

**FS**tech

**HID**

How are financial institutions keeping customers safe while reducing friction?



# Introduction & Methodology

FStech and HID Global, a leader in secure identity solutions, conducted a survey to assess key challenges and opportunities for financial institutions (FI). Questions explored the use of new technologies for identity verification, authentication and risk management to keep customers safe and satisfied throughout the digital banking journey.

## Introduction

As consumers adapt their habits and increasingly transact online, demand for digital financial services has risen exponentially. Consumers now expect user-friendly apps and seamless journeys at the touch of a button, but they also want FIs to protect their financial data in an increasingly complex fraud and cyber security threat landscape.

As a result, FIs are under pressure to provide smooth onboarding processes, featuring the most up to date biometric authentication and identity verification technology. At the same time, they must also ensure that the regulators have the data they need to ensure compliance with Know Your Customer (KYC), Anti-Money Laundering (AML) and General Data Protection Regulation (GDPR) legislation.

In today's digital world, consumers are eager to prove their identity from their smartphone or device as part of a fully digital onboarding process. However, they want to be able to do this in a matter of hours or even minutes. This survey shows that just 14 % of FIs are currently aiming to deliver digital onboarding in less than an hour, while nearly a quarter still have a target of 'less than a week'. This highlights the risk for FIs of losing customers at the first hurdle if they are made to wait a number of days.

This report offers a representative snapshot of key trends for FIs as they look to implement digital technologies to speed up onboarding and provide seamless customer journeys, while ensuring data security and compliance.

## Methodology

Senior professionals from various financial institutions in the UK and Europe were surveyed for this report, covering sectors across banking, insurance, asset and wealth management and FinTech.

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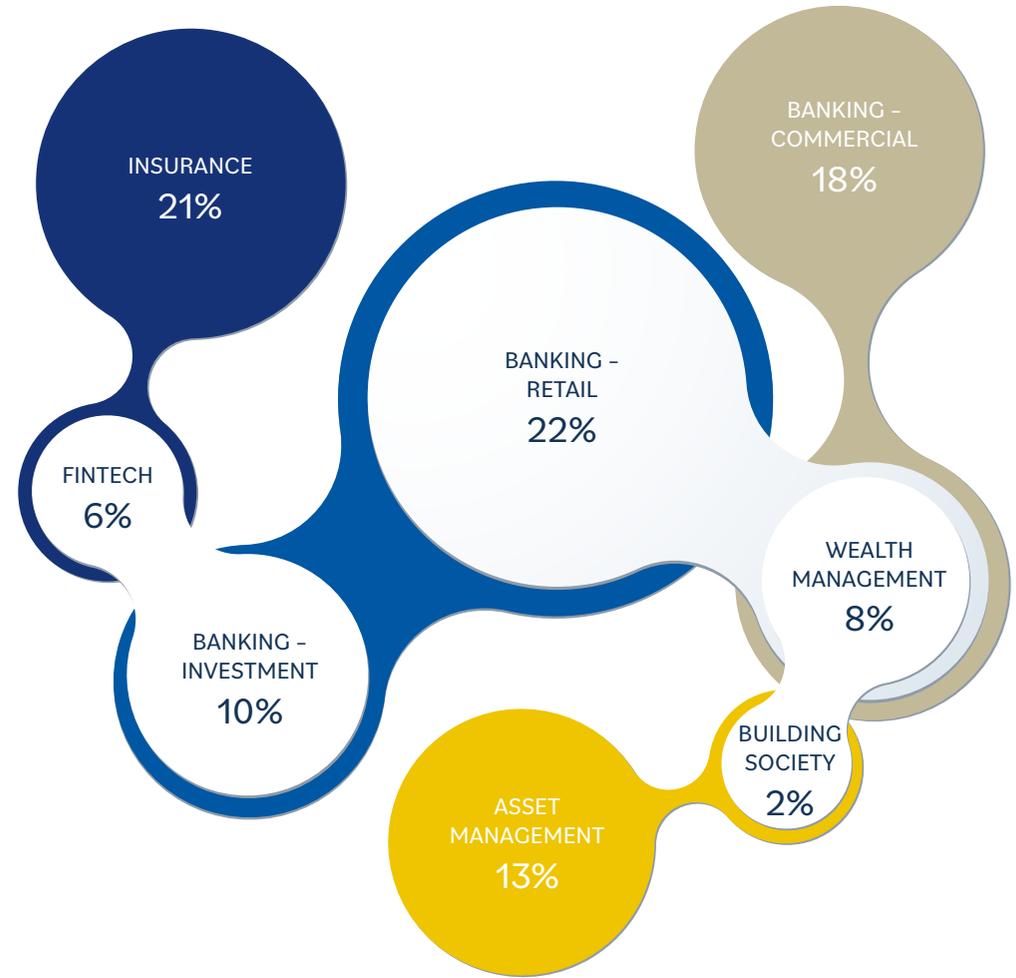
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## Industry segment breakdown of sample

