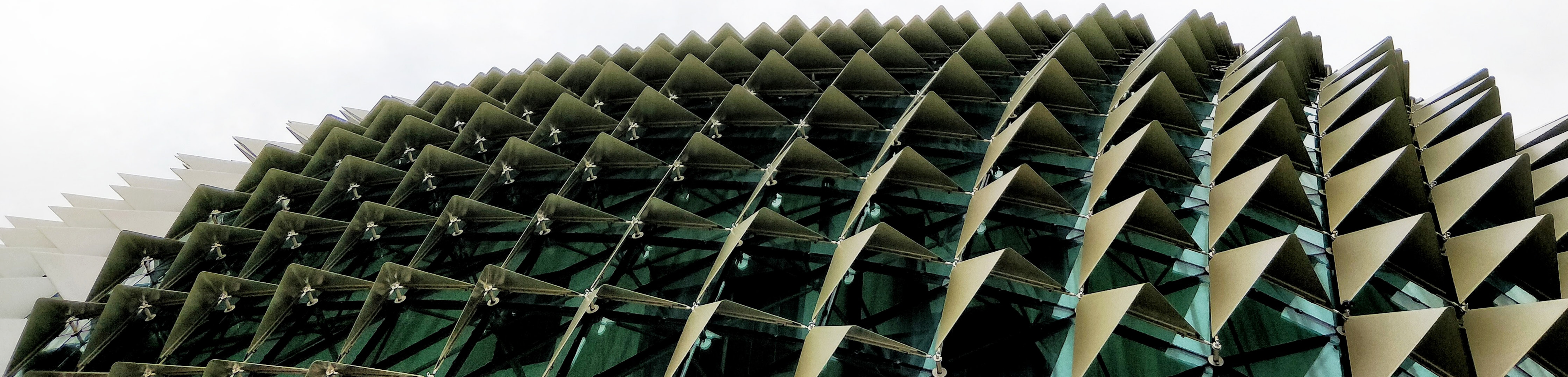
FINTECH FUTURES | REPORTS

DueDil

Digital Know Your Business – A Springboard to Customer Onboarding Success



The Case for KYB

Anti-money laundering (AML) and know your customer (KYC) challenges for financial institutions continue to evolve at pace. Over the past few years, banks and financial institutions have worked hard to take control of their KYC processes and frameworks, especially as the touchpoints with their clients grew exponentially in a digital world.

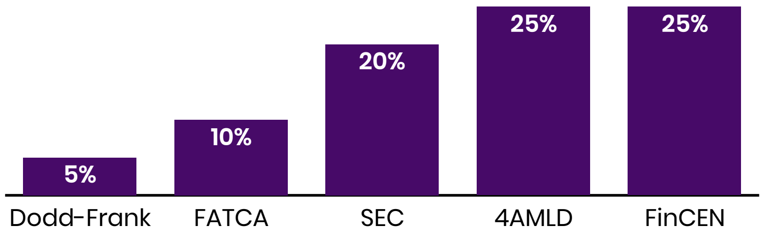
As the data which banks must deal with explodes, it is combined with stringent controls put into place by the regulators at a national and continental level. The EU's fourth and fifth AML directives (4AMLD and 5AMLD), as well as the US Customer Due Diligence (CDD) law have placed a spotlight on ensuring proper checks and due diligence are carried out by FIs.

New requirements require pinpoint accuracy on the ultimate beneficial ownership (UBO) of the clients and companies which FIs are dealing with. While KYC focuses on individual clients, know your business (KYB) covers due diligence of entire business entities, identifying key stakeholders by the percentage of ownership.

KYB is an ongoing process, monitoring the status and compliance of corporate customers. Each entity has a potential to act as a vehicle for money laundering, and it can be incredibly difficult to determine that potential at the point of account opening.

Moreover, beneficial ownership can be onerous to discover at the best of times. Nominee shareholders can hide true owners, shell companies can obscure information with multi-jurisdictional paperwork, and complex paper trails can muddy things further.

