The key role of KYC compliance in driving customer loyalty, advocacy and new business

PassFort compliance experience survey report

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1. Introduction

Open a report on compliance these days and you'll read a lot about automation, efficiency, effectiveness and, above all, cost. These are all important considerations of course, and the tools and processes that help firms achieve full regulatory compliance account for billions of pounds of annual spending for global financial institutions. For their money, firms acquire the tools they need to help them comply with an ever-growing wall of regulatory demands, saving them further billions in costly fines and reputational damage.

Nevertheless, despite the stakes being so high, it can be difficult for the compliance department - from compliance IT to compliance managers and investigators - to evidence what we refer to as the 'return on compliance' their organisations' investments generate.

Consequently, compliance spending is often regarded as a 'necessary evil' and merely the 'price of entry' for firms seeking to sell financial products in highly regulated markets. This, in our opinion, is a reductive view, and this report focuses on the essential role compliance plays in the wider customer experience, looking at the significant, yet often overlooked, business value that can be unlocked by delivering high-quality compliance experiences.

Setting the scene

Most customers will only occasionally interact with their financial provider's compliance processes, and even then, only in a few specific scenarios. The behind-the-scenes monitoring of account balances and transaction activity that happens day-to-day is largely invisible, and this is how most providers like it.

However, when the bank's anti-fraud systems flag a suspicious transaction and stop a credit card, or when a customer finds themselves scrabbling around for a recent utility bill to provide evidence of their identity and permanent address, we have entered the compliance leg of the customer journey (see Figure 1).

Figure 1: Compliance is a key element of the customer journey

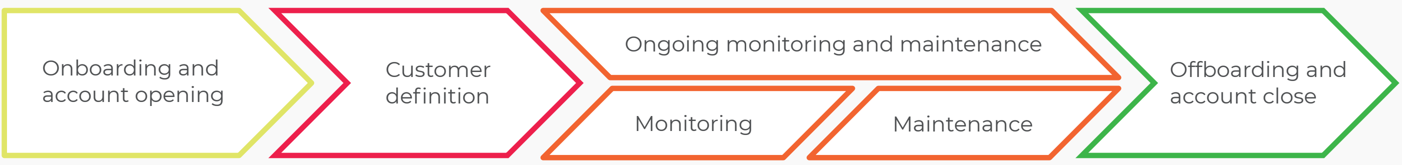
The retail banking customer journey consists of a series of stages defined by the interactions that occur between them and their providers. Within this continuum exist a number of risk and compliance-based tasks, handled under the remit of KYC, that blend with other business-focused activities such as sales and entity management.

Naturally, this can be a jarring experience for customers, who are otherwise disconnected from the compliance equation their providers are solving every day behind the scenes. Expectations of how compliance should look and feel can also vary from customer to customer.

Experiences gleaned in other areas of their lives - for example, their use of slick identity checking tools like Apple's 'FaceID' and Microsoft's 'Windows Hello' to unlock a smartphone, tablet or laptop - will inevitably bleed over to inform their perceptions of compliance more broadly (i.e. "If Apple can establish my identity like that, why can't my bank?").

The flipside is that, in many cases, customers will live with some degree of inconvenience in exchange for the goal at hand, be it that new card, loan or bank account they are after. However, this tolerance is not to be taken lightly, and we believe that a lack of focus on providing easy-to-navigate, low-friction compliance experiences for customers is leading some institutions to strike poor compromises between compliance efficiency and customer experience.

To establish whether this hypothesis is correct, we conducted a comprehensive research project to measure the perceptions, behaviours and outcomes of compliance journeys that either exceeded or undershot the expectations of customers. Our approach and methodology, as well as the detailed findings from the study, are outlined later in this report.



Onboarding and customer profiling typically involves standard KYC checks, account set-up activity and associated sales processes

Define customer segmentation (for sales and client management) and establish account entitlements, limits and relationships

Accounts monitored for suspicious activity, which protects the customer and ensures full regulatory compliance (e.g. AML, CTF, etc.)

Customer data will require periodic updating (e.g. owing to a change of address or marital status) with changes cascaded across systems

On account close or re-segmentation (e.g. migrating from mass market to wealth segment), retail records are updated (or deleted) as required

Summary findings

In summary, we found only a little over one-quarter (26%) of survey respondents had received what they considered to be a 'better than expected' compliance experience during their onboarding purchase. And, importantly, we also found a startling connection between a bank's ability to exceed the expectations of its customers in this way, and the resulting positive views and behaviours of those same customers concerning their providers. Indeed, far from being 'hidden' to the customer, compliance processes are visible and exert real influence over their attitudes towards the brands they bank with. This is crucial, since in an increasingly competitive market, customer engagement is gold dust.

As a fully-fledged branch of the customer journey, while compliance may lack the 'excite and delight' dynamics that drive other areas of customer experience - from polished channels to personalised products - we have shown that in getting these interactions right, and through exceeding the customer expectations, leading providers can move the needle in critical dimensions. Indeed, an unexpectedly positive compliance journey can, as shown in this report, tangibly impact a customer's propensity to switch, complain, purchase other products and recommend a brand.

Conversely, we found an equally strong inverse relationship in these areas, where the minority of customers for whom the compliance journey was worse than expected indicated a more strained relationship with their providers.

Besides the broader hygiene imperative of getting compliance right to avoid regulatory action, fines and bad press, there are also tangible profit- and growth-related reasons to invest in an outstanding compliance experience for customers. In this way, we believe our research proves that institutions cannot afford to invest in other areas of the customer experience while skimping on compliance. Indeed, there can be no excuses for compromise at all. While the penalties for falling short are grave, for those firms that seize the challenge and exceed customers' expectations, our research shows the rewards for delivering leading compliance journeys are significant.

Five key takeaways

In seizing the opportunities presented in this report, we suggest that institutions serving UK retail financial services customers consider the following imperatives and take action.

1 Acknowledge that compliance is a key element of the customer journey.

Far from being a mere bottom line cost and a 'necessary evil', compliance is a critical step on the retail customer journey. By delivering outstanding compliance experiences, firms stand to yield considerable benefits.

2 Maximise the opportunity to reap the benefits of high performance compliance experiences.

Firms must invest in solutions that reduce the duration of compliance checks and make them easier to complete. By limiting the documentation required, delivering easy to navigate end-to-end processes with fewer steps, and by keeping customers better informed, institutions can maximise their 'return on compliance' in the form of higher rates of loyalty, advocacy, satisfaction and cross-sell.

3 Minimise the threat of negative outcomes from below average experiences.

Minimum standards of compliance are no longer good enough, and a 'race to the bottom' on compliance quality will leave firms exposed to weaker customer relationships and higher instances of switching and complaints.

4 Be aware of new regulations concerning Consumer Duty that are set to raise standards.

Incoming rules and guidance from the Financial Conduct Authority (FCA) concerning their duty of care to retail customers will put the onus on institutions to rethink the experiences they deliver in all dimensions. Failing to provide a compliance process that empowers the customer and helps them make better-informed decisions could leave firms dangerously exposed.

5 Encourage customers to engage with their digital identity.

A key plank in delivering valuable, differentiated compliance experiences will be the wider adoption of a common digital identity. With current levels of awareness around the issues patchy at best, and with the positive outcomes delivered through biometric authentication proven beyond doubt in our research, it is in the interests of all stakeholders for firms to educate and engage UK consumers in the ongoing debate.

2. Framing the challenge

Before digging into our detailed research results, it is worth taking time to look at the compliance context within which today's financial institutions operate. To begin with, those firms selling banking products to UK customers - be they high street majors, plucky challengers, digital natives or building society mutuals - face a much more complex regulatory landscape than their pre-crisis[1] forebears.

The compliance burden for UK financial institutions has been growing steadily since the global credit crunch of 2008, which triggered rafts of new regulation in all areas of the market designed to protect and preserve the financial system. While the pace of this regulatory barrage has, in the last few years, begun to slow, institutions face fresh challenges from fundamental shifts reshaping the markets they serve. In particular, firms have seen much broader digital adoption in financial services, a trend established through a decade of sustained industry investment and turbo-charged by the global pandemic.

The impact of COVID-19

Forcing customers all over the world to lockdown at home cut access to banks' branch networks, saw telephone banking helplines overwhelmed, and presaged a rapid lurch into virtual customer service and digital delivery. As institutions pivoted sharply to keep pace with their customers, with varying degrees of success, IT projects slated to take years were concertined down to months, forcing internal teams to grapple with the nuances of delivering compliance through digital channels at a speed and scale not previously anticipated.

