OFF THE RECORD

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THE CLM EXPERTS

OFF THE RECORD

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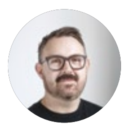
Aurora x Encompass

UNLOCKING THE TRUE POTENTIAL OF DIGITAL TRANSFORMATION

In this candid conversation, Aurora CEO Sean Vickers and Encompass KYC Transformation Director Howard Wimpory delve into the challenges and misconceptions surrounding digital transformation in the banking industry. They discuss the importance of reimagining processes from start to finish, eliminating manual steps and implementing automated solutions, rather than piecemeal improvements.

Sean Vickers: What do we mean when we talk about digital transformation?

Howard Wimpory: For me, it's an approach, a mindset, to re-engineer a process from start to finish, taking all the manual pieces, such as handoffs between the various components and turning them into an automated outcome. That's the ideal end state as opposed to a series of point solutions which each incrementally improves only part of a process.



Sean Vickers
Chief Executive Officer

SV: I always joke about taking a Mini Metro and putting a Ferrari sports bumper on it. Digital Transformation often feels like it's just added on so someone can say they've done a piece of digital work.

To get digital transformation right you really need to think about the customer - what they are trying to achieve - then build a journey and process around that. In the world that we work in - across onboarding and KYC - people take wafer thin slices of it and try to solve it. Generally, financial institutions don't look at the end-to-end, partly due to the silos that exist within their organisations.

FINANCIAL SERVICES IS A COMPLEX WORLD IN MANY WAYS AND THAT VERY COMPLEXITY IS ONE OF THE CONSTRAINTS. IF ORGANISATIONS TOOK A PURE CLIENT VIEW, EXECUTIVES WOULD NATURALLY TRANSCEND THOSE BARRIERS.

Of course, there are technologies, financial professionals, and consultants out there trying to solve it, but ultimately, everyone's slightly complicit to this idea of just trying to fix bits of it. If you only do this rather than looking forward and questioning where it's going, it could become quite choppy and sub-optimal.

When I started my career, I didn't think 25 years on, we'd be here having this conversation, because there is a huge amount of effort, investment and technology that has gone into it. Fundamentally, however, that trifecta is slightly broken, so it becomes very focused on only solving specific parts of the process.

HW: I think there are some examples of good digital transformation in banking. In retail banking, for example, the challenger banks have reinvented the onboarding processes: download an app, take a selfie, send a copy of an ID document, and your account is open. That is reimagining the onboarding journey, rather than an individual in the back office thinking about how to get a process done a bit quicker. They really sat back and started afresh. However, in the corporate space things are more complex so we've defaulted to a lackluster outcome.

SV: A lot of challengers have come into that market, starting with a blank sheet of paper, and asked: "What would a true digital journey look like? How can we use technology and data to create an optimal process, to the benefit of our customer?"

That's when you look back at what's happening in capital markets or at the top end of corporate, and it feels really quite archaic, because the expectation is filtering through. There are a million caveats and complexity, but the reality of the retail story is that it's end-to-end, and that's where CIB completely falls over. In CIB end-to-end comes down to which fiefdoms individuals own, which adds to the difficulty. The structures within banks don't facilitate a digital journey; they facilitate a person-led process.

HW: Yes, and that bleeds into another question: why is it so difficult? Fiefdoms are a very real constraint because bonuses are based on executives looking after the interests of their fiefdom. The person who asks what is right for the client and pushes that thinking into functions outside their own is a very rare individual indeed. It must come from a very senior position to be able to push the case for change through. Benefit allocation in the business case is another major constraint as to realise benefits, hard budgets are often reduced.

It's easy for us now, on the outside of the banking industry, looking back in and pointing and poking at it, but it's the reality. Financial Services is a complex world in many ways and that very complexity is one of the constraints. If organisations took a pure client view, executives would naturally transcend those barriers, but how do you make that work when it comes to budgets and performance rewards?

SV:: That's where the organisational construct of the top end of banking is a hindrance. If someone came in and said: "I'm going to draw on a blank sheet of paper how this should work", they would not draw how most banks operate today.

There are fundamental questions around the operating model and being bold enough to say that it must change. There are also questions around the validity of the business case: What's in it? What's the outcome? How can it be achieved? How do you hold people's feet to the fire? The reality is, the business case will outlive an executive because they may have moved on or to a different role. How do you maintain that energy? How do you measure that you've achieved the outcome that you wanted? If you can't measure it, how can you deem something successful at all?

HW: The points about seniors moving on and measurement criteria, are very real. Banks know the details of where improvements can be made, however there is often reticence to open and share the detail with a vendor, for example. Understanding what really goes on is one of the impediments. It's almost like they are ashamed of it, or they just generally don't trust vendors enough to show you their inner workings. That means it's quite difficult to drive a conversation with the client about a business case, the success factors which underpin it, and essentially the justification for the investment in our product. It's spookily a one-sided conversation, which is surprising because a rounded business case is essential to secure investment.

SV: Of course, but this is about measure, right? We're going to be slightly contentious here but if the measure really is around the customer, the questions to ask would be: How is their experience? What is the net promoter score? What does the true end-to-end look like?

Rather than measuring a bit, which I must say vendors are all guilty of, how do you measure quality across the end-to-end process? How many touchpoints are there with the client compared to average?

IS YOUR OUTCOME A TRUE DIGITAL JOURNEY OR IS IT OPERATING COST REDUCTION?

Unfortunately, I think the business case is often about how many warm bodies I've reduced in my organisation. I think that's where you get a disconnect. My question would be: Is your outcome a true digital journey or is it operating cost reduction? I think people say one but really mean the other. The other side of that reticence is honesty. I think a lot of these projects are ghosted, so they appear to be one thing but are really are trying to achieve something else, and that in itself will cause you to get a suboptimal outcome.

HW: Yes, you're so right. I've had limited experience with clients that have got a truly senior and exceptionally well-motivated sponsor who can blast through those barriers and create a properly enhancing outcome, but they're the rarity. Most people must stand on their own two feet, so the sharing of the benefits becomes limited as both the sponsor and the vendor try to control the success criteria to things that they directly influence. It's a constraint that we must find a way around if we really, really want to drive change. I've seen, as I'm sure you did, a business owner that owns all the constituent parts of it as well as the disaggregated model broken into separate functions. My view is that the disaggregated model is the problem now and is the one that's least likely to deliver a proper end-to-end journey transformation.

Imagine a CEO of a business who is truly and directly accountable for the revenue, costs, and functions supporting it. They'll invest their money because they believe in the business case and are able to see it through to achieve all the predicted benefits. They are best placed to ensure the clients benefit which drives income up.

IF SOMEONE CAME IN AND SAID: "I'M GOING TO DRAW ON A BLANK SHEET OF PAPER HOW THIS SHOULD WORK", THEY WOULD NOT DRAW HOW MOST BANKS OPERATE TODAY.

SV: It's spot-on because, when you think about it, we're back in organisational conflict. I come back to my overarching principle that we're all in this together, right? The banks might come to technology asking you to solve it or a consortium asking them to create the ultimate operating model, but there's also some give and take on the bank side required. That would be just pushing it onto someone else.

That also comes down to the fractured idea of a customer. If you think about a digital journey, it starts with a customer - all these things do - whether it's regulatory or whether it's onboarding. There is a customer asking for something, but at some point, that customer becomes almost hypothetical because people are doing a set of processes that are not connected to the end client and their need. That's all part of the problem, which passes from front to middle office to operations. It's just another item on a queue, rather than the recognition that it's an actual customer request. The reason why the digital journey in retail and wealth works better is it's shorter, sharper, truly digital, and the customer is at the forefront throughout. Every question at each point in the journey is: What are we doing and why? I think that is lacking greatly in the processes that we see elsewhere in Financial Services today.

As you say Howard, it's very easy for us to throw stones because we've now left those organisations, but what we do get is perspective. This is not unique either; it's industry wide. It's prevalent across all organisations that have built their operating model and their organisational construct in a certain way.

HW: We find that when we help our clients build their business cases, we are trying very hard to bring in all the stakeholders that should have an interest in it and it's not as easy as it should be. The client's investment application process is often driven by Operations as that's where the more readily identifiable benefits arise. There's inflexibility in their process to allow widely syndicated benefits as it then becomes difficult for one person to be accountable. If multiple owners were allowed and should the project not fully deliver, it then becomes a blame game about who did their bit and who didn't.

SV: Yeah, if there isn't a head chef and there's just a lot of sous chefs you end up with an okay but weird meal.

HW: Yes, the flavours won't quite fit together, will they?

