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REIMAGINING CUSTOMER ONBOARDING FOR BANKS

Intelligent Automation in the time of COVID-19

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1. INTRODUCTION

After more than a decade of unprecedented economic growth, COVID-19 has pushed the global economy into a recession. In fact this recession is the first to be triggered solely by a pandemic. Governments are enforcing strict social-distancing measures and lockdowns to contain the spread of the virus, while also rolling out rapid financial measures to reduce the impact of the outbreak. But economic effects can persist for years to come.

In response to this global crisis, several banks have revised their operating times and suspended non-essential banking services. Many banks are resorting to remote working for up to 50% of employees at their headquarters and branches. Even before COVID-19, banks were reeling under pressure from inefficient and manual processes; the current situation has exacerbated these inefficiencies, leading to serious worries about business continuity. In the wake of COVID-19, banks across the globe are offering forbearance to their customers and hence, expecting an impact on their balance sheets. Forced lockdowns have also hampered in-person banking, and consequently led to a surge in digital banking. Even contact centers are witnessing massive call volumes as major banks have shifted customer service to call centers and mobile banking applications (Figure 1).

> **"We don't know exactly what the future will hold — but at a minimum, we assume that it will include a bad recession combined with some kind of financial stress similar to the global financial crisis of 2008..."**
>
> - Jamie Dimon
> CEO, JPMorgan (on COVID-19)

Figure 1: Impact of COVID-19 on global banks

All these factors are severely impacting many critical banking processes, including the Customer Onboarding process – the first touchpoint for customers.

Sources: 1. MarketWatch, Keefe Bruyette & Woods report 2. BloombergQuint 3. Statista Analysis 4. Zawya 5. American Banker

2. CUSTOMER ONBOARDING – WHAT IT ENTAILS

Customer Onboarding has traditionally been a highly-nuanced and complex process, which includes customer verification through multiple documents, lots of physical hand-offs, data entry and transfers between disparate systems, and a manual compliance review process. It also involves multiple departments such as the front office (or relationship management), KYC/Credit department, Legal, Operations, and Risk Management. Hence, a typical onboarding process is time-consuming and can take up to several weeks. On top of this, COVID-19 has added another layer of complexity in the form of additional restrictions and newer compliance norms.

The ensuing sections will touch upon the detailed process flow of Customer Onboarding, highlighting the complexities and inherent challenges. We will then analyze how these challenges have been further aggravated by COVID-19.

2.1 Manual Process Flow of Customer Onboarding Process

A typical Customer Onboarding process involves multiple activities. It starts with the onboarding request initiated by the customer, which kicks off the requirement evaluation through identity verification and KYC process, followed by a detailed screening and due diligence, completion of risk assessment, and then finally, the decision on account opening and making it operational.

The Customer Onboarding process is extremely complex with a series of sub-steps (Figure 2, next page).

Figure 2: Process map of Customer Onboarding with manual processing

Please note: Steps in this strictly illustrative example do not represent the comprehensive onboarding process, and includes elements that are applicable to both consumer and corporate banking.

Source: Zinnov analysis of Customer Onboarding process

2.2 Key Challenges Associated with Traditional Onboarding

A typical onboarding process involves myriad documents across the entire value chain. These are a combination of both structured and unstructured/semi-structured documents that can number anywhere between 5 and 25, depending on the risk profile of the customer involved. While the "low-risk" customers need to submit 5 to 10 documents on an average, the number of documents can be 15 to 25 for "medium-" and "high-risk" customers (Figure 3).

Customer Onboarding involves at least 5-25 documents which pass through several departments multiple times

