



White Paper



Do More with Dodd-Frank
Meet Regulatory Responsibilities
While Enhancing Client Relationships

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In June 2009, in response to the financial market meltdown that threatened to cripple the United States, President Obama introduced a proposal for a "sweeping overhaul of the United States financial regulatory system, a transformation on a scale not seen since the reforms that followed the Great Depression." ¹ The resulting Dodd-Frank Wall Street Reform and Consumer Protection Act ("Dodd-Frank") has created a significant change in the American financial regulatory environment and affects almost every aspect of the nation's financial services industry.

Key elements of the Dodd-Frank include:

- ▶ The Volcker Rule
- ▶ Financial Stability Oversight Council
- ▶ Bureau of Consumer Financial Protection
- ▶ Credit rating agency reform
- ▶ Comprehensive derivatives regulation
- ▶ Fiduciary duty of broker-dealers

BACKGROUND

While the requirements of the Act are not yet finalized, it is already clear that Dodd-Frank will cause a number of operations and process changes for financial services organizations. Dodd-Frank is expected to impose a degree of fiduciary and due diligence requirements on financial services, including more requests from internal and external auditors – and more regulatory information requests in general. These include:

- ▶ Securities and Exchange Commission for information requests:
 - Requests will typically require a same-day turnaround
 - Most common requests will be for detailed client-specific reports (e.g. a 2011 request for all client information related to sovereign wealth funds)
- ▶ Volcker Rule requirements:
 - Banks will be limited from taking part in speculative investments by banning proprietary trading, as well as investing, sponsoring, advising, or managing hedge funds or private equity funds
 - Trading metrics will be monitored, including daily trading revenues against historical trends; revenue in relation to risks; daily trading values against the value of assets held in inventory; and customer orders against orders held by a bank trader
 - All interactions with funds will be audited to ensure they are providing bona fide trust, fiduciary, or investment advisory services. Monetary exposure to individual funds will also be tracked
- ▶ Dodd-Frank Fiduciary Duty:
 - Broker-dealers will be held to the same standards as investment advisers when making recommendations to retail clients
 - Broker-dealers will now have a duty of care to ensure recommendations are suitable to clients and a duty of loyalty to always act in the client's best interests. This will include gaining a complete understanding of the client's goals and risk tolerance, maintaining a wealth plan, justifying investment recommendations and fees, and being able to audit and report on all of these

- ▶ FINRA Know Your Client (“KYC”) and Suitability of Recommendations:
 - FINRA members must use reasonable diligence in opening and maintaining accounts and to obtain the essential facts relevant to each client. The customer investment file will include a defined set of facts that must be captured by the advisor prior to making recommendations
 - Advisors must comply with new obligations and stricter rules when making recommendations to clients

HOW NEW REGULATIONS ARE CHANGING THE WAY FIRMS DO BUSINESS

Compliance in this stringent new world of investment will require sweeping changes. Nearly every aspect of the financial services organization will be impacted, including business models, product offerings, sales processes, compensation structures, data management, document storage, auditing procedures, and supporting IT systems. Organizations must start thinking about how they will accommodate these requirements.

CUSTOMER-CENTRIC REGULATIONS REQUIRE A CENTRALIZED CUSTOMER-CENTRIC SOLUTION

The Dodd-Frank Act is expected to introduce a number of complex customer management, recommendation, reporting and auditing obligations. Organizations need not wait for the requirements to be finalized, however, to position themselves to take these new requirements in stride.

First, firms can integrate siloed data sources into an enterprise system that provides a single source of truth for all customer information and interactions. Organizations can then use this centralized data source to shift from an account- or workflow-centric focus to a customer-centric paradigm. Customer-centricity is a critical factor in any plan to meet new fiduciary requirements. Account-centric and workflow-centric systems do not support many of the new requirements as they cannot tie together all necessary customer data to support recommendations and account reviews. The burden of effort in these areas will therefore fall to manual processes that lack the transparency, security and ease of access dictated by Dodd-Frank. Siloed data also promises to tie up valuable resources on time consuming, labour-intensive information requests and audit reports. A virtualized, centralized CRM system enables organizations to easily bypass these issues and migrate to a customer-centric view through:

