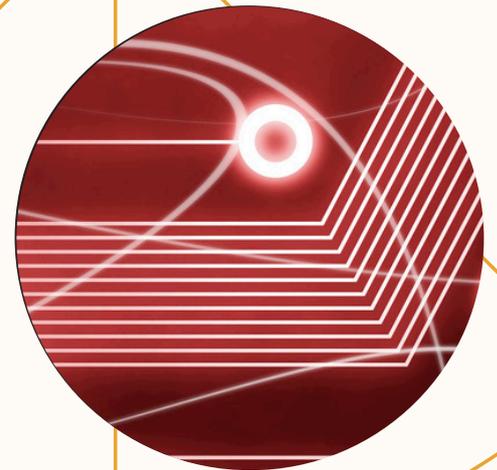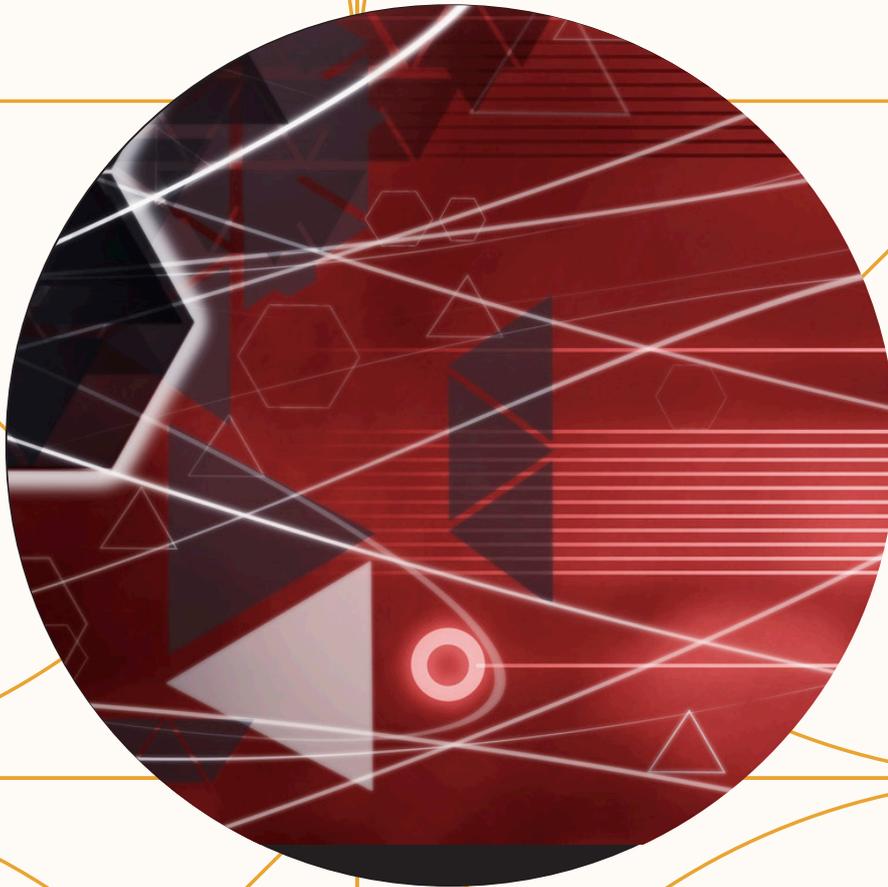**EQUIFAX**®

Thought Leadership

A New Era for Risk –
the Move Toward 'Customer Risk Experience'

Our research into the risk function of the future has identified a strong and accelerated drive to consider risk management as one of the key enablers of a great customer experience. We have termed this evolution 'customer risk experience (CRX)'.

Chartis

About Chartis

Chartis Research is the leading provider of research and analysis on the global market for risk technology. It is part of Infopro Digital, which owns market-leading brands such as Risk and WatersTechnology. Chartis' goal is to support enterprises as they drive business performance through improved risk management, corporate governance and compliance, and to help clients make informed technology and business decisions by providing in-depth analysis and actionable advice on virtually all aspects of risk technology. Areas of expertise include:

- Credit risk.
- Operational risk and governance, risk management and compliance (GRC).
- Market risk.
- Asset and liability management (ALM) and liquidity risk.
- Energy and commodity trading risk.
- Financial crime, including trader surveillance, anti-fraud and anti-money laundering.
- Cyber risk management.
- Insurance risk.
- Regulatory requirements.
- Wealth advisory.
- Asset management.

