Client Lifecycle Management

‘How CLM has emerged as a distinct technology’

The 2008 financial crisis brought the weaknesses of the financial services sector’s processes around client due diligence and market risk into sharp relief. Financial Institutions (FIs) began to take action to better understand their exposure, while new regulation was created to enforce greater transparency and higher standards. Financial Institutions were forced to re-examine their end-to-end client lifecycle management experience, as they started to embed the capture of additional requirements.

In addition, Financial Institutions (particularly those that expanded by acquisition) had local or regional solutions to manage customer On-boarding. Very little connectivity or sharing was possible across sites, processes were heavily subjective & paper-based, and on-boarding to a new location was like starting afresh. Some organisations had started to implement workflow solutions to support orchestration of the process but rarely was this truly end-to-end.

Whilst regulators worldwide are imposing heavy fines for non-compliance, underlining the need for Financial Institutions to understand their customers and the transactions they are responsible for, shareholders expectations on profit means pressure to manage cost and improve margins is as strong as ever.

Financial Institutions, spending their change dollars stitching together disparate applications and data stores to meet regulatory requirements were faced with declining customer experience and increasing costs. They were left with little choice but to start considering a unified platform that optimises the client journey across on-boarding and a client’s ongoing interactions with the FIs.

01

What were the drivers for change for CLM?

Although client onboarding is a critical process for Financial Institutions, prior to the financial crisis few had recognised the level to which the process and data needed to be integrated to meet the ever-increasing complexity imposed by the regulators, increasing customer expectations and cost pressures.

Financial Institutions tended to have some level of BPM or workflow tooling, but rarely did it include the entire process or cover all the disparate parts of the organisation that needed to be engaged in completing onboarding activity. Disconnected departments capturing data in separate systems led to multiple versions of the truth and more back-office functions were created in an attempt to join these together to create a single picture for regulators and internal stakeholders.

Globalisation and choice in the retail market quickly became an expectation in the corporate arena. Large global clients expected to be able to trade multiple, different products across several jurisdictions. Large Financial Institutions were well placed to serve this demand as they had presence and product coverage but none had global policy or processes for onboarding. The customer's experience in these scenarios was generally well below expectation as on-boarding data and documents were requested multiple times by different parts of the same organisation.

Even though customer expectations in the corporate market moved more slowly than in the consumer market, the general move towards a digital experience drove clients to expect faster turnaround times, to drive a move away from paper documents and wet signatures to an online proposition. As well as the customer demand bankers pushed for faster conversion – time to revenue for each client being a key success metric.

Financial Institutions responded by adding more people and manual processing into already complex back office operations, initially trying to attain speed through additional manpower in lower cost, offshore teams. This evolution of manual processes to cover global requirements drove cost and complexity into KYC and Regulatory processes.

Before the Financial Crisis	Now
Regulation was less complex and was set and managed locally	Regulation is both global and local making a single view of the customer essential
Due Diligence activity was limited to onboarding activities	Regulation is now considerably more complex and is not only about onboarding
Customers expected to have multiple relationships in multiple geographies	Relationship Managers have wide coverage and customers expect a consolidated view
Customers expected to navigate a bank's internal workings and a heavy burden of rework for new entity onboarding	Customers expect to be able to easily access services and for banks to reuse the information across entities and geographies
Customers had limited interest in channels and self-service	Customers expect to be able to communicate with their bank in the most convenient way for them
Customers had less complex product and geographical requirements	Customers are increasingly multinational and require more varied products to offset their costs
Revenue was driven from Credit and Banking facilities	Low interest rates and reduced appetite for risk leads to exploring other revenue streams

02

How Regulations became the biggest driver for CLM adoption

The political response to the 2008 crisis was to review and embed regulation that had become gradually more lenient since the second world war. Regulation drafts that had been in elaboration for many years started to become binding legislation. Dodd-Frank Act, Volcker Rule, FATCA, Mifid (I and II) and Basel III, to name a few.