SV: I think that's what's lacking, which is a sponsor at the right level with the vision and with the gusto really to force this through. Often, what you hear is they haven't got time, something's on fire, or that sticking technology over the top of it will fix it. The reality is, if you haven't measured it and if your process is suboptimal, then your technology implementation and your optimisation will all be suboptimal, so it's a little bit 'chicken and egg'. I fully understand that there's a need to fix it now, but the reality is that investment in really getting the structure right so you can overlay technology and the right processes is priceless. Otherwise, it will bite you. It might not bite that executive because they may have moved on, but it will bite someone.

WE NEED TO LOOK AT DIGITAL JOURNEYS - TRULY LOOK AT THEM - AND IT MAY TAKE LONGER, BUT THE OUTCOME WILL BE BETTER.

HW: Yes, where I've seen the best and most powerful sustained delivery is where they've got a programme in place. The programme mindset creates a more realistic set of expectations as delivery gets broken down into bite-sized chunks. Couple this approach with senior sponsorship and enduring investment and it creates the environment where you can take the first steps on a transformation journey. By contrast we see banks who get stuck in a period of analysis paralysis, if they don't take that first step, they're never going to get anywhere.

SV: By all means, pull something apart because maybe getting a set of eyes on the topic where you have a specialism is good. However, what often occurs is that it just becomes a drift. So, each function adds their own transformation in, and you end up with a myriad of transformation projects. Unless the sponsor pushes back when it's not aligned with what they're trying to do end-to-end, you end up back where we started this conversation.

This isn't a whinge and moan session, but it's more a stark reality that unless we do something different collectively as an industry, with a clear outcome, I feel like we'll be doing this again in five years' time, Howard. So, I think being bold is right. We need to look at digital journeys - truly look at them - and it may take longer, but the outcome will be better. The ecosystem of technologists, consultants and banks also need to work together to find the right outcome.

We expect a CTO to fully understand every bit of kit on the street and make some decisions about how they'll hang together. Now, we as consortia and technologists can help that story as we can see who works best together and the combinations of systems that get you a better outcome. Instead of being a single threat we can work with each other to try and solve this stuff.

HW: I think that is a very positive direction to go. We've seen from a technology standpoint, the willingness to partner and to integrate platforms together. That starts to make it an easier and more comprehensive solution for clients to consume. I think you're absolutely right - the consultancies have got a unique view on the totality of the horizon that a CEO would never have time to – because as much as onboarding and KYC is an important part, it's just one of the many things that the CEO has to do. The ecosystem of alliances between consultancies and technologies is what the market can do to help this digital transformation reach the fully intended, revolutionary benefit.

Aurora x Fenergo

OPERATIONALISING ESG: WHY YOU DON'T NEED TO REINVENT THE WHEEL

Aurora ESG Ambassadors, Joshua Dent and Cerys Stone, collaborated with Senior Strategy Manager at Fenergo, Daragh Tracey, to explore the challenges FIs are facing in the race to comply with upcoming regulations, and the importance of leadership, culture and people in an ESG context.

Joshua Dent
Delivery Lead
ESG Ambassador

Cerys Stone
Business Analyst
ESG Ambassador

OPERATIONALISING ESG: WHAT IS IT AND WHERE DO YOU START?

ESG is now a major force in financial services, with its criticality only set to increase as more jurisdictions adopt regulations and standards. With the implementation of SFDR and CSRD, the EU has led the charge in making ESG considerations a key part of Client Lifecycle Management. 97% of banking executives[1] say that sustainable digitisation is key to success – but what does ESG mean to your organisation? With so many standards available from TCFD to UNGC to ISSB and beyond, how does a financial institution design and operate an ESG process that delivers compliance without impacting the end customer experience?

WHY OPERATIONALISING ESG IS IMPORTANT

Recent polling shows that six in 10 (59%) of financial institutions are unsure if their organisation is equipped to meet ESG requirements[2]. With a spate of fines and incidents of greenwashing, this is a major point of exposure for financial institutions. More and more, consumers and employees expect the firms they do business with to embody ESG values – the reputational impact of positive ESG activity delivers dividends for financial institutions. But ESG is not just a cost; it can also be a revenue driver. With capital requirements leniency (such as Article 501a) and the opportunity to offer new, sustainability-focused products, ESG can attract forward-thinking customers treating it as a priority.

In this first of two articles, we explain how you can ensure your

[1] Censuswide: Benchmark for Sustainable Banking Report 2022

[2] Operationalising ESG: Turning a Regulatory Obligation into a Market Opportunity

organisation is not left behind as ESG comes into force. We'll discuss how a strategic approach can deliver for you and your clients, and what you need to consider from a people, policy, and process perspective.

WHAT DOES IT MEAN TO BE COMPLIANT WITH ESG?

This varies per jurisdiction and per financial institution, as each has their own risk appetite, regulatory environment, and view of the market. But the fundamentals are the same; regulatory obligations such as the EU's SFDR and CSRD are coupled with the application of due diligence standards to understand the client profile.

MORE THAN 8/10 EMPLOYEES SAID THEY ARE MORE LIKELY TO WORK FOR A COMPANY THAT STANDS UP FOR ESG.

Meeting regulatory obligations is not easy, but it is straightforward; the legislative text is black and white, and applicable scoping is clear. However, with over 400 standards available, how does an FI decide what standard to adopt, and how to implement it. There has been a level of maturation in the space, with key standards TCFD and the upcoming ISSB being widely adopted by jurisdictions (such as the UK and Thailand) and firms. That said, standards are guidelines and not binding; each FI must forge their own policy according to their risk appetite and market perspective.

MAKE IT CENTRAL TO YOUR STRATEGY AND CULTURE.

To operationalise ESG successfully, there needs to be a recognition that ESG must extend beyond just regulatory compliance. Instead, a genuine shift in corporate mindset needs to occur to incorporate ESG into the culture of financial institutions and avoid corporate hypocrisy visible to both customers and employees. There is a strong link between employee perception of corporate hypocrisy and work engagement, where if an employee views inconsistencies between their company's actions and their communication, there is a decrease in the dedication to their work[3]. This disengagement is likely to filter through to negatively impact customer trust, attraction and retention. As a result, integrating ESG into the corporate culture and business model is critical to its successful operationalisation and can generate added financial value[4]. Internal communications should clearly define their commitments, goals, and path to achieving them, whilst external communications should be transparent and unambiguous.

I am more likely to buy from/work for a company that stands up for...

FIs must also assess the industries they want to continue servicing in a new ESG context. There is a growing need to phase out industries which pose a significant environmental or ethical risk. For example, HSBC created a target of Net Zero by 2050, and HSBC Asset Management have committed to phasing out the financing of coal-fired power and thermal coal mining by 2030 within the EU and OECD. This move away from servicing non-renewable energy firms that don't take sufficient action to reduce carbon emissions is a major step by a Tier 1 bank. Other FIs have joined HSBC in their commitment to phasing out financing of coal by signing the Powering Past Coal Alliance at the COP26 summit. This could be the first step for FIs to shift away from financing polluting industries.

A recent report confirmed that in 2019 the largest global banks invested over USD 2.6 trillion in sectors that are primary drivers of biodiversity destruction[5]. Industries such as metal and mineral mining could be next to be phased out as public pressure grows for FIs to take accountability for environmental damage caused by their lending. FIs that focus early on environmentally friendly industries will reduce reputational risk, service a growing customer demand, and gain a competitive advantage. Formal regulations may emerge in the coming years, but the creation of internal policies and procedures around servicing environmentally harmful industries would enable FIs to get ahead of the curve.

EXPERTISE AND STREAMLINED, EFFECTIVE PROCESSES WILL BE KEY TO SUCCESSFUL OPERATIONALISATION OF ESG

People are a key component to successfully integrating ESG. Training investment teams to advise on ESG-related products will increase customer access to sustainable finance and analyst insights into a poorly understood space. There is a growing consumer appetite for ESG-related products. In a recent study of asset managers, 38% of respondents think that a stronger focus on ESG factors in their investment approaches will improve returns[6]. By training Front-office teams, FIs can meet customer demand for ESG-aligned assets and potentially gain increased wallet over rivals who have delayed their ESG integration.

In the back office, incorporating ESG into existing processes as opposed to independent checks can generate efficiencies and avoid fragmented procedures. There is a strong overlap between ESG and CDD/KYC practices for the collection of data. Subsequently, ESG risk analysis can be integrated into every stage of the risk management framework by uplifting the due diligence process with ESG requirements, resulting in a more holistic risk model[7]. This will allow FIs to identify potential risks and mitigate them through exclusion policies or adapted risk premiums.

