A RESEARCH PAPER FROM FINEXTRA
IN ASSOCIATION WITH FENERGO
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TACKLING THE REGULATORY CHALLENGE: LEVERAGING CLM AND REGTECH TO IMPROVE EFFICIENCY AND CUSTOMER EXPERIENCE

01 INTRODUCTION

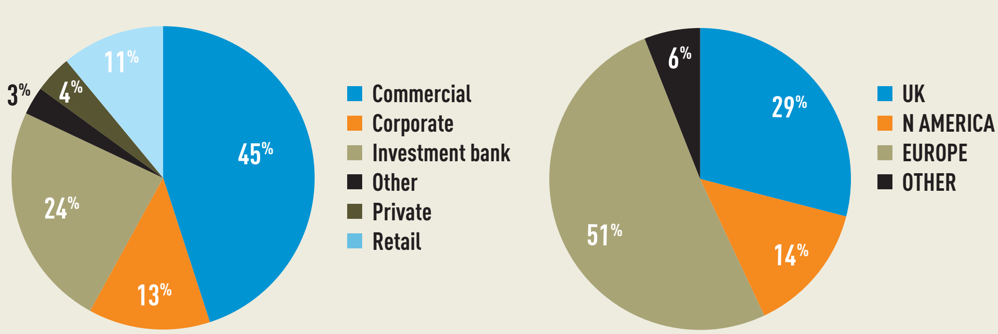
The ability of financial institutions to deliver smooth, streamlined and efficient onboarding to their customers is being negatively impacted by the weight of regulation with which they have to deal, and this regulatory burden is only getting more challenging.

While banks acknowledge that a number of solutions – including centralised client lifecycle management (CLM) solutions – can help them further down the line, in the short term they are grappling with technology implementation challenges and budgetary constraints. The good news is that they are already laying the foundations for future efficiency improvements by participating in standards initiatives externally and building cross-divisional capabilities internally.

These are among the key findings of new research carried out by Finextra in association with Fenergo into banks' views of the regulatory landscape and the role of regulatory CLM. The analysis presented in this paper explores the outcome of an online survey completed by 102 respondents from 73 financial institutions (including commercial, corporate, investment, private and retail banks) across 20 countries (the UK, Europe, North America and beyond).