- ▶ Seamless integration with existing systems (e.g. Portfolio Management, Financial Planning, Trading, etc.) and data (Market Data, Social Media data, etc.)
- ▶ A centralized business model that applies rules such as security, privacy, and auditing to all data access and interactions
- ▶ The ability for users and customers to access real-time data in multiple channels
- ▶ The ability to easily evolve with new systems and requirements
- ▶ Performance at scale

As a result, an integrated, enterprise, customer-centric CRM solution enables organizations to proactively address new fiduciary requirements by providing:

- ▶ A comprehensive view of all enterprise data about a customer
- ▶ A unified investment profile and financial account record
- ▶ An intelligent service model to guide the frequency and types of customer interactions
- ▶ Linkage of interactions and recommendations with accounts and transactions
- ▶ Multiple ways to demonstrate due diligence in all interactions and recommendations

Comprehensive Customer View

A sophisticated CRM solution that delivers a comprehensive, unified view of the client creates a single source of all client profile, risk tolerance, and investment instructions. This integrated desktop makes it easy for any customer-facing employee, including advisors, to comply with new fiduciary oversight and regulations.

To be effective, the comprehensive customer view should include all enterprise knowledge about a customer, including profile data, interactions and transactions, with access limited by user role. This single view of the customer provides users with an at-a-glance view of all the Contact profile information required for the customer investment profile. It also enables advisors to record any new information and make it immediately available across the organization. Automated workflows can schedule proactive client update reviews and follow-up tasks to ensure the information is current and maintained in accordance with fiduciary requirements.

Unified Investment Profile and Financial Account Record

A key function of the comprehensive view, from a regulatory standpoint, is the ability to capture, view, and update a customer's risk profile, investment instructions, KYC, and financial holdings, past and present, in a single place. With a next generation CRM solution, authorized users can access all the data they need to make appropriate recommendations, including risk profiles, investment goals, financial holdings, information captured on assets held away, and profile data. During any interaction with the client, they can validate current data and easily enter new information.

Through integration, the comprehensive customer view can be further enhanced to make financial planning an integral part of the Advisor Desktop. For example, the investment profile can be integrated with a dedicated Suitability system to provide product selection tools that allow for a competitive assessment of multiple products in terms of returns, risk, and costs to own. This information would then be stored with the customer profile for audit purposes.

An integrated desktop also brings together all proprietary trading metrics along with interactions and financial exposure information to support intelligent interactions with customers and full transparency.

Intelligent Service Model

Dodd-Frank will mandate the frequency, purpose, and information requirements of a number of customer interactions, including client onboarding and KYC/IPS updates. It will also alter many steps in existing processes, such as recommendations and referral generation.

Therefore, presenting all necessary information to advisors will not be sufficient to achieve regulatory compliance. An intelligent service model that analyzes integrated demographic, profile, interaction, and transactional data to identify opportunities and gaps and prompt users for action will be equally important.

An intelligent service model leverages business rules, analytics and integration to 'listen' for updates in integrated systems, including legacy applications and social media feeds, and infer enriching attributes such as recent life events. It can monitor integrated systems for pending and overdue events, such as KYC reviews, alert users for action, and escalate tasks if they are not completed within a certain timeframe.

Other capabilities and programs of the CRM solution, such as customer segmentation and Customer Loyalty programs, can also be leveraged to support compliance by automatically scheduling interactions and providing opportunities to review and update customer information.

Finally, an enterprise next generation CRM system with automated workflows enables organizations to implement cross-functional workflows that reflect best practices and regulatory requirements. This process of automating all the steps and documents required, including guided form-fill capabilities and escalation for overdue activities, offers the dual benefits of ensuring compliance across multiple users, but it also helps deliver consistent customer service to improve the customer experience.

Automation takes the guesswork of fiduciary and regulatory compliance. For each new mandate, organizations can map all the required tasks, meetings, documents, approvals, and users into a workflow that guides one or

multiple users through the process. This ability to create, modify, and update workflows on the fly enables organizations to ensure their workflows reflect new requirements or evolving processes. Each step can be associated with a due date and escalation activities to ensure timely completion. Each step is tracked and logged so managers can monitor workflows in progress and users can easily refer back to previous steps. With integrated CRM, any information captured is automatically made available to all authorized users in the integrated desktop.