Collecting ESG related information in an independent process can be time-consuming and costly

[3] Consistency or Hypocrisy? The Impact of Internal Corporate Social Responsibility on Employee Behaviour: A Moderated Mediation Model

[4] ESG Colourwashing: Combating Modern-day Corporate Hypocrisy

[5] Portfolio Earth Jan 2021

[6] PwC ESG Transformation July 2021

[7] Six key challenges for financial institutions to deal with ESG risks

due to the difficulties in obtaining accurate data. Instead, existing CDD/KYC data can be reused, and teams upskilled by enhancing their training for specialist/complex clients, with ESG-MLRO type teams who deal with escalations. The depth of the process integration is entirely up to FIs. The most optimal operating model is still a matter of active discussion and it's likely that a tailored ESG approach is required for each organisation due to the differences in structure and strategy.

DATA AND AUTOMATION

ESG is a broad church, covering not only the sustainability credentials of the client, but also their suppliers (so called Scope 3 emissions). The scope of information that needs to be captured, validated, and fed into the ESG rating necessitates a comprehensive data strategy. The first step is to define a policy, usually an institution-specific amalgamation of key standards like TCFD and IISB.

Once the policy is agreed, the next step is to determine how the data will be captured. There are several options here:

- Re-use existing KYC data where there is an overlap for things like Nature of Business, Industry Codes, Board of Directors, etc.
- Reach out to the market for public data on larger corporate clients
- Outreach to the client either directly, or through self-serve client portals

When selecting a market data provider (or multiple providers), it is important that minimum criteria of quality and granularity are maintained. This means sourcing data that is verified and quantitative, rather than subjective, qualitative assessments of ESG performance. For this reason, larger FIs will tend to forego reliance on external rating providers (which are often the same firms as data providers), in favour of generating their own data-backed, traceable rating. This is due to the opacity of many rating methodologies, and the huge rating score variance between different providers for the same entity.

Where market data is not yet available (i.e., smaller private companies), the process becomes one of outreach; how best do we request data from clients and fulfil the ESG requirements.

As with data, the process of ESG has the potential to be labour-intensive and slow. Completed manually, ESG requires a lot of personnel. Even if a financial institution were willing to hire a team of (pricey!) ESG specialists to complete the due diligence, they will struggle to get them. ESG specialists are thin on the ground.

For reasons of cost, resource availability, and most importantly client experience, successfully implementing ESG depends upon automating processes where possible and appropriate. We cannot create an operational issue while solving a compliance one, making automation a must-have up front.

SUCCESSFULLY IMPLEMENTING ESG DEPENDS UPON AUTOMATING PROCESSES WHERE POSSIBLE AND APPROPRIATE

CASE STUDY MINTERRA

*Name omitted

Minterra* is a corporate bank operating in France. They have a strong CLM operating model that manages KYC for their clients. However, with the impending Corporate Sustainability Reporting Directive (CSRD), they recognised the need to determine their ESG policy and operationalise that within the organisation.

As not all Minterra's clients are in scope of CSRD, they implemented scoping logic to assess the applicability of the regulation during onboarding. The Task Force on Climate-Related Financial Disclosures (TCFD) standard – with some tweaks – was applied to all clients, new or existing. They also leveraged a market data provider who specialises in ESG to optimise efficiency.

Ultimately ESG became a part of CLM that exists alongside KYC and regulations. By digitising processes and consolidating their operating model, they were able to maintain a high level of customer service while delivering regulatory compliance for the bank, and a deep understanding of the ESG performance of their client base.

*Name omitted

CASE STUDY ANORAK FINANCE

*Name omitted

Anorak Finance* were an early adopter of ESG, defining an ESG policy in 2021 and rolling it out as part of their standard onboarding process. However, they quickly realised that they faced an operational issue when it came to ESG – they were achieving compliance, but the due diligence effort was damaging their lead times and ultimately the customer experience. Staffing costs were also rising as more entity types and regulations came into scope

To address this, Anorak took three main actions. Firstly, ESG was 'brought in from the cold' and made part of existing CLM processes, rather than a standalone activity. This brought efficiencies by re-using teams. Secondly, they brought in market data providers which drastically cut down the effort to complete due diligence on larger corporates and publicly listed companies. Finally, processes in screening, risk, and approvals were automated for highly-rated and low-risk clients so that teams could focus on more complex customers.

By automating in a diverse fashion through a mixture of services, internal processes, and operating model, Anorak were able to address their OpEx challenges and transform the customer experience.

As touched on above, data can be automated by re-using data and leveraging external data providers. The provenance of data is also crucial. We don't want to pull in information of questionable quality of source.

From a process perspective, automation extends to the automated screening of Controversial Activities. Like Adverse Media for AML, Controversial Activity looks at the news stories around the client to determine the presence of incidents that would affect the ESG rating. These can be automatically resolved where they are low relevancy or materiality, saving on manual effort.

Ratings themselves can be automatically calculated, with the option of conditional reviews for unusual clients or tricky segments (e.g., uranium mining or ammunition manufacture). Overall client reviews can similarly be automated, where well-performing clients are automatically accepted, and only unusual or poorly rated clients escalated for review.

By embedding automation in the ESG process, financial institutions can deliver regulatory compliance and a deep client understanding without sacrificing customer experience and lead times.

KEY TAKEAWAYS:

- **Get on top of evolving regulations and forge a policy according to the firm's risk appetite and market perspective**
- **Go beyond compliance – lead from the top with a clear communication strategy and action plan**
- **Consider ESG as an opportunity for differentiation and growth, not simply a cost or compliance burden**
- **Invest in your teams for long-term benefits and returns**
- **You don't necessarily have to reinvent the wheel – engraining ESG across the CLM journey can ensure compliance without negative impact to the customer**
- **Re-use existing data and leverage the existing data providers that you trust**
- **Leverage technology for rating calculations and client reviews, so you can focus on the high risk clients**

If you'd like to learn more about how you can successfully operationalise ESG, get in touch at enquiries@AuroraSDE.com today.

Aurora X iMeta

MASTERING COMPLEXITY: THE KEY TO SUCCESS IN CAPITAL MARKETS ONBOARDING

Matthew Benham
Chief Technology
and Services Officer

KEY TAKEAWAYS

- **Customer types and associated products, legal documentation, and a multitude of downstream trading and settlement systems make capital markets incredibly complex environments.**
- **Most CLM vendors focus solely on customer onboarding and avoid product fulfilment due to its complexity, however iMeta's solution enables every journey.**
- **Two of the biggest blockers to effective CLM implementations are the lack of policy alignment across jurisdictions and internal politics.**
- **The key to success lies in the creation of a roadmap to harmonise systems, processes, teams, and policies up-front, as waiting until implementation will cause delays and cost overruns.**
- **Data-driven, low-code technology provides the flexibility required to cope with operating model variation and extension to new jurisdictions.**

PART 1:

WHAT MAKES CAPITAL MARKETS ONBOARDING SO COMPLEX?

PRODUCTS

The first distinction that makes capital markets so complex is the products, particularly those laden with additional risk, such as derivatives. They bring in a few specific complexities. The first of which is their own regulations, and a requirement that you must be of a certain size and type of business to be approved to transact those products under the regulations. You can't just be a two-person fund trying to trade credit default swaps.

In addition to this is Structured Products, where the onboarding might be for a specific deal or transaction e.g. leasing an aircraft. In this instance special purpose vehicles are used, which in themselves are new to the bank, but in carrying out onboarding many related entities such as arrangers, sponsors and obligors who are not will need to be considered as part of the process.

Furthermore, a lot of capital markets products require a tied credit line, which means credit is on the critical path to completing the onboard. They're often traded on different trading systems and there may be a jurisdictional split around where those products can be traded; for example, you might be able to trade metals on the London booking entity of a particular bank, but the French entity doesn't trade in metals, and vice versa with derivatives. This process maybe about to become even more complicated for European entities under proposed CRD VI rules.

TRADING SYSTEMS

As mentioned above, not all derivatives or jurisdictions use the same trading systems.

There's usually a 'few-to-many' relationships between the products and the trading systems. Some systems can trade multiple products and some products can be traded on multiple systems, depending on the location of the system and what it's been approved to do in a particular jurisdiction.

There are also corresponding settlement systems which aren't always the same. The mapping from products to trading system, to settlement system isn't always linear; it is often fragmented and varies between banks and jurisdictions.

iMeta has experience in helping large firms automate account and SSI flows, automating the mapping from product to system. In the industry overall however, with other vendor implementations this is often left out of the CLM scope, inhibiting the creation of a truly end-to-end flow.

ENTITY TYPES

The other aspect is complex entity types, such as funds and funds-of-funds. As people invest in a particular fund, behind the scenes, that fund could be reinvested into multiples of these products that are serviced in different locations, by different teams, that must adhere to different regulations.

