

A VAIIE INSIGHTS REPORT

The Future of Client Onboarding.

Analogue > Digitised > Digital



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Introduction.

Technology continues to pervade an increasing portion of our lives and our minds.

The more we benefit from the efficiency and seamlessness of technology, the more we benchmark our general expectations against these standards. The speed and extent of technological adoption in recent decades, and the corresponding shift in expectations, poses challenges to firms who must adapt to maintain and build their customer base. Customers are not only demanding technology enabled products, but entire experiences, and that starts with first impressions - customer onboarding.

Customer onboarding has never been easy - firms must satisfy the opposing objectives of various stakeholders including those of international standard setters, home regulators and in-house 'super equivalence' standards that aim to meet a company's internal criteria. Customers want a seamless experience, whilst regulators impose laws to ensure effective due diligence in the process. Such constraints are necessary to avoid a range of damaging outcomes including identity theft, money laundering and associated criminal activities.

Given the importance of mitigating the risk of such events, firms face significant fines in the case of a breach. In 2021 alone, financial institutions faced fines totalling more than \$2.8billion¹ for anti-money laundering (AML) violations. →



Complexity.

Customers expect a simple user journey and to use technology to simplify engagements



Efficiency.

Onboarding times are still too slow for financial services business



Resource.

Labour is still the highest compliance cost and resource is in short supply



Technology.

Advances in technology have enabled more robust verifications to be done digitally



Regulation.

Regulation driving higher standards in due diligence

Figure 1: Client Onboarding Challenges in Jersey

1. <https://thefinancialcrimenews.com/financial-crime-bank-fines-in-the-21st-century-by-fcn/>

*"Jersey is one region which
is uniquely positioned to
take advantage of the
opportunities presented
by RegTech"*



As criminals develop increasingly sophisticated methods of avoiding detection², firms are turning to technology in order to protect their data and avoid regulatory fines. The potential for RegTech to transform Know Your Customer (KYC) and AML processes has been noted by the Financial Action Task Force³, among others. A report by PWC states that properly deployed technology is reducing the cost of financial crime compliance by up to 50%⁴.

Although changes in customer onboarding will impact firms in all regions, due to the globalised nature of trade, not all regions are equally equipped to stay at the cutting edge of technological maturity. To anchor our focus, we consider Jersey as one region which is uniquely positioned to take advantage of the opportunities presented by RegTech. Jersey has a pro-technology government and financial services regulatory body which has helped foster an impressive track record of compliance⁵. These factors have produced a strong financial services sector, including FinTech and RegTech companies, consisting of domestic and foreign institutions which attract high calibre professionals.

Firms in Jersey could take advantage of this pro-technology environment to collaborate with island partners and further improve their regulatory standing, as well as earning the competitive advantages of early technological adoption.

Vaie recognises the challenges faced by organisations in verifying the identity of prospective customers and in this report, we explore the challenges and opportunities surrounding customer onboarding in Jersey at three stages of technological maturity; *Analogue*, *Digitised* and *Digital*. We begin with the largely physical and manual processes that characterise traditional means of verifying identity, termed analogue. Moving through to digitised, a state of digital compromise which enables significant uplifts in the efficiency and quality of checks, to a forward-looking view of what customer onboarding might look like in an environment promising an authentically digital identity embedded within a decentralised, immutable, and otherwise anonymised system. →

2. <https://demyst.com/blog/synthetic-identities-genuine-fraud>

3. <https://www.fatf-gafi.org/media/fatf/documents/reports/Opportunities-Challenges-of-New-Technologies-for-AML-CFT.pdf>

4. <https://www.pwc.com/gx/en/issues/risk-regulation/financial-crime-managed-services/technology-in-financial-crime-prevention.html>

5. <https://www.jerseyfsc.org/industry/fintech-and-innovation/fintech-and-innovation-reports/regtech-rt-associates-report/>

Jersey is the focus of the Reg Tech Associates report 'RegTech in Jersey: Closing the gap between ambition and reality' which concludes that regulated firms are at different stages in their RegTech adoption journey. RegTech is already being increasingly used in Jersey to address a wide range of complex risk and compliance use cases, but each firm has a unique set of challenges and barriers to adoption to overcome.

