WEBINAR
get ahead
with regtech
how automation can enhance
your KYC process
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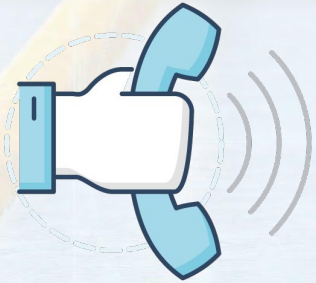


Today's Speaker

Mike Kearney

Product Marketing Specialist
Encompass Corporation

- Experience in strategic and operational marketing
- Australia, Europe & US Companies
- Public and Private Sector consultation
- Financial Services, Energy & Electronics
- Telecommunications

Agenda

- Regulatory environment
- KYC challenges
- Innovating with a digital KYC operating model
- People in a digital KYC operating model
- Information systems in a digital KYC operating model
- Results of digital transformation

The **Regulatory Environment** and the **KYC Challenges**

Increasing regulatory scrutiny

FINANCIAL REVIEW

— Exclusive

APRA lashes banks over risk failures

The prudential regulator has found the risk and compliance departments of our biggest institutions wanting as it launches more onsite inspections.

James Frost
Financial Services Writer

Jan 8, 2020 — 12.00am

The prudential regulator has described the risk and compliance functions of the nation's largest financial institutions as in need of urgent overhaul, as it completes a deep dive of the systems that permitted banks to break money laundering laws millions of times and wrongly charge customers billions in fees.

Early findings from the Australian Prudential Regulation Authority's onsite reviews of the banks' governance, culture, risk and accountability frameworks were disappointing, said chairman Wayne Byres, and

Increasing legislation and regulation

Prudential Standard CPS 220

Risk Management

Treasury Laws Amendment (Combating Illegal Phoenixing) Act 2020

No. 6, 2020

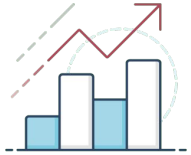
Manual processes are **broken**

customer experience suffers

- reputational damage to firms and individuals
- loss of business
- increase time to revenue

regulatory risks and **fines**

- billion dollar fines for non-compliance
- personal liability and prison sentences for bank board members for non-enforcement of policy



costs explode yet **growth** is **constrained**

- skilled headcount is expensive
- manual processes fail to contend with escalating compliance demands

Innovating with a digital KYC operating model

Opportunity: digital transformation of KYC

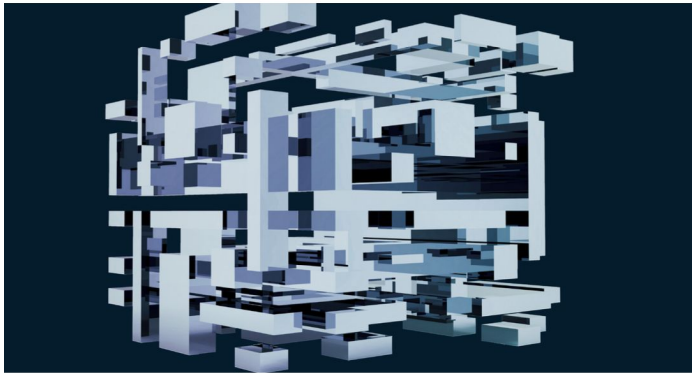
McKinsey & Company

Risk Practice

Transforming risk efficiency and effectiveness

An enterprise-wide risk transformation can substantially improve risk management while also sustainably trimming costs.

by Oliver Bevan, Matthew Freiman, Kanika Pasricha, Hamid Samandari, and Olivia White



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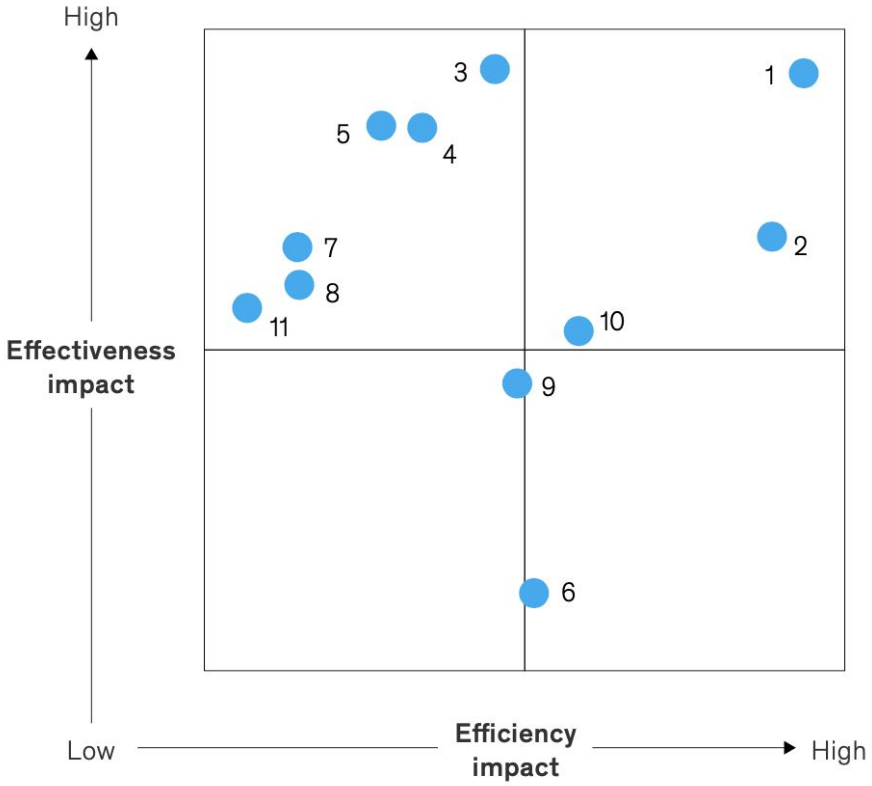
April 2019

