Deloitte.

Is it time to go paperless?
Records management: The cost of warehousing bad habits

Content

“The chains of habit are generally too small to be felt until they are too strong to be broken.”

- Tom Brokaw

Overview

Fees for many products in the financial sector remain too high. High costs in savings products undermine the national objective of getting our people to save more. The financial industry must take more urgent steps to reduce costs and introduce more appropriate and transparent saving and investment products, including annuities. There is also much to be done to improve market conduct practices in the financial sector. The "Treating Customers Fairly" initiative will be accelerated to protect customers more vigorously.

– Pravin Gordon, Budget speech 2012/2013

Financial service providers generally incur significant costs within the end-to-end value chain of their records management system. From the point of origination of a record, until the point of warehousing and destruction, financial service providers incur costs. These costs are often accepted as "business as usual" as records are required to maintain customer data and ensure effective governance and regulatory compliance. Reducing the associated costs across the value chain is often overlooked as an efficiency opportunity.

An analysis at a large retail bank has proven that by streamlining process and adding technology to eliminate paper from the process, operating expenses in the processing divisions can be reduced by as much as 25% (a reduction of between 60% and 70% of records management associated costs).

Given increased regulations, financial service providers will increasingly need to ensure that their record management is run more effectively. They will increasingly need to be more transparent and be able to provide effective reporting to regulators and management regarding their financial stability. They will also need to manage and report on information regarding customers more often and more effectively, in line with Treating Customers Fairly (TCF) compliance standards, the Protection of Personal Information Bill (POPI) and the Consumer Protection Act (CPA) regulations.

Lost or damaged records contribute to a poor brand image amongst customers. Customers get contacted by financial institutions to provide their particulars and various documents, generally more than once, in order to ensure compliance with Financial Intelligence Centre Act (FICA) requirements.

Financial service providers, including both banks and insurers, often do not realise the amount of unnecessary duplication that takes place, especially where copies of information have already been obtained from clients during prior interactions. The cost of this is compounded by many financial service providers that take a conservative approach and keep too many records for longer than required. Keeping unnecessary documents is costly, time-consuming and a waste of corporate office and storage space.

Technology has created the opportunity for improved alternatives to the traditional method of physical record management. It has the potential to be applied throughout the full value chain. This transformation journey (depending on organisational readiness and investment) can range from 12 to 36 months.

The question then can be asked: "why is digital records management not deployed throughout all financial service providers?"

Paying the price in the form of customers and costs

Even though most financial service providers are well aware of the opportunity presented by paperless processing, comparatively few have made a concerted effort to embark on the transformation journey. Despite the ever decreasing cost of technology, the daily interaction between a business and its customers is riddled with paper processing.

There are certain forces at play which require actual paper to be stored, these forces include legislation and internal governance. The overarching challenge, however, is that the costs associated with transporting, storing, recalling and managing these documents is ultimately transferred to the customer.

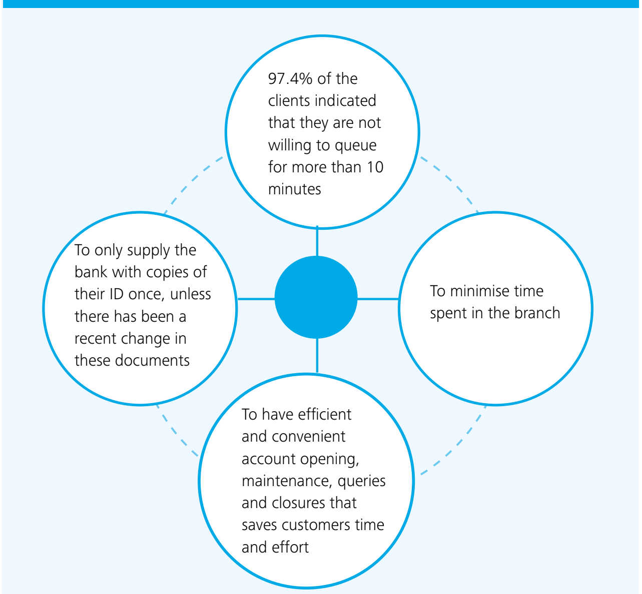
The customer service imperative

High paper processing environments are known to re-obtain client information for every touch-point throughout the client life-cycle. In a day and age where time is precious, clients differentiate service by the time taken, administrative burden and ease of engagement.

