E-BOOK

Five KYC Challenges for Financial Institutions

CoorpID

Minimize the KYC hassle.

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The five major KYC challenges banks are facing

Introduction

Whether a multi-national bank or a fintech start-up, all financial institutions (FIs) must meet the challenge of constantly evolving Know Your Customer (KYC) regulations - and a substantial challenge it is too. Failure to meet KYC standards can result in significant penalties and long-standing reputational damage.

But at the same time as they are asked to meet progressively more stringent regulations, FIs must also deliver a positive customer experience free of unnecessary friction. It is here that tensions can arise and where FIs are tasked with carrying out a delicate balancing act. A modern KYC process must be both robust and streamlined.

In this e-book, we've outlined five of the major KYC challenges that are preventing FIs from achieving this balancing act. From negative customer onboarding experiences to the difficulties of implementing perpetual KYC, we take a deep dive into some of the most commonly cited hurdles holding back a bank's KYC strategy.

Often, technology provides a way for FIs to overcome these KYC challenges and benefit from a competitive advantage in an increasingly crowded financial sector. At CoorpID, we understand not only the challenges that can surround KYC but also the potential of RegTech tools to revamp financial offerings so they deliver secure, collaborative, transparent and compliant services that suit the needs of businesses, employees and customers alike.

In a world where KYC standards are constantly shifting, it's more important than ever for FIs to get on top of these challenges as soon as possible. Happy reading!

Job den Hamer
CEO CoorpID
job.den.hamer@ing.com
www.coorpid.com

Job den Hamer, CEO at CoorpID

Challenge #1: Negative Customer Onboarding Experience

One of the main difficulties around Know Your Customer (KYC) strategies is the difficult balancing act that FIs have to manage. They are being tasked with ever more stringent KYC rules - but, at the same time, are facing heightened competition in the financial sector. They must meet regulator AND customer demands. And these two demands often clash around the issue of customer onboarding.

Research indicates that 89% of corporate treasurers have faced a poor KYC experience, with 13% ultimately deciding to change banks because of it. This statistic is keeping finance leaders awake at night - or it should be, given that negative KYC experiences can lead to customer turnover, reputational damage and frustration for corporates and FIs alike. Most importantly, this statistic indicates that if KYC is creating a poor customer onboarding experience at a bank, it is also causing financial damage.

Why customer onboarding is often so poor

The need for rigorous KYC standards is clear. A European Parliament study found that fraud was costing the EU up to €990 billion a year in GDP losses. As such, the EU has continually looked to ramp up its KYC standards, launching its most recent update, its 6th Anti Money Laundering Directive (6AMLD) in June 2021. This came swiftly after 5AMLD was issued in 2018.

The various stipulations that KYC regulators have placed upon banks mean that onboarding can take longer than customers might expect, resulting in a less-than-optimal experience. In fact, the average onboarding process for a new corporate customer can take up to 100 days, varying depending on the jurisdiction and the specific banking product involved. As many as 68% of customers have abandoned the onboarding process for financial services, citing several common hurdles like the length of time taken by the application process, the amount of information required, and the lack of digital-only options.

With many banks continuing to pursue inefficient KYC processes, they may have to contact clients multiple times to acquire the information they need in order to achieve compliance - sometimes issuing repetitive requests. For instance, a Forrester study found that customers were contacted on average 10 times during the onboarding process and asked to provide as many as 100 documents.

The manual request for information not only creates inefficiencies that lead to a negative customer onboarding experience; it creates anxiety too. Customers have indicated that another factor in a poor onboarding experience is a worry about how the information they supply for KYC purposes is used and stored. In a survey by Cisco, for example, 43% of consumers said that they did not believe banks could be trusted to adequately protect their data.

How banks can improve customer onboarding

The scale of the KYC burden being placed on banks may be significant - but it can be mitigated. It is possible to deliver a positive onboarding experience, creating a strong, long-lasting relationship between customer and FI.

