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The experts guide to KYC automation

How financial institutions can deliver a seamless customer experience, while mitigating onboarding risk

Introduction

How financial institutions can deliver a seamless experience, while mitigating onboarding risk

The COVID-19 pandemic has fueled a dramatic rise in the use of digital banking products and services among consumers and businesses. [Bank Administration Institute research]() into changing behaviors and attitudes finds that half of consumers have been using digital products more since the beginning of the pandemic, and 87% plan to continue to rely on these products in the future. In-person activities, such as opening accounts and applying for loans, continue to decline as consumers shift to digital banking.

Businesses and consumers value the ability to open accounts without enduring a long onboarding process. The financial services sector must find ways to deliver a seamless customer experience across all channels while supporting the increased demand for digital banking tools.

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How KYC/AML requirements affect customer identity verification for financial institutions

When a retail or commercial customer opens a new account or applies for a loan, financial institutions are required to follow ever-evolving know your customer (KYC) compliance processes. Firms use these procedures to verify the identity of a prospective client by collecting reliable documents and data from a range of sources and checking the information against external watch lists and public record databases. The goal is to verify that customers are who they say they are.

In addition to ensuring regulatory compliance, KYC programs help financial institutions develop an accurate customer risk profile, prevent identity theft and fraud, and evaluate suspicious activity that would put the organization at risk.

Financial institutions also rely on anti-money laundering (AML) and customer due diligence (CDD) processes to conduct regular checks and monitor clients on an ongoing basis. The consequences of non-compliance with KYC/AML requirements are significant and can include heavy fines and revenue losses while also negatively affecting customer satisfaction and the reputation of the firm.

Top 3 consequences of AML/KYC non-compliance:
1) Heavy penalties
2) Revenue losses
3) Reputational damage

Financial institutions struggle to comply with evolving KYC/AML requirements

Financial institutions face great challenges in satisfying the requirements of regulatory authorities around the world. Governments and central banks continually issue and enhance regulations and rules in an ongoing attempt to protect financial systems against corruption, fraud, money laundering, terrorist financing, and other illicit activity.

In the U.S., the [Financial Crimes Enforcement Network (FinCEN)] enforces KYC requirements under the Bank Secrecy Act (BSA). FinCEN requires financial institutions to conduct enhanced due diligence when onboarding new clients. Specifically, the Customer Due Diligence Requirements for Financial Institutions — the CDD Rule — is critical for effectively managing risks and protecting system controls.

Aggregated bank fines totaled over $15.13 billion in 2020 alone. According to the findings, the United States accounts for the highest fines. https://finbold.com/bank-fines-2020/

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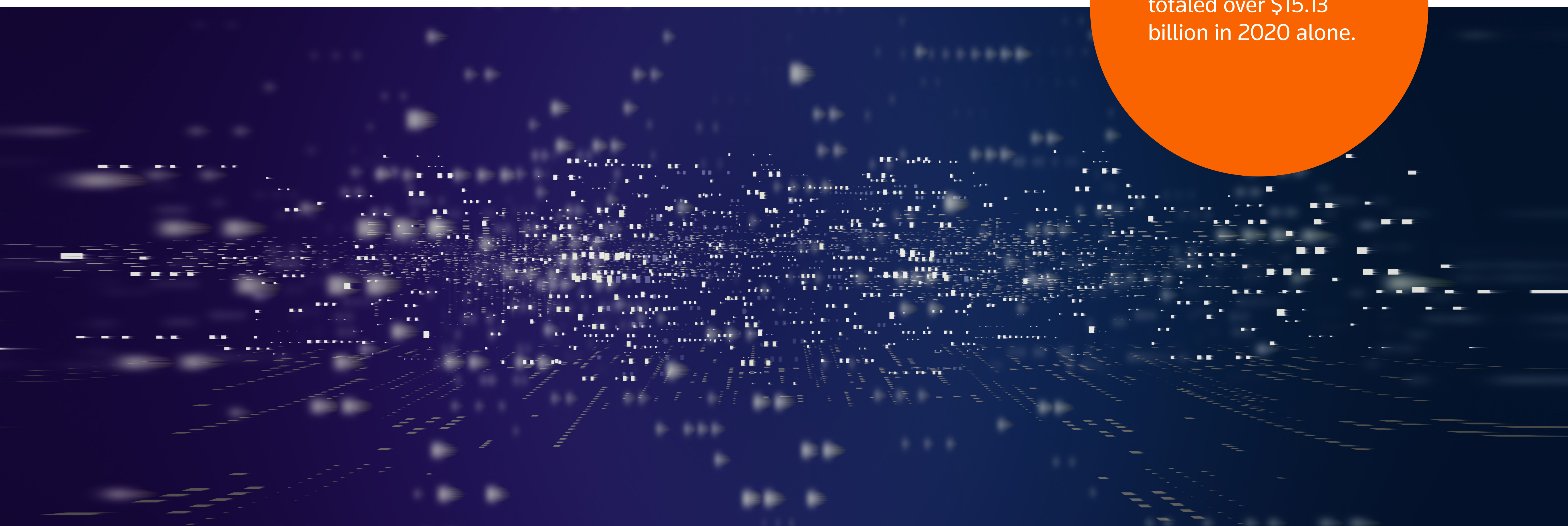


