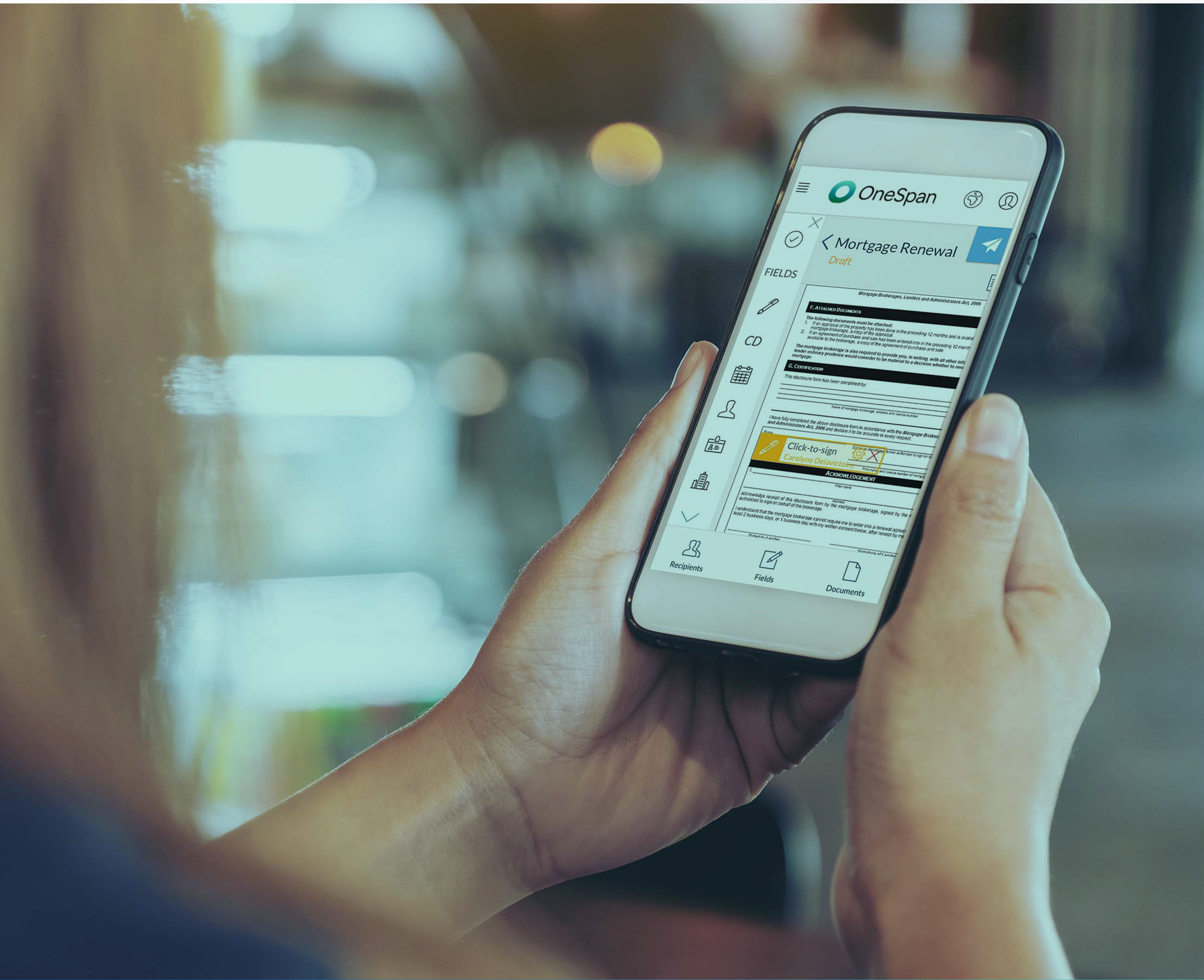
OneSpan




# Digital Agreements

## Best Practices to Remove Friction, Improve Compliance & Achieve Growth

# CONTENTS

# INTRODUCTION

## ACCOUNT OPENING AND FINANCIAL AGREEMENTS: THE FUTURE IS DIGITAL

The process of onboarding a new banking or finance customer can make or break a customer relationship. Get it right, and it's the perfect opportunity to win a customer's loyalty. Get it wrong, and it can cause customers to get frustrated and walk away.

In a recent study, Aite-Novarica found that 61% of survey respondents had questions during the online application process, so they went to the branch or called in for help.
32% indicated that the application was confusing or complicated.[1]

Financial institutions (FIs) continue to rely on manual processes such as paper forms and in-person identity verification checks – not realizingthat their manual processes carry risks. Manual or partially automated account opening processes expose FIs to operational, regulatory, fraud, and customer experience risks. Fully digitizing these processes using high-performing, secure, and reliable technologies mitigates these risks.

In this white paper, we recommend key areas to evaluate as you analyze the digitization of agreement processes such as account opening. We also explain how technology helps address issues like customer abandonment, long sales cycles, and poor customer experience.

Finally, we share insights and best practices for transforming identity verification and document signing processes to improve compliance, eliminate human error, and reduce the risk of fraud. Technologies covered include e-signature, smart digital forms, ID verification and authentication, video-conferencing, co-browsing, and audit trail capture.