*(rounded to the nearest decimal point):*

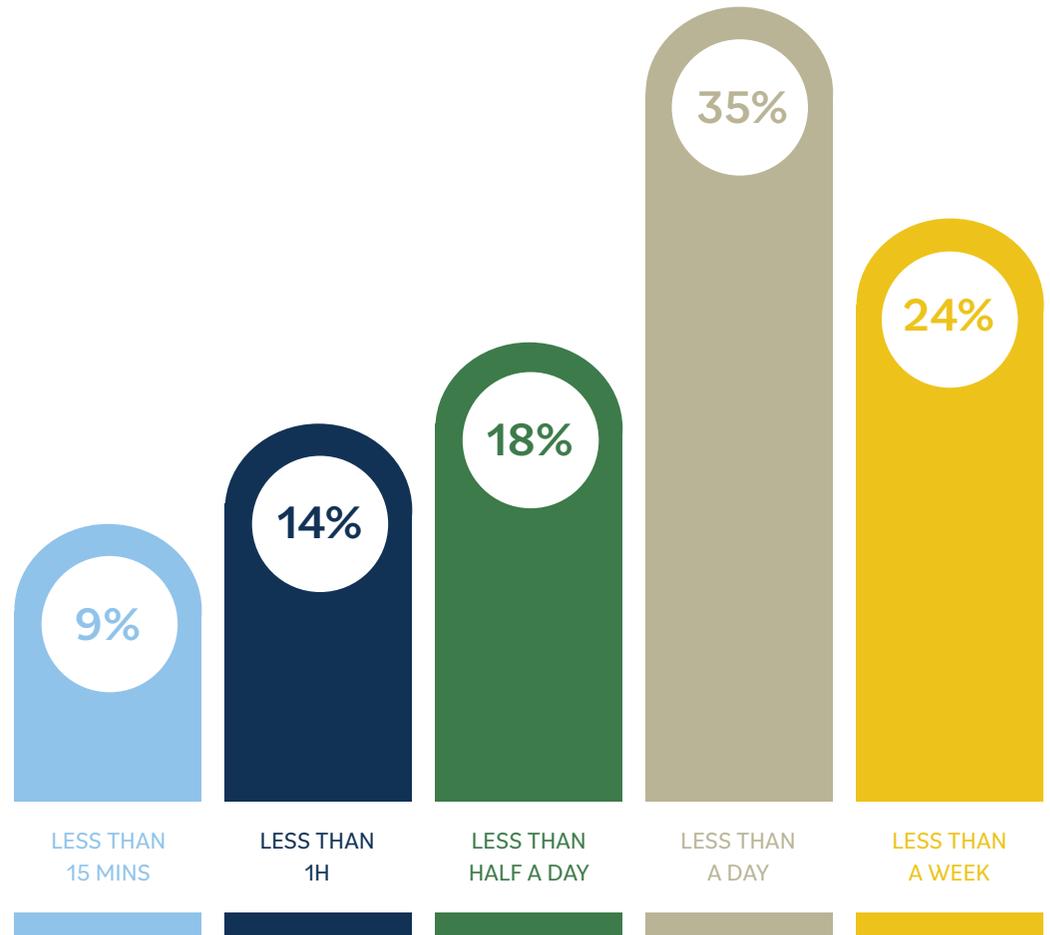
Survey respondents formed a representative cross section of the financial services industry in the UK and Europe. We will be referring to the organizations they represent as financial institutions (FIs) in the report. Throughout the survey, where participants were answering multiple answer questions, they were able to select up to two or three options or all that apply, as indicated in the questions. As a result, some participants may have selected one, two or three or all options depending on the question.

# 1. Considering compliance processes like KYC, what timeframe does your organization target to finalize a full digital customer onboarding journey?

The shift towards digital financial services in recent years, along with accelerated adoption of mobile and online banking during the Covid-19 pandemic has radically changed customer expectations of the onboarding process. As the survey shows, FIs are under pressure to provide a fast, efficient digital onboarding service, which strikes the right balance between security and seamlessness. Previously KYC and identity verification were manual and paper-based processes, with the customer required to present proof of identity documents in a branch. Now, forward-looking incumbent FIs are looking to compete with digital challengers such as neobanks and FinTechs, or setting up standalone digital banks themselves, which provide a digital customer onboarding experience.

