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How To Better Understand Your Customers **Using Context.**

A guide to transforming your **KYC processes across the customer lifecycle.**

Transform your approach to AML compliance with contextual KYC

With laborious onboarding, refresh and remediation processes, Know Your Customer (KYC) compliance challenges are continuously growing.

KYC is outdated almost as soon as it's completed, meaning you are reliant on static and time-limited data to understand your customer and their risk. Increasing regulatory, cost, and customer pressures demand a new way of thinking.

By adopting a contextual approach, you can reduce the time and cost of KYC by increasing automation and connecting non-obvious relationships to reduce customer friction, and leverage decision intelligence for perpetual monitoring.

Context is the missing link to an effective compliance practice.

Quick links

1 The world has changed – and so must our approach to KYC compliance

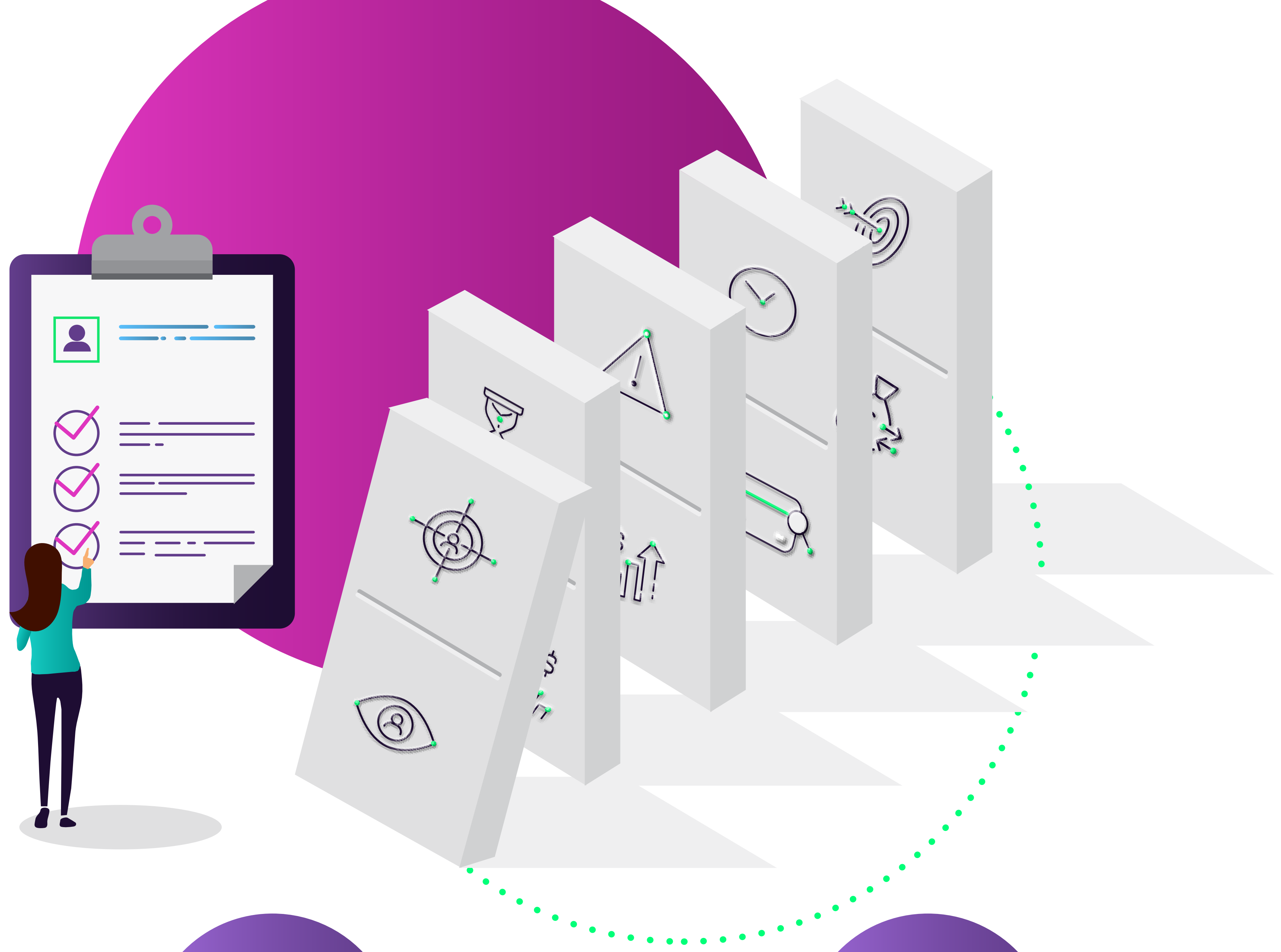
In an increasingly digital world, it's easier for people to misrepresent themselves – making KYC checks even more important.

Digital-first technologies facilitate the automation that eventually will eliminate cumbersome manual processes, making them critical for continuous monitoring of KYC as the foundation of successful risk management processes.

Fintech disruption has also reshaped the financial services industry, increasing the need for a greater customer experience – while simultaneously meeting regulatory requirements.

With an automated, data-driven contextual approach to KYC and customer risk rating, you can improve risk identification, reduce operational costs and deliver impeccable customer experiences.

> "**Decision-making,** based on inadequate risk assessments is sometimes **inaccurate and irrelevant, relying heavily on human input and defensive box-ticking approaches to risk,** rather than applying a genuinely risk-based approach." - FATF



The domino effect of KYC

KYC is the foundation for better risk management across the entire financial crime, fraud and credit risk framework.

Adopting a contextual approach to KYC

With a more efficient and effective approach to KYC, you gain a more accurate and holistic understanding of your customer and their counterparties, enabling you to improve KYC processes through:

More targeted and accurate transaction monitoring

Reduce false positives to determine normal transaction patterns, e.g. to show payment flows between companies within the same corporate structure. With a dynamic risk rating, you can provide more targeted transaction monitoring for high risk customers.

Faster investigations identifying more real risk

Up to date customer KYC at your fingertips for all types of financial crime and fraud investigations. Build a solid base customer profile to support credit risk assessment and monitoring creating operational synergies

Reduced false positives within customer screening

Use network information to discount or prioritize alerts, for example by considering the geographies, counterparties and related entities a customer is connected to within the network.

Easier and safer exit of customer relationships

Confidently exit customer relationships, ensuring that they are fully exited in all business lines through accurate entity resolution.