Also, in 2020, as the global pandemic began to bite and the first lockdowns were announced, a new wave of regulatory activity was triggered. In a joint report into UK RegTech[2] published in April 2021, the City of London Corporation cited research indicating that, by August 2020, more than 1,330 new COVID-19 related regulatory announcements would have been made by global regulators.

These drivers - the shift into digital and a new wave of pandemic-focused regulation - have once again raised the stakes in post-crisis compliance. And naturally, more rules mean more work for busy compliance teams, as well as a greater compliance overhead for customers seeking to acquire new products.

Rebounding transaction volumes

Against this backdrop, and with restrictions imposed during the pandemic easing in many markets, we are starting to see a broad-span recovery of UK financial activity. Current data from UK Finance[3] shows a 21% surge in debit card transactions in the year from July 2020 to July 2021, climbing to 1.9 billion as businesses, and the wider UK economy, reopened. Credit card transactions similarly leapt by more than 19% in the same period, reaching 312 million in July 2021.

These green shoots of recovery are also evident in the broader economy. Following a shaky start to the year, in August 2021 the ONS reported[4] a 4.8% increase in UK gross domestic product (GDP) for Q2 2021 as lockdown restrictions were lifted. GDP increased in all three months of the quarter and, according to the latest estimates from the British Chambers of Commerce (BCC)[5], the UK economy is set to grow by 6.8% in 2021 and 5.1% in 2022.

As the UK economy begins to recover, and financial activity surges, more of us will be applying for new banking products. As plans shelved during the pandemic find their way back onto the household agenda, some customers are taking the opportunity to extend their credit, driving new applications for unsecured loans, credit cards and mortgages. Other customers are thinking about how to optimise their existing portfolios, perhaps by switching a current account or savings account from one provider to another in response to a change in personal circumstances, or simply to secure better rates or service.

In all cases, whether the customer is dealing with an existing provider or a new bank or building society, each of them will need to go through some sort of compliance process to get their product application approved.

RegTech to the rescue

Compliance checks have been a feature of financial services for as long as there have been financial services. Things have moved on significantly though from the days when suspicious creditors would bite a coin to ensure it was really struck from gold and not a cheap plated imitation[6].

Today, compliance processes exist to protect the customer (e.g. by defending them from fraud and other forms of financial crime) as well as the institutions themselves (e.g. by ensuring customers can service the credit they are applying for, and that all relevant legislative and regulatory requirements are met).

To meet this challenge, many institutions have invested heavily in RegTech, a class of technologies that emerged after the global financial crisis to help firms manage the rising cost and complexity of achieving regulatory compliance.

The first wave of this RegTech revolution focused on helping institutions satisfy the demands of regulators. This was a matter of necessity, as firms scrambled to address rafts of new regulation adopted worldwide in the wake of the 2008 financial crisis. Wind the clock forward a decade and the focus shifted towards matters of cost reduction and efficiency, through the digitalisation of manual processes to free up the time of busy compliance professionals. And now, most recently, the focus has shifted again to encompass the quality of compliance, which really describes two key concepts:

1. **High quality compliance processes** go beyond the minimum viable solution to ensure institutions deliver the best possible compliance outcomes. In this context, high quality compliance is viewed as a matter of competitive advantage, providing investors and customers with confidence in a brand.

2. **Compliance quality** also, we believe, involves the creation of better compliance experiences for the end customer as a way of maximising the 'return on compliance' that institutions can yield from their activities.

The market is slowly shifting with these tides and, despite all the time, effort, and money invested in using RegTech to achieve full compliance, adoption is by no means uniform. Indeed, depending on the provider and their reliance on legacy technologies and manual processes, the compliance experience delivered to many end customers may be best described as 'functional, yet frustrating'. At their worst, such processes will likely involve extensive form filling for the customer and lengthy delays as 'know your customer' (KYC), financial crime, international sanctions, politically exposed persons (PEPs) and other critical checks are carried out by the bank.

In many cases, the approach of banks to this problem has been to reduce friction in the relevant process stacks, increasing the speed of checks and effectively trying to 'hide' the process from the customer as much as possible. As the UK economy heats up and demand for financial products rebounds, the pressure on banks to provide outstanding service right along the customer lifecycle - including through the compliance journey - will only intensify. All the more important that financial institutions acknowledge the stakes in play and ensure they are best positioned to avoid the pitfalls, and seize the rewards of delivering an outstanding compliance experience.

3. Introducing our survey

To validate our view of the importance of the compliance experience, we retained our research partner RegTech Associates to design and execute a detailed quantitative survey of 500 UK banking customers. This was conducted in August 2021 with a nationally representative customer group - split by regions, age groups and provider types - who were united in having purchased a product from their bank or building society in the previous twelve months.

Awareness and experience drive important perceptions and outcomes

We asked our respondents a comprehensive series of questions about their compliance journeys, digging into the four key themes of:

1. Awareness | **2. Experience** | **3. Perception** | **4. Outcomes**

1. Awareness

To begin with, we wanted to understand the extent to which this representative sample of UK banking customers were aware of the compliance issues surrounding their recent purchases. This key dimension of awareness was addressed in three ways:

1. Firstly, we needed to understand how customers viewed the **risks borne by each** party as a result of their product acquisition to establish their view of the stakes. For example, how much risk do they believe their current account or mortgage really poses to them or to the institution that provides it, given the recent and well-publicised explosion of online fraud that has occurred since the onset of the pandemic?

2. We then wanted to understand how they assessed their **providers' efforts to protect them** from the risk of financial crime - be that fraud, money laundering, terrorist financing, corruption, bribery, or any other typology. Did they think their providers were doing the bare minimum here, or going above and beyond to keep them safe?

3. Finally, we wanted to understand what customers thought about the **penalties their providers faced** when things went wrong. How would they quantify the reputational damage, fines, and other financial penalties their providers could be saddled with in the event they failed to deliver an acceptable standard of compliance?

2. Experience

Having measured the awareness of customers around these central compliance issues, we then wanted to understand how they thought about their recent compliance **experience**. To do this, we needed to better understand the compliance journeys these customers had been through over the last year. To accomplish this, we split the questions probing customers' compliance experiences into a set of factors that would resonate with the respondents. These included how long the process had taken to complete, how many steps were involved, how easy they had been to navigate and whether they, the customer, understood what was happening every step of the way. Customers then recorded **whether the experience in each area had been 'better', 'worse' or merely 'as expected'** with an opportunity at the end to provide an overall judgement that pulled these individual strands together into a single view of their compliance journey.

3. Perception

From experience we then turned our attention to **perception**, in an effort to understand how customers felt about their provider as a direct result of their preconceived assumptions around risk and the compliance journeys they had experienced. As before, we recognised that blunt ratings would be of little use in uncovering the insights we were looking for. And so, once again, this larger concept was broken down into specific elements we could test. These included:

1. Whether the customer agreed their provider had been **understanding** of their individual needs during the compliance process. For example, did the customer believe their provider was aware of how frustrating some checks could be, and did they take personal circumstances into account?

2. Whether they agreed their provider was **trustworthy** to administer their compliance measures. For example, did customers believe that providers imposed checks in good faith?

3. Whether they agreed their provider was **efficient** and **effective**, perhaps as a result of sparing the customer a slow or onerous process step, or by providing the right perceived balance of convenience and protection to the customer.

4. Whether they agreed their provider should be considered as a **recommended** institution - one they would willingly advocate to friends and family - based on their experiences.

5. Finally, we also asked customers a range of questions about their views on the larger issue of digital identity, including their use of **biometrics**, and how they felt about the broader national debate happening right now.

4. Outcomes

Having taken the temperature on a number of relevant issues, the final step was to understand how the perceptions driven by these assumptions and experiences would translate into tangible outcomes. Outcomes for the customer, in terms of their anticipated future behaviours, and outcomes for institutions, in terms of future customer value. We therefore asked each survey respondent whether, as a direct result of their recent compliance experience, they would be 'more likely' or 'less likely' to perform a range of critical future actions, or whether their intent was unchanged. These actions included:

1. The **purchase of further products** from their provider, to concentrate more (or less) of their business with them.

2. A decision to **switch** providers that, depending on the product at hand, could include anything from changing credit card providers to the wholesale transplantation of a main banking relationship.