Overlaying the themes of analogue, digitised, and digital; a clear pathway along the maturity ladder emerges, each step along this path - from compliance, to efficiency, to effectiveness and prediction enhances technology enabled compliance functions and pushes firms further along their RegTech adoption journey.

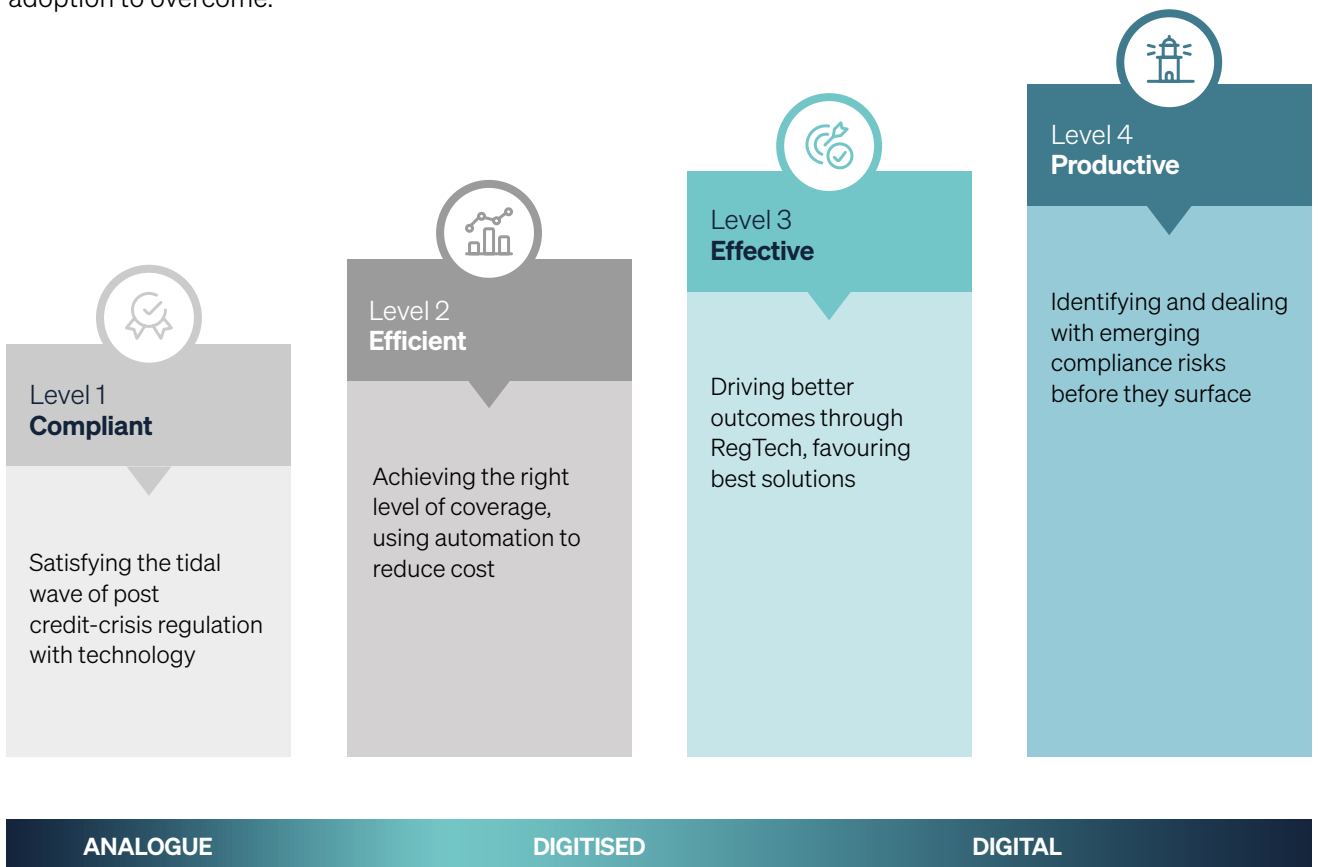


Figure 2: Regulated firms are at different stages in their RegTech adoption journey⁶

6. <https://www.rtassociates.co/regtech-in-jersey/>

Analogue.