LEGAL

Capital markets often has bespoke, documented contract formats, and nobody in the CLM world has really tackled this due to two main reasons:

1. Legal teams are often detached from the wider process and are resistant to technology, structure, support, or accountability around it.
2. The process tends to be arduous and lengthy, with the legal agreements often taking the longest, not the KYC as most people suspect.

iMeta's legal survey showed that KYC is 50% of the problem and legal/credit is the other 50%, with legal being the biggest culprit within that.

In a recent re-design of a process for managing the legal process within CLM, it was rejected by at least one legal team. The re-design provided a prompt for action with an on/off switch to show it's with the legal team. The rejection highlighted a lack of desire for accountability.

PART 2:

WHERE ARE THE GAPS IN MANY OF THE TECH SOLUTIONS IN THE MARKET?

The ambition of CLM has shrunk significantly from the vision of the market 12, 13 years ago, which was that, essentially, there is one overarching tool to rule them all. Well, that was the view at the time. The idea was that it would orchestrate everything that needed to be done, to not only get the client onboarded to the bank, but to get the client what they wanted at the end of their journey.

CLM has been shrunk down to pretty much just KYC and client onboarding, excluding credit, legal and ops, which are all functionally required to get the customer ready to trade.

As a result, they encounter this incredibly manual process where they're engaging with 14 different teams still using forms and emails. Systems are very unsophisticated and getting the account set up is a long, arduous process. The bank can have an amazing SLA that says we get our customers onboarded in five days, but their clients don't feel onboarded. They may have been be onboarded but their products haven't. They're still going through the machinations of getting an account and being able to trade.

WHERE MOST CLM VENDORS ARE SOLELY FOCUSED ON THE CUSTOMER ONBOARDING JOURNEY, IMETA ENABLES EVERY JOURNEY.

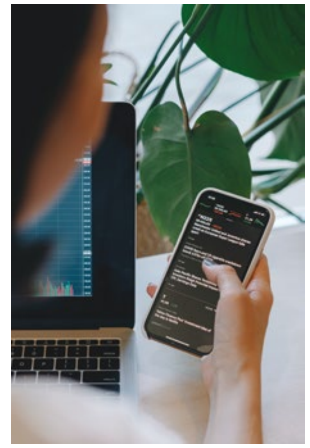
What if the client wants to change a settlement structure, for example? How does the bank go about doing that? Do they use the same system they used to request a new account? If the client has asked for relatively vanilla products, such as equities or fixed income, the bank can get those products set up quicker than a credit default swap with a tied credit line.

This type of complexity has been avoided by most CLM vendors due to its challenging nature and the lack of flexibility and configurability of their technology. Often, changes take months and come with additional ongoing maintenance and development costs. What it means is they do the standard bit, customer fulfilment, and the more complicated product fulfilment is left within the structure of the bank's existing operations.

iMeta's approach is very different. The highly configurable technology enables changes that most banks would consider complex or difficult to be implemented in just a matter of days, and without additional maintenance or development costs to the bank. Where most CLM vendors are solely focused on the customer onboarding journey, iMeta enables every journey.

There's often not a lot of automation in this space. In general, there's now just a lot of very well organised operations teams who had their arms twisted to be more efficient at taking a product description and a set of client data, then mapping it to the right locations in the required systems. They'd use a market mapping matrix that defines the product and jurisdiction. If it's in this booking entity for this product, this is the system that it goes to, and this is the system reference number.

If there's four legs to the CLM table – KYC, Credit, Legal and Ops – it's missing the last three of them. Even in KYC, we're hearing that's full of woodworm because it's not doing the cross-jurisdictional piece very well. Most CLM stories stop, to an extent, once the major three or four jurisdictions are put into CLM. The smaller jurisdictions don't get brought in and so some of them are exotic products that are only available in certain jurisdictions and never part of that CLM story that's in place.



Each of the 'table legs' comes with their own complexity. With credit, for example, there are already credit approval systems in place in banks. CLM is very unlikely to replace those, apart from one or two players in the market who have been able to straddle the gap with credit approval flows. In an ideal world, CLM gives visibility into those credit approval flows, so you know exactly where it is in the process e.g. 90% complete. Realistically, however, no bank wants to rip out their existing credit approval process and system and replace it with something much lighter on credit functionality. So, the question becomes: how does the CLM tool orchestrate with an outside credit approval system?

CLM WON'T COMPETE WITH EXISTING CREDIT TOOLS. THEY SHOULD JUST PLUG IN AND LISTEN.

The credit approval system connects to the limit monitoring systems, but CLM isn't so interested in that limit approval system. It's only interested in the approval flow and when that gets done.

If somebody at the front end of the process selects a derivative product with a tied credit line, the information they need for that credit line is the duration of the limit and the proposed pricing around the limit. They will then get credit reference ID that allows them to go and see the total credit profile for that parent company, if they're an existing client.

Credit hierarchies were never put into CLM tools, so what's left is an initiation request through the CLM system that transposes that information into their credit approval journey and Credit provides periodic updates to the CLM tool about progress on that credit limit. That is often a heavily manual process, but in the modern world of APIs, it shouldn't be a huge problem to have credit approval flow updates on demand. A simple notification that says: "This credit limit is arriving at final approval," which names the person approving, will provide visibility and allow it to be chased.

CLM won't compete with existing credit tools. They should just plug in and listen.

The key objective is to get KYC/Compliance, Credit, Legal, and operations all focused on delivering a single goal for the customer. The reason this is failing today is because not everybody is working to the same process with the same goal.

PART 3:

WHAT ARE THE COMMON PITFALLS AND BLOCKERS TO GETTING IT RIGHT?

POLICY

Financial institutions still get stuck with successfully implementing CLM in CIB. Why? Nobody's really delivered on the original dream. The truth is that global policy alignment i.e., 90% harmonisation of policy across all jurisdictions, in addition to the obvious complexity of orchestrating across regions, is rarely achieved. It actually ends up being closer to 70% harmonised, with some regions acting entirely in their own interests with their own specificity. In our experience of global minimum standards, which is where you get to ideally 80% or 90% consistency, it has taken the banks that have done it more than three years.

If you don't align on policy first, what you'll see in CLM implementations is that you'll get to two or three main locations and you'll get into quicksand. You won't be able to expand out beyond those core locations, which in the main, comes down to internal politics. So, you need to consider how to get the other countries to align and ask whether you've really thought about how much effort goes into policy alignment. Then, even if you can harmonise policy, you can't always harmonise product. You certainly can't always harmonise back-office systems.

The other option would be to manage multiple different risk models in your CLM, and ideally, you'd need the system to tell you how much of that risk model is shared data-wise. The system could probably make better sense of this than a human by identifying, for example, that 39 of 40 requirements are ticked for this location and 28 of 40 requirements are ticked for this one. This would take the pain away from trying to harmonise policy as the system determines what the gaps are instead. The challenge there, however, is that if you've got 10 risk models and a policy change comes in, that's 10 places you need to change it. Broadly speaking, it's a no brainer for banks to harmonise policy wherever they possibly can because it makes everything easier. It's not just the tech build out, it's policy drafting, it's reduction in compliance effort, and you can centralise periodic reviews in one location, on behalf of all locations.

INTERNAL POLITICS

Of course, centralisation itself is also hard. Even if you sort out the technology, that doesn't necessarily mean you can centralise all your KYC teams, who are all currently working from different, localised procedures and policies. Ops leaders, however, are always looking to create synergies and flatten out variation. A Tier 1 bank might centralise the top five to eight locations, and the other locations are kept as tiny satellites with almost entirely bespoke procedures, because they've got bespoke policies, systems, and compliance needs. You also encounter resistance, where the regions reject the global KYC project and say, "We're going to do our own thing." People end up going cap in hand to every region, trying to get money to sponsor global projects that they don't really want, so there's often a political stall.

There are multiple actors on both the client side and the bank side, which adds to a need to plug in more areas in the CIB space than you do in pretty much any other area of the bank. How do you engage with all the functions, potentially in multiple locations? It's a spider web of complex cross-border onboarding in CIB where there's maybe three teams or personas involved on the client side and probably five people on the bank side in each location.

LEGACY SYSTEMS AND PROCESSES

Another blocker is that disconnect between a client onboarding in CLM and a product onboard. Often, if the client gets onboarded, everyone pats themselves on the back. However, the client doesn't feel onboarded because they don't have what they've asked for. The process to that point has only been a cost for them. They've gathered all the required documents, answered questions, done a second wave of documents, and they still can't trade because product set up isn't complete. This is due to a disconnect between back-end systems and legacy product systems, which are stickier and much harder to change. It requires more creative workarounds that harmonises interactions between the two.

HOW DO YOU ENGAGE WITH ALL THE FUNCTIONS, POTENTIALLY IN MULTIPLE LOCATIONS?

