Financial Services Compliance without Complexity

Protecting the customer experience in the face of KYC, FATCA, and whatever comes next

As business leaders we all have responsibility for the customer experience. If we don't provide a great one, customers go elsewhere, and our organizations fall behind. We must keep our processes and operations as streamlined as possible so there's little friction putting drag on what otherwise would be great customer experiences.

The financial services industry has a severe challenge in this regard. Operational complexity is a major reason for what's regarded as a generally-poor level of service across the industry. Financial service managers are focusing intently on streamlining operations to improve service. Working against them are the increasing number of new regulations, each with different requirements for capturing information, managing special processes, and filing timely reports. For many, the experience is like trying to swim upstream against a heavy current. They work very hard, but the customers standing on the shore see little progress (or things getting even worse).

A major reason for the lack of forward progress is that most financial services organizations respond to each new regulatory requirement in serial, adding extra systems, steps, and requirements for each one. Such layering of requirements builds organizational complexity that inevitably creates unnecessary friction and a poor customer experience.

The wisest organizations recognize that there will be an endless parade of new regulatory requirements and the serial approach will only dig them into a hole. Instead, they use modern work platforms to build easily adaptable systems that can be modified to accommodate the requirements of new regulations while allowing them to still have a streamlined customer experience.

WHY FOCUS ON THE CUSTOMER EXPERIENCE?

The financial services industry has undergone substantial change in the wake of the financial crisis. New regulations such as the Durbin amendment to the Dodd Frank Act which reduced bank interchange fees, and the Credit CARD Act limiting fees and rates on credit cards, have curtailed traditional sources of profit. Other regulations have made operating the business more complex and restricted what information can be presented in marketing, making it harder for companies to differentiate themselves and win new business. With fewer sources of profit and a more challenging environment to win new business, operational excellence around the customer experience is one of the last possible avenues to stand out in an increasingly competitive marketplace. The bar for great service could hardly be lower as the 2013 Harris Interactive Reputational Quotient Survey showed financial services companies score near the bottom of all industries, right below airlines.[1]

The quality and efficiency of an organization's internal processes directly impact the customer experience. Every interaction an employee of a financial services firm has with a customer contributes to their experience. Good post-sale interactions collect required information with little effort and no rework due to lost data or separate departments collecting the same information at different times. Employees who are prompted to suggest additional products or services at the right moment based on a customer's situation are seen as helpful, creating natural positive cross sell opportunities. Attempts at additional sales that are not appropriate for the client or presented at the wrong time are seen as unwanted intrusions negatively impacting the experience.

A focus on a streamlined and positive customer experience also facilitates regulatory compliance with a minimum of cost and effort. When required information for compliance is collected at the same time as other information, the incremental effort and cost for the financial institution is nominal. But when that information has to be collected outside of the normal process, it usually signals additional headcount, separate siloed IT systems, and manual untracked process steps. Those come with their own costs and induce added complexity, often require re-keying of data, and increase the risk of information mismatch. They also increase the likelihood that the organization won't fare well in a regulatory audit as ad-hoc and manual procedures do not support good compliance.

HOW NEW REGULATIONS DEGRADE THE CUSTOMER EXPERIENCE

The financial services industry is awash in an alphabet soup of regulations that directly impact clients. AML, KYC, and MFID have been with us for a long time, although changes in specific requirements for each keep them fresh in our minds. FATCA is one of the newer regulations, born from the strain on government finances caused by the economic downturn. What all of these have in common is an increased requirement for collecting and reporting customer information and monitoring their activity.

Regulations are often overlapping with a compounding effect. For example, KYC was created to reduce the risk of money laundering and terrorist financing. FATCA was designed to identify US tax evaders. FATCA extends customer due diligence and reporting requirements well beyond what is typically performed for KYC purposes. Customer due diligence under KYC is largely risk based, meaning more scrutiny must be applied to accounts that fit higher risk patterns. FATCA is not risk based. All accounts beyond a minimum size must have all information collected during account opening and KYC processes reviewed for indicators of US ownership. The indicators and methods for due diligence under FATCA and KYC are different, but there is clearly overlap in the information collected.

