

Broker/Dealers' Pending Paper Problem Under the DOL Fiduciary Rule

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In in a matter of months, broker/dealers will be faced with one of the most substantial and disruptive industry changes of our time.

April 10, 2017 is “D-Day” for b/ds and other financial services professionals handling retirement accounts. It’s the date when the [Department of Labor’s \(DOL\) new rule to address conflicts of interest in retirement advice](#)—commonly known as the DOL’s “fiduciary rule”—first takes effect. The rule will require any person providing retirement investment advice for a fee to act in the client’s best interest, not his or her own.

It’s no secret that many in the industry are sweating this one out. Seventy-three percent of industry executives believe the DOL fiduciary rule will be either very or extremely disruptive, according to a [report from Red Rock Strategic Partners](#).

Not only could it mean re-navigating the way investments are handled, but there will be substantial back-office changes that must occur. According to the [American Action Forum](#), the DOL’s final version of the fiduciary rule is estimated to cost over \$31.5 billion and require nearly 57,000 paperwork-burdened hours.

Where Paper Pressure Mounts

The 57,000 hours of paperwork—which is likely a conservative estimate—stems from an enormous amount of contract restructuring that will be necessary as the new rule takes effect.

B/ds will need to execute best-interest contracts in many cases, formally document any possible conflicts of interests, update disclosure agreements and more. Then, some of these documents need to be signed by clients to formally acknowledge these new elements of retirement investments. All of that documentation could add up to hundreds of thousands of sheets of paper, if not more.

Firms with a heavy roster of clients will undoubtedly feel the financial weight of these clerical requirements. In addition to paper costs, costs for related expenses, such as ink/toner, file storage, faxing and mailing will rise—if documents remain in paper form.

Where Goes Regulatory Change, So Goes Technology

Pivotal industry changes are among the most powerful drivers of technology adoption, so it’s almost certain that the DOL rule will serve as a catalyst for digital acceleration in the financial industry in the coming months.

In fact, in a survey conducted by [SS&C Technologies](#), nearly 80 percent of respondents said they will have to make changes in technology, policies and procedures in order to comply with the DOL rule.

Most likely, we’ll see digital adoption in two forms: Technology that streamlines the new elements of financial practice for b/ds, such as robo advisors and other digital advice and customer profiling tools, and technology that

minimizes firms' forthcoming paper burden. The latter is likely to come in the form of digital contracts and documentation, e-forms, e-signature technology, enterprise document management services, online client portals and more.

Before the Investment

Sweeping digital changes may happen quickly by necessity, but it doesn't mean that financial professionals should dive in head-first without proper due diligence. For any new technology that a firm reviews to streamline the DOL fiduciary rule's paper burden, it will be important to consider the following:

- **Privacy and security.** Financial documents are filled with sensitive personal and financial information. It is absolutely critical that any technology have the infrastructure in place to protect client data and information. This includes identity authentication, encryption, tamper-evidence and more.
- **Validity.** Should firms begin to adopt digital contracting/documentation and electronic signature technology, that technology will need to protect the long-term integrity and validity of those documents. That way, if documents are ever questioned in court, firms have legal evidence to provide their legitimacy.
- **Industry compliance.** Technology must also align and comply with financial industry standards, such as any that are outlined by the SEC or FINRA.
- **Compatibility and integration.** New technology will need to be supported by existing software and systems. Similarly, if client portals or other applications are already in place, it may be wise to think about how new technology can be integrated seamlessly into those platforms—for greater ease of use and efficiency.

Even though the DOL fiduciary rule doesn't come into effect until 2017, changes should start immediately. The sooner professionals begin to integrate and use technology that will help them comply with the new fiduciary rule, the more familiar and effective the technology will be by the time the clock strikes midnight on April 10.

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