For example, iMeta built a unified account SSI view that created that harmonisation by building the variation for the products that are needed, so it all became one process. iMeta's ability to wrap around legacy systems' complexity with a translation layer enables the smooth passage of information from CLM through to product systems via a consistent entry point.

The whole design construct that people are thinking about from a very process-centric view of the world effectively ends up with you building or thinking about a specific set of journeys to solve a problem. Whether that's specific to a jurisdiction or a product in a jurisdiction and you end up with layers upon layers of process-centric journeys built around a multitude of capital markets products, jurisdictions, and the associated variability they bring. This means you end up with tons of forms and journeys, all of which need disambiguating when you try and push any change through.

PART 4:

WHAT DOES GOOD LOOK LIKE AND HAS ANYONE GOT THERE YET?

Portions of CLM have been done well in different banks and some have had success. Where we've seen the most success is where organisations have taken a thinner slice of the pie. The big, multi-service or full-service banks are all thinking microservices, where CLM tools are assigned to orchestration of KYC activity and are seen as the glue that joins everything together. Specific systems are lined up to specific components, such as the risk rating engine, the BPM layer, or the Entity Reference Data solution, and it's very ring-fenced. However, it is a very different story when you're in smaller CIBs that don't have other banking divisions. They want an out-of-the-box, end-to-end solution, as many of the big banks did five to eight years ago. Middle of the market fund managers, fund administrators, and some of the smaller players are more attracted to the idea that within one package you've got a solution to a whole bunch of problems.

AUTOMATION

Automation is essential because the customer expectations if you start a digital journey are that it's going to be fast. If you don't have the back end to do that, it falls out into a queue of people in operations that manually process the payment. The client thinks it's real time, but the bank knows it isn't, and it very quickly doesn't feel like a digital process to the customer.

A couple of years ago someone from a Tier 1 bank at an onboarding event pitched this beautiful website they'd built as their front end for customers. It's all online, looks dynamic and then someone asks: "How long does it take to get an account open?" and the response was, "Oh, it's two weeks." That's because it's going into an operational mess at the end, which sadly is remarkably common.

PEOPLE ARE CONSTANTLY TRYING TO GAME THE SYSTEM WITH SYNTHETIC IDENTITIES.

Unfortunately, full STP is still a nice to have. One of the challenges is that there's still a desire from regulators and compliance people in banks to be able to say that a human has looked at something. There's an arms race that's going on. If you introduce a bunch of automated thresholds, people will find them out and someone in the bank will leak it to one of their slightly more corrupt mates. Suddenly, you're getting requests for three accounts that all passed just under the threshold of being anomalies being picked up. People are constantly trying to game the system with synthetic identities.

A lot of the things that humans do in the process are a set of checks, which have often been driven by individual events or breaches. There's often a procedure called a 'make sense check' that is an exact reaction to a particular instance of a breach, for example: "a 21-year-old with three million to invest". They've got a note on this to check whether that seems rational that somebody of that age should be able to invest this much money. My question is always, if you've done the relevant checks and got proof of funds, does it change your decision? There's plenty of 21-year-olds in the world now who have enough money to invest in businesses. You only need to look at the YouTube generation and the TikTokers. All these people are making enough money that half of them have set up food and drinks companies.

The flip side of not being able to say a human looked at this is that the system will always consistently perform all the checks, whereas humans won't. Having sat with people while they were doing makes sense checks, there was no consistency of application.

Across the team of 20 people processing the applications, one person would look for 10 things and the next person would look at 10 other things. You trade off the ability to say a human has looked at it with the ability to say we've enforced a hundred percent of these checks 100% of the time through full automation.

Automation ultimately becomes a purely risk-based decision, and not subjective. You can also prove that you've done the process that a human may or may not do and it's recorded in the system with an audit trail.

At the end of the day, if information from the client is wrong, a human is no more likely to pick that up. Some banks have got around this human touch point by just having ID&V verified by humans so that you can tick a box and say we've checked, even if they're not actually doing the heavy checks.

However, automation can of course become problematic if it's not used or implemented in the right way. Banks need to be willing to change their existing processes and procedures rather than overlaying automation onto already broken processes.

HARMONISATION

Success or failure comes down to three main things: variation (in customer type, product type, jurisdictional policy, and systems), internal politics, and expectation management.

BANKS NEED TO BE WILLING TO CHANGE THEIR EXISTING PROCESSES AND PROCEDURES RATHER THAN OVERLAYING AUTOMATION ONTO ALREADY BROKEN PROCESSES.

Trying to merge all that variation into one platform can undo everything because every point of every type of variation has its own complexity, its own set of stakeholders, its own set of politics, which creates that spider's web mentioned earlier. Rather than replicating the spider's web, organisations need to build a much simpler web of fewer points. Harmonising and flattening out that variation early makes sense because otherwise you end up with long lead times that keep getting extended due to poor expectation management.

If technology can provide the wrapper around product legacy systems, it means the bank's operations people can focus on policy and process harmonisation, which they at least understand.

Aurora often finds that many organisations aren't ready for technology. They haven't worked out their desired end state, or even their current state. It's a hiding to nothing for technology and how people perceive it if the vendor has six months to implement something that hasn't already been mapped out. Conducting a rapid current state assessment up front helps identify potential pitfalls early and areas that need addressing first. Then, mapping out your target state sets a clear vision and set of requirements when talking to technology vendors. As well as saving time and money later, this will accelerate conversations with solution providers and ensure alignment to the most appropriate vendor.

EXPECTATION MANAGEMENT

If you say to an operations person that it's going to take three years to transition, that's quite comforting to them. Tell them it's a six-month transition and they'll be terrified. Whereas, if you say to senior sponsors that it will take six months, they will very quickly start to ask what's taking so long. They want to know whether the timeframes are still on and whether they can tell their boss that it's all done and dusted.

In a bank, it's common to have two to three months to re-engineer a single process. CLM comes in and tries to re-engineer five at once in every jurisdiction in the world. It's not a reasonable expectation to be able to re-engineer at that pace and work out all the handoffs, interactions, new roles, and everything else that comes with that scale of change. So, expectation management and realistic timeframe setting are also key.

iMeta's approach has been to define a fully featured "out of the box" configuration which comes pre-loaded with all the things you would expect from your CLM system to cope with the complex nature of the wholesale/Capital Markets business environment:

- Onboarding workflows – including full CDD, EDD, regulatory & tax classification, screening, waivers, Q/A and business acceptance.
- Periodic review workflow
- Data maintenance workflow
- Offboarding workflow
- Management information & reporting
- "OOTB" Vendor data connections
- Ongoing regulatory update service

In addition to a number of functional capabilities that come from taking a data driven approach to CLM that is highly focused on delivering automation:

- 360 client view with full data re-use across balance sheet/jurisdiction and product
- Full STP of new/additional product onboarding
- Perpetual/trigger driven reviews (pKYC):
- Screening reviews
- Material changes
- STP of non-material changes

Delivering this fully featured and working product on day one allows iMeta to perform a gap analysis with their customers and quickly identify the changes that need to be made to make it fit their needs. iMeta can make these changes quickly and iteratively to have a live production deployment within 3-6 months. Furthermore, the unique data-driven, low-code architecture does not penalise iMeta's ability to make the appropriate changes to cope with differences in operating model and business / regulatory rules; so the platform can be rapidly extended to accommodate new jurisdictions.

PART 6:

IN SUMMARY: DON'T BOIL THE OCEAN

We've seen success where organisations have been somewhat realistic and pragmatic by focusing on getting it right for a specific customer segment in a few core jurisdictions and with a tight functional scope, before extending outwards. They then realise the benefits in the areas they've really homed in on rather than forcing change on people who haven't yet bought in and where the analysis hasn't been done.

If anyone was to get it right, an aspirational vision may include:

- Standardised policies with minimal regional uplifts
- Most KYC and due diligence tasks are automated, and it's pKYC ready
- A single global orchestration tool to support activity in most locations
- Processes are optimised and / or automated
- Organisational structure focused on only those activities requiring human intervention
- Centralised teams operate on a 'follow the sun' model to maximise efficiency in customer support
- Centrally managed data and 'trigger events' are well handled
- Maximal use of data provision, aggregation, and reuse
- A fully integrated technology landscape, with CLM and RegTech solutions across all regions
- Best-in-class customer experience, with a fast and digital journey
- Minimal document and data requests
- Self-service portal in place
- All CLM journeys from onboarding to offboarding provide detailed status updates and communicate expectations

However, rather than trying to get there all at once, organisations need to recognise there are steps along the way. Milestones are not just an endpoint. The truth is that an organisation's ability to roll out successfully in capital markets is going to be driven by their maturity in harmonising its complexities, selecting technology that enables that harmonisation, and collaboratively mapping their journey towards a future vision.

