KNOW IDENTITY

Winning the Financial Services Onboarding Battle by Repositioning eIDV ROI

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ONE WORLD IDENTITY

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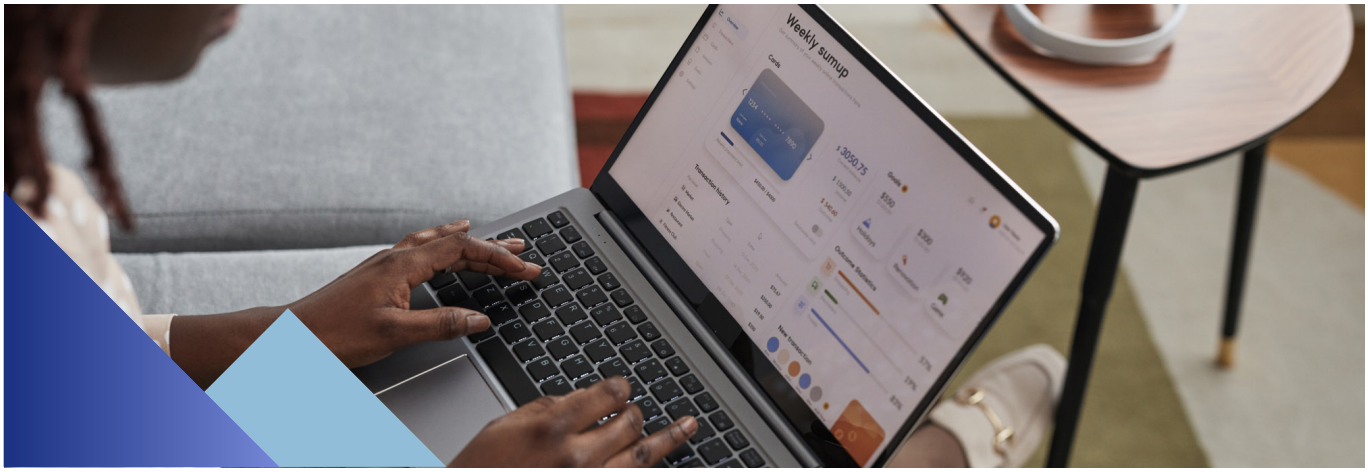
INTRODUCTION

It's never been a better or worse time to be in financial services, depending on which side of the digital transformation fence you sit. For institutions that have relied on physical branches, legacy technologies, siloed departments, and the assumption that a customer is for life, it's going to be a rough ride the next few years. Conversely, for those that can adapt and rise to the challenge of digitization, the opportunities are significant when they recognize the power that exceptional user experiences can have in cultivating customer lifetime value.

The crucial point in any customer journey is the point of crossing the chasm from prospect to customer, and it is this transition point where financial institutions (FIs) have historically had little need to bother with the niceties of customer experience. Account opening has traditionally been seen as a combination of administrative and compliance tasks, a requisite final hoop that individuals had to jump through in order to become a customer.

Today, the onboarding process can be considered the last mile of a customer acquisition funnel, and the assumption cannot be made that the fish has been landed, or is even on the hook. As this report outlines, organizations in the financial services space must make a significant attitudinal shift to the role of account opening and specifically in alleviating friction points pertaining to verifying customer identity. The importance of this step cannot be overstated — as the report details, potential customers will abandon the process when they encounter unnecessary friction.

Investment in technologies such as Electronic ID Verification (eIDV) plays a key role in removing these potential off ramps and can be a key element in unlocking significant future revenue streams. As this research shows, a small investment in eIDV technology delivers significant returns by enabling new and nearly frictionless customer acquisition processes. In fact, a dollar spent on onboarding with eIDV is worth $412 in Customer Lifetime Value (CLTV). Read on to learn more...



A DIGITAL PERFECT STORM HITS FINANCIAL INSTITUTIONS

It is a challenging time for FIs. Coming off the back of the COVID-19 pandemic, organizations are experiencing headwinds in a number of areas.

- Fraud is forecast to be worse than ever and more focused on traditional financial fraud rather than more opportunistic pandemic fraud such as government assistance loans.
- Digital financial services, particularly via mobile devices, are growing in popularity, presenting a more competitive landscape for both incumbents and newcomers.
- Office work patterns have shifted to remote or hybrid models, meaning fewer visits to physical locations.
- Consumers are far more discerning in their digital expectations.

