DNA

Behavior®

Human Performance Acceleration
Using Behavioral Insights Since 2001

Compliance Management Program for Financial Services Firms

DNA Behavior Makes People Insights Practical Digital Delivery of Behavioral Intelligence Firm Wide
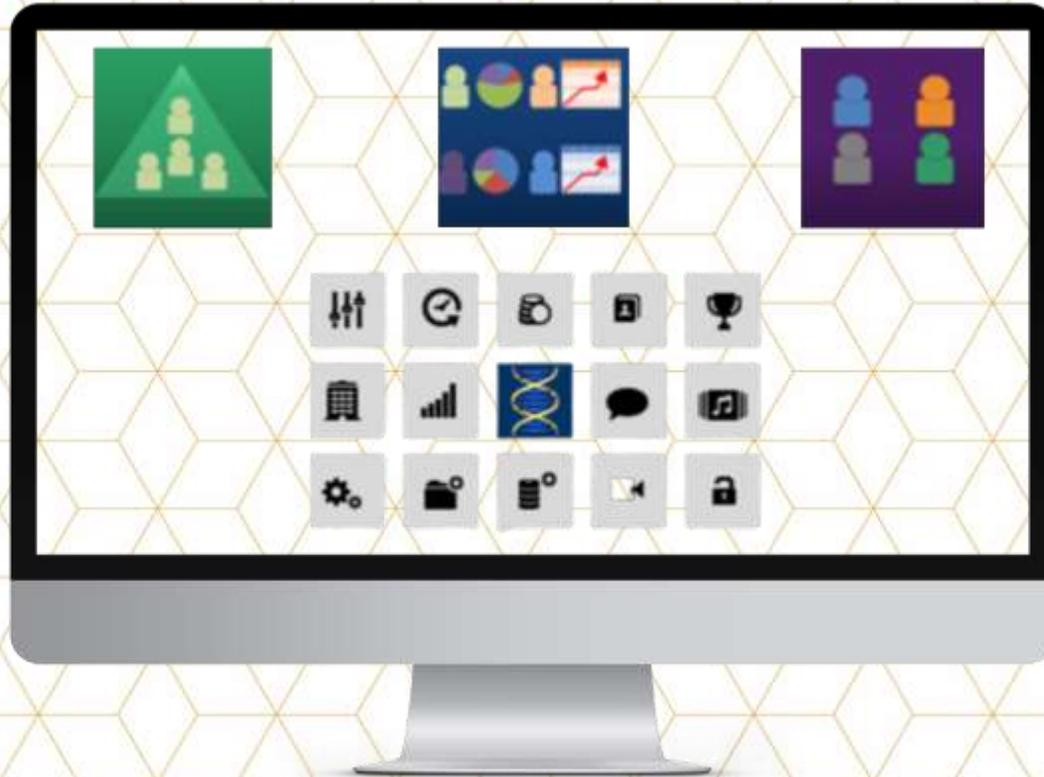
**Match advisory teams, clients, goals and solutions for suitability**

We provide financial services businesses worldwide with a single cloud based "RegTech" platform which delivers practical and scalable behavioral intelligence solutions to "Know, Engage and Grow" every advisor, employee and client online for delivering a higher level of suitability.

The outcome is the building of a client-centered business which is compliant and out-performs.

DNA Behavioralizes Money for Advisors and Clients Predicting Compliance Risks Triggered by Behavior

Financial Personality + **Money**

Emotions

→

Behavioral Responses Driving Decision-Making
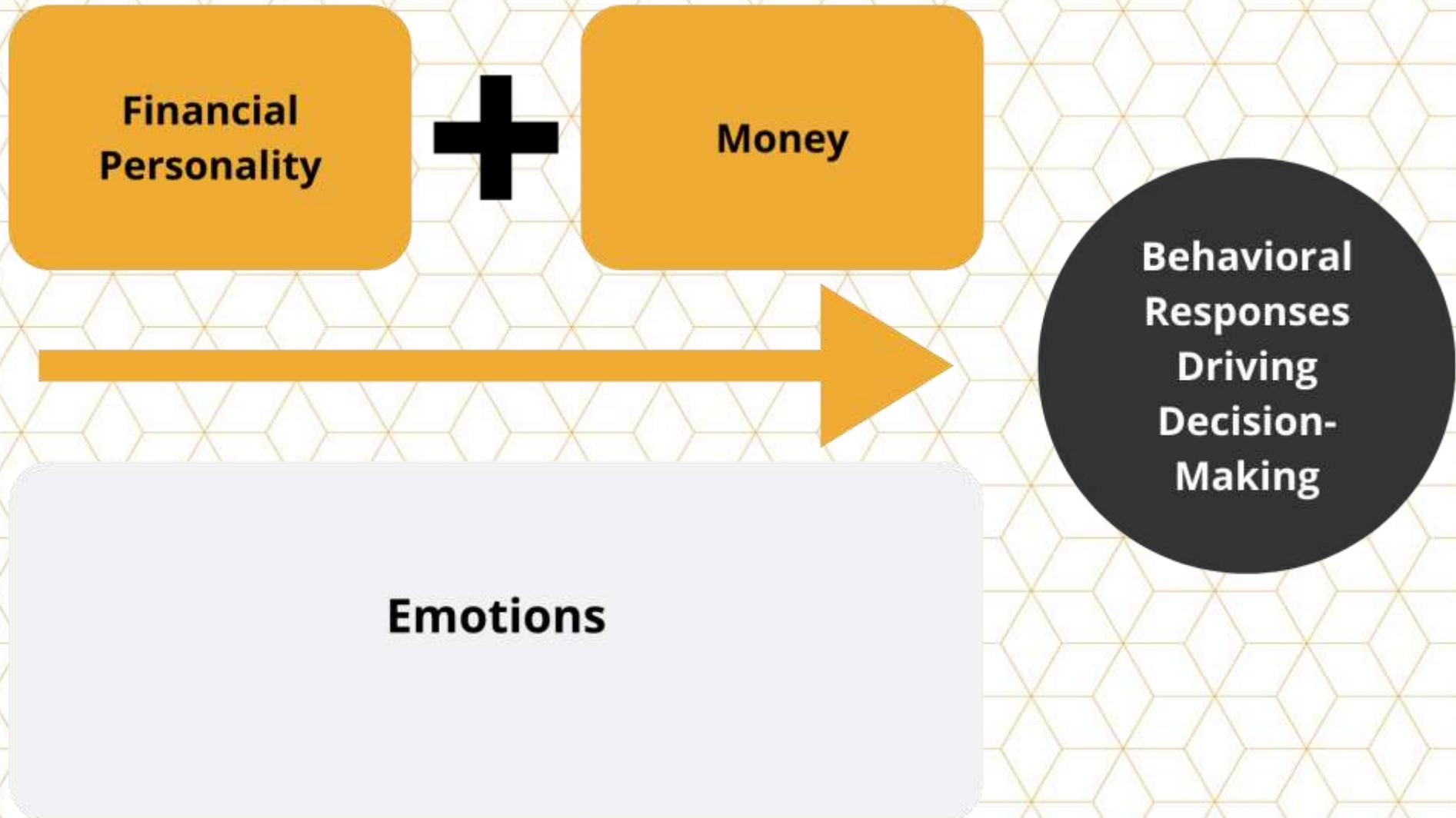
What is Getting in the Way of Client-Centered Success?
Research: Lack of Behavioral Suitability From the First Interaction
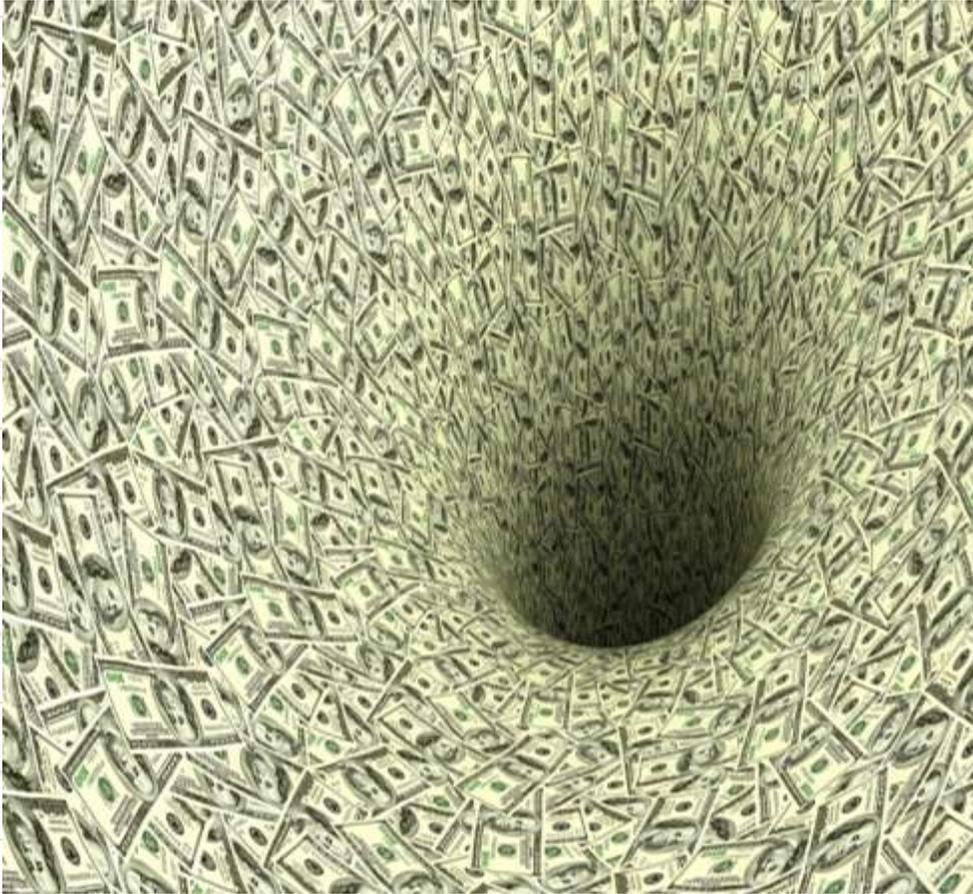
1. Advisors can only engage 40% of their clients, leaving 60% under serviced
2. 85% of complaints start with poor advisor-client communication
3. 5% of advisors are potentially rogue costing 5% of revenue in losses/claims
4. Advisors are only 40% accurate in identifying the client risk profile
5. Investor emotions causing 7.45% per year portfolio under-performance
6. Advisor/Investment Manager biases causing under-performance by 1% to 3% per year
7. Firm/advisor centered culture leads to fundamental biases in solutions offered – tied to old ways of operating

