Digital onboarding for financial services
A must-have for digital natives
In the financial services industry, the level of service offered to customers coupled with a strong branding are key to attract and retain clients. Arrival of new players on the financial services market like neo-bank a few years ago and FinTechs more recently, reshaped the landscape of financial services providers and accelerated digitization of many processes and services. Customers expect from their financial institutions (e.g. bank, insurance) a high level of services and personalized communication as they enjoy in other areas of their lives. In addition, the PSD2 regulation encourages competition between financial services providers and facilitates change from one provider to another. Combined, these factors are making customers less loyal to their current financial services providers and highlight the importance of the onboarding process.

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Any customer who has tried to open a current account or become a new client knows how unpleasant the experience can be: either in a branch where they have to follow old paper-based onboarding processes or online where they are often redirected to a local branch.

Every customer’s onboarding journey is different but the experience of opening accounts with traditional financial institutions leads to many common friction points like being re-routed to different channels, the need to provide physical identification, answering the same questions multiple times, and long delays to access the account. Improving the customer onboarding experience should be a priority for financial institutions, especially as new regulations like the PSD2 will enable customers to change their financial service provider more easily. The account setup should now be a formality and should therefore be completed in minutes, similarly to other common services (e.g. Facebook, Spotify).

Onboarding represents the first customer interaction for the financial institution and will set the tone for the entire relationship. A move from a lengthy, paper-based and inconvenient process to a smooth and genuinely omni-channel customer experience would be a true game changer, not to mention it could potentially save significant process cost.

Increasing cost pressure, evolving customer needs and market transformation require a profound rethinking of the client onboarding process.

Client onboarding encompasses the end-to-end process, from the time the client is looking for information on a financial institution to the time his or her product (e.g. bank account) is activated, as well as the follow-up activities performed by the financial institution to ensure a smooth start of the customer relationship (e.g. first contact with a customer representative).

Three main forces are challenging today’s traditional onboarding process:

Decreasing cost/income ratio is a major challenge for most of the traditional financial institutions in Europe, especially with the threat of new market entrants (e.g. FinTechs) and increased regulatory burden. In particular, the traditional in-branch onboarding process is time consuming and could be automated and improved to provide a better customer experience and enable cost reduction and revenue increase.

Customers’ behavior is evolving: they have become more international and mobile and thus expect simpler, quicker and more flexible interactions with their service providers. They also expect to be able to perform all types of services at any time, regardless of location. They are strongly reducing face-to-face interactions for their financial activities and look for institutions that can provide them with an easy access and personalized experience. Today, 38 percent¹ of customers drop out of the onboarding process because of frustration with paper or the volume of information required.

New market entrants are reshaping the landscape of financial services providers. On the one hand, new purely digital companies provide great customer experience and increase competition between traditional institutions, but on the other hand, new disruptive technologies allow the latter to keep up with change and meet client expectations.

¹. 2017 Deloitte Global Mobile Consumer Survey
Digitizing the onboarding process enables financial institutions to transform these challenges into opportunities

Digital onboarding enables a new and personalized customer experience by simplifying the access to financial services while reducing processing time and cost for financial institutions due to optimized processes:

**Improved Customer Experience**
- Faster and more flexible access to banking services
- Be perceived as innovative and reinforce brand image
- Possibility to switch between in-branch and online onboarding
- Onboarding in a matter of minutes
- Enhanced digital user experience
- Structured file archiving
- Reduce document loss
- Reduced paper usage

**Reduced Cost/Income Ratio**
- Reduce cost-to-serve
- Improve sales effectiveness
- Reduce failed client acquisitions
- Automate and accelerate processes to increase operational efficiency and to reduce operational costs
- Increase Assets under Management and revenues
- Free up employee time that can be spent on more valuable activities

In the banking industry, 38 percent of customers stated user experience (UX) as the most important criterion when choosing a digital bank.
Customer experience is one of the most important success factors of the onboarding process. Financial institutions use more and more customer-centric methodologies to redesign the target customer experience.

Customers need to see onboarding as a single process, no matter how many channels they use. To avoid losing customers during the process, the onboarding strategy must offer cutting-edge personalized experiences that accompany the customer during the onboarding process across multiple channels.

