WHITE PAPER

Acceptance, continuance, and independence

Cost and compliance: necessity to revenue generator

Winning clients is tough, and retaining them is even tougher. This is especially true in the accounting industry, as ever-increasing competition, fragile relationships and dwindling brand loyalty make it increasingly difficult to get focused and consistent customer attention.

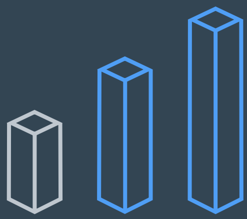
This is why the establishment of smooth and timely acceptance, continuance and independence checking procedures is a critical challenge for global accounting networks and their member firms.

Effective onboarding procedures must serve a variety of purposes including risk management, firm-wide data integration, and regulatory compliance—as well as allow the firm to determine if the potential client will be profitable and align to firm strategy.

In addition, the integration of institutional knowledge across the firm's ecosystem produces a more complete understanding of the client. Armed with this information, firms can derive insights on customer preferences to help cross-sell or up-sell high-margin products. This also allows firms to proactively create an individualized experience that will attract and retain the right type of engagements.

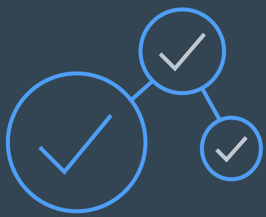
This paper discusses the issues of the present-day client acceptance, continuance, and independence processes in the accounting industry, and tries to shed light on emerging trends and challenges.

Why automate acceptance, continuance and independence processes?



Maximize revenue and value from every engagement

A firm spends considerable effort attracting and retaining clients. But are the right customers being targeted and retained? Do you have the right data to know the true cost of each engagement and how it should be priced given the true cost of risk? An automated acceptance and continuance workflow helps firms answer these questions, so that policies are evenly and predictably enforced.



Compliance is not optional

Given the increasing regulatory pressures around client acceptance such as know your customer (KYC) requirements, customer due diligence (CDD), and enhanced due diligence (EDD), it is a big task for any organization to process clients quickly and professionally, while at the same time ensuring that the accounting firm does not fall afoul of any enforcement actions or penalties from regulators. Organizational friction created by reliance on legacy systems, paper-based semi-automated processes, and siloed functionalities with integration issues will inevitably impede the process, resulting in a frustrated customer and a relationship that begins with a client doubting the firm's capabilities.

Choose your customers wisely

Client acceptance is one of the most critical functions for an organization. This is the point at which accounting firms decide whether to establish a business relationship with a prospective client based on their desirability as well as long-term and short-term business impacts. Conversely, it is important that this vetting does not alienate the customer. It must be a smooth experience that reinforces the confidence with which they chose the service provider rather than inducing buyer's remorse.

"Connecting IT systems, data, and processes is fundamental to making the most of the data residing in and entering any organization."

NICK COZZOLINO, DIRECTOR OF INFORMATION TECHNOLOGY, BONADIO GROUP

What challenges do accounting firms face?

1 Unclear ownership of process

Client acceptance is a complex process that engages various teams such as operations, back office, credit, legal, and compliance, as well as some third-party vendors (for activities such as data validation of corporate trees). It is highly collaborative and yet often falls victim to the common refrain among accounting firms: "Somebody's job is nobody's job."

With no single team in the current structure taking ownership for facilitating client acceptance and continuance across the enterprise, more often than not, the operations team faces the brunt of clients' ire for delays, errors, and redundancies. In the absence of clear-cut revenue and responsibility model, acceptance and continuance functions suffer in many organizations.

2 Increasing regulations

Recommendations on anti-money laundering (AML) efforts from multiple domestic and global agencies, as well as new independence regulations such as the European Union's Fifth Money Laundering Directive, have forced accounting firms to dedicate greater resources to meet these new requirements. These changes have not only increased reporting requirements for accounting firms but also subjected them to more frequent reviews.

3 Fragmented, manual processes, and manual/automated data hand-offs

Acceptance and continuance processes have been historically developed piece by piece at different points in time—sometimes decades apart—driven less by long-term strategy and more by current needs of various lines of business, or in response to changes in the regulatory environment. This reactive approach has resulted in a fragmented landscape characterized by data redundancy and inefficient use of partners and senior staff time. A mishmash of manual and automated activities has further hobbled the overall process.

4 Incomplete data and scalability issues

Piecemeal development of systems has left workflows fragmented. Most organizations use emails for securing approvals, conducting client reviews, and overall verification, for example. Emails often remain in the recipients' mailboxes and therefore do not provide any control or status of the overall process to act upon in a timely and controlled fashion.

5 Too much data, too few insights

While onboarding a client and meeting continuance requirements, accounting firms collect large amounts of data. However, in the absence of an intelligent system, this data remains secluded and is seldom reused or leveraged for further analysis such as evaluating current and future engagements. Some organizations have adopted state-of-the-art digitized onboarding systems, while most are still struggling to unlock the true value of their own information.

Trends changing the client acceptance and continuance landscape

Industry wide shift to client-centric approaches

The call for a single, unified view of clients across divisions, practices, and engagements has transformed the way accounting firms operate. This client-centric method advocates the creation and maintenance of a unified, 360-degree view of client data. This data can be used multiple times to offer a client different products and/or services, with a business rules engine eliminating the need for redundant KYC, CDD, credit, risk, staffing, and workflow processes. Client-centric acceptance and continuance processes are rapidly gaining favor because they cut down the probability of losing deals due to delays in closure, while improving the multi-product experience for clients. Monitoring for changes in client financial health in filings and in the news reduces the risk of accumulating write-offs. However, the need for some specific processes or information (such as regulatory or geography-specific KYC norms) remains regardless of any level of consolidation. Therefore, the real efficiency gain for an accounting firm lies in the design and creation of centralized processes and their effective integration into the deal lifecycle.