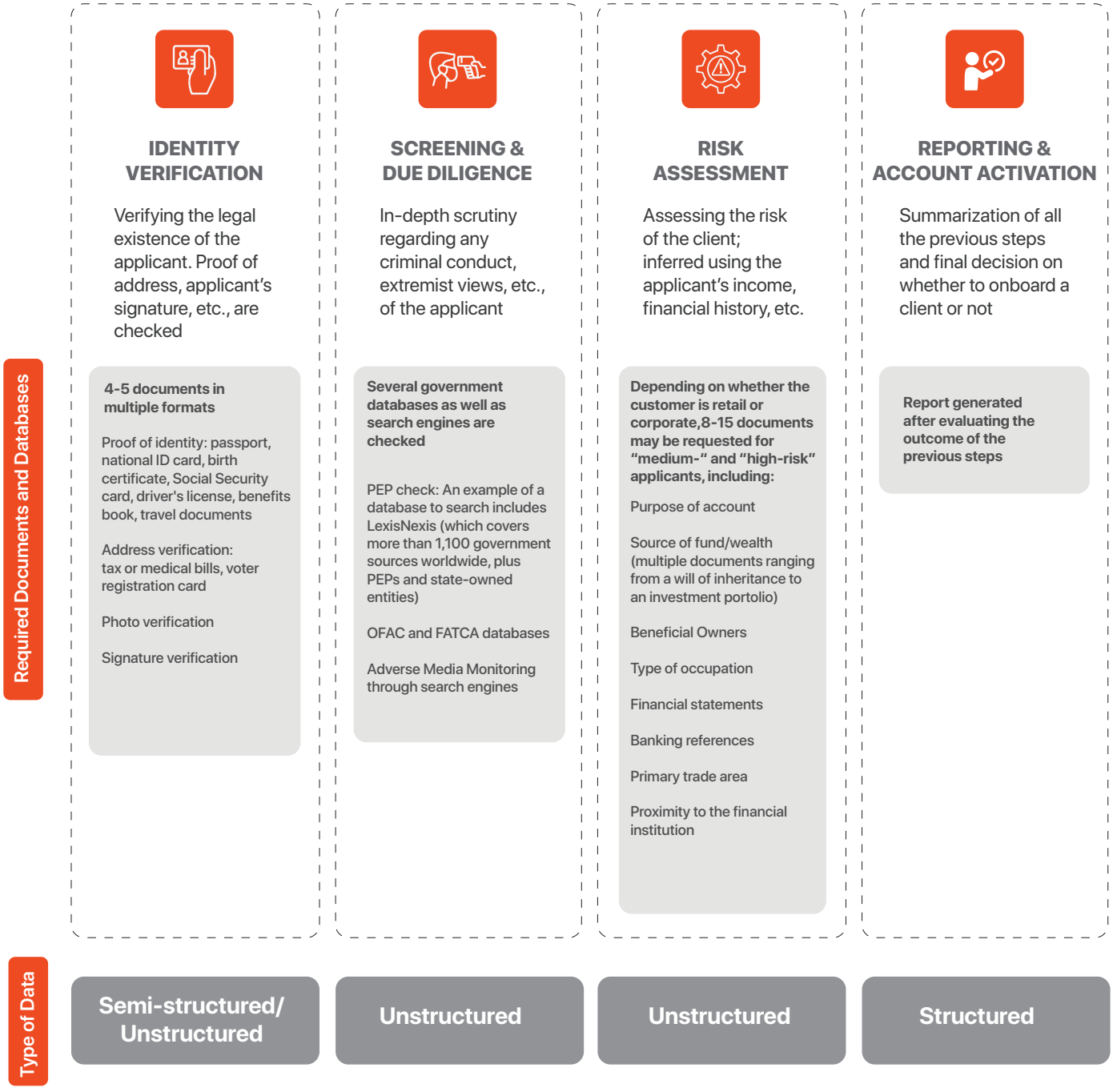


Figure 3: Documents required for Customer Onboarding

Sources: Zinnov analysis and secondary research

The volume and complexity of the documents involved, presents a first – and most critical – challenge in the onboarding process. Many banks still require their customers to visit a branch to open a new account, which may be difficult. Given the criticality of the process, there are also numerous regulations and stringent guidelines in place that banks need to adhere to. New regulations and enforcement continue to impact onboarding times and customer experience. Over the last few years, banks have been paying heavy fines for not meeting KYC and due diligence requirements. The added complexities brought on by COVID-19 might further increase this overhead.

Within customer onboarding, Covid-19 has had strong impact on regulatory compliance, with additional guidelines making the process even more stringent

COVID-19 Impact on Customer Onboarding Regulations and Guidelines

There are several guidelines which have been issued by regulatory bodies globally, specifically for banks, on how they can continue operations in response to COVID-19. U.S. AML rules under the Bank Secrecy Act (BSA) require financial institutions to implement risk-based policies and procedures for identifying new customers, and for monitoring the transactions and other conduct of existing customers. Many financial institutions' know-your-customer (KYC) policies and procedures, adopted pre COVID-19, require enhanced due diligence for higher-risk customers. In addition, enhanced due diligence is mandated by regulation for foreign banks holding correspondent accounts with U.S. banks and for senior foreign political figures, or politically exposed persons (PEPs), using private banking services at U.S. banks.