BO thresholds across jurisdictions



Acquiring credentials, researching ownership chains, singling out the owner, and performing an AML check are all tasks that must be completed. When these are performed manually, they can result in a backlog which can impact all areas of the business. Understanding the true nature of a company means having access to up-to-date, relevant and accurate information. High customer expectations can only be met with fast and reliable insights.

"Identifying the beneficial owners of companies with complex and multi-jurisdictional structures is a major challenge, particularly those in geographies with low regulatory thresholds.

As regulations have become more restrictive it has been necessary to see more detailed and complex information. This information is often difficult to validate as it has been provided from another legal jurisdiction."

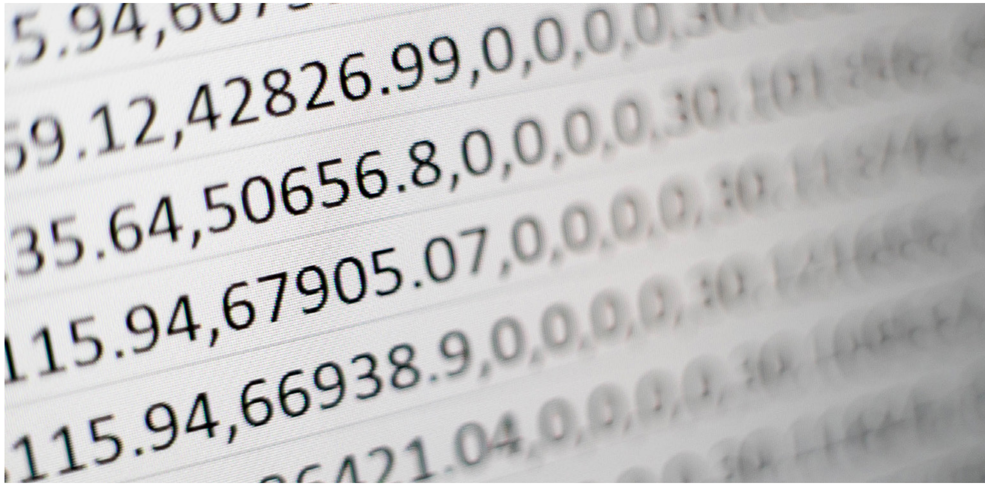
Alex Daly, chief finance and risk officer, Ask Inclusive Finance

"The changes in the regulatory landscape across GDPR, PSD2 and 4AMLD have necessitated the usage of KYB. Further, the business requirement to establish effective control and monitoring of KYB checks, evidence them, refresh them periodically and ensure there is a single source of truth are all considerations in the KYB environment.

Philip Reynolds, managing director, Newable

KYB processes can dramatically improve the efficacy of these checks through the addition of automated verification and analysis of information. The demand for effective KYB and identity verification is growing, and not just from a regulatory reporting standpoint. An ability to process the onboarding of business clients quickly and thoroughly is crucial in an industry where speed and ease-of-use it becoming a critical factor.

Many in the industry believe that regulatory compliance is a hinderance to future growth and development, a sap on resources. In fact, financial institutions have an opportunity to build their innovations on a foundation of secure and trustworthy processes. Effective KYB touches every aspect of the business and can be a bedrock for a successful firm moving into the new decade.



Technological Considerations

Traditional KYC process flows involve a series of sequential steps taken by an individual or a team of people. Sometimes hours of work can go into any of these manual processes. Clients can be onboarded and offboarded for a myriad of reasons, which can then be queried involving yet more manual processes.

These technology processes are designed for the basic operation of a bank: the facilitation of transactions. While this legacy technology performs admirably, the aftermath of the financial crisis and the resultant regulatory changes have laid bare their inability to deal with the waves of data needed to satisfy fresh demands from regulators.

The costs of traditional KYC can be staggeringly high at times. Major banks spend around $500 million every single year on traditional methods of KYC.[1] On average as many as 307 individuals work on KYC in banks.[2] While onboarding times for corporate clients can stretch into the weeks and in some cases months. The commercial and business banking industry has missed out on as much as $3.3 trillion in revenue due to abandoned or failed applications during onboarding .

"Banks have traditionally responded through a combination of electronic checks, using existing relationships with Credit Reference Bureaux and the use of taking copies of proof of ID and Address. These documents often need to be certified by an independent professional.