PROFILE

102 RESPONSES FROM 73 FINANCIAL GROUPS SPANNING 20 COUNTRIES



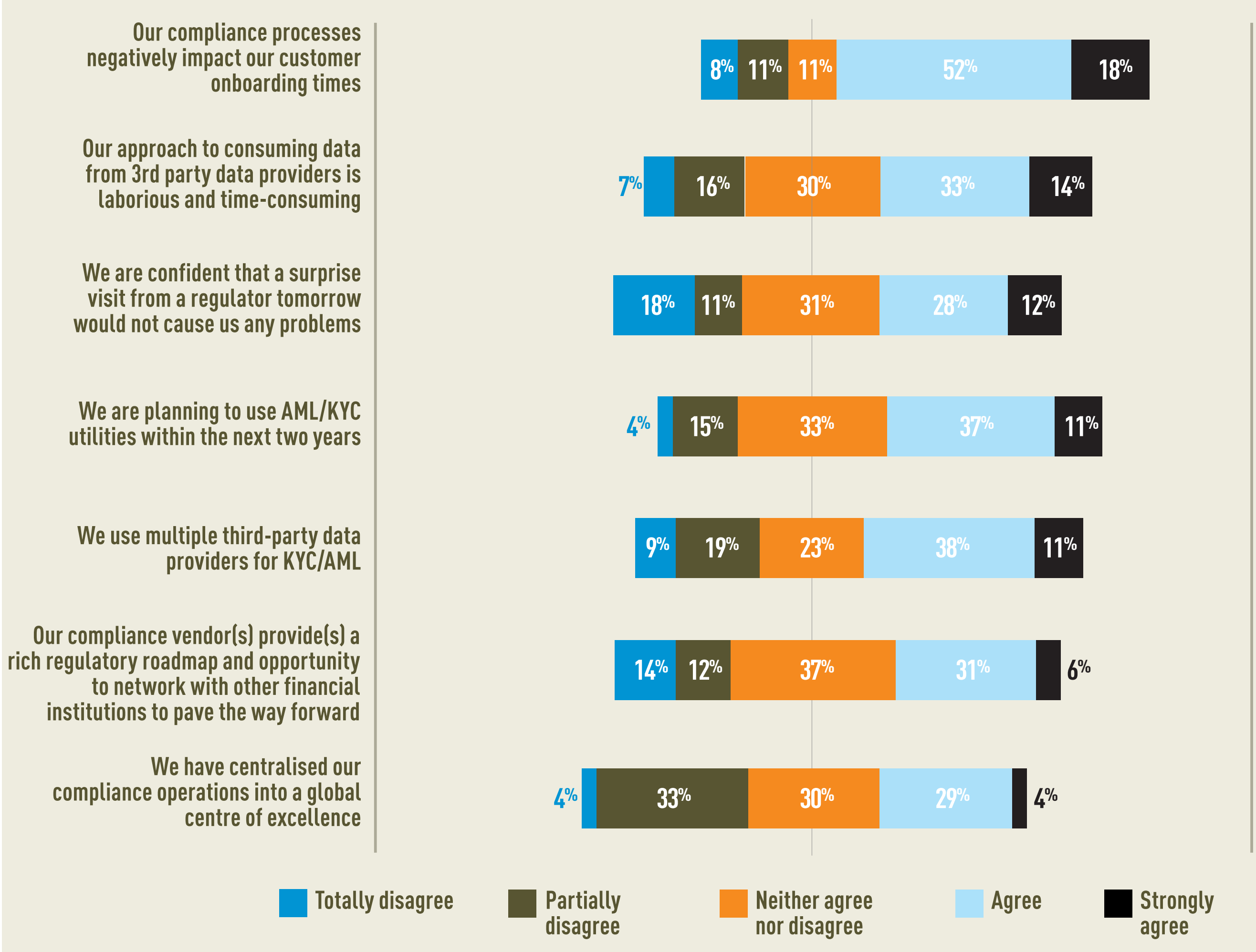
02
THE PROBLEM

POOR CUSTOMER EXPERIENCE

As Chart 1 below shows, the survey respondents clearly indicate that their customers are suffering due to their bank's compliance workload, agreeing most strongly with the statement, "our compliance processes negatively impact our customer onboarding times".

CHART 1

PLEASE INDICATE YOUR LEVEL OF AGREEMENT WITH THE FOLLOWING STATEMENTS ABOUT YOUR BANK'S COMPLIANCE PROCESSES:

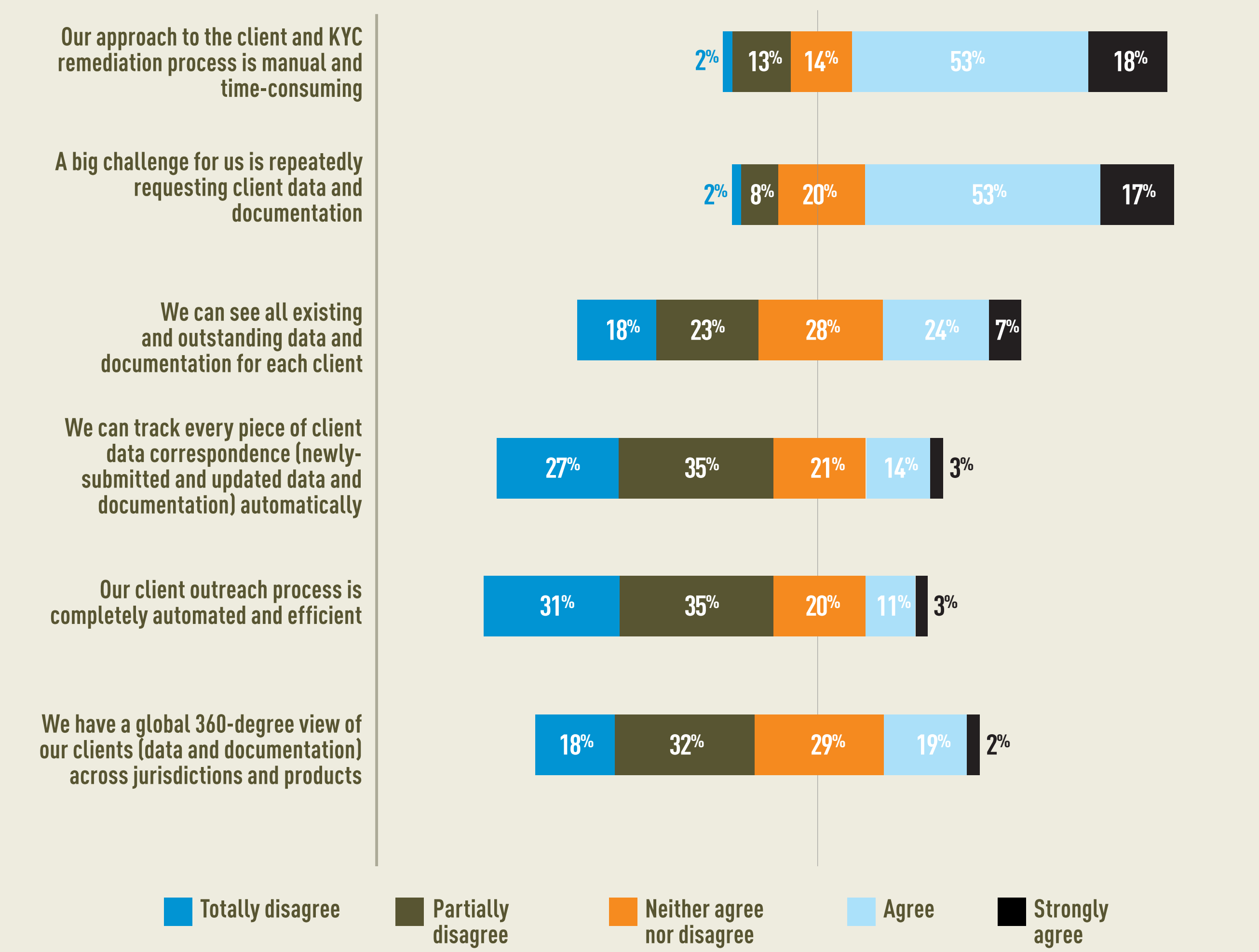


The results also hold some clues as to the problems contributing to this issue. Almost half of respondents say their banks are using multiple third-party data providers for KYC and AML, and 47% confess that their "approach to consuming data from third-party data providers is laborious and time-consuming", with only 7% totally disagreeing with this statement.

