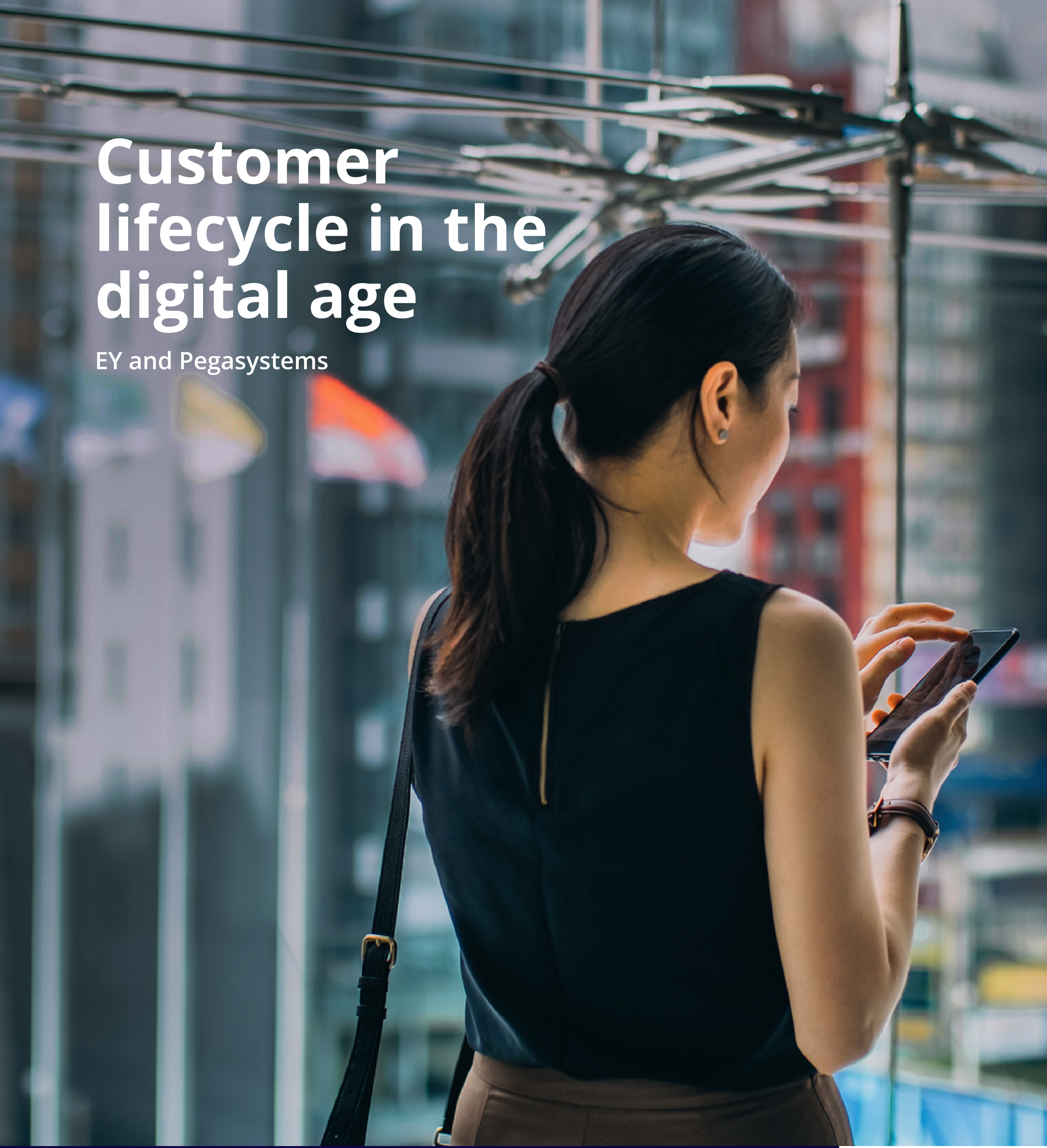

Customer lifecycle in the digital age

EY and Pegasystems

PEGA / EY
WHITEPAPER

September 2019

PEGA

EY
Building a better working world

Current landscape in client lifecycle management (CLM) for financial institutions

Financial institutions (FIs) have seen a significant pressure to evolve and innovate their client lifecycle management (CLM) in the past few years. What started off as a set of disparate, largely manual processes across back-office, middle-office, and front-office teams, usually targeted to a specific business line and jurisdiction, has started to move to a more, global, automated, and holistic, end-to-end process.