3. Being moved to make a **complaint**, either directly to their provider or to the Financial Ombudsman Service (FOS) for adjudication, with the time and cost overhead that process entails for institutions.

4. Opening up and **communicating about their experiences** with friends and family, and whether they would also **post their views on social media**, be they positive or negative.

5. Whether they would **change their financial behaviours**, perhaps by eschewing a particular product set, such as cards or loans, in order to avoid the anticipated hassle of a future compliance experience.

Taken together, we believe this approach provides a comprehensive view of the whole compliance journey - from expectation to outcome - which allows us to highlight the risks and opportunities for institutions baked into the compliance experience. As the key findings below show, those who overlook this critical step in the customer journey do so at the risk of future customer loyalty, advocacy and revenue. However, for those leading institutions that commit to delivering outstanding experiences right along the customer journey, including when the customer detours onto a compliance-focused fork in the road, the rewards are considerable.

4. Survey results and key findings

As shown in Figure 2 below, the primary research underpinning our key findings is drawn from a robust and representative sample of UK banking customers. Conducted in August 2021, the survey was completed by 500 respondents from diverse social backgrounds, age groups and locations around the UK. They also bank with a range of provider types:

High Street Banks

62%

bank with one of the UK's major high street brands, reflecting the considerable market share of the so-called 'Big 5' (Barclays, HSBC, Lloyds, RBS, and Santander).

Digital/Mobile Banks

14%

bank with a digital-first provider. These include established names such as First Direct as well as newer mobile brands such as Monzo, Starling, Atom and Revolut.

Challenger Banks

13%

are with banks sitting outside the top 5 that offer the same mix of physical and digital service. Key brands here include The Co-operative Bank, TSB, Virgin Money, and Metro.

Building Societies

11%

of respondents bank with one of the UK's mutual societies. These include long-established brands such as Nationwide, Yorkshire Building Society and Leeds Building Society.

Figure 2: Survey infographic

We surveyed **500** UK banking customers who had purchased a new financial product in the previous 12 months...

Age groups reflect the wider UK population...

18-24	25-34	35-44	45-54	55-64	65+
11%	18%	14%	17%	16%	24%

...with almost equal gender split

Male	Female
45%	55%

Customers surveyed from around the whole UK...

Scotland	11%
Northern Ireland	3%
North East	4%
North West	11%
Yorkshire & Humber	8%
Wales	5%
Midlands	17%
East of England	9%
London & South East	25%
South West	8%

...with a range of backgrounds...

Higher managerial	6%
Intermediate managerial	26%
Supervisory/administrative	26%
Student	2%
Skilled manual roles	19%
Semi or unskilled manual roles	11%
Unemployed	6%
Retired	5%

...and product provider types

High Street Banks	62%
Digital/Mobile Banks	14%
Challenger Banks	13%
Building Societies	11%

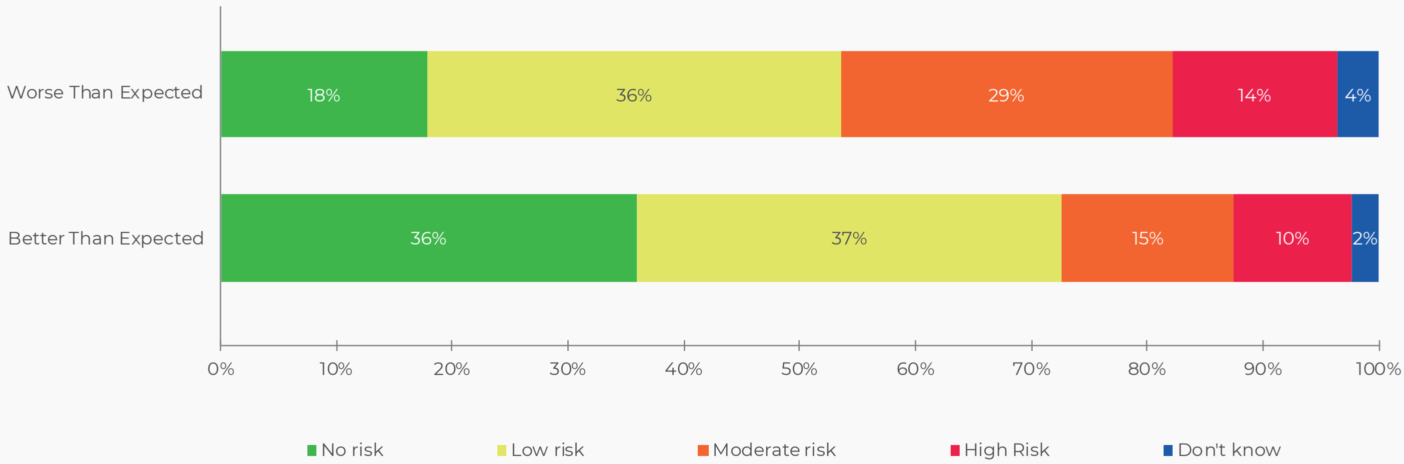
Understanding awareness

By far and away the most important finding from our study has been the value of exceeding customers' expectations of the compliance process. However, to fully understand how that dynamic works in practice we needed to begin by looking at how customers viewed the key compliance issues surrounding their transaction. This is important since, ultimately, the outcomes we have uncovered are driven by perceptions shaped both by experiences of compliance, and the customer's pre-conceived notions of it.

1. Awareness of risk

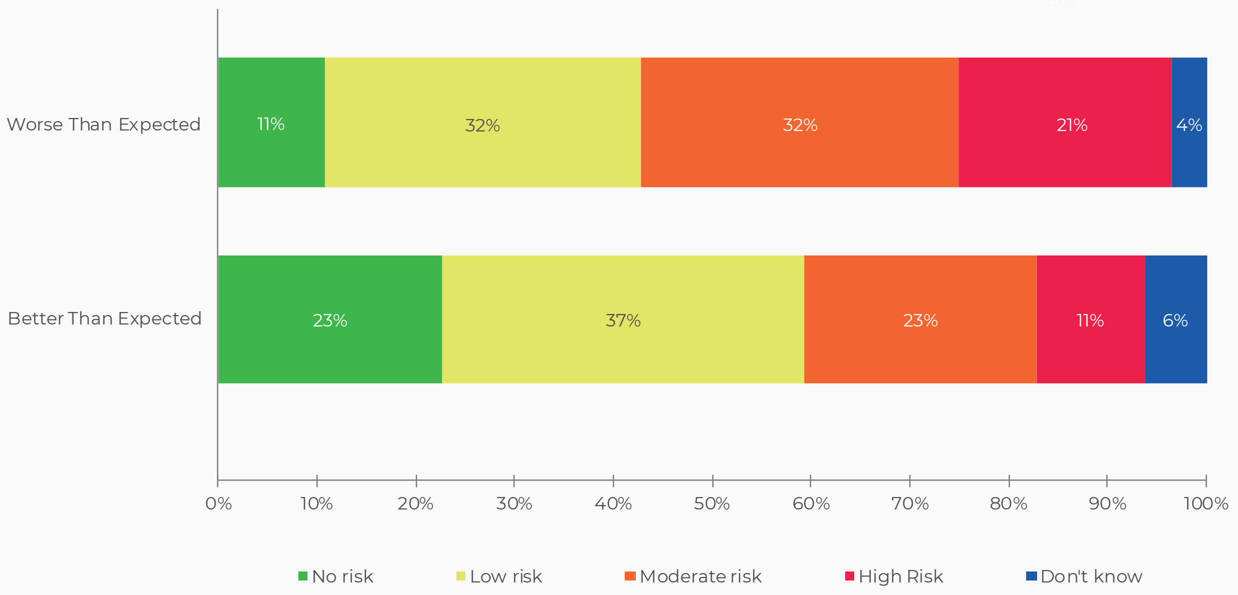
We found significant differences between customers who had been either pleasantly or unpleasantly surprised by their compliance experience when it came to their assessment of risk. For example, as Chart 1 below shows, 25% of those who received a 'better than expected' compliance journey described their personal risk as either 'moderate' (15%) or 'high' (10%). However, this figure jumps sharply for those reporting a 'worse than expected' experience, 43% of whom described their personal risk as 'moderate' (29%) or 'high' (14%).

Chart 1: Which of the following statements best describes your view of the personal risks associated with a financial product that you might buy from your bank?