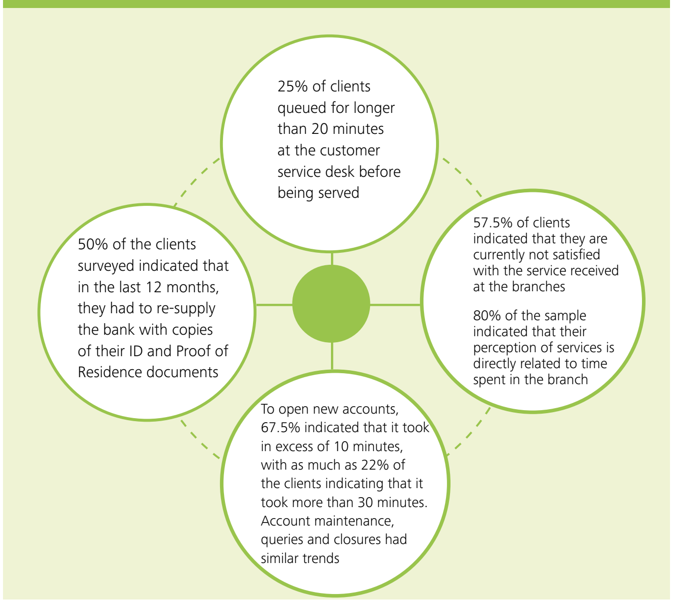
In a paper focussed environment, especially where records are warehoused off-site, forms are completed and recompleted each time a client touches the process. The purpose for such requirements is primarily to (re)validate the client in accordance with embedded governance rules which have simply not been reviewed in light of the technological advances made.

In a recent flash survey conducted by Deloitte, clients from various banks indicated the following with regards to customer service:

Customers wanted

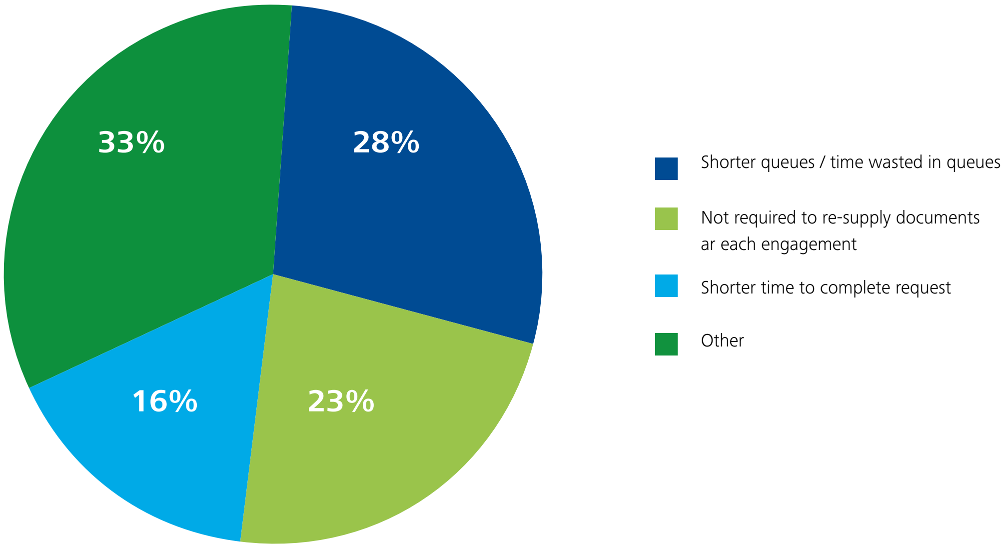


Customers experienced



Customers generally viewed that service could be enhanced if time was not wasted queuing; not having to re-supply documents at every engagement and through having shorter times in which the bank completed one of their requests. Through improving records management processes, these three customer satisfaction drivers can be improved. The "other" category included elements such as bank charges and how the client is treated during the engagement process, both of which can benefit from implementing significant improvements in the branch systems and processes.

