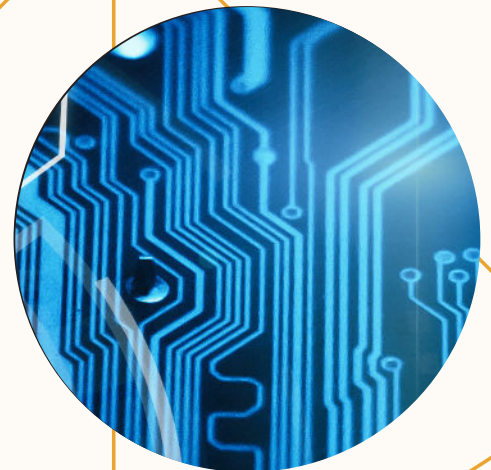


Banking on Automation

How banking and financial institutions are automating toward operational resilience



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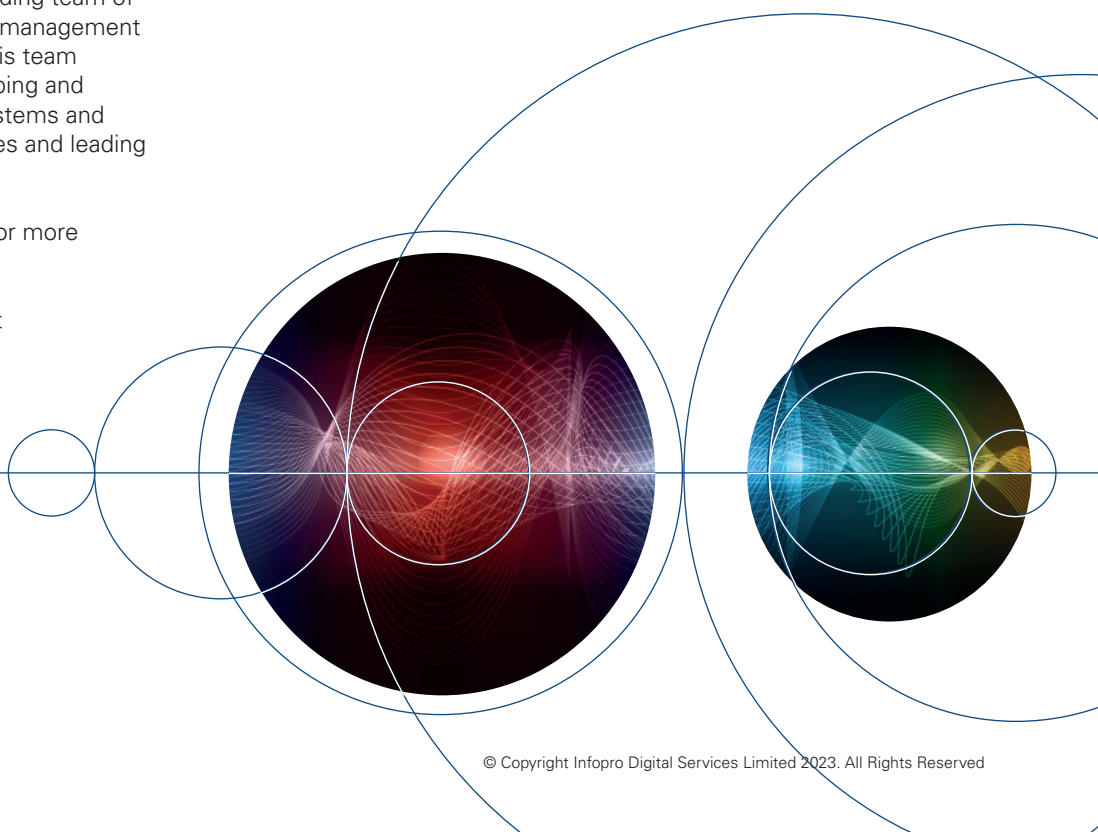
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1. Overview: automating and enhancing the process

Workforce and workflow efficiency are vital elements of CLM

Workforce efficiency has long been a concern for organizations operating in highly regulated industries, especially those in which there is (close to) zero room for error. In many firms, workforce efficiency has been – and will continue to be – vital in client lifecycle management (CLM) because these processes – from client onboarding to continuous engagement (including cross- and up-selling) to offboarding – all require some degree of human intervention. The challenge that many organizations face, especially Tier 1 banks with legacy technology and processes, is that often employees are focused on performing repetitive, low-value tasks rather than engaging with clients – resolving their issues and adding the human reassurance they value.

