

# Digital Onboarding and RegTech

*Wowing Customers, Simplifying Compliance*



Nick Holland, Author



## This paper outlines three key reasons for digitising identity verification processes:

1. **Customer retention in a mobile-first era.** Consumers are increasingly mobile-first and have set the bar high already in terms of their expectations around speed, convenience, and security. Winning in this game will require top class UX combined with robust evidence that security and privacy are paramount.
2. **Meeting digital regulatory requirements.** As fraud increasingly becomes digital and global, the regulatory environment is increasingly stringent for ID verification, along with being costly and weighty. Leveraging RegTech solutions such as Digital ID verification can meet these requirements in a simpler and more cost-effective manner.
3. **Benefits in ROI and Operational Cost Savings.** There are multiple reasons for focusing on the digitisation of KYC capabilities in tangible cost savings for financial institutions, with one specific case being a significant reduction in manual verification processes.

Combined, these factors make a robust case for mobile identity verification.



## Introduction

It is no secret that today's banking customer is increasingly discerning, expecting a seamless omnichannel experience optimised for mobile-first consumers. With the rise of smartphones, expectations for bank processes have changed, as have actual attention spans. A 2015 study conducted in Canada determined that since 2000, the average person's attention span has decreased from 12 seconds to just 8 seconds, a second less than goldfish.

Juxtaposing this need for immediacy are traditional bank's Know Your Customer (KYC) processes such as account opening, loan origination, money transfers and more. These are cumbersome to complete and subject to an increasingly stringent regulatory environment which threatens to make them ever more complex and laborious for bank customers.

These contradictory dynamics pose a threat to traditional banking. Put simply, people will gravitate to points of least resistance – wherever their needs for speed, convenience, and security are met. It is therefore imperative that banks today provide the best possible user experience for customer onboarding or risk the very real threat of customer abandonment.

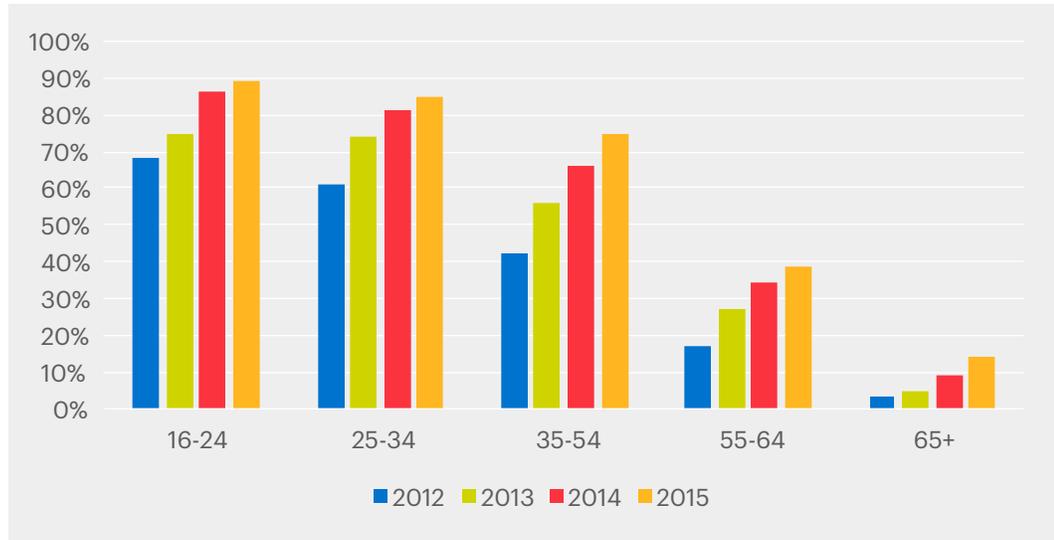
# 1. The Increasingly Mobile-first Bank Customer

In the age of instant access to content, same day or hour delivery of goods and real-time payments, the bar is being constantly raised for consumer expectations when it comes to all aspects of their digital lives.

