How to make onboarding new Customers simpler, faster and better, and the role for KYC Utilities

By Standard Chartered Bank, January 2019

KYC requirements were formalised not only in a pre social media age but even before the internet was readily available. Historically, it made sense that individual customers proved their identity with a national identification document and verified their address with a utility bill, and that companies used constitutional documents and registration certificates to demonstrate their legitimacy. But the world has evolved, and digital identity is revolutionising how we interact. Could it provide an opportunity to modernise the client experience?

Are KYC Utilities the answer to make new account opening simpler, faster and better, even for complex new relationships? Many have touted KYC Utilities, but outside a few more specialist examples, like the SWIFT KYC Registry for Correspondent Banking, these are yet to take off.

Introduction

Establishing identity is an important foundational step for Banks in understanding their customers. It enables them to ascertain beneficial ownership and controllers of entity clients, determine shareholding structures, and establish sources of wealth and funds. However, this is not an end in itself. Rather, the information gathered is used to better understand the risks that may be posed by clients, such as potential political links, exposure to sanctioned countries or entities, and whether there is any adverse media on the client that may be indicative of heightened financial crime risk.

As a result of this need to have sufficient detail to drive risk analysis, over time the data requirements during onboarding have become much more complex and onerous. Customers using digital channels are increasingly reporting a better customer experience, but only in the most simple cases. More complex customers still face a lengthy onboarding process, often with multiple requests from Banks as new information is uncovered.

KYC Utilities – What needs to work?

Firstly, a successful KYC Utility would require that banks and regulators agree to a common set of KYC standards that can become the accepted industry benchmark. Both public and private sectors would have to commit to a process of collecting and verifying information. And KYCUs would need to reduce the cost of compliance for all participants.

But beyond that, KYC Utilities do not need to follow a one size fits all approach. In its most simple form, a KYC Utility model could be focused solely on establishing and verifying identity. Indeed, this could be a good place to start, as a way of building trust with users and regulators. More mature models could look at also including screening, customer risk assessments, data standards, and developing a fully outsourced KYC service which could even include a data repository, using the cloud to store data under strict control standards.

Starting simple

Any one of these offerings, with sufficient user adoption, is likely to reduce duplication, speed up account opening and improve the quality of the KYC being undertaken. But the most obvious area for gains from a KYC utility are at the beginning of the account opening process, particularly for more simple, low risk clients.

At the initial stage - that of establishing and verifying clients' identity - every Bank completes similar steps to similar standards. In the digital age, where government ID schemes are available to access, customer information presented on government-issued IDs could be quickly verified against trusted data sources. Going further, facial recognition technology means that a customer can even be verified by a video call that allows their image to be verified against the government ID. For corporates, a similar process would enable company registries to be checked to match data presented by the company itself. Machine learning could be used to good effect, for example in assessing whether adverse media hits on a customer are relevant or not.

Technology and regulation is starting to develop in this space so as to enable a much better customer experience, but much work still needs to be done.

Faster is Better?

For new customers that do not present any red flags, the target model would be as close to straight-through processing as possible. While clients are aware that regulations require the collection of a wide range of information and documentation, and while a majority still feel that these regulations are beneficial,[1] speed is still the single most important factor in the customer experience. Too often customers are caught up in banks' internal processes and manual verification requirements. The benefit of a new, centralised, technology-driven approach is that it would remove these hurdles, ensuring that the only potential points of delay are those where information is needed from the client themselves.

Encouragingly, the concept of KYCUs for simpler, low-risk clients is currently being explored in a number of jurisdictions, including Hong Kong, where regulators and Banks are exploring different options for KYCUs [2], and in the US, where Federal Regulators have started to encourage Banks to share resources in managing anti money laundering programmes including KYC. [3].

> "We believe a successful KYC Utility would need to reduce the cost of compliance, require the adoption of standards accepted by both industry players and regulators and be a joined up venture between the public and private sector to take and verify information digitally and reliably.
>
> **Wendy Ennis, Financial Crime Compliance, Standard Chartered Bank**