Traditionally, achieving workforce efficiency has entailed developing workflows that ensure that vital aspects of regulatory requirements are not missed and that minimize the number of steps in a process. At most mature organizations, especially Tier 1 banks, these workflows have tended to include a modest number of automated steps knitted together with manual, people-heavy processes.

But for many organizations, it is becoming clear that this approach, which emerged as a result of the 2008 financial crisis and the tighter regulations that followed, is no longer viable. Over the past two years, extraordinary events – the COVID-19 pandemic and the sanctions against Russia brought on by the war in Ukraine – have accelerated firms' move toward reviewing and redrawing many existing operational processes.

Rather than automating individual aspects of the CLM or workflow process, however, many companies are automating the whole operating process as a way to move toward operational resilience, and aligning back-office operations with the final customer journey. And the real driver behind this accelerated adoption is the availability of flexible, scalable and affordable technology.

Moreover, rather than looking for a quick fix, organizations are taking a long-term view when building operational frameworks and architectures. Their goal is to develop robust and resilient operations that can be scaled, changed and expanded easily, without the need for vast technical resources or large teams of specialists.

Indeed, the CLM process can be enhanced by enabling employees to work smarter, not harder. Based on interviews conducted with representatives at several institutions,¹ Chartis has identified several key drivers for workforce efficiency in the CLM process, which are outlined in this short report.

¹ Chartis analysts interviewed representatives from Tier 1 and 2 banks between Q1 and Q3 2022. A total of 21 banks and four non-bank financial institutions (NBFIs) were included in the research.

2. Toward resilience: why align operations?

Increasingly, financial institutions, especially Tier 1 and 2 banks, are aligning their back-office operations (including anti-financial crime compliance) with the end-user experience to create a more seamless onboarding process and customer journey.

A number of the Tier 1 and 2 banks that Chartis interviewed stated that they were aligning their back-office compliance operations with the customer experience so that the process at the back end is consistent with customers' expectations for speed, accuracy and transparency. One bank had merged its key performance indicators (KPIs) at the client-facing and compliance-operations levels, making both sides responsible for how long the client onboarding process takes and the time required before customers have access to certain services (including payments). If these KPIs are not met, both groups have to assess why and make changes that are consistent and interlinked.

The reason for this type of alignment isn't trivial. Our research found that among these banks, the median percentage for new customer attrition due to process misalignment was between 20% and 25%. In other words, these institutions were losing between 20% and 25% of new applicants as clients because customers were being offered a more seamless and faster process at other institutions.

KYC checks conducted by one Tier 1 bank, for example, typically take around four weeks, while a digital bank is able to carry out the same process in less than a day – and often even faster. There is a realization at incumbent banks that this kind of gap in customer experience offers a tangible competitive advantage. Indeed, all of the Tier 1 and established Tier 2 banks we spoke to backed up the notion that incumbents see the competitive pressure posed by leaner, more automated players as a real threat.

Reducing repetition: the case for automation

Representatives from one bank told us that, when analyzing its step-by-step compliance operations process, they counted up to 24 instances of the same data or document being sought, in many instances either from a third party or directly from a client. They estimated that this adds about six working days to the process.

By *automating* the workflow process, in this case using artificial intelligence (AI) tools to ensure that key risk decisions don't need to be repeated, almost 90% of that processing time can be cut.

Intelligent automation can significantly align operations and increase the efficiency of data use. By being able to automate full-time employee (FTE) roles and having pre-built automation in place, industry best practices can be leveraged out of the box rather than having to be documented and built. Further, by enabling integrations with internal and external data sources, automation can efficiently generate a full understanding of the record at hand.

20%–25%

of new clients being lost because they're being offered a more seamless and faster process elsewhere.

100%

of Tier 1 and 2 banks that agree that incumbents see competition from leaner, more automated players as a real threat.

90%

of processing time can be cut by automating the workflow process.

3. Automation: the heart of operational efficiency

The banks and financial institutions we spoke to vary in their adoption of, and approach to, automation. However, one thing unites them – the realization that automation, and more so automation across the client lifecycle, is not only valuable but crucial.