Aurora X GoldenSource

ESG, KYC & CLIENT ONBOARDING:

WHY YOU SHOULD INTEGRATE, NOT ISOLATE

Mark Bands, Partner at Aurora, and Volker Lainer, VP of Product Management and Regulatory Affairs at GoldenSource explore the intersection between ESG, KYC & Client Onboarding, and how to overcome the data challenges associated with ESG.

Mark Bands
Partner

THE INTERSECTION OF ESG, KYC AND CLIENT ONBOARDING – A NEW DISCIPLINE

Tesla CEO Elon Musk called ESG "an outrageous scam" after the electric vehicle maker lost its spot on an S&P Global index that tracks companies on their environmental, social and governance standards. – Bloomberg, 18th May 2022. Whether or not, like Elon Musk, you think environmental, social, and governance (ESG) is a scam driven by a political agenda, ESG is here to stay. The focus on ESG has been growing for the past 10 years or more, as the effects of the climate crisis and a broad concern over diversity and equity have come to the fore in consciousness of both the public and governing bodies, globally. It is only, though, within the last 3 years that ESG has truly entered the regulatory mainstream and now holds sway in the zeitgeist of the financial services sector, latterly also interlinking the concepts of ESG, KYC and client onboarding.

Regulators across the world are now embedding ESG criteria in their guidelines and even explicitly in regulations. For financial services institutions (FI's), including asset managers, insurance and fund investors, there are two distinct "angles" to the context of needing to understand the ESG criteria of the corporates, funds and investment vehicles on their books. On the one hand there is the need for firms to divulge how they evaluate various ESG criteria as part of their investment decisions and offerings. On the other hand, very much aligned to the existing regulatory context of Anti Money Laundering (AML), Know your Customer (KYC) and Anti Bribery and Corruption (ABC), prior to onboarding new customers for the provision of banking services, FI's will need to understand and record where and how, in the context of ESG provisions, their clients make their money and conduct their business. This intersection of ESG, KYC and client onboarding is new to most financial firms.

As noted above, the latter context particularly falls naturally within the compliance field, and the broader domain of Client Life Cycle Management (CLM). While traditionally ESG checks and investigations have been catered for by "specialist" teams within a firm, it is not surprising that many heads of Compliance are now seriously considering including ESG as part of their existing suite of client due diligence and onboarding processes/checks. Positive public perception is critical for FI's, as is the avoidance of large fines and/or censure from the regulators. It's clear then that firms that onboard, service and make money from clients with poor ESG behaviour run the risk of significantly harming their businesses. Integrating ESG into the background checks firms undertake when onboarding clients is now a necessity.

JUST ANOTHER COMPLIANCE BURDEN?

THE AVAILABILITY OF STANDARDISED, QUALITY DATA IS FUNDAMENTAL TO ALL COMPLIANCE PROCESSES.

While undertaking ESG KYC and AML checks may, at first, seem to be adding further complexity to the burdensome load compliance functions in FI's already manage, we know that current KYC, Sanctions and AML assessments, while separate, are usually catered for within the capabilities of one cohesive compliance function. It is analogous then that ESG should be brought into the CLM supply-chain at the same juncture. Doing so will allow firms to benefit from the joining of forces, creating natural opportunities for operational efficiency and risk reduction by bringing the teams together. A look at benefits would not be complete without considering data and information. The data management imperative in the CLM domain has been to gather as much client related information at the top of the onboarding process as possible, with as little impact as possible caused to the client by repetitive information requests from multiple teams. It follows therefore that embedding ESG KYC checks and data gathering in the onboarding process will further add to information that, if it is utilised correctly, will save FI's significant time, expenditure and regulatory risk in the years ahead.

This realisation provides a good segue from onboarding process to the important foundation of ESG data gathering and data management. New data sources are already required to track ESG rankings, 'product controversy' and other relevant compliance indicators. The inevitability of ESG regulatory enforcement measures being taken against non-compliant firms creates a real and present need for both sources that provide ESG data content and platform solutions that can ingest and make the data available to the compliance process and assessments.

THE DATA MANAGEMENT CHALLENGE

WITH STANDARDS IN THIS SPACE EMERGING SLOWLY, FI'S WILL BATTLE TO CREATE A ROADMAP FOR HOW THEY WILL ACCURATELY AND CONSISTENTLY ACHIEVE ESG COMPLIANCE.

As further ESG related regulations come into force, like the EU Sustainable Finance Disclosure Regulation (SFDR) and MiFID II Sustainability Preferences, it is apparent that large volumes of non-financial ESG-specific data needs to be sourced, managed and governed within the FI's existing data management frameworks. Much of this data is proving to be tricky to locate while some of it is essentially unstructured and of variable quality and completeness. Coverage of private companies is also proving a challenge, with no single data source addressing all industry sectors in all geographies. These raw-content challenges are significantly worsened by a lack of global ESG data standards and the fact that FI's are sourcing their ESG data from a multitude of data vendors who are already (and unsurprisingly) using divergent practices for classifying and scoring the criteria. As firms know, the availability of standardised, quality data is fundamental to all compliance processes (ESG, KYC, AML, Sanctions etc.) and this is equally so for ESG. With standards in this space emerging slowly, FI's will battle to create a roadmap for how they will accurately and consistently achieve ESG compliance.

The ESG data management challenge related to client onboarding involves outright scoring, bucketing and comparisons with peers. Scoring can simply identify if a client falls short of some sort of requirement, such as diversity. However, the ability to do this is dependent on having a consistent methodology and the data to run it. Whilst data providers and sell side services include scoring, it must be at the level of granularity that is relevant to the particular aspect of ESG in question, such as product controversy. Bucketing or flagging might include the confirmation as to whether a client is subject to a particular ESG regulation, and any record that they have failed in any disclosure. Clients might need to initially self-declare such things, and a look at public information or a cross-check with peers will be required as a check. For some areas of ESG, such as climate risk, the potential onboarding check might simply be to compare their score with the sector average. Down the line, this might impact credit terms.

INTEGRATING ESG INTO ONBOARDING

ONBOARDING PROCESSES ARE RIPE FOR EXPANSION.

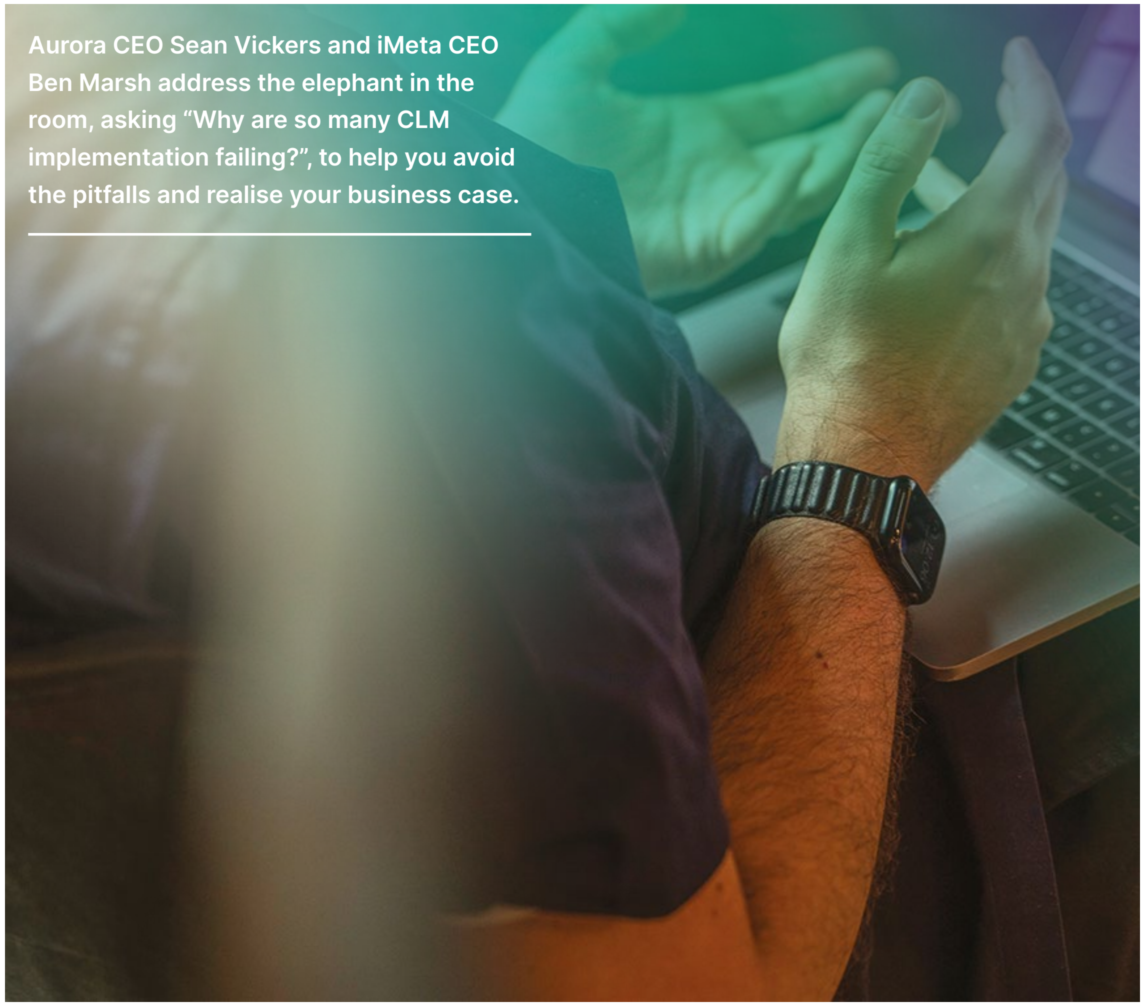
Because aspects of ESG, such as energy efficiency and the environmental impact of building materials, will influence the future value of real estate, loan covenants for developments/buildings are now taking into account these factors. Part of the onboarding process might be to run pre-checks on such factors, to ensure the client will be in a position to report back to lending institutions, with formal certifications acceptable to them. There is every likelihood that collateral management will have similar ESG-related constraints and requirements, all requiring the gathering and validation of new data types.

