NICE Actimize

Survey Results

Accelerating Value of CDD/KYC Programs with Automation Technologies in a Complex Global Market

Overview

Financial Institutions (FIs) are facing an increased need to evaluate and enhance organizational CDD/KYC controls in order to address new regulatory requirements, and they may be turning to process automation to do it.

Consistent hot topics for regulators include beneficial ownership, or identifying the “real people” behind corporate accounts, crossenterprise consistency, and sensitivity to negative impacts on customer experience.

To better understand the overall impact that this dynamic regulatory environment is having on the AML industry and how technology is being used to address it, NICE Actimize launched a market survey in March 2017 to delve into the unique challenges and priorities in the CDD/KYC space. The main objectives for the survey were to:

- **ASSESS CDD/KYC** program readiness
- **IDENTIFY** current challenges in CDD/KYC space
- **GAIN** insight into operational priorities and key strategy drivers
- **UNDERSTAND** how financial organizations anticipate the impact of the new U.S. administration the AML landscape
- **EXPLORE** the importance of automation in for CDD/KYC programs

Contents

Polling Methodology & Respondent Demographics

The online survey was live for the duration of March 2017 and was promoted via multiple channels. In total, 167 AML professionals representing multiple geographies, institution types, and institution sizes participated in the survey.

Geography

Asked to indicate their primary region of responsibility, respondents answered as follows:

- 36%—North America
- 32%—Europe, Middle East & Africa (EMEA)
- 13%—Asia Pacific (APAC)
- 11%—Global Role
- 8%—Central & Latin America (CALA)

Primary Business Unit

Respondents indicated the primary business unit for which they had institutional responsibility. The majority of respondents, 69%, indicated that they were responsible for "Banking" business units, followed by Miscellaneous (11%), MSBs (7%), Securities (5%), Insurance (3%), Payment Processor / Network (2%), Card Acquirer / Issuer (2%), Government (2%), and Gaming (1%). The overall Banking category was comprised of the following:

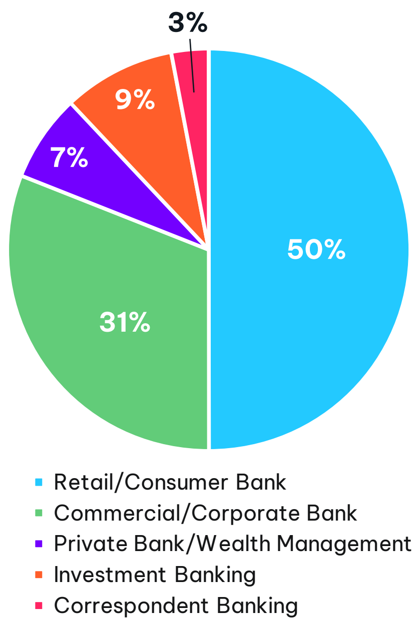

Figure 1.1: Primary Business Unit

Institution Size

Respondents indicated their institution size in billions of U.S. Dollars

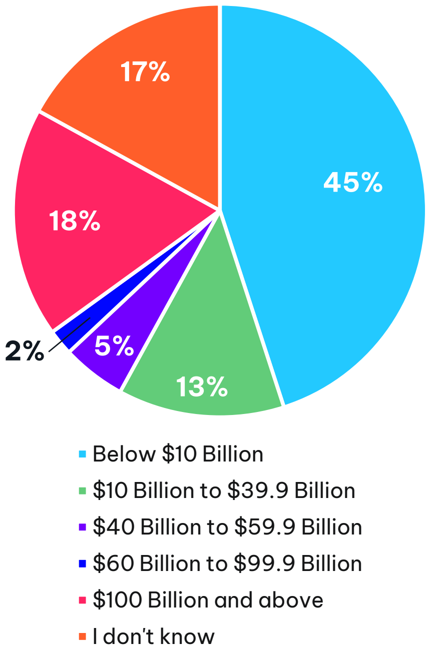

Figure 1.2: Institution Size

Primary Organizational Role and AML Focus Area

- Asked to describe their primary role within the organization, 75% of respondents selected Risk and Compliance, followed by Technology (11%), Operations (8%), FIU (5%), and Miscellaneous (1%).
- Asked to describe their primary focus area within anti-money laundering and risk management, 57% of respondents selected Customer Due Diligence (CDD) including KYC, EDD, CIP, and onboarding. Other areas of focus of note included transaction monitoring (25%), and other AML functions (18%) including overarching AML responsibility, sanctions screening, legal and audit, financial crime, CTR, FATCA / tax regulation, and currency transaction monitoring.