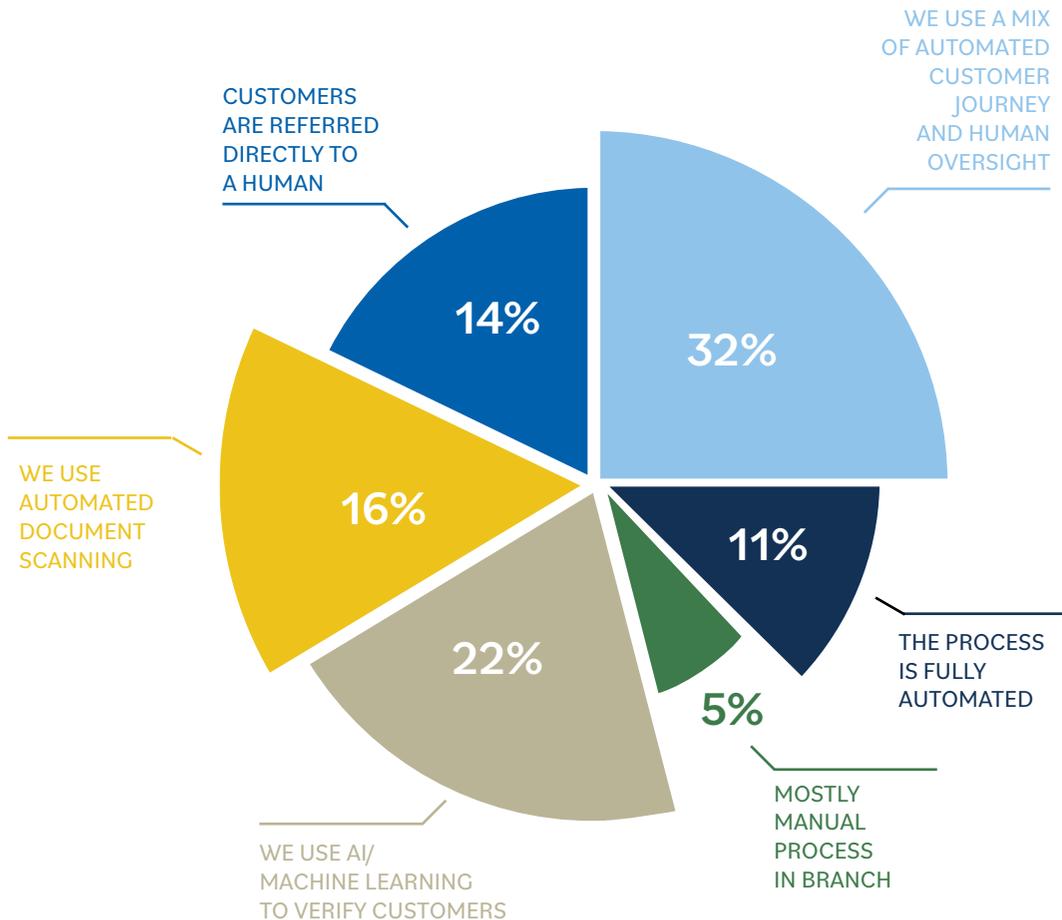
The results show that the vast majority of FIs (59%) take more than half a day to onboard their customers, with just under a quarter targeting 'less than a week' as their KYC approvals window. The results suggest that many market participants are at risk of losing customers at the first hurdle, with research showing that slow regulatory checks and excessive friction in the onboarding process can result in higher levels of customer abandonment.

Fully digital, seamless onboarding processes which deliver efficient regulatory checks while ensuring a positive customer experience are an essential pillar in customer engagement and retention, as they give the first impression of a provider's digital financial services offerings. Failure to accelerate and streamline the process can therefore risk the customer relationship and, with it, the company's market share.



## 2. How automated is your customer onboarding process?

>> Tick the most appropriate



As customers switch to online and mobile channels, FIs are rushing to digitize the process of account opening and regulatory checks. As a result, many are becoming more adept at using new technologies to process, verify and store customer data. But many parts of the process, such as address and government document verification, still require human oversight, which can slow down the onboarding process and create friction for customers.

While the majority of FIs have made significant shifts away from a mostly in-branch customer onboarding process, the results show that half of them still have some form of human intervention during their onboarding process. Just over a tenth have a fully automated onboarding process end-to-end. While human intervention might be necessary for certain stages of the onboarding journey for compliance reasons - such as further investigation and background checks - this suggests that a large proportion of FIs, and their customers, could benefit from the speed and efficiency gains offered by more automated onboarding processes.

### 3. Which of the following are current priorities for optimizing the digital customer journey and reducing friction?

>> Tick up to two

47%

OFFERING A FULLY DIGITAL ONBOARDING AND ACCOUNT OPENING JOURNEY

44%

SIMPLIFYING USER INTERFACE

34%

ENABLING BIOMETRIC AUTHENTICATION ON MOBILE

25%

ADAPT AUTHENTICATION REQUIREMENTS IN REAL TIME BASED ON THREAT LEVEL



*(The percentages represent the total for the top two priorities clicked. Participants were able to choose up to two options.)*

As FIs look to implement rapid digital transformation and reduce costs, those who forget to prioritise the customer experience will quickly find themselves faced with customer frustration and retention challenges.

To reduce friction and provide customers with a more seamless and personalized experience, many are aiming to roll out a fully digital onboarding journey, with this option the top priority for respondents. Reducing friction on mobile applications and online services was identified as the second highest priority, with just under half saying that simplifying their user interface is central to their strategy.

For those who are delivering mobile applications, enabling biometric authentication methods such as fingerprint, facial recognition and behavioral biometrics were identified as a current priority for just over a third of respondents, as they seek to strike the right balance between security and seamlessness. As criminals and fraudsters develop new methods to infiltrate banking systems and impersonate customers, a quarter of FIs said they are focused on the ability to change their authentication requirements to stay one step ahead. They consider this flexibility as a key factor in this first line of defense.

## 4. What are the key challenges for your organisation in implementing a digital customer journey?

>> Tick up to three

*(The percentages represent the total for each option clicked. Participants were able to pick up to three options.)*

As challengers step up their mobile and digital offerings, more established FIs need to be able to offer the best of both worlds. Customers not only expect seamless digital journeys but also bank-level security protocols, and even when those expectations have been fulfilled, regulatory and compliance concerns add another layer of complexity to the digitization process.

