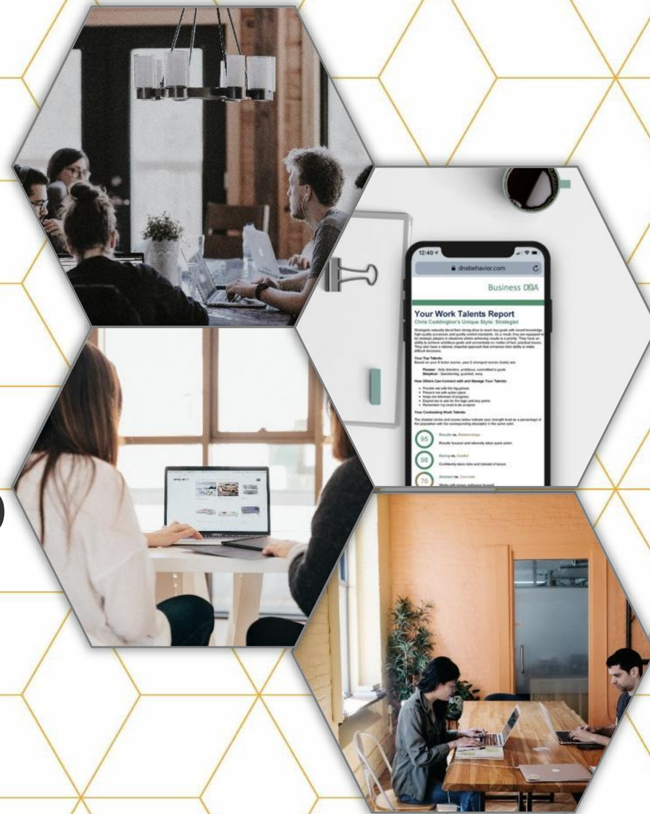

The Ultimate Guide to Behaviorally Smart Compliance

DNA Behavior®

DNA Behavior®

Compliance – Who is Making the Decisions During Remote Working:

Compliance = the action or fact of complying with a wish or command, i.e., the ways in which the state maintains order and compliance.

We've all learned the word compliance during this current pandemic crisis. We know the consequences of failing to comply. We have been concerned by those flaunting the compliance rules.

As with our private lives – compliance is testing the resilience of most organizations' ability to operate and manage in a crisis while maintaining the highest standards of compliance. Remote working might have seemed tricky to move to for business, but with the use of social media platforms, we're now managing to work fairly well, albeit in a strange new normal.

Looking in particular at the financial industry and the level of compliance required by their regulatory bodies. How is compliance being adhered to, and is there oversight from the regulatory bodies?

2020 will go down in history as the time when every industry, whether financial or not, had to put plans on hold and urgently review their working strategies. Cutting corners in the area of compliance, therefore, is a recipe for disaster.

Remote working and social isolation have called for financial industry leaders to assess their immediate and longer-term compliance risk and develop a response plan accordingly. Without fully understanding, in-depth, the behavior and personality of their advisors, their firm's remote working becomes a lottery. Some advisors will embrace the opportunity, some will act likes it's a holiday and still, others will embrace the prospect and work diligently. Ensuring all will remain focused on clients and their needs so that business keeps going and emerges from this lockdown intact is critical to a firm's success.

In the financial industry, the 'know your client' rule still needs to be front and center of the advisory process. Not only will paying attention to this aspect of compliance satisfy the know your client and suitability principles, it follows that the process of knowing your client takes on a much more significant meaning in this current climate.

Businesses will be scrambling to keep their heads above water. To keep staff employed; to keep clients engaged; to make sure people don't 'cut corners' and compromise the rules of compliance in their efforts to stay afloat.

The financial industry knows that there are significant consequences if they fail to understand the principle of 'clients first' and 'suitability', and all it entails in terms of compliance management.

Breaches of fiduciary duties where people lose money based on negligent advice will likely result in significant complaints, followed by lawsuits seeking compensation. Reparation that restores clients' financial standing and makes up for potentially lost profits suffered, could well have the further impact of bringing financial institutions to their knees under the weight of legal expenses and time lost in defending complaints.

These mandated regulations apply not only to the advisor/client relationship but more broadly the very institutions themselves. The financial services industry is front and center of the regulatory spotlight and only by demonstrating a true understanding of Know Your Client procedures, can organizations avoid the offences that could tie advisors and companies up in litigation for years.

