

Published: May 2011

Capital Investment Companies “Blown Away” by Value, Ease of Use of Subserveo

Capital Investment Companies, a broker-dealer providing one-stop shopping for clients from its 78 branches in eight states wanted to enhance its compliance monitoring capabilities. After considering more expensive solutions it deployed Subserveo and has been delighted ever since. The company’s Chief Compliance Officer, Ron King, says: “We were blown away with what we saw, and then blown away by the price.”

Company Overview

Capital Investment Companies® is an independent broker-dealer with 78 branches located in eight US states. The company, founded in 1984 by Richard Bryant and Bobby Edgerton, has more than 200 registered representatives, four RIAs, and a dozen registered CPAs to service its clients, offering a wide range of financial products and services including stocks, mutual funds, insurance, mortgages, trusts, estate planning, and more.

“We take pride in being able to offer our clients a one-stop shop for all their investment and insurance needs,” says Co-Founder, President & CEO, Richard Bryant. “I don’t know of another medium-sized broker-dealer that does what we do. We’re not hamstrung like some of the larger brokers—we really do it all—and are able to keep our clients in-house to meet their goals and provide the best service possible.”

Business Challenge

Capital Investments, like so many others in financial services today, is mindful of the increasing compliance scrutiny that has been advanced in recent years by the Financial Industry Regulatory Authority (FINRA) and the Securities and Exchange Commission (SEC). The tighter regulatory environment has made the threat of fines due to non-compliance a hot topic of discussion and has escalated the level of concern around compliance for many broker-dealers. In an industry where thousands of trades are placed daily on behalf of a firm’s clients, the potential for oversights that can result in regulatory fines is significant.

Department and branch supervision, operational risk, operational surveillance, market integrity, suitability surveillance, and anti-money laundering regulations all weigh heavily on the minds of

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Business Need

Capital Investment Companies needed a compliance solution that was easy to use, affordable, and effective.

Benefits:

- Enhanced compliance environment
- Ease of deployment
- Better view of its business
- Great Return on Investment

compliance officers, branch supervisors, executives, and investors. Bryant notes: “This is a risk-based business that you manage across how you sell, who you hire, and everything you do.”

Ron King, Chief Compliance Officer at Capital Investments for several years, has three full-time staff, one part timer, and works with consultants for 3rd-party testing. Prior to King’s arrival at Capital Investments, the trade blotter was reviewed daily by the head of operations and the compliance department, who looked for compliance issues manually. “Doing the job manually took far too much time,” King says. “And there was always the concern that something would be missed.”

Early Attempts

The situation improved some when the company deployed an electronic solution, but it wasn’t enough. “Our consultants helped us develop electronic downloading of blotters, allowing us to work with the data and create some internal reports,” King recalls. “The problem was getting meaningful data monthly or even quarterly. It was an inadequate system, which sometimes resulted in discovering issues 6 to 8 weeks after they happened.”

Capital Investments needed a solution that would provide a simpler means of looking at compliance issues such as suitability, registration, excess commissions over a particular time period, and churning of accounts. They looked for a solution that would provide the risk management they required without breaking the bank. In looking at traditional automated compliance tools available at the time, Bryant knew that the internal resources and capital expenditure to purchase and implement a solution was not realistic for his firm. In the absence of something more affordable, maintaining the status quo continued to be a potential time bomb for his organization, which kept him awake at night.

The Search Continued

In 2008, during a significant recession, when many broker-dealers were retreating into a spending freeze, Bryant decided that investing in automated compliance technology was the right decision to protect his firm and ensure every trade and transaction was being monitored on a daily basis. He knew that finding the right automated solution was imperative to protect the firm, but the products available were either lacking in functionality or completely out of reach in terms of cost and resources required to deploy them.

“We looked at Protegent, but were not impressed with its high cost or its functionality and felt that it would be a waste of our money,” King says.

As with most things in life and especially in business, timing is everything. Enter Willis Smith, a business development manager with 1st Bridgehouse, a Subserveo business partner, and acquaintance of Bryant’s who was convinced that Capital Investments would benefit from Subserveo’s cutting edge and very affordable compliance automation solution.

“Willis mentioned Subserveo a number of times and was confident that it was the answer to our compliance needs—but I was skeptical,” King says. “He persisted until I finally agreed to go through the motions and see what it could do.”

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Solution

“We changed our minds immediately when we saw a demo of Subserveo,” King says. “We were blown away with what we saw, and then blown away by the price. Subserveo is a fraction of the cost of Protegent and is far more effective—and it’s so easy to use!”

Subserveo enhances the compliance officer’s role, helping them demonstrate on-demand, firm-wide FINRA and SEC compliance to senior management and regulators. It helps compliance officers conduct trade blotter reviews, examinations and investigations more efficiently.

Subserveo gives a firm confidence that its compliance and supervisory activities are functional, accountable, and executed consistently according to firm policy across the whole organization.

Chiefs of compliance and compliance officers depend on Subserveo for its accurate and detailed compliance alerts and case management, supporting all aspects of their day-to-day supervision. Subserveo customers have access to a library of over 150 tests, providing turn-key regulatory coverage for FINRA and SEC regulations that can be reviewed using data extracts. Tests are easily configurable by the user, adapting them to firm policy guidelines without requiring programming effort.