This section provides a data-driven case for how today's financial services landscape needs recalibration around the importance of digital onboarding.

Fraudsters Will Fraud

Fraud is often an opportunistic crime, and 2020 provided rich pickings as consumers and retailers migrated en masse to digital channels. With the combination of end user naivety, large scale digital migration, and the lack of real-world checks and balances for fraud that digital channels provide compared to their physical counterparts, fraudsters have exploited the opportunity mercilessly — the fourth quarter of 2020 saw a 250% increase in online banking fraud compared with the first quarter of the year, with 70% of all fraud being driven by card not present (CNP) transactions[1].

While the 2020 pandemic accelerated fraud across digital channels, account takeover (ATO) fraud and new account fraud were well recognized problem areas before then. In 2018, $4 billion was lost to ATO fraud. By 2019, that number had risen to $6.8 billion, a 70% increase.[2] In the same period, new account fraud increased from $3.4 billion to $4 billion. While sizeable, these growth rates are dwarfed by those that occurred in 2020 — the fourth quarter witnessed a 650% increase in ATO attacks compared to the first quarter of the year.

With signs that the COVID-19 pandemic is receding due to the advent of vaccines, there may be some optimism that fraudsters will be diverted to other fraudulent opportunities, or at least less focused on digital ones. However, this seems highly unlikely as the unstoppable shift to digital continues and new opportunities for fraud continue to emerge.

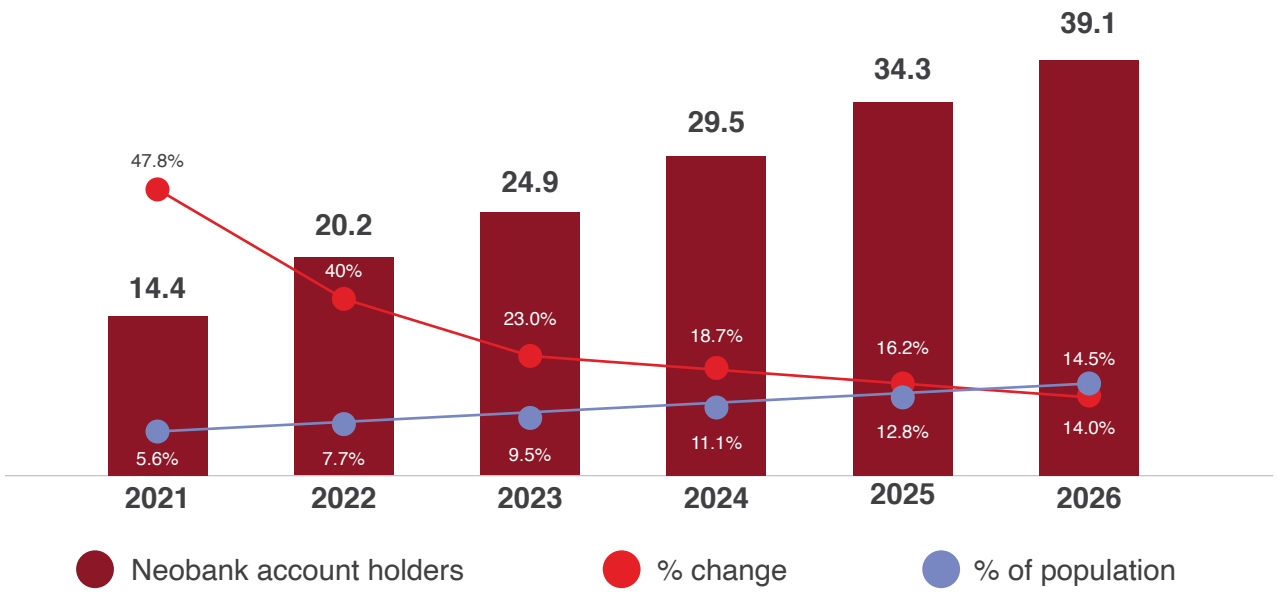
Digital Financial Services are the Future