> "Client onboarding is a largely manual, error-prone, time consuming, expensive, incomplete, and ineffective process. It often aggravates consumers and financial firms alike, and regulators have found it to be rife with ineffective controls that allow breaches of Anti-Money Laundering (AML) and Know Your Customer (KYC) regulations, as well as a host of other global laws and rules aimed at protecting consumers and lowering the risk profile of financial services institutions."
>
> **KPMG**[2]

# 1. GO DIGITAL

## MANUAL STEPS SLOW SALES PROCESSES AND FRUSTRATE CUSTOMERS

**55-60%**

OF ONLINE CREDIT CARD APPLICATIONS ARE ABANDONED BY CONSUMERS

**AITE-NOVARICA**[3]

**12/10**

FOR EVERY 12 NEW ACCOUNTS OPENED, 10 ARE CLOSED

**CORNERSTONE ADVISORS**[4]

For some financial institutions, account opening and onboarding processes still involve cumbersome tasks such as form filling, manual data input, or visiting a branch. Financial agreement processes can also involve a mixture of digital and manual steps.

Consider this process for a loan application: The applicant fills out their details online (digital process) and receives documents by email (digital) – so far so good. But then, they're asked to go into a branch to show ID (manual) and complete and sign paper documents in-person (manual). Add customer due diligence(CDD) checks, and the whole process can take several days due to these requirements.

No wonder so many applicants abandon mid-way.

Financial institutions with a hybrid workflow are increasingly falling short of customer expectations at a time when new challengers offer frictionless, and fully digital, experiences.

Applicants are less willing to accept slow, manual processes. They will not tolerate lengthy account opening and agreement processes involving in-person appointments, manual identity verification checks, and paper forms. Today's applicant is looking for speed, ease, and convenience – whether online, mobile, face-to-face in the branch, through the call center, or increasingly, through a virtual video conferencing session. **Friction in their journey increases the risk of lost sales and decreases an institution's ability to compete.**

When automating account opening and financial agreement processes, many financial institutions start with just one part of the process, such as adopting basic e-signature capabilities or digital application portals. These companies soon find semi automated processes insufficient both from a customer experience and risk perspective, because they drop to paper and/or require manual due diligence work during the application process.

## IF YOUR ACCOUNT OPENING AND FINANCIAL AGREEMENT PROCESSES INCLUDE A MIX OF MANUAL AND DIGITAL STEPS, ASK YOURSELF:

- **Are we offering the type of experience today's customers want?**
- **Are we losing customers due to friction? How can we reduce abandonment rates?**
- **Are digitally savvy competitors gaining an advantage?**
- **How many manual steps are there in our processes? What can we remove?**
- **How much time and money could we save by eliminating manual work?**

## HOW TECHNOLOGY CAN ADDRESS THIS ISSUE:

Technology platforms allow financial institutions to digitize each stage of the process – from identity verification to smart digital forms, signing, and secure storage of all documents and audit trails. The ability to bring new customers onboard via a fully digital journey leads to a better customer experience, higher completion rates, and faster cycles.

With the right technology, processes are completed in minutes – at a fraction of the cost. Consulting firm McKinsey has calculated that financial institutions can cut costs by up to 90% through the deployment of workflow tools and digital account opening and onboarding capabilities.[5]

# 2. STRIP OUT MANUAL CHECKS

## MANUAL CHECKS ARE INEFFICIENT AND INCREASE RISK OF HUMAN ERROR

If your account opening and financial agreement processes include manual form-filling steps, then human error could expose you to poor customer experiences and an increase i
n operational risks, leading to lost sales and higher operating costs.

There are many things people do better than machines, such as building trust and establishing relationships. But people are also prone to errors and mistakes. The cost of fixing mistakes such as incorrectly signed agreements, inaccurate data on forms or documents, or missing pages can be substantial. Forms, applications, and agreements that contain mistakes will need to be re-submitted or re-keyed and the mistakes corrected. Where this isn't possible, sales are lost.

For one major European bank, 48% of all applications involving manual data capture were re-keyed due to human error, doubling acquisition costs.

## IF YOUR DOCUMENTS NEED TO BE CHECKED FOR ERRORS, ASK YOURSELF:

- **What is our document error rate?**
- **How much do errors cost both directly and through lost business?**
- **Why hasn't the document verification step been automated?**
- **What controls are in place to ensure not-in-good-order documents cannot progress?**
- **By automating this step, can time be freed up to focus on higher value tasks?**

## HOW TECHNOLOGY CAN ADDRESS THIS ISSUE:

Technology can enforce workflow and business rules throughout the process, eliminating errors and saving millions in operational costs. Consider modernizing the form-filling experience with **smart digital forms** that enable you to deliver adaptive interview-style questionnaires that guide applicants step-by-step through the application process.

# 3. DIGITIZE ID CHECKS

## REQUIRING APPLICANTS TO BRING PHYSICAL COPIES OF THEIR ID DOCUMENTS INTO A BRANCH CAUSES FRICTION AND INCREASES ABANDONMENT

The more hoops an applicant has to jump through when opening an account or applying for a financial product, the more likely they are to get frustrated and walk away. Each stage of the process that requires an applicant to complete a manual or inconvenient task (such as printing documents, scanning, or presenting identity documents in-person), is a point of friction that contributes to a poor experience. **Poor customer experiences** lead to high abandonment rates as applicants look elsewhere.