Track Interactions & Recommendations Against Accounts, Holdings and Transactions

Advisors interact with customers in a number of ways, for a number of purposes. Likewise, customers have many channels in which to access their financial services organization. For fiduciary and regulatory compliance purposes, each of these interactions needs to be tracked and linked against the appropriate request, transaction, account, or other related data.

Without an integrated CRM solution to pull these communications into a single view, information about the interactions and recommendations may be stored according to the purpose of the call, the channel of interaction, or the department or user contacted. They may be online in any of one siloed systems or they may be recorded in an offline spreadsheet or database. Interactions can include tasks, schedule items, documents, messages, emails, alerts, externally logged events, and activities that occur in other systems, and can relate to a customer, household, account or other entity in the solution. A financial recommendation could be a part of any interaction. All of this makes it difficult and time consuming to track all interactions against customer requests, trades, and other transactions.

Next generation integrated CRM resolves these issues by creating a single view of all historical and future customer interactions and recommendations, regardless of the channel in which they are conducted. Furthermore, to simplify the advisor's workload and maintain a clear audit trail, interactions can be automatically logged as follow-ups to communications (incoming or outbound) and marketing activities, upon completion of system processes, through notifications and alerts generated by business processes and rules, or as part of a standard workflow. The CRM solution may also provide manual logging capabilities such as one-touch action items, including toolbar buttons or right-click menus. In addition, a next generation CRM solution with a Suitability module can capture and file all recommendations, regardless of the channel or user, and present them in the context of a client, portfolio, account, holding, or trade.

Demonstrate Due Diligence

With a comprehensive customer view and centralized investment profile, an integrated CRM system provides advisors with all information necessary to understand customer needs prior to making recommendations. Automated workflows, form-fill capabilities, and integrated onboarding processes that guide users through a series of steps and approvals can help ensure all regulated information is gathered and processes followed. Finally, an intelligent service model that prompts for information gathering and review, coupled with the ability to relate all interactions with the specific holding or transaction, provides further evidence of regulatory compliance in customer service.

It's vital that firms be able to audit and report on the activities of their users to demonstrate compliance. The customer-centric focus provided by an integrated CRM solution makes it easy to track all interactions with a customer in any channel across the enterprise. The solution's Suitability module can therefore capture and file all recommendations and present them in the context of a client, portfolio, account, holding, or trade. Its Financial Accounts, Portfolio Reports, and Ad Hoc reporting capabilities can make it fast and simple to accommodate even the most complex information requests. This information can include any data integrated with the solution. For example, account compensation calculations can provide fee-based compensation without the need for manual effort. Audit records can be fed to business intelligence and analytical tools and the results incorporated into a report. A sophisticated CRM solution also provides the flexibility to evolve processes to address new and changing regulatory requirements as they arise.

Turn Obligation into an Opportunity

With new regulations, organizations may not have complete control over the frequency, purpose, or data collected during customer interactions, but they can seize the opportunity to grow and improve their business.

With next generation CRM, firms can use the data to enrich customer profiles to improve customer service, increase revenues, and foster customer loyalty. In addition, mandated interactions, such as KYC reviews, can be used to collect additional knowledge about customer needs and life events that will drive future sales and service. An enterprise CRM solution enables all customer-facing staff to access the same information to improve customer service across all channels and departments.

For example, information gleaned while onboarding new customers and developing investment profiles can easily be supplemented to build a complete customer picture. Advisors can document interests, relationships, and assets held away, in addition to risk tolerance and investment goal data. This information can be used to personalize customer service (“When is the baby due?”), trigger interactions (“Congratulations!”), influence product recommendations (“Have you thought about opening an Education Savings Plan for the baby?”), tailor mailings (“I’ll send you some information”), and identify cross-sell or upsell opportunities (“We should look at increasing your life insurance now that you have a child to consider.”) It can also be used to generate referrals and warm leads within the customer’s sphere of influence.