A key indicator of digitisation is the percentage of a population using data services on mobile phones. Ofcom data tracks the rise in UK usage of mobile data across age and income demographics from 2012 to 2015, demonstrating a significant year-on-year rise in adoption (Figure 1). Of particular note – the mobile-first 16-24 age range that has grown from 68% to 89% of adults using mobile data services in just four years, alongside the 25-34 age range that has grown from 61% to 85% of adult mobile data users from 2012-2015. However, note that the greatest rate of growth for mobile data usage between 2012 and 2015 is in the 35-55-year-old age group – a jump of 33 percentage points to 75% of adults. The key message here is that the Internet connected smartphone is growing in usage across the age spectrum and shows no sign of slowing down in its popularity.

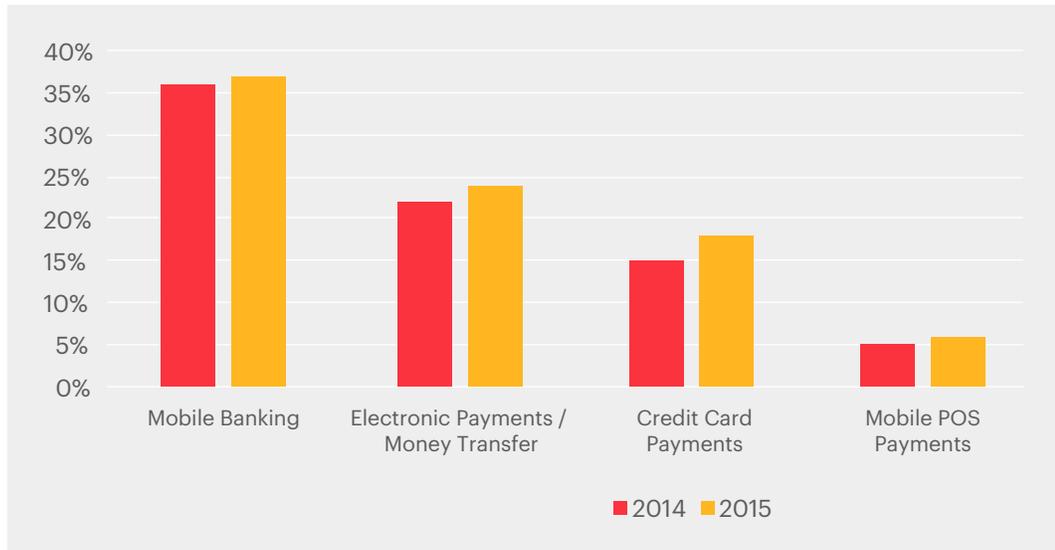
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**Figure 1 - Mobile Data Service Usage by Age Group in the UK, 2012-2015**



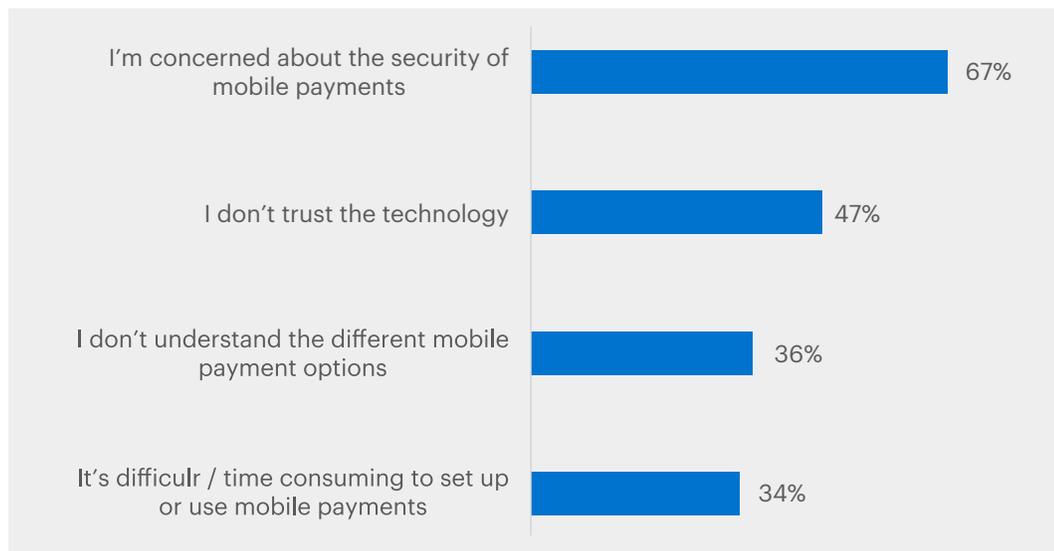
With an ever growing population with access to anytime, anywhere data, British bank customers are increasingly turning to their mobile phones for a range of banking and payment services such as checking balances, transferring money, paying bills and performing transactions both online and in retail stores. More than a third of UK mobile Internet users use mobile banking for checking bank accounts and a quarter use mobile devices for executing electronic payments or money transfers.

