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EXPERIENCED PROFESSIONALS, BETTER COMPLIANCE

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Should Wealth Management Firms Build Out Internal Compliance Staff Or Bring On Outsourced Compliance Services?

Calculating the Relative Costs
and Merits

By

Sander Ressler





Executive Summary

- Compliance has always been one of the single most significant costs for wealth management firms, requiring qualified professionals with the right training and experience.
- Current technologies – including AI – are not yet at the stage where they can replace the need for compliance talent, even as the costs for compliance talent continue to grow.
- However, non-traditional work paradigms have become more prevalent, altering the conventional employer/employee model and transforming how businesses access and deploy talent – and this includes compliance for wealth management businesses.
- For firms seeking a cost-effective means to leverage specialized knowledge without incurring the time, onboarding and ongoing costs associated with W-2 employees, outsourced expertise is an attractive option.
- In the independent wealth management space, RIA growth trends have driven increased demand for outsourced service providers specializing in compliance and regulatory matters.
- Outsourced compliance solutions offer a range of tools and technologies to help streamline and automate labor-intensive compliance tasks without compromising quality.

21st Century “Temps” Take Center Stage

The temp industry of yesteryear, which provided businesses with short-term (generally administrative) staff on an as-needed basis, has transformed into a complex ecosystem of specialized employees who operate outside of – or in conjunction with – the standard full-time workforce.

Even the name has morphed into something more modern: the gig economy. These workers provide companies with the necessary flexibility to manage their businesses based on shifting demand and market conditions, in an efficient and cost-effective manner. Leveraging the expertise of highly skilled people without incurring the overhead costs associated with a W-2 employees is a boon for businesses within the wealth management industry ... particularly those seeking to fulfill duties associated with evolving regulatory standards.

Advisory firms need compliance experts to ensure they comply with the myriad federal, state and industry laws and regulations that govern the business of advice. While the SEC discourages outsourcing the Chief Compliance Officer (CCO) role, that does not mean important responsibilities falling under the CCO's purview must remain in-house. This is where outsourced employees provide value beyond mere cost savings; their expertise, fresh outlook and experience increasingly contribute to the strategic and creative growth of companies, resulting in increased sales, profits and innovation.

Leveraging outsourced expertise can help firms meet their obligations during busy timeframes without having to add to headcount. It can also free internal staff to focus on implementing a more pro-active compliance program to minimize financial and reputational risk for a firm and its advisors.

In this white paper, we will explore how outsourcing your compliance needs may make the best sense for your company – both in terms of economics and execution. The paper will discuss ways for your company to maximize outsourced workforce capabilities to not only save money but upgrade talent and build scale while remaining compliant with current regulatory standards.

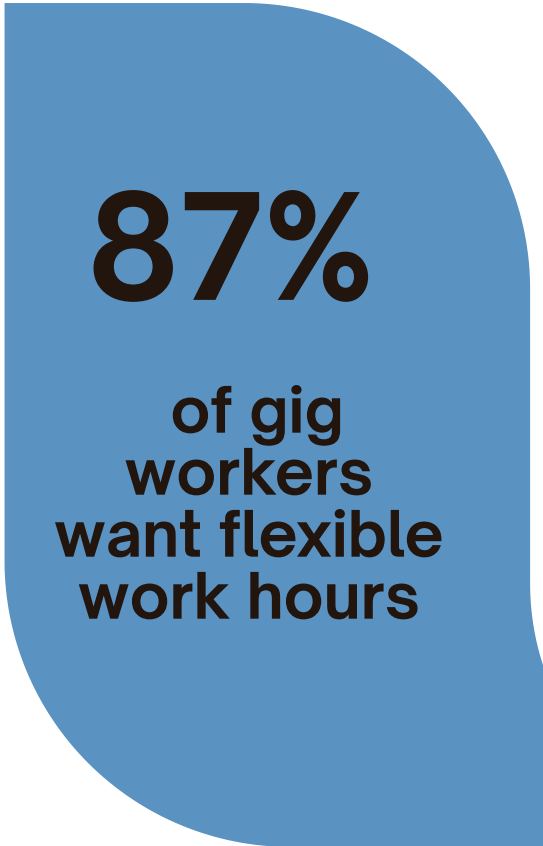
Where Are We? How Did We Get Here?

“Work” in America has dramatically changed over the past several decades. Gone is the Monday to Friday/40-hour workweek in an office or cubicle. Today’s workers rarely remain with the same company throughout their careers: In 2024, the average tenure for workers in the U.S. was 3.9 years, according to the [Bureau of Labor Statistics](#), and was just 2.7 years for workers between 25 and 35 years of age.

Globalization, technological innovation and shifting societal expectations surrounding work/life balance have contributed to this shift. According to staffing agency [Robert Half](#), 48% of job seekers preferred a hybrid role, and 26% preferred fully remote work.

Of course, the COVID pandemic shifted priorities and processes surrounding work. A survey by [AARP](#) showed the COVID-19 pandemic shifted attitudes in workers over age 40, who began to prioritize workplace flexibility, with 87% of gig workers surveyed pointing to flexible work hours as a primary driver for their choice.

The changing employment environment has made consulting a preferred option for many highly qualified professionals. Tapping into this pool of talent is no longer a last resort in case of emergency. It is a valid, strategic approach to running an efficient and streamlined business.



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How This Talent Shift Can Benefit Wealth Management Firms

The wealth management industry continues to evolve at a dizzying pace on multiple fronts – new technologies, innovative products, cybersecurity concerns and new business models, to name just a few. Dynamism is good, but it comes with heightened challenges amid rising costs, fee compression, a shortage of qualified workers and constantly shifting regulatory standards and procedures.