Key Findings

The survey findings reflect the significant and ongoing impact the recent CDD and beneficial ownership regulations have had on financial organizations, and the challenges that addressing regulatory requirements creates. More importantly, survey findings also provide insight into how financial organizations are addressing these challenges through technology and process automation.

The main findings include:

- Overall, financial organizations rate the state of their CDD/KYC programs favorably when it comes to program coverage and readiness. Yet, in general, respondents stated that their CDD/KYC programs were not sufficiently automated.
- The most influential market drivers for financial organizations when approaching their CDD/KYC strategy are the importance of company reputation/perception in the marketplace, new beneficial ownership regulation, current challenges and future priorities, and the focus on counter terrorist financing.
- Top operational challenges related to current CDD/KYC are data quality & availability, manual processes, and difficulty maintaining/ updating existing IT infrastructure.
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- Overall the top areas financial organizations are looking to increase CDD/KYC spend generally aligns to the above operational priorities, and include automation through new technologies, training programs for existing staff, and increasing staffing.

Looking back at the results from 2016, when much of the relevant regulation was newly announced, and comparing them to 2017's key findings, NICE Actimize sees a shift in challenges and priorities towards data quality, automation, and updating existing IT infrastructure. While these program characteristics were certainly on financial organizations' radar in 2016, in 2017 they have been ranked as higher priorities as the dates to implement new regulations approaches and as organizations are looking to create efficiencies. NICE Actimize will assess these findings further within this whitepaper.

How Financial Organizations Assess Their CDD/KYC Programs Today

Coverage and Readiness

As the complexity of CDD/KYC processes increase, and together with continued regulatory focus in that area, we wanted to assess the current state of FI's CDD/KYC programs. For example, we asked about several aspects of financial organizations' CDD/KYC programs including coverage across the organization, coverage across products and services, and coverage across regions. Generally, respondents agree that their coverage is fairly strong in these areas.

- 74% agree the program covers all business lines, including 24% who "strongly agree." Only 14% disagree.
- 74% agree the program covers all products and services, including 22% who "strongly agree." Only 10% disagree.
- 73% agree the program covers all geographies and regions, including 26% who "strongly agree." Only 10% disagree.

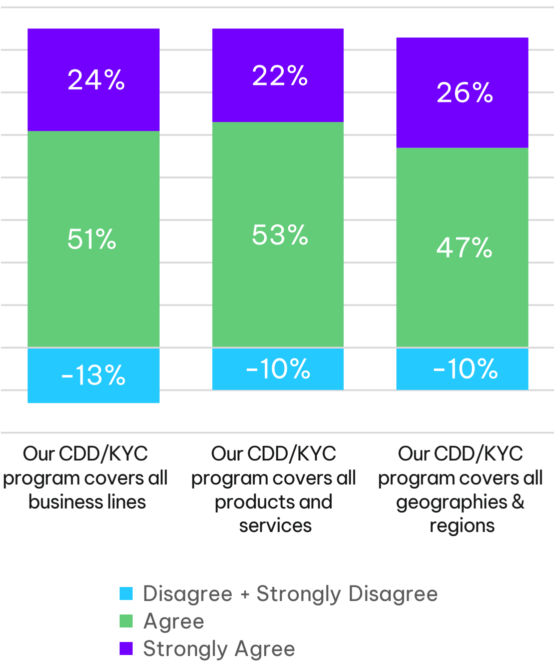


Figure 2.1: CDD/KYC Program Coverage

Capabilities and Effectiveness

We further asked respondent's about their CDD/KYC program capabilities and overall effectiveness.

In general, respondents were likely to indicate that their program includes scoring for applicable risk factors, provides visibility to management, and is applied consistently across the entire organization.

- 73% agree that the program includes scoring applicable risk factors against customers and accounts. Only 10% disagree.
- 62% agree that the program provides enough visibility to management. Sixteen percent disagree.
- 60% agree that the program is applied consistently across the entire organization. Twenty-one percent disagree.