Customer service improvement areas



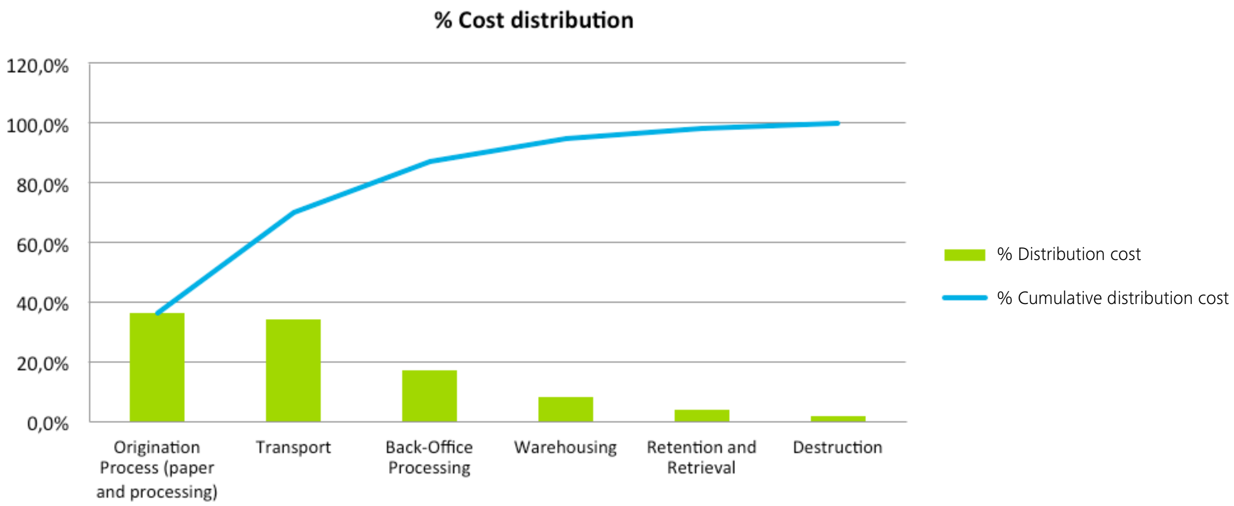
Documents obtained at the point of engagement which relate to compliance or legal (such as contracts and securities) are subject to a 100% quality review. An element such as poor hand-writing or incomplete forms causes financial service providers to go back to clients and re-request documents and/or information. Not only is this rework a waste of resource and client time, it largely frustrates clients which leads to reputational damage.

In a competitive market, any financial service provider that can optimise these processes and reduce processing time will strategically place themselves into a competitive position. By enhancing the customer experience at each touch point, financial service providers can improve how customers view the organisation and its services, as well as comply with new customer regulation and compliance standards.

The cost conundrum

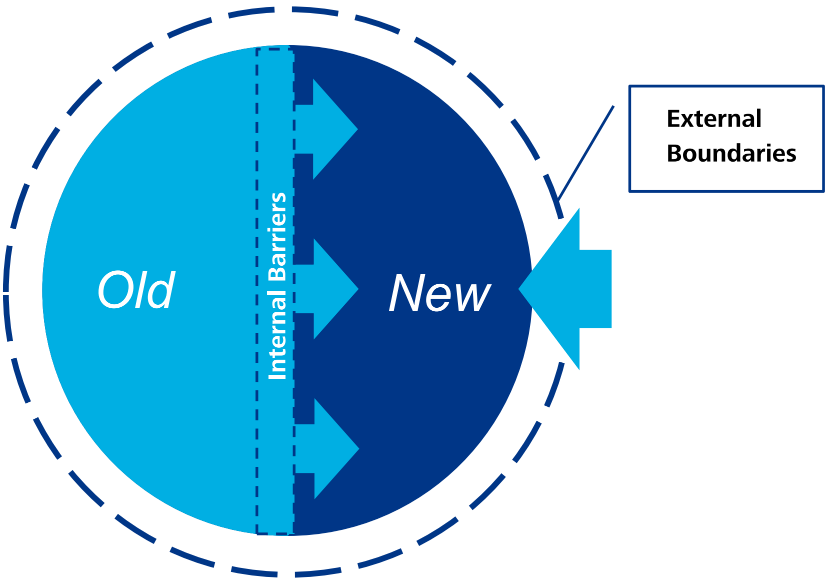
Services industries such as financial institutions incur high record management costs throughout the client engagement life-cycle due to the dependence on paper.