The Fundamental Causes of Investor Suitability Risks
The Issues are More Than Client Behavior

Rogue Advisor Behavior: Pressure, lack of insight, awareness and EQ over-influencing the outcome and poor communication

Emotional Client Behavior: Mis-alignment of objective financial and subjective behavioral factors

Greedy Firm Behavior: Revenue and remuneration model driving poor portfolio and advisor choices and service culture.

Investor Suitability Risks

Current US Regulatory Environment Strengthening FINRA and DOL Fiduciary Regulations

FINRA Rules 2090 + 2111 "Know Your Customer" and "Suitability"

+

DOL Fiduciary Rule "Your Clients Interests First"

=

Technical Regulatory Compliance

Know and Retain, Essential Facts...Reasonable Basis...Reasonable Diligence...Analyze Customer Specific Factors... Overall Quantitative Suitability

Global Regulatory Avalanche Driving the Need to Take Action Now
Investor Suitability is the No 1 Source of Complaints Globally

The regulatory trend is fast moving towards making investor suitability and acting in clients best interests the highest priority starting with a deeper level of behavioral insights to "know your client".

1996 to 2010 Traditional Fact Finds, Limited Monitoring

2011 to 2016 Risk Profiles (Ability and Willingness to Take Risk),

Behavioral Biases

Heavy Complaint Based Monitoring

Post 2016 Client Interests First,

Firm Culture and Attitude Review

SEC/FINRA resources increased by 20% in 2016
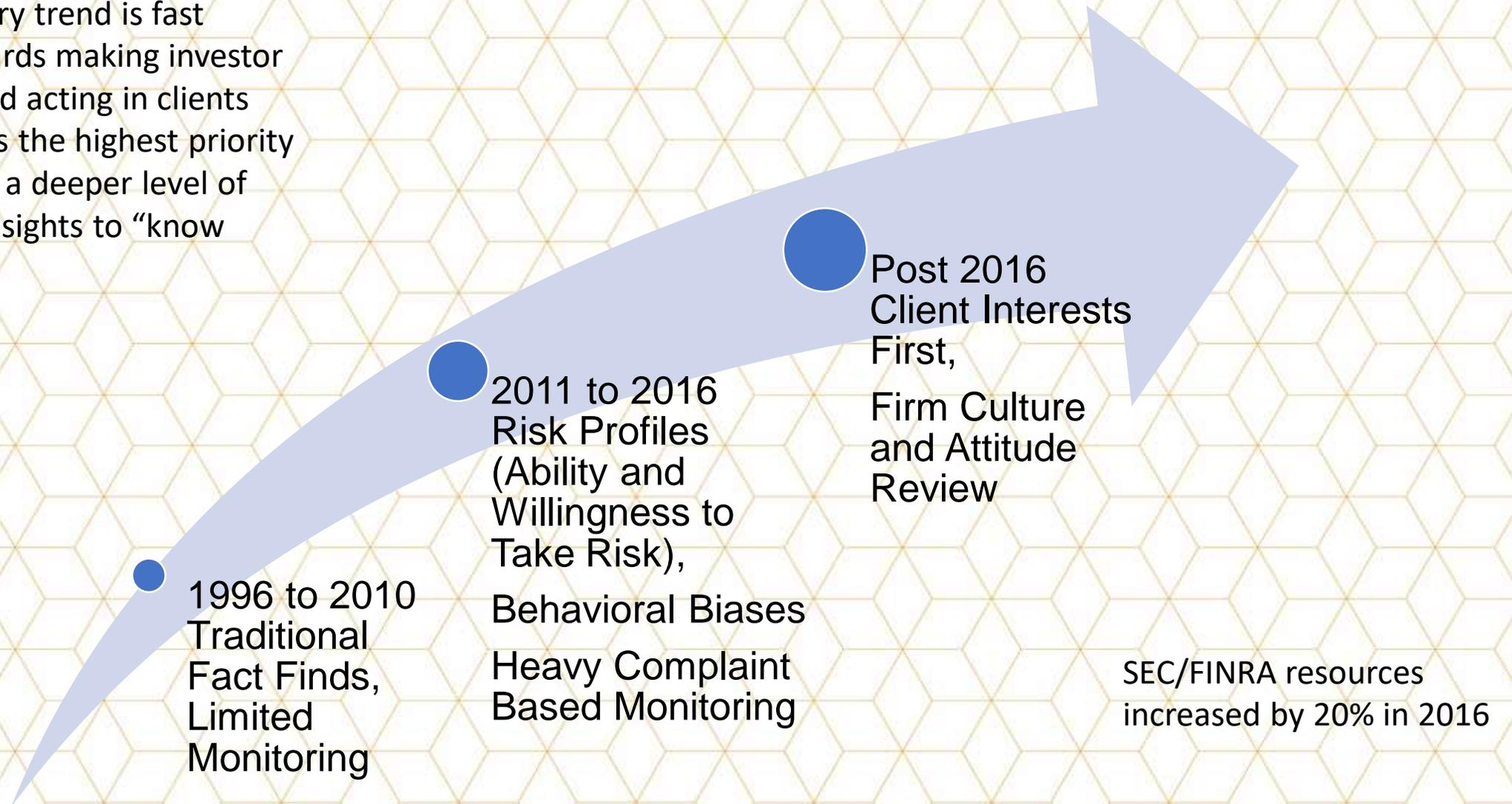
Regulator's Globally Are Not Prescriptive on Depth + Detail Universal KYC Elements That Are Missing + Do Not Align

Ability to Take Risk (Objective Factors)

Willingness to Take Risk (Subjective Factors)

Demonstration of Robust Process for Suitability Recommendations

"Tick the Box" Compliance Does Not Provide Legal Protection The Action Needs to be Preventing Suitability Complaints

Suitability complaints start with a combination of poor communication, low trust in the advisor, poor decisions on both sides and an overall lack of behavioral management at key points of the client life-cycle.