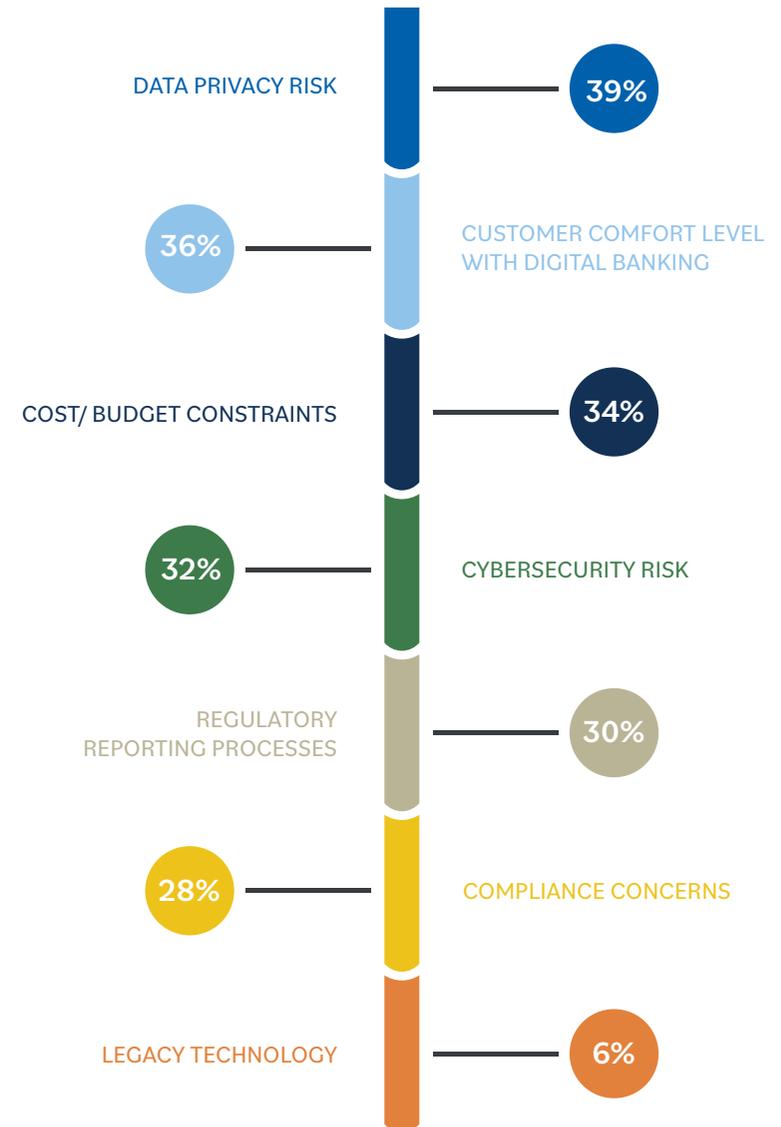
The survey shows that data privacy risk - and the financial, regulatory and reputational risks that come with a breach of sensitive data - is a dominant concern for FIs as they build digital products and services. This is followed closely by the need to familiarize customers with a digital or mobile-first customer journey which is often a generational challenge for FIs with a high percentage of older customers who prefer to use in-branch or in-person services. This suggests that while the shift to digital during the pandemic has gone some way to enabling digital inclusion among customers, many

are still working on strategies to support these customers with intuitive and seamless customer journeys.

Around a third of the professionals surveyed highlighted the cost implications of implementing a digital customer journey as a challenge. Many FIs are currently focused on operational continuity and budget constraints due to the current health crisis rather than innovation and digital transformation of the customer journey. A similar proportion are being held back by the cybersecurity risks opened up by digital customer journeys as cyber criminals and fraudsters become adept at impersonating customers and carrying out sophisticated fraud and hacking attempts across digital channels.

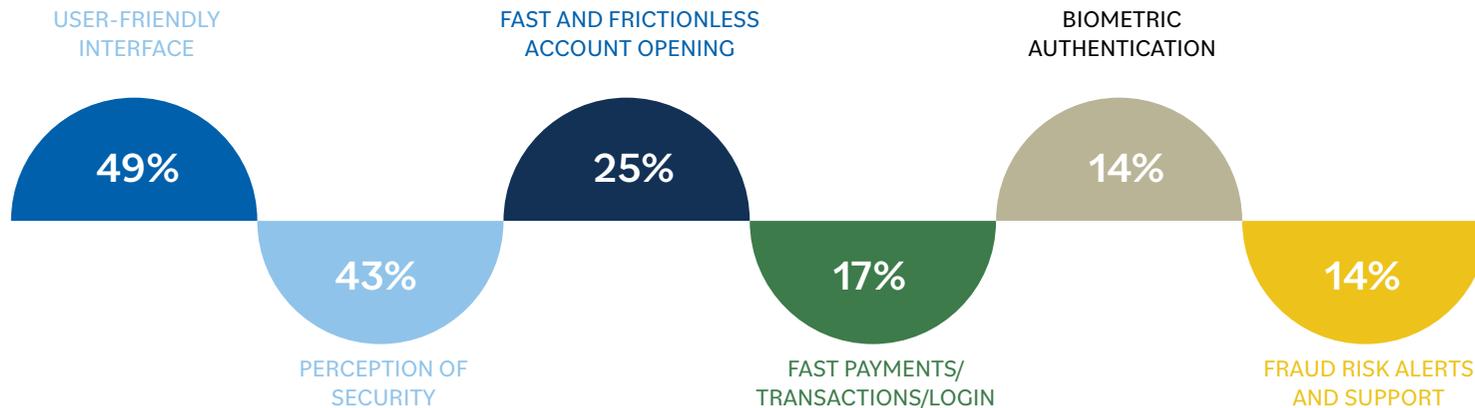
Compliance and regulatory reporting processes remain key painpoints. Amid the rapid change to digital services, regulators still require FIs to ensure that FS providers offer strong safeguards for KYC and AML in onboarding and transaction monitoring as well as ensuring that data is readily available and transparent for audit and reporting purposes.