4 requirements of the CDD Rule for financial institutions

1. Identify and verify the identity of customers

2. Identify and verify the identity of the beneficial owners of companies opening accounts

3. Understand the nature and purpose of customer relationships to develop a customer risk profile

4. Conduct ongoing monitoring to identify and report suspicious transactions and maintain up-to-date customer information

The Anti-Money Laundering Act of 2020 (AMLA 2020) is the most consequential legislation of its kind Congress has passed in decades. Under its many provisions, FinCEN will implement a beneficial ownership registration database and establish new BSA violations and enhanced BSA penalties for repeat violators.

Financial institutions that collect the personal data of citizens or residents of the European Union must also comply with the General Data Protection Regulation (GDPR), a comprehensive data privacy and security law.

- Identify
- Understand
- Monitor
- Comply
- Implement

KYC processes vary widely throughout the financial services sector

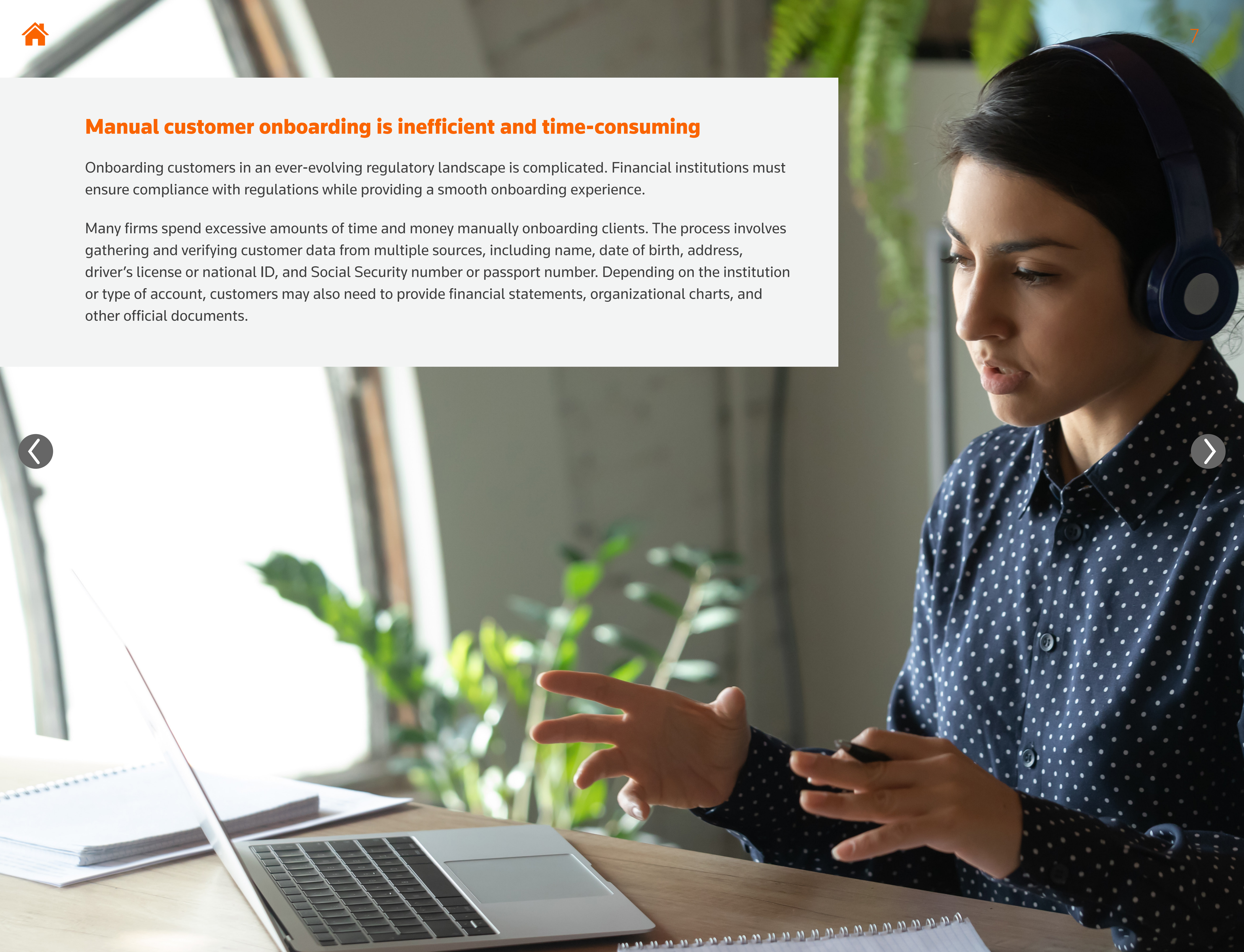
The methods for collecting information during the onboarding process are inconsistent across the financial services sector. While FinCEN requires all financial firms to collect information about individuals or beneficial owners of legal entities, KYC processes vary widely throughout the industry for onboarding retail lending and deposit accounts, commercial accounts, and other types of financial services.