Financial Crimes Enforcement Network (FinCEN) has established a specific online contact mechanism so that financial institutions can communicate any COVID-19-related concerns while adhering to their Anti-Money Laundering/Combating the Financing of Terrorism (AML/CFT) obligations. It has also called upon financial institutions to be vigilant for fraud schemes related to COVID-19 and has requested that related suspicious activity reports (SARs) be filed with a COVID-19 label in the report to permit FinCEN to prioritize investigations of pandemic-related financial crime.

There are multiple challenges that banks are facing in their Customer Onboarding process, which is largely driven by manual and repetitive tasks. Although these challenges have been exacerbated by COVID-19, the good news is that the bulk of this manual work can be fully or partially addressed by automation to ensure business continuity. While rule-based automation can take care of simple, structured processes, the proportion of processes that can be automated is limited. Hence, layering simple automation with more advanced Intelligent Automation helps address the complex processes of Customer Onboarding with unstructured datasets and lead to better outcomes. During the time of COVID-19, the business case for IA becomes even more compelling because of the efficiencies it can bring in by deploying intelligent software bots and reducing the reliance on banking staff.

Figure 4 summarizes the various challenges in the Customer Onboarding process and the potential ramifications of COVID-19.

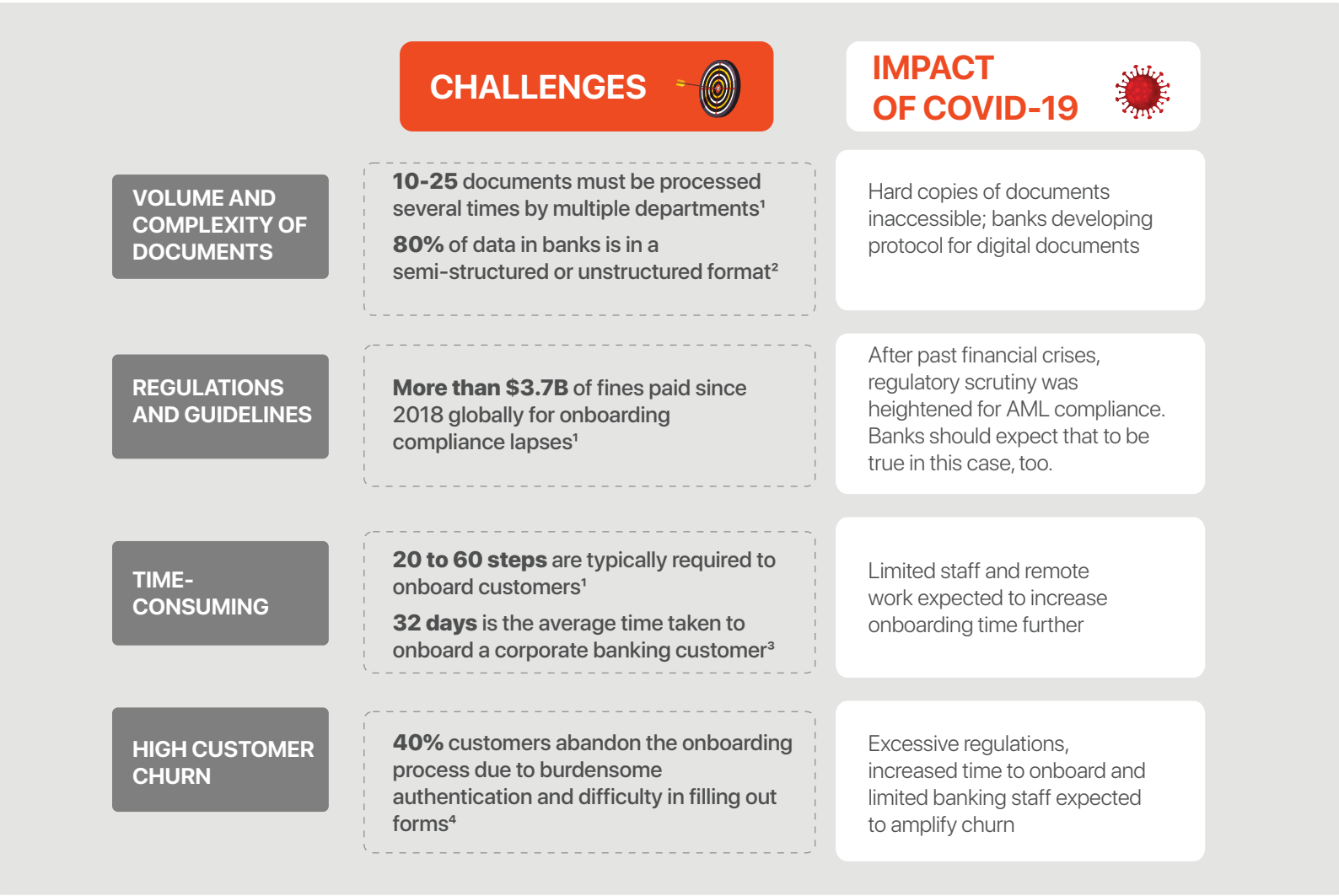


Figure 4: Challenges in Customer Onboarding

In the ensuing sections, we will analyze how IA is being leveraged in the Customer Onboarding process, and the consequent advantages and outcomes that banks can derive.

Sources: 1. WorkFusion 2. Datamation 3: Consult Hyperion & Hooyu report 4: Genesys

3. CUSTOMER ONBOARDING – REIMAGINED BY INTELLIGENT AUTOMATION (IA)

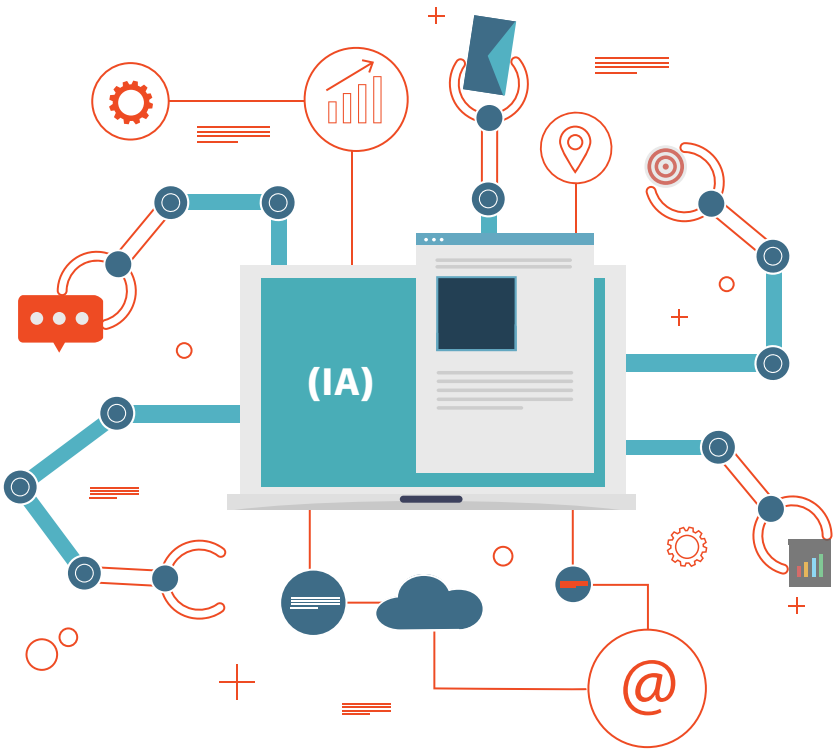
IA, powered by AI technologies such as Computer Vision (CV), Machine Learning (ML), and Natural Language Processing (NLP), has the potential to achieve as much as 60-80% straight-through processing rates in a typical Customer Onboarding process in retail banking.

60-80% of the manual work of Customer Onboarding can be addressed by Intelligent Automation

IA is being leveraged across the entire value chain of Customer Onboarding – starting from identity verification, to screening and due diligence, risk assessment, to the final account opening decision. We have evaluated customer identity verification, which forms the critical first step of account opening. Identity verification helps in verifying the customer's legal existence and involves multiple steps which are data-intensive and heavily regulated (Figure 5).