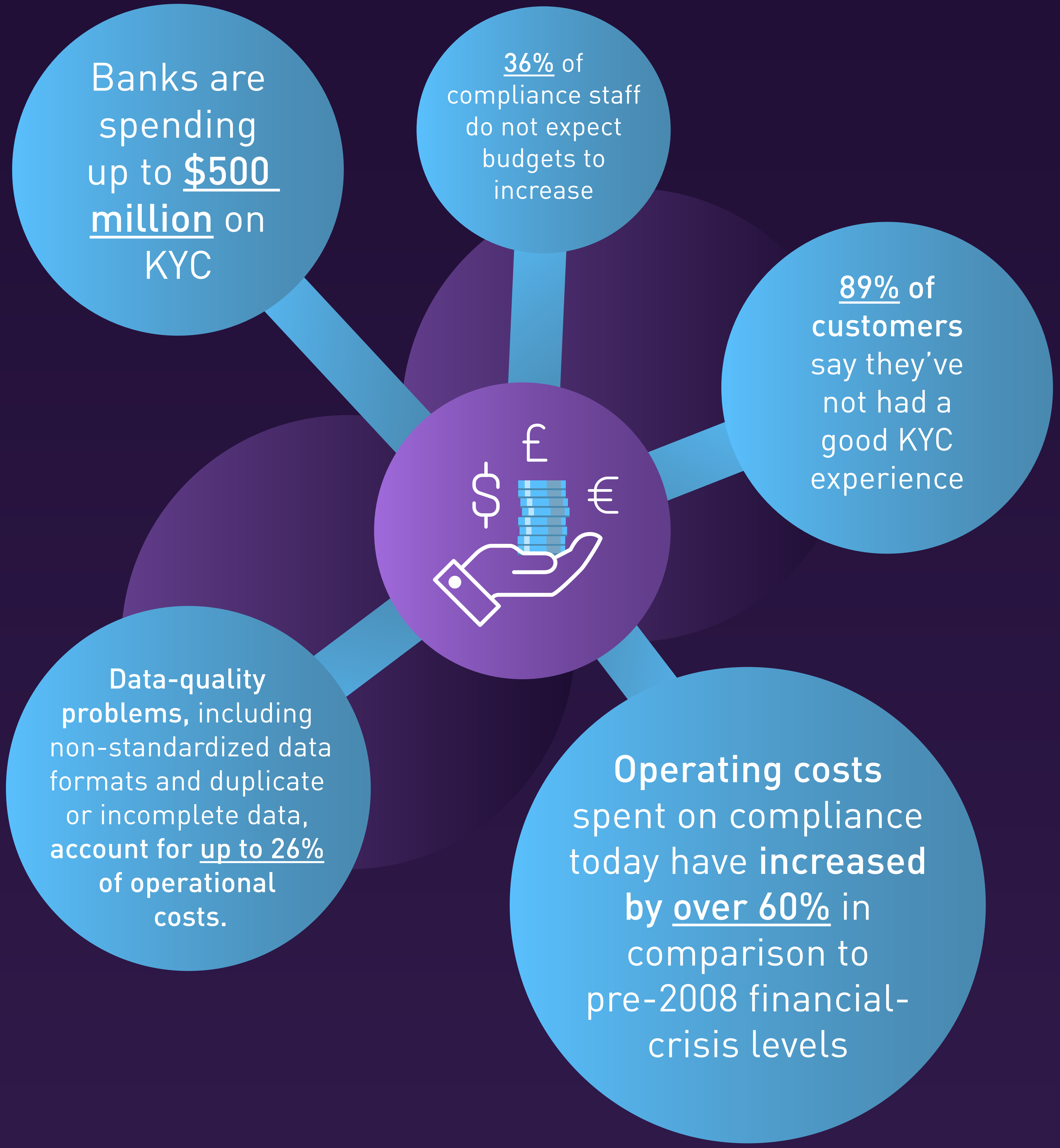
2 The rising cost of compliance

In compliance and KYC, budgets are not growing at the same rates they previously were, with over a third of compliance functions expecting to see budgets remaining the same. Yet half of financial institutions expect the cost of compliance staff to increase.

However, human capacity alone cannot process the vast amount of data flowing into the enterprise. Manual onboarding, refresh, and remediation processes require big teams, driving up the cost of compliance while also resulting in poor customer experiences. Aware of the race to keep up with regulation changes, as well as the pressure to digitize rapidly, many financial institutions are throwing both money and human hours at these issues without addressing the root problem.

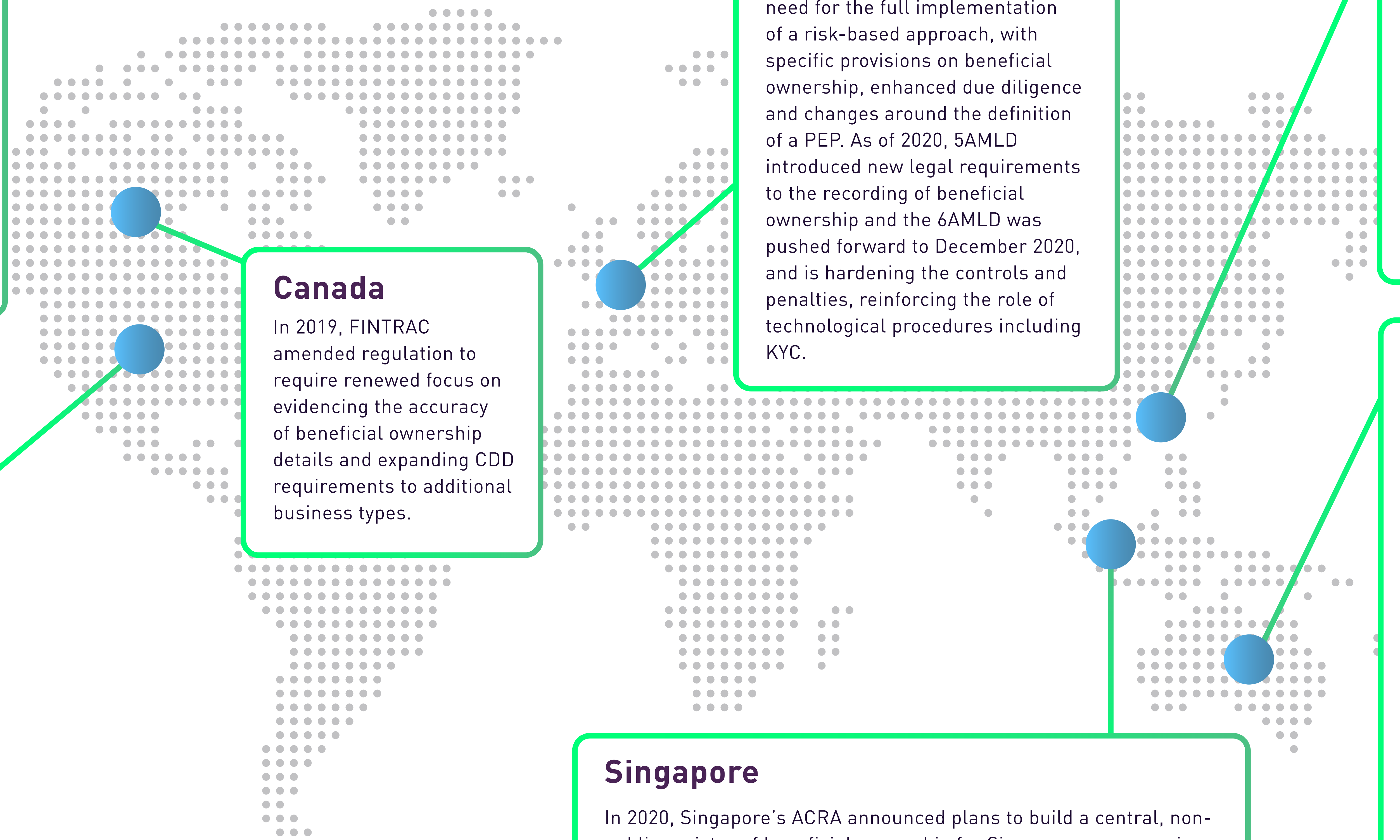
Financial institutions must look for ways to strategically and more accurately assess risk while also reducing the rising cost of compliance.