Interestingly, despite the inevitable need to change systems and processes to support digital customer journeys, just 6% of respondents identified legacy technology systems as a key challenge. This paints a picture of an industry which is somewhat advanced in overall digital transformation strategies, but experiencing specific adoption, compliance and cost burdens when building end-to-end digital customer journeys.



## 5. Which of the following are most important for banking customers?

>> Tick up to two options



*(The percentages represent the total for each option clicked. Participants were able to choose up to two options.)*

When it comes to meeting customer expectations, FIs are under pressure to deliver both seamlessness and security. This is borne out by the results of the survey, with nearly half stating that a user-friendly interface is the most important feature for their customers, closely followed by a perception of security.

Overall, the results suggest that particularly when it comes to banking, speed is of the essence: customers are looking for both fast and frictionless digital journeys as well as fast payments, transactions and login processes.

Despite this clearly established desire for seamless experience, the survey also suggests that customers are comfortable with a limited amount of friction as part of the login and authentication process as long

as it contributes to the security of their data and banking details. Biometric authentication and fraud risk alerts are also considered to be important, as the requirement for a perception of security underlines. Even so, the overwhelming emphasis on seamlessness and ease of use suggests that in order to be acceptable to customers, biometric authentication and fraud risk alerts must be part of a smooth and efficient process.

## 6. Which of the following in-app processes are a priority for building customer engagement?

>> Tick up to three

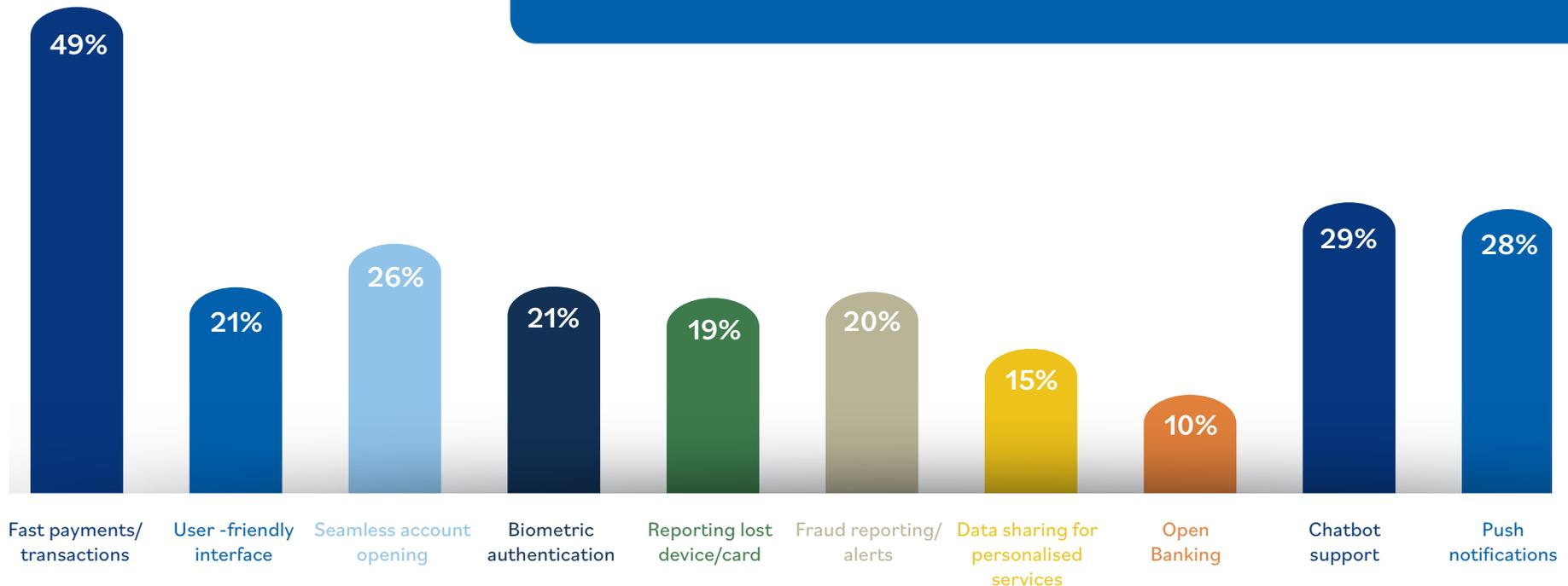
*(The percentages represent the total for each option clicked. Participants were able to choose up to three options.)*

The desire for speed, in the form of fast payments and transactions, also features in FIs' customer engagement strategies, with nearly half of respondents considering this to be one of their top three priorities for building positive in-app experiences, and the most important of all options by a significant margin.

The survey shows that communicating directly with the customer through their smart phone or device within an application are becoming central to customer engagement. The results indicate that chatbot support, on-screen push notifications and a user-friendly interface are top priorities.

