Keeping good company: streamlining client onboarding with CDI

This is the first of three reports by Chartis and Encompass that examine the challenges that banks face around client onboarding, and how they can address them. This first report considers the pain points banks face in onboarding corporate clients; the second looks at how automated corporate digital identity (CDI) systems can help address these; and part three examines strategies and best practices banks can employ to implement successful, cost-effective and long-term CDI.

Corporate client onboarding at Tier 1 banks* – key findings

*A Tier 1 bank is defined as a bank with more than US$500 billion in assets.

Part 1: The pain of client onboarding

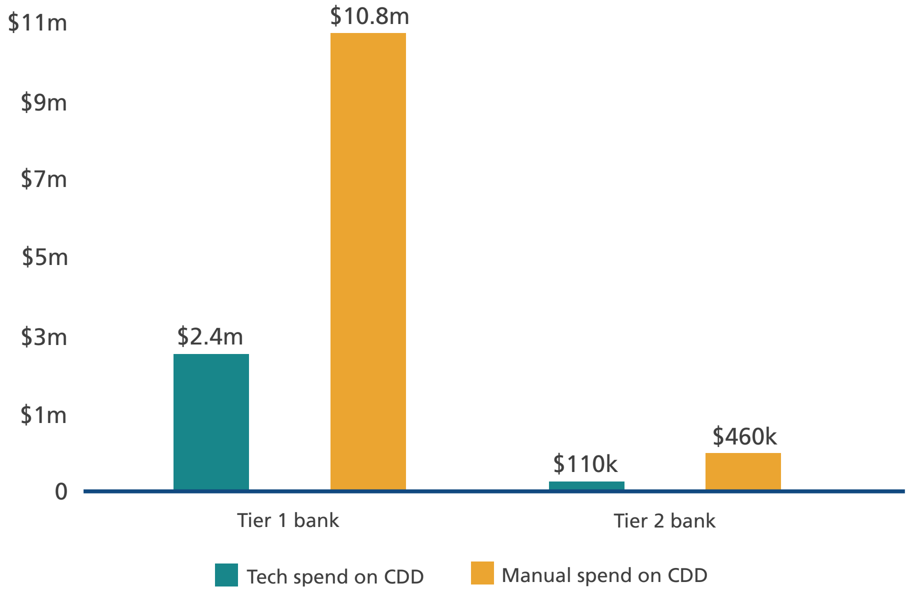
Client onboarding has long been a complicated and often cumbersome component of banks' Know Your Customer (KYC) ecosystems, in an ever more competitive marketplace where non-optimal onboarding can have strong individual and commercial impact. And as sanctions increase, and economic and geopolitical events become more frequent and severe – alongside expanding regulatory oversight – client onboarding is becoming a wider focus area and a bigger challenge. In this report we aim to identify and contextualise the size of this challenge, and highlight some of the major pain points banks currently face when attempting to onboard corporate clients in this increasingly febrile environment.

The scale of the onboarding problem

Among the many processes that take place in banks, conducting due dilligence and KYC on corporations remains one of the most manually intensive. While financial institutions gain much from assessing *individuals* against a number of risk signals (including biometrics) with a highly developed ID structure, the same cannot be said for *corporate client* onboarding and KYC.

According to Chartis' research, an average Tier 1 bank spends 4.5 times more on manual customer due diligence (CDD) and KYC processes than on technology and solutions to automate these. The cost for an average Tier 2 bank is little better, at 4.2 times (see Figure 1).

Figure 1: CDD – typical distribution of spend on technology and manual processes



Source: Chartis' analysis, based on a range of Tier 1 and Tier 2 bank case studies. Research carried out with banks in EMEA and North America between Q2 and Q4 2023. All numbers are annualized using median figures.

