



White Paper



Meeting Regulatory
Obligations by Improving
the Onboarding Process

TABLE OF CONTENTS

Introduction.....	2
Background.....	2
Build The Industry's Needs	3
Challenges with Meeting Obligations.....	4
The Solution.....	5
NexJ Contact for Finance	6

INTRODUCTION

In the aftermath of economic recessions and global financial crises, financial services regulators are imposing stringent regulations on today's markets. The obligations for financial services firms are complicated, overlapping, and evolving almost every day. Non-compliance is simply not an option, as regulators charge billions in highly publicized fines to those found in breach. In such a politicized and evolving regulatory environment, how do firms keep up with their regulatory obligations? Firms need a sophisticated solution to prove their compliance. Top tier wealth management firms leverage NexJ Contact for Finance to meet their regulatory obligations.

BACKGROUND

Before the downturn into economic recession and financial crisis, financial services firms were highly profitable businesses with fewer rules to obey. While many firms were diligent, the crimes of a few tarnished the economy for all players. It was a world where firms struggled to grow their assets under management anyway they could, and where product suitability and market practices weren't clearly defined. The result was a collapse, with consumers' money lost in risky gambles, ultimately leading to a catastrophic economic regression. How did this happen? Regulations were simply not in place to enforce the right practices, and some firms took advantage of this to profit from clients with high-risk investments who didn't know better.

The result? An angry public with a weakened economy heralded a significant increase in the popularity of fiscally conservative politicians. These politicians gained favor by introducing stricter regulations to protect investors and prevent firms from placing their clients at unwarranted risk. The introduced regulations would be strict, with emphasis on the client and little-to-no regard for the firm's cost to comply. Even though many firms already played fairly, the newly introduced regulations unilaterally affected all firms the same. Adding to the growing regulatory demands, governments also looked to increase the reach of their taxation to offshore accounts and foreign investments.

Before long, financial organizations saw the introduction of an onslaught of regulations such as:

- ▶ the UK Suitability Requirements,
- ▶ the UK Retail Distribution Review (RDR),
- ▶ the US Foreign Account Tax Compliance Act (FATCA),
- ▶ the US Dodd-Frank reform,
- ▶ the EU's Undertaking for Collective Investment in Transferable Securities (UCITS),
- ▶ the EU's Alternative Investment Fund Managers Directive (AIFMD), and
- ▶ the EU's Markets in Financial Instruments Directive (MiFID).

Meeting Regulatory Obligations by Improving the Onboarding Process

But it didn't stop there; the regulatory bodies kept going, recently introducing more regulations like the OECD's Automatic Exchange of Information (AEOI), the EU's European Market Infrastructure Regulation (EMIR), and MiFID-II/MiFIR. There seems to be no end in sight for new and overlapping regulations of financial services.

Firms that failed to keep up were fined publicly and severely. Examples include BNP-Paribas being fined £6B for dealing with countries in violation of US sanctions, RBS being fined £14M for serious failings on their advised mortgage business, and Coutts being fined £8M for failing to establish and maintain effective anti-money laundering (AML) systems and controls relating to high risk customers and politically exposed parties (PEPs). The latter being a very common problem amongst European wealth management firms.

The perfect example underlying the need for adequate systems and controls is highlighted by what happened to Credit Suisse UK. The UK's FSA fined them £5.95M for being in breach of "Principle 3" related to systems and controls. The FSA found that the firm did not have adequate systems or controls in place to ensure the suitability of advice given for "Structured Capital at Risk Products" (SCARPs), thereby exposing customers to an unacceptable level of risk that the products they were sold did not meet their needs.

BUILD THE INDUSTRY'S NEEDS

To avoid the negative publicity and exorbitant fines by regulators, wealth management firms are seeking sophisticated systems and controls to help them adapt to the evolving regulatory environment and demonstrate their compliance. IT systems alone are not going to solve the burden of regulatory compliance. Firms that want to be successful in tackling regulatory demands need to focus on changes to their business and partner with their IT groups and providers to roll-out systems that enable those changes. Both are necessary, and one is simply not sufficient without the other.

