THETALAKE

Financial Services Compliance:
Best Practices for Audio Recording Supervision

Audio recording is commonplace for financial institutions (FIs). This is because well-established regulations concerning recording, handling, and retention have been in place for some time, such as Dodd-Frank, PCI-DSS, FSA, and the Data Protection and Freedom Information Acts. Recording requirements expanded with the revised Markets in Financial Instruments Directive (MiFID II), which aims to strengthen financial stability by ensuring maximum transparency in markets. This, along with new privacy laws like EU GDPR require shifting to a new plan to manage audio recording supervision.

The Impact of New Regulations

To ensure fairer and safer financial markets, MiFID II now requires firms to record both phone and electronic communications for investment services, such as reception and transmission of orders and execution of orders on behalf of clients. The recording requirements previously applied to the conversations of individuals directly involved in trading, and under MiFID II, this widened to include anyone involved in the advice chain that may lead to a trade.

As a result, FIs were tasked with conducting a fundamental review of business processes, including the recording and storing of conversations. Following the scramble to implement broader call recording, FIs are now experiencing large and growing archives of audio call recordings, as well as more requirements to review recordings for conduct risks and customer data protection and handling.

Now that FIs have a fast-growing archive of recordings, coinciding requirements like EU GDPR, the California Consumer Privacy Act of 2018, and the South Carolina Data Insurance Security Act mean that it's now longer acceptable to have a superficial understanding of what is in your recordings.

Financial organizations must adopt supervision processes and make best effort attempts to identify who is on the recordings to protect client identity. And in the case of GDPR, this also applies to erasure requests (i.e., when a client invokes their right to be forgotten). Further, FIs need to identify and protect recordings that contain PII, CII, and PCI. In the event of a breach that impacts the integrity of the recordings, you also need to know the identity of those to notify.

Age of Accountability

What is hiding in your audio recordings can hurt you. With recent modernization of regulations, the adage "ignorance is bliss" no longer applies. The age of accountability—both at the corporate level and at the individual level for compliance professionals—is in full swing.

On the individual level, compliance officers must be proactive because they are being held accountable for issues that could have been addressed. According to Thomson Reuters Cost of Compliance 2018 study, 54% of respondents expect their personal liability to increase in the next 12 months, and 70% of firms consider the regulatory focus on culture and conduct risk will increase the personal liability of senior managers. The risk of fines has also never been more real. Regulatory scrutiny and enforcement actions on the financial industry continue to rise with projections topping $400 billion in fines from US and EU regulators by 2020.[1]

> "Of additional concern for 2018 is the 18% who expect their personal liability as compliance professionals to be significantly more in the coming year, which may reflect the roll out of personal accountability regimes around the world."
>
> **—Thomson Reuters
> Cost of Compliance 2018**

Legacy Technology Challenges

Most corporate-adopted voice recording solutions pre-date many of the new regulatory requirement nuances. Additionally, they were not built to support massive scale analysis using modern detection capabilities like natural language processing (NLP), machine learning (ML), and artificial intelligence (AI). That means they simply can't find the right content and risks in audio recordings.

Furthermore, many of the tools that bolted on AI and ML aren't tuned for domain topics specific to financial institutions (FIs), such as Dodd-Frank swap conversations, FCA- or FINRA-related customer complaints, risky behavior of brokers, and more. This places the burden of tuning search and detection on the FI's compliance team, and, often, the required effort is insurmountable. The high volume of false positives creates too much non-relevant content to review. And the false negatives introduce an unacceptable risk level from unidentified risks.

3 Steps to Audio Recording Supervision

These shifts mean the check-box approach of doing the minimum for capturing audio recordings no longer applies. There are no more "passes" for lacking awareness of areas that require recording or knowledge of the recordings that store sensitive data. Here are three steps to help you simplify the path to audio recording supervision:

1. Have a plan to expand your call recording

First, establish a plan and policy to record audio calls beyond simple client transactions. This should cover expanded regulatory expectations, and more importantly, best practices for audio recordings when business, products, and offers are discussed. Recording enough calls and call types helps avoid providing a guided path to malfeasance and conduct risk. This sets the expectation within your organization that there is compliance monitoring and there isn't a loophole to avoid recording.

