

## Compliance technology comes into its own as cost, time saver

Amid downturn, many firms look to software, consultants for help

By **Davis D. Janowski**  
August 23, 2009

In the wake of last year's market meltdown and the ensuing spate of financial scandals, many advisory firms are taking a second look at their compliance technology.

As firms strive to cut costs and to navigate an increasingly complex regulatory environment, compliance software, services and consultants are all poised for growth in 2010, according to industry experts.

For years, compliance technology has had the reputation of being too expensive and often too difficult to use. When times were good, many firms chose to hire a dedicated compliance officer — rather than deal with the headaches that came with using compliance software.

However, many firms have been forced to be cost-conscious and are looking toward software and outside expertise to deal with their regulatory issues.

"We are focused on sales and customer service. The regulatory and compliance areas are a different animal, and it can be really difficult at times for a salesperson to switch gears and say, "Here, I've got to put on my compliance hat," said Timothy Flynn of Flynn Financial Partners Ltd. in New York.

He is a managing partner and co-founder of the firm, which manages about \$250 million in assets and is affiliated with LPL Financial of Boston.

When it came to handling compliance for his year-old firm, Mr. Flynn turned to another LPL firm, Morristown Financial Group in Morristown, N.J., which recently began selling an outsourced soup-to-nuts compliance service called Advisor AdvantEDGE.

Morristown Financial focuses its sales efforts on newly established LPL firms that need help navigating LPL's compliance technology.

Another popular route is to go with compliance technology offered by clearing firms.

"With 3,500 [independent broker-dealers] across the country and 10 clearing firms that cover the industry, it is more efficient to tackle the market that way," said Doug Dannemiller, a senior analyst in the wealth management practice at Aite Group LLC in Boston.

Pershing LLC of Jersey City, N.J., National Financial Services LLC of Boston, Ridge Clearing and Outsourcing Solutions Inc. of Lake Success, N.Y., and Legent Clearing LLC of Omaha, Neb., are leading the charge among

### InvestmentNews Reprints



This copy is for your personal, non-commercial use only. To order presentation-ready copies for distribution to your colleagues, clients or customers, use the Reprints tool or the Reprints link at the top or bottom of any article, respectively.

- [View reprint options](#)
- [Order a reprint article now](#)



**Doug Dannemiller:** Clearing firms' offerings are an option.

clearing services in terms of having the most developed strategy and compliance tools, said Mr. Dannemiller, who is working on a report on the compliance technology landscape.

Pershing began offering third-party compliance software in June. That software is also being integrated into the firm's NetX360 platform.

Not surprisingly, smaller firms find it more difficult to get help with their compliance technology needs. Because they lack political muscle to shape the regulatory landscape, solo practitioners and small registered investment advisers are forced to navigate and adapt to whatever comes their way, said Jennifer Goldman, a certified financial planner and founder of My Virtual COO in Baltimore, Md.

"It is going to be more difficult for the independents because they simply don't have the lobbying power," said Ms. Goldman, who also serves as an outside compliance officer for smaller advisory firms.

"The smaller and one-man shops are finding they are really not in tune with what they need to do, and software is only good if they know how to set it up, use it, and stay current with the latest news," she said.

Ms. Goldman isn't the only one finding a demand for outside compliance officers.

Cindi Hill, a CFP and founder of San Diego-based Hill Financial Advisors, is seeing increased demand for her services as a consultant to advisers who need help getting set up and trained in using compliance software.

"I've taken on a lot of new clients in the last few months," said Ms. Hill, who also manages \$10 million in assets for clients.

"The SEC and Finra have got their noses bashed in over this past year and they are going to be looking for ways to redeem themselves," she said. "Especially at the state level, they are starting to step outside and are really looking for things and at things they haven't focused on in the past."

Whatever size their firm is, experts say advisers need to think about compliance from the start.

Robert Ellis, an analyst and principal of the wealth management practice with Novarica, a research firm in New York, said that with compliance technology, advisers are preparing for the worst — an audit.

"Compliance shouldn't be an afterthought; it should be built into all the processes at a firm. Without that, you are left with very little certainty when it comes to your outcomes," Mr. Ellis said.

The Financial Industry Regulatory Authority Inc. is based in New York and Washington.

*E-mail Davis D. Janowski at [djanowski@investmentnews.com](mailto:djanowski@investmentnews.com).*

*Reproductions and distribution of the above news story are strictly prohibited. To order reprints and/or request permission to use the article in full or partial format please contact our Reprint Sales Manager at (732) 723-0569.*

LET OUR STABILITY BE YOUR SOLID GROUND



COMMONWEALTH *financial network*  
commonwealth.com

---

[About Us](#) | [Contact Us](#) | [Search](#) | [Editorial Calendar](#) | [Advertise](#)

Subscriber Services: [Subscribe](#) | [Renew](#) | [Subscription Status](#) | [Pay an Invoice](#) | [Change Mail Address](#)

[Reprints](#) | [List Rental](#) | [Issue Index](#) | [Privacy Policy](#) | [Terms & Conditions](#)

Crain Financial Group: [Pensions & Investments](#) | [FinancialWeek](#) | [Workforce Management](#) Copyright © 2009 [Crain Communications Inc.](#)

Use of editorial content without permission is strictly prohibited. All rights reserved. 711 Third Ave., 3rd Floor, New York, NY 10017