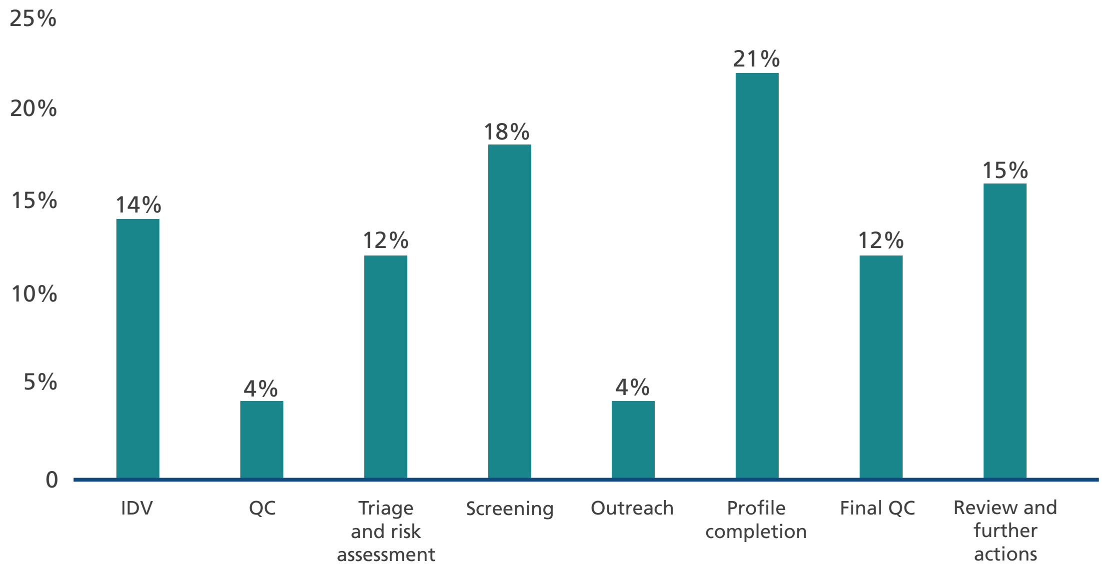
In fact, banks spend more than $9.9 billion on CDD and a further $2.8 billion on investigations conducted further downstream. But even that figure is dwarfed by the 'hidden' downstream costs of managing investigations, auditing, reporting and other manual activities, which stretch to well over $20 billion.

Breaking it down: key pain points in client onboarding

Chartis and Encompass have identified key pain points in KYC and onboarding corporates compared to that for individuals. These are listed below and explored in more detail in the following sections. As we examine later in this report series, these can be addressed by effective use of automated CDI.

- The amount of time taken to onboard a client.
- Onboarding/system bottlenecks.
- Duplicate data and processes.
- Corporate data that sits outside the core FinCrime master data management (MDM) system.

Figure 2: Average percentage of overall time taken to perform client onboarding tasks at a Tier 1 bank



Source: Encompass/Chartis Research, based on 100 profiles

Time-intensive onboarding

According to research from Encompass, it typically takes between 90 and 120 days to onboard a corporate client, including 51 hours of manual people time. Figure 2 shows the typical percentage of overall time taken, on average, to get through each of the key stages of onboarding a client at a Tier 1 bank. Notable pain points within this process include:

- Identity and document verification.
- Triage.
- Screening.
- Profile completion.

Dealing with bottlenecks

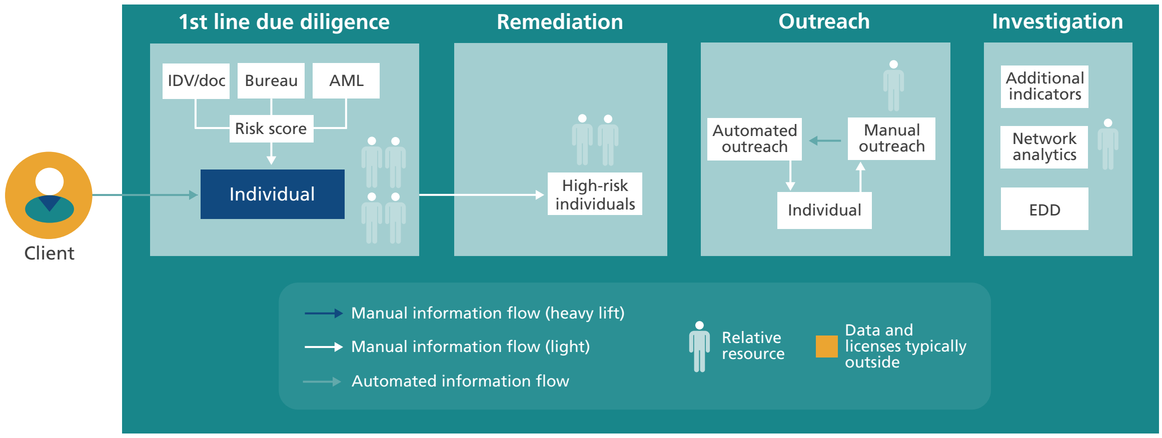
Bottlenecks in the onboarding process are created by several factors:

- The unique requirements of corporate vetting.
- A reliance on manual processes.
- The misalignment of resources relative to requirements.
- The complexity of corporate risk assessments, which require specific expertise.

The typical workflow for onboarding corporate clients – whether these are banks or non-banking corporates – tends to be highly fragmented and is often undefined. Consequently, workflows are often under-resourced at the initial vetting stage, while being significantly better resourced further downstream at the enhanced due diligence (EDD) and investigation stages, where appropriately skilled analysts tend to be harder to come by and more costly.