One of the most effective ways to improve the customer experience is to utilise the right regtech tool. Today, bespoke digital solutions can streamline the KYC process, making the process of customer onboarding more efficient and secure. This starts by validating digital identities in a way that guarantees compliance without adding friction to the customer journey.

“As far as making use of digital identities in the KYC process is concerned, the technology is available,” Loes Bomans, Head of Product Development at CoorpID, explains. “Banks are already applying this technology by facilitating digital onboarding of retail customers and verifying a person’s identity by means of advanced biometrics such as live facial identification.”

When banks rely on manual processes, they can inadvertently end up subjecting themselves to an overly lengthy customer onboarding process, resulting in higher costs and a longer time-to-revenue. Conversely, FIs that use digital tools to optimise their customers’ end-to-end onboarding experience will be able to increase the portion of new customers receiving approval, enhance their customer satisfaction scores, and reduce onboarding operating costs.

There are various ways that banks can use digital solutions like CoorpID to improve the customer onboarding experience, standardise information requests to avoid repeat requests, bolster security, and increase efficiency.

Banks must transform their customer onboarding from a pain point into a revenue driver, an opportunity to ensure customers enjoy a stress-free experience. An experience that will convince customers there’s no need to sign up with one of your competitors.

Loes Bomans, Head of Product Development at CoorpID

CoorpID

Challenge #2: Customer Outreach Friction

Having previously explored how a negative customer onboarding experience can cause a loss of business, we are now turning our sights to another challenge affecting FIs and their Know Your Customer (KYC) strategies: Customer Outreach Friction.

Customer outreach is fundamental to achieving KYC compliance. It describes the part of the KYC process where FIs ask corporates for information in order to carry out Customer Due Diligence (CDD). But FIs are required to carry out a difficult balancing act concerning customer outreach. Not asking for enough information (or the right sort of information), risks FIs being unable to meet AML regulations. Asking for too much information as part of an inconsistent, repetitive process risks damaging bank-client relationships - not to mention, increasing the cost of compliance.

What causes customer outreach friction?

Whether an FI is conducting a CDD investigation for a prospective customer or carrying out a review of an existing one, they are asked to collect a range of information in order to meet KYC obligations. Although much of this information can be gathered from trusted third-party data sources or internal databases, some information has to be provided by the customer directly. This customer outreach process can be a source of frustration for both the customer and the FI if it is plagued by inefficiencies. Unfortunately, this is surprisingly common, with research indicating that 80% of FIs view customer outreach as one of their top three challenges when performing KYC.

One of the causes of unnecessary friction in the customer outreach process stems from the way in which information is exchanged.

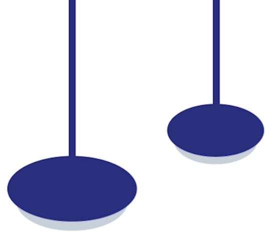
Often, this not only involves onerous manual steps, but also presents a security risk - both for the FI and the customer. Unfortunately, some FIs continue to request and send confidential and highly sensitive information by email. Not only does this represent a privacy risk for both the FI and the customer, but it is also a hugely inefficient and unstructured means of communication.

A lack of alignment

FIs are not necessarily helped with their customer outreach by the fragmented nature of KYC regulations across different jurisdictions. Currently, there remains a lack of alignment between national and international interpretations of AML and CFT regulations. This represents a particular challenge for larger multinational firms that may have multiple entities operating across different geographies.

Even within a single country, however, KYC requirements can differ markedly between individual FIs (and even between the various departments of a single FI) due to the particular information or industry sub-sector they are engaged with.

The task for FIs is to find a way to streamline the customer outreach process - transforming it into a positive customer experience. If they can achieve this, outreach should not be viewed as a potential hurdle but as an opportunity to gain a competitive advantage.