Meanwhile, as the findings set out in Chart 2 reveal, the way in which banks are interacting with their clients during the onboarding process also leaves a lot to be desired. A significant 66% disagree with the statement "our client outreach process is completely automated and efficient" (31% totally). Only 3% - all European banks - strongly agree with this statement.

CHART 2

PLEASE INDICATE YOUR LEVEL OF AGREEMENT WITH THE FOLLOWING STATEMENTS ABOUT YOUR BANK'S DATA, DOCUMENT MANAGEMENT, REGULATORY CLIENT OUTREACH AND KYC REMEDIATION PROCESSES.



By contrast, 71% of respondents agree that their "approach to the client and KYC remediation process is manual and time-consuming" (18% strongly), with 70% acknowledging they face a big challenge in "repeatedly requesting client data and documentation".

The survey results suggest this inefficiency is the result of poor visibility and tracking capabilities on the part of banks. Overall, 41% of respondents disagree with the statement "we can see all existing and outstanding data and documentation for each client", though views on this capability vary regionally, with 33% of European respondents agreeing with this statement, versus 21% of North American respondents.

A substantial 62% disagree that they can "track every piece of client data correspondence… automatically", though again European banks claim to be better at this than their North American counterparts (with 20% agreeing with this statement contrasting with just 7% agreement in North America).

Only one-third of respondents agreed that they have centralised their compliance operations into a global centre of excellence", with 37% disagreeing. Furthermore, 50% disagreed with the statement "we have a global 360-degree view of our clients… across jurisdictions and products", with only 21% agreeing. This clearly illustrates that banks have some way to go to close this gap. Moreover, European respondents gave a poorer showing, with no European bank strongly agreeing that they have this view.

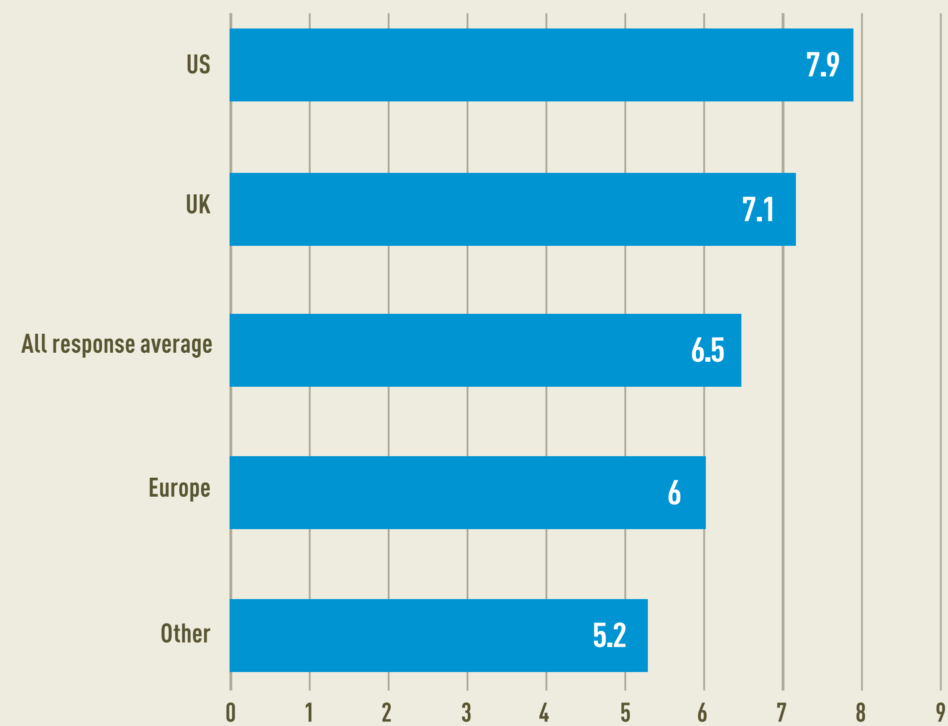
MEETING REGULATORY DEMANDS

The survey respondents are not full of confidence in their banks' ability to be compliant with all the regulatory impositions they face in the time allowed. As Chart 3 below shows, the overall average response when asked to score their confidence in this in the 2017-2018 timeframe is a mediocre 6.5.

> "While 71% of respondents agree that their 'approach to the client and KYC remediation process is manual and time-consuming' (18% strongly), 70% acknowledging they face a big challenge in 'repeatedly requesting client data and documentation'."