The consumer migration to digital financial services were already well underway prior to 2020. However, concerns relating to COVID-19, combined with nascent intelligence on how the virus spread led to a significant reluctance to visit physical branches. A March 2020 consumer survey detailed that 82% of consumers were concerned about visiting a physical branch and that 63% were more inclined to use a digital app.[3] It is forecast that by 2023, 86% of internet users will also be digital banking users[4] and that by 2024 the total number of digital banking users will exceed 3.6 billion by 2024, up from 2.4 billion in 2020.[5]

If the challenges of adapting traditional financial institutions to digital weren't enough, competition now expands far beyond the banking industry. The floodgates have been opened for myriad newcomers offering either point solutions that address specific needs that were previously catered for by incumbents, or wholesale replacements of traditional FIs in a purely online format. These "neobanks" are aggressively gaining traction, with the number of US account holders forecast to reach 20.2 million by the end of 2021, more than double the number just two years ago. By 2025, this number is set to almost double again to 39.5 million users, equivalent to 14.5 percent of the US population.

Traditional financial services are also seeing some significant territorial encroachment from large tech companies entering the financial services realm. Google has recently updated its Google Pay product, allowing customers to open bank accounts, and has also built a peer-to-peer (P2P) payment platform.[6] Another behemoth in the tech landscape, Apple, now offers a credit card.

Neobanks's user base is expected to double by 2025



Source: Insider Intelligence

Part of the reason this shift has occurred is that consumers have far more options to shop for specific services that they wish to use. Financial services newcomers can provide many of these features, while their focus on building services unencumbered by legacy platforms and analog processes has enabled far more compelling and streamlined interfaces. This translates to giving customers features that could encourage defection — one in three consumers would consider moving to a new FI in order to have access to features such as account aggregation tools, insight into their spending habits, and income verification to speed up loan applications.[7]

BFA (Bank From Anywhere)

Traditionally, FIs selected branch locations based on where customers live and work. But many of those branches were built to target customers coming or going into work and now face a significant headwind from the rise of remote working.

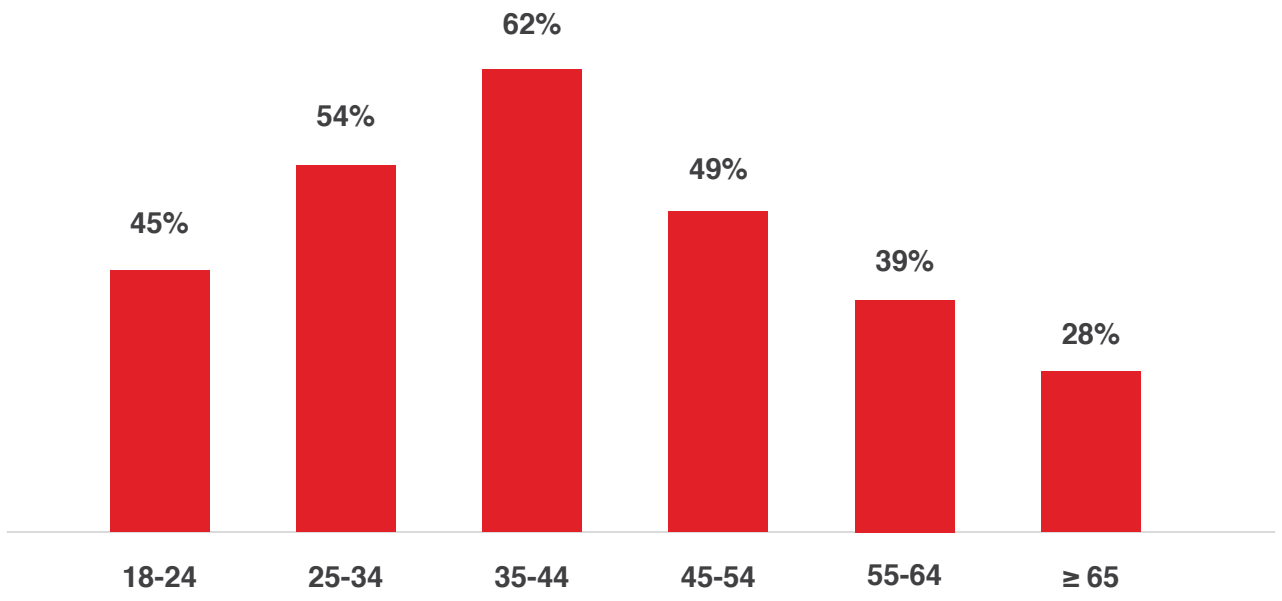
Despite some significant misgivings at the beginning of the pandemic, employers have embraced remote work even more than employees, with 83% of businesses stating that remote work has been a success, compared to 71% of employees. More than half of US businesses consider remote workers more productive.[8] The issue has become so important to employees that nearly 50% of workers in the millennial and Gen Z age groups would quit if their employer ends remote work.[9]