Keep Your Clients Close:

Central to maintaining client trust is knowing who will need more attention from their financial advisor. Communication, therefore, is crucial.

Money is always an emotive subject add to this a pandemic, remote working, personal fear, and anxiety, not just that of clients, but the advisors as well, and this is unchartered waters. Clients will see their wealth creation goals slipping away and their life goals becoming unattainable.

One important way to settle client's financial fears would be to know which of them are likely to react to news bulletins and obsessively watch market movements, leading to panic selling.

Both the client and advisor must understand the behavioral responses driving decision making. Under stress, our decision making can be even more flawed, without our conscious awareness of these flaws in deciding. Without this insight, every outcome of the financial planning process is on track to become a complaint.

When you know yourself and your client's financial personality and behavior at a deeper level, advising, whether face to face or remotely, is more likely to be effective.

What worked at face to face meetings either in the office or at a client's home is now, as a result of using social media, subjected to the strength and reliability of internet access, facial and body nuances that communicate a message that may not be meant or can be interpreted incorrectly.

Behavioral smart advisors who already invested in DNA Behavior Natural Discovery will have at their fingertips sufficient insight into their client's financial behavior to be able to ride out the potential issues of social media exchanges. They will be watching the markets and mapping client responses using Market Mood. Those advisors will be on the front foot phoning clients to reassure them when markets are rapidly shifting.

DNA Behaviors Tools for Compliance:

DNA Behavioralizes money for advisors and clients. It predicts planning risks triggered by behavior. The current pandemic will surface behaviors both in advisors and clients not seen since 2008.

Advisors who invested in behavioral tools then will be reaping the benefits now.

They will have a depth of insight into their own and their client's financial personality and likely reaction to market movements and in terms of compliance, ensure they will be fully in accordance with the know your client and put your client's first rules.

DNA Behavior

It only takes 10-12 minutes for both advisors and clients to complete a questionnaire. Comprehensive reports can then be produced immediately to any device.

Armed with this wide-ranging insight the advisor is in a strong position to adhere to the compliance requirements as well as continuing to provide their clients with superior service.

Advisors will have a depth of knowledge into their client's biases, propensity to take risks, or not, the importance of adhering to the goals they have set and so much more.

Further, the use of the DNA Behavioral Management Guide Report for Advisors reveals:

1. Behavioral differences between client and advisor
2. Guidance for the advisor to adapt their style to the client
3. Financial behavior biases and risk reporting
4. Client engagement meeting process – relationship, financial and investment behaviors
5. Behavioral IPS – aligning goals, financial capacity, and risk-taking behaviors

All this financial personality resource reduces the risk of failing to comply with regulatory bodies standards and the law. It gives advisors insight into their client's behavior so they can respond quickly and accurately in terms of the advice needed.

DNA Behavior's **Market Mood** is a necessary tool for today. It measures clients' market fear or exuberance, arming advisors with data to behaviorally manage clients during times of market turbulence.

Remember, that this information can be delivered to any device in real-time enabling advisors to keep across those clients who need swift intervention from their advisor.

A Sustainable Approach to Compliance:

The starting point for every financial advisor is to understand what is at the core of compliance risks.

The Financial DNA Discovery Process is designed to help financial advisors to Know, Engage, and Grow the advisor/client relationship beginning at the first meeting.

Having expert knowledge in this field, and understanding the specific problems advisory firms face, the Financial DNA solution can address the regulatory challenge of the day, together with building client relationships to a level that radically reduces complaints.

It's important to remember that financial advisors are not trained to uncover significant, often hidden, information about their clients. They may well not have skills to better understand the psychology, behavioral biases, risk tolerance, and emotions underlying clients' decision-making approach. Moreover, advisors might have no real insight into their own behavioral biases and decision-making processes. Gaining this knowledge will empower both parties to make better decisions.

A validated process that reveals a client's financial personality at a deeper level from the outset, will set the relationship up for success. Further, it will be a significant move towards satisfying the regulatory requirement to 'Know Your Client ' and takes acting in clients' best interests to a higher level.

Both client and advisor will have different personalities, different EQ, different biases. If these differences are not revealed and managed, formulating a plan will inevitably be misaligned given that both are coming from different starting points. Add to this remote working and those different starting points could be significantly further apart, leading to misunderstanding and inaccurate advice.