CHART 3

HOW CONFIDENT ARE YOU IN YOUR BANK'S ABILITY TO MEET UPCOMING REGULATORY DEADLINES IN 2017 AND 2018? (SCORE 1-10, WITH 10 MOST CONFIDENT)



There are some regional variations. There is more confidence in the UK and in the US – but the slightly below average score for "Europe" is also supported by other survey findings, notably those set out in Chart 4 below, which demonstrate that some key pieces of European regulation, in particular, are keeping banks awake at night.

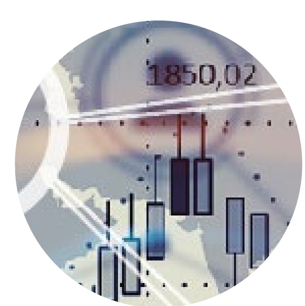
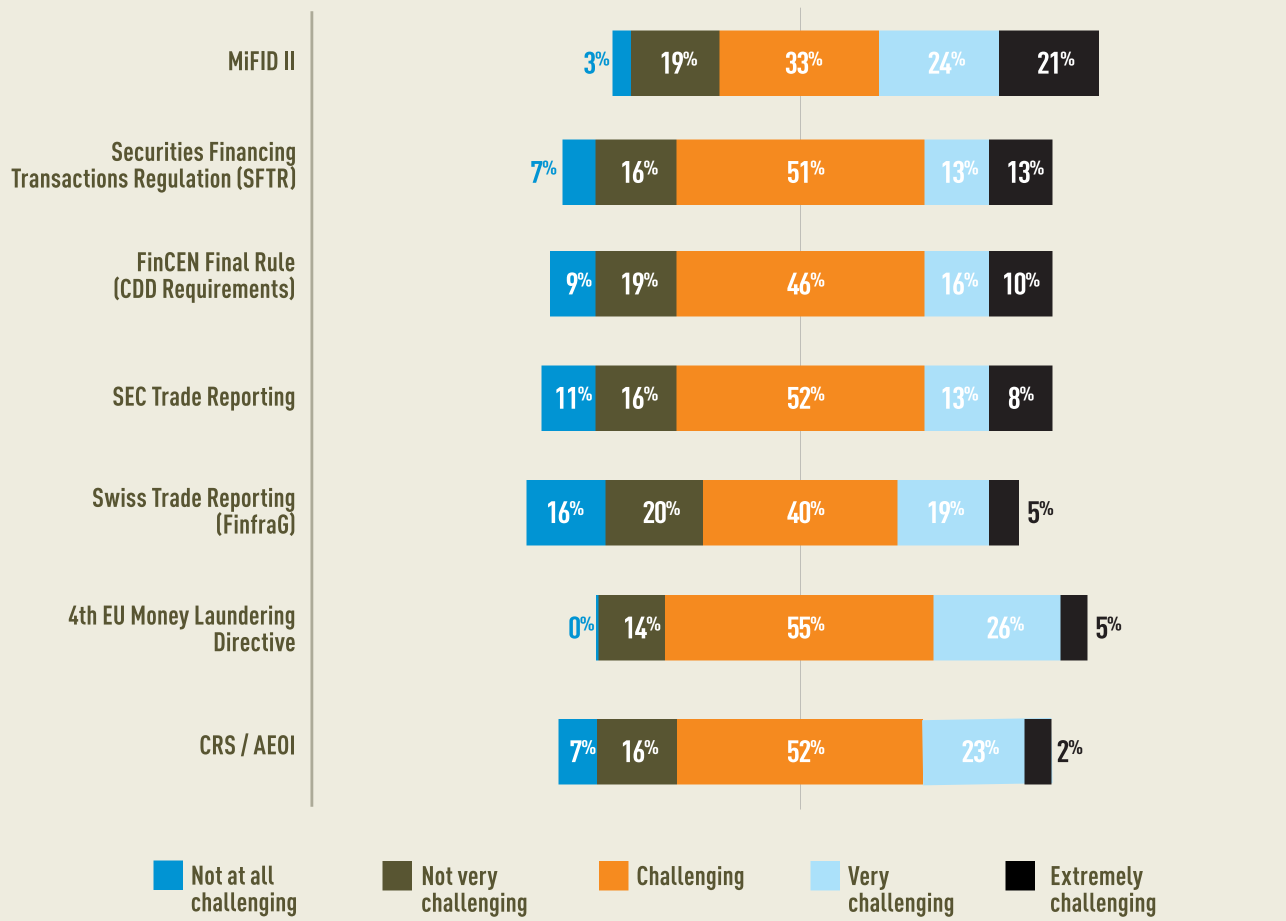


CHART 4

HOW CHALLENGING DO YOU BELIEVE THE FOLLOWING REGULATIONS WILL BE FOR YOUR FINANCIAL INSTITUTION IN 2017/2018?



"The survey respondents are not full of confidence in their banks' ability to be compliant with all the regulatory impositions they face in the time allowed. As Chart 3 below shows, the overall average response when asked to score their confidence in this in the 2017-2018 timeframe is a mediocre 6.5."

It should be observed that all the regulations listed are deemed challenging: in fact, all but one are described as such by more than 70% (the exception being Swiss Trade Reporting, at 64%, which presumably impacts fewer participants in a major way).