Risk processes ranked by automation feasibility (McKinsey)



Feasibility ranking

1 BSA and AML operations[1]
2 Credit review
3 Third-party risk management
4 Operational risk (nonfinancial)
5 Operational risk (implementation)
6 Product-approval support
7 Stress testing
8 Transaction testing
9 Modeling and validation
10 Consumer credit approval
11 Credit portfolio management
Credit review
Commercial/corporate credit approval
Privileged account management
Risk-appetite setting and monitoring
Risk reporting
Risk identification
Policy setting
Risk technology and systems management

High

Low

[1] BSA refers to the Banking Secrecy Act; AML refers to anti–money laundering.

People in a digital KYC operating model

Three lines of defence risk governance model

Prudential Practice Guide CPG 200 Risk Management

1st Line of defence
Risk owners

Business management

Implementation, ongoing maintenance and enhancement of the risk management framework, including:

- identification and effective management/mitigation of risks; and
- issues identification, recording, escalation and management.

Likely to include executive and management committees, forums and delegated authority.

2nd Line of defence
Review and challenge

Risk management and compliance function(s)

Independent oversight of the risk profile and risk management framework, including:

- effective challenge to activities and decisions that materially effect the institution's risk profile;
- assistance in developing, maintaining and enhancing the risk management framework; and
- independent reporting lines to appropriately escalate issues.

3rd Line of defence
Independent assurance

Internal audit function / 3rd party

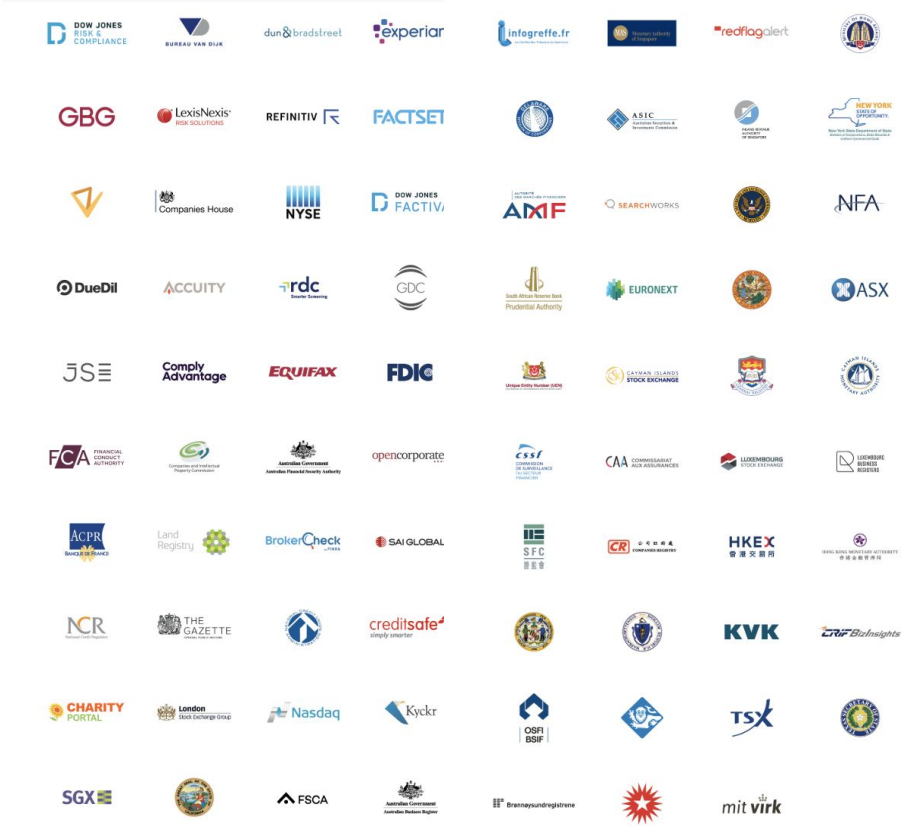
At least annually, independent assurance that the risk management framework has been complied with and is operating effectively.