Regardless of whether the advisor has "technically" made a suitable recommendation or not, the practical situation needs to be addressed:

1. Poor "bedside" manner and hiding information elevating client anger
2. Mis-management of heightened client emotions and advisor fear
3. Lawyers digging to find a process not followed or details not disclosed
4. Reasonable basis being easily argued against by lawyers
5. Heavy financial and time costs once a complaint is made
6. Terminal brand damage

Managing the Growing Regulatory Compliance Avalanche Behavioral Management Grows Relationships and Minimizes Risk

Client Protection, Engagement, Experience and Retention - 23% Revenue Uplift

Costly Complaints and Litigation – 99.75% Investor Suitability

Compliance Management Approach for Your Firm Know, Engage and Grow Every Advisor and Client

Regulators adopt a principles-based approach to compliance and do not prescribe specific tools and methodologies.

1. All advisory tools need to be "fit for purpose" and built into deeper processes that are in the client's best interests.
2. Business Revenue Model needs to be modified to ensure there are not incentives, biases and policies which lead to unsuitable offerings (eg too much, or too little risk in portfolio's).
3. Advisor Background Checks need to be expanded to predict which rogue behaviors will be exhibited in pressure circumstances.
4. Holistic "Know Your Client" processes are needed for arriving at a client specific Risk Profile based on objective and subjective factors, and the making of suitable recommendations.
5. Client Communication Monitoring is needed to ensure the engagement is high and issues do not become complaints.

Further Strengthen Client-Centered Advisory Culture → Know Your Client: Enhance Goals-Based Planning Processes → Deployment of Tools to Increase Objectivity

The DNA Process For Firm Engagement and Compliance People Insights at All Stages of the Client-Centered Lifecycle

DNA Compliance Program Elements
Managing the Risks of Advisor and Client Behavior

Advisor Management (Plan) Using BDNA and CDNA → **Know Your Client (Discovery) Using FDNA** → **Goals Based Planning (Solution) Using FDNA** → **Client Management (Execute) Using FDNA**

Advisor Management	Know Your Client	Goals Based Planning	Client Management
Identify: • Rogue advisor behaviors • Fit for role • Organizational mapping • Advisor-client match Advisor EQ development Customized org communication	Customized meeting prep to style Holistic financial personality insights, covering all risk elements Greater disclosure Deeper and more consistent client inquiry	Portfolio Design: •Matching risk profile to goal buckets •Behavioral IPS and solutions tied to goals, financial capacity, risk •Aligning goals to spending patterns Annual Quality Life Review	Monitor Real-Time : •Portfolio adjustments •Advisor behavior •Client interactions Behavioral coaching Advisor performance measurement

Know, Engage and Grow Every Advisor and Client Next Compliance Management Steps for Your Firm

1. Prepare a **Compliance Enhancement Road-Map** and execution plan for demonstrating compliance commitment to the regulators.
2. Employ a **Human Risk Forecasting Model** based on knowing the behavioral style of every advisor and their motivations, building an organizational map and identifying key psycho-org dynamics triggering compliance and operational risks.
3. Provide a customized **Behavioral Management Program** to pro-actively mitigate the human behavior risks on compliance and business operations generally
4. Implement **Advisor EQ Training** for enhanced self-awareness and improving client interactions – communication, goals, risk, behavioral management.
5. Conduct a **Wealth Management Business Model Review** to identify and manage the biases inherent in the business and remuneration structure and ensure the right services that the client needs are offered.
6. Strengthen the **KYC Discovery Model** for use of the current fact find (objective) and risk profiling (subjective) processes to make suitable recommendations.
7. Design and implement further enhancements of **Goals-Based Planning Processes** with alignment of client goals to solutions offered.
8. Deliver **Digitalized DNA** insights and tools on the firm platform in all stages of the client lifecycle.
9. Build a comprehensive **Compliance Monitoring Process** that operates real-time, including transactional, communication and culture reviews.
10. Implement a **Client Communication Monitoring System** to ensure the client engagement is high and issues do not become complaints.

The Next Gen Business Model Based on Direct Client Participation in KYC Behavioral Discovery

Active Client Participation to Boost Engagement and Accuracy

+

Active Behavioral Management by Advisor

→

Customized Client First & Compliant Service Experience

Financial DNA delivers the world's most robust KYC process through:

1. A highly accurate, reliable and scientifically validated financial personality discovery process which is "fit for purpose";
2. Completion by each participating investor; and
3. Recommended goals-based planning processes which utilize the financial personality insights with active client and advisor interaction.

The Traditional Approach to Risk Discovery is Outdated "Wrong Data In Means Wrong Data Out"

Traditional Investment
Risk Tolerance Profile

Holistic Financial
Personality Discovery

1. **Investment Risk Tolerance** Profiles only provide a singular measurement.

2. They are situational in nature and not reliable in changing circumstances.

3. **Financial DNA - Financial Personality Discovery** more objectively and reliably measures every dimension of who the client is, including the risk profile at a deeper level, biases and communication style.

4. All behaviors cause risk to achieving goals if not managed, and therefore must be known.

Meeting the Behavioral Challenge With Financial DNA Identifying All Of The Behavioral Risks

Financial Personality Influences on Decision-Making Proactive Behavioral Bias Management
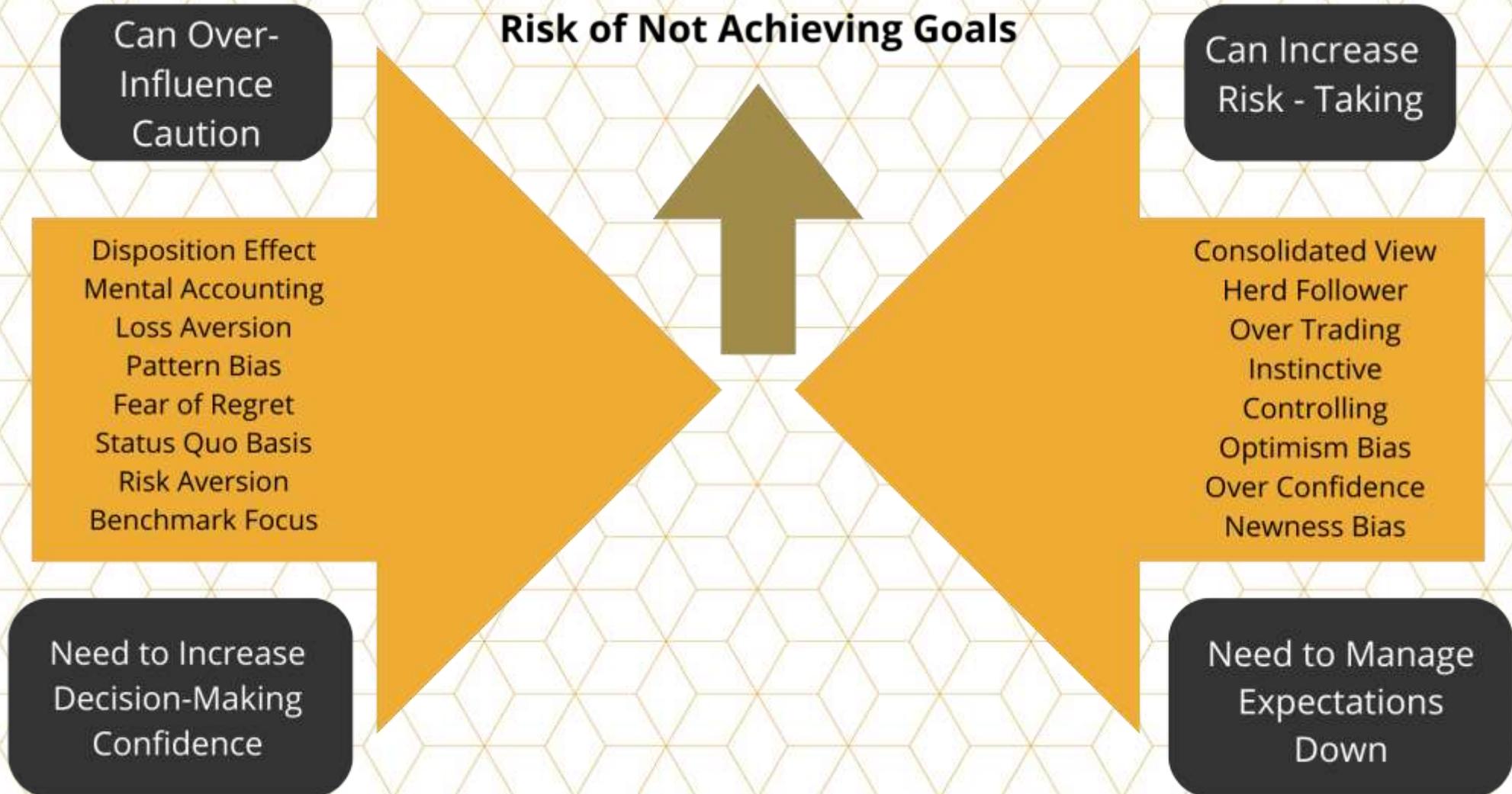
Changing the Know Your Client Paradigm with a Behavioral Finance Platform Using Financial DNA

