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VOICE RECORDING TECHNOLOGY AND THE CHALLENGES FACING THE FINANCIAL SERVICES MARKET

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SINCE THE FINANCIAL CRISIS OF 2007-2012, THE VOICE RECORDING (VR) MARKET HAS UNDERGONE SIGNIFICANT DEVELOPMENT ACROSS THE FINANCIAL SERVICES (FS) MARKET. THIS INSIGHT AIMS TO PROVIDE AN OVERVIEW OF THE INTERNAL AND EXTERNAL FACTORS THAT INFLUENCE THE DESIGN OF A MODERN VR SOLUTION AND TO SUMMARISE OUR KEY RECOMMENDATIONS.

INSIGHTS

1   EXTERNAL FACTORS

Two key external factors impacting the design and deployment of VR solutions in the FS market are regulation and technology.

1.1   REGULATION

There have been a number of regulatory reforms which has meant that financial institutions whose products are qualifying investments (including shares, bonds, options and futures) that are traded on a prescribed market, or other types of investments related to these have to comply with recording certain communications. The penalties for non-compliance are significant, including - in the most extreme case – a suspension of banking license as well as substantial monetary fines and loss of reputation.

In the United States, the Dodd–Frank Wall Street Reform and Consumer Protection Act resulted in new requirements for regulated recording services that cannot be achieved with legacy voice recording systems:

- *72 hour 'call replay' provision for regulators*
- *Assurance of the integrity and the longevity of call archives in compliance with all data retention policies*
- *'Search and playback' traceability of actions performed.*

In the U.K., the recording regulatory framework is defined by the Financial Conduct Authority (FCA) under chapter 11.8 of the Conduct of Business Sourcebook (COBS). The main FCA Policy Statement is the PS08/01, Telephone Recording: recording of voice conversations and electronic communications, which came into force in March 2009. PS08/01 was amended in 2010 with PS10/17, taping of mobile phones, which removed the mobile phone exemption from COBS 11.8 taping rules.   COBS 11.8 general rules include:

- *Definition of relevant conversation or communication to be recorded*

- *Scope of media to be recorded (voice including mobile voice, IM, email, facsimile)*
- *Records retention duration (at least 6 months) and requirements for storage medium.*

In the European Union, the Markets in Financial Instruments Directive (MiFID II) legislation was agreed by the EU's national governments in early 2014. In terms of VR, MIFID II considerably extends the scope of conversations that need to be recorded as it now includes anyone involved in the advice chain that may result in a trade. These records are required to be kept for a period of 5 years. In February 2016 the implementation of MiFID was postponed until 3rd of January 2018.

More generally, the FS sector is subject to multiple and complex legal and regulatory compliance requirements that span international boundaries; for instance the Autorité des Marché Financiers (AMF) in France or the Hong Kong Monetary Authority (HKMA) Code of Banking Practices.

Multinational FS firms also face the challenge of compliance with data protection laws across multiple geographies.

This vast array of regulatory obligations makes it difficult for FS firms to leverage their geographic scale and to standardise the VR platform.

1.2   VR TECHNOLOGY AND THE EVOLVING VENDOR LANDSCAPE

Traditionally voice recording solutions have been adopted on a 'point solution' approach to meet a compliance requirement. Up until a few years ago, the VR vendor landscape was a stable predictable environment (especially for trading rooms) with NICE as the dominant global player. NICE's acquisition of Cybertech in 2011 reinforced their leadership position resulting in a client portfolio of more than 85 of the Fortune100 and ca.95% of VR channels across the global Investment Banking market.

However, the traditional VR deployment approach has been impacted by the need for a more integrated and sophisticated solution that is more agile, rather than deploying costly and resource intensive solutions.

Traditional competitors to NICE included ASC, Verint and Redbox. The evolving regulatory framework, however, has seen the emergence of new vendors addressing the mobile VR and UC (unified communications) needs of the marketplace. VoxSmart is acknowledged as the pioneer of mobile VR and is now providing solutions to major international banks. Other emerging mobile VR players include TeleWare and Truphone. Likewise Verba has emerged with new solutions for Skype for Business and Cisco UC, which enable banks to implement UC for regulated recorded users whilst also satisfying their compliance obligations.

Up until recently, data analytics products were limited to data communications media such as email, chat rooms (Bloomberg, Reuters) etc. However, the deployment of UC platforms enables the integration of voice communications into data analytics products.

The explosion of data volumes across multiple channels of communication is forcing FS firms to evaluate enhanced search tools (eDiscovery) to satisfy compliance requirements. Much attention is also being given to the integration of voice communication into the eDiscovery search environment. For example, implementation of "speech to text" solutions could provide Compliance departments with the search capability to identify relevant voice records without having to resort to the more laborious playback of caller records.

However, analytics is not limited to the implementation of consolidated eDiscovery across disparate channels (voice, email, UC). Analytics aims to include the interpretation of 'meaningful content' and applied to compliance, to support fraud control with

context inclusion and analysis; for instance the analysis of new trends, new interactions and behaviour change within a population. Complex multi-channel analytics are necessary to trace and correlate all the relevant inputs for any particular trade. Consequently, FS firms are looking to deploy multi-channel analytics solutions (for monitoring and investigation purposes) on behalf of internal control teams and/or regulatory authorities.