If your processes offer applicants a poor user experience or necessitate that applicants complete time-consuming manual steps, then you run the risk of losing sales. Not only that, but manual ID checks are slower and more costly than automated checks.

Automating applicant identity verification with digital checks gives financial institutions control over the identity verification process and the ability to prove an applicant's identity quickly and compliantly.

### FRICTION IN CUSTOMER IDENTIFICATION – COMMON PAIN POINTS WE HEAR:

- Our last system had over 90% abandonment
- System is only available about 30% of the time
- We see a lot of problems with KBA Driver's license scan was taking over five minutes
- Our driver's license verification fails, which create a manual review for one of our team

## IF YOU ARE LOSING SALES DUE TO ABANDONMENT, ASK YOURSELF:

- **Are we offering the type of identity verification experience that today's customers want?**
- **How many customers are we losing due to abandonment?**
- **Are we able to tailor the experience and choose an identity verification method (or methods) according to the level of risk in the process?**
- **What changes do we need to make to verify an applicant digitally while remaining compliant with all relevant regulations?**
- **Do we have full control over the identity verification process?**

## HOW TECHNOLOGY CAN ADDRESS THIS ISSUE:

Financial institutions should invest in technology to digitally verify an applicant's identity – whether that applicant is being verified remotely or in-person. There are many digital identity verification methods, from one-time passwords (OTP) to knowledge-based authentication (KBA), to biometric verification.

These methods are offered as point solutions through multiple technology providers, but FIs that want to use multiple verification methods (or optimize the verification method for risk profiles or agreement types) should consider investing in aprovider that offers a wide range of ID verification and authentication options.

FIs should look for a provider that integrates with multiple third party identity and verification solutions, so they don't have to. This enables FIs to access a wide range of identity and verification check types, all through a single API integration and without contractual restrictions from multiple vendors. FIs can then design and adjust multi-check verification workflows over time to optimize for customer experience (CX), efficiency, and risk mitigation.

Point solutions typically offer a limited number of verification methods and require a separate integration for each solution. In addition, integrating multiple point solutions does not give FIs the ability to optimize check types and workflows for CX, efficiency, and risk, or enable FIs to change check types as requirements change or as new technologies come to market.

# 4. FIGHT NEW ACCOUNT FRAUD WITH DIGITAL ID CHECKS

## ACHIEVE KYC COMPLIANCE WITHOUT IMPACTING THE USER EXPERIENCE

> “With the COVID-19 pandemic accelerating growth of non-face-to-face interactions, banks, merchants, and others need to verify the identity of the person on the other end of a digital transaction. Document identification and verification (ID&V) solutions are growing in popularity as a way to perform identity proofing and user authentication.”
>
> **Aite-Novarica**[9]

Fighting new account fraud is an uphill battle for financial institutions. As first-party fraud continues to grow, it is increasingly important for FIs to determine and prove who they are transacting with. To mitigate the **risk of new account fraud**, many FIs are turning to technology to help them validate the identity of an applicant and prove the validated identity is genuinely the individual they are interacting with.

Automated ID checks allow financial institutions to prove they know who the applicant is (referred to as Know Your Customer verification) and that the applicant is genuinely the person they are interacting with (referred to as Prove Your Customer verification).

Know Your Customer (KYC) verification can be achieved digitally by matching application data (such as name, address, date of birth, and bank details) to trusted data sources such as voter lists and identity bureaus. This can mitigate the risk of first party, third party, and staff application fraud by screening applicant details against negative data to identify fraud and AML activity. IP geo-location, device verification, and corporate checks also contribute to building a strong verification profile for an applicant. According to Aite-Novarica, “Capturing data from an identity document enables a FI to use that data to prefill another document, such as a credit card or DDA application...It also eliminates many keying errors that normally lead to additional back-office work, thus improving operational efficiency.”[6]

Prove Your Customer (PYC) verification can be achieved digitally via methods such as two-factor authentication, SMS verification, knowledge-based authentication, document verification, biometrics, or facial comparison. “Behavioral biometrics, used by 7% of FIs, is another relatively new technology that can help in identifying human versus nonhuman or bot behavior, as well as normal applicant behavior versus fraudster behavior during the application process,” explains Aite-Novarica.[7]

