# The power of LEIs to transform client lifecycle management in banking:

# **A U.S.$4 billion beginning**

LEI
GLOBAL LEGAL ENTITY IDENTIFIER FOUNDATION

# Introduction

Research[*] conducted by McKinsey on behalf of the Global Legal Entity Identifier Foundation (GLEIF) has concluded that broader adoption of Legal Entity Identifiers (LEIs) could save the global banking sector U.S.$2-4 billion[**] annually in client onboarding costs alone. This represents a saving of between 5 and 10 percent of the industry's U.S.$40 billion annual overall spend on the practice.

Client onboarding is just one banking business activity of many where the LEI has the potential to generate efficiencies. As such, that figure is just the beginning.

If banks around the world broaden their utilization of LEIs beyond regulatory reporting in capital markets to other banking business lines, such as trade financing, corporate banking and payments, resulting efficiencies would generate significant cost and time savings.

Taking client lifecycle management (CLM) as one use case, LEIs can dramatically simplify entity identification across different lifecycle stages, such as onboarding, transacting, compliance reporting and risk monitoring. This ebook explores conclusions from a joint GLEIF and McKinsey study in the context of specific use cases and pain points experienced by banks when performing client identification and verification.

It also provides a brief overview of other benefits banks can realize through expanded LEI usage, including reduced time-to-revenue, improved customer retention and the delivery of a better, more efficient customer experience.

** Source: McKinsey Cost per Trade Survey, Thomson Reuters "KYC Compliance: The Rising Challenge for Financial Institutions" report, GLEIS 2.0 voice of customer and expert interviews. McKinsey conducted a voice of the customer exercise involving interviews of over 70 stakeholders, including market participants across more than five sectors, current LEI registrants and users, Local Operating Units, regulators and potential Global LEI System partners.*

*** Calculation: FTE productivity gain of (10% to 15% [~2-4 hours] of ~25 hours per onboarding case) multiplied by percentage of total onboarding costs attributable to FTEs (~57%) then multiplied by the estimated total industry spend on client onboarding ($40 billion per year). FTE productivity was based on "voice of customer" and expert interviews and includes both the estimated reduction and FTE hours per onboarding case. Percentage of total client onboarding costs attributable to FTEs based on the average cost of FTEs in the client onboarding function at 10 tier-1 banks (McKinsey Cost Per Trade Survey) divided by total client onboarding cost (European Association of Corporate Treasurers). Total industry client onboarding spend based on a Thomson Reuters report: KYC Compliance: The Rising Challenge for Financial Institutions.*

# A brief recap

## What is the LEI?

The LEI is a 20-character, alpha-numeric code based on the ISO 17442 standard developed by the International Organization for Standardization (ISO). The LEI connects to key reference information that enables clear and unique identification of legal entities participating in financial transactions. Each LEI contains information about an entity's ownership structure, answering the questions of 'who is who' and 'who owns whom'. It provides a universally recognized identifier paired with essential entity data, rigorous verification processes and high data quality.

## History of the Global LEI System

In 2011, the Group of Twenty (G20) called on the Financial Stability Board (FSB) to provide recommendations for a global LEI and a supporting governance structure. This led to the development of the Global LEI System which, through the issuance of LEIs, now provides unique identification of legal entities participating in financial transactions across the globe. The FSB emphasized that global adoption of the LEI underpins multiple "financial stability objectives" and also offers "many benefits to the private sector".

In its latest Thematic Review on Implementation of the LEI (May 2019), the FSB commented:

*"The regulatory uses of the LEI are multiple and the benefits can be substantial. The LEI standardises identification of legal entities at the global level, to support the management and analysis of large datasets. Implementation of the LEI enhances regulators' surveillance by tracking market abuse across institutions, products and jurisdictions. The LEI can also assist regulators' and market participants' aggregation and more flexible retrieval of granular data on entities from multiple sources, as well as the analysis of counterparty risks, interconnectedness and complex group structures. Many in the financial industry are supportive of the LEI, citing substantial existing and potential benefits stemming from its use."*

### About GLEIF

Established by the FSB in June 2014, GLEIF is a not-for-profit organization created to support the implementation and use of the LEI. GLEIF is headquartered in Basel, Switzerland.

