



Uncovering malpractice and reducing reputational risk

# LGT Bank in Liechtenstein AG uses MAID to detect market abuse and insider dealing

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Smarter Decisions

## User report

### Objectives:

- Observing the statutory requirements prohibiting market abuse in trade with financial instruments
- Automatically detecting malpractice
- Reducing reputational risks by monitoring personal account dealing and proprietary trading
- Creating transparency in relation to the complexity of security master data
- Audit-proof documentation and historization

The LGT Group is the largest family-owned private banking and asset management group in Europe. The company uses the AID software solution developed by ACTICO to monitor both customer and proprietary transactions for signs of potential abuse, thereby creating transparency and rooting out problems at an early stage.

### MAID as a tool for uncovering malpractice

LGT was looking for software that fulfills the minimum requirements for preventing market abuse as laid down in Liechtenstein's Market Abuse Act as well as further bank-specific re-

quirements. In addition, the software was to be used for monitoring private employee transactions and ensuring compliance with internal standards and guidelines, for example in relation to lock-up periods, maximum number of trades allowed per month, etc. It was also important that the software should enable LGT to model the auditing of all derivative products based on their underlyings.

LGT opted for the MAID software solution from ACTICO. This solution, which is based on the tried-and-tested Visual Rules technology, is capable of automatically identifying the complexity of security master data and critical transactions. At the same time, it results in a significant reduction in integrated case processing.

### Project timeline

The total project duration from kick-off to launch of the software was 14 months. The initiation and project phases lasted six months. Then came a short realization phase of three months, followed by a further intensive phase of optimizing rules and defining values for monitoring on the production system.



### Scenarios (excerpt)

- Individual or cumulative transactions that constitute a significant proportion of market capitalization and originate from the same business relationship and take place within a defined time period
- Cancelled individual orders that constitute a significant proportion of market capitalization
- Largely evened-out cumulative purchase and sale transactions of the same instrument conducted over the course of a trading day but which are not based on any corresponding change in the business relationship
- Personal transactions by associates in the stock of a company which are carried out prior to, parallel with, or immediately following stock transactions in the same company that constitute a significant proportion of market capitalization.

### Requirements

LGT wanted to move beyond implementing the minimum requirements of the Market Abuse Act on the basis of individual reports such as Excel tables and lists from the trading systems in use. Instead, the bank was looking to switch over to electronic monitoring. They wanted a software solution that reduced manual processing in day-to-day business to a bare minimum, while also electronically documenting each individual clarification step in order to ensure acceptance by external auditors. Seamless integration of the new solution into existing systems and business processes was also important. A further requirement was the ability to easily and quickly adapt the logic by which monitoring and scenarios are checked, allowing current regulations and internal guidelines to be flexibly modeled.

### The biggest challenges the project presented and how they were resolved

A challenge from a business perspective consisted in identifying the right patterns amongst the between 700 and 3,000 transactions that take place every day, in order to keep irrelevant hits to a minimum. To ensure optimal monitoring of the complex structures of securities, the checking process had to be adapted to the individual business structures of the bank. A major technical IT challenge was linking up the peripheral systems, that is securities administration, associate data, and the trading systems.

### How LGT uses the MAID (Market Abuse / Insider Dealing Detection) software solution

LGT uses MAID to monitor private employee transactions and proprietary trading for signs of potential misuse. The bank

specifies certain scenarios which necessitate clarification of a transaction. To illustrate, one scenario relates to activities designed to simulate market volume in order to influence stock quotes. Another scenario involves what are known as wash trades. This is when a series of transactions are carried out for the purpose of giving other market participants the impression that a change in beneficial ownership has occurred when in reality it has not.

The system also detects instances of “malpractice”. Although these do not constitute an act of market manipulation, they can still harm the company’s reputation and damage the trust of clients. Take the example of front running: this is where stockbrokers use confidential knowledge to take a position that allows them to capitalize on the trading strategy of a client prior to executing a large order submitted by the client that is expected to influence the market price. In addition, watch and restricted lists can also be created and managed in MAID. This provides an easy way of monitoring associates who have access to non-public knowledge by virtue of the work they carry out.