The current landscape is changing based on several key drivers, including increasing costs due to regulations, the lengthy process for account opening with the resultant delays in revenue generation for customers, the disconnect among the various stakeholder parts of the organization, competition among FIs and fintech providers, and the accelerating digital agenda of most FIs, which is often held back by the inability to rapidly drive new products and services in the market.

While dealing with regulatory compliance, FIs have been focusing on audit, evidence, and documentation of the risk management approach taken for each of their customers. As the regulators have sharpened their focus on the FIs, and consequently as the FIs have stepped up their game, the front-office business lines have been overwhelmed with the need for more and more documentation from their clients, regardless of the actual risk, leading to increased costs and longer onboarding times. The tide is now turning; the focus is shifting to placing the client and the business at the heart of the process.

Effective CLM is recognized in the market as the key enabler to drive regulatory compliance, achieve client and employee satisfaction, improve business growth and revenue creation, and create a consistent view of the client across business lines and jurisdictions. FIs recognize that they need to make significant progress toward simplifying processes and creating more visibility across the client's overall lifecycle.

For a long time, the CLM landscape has implemented new and emerging technologies to solve immediate cost-cutting targets and headcount reductions, rather than being valued as key requirements for CLM's overall strategic direction. These technologies have been bolted on to broken processes rather than serving as the foundation of a robust, sustainable solution. Several technologies have been incorporated into solutions as a part of aa suite of technology tools in the regulatory space, now commonly known as "RegTech". These typically have helped to solve portion of the problem, but often act as point solutions on the broader customer journey, and require an orchestrator to tie all pieces together into an effective "whole".

RegTech has provided innovative enhancements to CLM; however, processes continue to be very manual, siloed, and labor intensive, leading to poor client and employee experiences. As technology evolves, FIs have been forced to re-evaluate current CLM processes to stay ahead of the competition and drive value.

In this article, we will look at the key drivers for the changes in the CLM industry, the opportunities for automation, and we will outline approaches to CLM transformation, using technology as the foundation for a future-proof and sustainable model.

Key drivers for change and challenges

The need for CLM transformation across the industry is no longer only about regulatory compliance, it's much bigger. While regulatory compliance is still in the picture in the current environment, the need for CLM transformation arises from globalization, new market entrants, new business approaches, the shift of focus from product to customer-centricity, and at the same time, rising costs. Until recently, there was not much thought given to process design or technology strategies and how they tied into these objectives. Regulatory deadlines and the fear of monetary penalties drove quick fixes in operational procedures and technology point solutions.

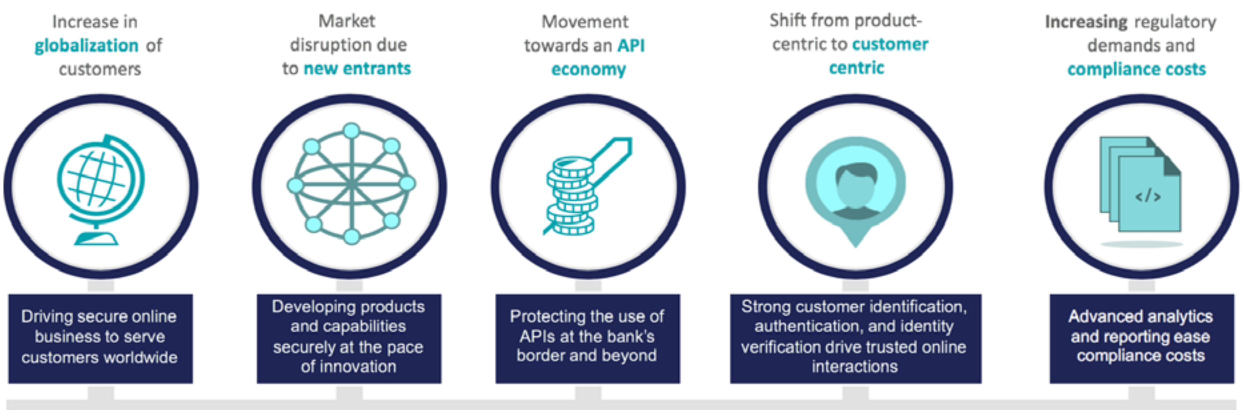

Figure 1: Drivers for change

In this global marketplace, customers now expect to be able to do business anywhere, anytime, in any market, and using any channel they prefer. Client expectations have shifted immensely and the FIs now need to focus on delighting their customers rather than putting hurdles in their way when they want to do business. FIs need to create an omni-channel environment for their customers, and at the same time, have all the documentation and data in place to evidence regulatory compliance wherever the customer wishes to do business. At the same time, this has driven the need for a robust framework for customer identification and verification to enable online customer interactions.

