



Automated compliance monitoring for the DOL fiduciary rules change

Developed by Megaputer Intelligence

Background

A large multi-national consulting firm is one of the world's leading professional services companies. With over 250,000 employees and offices based in more than 150 countries, the company earns over \$31 billion in annual revenues.

Challenge

Financial sector firms that work with retirement plan or provide retirement planning advice are subject to recent rule changes issued by the US Department of Labor (DOL). This new rule expands the 'investment advice fiduciaries' definition under the Employee Retirement Income Security Act of 1974. The new rule stipulates that retirement plan advisors are putting their clients' interests first when providing services. The new DOL fiduciary rule's final compliance deadline has been delayed to 2018 or later, so that the affected companies have some time to make all their documents compliant with the rule. The new rule got financial firms scrambling to review during the provided grace period all their marketing and sales documents, workflows, policies, and fee/commission schedules to ensure their compliance with the new rules.

The consulting firm wanted to provide document auditing services to its financial clients affected by the DOL rule change. The traditional approach to conducting such an assessment was to rely on a team of manual reviewers. However, for large and midsize financial and brokerage firms the sheer amount of information to be reviewed and remediated during the short grace period would rule out the manual analysis approach as too time consuming, costly, and generating potentially inconsistent results. The firm saw a significant opportunity to improve the speed, accuracy, and cost of the compliance assurance effort by utilizing a semi-automated solution to pre-screen documents for possible violations of the new DOL rule.

Solution

Megaputer developed a compliance monitoring solution based on its proprietary data and text analysis software system, PolyAnalyst™. Advanced linguistic and semantic analysis capabilities of the system enabled fast and accurate processing of millions of documents. The system automatically ingests retirement planning marketing materials in various formats and then performs text analysis and filtering to identify documents containing specific phrases, patterns, and pre-defined lists of triggers to identify text fragments that may pose a fiduciary rule violation.

In addition to pre-defined trigger phrases provided by the DOL, documents scored by the system were utilized as the inputs for PolyAnalyst's machine learning algorithms to develop a model that identifies potential rule violations in new batches of documents (see Figure 1).



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Expanding category: "investment action + financial product"
Expanded List (4400 Phrases)
Manage Fund, balance mutual funds, manage Roth IRA, Manage 401K ...
Withdraw IRA, withdraw 401K, withdraw 403b, Withdraw from IRA Withdraw from Individual Retirement account, ...
diversify investment strategy diversify Individual Retirement Account diversify allocation diversify Custom portfolio diversify Roth IRA ...

Figure 1. Expanded list of trigger phrases obtained through machine learning.

The solution runs all documents through the developed model for identifying the level of fiduciary risk associated with different fragments of each document. It separates compliance risk bearing from documents that have no compliance risk whatsoever. Then it flags and ranks high, medium, and low compliance risk documents so that they can be further reviewed by a human auditor (in that order). The system highlights specific text passages that are potentially in violation of the new fiduciary rules, thus enabling the user to quickly review the corresponding fragments of the marketing and sales materials in question (see Figure 2).

You may wish to consider this Fund if you are an investor with a long time horizon or if you can accept greater risk as you seek higher growth. There is no guarantee that the Fund's objective will be achieved.

Figure 2. Sample fragment with high DOL rule compliance risk.

The semi-automated text analysis solution can easily load additional data and repeat the same analysis when necessary. Taking advantage of the automated analysis, the consulting firm could deliver timely results to financial clients affected by the new DOL rules.

Benefits

The key benefits of implementing the automated compliance monitoring solution include:

- **Reduced time and cost.** Automated analysis helps quickly identify and highlight the potential DOL fiduciary rule violations in documents. This increases the review quality and improves the speed of document audits compared to purely manual processing, leading to the overall cost reduction.
- **Improved auditability.** The automated detection of obvious violations of the new DOL rule optimizes the use of time for human auditors who then can focus on reviewing more complex cases and fine-tuning the model to further enhance the accuracy of automated analysis.
- **Enhanced accuracy and consistency.** The analysis performed by the semi-automated solution is more thorough and standardized, eliminating inconsistencies inherent in the manual analysis process involving multiple human reviewers.
- **Ability to re-use for other purposes.** The solution easily can be adapted to accommodate any future changes in the government regulations. Moreover, the developed solution can be modified to address various compliance monitoring tasks in other domains.

