Efficient Client Onboarding: The Key to Empowering Banks

Client onboarding is one of the most critical functions for banks as it directly impacts client experience, servicing and relationships—all of which, in turn, impact profits.

Executive Summary

Client onboarding is emerging as a major focal point for banks and financial institutions, which are grappling with evolving market dynamics, stiff competition, regulatory scrutiny and operational overheads. This area offers banks an opportunity to expand to new geographies, acquire newer and stronger businesses and establish themselves as best in class. Banks therefore need to streamline the onboarding process and offer a customized client service.

In response to regulatory trends and requirements, banks are shifting away from proprietary trading toward flow business. Investment banks and prime brokers must therefore focus more on how they onboard, understand and treat their clients. Numerous regulations from the Foreign Account Tax Compliance Act (FATCA) to the Markets in Financial Instruments Directive II (MiFID-II) have forced banks to revisit their client acquisition and relationship management processes. In the face of tightening margins and increased or flat costs of trade processing and operations, client service has gained significant importance. Additionally, firm-level auditing and reporting has drawn attention to “know your customer” (KYC). Consequently, the first client touch point—the “client onboarding” process—has emerged as a vital client service differentiator. Banks’ infrastructure for client onboarding has therefore become a focal point for CIOs in terms of cost, capacity, productivity and operational efficiencies.

From a business perspective the client onboarding function is extremely complex, given differing local regulations and the lengthy negotiations and documentation requirements involved. Moreover, the onboarding process for the clients as active counterparties in a multiproduct trading relationship is constrained by product-based silos. In many instances the same client needs to be onboarded for each asset class, as the underlying systems are not integrated. Even for a single asset class, many systems are used for onboarding—depending on the sophistication and coverage required for a particular client. These disparate systems result in longer onboarding cycles. Also, the lure of an immediate “trading opportunity” often prompts the front office or middle office to use a patchwork of the systems involved. This risks compromising the integrity and comprehensiveness of critical client data.

The process for a client to be formally onboarded and start doing business with a bank can
take several days or weeks as a result of the challenges outlined above. The process is rarely structured to provide a relationship-centric view; it is considered a routine, insignificant activity. Inefficient onboarding can often lead to client attrition and missed opportunities for growth and cross-selling. Losing a client has the obvious impact on a bank’s reputation and hampers new client acquisitions.

A report from Aite Group suggests that more than 70% of U.S.-based firms view client onboarding as either a back-office function that needs to be cost-contained or a front-office automation tool. Only 30% viewed client onboarding as a competitive differentiator. Unsurprisingly, the client onboarding function is typically underfunded.

We believe it is crucial for banks to demonstrate a client-centric focus at each client touch point in order to secure a competitive advantage.

**Client Onboarding Process**

Client onboarding involves several important activities such as evaluating new clients, setting up credit process compliance, ensuring agreement on legal terms, opening of a new account and making the client “trading enabled” in line with the bank’s business policy as well as industry regulations.

In a typical investment banking organization, the sales/front office/marketer liaises with the client and begins the client acquisition process by initiating an onboarding request. Typically, the dedicated onboarding team takes ownership of the onboarding request and engages with other departments to process the request. Once the relevant client details and documents are gathered, processes such as compliance, credit and legal need to follow to ensure that identification checks are complete, credit lines are established and legal agreements are negotiated. Eventually, operations sets up the client account in all trading, collateral and settlement systems. This establishes the client relationship.

For an existing client, an incremental request (e.g., adding a new party or account) can come through various channels such as sales, marketing, CSR or the onboarding team.

A typical client onboarding lifecycle can be divided into five distinct stages, as shown in Figure 1.

**Challenges**

Banks face a number of hurdles in establishing an efficient client onboarding framework. Our analysis indicates that these hurdles mainly come under four streams: people, process, system and data.