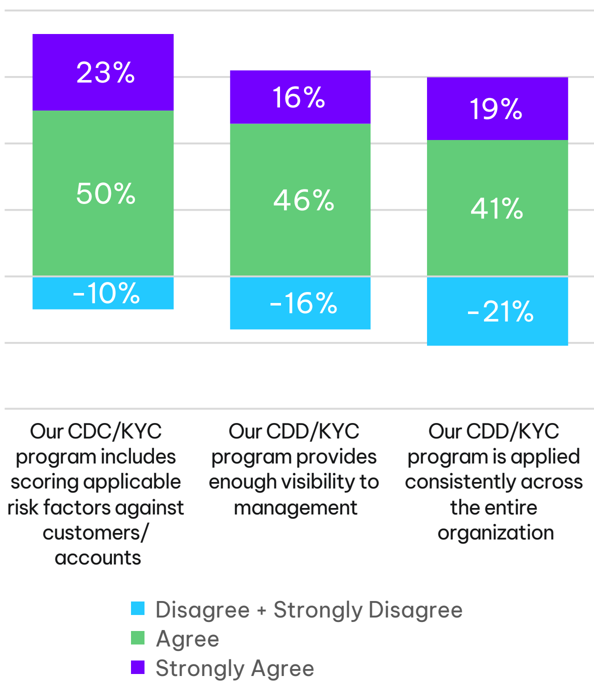


Figure 2.2: CDD/KYC Program Capabilities & Effectiveness

But when respondents were asked if they agreed that their CDD/KYC program was sufficiently automated, the responses conveyed a different picture. In fact, 38% of respondents disagreed that their program was sufficiently automated.

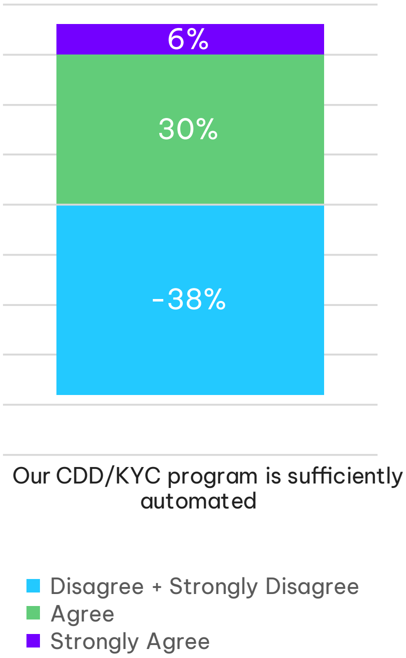


Figure 2.3: CDD/KYC Program Capabilities & Effectiveness

Where Are FIs Looking to Automate?

Automating manual processes helps organization not only expedite their existing processes, but also to increase the overall consistency of their policies execution. With that in mind, Actimize sought to understand the specific areas financial organization's wanted to automate their compliance program. Our respondents chose the aspects of their CDD/KYC compliance program that require more automation, and the top three were ongoing customer due diligence (44%), risk scoring (39%), and customer onboarding and enhanced due diligence (both chosen by 32% of respondents).

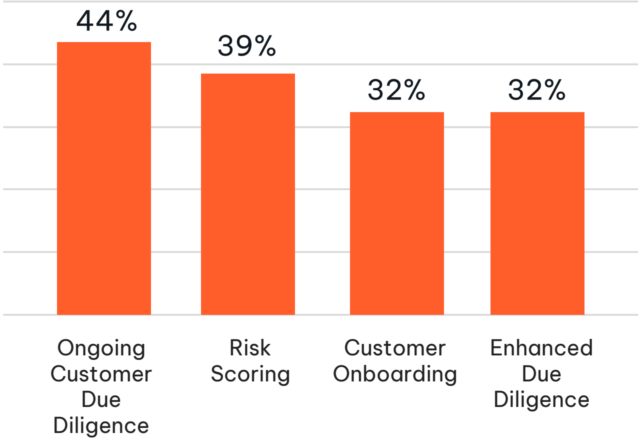


Figure 2.4: What aspects of your CDD/KYC compliance program that require more automation?

Market Drivers & Trends: Company Reputation Comes Out on Top

On a scale that included options such as Not at all influential, Somewhat influential, Moderately influential, and Very influential, we asked our respondents to indicate how influential certain market trends were in driving their organization's CDD/KYC strategy. The importance of company reputation/perception in the marketplace was identified as the most influential market driver for financial service organizations, with 59% of respondents marking it as "Very Influential". What this tells us is that financial organizations are keenly aware that negative headlines about fines and process failures decreases consumer confidence, trust, and the bottom line. Other very influential market drivers were identified in the following order:

- New beneficial ownership regulation (51%)
- Regulatory focus on model risk management/model validation processes (45%)
- Current challenges and future priorities (43%)
- Focus on counter terrorist financing (41%)

