

ACHIEVE COMPLIANCE AND INCREASE REVENUE

The Revolution

Financial services from its market structure to regulation, from technology to customers, the end to end delivery of financial services products; is going through a revolution.

Top down regulatory change such as PSD2¹ and the 4th Money Laundering Directive (4MLD) are impacting the marketplace, and initiatives such as Open Bank data² aims to give consumers the freedom to access all banks in real time and from a single view, automatically calculating the best deals in complete transparency.

Then there are disruptive influences that come from below³: changing customer preferences and outside visionaries such as those from the Fintech seeking to transform and modernise the industry.

The growth in Fintech is huge, in the first three quarters of 2014 the value of Fintech-related mergers and acquisitions hit an estimated \$10 billion, nearly doubling from \$5.3 billion in the previous three quarters.

Value of Fintech mergers and acquisitions

\$10 billion

These changes are demonstrated at both ends of the market. At one end of the scale we see new offerings such as crowdfunding⁴ and peer to peer⁵ micro lending, and at the other end the evolution of traditional banks in this digital age. For example, take BBVA who are committed to becoming the world's first global digital bank⁶, making sizable investments in mobile only banks such as Atom⁷.

In some instances, we see larger more established players aiming for innovation through accelerators or collaboration through partnering with smaller more disruptive startups.

¹ <http://www.bankingtech.com/351501/will-psd2-be-the-driver-for-a-new-era-in-open-banking/>

² <https://www.openbankproject.com>

³ <http://www.theguardian.com/business/2015/jun/09/the-quiet-financial-services-revolution-begins>

⁴ <http://www.theguardian.com/culture-professionals-network/culture-professionals-blog/2012/aug/17/crowdfunding-changing-culture-kickstarter-projects>

⁵ <http://www.economist.com/news/finance-and-economics/21597932-offering-both-borrowers-and-lenders-better-deal-websites-put-two>

⁶ <http://www.euromoney.com/Article/3379655/Digital-banking-BBVAs-GonzlezThe-digital-banker.html>

⁷ <http://www.cnbc.com/2015/11/24/atom-bank-gets-68-million-from-bbva-says-it-can-be-as-disruptive-as-uber.html>

ACHIEVE COMPLIANCE AND INCREASE REVENUE

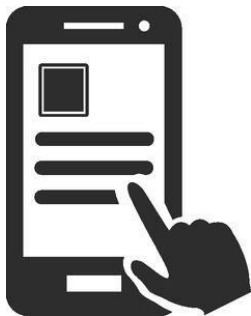
Then finally we have new disruptive technologies, such as shared ledgers or the more recognised term 'blockchain' which is heralding a new era in banking and financial services as a whole, which banks are already investing R&D budgets in⁸.

Growth of Mobile

In the 12 month period ending Sept 30th 2014 over 323 million smartphones were shipped globally, this was up 7.4 per cent on Q3 14. Research completed by GFK said this is the second highest quarterly sales ever reported. In Western Europe, smartphone shipments grew by 3.1 per cent to 33 million.⁹

Globally the number of people accessing bank accounts through smartphones and other mobile devices is expected to reach 1 billion by the end of 2015, according to Juniper Research¹⁰

In the UK alone over 50% of adults now use online banking¹¹ and mobile and digital banking services typically receive 7 million log-ins a day across the UK and account for nearly £1bn of transactions a day.¹²



323 million smartphones
shipped globally, a **7.4%** increase

⁸ <http://www.reuters.com/article/2015/09/15/us-banks-blockchain-idUSKCN0RF24M20150915>

⁹ <http://www.mobilenewscwp.co.uk/2015/11/25/global-smartphone-sales-set-to-top-1-3bn-this-year-according-to-gfk/>

¹⁰ <http://blogs.wsj.com/cio/2015/11/24/mobile-banking-to-hit-1-billion-users-in-2015/>

¹¹ http://www.ons.gov.uk/ons/dcp171778_373584.pdf

¹² <https://www.bba.org.uk/news/press-releases/britain-embraces-1-billion-a-day-digital-banking-revolution/#.VVsbCZNMcWo>

The Connected Customer

The internet, and latterly mobile, has created the consumer expectation for instant gratification. Consumers now want things quicker, cheaper and at the click of a button.

As consumers now compare their experience with financial services' organisations to that of large retailers, such as Amazon, they no longer believe that they have to wait for a quality service or go into a store or branch.

There is an opportunity for banks and financial services to learn from the retail industry, which is showing how technology can both enhance the customer experience and reduce overheads.

In their latest report issued in April 2015, KPMG state *“it is in the best interests of banks to focus on connecting with customers”*.

The report also states that banking profits have still not recovered to levels seen prior to 2008, and that customer relationships, and elements around trust, are major profit drivers across the industry.

But this creates operational challenges for banks who may need to replace legacy core banking platforms to move to mobile. Aging, nonintegrated legacy banking systems are becoming a liability, as maintenance costs rise, and customers demand real-time access to information and services.

For those in Fintech companies, they are only too aware that the customer experience is king, and with many deploying “mobile first” or “mobile only” strategies, they know that their use of technology to enhance the customer experience will be the key to developing longer lasting, more interactive customer relationships.

Risk Management

Regulation throughout Europe and those countries that are FATF 40+9¹³ means that prior to opening a financial services account, the identity of the applicant must be taken, and in most cases, validated.