The 4th EU Money Laundering Directive (4AMLD) comes out as the most challenging (86%, and no respondents think this is 'not at all challenging'). Second is MiFID II, another product of the EU, described as challenging by 78% and notching up the highest number of 'extremely challenging' votes (21%). Following closely behind is SFTR, a third piece of EU regulation, scoring a 77% 'challenging' vote – and a chunky 13% 'extremely challenging'.

To say the data shows that European regulation is particularly problematic in the eyes of banks would be an over-simplification, however. Other regulations such as CRS/AEOI, the FinCEN Final Rule and SEC Trade Reporting are still described as challenging, despite clocking up slightly lower 'challenging' scores (77%, 72% and 73% respectively). The last two were described as 'extremely challenging' by 10% and 8% of respondents respectively.

In addition, it is important to note that, the greater confidence in their compliance ability shown in Chart 3 notwithstanding, North American banks are just as - if not more - worried by the implications of some of the European regulation coming down the line. While 30% of European respondents consider 4AMLD extremely or very challenging, 52% of North American respondents do. In a similar vein, while 20% of European respondents consider SFTR very or extremely challenging, 33% of North American respondents do.

In other words, the global regulatory landscape is a complex and demanding one for banks everywhere – which makes respondents' reactions to the statement "we are confident that a surprise visit from a regulator tomorrow would not cause us any problems" (Chart 1) unsurprising. More agree with this than disagree (40% versus 29%) but the biggest single vote goes to 'totally disagree', with a standout 18%.

Again, demonstrating the deep complexity of the regulatory landscape, and the multiple layers of the regulatory challenge for financial institutions, drilling down into the data reveals that though they are overall more confident in their ability to comply, more North Americans would be panicked by a surprise regulatory visit (29%, compared to just 12% for Europe).