Financial institutions also target different markets. For example, large global firms and local credit unions serve unique customer segments who represent different levels of risk. As a result, each institution has developed a unique onboarding process that fits its risk tolerance standards.

Manual customer onboarding is inefficient and time-consuming

Onboarding customers in an ever-evolving regulatory landscape is complicated. Financial institutions must ensure compliance with regulations while providing a smooth onboarding experience.

Many firms spend excessive amounts of time and money manually onboarding clients. The process involves gathering and verifying customer data from multiple sources, including name, date of birth, address, driver’s license or national ID, and Social Security number or passport number. Depending on the institution or type of account, customers may also need to provide financial statements, organizational charts, and other official documents.



Consider the shortfalls of identity verification using a traditional KYC process

Organizations that use a traditional KYC process require customers to fill out and sign a physical document and submit it along with copies of the required paperwork. Firms that offer online banking options allow customers to complete an application on a computer or mobile device and upload digital copies of the required documents.

Whether the forms are collected offline or online, manual onboarding is labor-intensive and prone to error. Staff manually review documents and enter data, verify details, request missing information, and correspond with customers to complete the process. In addition to the possibility of introducing errors, manual processes may result in false positives about a customer's risk profile.

The tedious work involved in manual processing can have a negative effect on employee satisfaction and retention. Staff are required to carry out routine, repetitive tasks instead of focusing on more strategic activities or investigating complex, high-risk customers.

The costs of KYC compliance for financial institutions continue to rise

According to a Thomson Reuters know your customer survey, financial firms with $10 billion or more in annual revenue spend $150 million on KYC-related procedures, while their number of deployed employees has skyrocketed to an average of 307 KYC compliance professionals.

Of similar concern, the survey found that it takes financial institutions an average of 26 days to onboard a new client. Firms contact retail clients an average of four times during the onboarding process, while corporate clients are contacted an average of eight times, often by different personnel from different departments.

As a result, banks and other financial institutions run the risk of losing customers during an uncoordinated, inefficient onboarding process. This can damage a firm's reputation and result in lost business.

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How automating KYC onboarding can increase efficiency and consistency

Given the many challenges that manual onboarding processes present, financial institutions of all sizes are looking for solutions to streamline workflows on an enterprise-wide level and make the entire process more efficient and cost-effective. At the same time, firms need to stay up to date with the ever-changing regulatory environment.

Automated technology powered by advanced artificial intelligence and machine learning can streamline KYC/AML processes and eliminate manual data collection and monitoring—from the first customer touchpoint and throughout the entire business relationship. By automating high-volume, repetitive tasks, intelligent solutions lower operating costs, reduce errors, and improve customer service.

KYC process automation helps financial institutions:

- Digitize and extract data from high volumes of documents
- Improve the accuracy of customer risk profiles
- Automate rules-based tasks
- Assess potential risks
- Reduce false positives
- Monitor changes in financial regulations
- Keep customer data safe
- Reduce the threat of data breaches
- Identify potentially fraudulent activity in real time
- Flag suspicious activity for further investigation

In addition, automated solutions reduce the time employees spend screening and verifying data. The technology authenticates identities and checks information against data sources, including public and private records, government sanctions lists, credit bureaus, phone records, DMV information, law enforcement agencies, utilities, court records, and business data. Staff can focus on more engaging, higher-value tasks, which helps attract and retain employees.