**People**

Often client onboarding is viewed as a routine process and not as an enormous opportunity to build relationships. Consequently, there is no focus on efficiency and scaling up.
Often an onboarding team may lack a sense of ownership. For example, the team may assume that ensuring clarity in the contract documentation is solely the legal team’s responsibility. A lack of shared objectives and information sharing between the front office and back office results in bottlenecks that compromise the level of service provided to clients. Often the different teams involved in client onboarding are not motivated to collaborate and there is no revenue-sharing model in place.

Process
Many banks still have fragmented processes that prevent a seamless onboarding function. For example, the client onboarding requests can come through different channels of a bank. Often the onboarding process involves several e-mails, paper documents and faxes as well as frequent manual intervention. For the client, the absence of clear information on the status of the onboarding becomes frustrating. This opacity is due to the lack of a centralized view of a client, which can lead to potential fallouts such as incorrect account relationships being set up, and inaccurate mapping, which, in turn, can cause an internal loss for the bank.

System
The absence of a flexible or scalable IT platform to onboard clients has been a major roadblock leading to operational breaks in the client onboarding flow. For instance, many banks suffer from a lack of synchronization among multiple systems. Several banks still operate with e-mails and faxes, without any automation to facilitate faster onboarding. Overall, the lack of automation creates an inconsistent user experience across touch points and reduces efficiency significantly.

Data
The lack of a defined “golden source” for client data is often a prominent issue for banks as they continue to operate across siloed data sources. Additionally, banks often struggle with the lack of defined client attributes and inconsistent hierarchy. The lack of unique client identifiers for onboarding and incorrect mapping between source and downstream systems are also a problem. These have a cascading impact and result in manual rework, long turnaround times and inaccurate and inconsistent data.

A Way Forward

Governance
As client onboarding is primarily a coordination function, it encounters many governance issues. It is therefore imperative to establish a governance body to provide leadership and oversight for the program while also supervising “business as usual” activities.

The first step would be to establish a client onboarding leadership team. This team can define KPIs, incentive structure, points of contact (PoCs), SLAs and the escalation path. The next step should be to align a working group to each of the functional work streams - e.g., KYC, credit, legal, etc. This will enable the banks to assign ownership and focus on accountability through clear milestones. Additionally, through ongoing financial health checks and information exchange, banks will be able to move away from a traditional siloed approach to a functionally unified client-centric governance model.

The governance team should define the key principles underpinning the client onboarding process. Figure 3 is an illustrative example of key principles.

Client Onboarding Data Framework
A major driver for establishing automation, efficiency and streamlining of processes is the availability of clean data.

Client Onboarding Proposed Solution

![Figure 2](image-url)
Focus on Client Data and Key Client Attributes

As we highlighted earlier, the lack of proper definition of client reference data and the absence of a single operating model for client data and information are common problems among banks.

To tackle data-related problems, it is vital to define and capture all client data information and attributes. Banks need to define their own set of key client data attributes as a first step in client data management. The scope can be expanded further to define metadata attributes focusing on the client’s risk profile and trading preferences, etc. at a granular level. A sound metadata management structure covering all areas will enable banks to segment clients appropriately and extend additional service offerings.

Define Client Data “Golden Source”

A holistic view of a client’s activities requires a “golden source” for client data. As client data is often obtained through a number of diverse methods using a variety of tools or source systems across different geographical regions, there is a clear need for a client data repository. We believe this need can be served through a client onboarding “master database.” Such a database should consist of the following elements:

- **Standard client hierarchy:** The client hierarchy used by different teams at the same bank is often inconsistent. Figure 5 depicts a typical client hierarchy in a bank which is structured in descending levels as Parent→Group→Fund→Account→Subaccount. The complexity