In the stringent global regulatory environment that FIs are currently operating in, it's hard to fault them for developing robust, process-heavy, and people-intensive processes to address complex challenges like know your customer (KYC) requirements. There is no playbook that perfectly lays out how to handle the complex expectations that global regulators have of FIs and many have chosen to grow large KYC programs built on legacy technology stacks, supported by operational teams of hundreds and sometimes thousands of people.

Beyond the regulatory burden, customers are evolving in their preference for how they interact with their FIs. More than ever, customers are requiring less in-person interaction and instead are looking for more self-service options, with speed being the main driver.

With the rise of non-traditional FIs and more ways than ever for customers to access financial products, traditional FIs must keep pace and maintain flexibility to adapt to evolving customer needs. Through the adoption of technology, digital enablers, and seamless process orchestration, there are opportunities to remove the operational burden of KYC while still maintaining strong adherence to the regulatory commitments.

Adoption of these technologies is complicated as global banks typically have a legacy environment consisting of highly fragmented IT and operational infrastructures at business-line and jurisdictional levels. Processes have been developed which contain a lot of inherent operational and compliance risk, with poor quality and lack of consistent output.

An additional challenge is that many areas of the CLM process do not have to reside solely within the walls of a bank as the opportunities for connectivity with third-party providers through APIs for data, documents, and information have grown exponentially in the last few years. The FIs need to maximize these efficiently to create a fast-paced approach to CLM, and at the same time, only reaching out to customers to request information that is not available in the public domain. In addition, this "API economy" also enables banks to offer a broader suite of services and products to the customer.

With the convergence of all these challenges and opportunities, the regulators themselves are recognizing the need for change and encouraging innovative approaches to AML Compliance, with FinCEN publishing a joint statement alongside the federal banking agencies:

Drive for innovation: Regulators, industry, & technology

Figure 2: Regulatory drivers of innovation

The convergence of evolving regulatory and customer expectations is where opportunities exist to stand out from peers and turn a cost center into a value proposition. To shift KYC into a winning proposition against competitors, challenges in three key categories must be addressed:

1. **Changing customer expectations**

   Customers are more technology-enabled than ever, and the era of going to branches or speaking to financial advisors is fading fast. This creates opportunities to satisfy requirements digitally while also appealing to customers' preferred methods of contact.

2. **Enhanced global regulatory expectations**

   With major financial crime events occurring more than ever, and KYC being the foundational pillar of a strong anti-money laundering (AML) program, regulators are not easing up on their expectations. Constant changes to policy create costly technology enhancements and potential customer impacts.

3. **Legacy technology platforms**

   Many KYC programs are orchestrated by technology that is rigid and costly to update. With complex due diligence needs, digitally enabled customers, and multi-jurisdictional workflows, new-age technology is necessary to transform into a next-generation KYC program.

In short, FIs need to define and implement a strategy for CLM with a strong foundation, focused on innovation, and using the best of the emerging technologies to satisfy the needs of all stakeholders, starting with clients, and continuing to their employees, regulators, and shareholders.

Customer lifecycle: Automation opportunities

With almost all FIs, the current state of onboarding technology involves multiple disconnected systems and processes that vary across lines-of-business and geographies. As a result, it's not enough to automate and link these processes and systems. Today's customers expect significantly shorter onboarding times and a consistent experience regardless of the geography they are operating in, the products that they've subscribed to, or the channels of communication. Similarly, the FIs employees expect to be performing higher-value tasks rather than repetitive manual steps; lines of businesses expect that new customers be onboarded sooner, and the time-to-market for new products is significantly reduced.