Top Operational Challenges & Priorities

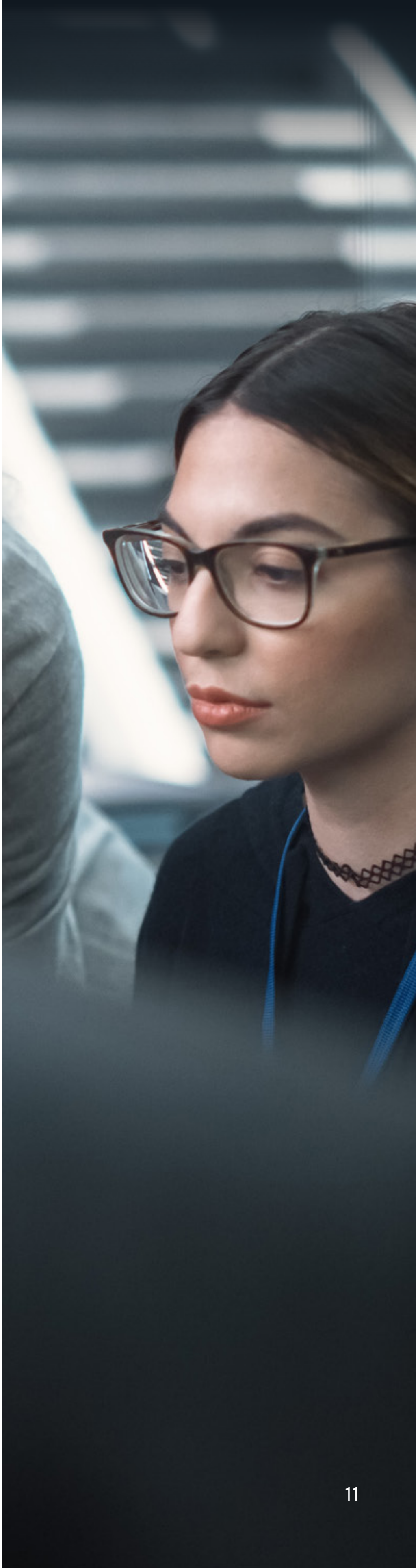
Top Global Operational Challenges

From a list of nine choices, respondents selected the top operational challenges they see related to their current CDD/KYC program. The top three global choices selected were data availability & quality (49%), reliance on manual processes (39%), and difficulty maintaining/updating existing IT infrastructure (38%).

These top global challenges are similar to 2016 research, with several noticeable differences. While "new risk scenarios" was identified as a global priority in 2016, in 2017 it has been replaced by difficulty maintaining/updating existing IT infrastructure. Additionally, selections for data availability and quality, and reliance on manual processes, increased 29% and 18% respectively year-over-year. This indicates that data quality and automation continue to challenge financial service organizations and any delays in addressing these issues may significantly impact the organization.

Why are these challenges of consequence to FIs today?

- Easy access to quality data is essential for accurate risk assessment. Modern CDD/KYC programs require data that is clean, structured, and reliable.
- Manual processes are labor intensive, subject to human error, and lack consistency. Furthermore, an increased workload can result from the need for more people to do things manually. Because of this, financial organizations are increasingly turning to process automation, as evidenced by Actimize's research discussed within this whitepaper. As more organizations begin to adopt updated technology, financial organizations can shift the budget normally spent on manual processes and maintaining outdated technology to more valuable resources that are more accurate.
- With the emergence of new products and risks in the market, the risk scenarios FIs are facing are constantly changing. A system that cannot adapt to these new risk scenarios leaves an institution vulnerable to regulatory violations and sanctions.



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Why are these the highest priorities for FIs today?

Improvement of data quality and availability and lessening reliance on manual processes were both top challenges selected by respondents, proving that in these two areas, financial organizations' priorities align to the challenges they are facing. Clean data and automated processes facilitate a more accurate understanding of customers and the risks they pose. For these reasons we see organizations looking to leverage new and innovative technology like robotic process automation (RPA) as a further means to reduce manual labor and increase operational consistency.

CDD/KYC Programs Budget

Participants in the survey were requested to assess whether their CDD/KYC program budget in the next 12-18 months will change. Results reveal that for the most part, CDD/KYC budget is expected to increase (49%) or to stay the same (44%). Only 8% of the participants indicated that they are expecting future budget to decrease from current levels.