But what changes are required to business practices? The aim of the regulations is to ensure the suitability of products and advice given by the firm relative to a client's needs and understanding. This is to protect investors from being marketed products that place them at unwarranted risk of financial loss. High-risk products and advice are acceptable, as long as the firm can clearly prove that client suitably needs, understands, and consents to that risk. In 2011, the UK FSA reviewed the files of 16 firms in its jurisdiction. Of that, it found that 79% of the files reviewed showed a high degree of unsuitability or that they could not even determine the suitability of the advice given or products sold. The key issues identified by the FSA were:

- ▶ Failure to collect and maintain sufficient Know-Your-Customer (KYC) information
- ▶ Failure to collect and maintain a sufficient record of the client's risk profile

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- ▶ Failure to collect and maintain a sufficient record of the client's financial situation (including assets, sources of income, financial commitments)
 - ▶ Failure to collect and maintain a sufficient record of the client's investment knowledge, experience, and objectives
 - ▶ Failure to meet the EU's MiFID classification requirements

The FSA also found inconsistencies between clients' attitude to risk, investment objectives, investment horizons, and agreed mandates as compared to their portfolios. The inconsistencies introduce an unacceptable risk of unsuitability.

To be compliant, firms need to prove that the necessary information to establish classification and suitability is:

- ▶ Being captured correctly and consistently (including KYC, Risk Profile, and Investment Strategy details)
- ▶ Leveraged during decision making
- ▶ Reviewed and maintained regularly over time
- ▶ Being tracked against a client's portfolio performance over time

Each regulation imposes its own unique requirements beyond these, with new regulations requiring the capture of new data points. For example, EU MiFID regulations require advisors to classify their clients as "Retail", "Elective Professional", or "Per-Se Professional" investors, and capture the corresponding data points to justify that classification. When taking into account all the overlapping regulatory requirements, the burden quickly falls to the front office (investment advisors, relationship managers, and sales) to capture and leverage the right information. This is all too often gets pushed onto the clients themselves.

CHALLENGES WITH MEETING OBLIGATIONS

While the regulations are in place to protect the client, they do nothing to improve customer experience. In fact, the demands they place on the gathering of information can make it annoying and frustrating for clients if not handled correctly. It becomes essential for firms to not just meet their regulatory obligations, but to do so without negatively impacting customer experience. In today's highly regulated environment, it is customer experience and overall advisor effectiveness that will distinguish market leaders from followers. A firm's ability to offer competitive products and services will always remain important, but in today's "age of the customer" clients also demand an efficient customer experience.

Meeting Regulatory Obligations by Improving the Onboarding Process

This is where the need for a sophisticated and integrated software solution is paramount. It is simply not acceptable to ask a client for their information twice. Yes, they need to review and update their investor profile regularly, but that does not make them amenable to answering any question more than once or signing the same document twice. With hundreds of possible data points to capture to meet the regulatory requirements, keeping of track of that data is tedious, but keeping track of what to ask and when to ask it is a nightmare.

Without intelligent systems telling them what information to capture and when to do it, the front office simply cannot provide effective or efficient service – there are just too many rules and they change too often. The result is constant remediation of applications and back-and-forth with the client until the firm's systems and controls are satisfied with the input. Firms need a sophisticated platform to manage their growing regulatory data and business process requirements.

THE SOLUTION

The solution needs to capture the required information, and needs to embed compliance rules into automated workflows that integrate all sources of data. The ideal solution combines a central client information file, a client relationship management system, a business process management system, and embedded compliance rules with tight integration into a single platform.

Information captured during prospecting should be leveraged to pre-populate a smart client onboarding. The onboarding process needs to be intelligent and prompt for all required information, but no more than is required to meet the firm's obligations. Based on the client data, the solution should guide the firm's employees' actions, only allowing a pre-determined set of suitable products or advice. By capturing data correctly the first time, demands on the client's time are reduced to a minimum. Furthermore, leveraging the prospect history allows the firm's compliance officers to get a more complete picture of the client beyond just what's on a paper application.