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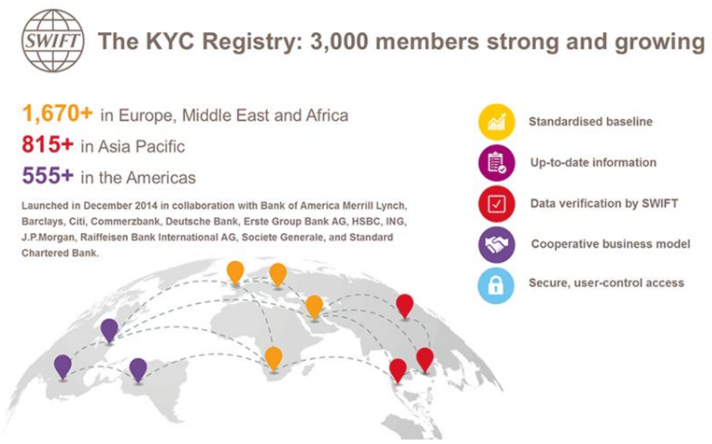
Complex Cases Can Benefit

For more complex cases, niche KYC Utilities might make more sense than mass KYC Utilities, as they can design bespoke processes to cater to specific types of risk. For customers that are likely to need a number of accounts across multiple Banks, and who pose a specific type of heightened risk that requires enhanced KYC, such a niche utility would reduce cost, avoid duplication of effort and - provided common standards can be agreed – increase certainty around regulatory compliance.



The SWIFT KYC Registry is a good example of this. By working with the Wolfsberg Group of Banks, SWIFT has adopted the Revised Correspondent Banking Questionnaire as its principal Due Diligence requirement which itself has been supported by FATF, BCBS, FSB and CPMI. Banks may then submit this information once to SWIFT, which is accessible to all of its correspondents. Over 3000 Banks are using the KYC Registry today.

If a KYC Registry can work for Correspondent Banks, other types of higher risk clients could also benefit from such a utility, which could help them “prove” that they have met applicable standards and can be banked safely. This could include Politically Exposed Persons, Charities, and Money Service Businesses, all of whom have reported difficulty in accessing banking services in the past.

The industry should also consider the feasibility of more complex challenges including setting a standard for name screening against pre-determined lists and a consistent risk assessment approach.

Strength in Collaboration

While the potential benefit of KYCUs is clear, getting the concept off the ground requires a significant amount of trust from all parties involved. Banks must trust that the KYCUs are competent and will fulfil regulatory requirements on their behalf. Clients must trust that their data will be appropriately used and protected. Regulators must trust that their standards will be upheld. Without this trust, critical mass won’t be achieved and the KYCU may ultimately end up simply bringing more cost and inefficiencies to an already onerous process.

Simply put – KYCU vendors and banks must work with the government to solve this puzzle hand in hand. This must include a clear liability structure which ensures that each party knows clearly who is responsible for meeting required standards for both KYC and data protection.

Vocal government support is needed to ensure consumer confidence and increase take-up. The private and public sector must work together to determine the feasibility of access to the ‘golden sources of data’, to agree that Banks may rely on this information without fear of being liable for inaccuracies, and that storage of client information in the cloud is acceptable. Leveraging data via Open API standards solutions could even potentially remove the need to collect physical documents entirely. The widening use of Electronic Identification or eIDs [4] [5] [6] provide citizens with improved convenience through access to services securely, and incorporating this interface to help automate the collection of data from golden sources, is critical to success of the KYCU.

Even if these challengers are solved, and they can be, the cost needs to be at least equal to the costs incurred by Banks in opening accounts themselves. This is a true stumbling block, especially where Banks have already invested themselves in new digital platforms for onboarding. Avoiding duplication of processes needs to be a focus for debate from a customer perspective. But if we can remove this duplication, it would help banks divert resources into more value-adding, risk based analysis.

KYC Utilities can also support the Public Sector

Of course, utilities do not just offer benefits for customers and the financial industry. Governments could certainly benefit.

Firstly, the Bank ID process would help to validate the information it holds in its official capacity as ID issuer.

Secondly, the information captured could be leveraged by law enforcement to enhance investigations and risk assessment.

Thirdly, individuals that have been through both a government ID application process and KYCU Process could use these credentials in an expanded capacity with other industries, for example, insurance, etc. As digital identities become an essential feature of our digital self, it helps us prove who we are to the digital world.

Without a doubt the benefits of a KYCU certainly extend beyond the realms of account opening efficiencies and, with thoughtful consideration of data sharing, a KYCU could move the dial forward for all parties relying on the existing financial infrastructure.

> “KYC Utilities remain largely elusive, not because we can’t imagine them or don’t know what they would take to build but because the necessary conditions to bring them to life more generally are not yet present.”
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> **John Cusack, former Global Head Financial Crime Compliance, Standard Chartered Bank**

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