Traditional Paradigm	Financial DNA Holistic Approach	New Generation of Financial Personality Discovery and Performance Measurement
Big Data and Artificial Intelligence (Current Observed Behaviors Based on Assumptions and Some Actions)	→	Completion of a Validated Discovery Process by each participating individual to measure stable long-term behaviors and preferences
Singular Risk Tolerance Profiling Questionnaire (HighlySubjective)	→	Holistic Financial Personality Discovery firstly measuring Natural Instinctive DNA Behavior (Higher Objectivity) and then Learned Situational Behavior
	→	Measurement of Risk Propensity, Tolerance, Loss Aversion, Risk Preference, Risk Profile, 16 Behavioral Biases, Portfolio Grouping 1 to 7
Static Reports	→	Risk Composure: Market Mood Dashboard for Real Time Behavioral Management to Markets
N/A	→	IPS and Behavioral Portfolio Models
N/A	→	Customized Communication Keys and Action Steps
N/A	→	Quality Life Insightsfor Goals- Based Planning
N/A	→	Advisor Client Group Reporting
Situational Questions and Intelligence, Experience Bias	→	Validated Psychometric Analysis using Non-Situational Forced Choice Questions and Fit for Purpose Situational Risk Profiling Questions
Basic Stand-Alone Platform	→	API Integration with Custom Reporting and Branding

The Power of Implementing Financial DNA
From 40% Advisor Accuracy to 99.75% Investor Suitability

Completion by Each Advisor+ Team

Reduced Subjective Advisor Judgement

91% Reliability from Financial DNA Measurement

+

8.75% Enhancement from Financial Planning Process

=

99.75% Investor Suitability Performance Guarantee

Completion by Each Client

Minimized Advisor + Client Emotions
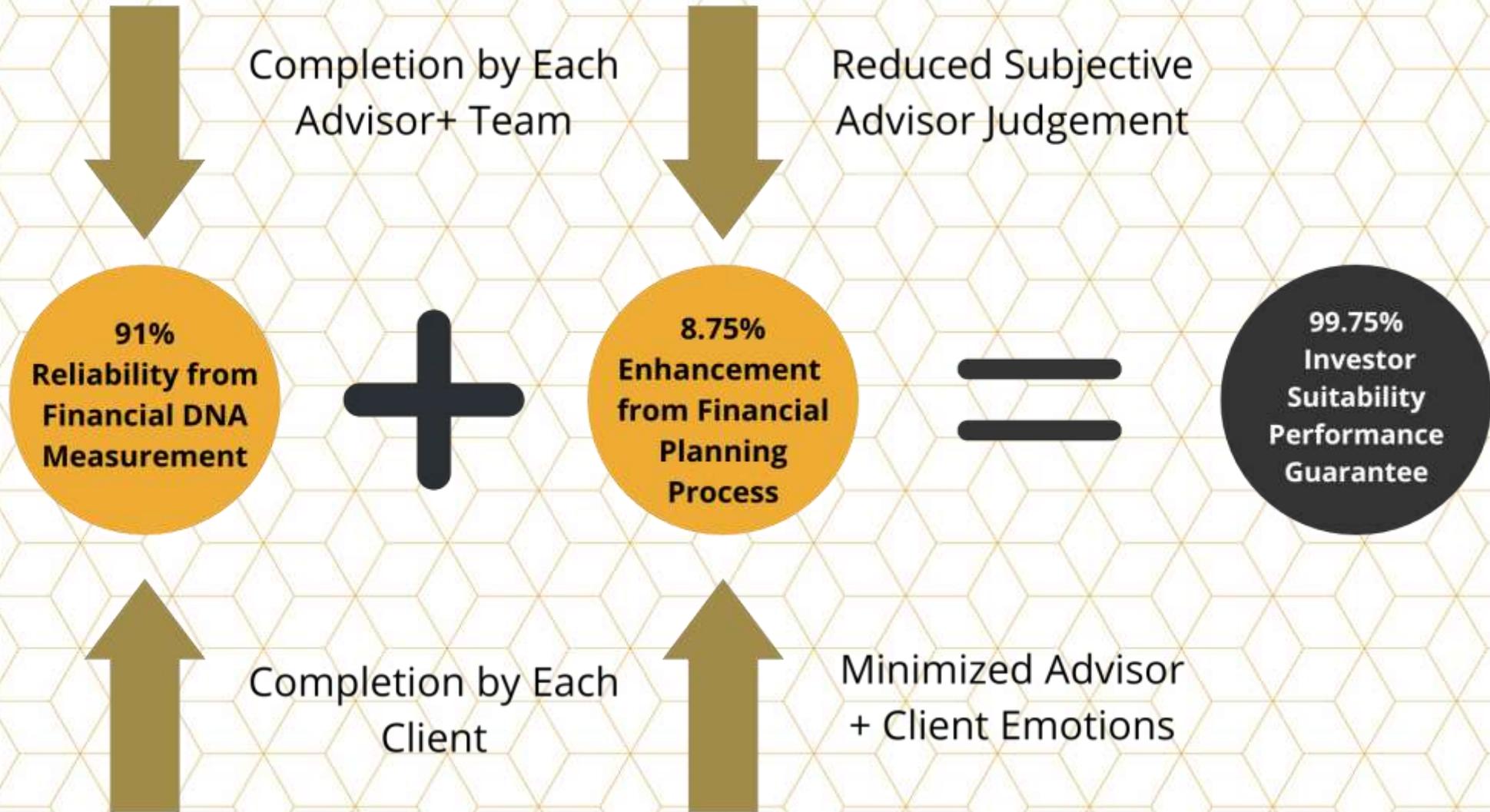
DNA API Infrastructure Service for Real-Time Access Client Experience and Compliance Managed by Firm
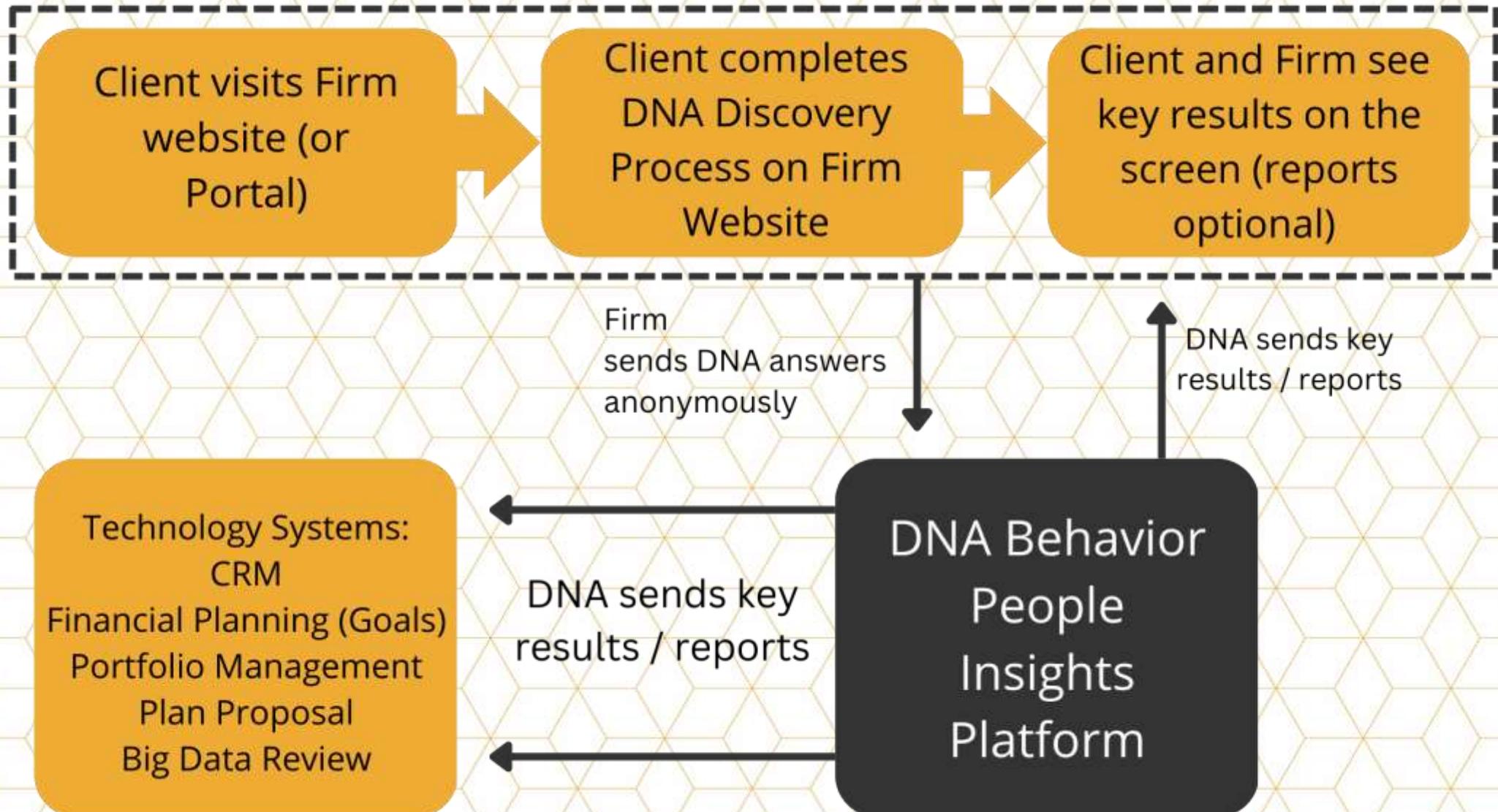
Vision Higher Levels of Advice Customization
Every Stage of the Client Lifecycle