The benefits of automation

It's important to think of automation and the technology that enables it not only as a fix for immediate issues or a way to remove existing bottlenecks, but also as the enabler of **operational resilience**. In other words, automation and the tech stack around it have to be thought of as fixing tomorrow's problems as well as today's – notably where this combination enables firms to configure workflow and technology easily to account for changes in regulation, screening and monitoring requirements, and reporting requirements. In addition, both technology and processes must be scalable to account for growing numbers of clients, jurisdictions or check/data points.

A number of the banks we spoke to that have automated their financial crime operations successfully also reported a further benefit of automation – the **powerful analytics** that come from joining distinct parts and the insights that can be gleaned from using automation technology.

An automated process allows financial institutions to conduct analytics on their workforce's efficiency and identify any gaps or areas for improvement. They can then focus their manual labor on areas where it is necessary, automating areas that do not require human intervention. Doing this can lead to a reduction of up to three to four hours per analyst per day in time wasted on repetitive manual tasks that otherwise could be automated.

In addition, a number of banks have successfully applied the **'one decision once'** principle to create further time and resource savings via collaboration within the organization and throughout the client lifecycle. For example, a client's information reused in an automated process may include personal ID documents, employment records, proof of address and so on. When clients apply for specific banking products, however (such as a credit card or personal loan), the automated process may still ask for income information to ensure they are still eligible. Automation of the data flow helps to

align business operations, and therefore speed up multiple processes.

Moreover, by automating decision-making and data flow, firms can merge disparate banking operations, which traditionally require specific manual processes, into **one CLM process workflow**. A merged CLM process synthesizes different areas of risk management, from customer due diligence (CDD) to screening to anti-money laundering (AML) checks – all of which relate to the client's journey within an institution. These legacy processes often introduce inefficiencies: different teams can conduct the same checks and the same data points are often validated more than once. By automating, firms can significantly reduce these overlaps.

The speed and efficiency enabled by automation can also help to **safeguard processes** against any sudden changes in the market that can have a significant impact. When the Russian sanctions came into effect, for example, financial institutions using automated processes incorporating intelligent algorithms familiar with Russian names were able to handle the necessary adjustments smoothly. If these processes had been carried out manually or with simple rules-driven approaches alone, they would likely have taken much longer to introduce and may not have been implemented as accurately.

But firms are at different stages of automation

Of the banks we spoke to, approximately nine in 10 are automating somewhere across the FinCrime components of CLM, with only the very smallest banks relying solely on manual processes. While this implies that progress is being made, most banks said they are not benefiting fully from automation. In fact, more than half admitted that they still have a long way to go to achieve their desired level of automation. Roughly a third felt they were close to an optimal level but, crucially, none indicated that automation in their organization had been fully implemented.

When discussing steps in the process where automation can have the **most significant impact**, roughly two-thirds highlighted investigations and review as areas that were largely manual and thus big wins for automation.

When probed on the impact that AI can have on **automating the end-to-end process**, respondents were almost unanimous in believing that it can and will have a significant impact. However, fewer than a third, generally large banks, are currently adopting an AI-led approach.

Most banks and financial institutions have automated components of their FinCrime CLM journey – typically areas where reliance on long manual intervention (such as transaction monitoring) was causing significant bottlenecks or where technology was readily available and could be easily integrated (such as sanctions screening). The challenge, however, is that non-automated areas continue to cause bottlenecks, negating the gains from automation.

The following case study, taken from a Tier 1 bank, showcases how even a partly automated process can cause significant bottlenecks that considerably slow down client onboarding.

4. Case study: the impact that automation can deliver

Pre-automation: investigation and review the main bottlenecks

The traditional operating model prior to automating consists of a number of steps that generally follow one another. These steps usually include screening, transaction monitoring, CDD, investigation, review and reporting. In addition to these steps, there is the overlay of quality assurance (QA), governance and audit.

Many banks tend to structure the FinCrime process this way for a number of reasons, including disjointed legacy systems, varied requirements and accountability. While this approach has worked in the past, the disjointed nature of the process and misaligned output and data serve to magnify its inefficiencies.