**Figure 2 - Selected Mobile Payments and Financial Services Usage in UK, 2014 / 2015**



This macro view of usage does some injustice to the degree of activity in mobile banking and payments in the UK. According to the British Bankers Association, in 2015 there were 22.9 million downloads of mobile banking apps, a rise of 8.2 million over 2014 and in terms of usage, £2.9 billion was transferred using mobile apps per week in 2015 with 10.5 million daily log-ins to mobile banking. Contrasting this surge in digital banking adoption, traditional banking channels such as call centres and branches witnessed notable declines in usage in recent years. Bank branches experienced a 6% decline in transactions in 2014 and between 2008 and 2013, call centres saw a staggering 43% decline in traffic.

While the signs are good for sustained growth of mobile banking and payments in the UK, there are gating factors to growth. Data from the US Federal Reserve on mobile banking and payment adoption indicates that concerns relating to security and trust rank highly as deterrents from mobile payment usage. Furthermore, over a third of mobile phone owners see the difficulty and time-consuming aspects of setting up mobile payments as a reason for not using mobile payments (Figure 3). Addressing these concerns will be fundamental requirements in persuading cautious bank customers to cross the threshold to a more digital banking and payment experience.



**Figure 3** - Reasons for Not Using Mobile Payments, 2015.

## 2. The Developing RegTech Opportunity for ID Verification

As noted previously, bank customers are already using a multitude of mobile banking and payment services, but this could be restricted by concerns related to security, privacy and complexities of signing up and using the services. With the emphasis on speed, security and convenience being paramount from the end user standpoint, there are opposing forces that are requiring ever more stringent document verification for bank onboarding processes services – potentially slowing down the much sought after customer onboarding experience. However, there is a silver lining in the form of developments in RegTech – technology designed for firms to better meet their regulatory responsibilities while simultaneously streamlining the digital customer user experience.

**Two examples of identity verification requirements active in the UK are the Financial Actions Task Force (FATF) 40 and the 4th Money Laundering Directive.**

Among requirements of the “FATF 40” are that,

*Financial institutions should undertake customer due diligence measures, including identifying and verifying the identity of their customers.*

And...

*Identifying the customer and verifying that customer’s identity using reliable, independent source documents, data or information.*



The 4th Money Laundering Directive covers similar ground. Article 13 states,

*Customer due diligence measures shall comprise:*

- (a) identifying the customer and verifying the customer's identity on the basis of documents, data or information obtained from a reliable and independent source;*
- (b) identifying the beneficial owner and taking reasonable measures to verify that person's identity so that the obliged entity is satisfied that it knows who the beneficial owner is, including, as regards legal persons, trusts, companies, foundations and similar legal arrangements, taking reasonable measures to understand the ownership and control structure of the customer.*

Such requirements could be seen as a significant hurdle to the adoption of mobile financial services by layering extra requirements in processes such as account opening and money transfers. However, the financial services industry has adapted to the times.

***Based on evidence produced by the banking industry, the Financial Services Authority accepted that electronic methods of identity verification were acceptable for use by the major UK banks and other financial services organisations, and that they were comparable with manual alternatives .***



Article 27 outlines some of the considerable opportunities of digital ID verification,

27. Electronic delivery does not in itself make verification more robust.

But electronic verification can have significant advantages:

- *For firms, it can be a straightforward way of accessing several corroborative sources*
- *Customers do not need to provide documents, unless the firm considers that further corroboration is required in the circumstances;*
- *Record-keeping is easier and cheaper;*
- *In non-face-to-face business it reduces the need for customers to send important personal documents by post, with risk of loss and inconvenience;*
- *It can be cheaper than obtaining paper documents;*
- *It can be delivered in the broader context of other related checks (e.g. checks against terrorist sanctions lists or credit history checks).*

The regulation of banking and payments can only be expected to increase as new fraud schemes emerge taking advantage of nascent digital transactions. The good news is that RegTech solutions are developing in parallel to meet new demands for identity verification and management. Further, this isn't simply about compliance - the provision of technologies that can both streamline onboarding processes while meeting compliance requirements presents an opportunity to tap into new streams of revenue such as reaching out to foreign high net worth individuals and international students that require access to domestic financial institutions for the duration of their overseas studies.