More important, automated solutions run 24/7 with no down-time. Firms can provide a better customer experience by allowing customers to create a verified digital identity that financial institutions can check instantly. Organizations that rely on manual processes are unable to deliver the quick, smooth experience today's customers demand. Automated solutions help meet customers' expectations for a seamless experience.

Simplify customer onboarding during mergers and acquisitions

Fully automated KYC/AML technology allows financial institutions to simplify a wide range of processes, including customer onboarding during mergers and acquisitions. During an M&A, complying with regulations creates extra work and poses significant risks for financial institutions as buyers and sellers finalize the deal. Firms must use consistent criteria to ensure all customers meet well-defined risk tolerance standards, while maintaining compliance with regulatory requirements. The process is more efficient when all parties involved anticipate the need to comply with regulatory requirements as early as possible.

However, manually onboarding each customer during an M&A is inefficient and time-consuming. Automating the process across the entire enterprise eliminates the need to collect, enter, and verify physical documents, reducing the cost and time required to onboard customers and greatly diminishing the possibility of introducing human errors.

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Generate a detailed audit trail with an automated KYC/AML process

No matter how thorough financial institutions' KYC/AML processes are, third-party auditors ultimately determine if firms are meeting regulatory requirements.

By digitizing the documents involved in client onboarding, intelligent technology automates the process of record-keeping and generates an audit trail with a detailed account of each step of the onboarding process. The technology stores all the data auditors need in a central location, so compliance and risk management teams don't have to worry about costly fines due to non-compliance. A single system makes it easy to identify the definitions used in KYC onboarding and risk identification during the audit process.

Keep pace with technology trends in the financial services industry

The COVID-19 pandemic has transformed the way financial institutions work with both retail and commercial clients. It's not unfathomable to think that social distancing protocols could be triggered again in the future. Automated technology allows firms to perform due diligence checks without meeting face-to-face with a customer.

Even before the pandemic, FinTech startups had disrupted the financial services industry by rapidly implementing new online banking and payment services in response to advances in digital technology and changing consumer demands. Now, consumers can easily use mobile devices to open accounts, apply for loans, pay for services, invest in mutual funds, and buy and sell cryptocurrencies.

At the same time, mobile technology has made combating money laundering and the financing of terrorism more demanding than ever.

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Ease customer onboarding processes with API technology

The ever-evolving demands of regulatory compliance have helped fuel the growth of application programming interfaces (APIs). APIs—software that allows two applications to talk to each other—are dramatically changing the way financial institutions verify the identities of their customers and maintain compliance with KYC/AML regulations.

APIs offer quick, easy solutions for delivering new financial services that meet consumer expectations in an always-on digital world. Financial institutions can use the technology to maintain regulatory compliance while providing a smoother, faster customer onboarding experience. Plus, APIs can connect to a financial institution's existing infrastructure and integrate seamlessly with other applications.

One API integration connects your systems to all the KYC/AML services you need. In addition to improving efficiency, an API can help you:

- Deliver better reporting and information flow
- Digitize the process of record-keeping from the beginning
- Systemize procedures across the enterprise
- Scale the business faster and more efficiently
- Enable quicker entry into new markets

Financial institutions that take a "wait and see" approach to adopting API technology may find it difficult to keep up with consumer demands.

5 reasons to automate your KYC/AML processes with CLEAR

Thomson Reuters® CLEAR provides a complete solution for fully automating the customer onboarding process. For risk management and regulatory compliance teams who need to quickly locate, identify, and connect critical facts, CLEAR is powered by billions of data points and leverages cutting-edge public records technology to bring all key content together in a customizable dashboard, allowing you to search data and view results in a layout that complements your workflow.

1. Increase operational efficiency

Automate KYC/AML workflows on an enterprise-wide level and stay up to date with ever-changing regulations.

2. Streamline the onboarding process

Provide the smooth, fast onboarding experience consumers demand in an always-on digital world.