How to streamline your customer outreach

Manual requests for customer information increase the time taken up by KYC processes, as well as the likelihood of information being lost. A disconnect between KYC analysts and front office staff often further increases the frustration felt by the customer (and the FI). And yet, KYC is naturally an iterative process. It is never truly complete. Customer circumstances change all the time, meaning new information is needed to maintain compliance.

Digital RegTech tools like CoorpID can reduce the friction surrounding customer outreach by enabling FIs to track the status of their KYC review requests and store information securely within a digital vault. They no longer have to scroll through email chains to find the information they need. CoorpID's document management tool allows FIs and customers to exchange KYC-related documents in a safe, swift, and compliant manner.

"CoorpID is particularly great in allowing KYC forms to be reused by other banks. As a client, this cuts out a lot of the friction we encounter as a result of meeting repetitive requests during customer outreach. This is especially true when we are dealing with several FIs at the same time."
CoorpID retail client.

Digital tools can combine first-rate security while eliminating the kinds of inefficiencies that have long hindered manual KYC strategies. This streamlines customer outreach so FIs can achieve a balance between speed and compliance, while customers aren't left mired in frustration. It transforms outreach into an opportunity.

Challenge #3: A shortage of skilled KYC analysts and compliance personnel

Successful KYC strategies rely on a mix of robust data sets and advanced digital RegTech tools, of course, but that doesn't mean that FIs can neglect the human element that remains central to compliance. However, many FIs are experiencing difficulties when it comes to recruiting KYC analysts and compliance personnel.

Skills shortages across digital sectors are not difficult to find - but they appear particularly pronounced in KYC-related fields.

According to a survey by Deloitte, having sufficient numbers of adequately trained AML staff was cited by 55% of respondents at leading banks and FIs as being among their biggest AML compliance challenges. Meeting this challenge will require FIs to adopt a different mindset - one where they focus on streamlining the KYC process, rather than throwing more resources at it.

Why more analysts is not the answer

The extent of the skills shortages could easily lead FIs to seek ever greater numbers of KYC analysts - particularly with regulations seemingly in a constant state of flux. However, this will consume an ever-growing amount of resources. A KPMG study from 2021 exemplified the demand that KYC is placing on FIs in terms of labour hours, finding that between 10 and 15% of employees at the four largest Dutch banks were occupied by KYC and other compliance-related activities. Since then, this percentage is only likely to have grown.

To meet a severe shortage of skilled KYC analysts and compliance personnel, FIs are having to call in external Customer Due Diligence remediation support to prevent the KYC backlog from growing larger. Some estimates have concluded that a KYC review of a single medium-risk corporate client can take an average of 45 man-hours. Outsourcing manual and low-skilled KYC work to low-wage countries is also becoming more and more difficult and costly. This approach, as well as simply expanding KYC teams continuously, simply isn't sustainable in the long term.

Dwindling resources

The need for greater numbers of skilled KYC analysts and compliance personnel is leading to rising operational costs. To place this in perspective, the average bank spends €22,984 a day on KYC programmes, with only 26% of this expenditure directed towards technological solutions. The expansion of compliance teams is only likely to result in KYC spending rising further - the right technological innovation could see it fall.

This doesn't mean that KYC analysts are unimportant. They remain crucial to effective KYC strategies but require support from the right regtech tools so they aren't weighed down by resource-intensive manual tasks. Increasingly, FIs are beginning to realise that throwing more people at the problem is not the answer. Instead, streamlining the entire KYC process should be the aim of using smart digital solutions. Of course, while this will require an increase in capital expenditure in the short term, it will reduce operational costs in the long run, as well as the risk of substantial fines being imposed for non-compliance.

Finding the skills you need

The aim of digital KYC solutions is not to replace KYC analysts or other compliance personnel - but to support them. A global survey found that KYC analysts spend almost half their time simply converting data into a usable format. This is not an efficient use of company resources - especially when these analysts could be providing genuine value-add, such as by carrying out evaluations of high-risk accounts.