Figure 1 illustrates the case of a Tier 1 bank. The key tangible elements the bank measures in relation to automation include the number of FTEs performing manual repetitive work, the number of FTEs performing skilled and technical work, the level of current automation, and efficiency (a combination of proprietary metrics).

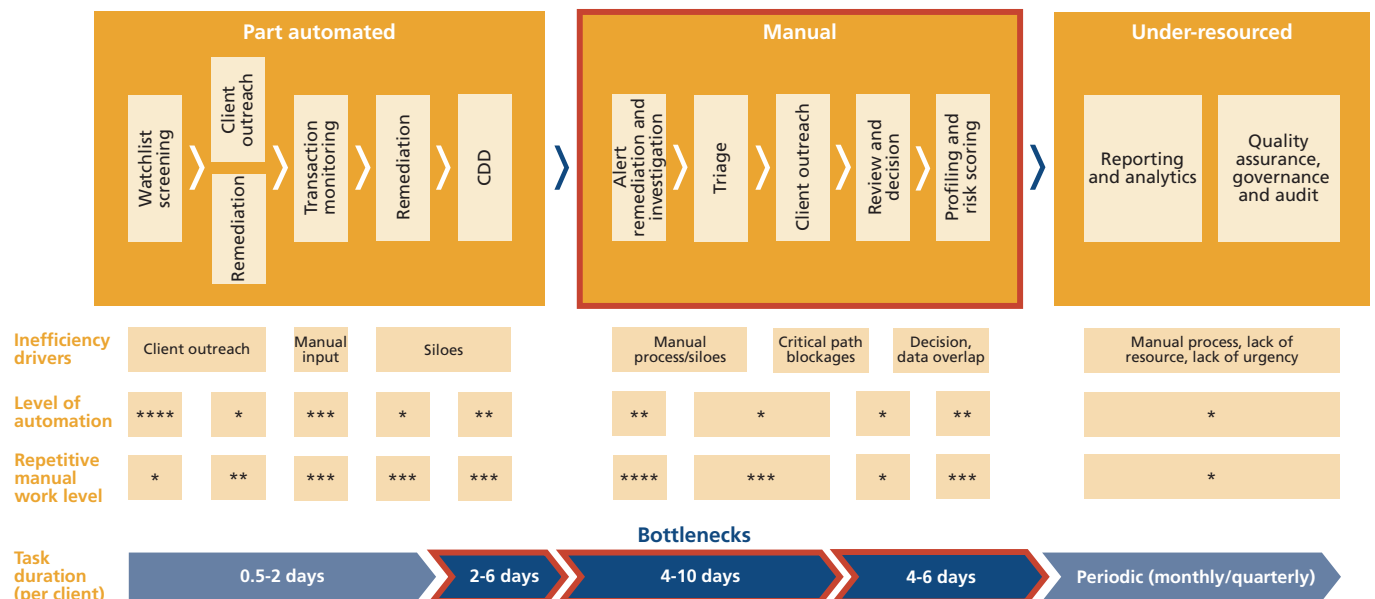
As shown, such steps as sanctions screening against watchlists were already automated, delivering some efficiency and lowering headcount. Transaction monitoring was largely the same, but with a higher headcount requirement, primarily due to the need to align multiple data sources. However, the lack of linkage between these automated and semi-automated processes meant that the impact of automation was marginal.

Primary, secondary and other bottlenecks

Manual processes, alert investigation and review were seen as the primary bottlenecks; this was the case across transaction monitoring, CDD and screening. Both the investigation and review steps required 'several hundred' level one and two analysts dedicated to these two tasks alone. In this mode, profiling and risk scoring were focused on categorizing alerts and escalations.

CDD was seen as the secondary bottleneck due to its reliance on manual processes and FTEs – almost twice the number allocated to screening and transaction monitoring combined. CDD also suffered from a lack of automation, especially in situations where individual automated tasks were not linked in a cohesive way.

Figure 1: A CLM operating model at a Tier 1 bank, pre-automation



Source: Chartis Research

Reporting and analytics were other areas that were very labor-intensive, largely due to the fact that the outputs in the previous steps were not in a format that was regulator-friendly. The reporting step focused predominantly on meeting regulatory and audit requirements.

The bank used to bolt QA and governance onto the reporting activities predominantly as a link between the compliance operations and other teams (notably policy and audit). As with the reporting and analytics steps, the focus was on reporting results rather than using analytics to evaluate performance gaps, portfolio risk and other considerations.