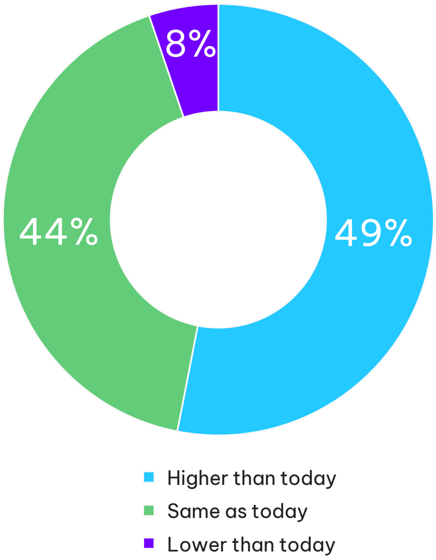


Figure 3.1: Budget Expectations

Where Are Teams Spending their Budget?

When asked about which CDD/KYC areas participants plan to increase budget, the top three areas included automation through new technologies (63%), training programs (38%) and increased staffing (36%). These priorities remain consistent when we look at regional priorities as well.

While automation and training programs as focus areas for budget spend are aligned to the operational priorities, only 18% of the survey participants indicated that increased staffing is a 12-18 months operational priority, compared to 36% who indicated that they are going to increase the amount of budget spend in that area. This represents a difference in short-term priorities focusing on addressing immediate needs such as meeting regulatory deadlines, versus a more long-term approach where other, more strategic, areas such as process automation are prioritized.

Impact of the New U.S. Administration

Given the recent political climate, this year we took the opportunity to ask our survey responders how they thought the new U.S. administration might impact anti-money laundering (AML) regulations on a global scale.

First, we asked our global audience how they expected the landscape of AML regulations to change with the new U.S. administration. Respondents indicated that AML regulations/regulatory oversight will increase (45%). Twenty-eight percent of respondents are not anticipating any changes, while 15% were not sure. Only 12% said that AML regulations/regulatory oversight will decrease.

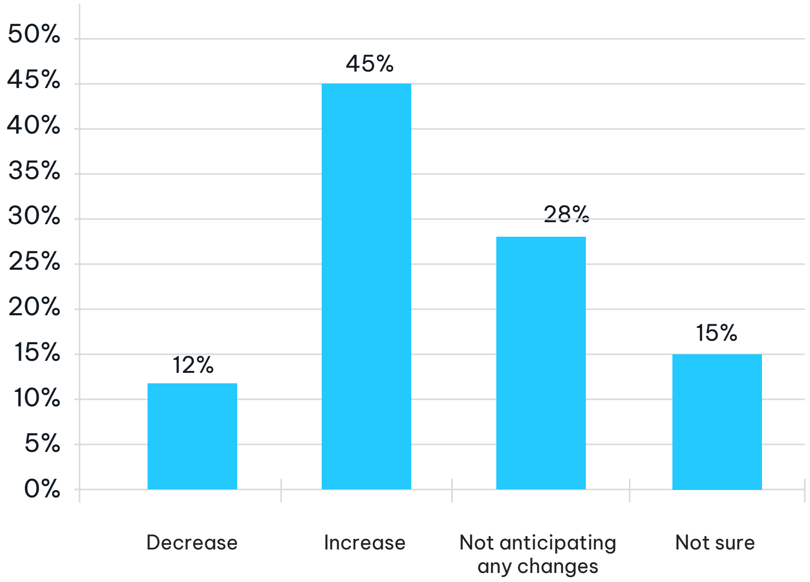
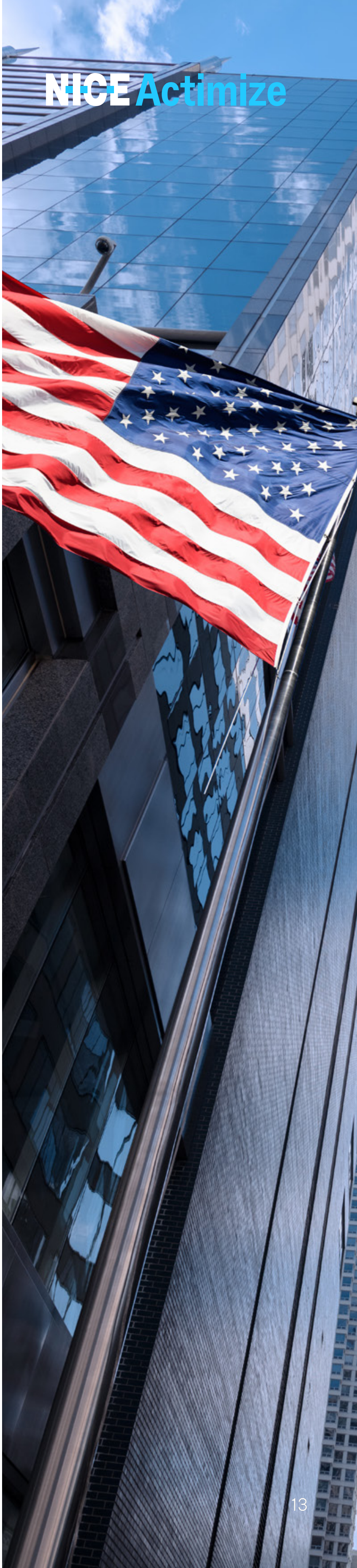