In a case study done at a market-leading African retail bank, the records management expenses across the value chain (from record creation at a branch to the point of warehousing the physical documents) were broken down into the following cost drivers with the cumulative spend in this example exceeding R350m per annum:



- **Origination Process:** In this case study the retail bank had no less than 10 pages generated for each new account opened in a branch. This excluded any securities, copies of compliance documents and any additional enquiries made (and printed).
- **Transport:** In South Africa, the majority of retail banks have centralised processing hubs. In the case of this retail bank, documents were transported from the point of origin (branch) to the central processing hub where they would be processed. The branch-network consisted of between 600 and 800 branches and logistics had been outsourced. Transport and handling therefore remained one of the highest cost drivers.
- **Back-office processing:** Due to quality challenges arising during origination, back office quality control functions were required to ensure compliance for this retail bank. This validation was done manually and contributed further costs due to it being labour intensive and therefore costly.
- **Warehousing:** Records were delivered daily within the retail bank to either outsourced vendors for record storage or they were kept on site (where warehousing was available). Due to the legal implications of keeping documents on hand for a specific duration after client interactions have concluded, the existing storage areas were getting fuller and fuller which resulted in continuously rising warehousing costs and reduced availability of space.
- **Retention, retrieval and destruction:** The retail bank also accumulated additional costs for the simple task of destroying all copies and duplicates of confidential documents relating to their clients and their business operations.

Removing obstacles to progress



Removing external boundaries, enabling change

Boundaries of change are defined as external obstacles that one may or may not be able to overcome (see figure above).

Legacy archives
Many financial service providers have a well-established record archive in place this is supported and managed by external vendors (if outsourcing applies). However, due to years of merger and acquisition activity and new product launches, many financial service providers have legacy systems that often have different account numbers, different products and disconnected customer records across different pockets of the business. It is important for financial service providers to understand that the paper process is integral to the business and changes the way records are managed and as such, requires a full value chain re-design.

In addition, the existing archive requires a decision whether to copy all existing documentation into a digital format (which requires a considerable investment, particularly with the large number of records and the vast quantities of data that most financial service providers have) or to operate with dual processes until most customer data has been transitioned. The method of dual processes brings about the opportunity to highlight inefficiencies within the operating model.

Policy particulars
More than 25 laws of general application require businesses to retain certain records for certain periods in specific formats. Generally businesses retain records for the following reasons:

- In order to ensure legal compliance (prescribed retention periods range from 3 months to 30 years)
- Retain evidence (the use of email and evidence in disciplinary hearings and litigation have increased dramatically over the last few years)
- For operational reasons failure to retain records subject to retention requirements may expose businesses to criminal fines, civil liability and reputational harm

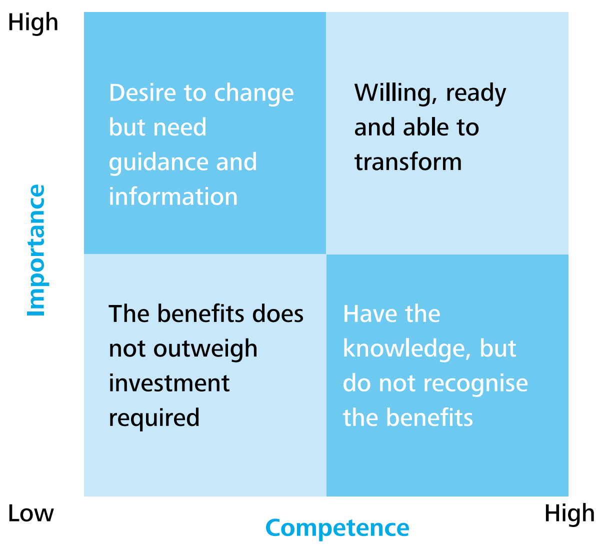
The Electronic Communications and Transactions (ECT) Act of 2002 makes it legal to perform almost any business activity electronically. This Act reflects the current state of business where everything from board meetings, contracting, communicating, storing and record keeping is done electronically. What is now required is that all such electronic activity comply with the ECT Act to be legally valid. The risk in not being compliant with the ECT Act is that the business activity being conducted may not have the full effect of law, and can therefore not be enforced or proven in a court of law. Simply put, the ECT Act makes provision for records to be created in electronic format and deemed as the original if the integrity is maintained, very few companies have amended internal policies to comply with the change in legislation.