We're seeing firms use that master data directory in a lot of different ways. These include pricing and pitch development, and also touch post-matter closing. For example, firms can grab information about matters to make better pitches for the same type of business in the future.

PAT ARCHBOLD, VP, RISK PRACTICE

Digital transformation of entire firms

The ability to digitally re-imagine a business is determined in large part by leaders who foster a nimble corporate culture that embraces change and new technologies. The most advanced accounting firms constantly seek and achieve new levels of competitive advantage. Digitization of the acceptance and continuance process is rapidly becoming part of their standard toolkit. Further, this movement is anticipated and demanded by clients, who experience full digital interactions with their other vendors, suppliers, advisors, and customers, and expect the same from their accounting firm. A fully-automated process is a win-win scenario: clients have a speedy and hassle-free experience that is transparent and participative in nature, while accounting firms benefit by achieving fully compliant, future-proof, "first time right" client interaction with minimal manual intervention and maximum efficiency.

Risk-based approach to accepting and retaining clients

Industry players across the globe have incurred significant monetary and reputational damage due to a lapse in AML, CDD, and other industry-adopted compliance requirements. Accounting firms have responded by deploying a risk-based approach to accepting and retaining clients that factors in real-time creditworthiness evaluations. Instead of a single, static score, this dynamic approach enables organizations to identify and measure risks based on classifications with regard to clients, products, geographies, and several other parameters on an ongoing basis, and apply preventive measures that are commensurate with those risks. A risk-based approach uses the concept of directing resources where the risk is greatest, without ignoring low-risk areas. It depends on event-based risk reclassification and review, rather than period-based reviews.

A close examination of the technology spends of leading accounting firms reveals that the digitization of acceptance and continuance functions has not been an area of focus so far because of its perceived incremental value to the overall business. This perception is gradually changing. The ability to defend a firm's compliance and risk efforts to government regulators means becoming more agile and creating guidelines that make client evaluation functions more risk-centric.

Customer satisfaction and retention is central to the mission

Technology and automation enable clients to sample an accounting firm's services easily and switch quickly to a competitor if any aspect of that interaction is found lacking. By establishing a 360-degree view of the client that focuses on the quality of each touch point between the client and the organization, accounting firms can dramatically increase the likelihood of winning new clients and keeping them satisfied. However, there is potential to go much farther than creating a mere unified database of all activity. By improving these processes, firms can ensure that no deals are lost or undone by second thoughts or poor communication.

Using the acceptance, continuance and independence processes to maximize revenue

Accounting firms has traditionally relegated acceptance, continuance, and independence checking procedures to the realm of necessary evil and have seen the efforts as a cost center. However, forward-thinking firms and thought leaders within the industry are recognizing the potential to increase revenue by automating what was previously bespoke, laborious, and manual processes. The potential revenue impact of automating these processes is shown below.

Acceptance

Improve efficiency

Automate approvals across the firm; reduce time spent by partners and senior staff completing routine tasks; reduce time and human errors by eliminating re-keying of data.

Mitigate risk

Reduce likelihood of future write-downs by fully investigating credit.

Maximize revenue

Use historical firm data to correctly set prices and negotiate terms to reflect expected value for the client; strategically target high-value clients and high-lifetime-value clients through pricing and terms management.

Potential revenue impact

Informed pricing of engagements: 1.5 – 4%
Strategic targeting: 1 – 3%

Independence checking

Improve efficiency

Automate conflicts and independence searches across all firm repositories; ensure compliance through enforcement.

Mitigate risk

Prevent fines and sanctions by fully vetting independence and conflicts checks. Prevent reputational risks to firm that can result in lost business.

Maximize revenue

Ensure strategic industries and clients are not conflicted out through the inadvertent acceptance of smaller deals. Create whitelists and blacklists to steer partners when pursuing business development opportunities.

Potential revenue impact

Identify ethical and business conflicts: .05 – 1.5%

Continuance

Improve efficiency

Automatically evaluate client through third-party credit rating sources; ensure timely adherence to policies.

Mitigate risk

Reduce likelihood of future write-downs by fully investigating credit and payment risk. Continuously monitor changes to client's financial health and reputation.

Maximize revenue

Enforce price increases that reflect actual risk of client and types of engagement; determine price elasticity of different types of clients and engagements.

Potential revenue impact

Mitigate write-offs: .05 - 2%
Enforce price increases: 1 – 2%

Competitive advantage

Automating client acceptance and continuance is emerging as a key competitive differentiator for accounting firms. Rapid technological advancements bolstered by data science, artificial intelligence, and the introduction of multiple technology products in this area make it a vital component of any client lifecycle management initiative.

Improving client relations requires management of increasing volumes of data. In the future, organizations that can control centralized, high-quality customer data will encounter greater success in new client acquisition, fewer lost deals, increased success in cross-selling, greater customer loyalty and above all, lower organizational risk.

These clear advantages are driving many big players in the accounting industry to implement automated acceptance, continuance, and independence solutions. This new approach will encourage healthy competition among accounting firms and bring about significant positive changes in client experience. We foresee industry-wide adoption of state-of-the-art client lifecycle platforms and solutions driven by competitive pressure created by early adopters. The forward- leaning firms are recognizing the enormous value of automation in the deal lifecycle in protecting them from monetary and reputational loss while also significantly increasing profit margins.