Figure 4.1: How the U.S. Administration Will Impact Regulations

We then asked a follow up question to our respondents that thought AML regulations/regulatory oversight will change with the new U.S. administration in office. Specifically, we asked what aspects of their AML compliance strategy they anticipated adjusting given the new U.S. administration.

Respondents were able to choose multiple answers but, overwhelmingly, respondents indicated that they anticipate needing to adjust CDD (63%) and KYC programs (57%) due to anticipated increase in regulations/oversight, followed closely by sanctions screening (53%), and transaction monitoring (49%). Regulatory reporting was indicated by 37% of respondents. Tax evasion was selected the least (28%) out of all the categories.



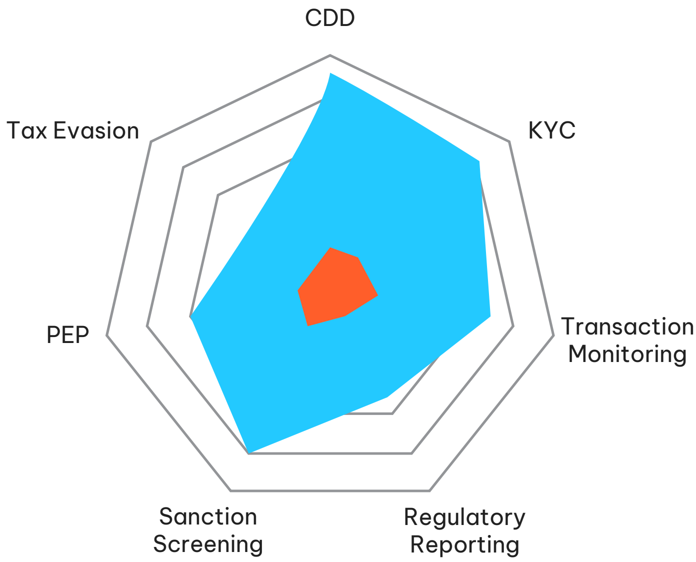


Figure 4.2: What aspects of AML will see changes in regulation?

A new administration may bring an element of change to the realm of financial regulations. However, many financial intuitions operate on a global scale and are subject to multiple directives and regulations. Having consistent AML controls within the organization creates a strong, risk-based operation, and ultimately a reliable financial industry.

Conclusion: The Automation Opportunity

Money laundering and financial crime is a dynamic space, one with ever changing topologies, suspicious behaviors, compliance regulations, and even the solutions being used to address these challenges. The industry is entering a new era of innovative technology solutions being adopted and deployed to combat money laundering. Additionally, organizations are finding new and better ways for their AML and IT teams to form strong partnerships internally.

The opportunity is clear: financial organizations can benefit from new technology and process automation with validated data, improved alerts, and a consistent customer experience. As evidenced by our survey respondents' strategic priorities, financial organizations are investigating and implementing process automation solutions that will help create strong compliance controls within the organization. Financial organizations that adopt these strategies early may be more likely to increase accuracy and create operational efficiencies by better managing their staff and internal resources.

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About NICE Actimize

NICE Actimize is the largest and broadest provider of financial crime, risk and compliance solutions for regional and global financial institutions, as well as government regulators. Consistently ranked as number one in the space, NICE Actimize experts apply innovative technology to protect institutions and safeguard consumers' and investors' assets by identifying financial crime, preventing fraud and providing regulatory compliance. The company provides real-time, cross-channel fraud prevention, anti-money laundering detection, and trading surveillance solutions that address such concerns as payment fraud, cybercrime, sanctions monitoring, market abuse, customer due diligence and insider trading.

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