



Turning Direct Business Compliance and Administration Into a Strategic Asset For Your Firm

2023 CASE STUDY

“Industry data shows that one-third of assets in bank-based investment services firms are direct business not held in the firm’s brokerage custody platforms.”

Introduction

Getting direct business right is essential for bank-based investment services firms, especially when we consider how material it is to these firms. Wealth management business directors often grapple with how much funding to invest in the technology to better support and manage direct business recognizing that at many firms’ direct business is not a rapidly growing line of business. That isn’t the case for United Brokerage Services, Inc. (United), who partnered with Terrapin Technologies (Terrapin) to help manage direct business for their firm. This case study examines the problems associated with direct business, the solutions firms are deploying, and the ways an investment firm can use that solution as a foundation for improving other processes.

Direct business, accounts under custody at mutual fund companies, other asset management firms, and/or insurance carriers are commonly used by broker-dealers and advisors rather than a brokerage account on their custody platforms because of certain advantages. Some advisors believe direct business is more advantageous for customers because of the lower account related fees at direct business providers. Depending on the broker-dealer, the advisor’s experience in serving the customer when the assets are held direct can be easier, for example leveraging the servicing arm can be beneficial for smaller accounts. Lastly, without question the portability of accounts and assets is easier for advisors when changing broker-dealers, which is another reason we see advisors preferring to use direct business. For all these reasons, the amount of assets firms administer in direct business accounts is significant and material, further reinforcing the importance of administering it properly in an evolving regulatory environment.

The Challenge

Fulfilling FINRA's administration and surveillance requirements for direct business which continue to grow in complexity, and includes the following primary challenges:

- Direct business (with asset management firms and insurance carriers) doesn't reside on broker-dealer custodial platforms
- New scalable and automated solutions are needed to ensure compliance with Know Your Client (KYC) Rule, record retention and surveillance requirements
- Complying with mutual fund sales charge schedules, breakpoints, and contingent deferred sales charges for customers with multiple accounts within a household
- Satisfying Anti-Money Laundering and Bank Secrecy Act requirements
- Complying with the new SEC Best Interest Rule
- Administration of books and records required mailings

The problem is further exacerbated with asset management firms and insurance carriers who custody these assets, maintain the assets on their systems but aren't required to meet the same regulatory requirements as the introducing broker-dealer firm. Introducing broker-dealers have learned the hard way through FINRA regulatory enforcement actions and challenging examinations that processes they thought were occurring at their asset management and insurance carriers were in fact their responsibility. In instances in which direct business is a sizable portion of most firms' assets under administration the regulatory actions are significant and impactful, as regulators do not discriminate in how they enforce compliance with all business, regardless of custody arrangement or type of business.

Bank-based introducing broker-dealers who are unable to rely on their custodial partners and direct business providers require a well-constructed and sophisticated system that can aggregate data from several third-party sources and integrate with other internal systems to meet the various requirements. These firms are further challenged by the technology investment funding required to build these systems internally and often don't have the business and technical expertise in these non-core banking platforms and systems. In the case of United, they engaged Terrapin to help solve the problem.



The Solution

Terrapin recognized the challenges and complexity firms are facing with direct business and saw an opportunity to build a system to help firms solve for these challenges through a foundational approach. Their platform includes data aggregation across all lines of business, compliance surveillance tools and processes, and compensation systems that establish a common foundation for firms to better manage not only their direct business, but the entirety of their business. In the initial implementation, United leveraged the following solutions from Terrapin to enhance their processes for managing direct business.

- Data integration and connectivity across key firm systems
- A trade review and exception reporting engine, enabling firms to define exceptions to flag trades and patterns for review.
- Commission accounting and payroll processing, for all business lines, including an advisor portal which allows access to month-to-date performance and monthly commission cycles.
- Organizational reporting that enables a reporting hierarchy for geography, including branch, region, territory, etc. to track and manage their clients and their history across the organization's footprint, structure, and advisor base.

The initial implementation of Terrapin's platform enabled United to process commission and payroll accounting for all lines of business, better administer the supervision and surveillance requirements of direct business and automate trade exception identification and review. This allowed United to manage and oversee their entire investment program with a decreased need to invest in human capital at the same rate at which their business volume grew over time, thus, creating long-term labor savings via this technology investment.

Terrapin's platform enabled United to process commission and payroll accounting for all lines of business, better administer the supervision and surveillance requirements of direct business and automate trade exception identification and review.



Building The Foundation

With Terrapin's solution in place and integrated with the firm's technology stack, a foundation was created that United could expand upon. They saw opportunities to solve for related and connected workflows and processes across all business types. This led to subsequent enhancements over the years to solve more challenges and add new functionality, including:

- A representative and account change tool that allows firms to reassign accounts within their internal systems and at the direct business providers;
- Risk scoring system components to better inform reviews and disposition of trade exceptions for review;
- A surveillance procedure that tracks reviews and dispositions, with notes for regulatory reporting during audits and examinations;
- Controls and balances to create automation and advisory account fee adjustment tracking;
- An Advisor Performance Dashboard that can be leveraged by management to drive performance and accountability; and
- A simple, lightweight CRM tool, significantly improved how United delivered on their customer experience, creating an organizational view for management and advisors, which enables:
 - The firm to see the entire bank customer base;
 - Historical tracking of how an account was assigned over time between advisors and locations; and
 - Advisors to see limited customer information for accounts not included in their assigned accounts, to better identify and help customers.