Analogue solutions are characterised by manual and physical processes, with minimal technological input.

These solutions are naturally slower, higher cost, prone to human error and more burdensome to the customer than technology-led alternatives. In the context of customer onboarding, these solutions involve:

- Paper copies
- Wet ink signatures
- In-branch visits
- Manual data processing tasks

Why Analogue: Barriers to RegTech adoption

Despite Jersey's pro-technology environment, like many other regions, RegTech adoption is still in its infancy and are therefore still deploying analogue solutions in some areas. Certain barriers to RegTech adoption exist within firms, including a hesitancy to face the perceived hurdles of integrating new technology into existing processes/ systems, as well as the fear that a skills gap exists which renders compliance functions misaligned to technology solutions.

Although certain RegTech solutions require deep integration into firms systems, many are built to complement and easily assimilate with existing technologies. Cloud and SaaS based products, for example, require no on-premises deployment additionally, user-driven improvements benefit all clients at once. Similarly, fears that a skills gap exists apply only to those solutions which have not been built with the user in mind - RegTech vendors should be aware of the financial services environment in which their solutions are being used, including the products, people, and customer experience, and would benefit from construct their front end accordingly.

Other barriers arise from factors outside of firms' control. These include the cost of acquiring RegTech solutions as well as misalignments between technology capabilities and firms' specific problems. In an uncertain economic environment, it is easy to understand sentiments which advocate for limiting costs. However, in AML alone, where customer onboarding can have a crucial preventative impact, financial institutions waste significant resource investigating false positives⁷. In the context of efficiency, an appropriate RegTech solution can be a powerful means of reducing cost and creating organisational capacity. For this to be true, RegTech products must align with problems that firms actually face.

7. <https://www.gtreview.com/news/global/regtech-could-save-banks-2-7bn-yearly-on-aml-compliance/>

Digitised.

By “digitised solutions”, we refer to solutions which enable firms or their customers to create digital versions of analogue artefacts/ processes, and as such reduce or eliminate the time taken on certain tasks.

Vaiie Identify digitises and enhances the otherwise analogue customer onboarding processes of Identification and Verification (ID&V).

The traditional, analogue, solution to ID&V involves asking that a customer physically submits hard copies of their identity documents, to the nearest branch or notary public. An employee will then spend time reviewing these identity documents and will verify by eye that this person is who they say they are, before certifying and manually inputting the customer’s details into the company’s system. This process places a time and effort burden on both the customer and the employee, as well as exposing the firm to risks of human error.

Vaiie Identify digitises this process. Rather than delivering physical copies of identity documents to physical locations, documents are scanned, stored and transferred digitally. In particular, the solution enables customers to provide identity documents, and verify that they are their own documents, from anywhere in the world through any web enabled device.

Firms request identity documents through Vaiie’s interface, and customers are guided to take a picture of those documents - turning physical documents into digital artefacts (images). The technology then automates the extraction of information from documents, through document template matching over 11,000 government issued ID types from over 248 countries and territories.

Vaiie Identify allows firms to own and control their own client experience to provide their customers with reassurance that the ID&V tool is undertaking identity verification on behalf of the firm that they are doing business with.

Vaiie Identify digitises verification in a similar manner, requesting a live image of the customer and performing biometric analysis to confirm who the client claims to be. This analysis incorporates liveness checking, which ensures that the image is taken of the person themselves in that moment, rather than of another image of that person from another time.

