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Gleanings . . .

By Chip Kispert,
Editor of The Beacon & Managing Director of Beacon Strategies, LLC



A late Happy Labor Day! Our apologies for the delayed delivery of our August newsletter, but as the saying goes work got in the way!

Broker Dealers struggle with a low adoption rate of systems by their representatives. Over the years I have seen that the average adoption rate for most volunteer or endorsement programs at BDs in the neighborhood of 25%, give or take 10%. Many BDs whose reps are independent feel that they cannot mandate any process solutions without infringing on their reps' sense of autonomy. For some solutions I agree, for others I do not.

There are two categories of technology solutions at BDs. We will refer to one process category as "core processing solutions", while the other will be "secondary solutions". Core processes are those that are part of executing transactions and are critical to the oversight of a BD's business. Secondary solutions add value to the producer - client relationship. Both solutions are important and although both systems may reside on a producer desktop, they are separate and distinct processes. A BD's first job is to process transactions and oversee their business; their second job is to pay commission on the first. Firms that do not mandate core processing solutions are making serious strategic errors that will magnified in coming years. By adding technology to core processes, efficiency can be increased, costs can be reduced, and the BD will be in a better position to take advantage of those process improvements.

How are BDs processing their business today? On average a BD has a 30% brokerage and a 70% "check and application" business mix. For those representatives who transact brokerage business, the BD's brokerage component, is typically mandatory. BDs, however, have hesitated to mandate solutions that would automate the "check and application" process, instead making them voluntary. Because BDs have maintained that volunteer approach, processing costs for "check and application" transactions have skyrocketed, while productivity has sunk dramatically at both the home office and producers offices due to high NIGO rates. BDs need to begin mandating an automated, producer initiated processing model, thereby building their "check and application" business while creating a cleaner, more efficient system for processing that business.

It's interesting to study "check and application" versus brokerage and the advancements in the corresponding technology over the past twenty years. The "check and application" process has its greatest innovation in forms management software, such as LaserApp and Quik!. Now don't get me wrong, forms management software provides a real value, but so much more can and needs to be done. Conversely, when we look at brokerage, the clearing firms that support the business long ago realized that processing paper was not scalable or profitable. These clearing firms developed sophisticated processing engines that move meta-data, and handle imaged forms, while at the same time integrating compliance and other key capabilities. If "check and application" business is not going away, then BDs need to start emulating the way the clearing firms have set up

their business processing systems. BDs then need to mandate those new systems to their producers.

BDs that have improved and mandated their core "check and application" processes have gained productivity and increased profitability in both the Home and Producer Offices. Our research indicates that firms that build "check and application" business will see a 40% decrease in the cost to process transactions, which certainly helps to increase profit margins. We have seen additional benefits in the form of greater production gained from reps that have to spend less time on administrative issues. Lastly, BDs will see better success in recruiting because producers changing BDs are looking for an up-to-date processing acumen that leads to increased efficiency and greater accuracy.

I once worked for a boss that taught me never promote "exception processing". Today any BD that is looking for volunteer adoption to improve core processing systems relating to "check and application" business is setting themselves up for creating an environment of failure. The future is here, and we cannot afford to continue to do business using out-of-date processes.

All the best,

Chip Kispert, *Editor*

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Building Efficiencies, The Path Forward

By Mark
Sandler, EVP



In today's economic climate many firms in the independent channel are seeking ways to increase efficiencies and reduce expenses. However, taking care of their reps and advisors is still their number one priority. As more wire-houses come under scrutiny either from regulatory issues or capital concerns, reps are fleeing to the safety of the independents. As more reps move, IBD's will be increasingly faced with rep servicing and technology challenges. Paying reps in a timely, efficient, and accurate manner requires sophisticated programmatic solutions and firms can no longer rely on spreadsheets and manual processes to support their business. When it comes to commission processing, firms will be required to support an even greater myriad of complex commission payouts structures, provide commission data and statements to the reps desktop more efficiently, and must have tighter compliance and suitability controls built into their platform of choice.

Many independent firms do not want to deal with technology or IT related issues on a day-to-day basis. They want to focus on growing their business by servicing their reps and clients. By having a reliable technology solutions provider and a tool that can support multiple functions built into a single platform, they can make the back-office more productive. The IBD must be able to rely on the provider to keep current with technology-related issues. A key element in selecting the right provider is looking to see who shoulders the bulk of the development and ongoing maintenance costs. When the technology partner is engaged from a cost standpoint, they are more incented "do it right the first time" and not spin around in circles implementing marginal "solutions".

Due to budgetary constraints business leaders may not always think in terms of growth when discussing technology solutions that address operational issues. The proper technology partner promotes scalability. They design a system from the ground up to scale according to the firm's size so the business doesn't need to worry about "what if we outgrow the system?" and "what do we do at that point?". Proper solution provider selection in the commission processing industry is an important component to rep retention and growth of customer assets. As the firm takes on additional reps and

transactions, a scalable solution is a seamless transition to supporting the increased volumes.

