



CUTTING THE COST OF CUSTOMER COMPLIANCE

ECONOMIC DOWNTURN AND TIGHTER REGULATION INCREASE THE NEED FOR CUSTOMER FOCUS, BUT CUSTOMER-FACING PROCESSES CAN BE IMPROVED WHILE CUTTING COSTS AND INCREASING PRODUCTIVITY, SAYS DERMOT MCCAULEY

The global economy has taken a rapid downturn and businesses everywhere, including financial services institutions (FSIs), must cut costs while serving customers better. How can this be done? And how can the growing burden of customer-related regulatory compliance be met without negative customer impact, even as budgets are being cut?

THE CHALLENGE

When your FSI is on-boarding a new customer, opening a new account, performing identity checks, verifying eligibility, accepting a new customer mandate, handling a customer subscription or redemption, or dealing with a customer complaint, you are expending a large amount of human effort and technology resource in everyday customer-facing processes. The customer-related regulatory controls introduced in recent years, for example Know your Customer/Anti-Money Laundering (KYC/AML), Customer Identification Profile and MiFID Client Classification, have added to this investment of time and technology in meeting these customer-related requirements.

As the twin drivers of increased competition and

mounting regulatory burden impact your institution, all these processes must adapt to become better and cheaper. This is a challenge that most organisations will struggle to meet. To begin with, they should take time to understand the nature of customer-facing processes since excellence in these procedures requires a different approach.

THE NATURE OF CUSTOMER-FACING PROCESSES

Customer-facing processes have proven difficult to automate effectively. Unlike what are often called 'back-office' processes, they are highly reliant on human intervention and judgement. While it is common, for example, for over 90 per cent of back-office post-trade equity transaction processing to be straight-through – that is, involving no human intervention – very few customer-facing processes are free of staff involvement. An FSI's customer-facing processes are very human-intensive, yet they have been poorly supported by the best efforts of technology innovation in recent decades. Why is this so? Some of the characteristics of these customer-facing processes help explain why technology has, to date, fallen short as a productivity tool in these contexts:

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People control the process, they don't only execute it – The power to control workflow in a process must remain substantially in the hands of the staff member(s) executing a customer-facing process. For example, if a KYC, customer on-boarding or account opening process requires special approval, documentation or other non-standard treatment, then a staff member must be able to handle this situation. Furthermore, they must be able to deal with it as a matter of normal practice, not as an exception which is deemed to have failed to follow a normal practice. So, a system supporting such a process must be inherently flexible, allowing highly customised execution of a 'standard' process as a matter of course.

End-to-end flow often cannot be fully determined in advance – Most technology support for business processes only works so long as the process follows a path that was envisaged at the time the system was designed. Traditional systems encapsulate these foreseen 'cases' of a process in their internal logic, dealing for example with all foreseeable cases of an account opening process. Yet the truth is that the path and outcome of account opening and many other processes are frequently not foreseeable ahead of the process execution. So, technology supporting these must allow for the process to be constructed 'as it happens', in effect building a substantially unique KYC process for each customer, for example. The failure to support these processes in this way accounts for the large human investment required to comprehensively handle all cases of such complex, customer-facing processes.

Tasks can be added at the time of process execution – Organisations often work outside of their own, well-defined processes. For example, a compliance officer may decide to accept two non-standard documents

as sufficient proof of identity or eligibility of a new bank client. The steps involved in requesting, reviewing, seeking approval and finally accepting these documents are created by the compliance officer, likely with the agreement and approval of his or her manager. Traditional technology does not support this kind of on-the-fly process innovation, let alone allow the process innovation itself to then be reviewed, approved and incorporated as standard in future.

SUPPORTING GREATER CUSTOMER FOCUS

Given the challenges presented by the very nature of customer-facing processes, the technology that addresses them must support the following principles:

- The control of the process rests with the staff member(s), not the supporting systems. Yes, the system can drive workflow, but it must allow the staff member(s) flexibility as it does so
- The end-to-end activity flow does not have to be fully determined in advance at design time. Yes, the component pieces of an end-to-end process can be identified at design time, but the choice of which of these components to execute and in what order must remain flexible and in the hands of the staff member(s)
- In real life, new tasks and processes may be added to a process by a staff member at 'runtime'. Yes, the system must allow enforcement of approval cycles for such in-flight process innovation, but it must not harness the staff member into an inflexible process that cannot be changed by them in order to meet business needs
- The staff member must have ready access to all data, documents, e-mail, meeting notes, correspondence, third-party information sources and people required to productively execute the process.

The best of the latest generation of business process management (BPM) technology supports these principles. Rather than simply automating workflow in which sequential or parallel task execution is defined, automated and then controlled, today's best-of-breed BPM software supports agile processes that drive productivity to new levels. To work effectively, BPM technology also integrates closely with other software widely used in customer-facing processes, including e-mail, databases, document imaging, storage and retrieval systems, and letter generation technology. By combining support for process agility and effective integration with other technologies, BPM can help your institution drive up the productivity of customer-facing processes, cutting costs while increasing customer focus. **F**

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