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EBOOK

# The role of RegTech in successful CLM initiatives

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# Foreword

As VP, Strategic Alliances at Encompass, I spend a lot of time speaking to other software suppliers about trends in the market and what our financial services customers are looking for from their technology vendors, especially in terms of tackling financial crime.

There are two key challenges that are increasingly driving banks and other financial institutions to reconfigure how they manage their customer data and related processes. Firstly, the acceleration of digital transformation in the financial services industry and secondly, the recognition that dealing with money laundering, terrorist financing and fraud is too big a problem to be solved by a single technology supplier.

These organisations are looking towards Client Lifecycle Management (CLM) systems as the optimum response to both these challenges, which, when integrated with the best-of-breed data providers, offers a better way of truly having a single source of truth about a customer - a holy grail that the industry has been seeking for the last two decades.

Encompass is partnering with a number of leading CLM providers and we, our partners and our joint customers are seeing a huge number of benefits from this approach. In this eBook, we set out our thinking on the advantages of CLM vendors and data providers partnering to collectively address some of the biggest disruptions to financial services.

## about **Nick Ford**

VP, Strategic Alliances | Encompass

At Encompass, Nick is responsible for leading the overall strategy and revenue growth from partners and distributors globally.

Nick joined Encompass at the end of 2017, bringing a wealth of business development and sales experience within the financial sector. Nick has a deep understanding of KYC and client onboarding, data and the adoption of new technology and services.

Prior to Encompass, Nick worked for a global information services provider within risk managed services and more specifically within KYC managed services. Prior to that, Nick gained a decade of sales and business development experience in various firms, both in the UK and South Africa.

# Introduction

2020 witnessed an acceleration in the digital transformation of the financial services industry, largely as **a result of the coronavirus pandemic**, but also building on a trend that was already well underway.

New entrants to the market, in terms of FinTechs and challenger banks operating on a digital-only basis, not only change customer expectations in terms of speed and service levels but also place a great deal of competitive pressure on incumbent organisations to up their game. Customer-centricity is critical in a digital age but is reliant on the foundation of seamless processes and high-quality customer data.

Adopting CLM systems makes perfect sense. CLMs have the ability to orchestrate processes across multiple disciplines within a financial institution - from customer services or relationship management all the way through to regulatory compliance. However, successful CLM implementations are absolutely dependent on good quality and comprehensive data from both internal and external sources. Breaking down the data silos where different types of data about a customer is stored is key to gaining the true single view of a customer.

For regulatory compliance purposes and specifically for Anti-Money Laundering (AML) and Know Your Customer (KYC) processes, firms need to access multiple sources of private and publicly available data to verify the information they are given by customers (e.g. for account opening), perform screening and checking to identify the correct level of financial risk posed by a customer and to allow the ongoing checking and maintenance of KYC data.

However, CLM providers such as Pega and InTapp do not see data provision as part of their core capabilities and are increasingly seeking to partner with data providers such as Encompass to make client onboarding even more efficient.

# What is
# **client lifecycle management?**

## Client lifecycle management systems were initially associated with improving the onboarding of customers for both retail and wholesale financial services customers.

Due to a number of internal and external pressures - the need for better data privacy controls, the increased mobility of customers, tax requirements like the OECD Common Reporting Standard and, of course, KYC requirements - improving the management of a customer across the whole lifecycle has become increasingly important.

CLM systems do just this - they provide the backbone of automated processes, from onboarding to offboarding and everything in between. CLM systems enable financial institutions to better manage the complexity of different customer types across different products in multiple jurisdictions.

For CLM customers, the benefits of a successful CLM implementation are many and various. Of critical importance in a time of heightened competition and squeezed margins is the ability of CLM systems to continuously improve customer relationships and customer experience.

By bringing all the data about a single customer together, CLMs remove the need to ask customers repeatedly for the same piece of information, reducing friction in the relationship and freeing up relationship managers and other customer-facing staff to focus on servicing customer needs and raising revenue. Jake Hauck (Senior Product Manager, Global Data Alliances, InTapp) describes why this is important:

> The biggest challenge is that fee earners (in law and professional services firms) are very busy people and so it is challenging for them to gather accurate information about their clients because it is not a fee earning or revenue generating activity. But if we build integrations into leading data providers, the basic information that is gathered (such as name and address) can be rounded out automatically, increasing efficiency and allowing the fee earners to concentrate on raising revenue.