Online Financial DNA Discovery uncovering financial personality insights for every client

Advice Solutions customized to FDNA insights which are digitally delivered real-time

Service Delivery with Rep and workflow matched to Client based on FDNA Style

Active client participation boosts engagement and reliability of outcomes
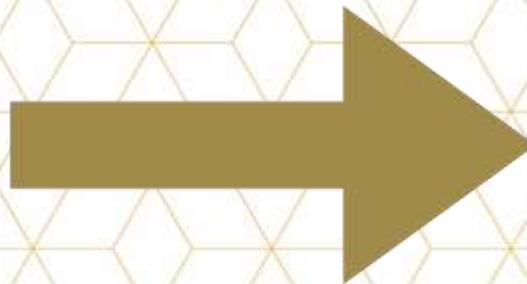
Active behavioral management with a human touch boosts client confidence
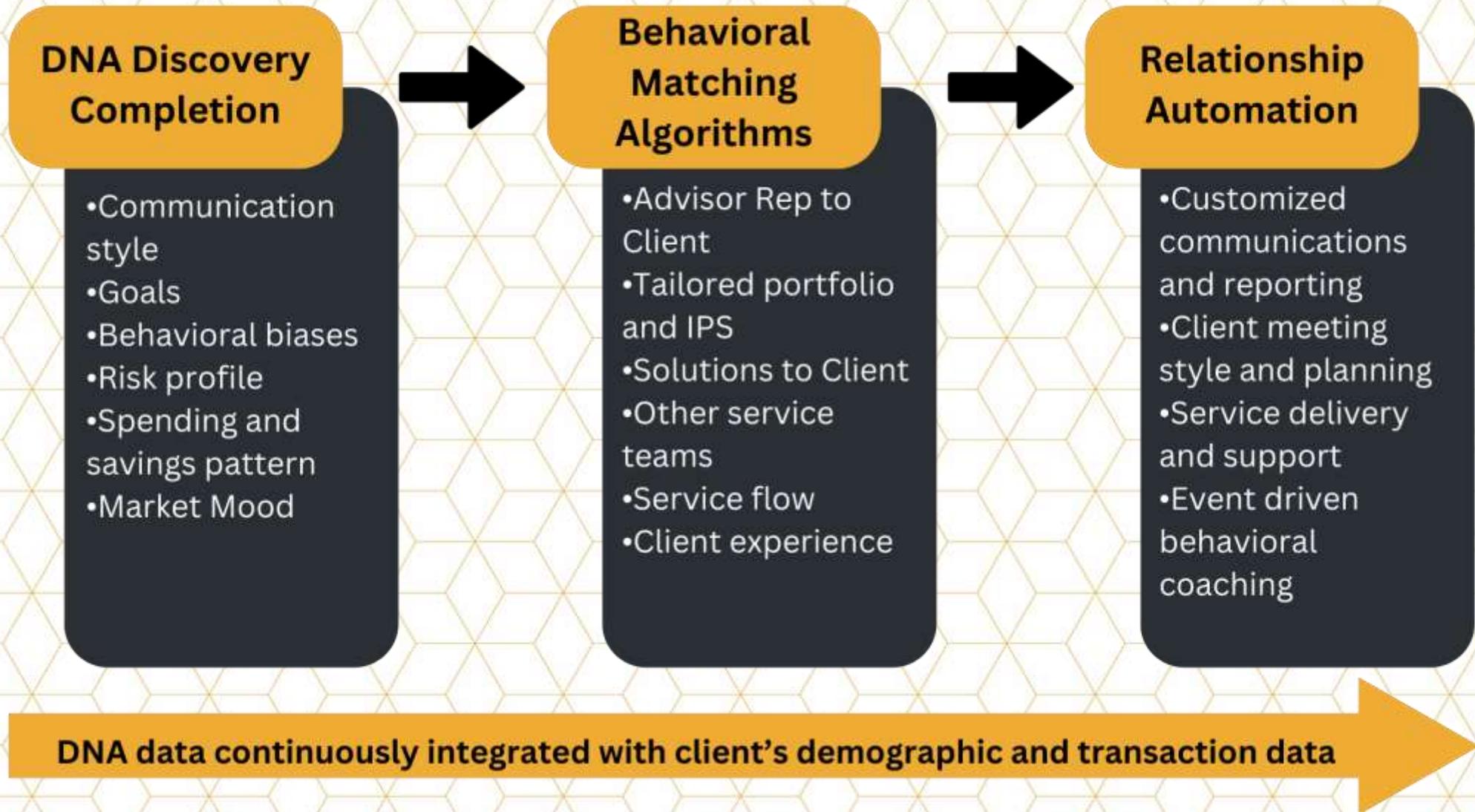
Compliance Monitoring program Using Financial DNA

DNA Behavior

Compliance Monitoring Program
Managing Risks of Advisor and Client Behavior

Real-Time Portfolio Exception Reporting

Inadequate Advisor Performance in Following KYC and Firm Processes

In-depth KYC System including Financial Personality Discovery Process

Influence of Advisor Behavioral Biases on Solutions Offered

Compliance Monitoring Program

Clients Misunderstanding Solutions and Negative Relationship Energy

Advisor-Performance Management Review

Plan and Portfolio Mis-Alignment

Advisor-Client Matching and Client Satisfaction Reviews

The Elements of a Tangible Compliance Methodology To Be Followed with Every Client

The traditional "fact find" process must be coupled with:

1. Client completion of an objective and validated assessment process to reliably uncover their financial personality (including risk) and communication style.
2. Framework for the advisor and the home office to communicate with the client on their terms in every interaction.
3. Recognition in building an investment portfolio of both the client's propensity to take risks and willingness to live with potential losses.
4. Alignment in making recommendations of the client's risk level against their goals, financial capacity and key learned behaviors, with client sign off of an Investment Policy Statement.
5. Real time management of the advisor and client's behavioral biases to market movements.
6. Technology systems for dynamic monitoring of the recommendations made to the influence of advisor biases, the client's financial personality and changes in client needs and circumstances, with real time exception reporting.
7. A structured in-person meeting and documentation process for discovery to initially address the clients needs, financial situation and other life circumstances, with regular annual (or more) review.