Providing the flexibility for companies to combine Vaiie Identify’s simple and secure digitised solutions alongside traditional analogue solutions significantly reduce the burden on customers and employees. This improves satisfaction for both parties and frees up staff to perform more complex tasks with the assurance of strong human compliance acting as a final step in the process. →



Vaie Identify is one such solution in the customer onboarding space, which helps firms to digitise their onboarding process. Identify verifies a customer's identity in minutes with fast, secure and easy to use ID authentication, facial recognition and liveness checking.

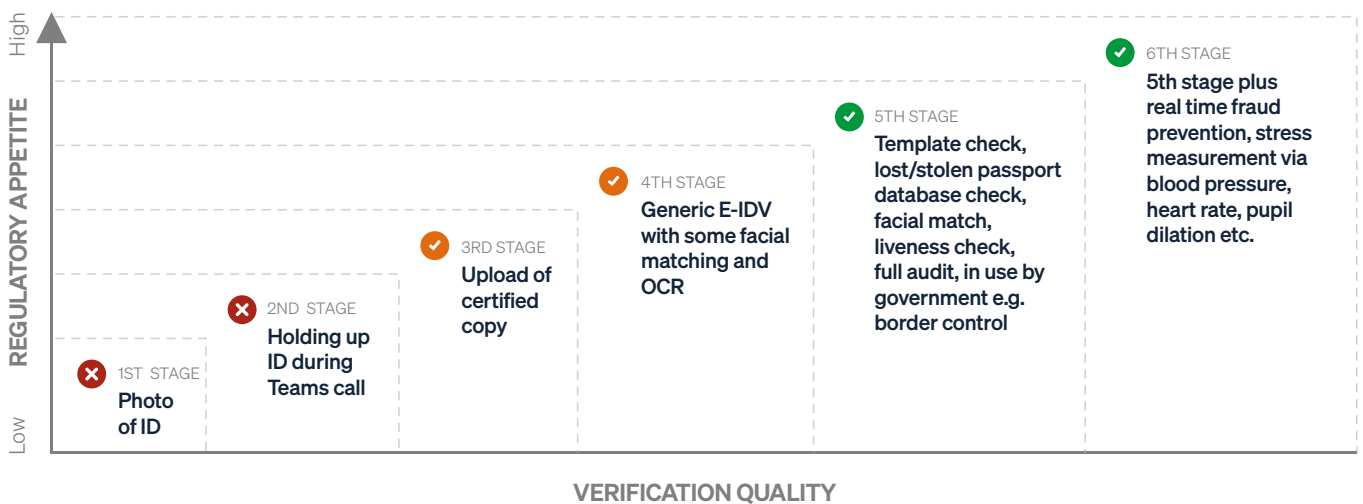


Figure 3: What should the digital standard be for ID verification?

Why RegTech: The benefits of adoption

Regulatory sanctions represent risks to firms' reputation and profitability, therefore RegTech is inherently built to reduce risk. By reducing reliance on labour, which is widely regarded as the biggest cost of compliance⁸ RegTech solutions also reduce firms' costs. Through enhancing or automating a wide range of tasks, RegTech is empowering staff to focus on only the most challenging problems - thereby increasing the total productivity of compliance functions.

Positively impacting risk, cost and productivity all at once is the USP of RegTech - and it explains the predicted \$204billion spend on RegTech by 2026 (triple today's \$68billion)⁹.