Chartis focuses on risk and compliance technology, giving it a significant advantage over generic market analysts.

The firm has brought together a leading team of analysts and advisors from the risk management and financial services industries. This team has hands-on experience of developing and implementing risk management systems and programs for Fortune 500 companies and leading consulting firms.

Visit **www.chartis-research.com** for more information.
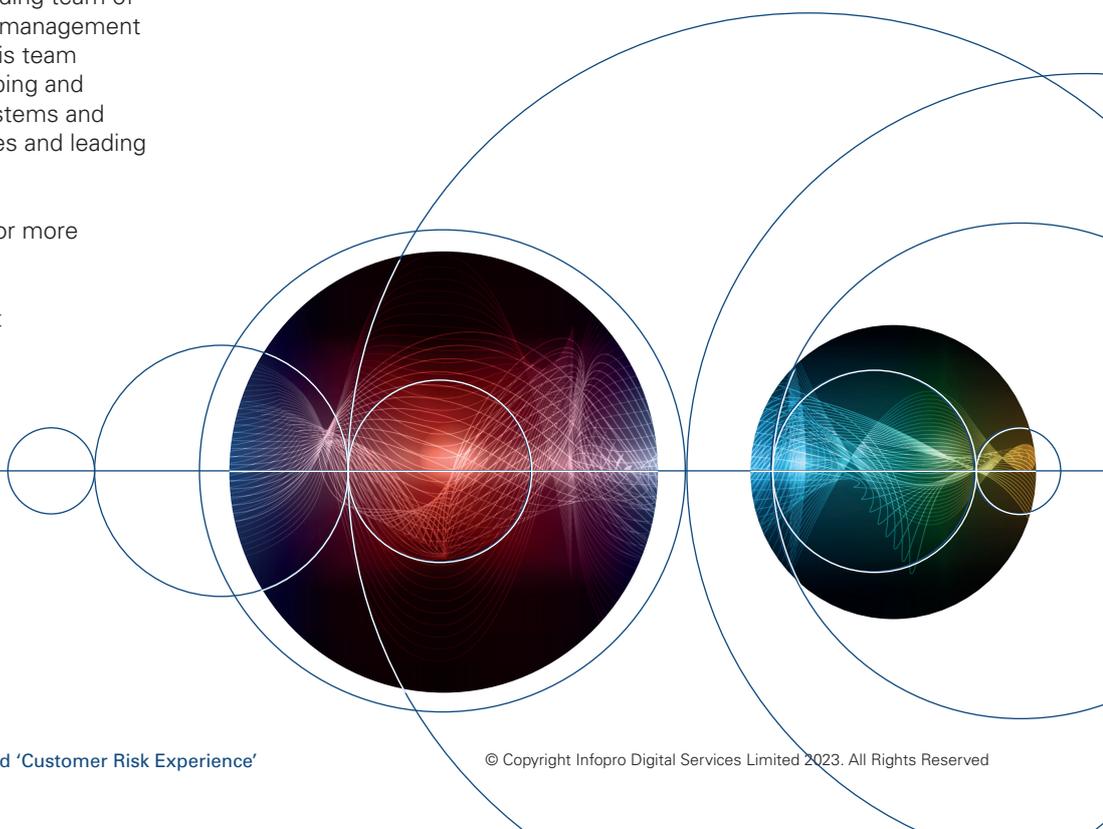
Join our global online community at **www.risktech-forum.com**.

About Equifax

At Equifax, we believe knowledge drives progress. As a global data, analytics and technology company, we play an essential role in the global economy by helping financial institutions, companies, employers and government agencies make critical decisions with greater confidence. Our unique blend of differentiated data, analytics and cloud technology drives insights to power decisions to move people forward.

Headquartered in Atlanta and supported by more than 13,000 employees worldwide, Equifax operates or has investments in 25 countries in North America, Central and South America, Europe, and the Asia Pacific region. For more information, visit **Equifax.com**.