Outcome: A Compliant and Client Centered Business Model Built on Matching Clients to Advisors and Solutions Offered
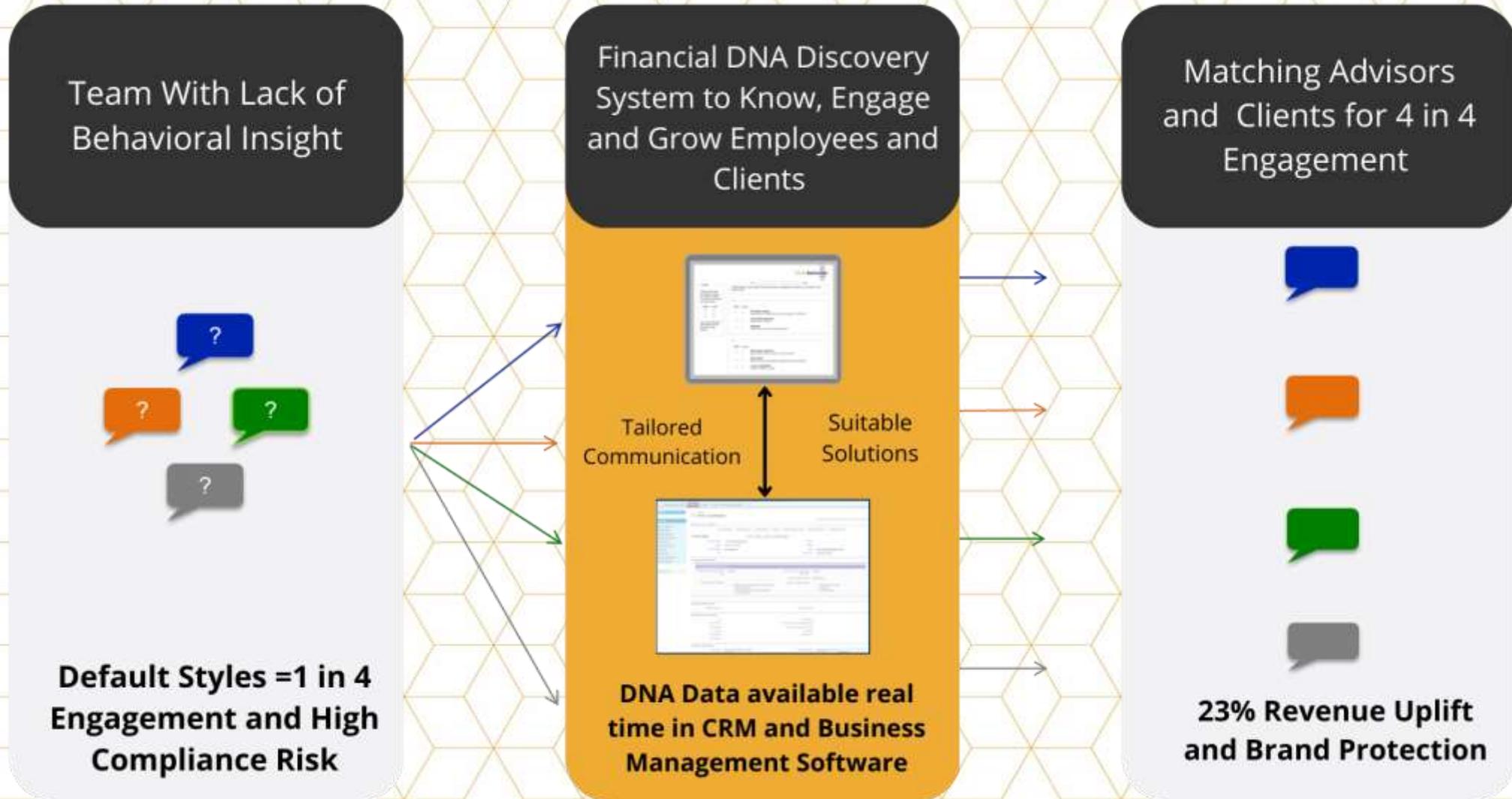
Use of DNA Behavior Admin System for Monitoring Advisor Use of Financial DNA With Clients

DNA Behavior Administration System

Accessible and customizable at each level of the business

Home Office
Executives have a top level view to audit all Firm's group activity in the DNA Behavior Admin system

Regional Directors
Directors have a regional view of multiple branch and advisor activity

Financial Advisor Activity
Unique folders and screens identify specifics on:
FDNA Discovery Completions
Reports Accessed
Market Mood Dashboard Use
Advisor Client Compatibility
Client Emails and Messaging

Financial DNA Risk Score and Behavioral Biases Used to Mitigate Advisor Client Bias

Knowing Me for Advisors:
Greater understanding of your communication style, risk score and behavioral biases

98%

Financial DNA Risk Score: 0-100 %. Denotes an individual's propensity to take risks and accept losses relative to the overall population.

Knowing You for Clients:
Greater understanding of client communication style and behavioral biases.

Advisors working with Individuals — 98% → ← 72%

Advisors working with couples — 98% → 21% ← 72%

Advisors working with families and succession planning — 98% → 21% ← 72%

92% — 66%

Managing Solution Suitability on an Enterprise Basis

Enterprise Management and Control of DNA Data

- Advisor-Client Matching
- Solution Suitability Compliance
- Customized Experience for Clients