Key Client Attributes

<table>
<thead>
<tr>
<th>Category</th>
<th>Principle</th>
</tr>
</thead>
<tbody>
<tr>
<td>Client Touch Point</td>
<td>A consistent client experience should be achieved throughout the onboarding process.</td>
</tr>
<tr>
<td>Process Controls</td>
<td>The controls should be independent from front-office influence. There should be segregation of duties, owners and users. The controls should be integrated in the business flow.</td>
</tr>
<tr>
<td>People</td>
<td>An interaction mechanism should be defined to facilitate discussion with a diverse set of stakeholders to understand their feedback.</td>
</tr>
<tr>
<td>Supporting Technology</td>
<td>Processes should be automated wherever possible. The IT infrastructure to support the guiding principles should be continually upgraded.</td>
</tr>
<tr>
<td>Data Quality</td>
<td>A golden source of client data should be defined. Information should be correct up front to facilitate clean data downstream.</td>
</tr>
</tbody>
</table>

Figure 3

Figure 4

Figure 5
arises when different teams use and refer to the client hierarchy according to their modus operandi. For example, trading views Dodd-Frank Legal identifier at the topmost level, while the sales team maintains the relationship with the client at the “group” level. Similarly, while the prime services team is engaged at “fund” and “account” levels, the settlement and operations team is engaged with the “account” and “subaccount” levels. Therefore a harmonization of the hierarchy levels of interest and concern should be driven from the top, with consistent definition and usage of levels and relationships to be maintained in the onboarding master database. The hierarchy should be based on a unique legal entity identifier (internal) and/or potentially on the legal entity identifier (LEI) mandated by Dodd-Frank to enable compliance with requests at the counterparty level in a timely manner.

• **Client identifier as a primary key for the onboarding process:** Additionally, banks often use multiple source identifiers (BIC, Reuters code, Bloomberg, etc.) for the same client. All these client identifiers need to be cross-mapped between applications to facilitate both onboarding and processing of the client’s trading needs.

• **Cross-references to alternative identifiers within the client onboarding (COB) framework:** Several downstream systems require client data to be processed at the transaction level. Therefore a “unique client identifier” in the client onboarding master database should be linked to downstream systems for consistent mapping. This will ensure smooth data flow and enable tracing client data/information from source to destination.

• **Ability to support draft, prospective, suspended and inactive statuses:** The client onboarding master database should be able to support different statuses during the client activity lifecycle. For instance, if the client decides to move away then the inactive status must be reflected and should be properly communicated to stakeholders and downstream to enable appropriate actions in terms of termination and product disablement.

### Client Onboarding Workflow

We believe a harmonized and robust workflow is essential. It should focus on key activities such as separation of global and local components and separation of processing and servicing by identifying relevant processes and subprocesses, and by minimizing manual inputs and variations. An approach to establishing a robust onboarding workflow could be as follows:

**Process Standardization**

Many clients express annoyance with having to deal with a bank that has different processes for the various countries it operates in.
standardization can deliver significant benefits and contribute to improving the overall client experience. In order to accomplish this successfully, banks can follow the following steps:

- Ensure that processes and subprocesses have been correctly defined in line with onboarding needs across different areas of the business.
- Identify manual operations and inputs such as relevant tax documentation.
- Eliminate/automate manual operations where feasible.
- Identify processes that can be globalized such as reference data setup.
- Identify processes that can be localized such as credit review.
- Optimize processes with parallel processing, minimizing sequential dependencies.

**Onboarding Application Rationalization**

Most banks have different legacy systems undertaking similar tasks for client onboarding. For example, the investment banking division may have multiple applications for client data capture, data check and validation – all of which can be rationalized. Similarly, banks often use different mechanisms such as e-mail, intranet, portals, tools or a combination of these to collect and submit relevant client documents. An application rationalization exercise, in this case, can create a suitable business process platform to deliver this capability more efficiently. Banks can take the following initiatives:

- Define application inventory to trace any overlapping or duplicate applications that perform similar tasks. These applications are candidates for consolidation or elimination.
- Conduct application evaluation to select applications based on the actual business need.