Equifax Ltd is one of the Equifax group companies based in the UK. Equifax Ltd is authorized and regulated by the Financial Conduct Authority. For more information, visit **equifax.co.uk** and follow the company's news on **LinkedIn**.

Table of contents

List of figures and tables

1. Evolving toward the customer

There has been a significant shift in thinking within risk functions at global institutions, away from viewing risk as a cost centre, and more toward seeing it as an enabler of a frictionless customer journey.

Over the past 12 months, this idea has been high on the agenda for Chief risk Officers (CROs) in regulated industries across banking, insurance, energy and other industries. These professionals tell Chartis that their risk functions are even going as far as committing to internal service-level agreements (SLAs) for customer service.

This is a logical step in the risk journey that began after the 2008 financial crisis, when risk functions became integral to organizations' sustainability. As organizations became more sophisticated in how they manage risk, regulation and changing requirements, the spotlight fell on efficiency and automation. The advent of FinTech firms that provide a streamlined and seamless customer experience – from onboarding to transacting – made incumbent players realise that they had to invest in a more seamless customer experience. A key element of this is reducing any unnecessary friction or delays caused by below-optimal risk controls. Furthermore, such regulations as the revised Payment Services Directive (PSD2) – and, in time, PSD3 – are designed both to protect consumers and to enable easier commerce.

This trend has accelerated since the advent of the COVID-19 pandemic, when consumer behaviour moved online from traditional brick and mortar establishments, bringing with it renewed expectations of real-time service. In turn, consumers' acceptance of new verification and authentication technology – such as biometrics – has further sped up the move toward a tech-backed, seamless customer risk experience.

Reaching a tipping point

Among the CROs we spoke to[1], there is a consensus that we are now at a tipping point at which organizations that don't actively consider CRX – the impact that risk controls can have on the customer journey – may be left behind.

Moreover, it is not enough to think just about the impact that risk controls can have on the end customer experience. Organizations that are measuring and tracking CRX are realising the commercial benefits to be gained from this approach.

Methodology

The general themes and trends highlighted in this report are based on industry interviews, events and literature compiled from Q4 2022 to Q2 2023.

Case studies and statistics are based on in-depth interviews conducted by Chartis analysts in Q1 2023 with participating banks and organizations.

- Chartis interviewed 14 CROs (or equivalent).

- Based on anecdotal and evidence-supported feedback, '90%' refers to the upper range of the median, which includes Tier 1 institutions, mid-tier banks and non-banks.

Quotes and images used with permission, under agreement of anonymity.

Among the organizations we spoke to, those measuring CRX (just over half) reported that they were losing, on average, between 20% and 25% of new applications because of friction in the CRX journey. In addition, a money laundering reporting officer (MLRO) at a Tier 1 bank disclosed that the 'missed' applicants were from highly valuable customer segments.

CROs aren't just thinking of this in terms of lost revenue. They are also aware of the longer-term effects, including reputational/net promoter impacts, and even a weakened market presence. As one CRO we interviewed put it, 'Not only does this customer preterition impact an organization's bottom line directly, it has a longer-term impact of growing your competitor's market share.'

'Viewing customer-facing and back-room compliance and risk functions and processes has been talked about for years, but we are now seeing the impact of not doing this in the form of eroding market share. This is now very high on the agenda for both sides of the table.'

Risk Officer, Tier 1 bank, EMEA

The journey toward CRX

Organizations typically undergo a set of steps in the risk function in order to benefit commercially from CRX (see Figure 1).

Step 1: Realization. The 'light bulb' moment occurs and a shift in thinking is needed. Most often this happens when an organization sees one of its peers, partners or clients adopting this approach. Occasionally, the realisation comes from an analysis of the back-office impact on attrition and customer experience.

Step 2: Aligning functions. A core step in the drive toward a better experience is for front- and back-office functions to align in terms of:

- Agreement on the problem (or opportunity).

- Commitment to finding a joint solution.

- Priorities.

- Commitment to common goals, objectives and internal SLAs.

That's not to say that a solution is found at this step – merely the commitment to work together toward a common goal. This is no trivial matter – a global bank we spoke to reported that it took more than nine months of ongoing conversations to reach this level of consensus. Even at mid-tier banks, it can take months rather than weeks.