We also found a similarly large gap between the views of both groups in how they assessed the risks borne by their providers. As Chart 2 illustrates, for those who received a 'better than expected' experience, 34% described their provider's risk as either 'moderate' (23%) or 'high' (11%). Once again though, this figure jumps to 54% for those reporting a 'worse than expected' experience, who described their provider's risk as 'moderate' (32%) or 'high' (21%).

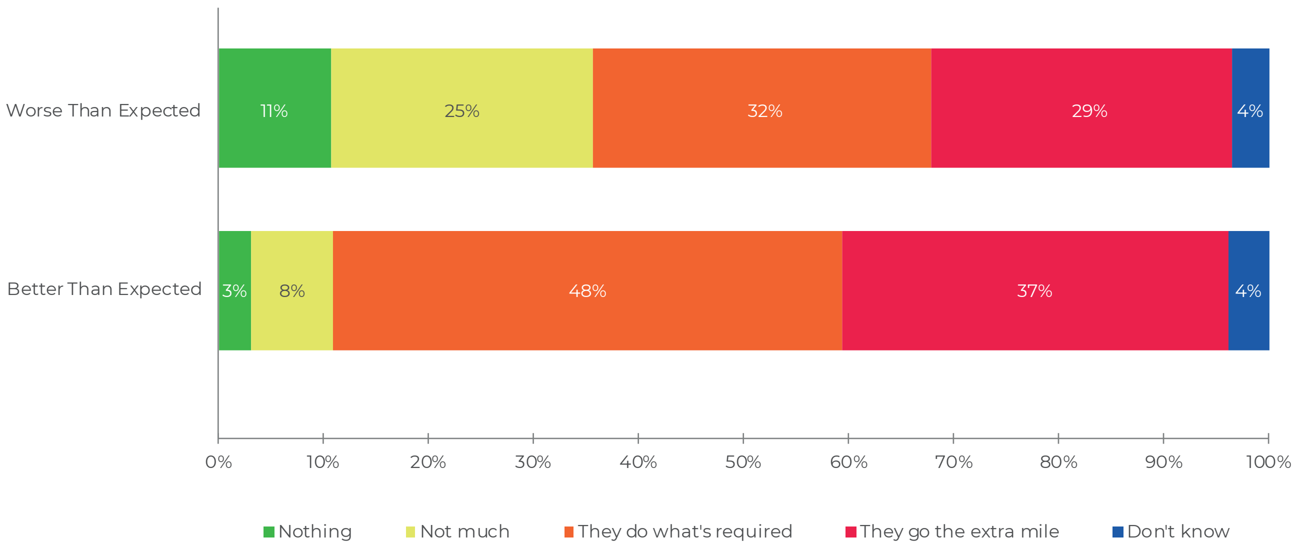
Chart 2: Which of the following statements best describes your view of the risks to the bank associated with a financial product that you might buy from them?



2. Awareness of protection

In looking at how each group assessed their providers' efforts to protect them, we again found significant variances. As Chart 3 below shows, for those who received a 'better than expected' experience, 85% said their bank did 'what was required' (48%) or 'went the extra mile' (37%). This figure drops sharply for those reporting a 'worse than expected' experience, 61% of whom agree with this assessment.

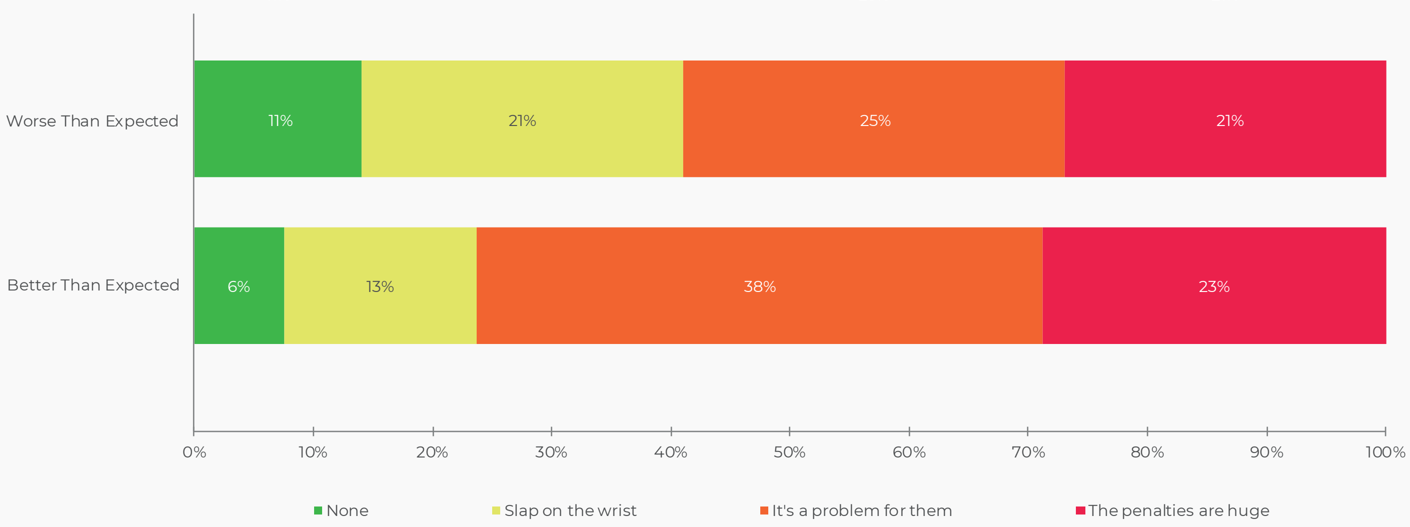
Chart 3: In your view, how much does your bank do to protect you from fraud and other types of financial crime such as money laundering, terrorist financing, corruption and bribery?



3. Awareness of penalties

Finally, we wanted to understand how customers thought about the reputational damage, fines and other financial penalties facing their providers when things go wrong. In this area, the differences between the 'better than expected' and 'worse than expected' were less pronounced. As Chart 4 below illustrates, one-third (32%) of customers who experienced a worse than expected' compliance journey regarded the penalties facing their providers as nothing more than a 'slap on the wrist', vs. 19% of those who had a 'better than expected' outcome. Meanwhile, the proportions correctly assessing the exposure of their providers to be 'huge' in this regard were equally balanced.

Chart 4: What penalties do you think financial providers like your bank face when they fail to protect customers like you from fraud and other types of financial crime?



So, what do these results tell us?

Taking everything into account, we can infer those customers receiving a 'better than expected' experience feel:

- More secure as regards their own holdings.
- More confident about the risks facing their providers.
- More positive about the protections their providers afford them from financial crime.
- More realistic in their assessment of the penalties awaiting providers that fail to meet the required standards.

This interesting set of results shows the different frames of context possessed by each of these two customer groups.

The variances between those with a 'better than expected' compliance experience behind them, and those for whom the journey was 'worse than expected' will undoubtedly help to mould the outcomes discussed later in this report.

Mapping the compliance experience

As Table 1 below shows, a little more than one-quarter (26%) of customers in our survey reported the type of positive experience described previously, with customers seeing the greatest outperformance in the areas of 'ease of following the process' (45% described that part of the journey to be 'better than expected') and ease of completing checks' (42%). Conversely, the 'amount of documentation' required to satisfy compliance checks, and the 'number of steps' involved, were the worst performing elements, with 14% and 10% respectively describing these dimensions of compliance delivery as 'worse than expected'.