Organizations are trialing automation, robotics and AI within KYC but are yet to reach a true transformation. The missing ingredient is context. Using context, financial institutions can revolutionize KYC processes from reactive compliance to proactive risk management.



The regulatory landscape is constantly changing

Over the past decade, financial institutions have faced increasingly more stringent AML and KYC regulations, which vary across geographies. As financial institutions battle to adhere to KYC requirements, there are growing backlogs of unreviewed cases holding undetected risk.



Global

FATF's updated set of recommendations in 2012 remain standard guidance for financial institutions globally around identification of customer ownership. In March 2020, FATF issued new guidance on the use of digital identity which sets new recommendations on its use within CDD.

In 2021, FATF has officially extended its guidance to the Virtual Assets and Virtual Assets Providers encouraging the use of a similar Risk Based Approach.

United States

The Anti-Money Laundering Act of 2021 requires U.S. businesses to disclose beneficial ownership information to a national database that will be accessible to functional regulators and law enforcement.

The OFAC 50% Rule creates additional complexities for determining whether a customer has owners or controllers that are considered sanctioned.

Canada

In 2019, FINTRAC amended regulation to require renewed focus on evidencing the accuracy of beneficial ownership details and expanding CDD requirements to additional business types.

Europe

In 2017, 4AMLD emphasized the need for the full implementation of a risk-based approach, with specific provisions on beneficial ownership, enhanced due diligence and changes around the definition of a PEP. As of 2020, 5AMLD introduced new legal requirements to the recording of beneficial ownership and the 6AMLD was pushed forward to December 2020, and is hardening the controls and penalties, reinforcing the role of technological procedures including KYC.

Hong Kong

In September 2021, the SFC issued an updated version of the AML/CTF Guideline, encouraging the adoption of a risk-based approach to simplified and enhanced customer due diligence (CDD) requirements; new CDD requirements and risk mitigating measures for cross-border correspondent banking relationships.

Singapore

In 2020, Singapore's ACRA announced plans to build a central, non-public register of beneficial ownership for Singaporean companies.

Australia

From June 2021, changes to AUSTRAC'S AML/CTF Act explicitly prohibiting reporting entities from providing a designated service if customer identification procedures cannot be performed. You must not provide a designated service to a customer unless applicable customer identification procedures (ACIP) have been carried out. This obligation applied regardless of whether it involved a one-off transaction or an ongoing business relationship.

There's more to KYC than onboarding

Onboarding

Reduce false positives to determine normal transaction patterns, e.g. to show payment flows between companies within the same corporate structure. With a dynamic risk rating, you can provide more targeted transaction monitoring for high risk customers.

Without a complete understanding of a prospect or customer, it's difficult to effectively assess their financial crime, credit, fraud or ESG risk.

This requires you to repeatedly reach out to customers, not only resulting in extensive time and expense to onboard them, but also a poor customer experience and high customer drop-out rates during the process.

Ongoing due dilligence

There is a regulatory expectation to keep KYC profiles up to date to inform other financial crime controls, such as transaction monitoring. However, KYC is outdated almost as soon as it's collected.

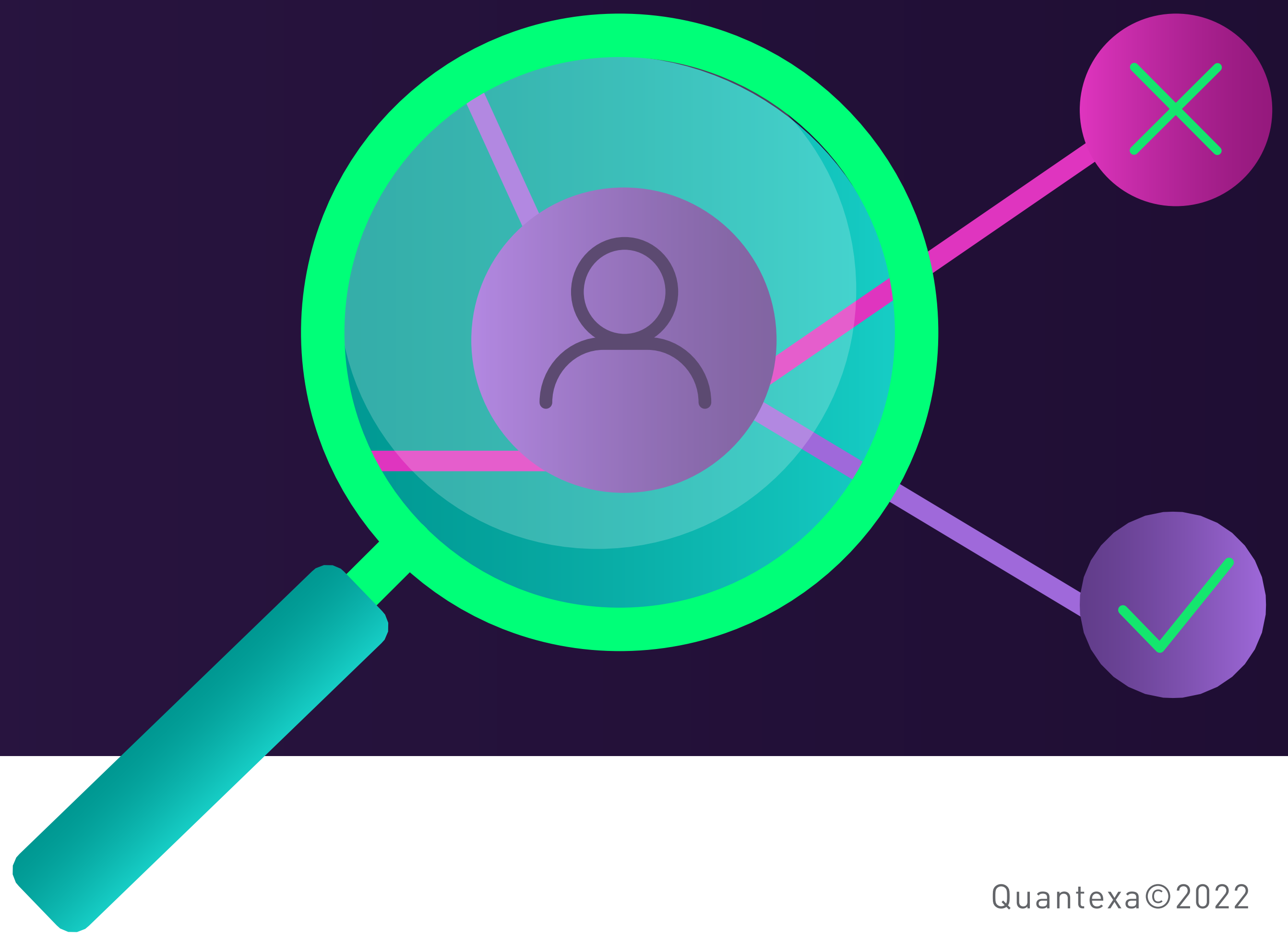
Periodic reviews are handled manually or semi-manually, resulting in huge backlogs and potentially delayed identification of customer risk between KYC reviews. After opening an account, customers are less incentivized to engage with you to provide updated information. A low-risk customer may move to a high-risk jurisdiction but with current processes, this wouldn't be uncovered for up to five years, meaning your costly compliance efforts are not focusing completely on the right population.