GLEIF services ensure the operational integrity of the Global LEI System. GLEIF also makes available the technical infrastructure to provide, via an open data license, access to the full global LEI repository free of charge to users. GLEIF is overseen by the LEI Regulatory Oversight Committee, which is made up of representatives of public authorities from across the globe.

For more information, visit the GLEIF website at **https://www.gleif.org/en.**

# What value can LEIs bring to banking?
## The U.S.$4bn question....

Of the many sectors that rely on counterparty identification and verification, GLEIF has identified banking as a key global sector in which scaling adoption of the LEI could create substantial and quantifiable value in the near to mid-term.

**Broadening LEI utilization: Client lifecycle management**
The LEI and its associated entity reference data has the potential to make banks' counterparty identification and verification more efficient and effective at all stages of the CLM process.

Figure 1, below, provides a non-exhaustive list of bank processes related to CLM that could be positively impacted by broader LEI adoption, segmented by business activity.

| Sector | Use case | Business activity i sub-use cases | | Counterparty action |
|---|---|---|---|---|
| Banking | Client lifecycle management | Client onboarding | | Bank verifies legitamacy of client prior to onboarding |
| | | KYC refresh | | Bank re-verifies legitamacy of client on an ongoing basis |
| | | Transaction verification/AML compliance | Issuing a letter of credit | Bank verifies legitimacy of an entity and its trading partner |
| | | | Executing on corporate payment instructions | Bank verifies legal entity included in payment instructions is legitimate |
| | | | Monitoring transactions for AML | Bank filters entities for further AML review and performs enhanced due diligence process on flagged entities |
| | | | Issuing lease financing | Bank verifies legitimacy of both a buyer and leaser prior to issuing financing as part of a lease agreement |
| | | | Shipping leased assets | Lessor (bank) verifies legitimacy of a leaser prior to good shipment |
| | | | Evaluating an A/R for financing | Factor (bank) verifies legitimacy of the buying and selling entities prior to accepting a pledged A/R |
| | | | Notifying and confirming parties involved in factoring transaction | Seller gives buyer and factor each other's LEI |
| | | | Processing payments made against pledged A/R | Bank checks invoices against pledged A/R |
| | | | Originating loan | Bank verifies the legitimacy of an entity prior to loan origination |
| | | Risk management reporting and analytics | Compiling client static reference data | Bank reviews relevant business data such as account structure, address, key people etc |
| | | | Monitoring client activity for compliance or risk management purposes (e.g., client credit wortiness monitoring) | Bank monitors entitiy and parent entity activity |

*Figure 1: Client lifecycle management use cases that could benefit from early stage LEI deployment. Source: McKinsey, 2019*

# Unlocking value:
## An illustrative quantifiable use-case

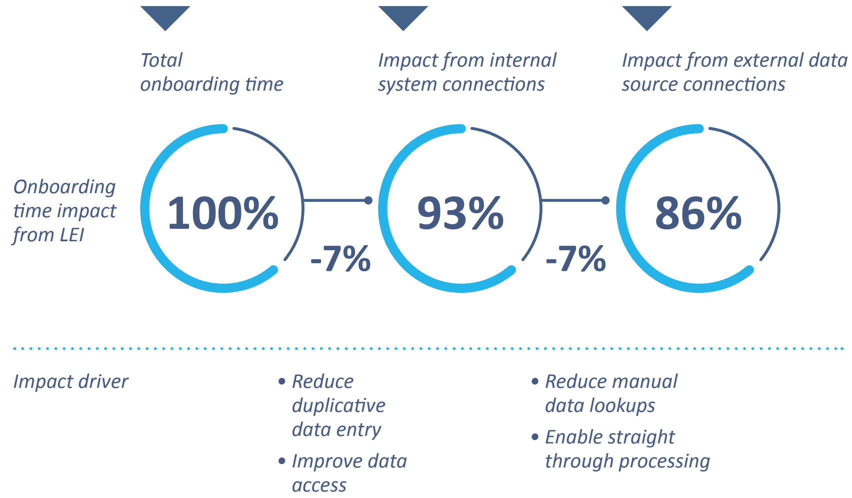
To help quantify the global potential of broader LEI adoption in bank processes, McKinsey performed an analysis on the first of the sub-use cases noted in Figure 1: client onboarding.

