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NEXT GENERATION KYC

OPTIMIZING CUSTOMER EXPERIENCE WHILE IMPROVING EFFICIENCY

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The implementation of effective Know Your Customer (KYC) capabilities has long bedeviled the financial services industry, leading to billions of dollars in fines and hundreds of millions in annual KYC and financial crime compliance costs for many large banks.[1, 2]

While regulatory fines seem to have abated as remediation efforts work their way slowly through the system, the challenge is in optimizing the complex KYC mechanisms that many institutions have built. Most KYC capabilities were developed reactively to meet regulatory mandates and audit findings. This approach has led to KYC operations that are fragmented, inefficient, and massive in size and cost. The result is a situation that is unsustainable.

KYC operations need to evolve in a way that brings costs down to sustainable levels while maintaining regulatory compliance and that creates value-add for the institution in a way that goes beyond just meeting global regulators' expectations.

Focus on what matters: Free up relationship manager time by optimizing KYC-related activities and minimizing unnecessary back and forth with customers

Enhance the onboarding experience: Delight customers by offering a seamless and light-touch KYC experience that supports a rapid product onboarding process

Uncover new opportunities: Use KYC data more effectively to understand evolving customer needs, thereby providing better service

WHERE SHOULD KYC GO NEXT?

Leading financial services institutions are already taking steps to transition their KYC capabilities from a fire drill/project mode to a sustainable/business as usual mode. In many cases, however, KYC is still being treated as a large regulatory project with a "spend whatever it takes to comply" mentality.

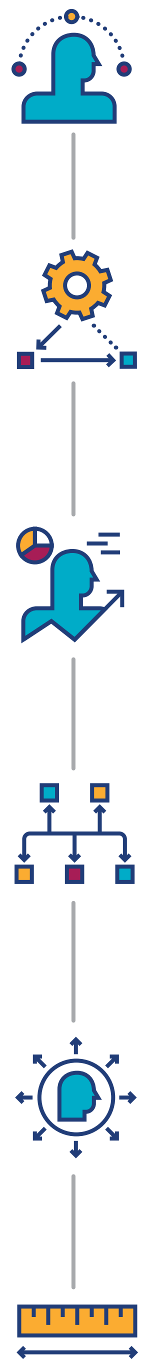
Organizations that continue with this mindset will not only suffer higher costs, but will also be at a considerable strategic disadvantage compared to leading institutions that offer a better customer onboarding experience and effectively leverage KYC data and resources to identify and pursue growth opportunities.

In this article, we discuss six areas that are the sources of inefficiency and ineffectiveness in KYC operations today and discuss the steps that can be taken in each area to transform KYC from a significant compliance cost, to a value-generating asset. (See Exhibit 1.)

1 www.reuters.com/article/us-banks-regulator-fines/u-s-eu-fines-on-banks-misconduct-to-top-400-billion-by-2020-report-idUSKCN1C210B.

2 risk.thomsonreuters.com/content/dam/openweb/documents/pdf/risk/infographic/infographic-fines-for-banks-that-breached-US-sanctions.pdf.

Exhibit 1: Six areas of focus to achieve next generation KYC



1 CONSIDER THE CUSTOMER EXPERIENCE

If you put yourself in the customer's shoes and design for them rather against them, you'll end up with more satisfied customers, which will translate to reduced KYC costs

2 OPTIMIZE THE PROCEDURES

Operational procedures need to be written to support the efficient and effective execution of a defined set of processes, often by inexperienced resources located in low-cost locations

3 RATIONALIZE CUSTOMER DATA

By taking a step back and rethinking how customer information is organized and structured under a federated approach, data complexity can be reduced and platform rationalization achieved more easily

4 DRIVE AUTOMATION ACROSS THE PROCESS

Automation can come in different forms, so any investment needs to be evaluated from the perspective of its ability to improve efficiency and reduce regulatory risk

5 OPTIMIZE THE RESOURCE POOL

With potential cost savings from leveraging a global workforce of up to 75%, it is critical to consider where the work is done, in addition to how the work is done

6 MEASURE EVERYTHING

The only way to understand when a change, big or small, results in a positive impact is to measure it. Like all complex processes, if you don't measure it, you cannot effectively change it

CONSIDER THE CUSTOMER EXPERIENCE

Responding to KYC data requests can drive customers crazy if not handled correctly. Individual customers are often asked to show up in person in branches to validate their paperwork. For businesses, the emergence of global KYC utilities has mitigated the need for submitting the same paperwork multiple times to each of their banks, insurance companies and other financial services providers; nevertheless, a great deal of inefficiency still remains in the process.

Those managers who own the customer relationship are often caught between the KYC organization and the customer, having to go back repeatedly for additional paperwork and bearing the brunt of customer unhappiness and frustration. Managers' reaction, understandably, has been to place KYC requests at the bottom of their to-do lists, which paradoxically can lengthen the process and increase costs.