**TO MITIGATE THE RISK OF FRAUD AND IMPERSONATION, ASK YOURSELF:**

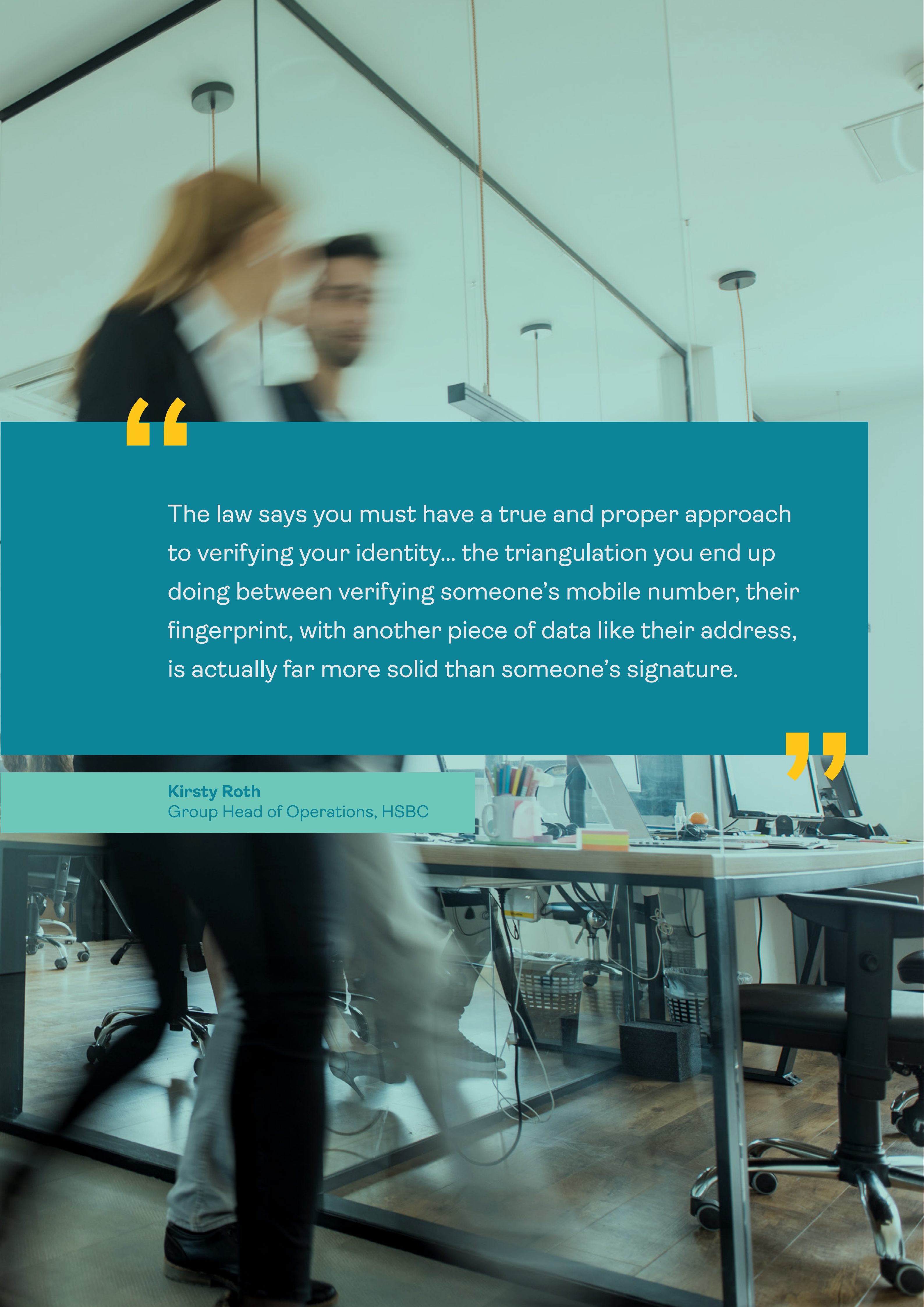
- **Does our current identity verification process fully protect us and our customers against first party, third party, and staff application fraud?**
- **Does our process prove that the applicant exists?**
- **Does our process protect against application fraud?**
- **Are we using the most appropriate identity and verification checks?**
- **Are we able to conduct multiple checks from different providers without adding friction to the customer experience?**
- **If one method of identity verification fails, can we conduct additional checks on a customer without adding risk?**

## HOW TECHNOLOGY CAN ADDRESS THIS ISSUE:

Digital verification checks allow financial institutions to prove who their applicant is and that they are in fact the person the FI is transacting with. Research from Aite-Novarica found that 90% of FIs indicate plans to implement mobile identity document capture and verification solutions within the next two years.[8]

Look for a vendor that can provide you with access to multiple KYC and authentication methods such as:

- Mobile ID document capture
- Identity document check
- Biometrics verification
- OTP authentication
- Risk assessment
- Adaptive authentication
- And more



> The law says you must have a true and proper approach to verifying your identity... the triangulation you end up doing between verifying someone's mobile number, their fingerprint, with another piece of data like their address, is actually far more solid than someone's signature.

**Kirsty Roth**
Group Head of Operations, HSBC

# 5. FORMS MODERNIZATION

## TURN LONG, COMPLEX PDFS INTO MOBILE-READY, INTELLIGENT FORMS

Clunky and complex forms add unnecessary friction to digital agreement processes. Forms automation and modernization is key to minimizing this friction and ultimately reducing abandonment. Smart digital forms provide your customers with a faster and friendlier experience that is less prone to errors.