This process is slow, delays the customer journey and creates considerable customer friction. This leads to a perception that the bank does not want to offer the facility in question.

Alex Daly, Askif

"In newly deployed solutions, it is easier for automated checks to be integrated into the proposition from the first customer.

The challenge is upgrading older products and systems to the current requirements without having a negative impact on the customer's experience with the product. At the smaller end of the SME market, the usage of technology is a requirement for many lenders to be competitive.

Philip Reynolds, Newable

Dealing With Technological Challenges

Digital transformation affects every aspect of a bank's infrastructure. Attentions may focus on the retail banking front-end technology – mobile applications, internet interfaces, and everyday banking – but they must equally turn elsewhere. A stymying of the onboarding process for clients due to an inability to perform effective due diligence can be just as irritating as a glitchy mobile app.

Yet many banks in the commercial and business space feel left behind in the digital race. More than half feel that their inability to provide digital and modern processes is a major threat to their business.[3] While the industry may have moved on from the doomsaying threats that fintechs and challengers are ready to eat banks' lunches, many FIs feel they are endangering their business by lagging.

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[1] Opus, "The Future of KYC", 2019 https://www.opus.com/future-of-kyc/

[2] Refinitiv, "The Rising Challenge for Financial Institutions", 2017 https://www.refinitiv.com/content/dam/marketing/en_us/documents/reports/kyc-compliance-the-rising-challenge-for-financial-institutions-special-report.pdf

[3] Fenergo, "Banking SOS", 2019 https://www.fenergo.com/assets/files/industry-knowledge/Reports/Banking-SOS-Technology-Save-Commercial-Business-Banks-2019.pdf

"Some use cutting edge tools that can make the AML or KYC aspects appear frictionless. Many of the neo-banks meet these requirements in a matter of minutes which highlights how good technology can meet at times difficult regulatory obligations.

Matt Buchanan, head of compliance and MLRO, Checkout.com

The options technologically for institutions have diverged in triplex: buy, build, or partner. All but the largest of banks would consider the build option an ambitious target. Having to oversee a $500 million spend to keep the lights on while developing a new system is not for the faint of heart.

Acquisitions of emerging fintechs and the absorption of them into existing architecture is an attractive option in place of internal development but come with the added anchor of the purchase price and the integration of a new team into an existing cultural and technological environment.

Arguably the straightest path is through the development of services in line with chosen vendor partners, yet risk remain with the potential for lock-in, and a project becoming mired in project development purgatory, with neither side able to back out.

"The high street banks seem to be lagging behind the challenger banks, who are typically deploying the latest thinking. This will be a result of the complexity in the high street banks' technology stack, combined with the challenges of a difficult procurement process and management structures.

Alex Daly, Askif

Whatever choice is made, efficient KYB is at its core about the processing of data in a timely and efficient manner and turning that data into an actionable insight. Banks are facing a deluge of data, from core transactional patterns, payment screening, watch list filtering, and the monitoring market abuse. An ability to capture and analyse data in real time should be foundational for the implementation of a KYB system.

"Some banks respond by purchasing multiple technology solutions that meet immediate requirements. These quickly become difficult to update or require vendor professional services to bring it up to the standard that is required.

Many banks have started to transition to using innovative solutions. However, this is difficult due to the number of integrations across business units that can quickly (and expensively) delay projects.

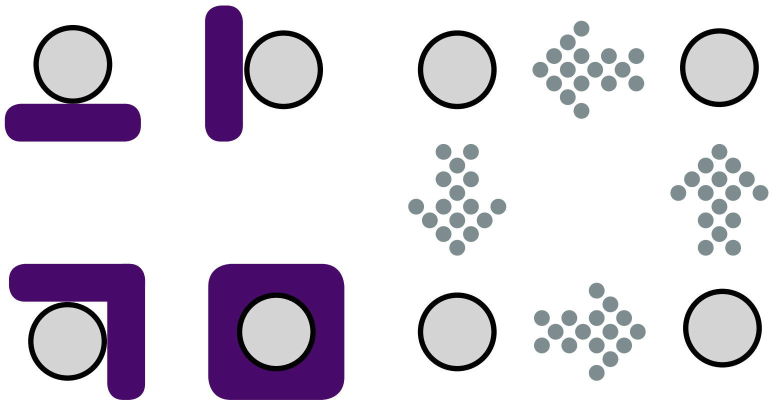
Matt Buchanan, Checkout.com

A Future-Proof Implementation

Digital transformation across any bank vertical comes with a certain fear of failure. Failure to keep up with the competition can be supplanted with fear of botched technology change. Impactful solutions can create CTO heroes, and failed implementations can cost jobs.