Firms are also looking to stay competitive at a time of elevated client expectations. A recent study by [EY](#) found that wealthy clients view the breadth and depth of services as a key factor when selecting a wealth management provider. The percentage identifying service as a leading factor grew from 36% to 50% in just the past two years.

Access to a wider array of services is also a leading driver of clients switching firms. Freeing up resources from important, but costly, tasks like compliance can allow firms to invest scarce resources in more value-add, client-facing services.

Protecting retail clients is central to the industry's compliance framework, and this has become especially critical with increased cyberthreats and retail investors' growing appetite for complex product options such as crypto and alternative investments. Indeed, "The requirements companies must juggle to keep current with global and domestic regulatory standards – amid the rise of cryptocurrency, fraud prevention, online retail, data protection and privacy – show no signs of abating," according to [Robert Half](#).

In-house vs. Outsourced: A Cost/Benefit Analysis

Companies spend millions of dollars each year employing full-time workers. An employee with an annual salary of \$80,000 actually costs the employer \$112,000 or more when you include benefits, healthcare insurance, training, absenteeism, payroll taxes, professional certifications and continuing education, recruiting and vetting, office space and equipment and turnover.

The learning curve of new hires decreases productivity and increases error rates, while retaining outsourced compliance professionals with supervision experience increases quality and saves on personnel costs.

“You get what you pay for” remains a valid maxim both in business and beyond. In the evolving employment landscape, what are employers getting when they bring someone in-house to fill a role? In many instances, an expensive, short-term relationship.

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**Source: U.S. Small
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Administration**

In-house vs. Outsourced: A Cost/Benefit Analysis

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We've already discussed the 3.9 year median employee tenure in the U.S. Job hopping is a trend that is expected to continue well into the future, as technology makes it easier to uncover new job opportunities and work remotely, generational differences regarding company loyalty evolve and workers continue to seek career advancement through strategic career moves.

This eye-opening tenure statistic becomes sobering when viewed through the economic lens of hiring an employee to join your company. The costs associated with hiring, retaining, training and eventually offboarding one employee vary widely depending upon a number of factors (from experience level to geographic location), but typically fall in the hundreds of thousands of dollars annually – and these costs are likely to rise each year. Together, these two business trends – hiring costs and employee tenure – speak to an uncontested truth: outsourcing contributes to the health of your business' balance sheet.



In-house vs. Outsourced: A Cost/Benefit Analysis

(cont'd)

Even firms with an in-house compliance department may find outsourcing certain tasks or projects worthwhile: whether it's to help with onboarding new advisors and their clients, executing an acquisition, performing calendar-driven tasks such as Annual Compliance Reviews/Meetings and ADV amendments, conducting Branch Office Inspections or accommodating cumbersome new regulatory requirements or reviewing correspondence and advertising, utilizing a third-party provider can help ensure accurate and timely execution.

Outsourcing branch inspections is a distinct value add, driving increased firm productivity. For example, assuming an in-house branch inspector takes 10 road trips of one week each, hiring outsourced compliance inspectors would allow a firm to keep their team in the office rather than paying them for travel. In addition, gone are the unpredictable travel expenses and the added burden of supervision and expense reports. The inordinate amount of time an inspection takes can be turned to more productive purposes. Bottom line: an outsourced branch inspection team enables firms to gain hundreds of hours of productivity by keeping employees in offices and off planes during business hours.

Outsourcing also can offer insights into the workings of other firms in the industry. Bringing in workers who've been exposed to the processes, procedures and best practices of competitors can drive productivity, streamline workflows, enhance operational efficiencies and promote fresh perspectives. In other words, outsourcing is a relatively economical antidote to the "we've always done it this way" mentality. In addition, once a firm has identified a reliable outsourced compliance consultancy, it can be of tremendous value in emergencies: think of it as Compliance 911.

The Outsized Advantages of Outsourcing

- **Reduce costs**
- **Increase efficiencies**
- **Leverage new perspectives**
- **Access larger talent pool**
- **Deploy specialized skills**
- **Increase flexibility**
- **Streamline workflows**
- **Focused expertise**
- **Meet cyclical labor demands**

More than Money

It's easy to gauge the economic benefits of outsourcing some or all of your compliance functions. However, the other benefits of doing so are more intangible:

- The ability to select the expertise you need, when you need it, quickly;
- Access to innovative technologies without integrating platforms with your legacy tech stack;
- Freeing up your internal team to focus on value-add, pro-growth priorities instead of labor-intensive tasks;
- Increased objectivity when handling sensitive situations since there are no internal conflicts of interest.

The economic advantages of outsourcing compliance are clear. It's a boost to the bottom line, particularly for smaller RIAs or ones just launching their businesses. What's also clear is that effective compliance oversight is essential. As wealth management firm executives consider the individual compliance and regulatory needs of their firms, they will ask themselves, "Can third-party compliance services deliver without compromising on quality, timeliness and security?"

After conducting proper due diligence to ensure an alignment of values, services, expertise, transparency and culture, the answer will be clear, as well:

"Yes."

Sander Ressler is Co-Owner and Managing Director of Essential Edge Compliance Outsourcing Services, LLC, a strategic consultancy specializing in compliance and regulatory affairs for broker-dealers and registered investment advisers. A noted industry expert, Mr. Ressler's thought leadership articles are a staple in numerous wealth management industry publications. He is an expert columnist for Wealth Solutions Report and an in-demand speaker at financial services industry conferences.

Contact Information

Phone Number

 716-603-9580

Visit Our Website

 www.eeoutsourcing.com

Email

 Kate Gambino-Irby, Chief of Staff
kate@eefirms.com

Location

 Santa Fe County, New Mexico