To gain a complete understanding of a customer and their risk, you must assess their entire network. Without context, it's impossible to know if a customer is transacting with a high-risk company, or if they have a new high-risk owner.

Exit

Lacking a single customer view makes it challenging to effectively offboard customers due to the difficulty ensuring you've exited the relationship across all products and business lines.

It is also difficult to prevent the indirect re-entry of an offboarded customer without context, which would automatically identify exited customers through network analysis,such with phoenix operations.



"Some firms are reimagining the **entire client life cycle** management process, integrating KYC, transaction monitoring, the US Foreign Account Tax Compliance Act or OECD Common Reporting Standard and product suitability compliance to **streamline compliance**, and better guide and support relationship managers (RMs). This includes using technology to give RMs a preliminary indication of potential AML "red flags" during the client prospecting phase, allowing them to manage expectations around time frames **before onboarding begins.**"

- EY: How to get ready for dynamic, continuous KYC

Effective KYC reduces your reputational risk & improves customer experience

Financial institutions face a multitude of challenges with existing KYC processes throughout the customer lifecycle, which increases reputational risk, raises the cost of compliance and damages customer relationships. To reduce your reputational risk, organizations should look to:

Implement effective systems to manage risk more effectively

Rudimentary risk ratings are often carried out on static variables, such as geography, rather than dynamic variables, such as observed behavior. Existing systems must consider network and behavioral risk, instead of looking solely at isolated events, which results in missed risk.

Generate good quality data

Manual processes result in data captured in different formats or use default values due to heavy workloads. Detailed quality assurance and control are required to ensure errors do not slip through.

Focus on technical compliance

Due diligence is generally still considered to be a compliance activity rather than a holistic, strategic business process that can strengthen and add value to customer relationships and increase customer understanding.

Reduce customer outreach

Due to the reliance on data provided by customers to complete KYC profiles, multiple outreaches to customers are often required. This negatively impacts customer experience, increases customer churn and delays in opening an account equate to revenue losses. Improved KYC processes can help overcome these challenges.

Automate manual processes

Manual processes are time-consuming and error-prone. Human analysts spend vast amounts of time trawling through internal and external systems gathering and preparing data. Automating these processes is critical to reduce time to value.

Re-direct efforts to material risk

Sometimes, organizations concentrate efforts on addressing non-material risk, preventing them from effectively understanding their exposure to high-risk customers. Re-focusing these efforts on material risk will help ensure genuine risk isn't being missed.

3 Strengthen your KYC and compliance practices with context

- Consider the customer's entire network and context to help you make a risk decision
- Move away from a static, customer-centric view of the world
- Bring together and intelligently resolve any number of internal or external data sources to provide a single view of your customer or prospect
- Continuously monitor all sources of customer data for changes to ensure updated risk profiles

Efficiency

Reduce processing time

Automatically populate onboarding and refresh KYC forms and spend less time looking through false positives

Effectiveness

Spot hidden areas of risk

Use your customer's entire network to find areas of risk, including with connected parties or transactions

