



WHITEPAPER

# The Top Five Drivers of Compliance Automation for Wealth Managers

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Wealth management firms that have invested in automation have experienced a number of well-documented benefits. Increased operational automation enables firms to deliver a high-quality client experience at scale while controlling staff growth, lowering operating costs and reducing the risk of errors.

Ironically, one area where automation has yet to gain a strong foothold is the one with the lowest margin of error: regulatory compliance. In many work environments, compliance is often a disjointed process, reliant on data collected from disparate systems, departments and, in larger firms, branches and field offices. Inconsistent data, a lack of standardized procedures and incomplete audit trails can lead to errors and expose firms to the risk of substantial penalties.

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Like other financial services organizations, many wealth management firms remain heavily reliant on paper-based transactions and manual processes, even as their daily transaction volume escalates across myriad channels. Most of these transactions are time-sensitive. Failure to process them accurately and within narrow deadlines can pose risk to their customers, not to mention their reputations, and raise the specter of regulatory penalties.



Firms are struggling to bring down costs while increasing throughput, trying to reduce operational risks, monitor compliance and keep up with regulatory changes – all while trying to build and maintain an advantage in an increasingly competitive arena. The answers to these challenges lie in new emerging technologies – specifically intelligent automation – that will connect their disparate systems, eliminate manual work, accelerate straight-through processing, overcome complexity, and easily adapt to changing regulation.

### The case for increased automation in compliance: Five key drivers

Compliance has often stood at the back of the queue when firms assess their IT priorities. A look at five key trends sweeping the wealth management landscape helps illustrate why it needs to move to the front.



#### Remote work is likely to remain the norm.

As a result of the COVID-19 pandemic, we now live in a work-from-anywhere world. And many observers believe it will stay that way even after the pandemic subsides. As Deloitte stated in its 2021 Investment Management Regulatory Outlook, “Many investment management firms are adopting a hybrid work-from-anywhere model in which employees spend some of their time in the office and some of their time in other locations. This will require stronger controls frameworks and technology enablement.”<sup>1</sup>

Clearly, conducting business from multiple locations without the safeguards of an office-based infrastructure has deep compliance implications. How does a firm maintain security against cyber threats? How will compliance officers connect, communicate with, train and monitor employees? How will time-sensitive work be properly routed, prioritized and completed in a timely fashion?



#### Financial regulation isn't slowing down.

If anything, the digital transformation of wealth management, increased mobile and wireless transactions, and workforce displacement are driving regulatory bodies to look at new rules to protect investors in a rapidly changing environment. For example, in December 2020, the SEC issued stricter guidelines on advisor marketing and disclosures. Debate continues around various proposals governing ESG investments.

Increased regulation is always a possibility regardless of administration. As a result, it's incumbent on wealth managers not only to be on top of existing regulation, but to make sure the entire organization is prepared for new rules and maintaining immaculate documentation.



**Regulatory enforcement will increase.** In its fiscal year 2020 annual report, the SEC’s Division of Enforcement stated that it had obtained judgments for around \$4.68 billion in fines and penalties for the year, “a record amount for the Commission.” Deloitte suggests this provides useful insight into the SEC’s enforcement priorities for the near future, which include “disclosures, fees and expenses, conflicts of interest, and sales practice issues for wealth firms,” as well as “compliance policies and procedures and books and records requirements.” The message: better have your data in order.



**Consolidation continues.** Mergers and acquisitions of wealth management firms in the US are expected to maintain their steady pace in the foreseeable future. “The second half of 2020 was by far the most active period of M&A on record for the wealth management industry,” InvestmentNews reported. “And, in the first week of 2021, eight significant deals involving advisory firms were announced and a total of \$159.6 billion in assets changed hands.”<sup>43</sup> In most M&A scenarios, each firm, whether the acquirer or acquiree, generally maintains its existing systems for portfolio accounting, compliance and other functions, at least for a period of time. How will these combined entities maintain a high level of customer service while trying to integrate? How do they maintain strict adherence to their respective compliance procedures post-acquisition and at the same time provide transparency to the broader organization and regulatory officials?

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**The cost of weak compliance is rising.** With pressure on fees and competition from low-fee or no-fee providers, wealth managers are looking for ways to contain expenses to maintain profitability. This may sometimes mean deferring investments in solutions and resources to meet more stringent compliance requirements. Firms frequently argue that regulation places an undue cost burden on them, and view the risk of penalties as a cost of doing business.

Yet the cost of inadequate or non-compliance far outweighs the cost of implementing and maintaining effective controls. For example, a Ponemon Institute study (sponsored by Globalscape) found that non-compliance with data protection mandates can be 2.71 times more costly for firms than average compliance.<sup>44</sup> Costs arising from operational risk incidents, cybersecurity breaches, business disruption or malfeasance can be devastating – not to mention the reputational damage that can follow when customers are affected.

### Optimizing human performance

All of this points to the need for automated solutions that empower compliance teams to improve productivity and efficiency in the fulfillment of compliance requirements. Specifically, an intelligent automation platform that incorporates document automation and workflow technology can help reduce reliance on paper-based processes and the resulting risk of errors.

Ideally, such a solution can connect to and communicate with multiple disparate systems while intelligently orchestrating work tasks among different individuals, departments or offices. In an M&A scenario, an automation platform can be used to connect the combined firms’ legacy systems to aggregate data and standardize reporting, without the need to “rip and replace” existing systems.



A common misconception around automation is its primary goal is to reduce overhead – largely through the replacement of people. In reality, automation is about reducing operational risk, accelerating processes, assuring accuracy and optimizing staff

productivity – freeing people from routine processing to focus on higher-value work. This is especially true in wealth management, where the delivery of “white glove” service requires both skilled relationship managers and a strong operational backbone.

As firms weigh their technology investments, compliance should not be overlooked. An intelligent automation solution that addresses the challenge of collecting, aggregating and standardizing data from disparate systems will not only help firms reduce compliance risks and avoid penalties, but also make the daily work of compliance professionals much easier.

### About SS&C Chorus™

Built on SS&C's reputation as an end-to-end solutions provider, SS&C Chorus delivers a unified suite of intelligent automation technologies, including Chorus Document Automation, the AI-driven document automation technology, and award-winning digital workflow solution Chorus BPM, to accelerate straight-through processing in complex, highly regulated environments such as insurance, banking, financial services, and health. SS&C Chorus is available via SS&C's secure private cloud, on premise and public cloud offerings.

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### Sources

<sup>1</sup> Deloitte, 2021 Investment Management Regulatory Outlook, ©Deloitte 2021, <https://www2.deloitte.com/us/en/pages/regulatory/articles/investment-management-regulatory-outlook.html>

<sup>2</sup> Press Release, "SEC Division of Enforcement Publishes Annual Report for Fiscal Year 2020," US Securities and Exchange Commission, November 22, 2020, <https://www.sec.gov/news/press-release/2020-274>

<sup>3</sup> Kelly, Bruce, "RIA M&A Starts 2021 With A Bang," InvestmentNews, January 11, 2021, <https://www.investmentnews.com/ria-ma-started-2021-with-a-bang-201024>.

<sup>4</sup> Ponemon Institute, The True Coast of Compliance with Data Protection Regulations, December 2017, <https://www.ponemon.org/news-updates/news-press-releases/news/the-true-cost-of-compliance-with-data-protection-regulations.html>

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