Digital Transformation:
the good, the bad and the regulated

by Caroline McCarthy

The past year has been a period of significant change and challenge for businesses. Whilst all were forced to adapt to the unexpected circumstances presented by the Covid-19 crisis, regulated businesses were also faced with having to comply with the challenges of remote compliance due to restrictions on mobility and need for social distancing.

Finding a way to comply with increased regulatory requirements and provide their services to clients remotely during Covid-19 and beyond is now 'business as usual'. This new business context has forced companies to supercharge their digital transformation programmes to ensure a seamless customer experience while meeting their compliance obligations.

Digital transformation challenges

The relationship between a customer and business is now personal, custom, and nuanced across all channels and devices - and more important than ever. While a business may have the vision and capacity to achieve digital transformation successfully, there are clear challenges to overcome to maintain a competitive advantage in a digital-first market.

IIoT & compliance

As we move towards Industrial Internet of Things ("IIoT"), compliance regulation will need to innovate to match the speed at which the commercial world is advancing, while protecting customers from the risk of Money Laundering ("AML") and fraud.

Even with a strategic understanding driving your digital transformation, the compliance burden of regulatory risk is a mitigating factor. AML and Know Your Customer ("KYC") can only consider current innovation existing now. The challenge for regulators is knowing the regulatory "tipping point": when is the right time to regulate without disrupting the advantages of innovation and when is it too late to regulate.

The Regulatory Landscape

The complexity of the regulatory landscape is a clear challenge to overcome when transforming digitally. The 5th Anti-Money laundering directive ("5AMLD") was adopted and entered into force on 9 July 2018. EU member states had to implement these new rules into their national legislation by 10 January 2020.

In summary, 5AMLD means entities must ensure that they know who their customers are. Regulated businesses must:
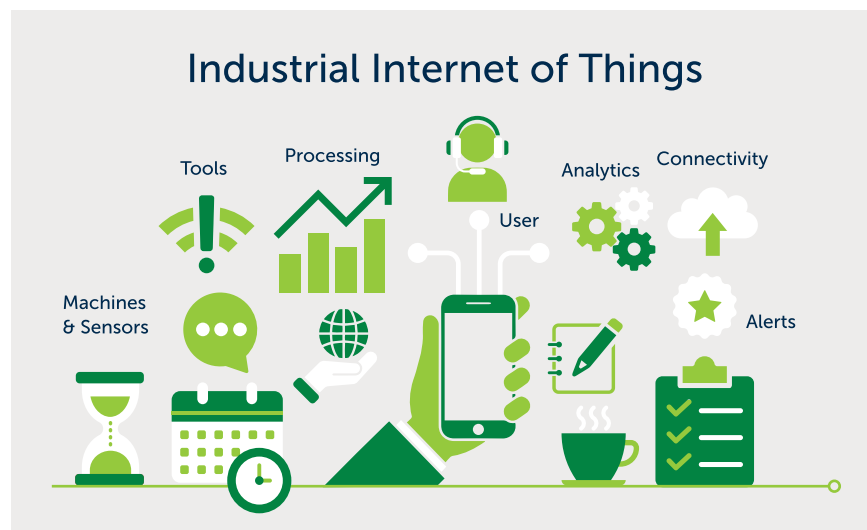
• Identify and verify customers.

• Identify and verify beneficial ownerships.

• Understand customer relationships and their risk profiles.

• Continue ongoing monitoring of customers and their transactions.

The 6th Anti-Money Laundering Directive ("6AMLD") is a continuation of 5AMLD. Financial institutions in European Union (EU) member states are required to implement 6AMLD by 3 June 2021. While this latest update on the directive for EU member states to implement has less changes, it does provide more clarity around the definition of money laundering - thus empowering regulated entities with stronger AML and KYC controls.

In 2020, the Financial Action Task Force ("FATF") also joined the conversation on digital identity - a key component of any KYC process. Their findings on the benefits of any digital transformation were clear. Not only were digital ID systems improving security, trust and convenience for customers but,

" non-face-to-face customer-identification and transactions that rely on reliable, independent digital ID systems with appropriate risk mitigation measures in place, may present a standard level of risk, and may even be lower-risk."

Industrial Internet of Things

Tools • Processing • User • Analytics • Connectivity • Machines & Sensors • Alerts

Given the growing role of compliance and regulation in delivering secure digital experiences, collaboration between regulators, market-leaders and new solution providers will allow customers and clients to receive a premium experience and for a regulated business to digitally transform.

The importance of digital transformation as a tool to meet AML and KYC requirements is clear but implementation is also where challenges rise. Satisfying these obligations can be an obstacle when you consider the complexity, risk and cost associated with delivering a compliant, secure experience.