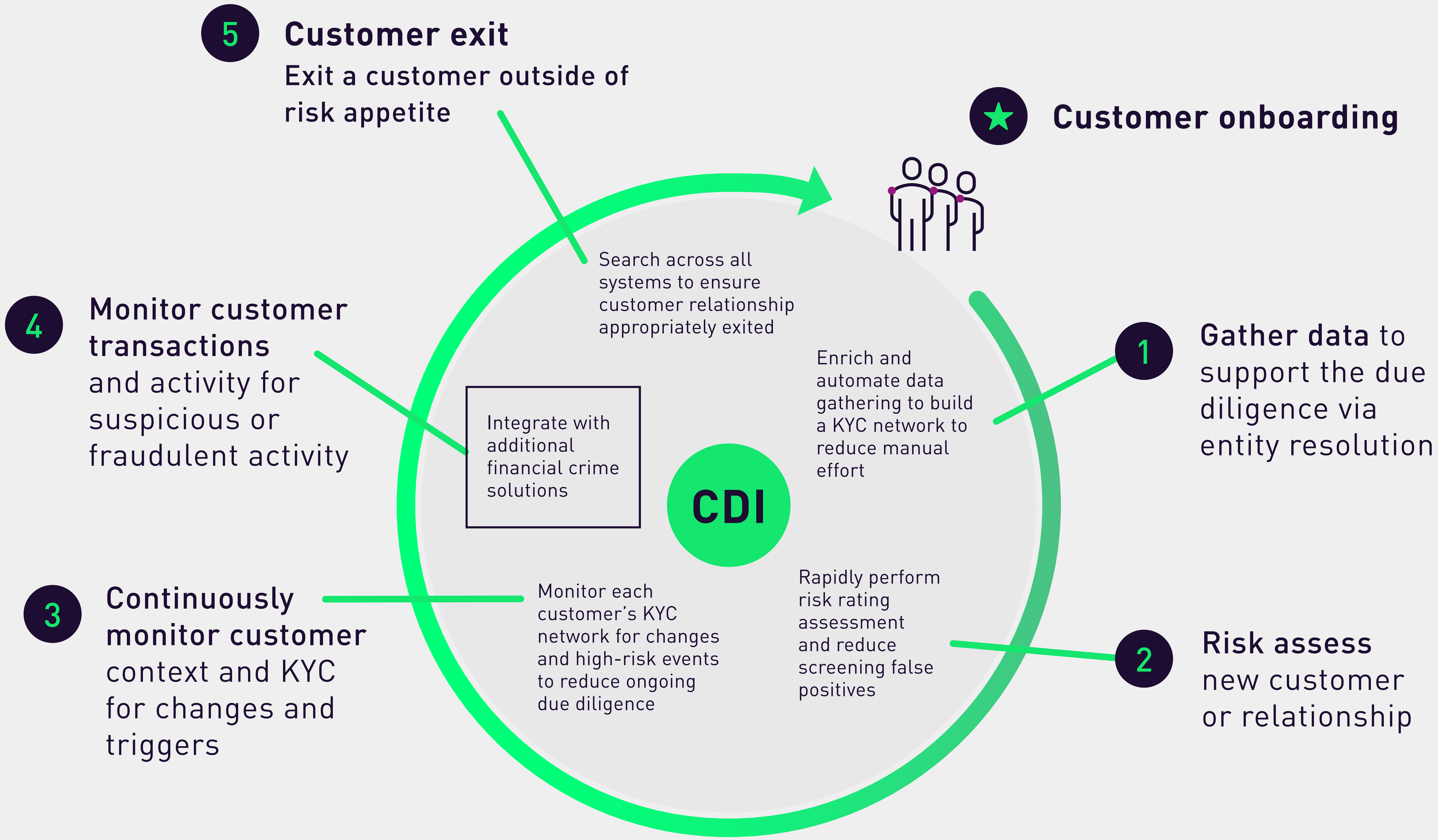
Customer experience

Improve customer experience

Dramatically reduce end-to-end onboarding time and minimize customer friction

Understanding real-time risk throughout the customer lifecycle

A contextual approach to KYC helps to refocus the entire financial crime control framework to be more customer centric. Using Contextual Decision Intelligence (CDI) to continuously evaluate each customer and their financial crime risk throughout the customer lifecycle - from onboarding to exit - increases efficiency and effectiveness by breaking down barriers between previously siloed financial crime processes.

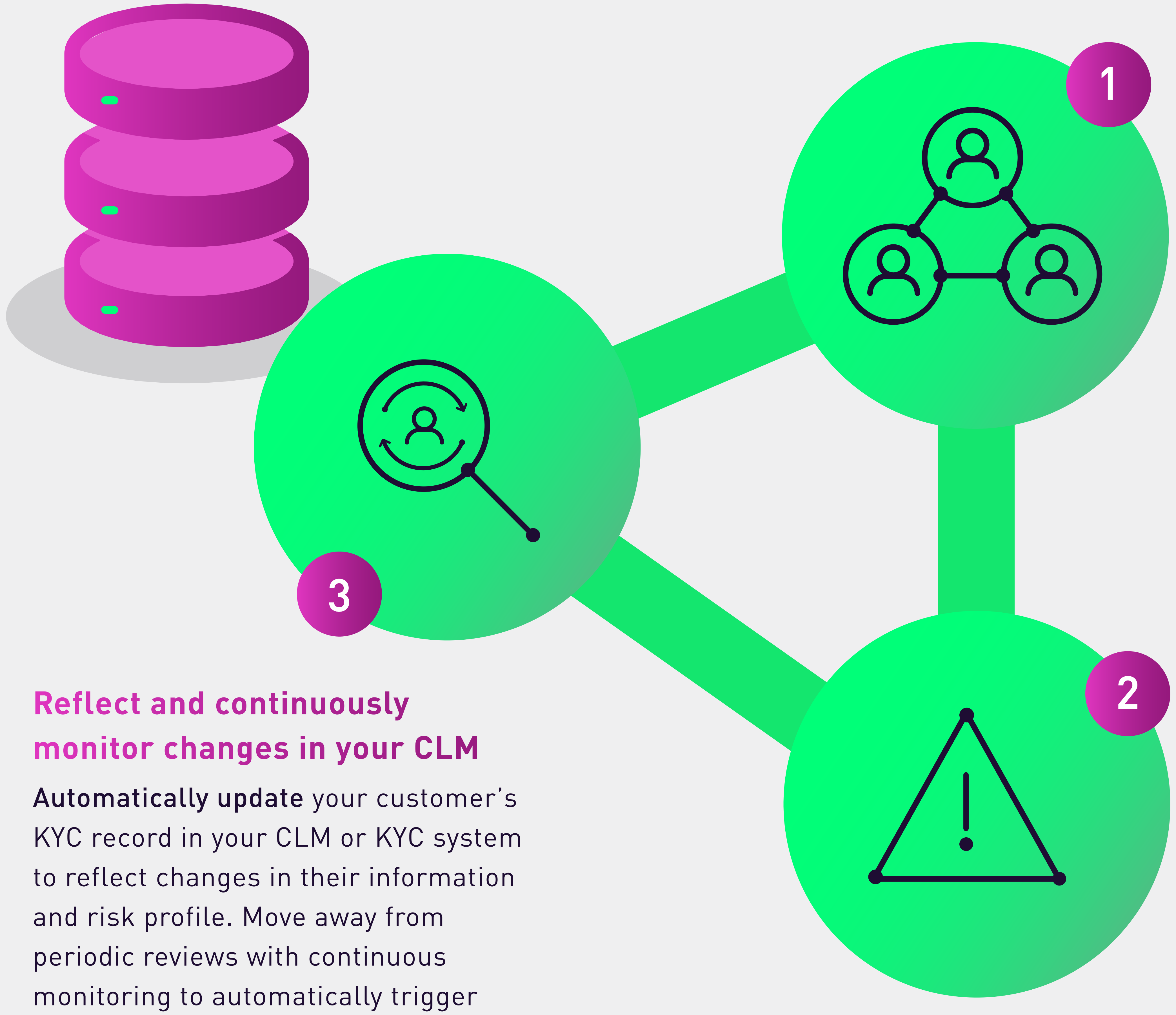


A strong data foundation is critical to KYC

The data your organization generates is an invaluable resource. With organizations subject to an increasing number of compliance regulations, the effective management of data within any organization has grown in importance. Having a strong data foundation across entities and a holistic view of entity exposure across networks is critical to every aspect of KYC, from customer onboarding to risk rating.