- **Connecting** the various elements of the process through consistent data and outputs that lend themselves to real-time analytics. Analytics can also offer deeper insights, which can be repurposed in a number of ways. As well as improving efficiency, this increases the effectiveness of the compliance process.

In addition, by freeing up time and resources in the previously highly manual investigations stage, and upskilling investigations staff, the bank has increased its capacity in the analytics step. This has enabled continuous improvement in compliance – and with it, incremental efficiency gains – as well as a focus on a ‘risk-backed commercial strategy’.

Post-automation: efficiency through connection and insight

In the new, automated model (see Figure 2), efficiency is created in the following ways:

- **Automating** various elements, including transaction monitoring, CDD, screening and alert remediation and review. This is where the bulk of the efficiency gains accrue, as indicated by the difference in reliance on repetitive manual work and the increased efficiency.

Figure 2: A CLM operating model at a Tier 1 bank, post-automation



Source: Chartis Research

5. Adopting automation: tools and approaches

Traditionally, automating operations and compliance processes was mainly an option for large (Tier 1) financial institutions only, because of the high costs involved and the requirement for technical expertise and an established infrastructure. Over the past few years, however, there has been a considerable increase in the availability of technology-first options, such as AI, that replicate and replace much manual decision-making.

In addition, no-code solutions are bringing AI and automation technology to a mass market without reliance on heavy integration, which is only viable for those with large budgets and tech teams. This has enabled small and mid-size institutions to benefit from automation without undertaking large technology-implementation programs. In fact, many mid-tier and 'neo' banks have exploited their relative lack of established infrastructure to automate faster and more effectively.

Leading by example

Organizations are also seeing more examples of successful implementations of advanced technology, which is encouraging them to automate further. In our interviews, representatives from one European Tier 1 Bank stated that during the firm's 'first wave' of AI adoption, about six or seven years ago, it invested heavily with little tangible benefit. However, having since seen a number of practical examples in the industry that are relevant to its current use cases, it is again investing in this area.

The evolution of automation: from process to lifecycle

In recent years, some extraordinary events – notably the pandemic and the Russian sanctions – have accelerated the drive away from *process* automation toward a more durable *lifecycle* automation.

The pandemic has altered consumer behaviors and working environments. A shift in expectations, combined with a mindset of 'instant gratification', has created a consumer base that expects everything to be done and delivered much faster. Meanwhile, a change in working lifestyles has impacted the effectiveness of some business processes. High levels of staff attrition during the

pandemic often made it difficult for firms to train new people in a new process. In this context, financial institutions are looking to automation to avoid the risks associated with employee turnover or the effort involved in training new hires.

The increase in sanctions against Russia (which has caused a spike in the number of alerts) has also shifted the focus to lifecycle automation. If a financial institution automates one part of the process rather than the whole lifecycle, delays will still occur elsewhere, reducing overall effectiveness.

As firms begin to think about how they should prepare for more 'extreme' events, they must invest in, implement and continually improve their client lifecycle processes.

Arguably, the biggest change that is driving both the adoption of an automated approach and the benefits that organizations are seeing from automation is a cultural shift away from automation as a technological showpiece at the front end. Now there is a growing understanding that when automation is the core around which processes are built, it can have profound effects.

This cultural shift is freeing banks and other organizations to think strategically and plan for the long term when it comes to automation. They know that getting the architecture right at the outset will allow them to handle the very unpredictable but very likely changes that will come in the next few years.

6. Further reading



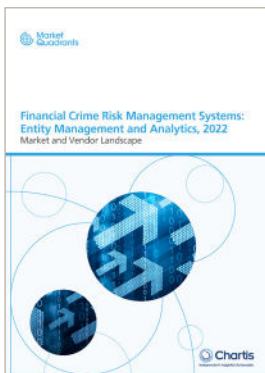
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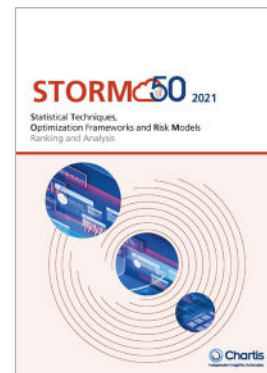
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