In the banking industry, 38 percent of customers stated user experience (UX) as the most important criterion when choosing a digital bank, and 26 percent stated the easy enrollment and login is the most important one. Giving customers the choice of interacting via multiple channels at any time makes the process much more convenient and requires an omni-channel strategy upfront. This means giving customers the flexibility to start their onboarding process using one channel and switch to another one at any time to pick up where they left off. Customers who experience “anywhere” onboarding with consistent information across channels are likely to think that this convenience would extend to their day-to-day experience.

In order to design great omni-channel customer experience during onboarding, service design techniques enable an organization to understand customers’ needs and empathize with them. It aims to ensure that service interfaces are useful and desirable from the client’s point of view, as well as effective, efficient and distinctive from the financial institutions’ point of view.

Service design approach should be iterative, user-centric and co-creative: prototypes are designed together with customers, not only for them. This approach is also more holistic as it considers the service context and formalizes the onboarding before, during, and after the process itself.

Moreover, service design should not only focus on customers, but should aim to find the “sweet spot” between the three following dimensions:

- **Desirability**: Do users want it? This question links onboarding to target customer segments
- **Viability**: Should we do it? This question assesses the alignment of new service to the strategy
- **Feasibility**: Can we do it? This question makes the link with capacity planning and architecture

Service design is an iterative approach aiming at finding the “sweet spot” between desirability, viability, and feasibility.
Onboarding is a specific process that requires identifying customers and verifying their identity with high level of security and low level of risk.

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To start implementing a new onboarding process, financial institutions need to consider their overall business architecture.

Onboarding represents the process by which a customer establishes a relationship with the financial services provider. This journey encompasses all activities performed by the institution or the customer, from information display, data capture, and product activation to key follow-up activities (e.g. first instalment on the account, first contact with an insurance agent). The goal is to ensure a valuable onboarding for the financial institution, not only by developing a new mobile app or website.

Some specific steps of the digital onboarding process require dedicated technologies:

01 Collecting potential clients’ static data and identification documents, and checking the accuracy of the information provided through different methods. It can be OCR (Optical Character Recognition), that extracts textual data from documents or document validation, that verifies the authenticity of the customer’s identity documents (such as passports, driver’s licenses or national ID cards) scanned by customers.

02 The anti-impersonation step ensures that the customers applying for the product are “who they say they are”, i.e. their identity matches the identity indicated on the documents and data that have submitted. There are two main types of anti-impersonation solutions: Knowledge-Based Authentication (mainly used in the UK) and Facial Recognition.

03 Verification of the customers’ identity and compliance (AML/CTF - Anti Money Laundering / Counter Terrorism Financing) is performed by running background checks on inputted static data (e.g. name, gender, date of birth, country of residence, nationalities). The “Know Your Customer” background verification will assess the potential risks a customer could represent (i.e. counterparty risk).

04 The electronic signature ensures that a contract is duly signed between the customer and the financial institution.

05 Orchestration is a key element of the process, as it enables a smooth and transparent experience for the customer who does not see all systems used during the process. Determining a basic real-time onboarding status is not trivial and still considered as a goal to achieve by many financial institutions.
In order to cover these activities, a large number of applications are required and need to be perfectly integrated to guarantee great customer experience. Digital onboarding requires financial institutions to implement the following capabilities:

- Provide a customized and ready-to-use front end
- Capture customer’s static data and identification documents
- Perform OCR on documents to enhance user experience
- Ensure advanced photo and video facial recognition (i.e. comparing photo and video from smartphone built-in camera and identification documents)
- Perform basic AML/CTF background checks (e.g. official list, politically exposed persons, adverse media)
- Provide electronic signature services, to enable contracts to be signed between the customer and the financial institution

Implementing a large number of different applications within the existing landscape brings traditional IT challenges like incompatibility between technical frameworks, difficult synchronization of release cycles, etc. The complexity is further increased by the limited scope of the onboarding process and the high-level of service required to provide great customer experience. This complexity comes with additional costs that need to be anticipated in the business case of the project. Implementing Service Level Agreements with external providers is one example of activities to control costs.