Contextual Decision Intelligence is an innovative approach to data that enables you to connect multiple internal and external data sets to provide a single view of customers enriched with intelligence about the relationships between people, organizations and places. Understanding this customer context is to key to automatically gathering data, and dramatically improving the efficiency, effectiveness and consistency of KYC.

How to build a strong data foundation:



Connect your data to create a single customer view

Using entity resolution, connect billions of internal and external data sources—like KYC profiles, corporate registry data and transactions - to create a single customer view and understand a customer and their risk, even before onboarding.

Highlight new or changing risk levels

By **generating networks**, you can understand corporate hierarchies and automatically highlight new or changing risks associated with your customer. Reassess the customer risk score in real time to detect risk as they emerge.

Reflect and continuously monitor changes in your CLM

Automatically update your customer's KYC record in your CLM or KYC system to reflect changes in their information and risk profile. Move away from periodic reviews with continuous monitoring to automatically trigger investigations.

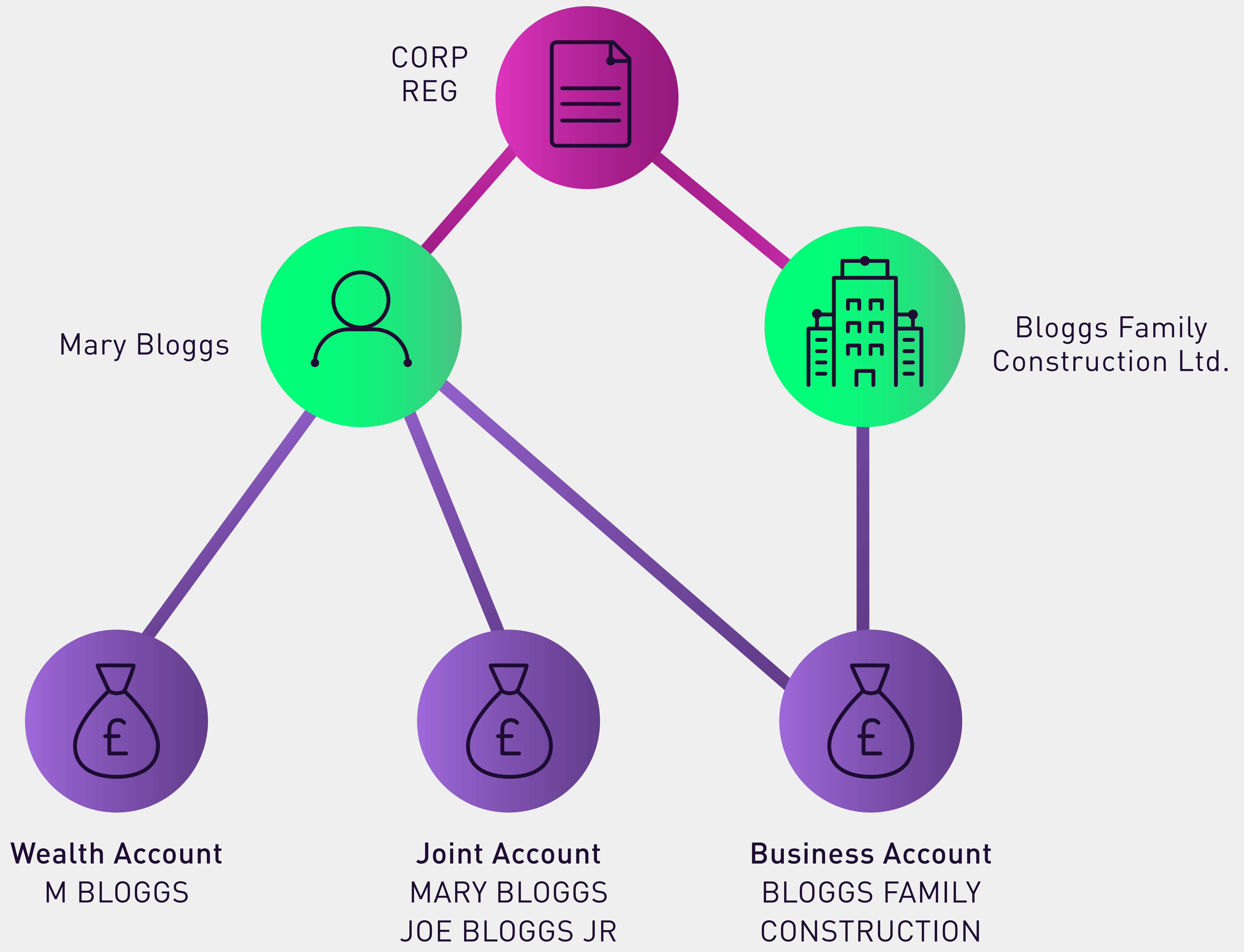
Entity resolution: Connect your data to create a single customer view

Entity resolution allows you create a single view of your customers and their relationships across your organization using internal and external data sources.

In this example:

- **Mary Bloggs** has been identified as the same person across her Wealth, Joint and Business accounts, despite differences in data within internal systems.
- The business **Bloggs Family Construction Ltd** has also been identified as a customer with a business account, which is linked to Mary Bloggs.
- Using third-party data to enrich internally-held information, both **Mary Bloggs** and **Bloggs Family Construction Ltd** are identified as the same person and business referenced in an external **corporate registry** database.