### IF YOU ARE EXPERIENCING HIGH APPLICATION ABANDONMENT, ASK YOURSELF:

- **How are forms used in the application process to capture data from the consumer?**
- **Are your forms mobile-ready?**
- **Are applicants abandoning the form-filling process before they get the opportunity to e-sign the agreement?**
- **Are you able to deliver an adaptive interview-style questionnaire to make it easy for applicants to complete the application process?**
- **Do you offer guided forms and conditional logic to capture only the necessary data based on the applicant's responses?**

### HOW TECHNOLOGY CAN ADDRESS THIS ISSUE:

- Smart digital forms enable you to phase out clunky PDF forms and introduce mobile-ready, guided customer experiences that reduce abandonment
- Modernize the experience and incorporate experience driven workflows with conditional logic to capture data and signatures
- Save time, reduce errors, and eliminate Not in Good Order (NIGO) forms

# 6. HUMANIZE THE AGREEMENT PROCESS

## RECREATE THE POWER OF A FACE-TO-FACE MEETINGS – VIRTUALLY

BEFORE COVID-19

**15%**

OF CONSUMERS HAD USED A VIDEO CALL TO COMMUNICATE WITH AN ADVISOR.

**35%**

NOW PREFER A VIDEO SOLUTION TO A FACE-TO-FACE MEETING.[11]

Financial institutions traditionally relied on face-to-face meetings with customers to complete complex, high-value agreements. But in our increasingly remote world, a new set of requirements needs to be considered to achieve the same level of trust and engagement. Institutions that can securely engage and transact with their remote customers will have a clear advantage over those that are unable to replicate the in-person experience.

According to research from Aite-Novarica[10], as financial activities get more complex, consumers tend to turn to channels where they can get human help and assistance. Despite a surge in all things "digital", customers still value the human connection. That's why a human-digital hybrid approach in the financial services industry will be an important combination.

There is burgeoning demand for a human touch. Accenture notes that comfortability with and even desire for online video conferencing solutions is growing. Before COVID-19, 15% of consumers had used a video call to communicate with an advisor. Now, 46% said they would be willing to do so, and more importantly, 35% now prefer a video solution to a face-to-face meeting.[11]

> "...customers will continue to use digital, but when that moment is there, when they need a human, we'll be able to connect them to a human being. That's our approach in terms of how we're thinking about digital and that human connection."

**Ankit Bhatt**
EVP and Consumer Chief Digital Officer - US Bank[12]

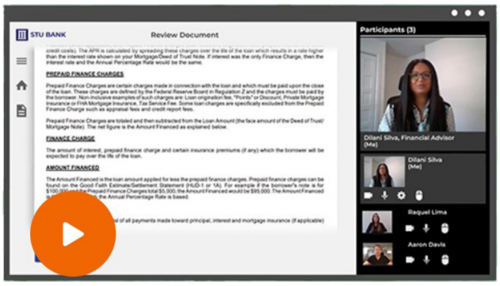
## IF YOU HAVE COMPLEX, MULTI-STEP FINANCIAL AGREEMENT PROCESSES, ASK YOURSELF:

- **Are the agreements normally mediated by a human (e.g., advisor, agent, contact center representative)?**
- **Are the agreements high-value or high-risk and would benefit from human assistance to drive higher completion rates?**
- **Am I able to infuse human help into our current digital agreement processes?**

## HOW TECHNOLOGY CAN ADDRESS THIS ISSUE:

- Video-enabled communications help mimic a face-to-face environment where you can add the human touch and develop a relationship with your customers
- Strong identity verification and authentication options ensure you know exactly who you're transacting with and that all participants in the agreement process are who they claim to be
- Co-browsing facilitates real-time collaboration, the ability to review the terms and conditions, and reduces missing and incorrect information in account applications and forms
- Comprehensive audit trails help to satisfy the legal and compliance requirements for a legally binding agreement

**BRING THE HUMAN ELEMENT TO YOUR REMOTE SIGNING AND AGREEMENT PROCESSES**



# 7. COLLECT DIGITAL AUDIT TRAILS

## PROVE COMPLIANCE AND AVOID REGULATORY FINES

Financial institutions are being audited more frequently than ever, and senior executives are being held both legally and financially responsible for the decisions they make. FIs should look to capture as much detail as possible about the transactions that take place with customers and partners, so that they are able to prove compliance when required to do so.

**Compliance and enforceability** are major concerns for financial services companies. Failure to carry out each step in the agreement process according to the regulations of a particular jurisdiction could lead to fines for non-compliance from regulating bodies. Technology can help FIs deal with different regulations and capture audit trails to prove that fair and compliant practices were followed, and that applicants were fully aware of what they were signing up for at the time of opening an account or applying for a financial product.

Since 2008, financial institutions around the world have paid over $321 billion in fines.[13] These fines are largely due to financial and regulatory misconduct or an inability to provide evidence to prove that compliant processes were followed.

## TO DETERMINE IF YOU COULD BE AT RISK OF NON-COMPLIANCE, ASK YOURSELF:

- **Is our account opening and customer agreement process fair and compliant?**
- **If so, how do we collect evidence to prove it?**
- **Do we capture an audit trail throughout the process?**
- **Does the audit trail prove the identity of the applicant as well as what the applicant saw and did during the agreement process?**

## HOW TECHNOLOGY CAN ADDRESS THIS ISSUE:

Technology can directly address the issue of legal enforceability by capturing an audit trail of the entire agreement process.