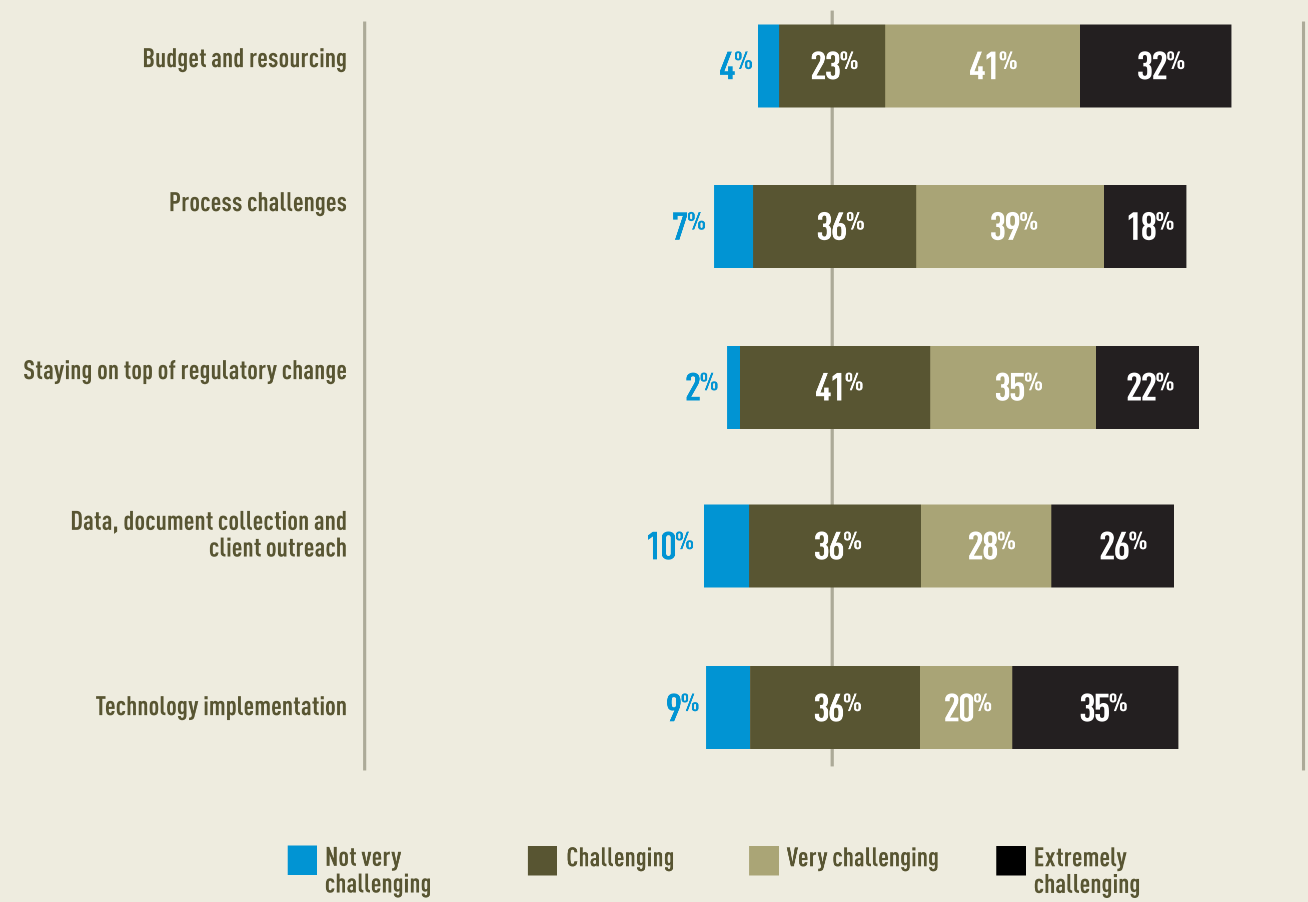
RESPONDING TO FAST-CHANGING NEEDS

When asked to assess a number of aspects of the regulatory burden they face, it is telling that the survey respondents did not characterise anything as 'not at all challenging'. In other words, the survey results suggest that everything related to regulation is in some way challenging for banks.

As Chart 5 below shows, consistent with findings outlined above, "staying on top of regulatory change" is tagged as challenging by an overwhelming 98%, and is described as 'not very challenging' by the smallest proportion, 2%.

CHART 5

WHAT ARE THE BIGGEST COMPLIANCE CHALLENGES FACING YOUR ORGANISATION THIS YEAR?



The biggest ‘not very challenging’ score goes to “data, document collection and client outreach” but, reinforcing the other findings of the survey around poor customer interaction and experience, this is nonetheless challenging, very challenging or extremely challenging for 90% of respondents.

The weight of concern is concentrated on “budget and resourcing”, ranked as ‘very’ or ‘extremely challenging’ by a hefty 73%. Closer analysis of the data reveals some interesting regional differences here – for example, the contrast between the 63% of UK respondents who say budget is very or extremely challenging, and the 79% of North American respondents who do.

Interestingly, such analysis also reveals a potential correlation between budgetary and resource worries, and concerns about ‘technology implementation’. The latter actually receives the highest ‘extremely challenging’ score. In addition, the regional breakdown of reactions to this challenge shows that while 53% of UK respondents find it very or extremely challenging, 71% of North American respondents do.

In other words, it could be that perception of budgetary and resource concerns is strongly connected to the size of the technology implementation challenge banks believe they face.

INADEQUATE COMPLIANCE TECHNOLOGY TODAY

If the survey reveals a significant degree of concern about the extremely challenging nature of technology implementation in the regulatory space, then this reinforces the findings discussed above around the problems inadequate systems create in client onboarding and ongoing interaction (Chart 2).

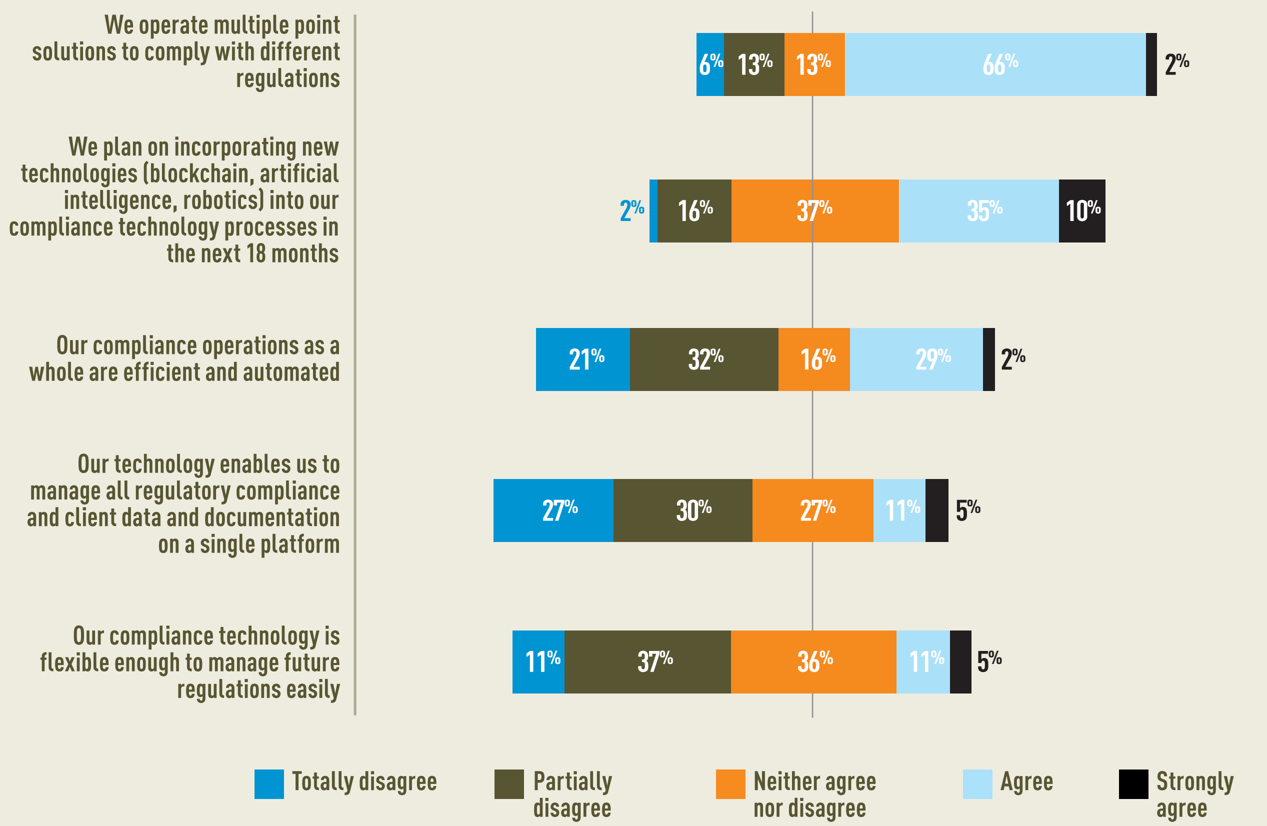
There are also indications elsewhere in the survey findings that banks believe their compliance technology is currently letting them down.