In parallel, regulators continued to extend their expectations of the role Financial Institutions had to play to identify and prevent money laundering and terrorist financing. Focus moved from local prevention to global terrorist networks, increasing expectations that Financial Institutions could keep up with changing sanctions requirements across the globe. Banks were expected to know how money was being utilised across the globe, adding to the expectation that 'Know your Client' was not just at the initial on-board but throughout their relationship. Recent reports show that AML spend in 2017 exceeded $8billion[1], increasing by over a third from 2013, to a large extent driven by remediation and reviews of client data.

While there was some coordination in rulemaking by regulators from different countries, there was still a plethora of country-specific regulations that continued to change.

Driven by the threat of heavy penalties, Financial Institutions responded to each new requirement, attempting to update existing platforms or create 'bolt-on' applications and teams to capture the additional data and documents that were required. While the response was initially tactical, Financial Institutions were acutely aware of the need to accurately record and report the data, as fines for non-compliance were running into tens of millions of dollars. Existing operational resources were re-aligned to remediate client records to ensure compliance – costly, highly manual processes added to the complexity that already existed. Banks were spending up to £30,000 to on-board a client and timeframes could be over 4 months.

Whilst regulation was a drain on resources, Financial Institutions were also struggling with tighter margins, some of this pressure was due to the restrictions regulators placed on riskier activities like proprietary trading. However, lower interest rates, increased competition, changing customer behaviour and loyalty added to the issue.

The interdependent nature of regulation and the ever-changing regulatory landscape made reacting to change and keeping on top of new requirements costly and unreliable. New regulations continued to be introduced and existing regulations extended to cover new customer and product groups. Many of the requirements needed to re-use data captured for an existing regulation, as well as adding additional data. These ongoing pressures along with the need to understand a client's transactions throughout their lifecycle with the bank, not just at the initial point of onboarding meant siloed, bespoke technology was no longer fit for purpose. Financial Institutions started to look for alternative options to solve the problem.

03

Financial Services were fragmented before CLM transformations

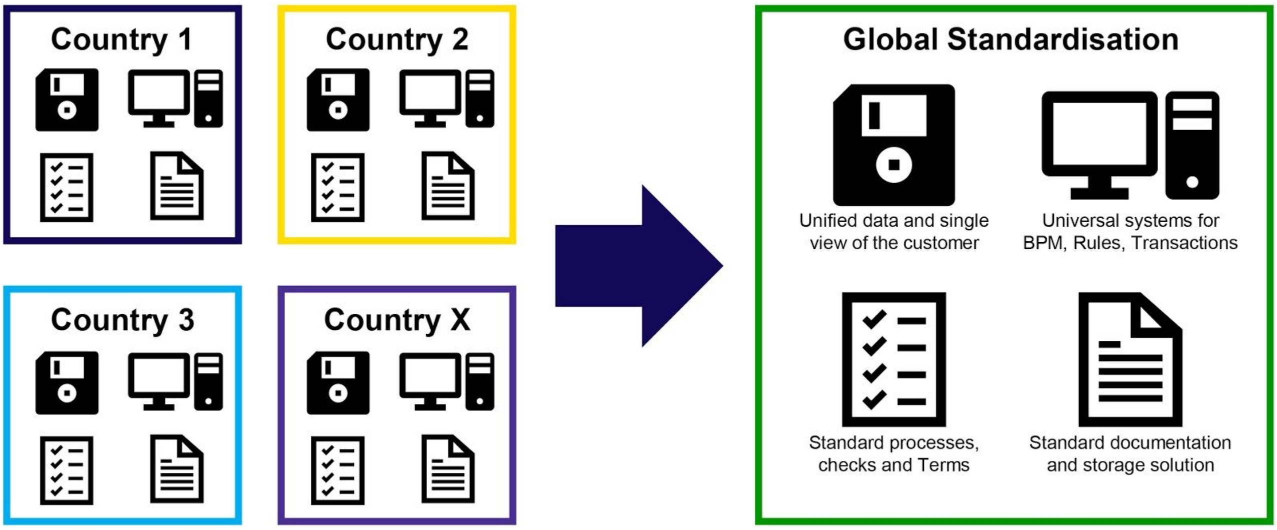
Technology supporting the onboarding process was non-existent, or at best local, which resulted in a lack of visibility on status and duplication of effort. Information and documentation was not re-used between jurisdictions or even product teams, leaving the burden of gathering this to customers and front-office staff.