Processes such as customer onboarding become more efficient and quicker, which reduces the time to revenue. In a world where customers are switching accounts and providers more frequently, being able to deal with increasing volumes of new customers or accounts is an important factor in gaining market share.

CLM systems also offer firms the opportunity to review and overhaul some of their processes and to break down the data silos within their organisations. As Alex Dixon (Global Head of Client Lifecycle Management & KYC, Pegasystems) explains:

> The existence of silos make it very difficult for firms to have that end-to-end visibility of knowing where they are in the lifecycle. At the same time, these firms are overwhelmed by data coming from multiple client databases, from KYC screening and monitoring as well as credit risk and other parts of the organisation.

By having CLM combined with effective data management and standardisation, firms end up with more streamlined and efficient processes. More importantly, the CLM becomes a strategic asset for the firm, realising ancillary benefits such as having a single golden source of high-quality customer data, which can then be used to drive new customer insights and ultimately generate new revenue.

Finally, by having standardised, repeatable processes through automation, CLM systems offer firms greater confidence that they are meeting their compliance requirements. In the current environment of remote working as a result of the coronavirus pandemic, this is more important than ever.

The market for CLM solutions is strong and growing, with more and more financial firms seeking end-to-end platform solutions. Along with this increased adoption comes more and more requests from CLM clients for data to support business and compliance critical processes such as KYC, which is a perfect opportunity to create partnerships which can deliver the value of the RegTech ecosystem to the financial services industry.

# How are **KYC** and **CLM connected**?

## AML regulations require that financial institutions (and other industries subject to AML rules) adopt a risk-based approach to managing financial crime in their organisations.

Firms, therefore, have to have a full understanding of each customer's characteristics to accurately assess the financial crime risk they pose to the firm. This risk must be monitored throughout the lifecycle of each customer, which is achieved through KYC checks, at both onboarding and on an ongoing basis. KYC also applies to the off-boarding of a customer so the alignment with CLM systems is obvious.

At the onboarding stage, CLM systems can be used to significantly streamline the KYC process, providing greater accuracy and control as well as increased efficiency. KYC involves more than just obtaining and verifying basic customer data such as name, address and date of birth. For corporate customers, understanding the ultimate beneficial ownership (UBO) is required by law and names need to be screened against sanctions lists, lists of politically exposed persons (PEPs) and existing company registry information. For those customers that pose a higher risk, even more checks (known as enhanced due diligence or EDD) are required.

KYC, therefore, requires access to numerous data sets from external providers - lists of PEPs, lists of sanctions, company registry information, UBO data, adverse media. CLM vendors are not usually in the business of data provision but there are many existing providers out there - and Encompass, as a data aggregator, has existing relationships with many of them.

Logically, given this close connection between CLM and KYC, it makes sense for CLM systems and KYC data providers to come together to provide a joint offering to customers - fulfilling their need not only for end-to-end solutions for managing customers efficiently but also more robust and repeatable KYC processes.

Combining KYC data and CLM systems is hugely beneficial. KYC is often a very manual process with multiple workflows. Automating this will improve the accuracy of the KYC checks while preventing the duplication of effort. Firms adopting this approach will have a full audit trail and standardised processes for managing their financial crime risk and for evidencing compliance to their regulators. Finally, it paves the way to firms implementing perpetual or continuous KYC, removing the need for resource-intensive periodic reviews and client file refreshes.

# Partnerships between **vendors** and **data providers**

Managing AML and KYC brings a very complex and varied set of problems, that means, as Alex Dixon says, “no one vendor can solve everything and can’t be the best at everything”.

At the same time, there are many products in the RegTech ecosystem that are providing solutions to solve part of the overall challenge - according to RegTech Associates, there are over 350 vendors with solutions to help firms combat financial crime.

Partnerships between best-in-class vendors in the ecosystem offer financial institutions more flexibility and less of a time overhead in searching for solutions to the unique problems that they have. At Encompass, we are increasingly seeing the value of these partnerships to our customers and we are actively partnering not only with data providers but also with CLM vendors to better serve the needs of our customers.