## THIS AUDIT SHOULD INCLUDE:

- **Evidence of the identity of the applicant**
- **Evidence of exactly what the applicant saw throughout the transaction (such as terms and conditions)**
- **Evidence of exactly what the applicant did during the transaction (such as confirming that they read and agreed to the terms and conditions of the agreement)**

The audit trail should also be stored in a tamper-proof and secure digital file. This strengthens a financial institution's ability to enforce an agreement if challenged.

# 8. PROVIDE STRONG & PERSUASIVE EVIDENCE

## ENSURE AUDIT TRAILS ARE COMPLETE AND TAMPER-PROOF

As well as capturing audit trails to prove compliance, financial institutions should consider whether those audit trails are strong and persuasive enough to to be legally defensible.

Strong and persuasive audit trails need to have integrity and be easy to understand. If audit trails do not meet these criteria, then financial institutions risk unenforceable agreements. Audit trails that are incomplete or that have not been tamper-sealed may be considered unenforceable if challenged by an applicant, customer, judge, regulator, or auditor.

### E-SIGNATURE LAWYER LORNA BRAZELL ADVISES THAT AUDIT TRAILS SHOULD:

- **Be a derivative of a specific transaction and that transaction only**
- **Be stored in one location only (not stored in bits and bytes across multiple folders and systems)**
- **Not have changed by accident or design**
- **Not have been lost or deleted (wholly or partially)**
- **Be easy to find and retrieve**
- **Be easily intelligible by non-technical individuals**[14]

Audit trails that meet these criteria contribute to a stronger position with regards to compliance, fair conduct, and agreement enforceability.

## IF YOU ARE UNSURE WHETHER YOUR AUDIT TRAILS ARE STRONG AND PERSUASIVE, ASK YOURSELF:

- **Is each audit trail linked solely to its corresponding transaction?**
- **Are our audit trails spread across different file storage systems or archived with third-party vendors?**
- **Are our audit trails tamper sealed**
- **Could our audit trails be lost or deleted?**
- **Do our audit trails cover every step in the agreement/sign-up process, including identity verification and authentication?**
- **How easy is it to find and access our audit trails?**
- **Are we dependent on internal IT or third parties to retrieve, explain, or verify our audit trails? If so, are our audit trails accessible in perpetuity?**
- **Is it possible to store and move our audit trails without compromising their integrity?**
- **Are our audit trails easy for non-technical people to understand?**

## HOW TECHNOLOGY CAN ADDRESS THIS ISSUE:

Technology platforms that digitize account opening and financial agreement processes can capture an audit trail of exactly what the applicant saw and did during a transaction and store that audit trail in a secure and tamper-proof way.

The right platform will also provide the flexibility for the audit trails to be stored in the financial institution's system of record without compromising their integrity.

# 9. DEPLOY A FLEXIBLE SOLUTION

## FUTURE-PROOF AGAINST MARKET, LEGAL, AND REGULATORY CHANGES

Change is an inevitable part of the financial services industry. It comes in many forms and can be caused by factors from within the business or outside of your control.

Adapting to these changes requires processes and technology that can be easily updated. If technologies cannot be updated, digital account opening and financial agreement processes **risk becoming non-compliant, obsolete, or operationally expensive.**

### IF YOU REQUIRE THE FLEXIBILITY TO ADAPT TO FUTURE CHANGES, ASK YOURSELF:

- **Is it likely that new regulations will impact our account opening and agreement processes?**
- **Are we likely to expand into new geographies or product areas?**
- **Is it possible to update our processes as changes occur? Can this be done without multiple integrations and prohibitive costs?**

### HOW TECHNOLOGY CAN ADDRESS THIS ISSUE:

Financial institutions should look for technology providers with digital solutions that are future proofed against both internal and external change factors.

Future-proofed solutions will include factors such as the flexibility to add additional steps to a workflow or otherwise adapt a workflow. These additional steps could include the requirement for an applicant to read an extra document, check an extra box, consent to new terms, or verify their identity using a new method.

# CONCLUSION

Financial institutions face an increasingly competitive market. In a recent survey, researchers found that four out of five reasons applicants would use a non-traditional finance provider relate to user experience.

In this competitive environment, FIs with the best customer experience will win new customers and secure the ongoing customer loyalty needed to drive growth. To achieve this goal, FIs must fully digitize services such as account opening and agreement processes.

## FINANCIAL INSTITUTIONS THAT EMBRACE CHANGE MUST DO SO WITH TWO GOALS IN MIND:

**1.**

IMPROVE THE CUSTOMER EXPERIENCE WITH A SEAMLESS DIGITAL PROCESS.

**2.**

REMOVE THE RISKS INHERENT IN THEIR EXISTING, PAPER-BASED ACCOUNT OPENING AND FINANCIAL AGREEMENT PROCESSES AND MITIGATE ONGOING RISK.

Financial institutions looking to achieve both goals should start by identifying areas of hidden risk in their existing processes – whether operational, compliance, CX, fraud, or enforceability risks. They should then look to adopt processes and purpose-built technologies that mitigate these areas of risk.