Today, banks spend around U.S.$40 billion on client onboarding annually, presenting a clear opportunity for increasing efficiency and reducing costs. By widely adopting the LEI banks could unlock an estimated U.S.$2-4 billion per annum by improving full time employee (FTE) productivity in client onboarding alone.

McKinsey calculated that by using the LEI to streamline processes for connecting with both internal and external data sources, banks could realize an estimated 14% reduction in client onboarding times. Figure 2 illustrates the major positive impact potential of this efficiency gain on both the global banking industry and individual banks.

The study also confirmed that broad usage of the LEI could generate the following topline benefits for banks:

- Three to seven fewer days to revenue.
- Improved client retention.
- Delivery of a better customer experience. Banks make one fewer. round trip to request and collect documents during onboarding.
- Mitigated compliance and credit risks. Banks would have a more holistic view of clients across internal and external data sources.




**IMPACT**

**U.S.$40bn** *in total banking industry annual spend on client onboarding*

**U.S.$54m** *estimated spend per bank on total client onboarding: U.S.$31m of which is people cost*

**5-10%** *estimated total client onboarding savings driven by 7-15% reduction in hours per onboarded customer, if bank streamlines processes using the LEI*

**U.S.$2-4bn** *per annum of total industry-wide potential savings, with tier 1 banks standing to save $2-5m each*

*Figure 2: Estimated value to be unlocked in client onboarding. Source: McKinsey 2019*

*Source: McKinsey Cost per Trade Survey, Thomson Reuters "KYC Compliance: The Rising Challenge for Financial Institutions" report, GLEIS 2.0 voice of customer and expert interviews.*

# The broader picture: LEI usage before, during and after client onboarding

Regardless of banking sub-sector, the LEI could be used to improve the CLM process. Currently, it is mainly used in the initial onboarding phase to comply with regulatory mandates. Yet in most cases it is obtained at the end of the onboarding phase after most steps for entity identification have already been completed.

If obtained and used at the beginning of the onboarding process, the LEI could expedite counterparty identification and verification, including compliance with Know Your Customer (KYC) requirements.

Post onboarding, it could also be used for periodic KYC-refresh requirements, transaction-level checks (e.g. verification for specific payments) and ongoing monitoring of counterparties’ good standing (e.g., negative news regarding a counterparty’s creditworthiness or the legitimacy of a counterparty’s business activities). All of these processes would benefit from significant streamlining.

It is notable that these processes are applicable across a wide variety of banking business activities.

> “For funds that have an LEI, **onboarding is a breeze** because we know what KYC documents exist.”

> “We consider the LEI as a key piece of our roadmap to **reducing onboarding time.**”

# Déjà vu: Using the LEI to address recurring pain-points throughout the client lifecycle

From the over 50 interviews completed with banks of various sizes and geographic reach, banking regulators, and other sector participants and experts, four major pain points in client identification and verification came to light:

**1**

**Manual linking of entity data from disparate internal and external sources.**

*This includes internal bank systems as well as third-party data providers, regulators, and public registries. Today, banks expend extensive resources on manually matching data or double-checking matches to ensure that deal terms, regulatory reporting and risk assessments concerning a legal entity are based on correctly matched data. One specific example concerned entity names; an interviewee noted that "exact name matches are very rare [among] regulatory bodies, brokers, and third-party vendors." This pain point recurs in nearly all stages of the client lifecycle and banking participants in interviews expressed significant excitement about the prospect of a solution to overcome this.*

**2**

**Difficulty in assessing entities' legal ownership structure.**

*Banks are spending extensive time trying to understand an entity's structure for compliance and risk checks in the assessment of overall exposure to affiliated entities, quite often only to discover afterwards that a subsidiary is part of an overall parent.*

**3**

**Limited transparency into entities' key officers,** *such as authorized signatories, for reasons similar to the second pain point.*

**4**

**Poor customer experience due to having to make multiple round trips to gather client data and documents** *required for onboarding, a KYC refresh, reporting, or other verification processes.*

*Figure 3, below, illustrates how commonly these pain-points recur throughout the client lifecycle, and highlights how valuable their expedition using the LEI would be to banks.*

