

EBOOK

maximising the benefits of **KYC** automation



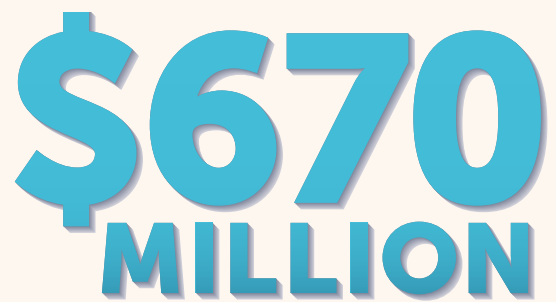
KYC and AML remains a huge focus for financial institutions

Since the financial crisis more than a decade ago, there has been a huge focus on Know Your Customer (KYC) and Anti-Money Laundering (AML) from global regulators resulting in a stream of regulation (latest examples include FinCEN's CDD "Final Rule" and the EU's 4th and 5th AML Directives). This has resulted in over \$23 billion¹ in fines relating to non-compliance with KYC, AML and Sanctions.

Despite huge focus and spending from global Financial Institutions over this period, getting on top of KYC and AML remains a significant challenge.

While KYC and AML compliance is high on the agenda for all Financial Institutions, there is also significant internal pressure to reduce the burden of compliance. Operations and technology costs have spiralled in the last 10 years with an average KYC spend of \$150 million by large Financial Institutions, rising to \$670 million if remediation is included². At the same time, there is also a need to improve the quality and speed of onboarding to support better customer experience and revenue generation. At the heart of the problem, complying with KYC and AML regulation remains an expensive, slow, and somewhat manual process today.

New regtech vendors have spotted an opportunity to innovate in this market, and are seeking to tackle some of the complex challenges that exist in KYC and AML compliance. These providers have the potential to provide significant benefits to banks by focusing on solving cross-industry issues. Importantly, they are able to focus on specific challenges and dedicate resources entirely to solving these challenges using the latest technologies available, a combination that Financial Institutions often find difficult to replicate.



**\$670
MILLION**

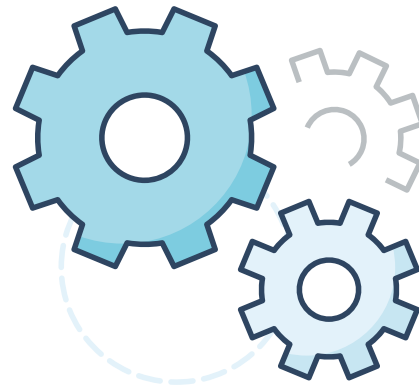
annual KYC spend
including remediation by
large financial institutions

Reducing the Cost of Compliance
Refinitiv, 2018

¹ encompasscorporation.com/blog/analysis-from-encompass-shows-2019-set-to-be-year-of-record-aml-fines/; encompass, 2019

² Reducing the cost of compliance: A bold move towards Know Your Customer (KYC) managed services; Refinitiv, 2018

Automation of KYC is one such area that has significant focus from regtechs. In the context of KYC, vendors have focussed on a number of different challenges within the KYC process. This includes the automation of workflows through rules, extraction of data from documents, reduction of screening hits, identification and verification (ID&V) processes and more.



Financial institutions are naturally hesitant to buy into the 'hype' surrounding new technologies such as process automation, natural language processing and artificial intelligence. But in evaluating these new vendors, they are rigorously testing these solutions against real world scenarios. **encompass**, a leading provider of KYC automation solutions, is one such vendor. Using intelligent process automation and artificial intelligence to gather and analyse public and third party data, **encompass** can provide an instant picture of a company or an individual. In time-based studies conducted with Financial Institutions, they compared the automated process against the Financial Institution's current manual process and found that the KYC discovery process was on average eight times faster using **encompass** than versus a senior KYC analyst.

	layers of ownership unwrapped		no. of data sources, individual reports called		time taken (mins)		time reduction
	bank	encompass	bank	encompass	bank	encompass	
customer example 1	3	5	1	31	25	5	-89%
customer example 2	7	7	1	23	35	6	-88%
customer example 3	2	2	2	7	60+	2	-92%
customer example 4	4	4	2	42	25	9	-88%
customer example 5	3	3	2	5	5	2.5	-50%
customer example 6	3	3	2	5	8	2	-86%
				averages	26	4.5	-83%

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financial institutions are
struggling to maximise the
potential of **automation**
technologies

While there can be no denying that there is now a greater global understanding of the importance and benefits of using automation technologies as part of a robust KYC and AML programme, some organisations, particularly in the banking sector, have struggled to adopt these new technologies in a way that unlocks their full potential.