Smooth account opening remains important for engaging customers at the start of the relationship. Security measures such as biometric authentication, fraud reporting and alerts as well as reporting lost cards or devices are all considered to be important for maintaining customer trust as part of the day to day in-app experience.

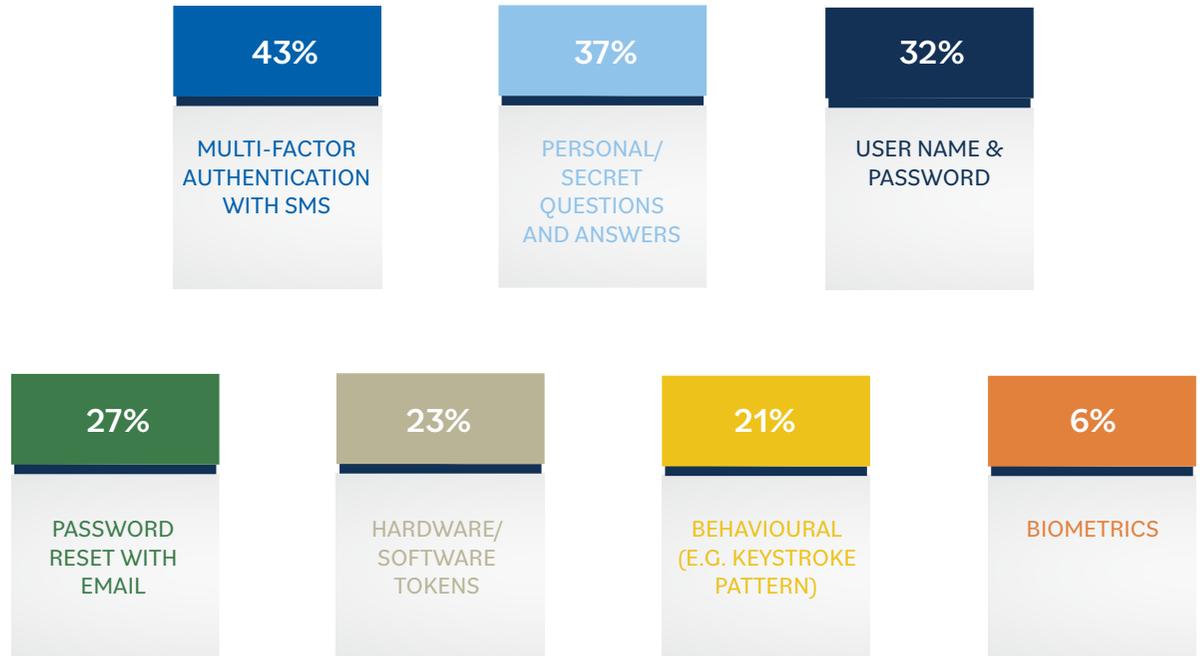
Innovative uses of data for more personalized services and Open Banking scored less highly in the survey, suggesting that FIs are focused on getting the basics of the digital journey right at present, with more advanced uses of data likely to be key to the next stage of digitization of the customer journey.



## 7. Which of the following authentication technologies is your organization currently using for digital customers?

>> Tick all that apply

*(The percentages represent the total for each option clicked. Participants were able to click as many options as they liked.)*



Authentication methods used to access account information, approve transactions and enable digital customer onboarding are changing rapidly in the financial services sector. Multi-factor authentication with an SMS sent to a customer's phone to verify their identity remains the leading authentication method, despite the clear vulnerabilities exposed by the issue of SIM swapping. The survey shows that more traditional methods of authentication are also

still widely in use, with personal or secret questions and answers, user name and password, and password reset via email selected by a combined 96% of respondents as part of their authentication process.

It is important to note that more advanced authentication technologies are catching up, with nearly a quarter using hardware or software tokens, which generate One-Time-Passwords (OTP) as part

of two-factor authentication for account access. Biometric methods are also seeing increased uptake across the sector. A fifth of the respondents confirm they are using behavioral identifiers such as keystroke pattern on a mobile device, and 6% are using biometrics such as fingerprint or facial recognition, with fingerprint most widely used by digital customers for accessing banking apps.

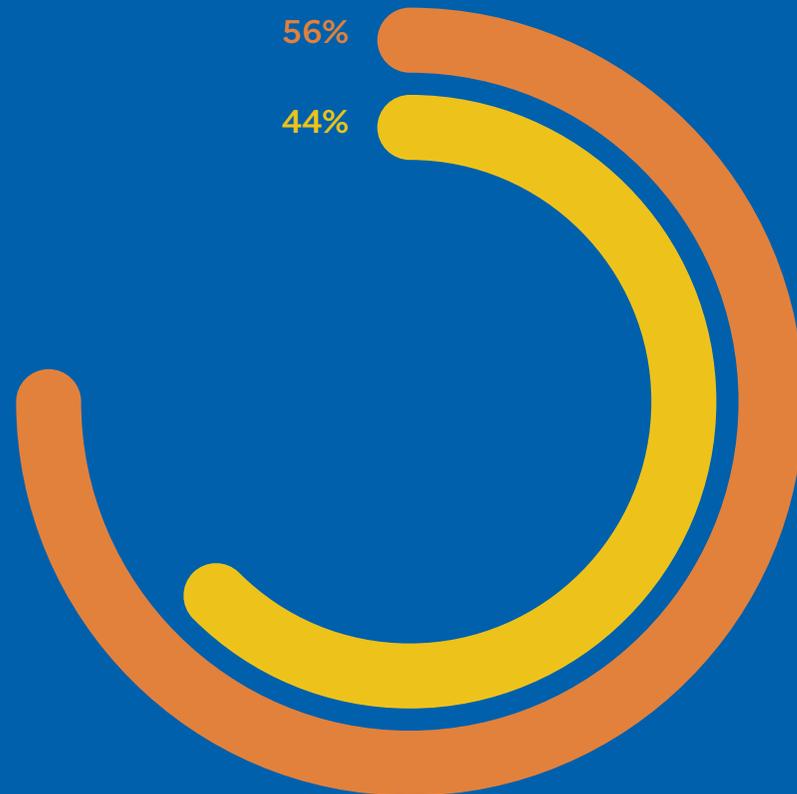
## 8. In general, how positive are customer attitudes to friction for security and login purposes?