Table 1: Compliance experience treasure map

Dimension	'Worse than Expected'	'Better than Expected'
Ease of following the process	3%	45%
Ease of completing checks	4%	42%
Amount of documentation	10%	16%
Number of steps	14%	13%
Time to go through checks	9%	27%
Keeping you updated	6%	21%
Overall experience	**6%**	**26%**

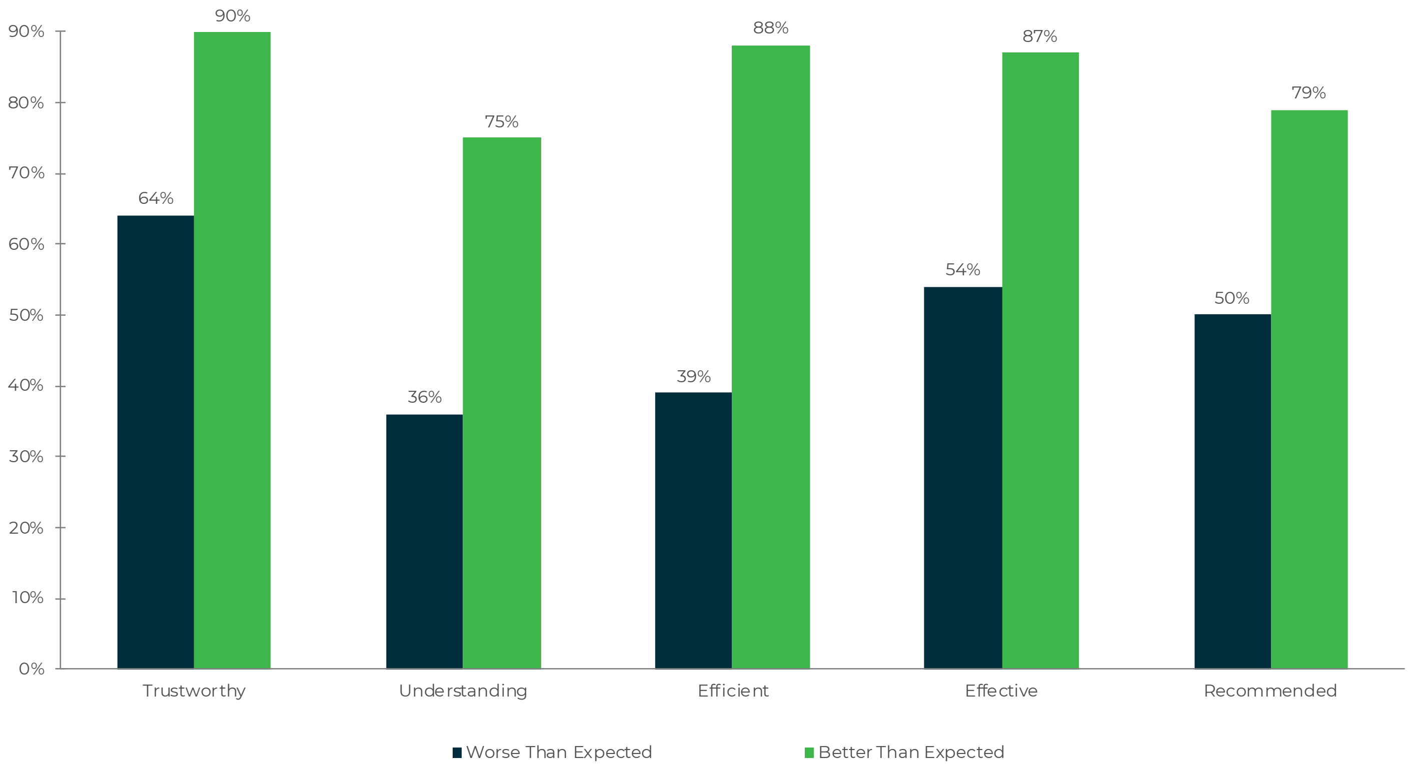
Note: percentage values may not add up to 100% owing to decimal rounding

What Table 1 really shows us then is a topographical map of the peaks and valleys encountered along a customer's compliance journey, identifying the key areas of high and low performance. In this context, we might also think of this as a 'treasure map', one showing the location of the greatest opportunities for firms to exceed customer expectations and enhance their 'return on compliance'. Likewise, while only a relatively small proportion of customers (6%) described the overall experience as 'worse than expected', knowing where those pain-points are buried can equally help target future investment. Given the toxic consequences of leaving a customer underwhelmed in the 'valleys of discontent', firms must give priority to migrating customers from 'red to green' through the provision of outstanding compliance journeys.

Perceptions

The reasons behind this loud call to action are the numerous benefits associated with outperforming customer expectations throughout the compliance journey. As Chart 5 below shows, the first area of benefit for firms is in customer perception. In short, when thinking about the compliance journey they undertook, the 26% who reported outperformance by their providers were also much more warmly disposed towards them than those who had not. Indeed, the former were more than twice as likely to consider their provider to be 'understanding' (75% vs. 36%) and 'efficient' (88% vs. 39%), with significantly stronger scores in all the dimensions tested in the survey.

Chart 5: Thinking about the ways in which your financial provider meets its compliance obligations, would you describe them as...



Remember, these responses were provided in the context of the specific compliance experience provided. When asked how that made them feel about their provider, we saw significant differences, so this is by no means a case of 'happier customers reporting happier outcomes'. Rather, this shows the importance of the compliance journey in nurturing the overall customer relationship.

Translation into tangible benefits

And those 26% of customers who enjoyed that 'better than expected' experience were not just feeling more positive about their providers, they were also more likely to behave in a positive and potentially more profitable way as a result of their compliance experience. Indeed, as Chart 6 below shows, the 26% of customers who had a 'better than expected' compliance experience were:

MORE likely to recommend their provider:

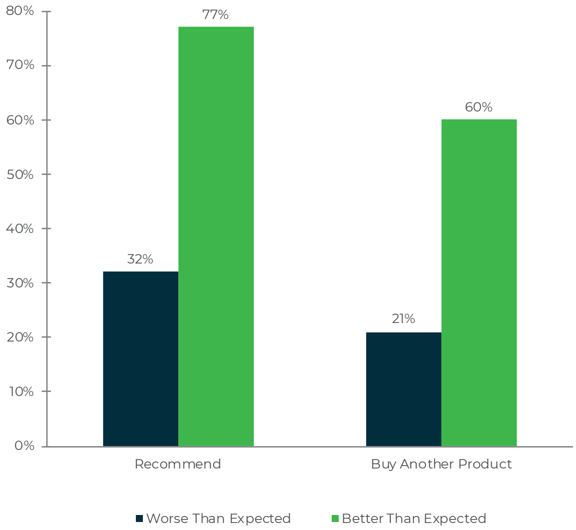
77% described themselves as more likely to recommend their provider as a result of their compliance experience. This compared with only 32% of those whose experience had been 'worse than expected'. Conversely 14% of those who reported a 'worse than expected' experience said they were less likely to recommend their provider, vs. only 2% of those whose experience had been 'better than expected'.

MORE likely to buy more products:

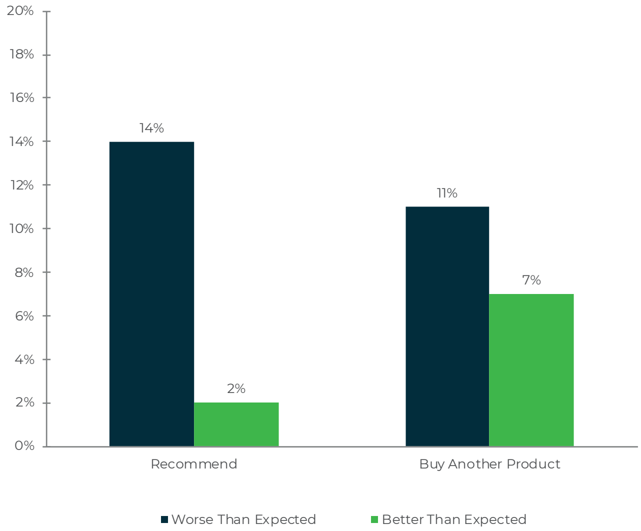
60% described themselves as more likely to buy another product from their provider as a result of their compliance experience. This compared with only 21% of those whose experience had been 'worse than expected'. Conversely 11% of those who reported a 'worse than expected' experience said they were less likely to buy another product from their provider, vs. only 7% of those whose experience had been 'better than expected'.

Chart 6: Thinking about your recent experiences of the compliance processes of your financial provider, will you be more or less likely to take the following action... (1 of 2)

LESS likely to...



MORE likely to...



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This is good news for those institutions that exceeded expectations, showing how their efforts have resulted in 2-3x uplift in two key areas of profitability - advocacy and cross sell. It also shows how a disappointing experience can negatively impact both dimensions. Importantly though, as Chart 7 below shows, an outstanding experience can also reduce negative behaviours, with the 26% of customers who had a 'better than expected' compliance experience describing themselves as:

Less likely to make a complaint:

50% described themselves as less likely to complain about their provider as a result of their compliance experience. This compared with only 14% of those whose experience had been 'worse than expected'. Conversely 29% of those who reported a 'worse than expected' experience said they were more likely to complain, vs. only 13% of those whose experience had been 'better than expected'.