With the MAID software, monitoring follows transparent rules and is performed automatically every 24 hours. All conspicuous transactions are displayed in a special work list and require clarification. For each hit, an electronic form is automatically generated for clarification and documentation. Relevant additional information is also displayed. The clarification process is overseen by the compliance officer responsible for monitoring. It is logged in the system and historized in an audit-proof manner.

**Improvements as a result of using MAID**

- Automatic and consequently prompter monitoring of associate transactions
- More efficient monitoring following refinement of the rules such that the number of hits generated per day was reduced from 120 to 20
- Standardized, electronic documentation
- Reduction in the amount of work that goes into preparing data by roughly 50%, as the data no longer has to be manually retrieved and reviewed
- Expanded scenarios and scope of monitoring
- Useful insights from test phase: defining values for monitoring (process development)

**Benefits**

- Minimization of reputational risks through prompter monitoring of personal account dealing and proprietary trading on the basis of current regulations and internal guidelines
- Automatic detection of instances of malpractice
- The software comes with a catalog of typical scenarios, which can also be specifically adapted to include additional scenarios
- Electronic clarification workflows with smart user interfaces save valuable time
- Management of watch and restricted lists
- Fewer routine manual tasks, freeing up associates' time
- A variety of evaluation options through compilation of individual reports
- Audit-proof thanks to complete documentation and historization

*“Aside from compliance with the legal requirements in relation to market abuse, we were particularly interested in using software that would enable us to be proactive as opposed to just reacting to events. After all, what could be worse for a bank than to lose its good name due to malpractice.”*

**Stefanie Giger**, Compliance Officer, LGT Bank in Liechtenstein.



*“Our corporate policy is characterized by performance, professionalism, fairness, and high ethical standards. This policy governing how we conduct our business is enshrined in the LGT Code of Practice. The MAID solution from ACTICO promptly identifies situations that might be the result of behavior that breaches our standards. This helps us to ensure that our principles are implemented and observed in our everyday work.”*

**Kurt Trittbach**, Head Asset Management Compliance, LGT Bank in Liechtenstein.

## About the LGT Group

The LGT Group is an international private banking and asset management concern domiciled in Vaduz, Liechtenstein. The company has been under the ownership of the Princely House of Liechtenstein for over eighty years.

[www.lgt.com](http://www.lgt.com)



### ACTICO

#### EMEA

ACTICO GmbH  
Ziegelei 5  
88090 Immenstaad  
Germany  
Tel: +49 7545 9338-0  
Fax: +49 7545 9338-200

[info@actico.com](mailto:info@actico.com)  
[www.actico.de](http://www.actico.de)

#### Americas

ACTICO Corp.  
200 S. Wacker Dr.  
Suite 3100  
Chicago, IL 60606/USA

Tel +1 312 471 5530

[info@actico.com](mailto:info@actico.com)  
[www.actico.com](http://www.actico.com)

#### Asia & Pacific

ACTICO Pte. Ltd.  
11 Bishan Street 21  
Singapore 573943

Tel. +65 65712220

[info@actico.com](mailto:info@actico.com)  
[www.actico.sg](http://www.actico.sg)

ACTICO is a leading international provider of software solutions and technologies for decision management.

In a digital world, it is necessary to process large volumes of data and make real-time, consistent and auditable decisions. ACTICO software allows companies to implement highly flexible applications to optimize their daily decision-making on a continuous basis. This enables them to accelerate growth, innovate effectively, stay compliant and as a result, increase profits.

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- Loan Origination: Automate credit decisions
- Compliance: Enable transparency, avoid fraud and comply with regulations
- Client Management: Process sensitive customer data securely – from onboarding to reporting
- Underwriting & Claims: Make claim settlement processes quicker, consistent and cost-effective

Since 1997, ACTICO has delivered software and services to our customers' benefits. Headquartered in Germany with offices in USA and Singapore.

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