With less commuting and newly discovered convenience of accessing financial services from home, there will be fewer trips to brick-and-mortar locations. The expectation that most employees will remain remote some or all of the week will further encourage and the importance of the digital storefront.

Digitally Demanding Consumers

While FIs in the past competed over locations and fees, today they increasingly compete on services and convenience. Further, the barriers to switching to alternative banks or fintechs are significantly diminished in a digital world. One-in-three customers would switch solely because of a better online offering, while 43% said they would consider switching to an online-only bank. Further, 48% said if a new bank offered an easy way to switch, then they would.[10]

Would you consider switching your primary bank?



Source: Center for the Digital Future, USC Annenberg

This potential creates the threat that legacy institutions could lose the customers that will drive their profits for the next 40 years: Millennials and Gen Z. It will be critically important for them to focus on cultivating younger, but maturing demographics. “Millennials” are often perceived as 20-somethings, but the oldest members of this group are now in their early 40s and represent the majority of consumers. 28% of Gen Z (born between 1997 and 2015) are underbanked, and 18% are unbanked, presenting a significant opportunity for financial institutions to bring in customers of tomorrow.[11]

These coveted future customers demand digital access and have no time for substandard digital experiences. The propensity for younger age groups to switch financial institutions is high — 54% of 25-34 year olds are prepared to switch their primary financial institution, as are 65% of 35-44-year-olds. Of these, 47% of 25-34-year-olds and 36% of 35-44-year-olds would do so for better online or mobile services.[12]

The Perfect Storm

This convergence of fraud, digitization, increased competition, remote work, and demographic shifts sets the stage for challenges that traditional financial institutions have never experienced previously. Adapting to these changes will require a renewed focus on the digital experience and a cultural acceptance that the front door to your financial institution is no longer a brick and mortar branch, but a webpage or an app. This will be particularly critical in the onboarding process for new customers.

THE DIGITAL RED CARPET - WINNING THE NEW CUSTOMER ONBOARDING BATTLE

Financial services providers have had to make a radical adjustment to how they serve customers. No longer do consumers go to the closest physical location. Instead, they seek out the institution that can provide them with the services they want and an interface that allows them to conduct their business as safely and conveniently as possible.

Where this is most critical is at the start of a customer's banking journey — onboarding. The user experience at the digital storefront level dictates whether a user will become a customer, or abandon the process to find an alternative provider.

One of the most significant speed bumps in the onboarding process is identity verification. This is a vital step to prevent fraudulent account opening and to ensure that regulatory Know Your Customer (KYC) compliance is achieved. In more analog times when this was done in person, this involved providing proof of identity via government or state issued documentation such as a passport or driver's license that could be physically inspected by an employee. In today's digital world, these checks are still required, but depending on how these are executed by the financial institution, this could be virtually instantaneous using eIDV, take multiple days by mailing copies of forms of identity or, worst-case scenario, require a trip to a physical branch with original documentation in hand.

Neobanks Take Early UX Battle Lead

Neobanks and fintechs have had a significant advantage over traditional institutions in the ability to engineer digital onboarding from scratch. Rather than shoehorning legacy processes into a digital platform, newcomers have had a blank slate to focus on CX design from scratch. These startups did not have to concern themselves with legacy technology systems or archaic methodologies in adapting to digital.

