

WHITE PAPER

CONTENT

Background.....	1
Trends.....	2
Getting your Data in Order	3
The Fetter Logic Solution	3
The Fetter Logic Difference	4
About Fetter Logic	4

“He that will not apply new remedies must expect new evils; for time is the greatest innovator.”
- Francis Bacon,
English Philosopher

Applying Technology to Direct Business

In business, the fear of being left behind is as great as the desire to stay in front. And while competition is the fuel that powers every industry, it is especially vital to the investment services industry, where thousands of firms vie to win the trust and business of investors who are wary of both volatile markets and industry scandals. Broker/dealers in particular are finding that staying competitive means staying abreast of business-enhancing technologies. For many, that means making a greater investment in technology. In 2008 alone, senior technology officers at broker/dealers firms expect to increase their information technology budgets by 11% to 30%¹. Although it remains to be seen how the additional funds will be utilized, one business process sorely in need of a technological revolution is that which helps broker/dealers more effectively manage direct mutual fund and annuities business.

This white paper discusses the necessity of investing in technology solutions to improve direct business processing and management, and makes the case that a holistic enterprise data management solution offers broker/dealers the best return on investment.

Background

Passive acceptance

For decades, broker/dealers have taken a passive approach to processing direct business, blindly trusting that the paper trails created by the traditional “check-and-app” process offer sufficient details of clients’ personal and account information. Although many broker/dealers continue to rely on this manual, paper-intensive process, they are beginning to acknowledge that its perceived advantages, including lower costs, no longer offset its actual liabilities.

Active policy

Today, more brokers are recognizing that paper trails don’t make good audit trails. They understand that the customary practice of capturing and documenting clients’ personal and account information up front via the “check-and-app” method, rather than continuously updating and monitoring this



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information through an automated process, is not the most prudent nor the most efficient way to manage direct business. Increased oversight by securities regulators and higher client expectations demand that brokers change the way they do business. Realizing that a competitive edge can only be gained by taking a more active approach, brokers are faced with making decisions about implementing technologies that allow for better supervision of direct business.

Trends

While a competitive edge is certainly incentive to implement business-enhancing technologies, broker/dealers are also being influenced by a number of current trends.

Increased oversight by regulators

With enforcement actions on the rise, motivation for broker/dealers to increase supervision of direct business couldn't be greater. In 2005 alone, a year in which penalties reached historic levels, the brokerage industry paid more than \$125 million in fines for violations that included abuses in sales of mutual funds and variable annuitiesⁱⁱ. In turn, SEC Rule 17a-3, which was designed to stem such abuses by stipulating broker/dealers follow a higher standard with regard to record keeping, now garners greater attention and respect by brokers. In particular, brokers are more focused on resolving issues hindering their ability to maintain accurate and up-to-date account applications and client suitability information. Indeed, capturing and monitoring client personal and account information on an ongoing basis has never been more crucial to brokers' success and survival.

Tighter internal controls

While not every broker/dealer has felt the wrath of regulators, it is certain that all appreciate the significance of implementing better systems of internal controls. Today, internal record-keeping procedures must be documented and routinely audited to ensure there are no deficiencies or material weaknesses in the procedures that could impede a broker's ability to record, process and report financial data. By requiring a firm's executive officers to certify the procedures and systems in place are adequate—and holding them responsible if they are not—regulators have elevated the seriousness of corporate responsibility.

Greater client expectations

Higher client expectations are yet another factor motivating broker/dealers to improve current business processes. Paramount among today's expectations is the desire by clients to receive a single, comprehensive report from their broker that includes *all* of their investment accounts and related activity, rather than the accounts opened exclusively through that particular broker. However, aggregating this data for clients from multiple sources can be problematic.

Rising technology expenses

Implementing new technology often comes with barriers, the largest of which is expense. The size of a broker/dealer's IT budget is irrefutably the most important factor influencing which technology solution a firm selects. While some firms may choose to develop or acquire piecemeal solutions addressing

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their current business needs, they must also consider the additional costs of managing and maintaining these solutions as their needs change. Similarly, if developed internally, a holistic solution can produce a drain on resources that could potentially exceed the business value of expenditures.

Getting Your Data in Order

Although it is almost universally agreed that broker/dealers must obtain all their customer related data to comply with new regulations and greater client expectations, for many, it remains unclear which technology solutions offer the best value.