How it works – **Step 1**



Network generation: Highlight new or changing risk levels

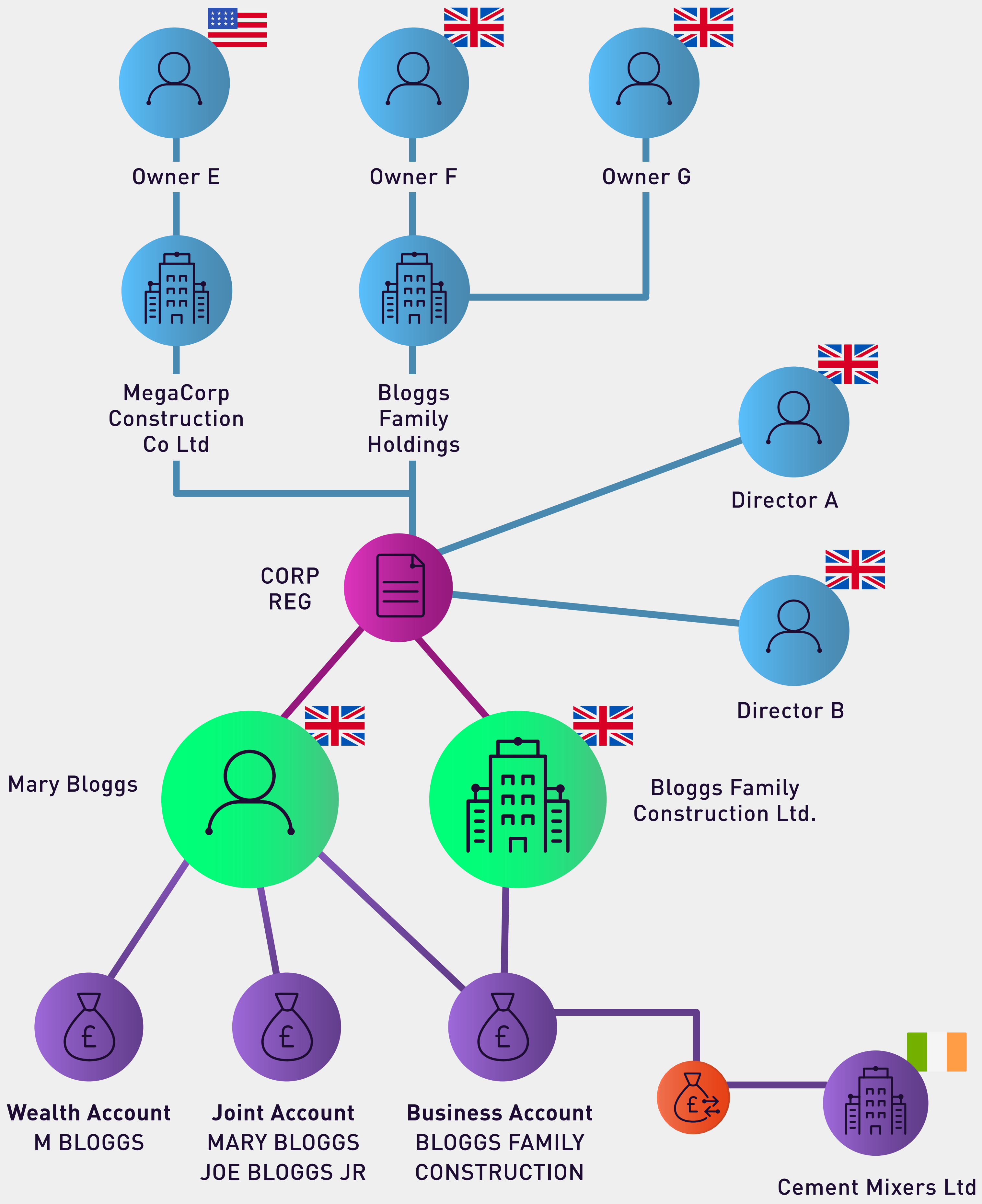
Network generation builds on entity resolution by expanding your understanding of a customer beyond just the customer itself – and puts that customer in context.

In this example, by building this customer's relevant KYC network, we can:

- Identify the ultimate beneficial owners of Bloggs Family Construction Ltd, **Owner E, Owner F** and **Owner G**
- Identify the corporate hierarchy and intermediate parent companies, **MegaCorp Construction Co Ltd** and **Bloggs Family Holdings.**
- Identify the directors, addresses, financial data and more, available on corporate registry databases, such as **Director A** and **Director B.**
- Maintain our resolved view of the original customers, **Mary Bloggs** and **Bloggs Family Construction Ltd.**
- Understand key transactional network information, such as **Cement Mixers Ltd** being a significant counterparty of the business account for Bloggs Family Construction Ltd.

How it works – **Step 2**

Customer KYC network



Customer risk rating: **Standard risk**

Contextual monitoring: Reflect and continuously monitor changes in your CLM

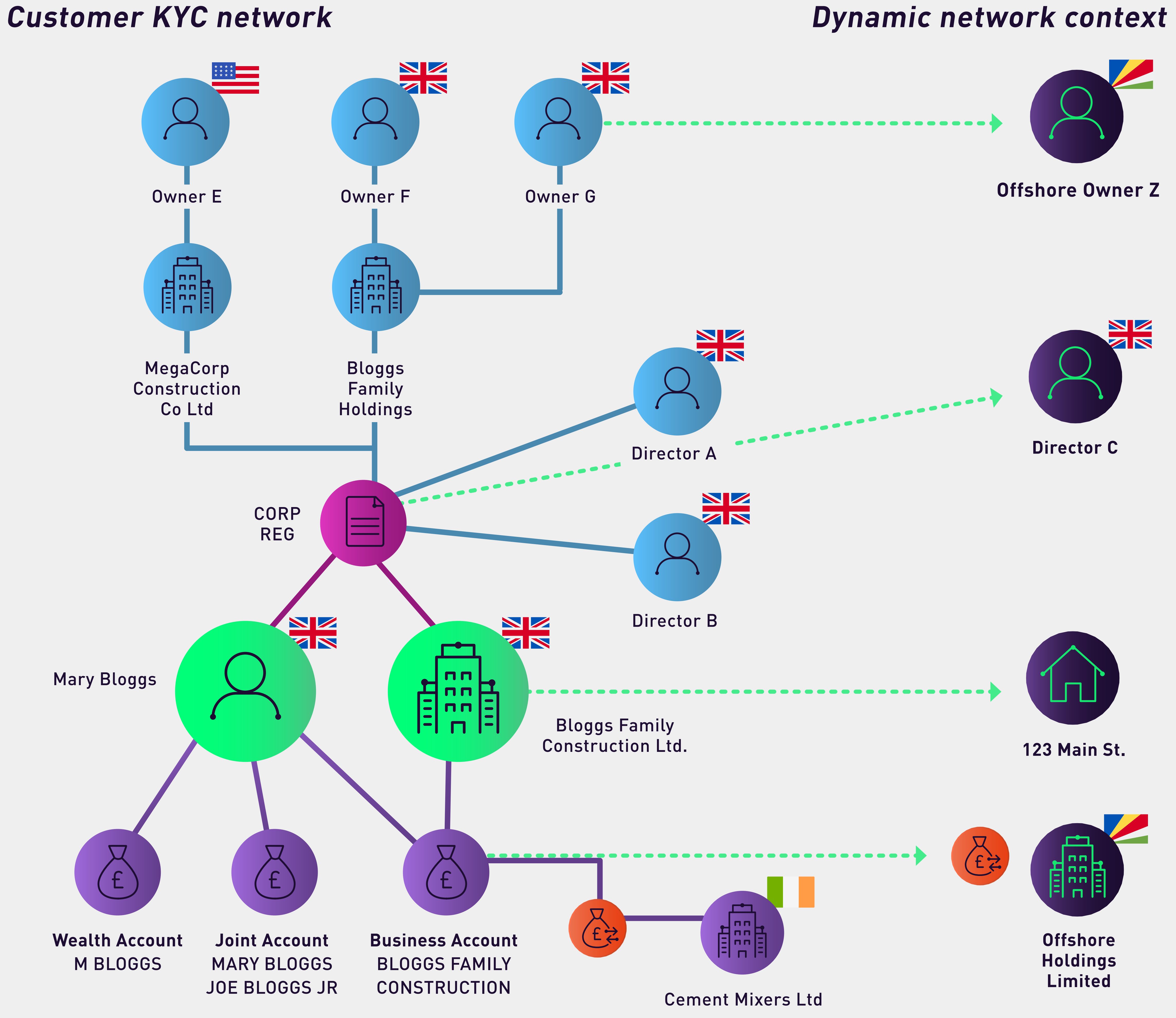
Perpetual KYC monitoring allows you to dynamically update your customer context and their associated financial crime risk when information changes, in real time.