Analysis of bank onboarding experiences shows a stark difference between legacy institutions and neobanks. A 2017 study that investigated the length of time it took to sign up for a new account found that it was as fast as five minutes and 48 seconds at neobanks. Traditional institutions, on the other hand, had signups that prevented the use of the account for as long as three days.[13]

The number of steps required to create an online account also differs greatly between neobanks and traditional institutions. In a survey of the process to open an account at a dozen neobanks and traditional banks, the fastest experience provided an account in 24 clicks (achieved by a neobank). Traditional banks often had clicks that ranged from 70 to well over 100.[14] Of the 12 institutions analyzed, the three neobanks used digital verification while only four of nine traditional banks did the same.

Average Number of Clicks to Open a Digital Account

Source: Built For Mars

Digital Darwinism — Adapt to Survive

The relatively rapid transition from in-person to digital account processes has broken the archaic expectation that account opening has to be onerous, bureaucratic, and slow. As consumers have become accustomed to on-demand delivery of content, same-day delivery of goods and services, and the ability to conduct even doctor's visits remotely, the bar has been raised for financial services. Failure to meet these new expectations can and often does result in a swift defection to a more streamlined digital alternative.

A 2018 study found that more than 50 percent of U.K. consumers had given up trying to enroll with an FI, with 34 percent saying they abandoned the process because it was too slow. A further 40 percent left because they were asked to provide more personal details than they were comfortable offering.[15] A more recent study detailed the specific friction point of identity verification in the onboarding process. According to the data, if asked to visit physical locations or to mail documents, just over half of customers will complete the process as soon as possible, while nearly a third will give up completely or go to a competitor. People age 25–34 were the least tolerant to digital disruption caused by identity checking processes — 42% of them would abandon applications if asked to mail documents or visit a location. If asked to scan and email documents or use a separate identity portal, 35% of 25–34 year-olds would still abandon the application.[16]

The signs are clear — adapt to survive, or face the consequences of growing increasingly irrelevant. Potential customers will simply abandon the process of signing up for a service if the process becomes too onerous.

Know Your Business (KYB) Onboarding Pain Points

Identify verification concerns do not only impact consumers. Significant obstacles exist within Know Your Business (KYB) processes. More than half of salespeople at banks spend a quarter of their week simply onboarding business clients. Despite the employee-hours that go into this onboarding, the process does not provide reliable due diligence. In a survey of senior banking salespeople, 57% said that the reliability of reference data in the onboarding process is a challenge. At the same time, 55% said they often have issues resourcing for the onboarding process. And more than half (55%) said the lengthy onboarding leads to business loss.[17] The potential here is huge. The global KYB market will reach $12 billion next year, yet only 5% of banks have an automated process for the corporate onboarding journey.[18]

REPOSITIONING IDENTITY VERIFICATION AS A CUSTOMER ACQUISITION COST

Given trends relating to customer expectations for digital onboarding and their propensity to walk away when faced with cumbersome verification hurdles, financial institutions need to recalibrate their attitude to onboarding with the assumption that the customer acquisition journey is far from complete once the application webpage is reached or the mobile app is downloaded. This is the last mile, but by no means can the expectation be made that the customer will reach the end of the process.

With digital onboarding being an activity that now requires more emphasis on meeting today's customer demands, it is arguable that onboarding winners will be those that treat the process as a component of the overall customer acquisition process and allocate budget accordingly.

Fusing Marketing with Digital Onboarding

Financial institutions are notoriously siloed, and nowhere is this more apparent than the demarcation between customer acquisition and customer onboarding.

Customer acquisition costs typically sit within the scope of marketing departments and encompass a number of activities, such as web and email marketing, designed to entice the would-be customer to sign up for an account. Once this person makes it into the branch or onto the registration page, their job is considered done.

Customer onboarding costs relating to compliance checks and fraud mitigation typically reside within fraud, security, and compliance teams where the focus is less on the customer experience and more on meeting regulatory and fraud mitigation requirements.

With the customer far from committed once they reach a digital form of onboarding, it is arguable that the role of marketing should persist through to the actual completion of onboarding "paperwork" to ensure that all the hard work in enticing the customer to this endpoint wasn't wasted on a sub-par first point of interaction with the actual institution.

The ROI of Digital Onboarding Using eIDV

Using data cited previously in the report, we estimate that where friction is met in the digital onboarding process requiring presentation of identity documentation (scanning and emailing copies, mailing paper copies, or having to provide original copies in person), 25% of applicants will abandon the process and go elsewhere.