Less likely to switch providers:

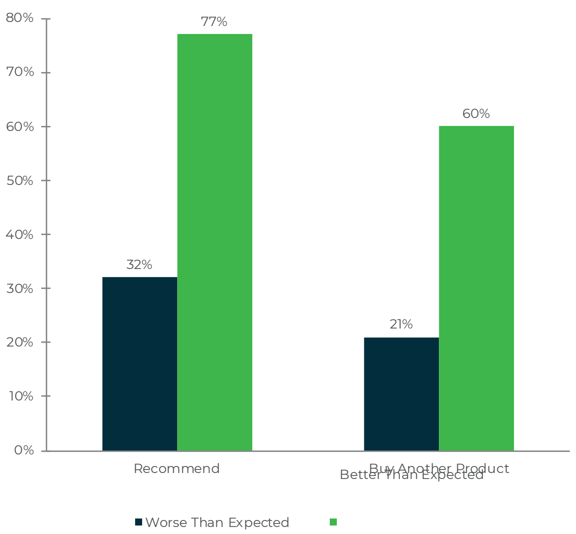
49% described themselves as less likely to switch their provider as a result of their compliance experience. This compared with only 18% of those whose experience had been 'worse than expected'. Conversely 43% of those who reported a 'worse than expected' experience said they were more likely to switch, vs. only 11% of those whose experience had been 'better than expected'.

Less likely to change their behaviour:

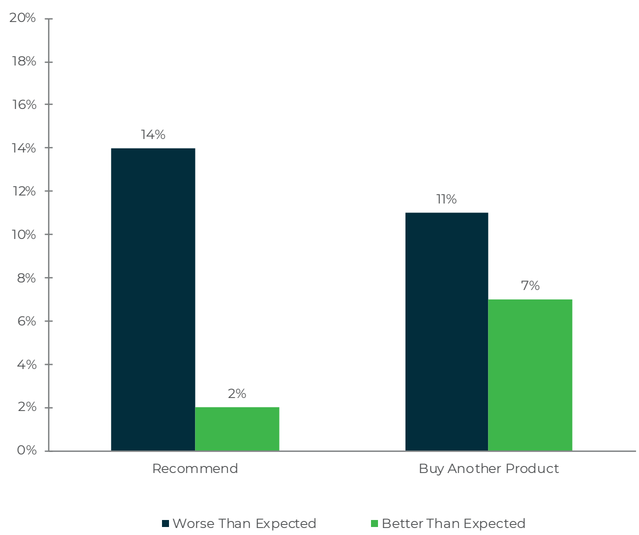
20% described themselves as less likely to change their future financial behaviour in a bid to avoid further compliance checks as a result of their latest compliance experience. This compared with only 11% of those whose experience had been 'worse than expected'. Conversely, 39% of those who reported a 'worse than expected' experience said they were more likely to change behaviours, vs. only 14% of those whose experience had been 'better than expected'.

Chart 7: Thinking about your recent experiences of the compliance processes of your financial provider, will you be more likely to take the following action... (2 of 2)

LESS likely to...



MORE likely to...



This is strong validation of the need for institutions to invest in enhancing the customer compliance experience, with further 2-3 x uplifts in all key areas, and a clear link to customer loyalty, satisfaction and willingness to engage with providers' compliance processes going forward. It should also be noted that 21% of customers who experienced a 'worse than expected' compliance journey described themselves as more likely to post about their experiences on social media, creating added peril for those at the other end of the spectrum.

77% more likely to recommend their provider

50% less likely to make a complaint

60% more likely to buy more products

49% less likely to switch providers

Solving the new return on compliance equation

As Figure 3 below shows, these findings also change the equation for those still thinking about compliance investment as a 'necessary evil'. Rather, to achieve the best outcomes from a great experience, and to avoid the worst consequences of a poor one, firms must seek to exceed customer expectations of compliance every time, using the elements outlined in Figure 1 as a simple roadmap of priorities.

Figure 3: Solving the new 'return on compliance' equation

A compliance experience that **fails** to meet customer expectations **=** Greater risk of failing to meet FCA's new duty of care requirements for regulated firms **+** (**Disapproval** + **More switching** + **More complaints** + **Less business** + **Disengagement**) **=** X **NEGATIVE** return on compliance

A compliance experience that **exceeds** customer expectations = Meets all regulatory requirements, including FCA's new duty of care proposals + (**Advocacy** + **Greater loyalty** + **Fewer complaints** + **More business** + **Engagement**) = **POSITIVE** return on compliance

FCA's 'Consumer Duty' puts further pressure on UK firms

In May 2021, the Financial Conduct Authority (FCA) published its much anticipated consultation on a Consumer Duty, which it said "would set clearer and higher expectations for firms' standards of care towards consumers"[7]. This is the culmination of several years of work by the UK regulator and has pushed the Duty of Care agenda back into the spotlight. For many firms, this new approach will require a significant shift in culture and behaviour, demanding a renewed and sustained focus on consumer outcomes, empowering customers to act and make decisions in their own best interests.

New rules and guidance are expected as soon as July 2022, and since compliance is such a critical element of the overall retail customer journey, we should definitely expect the processes that providers deliver to customers to be captured by this new initiative. Indeed, this is particularly important when it comes to the cross-cutting rules[8] that the FCA proposes, which will require firms to take all reasonable steps to:

1. Avoid causing foreseeable harm to consumers
2. Enable customers to pursue their financial objectives
3. Act in good faith

Clearly, compliance experiences that leave customers so exasperated they would change their future behaviour in order to avoid further compliance journeys are likely to draw severe scrutiny. Indeed, a number of elements of the 'worse than expected' compliance experiences reported by 6% of survey respondents could create issues for firms under these new rules.

The debate on a common UK digital identity

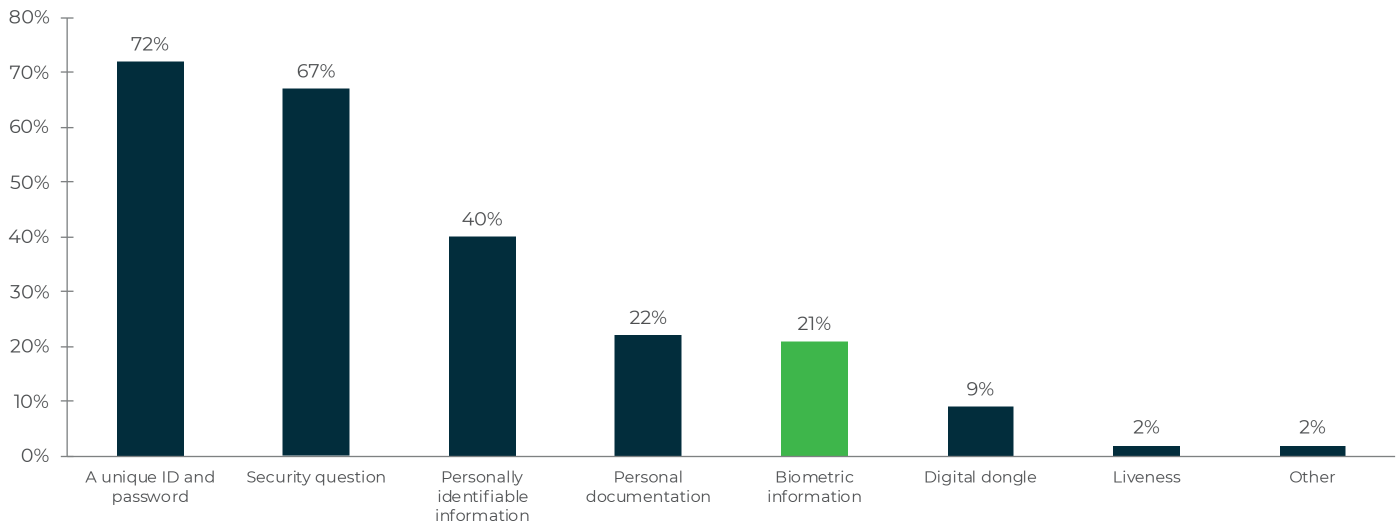
A further legislative consideration for firms to keep in mind concerns the UK debate on a single digital identity. The UK Government is committed to 'realising the benefits of digital identity, without creating ID cards and, in February 2021, they published their first set of proposals[9]. This took the form of a set of requirements for organisations seeking to provide or consume digital identity products and services and featured a draft UK digital identity together with an attributes trust framework.

These publications, which effectively established how the rules and standards needed to protect sensitive identity data when used digitally might look, were followed by a consultation[10] that ran from July to September of the same year. The themes under discussion were highly relevant to this report, concerning the best ways to bring the enhanced security and user experiences offered by digital IDs to the UK public.