At least every three years, a comprehensive review of the appropriateness, effectiveness and adequacy of the risk management framework.

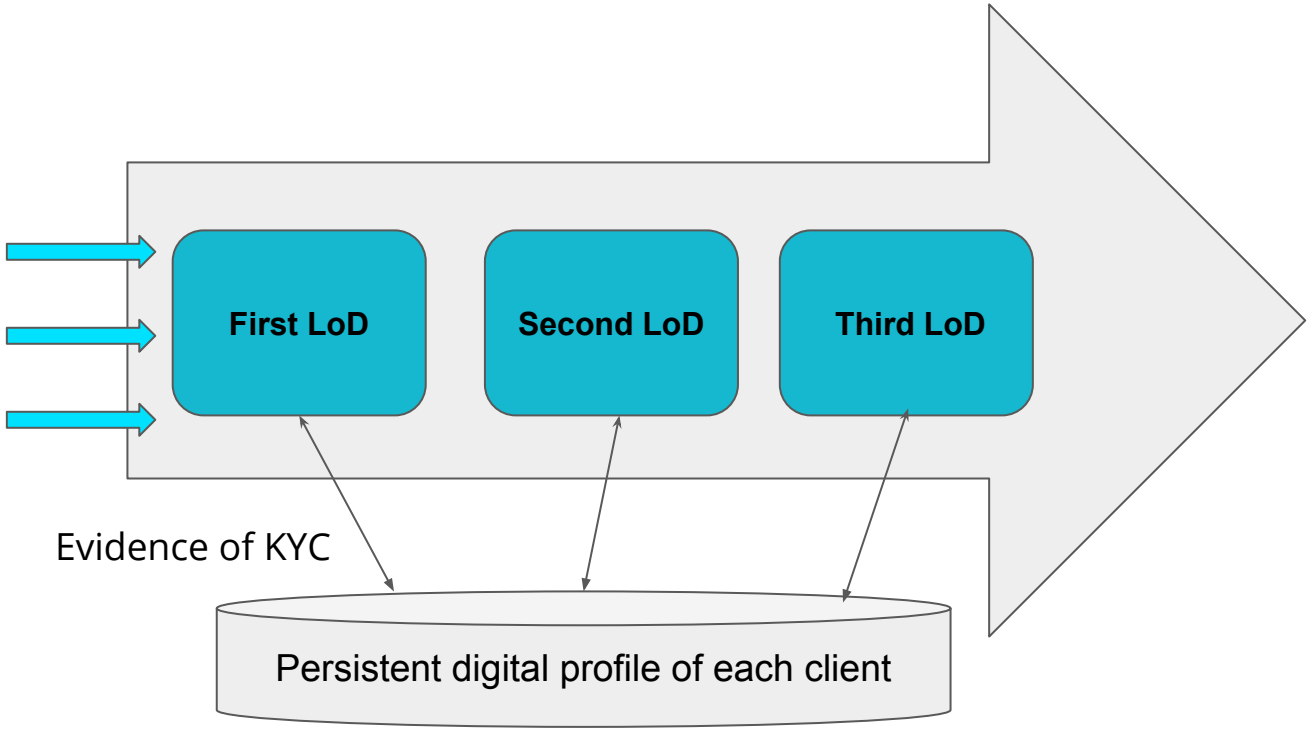
A digital process across 3 LoDs

Information systems in a digital KYC operating model

Information used in KYC: the digital outside - trusted data from trusted sources



Creating a digital inside to connect with the digital outside



Results of digital transformation

Business benefits of digital KYC

Business management
First LoD

Expedite time to market

Increase profitability

Improve customer experience

Access to new markets

Risk mgt. & compliance
Second LoD

Increase capacity

Reduce error rates.

Improve turnaround times

Reduce cost of ownership

Upskill workforce

Internal audit
Third LoD

Improve quality

Increase consistency

Simple to audit

Encompass data partners

Full list at encompasscorporation.com/data-sources-reports

Effective and efficient

Encompass performed **5 times more searches**,
saved **6 times the number of documents**,
identified **5 times more connected parties**,
all within 16% of the time it took the bank's analysts.

Senior Executive at a **Global Bank**

Evolving legislation and regulation

Bills for consideration:

- Crimes Legislation Amendment (Combating Corporate Crime) Bill 2019;
- Currency (Restrictions on the Use of Cash) Bill 2019;
- Anti-Money Laundering and Counter-Terrorism Financing and Other Legislation Amendment Bill 2019 (commonly referred to as Tranche 2 AML/CTF).

any **questions**?

thank you!
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