>> Tick the most appropriate



Earlier on in the survey results, we saw that a perception of security - a feeling that customers can trust that data and account information is safe - was regarded as a priority for 43% of banking customers. This result confirms that in general customers are comfortable with - and in fact favour - a small amount of friction in login and other security processes, with more than half saying customer attitudes are positive, and the rest reported to be 'neutral'.

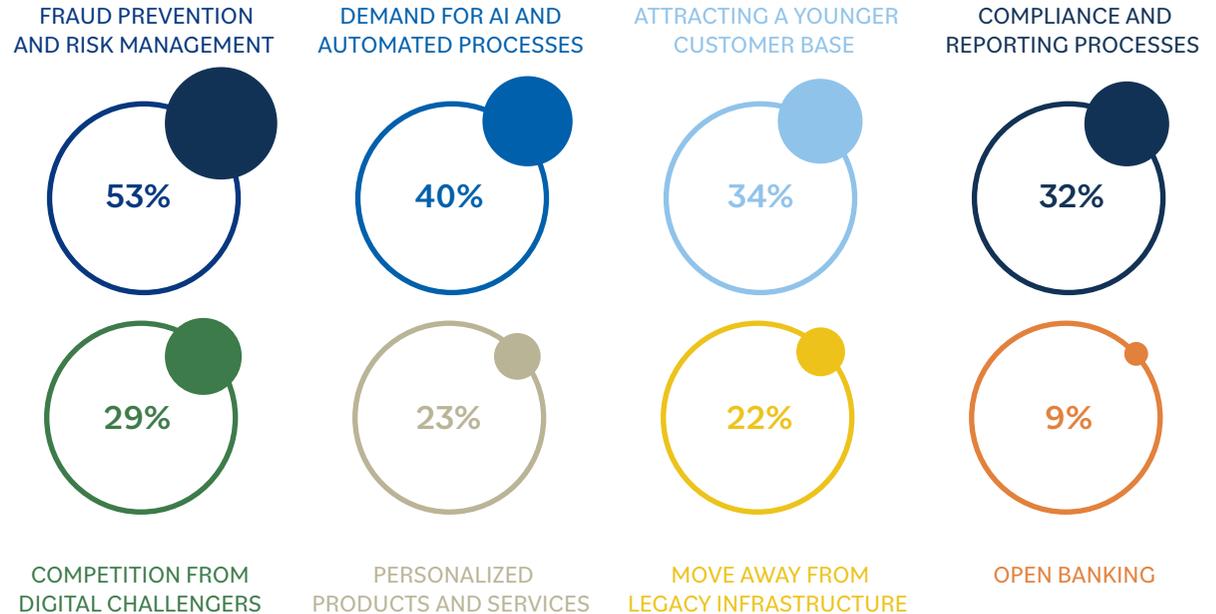
This suggests that customers have a realistic appreciation of the current cyber and fraud risk landscape, and are reassured by extra security measures such as the multifactor or biometric authentication needed to access their accounts or approve transactions. None of the survey respondents said their customers had a negative attitude towards this kind of friction. That finding suggest that FIs offering authentication methods that introduce a small amount of friction as part of a seamless sign on and onboarding experience stand to build customer trust.



## 9. What are the most important drivers for development of digital banking services for your organization?

>> Tick up to three

*(The percentages represent the total for each option selected. Participants were able to select up to three options.)*



The pandemic has undoubtedly accelerated the shift towards digital banking services in the past year, however for many FIs, development of mobile and online experiences was underway long before branch closures and social distancing became a reality.

The survey suggests that the strongest motivation for development of digital banking by a long margin is fraud prevention and risk management. This shows a clear focus on the security benefits of digital banking operations, often delivered

by stronger authentication and more automated processes. This result is surprising given the prevailing narrative that incumbents are primarily rolling out digital banking to capture a younger generation of customers from the digital challengers.

However, the survey does show a desire to gain a more youthful customer base amongst a third of respondents. Just under a third also said they were driven by a desire to overcome competition from the digital challengers.

It is interesting to note the bias in in these responses towards internal or back-end processes rather than more fashionable customer facing processes like personalization and Open Banking, which one might have expected to feature more prominently. This result provides a new angle on the race to digital, with FIs clearly factoring in the wider operational benefits. This suggests that the longer term security and efficiency gains of digital banking are perhaps even more central to transformation strategies than the drive to keep up with the FinTech competitors.