At CoorpID, we've created a platform that aims to streamline the KYC processes being employed by FIs so they can focus on testing the skills of their KYC teams on the truly important compliance tasks - not manually scrolling through spreadsheets or sending yet another email asking for financial data. It provides a structure around which KYC analysts can deliver their best work. That's certainly been the experience at one of our clients in the transportation and logistics space.

"We are currently using CoorpID to speed up onboarding across numerous bank accounts that we have across the European Union. It's a helpful and easy-to-use service that provides more structure, which means I don't have to use emails to meet KYC requests. - CoorpID Transportation & Logistic client

There's no doubt that KYC skills are in high demand. But ever-greater numbers of KYC analysts aren't the answer. Instead, CoorpID makes it easier for FIs to request, manage and store KYC information - without needing the involvement of KYC analysts at all. Automate those repetitive manual tasks so your KYC experts can be deployed where it really matters.

Challenge #4: Rapidly changing and increasingly stringent regulatory requirements

Regulations, particularly when they concern financial matters, are there for a reason. They provide a safeguard against the kinds of irregularities and mismanagement that may cause business failure or individual bankruptcy.

But when it comes to Know Your Customer (KYC) compliance, there is a growing belief that an overzealous regulatory environment is creating challenges for businesses. What's more, these challenges only appear to be growing in scale. As KYC regulations rapidly shift and become ever-more stringent, FIs are left facing a serious quandary. The implications of non-compliance with KYC regulations are severe but the financial cost of meeting them is significant too.

A long history

Anti-money laundering (AML) policies at the national level can trace their roots back to the 1970s. US Congress passed the Bank Secrecy Act in 1970, setting out record-keeping requirements for FIs. Slowly but surely, other jurisdictions issued their own AML regulations, with the European Union adopting its own anti-money laundering directive (AMLD) in 1991.

The stated aims of the EU's AMLD regulations were undoubtedly positive ones - to prevent fraudsters from taking advantage of the free movement of capital in the internal market and to harmonise AML efforts across the bloc. However, subsequent AMLD regulations have created issues for FIs.

Primarily, the challenge lies in being able to keep up with the pace and extent of regulatory changes. Since 2015, for instance, the EU has issued its fourth, fifth, and sixth AMLDs. It is expected that the seventh will not be far away. This has led to FIs being forced into highly fragmented KYC processes - especially when other jurisdictions are taken into account. It is little surprise that regulation is cited by FIs as the biggest perceived external compliance cost driver – even more so than the financial crime itself.

Recent developments

As FIs have grappled with shifting regulatory requirements, one of the most important recent developments saw the implementation of the EU's 6th Anti-Money Laundering Directive (6AMLD), which came into force in June 2021. As evidence of the importance of regulatory evolution, 6AMLD was launched, at least in part, as a response to several money laundering scandals that rocked the EU's financial system and led to questions about the bloc's existing compliance standards.

But increasingly stringent AML standards are also causing FIs and KYC teams to face ever-growing pressure around compliance. FIs that lack the resources to meet new regulatory standards could face substantial penalties, as well as the kind of reputational damage that will not be easily remedied. One way that FIs can meet the challenges of a shifting regulatory environment is to ensure their KYC processes are sufficiently agile. Another is to leverage the kind of regtech tools that can codify, streamline, and even automate processes. This will mean that FIs need to expend fewer resources to achieve compliance.

How ensure FIs are regulation ready

FIs cannot control external regulatory requirements. Whichever jurisdiction they do business in - and this may be more than one - KYC standards may be demanding and subject to change. But this doesn't mean that meeting them is an impossible task.

Digital solutions like CoorpID greatly simplify the KYC process for FIs. CoorpID allows banks to track the status of their KYC requests, collaborate with clients easily, and share documents securely. By minimising the regulatory burden, CoorpID allows KYC teams to focus on the surrounding regulatory landscape. It streamlines the KYC process, so FIs aren't left in fear of the next regulatory shift; they're ready for it.

