REPRINT

REIMAGINING KNOW YOUR CUSTOMER (KYC)

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MINI-ROUNDTABLE

REIMAGINING KNOW YOUR CUSTOMER (KYC)

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Thomas P. Keegan is a principal at KPMG LLP and serves as both the US head of the KPMG financial crimes and analytics practice and the US head of financial crimes managed services. He brings over 20 years of experience in the AML and analytics industry. He joined KPMG in 1998 after receiving his juris doctorate from Rutgers Law School. Since that time, he has supported clients across the spectrum of financial crime offerings from KYC/CDD to transaction monitoring and SAR filing to sanctions screening. He began his AML career focused on analytics – helping clients solve complex data problems.

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Jordan Klovsky has over nine years of experience advising financial institutions on compliance and regulatory matters related to their financial crimes and AML compliance programmes. He specialises in assisting institutions respond to regulatory matters, financial crimes transformations and assessments, and delivers large-scale AML managed services on his clients' behalf.

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For over 20 years, **Michaela Soctomah** has been passionate about helping financial institutions with complex regulatory issues in the financial crimes and compliance space. This experience has positioned her to genuinely understand the balance between regulatory pressures, compliance desires and the need to be revenue generating. The challenge of the evolving and ever-demanding financial crimes space keeps her motivated and engaged. She maintains significant experience advising the first, second and third lines of defence, executing projects ranging from internal audits to complex programme transformations to global managed services offerings.

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Kevin Lee is a seasoned risk and compliance professional with more than 15 years of experience leading teams and significant projects on the design, implementation and testing of AML, sanctions, anti-bribery and corruption, and fraud compliance programmes, operations and processes. He has a proven track record working in and with financial services firms to navigate financial crimes-related challenges, provide strategic programme support, and handle regulatory exams and consent order remediations.

R&C: In your opinion, why do financial services (FS) firms need to reimagine their know-your-client (KYC) processes? How much room is there for improvement in existing processes?

Lee: The tech-driven pace of change in the financial services (FS) industry is the primary disruptor shaking up the know your customer (KYC) landscape. The customer can now open an account, deposit a cheque, execute a trade or secure a loan online nearly instantaneously. This dramatic shift in the customer experience exacerbates challenges firms were already struggling with, specifically, high volumes of KYC activities and demanding turnaround times. Firms must complete these KYC obligations faster and with more precision, so it is not a detriment to the customer experience which risks losing them to the competition. Technology is driving the need for firms to reimagine their KYC processes, but it is also the answer. The cloud, blockchain, artificial intelligence (AI), machine learning (ML) and robotic process automation (RPA) must be leveraged to improve customer risk profiling, quicken adverse media and reputational risk reviews, and reduce manual exception handling and false positives.

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R&C: To what extent should FS firms tailor KYC to their own risk appetite? How can they calibrate their systems accordingly, while keeping up to date with ongoing regulatory developments?

Soctomah: Like all components of an effective AML programme, a KYC programme must also be risk-based. If someone has a KYC-related job, they would not perform the same level of due diligence on a low-risk customer as a high-risk customer. They would also want to be cautious as to how they factor in risk appetite into a KYC programme. For example, they may have accepted the risk of banking a high-risk customer type, like money services businesses (MSBs), and those types of customers are within financial institution's (FIs) risk appetite. However, that does not mean they have a lower money laundering risk. Other factors and controls are needed to mitigate those inherent risks. This is why enhanced due diligence (EDD) is so important. While an MSB may be inherently risky for money laundering, identifying positive factors such as a long customer relationship, high Better Business Bureau scores and appropriate site visits could reduce the risk.

R&C: In what ways does the 'perpetual KYC' (pKYC) concept help FS firms to evolve their KYC functions? What are the pros and cons for compliance teams of a shift to continuous KYC?