Step 3: Quantifying the gap. Measuring and analysing the existing impact of risk processes on customer experience and the uplift that CRX can deliver is often the most challenging step, for two reasons. First, organizations, especially smaller ones, often don't know what to look for and how to measure friction – let alone how to scenario-plan any changes.

Traditionally, this has been something that only the very largest institutions have been able to do.

This is in part because their processes by design (they tend to be more resource-intensive) are more robustly documented and scrutinised.

The second reason that organizations find measurement and analysis challenging is because this part of the process has often been outsourced to consultancy firms that specialise in process design.

In the era of data and analytics-rich solutions, smaller organizations are also able to benefit from analytics that can identify flaws in a process quickly.
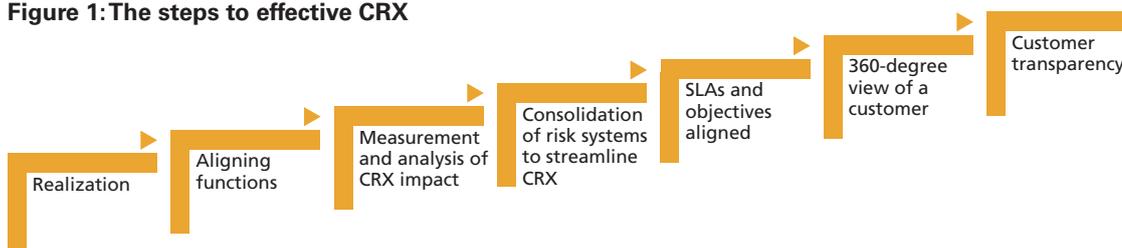
Step 4: Architecting a solution. What does CRX look like in practice? There are different routes to achieving effective CRX, but generally there are three underlying principles:

- Reduction of false positives (false positives = friction = bad customer experience) through a deeper and faster understanding of risk.

- Systemic and collective measurement of CRX pitfalls (i.e., the areas that have the greatest impact on friction and experience across the back and front end).

- Optimization of the critical path (ensuring that necessary hold-ups are mitigated by shifting activity to either side to avoid bottlenecks).

Increasingly, organizations – and in particular, mid-sized banks that lack sufficient resources – are turning to third-party vendors to drive the CRX program. In these cases, it is critical that the third-party solutions are embedded into the CRX process from the outset to enable effective tracking and measurement.

This report offers examples of different ways to architect a solution to enable CRX. In truth, however, this discipline is in its infancy and architectures will continue to evolve.

Figure 1: The steps to effective CRX

Realization → Aligning functions → Measurement and analysis of CRX impact → Consolidation of risk systems to streamline CRX → SLAs and objectives aligned → 360-degree view of a customer → Customer transparency

Source: Chartis Research

Step 5: Joint SLAs. Advanced practitioners of CRX are committing to internal SLAs that relate to the straight-through flow that is agreed upon between the front end (the customer), and commercial teams and back-end risk and operations.

This can only be the case once a proven and effective process is in place that can be tracked and adjusted easily.

FinTech firms often lead the way in inserting systematic SLAs that connect the front- and back-end teams and processes. Much of this arises because the product management function often oversees UX in both the front end and the back end, with the means to change the technological architecture to suit the optimum journey. FinTechs typically view risk controls as a core component of the customer journey, and CROs are involved in the design of customer journeys from the outset.

Currently, those who are committing to SLAs are in the minority, but ultimately we can expect this to become the norm. Joint front- and back-office SLAs go beyond simply good intentions and toward a measurable commitment. A long-term commitment to CRX will eventually need something tangible and trackable. To keep up with evolving customer expectations, SLAs should be tightened as a more seamless experience is achieved.

Step 6: Beyond CRX and toward a real-time, 360-degree customer view. This is not a near-term prospect for any of the organizations we spoke to, but those advanced in their drive toward a better customer experience are focusing on it. In essence, this is a real-time (or almost real-time) view of everything relating to a customer, from their risk profile to their purchasing or product preferences and, importantly, their customer experience.