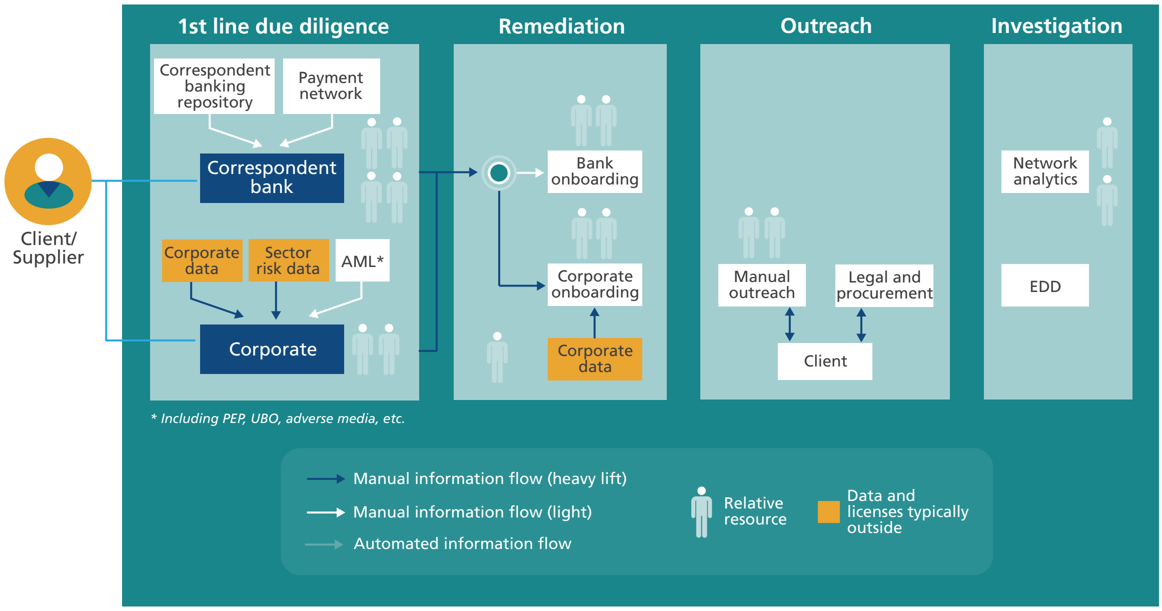
Figure 3 on page 4 outlines a typical process for onboarding individuals. It places a much greater emphasis on data amalgamation and automation at the front end to decrease reliance on manual intervention at the EDD and investigation stages. Most of the transfer of data between stages is either automated or conducted via a relatively less painful set of manual workflows.

Figure 3: Example of resource allocation during the individual onboarding process



Source: Chartis' analysis, based on a range of Tier 1 and Tier 2 bank case studies.

Figure 4: Example of resource allocation during the corporate client onboarding process



Source: Chartis' analysis, based on a range of Tier 1 and Tier 2 bank case studies.

Contrast this with Figure 4, which shows a typical process for onboarding corporate clients. Clearly the undefined nature of the process, and the risk signals required to adequately assess corporates, create a greater need for manual processes and resources further downstream, where such resources can be scarce and costly.

According to our research, when it comes to individual onboarding, 33% of the spend we see at a typical Tier 1 bank is on technology and data used in onboarding (a ratio of 2:1 of technology and data vs. people and manual processes). Contrast this with the figures for corporate client onboarding: 83% is spent on people and manual processes and only 17% on data and technology – a ratio of almost 5:1.

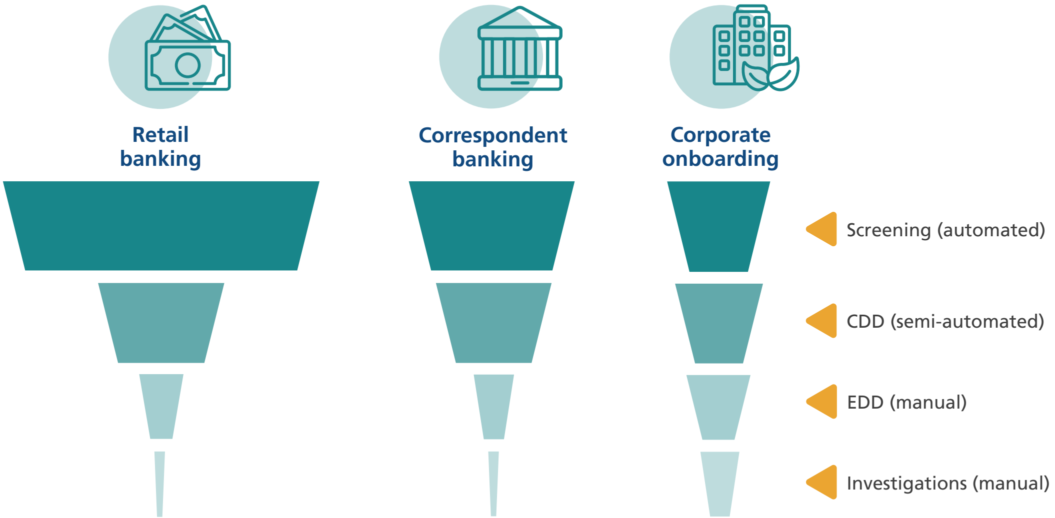
Also worth considering are two other causes of bottlenecks:

- If corporates (banks or otherwise) are also suppliers, they come to banks via a different route, often a procurement function. This can add a sense of unpredictability.

- The data needed for corporate vetting is often not part of the licensed data in a typical bank's KYC function. So most of the analysts responsible for vetting this information do not have access to corporate sources.

If we illustrate these processes as a set of relative 'funnels', as shown in Figure 5, it is evident that despite significantly higher volumes of data in retail and individual onboarding, most of this is cleared at the first stage.

Figure 5: Relative 'funnels' of checks during the onboarding process



Source: Chartis

Duplication of data and processes/Corporate data and risk indicators outside the core MDM system

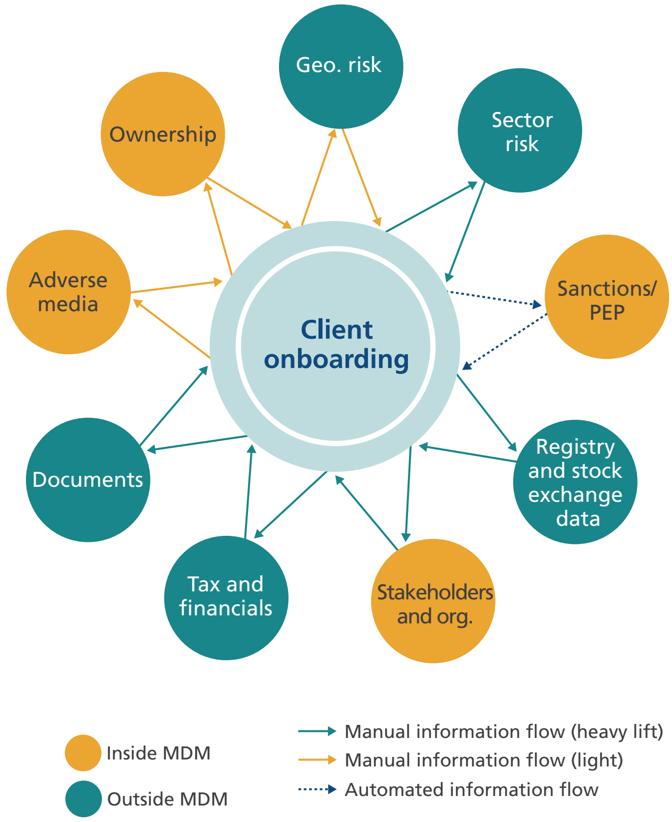
Often, the data being reviewed and provided to the process is inaccurate because duplicate data can creep in. And in many banks, corporate data often sits outside the financial crime MDM parameters (see Figure 6).

Conclusion

As we have explored in this paper, corporate client onboarding is growing in complexity and difficulty. The lack of structured data, the sheer number of risk indicators to review and the complexity of corporate due diligence mean that this process is extremely resource-intensive. This, in the face of growing competition in which sub-optimal onboarding can lead to significant competitive disadvantage, means that the current state of play is both costly and unsustainable.

In paper two we explore how banks can close the gaps by implementing CDI.

Figure 6: Corporate client onboarding requires risk indicators that may sit outside the core MDM system



Source: Chartis

Encompass enables fast, accurate identity validation and verification of corporate customers, and a gold standard approach to KYC. Our award-winning corporate digital identity (CDI) platform incorporates real-time data and documents from authoritative global public data sources and private customer information, to create and maintain digital risk profiles.

Utilizing the expertise of a global transformation team of KYC and banking industry experts, as well as strategic data, technology and consulting partnerships, enables seamless integration of Encompass into existing workflows and systems. With Encompass the world's leading banks improve customer experience and increase business opportunities through consistent regulatory compliance and risk mitigation.

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