As Chart 6 shows, most respondents disagree with the statement “our compliance operations as a whole are efficient and automated”, with only 21% ‘totally’ agreeing. The lack of coherence and centralisation is abundantly clear. Just 16% agree with the statement “our technology enables us to manage all regulatory compliance and client data and documentation on a single platform”, while a significant 68% admit to having “multiple point solutions to comply with different regulations”.

Most worryingly, given the forthcoming regulatory deadlines of which respondents are clearly very aware, and their concern already discussed about being able to respond to the rate of regulatory change, just 16% agree their “compliance technology is flexible enough to manage future regulations easily” – versus the almost half of respondents who disagree, 11% ‘totally’.

CHART 6

PLEASE INDICATE YOUR LEVEL OF AGREEMENT WITH THE FOLLOWING STATEMENTS ABOUT YOUR BANK'S COMPLIANCE AND DATA MANAGEMENT TECHNOLOGIES



> "Worryingly, given forthcoming regulatory deadlines and the concern shown about being able to respond to the rate of regulatory change, just 16% of respondents agree their 'compliance technology is flexible enough to manage future regulations easily' – versus the almost half of respondents who disagree, 11% 'totally'."

03 THE SOLUTION

There are suggestions throughout the survey findings that banks can see the potential of more sophisticated technology and technology-driven solutions to help alleviate their compliance challenges. As Chart 6 shows, an encouraging 45% say they plan to incorporate "new technologies (blockchain, artificial intelligence, robotics) into our compliance technology processes in the next 18 months", with only a tiny 2% strongly disagreeing with this statement.

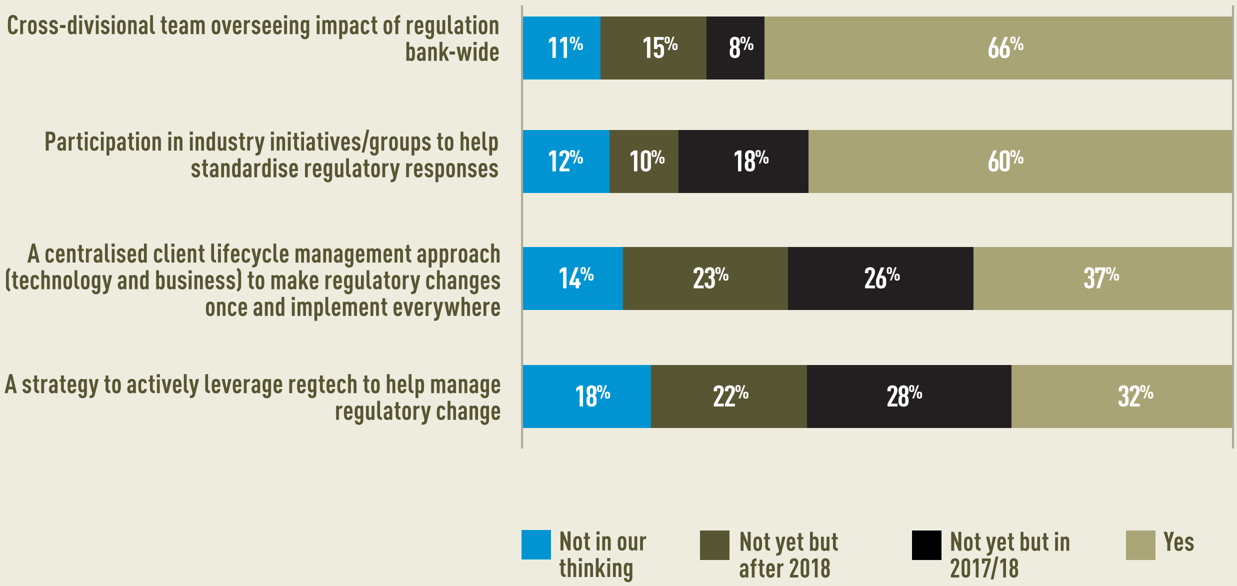
Meanwhile, Chart 1 shows that almost half (48%) plan to use AML/KYC utilities within the next two years – though more in-depth analysis of the data reveals that use of such utilities within two years is less likely for North American respondents (29% agree or strongly agree) than it is for other segments such as the UK (49%). This differentiation could also be linked to why North American respondents are more likely to view 'technology implementation' as extremely challenging than their UK counterparts, as explored above: they are less focused on sharing the burden by exploiting a utility.