These types of regulations do not usually spell out specific process steps that must be followed. They just require that financial institutions achieve a certain level of knowledge of customers and their activities. This means there is a lot of room for financial services companies to integrate the data collection requirements into their existing processes. The opportune time to collect most of the information is during the new customer on-boarding process. But on-boarding is still largely a manual process at most financial services companies, with the information flow managed by e-mail and spreadsheets, so each new information gathering requirement adds a disproportionately larger amount of complexity.

WHY IS PROTECTING THE CUSTOMER EXPERIENCE SO HARD?

Safeguarding the customer experience in the face of mounting regulations is a challenge because in key areas like on-boarding, the natural work process cuts across multiple departments within financial services organizations. Each of those departments tends to have siloed IT systems that are designed around the work that department needs to do, not around the customer experience. To complete the process, work has to be handed off between departments. There are rarely formal systems or practices to shepherd the information flow so this "white space" between IT systems has to be managed through ad-hoc processes and manual work steps.

In theory, those IT systems could be modified or united to work together better. But in practice, this is hard and costly. Many existing systems were custom developed and require programmers to rewrite code to make changes. This process is usually long, costly, and fraught with the risk that developers won't interpret change requests correctly forcing more costs and delays. Other systems are commercial-off-the-shelf (COTS) products. Changes to these systems have to be done by the third-party software companies who created them. Vendors who sell to multiple clients are reluctant to make changes just for one client as it eats up precious development resources. They charge a lot for such work because they know their client's other options are usually much more expensive.

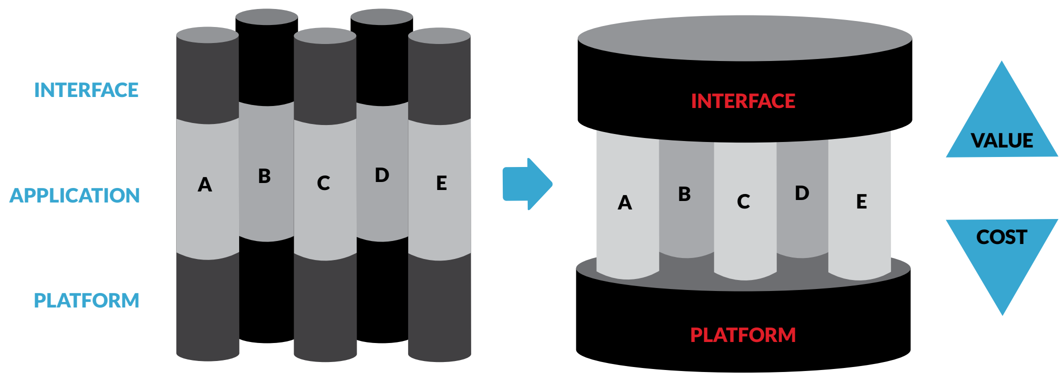
Neither of these traditional approaches positions financial services companies well to take advantage of the rapid growth of mobile. Communication by mobile device offers the chance for work processes to move much faster leading to an improved customer experience and a source of competitive advantage. But this only happens if the mobile applications used by financial services employees are easy to use and ubiquitous. The reality is that most corporate IT departments struggle with creating mobile applications or interfaces and do so one platform (e.g. iOS, Android, Blackberry) at a time, preventing mobile from achieving it promised benefits. If COTS products have mobile access, they are separate non-integrated apps which create a challenging user experience of their own for employees involved in multiple processes.

THE MODERN APPLICATION PLATFORM IS THE SOLUTION

The problems identified in this paper are not new or unknown to financial services leaders. Many companies have launched wholesale change programs to completely replace multiple siloed IT systems with gargantuan platforms that support a better customer experience. But most of these efforts fail to meet their objectives and some are completely written off. The odds of success seem to be inversely proportional to the magnitude of the change effort. Complete "rip and replace" efforts are the most complex, especially when they are custom coded systems that follow a traditional "waterfall" development cycle approach that take a long time to deliver. Pre-packed software applications appear to be good alternatives in comparison, but most organizations find those products can't meet their need without significant customization which is also costly and slow to materialize.