What makes the Identity Verification process complex is the fact that there are multiple documents involved in multiple formats. These include proof of ID documents such as passport, driver's license, birth certificate, Social Security card, etc.; proof of address documents such as utility documents, bank statements, rental agreements, etc.; photo verification; and signature verification. Most of these documents are available as scanned copies (or images) and are in unstructured or semi-structured formats.

IA-enabled bots are able to ingest and understand these documents regardless of the source, format or language. The bots then extract from the documents the most pertinent data required for verification. The extracted data is then reconciled automatically against multiple government-approved databases – such as the Social Security Administration (SSA) database, Internal Revenue Services (IRS) database, etc., – in order to uncover any discrepancies. Even the customer's photograph and signature can be verified by using IA powered by image recognition and Intelligent Character Recognition (ICR). In this automated identity verification process, bank staff can manage exception-handling and assess any mismatches. This is a more valuable use of their time than the mundane tasks of manual data extraction and matching.



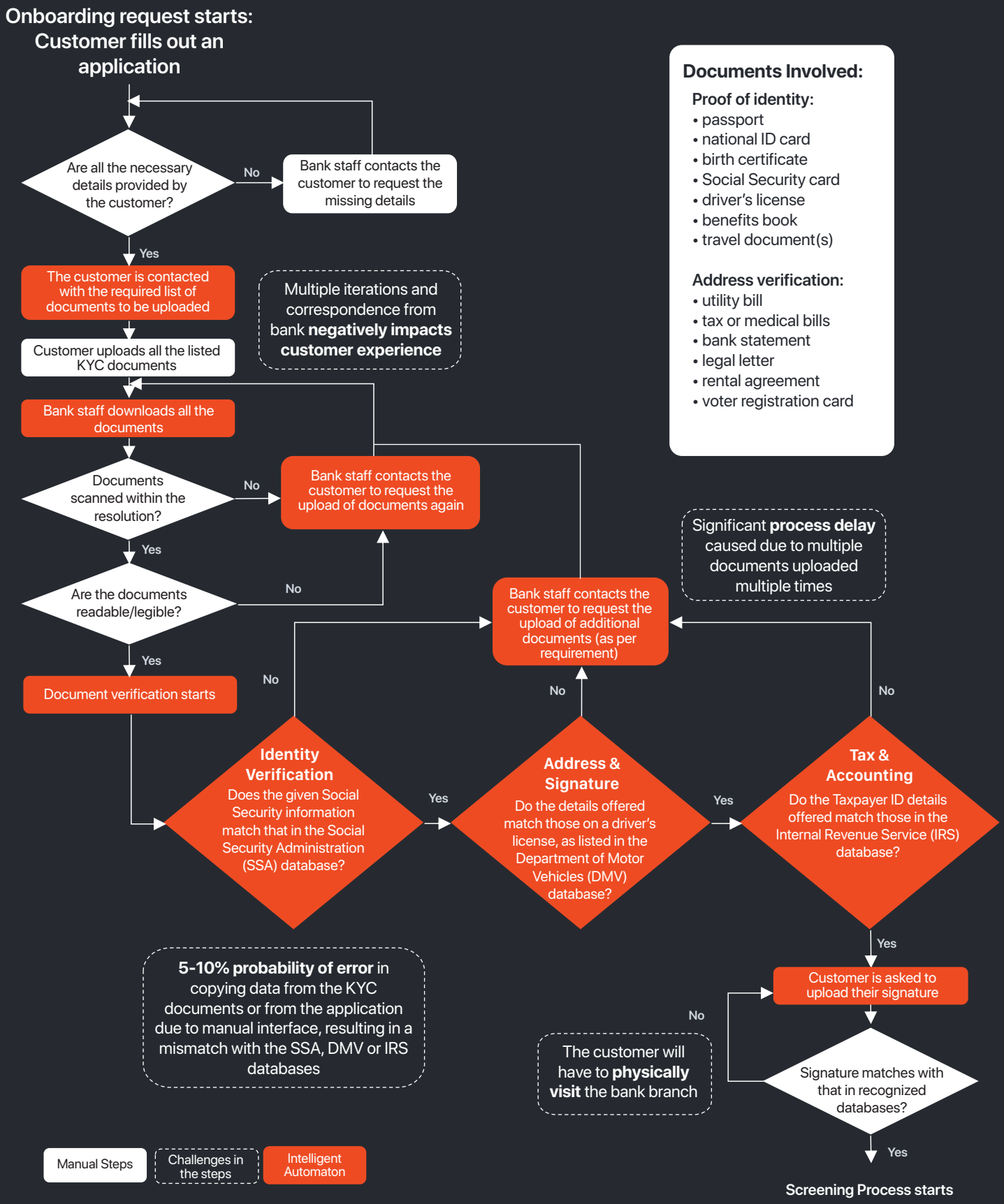


Figure 5: Process map of Customer Onboarding with IA in Identity Verification

Please note: Steps in this strictly illustrative example do not represent the comprehensive onboarding process, and includes elements that are applicable to both consumer and corporate banking.

An automated identity verification process leads to a superior customer experience, enhanced employee experience, higher accuracy, and lower total costs.

Source: Zinnov analysis of Customer Onboarding process

3.1 Case in Point: Intelligent Automation for Identity Verification of New Customer

A U.S.- headquartered Fortune 100 bank was facing immense challenges in their customer identity verification process for new account opening.

THE CHALLENGE