When it comes to the level of support that banks receive from their compliance vendors, Chart 1 shows that banks are moderately happy: 37% of respondents agree that "our compliance vendor(s) provide(s) a rich regulatory roadmap and opportunity to network with other financial institutions to pave the way forward". That said, a rather sizeable 14% totally disagree – suggesting there is room for improvement here. North American respondents are slightly more impressed with their vendors' support it appears: 50% agree with the statement above, contrasting with the 33% of European respondents who agree.

> "An encouraging 45% say they plan to incorporate 'new technologies (blockchain, artificial intelligence, robotics) into our compliance technology processes in the next 18 months', with only a tiny 2% strongly disagreeing with this statement."

CHART 7

PLEASE INDICATE WHICH OF THE FOLLOWING INITIATIVES YOU HAVE IN PLACE (OR HAVE PLANS TO PUT IN PLACE) TO HELP MANAGE REGULATORY CHANGE



Given we know from the data that technology implementation is a challenge, it is not surprising to see in Chart 7 that respondents have made more progress to date with initiatives around managing regulatory change that are not directly technology-related.

The strongest showing for an initiative currently in place is the 66% 'yes' vote for the creation of a "cross-divisional team overseeing impact of regulation bank-wide". Such a team has to be a good foundation for the centralised approaches to compliance management which the data has shown are somewhat lacking at the moment.

Another strong foundation for improved efficiency is participation in industry initiatives to standardise regulatory responses – and again, respondents report strong progress here, with 60% saying they are already doing this.

Interestingly – and further confirming how difficult it is to make generalisations about any aspect of this complex issue for banks – though they are less committed to utility solutions, North American respondents profess themselves more involved in industry standards efforts (79% versus 57% for Europe).

The data on banks' views of explicitly technology-based responses to the regulatory challenge – initiatives to leverage regtech and centralised CLM (meaning regulatory changes can be made once and implemented everywhere) – by no means paints a bad picture of progress.

The findings do show that centralised CLM and regtech are more "bleeding edge" than the other initiatives covered – they are not yet in the thinking of 14% and 18% of respondents respectively – but on the other side, both have been implemented to some degree by banks already (37% and 32% respectively). CLM is most likely to be in place now among UK banks, the data suggests: 45%, compared to North America at 14%.

The outlook for banks to leverage centralised CLM and regtech in the future is also positive, the data suggests. Their adoption curves look set to be similar, with regtech slightly more likely to be implemented later this year or next, and centralised CLM slightly more likely to be implemented after 2018. Both will be stronger focus areas for banks in the coming few years than either the creation of bank-wide oversight or participation in industry standards efforts.

In other words, as banks' approaches to compliance continue to mature, the data suggests, they will be in a stronger position to overcome the challenges of technology implementation, budgeting and resourcing, in order to take advantage of the potential of technologies such as AI, centralised CLM and regtech.

In turn, this will improve the banks' ability to respond in a timely way to regulatory change, while at the same time increasing their efficiency and enabling them to transform client onboarding and customer experience.

04
ABOUT

Finextra

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Fenergo

Fenergo is a global leader in Client Lifecycle Management software solutions for capital market firms and investment banks. Its world-class client onboarding workflow technology streamlines onboarding, account opening and client maintenance processes, while delivering regulatory onboarding processes that ensure compliance with global and local regulations such as AML, KYC, Dodd-Frank, FATCA, MiFID and EMIR based on clean, golden source entity data. These award-winning solutions enable financial institutions to significantly improve time-to-revenue, regulatory compliance, client experience, and reduce overall operational costs.

Comprised of three core software solutions, Fenergo's Client Lifecycle Management platform includes:

Client & Counterparty Data Management
Underpinned by a comprehensive Legal Entity Data Management framework, Fenergo's Client & Counterparty Data Management solution enables the tracking, merging and grouping together of various identifiers to create a more accurate and holistic single view of the client and all associated or linked entities and individuals – enhancing risk management and improving client experience and profitability.

Regulatory Compliance Platform
Fenergo's Regulatory Compliance Management solution ensures compliance for the financial institution throughout the entire lifecycle of the customer and across global compliance and regulatory directives, such as: Jurisdictional KYC (Know Your Customer), Client Due Diligence Checks, Anti-Money Laundering Checks, Ultimate Beneficial Ownership Checks, FATCA, MiFID, Dodd-Frank and EMIR Classifications, as well as compliance with the Patriot Act and the 3rd and 4th EU Money Laundering Directives.

Client Onboarding Lifecycle Management
Fenergo's Client Onboarding Lifecycle Tool enables financial institutions to improve time to revenue and provide a quick and efficient onboarding process for new and existing clients, whilst ensuring the highest level of compliance with ever-evolving regulations all the way through the client lifecycle (at client take-on and ongoing due diligence stages).

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