However, despite the importance of the issues at hand, it was not widely publicised. And so, given the value of a common digital identity as an enabler for better compliance journeys, we wanted to understand how well-informed the customers we had surveyed felt about the debate. We also wanted to find out what experiences they had had in using some of the commercial digital identity solutions available right now - specifically if they had used biometrics to prove their identity to their provider - and whether they had reached a view on the debate, for or against, particularly in light of their recent compliance experiences.

Beginning with biometrics, as Chart 8 shows, only 21% of those surveyed had used this method to authenticate their identity with their provider in the last year. Rather, customers had been more likely to be required to use IDs and passwords (72%), answer security questions (67%) or provide other personally identifiable information (40%), all of which are far less secure than a biometric key.

Chart 8: In the last 12 months, which of the following techniques have you used to authenticate your identity with your financial provider?



Importantly, 80% of the one-fifth of respondents who had used biometric authentication described the experience as ‘great’. This strong positive experience of using biometrics should support the case for a wider digital identity, and we took the temperature concerning the debate - both in terms of awareness of the issues and support for the UK Government’s agenda - as part of our survey. As Chart 9 below shows, respondents were evenly split with 47% describing themselves as ‘well informed’ (15%) or somewhat informed (32%) about the debate. The other half (53%) of our sample described themselves as ‘not well informed’ (38%) or knowing ‘nothing’ (15%).

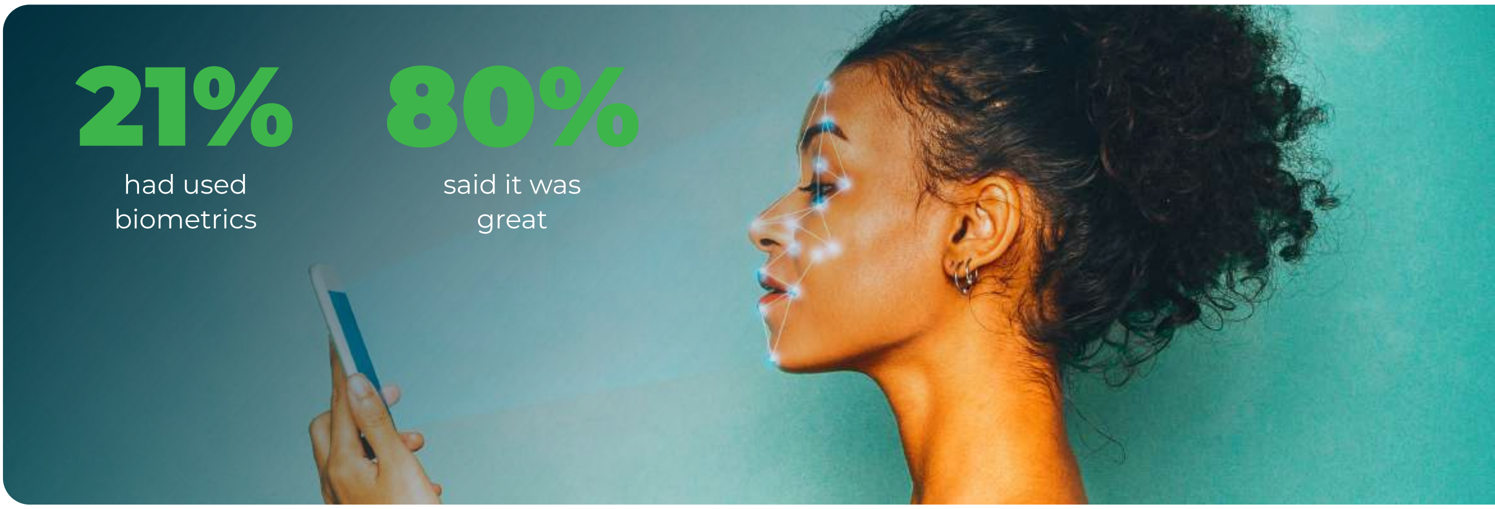
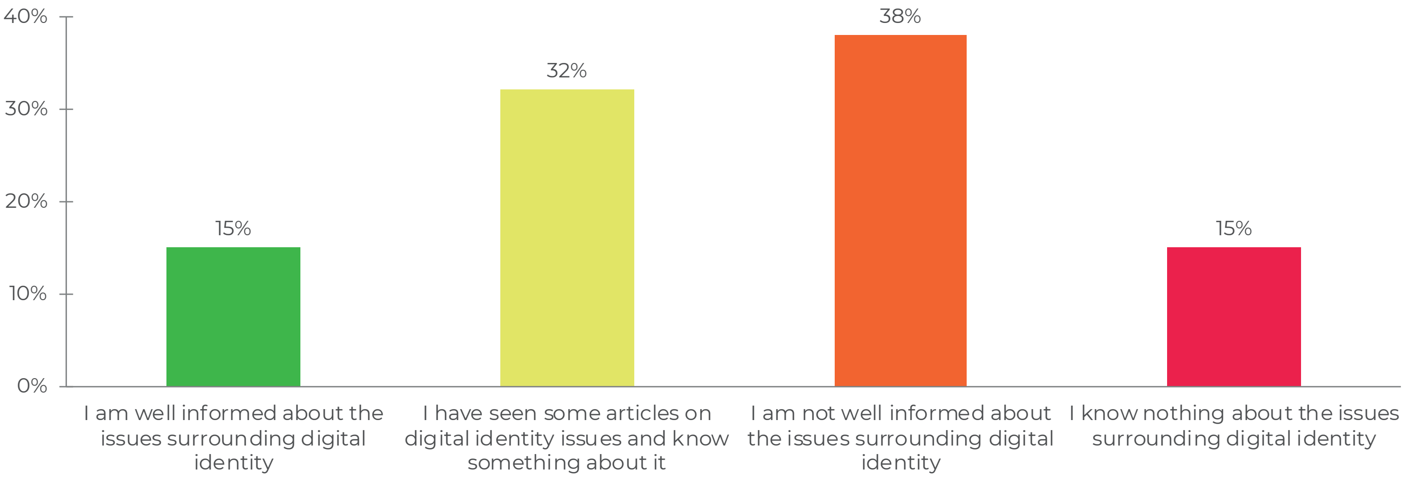
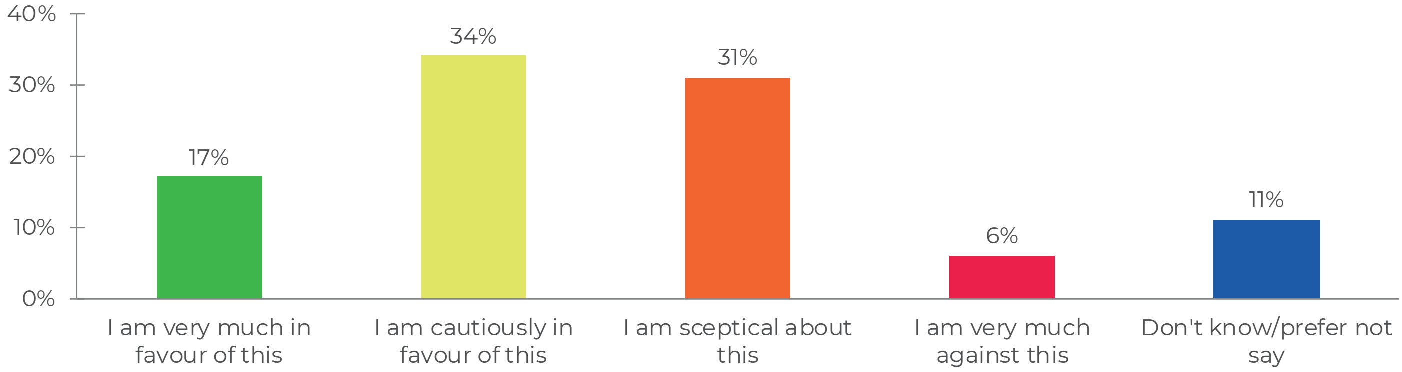


Chart 9: How would you describe your understanding of the current debate concerning a common digital identity for the UK?



When it came to their own position on digital identity, interestingly we saw a similar, tightly balanced blend of views. Indeed, the results shown in Chart 10 below are reminiscent of a certain other contentious UK national debate that was settled by popular vote back in the summer of 2016.

Chart 10: How would you describe your feelings towards the rollout of a common UK digital identity?