The use of existing or emerging technologies can support FIs in building a scalable and flexible foundation to achieve these goals:

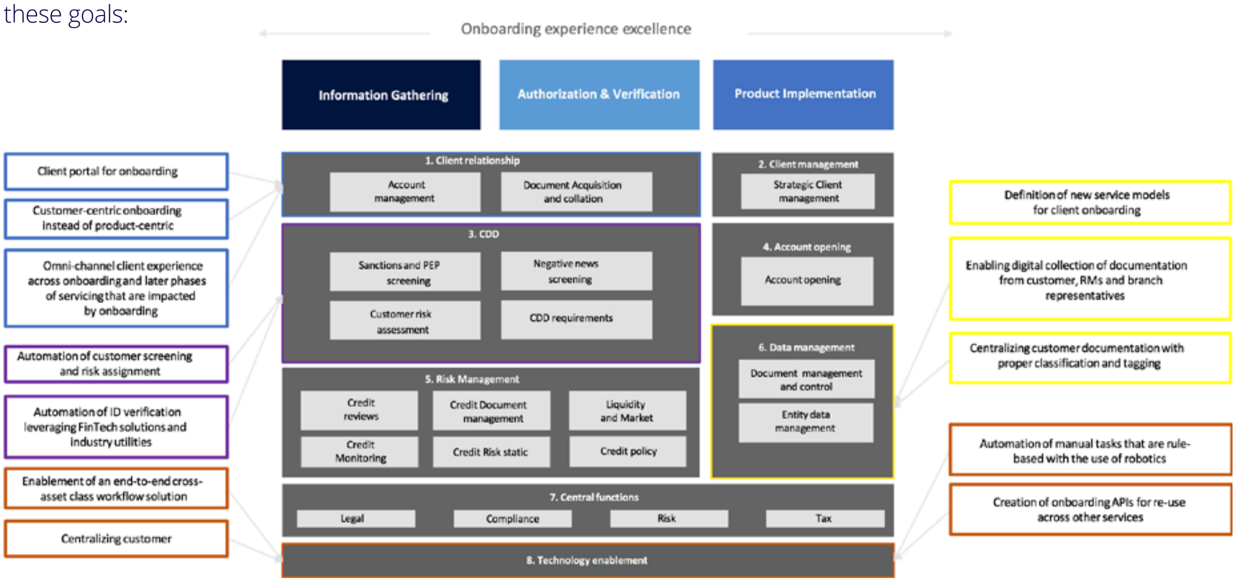

Figure 3: Existing or emerging technologies that could help improve customer lifecycle management at FIs

Every FIs customer goes through a similar set of phases through their lifecycle. Each step in each phase provides opportunities for automation, driving operational and cost efficiencies, and improved customer experience.