A solution to this problem is to examine the KYC process from the customer's perspective; the process and interaction model must be designed to optimize the customer experience. By using digital strategies – such as enterprise workflow, customer portals, support for multiple channel communication, and directly engaging branches, relationship managers and bankers in the process, the friction inherent in gathering the necessary customer documentation can be vastly reduced.

Further improvements in customer experience and productivity might be gained by moving from periodic towards a perpetual KYC, in which customer information is updated based on triggers indicating out-of-date information, rather than a specific amount of elapsed time. When combined with robust, fully functional digital portals, the customer can be engaged in the KYC process in a way that make sense to them and is not onerous.

If you put yourself in the customer's shoes and design for them, rather against them, you'll end up with increased customer satisfaction which will translate to reduced KYC costs.

OPTIMIZE THE PROCEDURES

An organization's procedures constitute the backbone of any KYC operation. Such procedures implement the internal compliance standards, as defined by interpretations of global KYC and anti-financial crime regulations. In many financial institutions, KYC procedures have been written in such a way as to pass scrutiny from global regulators, instead of as a way to optimize the operational function. This creates an opportunity.

Operational procedures need to be written to support the efficient, effective execution of a defined set of processes, often by inexperienced resources located in low-cost locations. As such, they must be specific and unambiguous. In an effort to ward off actions from global regulators, many KYC procedures were constructed hurriedly, with the goal of surviving regulatory audit. As a result, their interpretations can be too flexible, leading to errors and inefficiency.

One primary driver of KYC efficiency is the experience and tenure of the KYC analyst. By rewriting procedures to make them clearer and more accessible, productivity improvements in excess of 25 percent can be achieved and reductions in error rates of over 50 percent realized.[3] Improved accessibility lies in re-platforming procedures on a proper content management system, with advanced search capability. Any query from a KYC analyst should be accessible within three clicks, and no more than a minute need elapse between question and answer.

In large KYC operations that often consist of hundreds or thousands of KYC and supporting quality analysts, these types of improvements can result in annual savings of tens or hundreds of millions of dollars. The investment necessary to realize these savings is often quite modest relative to the overall operational cost of the KYC function.

RATIONALIZE CUSTOMER DATA

The master customer record lies at the core of KYC operations. The systems that manage the KYC process need to consume customer information from across the institution, including customer demographics and the products they use. They also need to ingest and process significant third-party data and information provided directly by the customer. Entity resolution is a key goal of KYC and becomes more complicated when firms cannot navigate their customer information easily or jump from company to company.

All this information needs to be organized in a comprehensible and accessible format, often calling for the transformation and integration of unstructured information with highly structured data. At the core of this process must be a clearly structured data model encompassing all the information necessary to perform a comprehensive KYC review. This includes extended and local due diligence attributes and applicable information defining relationships, such as family networks of companies.

Yet many KYC toolsets have been built up using a range of vendor and bespoke technology that is not well integrated or aligned, each having its own view on data management. This creates a situation in which platforms are overly complex and difficult to manage and extend. By taking a step back and rethinking how customer information is organized and structured using a federated approach, data complexity can be reduced and platform rationalization and simplification achieved more easily. This in turn reduces overall cost and creates potential opportunities to leverage KYC data to drive additional value for the customer and the institution.

3 Oliver Wyman project results

DRIVE AUTOMATION ACROSS THE PROCESS

In many organizations, the way in which KYC regulatory risk is managed has resulted in organizations consisting of hundreds or thousands of people who execute the end-to-end KYC process. A key step to start to pare back these organizations and reduce costs is to introduce automation into what is often still a fairly manual process, especially in institutional banking.

KYC automation can come in many different forms and any investment needs to be evaluated to determine its ability to improve efficiency without increasing (and ideally reducing) regulatory risk. It also needs to consider the type of KYC being performed: straight-through processing is more achievable in simpler, consumer or small business-based processes, as opposed to situations involving more complex commercial and investment banking customers.

Some of the more effective areas in which to look for automation opportunities include:

- **Data sourcing**: Third-party data sources can be leveraged to automatically update key information in the KYC record, or provide information for customers to validate, rather than provide; this improves the client experience, reduces effort, and optimizes risk management.
- **Data extraction**: A key part of the end-to-end KYC process is the processing of unstructured data such as documents, spreadsheets, and search results into the highly structured data necessary for KYC. Robotic process automation, data transformation technology, and natural language processing engines can remove the need for people to perform many of the KYC steps that require interpreting customer or third-party information without significant decision-making or critical analysis.
- **Scheduling**: Sophisticated, rules-based scheduling of KYC cases can result in a material improvement in efficiency, both by better balancing work across the organization, but also by routing cases to parts of the organization best able to process them efficiently. Scheduling models that take into account workloads, languages, complexity, tenure of resources, prior experience with the customer and a whole range of other parameters can ensure each case is routed to the person best able to complete it with the shortest amount of effort and fewest errors.
- **Work orchestration**: As KYC cases move through the end-to-end process, they often need to be routed based on both simple and complex criteria. Sophisticated work orchestration automation can efficiently move cases through the process, routing them to the KYC analyst who is best positioned to execute the work. These systems can extend workflows to relationship managers and end-customers to facilitate the collection of information. They also eliminate the use of email, a significant source of errors and inefficiency.