**Establish a Robust Workflow**

The ideal workflow should have:

- Context that dynamically adapts to business rules.
- A dynamic user interface that can be customized to offer geography-specific views.
- Ability to support “draft status” of onboarding until data is available to move work further downstream.
- Ability to capture priority management and audit trails.
- Ability to plug in new applications following process standardization and application rationalization.
- Adaptability to use a service-oriented application to build a componentized model and maximize service exposure and workflow enablement.

**Build an Intelligent Rules Engine**

An intelligent rules engine should have provisions to build rules for workflow and other service components for processing. This is highly desirable, as a client onboarding portal linked to workflow and the rules engine will allow efficient client data validation, approval and attribute capturing to be built into the system easily. This will also create a configurable implementation of a centralized account workflow.

The most important points to consider are:

- A common set of rules should be applied consistently through all components of the architecture.
- There should be validation rules to ensure single point-of-entry for account information.
- The rules engine design should be based on composable components – i.e., individual components that provide reusable services. This will offer agility as services can become part of different solutions in response to changing requirements.

**Optimize and Enhance Automation**

A majority of client onboarding problems can be eliminated or managed better if banks focus on automation and reduce manual intervention. It will help ensure timely completion of the process and the availability of accurate data. Our experience suggests banks need to focus on the following:

- Replace manual functions with automated tools.
- Revisit the batch processes and feeds to assess feasibility of automation and fast data propagation.
- Minimize manual reconciliation and data break checks in the touch points through automated exception management.
- Implement distribution matrix and client data distribution policies.
- Develop a real-time messaging interface to pass on relevant client data.
Entitlements
With strict data secrecy and data protection rules put in place by different regulators, there is a growing need to maintain data integrity and prevent bypassing of the entitlement process. In order to ensure that client onboarding is tightly controlled, banks must emphasize the importance of entitlements. The entitlement layer should be implemented so as to ensure the following:

• The entitlement layer must be able to separate role entitlements and data entitlements.
• It should address corporate and local (geographical) regulatory requirements for data privacy, security and protection.
• It should define client data access, ownership, usage and storage.
• It should also consider specific regional data entitlement requirements as there are often regional regulations (e.g., Swiss banking and other European mandates) to be considered.

Additionally, client data validation and enrichment should be closely monitored. This will ensure that the client data is of high quality and ready to use. Ongoing control of client data quality and accuracy will not only minimize operational breaks causing long delays, but will also improve the overall onboarding performance.

Document Management Facility
Onboarding documentation management can be a frustrating process both from a client perspective as well as from the bank's point of view. Below we outline a more structured approach to document management.

Identify Specific Document Requirements
The first step to streamlining client documentation during onboarding is to define what is required. The COB team should define a master list of client document requirements for onboarding and then contact clients. This will ensure that the COB team controls the master document and that there is no communication from KYC, legal or other groups to clients asking for additional documentation.

Improve Document Processing and Management
The next step is to take measures to institutionalize the document management process. We recommend the following approach:

• Establish an authoritative source of parameterized legal terms that form a foundation for risk management.
• Build a template library for all documents required across asset classes, client types and jurisdictions.

Illustrative Entitlement Matrix

<table>
<thead>
<tr>
<th>Role Entitlement Matrix</th>
<th>Roles</th>
<th>Sales</th>
<th>COB</th>
<th>KYC/Compliance</th>
<th>Credit</th>
<th>Legal</th>
<th>Operations</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
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<td>R - W</td>
<td>R - W</td>
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<td>R -</td>
<td>R - W</td>
<td>R - W</td>
</tr>
</tbody>
</table>