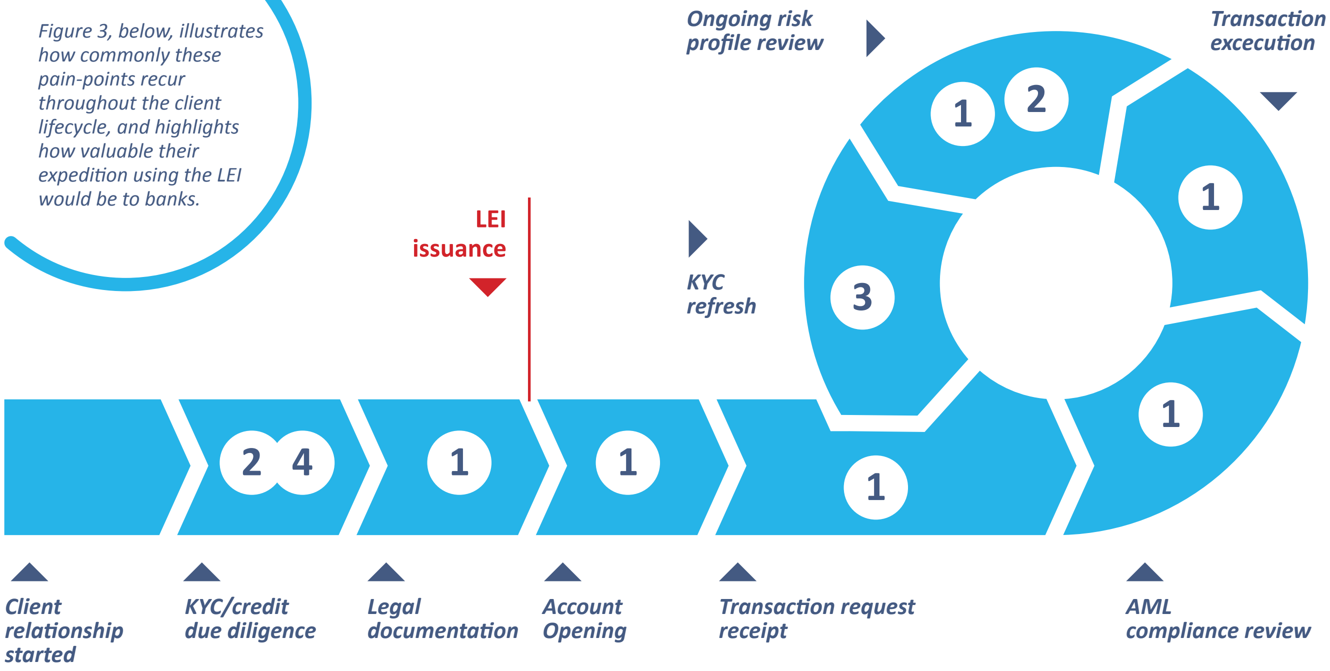



*Figure 3: Recurring pain-points in the client lifecycle, addressable by LEI utilization*

1. Manual linkage of entity data from disparate sources (internal and external)
2. Difficulty assessing entity legal ownership structure
3. Limited transparency into key officers (e.g. authorized signatories)
4. Poor client experience due to multiple back-and-forth gathering data

The study found that many banks try to resolve these problems by implementing various technical solutions, increasing headcount, or just accepting longer cycle times. Since none of these methods fully resolves any of these pain points, many banking interviewees responded enthusiastically to the idea of using LEIs to identify and verify counterparties.

# Low barriers to broader adoption

There is more cause for optimism. Banks are already familiar with the LEI thanks to its extensive use in capital markets. Here, banks have seen firsthand the value the LEI can create in counterparty identification.

Given that the LEI's initial use case originated from regulatory requirements, its compliance-driven adoption has already laid the groundwork for broader, voluntary adoption. The study has revealed that even participants in banking sub-sectors where the LEI is not used today are highly receptive to voluntarily expanding use of the LEI into other banking business lines, such as transaction banking and commercial lending.