Organizations that are adopting a "modern application platform" approach are seeing much greater success. A modern application platform enables vastly greater automation, communication, and collaboration than any traditional IT system. A modern work platform makes it possible to quickly automate the manual work that emerges to fill the white space between siloed applications. In a modern application platform, business apps are created with a drag-and-drop interface so no computer coding is involved. Business process owners can sit side-by-side with process creators and work together on applications in an agile approach, dramatically shortening development time and creating a much higher quality outcome. Native mobile clients and a collaboration platform are automatically included in the application, making these capabilities available to all right from the start with no extra development effort. This immediately delivers a modern interface to users of existing legacy systems and avoids any push for high risk "rip and replace" projects.

The modern application platform can also be used to create powerful, new apps that replace the underlying legacy applications. Since users get a modern interface right away, the life of the legacy applications can often be extended and subsequent changes are masked from end users. The graphic below shows how a modern application platform can provide a common interface and foundation for many different legacy and new applications.



In addition to process automation, the integration capabilities of the modern application platform also allow for the creation of key records, the data for which otherwise has to be assembled by hand pulled from different IT systems. Just providing this capability aside from any process work is often revolutionary for business users. The collaboration capabilities with processes designed to automatically publish key events increases awareness among those who should be alerted. With records, they can quickly gain the knowledge they need of the related customer or situation. And with mobile process participation, the time before they can take action is greatly shortened, improving the overall responsiveness of the organization.

FINANCIAL SERVICES COMPANIES WINNING WITH THE MODERN APPLICATION PLATFORM

Appian's modern application platform is powering a wide range of mission critical processes for financial services organizations. Here are a few examples:

- **Edward Jones Trust Company** provides personal trust and investment services to nearly seven million clients through a network of over 10,000 financial advisors. On-boarding of trusts is complex and required paper documents and spreadsheets to route information across departments. That approach wouldn't scale and held back the company's growth so the company turned to Appian. Four months after starting the project, the new on-boarding system cut the number of required steps from 154 to 67, made all handoffs automatically, and cut the number of forms required by over 80%.

- A nationwide retail bank is using Appian as the foundation for creating a new wholesale credit management platform to be used by thousands of employees. Their current platform is made up of multiple technology applications, each built in a siloed environment with sub-optimal integration and connectivity leading to a poor customer experience.

- A large regional bank significantly lowered operating costs by deploying an Appian-based application that eliminates the manual work involved with account change requests in their branches. They are realizing Appian's platform benefit with many additional applications including automate the loan closing and collateral release process, creating systems to manage international wire transfers to comply with Regulation E, and streamline collateral appraisals.

- To serve the needs of its Islamic customer base, **Bank Al Jazira** needed to create a system for purchasing real estate that avoided the payment of interest. Using Appian, the bank created an Islamic real estate transfer framework that handles on-boarding of the many contracts generated through a single Shari'ah compliant transaction. The Appian application generates all contracts and handles all clients' paperwork. The system has 50,000 concurrently running processes instances and over 400 users access the system on daily basis.

All of these organizations are enjoying the benefits of a modern work platform and using it to achieve the large scale change they need in a smart and strategic way, delivering a great customer experience.

CONCLUSION

If the financial crisis taught us anything it's that the financial services industry should expect continually evolving and changing regulations. It's a good bet that more regulatory changes are on the way, even if we don't know what they are. Financial services IT systems must be designed to easily adapt to needs that can't be predicted. Investing in anything that cannot rapidly change is guaranteed to a poor customer experience, a shortened useful life, and lead to the institution falling behind their competition. The traditional approaches to software and IT system development have proven they can't help financial institutions make progress swimming against the tide of increased regulation. The only way to achieve compliance with unknown additional regulations and safeguard the customer experience is with applications built on a flexible modern work platform. Appian's modern application platform has been used by financial institutions around the globe to create highly flexible applications that help keep their customer experience as a source of differentiation and strength.

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1. 2013 Harris Interactive Reputational Quotient Survey published on-line.