All of this whilst managing the fear of a pandemic!

The 'Know Your Client' regulation includes understanding the client's investment objectives, their risk appetite, their capacity for loss, their financial knowledge and experience, their bias, decision-making approach, in other words, their financial personality. Therefore, this ruling has far-reaching implications for the entire advisory process.

To fully adhere to the new regulatory requirements every client relationship should be re-examined in light of social distancing rules. Refer to original DNA Behavior Discovery reports. They don't change over time and so the information is still current and relevant. Use this to identify opportunities for greater understanding.

Clearly, if you don't have DNA Behavior to unlock a client's financial personality, now's a good time to invest in it. Everyone is at home and online – what better time to encourage clients to complete such a profile. Especially when you explain the need to be compliant to ensure the advice you are giving them is laser-focused on their needs, goals, and wealth creation.

Financial advisors that can demonstrate their understanding of client's propensity for risk, their vision for their wealth creation, their family circumstances and succession planning, are less likely to find themselves the subject of litigation or loss of clients and could well be significantly ahead of competitors when the world emerges from this global pandemic.

Revealing Rogue Behavior:

A word to leaders is reading this guide.

The issue of risk management cannot be divorced from the responsibility ….. *to act under a fiduciary standard to put their client's interests ahead of their own……*

Suppose the industry is to be fully compliant. In that case, oversight of the C suite, the Board, and the advisors is as high a priority as adhering to the regulatory requirements for service to clients. But here's the rub: ensuring compliance is being attached to when all the key players are working remotely! So how do you guarantee the rules are being followed?

In general, compliance means conforming to a rule, but if no one can 'watch,' only behavioral insight into those responsible for compliance will work.

Compliance, therefore, extends to every part of the organization and falls within the critical area of understanding people before numbers.

Five percent of any workforce includes employees that are a high-security risk. In addition, the cost of all types of fraud is a *staggering 5 percent of turnover*, per the 2014 Global Fraud Study by the Association of Certified Fraud Examiners (ACFE.) So, what's the cost of employees whose behavior can compromise your business?

Identifying the personality types most likely to cross the line and the triggers that push them there could save significant dollars and reputations and keep your firm compliant and safe.

They are managing and analyzing the fallout from rogue behavior after the event in one way. However, the more effective way is to identify personalities most likely to be outliers and the circumstances that push them into this behavior. Decisions can then be taken to understand how to manage potential falls out and help employees use their strengths to avoid destructive behavior.

A simple example is knowing how an individual reacts under pressure. Remote working and social distancing will cause anxiety in some form or other in the people you lead. Again, this can be revealed and measured.

While larger businesses are investing more in cybersecurity and other monitoring programs, more needs to be put towards identifying and monitoring costly employee behavior risks.

The problem is that many of these insider threats are already in your business, and the situation is gaining momentum without anyone being the wiser. The Global State of Information Security Survey 2015 recommends that 23 percent of the annual spending on business security should be directed to behavioral profiling and monitoring of employees.

Based on our external research, employees with the following measurable behavioral traits are more likely to engage in rogue behavior when emotionally triggered:

- An innovative – bright mind, which turns into curious and devious thinking

- Ambitious – desire for success, leading to cutting corners
- Secretive – working undercover and not revealing critical information

At all levels of the organization, an employee behavior review should be uniformly applied. From high-performing leaders, down through the advisory, sales, and operations teams, to the disgruntled member of staff, no one should be exempt, not new hires, or old guard, everyone. This approach will identify the potential 'hot spots' and suggest remedial action.

Using a Natural Behavior Discovery Process can dynamically match employees with specific environmental conditions to determine their potential response. Such insights can also discern the degree to which individual responses could create destructive behavior and negative actions toward the business.

The reality is that any person with a weak or temporarily broken character in the wrong team or facing pressure such as remote working, isolation, or fear of losing clients can, and will, make flawed decisions and likely become the source of costly negative behavior. All of which might have been avoided with an investment in a behavioral profiling solution.

To learn more about DNA Behavior International and the solutions we offer, please visit: www.dnabehavior.com

If you have any questions or would like to discuss with an executive on our team, please email us at: inquiries@dnabehavior.com