"In the long-term, CoorpID gives me more structure around our entities and all the KYC requests related to it" - CoorpID Real Estate client.

KYC regulations may be evolving at a rapid rate but FIs must be ready for the next piece of legislation. It is the only way to future-proof your KYC strategy. Fortunately, CoorpID provides an average timesaving of 25% per KYC review - freeing up your KYC analysts to meet each and every regulatory shift as it happens.

Challenge #5: Adopting a new approach to KYC: Perpetual KYC

As FIs will be aware, the KYC process is never truly complete. Ongoing monitoring is needed to ensure that changing customer relationships continue to meet compliance requirements. Instead of conducting periodic manual reviews, many FIs are exploring the possibility of adopting a system of perpetual KYC (P-KYC). This will require real-time surveillance to recognise status changes, update customer risk profiles, and react to market shifts in real-time, guided by automation.

Closing your KYC gaps

With the nature of customer circumstances in a constant state of flux, regulators will take a dim view of any FI that believes their KYC due diligence has been put to bed simply because they carried out thorough checks during the onboarding process. Instead, FIs must regularly review their customer relationships - for both high and low-risk customers. However, adopting P-KYC requires FIs to have access to a steady stream of accurate data and a high level of digital sophistication. Although six out of 10 respondents to a Moody's survey admitted to being familiar with the concept of P-KYC and understood its transformative potential, many FIs are still struggling to implement it.

FIs have consistently seen the financial impact of a failure to conduct ongoing reviews on their customers, with fines in the order of millions of dollars. The reputational backlash may be even more damaging - and long-lasting. Powered by digital solutions, P-KYC aims to avoid these negative outcomes by leveraging automation throughout the end-to-end periodic KYC review process. This doesn't eliminate the need for manual input entirely, but KYC teams can focus on a smaller number of more complex customer cases, greatly reducing the burden on FIs.

The advantages of P-KYC

In monitoring customer profiles on an ongoing basis, P-KYC uses previously collected information, continuously identifying, assessing and validating changes in circumstances. As such, FIs can refresh their customer information more frequently by applying new and existing technologies to their KYC process.

According to PwC, the adoption of P-KYC could reduce KYC-related outgoings for a medium-sized bank by as much as 60% to 80% due to the decreased need for human intervention. Another advantage that comes from the successful deployment of P-KYC is the improved reliability of data. Automating more steps within the KYC process lowers the likelihood of human errors undermining an FI's attempts to achieve compliance. Similarly, the use of more advanced toolings within P-KYC, such as artificial intelligence and machine learning, can further enhance an FI's KYC strategy without the need to commit more time to manual reviews.

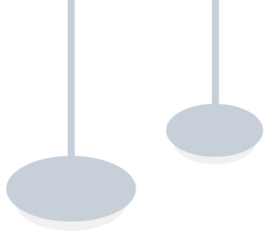
Reducing risk

By some distance, FIs see the main driver for P-KYC as the reduction of risk between reviews. This is understandable given that periodic manual reviews will never be able to keep up with changes in customer circumstances. Failure to monitor these changes in real-time can be hugely costly for FIs.

Fortunately, digital tools like CoorpID can support FIs in delivering P-KYC. Achieving P-KYC may appear daunting, of course, which is why FIs need an end-to-end solution that is event-driven and encompasses automated outreach solutions so changes in customer circumstances never fall through the gaps.

“CoorpID is an ideal tool to streamline and standardise the information-gathering process. ING uses CoorpID as part of our KYC improvement journey as it helps to reduce the KYC compliance burden for both customers and the bank.” - Anthony van Vliet, Global Head of KYC for Wholesale Banking at ING.

The KYC process may never be fully complete but that doesn't mean FIs are faced with an insurmountable challenge. The move to P-KYC means digital solutions take on the task of notifying FIs automatically when changes to customer circumstances occur. With the help of RegTech tools like CoorpID, KYC can become a constantly evolving process, without requiring a constantly increasing amount of resources.



Editorial

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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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