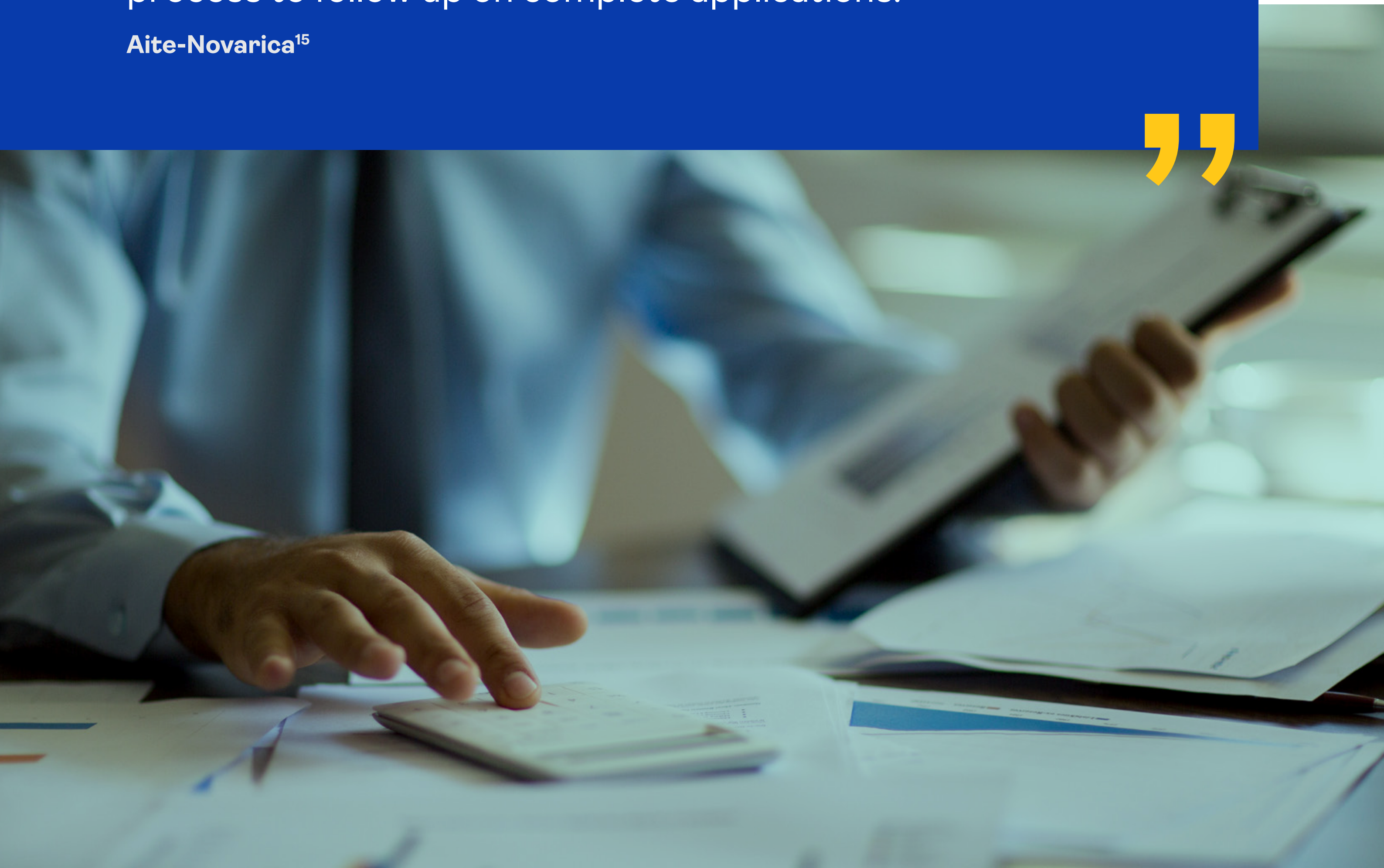
The benefits for those that achieve these two goals are huge – a better customer experience due to low friction, as well as increased sales, reduced operational costs, and enforceable agreements. For those that don't, the costs are significant. Financial institutions looking to avoid non-compliance, regulatory fines, lost sales, and legal disputes should act today.

## Abandonment Rates for Digital Applications

- 20-45% of digital checking account applications
- 20-26% of auto and personal loan applications
- 55-60% of online credit card applications

Success varies by financial institution type, risk tolerance, technology used, products applied for, channel applied in, and process to follow up on complete applications.