“Subserveo was the answer to our prayers, proving a near real-time basis of reviewing the previous day’s business—timely enough to undo problems before they become etched in stone”, King says.

Subserveo’s user-defined dashboards are accessed through a Web-based user interface, providing compliance alerts with detailed transaction, order, and account information. With Subserveo, documenting evidence of supervision is simplified—alerts are archived and stored for easy retrieval, at any time from any location.

“I understand technology and the financial industry, so I could not believe that Subserveo is able to create such a simplified view of my business in its interface on the surface, knowing the complexity and volume of data being analyzed from multiple sources simultaneously behind the scenes,” Bryant says. “No one else can do what Subserveo does.”

King explains further, “It really fit with what we were doing and hoped to do better with compliance automation. We looked at the dashboards and the way the system is laid out—it’s all very intuitive so it’s easy for people to grasp and feel comfortable with. It’s not rocket science to use it. The capabilities and ease of working with the Subserveo team was also a big plus, which factored into our decision to purchase.”

Benefits

Capital Investment Companies has enjoyed a number of benefits since deploying Subserveo, including enhanced compliance, ease of deployment, a better view of its business, and a great return on investment.

Enhanced Compliance Environment

Deployment of Subserveo has provided Capital Investments with an enhanced compliance environment—and the peace of mind that goes with that. “We didn’t have any automated compliance tools prior to deploying Subserveo,” Bryant says. “Subserveo has enabled us to build

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a compliance process that has significantly lessened the potential for losses due to lawsuits and FINRA fines.”

The automated features of Subserveo allow Capital Investments to greatly expand its compliance monitoring efforts. “We can now do more than we did before, in the same amount of time, because it’s so much easier,” King says. “Subserveo can be used as a quick screening tool to cut through accounts, including those where there is no problem, even when a test triggers an alert because a trade is outside specified parameters. It can do far more for registration than we could before to let us know where an account is situated. It used to take a great deal of work to locate accounts manually.”

Capital Investments now feels it is ahead of the curve with compliance. King notes: “Our Subserveo deployment shows that we have an even tighter compliance process today and sends a message that we take compliance seriously.”

Ease of Deployment

The company was impressed by the ease with which Subserveo was deployed and by the completeness of the product out of the box. “We were extremely pleased with the short timeframe required and ease of deployment with Subserveo and the minimal issues we experienced,” King says. “As with any new system, you have to put some effort into the initial setup to tweak it to meet your specific parameters and thresholds. It’s well worth the short-term work for long-term gain. You get meaningful data, without being buried in data.”

There was no customization and additional costs to get Subserveo working to suit the firm’s requirements. By working closely with Capital Investments, Subserveo was deployed within two weeks of receiving its data authorization from its clearing firm, Sterne Agee.

“We were able to start with limited reports and tests, expanding to utilize additional tests as we got comfortable,” King says. “We can continue to add tests and additional users as our business model evolves in months or years.”

“We were extremely surprised by the ease of implementation,” Bryant says. “I received absolutely no complaints from anyone in the company throughout the process.”

In addition to liking the product, Capital Investments also enjoyed working with Subserveo. “We’ve been telling everyone about Subserveo,” Bryant says. “Their people understand our business and speak our language. Best of all, if there is ever any issue, they ensure a solution is found immediately.”

Better View of its Business

As the company has grown, it has become ever more important to have a good view into operations, something that Subserveo provides. Capital Investments takes pride in being extremely discriminating in terms of who they hire as registered representatives to ensure the highest level of service for its clients. Their average rep has been in the business approximately 20 years and every hire is interviewed personally by Richard Bryant.

“Subserveo has provided a big picture view of our organization at a glance,” King says. “We may see up to 100 alerts per day, but out of those, many are non-issues, so just knowing which are or aren’t potential issues of concern is a big plus. With Subserveo it is far less time intensive to drill

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down and know that all is fine. It's has helped me feel more comfortable that our guys are doing the right things with less exposure for the company."

Great Return on Investment

Especially against the potential for inadvertently incurring regulatory fines, Capital Investments sees Subserveo as a great investment for their operations. "There is a cost to inaction," King says. "One fine could easily exceed \$100,000, which for us would be the equivalent of using Subserveo for more than 10 years. So you really can't afford to not do this. The risk that firms are taking by not having a system is significant. The stress alone of worrying that something might happen impacts how you do business."

Looking at return on investment, Subserveo finds plenty of benefit. "The ROI has been very strong," King says. "Subserveo represents a great use of our resources for the dollars we have had to spend. It's very reasonably priced and provides great value. Subserveo has allowed us to save money and feel more comfortable, while enjoying better results. If we were doing everything manually that we can do with Subserveo, clearly we would have had to have added one or two more people for compliance. Subserveo has saved us from having to recruit and find additional compliance persons to hire."

Subserveo is seen as an especially great investment for smaller companies without large compliance staffs. "We tell folks we are very happy with Subserveo and that it's the best investment a firm can make right now," King says.

"I bought Subserveo in a time of lower revenue and increased costs, but I was unable to find a reason not to buy it," Bryant says. "It has given us a comprehensive view of our business and has made us a better firm. I often say to others in the industry that it's an easy decision. You can pay Subserveo a little now, or pay the regulators and lawyers a lot more later."

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For More Information

For more information about Subserveo products and services, call us at (866) 385-9029. To access information using the World Wide Web, go to: <http://www.subserveo.com>

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