This doesn't mean that firms should completely neglect to gain a more complete view of customer risk. All organizations, regardless of size, maturity or industry vertical, should be actively building up the number of data points and views of risk they have. There is no easy way to deliver a 360-degree customer view overnight. While in theory a 360-degree view of a customer has the same meaning across the board, the priorities of what's important in building up to a full customer view vary significantly.

Why is the idea of a 360-degree view so prized by organizations and what's different about it? This is something that has been talked about for a long time, across Marketing and Sales functions, Data Technology and increasingly in the Risk community. But many feel that we are finally at a point where a full customer view is achievable in the medium term. More importantly, there is a clear path toward achieving a nearly complete customer view by building on data and solutions continuously until this is achieved – rather than via major transformation projects.

The deeper the view of a customer, the more informed the decisions, whether these are related to initial engagement with a potential customer (accept or decline), follow up- or cross-sales of financial products and instruments, or even deal with ongoing activity (whether risk-related or commercial). This can have transformational effects on any organization.

Step 7: Transparency. While this is in its infancy as a concept, there is a drive among many institutions to provide customers with transparency and clarity on risk decisions made about their account (whether financial or otherwise) in a standardised and real-time format.

Some in the industry see this as the next revolution in risk and financial crime, but it must be executed faultlessly due to the sensitive and risky nature of the information provided.

Transparency is not something that customers expect at present in relation to financial crime – but there are signs, and banks are taking note of them, that this will be high on the agenda in the coming years. Banks and others ultimately see this as an essential part of great customer service in the future.

2. Architecting CRX

We have seen several ways that risk functions can deliver a better customer experience. Some of the ways that firms can achieve this are explored below.

Supercharging data

The most obvious and clearest way to improve the customer experience is through enriched data. This can help in increasing pass-through rates in onboarding by reducing false positives. It can also improve the experience by removing some of the steps that users need to take in the application process and by reducing the need to reach out to customers for additional information.

By embedding data points such as address and electoral data, credit scores, open banking data or even regional data with tech advances such as biometrics, face and voice control into a risk process, firms can get a better understanding of risk.

Automated risk view

Enriched data combined with other views of risk from the customer lifecycle – including behavioural analytics, location intelligence, payment and transaction analytics – can help to provide a risk

view that essentially removes the step process altogether, cutting decision times, often by up to 90%[2].

By their nature, existing client relationships hold richer data, making it easier for banks and others to assess existing customers than new clients. Nevertheless, a number of organizations we spoke to showcase highly effective levels of risk mitigation by analysing behaviour/transactions in clusters of similar customer profiles.

An example

Another bank we interviewed in our research opted to redesign its financial crime and Know Your Customer (KYC) architecture to enable greater sharing of data (risk and commercial) to form a customer view that can benefit multiple parties (see Figure 2).

A number of banks are combining elements of risk and customer lifecycle management across a streamlined critical path. They are doing this either by wholly redesigning their operations structure with a CRX focus or by building platforms that can combine the various elements of risk and customer service and automate data flows.

Figure 2: Redesigning the architecture

Before CRX
Disjointed workflow process – manual information flow focusing on reporting and auditing of customer risk factors.
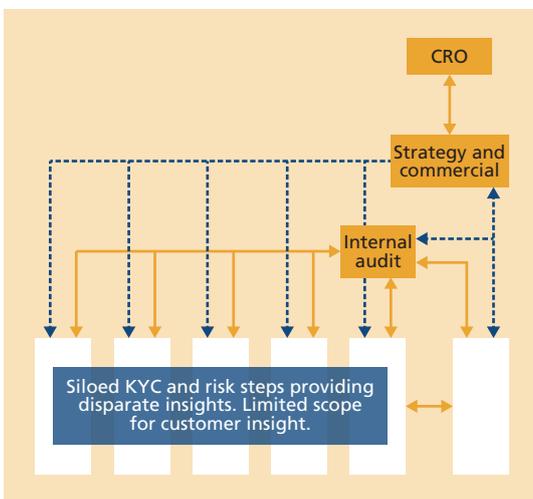
After CRX
Connected information flow enabling various parties to benefit from customer data and insight.

Source: Chartis Research

3. CRX in practice: a case study

Given that banking is arguably the most tightly regulated industry when it comes to customer risk, its customers have traditionally faced the highest levels of friction during both onboarding and ongoing commerce. This is created by factors such as multiple checks via various channels (including a user interface, phone and even in person) to multiple interactions that often involve many documents.