Keegan: The concept of ongoing or perpetual KYC (pKYC) has become the dominant one in the industry. But how does a more thoughtful customer relationship across multiple processes evolve KYC? For example, in capital markets, someone maintains the relationship with continuous customer outreach. How can we provide slight enhancements to that process and integrate the customer relationship management (CRM) platform with the KYC platform? In retail, the digitalisation of documentation and the use of digital identity verification are becoming valuable tools in not just the onboarding but the KYC process. Compliance should view pKYC as an opportunity to reimagine their own processes and drive to better customer risk identification and mitigation. Perhaps the biggest con is attempting to evolve to pKYC to fix problems in their current process.

R&C: What advances are you seeing in digital identity verification?

> **"Solutions in this space must include AI-based components that can verify identity without the need for a client to upload physical documentation."**
>
> *Jordan Klovsky, KPMG LLP*

Klovsky: The trend we are seeing in the industry is accurate ID verification not only as a critical component of customer identification programmes (CIP) and KYC, but also an important part of an FS firm's business growth and message that client data is accurate and secure. The need for efficient onboarding processes as demanded by the marketplace, combined with the rise in identity theft and fraud, has led to firms deploying digital identity verification tools that can integrate with existing onboarding and compliance platforms. These tools quickly and accurately verify identities using traditional methods that check for legal name, date of birth, social security numbers and address information, while utilising advanced capabilities that check location information, social media and biometric data. Solutions in this space must include AI-based components that can verify identity without the need for a client to upload physical documentation. Outdated methods such as these will soon become a thing of the past.

R&C: What steps can FS firms take to make their KYC processes as scalable and efficient as possible? How might the introduction of a managed services solution help optimise operations?

Keegan: To be clear, FS firms take their KYC obligations seriously and are making significant investments in technology and resources toward a complicated problem. Often the first step to addressing this complex challenge is improving the underlying data and insights. Most firms manage their KYC operations with macro-level reporting. They know they have issues in production or quality, but they do not have objective data that tells them why. Is the total handling time too long and an overly complicated process of attrition? Unfortunately, we see firms struggle to answer these questions. One of the pros of a managed services solution is it manages the production and quality of micro components of the KYC process. It is important for FS firms considering a switch to managed services to identify a partner that has highly skilled professionals to handle the operational demands while also driving process and technology improvements.

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>
> *Michaela Soctomah, KPMG LLP*

R&C: What essential advice would you offer to FS firms on automating their KYC function so that it transitions from

a purely regulatory business function to becoming a driver of quality?

Soctomah: Many FS firms struggle with manual KYC processes to meet increasing regulatory pressure. To have a sound KYC programme, FIs spend an extensive amount of money on skilled labour, further driving overhead expenses. To offset this growing cost burden, FS firms must embrace technology to help automate KYC processes. KYC-related technology can be used for areas including workflow automation, tracking and reporting, customer risk-rating, process inefficiencies and data gathering. Implementing technologies such as RPA can increase production speed, reduce human error and lower costs. Similarly, using AI and ML in the KYC space can help FIs monitor activity for inconsistent patterns, analyse transactions and evaluate reputational risk. While technology options have upfront investment costs, they can reduce human error and streamline manual processes. The ability of technology to drive lower KYC compliance costs, while increasing quality, can save significant amounts of money. It could also help FIs alleviate regulatory pressures.

R&C: What predictions would you make for KYC processes in the years ahead? What technologies and approaches are set to underpin the frameworks adopted by FS firms?

Keegan: Foremost FS firms will recognise that a well-designed and properly executed KYC programme can be a competitive advantage for attracting and retaining customers in support of their organisation's business growth. There will be increased spending from FS firms on alternative resourcing models like managed services, as well as to automate KYC processes, since labour is almost always the costliest part of a KYC programme. Furthermore, with robust technology that reduces

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Thomas P. Keegan, KPMG LLP

the manual burdens of many KYC processes, FS firms can be more aggressive with their risk appetite – taking on higher risk customers, products and services that drive significant revenue, while still managing the risks. R&C