The bank was receiving a high volume of daily requests for account opening, ranging from 8,000 to as high as 40,000 a day. This led to a high requirement of FTEs for a highly error-prone and time-consuming process.

- **Unstructured and varied document types:** The bank received documents ranging from passports to utility bills, even driver's licenses from different states that have different formats.
- **High volume as verifications:** The bank had to process thousands of transactions daily that required verification for all customers.
- **Fraud and KYC risk:** The bank faced risks from fake documentation, regulatory non-compliance, and malicious actors.
- **Time sensitivity:** There was a need to deliver smooth and swift customer experience while maintaining compliance.

Unfortunately, there were subpar customer experiences, delayed responses, and increased costs due to errors.

THE INTELLIGENT AUTOMATION SOLUTION

The bank leveraged AI-powered Intelligent Automation to transform their KYC process and ensure a seamless experience for their customers.

- First, the process of document verification was accelerated by extracting pertinent data from documents such as passports and driver's licenses as well as retrieving data from internal and external systems, and reconciling the two to uncover any discrepancies.
- Second, teams in the bank assessed any mismatches; an automated process offered higher accuracy and lower total costs.

THE OUTCOMES

The bank was able to derive several key outcomes from IA.

- 90% reduction in account opening time
- 100% auditable process for compliance
- Multi-million-dollar savings in cost
- Business continuity during COVID-19

Intelligent Automation enabled business continuity for the bank during COVID-19, with frictionless customer onboarding.

4. KEY ADVANTAGES OF LEVERAGING INTELLIGENT AUTOMATION

While we have analyzed the impact of IA within the Identity Verification process, banks are leveraging IA across other areas of Customer Onboarding as well, including screening and due diligence, risk assessment, etc. Overall, banks have been able to achieve impactful outcomes with an automated Customer Onboarding process (Figure 6).