R - = Reading    W - = Writing

<table>
<thead>
<tr>
<th>Data Entitlement Matrix</th>
<th>Attributes</th>
<th>Sales</th>
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<th>Operations</th>
</tr>
</thead>
<tbody>
<tr>
<td>Core Client Data</td>
<td>Create Modify Validate</td>
<td>Create Modify Validate</td>
<td>Validate</td>
<td>Validate</td>
<td>Validate</td>
<td></td>
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<tr>
<td>Document Details</td>
<td>Create Modify Validate</td>
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<td>Product Details</td>
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<tr>
<td>Client Account Details</td>
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<td>Create Modify Validate</td>
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<tr>
<td>Trading Setup Details</td>
<td></td>
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<td>Create Modify Validate</td>
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</tbody>
</table>
• Categorize and index documents by client type, document version and document type (e.g., standardize naming convention).
• Establish a document matrix and rules engine to provide auto-identification of the required documents and approvals.
• Build an intelligent document tagging and storage facility.
• Simplify the process to enable securing all the required approvals and signatures at one go, which will save time and reduce the burden on the customer.
• Integrate document management with the COB framework by making it accessible to other COB components.

The above approach will significantly reduce effort for banks, both in terms of managing existing clients as well as streamlining the onboarding framework for prospective customers.

Client Onboarding Dashboard
The key to ongoing success for a client onboarding program is the ability to present information – both static and in real time – to stakeholders. Banks must therefore build an onboarding dashboard and implement the following:
• Ensure all COB components feed appropriate data into the reporting component system.
• Offer real-time views to support the COB team and process participants; ensure integration into sales dashboards.
• Ensure notification to clients at each stage of the onboarding process. For instance, document status notification to clients to prompt them to action.
• Set up consistent and consolidated management reporting through information management and business intelligence systems.
• Establish exception and rule-based alerts management for the onboarding system and portal users to ensure perfect control and risk management.
• Support key performance indicator (KPI) metrics and ensure best practice processes are followed consistently. The following metrics can be collected:
  > Throughput (completions) = number of agreements/month/person.
  > New requests = number of agreements/month.
  > Time to first draft = average, days.
  > Client type versus time to execution.
  > Pending/outstanding age analysis.

Conclusion
In this challenging economic environment, banks are expected to match each other quite closely in terms of product innovation and financial service offerings. A real difference will therefore lie in creating a high-quality first impression. The world of diminishing margins, increasing regulatory pressure, increased capital requirements and
stress on speeding time to revenue will require banks to focus on client acquisition for sustainable future growth performance. This will require a fundamental reappraisal of client management capabilities to deliver a higher level of consistent, real-time experience to clients across all touch points.

With the increased complexities of the client onboarding process, it is imperative for banks to control and manage client reference data more effectively, laying greater emphasis on client hierarchy harmonization and legal entity integration. An ongoing objective measurement of the foundational metrics and measures would be vital for improving all facets of the client onboarding experience. A top-line drive to fully leverage operational infrastructure and investment in IT to rope in intelligent systems to facilitate new sales and frontline service propositions will be essential. In addition, there is a greater need to focus on the key human and cultural aspects to achieve a “client-centric” orientation. Critical needs include a fresh approach in client-facing roles, with a clear understanding of the onboarding elements, and sharing incentives and best practices to offer a seamless onboarding.

As banks move forward to gain larger market share, the focus will be on a smart, flexible and agile onboarding process to stay competitive. The client’s experience in the onboarding process will be pivotal in determining the relationship with the bank.

A structured approach is essential not just to reduce operating costs but to exploit new onboarding opportunities. Learning from experiences within the industry and being open to challenging established notions of client services design and operations are necessary for the success of any client onboarding system transformation initiative. An onboarding workflow solution is just the beginning.

Footnote

1 “Wealth Management Onboarding: Expanding Beyond Account Opening.”

About the Author

Deepak Mohanty is a Consulting Manager in Cognizant’s Business Consulting Group. He has over nine years of experience in domain areas such as investment banking, investment management, securities services, private banking and asset and wealth management. In his current role, he has been engaged in delivering solution design, business development activities, business and IT consulting, requirement gathering and management, process consulting, business analysis and functionality studies for clients across the globe. Deepak has executed and managed several strategic engagements in the client onboarding space for leading investment banks to create and deliver service innovations for their clients. He can be reached at Deepak.Mohanty@cognizant.com.

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