Knowing Advisors :
Understanding Advisor Risk and Biases

Advisor 1 — 98%
Chris Coddington
Strategist
Risk Profile: 98%/Group 7

Advisor 2 — 60%
Karen Alexu
Influencer
Risk Profile: 60%/Group 5

Advisor 3 — 45%
Frank Jones
Reflective Thinker
Risk Profile: 45%/Group 3

**Knowing Different Clients Risk Taking and Biases:**

21%   72%   66%   92%

31%   62%   24%

34%   70%   34%

# Dynamic Monitoring of Suitable Recommendations Using Financial DNA Natural Behavior Starting Point
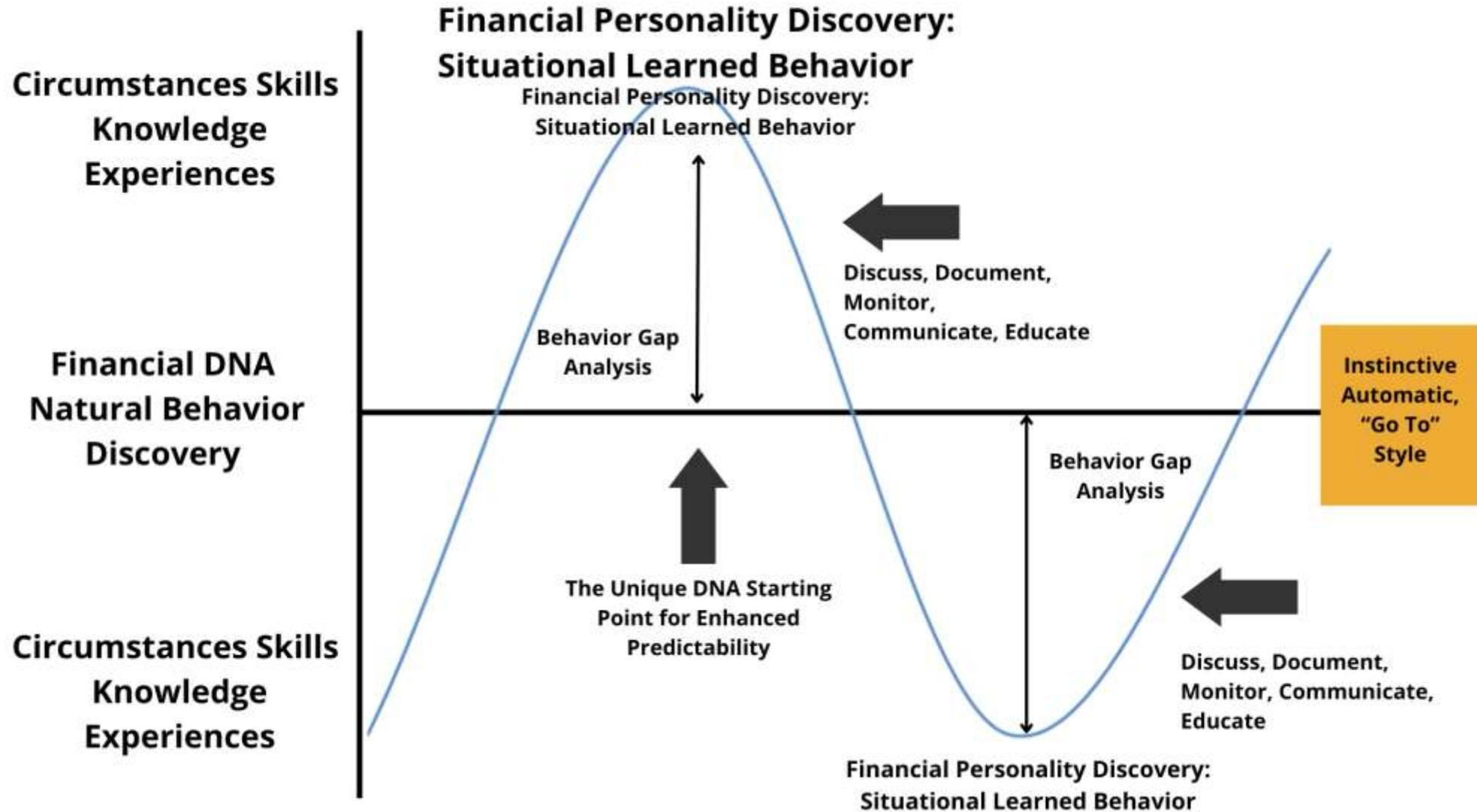
# Building a Behavior Centered Portfolio With the Client   Mutually Agreeing the Overall Risk Profile

Approach: 1. Do not set the Risk Profile higher than the Risk Need (to achieve the goals).

2. Build the portfolio within +/- 1 Grouping of the Natural Behavior Portfolio Risk Profile Group as it reflects the long term "go to" default behavior. Subject to:
(i)Review the client's Risk Need (to achieve goals) and Risk Capacity (financial ability)
(ii)The client's Learned Risk Behavior Motivations (experiences, education, environment)

One Portfolio Risk Grouping

	Group 1	Group 2	Group 3	Group 4	Group 5	Group 6	Group 7
Pop. % in this category	<2%	2-18%	19-30%	31 - 69%	70-81%	82-98%	>98%
Portfolio Structure	Capital Protection	Ultra-Conservative	Conservative	Balanced	Accumulation	Growth	Agressive

Acceptable Conservative Portfolio

Acceptable Aggressive Portfolio
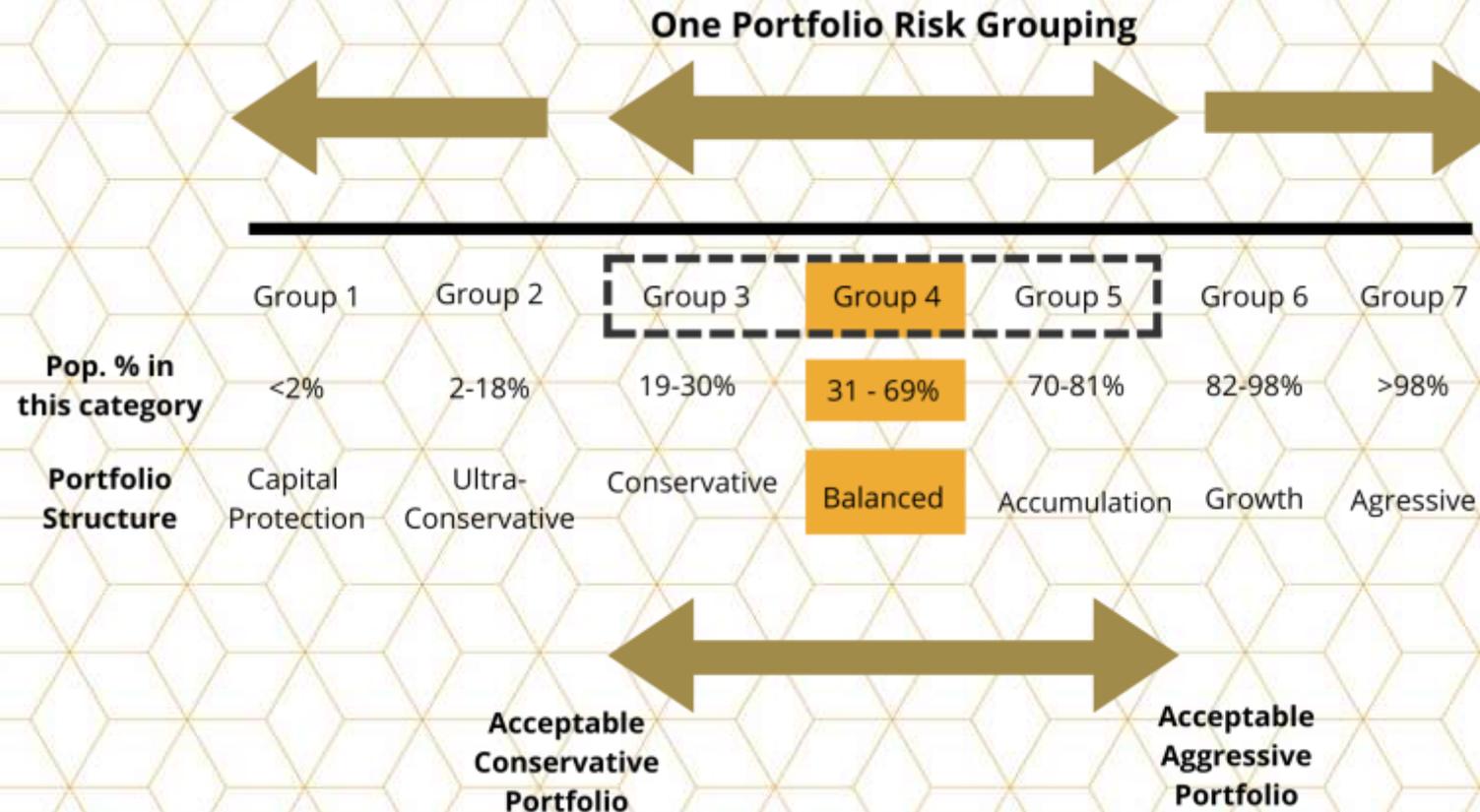
Financial DNA App on Salesforce
# for Real Time Compliance Monitoring
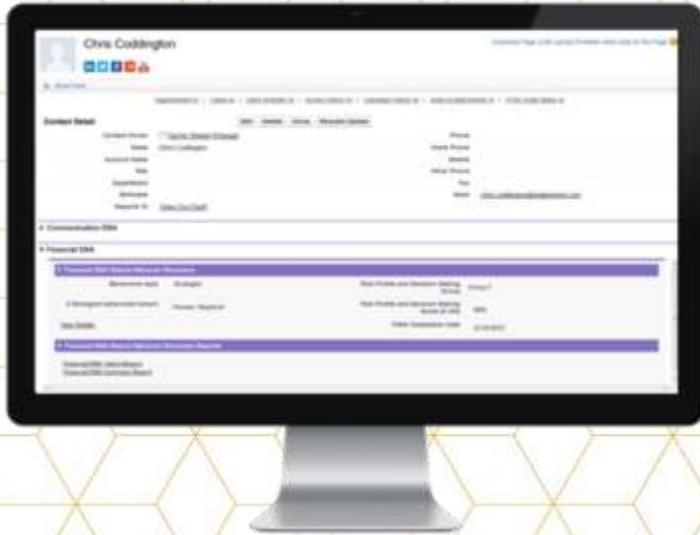