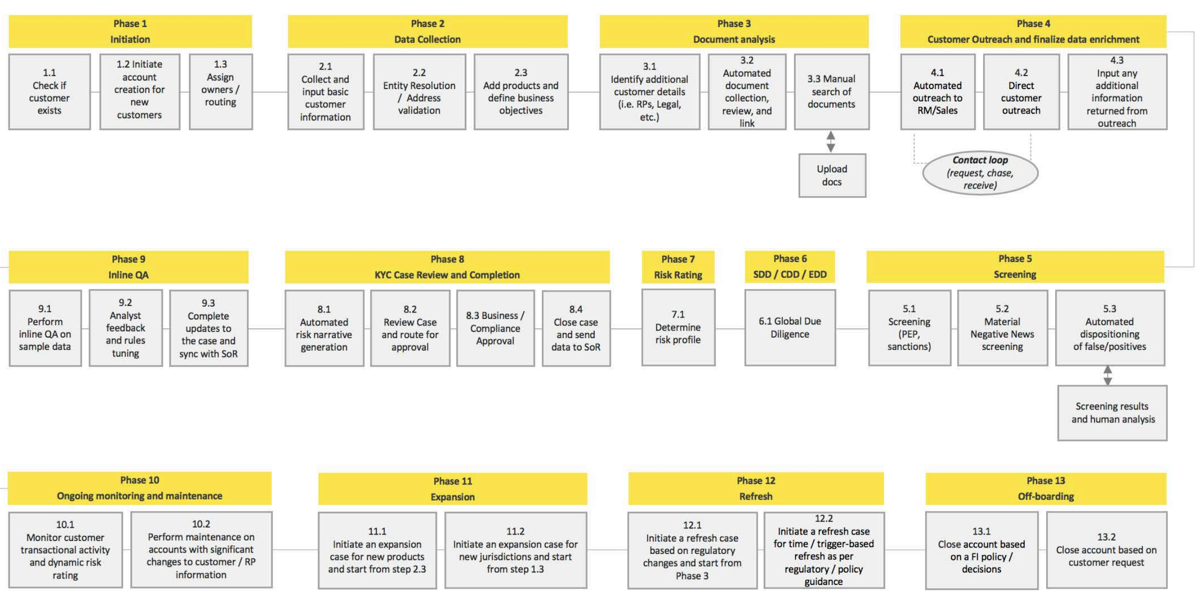

Figure 4: Typical phases of a customer's lifecycle

Initiation and data collection | Phases 1 and 2

Customer initiation is the first and one of the critical phases of the customer lifecycle. It sets the tone for customer experience and, if poorly managed, can also impact revenue growth, time to market, etc. Key drivers for enhanced customer experience and automation in this stage include seamless interactions with the customer irrespective of the channel of communication, irrespective of the channel of communication, and reuse of existing internal information, thereby reducing redundant information requests made to customers. Improvement opportunities while collecting customer information include:

- Creation of omni-channel self-service portals that can serve as customer-driven channels to expedite collecting customer information
- Auto-population of customer information from the FIs internal sources
- Automated data and document requirement identification for multi-jurisdictional and/or multi-product customers
- Address normalization
- Automated entity resolution
- Automated ID verification

Enrichment | Phases 3 and 4

The next stage in the customer lifecycle involves data enrichment, document analysis, and customer outreach for customer identification and due diligence purposes. Automation opportunities include enriching the customer and related-party information by sourcing as much information as possible from multiple sources before reaching out to customers. Customer outreach, which is a major contributor of onboarding delays and negative customer experience, can then be limited to verifying details gathered from these sources, and for acquiring information that cannot be publicly or internally sourced. FIs can improve these procedures with the use of automation, including:

- Smart-routing to improve analyst workload management
- Populating customer and related party information from publicly available external sources using APIs, data lakes or data warehouses, or traditional data-transformations
- Populating missing client data from third-party information providers using APIs
- Automated document processing, enabled by a combination of artificial intelligence (AI) and OCR/OMR capabilities, to extract and enrich client data from documents provided through online or offline channels
- Data sharing between FIs using blockchain-based smart contracts
- Automated movement of client profiles to the next stage using advanced workflow management capabilities
- Automated customer outreach using multiple channels

Due diligence | Phases 5 – 7

The due diligence steps involve screening a customer and their related parties, reviewing any generated alerts, and determining the customer's risk profile. Key drivers for automation in this stage include faster screening for OFAC/PEP, adverse news, and simplifying the manual process of dispositioning false positives. FIs can improve these procedures with automation, including:

- Automating negative news search and analysis using robotic process automation (RPA) and APIs
- Automated risk scoring and analysis, and customer prioritization
- Entity resolution and link analysis
- Smart workflow routing that leverages availability and skill matching, coupled with automated dispositioning for low-risk cases

Fulfillment | Phase 8

This is the final stage of the onboarding process which involves dispositioning any generated alerts, analyzing a customer's risk, and routing the case for business and compliance approval before wrapping-up the onboarding journey. Automation opportunities in this phase include:

- Automated narrative generation for cases
- Auto-approval of customers with low risk
- Systemic customer information updates to the systems of record and other downstream systems

Ongoing monitoring and maintenance | Phases 9 – 12

Once a customer has been onboarded, ongoing customer maintenance consists of monitoring the customer activity and information for changes to the risk profile, while also ensuring that the regulator-driven or policy-driven recurring processes such as CDD/EDD, periodic reviews, trigger-based reviews, etc. are performed as scheduled.