2. Establish a review process that doesn't rely on transcripts alone

Once you begin recordings, create an auditing plan to review them at regular intervals. It's common to review 10 – 20% of your new recordings per quarter. Supporting technology that can automatically detect and prioritize the highest risk recordings to review is also ideal. For the best results, your technology should use NLP and ML analysis that is tuned by industry experts to focus on specific communication and behavior risks related to financial services, including Dodd-Frank, FINRA, FCA, MiFID II. Next, you should identify the reviewers you want to include in the process.

Adopt Technology · Create a Plan · Establish a Review Process

Transcripts Caution Note:

As noted in the technology challenges, using a review process based on transcripts combined with search tools isn't an ideal approach. Transcripts often lack the accuracy required to correctly identify the key words in recordings, and they definitely lack the domain-specific tuning to find relevant risks. For example, numbers like '4,' '2,' '22,' or '30' are often captured by even the best transcription tools as 'for,' 'too,' 'you too,' or 'dirty.' This poses a critical issue in accurately discovering compliance-risk conversations that discuss PII, swaps, derivatives, customer complaints, rates, implied returns, and more.

As a result, reviewers often follow up by listening to the audio file, which creates a time-consuming, complex process. In addition, this approach requires that you manually create a record of the review that can be stored with the transcript and audio file, including an indexing system to surface the review in a report. You'll also need the means to provide an auditor with access to the review report, recording, and transcript.
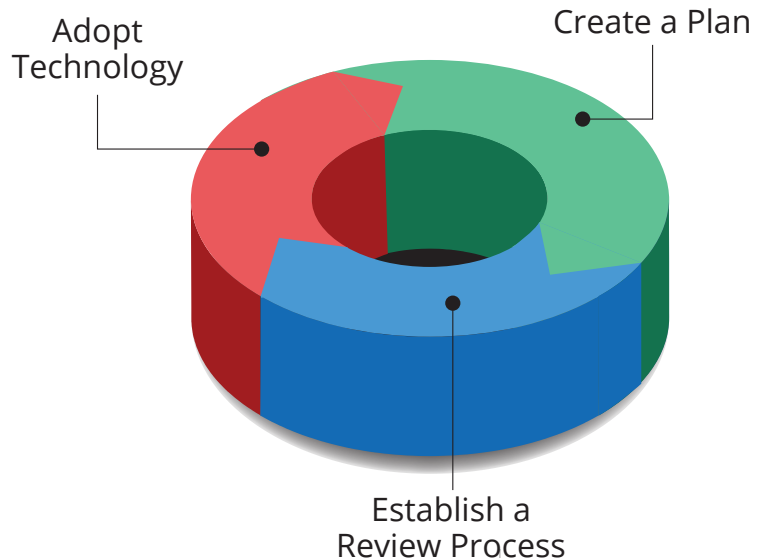
3. Streamline review and supervision with technology

Streamline and bolster your recording review process with technology. However, be careful not to append this to your existing eDiscovery and supervision process that is designed for your email or social media archives. Even adding a recording and its transcript to the system still leads to transcript accuracy issues. The same is true for your audio and call recording system that may feature some transcription and search capabilities.
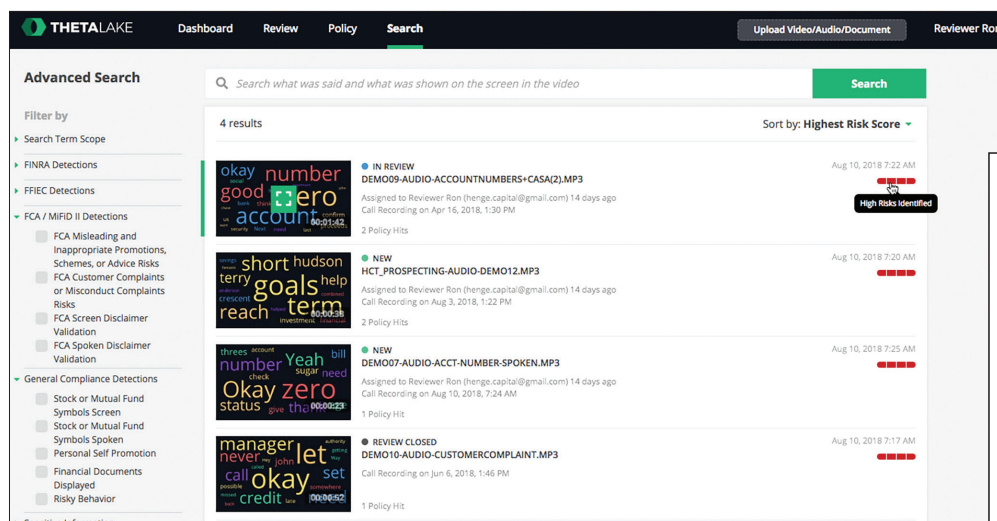
Instead, adopt a review solution that is built to handle audio—and even video supervision. It should support integration with your recording or call infrastructure for recordings. It should also apply AI to gain better cognitive insights on risks in recordings and automate tasks for your reviewers. This will also ensure accuracy in analyzing audio content. This is the best path forward to assist compliance teams, reduce risks, and improve customer trust.

