

BANKING INSIGHTS

Fighting money laundering

# Why KYC CDD is your bulwark against a thriving underground economy

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## Your bulwark against an underground economy

Over the past few years, Know Your Customer (KYC) and Customer Due Diligence (CDD) checks have become increasingly onerous, requiring banks to increase the quantity and quality of data they collect. These are nonnegotiable in the face of rampant organised crime. In the EU, only an estimated 1% of illegal proceeds are seized by authorities, while globally the UN claims as much as US\$4.5 trillion may have been laundered in 2020 alone.<sup>1</sup>

Yet for lenders that fail to adhere to these compliance guidelines, the cost can be extremely high.<sup>2</sup>

In an increasingly digital and competitive world of open banking, KYC and CDD can create serious customer friction and extra cost if not properly handled. This is where automated and powerful real-time systems are increasingly essential: boosting process efficiency, freeing up staff to work on high-value tasks and, most importantly, providing the customer insight demanded by banks and regulators.

In this Insights paper, Enda Shirley, KYC CDD Product Manager looks at how to get the balance right.

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## Know your customers: where do we go from here?

KYC and CDD checks are an important bulwark against a thriving underground economy — intended to make it harder for organised crime groups (OCGs) to clean their dirty money through individual and corporate bank accounts. KYC is all about understanding, verifying, and validating a customer's true identity. This is usually associated with corporate customers and focused on who actually owns the company, as well as the source of funds — i.e. does the money flowing in and out of a customer's account match their described source of income?

Such checks are especially important at a time when intergovernmental body the Financial Action Task Force (FATF) is warning of:<sup>3</sup>

### 01.

An increase in "COVID-19-related crimes" like fraud, cybercrime, and exploitation of government emergency stimulus funds — filling the coffers of OCGs

### 02.

COVID-19 lockdowns forcing profit-driven criminals into new areas, such as selling counterfeit medical items

### 03.

A pandemic-influenced reduction in government and private sector capacity to meet Anti-money Laundering (AML) and Combatting the Financing of Terrorism (CFT) obligations

## Compliance: three areas

Over the years, the regulatory environment has grown increasingly complex as separate overlapping frameworks are layered on top of each other at a global, regional, and local level. For example:

### 01.

**FATF:** has been instrumental in setting international standards to drive a global response to organised crime financing and money laundering. It has published **63 separate articles** on the topic for financial institutions to digest.<sup>4</sup> FATF **recommendation 10**<sup>5</sup> and from the perspective of politically exposed persons (PEPs) recommendation 12, coupled with the Basel Committee's **Consolidated KYC Risk Management** provided initial sources of guidance for global regulated entities defining their financial crime compliance solutions.<sup>6</sup> FATF best practices in areas like beneficial ownership are important resources for financial institutions.<sup>7</sup>

### 02.

**Regional:** Many of the FATF recommendations can be mapped to laws at a regional level, e.g. 4AMLD Ch2 Art10, 11, 12, 18 and FFIEC BSA p.48/9, 134

### 03.

**Local:** The final layer of the regulatory picture is that of country-level laws. The latest changes came into force in the UK on January 10, taking into account new high-risk factors that need to be assessed by banks, e-money thresholds for CDD, and **other new rules**.<sup>8</sup> however, 10% of UK firms still don't declare who their beneficiaries are — highlighting the ongoing challenge for banks as they try to understand their clients' true identity.<sup>9</sup>

## Banks face many challenges

In a new era of open banking, there are more targets than ever before for criminals to aim at, including smaller challenger banks and fintech providers. For these organisations that pride themselves on creating slick, customer-friendly experiences, the idea of potentially slow, cumbersome compliance checks represents a serious challenge. Their main challenges are as follows:

- The amount of data banks need to collect has increased significantly in recent years. For example, they must now identify the full Ultimate Beneficial Owner (UBO) structure and source of wealth of a new corporate customer
- Slow onboarding is anathema to agile digital-first banks and can hit the brand reputation early on
- New corporate customers can be extremely expensive to acquire (potentially up to US \$2000 per customer)<sup>10</sup>, further raising the stakes for the onboarding process and overall customer experience
- It can be tempting for such businesses to relax the rules, especially for honest customers. Yet there's the prospect of reputational damage and fines if they do so. Widening the net will always run the risk of letting a few sharks through
- The complex regulatory landscape may lead to banks either not doing enough to keep regulators happy or performing too many checks
- KYC/CDD checks are not only time-consuming but can create significant administrative costs. This can amount to an existential problem for smaller banks if the cost of compliance eats significantly into profits
- In many cases, regulations have been designed before digital onboarding process, creating challenges when it comes to scanning/verifying certain documents in a seamless way
- Manual application processing can rely on spreadsheets or legacy core banking technology and the bank employee's own perception of the regulatory compliance environment — making it highly prone to human error

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## How SymphonyAI Sensa-NetReveal can help

With COVID-19 accelerating the move away from manual and human-driven to automated and digital processes in financial services, there's never been a better time to consider how intelligent technologies, including powerful workflows enabled by real-time processing, robotic process automation (RPA), and extending to machine learning, can enhance essential customer compliance checks.<sup>11</sup> By investing in seamless KYC and CDD, your business can proactively head off the risk of reputational damage and enforcement action later on, while boosting growth and customer relationships through speedy processing.

The ideal approach will utilise risk scoring to help establish a holistic view of each customer, speeding compliance checks and reducing overheads. In this way, UBO can be established during onboarding and compliance is managed on a continuous basis, while Robotic Process Automation (RPA) does the heavy lifting of repetitive tasks to take the pressure off stretched in-house teams.

At SymphonyAI Sensa-NetReveal we use these intelligent systems to help customers with KYC and CDD for onboarding, as well as ongoing due diligence (ODD) checks and periodic reviews which are needed to maintain compliance as customer circumstances change.

To find out more on how we can help you streamline customer compliance checks while boosting staff productivity and cost efficiency, get in touch today.

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## Meet the experts:



**Enda Shirley,**  
**KYC CDD Product Manager**

Enda is an anti-money laundering specialist, with over 10 years' experience supporting financial services institutions. His work at SymphonyAI Sensa-NetReveal includes managing the strategy and vision of our KYC/CDD product, enabling financial institutions to tackle the evolving money laundering landscape effectively and efficiently. To do this, Enda combines the very latest technology with his deep understanding of FATF and other similar body recommendations and publications, as well as local legally binding regulations.

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## Appendix

<sup>1</sup> The world's dirty money by the numbers, Arnau Busquets Guardiola, Politico (May 21 2020)

<sup>2</sup> BNP Paribas sentenced in \$8.9 billion accord over sanctions violations, Nate Raymond, Reuters (May 1, 2015)

<sup>3</sup> COVID-19-related Money Laundering and Terrorist Financing, FATF (May 2020)

<sup>4</sup> Topic: Method and Trends, FATF (August 2020)

<sup>5</sup> Recommendation 10: Customer Due Diligence, CFATF (August 2020)

<sup>6</sup> Basel Committee on Banking Supervision: Consolidated KYC Risk Management, Bank for International Settlements (October 2004)

<sup>7</sup> Best practices on beneficial ownership for legal persons, FATF (October 2019)

<sup>8</sup> Money Laundering Regulations, Financial Conduct Authority (March 2020)

<sup>9</sup> Nearly 400,000 British companies evade antimoney laundering checks, David Leask, Richard Smith, openDemocracy (June 6, 2020)

<sup>10</sup> Why customer acquisition is so difficult for financial startups, Tanaya Macheel, Tearsheet (November 7, 2017)

<sup>11</sup> Ready and resilient: Retail banking strategy for a COVID-19 world, PwC (accessed July 28, 2020)

## About SymphonyAI Sensa-NetReveal

SymphonyAI Sensa-NetReveal, a division of SymphonyAI, provides leading AI-based financial crime detection software. Learn more at [netreveal.ai](https://netreveal.ai).

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