Technology is changing compliance. At an organisational level, there is an evolving competitive landscape with more firms adopting RegTech solutions. This is forcing firms to enable their compliance teams with technology in order to remain competitive¹⁰. At an individual level, compliance professionals face a different world than that which existed just a decade ago - technology literacy is increasingly valued¹¹. →

8. <https://risk.lexisnexis.com/global/en/insights-resources/research/true-cost-of-financial-crime-compliance-study-global-report>
9. <https://thetack.technology/regtech-spending-triples-by-2026/#:~:text=Spending%20on%20regulatory%20technology%20>
10. <https://www.raconteur.net/finance/financial-services/banks-regtech-competition/>
11. <https://www.businessleader.co.uk/widening-skills-gap-financial-sector-could-loss-of-employees/>

"As bad actors adopt more sophisticated methods, and regulators simultaneously demand more of firms trying to stop them, RegTech is becoming a pivotal part of a compliance professional's toolbox"



As bad actors adopt more sophisticated methods, and regulators simultaneously demand more of firms trying to stop them, RegTech is becoming a pivotal part of a compliance professional's toolbox. However, RegTech is not only a tool for employees, but can also add considerably more value to their role (see Figure 4).

Firms should expect better staff retention and satisfaction among employees when working in a faster, smarter, technology enabled environment which values their strategic and analytical thinking rather than their ability to execute repetitive tasks.

Harvard Business Review estimated that up to 65% of managers' current tasks could be automated by 2025 - indicating the potential for technology to have a major impact on employee's day to day responsibilities. Whilst other research found that 10% of employees had left a job due to frustrations with technology and more than 50% were unhappy with their time spent managing processes rather than impacting their core business objectives - indicating the need for better technology to improve staff retention and satisfaction.

