



CASE STUDY

First State Super



meeting the challenge of
customer due diligence,
controlling the cost of
know your customer



encompass
the full picture, fast

first
state super

DIRECT LENDING

A NEW STRATEGY AT FIRST STATE SUPER

First State Super manages an asset pool of over AU\$90 billion on behalf of 800,000 members and clients, and their vision is to create a better future for all Australians. They believe that by investing in the communities in which their members live, work and retire they will not only deliver returns to their members but enhance the interests of all Australians. Their overarching investment belief is that of 'universal ownership', i.e. they are mindful of the 'footprint' their investments make in markets, in communities and on the environment.

For some time, First State Super have been very active in exploring new ways to unlock superannuation capital to achieve social outcomes. They constantly investigate new investment opportunities to generate returns to help grow their members' retirement savings.

Accords issued by the Basel Committee on Banking Supervision have increased the costs incurred by banks when lending capital to small and mid-sized enterprises (SMEs). This makes it more difficult for these companies to access the necessary loans. First State Super has recognised this as an opportunity for growth, and earlier this year commenced their involvement in loans to the corporate sector.

They are now actively participating in private debt markets to build a credit portfolio of lending directly to high quality, international and Australian companies.

THE CHALLENGE OF CUSTOMER DUE DILIGENCE

As a lender, First State Super is regulated by AUSTRAC, Australia's financial intelligence agency with regulatory responsibility for anti-money laundering (AML) and counter-terrorism financing (CTF). Before advancing loans, AUSTRAC requires that lenders perform robust Know Your Customer (KYC) and to do this they have established a framework which details appropriate customer due diligence (CDD) procedures.

The CDD requirements include:

- collecting and verifying customer identification information - for example, documents, data or other information obtained from a reliable and independent source
- identifying and verifying the beneficial owner(s) of a customer
- determining whether a customer is a Politically Exposed Person (PEP) or an associate of a PEP, and taking steps to establish the source of funds used during the business relationship or transaction
- obtaining information on the purpose and intended nature of the business relationship


Virginia Zhong, Senior Investment Risk Analyst at First State Super, explains: "With our new direct-lending strategy we had to decide whether to outsource our KYC or to do the work internally ourselves.

"KYC about potential borrowers is an information-rich process, particularly as corporate structures can be complex, with ownership spread across multiple jurisdictions. The demand for information is further increased when due diligence identifies PEPs within a corporate structure. For these and other reasons we decided that First State Super should undertake KYC in-house for direct lending. This required us to consider the business process and technology we would need to succeed."

MAINTAINING CONTROL OF KYC OPERATING COSTS

Managing the costs of operating KYC is critical to First State Super: the Risk & Compliance team wanted a digital business process with a high level of automation and cost control. "It was important that as we participated in private debt markets our KYC policies should automatically access and then analyse a broad range of local and international databases and information services required in AML/CTF customer due diligence", said Virginia. "After looking at several options we decided to undertake a 'proof-of-concept' with **encompass**."

Beyond functional capabilities, they were attracted to the **encompass** licensing model which is a means to control operating costs. "With **encompass** we are charged based on our customer due diligence activity," explains Virginia. "Because there are no idle licenses, we are able to maintain control of our costs. We believe our operational costs are appropriate to our current level of investment in direct lending."



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PROCESS PLUS TECHNOLOGY PUTTING ENCOMPASS TO WORK AT FIRST STATE SUPER

The Credit team at First State Super undertake commercial oversight of each prospective loan, and those that satisfy the criteria are forwarded for approval to the Management Investment Committee.

Once approved each opportunity is passed to the Investment Risk Compliance team who are responsible for customer due diligence. The Risk team will then request identifying information from the Credit team and use this to drive their customer due diligence with **encompass**.

Although First State Super's borrower may be a local company based in Australia, ownership may be anywhere in the world. "**encompass** gives us a central point of access to many, many different global databases, and this assists us to gain the kind of detail we need."

This information is collated into an AML/CTF pack which includes:

- a summary of the deal
- the commercial rationale for making the loan
- KYC information discovered by **encompass** on the borrowing company, its beneficial owners and the presence of any PEPs
- and the final risk assessment

"From the outset our experience with **encompass** has been very positive," says Virginia. "Their training is comprehensive, and the **encompass** team are very supportive. Importantly, the **encompass** system is easy to use and does not require notes to prompt you how to get work done."

On completion of due diligence, risk assessment, and KYC clearance, applications are forwarded to the Head of Compliance who, as AML/CTF Officer, determines whether the loan will be made.

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BUILDING ON A STRONG FOUNDATION

First State Super foresees Australian super funds will increasingly participate in private debt markets. "By creating a regimen of digital processes and systems we have a strong foundation for growth," observes Virginia.

"It's important for us to include the **encompass** team for guidance about accessing the most relevant information, especially when it comes to due diligence about international companies," said Virginia. "**encompass** is very much part of our platform for growth."

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ABOUT FIRST STATE SUPER

First State Super is one of Australia's largest profit-for-member financial services organisations providing members with a better financial future through safe and secure superannuation and quality financial advice.



First State Super's size enables them to invest in ways that make a positive impact on the economy, the environment and the communities in which their members live, work and retire. Most of their members work in vocational roles that care for communities. They are nurses, midwives, teachers, police, firefighters, paramedics and others who dedicate their careers to helping others.

First State Super believes that everyone deserves a dignified retirement. Through their financial planning company, StatePlus, they provide high quality, affordable advice for members and all Australians. While they're big, they see their members as individuals and understand the role they play in safeguarding their savings and working with them to plan for the future they want.

For more information, please visit firststatesuper.com.au.

ABOUT ENCOMPASS

encompass intelligently automates information and news discovery for Know Your Customer (KYC) requirements for onboarding, event-driven refresh and remediation.



Driven by your internal policies and choice of reliable, independent sources, encompass automatically constructs corporate ownership structures, discovers beneficial owners, and in minutes screens relevant entities and persons for regulatory, reputational and financial risk.

encompass uses advanced intelligent process automation to dynamically build a comprehensive KYC profile from multiple sources, including corporate registries, company and regulatory data, adverse media and identity verification - enabling fast, confident decisions.

improve the quality of your KYC

Get the full picture of your customer for safer, more informed decisions.

gain full control of KYC

Full automation ensures your policies and procedures are consistently enforced across your organisation.

reduce the cost of KYC

Eradicate valuable hours wasted on repetitive, manual tasks.

improve customer experience

Reduce the customer due diligence process from up to three hours, to just three minutes.

For more information, please visit encompasscorporation.com.





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