Standalone applications

Commonly known as the “silo approach,” some broker/dealers manage individual components of their direct business via a patchwork of standalone software dependent on disparate data imports and databases. In essence, multiple applications residing in separate “silos” are each pulling from different databases sourced independently. For example, an automated commissions system pulls from its own database (fed from multiple data sources), while a compliance application pulls from its own database (fed from the same collection of data sources).

Important considerations for those contemplating the silo approach include whether it is an economical and scalable solution for their firm. If there are indications that technology expenses could grow faster than the business value of the expenditures, silos may not be the best solution. In addition, broker/dealers considering silos should be prepared for inconsistent data as a result of pulling reports from different internal databases that presumably, but not actually, carry equivalent data. Furthermore, because this approach results in redundant processes and is complex, it is subsequently difficult to manage.

Exploring enterprise-wide solutions

Another option is enterprise-wide data management (EDM), an integrated solution with a holistic, “one-stop-shopping” approach to data management. By pulling from a single underlying data store, EDM solutions are able to generate more consistent output; allow aggregation of data for client reporting presentations; and enable broker/dealers to mine and leverage data across their extended organization.

However, there are few vendors that specialize in EDM, and it may not be a viable solution for smaller brokerage firms lacking the resources and expertise to develop this technology internally. An internal EDM solution requires a substantial, open-ended corporate commitment that can sometimes pull internal resources away from other strategically differentiating activities.

EDM solutions generate more consistent output; make it easier for broker/dealers to mine client data; and allow aggregation of data for client reporting presentations.

The Fetter Logic Solution

Fetter Logic, a premier, full-service provider of advanced data and information management solutions for financial services companies, has been helping broker/dealers replace manual processes with scalable solutions for more than a decade. Whether through one of its software products in a fully hosted

environment or full EDM, Fetter-Logic can help broker/dealers improve the ease and effectiveness of their direct business processes.

Fetter Logic starts with assuming ownership and accountability for data collection, transformation and normalization, and extends through operating the subscribed service and providing output through user-friendly web interfaces or file transmissions. Fetter Logic feeds its broad offering of software solutions from a single client database residing in its proprietary enterprise data store.

Quadron®

Quadron: A solution that solves for all

Specifically, Fetter Logic provides fully managed EDM solutions that include all facets of data collection, transformation, database administration, application functionality and output delivery. Its marquis product, Quadron, provides application functionality on top of an EDM solution. Quadron is the industry's first application that aggregates cleansed and reconciled, directly held mutual fund and annuity data with that on a broker's platform, and enables a fully integrated suite of advanced tools to report on it. Powered by Fetter Logic's proprietary data warehouse as a single-source of "books-and-records-quality" data to mine and report from, Quadron enables compliance, reps, branch and sales managers, finance, and operations to address and solve critical business issues associated with assets held away.

The Fetter Logic Difference

At Fetter Logic we provide the knowledge, experience, consultative approach, and products our clients need to efficiently and effectively meet the growing demands of regulators, representatives, sales, operations, and the "C" suite at any financial services firm.

Where we provide a value that is truly unique in our industry is in the quality and integrity of the data we host.

The combination of process, technology and resources we utilize to gather, scrub, cleanse, reconcile and maintain data is unparalleled.

Our years of experience on "the other side of the desk" have proven that regardless of how great industry software tools are, they are only as useful as the data that the tools rely upon.

Although not all of our clients are on the front lines and dealing with data issues on a daily basis, they have employees who are. Employees who will benefit from Fetter's data stewardship by being able to focus on their primary roles—and not on cleaning up data.

Quality data is the underpinning of all of Fetter's products and services, and is what enables our clients to turn data into intelligence.

About Fetter Logic

Founded in 1997, Fetter Logic, Inc. is the premier full service provider of advanced data and information management solutions for the financial services industry, aggregating and cleansing financial data on all assets.

Serving over 150 retail and institutional broker/dealers (including banks and clearing firms), the Fetter platform currently services more than six million accounts and \$250 billion in assets.

For more information on Fetter Logic, visit www.fetterlogic.com.

ⁱ *Insurance & Technology*, "Financial Services Firms Increasing Spending, But Priorities Differ", 11/19/07

ⁱⁱ *Investment News*, "NASD fines reach record levels; Up 84% since '02; resolved cases up just 15%", 1/16/06