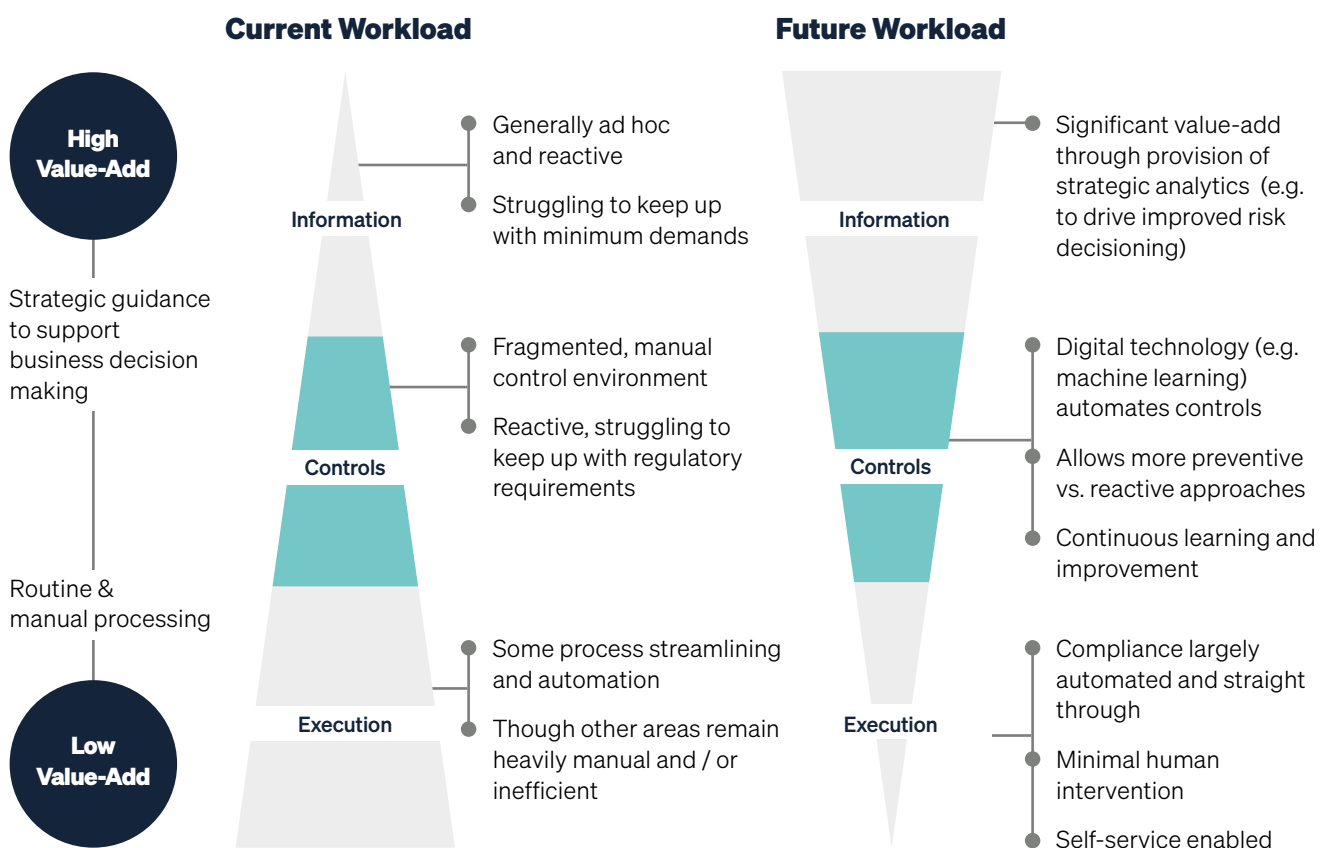


Figure 4: Evolving role of Compliance Professionals¹²

12. <https://www.oliverwyman.com/content/dam/oliver-wyman/v2/publications/2018/may/RegTech-on-the-Rise.pdf>

Digital.

Whereas digitised solutions create digital versions of analogue artefacts and processes - such as PDF versions of paper-based identity documents - digital solutions are made up of inherently digital artefacts and processes. But what does that look like?

This is when we use our physical bodies or surroundings to interface directly with technology, such as fingerprints or facial recognition.

Digitised solutions are already producing faster and otherwise more efficient customer onboarding processes. Digital solutions, on the other hand, are largely a thing of the future, with few instances of full digital integration already surfacing in the mainstream. However, certain products are better built to adapt to an environment made up of authentically and fundamentally digital elements. Vaie Locate is one such product.

Vaie Locate is a global digital address assurance solution which uses cutting edge authentication technology to securely authenticate individuals using geolocation. Traditionally, with analogue methods, a client would verify their address by showing physical documents such as utility bills. This process could be digitised, by scanning physical documents into PDFs.

However, Vaie Locate supplements these checks with digital address assurance. After mailing a letter and tracking chip alongside a unique code to the claimed address, the customer enters the code and Vaie Locate compares user geolocation data, with the users permission, from the expected address and the customer's input device. By doing so, Vaie Locate interfaces digitally with the physical location itself, and incorporates an authentically digital element into its solution.

Further, by integrating with Vaie Identify, firms can achieve the added assurance that it is the correct person at the correct location. This solution is available in 230 countries and territories and is built on the knowledge and network of Jersey Post and their trusted operators. →



How digital address verification raises the bar

Due to their analogue nature and ease of forgery, we question how long utility bills will remain an acceptable standard of address verification. Digital technologies such as Vaie Locate provide greater assurance that a person is based where they claim to live.

Address validation methods scale to meet the risk environment faced by a regulated business without impacting the customer experience.

We see the future of digital compliance as a blend of using digital solutions to significantly improve current thinking and processes but in recent years, new technologies have arisen that have new digital characteristics. →