Industry benchmarks place the average Customer Acquisition Cost (CAC) in the financial services industry at approximately $300 per person[19], while the average Customer Lifetime Value (CLTV) is estimated to be $3,600 per customer.[20]

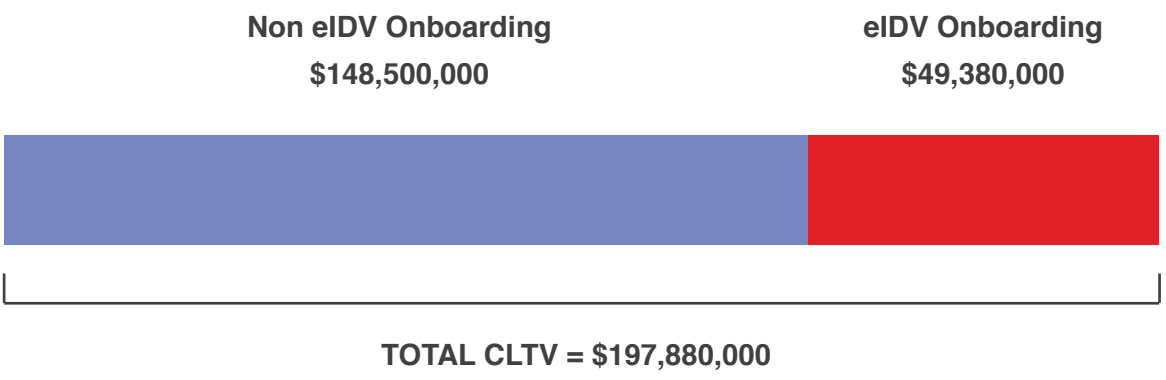
For this model we estimate that the cost of an eIDV check in the onboarding process will be around $2 per person, so if we now add the cost of eIDV to the CAC, it's $302 per person. If we deduct CAC from CLTV, we make $3,300 from a customer onboarded digitally without any form of eIDV check for their entire customer lifetime, and $3,298 from a customer onboarded digitally with an eIDV platform.

If we take a hypothetical financial institution that acquires 100,000 new customers per year, 60% of these account openings will be digital[21] — 60,000 people. If this institution hasn't implemented any form of eIDV in the onboarding process, we can expect to lose 25% of these applicants, which takes the total number of digital accounts opened to 45,000.

If 45,000 new customers are onboarded in a year via digital channels (45,000 x $3,300) without eIDV, the CLTV will total $148,500,000. If the same institution implements eIDV in the onboarding process, the 60,000 new customers will equate to a CLTV of $197,880,000 (60,000 x $3,298) — an increase in $49,380,000 in CLTV revenues for the financial institution.

Or, put another way, a dollar spent on eIDV is worth $412 in CLTV. Clearly, skimping on eIDV is a significant false economy.