In the same vein, the requirements of AML regulations are getting gradually global given the increase in migratory flows around the world. As laid out by the FCA in one of its thematic reviews, 's , “Overseas banks faced particular AML challenges when they relied on other parts of the Group to carry out customer due diligence (CDD) on their behalf. This was because Group policies and procedures were not always consistent with UK legal and regulatory requirements. In addition, the UK Chief Executive position was sometimes a short-term posting from the home country, with little incentive to ensure AML controls met UK standards.

***As the hosts to the largest investment banks, the UK and the US are amongst the most interconnected countries in the global financial system.***

In absolute terms the UK and the US are by some measure the two largest host jurisdictions for financial services activity in the world. And if you scale activity relative to GDP, the UK is substantially larger than the US. UK banking sector assets have risen from around 100% of GDP to around 450% over the last 40 years – meanwhile, banking sector assets growth rate came in circa 70%. “Not only that, but overseas banks comprise almost half of those banking assets in the UK ,” notes Sarah Breeden from the Bank of England. As a major host to international financial services activity, the UK is definitely familiarised to the importance of international trade and international banking to a successful world economy. Openness and trade support economic dynamism through many different channels. But this openness can also facilitate the spread of potential fraud. Being able to cope with local and international regulations to fight fraud in its multiple forms is of capital importance for the banking sector.

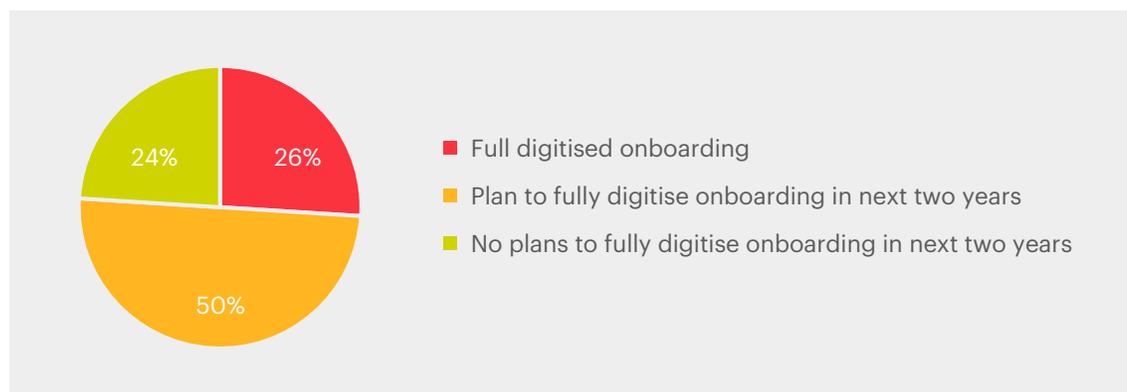


Physical barriers can be overcome with the help of technology, while mobile identity verification solutions will play a pivotal role in the fight against financial crime by the time it helps financial institutions to be in compliance with the latest regulatory frameworks. Furthermore, for the achievement of an optimal international banking ecosystem, a truly global regtech solution would be required as to cope with the multitude of national and international identity documents utilised to authenticate the identity of customers across different jurisdictions.

### 3. Capturing and Keeping the Mobile-first Customer

There is abundant evidence that today's bank customer expects a seamless digital experience with onboarding processes fully enabled through mobile devices. However, many financial institutions have yet to embrace fully digitised onboarding. A 2015 global survey of over 100 senior decision makers in strategy, technology, operations, finance, sales and marketing roles at major retail banks indicated that just over a quarter had fully digitised their onboarding processes (Figure 4).