Here, we found only 23% of opinions were polarised, with 17% of respondents describing themselves as 'very much in favour' and 6% as 'very much against'. The remaining 77% of the survey population expressed milder views - be they cautiously favourable or sceptical - and included 11% who either did not know how they felt about the debate or preferred not to share their views. This represents a bloc of classic 'floating voters' in the UK identity debate whose views are yet to be solidified. Importantly too, factors such as quality of compliance experience did not make a meaningful difference to the position of customers nor how well-informed they felt about the issues.

Given the benefits a single digital identity might confer in terms of helping firms deliver better, faster, and more reliable compliance checks for consumers, it is in the industry's best interest therefore to do more to publicise the debate and to encourage engagement with the issues.

5. What does this mean for our industry - five key takeaways

1

Acknowledge that compliance is a key element of the customer journey.

In an increasingly competitive space, while consistently meeting customer expectations can potentially drive trust, it is not a recipe for 'exciting and delighting' the customer. Our research shows that exceeding customer expectations in a compliance setting can contribute to a stronger relationship and positive, profitable outcomes. The time when compliance was considered purely in terms of being a bottom line cost and a 'necessary evil' by leadership is coming to an end. To maximise their potential 'return on compliance', firms must ensure that investment going into other priority areas of the customer journey - such as slick channels and tailored product offerings - is shared with compliance to deliver a more even experience for the consumer.

2

Maximise the opportunity to reap the benefits of high performance compliance experiences.

The 'treasure map' provided earlier in this report shows the areas of joy and pain that exist in the compliance journey for many customers. Take time to invest in solutions that will:

- reduce the **time** it takes to conduct compliance checks
- make those checks **easier to complete** for the customer
- reduce, wherever possible, the amount of **documentation** needed
- ensure the end-to-end process is clear and **easy to navigate**
- keep the number of **steps** involved in key processes to a minimum
- keeping customers **updated and informed** on progress

Not only will an investment in better processes yield a better outcome for customers, but it will also drive more of the positive behaviours that banks want to see - in terms of loyalty, advocacy, satisfaction and repeat business - as well as delivering a higher overall standard of compliance.

3

Minimise the threat of negative outcomes from below average experiences.

The choice facing UK financial services providers is a stark one. If they continue to deliver hygiene levels of compliance experience, firms put at risk the clear upside benefits of doing better. However, should they take their eye 'off the ball' and let standards slip, they risk a consequent decline in experience that has the potential to do lasting damage to customer relationships, and trigger higher instances of switching and complaints.

4 Be aware of new regulations concerning Consumer Duty that are set to raise standards.

Allied to this point, the FCA's recent consultation on a consumer Duty of Care, will put the onus on institutions to rethink the experiences they deliver to customers. As the FCA made clear in its recent publication[11], "we want to see firms putting themselves in their customers' shoes, asking themselves questions such as 'would I be happy to be treated in the way my firm treats its customers?', or 'would I recommend my firm's products and services to my friends and family?'." In this context, the regulator will look to institutions to furnish experiences that prevent harm to consumers and enable them to pursue their financial objectives. Onerous, time consuming and poorly executed compliance journeys will not meet this new bar, presenting an urgent requirement for firms to engage beyond the simple objective of driving profitable relationships. Very soon, we believe this will be a critical matter of compliance for all firms serving retail customers in the UK.

5 Encourage customers to engage with their digital identity.

While biometrics still have some way to go before becoming the leading means for customers to prove their identity with their banks, for the one-fifth of customers we polled, in the vast majority of cases (80%) the experience was 'great'. Digital identity tools such as those backed by biometric data deliver better and more secure experiences for customers and have a significant role to play in delivering the enhanced compliance journeys described in this report. With more to do on awareness, and with minds largely undecided on the issues surrounding a common UK digital identity, financial providers are well-placed to help their customers understand and engage with the issues. Doing so will be to the benefit of all concerned.

In conclusion

We believe our research underlines the key role KYC compliance can play in driving deeper customer relationships. Beyond ticking all the right boxes at the right price, by delivering a compliance experience that exceeds expectations, regulated firms can achieve higher rates of customer loyalty, advocacy and new business.

Bottom line, there is really no compromise to be struck along the customer value chain. The time has come then for compliance to emerge from the shadows and take its place as a source of engagement and commercial value for financial institutions.

By challenging the accepted narrative around compliance - as a 'costly and necessary evil' - and by seizing the opportunities presented by a well-crafted and executed compliance experience, firms can maximise their 'return on compliance' and deliver outstanding experiences for their customers.

6. Commentary from Donald Gillies, CEO and Co-Founder of PassFort

PassFort is on a mission to transform the way compliance professionals work and the way compliance is viewed within financial services organisations. This research was therefore really important to us as a company and as part of the compliance ecosystem.

We hoped the consumer perspective given through the survey results would shine a light on the importance of compliance and the contribution of compliance professionals to the overall customer relationship and the profitability of financial services companies.

It has been a long held belief of PassFort's that there should be no compromise between compliance efficiency and customer experience. So, it's fascinating to get this deep insight into the thinking and experiences of retail financial services customers across the UK, which affirms our thinking.

The findings tell us how important compliance experiences are to customers – managing the onboarding process with excellence can create loyalty, advocacy and more revenue. Compliance moves from being a cost centre to being a source of value-add and revenue generation.

It's worth acknowledging that, in many areas, financial institutions are progressing well towards great compliance experiences. Good news, as it's in the grey areas, which may not be so hard to influence, that the biggest wins can be found. If 73% of respondents thought there were as many steps as expected in the compliance process – banks can reduce the number of steps and create more "wow" moments. And, if 73% of respondents were a bit "meh" about how they were kept up to date through the onboarding process, then communication rather than technical wizardry could be the simple differentiator.

I'm excited to share this research with financial institutions in the UK and beyond. There are tangible and actionable learnings that we hope will be useful in leading to real change, because compliance is a differentiator; it can deliver customer loyalty, advocacy and revenue; and ultimately it does influence the entire customer relationship.

Finally, I want to thank RegTech Associates, and particularly Rob Stubbs, for conducting this independent research. The results of which make three things particularly clear –

- The link between compliance experience and customer loyalty is undeniable
- The case for investment in RegTech is strong, with hard evidence for 'return on compliance'
- There are immediate and actionable steps financial institutions can take to move the needle on compliance processes and exceed customer expectations

About PassFort

Founded in 2015 by Donald Gillies and Henry Irish and headquartered in London, PassFort has supported regulated financial services companies to rapidly onboard more than 5 million customers in 197 countries, then manage risk and compliance standards throughout the customer lifecycle.

Born in the cloud, PassFort's solutions are designed for the digital economy: hardware-free, affordable, flexible to configure and easy to use, with constant feature innovation and a choice of deployment options. Our low to no-code solution thrives on complexity, solving compliance challenges at scale without being costly to implement or evolve. We support multiple customer types and product lines, with effortless expansion across 211 jurisdictions.

PassFort removes the compromise between compliance and customer experience in the fight against financial crime. More efficiency. Great customer experiences. No compromise.

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About RegTech Associates

RegTech Associates is a research company using its analysis to provide strategic insight and advice to RegTech vendors, regulated institutions and global industry bodies. We bring all sides of the market together to help vendors grow and regulated firms manage compliance more effectively.

Founded in 2017, RegTech Associates is a privately held company based in London. Our experienced team has extensive industry and regulatory knowledge and often collaborates with leading regulators to foster dialogue and industry collaborations.

RegTech Associates are also the creators of Radar, the go-to platform for professionals working in legal, risk, or compliance. The digital platform houses thousands of data points for over 1,300 products, an enriched and researched-backed insights library, and a curated industry news feed.

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References

1. Here, the term 'crisis' is used to refer to the global financial crisis of 2008, also known as the 'credit crunch'.

2. https://www.rtassociates.co/regtech-uk-research/

3. https://www.ukfinance.org.uk/data-and-research/data/cards/card-spending

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6. According to Wikipedia, since lead is much softer than gold, biting a coin is a legitimate, albeit crude way to test for counterfeiting. However, according to a recent (2017) study, the cliche of pirates biting coins to establish their authenticity is almost certainly a Hollywood myth. See https://en.wikipedia.org/wiki/Gold_coin for details.

7. See FCA website for a full overview: https://www.fca.org.uk/publications/consultation-papers/cp21-13-new-consumer-duty

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