Desktop
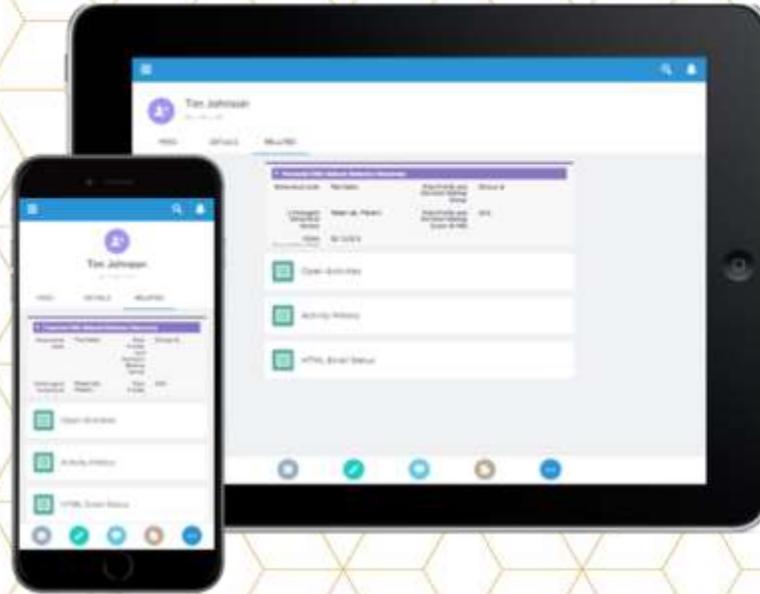
Salesforce 1
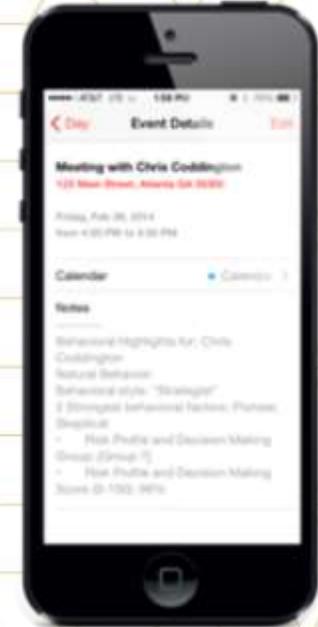
Calendar Integration

Financial DNA App for Salesforce.
The only Behavioral Finance application for Salesforce CRM

CRM Monitors Client Behavior, Communications and Recommendations for Alignment Gaps

Financial Planning Software
Monitoring Material Plan Changes for Suitability
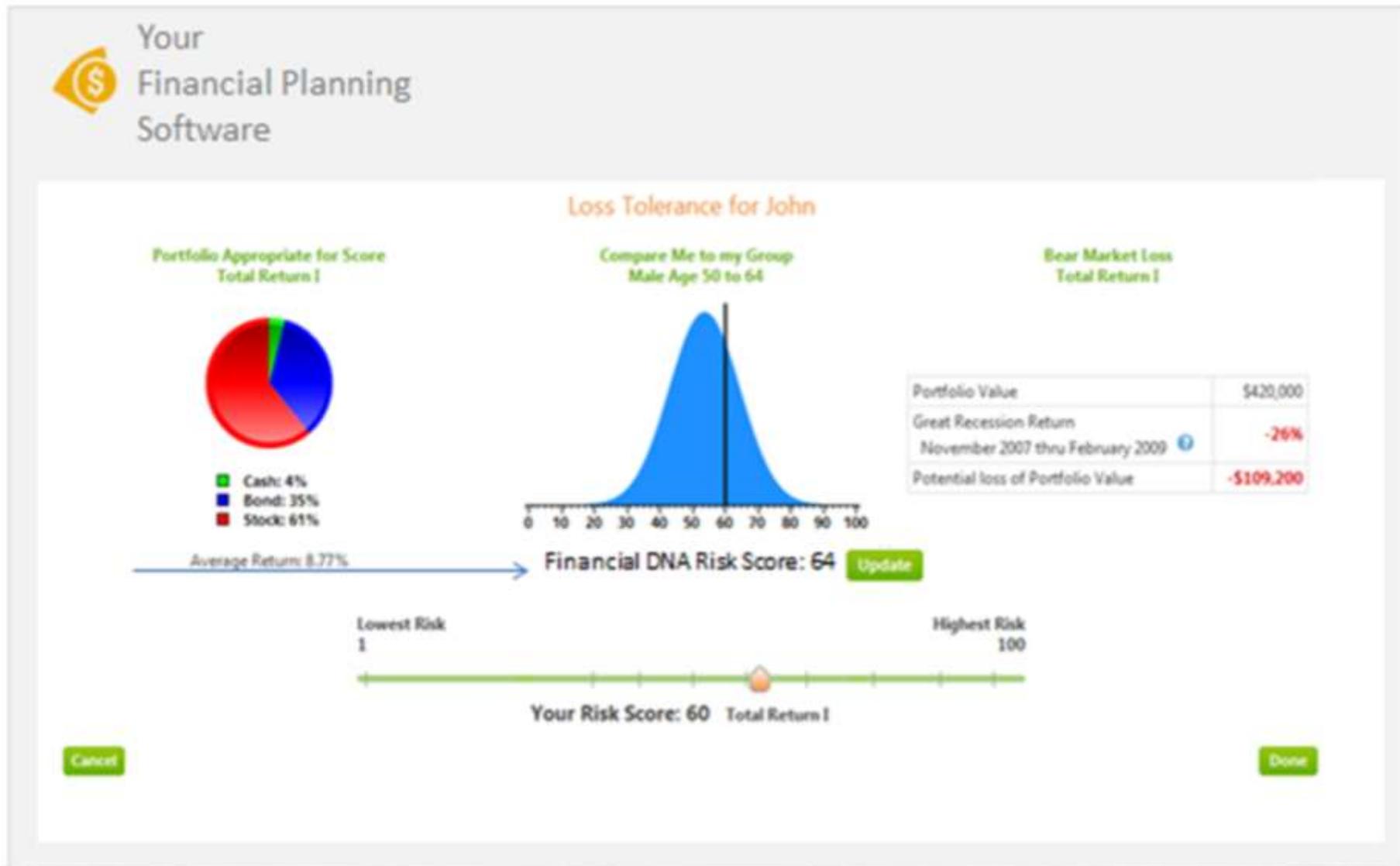
Business DNA®
Advisory Team Talent and Culture Alignment

Identify the talents of advisors who will align and comply with the firm's client-centered business model and culture

Usage: Fit to the Role and Team
Fit to the Client
Behavioral Bias and Compliance Risk Management
Performance Management
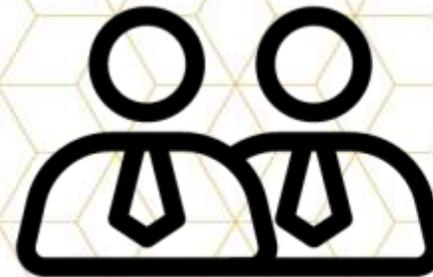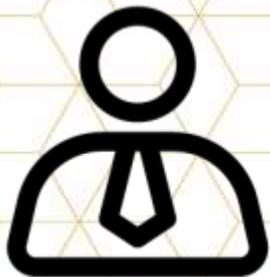
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