

# Securities Industry News

## E-mail Archiving: Innovative Technology, Cautious Customers

*By Carol E. Curtis*  
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While e-mail archiving may be a business and technology whose time has come, uncontrolled e-communications are still the rule rather than the exception within the securities industry. That is the message in a just-released study in which 62 percent of firms surveyed said they do not yet have a way to efficiently identify and search for e-mail within their archives.

"In as heavily a regulated industry as financial services, these findings are surprising," said Bo Manning, CEO of Orchestria Corp., a New York-based provider of compliance-policy management technology that funded the study in partnership with data storage company Iron Mountain. The survey was conducted by *Securities Industry News* and had 533 respondents, mostly from midsize firms and heavily skewed toward broker-dealers. It also showed that 64 percent still cannot prevent e-mails that violate corporate and regulatory standards. Though 95 percent said they had received legal or regulatory requests for electronic records within the past year, 20 percent were not confident of being able to respond within the required deadlines.

For securities firms, e-mail is a tightly regulated form of business communication. Securities and Exchange Commission rules require that every national securities exchange member, broker and dealer preserve key business records, including e-mail, on non-rewritable, non-erasable, "write once, read many" media that is indexed and easily searchable for three years from origination. E-mail searches are often initiated during SEC, National Association of Securities Dealers and NYSE Regulation investigations, with the potential for huge fines for failure to comply.

Even so, some 12 percent of those surveyed said they have no formal system for archiving e-mail. "A surprisingly large number of firms have yet to adopt systems that enforce [e-mail archiving and supervision] compliance," said John Clancy, EVP of Iron Mountain's technology business unit in Southborough, Mass. "In reality, this type of investment can help reduce both the risks and costs associated with compliance."

What is behind the slowness to adopt this key element of a compliance program? "A lot of it is confusion--figuring out what should go into the archive and for how long," said Paul Johns, VP of global marketing at Orchestria. However, he added, "Because you are not archiving, that does not mean the e-mail is not being archived somewhere," perhaps outside of the company, or inside by an aggrieved employee. The danger in this situation, Johns said, is that the company will not be able to rely on its own communications records in complying with regulatory or legal requests for information.

"Cost is absolutely a factor," added Daniel Stevenson, director of partnership marketing programs at Iron Mountain.

Expenses cut across hardware and software and are tied to the volume of business e-mails, which continues to swell to levels approaching 1 billion a year, he said. "Firms are overwhelmed by volumes of e-mail and services they are dealing with," he added. "It is partially putting your head in the sand, and not knowing what to do about it."

In the survey, Stevenson noted, four out of five respondents indicated at first that they were confident of being able to meet regulatory and legal deadlines for producing information, which he called "a veneer of confidence. ... But when you probe with additional questions, there is fear, and a lack of awareness [of consequences]." Information technology departments "are looking for predictability [and] certainty" in the form of an effective archiving solution.

### **Overcoming the Costs**

Don Norbeck, director of product development at SunGard Availability Services, agrees that high costs are discouraging archiving. "Early adopters realize it is very difficult to maintain [an e-mail archiving system], and compliance elements may not be enough to justify the expenditure," he said. "It becomes almost a risk proposition."

Nevertheless, e-mail archiving solutions are starting to filter their way down through the securities industry. Norbeck said it is becoming a core component of broker-dealer operations, buttressed by three or four pillars: meeting compliance requirements, enabling legal discovery, and providing IT benefits such as search and offload capability and protection of e-mail. "We are seeing a trend of companies wanting to protect this information, plus [concern about] regulation and litigation, running together more now than they did a few years ago," he said.

Despite the resistance to e-mail archiving investments, vendor revenues are soaring. According to Framingham, Mass.-based research firm IDC, the e-mail archiving applications market totaled \$193 million in 2004, up almost 100 percent from the prior year's \$98 million. IDC estimated 2005 revenues at more than \$310 million, up another 61 percent.

Accordingly, the number of e-mail archiving vendors is also growing. Norbeck estimates that there are now about three-dozen software providers, ranging from \$1 billion companies to people coming off Wall Street and developing new applications. In the hardware-storage space, there are about a half dozen, he said, and also about a dozen hardware and software suppliers with combination "compliance appliance" systems.

SunGard, for one, offers a suite of e-mail collaboration services. "We are a service provider," Norbeck explained. "We provide the skills that run [the system], then provide that to the client as a service." SunGard Availability Services, an operating unit of SunGard Data Systems specializing in backup and business continuity, has revenues of \$1.4 billion.

### **Changing Course**

Other industry leaders include Iron Mountain, which provides outsourced e-mail archiving services; Orchestra; and Symantec Corp., Zantaz and Fortiva, which offer hosted or managed solutions. Chris Tebo, CTO at Norwalk, Conn.-

based Fortiva, said that as companies begin to comprehend the difficulties associated with in-house e-mail archiving, they are increasingly looking to outsource. "We are starting to see customers with in-house solutions that they are struggling to keep running," he said. "As people deal with the realities of large data sets, they are looking for archiving solutions that really work."



Financial firms are also reassessing systems they installed several years ago when a wave of e-mail compliance and litigation-related archiving and retrieval demands forced them into making hasty decisions, said Kon Leong, president and CEO of San Jose, Calif.-based archiving system vendor ZipLip. Leong said these reassessments have brought favorable attention to his company and its technology architecture, which includes a proprietary and integrated search engine and has recently been deployed on a "massive" scale at one of the top global investment banks, which he is not at liberty to disclose. "Other top firms are now looking at us as a result," said Leong, who had previously won much of his financial industry business from midsize and regional companies.

Fortiva delivers hardware into its clients' communications infrastructure. It pulls data from the server and ships it to Fortiva for storage and management. "Our solution to security and privacy concerns is to encrypt data using keys that are unique to the customer," said Tebo. The cost, including licensing and storage fees, is \$3 to \$4 per e-mailbox per month.

Disaster recovery capability is an emerging concern. "The new thing is, how do you build recovery capability into an archive?" said Norbeck. "Recovery is becoming another pillar to hold up the e-mail archiving initiative."

Another development is the extension of archiving to other forms of e-communication such as instant messaging (IM) and BlackBerry and other handheld devices. Fortiva, for example, integrates with IM software companies FaceTime Communications and IMlogic, a subsidiary of Symantec, to tap into the IM conversation train and integrate data that its solutions capture. "All e-mail is at root a text-based message," noted Norbeck. "One instant messaging chat can be converted into one e-mail record. And BlackBerry communications end up being e-mail no matter what."

Other leading-edge technology captures data feeds such as those over the Bloomberg network. "We are seeing that financial feeds are becoming critical to place in the archive, because it is also a point in time," said Norbeck.

Still, despite the clear regulatory mandate and advances in the technology, a substantial number of securities firms are not yet on board with an archiving strategy.

"Organizations have to determine how they will pursue archiving requirements," said Fortiva's Tebo. "It doesn't take long for people to recognize that being proactive is less expensive than dealing with the litigation."

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