

An Aggressive Investment

Principal Funds achieved a huge ROI on a smart technology investment.

By John Harney

In recognition of technological advancements that provide economic as well as time-saving advantages for broker-dealers, not long ago the Securities and Exchange Commission (SEC) adopted amendments to Rules 17a-3 and 17a-4 under the Securities Exchange Act of 1934. The amendments changed the broker-dealer record preservation rules so that broker-dealers could use electronic storage media to maintain records. This directly affected Princor Financial Services, the Principal Financial Group's mutual fund transfer agency and broker-dealer.

The new rules both clarify and expand the scope of record keeping options and also require broker-dealers to maintain electronic records in a manner that preserves their integrity as if they were on paper. They also mandate that investment suitability is updated and confirmed for all clients, which means data such as name, address, risk tolerance, investment experience, and investment objective is collected from all clients and reported back to them for confirmation within thirty days of receipt.

Investment suitability surveys are a series of questions that qualifies a client to invest in an investment product. They are a legal requirement for brokers-dealers. Principal Funds sends out the survey for new clients and then again at two-year intervals. The result is hundreds of thousands of forms from its clients around the world. The data must also be evaluated and returned to the client within thirty days according to federal regulations.

The new amendments also mandate that users of electronic storage media such as Principal Funds have an audit system in place that tracks any changes made to an original or duplicate record so that at least the names of individuals who store and change records and the identity of relevant documents and changes to them would automatically be collected by the audit system. They must also organize and index all such archived data and provide quick access to it by the SEC.

Unfortunately, Principal Funds had no existing processes in place that would let it collect investment suitability on an annual basis. It was faced with a critical decision to either hire a

Customer: Principal Funds

Vendor: SunGard; www.sungard.com/exp

Business Problem: Due to rule changes, client communications could be maintained electronically as records. The company needed a way to efficiently capture and store investment suitability surveys.

Solution: An integration of Sungard's EXP AG capture module with existing imaging, business process management, and recognition software led to faster turnaround of returning the surveys to customers while minimizing exposure to risk and audit.

large staff to manually key all information from paper documents into their administrative record keeping system when they got surveys by mail or adopt appropriate technology and hopefully cut those costs. In January of 2006, it opted for a solution from SunGard comprised of the vendor's capture module integrated with existing imaging/business process management (BPM) and OCR/ICR/OMR technologies, and was glad it did.

Winner—AIIM Best Practices Award

These awards were established to recognize excellence in the ECM field. The award is based on superior accomplishments in the end user implementation of content, document, and process management technology.



Value-Added OCR

The implementation of EXP AG's Capture module began on January 24, 2006 and went live on April 28, 2006. During this period the system was fully designed, developed, and implemented. A three-week long system upgrade was also incorporated at the client's request. According to Stephanie Martz, operations manager, Principal Funds, the company chose SunGard, because "We had a long history of working with SunGard for solutions in several areas of the company, so we felt they could deliver on our timing and meet our goals." The SunGard imaging/BPM systems had been in place since 1993, for instance.

The goals of this project were to satisfy the requirements of the federal guidelines, effectively handle the massive influx of documents, and ensure total compliance in the event of a federal audit. In implementing SunGard's EXP AG Capture module enterprise-wide, it integrated it with the existing SunGard document imaging and BPM system and with Principal Funds' administrative record keeping system across all lines-of-business. Brad Mintun, SunGard's account manager for the project, says the capture module is comprised of an OCR engine, data correction engine, and integration that posts the processed surveys to the record keeping system.

The new system provides the efficient processing and full audit of each individual document to ensure regulatory compliance. The solution also essentially maps to the entire data management cycle. It handles the receipt of a document, captures data from the document, posts the data to the administrative record keeping system, delivers client confirmation, and enables extensive reporting.

Surveys come into the imaging/BPM system via fax, email, or scanning, and a work item is created and associated with each survey. For auditing purposes, the work item then tracks all actions related to the survey—when it came in, when it was OCR'd, when a confirmation letter went out, etc. This way, the system also validates that Principal Funds met the thirty day turnaround time to send the confirmation letter.

The imaging/BPM system automatically recognizes all surveys and sends them to the capture module which then does an ICR/OCR/OMR read on it. The capture module can recognize handwriting, machine print, and mark sense. Any exceptions are presented to an operator for data correction. According to Mintun, the read rate, though, is 96.3 percent correct. The operator keys and verifies the errors, but Mintun says errors are averaging no more than four to a 200-character survey.

The data is then hosted to Principal Funds' record keeping system and a confirmation letter is generated to the client. All surveys and confirmation letters are archived in the record keeping system and the imaging/BPM repository, and nothing is ever purged from the system.

With the capture component added to the EXP AG system Principal Funds can now obtain, index, validate, correct, and appropriately route incoming information in accordance with existing business processes. Once EXP AG's Capture component

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gathers incoming data, processes it, and places it in the central repository, users can leverage the data for processing, research, review, distribution, and storage via the imaging/BPM system.

Immediate Payback

Implementation of the EXP AG Capture module for the Principal Funds has minimized exposure to risk and audit, and allowed the Principal Funds to do more work in less time. The reduced processing time that resulted from the implementation was a key component to the success of the project. To complete the volume of work generated (in the first year) by this new SEC guideline would have taken approximately 6,724 person-hours without the use of EXP AG. With it, however, the time to complete the same volume of work was reduced to 840 person-hours.

Of course, because it avoided hiring a large number of employees to handle the dramatic increase in data entry, its labor savings were appreciable. According to Martz, the major benefit was "the cost savings that we achieved as a result of using the solution and the ability to meet our regulatory timing associated with that specific project." It was crucial that confirmation letters be returned in thirty days, whereas the first-year savings came to \$665,000 if temporary employees had been used or about \$1.7 million if full-time employees were on the job.

Productivity increases were also huge. EXP AG Capture was able to average 248.41 documents per hour and 1,977.31 documents per day whereas any employee would have averaged 10.34 documents per hour and 82.76 documents per day. This improvement in processing time resulted in dramatic cost savings per document. The cost per document processed would have been \$1.45 for a part-time employee and \$3.38 for a full-time employee. With EXP AG the cost per document processed was reduced to a mere \$0.17. Productivity of existing Principal Funds employees was impressive too. "Training took about an hour," says Martz.

Within the first week, says Mintun, "Three operators were processing 2,100 forms. What's more, payback on the system was virtually immediate." The capture module and integration with the existing imaging/BPM system cost about \$100,000, but savings in labor paid the system off in two months. 

John Harney (johnharney@netzeroc.com) is a freelance writer.