NICE Actimize

Insights Article

Optimize your Firm's Risk Management & Revenue Opportunities by Transforming your KYC Approach

Introduction

> “Customers want frictionless experiences, but they understand that friction needs to be put in place. So how do you create friction-right controls where you can identify the bad actors but ultimately create a great experience for the good ones? And that really requires an orchestrated data-driven approach.”
>
> **Chuck Subrt,**
> Research Director
> **Aite-Novarica Group**

Know Your Customer (KYC) and Customer Due Diligence (CDD) are fundamental to impactful and effective financial crime prevention. In the past 18 months, we've seen considerable focus from both regulators and the regulated sector on KYC and CDD controls. This focus is partly a result of the pandemic, which has created a dramatic shift towards digital and a drastic reduction in in-person interactions. Many in the industry see virtual onboarding as becoming the norm.

A survey by the Aite-Novarica Group looking into the impact of the pandemic found 40 percent of respondents had tried a new type of product or service. Most consumers now expect interactions to be online or using mobile services that increase an organization's vulnerability to financial crime.

Digital acceleration has required additional levels of scrutiny to ensure full compliance with recent regulations, such as the 5th Anti-Money Laundering Directive in the EU and the AML Act of 2020 in the US. A crucial piece of these regulations is the focus on obtaining a fuller understanding of each customer.

The combination of digital acceleration supercharged by the pandemic and more regulation means financial institutions need to rethink their KYC approach to match our industry's new realities.

There has always been a challenge to strike a balance in KYC between customer experience and managing risk. Companies must find a KYC approach that provides both an excellent customer experience and strong risk management, ensuring compliance is met at every stage.

More mature and advanced technology solutions are now available that incorporate the right data in the right way, at the right time, to put the customer at the center of the process. When implemented correctly, entitycentric customer life cycle risk management provides the optimal risk vs. revenue balance for KYC.

Customer Life Cycle Risk Management (CLRM)

A large focus of KYC is the onboarding of new customers. This onboarding focus is critical for any organization, but KYC obligations are present throughout the customer life cycle. Customers' finances evolve, so do their behavior, activity, and risk profiles. Therefore, ongoing monitoring needs to be performed on the customer throughout their life cycle to stay informed on the customer's risk profile, to ensure financial institutions can make accurate risk and revenue decisions. We call this ongoing process Customer Life Cycle Risk Management (CLRM).

Managing end-to-end customer risk across the entire life cycle requires a series of essential processes that incorporate data and analytics to understand the client. These include:

- Detailed information gathering
- Identity verification
- Watchlist screening
- Risk profiling (CDD and EDD)
- Application fraud prevention
- Account approval/rejection
- Transaction monitoring
- Offboarding
- Repeated authentication, CDD refresh, and watchlist screening

Grounds for Customer Life Cycle Risk Management

Financial institutions face a considerable number of challenges that can be eased through a thoughtful CLRM strategy.

Escalating Financial Crime

With increasing digitalization and new customers to target, financial crimes are on the rise. "All types of fraud and illicit activity are increasing from phishing to application fraud, synthetic identity fraud, mule activity, takeover fraud. These are the types of events that organizations need to be mindful of and adapt their platforms to be able to address." Chuck Subrt

Fragmented Customer Risk Life Cycle

The risk profile for a customer across their entire life cycle is often fragmented across multiple systems, multiple jurisdictions, and multiple lines of business. This fragmentation leads to an incomplete understanding of the customer and potential risks present.

Poor Data Quality

Data is critical in effective FinCrime detection. Analysis of a customer's risk can only be as accurate as the data you are analyzing. Using outdated or incomplete data to make a risk assessment will result in an inaccurate risk profile and expose organizations to unmanaged risk.

"As you introduce models and data analytics mining tools now, if those clients haven't been touched for five to seven years potentially, that data is only as good as what your onboarding and control and quality program was five to seven years ago." Ken Triemstra, Global Head of KYC Program & AML Policies, State Street.

Financial Crime Convergence

To gain a more holistic approach to preventing financial crime, companies are looking to combine departments and systems to eliminate fragmented datasets and establish a single view of each customer's risk. "Historically, it's always been an AML and sanctions program with a detached fraud program and a detached cybercrime program. I think most firms, State Street included, are looking at how do we bring those together from a synergies perspective … You no longer can look at them in silos; you have to look at how do they overlay each other." Ken Triemstra.