# GLEIF: Working with the banking industry to facilitate broader voluntary LEI adoption

GLEIF is evaluating the feasibility of evolving the Global LEI System, to reduce points of friction currently inhibiting broader LEI adoption. GLEIF will also assess actions it can take to encourage banks to voluntarily adopt LEIs more broadly, such as enhancing the value proposition of the LEI by making it a data connector which links to the most commonly used data sources and by including a wider range of high priority entity data points.

GLEIF has already made progress on this front:

- In February 2018, GLEIF and SWIFT introduced the first open source relationship file that matches a Business Identifier Code (BIC) assigned to an organization against its LEI.

- In September 2018, the Association of National Numbering Agencies (ANNA) and GLEIF announced the signing of a new global initiative to link International Securities Identification Numbers (ISINs) and LEIs, to improve transparency of exposure by linking the issuer and issuance of securities.

To ensure that the future evolution of the Global LEI System is fully informed by, and in line with, the banking sector's requirements, GLEIF aims to conduct its assessment with maximum engagement from the global banking community.

**To support this objective, financial institutions are strongly encouraged to join the *GLEIF Globally Important Financial Institutions (GIFI) Relationship Group* to participate in the ensuing discussion on the support needed for banks to integrate the LEI into CLM processes. GLEIF also welcomes the opportunity for dialogue with banking associations, alliances and broader stakeholders on this matter and will be pursuing collaboration initiatives on a global scale.**

“The significant potential savings for the banking industry should compel the sector to sit up and take notice of the near-term value that can be derived from adopting LEIs more widely. Voluntary expansion of LEI usage into other business banking lines is the new frontier in progressive thinking and can only lead to a win-win situation for both banks and their clients.”

“We warmly welcome all interaction with financial institutions on this topic and would urge those interested in learning more to join the GLEIF GIFI Relationship Group for deeper insight and to ensure their voice is heard as we shape the future of the Global LEI System together. We are excited that wider use of the LEI brings such significant potential benefits to the banking sector and our priority at this stage is to support voluntary adoption of the LEI in banking use cases beyond regulatory reporting so that these benefits can be fully realized.”

*Stephan Wolf, CEO, GLEIF.*

# LEIs: Banking industry feedback

**Here are some of the comments received from participants of the study.**

> "Different IDs across our different systems and our data providers causes a significant burden – **If I had a magic wand, I would make every entity have an LEI.**"

> "For funds that have an LEI, **onboarding is a breeze** because we know what KYC documents exist."

> "If everyone had an LEI, it would be **very easy to tie together external sources** and internal systems."

> "With the incredible base infrastructure of LEI, **nothing exists better** (than the LEI) to track bad actors."

> "We consider the LEI as a key piece of our roadmap to **reducing onboarding time.**"

# LEIs: Banking industry feedback

*Manual linking of entity data from disparate sources would be alleviated by the LEI:*

"Having a **unique ID** across external platforms that [...] the bank could use would be very useful."

"We have an entire team of people primarily focused on supporting our sales teams with **entering data from disparate internal systems, external data providers and paper documentation.**"

"Quick access to documentation is critical but today this comes from the sales desk and often comes piecemeal.

We should be able to onboard a fund in a day but it typically takes much longer due to incorrect documentation."

"**Without a single primary key,** we have no ability to look at credit exposure across multiple parts of the bank for the same client and this is causing serious concern from our regulators."

"Exact name matches are very rare between reglatory bodies, brokers, and third-party [data] vendors."

"Having a shared identifier with third-party data providers would enable straight through processing solutions to improve operational efficiency while significantly mitigating risk.

If everyone adopted and used LEIs in their SWIFT messages and government authorities published LEIs in suspicious entity list, clearing trades would be much easier."

## For further information on LEIs:
## Please visit **www.gleif.org**

For financial institutions wishing to join the discussion:
Please visit GLEIF **Globally Important Financial Institutions (GIFI) Relationship Group**

To read the Financial Stability Board's latest Thematic Review on Implementation of the Legal Entity Identifier, please visit **https://www.fsb.org/2019/05/thematic-review-on-implementation-of-the-legal-entity-identifier/**

To read Swift Payments Market Practice Group's paper on Adoption of LEI in Payment Messages, please visit **https://www.swift.com/about-us/community/swift-advisory-groups/payments-market-practice-group/document-centre/document-centre**

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