3. Simplify audits

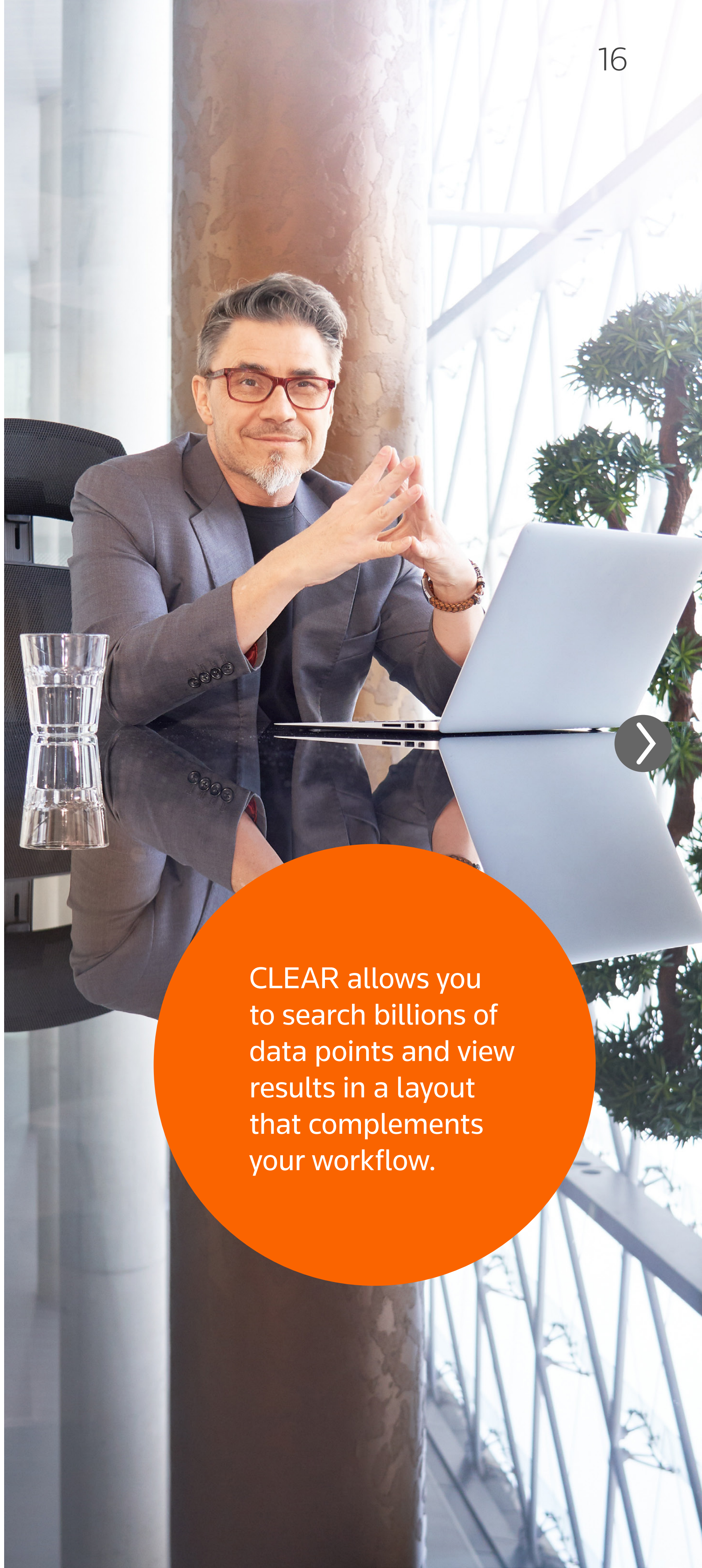
Generate an audit trail with a detailed account of each step of the onboarding process.

4. Integrate your systems with APIs

Connect your systems to all the KYC/AML services you need with one API integration.

5. Stay ahead of the competition

Maintain a competitive edge as FinTech startups continue to disrupt the financial services sector. Onboarding customers in the highly-regulated financial industry can be challenging. Advances in technology allow financial institutions to implement automated solutions that streamline and simplify KYC/AML processes, reduce costs, increase efficiency, and ensure compliance with ever-evolving regulations.



CLEAR allows you to search billions of data points and view results in a layout that complements your workflow.

Streamline workflows across the enterprise with Thomson Reuters CLEAR

CLEAR provides a complete solution to fully automate customer onboarding and ongoing monitoring.

Verify identity
- Eliminate manual collection of CIP data
- Automate high-volume, repetitive tasks
- Digitize data extraction

Screen for global risks
- Comply with KYC/AML regulations
- Screen against sanctions lists
- Conduct adverse media checks

Assess level of risk in real time
- Automatically access public record profiles
- Customize risk tolerance parameters
- Develop an accurate risk profile before onboarding a client

Onboard client
- Provide a faster onboarding experience
- Reduce KYC-related costs
- Maintain a competitive edge

Monitor
- Automate ongoing monitoring
- Set alerts to identify suspicious activity in real time
- Monitor high-risk clients

Evaluate potential risks
- Automatically access EDD reports
- Allow staff to focus on higher-value tasks
- Eliminate swivel chairing

Thomson Reuters CLEAR offers:

CLEAR EDD
CLEAR ID Confirm
CLEAR Risk Inform
CLEAR Adverse Media

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