Five KYC Challenges for Financial Institutions

Know Your Customer (KYC) has turned out to be a lot more burdensome and costly than anyone in the financial services industry could possibly have anticipated when the first Anti-Money Laundering regulations came into force. Based on our in-depth knowledge of the financial services industry and our ongoing dialogue with existing and potential CoorpID customers we have identified the following five KYC challenges that financial Institutions (FIs) are facing today.

1. Negative Customer Onboarding Experience

Due to KYC requirements and inefficient KYC processes, customer onboarding can take a lot longer than customers normally would expect – an average onboarding process for a new corporate customer can take up to 100 days - resulting in a negative customer experience and, in some cases, loss of business. According to a Thomson Reuters survey on KYC regulations, 89% of corporate customers qualify their KYC experience as negative—so much so that 13% actually switched to another financial institution as a result.

A positive onboarding experience is extremely important as a customer's onboarding experience sets the tone for all future interactions between the customer and the FI. In addition, a lengthy customer onboarding process also means higher costs and a longer time-to-revenue for the financial institution. FIs that succeed in optimising their customers' end-to-end onboarding experience will be able to increase the portion of new customers receiving approval, raise customer satisfaction scores, and reduce onboarding operating costs. The challenge that FIs are facing now is to transform customer onboarding from a paint point into a competitive differentiator and a revenue driver.

2. Customer Outreach Friction

When performing an initial Customer Due Diligence investigation for a prospective customer or carrying out a review of an existing customer, a FI has to gather information on the customer to fulfil its Know Your Customer obligations. A lot of this information can be obtained from third-party data sources. However, some information has to be provided by the customer and this 'customer outreach' process can be a source of frustration for both the customer and the financial institution if this process is not managed properly.

Another pain point in the customer outreach is the way in which information is exchanged. Confidential and highly sensitive information is often still being requested and sent by email. Not only does this pose a security risk for both the FI and the customer, it is also a very inefficient and unstructured means of communication.

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In addition, customers are being confronted with a large diversity of information requests and KYC requirements. At present, there is still a total lack of alignment between national and international interpretations of AML and CFT regulations. This is particularly onerous for large multinational companies with multiple entities operating in different geographies.

Even within one country, KYC requirements can vary considerably between individual FIs and even between the various departments of a single FI. Here again the challenge for FIs is to look for ways to streamline the customer outreach process and turn this into a positive customer experience.

3. Shortage of skilled KYC analysts and compliance personnel

According to a study carried out by KPMG in 2021 around 15% of the total workforce of the four largest Dutch banks is involved in KYC and compliance related activities and this percentage has only increased since then. FIs are being confronted with a severe shortage of skilled KYC analysts and compliance personnel resulting in huge backlogs in Customer Due Diligence reviews.

Many banks are having to call in CDD remediation support to reduce their backlogs and remain compliant. Outsourcing manual and low-skilled work in connection with KYC to low-wage countries is also becoming more and more difficult and costly.

Operational costs in connection with KYC compliance are continuing to rise exponentially as a result. However, more and more FIs are starting to realise that throwing more people at the problem is not the answer. The way forward is streamlining the whole KYC process by means of smart digital solutions which will involve an increase in capital expenditure in the short term but which will reduce operational costs in the long run and reduce the risk of huge fines being imposed for non-compliance.

4. Rapidly changing and increasingly stringent regulatory requirements

National AML policies to prevent and punish money laundering go back to the 1970s. In 1991, the EU adopted an anti-money laundering directive (AMLD) to prevent criminals from taking advantage of the free movement of capital in the internal market and to harmonise the Member States' efforts to tackle money laundering. Since then, the EU has updated the AMLD several times to counter threats to the internal market from money laundering and to prevent terrorist financing.

One of the most important recent developments for FI is the implementation of the 6th Anti-Money Laundering Directive ('6AMLD') which came into force in June 2021. 6AMLD is a critical development in EU policy and comes after a series of major scandals that have raised questions about the effectiveness of the EU's approach to AML.

6AMLD is part of an increasingly stringent regulatory approach to AML. FIs that are insufficiently equipped to implement and enforce these regulations run the risk of huge fines as well as irreparable damage to their reputation. Consequently, FIs must ensure that they have agile and robust processes in place so that they can remain compliant in this dynamic regulatory environment while continuing to serve their customers optimally.

5. Adopting a new approach to KYC: perpetual KYC

FI's are required to review every customer relationship on a periodic basis. High risk customers are reviewed every year whereas medium and low risk customers are typically reviewed every two to three years. Over the years, failure to perform periodic reviews on customers has resulted in monetary fines and reputational backlash.

Perpetual Know Your Customer (P-KYC) is an approach, powered by technology, that enables automation across the end-to-end periodic KYC review process, leaving only a small subset of the more complex cases that require some degree of human intervention.

P-KYC performs ongoing monitoring of a customer's profile by validating previously collected information and continuously identifying and assessing changes (regardless of materiality). Therefore, by applying new and existing technologies to the KYC process, refreshes can be made more frequently with greater efficiency. In some cases, through the adoption of P-KYC, FIs can achieve savings of up to 60%-80%.

Would you like to find out how you can reduce your KYC burden and how you can streamline and simplify your KYC process with CoorpID, then please feel free to contact us at: coorpid-sales@ing.com or check our website: www.coorpid.com

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