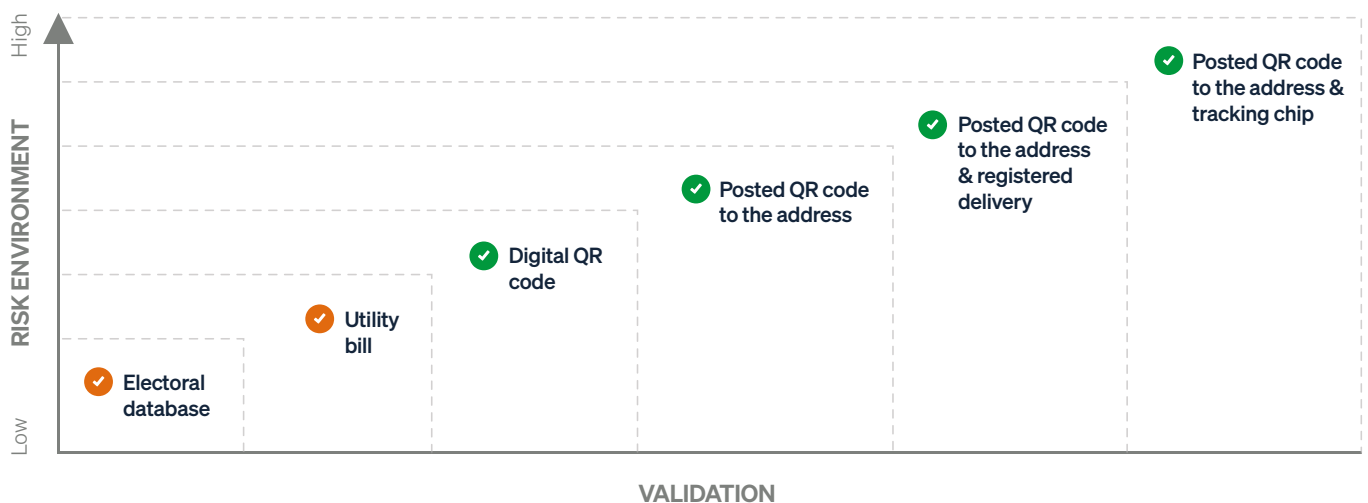


Figure 5: Are utility bills an acceptable standard of address validation?

"We are experiencing a convergence of technology and financial services which leads to product and service innovation built from digital first technology principles that appear fundamental in Web3 thinking"

Web3: Compliance in digital reality

To see into the future, it can help to look to the past, in particular where we've come from as a digitally connected species.

- **1991** Web1, is thought to be the period between 1991-2004, and was characterised by static web pages where users were the consumers, not the producers, of content.
- **2004** Web2, 2004 to the present day and beyond, involves users as producers of content, where a few large technology companies host a large proportion of this content on centralised platforms, such as social media platforms.
- **Today** Web 3, the future state of our internet applications, is still being formed. What is certain is that users want more control over how they digitally interact.

Though Web3 is difficult to define, certain observations give us a good sense of direction. Focus in recent years has been on blockchain, cryptocurrencies, Non Fungible Tokens (NFTs) and other digital assets.

We are experiencing a convergence of technology and financial services which leads to product and service innovation built from digital first technology principles that appear fundamental in Web3 thinking:

- **Anonymity:** maximum privacy in online activity.
- **Decentralisation:** the shift from centralised power and responsibility to that of power being dispersed with no centralised authority.
- **Immutability:** Information that cannot be changed and is therefore the original version.

Web3, is the possible future in which these principles characterise our digital financial services landscape. The opportunity arising from Web3 is to tokenise (create digital assets of) items which were previously physical, in a manner that is anonymised, decentralised and immutable.

An example of this could be tokenised real estate, whereby investors own tokens in the property which are easier to manage and trade than physical shareholdings of a building. This could present an attractive opportunity for Jersey as a leading Real Estate Finance jurisdiction.

For those specialising in alternative asset classes which, in traditional markets, may be illiquid, the potential to tokenise these assets creates new ways to trade and to effectively generate new financial products. Jersey already specialises in alternative assets, and by continuing in that direction, as well as adopting these cutting-edge technologies, firms in Jersey can position themselves as the early leaders of these new digital product offerings. →

While it is exciting to consider an entirely new way of interacting and conducting business, there are certain processes which are complicated by Web3 thinking but are critical in future technological maturity. Customer onboarding, and the associated KYC/AML due diligence is among those. We believe that change offers opportunities as well as challenges, and so in breaking down the impact of Web3 on compliance we also make note of where adaptable firms might stand to gain:

Anonymity

Anonymity poses obvious challenges to customer identification and onboarding - in fact the two might appear to be contradictory. For customer onboarding to exist in a “digital-first” world, anonymity cannot be absolute. There must be a compromise in which enough information can be shared, in a sufficiently secure and contained manner, such that firms can verify that they are not dealing with criminals. The future of RegTech might take this form, providing solutions which support verifying critical KYC/AML information as per regulatory guidelines. The challenge is accomplishing this without exposing this information to anybody/anything where it is not needed; therefore maintaining maximum anonymity for the customer while adhering to laws and regulations. To achieve this, individuals might load personal information into an immutable system, such as a blockchain, where it would be encrypted. Individuals would then grant access (the ability to decrypt and view the information) to whoever they wish via a ‘public key’^{13 14}. Further, with customers becoming increasingly concerned by data privacy¹⁵, offering client anonymity while retaining control of the KYC/AML processes through technologies such as blockchain could become a competitive advantage.

Decentralisation

Decentralisation is borderless. The current data protection regimes such as GDPR are geographically focussed and stipulate who can store personal data and where. The trend towards data localisation¹⁶, for example, will be called into question as decentralisation imposes a borderless view of the world. Interestingly, the anonymised versions of personal data may cause regulators to rethink the scope of data collection/retention policies due to the potential that privacy protection is built-into digital compliance solutions. This could fundamentally change the way in which we regulate industries, and speaks to the importance of RegTech solutions in that future environment. However, in order to succeed, regulators, compliance experts, and technology providers must align to ensure that data is processed fairly and in line with the regulatory requirements of where the client is doing business.

Immutability

If we take the example of client onboarding, whereby client information becomes immutable and effectively frozen and time stamped at the point in time of approval, firms would then be able to clearly demonstrate risk based decisions at the specific period in the client relationship. Financial services firms might have a greater level of trust in the data if the integrity of the inputs can be verified. In turn, this is a significant fraud prevention measure and provides a clear and tamper-proof digital client profile.

13. <https://www.aima.org/article/how-will-kyc-onboarding-change-in-the-age-of-blockchain.html>

14. <https://www.gemini.com/cryptopedia/public-private-keys-cryptography>

15. <https://www.techrepublic.com/article/data-privacy-is-a-growing-concern-for-more-consumers/>

16. <https://www.oecd-ilibrary.org/docserver/7fbaed62-en.pdf?expires=1667226292&id=id&accname=guest&checksum=39C4D0DE9DA6474A7057C53F78F591FA>

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Conclusion.

As consumers, most of us already transact in a digital world.

Clients and employees are creating a demand for digital solutions from financial services firms; analogue solutions will not only be inefficient but simply insufficient.

The benefits of digitised solutions are already being realised, and some firms are already moving towards fully digital solutions. This analogue to digital transition represents a significant shift in the landscape of compliance where entirely new markets can emerge.

New firms, unbound to legacy systems, will emerge with new financial products and highly adapted digital solutions. To take advantage of the new and existing markets that digital technology will create, and to gain competitive advantage, the financial services sector would be wise to adapt to digital; sooner rather than later.

Vaie is at the forefront of these challenges, providing digital solutions aimed at enhancing the customer experience through reducing onboarding time, and helping our clients achieve greater productivity as well as effective risk management.

To find out more about Vaie Identify, Locate or any of our other digital solutions, please visit vaie.com or contact hello@vaie.com.



Vaie Identify sets a new global standard in trusted real time remote identity verification.



Vaie Locate is a comprehensive global address assurance service that serves to deter fraud.



Vaie Onboard is a rapid, frictionless and fully compliant digital onboarding solution.



Vaie Communicate manages communication via data-to-print, SMS, email and secure client portals for a true omni-channel experience.



Vaie Intelligence is an AI driven, due diligence reporting tool with dashboard and risk indicators.



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