It is stated in the above mentioned guidance that organisations must do this by *“identifying the customer and verifying that customer’s identity using reliable, independent source document, data or information”*

Documents are still one of the most common ways of validating identity throughout Europe. From identity documents such as passports, driving licenses and identity cards through to Visas and bank statements.

For many financial services’ organisations this means seeing the physical identity documents themselves or copies of those documents.

This is a time consuming and costly method for organisations, and in an online environment breaks the process with the consumer. They have to logout of the transaction and either go physically into a branch or send photocopies in the post.

This manual and subjective verification of paper documents also means that staff have to be highly skilled, in order to assess for fraud. According to the UK Home Office¹⁴ identity document fraud takes a few guises:

Impostors: One of the most common types of document fraud – the holder is simply a “look-alike”.

¹³ <http://www.fatf-gafi.org/media/fatf/documents/FATF%20Standards%20-%2040%20Recommendations%20rc.pdf>

¹⁴ https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/455424/guide_-_including_impostors_and_TDs.pdf

ACHIEVE COMPLIANCE AND INCREASE REVENUE

Counterfeits: A complete reproduction of a document from scratch to resemble an officially issued document.

Forgeries: A genuine document that has been unlawfully altered in some way, for example:

- substituting a page.
- substituting a photograph or image
- altering the personal details.

Pseudo / Fantasy Documents: Documents with no authority and which are not officially recognised – they can occur in various forms and may have the physical appearance of a passport. They are not acceptable proof of either nationality or identity.

Often many of the security features in an identity document, such as watermarks cannot be read if photocopies are presented because of poor quality images, this makes fraudulent documents hard to spot. This increases the risk of false documents or identities being used.

The Experience

The cost of completing a paper-based process versus an electronic one is well documented, and a move to electronic process represents a substantial cost saving for businesses through increased operational efficiency.

This coupled with the expectations of our new digital customer for real-time online account opening, is at odds with a requirement for them to visit a branch, or send photocopied documents through the post.

Online retailers face issues with customer drop off¹⁵ and generally, unless it's a high risk transaction, they wouldn't request a customer to

*Paper-based process vs
electronic:*

*Move to electronic = cost
savings.*

¹⁵ <https://blog.kissmetrics.com/first-step-of-checkout/>

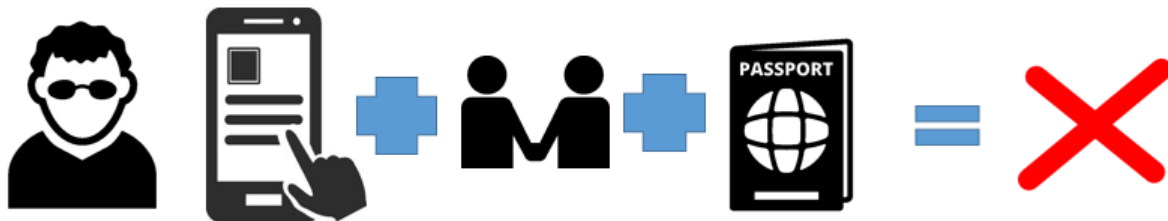
ACHIEVE COMPLIANCE AND INCREASE REVENUE

produce identity documents. Therefore, financial services' organisations requesting identity documents will create another barrier for customers, and one which can often mean that customers abandon the process.

With competition increasing in the financial services sector, customer experience is set to become a source of competitive advantage. The pace at which banks can deliver new, better, and transformative customer experiences need to keep up with consumers' desire for personalisation, engagement, and digital services.

Low Risk Transaction

Your customer may wish to simply transfer money to a friend. This would be considered a low risk financial transaction and asking for identity documentation would most likely lead to loss of that customer.



Higher Risk Transaction

If the individual is completing a more high risk financial transaction, such as transferring large quantities of money overseas, electronic verification would be worth considering, which will heighten the customer experience and lead to a successful transaction.



The Options

The good news is technology is advancing at a rate which is now making a marriage of regulatory compliance, fraud risk management and customer experience a possibility.

Consumer understanding of technology is increasing and this paves a way for adoption, and new methods to create a more compelling customer journey.

In some areas we see the adoption of social scoring taken from social media profiles to add to the overall credit risk score for lending¹⁶, elsewhere we see the adoption of document capture and verification and processing through a smartphone.

In this particular method identity documents can be captured and verified through PC's and mobiles by simply taking a photograph of the document within the online application process. This is sent to the provider of the service electronically, the provider then returns an electronic response to the financial services organization to let them know if the document is real or not, all in a matter of seconds. This method when compared with the option of requesting the customer to go into a branch or send photocopies of documents, is quicker, cheaper and a better customer experience; whilst completing document validation checks which can help comply with regulation and reduce fraud.

New methods are quicker and cheaper and result in better customer experience.

Summary

With disruption comes new opportunity, the aim is to thrive not just survive. The financial services' businesses of the future will likely need to compete on customer experience with the likes of Amazon and other retailers as well as with each other. How these firms adapt to these increasing desires from customers will define their position in the future financial market place. Understanding how new technologies can deliver compliance, reduced risk and also a good customer experience has to be a driver for financial services businesses today for their future prosperity.

¹⁶ <http://www.theguardian.com/media-network/media-network-blog/2014/aug/28/social-media-facebook-credit-score-banks>