Change management consultants, Charles David Churchill Associates Limited ("CDCA"), found companies take on average 26 days to complete KYC checks and corporate clients take on average 32 days to complete KYC compliance. (source) Combined with the manual processes to onboard, verify clients, produce audit trails and maintain back books, it can be a time-consuming process to remain compliant and to keep client's personal data safe.

The results from a Statista.com August 2020 survey showed a global increase in identity theft risk since the coronavirus outbreak with respondents expecting it to increase further in 2021. (source). It is clear an already demanding process to verify and identify customers, or clients, to meet AML and KYC needs will be further complicated by more sophisticated methods employed by fraudsters.

Rising expectations

The overnight transition to a digitally enabled world has forced customers of all ages to adapt to digital-first, and often, digital-only. This increased usage of digital platforms and solutions means your customers are gaining more experience over time and their expectations are rising.

In their 2021 Global Identity and Fraud Report, Experian reported that 60% of consumers have a higher expectation for their online experience than pre-pandemic, while 55% still say security is a top priority.

Prioritise experience

Unprecedented global circumstances served to highlight how digital solutions that provide secure, compliant remote capabilities are a crucial ingredient for the success of any business.

The importance of understanding digital touchpoints right from the beginning of a customer's or client's journey cannot be underestimated. In fact, HID global reported that,

"European financial institutions are losing almost 40% of applicants during digital onboarding."

What is also clear is the need to consider the experience your client is having from the first point of contact, then onboarding with your business and continued interactions into the future.

Concerns persist for many customers about sharing private documents and personal data online. GDPR is top of mind regarding how their data is stored, used, and transferred and how secure is the provider they choose to engage with.

Embracing a secure digital onboarding experience and identifying the advantages offers a cost-effective competitive advantage to satisfy customer needs and allay these concerns.

Digital Transformation benefits

The challenge for regulated businesses in delivering a digital transformation is finding a solution that meets their AML and KYC requirements whilst providing clear benefits to their business and customers. Finding the right provider also means being able to serve the full customer lifecycle while staying fully compliant.

Further benefits to a digital transformation include:

- **Customer acquisition and retention**

Your customers can securely submit their personal data anytime, anywhere via any device. No longer constrained by location or the need to meet-in-person, your potential customer base can be broader. Businesses that can verify their customers' identity across any channel or jurisdiction simply, securely, and conveniently have less compliance friction when expanding into new markets.

- **Real-time decision making**

Solutions that accelerate your digital transformation maximise customer conversion rate by digitally capturing customer information in-person, online or via a contact centre. By automating your AML and KYC process using a blend of bio-metric and data-driven technology, it enables real-time decision making for your business and a better understanding of their journey with you.

The ID-Pal identity verification solution is a prime example of how to use a unique blend of technologies:

- Document checks to verify that the identity document itself hasn't been tampered with or forged.

- Biometric checks to ensure that the individual submitting an identity document is its rightful owner.

- Database checks to cross-reference the individual's information against relevant databases.

- **Accuracy**

Technologies, packaged with a friction-free user experience, can deliver the best outcomes by classifying in real-time. This removes the need for your business to follow up, chase documents and reduces your AML and KYC process to minutes.

- **Robust compliance**

Multi-layered verification of an individual's identity and address has data protection in every step of the journey and prevents fraud at source during a customer account opening process while automatically generating a robust audit trail.

- **Operational efficiencies**

Manage the complexity, cost, timelines, and risk associated with regulatory compliance by delivering an intuitive solution that is customised to your business and scalable.

- **Digital transformation vendor selection**

Businesses need to critically evaluate the quality, pricing, and flexibility of digital transformation vendors across the market to ensure the best solution fit is selected.

- **Review Business Priorities**

Identify the priorities for your business and critically evaluate the vendor's questionnaire responses for each of them accordingly. Priorities might include:

- User experience.
- Regulatory robustness.
- Operational efficiency.
- Ease of solution deployment.
- Total cost of ownership.
- All of the above.

- **Shortlist Vendors**

Following a first scan and evaluation of the vendors in the market, prepare a shortlist for the next round of supplier engagement based on the following criteria:

- Ability to satisfy key requirements based on business priorities.
- Industry experience and reputation.
- Customer references.

In conclusion

The key to successful digital transformation in regulated businesses is to align compliance and regulation with your growth strategy and more importantly, to deliver an exceptional customer experience from the start.

ID-Pal understands the operational efficiencies to be gained from such digital transformation and the benefits that can lend to a long-term sustainable growth for any business.

Using best-in-class technologies as part of your strategy leads to better quality outcomes, a higher conversion rate for a larger volume of customers while preventing fraud at source. Ultimately obliging compliance and regulation can be the key innovation drivers of your digital transformation.

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Caroline is the Senior Marketing Manager for ID-Pal. ID-Pal provides an award-winning end-to-end solution that allows businesses to verify the identity and address of customers in real-time, across all channels and jurisdictions. Email sales@id-pal.com to find out more.