CLTV for FI Digital Onboarding @60,000 Customers per Year



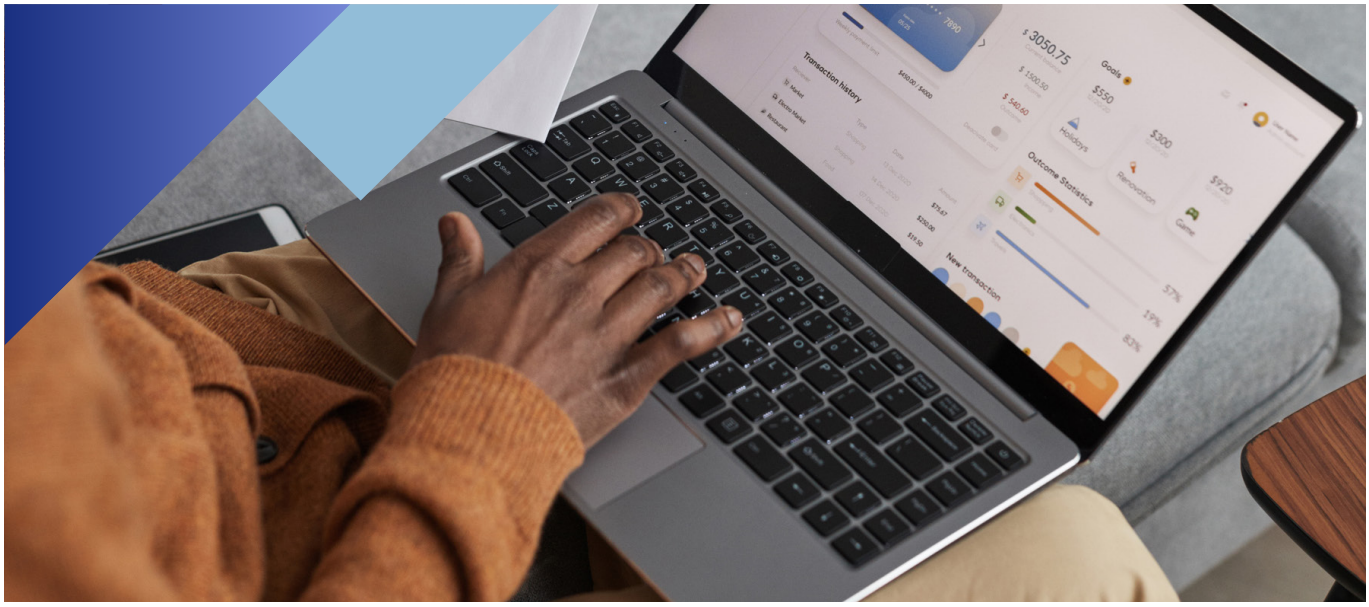
CONCLUSION

For many organizations today, their digital presence has become the de facto storefront, a reality that many traditional institutions are struggling to adapt to. They must look at their offerings holistically, providing customers with a way to open and access their accounts in the style that they expect, whether in person or remotely.

To do so requires an attitudinal shift in how eIDV is positioned. Refining the onboarding process by incorporating eIDV allows organizations to offer better safeguards against fraud, make onboarding a more seamless experience, and convert leads to customers in a way that can provide significant financial benefits to the institution over time. As has been demonstrated, for just a couple of extra dollars per customer, financial institutions can secure up to 25% more complete digital account openings, potentially bringing in hundreds of thousands of additional revenues over the lifetime of these individuals. We reiterate, a dollar spent on eIDV for digital account opening is worth $412 in CLTV. While this model is built around existing retail FIs, this is equally applicable to many other industries including payments, cryptocurrency, retail, healthcare and more, where a bad onboarding experience equals digital defection and a good onboarding experience is the start of an ongoing and lucrative customer journey, potentially for decades to come.

Fraud will get worse, customers will get more demanding, regulations will get more stringent, and competition will get stiffer. These are all inevitabilities in today's financial services industry, Those organizations that come out on top will be treating the digital onboarding process with the importance and investment that it deserves.

There are no second chances to make a first impression.



ABOUT

ONE WORLD IDENTITY

One World Identity (OWI) is a market intelligence and strategy firm focused on identity, trust, and the data economy. We help businesses build solutions, execute upon strategies, make informed investment decisions, and connect with key decision-makers. Since 2016, we've advised many of the world's most innovative business leaders, investors, and government officials on building, buying, and investing in the next generation of integrated digital identity platforms and technologies. We recognize that identity, trust, and the data economy transcend industry verticals and are at a critical tipping point. Our goal is not just to help our clients respond to the market; we help them define it.

To learn more please visit **www.oneworldidentity.com**

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KNOW Identity is a community of thought leaders, executives, investors, policymakers, builders, and rising startups that are reimagining the way we implement digital identity solutions at scale. KNOW Identity's uniquely differentiated media and immersive events are where the leading edge of digital identity gets sharper. Our mission is to facilitate thoughtful conversation, enable cross-industry collaboration, and discover actionable solutions for the data economy. Learn from industry experts, develop your personal network, forge new partnerships, and contribute to a global conversation.

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GDC

Global Data Consortium is the industry leader in electronic identity verification. Whether leveraging reliable and independent data sources in established financial markets or reaching deep into emerging markets for alternative data sources, we help bridge the gap between consumer financial journeys and financial service provider compliance requirements. We believe in the balance between preventing identity crimes and providing a seamless verification process, which we accomplish by leveraging local partnerships and expertise through a single-API.

ENDNOTES

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