In cases of customer expansion (where an existing customer expands to additional products and/or geographies), customer maintenance includes collecting information based on the new products/services and regulatory/policy requirements for the new jurisdictions where the customer is expanding. Key drivers for automation during this stage of customer lifecycle include maintaining accurate, up-to-date customer information, and accurately managing customer risk, along with speed to service the expansion. FIs can improve these procedures with use of automation opportunities such as:

- Automated data and document requirement identification for multi-jurisdictional and/or multi-product customers
- Accelerating review and routing of legal obligations using Natural Language Processing and machine learning techniques
- Using blockchain to enable data sharing between FIs
- RPA, API, or other data connectors for automated data enrichment from internal and external sources
- AI/machine learning (ML)-based customer risk re-scoring and risk-based customer due diligence
- Automated narrative generation for cases

Customer off-boarding | Phase 13

Customer off-boarding starts with either a decision from the customer or a decision by the FI to end the relationship. Each relationship may require different steps depending on the products and services utilized by the customer (e.g. a mortgage can't be exited the same way as a deposit account) and the current state of the account (e.g. are there pending transactions, is the account dormant, etc.) along with the reasons for terminating the relationship (e.g. customer decision, compliance, fraud, AML etc.). Key drivers for automation during this stage of the customer lifecycle focuses on orchestrating the various procedures necessary to end the relationship (e.g. refunding outstanding balances, disclosures/notifications, approval chains, etc.) in a timely and effective way. This could include identifying all related accounts (e.g. if an account is closed for fraud, should all other accounts owned by the same customer be closed?). As many different actions may need to be taken leading up to the decision to end a relationship, more actions may follow. Automating significant portions of the process along with providing transparency and insight into the full extent of the relationship are key.

How to get started: The evolution of CLM

Formulating a strategy and putting the right foundational pieces in place is critical as FIs seek to turn around their multiple processes associated with the customer's overall lifecycle. There isn't one pre-defined starting point; where an FI starts depends on the maturity of its digital infrastructure and operational processes, along with how the business itself is evolving. It's also important to realize that some pieces of the puzzle may provide immediate benefits than others.

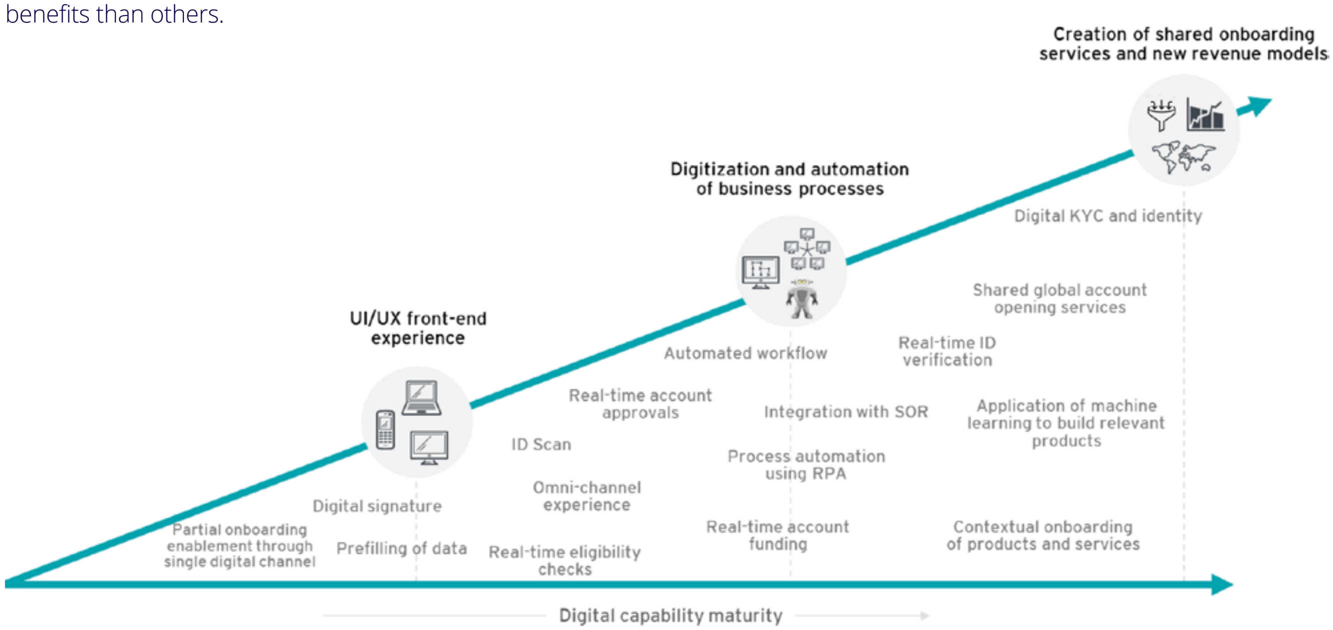

Figure 6: Digital evolution path

Almost all FIs today have one or more digital channels to interact with their customers. Often the onboarding process is a mix of siloed automation and manual processes. While preliminary customer information is accepted or derived through these digital channels, the more complex parts of customer information – such as documents, signature, identity verification, and more are collected offline.