The key to building such a sophisticated platform is to partner with IT groups and vendors that understand these regulatory requirements. Solution providers that do not have the requisite domain knowledge will struggle with the complexity, significantly impacting the time to market for their solution. Without a fast turn-around time, firms will not be able to keep up with the constant barrage of regulations. Even with domain knowledge, turn-around time is still a concern. To keep up with evolving regulatory requirements, the solution needs to have the flexibility to be extended to support new data points and compliance rules – minimizing the reliance on IT and operations.

NEXJ CONTACT FOR FINANCE

With years of experience in private wealth management with top tier firms, NexJ is uniquely poised to enable and guide firms to meet their regulatory obligations. By extending their leading industry-tailored Customer Relationship Management (CRM) offering with new SmartForms Business Process Management (BPM) features, NexJ provides a one-stop-shop for the front- and back-office. The solution, NexJ Contact for Finance, enables the front-office to manage their books of business and provides the framework for building key workflows for Prospect Reservation, Client Onboarding (including KYC, AML, Risk Profiling, Investment Strategy Selection, Product Suitability Assessment, and PEP Assessment), Advisory & Discretionary Mandate Generation and Portfolio Set-up, Portfolio and Financial Reviews, KYC Reviews, Elective Professional Reviews, and more.

Financial Needs Assessment January 2015 Jan 29, 2015
Outstanding, Priority B

Form **Steps**

Pages

- PERSONAL INFORMATION
- LIFE GOALS
- EDUCATION GOALS Member 1
- PRIORITIES**
- ANNUAL CONTRIBUTIONS SAVINGS 1
- ASSETS
- LIABILITIES
- INCOME NEEDS
- SURVIVOR NEEDS

PRIORITIES

For each goal below, please check ALL of the actions you would be willing to take if needed to enhance your basic goals. You may check more than one box for each goal. You can also rank goals in order of importance to you (1-7, 1 being most important)

To Achieve our early retirement age(s), we would be willing to:

Reduce Retirement Spending Reduce Size of Estate Take More Risk

Save More

Rank

To achieve our highest spending target in retirement, we would prefer to:

Retire Later Reduce Size of Estate Take More Risk

Save More

Rank

In order to achieve our larger estate goal, we would be willing to:

Retire Later Reduce Retirement Spending Take More Risk

Save More

Rank

To reduce the investment risk in our portfolio, we would be willing to:

Retire Later Reduce Retirement Spending Reduce Size of Estate

Save More

Rank

Figure 1: NexJ Client Onboarding

NexJ SmartForms and Workflows can be configured at run-time, enabling firms to adapt forms, rules, and workflows to ever-changing regulatory requirements. Business-side system administrators can build data entry and approval process steps directly in the application without the need for IT resources and select approval routing, conditions, and actions for each process. They can break processes into sub-flows that can be used across multiple over-arching processes to ensure cross-process consistency, and can maintain version control of processes to allow for a

Meeting Regulatory Obligations by Improving the Onboarding Process

zero-downtime roll-out without impact to existing in-flight processes. With NexJ SmartForms and Workflows:

- ▶ The latest data is automatically pulled in from CRM and other integrated data stores at the start of the business process
- ▶ The time and risk associated with manual re-entry of data into the business process is avoided
- ▶ Additional integrations can be invoked during business processes to dynamically process or retrieve data based on input
- ▶ Once approved, data is synchronized back to mapped Data Models and marshalled back to CRM and integrated data stores
- ▶ Developed integrations can be used to create new accounts, contacts, and other objects as required
- ▶ Firms can automate end result processing using data entry inputs, thereby minimizing the time and risk of manual action

To learn more about how NexJ can help you meet your regulatory requirements, please visit www.nexj.com or email info@nexj.com.



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About NexJ Systems

NexJ is a provider of cloud-based software, delivering enterprise customer relationship management (CRM) solutions for the financial services, insurance, and healthcare industries. Our next-generation, people-centered software combines industry-specific functionality with information from multiple applications and data stores to provide comprehensive knowledge of the individual. Organizations use this knowledge to provide superior sales and service by enabling proactive interactions that influence behavior.

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