There are numerous reasons for this, including:

- other organisational priorities both tactical and strategic in nature, such as responding to new regulation, implementing new workflow or client lifecycle management tools, dealing with backlogs of periodic KYC review or KYC remediation, as well as many other demands that take up the limited resources of the bank
- the belief held by some key stakeholders that banks can both build and critically, maintain bespoke technology solutions themselves
- the perception that regtechs lack suitable 'credentials', history, or experience
- legal and data concerns, especially around data protection regulations
- the fact that multiple stakeholders are involved in evaluating and implementing new technology which often makes decision making slow and vendor onboarding a long and difficult process

There has, however, been a noticeable change in industry attitudes in recent times. Falling profits are forcing cost-cutting measures, and most institutions are now clear that the current manual AML and KYC processes relied on to date are simply not sustainable. Furthermore, as Financial Institutions look to the future where requirements are only going to increase, they need scalable solutions to help them meet the demand.

As such, over the last 12-18 months there has been growing interest in regtech offerings and the significant benefits that they can deliver to a bank's operations.

In many instances, however, where implementation has begun, Financial Institutions are still struggling to realise the full benefits of automation and regtech vendor solutions. This is evident at both the point of implementation and in how the relationship is managed after the initial implementation.

Some of the underlying issues from both the bank and vendor's perspective include:

- a desire to **maintain the status quo and existing processes** rather than embracing the opportunity of a new solution as part of a holistic change.
- a failure to **engage the business users in the change process**, starting early on and helping them to understand the potential benefits that can be achieved.
- a desire to **only take part of the vendor solution**, or highly configure the solution to the bank's needs, failing to take full advantage of potential benefits.
- a failure to **understand the full picture** and how the solution could be used successfully by the bank based on their specific needs and processes.
- a failure to **grow a partnerial relationship over time** and continue to invest in both the relationship and technology, failing to increase benefits over time.

All of these factors can lead to frustration on both sides and, ultimately, result in an unsuccessful partnership that does not provide the desired outcomes for either party.



maximising the **benefits**
of automation requires a
significant change

So how can banks maximise the benefits from partnering with a vendor solution for KYC automation?

We have identified five critical success factors for maximising the benefit of KYC automation:

Understand the problem you're trying to solve, in detail.

Articulate with absolute clarity the answer to the question, "what problem(s) are we trying to solve?". This means understanding the problem in detail, developing the business requirements, as well as measuring the current process. Your requirements are likely to touch on multiple areas within the onboarding or client lifecycle management landscape so you need to ensure there is a clear strategy in place for addressing these challenges.

Tip With KYC automation, ensure you understand your business model (geographies, client types, products offered), processes, policies and systems to help define your pain points and identify key opportunities where automation could be most beneficial.



Design for the future, not for the past.

The temptation when working with automation providers, is for banks to simply look at their current process and ask "can you automate this process?". While the simple answer may be "yes" (or "no" in some cases), this misses the opportunity for banks to review what they have been doing and ask "can we do this better?". Particularly in large complex organisations, processes may have been designed many years ago and the reason for the specific approach is no longer clear. by people who have now left the organisation, and no one knows why they are doing the process as they are. It is simply put down to "the way it is done here".

Working with automation providers presents an opportunity to review old processes and procedures and challenge existing ways of thinking. Moving to more technological driven processes necessitates a change of mindset from some historical ways of working, for example, do you trust that the technology as delivered as it should have,

or do you need a person to do a second check? Do you still need to take a screenshot to provide indisputable evidence, or can you start to rely on metadata that is stored alongside the actual data to provide proof of source and date/time? Banks should try to adopt a transformation mindset when building automation into their KYC processes and embrace the benefits that technology can bring.