Given customer expectations for a fully mobile life, it is reasonable to suggest that customers will gravitate to banks that have embraced the digital experience over those remaining with more cumbersome manual application processes.



**Figure 4** - Plans for Digital Onboarding Enablement, Global FIs 2015.



A full digitised onboarding process can also be expected to generate more revenue per customer over digital onboarding processes where ID verification processes are manual. Assuming 200,000 digital starts occur per year for a bank, based on mobile banking usage in the UK to date (Figure 2) we can estimate 35% of these to originate via a mobile phone – 70,000 applications. With enhanced processes using more accurate data capture, reduced manual input and a better user experience, it is forecast that an institution of this size would see an increase of over 2,000 new accounts per year compared to less optimized digital onboarding.

Additional benefits from digital capture in onboarding processes are also likely be derived from reduced operational expenses. A January 2016 report cites one large bank that is implementing a data verification solution. They currently have 350 full time employees dedicated to reviewing exceptions from its application fraud review process – primarily the review of forms of identity such as driving licenses and household bills. The institution estimates that automating this process via mobile data capture will enable them to cut that workforce in half .

On the consumer side, individuals also spend significant time and hassle trying to remember multiple user names and passwords, repeatedly logging-in to websites and managing multiple paper copies of identity. Most of the costs remain unmeasured even though they are a key influence on how the market develops.

## 4. Conclusion

This paper has laid out the opportunity for capitalising on current trends in mobile financial services to capture affluent, younger banking customers. Consumers are becoming increasingly mobile-centric and likely to have heightened expectations that their financial services experience matches all other experiences on a mobile device – fast, convenient, and secure. Banks that will win in this environment will offer best in class mobile solutions for digital onboarding.

However, stringent regulatory requirements cannot be overlooked, particularly around Know Your Customer (KYC) and Anti Money Laundering (AML). Digital onboarding is subject to the same scrutiny of any other type of bank onboarding process.

With estimated total costs of identity assurance processes in the UK exceeding £3.3bn – made up of £1.65 billion inside organisations and another £1.65 billion of consumers' time costs – the business opportunity for regtech companies to fill the space and solve the risk-convenience conundrum is growing by the hour. If the identity problem can be solved, more transactions can move online creating order of magnitude savings for banks and financial institutions. Add the convenience of the mobile channel to the equation and the cost-efficiency ratio will be exponentially grown.

The key then is to provide an entirely digital onboarding experience via mobile that meets today's customer expectations and banks regulatory needs. By capitalising on the nascent opportunity for full digital onboarding, banks can attract and retain customers both now and in the future.

## About the Author



*Nick Holland has been covering the intersection of payments, mobile and banking technology for over fifteen years, providing research and consulting expertise for major financial services entities including card networks, retail banks, fintech vendors, alternative digital payment providers, central banks and government regulators. He has presented at numerous banking industry conferences and is regularly quoted in the media including 'The Wall Street Journal', 'Fortune', 'The Economist' and the 'Financial Times'.*

*The views expressed in this paper are solely those of the author.*

## Why MITEK?

- *Founded in 1986, Mitek (NASDAQ: MITK) is a global leader in mobile capture and identity verification software solutions.*
- *Headquartered in San Diego, California, Mitek has offices in London and Amsterdam and serves an international portfolio of clients across the Banking & Finance, Healthcare, Telecommunications, Insurance, Shared Economy, Travel industries.*
- *Mitek's technology relies on a strong patent foundation – 27 patents issued in the US and a dozen more pending to date.*
- *Mobile Verify, Mitek's ID document verification solution, allows an enterprise to verify a user's identity during a mobile transaction, enabling financial institutions, payments companies and other businesses operating in highly regulated markets to transact business safely while increasing revenue from the mobile channel.*
- *Mitek also reduces the friction in the mobile user experience with advanced data prefill, increasing convenience for the consumer, dramatically reducing processing and customer acquisition costs and boosting customer retention.*
- *Mitek's solutions recognise up to 3,500 identity documents from all over the world, provide feedback in real-time to guide the end-user through the whole mobile capture process and delivers an exceptional customer experience.*
- *For more information about Mitek's technology and solutions, please visit <https://www.miteksystems.com>*