Relationship managers were expected to have global oversight of their clients' products, holdings and risk to the bank, but were not supported by technology or process. Additionally, there was a need to rapidly increase their knowledge of policy and regulation, as more accountability was transferred. Sales tools started to be implemented to manage the sales process more strictly, and to improve the quality of data available to client-facing staff.

New goals emerged in order to address the growing challenges:

- Show a single view of the customer and their products, service transactions and regulatory risk, globally
- Set a minimum standard for regulations by which all clients could be measured globally, and allow changes to be easily updated and rolled out
- Add jurisdiction-specific requirements to these global standards where required
- Share information between teams, departments, and divisions across the on-boarding ecosystem, including Credit and Legal teams (which were areas that traditionally sat outside of the core onboarding organisation)
- Manage cross-border/multi-jurisdictional requests in a single case, with global visibility of a client's documents and data allowing easy re-use
- Share information with and from other organisations – minimising impact on customers, ensuring a single version of the truth for client data, and enabling external data changes to trigger updates to the internal client record
- Use onboarding data to drive knowledge about trading expectations throughout the clients lifecycle, so that unexpected transactions could be easily highlighted and investigated
- Set and manage service levels to drive end-to-end goals and create clear expectations between the different teams, and set clear expectations with the client

Solutions emerged to tackle the majority of the challenges in a single application with the primary focus being on Client Due Diligence & KYC and Onboarding.



04

Technology solutions begin to develop to join up on-boarding

Although the initial response was to build internal solutions, business leaders and those with budget responsibility began to realise that fragmentation across both the teams delivering the operation and the supporting technology was extensive.

Orchestration and data reuse were the earliest recognised goals. Moving to systems that could provide structure to the work and leverage existing information from previous requests and internal systems. Ultimately, hiding the disparate nature of the internal organisation from the client.

It became quickly evident that effective use of data was critical to delivering an efficient, compliant process, with minimal impact on the customer. Financial Institutions started to collaborate with each other, to set-up ‘Data Utilities’ to independently hold and maintain customer data and documentation. A number of information providers began to emerge into what is now called the Regulatory Technology or ‘Reg-Tech’ space. These providers also allowed for ongoing monitoring of transaction and client data, to intelligently ‘trigger’ reviews of the client, rather than having to support expensive and unreliable review processes to evidence on-going compliance.

Any tool that was to join-up the onboarding process, needed to knit together internal records and documentation with these new data suppliers, and furthermore to the manual sources used to inform compliance teams. Data was used for screening and verifying customers on areas such as Anti-Money Laundering (AML), adverse news, electronic ID and verification, official registries, listings and regulators across the globe. ‘Mastering’ the data from all of these contributing sources became a complex but necessary objective of any new operating model and system.

Regulation needed to be interpreted into policy, creating rules and questionnaires to make it manageable for Compliance Operations teams. Much of the regulation from one jurisdiction to the next was overlapping leading to extensive duplication of effort. Individual teams and tools were created for each emerging regulation and were ripe for consolidation. This led to the creation of rules engines which could aggregate and simplify the regulation, so that it could be performed as a scorecard, by centralised teams. These rules engines act as repositories for regulatory knowledge and process, and are now very much part of the CLM and Reg-Tech story.

Evidence of all of this due diligence activity, both in terms of auditing internal processes and customer documentation, needed to be easily demonstrable for regulatory bodies. Any overarching technology needed to support these audit requirements whilst taking account of complex data privacy rules driven by regulations and client requirements in different jurisdictions.

05

The emergence of CLM as a distinct technology

Solutions emerged to tackle the majority of the challenges in a single application with the primary focus being on Client Due Diligence & KYC and Onboarding. Once there was a single tool connecting all of the disparate functions together for the purposes of onboarding, it was clear that this connectivity could be used for all complex processes throughout the lifecycle of a customer. And so Client Lifecycle Management was born.

