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Press Release

Research Reveals That Wide Adoption of Legal Entity Identifiers Could Save Banks an Estimated U.S.$2-4 Billion per Annum in Client Onboarding Efficiencies

Report from McKinsey and GLEIF identifies opportunity for banks to reduce costs and improve profitability while enhancing customer experience and mitigating compliance and credit risk.

29 October 2019, Basel – Research conducted by McKinsey on behalf of the Global Legal Entity Identifier Foundation (GLEIF) has concluded that wider use of Legal Entity Identifiers (LEIs) across the global banking sector could save the industry U.S.$2-4 billion annually in client onboarding costs alone. With estimated total industry spend on client onboarding equal to U.S.$40 billion per year, productivity improvements gained through LEI usage could generate cross-sector cost reductions of between 5-10 percent annually.

LEIs are already used in capital markets globally, where regulators have mandated their use for reporting over-the-counter derivatives transactions. The research, however, makes it clear that the ability of LEIs to simplify entity identification in the digital age has the potential to unlock substantially more quantifiable value for banks in the near to mid-term. To realize this value, the report recommends that banks use LEIs to support all stages of the customer management lifecycle, not just in capital markets but across all banking business lines, such as trade financing, corporate banking and payments.

The study also found that:

- In addition to delivering improved efficiencies and lower costs, widespread LEI usage can generate topline benefits for banks, such as between three to seven fewer days to revenue, improved client retention and a better customer experience, thanks to streamlined processes.
- Wider use of LEIs could address common ‘pain points’ in counterparty identification during client lifecycle management, such as the manual linkage of disparate data and the difficulty in accessing entity legal ownership structure.
- The LEI could help mitigate compliance and credit risk, as it gives banks more holistic views of clients across internal and external data sources.

Stephan Wolf, GLEIF CEO, comments: “The significant potential savings for the banking industry, which are outlined in this study, should compel the sector to sit up and take notice of the near-term value that can be derived from adopting LEIs more widely. With so much to gain, there really is no excuse for banks to delay making LEIs foundational to customer lifecycle management processes across all areas of business. Compliance driven adoption in capital markets means that banks are already familiar with the LEI. 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.”

Gabriela Skouloudi, partner and co-head of Corporate and Investment Banking in the Americas, McKinsey, comments: “The interviews surfaced four key pain points that banks experience in relation to client identification and verification: manual linking of entity data from disparate internal and external sources; difficulties in assessing entities’ legal ownership structure; limited transparency into entities’ key officers, such as authorized signatories; and poor customer experience due to multiple round trips to gather client data and documents. If an LEI was obtained at the start of onboarding, many of these challenges could be resolved, with the net effect being expedited counterparty identification and verification processes. Know-Your-Customer compliance may also be expedited."

The research report follows other recent calls for wider LEI usage by banks, by influential industry stakeholders including the Financial Stability Board (FSB) in its recently published peer review, Thematic Review on Implementation of the Legal Entity Identifier (LEI), as well as the Payments Market Practice Group, in its Adoption of LEI in Payment Messages report.

As a next step, GLEIF is evaluating the feasibility of changes proposed by the report, including an evolution of the Global Legal Entity Identifier System (GLEIS). 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.

To ensure that the future evolution of the Global Legal Entity Identifier System is fully informed by, and in line with, the banking sector's requirements, GLEIF aims to conduct its assessment on the report's proposals with maximum engagement from the global banking community. To support that 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 client management processes.

The GLEIF GIFI Relationship Group facilitates communication between GLEIF, banks, financial institutions and other key LEI stakeholders, making it possible for members to express their views on LEI services and for GLEIF to understand the requirements of LEI data users.

Stephan Wolf concludes: "As GLEIF assesses the feasibility of proposals made in the report, direct interaction with banks is essential if we are to fully understand the needs of the sector and how GLEIF services and the Global Legal Entity Identifier System can best support it. We warmly welcome all interaction with banks and other 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 GLEIS 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."

For further information on joining the GLEIF GIFI Relationship Group, please email info@gleif.org

To view an infographic which outlines key findings of the McKinsey report, undertaken on behalf of GLEIF, please visit here.

- ENDS -

Full resolution images and logos can be downloaded via this link
https://www.gleif.org/en/newsroom/gleif-graphics-images

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Relevant link

https://www.gleif.org/en

Notes to Editors:

Research notes:

Data sources: 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.

By widely adopting the LEI, banks could unlock an estimated $2-4 billion per annum by improving FTE productivity in client onboarding. 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*.

Glossary of terms

Legal Entity Identifier (LEI)

The Legal Entity Identifier (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.

About the Global Legal Entity Identifier Foundation (GLEIF)

Established by the Financial Stability Board in June 2014, the Global Legal Entity Identifier Foundation (GLEIF) is a not-for-profit organization created to support the implementation and use of the Legal Entity Identifier (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.

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 Legal Entity Identifier (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”.

Source:

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