**Designing architecture for digital onboarding requires a trade-off between easy customer experience design and IT complexity.** Depending on several factors such as channel strategy, the existing technology landscape, and flexibility in the continuous improvement of the process, financial institutions can implement onboarding solutions following two alternatives.

**The first alternative** is to orchestrate the digital onboarding process with a dedicated end-to-end solution that comes with already integrated technology components. A single external vendor orchestrates the whole onboarding process using several sub-FinTech vendors. In this case, the financial institutions only contract with one vendor and benefits from an integrated and end-to-end technological solution. Multiple vendors, and in particular new FinTechs, flourish in that domain. Integration within the financial institutions’ IT landscape is limited to back office and CRM systems.

**The second alternative** is to orchestrate the digital onboarding process using a mix of internal and external technology components (when necessary). In that case, the financial institutions leverage existing components (e.g. front-end development tools, document management) and orchestrate all services in-house. The only missing components that would need to be added are photo and video recognition capability and electronic signature.

In both alternatives, financial institutions exclude the development of all applications in house. For instance, performing onboarding via video identification requires a multilingual 24/7 video call center. Similarly, OCR capability is a component that is mature on the market and not worth developing from scratch.

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IT efforts do not represent the most complex and time-consuming part of digital onboarding projects

Digitization of the onboarding process in financial institutions are complex in terms of architecture and technology. However, IT does not represent the most complex part.

Many regulations are applicable in the onboarding process and must be carefully analyzed before launching the new digitized process. These regulations encompass Anti-Money Laundering/Counter Terrorism Financing (AML/CTF), data protection and guidelines provided by local regulators (e.g. BaFin in Germany, CSSF in Luxembourg).

The difficulty is not limited to a deep analysis of the regulations. As digitizing the onboarding process is a relatively new type of project, regulations are not explicit about all the steps of the process. Moreover, regulators pay particular attention to these digitized processes and authorize projects after careful analysis of the submitted files. These challenges need to be taken into account at the beginning of the project and be incorporated in the planning.

In addition, depending on the customer target group, local regulations apply and shall be considered in the process. For example, the number of documents to provide is different between a digital onboarding in France and Belgium.

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Specific case: Onboarding experience with N26

Number 26 ("N26") is a bank created in 2013 in Germany that allows customers to run their entire financial life from their smartphone. N26 processes the entire account opening in less than 10 minutes, and offers the possibility to withdraw cash from any ATM and receive real time push notifications after every transaction. Moreover, customers can send and receive money instantly to and from other N26 users. As of August 2017, the bank was available in 17 European countries, and claimed it had 500 000 customers, with 1500 new clients per day on average.

N26 announces a full online onboarding in less than 10 minutes, including ID verification and anti-impersonation performed via live video chat. Customers are guided through the process on a simple and clear interface:

- Fill in the online application form by entering personal details
- Provide personal legal data (e.g. tax country)
- Verify your identity and collect your ID document via a video chat with a video agent, available in multiple languages
- Receive an SMS with a unique code to pair your smartphone to your bank account

The fast success of this fully digital bank highlights that many customers are ready to change to new players when the experience of change is satisfying, and the level of services provided afterwards at least equal to that of traditional financial institutions.

The onboarding process represents the first interaction a customer has with a financial institution. This is a unique opportunity to create long-term loyalty. Moreover, it is the starting point enabling the digitization of other digital financial services such as online loans, insurance or investments.

Re-designing existing onboarding processes is a complex activity that involves many processes, providers and systems. The complexity increases due to customers’ high expectations of top-notch user experience (UX) and their demand for omni-channel use. A customer-centric approach during the design phase should make it easier to achieve these goals. Today, numerous FinTech and non-FinTech providers are able to assist with both end-to-end and standalone solutions. Even if most of the underlying technology has a proven-track record, financial institutions still need to assess integration feasibility (i.e. considering specific internal constraints) and local legal requirements. Indeed, some of these requirements can be unclear and require special attention. For instance, photo/video identification and electronic signature requirements (e.g. advanced vs qualified according to eIDAS regulation), AML/CTF background checks and underlying customer due diligence duties need a specific focus.