The earlier this data is gathered, the sooner a new client can start doing business. This is to everyone's advantage. Subsequently, it appears onboarding processes are ripe for expansion, with ESG set to come into play at the outset of the client lifecycle.

Aurora X iMeta

WHY CLM IMPLEMENTATIONS FAIL

Aurora CEO Sean Vickers and iMeta CEO Ben Marsh address the elephant in the room, asking “Why are so many CLM implementation failing?”, to help you avoid the pitfalls and realise your business case.



Sean Vickers
Chief Executive
Officer

TO GET STARTED, CAN YOU GIVE US A SENSE OF THE GENERAL MOOD IN THE MARKET AROUND LONG-TERM CHALLENGES PRESENTED BY REGTECH IMPLEMENTATIONS? WHERE DO YOU STAND ON IT?

Sean Vickers: I still think my view hasn’t changed. I’m like a broken record on this; I think that businesses across financial services really haven’t yet got their heads around the idea of why an operating model is so important to the delivery of technology. I don’t know why this is. There’s fractured thinking around how our business works and what technology will help you do. And I think in some ways, people believe that technology not only has all this functionality out of the box, but also has the operating model somehow. After five years with Aurora and probably 15 years talking about this, I’m still completely blown away that it still hasn’t landed. I think it is changing, but I don’t think that’s changed.

Ben Marsh: I’ve never really cottoned onto it before we started speaking to people like you that everybody seems to look at the whole thing (their process) like a technology problem. They’re trying to hammer whatever they’re doing into a piece of technology rather than thinking, “Is what I’m asking, sensible?” And the other thing, which people really struggle to do, is to ask, “If I could do it differently and I used the tools that could help me to do it differently, what would I do?”

THERE’S A FUNDAMENTAL MISMATCH IN THIS SPACE DUE TO A PROBLEM OF OVERSELLING AND UNDER DELIVERING.

SV: A fantastic point, Ben. Currently, it lends itself to the siloed approach, which most financial services have built themselves upon. Often, the thinking about automation and KYC optimisation, which is its own thing, is slightly atomised because it doesn’t really look at the end-to-end problem. And again, it’s left to technology to unpick that and solve it and then generate the benefits and values of that. That’s a very tough ask for any technologist, because you’re basically saying, “Sort out my operating model through the back door.”

Now, where organisations really get it right is where they’ve been burned before, or they’ve learned the lesson that buying the technology doesn’t get you where you need get to. They put the investment in up front, and they see the optimal benefits that you can get from the technology. There’s a symbiosis between the operating model and the technology. Getting that symbiosis right is vital, but it must be led by the construct of the organisation and what they’re trying to achieve. The technology overlaid onto that then puts the controls, the benefits, the scale, and the automation over it. And if you don’t do that, we’ll be having a conversation in five years’ time, where we’re still saying this is still happening, but the expectation on technology will have moved even further. It will have doubled down.

BM: I agree, we do get engaged in so many conversations where people are looking to solve a particular point along the process rather than thinking about the whole thing holistically. If people don't think about the product and being ready to trade, ready to settle, then that's a fail, isn't it? If you're running for example a pizza delivery service, your metric is, "When does the hot pizza get into the customers mouth?" That's the metric. Why is that not the metric in our world? Tasty pizza in my mouth. That's what I want. That's the customer experience. And the fact is that they too must ensure they're doing it to a regulatory standard i.e., the Moped driver has got a license, the restaurant is clean, and it's got its licenses. It still needs to be done. You then get the box and the ingredients ready - and the deliverable is hot, juicy pizza.

PEOPLE SEEM TO BE OBSESSED WITH MEASURING HOW LONG IT TAKES TO JUST DO THE KYC PART.

SV: It's a phenomenal parallel, Ben. I'll tell you why. Because if you apply it to our industry, what we'd be saying to them is, "You can order that pizza, but you have absolutely no idea how you make it. The way you order it is really slick and it's completely tech-led." In reality, how you make the pizza and when you receive it is redundant, but you can order it in a really clever way. I think that's what we need to shift it around from. To use that same example, people seem to be obsessed with measuring how long it takes to just do the KYC part.

BM: Yes, it's like we just measure time to get the pizza into the box but ignore the rest of the journey to the mouth. That's not good because then it's cold by the time it arrives.

SV: Exactly. Measure how long you think the KYC bit takes and price it, but I still can't trade, and I haven't factored in how much it costs the moped driver to get to me, or the cost of the box it goes into. I'm bemused by it all because they are data points that are atomised. They don't mean anything. "Am I good to trade? Yes or no?" It's binary and it's simple. You either can or you can't, so you have to tie it together. It comes back to building the end-to-end story and how the technology enables it, and not the other way around.

BM: That's exactly right. What the customer cares about is eating the hot pizza, and what the corporate or institutional customer cares about is a transaction completing.

SV: In my mind, it's a brilliant example, because what if you still haven't got your pizza, but you've had a fantastic customer experience through the technology platform. If you're still not eating it, you don't know when it's going to arrive.

HAS THERE BEEN A CHANGE IN THE WAY FINANCIAL INSTITUTIONS ARE APPROACHING IMPLEMENTATIONS OR ARE THEY STILL TRYING TO FIT A PIECE OF TECHNOLOGY ON TOP OF THEIR EXISTING OPERATING MODEL?

BM: We tend to see people who are being tasked with doing a bit of the journey. Who's looking at it holistically is the question really, isn't it?

SV: I often talk about headwinds and tailwinds. The tailwinds are improving technology, APIs that mean we're 'super connected', and embedded banking. These are moving the industry forward. The headwinds that we're still fighting against are siloed businesses and transformation fiefdoms. Transformation happening in one group might be counterintuitive to transformation happening in another, but CLM runs all the way through it. They don't help anyone, but they're aligned to silos.

Another is the op model still isn't sorted and it's often seen as a bit of a headache. There's this mix of headwinds and tailwinds, and technology is the tailwind. I think that's why so much expectation is laden upon it, because they haven't fixed all the headwinds. There's this view that technology is advancing so quickly that they'll solve it, but technology can only go so far. There are still decisions that need to be made; there's still an operating model that needs to be followed; there are still silos within banks where people make irrational decisions. Getting the operating model right can mitigate those headwinds.

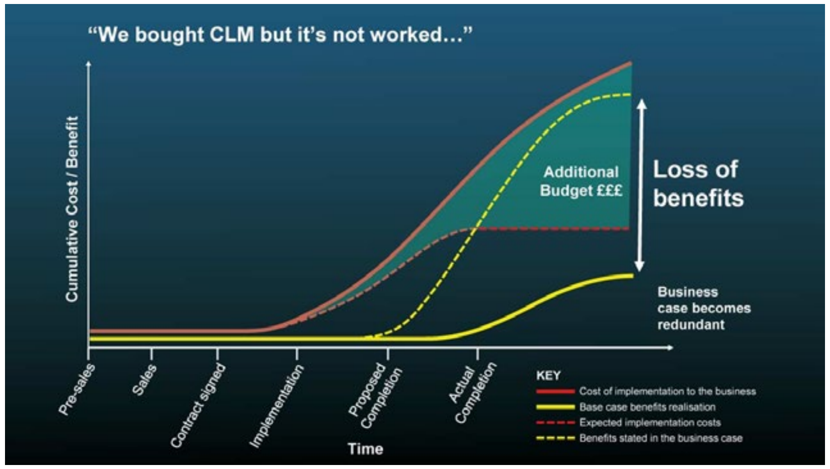
BM: I haven't heard of an implementation, whether it's an own build or a vendor implementation, other than ours, where things seem to have gone well. I might be blowing my own trumpet on that one, but if there are any, they're pretty rare.