One of the major European banks we spoke to shared its customer workflow (a simplified version is shown in Figure 3). This included several steps where the risk and customer elements were far from optimal.

As a result, onboarding windows were, on average, two to six weeks – for fairly uncomplicated products. In addition, when the bank carried out an audit of touchpoints, it found that this process could include as many as 24 separate touch points relating to identity and money-laundering risk.

Periodic reviews were also highly inefficient because risk decisions were not standardised, meaning that most of the checks had to be carried out in full.

Adding to this, in the event of 'reapplication' (such as the purchasing of an additional product or the renewing or reviewing of products), there was a lot of overlap with the checks performed at both the onboarding and periodic review stages.

Figure 3: An example workflow at a European bank – bottlenecks across the customer experience
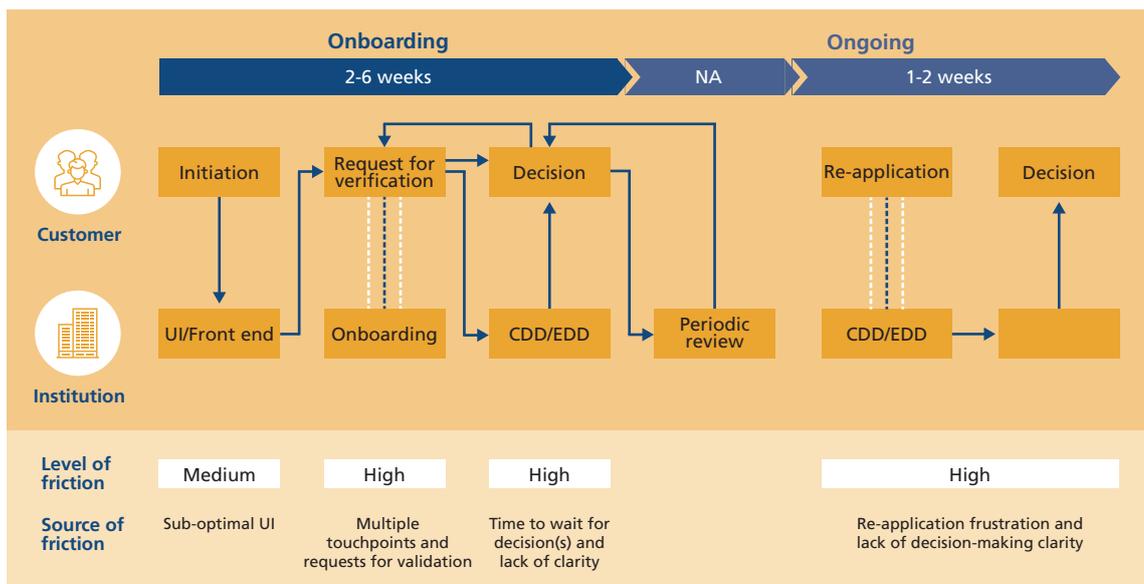
Source: Chartis Research

When moving to a CRX approach, the bank focused on automating as much of the risk assessment up front by using biometrics, enriched data and process automation (see Figure 4). In addition, it took the necessary steps in the journey across several critical paths, in order to reduce customer waiting time significantly – to less than a day for the average customer.

Creating the optimum flow

Those organizations that are seeing the greatest benefits from CRX are taking a structured and strategic approach to identifying, measuring and architecting the optimum flow, both at the customer end of the process and the back end. Two things separate the trailblazers in this space:

- A commitment to taking a customer-first approach (i.e., mapping out the optimum customer journey in unison with customers across segments and journey types).

- The realization that the optimum path is not always the one of least resistance.

Targeted friction – inserting natural risk-related 'pauses' into the customer journey – can improve the customer experience in two ways:

- By reassuring users that a merchant, bank or payment service provider (PSP) is taking appropriate action to reduce risk.

- By giving consumers time to think about the steps they themselves take to protect their identity and other valuable information, which has been shown to reduce financial crime.