This robust information can be used to implement customer tiering and improve customer loyalty programs. Advisors can segment customers based on their overall value to the organization, including portfolio data, number of referrals, future value (e.g. pending inheritance), and membership in valuable households, and tailor service plans accordingly.

Annual reviews can also be used as an opportunity to deepen customer knowledge and engagement. Organizations can create KYC review workflows, for example, that broaden the scope beyond a cursory review of basic data and prompt advisors to capture expanded interest, life event, and relationship data.

About NexJ Contact

NexJ Contact for Finance is a next generation enterprise Integrated Advisor Desktop solution designed for tight integration, massive scalability, and easy customization. Leading financial services firms choose NexJ Contact because they can deliver strategic CRM functionality, tailor the solution to meet their unique requirements, integrate enterprise knowledge from multiple, disparate systems, orchestrate cross functional workflows across multiple systems, and perform at scale. Once deployed, the flexible architecture lets firms continue to evolve the solution as their requirements change over time.

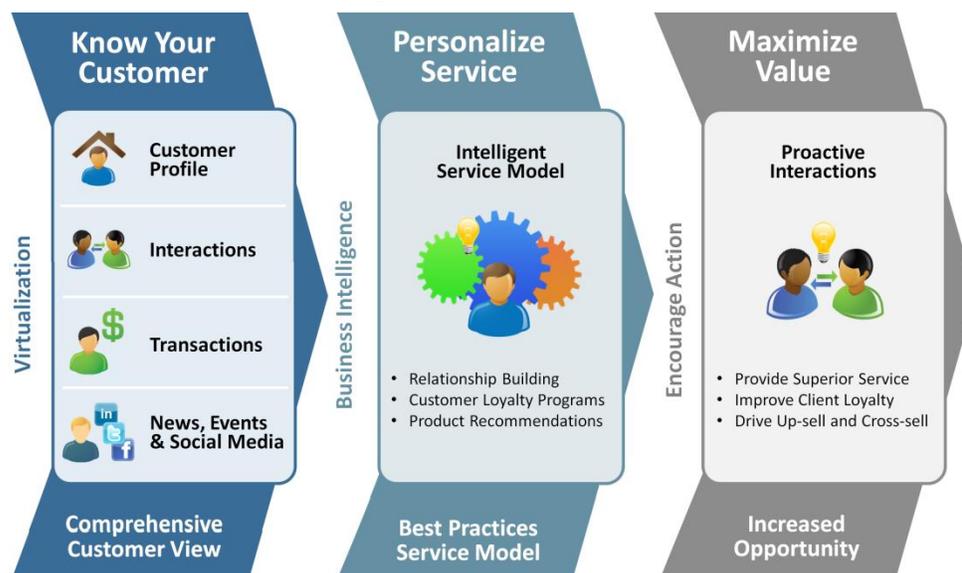


Figure 1: Next Generation of CRM

Do More with Dodd-Frank – Meet Regulatory Responsibilities While Enhancing Client Relationships

NexJ's Integrated Advisor Desktop combines best-of-breed CRM functionality with industry best practices and data from back office and legacy systems, customer interactions, and third party news feeds. This enables NexJ to deliver a comprehensive customer view and automated workflows to users across the enterprise to efficiently and effectively comply with regulatory requirements. NexJ's holistic customer-centric view of the customer includes typical CRM data like contact information, activities, tasks, past conversations and emails, as well as the key information that resides in back office systems across the enterprise, such as portfolio management, book of record, compliance, etc. Users in the office and the field can access the same data on a desktop, mobile device, or web portal.

The screenshot displays the NexJ Integrated Advisor Desktop interface for a client profile. The main view is for **Mr. Tim R Lamont**, an Allen & Company Senior Partner and Lamont Household Head of Household. Key details include his address (300 West 34th Street, New York, NY 10001-2401), phone numbers, email (lamont.tim@gmail.com), and social media links. Financial data shows Total Assets of \$4,510,405.25 and Available Cash of \$150,000.00. The interface is divided into several functional areas:

- Navigation:** Home, Contacts, Schedule, Document Manager, Ad Hoc Reports, Customize.
- Contacts List:** A scrollable list of other contacts with columns for Name and Company.
- Profile:** Personal and professional information, including a photo and household details.
- Next Step:** A task titled 'Qualify & Determine Inter...' with a due date of Nov 15, 2012.
- Last Interaction:** A log of a phone call on Oct 3, 2012.
- Open Opportunities:** A mortgage renewal opportunity for \$675,000.
- Open Service Requests:** A transaction reversal request from Jul 21, 2012.
- Campaigns:** A mortgage renewal campaign and mutual fund cross-sell.
- Coverage:** A grid of advisor photos and roles, including Henry Collins (Advisor), Cheryl Elms (Tax Specialist), Alice Gold (Mortgage Banker), Nancy Rowland (Licensed Assistant), and Shane Davis (Branch Compliance).
- Notes:** A text area for adding notes, with a 'Save' button.
- Messages:** Two messages regarding mortgage refinancing, one from Cheryl Elms and one from Henry Collins.
- Portfolio:** A donut chart showing 'Total Portfolio 3%' with segments for Growth, Income, and Balanced.
- Accounts:** A table listing account numbers and balances.

Account Number	Balance
045H1433	\$5,157,000
035H1543	\$1,361,750
011C5505	\$142,000
0400C8876	\$37,000
- Profile:** Personal interests such as Favorite Sport (Football), Hobby (Boating, Golf), and Wedding Anniversary (Jun 25, 1978).
- Research Interests:** Global Equities, Commodities, and Growth Stocks.
- Lists:** Clients interested in Life Insurance and Mortgage Renewals.

Figure 2: Integrated Advisor Desktop

NexJ Contact's automated workflows and intelligent service model deliver a wealth of actionable information and insights directly to users to facilitate intelligent interactions and recommendations. Financial services industry best practice functionality, such as NexJ Account Opening for Client Onboarding, is designed to streamline and enhance information capture, automate interactions and form fill requirements. This takes the guesswork out of processes, forms, and approvals, and ensures individuals and teams of users comply with new and evolving requirements. It also increases the efficiency of such processes. For example, when ATB Investor Services implemented NexJ Account Opening for Client Onboarding, an advisor was able to open an account and execute \$1 million in trades on the first day – a process that would previously have taken 3 days.

NexJ's financial products and accounts model enables organizations to integrate asset and exposure information, including related transactions, from multiple financial systems at both the customer and household level. NexJ can also guide users through scheduled information reviews to update the Investment Profile or KYC/IPS data captured during the onboarding process.

NexJ provides a highly configurable security model that enables organizations to define complex data visibility and functionality privileges by user role, line of business, and any other company requirement. This flexible security model, coupled with NexJ's auditing capabilities enable organizations to record and report on any criteria required by regulators, including interactions, recommendations, and due diligence activities.

Using NexJ's robust reporting capabilities, which include pre-defined reports, Portfolio Reports, ad hoc reporting capabilities, and integration with third party warehouses, data marts, and BI tools, organizations can rapidly reduce comprehensive reports in response to regulators' information requests without tying up valuable resources on manual tasks.

NexJ Systems delivers enterprise contact management solutions to finance services companies including three of the top six wealth management organizations in North America. NexJ's client list includes financial services organizations of varying sizes with diverse requirements.

CONCLUSION

As the industry awaits the final requirements of the Dodd-Frank Wall Street Reform and Consumer Protection Act, financial services firms are taking proactive steps to prepare for massive changes that will touch nearly every aspect of their operations. An Integrated Advisor Desktop that delivers a comprehensive customer view, including investment profile and financial holdings; ability to capture interactions and recommendations, an intelligent service model; and sophisticated audit reporting capabilities can help organizations implement the customer-centric view that will be a key component of compliance in the years to come.

END NOTES

1 Horowitz, C. (May 2011). GOP Lawmakers Challenge Authority of Consumer Finance Agency. National Legal and Policy Center. www.nlpc.org



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About NexJ Systems

NexJ provides enterprise customer management solutions to the financial services and insurance industries. Our solutions, which integrate information from multiple systems into a unified view, include industry-specific customer relationship management (CRM) for multi-channel engagement and collaboration; customer process management for client onboarding and KYC; and customer data management to better understand customers across line of business and regional data silos.

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