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Tracking changes

Compliance starts with effective relationship management

■ The regulatory burden for the private equity sector is increasing. Current regulations are numerous enough, from the Data Protection Act 1998, to the Bribery Act, the Anti-money Laundering Act and the Financial Services Authority (FSA) Handbook. Even so, legislation that is due to take effect in 2013, such as the Alternative Investment Fund Managers (AIFM) Directive, will also impose specific regulatory requirements on PE firms.

At a micro level, every piece of legislation is unique in its intent and requirement, but on a macro scale the fundamental objectives are essentially the same: to increase electronic communication; eliminate the risk of crime; ensure business transparency; provide accurate reporting; streamline audit processes; and protect the customers people and firms collaborate with.

While customer relationship management (CRM) is a discipline designed to streamline communication and gain a business advantage from the 'relationship intelligence' within private equity firms, many people are not aware of the role it also plays in regulatory compliance.

The new AIFM Directive will require firms to disclose enhanced investment information to investors and potentially the FSA. CRM tools could allow firms to track investments and investment options, report on all phases of the due diligence process and collect a complete history of the deal for use in future prospecting.

Private equity and venture capital firms constantly need to undertake risk profiling, including credibility checks on investees and investors. The Bribery Act 2010 requires organisations to take measures to prevent persons associated with them from bribing another person on their behalf. Even

down to hospitality received and offered to business associates, through CRM processes firms can guarantee a robust defence against the Act by proving that they have adequate procedures in place to prevent bribery occurring.

Similarly, the Money Laundering Regulations 2007 require firms to put in place checks, controls and procedures in order to anticipate and prevent money laundering or terrorist financing. CRM systems enable firms to keep client and partner lists, which can be checked on a periodic basis to ensure that people involved with the firm are not blacklisted for criminal activity.

The Data Protection Act 1998 demands that firms comply with eight key principles that range from fairly and lawfully processing personal data to ensuring it is always accurate and up-to-date and never transferred to a territory where the level of protection is inadequate. That is a tough ask, however. CRM systems allow a single repository of data to be created, which makes it far easier for firms to ensure that the information held on contacts is accurate. For example, contacts may be asked for their updated contact information, and responses received would be input automatically into the central database. Similarly, firms can easily manage their contact opt-in and opt-out mailing lists for any newsletters or communications they regularly send out.

Often the loss of reputation caused by non-compliance is far more damaging than the financial penalties. Senior executives and partners carry the ultimate responsibility of regulatory compliance and a CRM-led approach to business operation is well worth a consideration. The benefits can be substantial, both in a streamlined approach to customer management and in keeping pace with the due diligence requirements facing private equity today. ■

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