The Theta Lake Approach

Theta Lake provides a purpose-built compliance suite that makes the review of call recordings easier, faster, and more accurate. The system uses deep learning and compliance AI to help your compliance teams automate policy risk detection and manage workflow for potential regulatory and compliance risks in your audio recordings.

Automated Risk Prioritization

- Automatically prioritizes risk levels of call recordings and identifies potential policy violations in each recording

- Pre-built policies tuned with financial services domain expertise are powered by natural language processing and deep learning to automatically detect relevant regulatory, conduct, and corporate compliance risks related to Dodd-Frank, customer complaints, risky behavior, and more

- Receive regular policy updates by our data scientists with decades of compliance risk detection expertise for dramatically improved risk detection and prioritization as search on raw transcripts of recordings are consumed over time.

- Easily create custom, company-specific policies that go beyond FP-prone lexicons with implementation into Theta Lake's deep learning environment.

Figure 1: Call recordings analyzed by financial services policies and prioritized by risk score

Detailed, Audit-Friendly Reports

- Detailed reports provide information on the audio recording, detected policy violations, reviewer comments, and review steps.

- Provides a full picture and context of the content and review, saving stakeholders time and effort including audit functions.

- Easily send reports with integrated meta-tags to email archives for use in legacy eDiscovery and supervision tools.

Intuitive Review Workflow

- Streamlined workflow directs your compliance team through the recordings review, including our Compliance Advisor Bot that suggests potential risk detections for review, validation, or resolution.
- AI-powered workflow delivers high quality review process that is easy, consistent, and collaborative.
- Gain visual detail for each step in your recording review with our Visual Workflow Editor, which enables workflow editing and built-in content validation and routing.
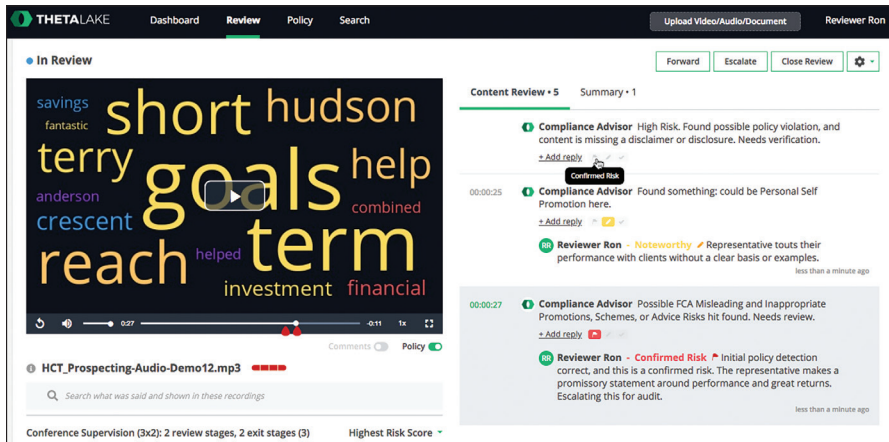- Ensures the appropriate recordings go to the designated reviewer and that the right risk polices are applied.

Figure 2: Streamlined recording review workflow

Integrations

- Easily integrates with any call environment and supports direct integration with call infrastructure like RingCentral and Red Box Recorders.
- Consume call recordings from original sources, including call recording systems and shared directories—and even directly uploaded into the Theta Lake system.

Secure, Compliant Storage

- Provides secure, encrypted, and compliant storage archive for call recordings.
- Can act as a primary or secondary archive for digital compliance or as temporary archive for review cycles.

With Theta Lake, you can:

- Scale your supervision with automation that saves your team time and resources
- Prioritize review based on risk score, rather than random sampling
- Reduce risk with a consistent, efficient approach

Figure 3: Detailed audio review report

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