Failure to amend policy has a direct influence on the boundaries to which processes, operating procedures and technologies may be changed and implemented. The internal policy-makers of the organisation need to amend requirements which will then serve as the catalyst for the strategic changes required. A relevant example was with the introduction of FICA into the banking environment. FICA in essence requires the organisation to be able to prove that they have identified / verified a customer. Internal policies add a long list of additional records required as well as the need to re-obtain the documents during maintenance transactions. These are not necessarily regulator required and technology can very effectively be used to store the image once and recall it at future engagements to verify the clients. This enables financial service providers to eliminate the need to spend resources in obtaining transport, processing and storing duplicate compliance documents, where no information was changed.

Internal barriers, crossing the chasm to change

Barriers to change are defined as internal obstacles which require specific focus in order to facilitate the change required.

Human resistance



The will to change is often undermined by an inherent resistance to change. There are many reasons why people resist change. The primary reasons are typically:

Trapped by the past: Legacy ways of working have become so entrenched within daily operations, that few financial service providers have the opportunity, or ability, to look beyond existing systems and processes. Progressing through the "ranks" in the organisation, generally leads managers to applying "the way we have always done it"- mentality. Even though the business case provides a compelling argument for change, the decision makers remain blind to the importance, and as a result cannot see the true need as well as the potential benefits that may be unlocked.

Overburdened by the present: Decision-makers are often trapped by the responsibilities of daily operations and due to the failure of switching from fire fighting activities, to the strategically aligned objectives of the financial service provider. Strategic change initiatives that influence the way business is done are either overlooked or deemed to be so insignificant, that little or no competence to effect such change effectively is ever allocated. In such instances, the insight into the true importance of the change or the level of competence required is often misunderstood and lacking.

Investment limitations

In order to progress through the journey of change to digital records processing, certain investment decisions are required.

Design: A full operating model / architecture design will be required for the organisation to understand where it is heading as well as to create a common understanding of the time required to achieve the desired end-state.

Transition: The organisation needs to decide the applicability and/or need to transfer historical records to a new format, and whether the existing records should be integrated into digital processing or kept in storage until the time for destruction.

Hardware and software: An initial investment for content servers and storage banks as well as software, index and retrieve records will be required. This cost is significantly less than paper processing, however since this is an expense that normally appears on a separate line entry on the organisational budgets (Rate of Investment (ROI) of between 1 and 2 years); all applicable stakeholders need to understand and support the change.

Training and information: Since information recording, storage and sharing of documents will change the way that staff used to operate, a significant investment will be required for change enablement and facilitation of training.

The size of capital investment is dependent on internal resources and competencies, organisation size and technology solutions selected. These elements will be defined as a part of the detailed business case when the organisation makes the strategic decision to embark on a transformation journey.

Is going digital the answer?

For the past decade technology has become available that not only creates electronic forms and scans images, but also integrates with workflow solutions allowing documents to be validated and processed (in some instances automatically) without the cost of physical transfers being incurred. These records are "warehoused" digitally using software such as enterprise content managers where documents are easily stored and accessed for the re-use of information; they may be easily integrated with front-end applications.

Records in electronic format also possess processing capabilities, with the opportunity to make use of workflow tools and quality assurance throughout the process. The high density of electronic data means that it takes up very little physical storage space and may be easily statistically analysed, providing an added competitive advantage when compared to opposition. Raw data collected for one purpose can be electronically reanalysed for another, while a similar operation might be cumbersome, expensive or impossible on paper. The possibility extends to the capability of linking electronic records with common data elements from different files, thus making the information more wholesome and more accurate to the users.