- **Quality review**: Correctly filling out a KYC record can be extremely complex, especially for large corporate entities. Even the most experienced analysts make mistakes, which can delay completion and increase costs. By introducing automated rules-based quality checks that run as the process is executed, the analyst can be guided to gather the correct information from the customer and third-party sources. Error rates can be cut sharply, reducing the size and cost of the quality review organization.
- **Summary generation**: Ultimately, the KYC review needs to conclude in a summary review that can be used by the line of business to evaluate the AML risk the customer presents and whether they can be on-boarded as a customer or retained in the case of a renewal. Compiling these risk summaries can be time consuming and difficult for an analyst as the task request cross referencing and summarizing a large quantity of information. Using natural language generation technology, the computer can write a summary in English that can be understood by someone not deep in KYC knowledge. Summaries can also be generated in other languages to support people who are non-English speaking to better support local jurisdictions.

OPTIMIZE THE RESOURCE POOL

As the KYC function moves from a regulatory compliance-oriented process to an operational one, the types of people who make up the organization will change. To optimize costs, highly skilled resources are slowly being replaced by less skilled resources, often in lower cost locations. This transition brings its own challenges: training becomes more critical due to increased turnover, and time-zone dislocation and language barriers reduce the quality of cross-organization communication.

It is critical to modify the approach to performing the KYC function as the resource mix is adjusted, and avoid a "lift and shift" approach to deploying operational processes. Each part of the end-to-end KYC process needs to be examined and adjusted to align to the capabilities of the workforce and the platform needs to be adjusted to provide more support to compensate for a reduction in experience. There is also value in increasing the sophistication of the work routing capability to ensure that complex records are sent to resources with the expertise to process them, and a track record of completing them with low error rates.

With potential cost savings from leveraging a global workforce of up to 75 percent from shifting work abroad, consider where the work is done, in addition to how it is done.

MEASURE EVERYTHING

KYC is an operational area that can benefit significantly from the law of large numbers. Any improvement in productivity and accuracy, no matter how small, becomes material when expanded across hundreds or thousands of resources. Yet the only way to understand when a change, big or small, results in a positive impact is to measure it. Like all complex processes, if you don't measure it, you cannot effectively change it.

- The manual aspect of many complex KYC processes can make it difficult to introduce comprehensive metrics, but the business impact for doing so is so compelling that it is worth investing in this area. Some metrics that are important to consider are:
- **Record completion time**: Minimizing the time it takes to complete a record as part of the customer onboarding process is important. The faster this process can be executed, the shorter the time is to generate revenue. For renewals, the metric is also critical, because an out-of-date KYC record can pose a regulatory issue.
- **Team productivity**: The number of KYC records completed per week per analyst is a critical metric to identify ways in which to improve organization-wide productivity, and the productivity of individuals, teams, and locations.
- **Customer touch points**: The more times an analyst needs to go back to the customer to get the information necessary to complete the KYC process, the worse the customer experience is likely to be.
- **Error rate**: The number of KYC records that fail quality control and the number of material errors per completed KYC record provide a strong indication of the skill of the organization as a whole, and of the individual analysts.
- **Average effort per record**: Measuring the total amount of effort (as opposed to completion time) provides additional insight into the productivity of the organization and can support analysis aimed at increasing overall effectiveness.
- **Audit performance**: The number of audit findings across the KYC record landscape will also point to potential failure points in the end-to-end process, as well as deficiencies in the procedures, quality processes or training.
- Obviously, there are innumerable additional metrics that you could measure. As with most types of analytics, the challenge is thus to measure what is most highly correlated to the business goals an organization has set for itself. With KYC, incorrect assumptions come to light under statistical analysis. It is important to be exhaustive in metrics and critical in the corresponding analysis.

CONCLUSION

KYC is an area in which optimization can yield material savings, yet the cost of getting it wrong can be immense. It is also an area in which the number of customers you have doesn't reduce the complexity of the operation. Small institutions are held to the same standards as big ones, and when a customer has a subsidiary in an emerging market, you still need to do the complex local due diligence irrespective of whether you are a big or small organization.

KYC is also an opportunity rich area of most financial services organizations with regards to potential savings. It is not unreasonable to drive upwards of a 50 percent reduction in costs via a diligent application of technology, automation, procedures rewrites, and improved organizational alignment. The key is to strategically deploy your change budget into the areas which result in the highest returns.

Oliver Wyman is a global leader in management consulting that combines deep industry knowledge with specialized expertise in strategy, operations, risk management, and organization transformation.

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