THERE WAS A NARRATIVE FOR A PERIOD, AT THE END OF THE LAST DECADE, WHERE ONBOARDING WAS PERCEIVED AS SIMPLE. IT'S NOT SIMPLE.

SV: They occur within customer groups, where there is a more simplistic and robust customer journey that doesn't have the complexity of cross-border onboarding, or onboarding to multiple balance sheets. Where I think the industry has moved on is they've stopped trying to say it's simple. It's not simple. The whole process is incredibly complicated. There was a narrative for a period, at the end of the last decade, where onboarding was perceived as simple. It's not. It's a complicated topic that touches many different groups in many different jurisdictions. That's where I haven't seen someone really crack it, where they can do a local onboard and a cross border onboard to a different balance sheet, and it's effortless. We see glimpses of genius but it's very, very hard. Onboarding and CLM is tough, and it requires the right thinking and the right technology to truly solve it.

SO, WHAT'S THE REALITY FOR ORGANISATIONS THAT HAVE BUILT OR BOUGHT CLM AND IT'S NOT WORKED? WHAT'S THE IMPACT ON THE BUSINESS CASE?

SV: Well, the business case kicks in somewhere around the point of sale, because they're saying this is what you get once the contract is signed. However, over time that business case becomes redundant because the expectations of the organisation and the outcomes change. The second you go over your defined implementation window, you're spending more money than you expected. You end up with nothing in the tank, you're spending more money, and the business case is reduced to the point where it ultimately becomes redundant and has to be re-baselined.



A lot of financial services are in the wide jaws of the graph above where they haven't realised the business case and spent a load of money. Someone senior who got the business case signed off will have to go to someone more senior and tell them it's become redundant. It erodes goodwill and trust. If you're the seniors in that position, it puts you in a very vulnerable place.

From a consultancy perspective, where those lines part is where the project is suddenly tracking amber or red on a transformation PMO roadmap, because they're saying, "Hold on, it's supposed to be done," and that is where the first bit of head scratching starts. Then there may be a point where someone has gone, "Hold on, we still don't know what we're building to." The section between implementation and proposed completion is often where someone will go back and say, "We need to look at the operating model."

BM: Do FIs really think about and identify the key capabilities they need to see from the technology to solve their business problem? Even if they haven't thought about the end-to-end. Using the example that you were talking about - the cross-border onboarding and being able to successfully onboard from one jurisdiction to another - what are the key capabilities that are actually needed to achieve what we're trying to do? And how can I test that my vendor or internal developers can do this for me?

SV: I would say there's a sunshine path in my mind. For example, a client we're working with has done it in what I would describe as the right order. They have looked at their processes, looked at their people, looked at their outreach, got everything in the right order, then looked at where they're trying to get to and gapped it. So, they said, "OK, if we don't look at technology, but we gap the current processes to what the ambition of the organisation is, it's still lacking, therefore, we need an amplifier to get us to where we need to get to." Because it's been done in that order, they've written the business requirements for the RFP, so the solution will need to demonstrate X, Y and Z to allow the organisation to achieve its goals and outcomes. That is the right way, because the request that goes out isn't about vendors showing off their wares, it's about demonstrating that what the business has asked for can be achieved, which will allow them to achieve their goal and result in a better implementation. Often, the business requirements gapped to the outcomes of the business is lacking, so the business case is already on shaky ground. They don't know why they are doing it or how to measure it.

THE LACK OF CONSISTENCY IS OFTEN WHY PROJECTS GO WRONG BECAUSE THE STAKEHOLDERS AND ACTORS CHANGE

When management changes, do those critical measurements carry or does new management say, "I want the technology to do something entirely different, so go and pivot." The lack of consistency is often why projects go wrong because the stakeholders and actors change, and they basically have a different desire and outcome for what it should be doing. Their feet should be held to the fire, and someone should say, "We bought [or built] this solution because it addresses these requirements, which allows us to achieve certain outcomes or goals." That conversation at a certain level, for some reason, is lacking.

BM: Yeah, I agree with that. It filters down all the way, I think, right?

SV: At that point where the project bisects and they switch the sponsor of the project over, that sponsor may have very different ideas about what it should look like.

If you asked the product development team why they are building the solution, they probably couldn't tell you. If you said to them what's on the business case, they probably couldn't tell you. That's damning because they are making decisions that impact the success and implementation of a project. So, they're just going to carry on coding and building even though the direction has entirely changed. I think there's a communication issue and there needs to be a fundamental question around 'why' and not necessarily 'what' and 'how'. For some reason it's not there. It's evolving across our industry, but I don't think it's evolving at the right speed.

So, what does good look like? How do FIs give themselves the best chance of realising their business case?

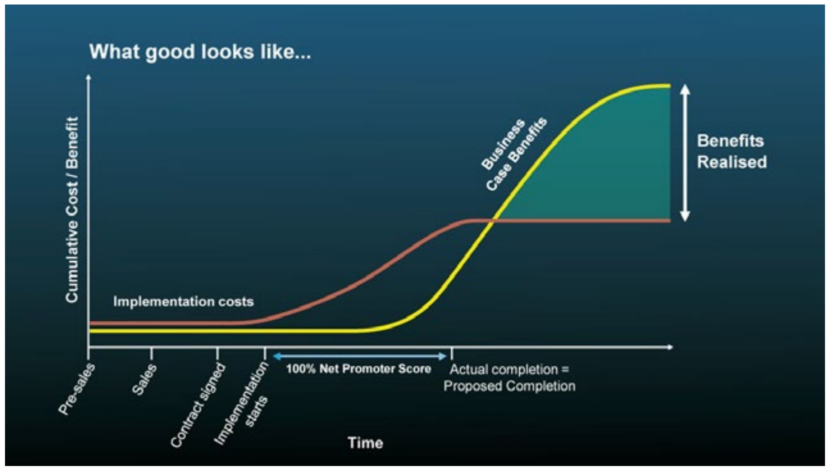
BM: The high-level view is about defining the outcome that you're trying to achieve. The achievement of the outcome is not necessarily what you are doing, but it's more about understanding where you are on your journey. As previously mentioned in the takeaway analogy, are you building the UI to 'Pizza in Mouth' journey or just sourcing the box to put it in?

To get it right, you need to understand where you are on your CLM journey and exactly what you are looking to achieve. Ask yourself the following questions:

- How can we really make this whole thing work?
- Have we clearly articulated the business benefits we're hoping to achieve?
- Do we have alignment on that across the business?
- Have we asked vendors to clearly demonstrate how they help us meet those objectives?

If you ask these questions early on you increase your chances of realising your business case as you expect...

TO GET IT RIGHT, YOU NEED TO UNDERSTAND WHERE YOU ARE ON YOUR CLM JOURNEY AND EXACTLY WHAT YOU ARE LOOKING TO ACHIEVE



SV: I agree. We believe at Aurora that there is an industry definition for what CLM is and how it should work in the most optimal way. Today, the CLM definition is in the eye of the beholder. It's a myriad of functionality and data processes, and everyone seems to have a different definition of what it is. Generally, we believe there's a right way to do this.

BM: A big problem is there are projects not delivering because banks haven't tested that the technology will enable them to do what it says. As soon as it doesn't work, they end up trying to spend more money to fix it, and then it all unravels. Having said that, we've been in projects where they've not lined themselves up like that, but we've understood what needs building and we've been able to deliver it within the timescales.

There's a fundamental mismatch in this space due to a problem of overselling and under delivering. The same language is often used to describe very different behaviours and outcomes.

At iMeta, we will not tell customers we can do something we can't. We try to understand what it is we need to deliver on, the outcomes they're trying to achieve, and the rationale behind what they're doing. We ensure this is all documented from the very start. iMeta have a track record of getting it right.

KEY TAKEAWAYS:

- **Get clarity on where you are on your CLM journey before selecting your technology.**
- **Choose partners and technology that have got a track record of getting it right.**
- **Make sure you clearly understand the business benefits you're looking to achieve.**
- **Get an understanding of what the capabilities are of the software that you're buying.**
- **Get a proof of concept to test that the technology can help you realise the benefits in your business case.**

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