Commercially, partnerships such as these can take many forms - from reseller agreements to revenue share. However, from a technical perspective, the key is having the right connectors (APIs) ready-built into the CLM platform. This allows financial institutions who are already using that data provider to seamlessly ‘plug and play’ with no further technical integration work required. Alternatively, if a financial institution requires a new data provider that already has a connector in place within the CLM, this can be added very easily and quickly, again with minimal technical intervention.

## Benefits to the partners

Through this seamless integration with vendors such as Encompass, CLM vendors can reap several rewards. As mentioned above, having existing data integrations can significantly reduce time to market - and for vendors, reduced time to market is also reduced time to revenue. Depending on the commercial structure of the partnership, procurement and commercial processes are often streamlined. Customer satisfaction is also improved, as CLM vendors are more easily able to meet their customers’ needs and in a quick and efficient manner. The ‘stickiness’ of the solution is also enhanced - by having pre-integrated data sources, CLM systems are immediately more useful to more areas of the business - and for vendors, this will result in renewed or multi-year contracts and recurring revenue.

More generally, depending on the maturity of the vendor, having a well-established partner can confer additional credibility on a new entrant, building trust and confidence in their solutions. For both entities in the partnership, they can then concentrate on their core capabilities. The most successful vendors focus their product development roadmaps on what they are really good at without being swayed in a different direction by the needs of a single customer.

## Benefits to the end customer

Many of the advantages of data provider and CLM partnerships to the partners are ultimately also of huge benefit to the end customer.

Perhaps most significant is the reduction in the CLM implementation. As anyone who has been responsible for data integrations knows, this can often be the most time-consuming part of introducing any new technology systems, especially in a complex process such as CLM.

A reduction in the implementation timeframe also means that any cost savings and/or efficiency gains are realised sooner, proving out the business case for the adoption of that technology. Relatedly, ongoing maintenance and upgrades are much quicker and more straightforward because less time-consuming testing is required if the data providers are already a native part of the product.

Having ready-made integrations with KYC data providers, in particular, exposes financial institutions to datasets that have not previously been available to them - further enhancing the robustness of their KYC process. Ultimately, as discussed above, the combination of powerful automated workflows and the best-in-class datasets prepare financial institutions well for the move to continuous KYC. This allows firms to move from periodic customer reviews based on their financial crime risk level to ongoing KYC maintenance based on triggers when vital pieces of KYC information change. The upshot is that, at any one point in time, a firm has the most up to date view of the financial risk that each customer poses.

# What makes a **successful vendor partnership**?

## There are several key ingredients to a successful vendor partnership.

The first and most obvious of these is the recognition of capabilities that are outside a vendor's core focus and the willingness to engage with other vendors in the spirit of collaboration. Once this is achieved, most importantly, according to Jake Hauck:

> A partnership has to revolve around servicing the needs of a client. It is easy to be sidetracked by a partnership that may have a theoretical value proposition and seem commercially relevant but, unless there is a valid customer need, these sorts of partnerships can disappoint in terms of delivering true value to the partner vendors.

In addition to this customer-centric approach is the need for a relationship built on mutual trust between the vendors, and this needs to extend to all the teams - legal, product development and commercial - for the partnership to be truly successful.

Successful partnerships also require a slight change in mindset. Alex Dixon describes this as "both sides of the partnership need to be open-minded and receptive to new ideas and better ways of doing things to serve their mutual customers".

This spirit of openness is critical - especially when larger, incumbent players are partnering with smaller vendors. Whilst the former has the credibility in the market, the latter is often (but not always) at the cutting-edge of technology developments and may have useful insights as to improve products or solve customer problems more easily.

# The **future** of partnerships is bright

At Encompass, we truly believe that partnerships will be fundamental to the success of vendors in the business of helping firms to manage their customers and tackle KYC more effectively and efficiently.

In a world where the problem of financial crime is so complex, with changing regulations and so many areas of a financial institution impacted, relying on manual processes or point solutions can no longer adequately address this complexity.

Vendors that can offer end-to-end workflow and case management solutions with pre-built data integrations with the best-of-breed providers will be at a significant advantage - and those financial firms that adopt this approach can be assured not only of cost-savings but also a more controlled and standardised approach to financial crime compliance.

Find out more at encompasscorporation.com.

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