In this example, we can:

- Immediately detect a **change in beneficial ownership** to a new owner based in a high-risk jurisdiction through third-party data **(Offshore Owner Z)**
- Identify the **addition of a new director (Director C)** using third-party or internal data and they can immediately be screened, risk assessed, and added to the customer's KYC record
- Detect a **change in address** from corporate registry data (**123 Main St.**) which can immediately be risk assessed and automatically sent to the customer via a digital channel for review and acceptance
- Detect **a new significant counterparty** based in a high-risk country via transactional data and add to the customer's risk profile (**Offshore Holdings Limited**)

Considering all these changes to the customer's network, context suggests that the customer is now **potentially high risk** and should be immediately reviewed for financial crime concerns **and a possible elevation in risk rating.**

How it works – Step 3



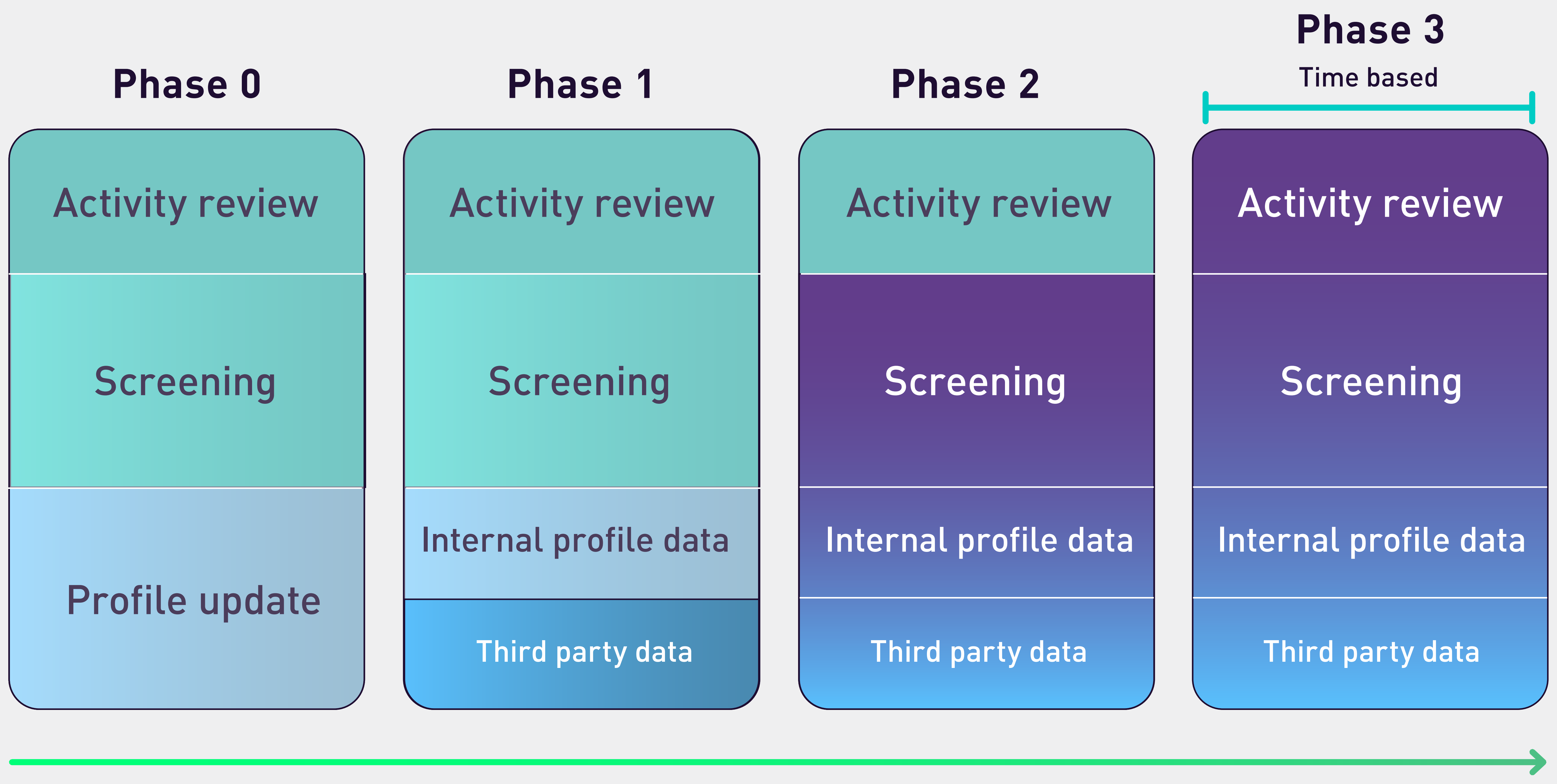
Customer risk rating: **High risk**

4 Expanding your journey to perpetual KYC

Bringing context to traditional KYC acts as a stepping stone towards perpetual KYC (pKYC). This managed route to maximum value can augment or replace existing technology, further enhancing monitoring and investigations to increase effectiveness and efficiency across multiple lines of business.

Beyond approaching risk contextually, moving to a pKYC approach signals a true transformational shift. It requires technology components and key enablers to ensure that strategy and target operating models are keeping pace with the technological transformation.

An incremental approach to transforming your KYC processes will enable you to maximize the value of each phase of risk monitoring. This will make moving to a more complex set of risk triggers easier in future phases, leading to a more efficient and effective approach to KYC. That way, you can gain a more accurate and holistic understanding of your customer and the true risk associated to them.



Phase 0 is KYC today - static, time-based review processes with static risk ratings and outdated customer information.

In **Phase 1** you can start small and implement trigger-based KYC for a low complexity set of data to be monitored bringing quick value to the period process by refreshing automatically ahead of time key KYC profile information.

In **Phase 2** you can expand the scope to new triggers and bring business and risk behavior as part of the monitoring, creating a fuller dynamic risk rating process. Customer risk events can be assessed as they happen.

Phase 3 provides full, event-driven KYC across the entire customer data set, with all customer risk assessed dynamically including behavior discrepancies. Periodic refresh is eliminated or minimized to specific cases as all information is continually up to date.

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See how much you could **save on your KYC processes**

Find out here >

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