Firms are consistently designing new payout plans to attract new reps, retain their larger producers, and/or stay ahead of the competition. A strong technology partner consistently thinks about efficiency. As new processes are implemented, they are always looking for ways to leverage existing functionality to get more out of the system. Solution providers must seek ways to integrate new business concepts in a manner that is least obtrusive to the system and more readily usable by the back-office. Providers of legacy systems with years of custom code hastily thrown together find the challenge of keeping up with dynamic business models and commission requirements an expensive and daunting task.

Maestro® orchestrates the functions of today's broker/dealers who face the daily myriad of regulatory and competitive challenges.

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Simple Commission Solution for Complex Times

By Jacqueline
M. Gogue,
Marketing
Coordinator



Commission payout functionality is the backbone of a broker dealers back office and should provide the flexibility needed to meet the many challenging schemes your sales management department may create.

Just several years ago, simple percentage calculations would cover most commission payout scenarios; however, with increasing complexity in product offerings, more stringent regulatory guidelines, and ever dwindling profit margins, creative payout agreements are now more in demand.

Due to the many complex payout structures available, which are often based on multiple criteria such as split codes, products types and breakpoint levels, it is imperative the back office have technology systems in place that can clearly capture payout plans and perform payout calculations automatically and accurately.

Commission Splits

More representatives are creating split payout arrangements with multiple people participating and numerous overrides. Once again, it is necessary that the back office have a system in place that can capture these split arrangements, the unique payout rate for each representatives within the split scenario, and a mechanism in place to ensure each rep is correctly licensed to receive commissions.

Tracking and Collecting Fees and Deductions

In addition to processing and correctly paying out commissions the broker dealer is often responsible for tracking and collecting miscellaneous fees and deductions, such as technology fees, 401k contributions and license renewal fees. To assist in effective communication between the back office and the rep, it is important to have technology in place that communicates these fees to the rep in advance of their deductions from their commissions.

Commission Statements and Payments

An important part of the commission process is a clear and concise representative statement with information clearly presented to representative on their payments, deductions and year to date totals. In the past, commission statements were paper statements mailed to reps with a check. Today statement delivery has been automated through the use of PDF, email and password protected websites, with commissions deposited in the reps account through ACH deposit.

Comprehensive Back Office Automation

CAESAR is a fully scalable back office system that streamlines and automates day-to-day operational processes including; Commission Accounting, Registration & Licensing, Client Account Maintenance, Transaction Processing, Product Maintenance, Compliance Suitability Review and Reporting. CAESAR interfaces with numerous external data sources such as the NASD, NSCC, DST, and clearing firms to assist you with consolidating all lines of business into one system.

The CAESAR commission module offers:

- Payouts based on multiple levels of criteria
- Unique payouts within split scenarios
- Automated adjustments and deductions
- Customized statement capability

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Best Practices in Compensation Management Solutions

By Mark
Butler,
Managing
Director -
Business
Development

i | n a u t i x For investment professionals, their compensation represents the fruit of their labor. If it's not calculated, tracked or reported on correctly or with transparency, it will have a significant impact on the relationship you have with those investment professionals.

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While the importance of automation in the area of compensation is obvious to most organizations, many firms continue to manage compensation manually or with a "makeshift" solution that only addresses only a portion of their needs. Firms should consider the following when evaluating solutions for managing compensation.

1. Excel is Not a Compensation Management System - While many of you have been brought up thinking this, it isn't the case. Excel is only as good as the person setting it up and has a high potential for errors, isn't capable of automating the receipt of feeds coming in from custodians, doesn't have audit capabilities, provides no transparency to your investment professionals, and isn't scalable in the long run. We would challenge any firm to do a Total Cost of Ownership (TCO) exercise comparing the fully-loaded costs (including people) of using Excel to manage compensation within their firm versus an automated solution that focuses on compensation management.
2. Transparency and Integration Rules - Your investment professionals, whether fee-based, commission-based or both, have some very basic needs when it comes to tracking their compensation. They want to easily understand their compensation and view the different components of it at any time without having to ask for reports or deal with a lot of paper. This is further made easier when your compensation solution is integrated into their daily workflow instead of being yet another website that they need to remember an id and password.
3. Strength and Experience Count - Just because a compensation management provider has been in business for a long time doesn't necessarily mean they'll always be around. It's critical that you understand the financial state so you don't

get caught by surprise. The experience of the team behind a compensation management solution is also important. Not only is the technology know-how important, but the right level of industry knowledge and domain expertise is critical.

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Jobless Recovery and Your Commission System

By Rod
Lueck, CEO &
President



The phrase "jobless recovery" sounds like an oxymoron, and in the economic sense it probably is.

On the other hand, it can actually be a stated goal for broker dealers that have realized that their back office systems can and should be a centerpiece to their "jobless recovery". To put it simply, you can take advantage of the data your "commission system" should have in place and get more than "accurate and timely commission processing" from it.

Your commission system should have a thorough database of the investment products you have sold, the reps selling those investments and the clients buying those investments. These three elements are the foundation of the order that was blotted and processed for commissions.