Figure 4: The CRX approach in the same bank – bottlenecks are reduced
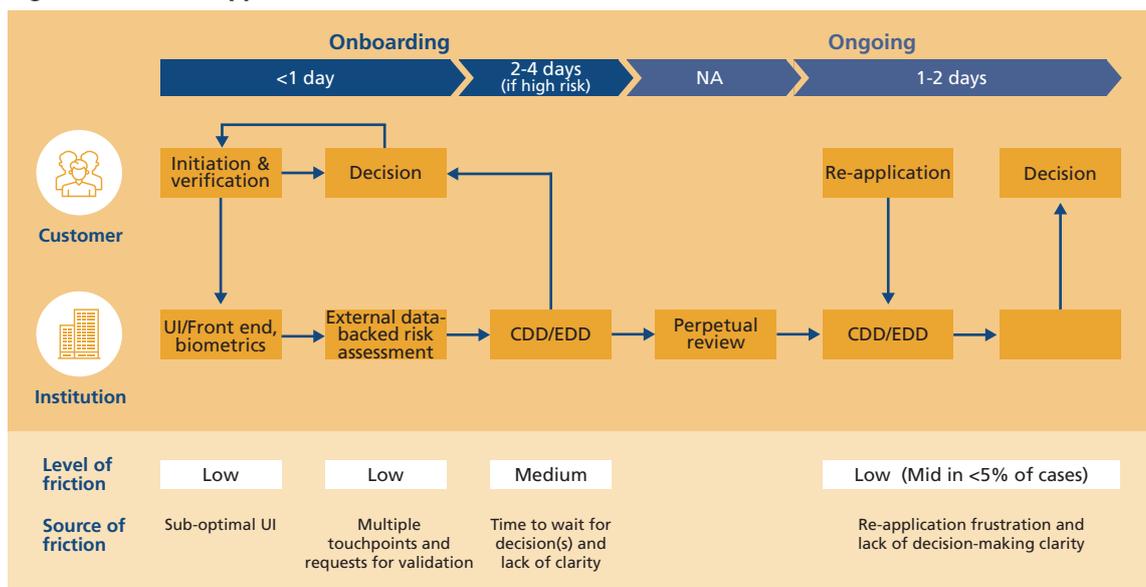
Source: Chartis Research

4. The impact of CRX

Commercial benefits

Not all organizations that are moving toward CRX are doing so with tangible competitive advantage in mind, and most don't currently measure the impact of risk-related friction on their customer experience. However, Chartis spoke to several banks (Tier 1 and mid-tier institutions) and FinTechs and found that while the business cases are very different, there are considerable gains across the board.

In our interviews, Tier 1 banks said they are most concerned about the impact that CRX can have. In their case, the concern is less about enabling growth and more about protecting their positions. This is in no small part due to two related factors:

• Their own ability to meet and exceed customer expectations.

• The ability of challenger banks – notably mid-tier firms and FinTechs – to steal market share from them because they have a more streamlined process.

As Table 1 shows, smaller organizations (such as mid-tier banks and FinTechs) have a significant early-mover advantage, so are able to cut the customer journey much more quickly, with significantly fewer resources. While the efficiency gains are much greater at Tier 1 banks, the commercial benefits are greater at smaller organizations because they are better placed to act on such opportunities. All things considered, it is hardly surprising that Tier 1 banks are extremely concerned about the threat posed by smaller rivals with a sharp CRX focus.

> *'We find that, if the risk experience for your clients in onboarding and beyond isn't optimal you will lose business. We are seeing this play out in the marketplace'*
>
> Head of Compliance Technology, Tier 1 Bank, EMEA

Table 1: The dynamics of CRX, by type of institution

		Tier1 bank	Mid-tier bank	FinTech
Speed in building CRX		Slow	Fast	Fast
Investment in CRX		High	Mid	Low
Efficiency gains from CRX		High	Mid	Low
Commercial gain	Customer service: onboarding, payments, transparency	High	High	Mid
	Retention impact	High	Mid	NA
	Market expansion (new markets)	Mid	High	Mid
	Other benefits (pricing/packaging/targeting)	Mid	High	High

NA = not applicable
Source: Chartis Research

Better ROI

Table 2 compares relative metrics, in a large Tier 2 bank in Europe, the Middle East and Africa (EMEA), before and after a CRX-style implementation. The bank had noticed significant dissatisfaction among existing customers and prospects caused by friction. Upon investigation, risk-related bottlenecks, affecting thousands of clients, were identified as key contributors to this, and areas that needed significant improvement.