Stringent KYC/CDD Obligations

Organizations need to meet arduous KYC and CDD obligations, and meeting these obligations can be incredibly challenging. Understanding corporate structures, corporate controllers, and Ultimate Beneficial Ownership (UBO) can be difficult, especially when the corporate structure spans multiple jurisdictions. Much of the research and investigation into individual and corporate customers, especially understanding organizational structures, is still a manual process that needs to be digitized.

Greater Regulatory Expectations

Regulators are increasingly expecting organizations to increase their controls for understanding and managing their customers, especially with the recent, accelerated adoption of a digitalcentric approach. A number of regulators are now encouraging the use of technology to aid in delivering more effective controls. "Your regulators are going to expect you to have a much better appreciation of your customers. So you can develop a clear understanding of their risk and be able to then ultimately use that to build better defenses." Chuck Subrt.

Effect of KYC on Customer Experience

While the need for KYC is paramount, it often creates friction and frustration for customers looking for more accessible and less time-consuming process.

A survey by Aite-Novarica found between 31 and 70 percent of consumers have started and failed to complete an application. That represents considerable lost revenue for firms.

With customers shifting more and more towards digital processes and mobile/online services, organizations have to develop their KYC questionnaires to match.

> **"As we look at the onboarding timeframe, right now, the average is it takes 28 days to onboard. So how do you use your analytics internally to find those roadblocks and chip away at the 28 days? It is not going to be something overnight. It is going to take a cross-functional group of peers to be able to tackle that within an organization."**
>
> **Ken Triemstra**

“The people that are filling out the application or answering periodic review questions are not sitting across from a banker anymore. There is nobody guiding them through the questions. The questions have to be smart; they have to be relatable.” Ken Triemstra.

Customer Due Diligence (CDD) processes, as part of KYC, have to remain stringent to ensure full compliance and prevent unduly high-risk customers from getting access to financial services. However, any strict controls have to be balanced with a good customer experience. Too much friction can cause good customers to give up on their application and go to a competitive organization. Moving towards digital processes and interactions creates vast opportunities to speed up onboarding and KYC processes while remaining compliant. Still, financial institutions must ensure that their digital KYC compliance processes are implemented properly so they don’t increase risk and make it easier for bad actors to gain financial services.

Benefits of Mature CLRM models

To meet the new KYC realities and better balance risk vs. customer experience, firms can now look to more mature CLRM models that take a customer-centric approach. which removes data silos and offers a holistic understanding of customers to better assess risk accurately.

Fully integrated KYC processes that utilize the latest advancements in technology to gather meaningful customer data directly from the customer, from across the organization and from external data sources. Combining this data with identity resolution, smart analytics, and automated process orchestration, organizations can gain a complete view of the customer and their risk.

Identity resolution connects the data from different sources and ultimately allows for a better understanding of the customer, their networks, and relationships. It uncovers previously hidden links, allowing for the creation of consolidated and always-accurate customer profiles and networks with always-accurate risk scores that instil a precise awareness of each customer’s risk. With always-accurate risk scores, organizations can take steps to manage their risk exposure, whether that be putting in place enhanced due diligence controls, optimizing or implementing new analytical detection models, or improving investigation processes.

> **“There is a number of different touchpoints and activities, solutions, datapoints, inputs across the customer life cycle that need to be orchestrated and integrated to really have that true intelligence … [True intelligence] involves the AML team, fraud team, IT, [and] business operations. You have multiple silos.”**
>
> **Chuck Subrt**

We ultimately need to bring the different touch points and activities together to have a single point of truth, or put differently, a single view of the customer. This single view should be maintained throughout the customer life cycle. Not only does a mature CLRM approach with a single view of the customer improve risk management and detection of truly suspicious behaviour, but done right, it also enhances customer experiences by reducing friction for the good customers, both at onboarding and across the life cycle of their relationship. Therefore, maximizing potential revenue from these customers since they are more likely to remain with the organization and take out new products and services.

Summary

Reaching a middle ground between risk and revenue with your KYC program requires evaluating your current model and bringing it up to par with new, more mature CLRM models that:

- Provide protection and risk mitigation for firms and customers
- Operate within regulatory frameworks
- Improve customer experience so the majority are not punished for the actions of financial criminals

By putting into action an entity-centric KYC program, organizations can be sure they are balancing the tradeoffs between risk and revenue.

Are you striking the right balance?

Get in touch to learn more >

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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