IT companies have significantly invested in analytics platforms. For instance, HP acquired Autonomy in 2011 and has developed a communication-centric analytics platform known as HPE Investigative Analytics. HP has been positioned by Gartner as a Leader in its Enterprise Search Magic Quadrant for the second year. In parallel, on the 31st of March 2016, Morgan Stanley reiterated an 'Overweight' rating on IBM shares, considering that IBM 'Watson Analytics' solution will double its number of clients in 2016.

2 INTERNAL FACTORS

Mirroring the multitude of external factors, several internal factors shape how a VR model can be deployed inside a large FS firm. These include:

- *Voice strategy and infrastructure*
- *Interoperability of systems*
- *IT controls, policies and procedures*
- *Alignment to IT security*
- *Storage and back-up strategies*
- *Group-wide and regional strategies.*

In addition, there is a new financial tension within FS organisations. On the one hand, they are under continuous pressure to reduce the IT cost base, whereas on the other hand there is a regulatory obligation to invest in expensive infrastructure to satisfy compliance obligations (WORM storage, eDiscovery tools or analytics platforms). This financial tension is driving the need for infrastructure standardisation.

3 RECOMMENDATIONS

For any FS organisation planning to design, refresh and/or implement a new VR solution, we make the following recommendations.

3.1 OPERATING MODEL

A key success factor is the definition of a global operating model, that is:

- *To balance the need for global standards with the local regulatory compliance requirements*
- *To make operational processes as consistent as possible across regions*
- *To increase service coverage using different regional service support teams to leverage the standardisation of technology and products.*

3.2 OPERATIONAL MANAGEMENT

Operational management and quality of service delivery are critical success factors for any VR programme. As part of service standard definition, proactive effort is required to:

- *Anticipate potential failures before they turn into business impacting incidents (complete system health checks, morning checks, pro-active updates and upgrades)*
- *Reduce the business impact of incidents which do occur via early detection (consistent supervision/monitoring) and faster reaction (relying on remote management when authorised by compliance)*
- *Increase voice recording QoS assessment with assurance tools to move from a sample check method to an exhaustive check; assurance tools make IT and compliance teams more confident in their ability to respond at any time to any possible external or internal investigation.*

3.3 COLLABORATION BETWEEN IT AND COMPLIANCE

The IT, compliance and legal teams should collaborate to qualify business requirements in terms of technical and operational measures. This requires standards to be defined in a way that are understood by all teams.

The compliance and legal teams should be involved during the design phase of the VR solution. This allows:

- *Assessment of the technical design with regulatory constraints in mind (data locations, required segregations between types of telephony/businesses/countries/regions, types of access rights for each and every stakeholder, level of sharing across the infrastructure, audit trail requirements)*
- *Alignment of infrastructure investments with the criticality of business requirements.*

In addition to technical collaboration, there is a need for a joined-up approach to the design of certain business processes, for example:

- *Playback management: Who can playback? What is the playback workflow? What are the means of traceability and controls?*
- *Data retention management: Compliance must be involved to define the requirements regarding data retention management. Furthermore, considering the changing regulatory framework, an operational IT and compliance governance framework must be defined to handle the review of data retention duration, the management of hold notices and the evolution of data location constraints.*
- *Recorded user management: Who is recorded? Why - business needs vs. regulatory*

compliance requirements? Under whose authority (Compliance Officer)?

- *Regulation management: a close relationship between IT and compliance is also needed to anticipate changes to the regulatory framework. IT can also share technical challenges with compliance (for instance, the introduction of unified communications) to proactively work on product strategy.*

Business managers may also be involved to assess the impact on the different business lines.

3.4 TECHNICAL STANDARDS AND ARCHITECTURE

Architecture standards should be defined to:

- *Improve service delivery management (for instance automatic qualification of changes as production environments are similar across the regions)*
- *Drive potential cost savings through standardisation (which can reduce workload in the build and run phases)*
- *Create a coherent design to integrate telephony and VR systems. This will limit the number of failures where the voice recording is not available while the telephony service remains online.*

4 CONCLUSION

In conclusion, our experience suggests that good working practice entails some or all of the following:

- *Anticipation of future business requirements via collaboration between IT and compliance teams and design of "future proof" product/architectures (e.g. Mobile Voice Recording, enhanced search tools)*
- *Definition of global VR service standards that apply across different*

regions and different business franchises

- *Consideration of the wider IT ecosystem (e.g. telephony, storage) and application of new architecture standards (product, resiliency, location, mutualisation strategies, acquisition types) to optimise VR platform design*
- *Use of supervisory tools to move from corrective to proactive maintenance*
- *Continuous service improvement via knowledge management and sharing of lessons learnt.*

ABOUT US

Wavestone is an international consultancy that provides connected thinking, insight and capability to industry leading organisations. We work collaboratively with our clients to plan strategic business transformation and seamlessly turn strategy into action.

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