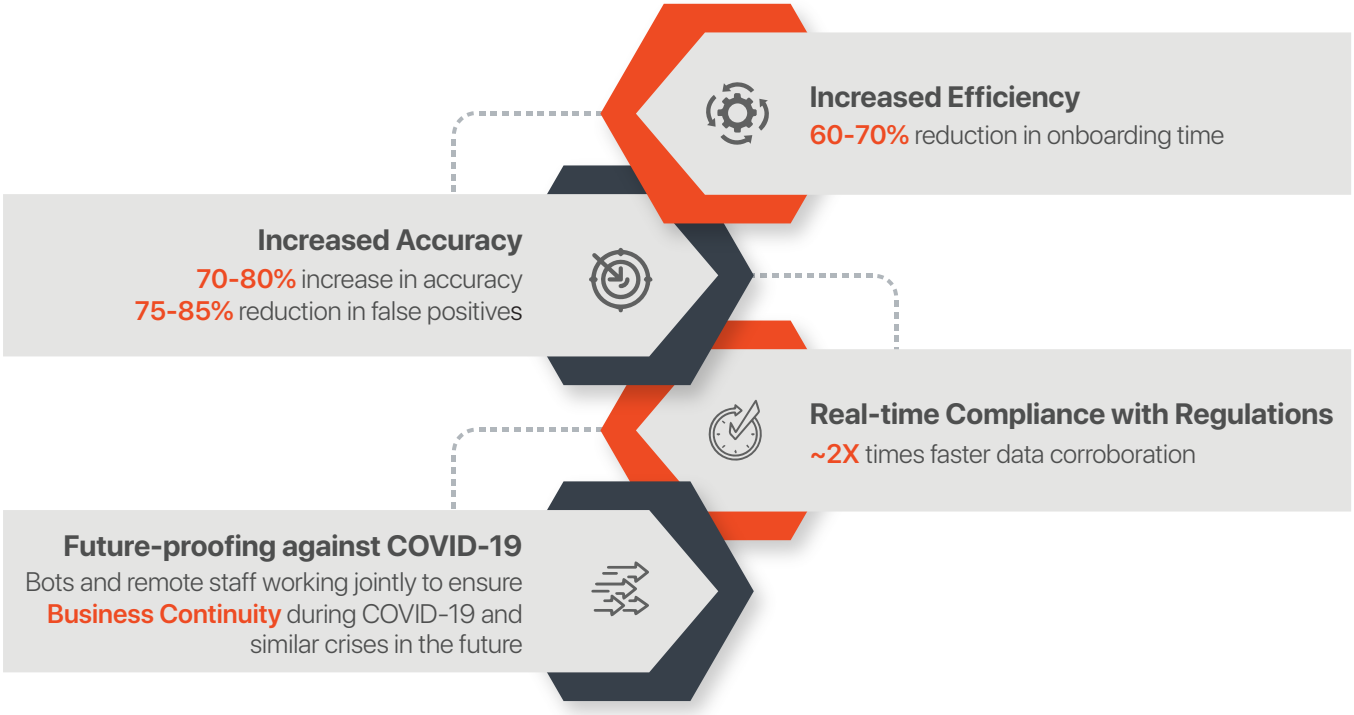


Figure 6: Advantages of IA in Customer Onboarding

Intelligent Automation is not only helping banks with business continuity during COVID-19, but also preparing them to guard their business against COVID-like crises in the future

It is essential to streamline the process by which banks incorporate regulations into their systems and reduce errors imposed by a manual interface. Banks can automatically incorporate new regulations in their systems by updating rules in realtime.

Banks that have automated their Customer Onboarding process are in a much better position to weather the ongoing pandemic than those still relying on traditional onboarding. An automated Customer Onboarding process will ensure business continuity as software bots can complete the process with limited human intervention. IA can efficiently automate common banking tasks, including filling forms, copying and pasting data, following decisions and rules, and reformatting data into reports or dashboards. This will allow the banks to be better prepared and future-proof themselves against COVID-19 and similar crises which may potentially arise.

Sources: Secondary research and Zinnov analysis of case studies

5. CONCLUSION

Banks are severely impacted by COVID-19 due to defaults and declining sales as the pandemic continues to impact businesses around the world. In these trying times, business continuity, cost savings, and operational efficiency can be achieved by automating many critical banking processes such as Customer Onboarding, which otherwise require a lot of manual intervention and management of multiple documents. Customer Onboarding has traditionally been a highly complex process, largely driven by the manual and repetitive nature of the tasks involved. COVID-19 has further aggravated this scenario, with the banks trying to figure out how to keep providing KYC and AML amid the challenges of virtual customer contact and customer onboarding. However, the good news is that Intelligent Automation can help address more than 60-80% of this manual work today. By shifting much of these tedious tasks from people to bots, banks can significantly reduce the need for human involvement, thereby positively impacting turnaround time, process efficiency, and cost.

Banks that have automated their Customer Onboarding process – including critical areas such as KYC and AML – are showing greater resilience during COVID-19. These progressive banks have reduced their reliance on manual work and are therefore better prepared to support new norms, while still providing the same level of customer experience. Banks that continue to rely on traditional methods are more likely to perish during COVID-19 and COVID-like crises which may crop up, as compared to the future-looking banks that have adopted Intelligent Automation and have a better chance of survival in uncertain times.

As more and more banking enterprises are now expected to embrace IA for their Customer Onboarding process, traditional banks must quickly find trustworthy partners to seamlessly integrate IA solutions into their existing infrastructure.

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