Over the past quarter century of providing back office systems, the consistent reality we see is that you can find yourself stuck getting the job at hand done, processing commissions, and overlooking the value of the "collateral data" you gathered on the way to processing commissions. Why not take advantage of the data you have?

Think about it, even if you took the shortcut and only entered the most basic customer data in your system, you most likely have the client's account number at the mutual fund company, variable company or clearing firm captured in your database. A little investigation and you will find that you can flesh out this data with a DST Fanmail download or client data from your clearing firm. Your customer data just became a more useful tool for compliance, privacy mailings and 17a3 letters. Add a few additional downloads (all free) and the next thing you know you have a currently reconciled position statement on your hands. Show this to your reps with online access and you have a "value added" incentive for them to look to your ever expanding "commission system" as a valuable tool.

Getting the reps involved and interacting with your database means that you can look to them to enter additional client data into the client records, such as suitability or CIP information not available from your clearing firm or Fanmail. If the rep happens to have LaserApp installed, your ever more valuable "commission system" becomes the initiating data set for the rep to build forms. Once the forms are signed by the client, your commission system might as well be used as the pointer for your imaging system. Once done, shouldn't that same "commission system" stand to now be all or part of your online image provision right back down to the rep.

What just happened? You just outsourced data entry to your reps and you did them a huge favor in the process. You just laid the groundwork to stop handling so much paper and stop paying FedEx every step of the way. You just expanded the value of your "commission system" to your reps, maybe to the level of justifying a "technology fee" and using what was an expense item as a revenue enhancement.

So what's in your commission system?

As much value as you have created by adding just a little extra at each step of the way.

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Finding a Haystack in a Field of Needles

By Thomas
Moysak,
Executive
Vice
President

X In the past, broker-dealers implemented automated commission systems to improve the commissions payout process. Today, the mandate goes much further than just "paying reps" as firms also have a large need to bridge the gaps between single-purpose "systems of record" to create a cohesive, enterprise-wide "story of record."

Historically, commissions, fee income and incentive compensation have been managed as month-end or period-end events using a haystack of poorly-tracked agreement details. Production allocations and business policies would be retroactively and inconsistently applied to determine each producer's compensation. Enterprise reporting would be available only at period-end after days of manual effort, and often based on incomplete and entirely separate data than used for payout. Following the requisite Q/A period to answer compensation questions from the field, (and the accompanying drain on resources) the data would be inaccessibly filed away to meet a range of potential forensic inquiries regarding payments, process, operations, licensing and compliance activities.

Even today, for most firms, paying commissions and incentive compensation and accessing enterprise reporting are interdependent processes managed across disparate systems: databases, books & records, financial accounting, human resources, Excel spreadsheets, etc. End-of-period based compensation and enterprise reporting systems are simply too little, too late. Compensation and business performance must be much more transparently reported and accessible. To be competitive, firms need more automation, better process control, and increased flexibility to support firm, product, branch and individual-specific business policy rules. Firms require "daily net-pay-ready" quality solutions across the enterprise that support multiple business-line challenges, including: consolidating multiple revenue and expense sources, retroactive and incremental compensation grids, business policy and participation effective dating, tiered organizational hierarchies, trade minimums, discount penalties, adjustments, holdbacks, team splits, rep mappings, coverage assignments, overrides and more.

An enterprise level business performance management system allows financial services companies to leverage these processes to more efficiently manage revenue and expense allocations across the enterprise, and to empower the business leaders and producers with more timely and comprehensive information to drive the business forward.

If producers and managers have to struggle to find, validate, and evaluate production data in order to answer key organizational questions, they're starting two steps behind their competition: Which clients? Which accounts? Which transactions? Which products? Which producers? What trends? What if we? An automated, rules-based and enterprise-driven approach to business performance management including compensation improves overall operational efficiency by answering each of these questions. By implementing such a solution, broker-dealers can quickly achieve greater revenue and lower expenses while remaining focused on their primary business objectives. As a result, the ultimate goals of building organizational trust and reclaiming valuable resources using an enterprise-accessible information source are achieved.

Xtiva's business performance management portal is the first industry-integrated approach to compensation management, sales performance measurement, and business policy management. Xtiva's tools support today's need for a managed solution to meet a wide range of business, operational, finance, and technology needs. The Xtiva Portal combines Xtiva's next generation data consolidation, calculation, and business rules engine, integrated with MicroStrategy's leadership in business

intelligence, into one seamless Xtiva suite of hosted solutions.

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Editorial Calendar

Our monthly calendar and the subject matter we will cover in 2009:

- **February** - Forms Management & Account On-Boarding
- **March** - Imaging Systems
- **April** - Compliance
- **May** - Data Aggregation
- **June** - Marketing Tools
- **July** - Client Relationship Management
- **August** - Commission Processing
- **September** - Email Surveillance
- **October** - Financial Planning
- **November** - RIA Reporting
- **December** - Training
- **December II** - Best of . . .

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