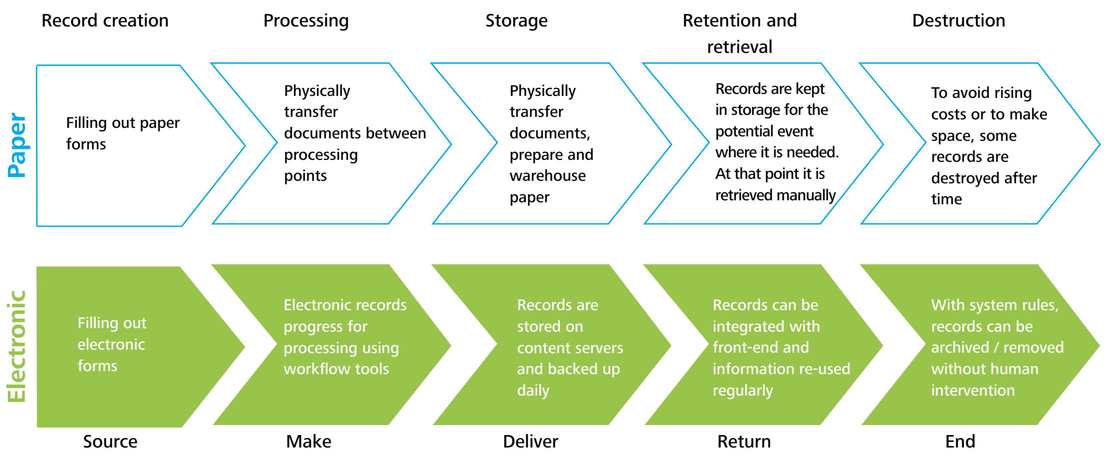
Further opportunities of using digital records can include a more sophisticated client engagement experience by using mobile devices, the use of virtual communication, self-service channels and business intelligence and analysis.

The road to a paperless records system

The record management cycle can directly be compared to a traditional supply chain; paper is moving inventory with the same cost incurred at every point of the supply network. The difference however is that the inventory within the system, is at all instances, non-value adding and does not contribute to the growth of the organisation nor to the benefit of the customer.

When comparing the paper process with that of digital records management, the main steps in the process remain unchanged. The main difference however, is that the transport waste as well as physical inventory waste has completely been eliminated resulting in faster turnaround times and lowered transportation costs.

By directly reducing operating expenses at each of the stages in the supply chain, overall enterprise cost reduction will be evident.



Looking forward

The Deloitte Records Management transformation journey can be addressed in seven specific phases (Note: Benefits can be realised by implementing some of these isolation of the rest, however the more encompassing the solution, the higher the combined potential savings that can be realised).

	Phase:	Modules:
1	GAP analysis report	• Organisation maturity assessment • GAP Analysis
2	Streamline and simplify processes	• Business process (re) design • Process optimisation • Operational waste elimination • Multiple process integration
3	Define record management architecture	• Records management policy • Define retention strategy • Retention Schedule (a document detailing all retention legislation applicable to a business, records subject to retention requirements, retention periods and prescribed formats) • Destruction rules • Electronic flow, storage and retrieval processes and system enablement • Defining image taxonomy • Define access rules (to maintain client privacy at all times) • Back-up of images
4	Define implementation strategy	• Implementation strategy • Implementation plans and schedules
5	Enablement	• Sourcing and testing of hardware, software and connectivity • Enable digital creation and workflow • Training and people change enablement
6	Content storage and rules	• Technology advice on compliance solutions • Content governance policy • Archiving policy (e-mails, securities, client records etc.) • Electronic evidence policy • Public information disclosure policy
7	Implementation	• Implementation and integration of digital processing

The records management solution enables financial service providers to realise the following benefits:

Minimise risk	**Legislation** • To comply with legislation and common law provisions which indirectly require businesses to archive all outgoing email for at least three years. • Contracts and other documents, which may be required during litigation claims or disputes, are created and stored electronically and accepted as the original document according to the ECT Act. Lawfully, if the integrity of the document is maintained, it is admissible. **Compliance and Risk** • Automated checks and rules may be integrated and process changes and regulations can easily be amended in the software without the need to re-train staff. • With the Protection of Personal Information Bill (POPI), companies are required to destroy all client records after a certain period post the client relationship. By using digital records, automated rules and alerts can be used to retrieve and destroy specific records at no additional cost to company.
Minimise costs	**Productivity, speed and efficiency** • With the elimination of non-value adding activities, the process can be completed much faster and accurately. The orderly and efficient flow of information enables the organisation to perform its functions successfully and efficiently. • Using digital formats, opening of accounts can significantly be reduced as the completing of the forms can make use of drop down menus as opposed to hand writing fields. Many re-used fields, such as addresses, names etc. can be auto-populated through rules built into the forms. • The speed of approving credit applications can be improved through effective workflow as digital transfers are not dependant on physical locations. In addition, priorities can be set to fast track applications for customers in specific business segments (e.g. private or wealth clients) through rule sets as opposed to creating a duplicate processing environment with ring-fenced processing clerks, which double the operating cost to those business segments. • During maintenance transactions, the speed at which client information is verified is available at the click of a button, reducing physical interaction time significantly. Queue time for clients at service points can significantly be reduced as well as the number of service staff required. Time spent can be channelled towards on-selling as opposed to service only. • Back office processing can be fast-tracked as no re-typing of information is required and practical issues such as bad hand-writing does not delay processes. There is also no waiting time for documents to be delivered as transfers are done automatically.
	Cost • The cost of electronic records management, even when backed up for Data Recovery (DR) purposes, is less than 1/5th of the cost of physical record management. • Financial service providers can also obtain a lower carbon footprint and potentially lower carbon tax, as they move towards a less paper-intensive environment.
Improve information quality and service effectiveness	**Quality** • Auto-validation rules can be enabled on e-forms (e.g. Application forms and contracts) at the time of creation which eliminates the need for a manual validation unit. **Service delivery** • Using electronic forms and re-using existing client information will significantly reduce the time required to complete a customer request. The result is the reduction in the time required for a physical engagement as well as reduced inconvenience to the client. With faster service delivery, customer satisfaction will improve and be expected to provide an opportunity for a strategic competitive advantage over other players within the same segment. **Self-service** • Since information can be linked to secured sites such as internet or phone banking, customers can engage with the organisation 24/7 without the company increasing fraud risk. Clients can have access to images to ensure that the bank has the most relevant information at all times.

"Until one is committed there is always hesitancy, the chance to draw back, always ineffectiveness. Concerning all acts of initiative and creation, there is one elementary truth, the ignorance of which kills countless ideas and splendid plans: the moment one definitely commits oneself, and then providence moves too. All sorts of things occur to help that would never otherwise have occurred. A whole stream of events issues from the decision, raising to one's favour all manner of unforeseen accidents and meetings and material assistance which no man could have dreamed would come his way. Whatever you can do or dream you can, begin it. Boldness has genius, power and magic in it."

- Johann Wolfgang von Goethe

Taking the journey to a digitally efficient future

Over the last few decades, the dynamics of banking and insurance have changed significantly, there are numerous reasons why but many may argue that it is predominantly due to the influence of evolving technology. The use of the internet, e-mail and emerging digital channels has provided users with increased functionality at a fraction of the time.

Although technology has provided a platform that makes customers more demanding and even more impatient, it too has provided an opportunity to collect customer data faster, reduced the requirement for repetitive information, reduced the risk for information incompleteness and reduced the reliance on primitive paper and the associated demand for physical transport and storage of client information. By embracing the current evolution and doing things smarter, financial service providers have the prospect of being able to reduce processing costs and free up resource time to focus on revenue generating activities.

Deloitte is a full implementation and transition journey partner to our financial service clients on their journey towards a more efficient records management systems and processes. Deloitte has a financial services advisory team that have practical knowledge and understanding of the end-to-end requirements of our financial services clients' needs. Deloitte's competencies include (but are not limited to):

- **Strategy:** A team of skilled individuals to work with you in setting out the strategic journey for the medium and long term growth and enablement of your organisation.
- **Restructuring Services:** A competency whereby business processes are reviewed and optimised to ensure that waste are eliminated and processes are geared to be transitioned to electronic flow.
- **Human Capital:** A dedicated team that will ensure that the stakeholders, in particular leadership and staff are included in the transformation and facilitate people change enablement.
- **Technology Integration:** Our highly skilled team can provide the full technology solution, from content management, front-end interfaces, workflow, system integration, mobile technology enablement and business intelligence.
- **Risk and Legal Advisory:** Assistance to ensure that all regulations are complied with throughout the design and implementation of the new processes and technologies. This team can assist with the changes required to internal policies, ensuring regulatory and legislative compliance.

In partnering with Deloitte, financial service providers can ensure that the bad habits of the past, especially those relating to paper processes are broken and in so-doing reduce cost and the impact to the environment.

Key contacts

Dirk Kotze
Associate Director
dkotze@deloitte.co.za

Ilse du Toit
Lead
idutoit@deloitte.co.za

Paul StQuintin
Senior Consultant
pstquintin@deloitte.co.za

Designed and produced by Creative Solutions at Deloitte, Johannesburg. (000000/ver)