**Aite-Novarica**[15]



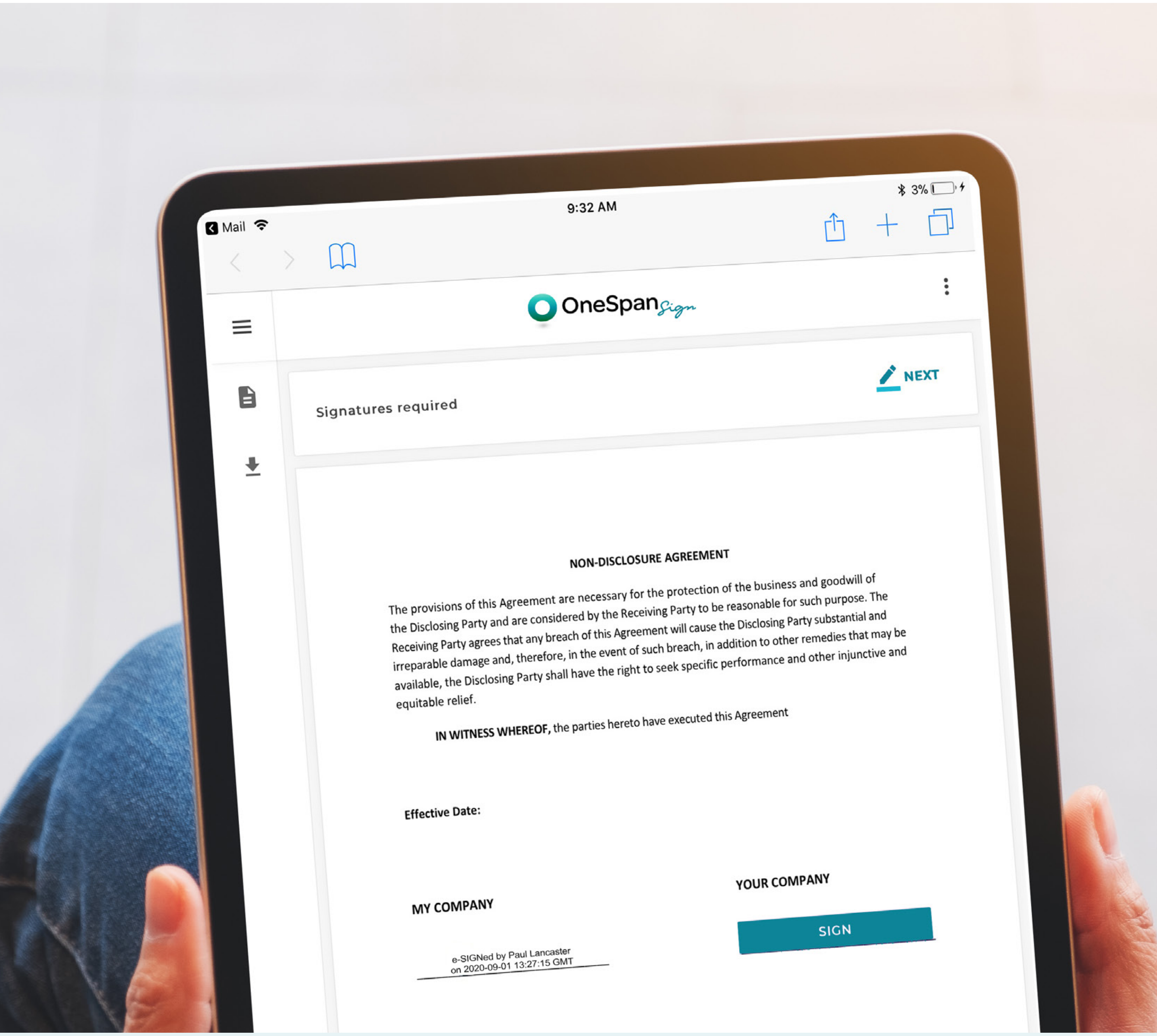
## ENDNOTES


1 Aite-Novarica, The Rise of Digital-First Banking, 2020
2 KPMG, Transforming Client Onboarding, 2018
3 Aite-Novarica, research interviews with 24 executives, January to May 2019
4 Cornerstone Advisors, Don't Abandon Me: Reducing Friction in Online Account Opening with Digital Identity Verification, 2020
5 McKinsey, The Rise of the Digital Bank, 2014
6 Aite-Novarica, Application Fraud: Fighting an Uphill Battle, 2018, page 23
7 Ibid., page 11
8 Ibid.
9 Aite-Novarica, Global Document Identification and Verification – Market Overview, July 2021
10 Aite-Novarica, Application Fraud: Fighting an Uphill Battle, 2018
11 Accenture, Global Banking Consumer Study, 2020, page 19
12 Banking Dive, How U.S. Bank tripled its digital account openings, March 17, 2021, https://bit.ly/3uuQFER
13 Reuters, Banks paid $321 billion in fines since financial crisis: BCG, March 2, 2017, https://reut.rs/3wAc7ut
14 eIDAS and E-Signature: A Legal Perspective, Lorna Brazell, onespan.com/resources/eidas-and-e-signature-legal-perspective
15 Aite-Novarica, research interviews with 24 executives, January to May 2019


## About OneSpan

OneSpan, the digital agreements security company, helps organizations accelerate digital transformations by enabling secure, compliant, and refreshingly easy customer agreements and transaction experiences. Organizations requiring high assurance security, including the integrity of end-users and the fidelity of transaction records behind every agreement, choose OneSpan to simplify and secure business processes with their partners and customers. Trusted by global blue-chip enterprises, including more than 60% of the world's largest 100 banks, OneSpan processes millions of digital agreements and billions of transactions in 100+ countries annually.

Learn more at **OneSpan.com**
Contact us at **www.onespan.com/contact-us/onespan-sign**




OneSpan

## AUTOMATE YOUR B2C DIGITAL AGREEMENT PROCESSES