Prior to undertaking a CRX transformation, the bank learned that customer attrition was rising due to an unsatisfactory experience among key customer clusters, caused by multiple reasons related to risk. A very laborious KYC process when upgrading or changing products was another main reason for customer dissatisfaction. On further investigation, the bank discovered something even starker: almost 30% of new applications were lost due to friction-filled onboarding, with the most valuable customers (in terms of their expected lifetime value) being the first to 'jump'. This amounted to significant lost business opportunities.

Table 2: Key business metrics, before and after a CRX implementation

	Before CRX	After CRX
Customer retention	94%	98%
Applications lost due to friction	~30%	<5%
Time to onboard	Average: 16 days	Average: <1 day
Cross- and up-selling	<5%	~15%
Loyalty (customer lifetime value)	–	Up by ~25%
Net promoter scores*	12	32

*In the first six months of CRX. There was some difficulty in measuring NPS for the particular individual unit.
The case study and estimates were presented by the bank to Chartis to showcase the impacts of customer risk experience with the agreement that Chartis could use this in an anonymised format.
Source: Chartis Research

5. Conclusion

CRX is the idea that customers' experience is vastly impacted by an organization's risk assessment, and can therefore be significantly improved at the back end. It is readdressing the priorities of organizations in regulated markets.

While the commercial case for CRX is compelling, it requires a significant shift in business thinking and culture. Successful practitioners of CRX have realised that this is a journey with a number of steps, all of which require systematic agreement and cooperation between the risk team and customer experience functions.

Those firms that have advanced in their CRX programs have also come to the realisation that effective CRX is a trade-off between seamless and frictionless onboarding and commerce and the manageable friction needed to reassure customers that they are in safe hands.

This journey is not always easy. But as our research has found, if a company gets it right, it can bring a tangible, long-term competitive advantage.

Recommendations

- Think about the logical steps required for your organization to improve its understanding of clients. Don't aim for everything at once. Marginal gains, when multiplied, can have a profound effect.

- Let the data do the initial hard work. Understand that 'off the shelf' data can help to answer many of the risk questions you might have.

- Put yourself in your client's shoes: test the customer journey and understand the pain points. It's the risk function's responsibility to take ownership of risk-related problems.

- A problem-free approach is not necessarily the winning one. Targeted friction can help clients feel safer, but unnecessary risk checkpoints should be avoided.

- Get buy-in from your peers. CRX can be transformational across the organization and deliver strong ROI.
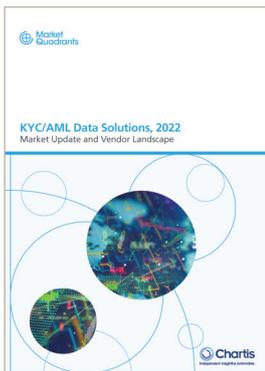
6. Further reading
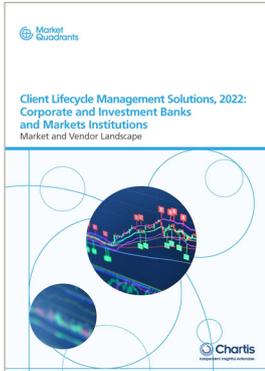
Client Lifecycle Management Solutions, 2022: Corporate and Investment Banks and Markets Institutions; Market and Vendor Landscape
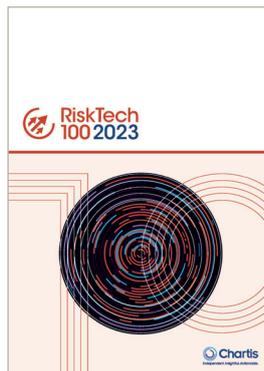

Payment Risk Solutions, 2023: Market and Vendor Landscape

KYC Solutions, 2022: Market Update and Vendor Landscape

KYC/AML Data Solutions, 2022: Market Update and Vendor Landscape

RiskTech100 2023

STORM 2023

For all these reports, see **www.chartis-research.com**