, margins at broker-dealers have been thinning. Reps demand higher payouts, and yet expect better technology and more services. Now, in the aftermath of the recent financial meltdown, we will almost surely have more burdensome and complex compliance responsibilities, at exactly the same time that broker-dealers have been forced to cut staff. So what is a broker-dealer to do?

E*Assist has two solutions to this conundrum: **automation and outsourcing**

Forced to do more with less staff and more demands from regulators and reps, they must become more efficient. E*Assist has developed technology that will increase the speed and efficiency of compliance review, decreasing staffing needs. In addition, they have added a revolutionary outsourcing model that goes well beyond the typical consulting relationship and creates further efficiencies. Best of all, both the technology and the outsourcing actually **IMPROVE** the level of compliance review and thereby protect the customer.

Automation

E*Assist has spent years building technology to perform many compliance tasks. For example, supervision can now be done through an automated questionnaire. The questions are sent to each Rep through E*Assist's secure platform. Certain answers cause further, more detailed questions to automatically populate. In addition, supervisors are notified of responses that are of concern. Tracking of completion is also done automatically, and an automatic block on commissions remains in place until the Rep completes the exercise. In this way, supervisors obtain information about Reps, offices, trends, outside business activities and changes to U4s with very little manual effort.

Another example of efficient automated compliance stems from suitability. E*Assist has created a rules engine whereby the firm and E*Assist would jointly come up with parameters. These would be based on client information reported by the rep, such as age, net worth, income, and risk tolerance. The product sale could fall into one of three categories. If it meets the parameters, then the sale would pass suitability and E*Assist would sign off on it. It could also be outside the bounds of acceptable parameters, in which case it would fail. The third option would be that it falls into an area that allows discretion. Here E*Assist would look at the transaction, gather more information from the rep, and determine if the sale can go through.

Once again, using E*Assist saves bodies. The firm would not have to staff up a supervision department to review transactions. It also takes away friction between producers and the broker-dealer or OSJ for rejected transactions. What's more, the rules are applied uniformly and fairly, thereby protecting the interest of clients.

Outsourcing

To be sure, there are some tasks that require human discretion. A firm cannot entirely delegate its supervisory responsibilities to machines. Staff must exercise judgment in gray areas, set policy, determine exceptions, interact with regulators and mete out discipline.

Here too E*Assist has the answer through outsourcing of compliance and legal functions. While E*Assist offers the typical consulting services such as audit support and project work, it goes well beyond the model normally employed by consulting firms.

A firm can pay a monthly fee to E*Assist, which will provide it with a CCO. E*Assist therefore will take all of the responsibility, including:

- Establishing policies and procedures;
- Monitoring those policies and procedures under rule 3012;
- Complaint handling and reporting;
- Branch inspections;
- Surveillance of sales practices;
- Regulatory inquiries and examinations; and
- Anti-money laundering monitoring.

Because E*Assist has scale, the compliance effort is cutting edge. E*Assist hires top level talent, and sends them to every industry conference and seminar. By outsourcing this function, firms obtain this high level compliance effort without the expense of senior level hires. E*Assist also offers this outsourcing for a General Counsel. Run of the mill legal questions, contracts and other routine questions can be outsourced for a monthly fee.

As for suitability, E*Assist will review and approve all transaction that run through its rules engine. This is especially valuable for more complicated products, such as variable annuities, where certain riders and features are not easily compared. Once again E*Assist will efficiently opine on the transactions, and take responsibility for approving them. If regulators question those judgments, E*Assist will stand by the firm as it goes through its audit. Conflicts of interest are virtually eliminated, as the party responsible for supervision does not participate in commissions or overrides on the sale.

Conclusion

Broker dealers need to step up the compliance effort – but they need to work smarter, not harder. E*Assist provides technology to automate functions and to reduce infrastructure costs. The E*Assist solution also improves protections for the clients.

In addition, E*Assist provides outsourcing of functions such as CCO or General Counsel. This goes well beyond the typical consultant relationship, and actually allows firms to reap the benefits of cutting edge, high level effort without expensive employees.

Dan Young is ex-CEO of NYLIFE securities and NFP and has managed some of the world's largest independent broker/dealers.