



You Implemented Compliance Software....now you are in trouble!

Compliance Software Efficacy

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There is, arising from this current convergence of economic challenges and regulatory intervention, a new and dramatic challenge facing financial service companies of all forms and segments. Over the last few years, there has been a dramatic change in the availability and capability of compliance, supervision and surveillance software. Beginning with Protegent's BrokerAudit and continuing with new offerings from a variety of vendors, financial service firms have the ability to implement software systems that greatly advance their ability to supervise, surveil and monitor risk.

This fact has not been lost on the regulators on the local, state and federal level. In the early days of presenting compliance software to C-level executives of financial service firms, the major concern was "if we buy this software the regulators will hold us to a higher level of expectations". Vendors have made every effort to balance the CEO's concern with arguments as to what was in the financial best interest of the financial service firm and their client; the public investor. In the ensuing decade the concerns of the C-level executive has become a reality; securities regulators are now familiar with what compliance systems are available to the industry, which firms possess them and what the software is capable of doing. To make this even more challenging, regulators also know how the software is designed to be deployed and distributed.

Now...the facts and the challenge. Having been the founder and CEO of a compliance software and later a Global Director of Compliance Software and Services, here are my observations of the financial service industry and their implementation and use of compliance, surveillance, supervision and risk solutions.

1. Often times during the negotiation of contracts and project plans, the sections detailing the training and deployment of the software is short changed. This either relates to either perceived budgetary or time constraints.
2. Some vendors/software providers simply lack the domain expertise that provides for effective training or deployment. Many vendors do not maintain personnel that have worked as brokers, branch managers or compliance officers. In the absence of that domain expertise, the financial service firm would need to rely on 3rd parties for effective training programs.
3. Many financial service firms maintain the attitudes that either "we know best" or no one really understands our business. This is part of the dangerous "do it ourselves" attitude which stands in direct contradiction to the decision to acquire compliance software in the first place.
4. There is often a general disconnect with the industry's understanding that an effective compliance culture demands the full distribution of compliance software both vertically and



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horizontally within an organization. Compliance software is simply more effectual and additive when it is used by all those in direct supervisory and surveillance positions.

Now for my informed prediction.....

Securities regulators are going to expect that financial service firms effectively utilize the solutions that are procured. No regulator has any particular concern over the solution that a financial service firm selects or, if that matter, whether on is implemented or not. There is a whole other story when the issue is how well the software system is used, how well the solution is distributed and delegated, and how well trained employees are to take advantage of compliance and software systems. Financial service firms must make the use and efficacy of their compliance systems a significant priority. It is counterproductive to implement a compliance system with minimal training and have the system poorly utilized. A system designed to be part of a daily routine for branch managers, but is only made available to centralized compliance staff, falls far short of creating a corporate compliance culture. To implement a compliance system that is either inadequately deployed or only partially utilized, also welcomes regulatory scrutiny and criticism.

Owning a beautiful new Maserati and never using the brakes or turn signals, only invites an expensive intervention by the friendly police officer following you down the proverbial winding road.

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