Thought Leadership

Is there a silver bullet for KYC?

Authored by:
Arjen Koomans
Principal Consultant, Synechron Business Consulting

Financial institutions are facing increasing costs, customer experience challenges and regulatory demands when it comes to KYC. These challenges are negatively affecting businesses, and financial institutions are seeking new solutions to address the growing complexities and challenges associated with KYC.

New technology can help to get control over cost and improve workforce efficiency, but it is not a silver bullet. Benefiting from the gains and efficiencies of new technology requires that data, workflow and risk management are aligned and optimized in a clear KYC framework.

Increasing complexities in KYC

Financial institutions are faced with three challenges: pressure to lower cost, strengthen regulatory compliance and improve customer experience.

Cost

KYC costs are significant and increasing – for example, JP Morgan spent £1.6bn on their Compliance Department, employing 13,000 staff, and a Thomson Reuters survey in 2016 across 800 Financial Institutions delivered a clear conclusion: cost and complexity of KYC are rising and negatively impacting business.

Additionally, fines are eating profits. Banks globally have paid $321 billion in fines since 2008 for regulatory failings from money laundering to market manipulation and terrorist financing, according to data from Boston Consulting Group. With costs increasing, as well as fines being given out for non-compliance, the key challenge for banks is to reach a stage of growth without adding additional costs.

Regulatory compliance

At the same time, regulatory pressure is increasing. Legislation as well as monitoring by regulatory bodies has become much stricter. International operating companies find it more challenging to interpret, align, and implement the various and sometimes contradicting local KYC requirements.

Customer experience

Clients expect and demand faster, easier onboarding. New entrants disrupting the market are able to provide five-minute onboarding experiences for business to consumer (B2C). Expectations are set higher and urge banks to follow the footsteps of their start-up counterparts and implement the emerging technologies used to afford the opportunity for quick onboarding, like artificial intelligence and natural language processing. The bar is also raised for B2B interactions, with the bottom line across the board being that clients demand a decrease in onboarding time.

Solutions: Areas of focus to meet challenges

Various solutions have developed over time to facilitate KYC requirements. Traditionally, banks' own build data & content solutions provide structured storage of required data and some form of workflow management. Tools used are mostly generic storage and workflow solutions that have been tailored for KYC purposes. However, with increasing complexity and demands, the self-built solutions just can't hold up to the required level of processing. Various providers have developed purpose-built applications to support New Client Take-on and Review processes.

As many financial institutions require the same data to execute similar processes, a market has arisen around Managed Services & Utilities. Eventually, the goal would be to align global KYC standards to create one unified system for digital identity, where this information can be shared across institutions.

Managing today's KYC challenges requires steps to be taken in three key areas:

Risk management: policies & procedures

Based on regulations and risk appetite internal policies and procedures provide the basis from which business rules are derived. These business rules are then to be implemented in the workflow. Having (too) many potentially conflicting policies burdens the KYC activities from the start, making implementation impossible or at least very complex.

As a first step, it is critical to asses existing policies and procedures in order to create a lean, fit for purpose staring point. Aligning and simplifying policies will result in less complex business rules.

Data: Data management & quality

If policies and procedures set the rules on how to navigate, then data provides the fuel for a KYC engine to run. Data quality is a challenge, especially in the long run. Choices have to be made on acquiring, validation and maintaining data. Some questions to address in ensuring data management and quality are up to par might be: Which sources to use? When to request what data? How to validate data? External data providers

Is RegTech the answer?

New technologies are emerging every day. Many standard checks can be performed automatically, more reliable than manual checks, reducing the rate of error by taking out the risk of human-error. Client onboarding is improved by new RegTech companies through combining automated checks on companies, people, and ID documents, tackling KYC and fraud issues. Various providers offer managed services in the KYC and client on-boarding space that can play a key role in improving the client experience.

While technology will surely address many issues and make processes more seamless and less costly and error-prone, new technology will not fix misalignment in policies, poor data quality or a badly designed workflow. No "silver bullet" exists.

Any KYC improvement roadmap must include an end-state that encompasses data, risk management and technology. Technology in itself will not solve issues that originate from faulty data management or misaligned, complex policies and procedures.