With these enhancements added to the foundation previously implemented, what began as an effort to solve for direct business, became so much more for United. Terrapin provides a comprehensive solution, including data aggregation for all lines of business, compliance surveillance tools, and compensation processes that establish a foundation to better manage the entirety of their business.



The Outcomes

The efficiency and automation delivered by these technology applications and systems transcend the functionality they offer. Together they provide a strategic and operational asset for their firm. The financial and operational benefits include:

- Labor cost savings as the business grows over time;
- Improved employee experience and efficiency through greater automation and organization of the data, workflows, and new systems;
- A more integrated technology stack with less dependency on 3rd party custodial platforms, creating more strategic flexibility for the firm;
- Improved growth of the business achieved through sales management dashboard and advisor reporting delivered through the system;
- Enhanced advisor experience by improving commissions processes and creating real-time views of their business and earnings; and
- Improved overall organization of data and the ability to leverage data as a strength and asset.

What began as a project focused on direct business, with these enhancements, the original platform transformed into a solution that supports the entirety of their business with new capabilities, insights, and automation previously unavailable from their custodial partners.

Over the years, Terrapin tailored its platform to meet the firm's expanding needs. The project evolved into a significantly larger set of solutions with meaningful strategic and operational benefits for United. It demonstrates the power of partnering with a firm like Terrapin and embracing the way technology can revolutionize your business.





About The Author

Arthur Osman has been a leader in the financial advice industry for close to 30 years supporting the growth and development of the most successful wealth management firms that support the financial institution and independent advisor channels. Throughout his career, Arthur has worked directly with hundreds of financial institutions and executives across the country helping firms and leaders grow, transform, and reach their fullest business and leadership potential.

As founder and Managing Director of Arthur Osman & Company, Arthur focuses on helping executives and organizations in the financial advice community assess their businesses, organizations, and teams and works as a consultant, coach, and executive for hire on their most important business priorities. Before launching Arthur Osman & Company, Arthur began his consulting practice and career as a Principal at Kehrer Bielan Research & Consulting.

For most of his career, Mr. Osman grew and led the financial institution wealth management business for LPL Financial, the industry leading NASDAQ-traded wealth management firm. Mr. Osman held leadership positions responsible for strategy development, growth, and retention of a business line that included 800 financial institutions and broker dealers, 5,000 financial advisors, \$250 billion in assets, and over \$700 million in annual revenue.

Previously, Mr. Osman was in senior leadership at UVEST Financial Services, a small financial institution-focused broker/dealer acquired by LPL Financial in 2007, that had approximately 40 employees, 50 financial institution partnerships, and generated \$50 million in annual revenue at the time he joined the firm in 1997. Collectively, Mr. Osman was responsible for leading a business line that grew from \$50 million to \$700 million in annual revenue, evolving from a small company to a Fortune 500 company publicly traded company.

Mr. Osman has served in various industry and community organizations, including multiple terms as a board of director and executive officer of the Bank Insurance Securities Association (BISA) and has shared his insights at multiple industry events including the ABA, PROCU and the BISA. He also serves as board member of Mecklenburg Aquatic Club (aka SwimMAC Carolina), where he previously served as Board President. Arthur lives in Charlotte, NC with his wife and 3 children, and enjoys being the biggest fan at his kid's events and competitions, as is an avid boater, fisherman and enjoys golfing, and hiking.

About Terrapin Technologies



Terrapin Technologies provides financial data and reporting solutions for broker-dealers and RIAs. Our platform automates and improves business processes across the organization, including compensation, compliance, and reporting. Since 1995, our expertise and technology solutions have helped our customers realize scalable and predictable growth. We help firms see the big picture, increase profits, and reduce risk. To learn more, visit www.terrapintech.com.

About United Brokerage Services, Inc.



United Brokerage Services, Inc., a FINRA registered broker-dealer and SEC registered Investment Adviser is a subsidiary of United Bankshares, Inc., the issuer of UBSI stock. United Brokerage Services, Inc. Financial Advisors primarily serve customers of United Bank, which has over 200 branch locations across Mid Atlantic states including West Virginia, Virginia, Pennsylvania, Maryland, the District of Columbia, North Carolina and South Carolina. To learn more, visit www.bankwithunited.com.

About Arthur Osman & Company



Arthur Osman & Company provides the financial advice industry with consulting, coaching, executive and advisory services to financial institutions, wealth management firms, and leaders in managing the delivery of investment, insurance, and wealth management services through financial institutions.

The firm's Founder and Managing Director, Arthur Osman, has been a leader in the wealth management business and financial advice industry for over 25 years. Mr. Osman brings unmatched experience and leadership expertise have spent over 24 years helping to lead and develop the bank wealth management business for UVEST Financial Services and subsequently LPL Financial, into a market leader in the financial institution wealth management space. During his tenure at both firms, Mr. Osman has led and oversaw hundreds of conversions, integrations and acquisitions or wealth businesses, making him one of the most experienced executives navigating change and transformation.

Learn more about Arthur Osman & Company, the clients we serve, the services we provide and how to join our subscriber list, In Good Company, at www.arthurosmann.com.

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