## 10. How is your technology investment strategy likely to change in 2021?

>> Tick the most appropriate

WE WILL INVEST MORE IN TECHNOLOGY

31%

WE WILL INVEST IN TECHNOLOGY FOR CERTAIN BUSINESS AREAS

29%

WE WILL FOCUS INVESTMENT ELSEWHERE

21%

WE WILL KEEP INVESTMENT AT THE SAME LEVEL

11%

WE WILL PAUSE INVESTMENT IN TECHNOLOGY

8%

At a time of significant disruption for the industry and consumers in general, investment in new technologies to enable digital products and services has risen. Meanwhile, many organizations have accelerated existing transformation plans to respond to demand whilst retaining and growing their market share.

Accordingly, a combined 60% of respondents are either planning to invest more in technology or are targeting specific business areas for technology upgrades in 2021.

However, while additional technology spend might seem a necessary use of resources in 2021, the survey shows that the remaining 40% of respondents are either pausing investment, freezing their level of spending or prioritizing investment elsewhere.

This is perhaps evidence of the chilling effect of the pandemic on budgets as revenue sources are disrupted. Overall, while the shift to digital is driving technology investment for a majority, those hardest hit by the pandemic are taking a more cautious approach as senior leaders assess the changing risk landscape for 2021.

# Key conclusions

Overall, this survey highlights many key challenges and motivations for FIs as they look to meet customer demand for digital services and transform systems and processes while keeping customer data secure.

Key roadblocks to implementation include data privacy and security risk, compliance concerns, and budget limitations. Many are pausing their investment plans in response to the pandemic, while some face more fundamental hurdles such as customer comfort with using apps and digital services.

However, the survey also provides insight into the progress FIs are making in implementing digital onboarding processes, with levels of automation rising. The survey results also indicate that more than half of the respondents are still using human intervention at some point in the onboarding journey, with just 11% having achieved full automation of the onboarding journey.

While a clear improvement on the inefficiencies of in-branch authentication, the results show that FIs have plenty of scope to explore authentication technologies which can speed up onboarding while maintaining compliance. This challenge is highlighted by the fact that more than half of respondents said they are still taking more than half a day to complete the digital onboarding process for their customers.

Striking the right balance between speed, seamless customer experience and security is not a new

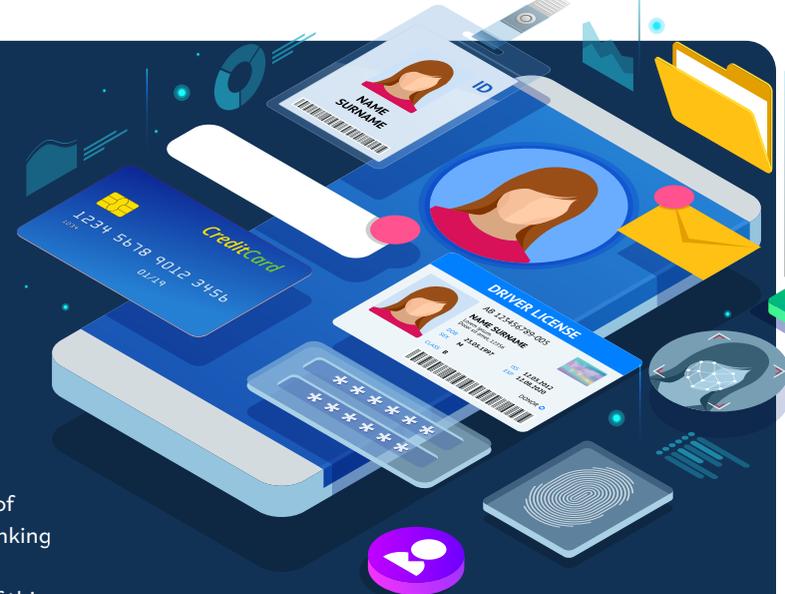
challenge for FIs, but the on-demand nature of digital has made it mission critical for organizations looking to build trust and meet high customer expectations.

Security and compliance are also at the heart of many FIs' motivations for rolling out digital banking services, with more than half identifying fraud prevention and risk management as a driver of this transformation.

Customer awareness of these risks is also changing attitudes towards friction within the onboarding and login processes, with a clear majority of respondents reporting that customers felt 'positive' about a small amount of friction. This suggests that authentication methods – if they are part of a seamless customer journey – can prove reassuring for customers and form a key pillar of customer engagement.

The methods available to FIs for authenticating users and transactions are also changing rapidly: while multi-factor authentication is still widespread, other advanced authentication technologies are catching up, with just over a fifth using hardware or software tokens and a combined quarter of respondents deploying biometric methods such as keystroke pattern, fingerprint or facial recognition.

The resulting picture is therefore one of an industry responding to profound technological and pandemic-related disruption. While many are adapting to the shift to digital by prioritizing technology investment and rolling out digital



customer journeys, others are taking a more cautious approach, either as a result of budgetary or security constraints. Meanwhile it is clear that customers are expecting their FIs to offer digital experiences that combine ease of use with the highest levels of data privacy and security protocols.

To tackle this challenge, the majority of FIs have begun to implement automation of parts of the onboarding, login and transaction and sign in process with a range of new technologies. The results however suggest that there is still work to be done if they are to meet customer expectations of fast, seamless and secure digital journeys.

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