A majority of FIs begin their digital maturity journey with a focus on improvements to these existing digital channels, for specific lines of business, products, or geographies. Examples of improvement on these channels include using digital signatures to verify the authenticity of the documents, document analyzers (OCR / OMR) for automatic extraction from documents provided by the customer, and using the parsed information. Once these basic improvements are made, FIs target the more sophisticated front-end automations such as ID scans and real-time eligibility checks via third-party applications.

For these customer-facing improvements to be effective, FIs must invest in improvements to their back-end processes such as workflows and approvals. Using RPA and AI/ML based decisioning, many of the underlying processes are automated – for example, automated workflow initiation and navigation, automated case dispositioning for low-risk cases, real-time account approvals, etc. Building on these back-end upgrades, FIs can then embark on more complex interlinking of internal and external systems – using APIs or other data connectors.

Once the customer-facing and back-end infrastructure has been established, FIs could then focus on additional digital channels that provide customers and FIs with multiple avenues to interact seamlessly. The objective at every additional digital channel is to enable a smoother onboarding process and pave the way to create a digital ecosystem that supports a true omni-channel experience.

The end goal for the FIs globally is to reach a stage of the evolution where they are capable of digitally verifying most, if not all, aspects of a customer's identity, and able to process through all phases of the customer's lifecycle with minimal human intervention i.e., achieve a straight-through process.

Conclusion

Regardless of the challenges faced by FIs to kick-start their digital transformation for client lifecycle management, the organization should make all efforts to at least start the journey. This may begin in one line of business, one customer journey, or one digital channel to build a foundation and drive a broader digital strategy incrementally. It's also crucial to keep user and customer priorities in mind, and focus on building a strong and flexible foundation that can be incrementally enhanced without the need of rebooting it every five years. Historically, the the drivers of change to innovation have been reactive, with a focus on cost savings and increasing regulatory demands. Recent trends show that the FIs are taking a more proactive stance and accelerating innovation to appeal to a broader customer base and grow the business.

To learn more, visit **pegaonboarding.com** and **ey.com/pega**

Authors and contact information

EY

Rob Mara (Principal): Rob.Mara@ey.com

Abu Daniel (Senior manager): Abu.Daniel@ey.com

Pegasystems:

Nancy Weir (Product Marketing Director): Nancy.Weir@Pega.com

Ajit Tharaken (Industry Principal): Ajit.Tharaken@Pega.com

Combining EY thought leadership and Pegasystems technology, we can help our clients achieve business results through Digital Process Automation (DPA).

The views of third parties set out in this publication are not necessarily the views of the global EY organization or its member firms. Moreover, they should be seen in the context of the time they were made.

To learn more, visit **ey.com/pega**.

EY
Building a better working world

EY is a global leader in assurance, tax, transaction and advisory services. The insights and quality services we deliver help build trust and confidence in the capital markets and in economies the world over. We develop outstanding leaders who team to deliver on our promises to all of our stakeholders. In so doing, we play a critical role in building a better working world for our people, for our clients and for our communities.

EY refers to the global organization, and may refer to one or more, of the member firms of Ernst & Young Global Limited, each of which is a separate legal entity. Ernst & Young Global Limited, a UK company limited by guarantee, does not provide services to clients. Information about how EY collects and uses personal data and a description of the rights individuals have under data protection legislation are available via ey.com/privacy.

For more information about our organization, please visit **ey.com**

PEGA

We are Pegasystems, the leader in software for customer engagement and operational excellence. Our adaptive, cloud-architected software – built on the unified Pega Platform™ – empowers people to rapidly deploy and easily change applications to meet strategic business needs. Over our 35-year history, we've delivered award-winning capabilities in CRM and digital process automation (DPA), powered by advanced artificial intelligence and robotic automation, to help the world's leading brands achieve breakthrough business results.

For more information, please visit us at **www.pega.com**