Providers of these applications sell a 'one stop shop' that includes:

- Connectivity to internal customer data systems and external data sources often with some data mastering capability
- An inherent operating model including some team structures and processes
- Standard business rules to manage regulation including product and jurisdictional specificities, including easy to update frameworks when new regulation emerged
- Providing visibility into and oversight of contributing processes and systems e.g. KYC, credit approval systems

As a whole, technology for banks has moved towards a 'Buy' model rather than a 'Build' one ultimately, with a view to reducing cost and leaving technology to technologists rather than bankers. However, overlaying a solution so far reaching onto existing operating models highlights numerous gaps and inconsistencies. This means that implementation of CLM technology is rarely just a 'Buy' - sometimes high degree of configuration is required and Financial Institutions continue to evolve and look for new solutions in this space.

Financial Institutions and Software Companies have spent more than 10 years trying to solve these problems, but very few, if any, have implemented complete or effective solutions. Trying to fix everything at once requires wholesale transformation, including, data strategy, systems consolidation, and operating models from the front to back office. Due to the complexity and diversity of regulations, existing systems, operating models, product offerings and customer types, few full-service Financial Institutions have managed to implement much more than a orchestration layer with a CDD/KYC rules engine and database.

06

The Future of CLM

Whilst many Financial Institutions have begun their CLM transformation journey they are far from achieving full coverage. Despite the costs and challenges, banks continue to invest heavily, as the alternatives of fines and heavily manual activity are more damaging and costly.

Most Tier 1 and many Tier 2 banks have selected at least one and in many cases multiple technology vendors to support their CLM implementation. Vendor strengths vary, some excelling in regulation and KYC, others in data management, while others still, sell the strength of their BPM and workflow capabilities.

They are generally falling short of the dream of a single application to cover the whole CLM scope and much of their focus continues to be on keeping up with the ever changing regulatory environment.

There also needs to be a level of honesty about the complexity that these global organisations have to unravel before they can move to a single application with a single, global policy for Due Diligence.

Financial Institutions recognise that the CLM ‘application’ is an important core technology, however customer demand is pushing for extensions over and above the core:

- Corporate customers want to self-serve for simple on-boarding and supply documents online for due diligence
- FIs urgently require the cost savings from automation / robotics that can remove the disconnects and duplication of data entry. In addition, OCR enables easy re-use of data from documents and legal agreements
- Clients and FIs want to safely and easily links to external utilities, where sharing of client documents is trusted
- Rich reporting and MI that allows for greater understanding and continuous improvement
- Machine learning and sophisticated analytics to drive more knowledge about the customer
- Block-chain to support the sharing of trusted data and documents

While no single vendor supports all these areas fully today, Financial Institutions are starting to overlay a number of technologies to drive the complex outcomes they require e.g. using robotics tools with a KYC rules engine; bringing OCR vendors in to work with CLM vendors.

The future of CLM is definitely still a work in progress.

About the author - Jiwan Laly

For the past 7 years Jiwan has held various global leadership roles at HSBC's Global Banking and Markets, with the most recent focused on transformation of on-boarding in the Middle Office. She has first-hand experience of the importance of client onboarding to major banks and the impact it has on customer experience. Previously, Jiwan held various transformation roles at Aviva PLC, working across life and general insurance. Jiwan is now Founder and Managing Partner at Aurora, bringing her knowledge of banking and specifically client on-boarding to our FI clients.

References

1. WealthInsight, July 2013. '2020 Foresight: The Impact of Anti-Money Laundering Regulations on Wealth Management'. https://www.marketresearch.com/product/sample-7717318.pdf

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How we help....

"We don't operate like a normal consultancy, we focus on honest advice, using real-life examples and experience to drive real value"

JIWAN LALY
Managing Partner

We have a proven track record in helping Financial Institutions prepare for delivery of their chosen CLM platform.

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Our approach to shaping will normally take between 8 to 10 weeks, depending on the complexity of the organisation.

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Through workshops and 1:1 meetings we will ensure the business case has been reviewed and documented, initial scope agreed and that there is sufficient understanding of how the current state maps against the new platform.

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We document findings working with you and your teams to ensure the project can move smoothly into Execution, without re-working key deliverables.

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We work in partnership with you and ensure the client's project teams are upskilled through the initial phases, maintaining a consistent lead throughout the project.