Tip When adopting a third party KYC automation solution, make sure you understand the full capabilities of the tool set as well as the vision and the immediate development roadmap. This will help ensure you consider how to design for the future, rather than mould the solution to your current process.



Collaborate on design, don't mandate.

In helping design for the future, engaging and collaborating with your chosen automation partner is critical. Firstly, the automation partner is likely to have experience across multiple banks and will be able to bring some 'best practice' to bear. Secondly, adapting your process to the partner process (which should be configurable) ensures your process will be better supported in the future and more cost effective. In requiring large customisations to a third party solution, the bank is creating an expensive, bespoke solution that needs to be maintained individually for years to come. This may also mean that the bank may not be able to benefit as the core product develops over time.

Tip If the bank is considering large customisations to a product, it could suggest that your way of doing things is significantly different from other similar banks. Take time to evaluate why your processes, procedures, operating model, etc. are different, and whether this is justified. It may suggest that it would be better to evaluate your way of doing things and align your business more closely to the others in the market.



This is not just technology change - make sure all parts of your organisation are onboard.

In adopting automation as part of a holistic change, you need to make sure you are treating this as a comprehensive change programme. Some of the key factors include senior sponsorship throughout the programme; development of a robust business case which is considered over a sensible timeframe i.e not in-year; engagement of all relevant functions and stakeholders including operations, financial crime compliance, and technology; and ensuring the programme team provide sufficient support to the vendor through the vendor onboarding process, helping them navigate the organisation and various departments such as procurement, legal, and infosec.

Tip There are a wide range of stakeholders who need to be involved in the successful delivery of KYC automation so make sure they are engaged early in the definition and selection process if using a third party solution.



Like all technology-led change, continual improvement is critical.

It is important that banks do not assume that their automation journey is complete following the initial adoption of automation technology. In fact, it should be viewed as the start. This means that the bank need to commit to (and invest in) continual improvement of their capabilities, working with their chosen automation partner to develop a joint roadmap and ensure a close working relationship on an ongoing basis. This is critical to the success of the partnership, which shouldn't be judged after the initial implementation, but over a multi-year period. Of course, the bank also needs to ensure that they realise the proposed benefits of the automation, either through cost reduction or shifting of resources to more value-adding activities. These resources should be transitioned over time in a managed approach as the new technology and processes are bedded in.

Tip The opportunities for automation are wide-ranging so prioritisation is key. For automation of data collection, identify the sources and document types that are leveraged the most within your organisation. Create a prioritised list and ensure that there is an agreed roadmap for future development with your automation partner.



In order to maximise the benefits of KYC automation, a bank must treat it like any other significant change programme, ensuring the appropriate commitment across the organisation. When embarking on a successful partnership with a third party, there are some special considerations that must be taken into account, such as working collaboratively, aligning processes where possible, and commitment to continual improvement.



In implementing a KYC automation solution, banks have the opportunity to achieve significant benefits through increased speed and accuracy, but there are also significant risks if not approached in a planned, committed manner.

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about **encomapss**

encompass automates information and news discovery for KYC requirements for client onboarding, event-driven refresh and remediation.



Driven by your internal policies and choice of reliable, independent sources, **encompass** constructs corporate ownership, discovers beneficial owners, and comprehensively screens entities and persons for risk.

Our advanced intelligent process automation dynamically builds a comprehensive KYC profile from multiple sources, including corporate registries, company and regulatory data, adverse media and identity verification - enabling fast, confident decisions. Incorporating leading biometric and eIDV sources for individual KYC verification, **encompass** delivers a single platform to manage every type of customer.

Find out more at encompasscorporation.com.

about **OpTechs**

OpTechs is a specialist consultancy with extensive experience in operations and risk transformation in financial services.



OpTechs was created to combine transformation excellence, genuine industry expertise, and 'on the ground' experience, bringing together a passion for innovation and delivery excellence to provide the best possible service to their clients.

OpTechs works with senior leaders of banks, technology companies, and data providers to help them shape and deliver solutions across operations, technology, and compliance.

Find out more at optechs.co.uk.