Thankfully, the financial technology space is experiencing an unprecedented period of innovation. The development and adoption of application program interfaces (APIs) has opened a new realm of possibilities for financial institutions for whom technology infrastructure was a matter of disparate siloes.

Siloed systems vs. API-enabled systems



This reliance on siloed datasets, spreadsheets and inefficient workflow chains risks derailing a firm's innovation momentum at a time in which integration with new systems to meet fresh requirements has become paramount.

The impact of the coronavirus has shaken the industry. It has fuelled an acceleration of changes that have bubbled under the surface for years. The need for digital-first solutions is front of mind across almost every aspect of the business. This is no exception when it comes to the monitoring of risk.

Retooling KYB as a platform for the future

The confluence of data and automation, and its development into real-time analysis for KYC, has become a nirvana many in the risk are trying to reach. In trying to reach it, there is no reason why a firm's KYB and KYC processes must remain locked away in the back office.

Cloud-native architecture fully takes advantage of the distributed, scalable, flexible nature of the public cloud to maximise focus on development, creating business value and keeping customers happy.

Connections between disparate systems can be maintained through API integrations. Data can be easily transferred from one system to the other without the conversion od spreadsheets or onerous hours of data entry from one field into another. Similarly, firms are able to draw data from multiple third-party resources via integrated feeds. This saves embarrassed analysts heading to search engines, at a time when 85% are resorting to Google for their research.[4]

[4] Arachnys, "The AML/KYC Data Report", 2020 https://info.arachnys.com/2020-survey-report

Machine learning systems are at the forefront of digital transformation in the industry. Almost 30% of all large financial institutions are in the early adoption stage of AI-driven solutions, with a further 40% assigning significant budget towards it.[5]

> “In recent years, it has been relatively easy to integrate with third party data providers via the cloud, which is now ubiquitous. The direction of travel is now towards big data analysis and I can see this progressing to AI and machine learning technologies, but we are not there yet.
>
> Alex Daly, Askif

Machine learning algorithms can trawl through reams of data to assign characteristics to vague identifiers like standard industrial classifications (SIC) to enable institutions to understand better who their dealing with. An online casino chain could be assigned “gambling”, “gaming”, or “e-commerce” to allow banks to quickly make decisions.

> “The combination of big data and machine learning is having the most impact on the industry at present. The amount of data at present, especially in payments, can provide insights on an almost daily basis. With this data, the capabilities of machine learning can bring about considerable benefits in resourcing and costs.
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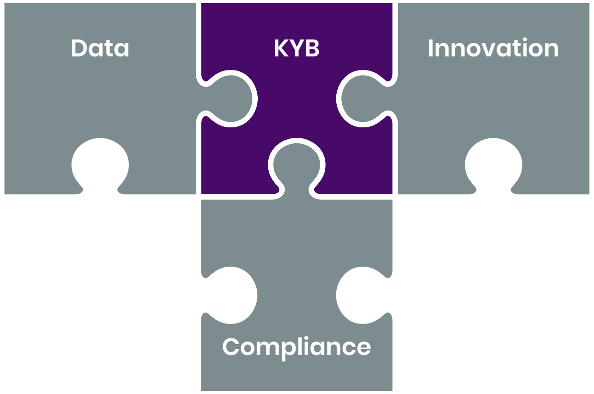
> Matt Buchanan, Checkout.com



Ultimately, a technology-first approach to KYB can act as a safeguard against a regulatory landscape that is evolving at a rapid pace. 2020 has perfectly demonstrated the need for financial institutions to have an effective and forward-thinking risk management strategy.

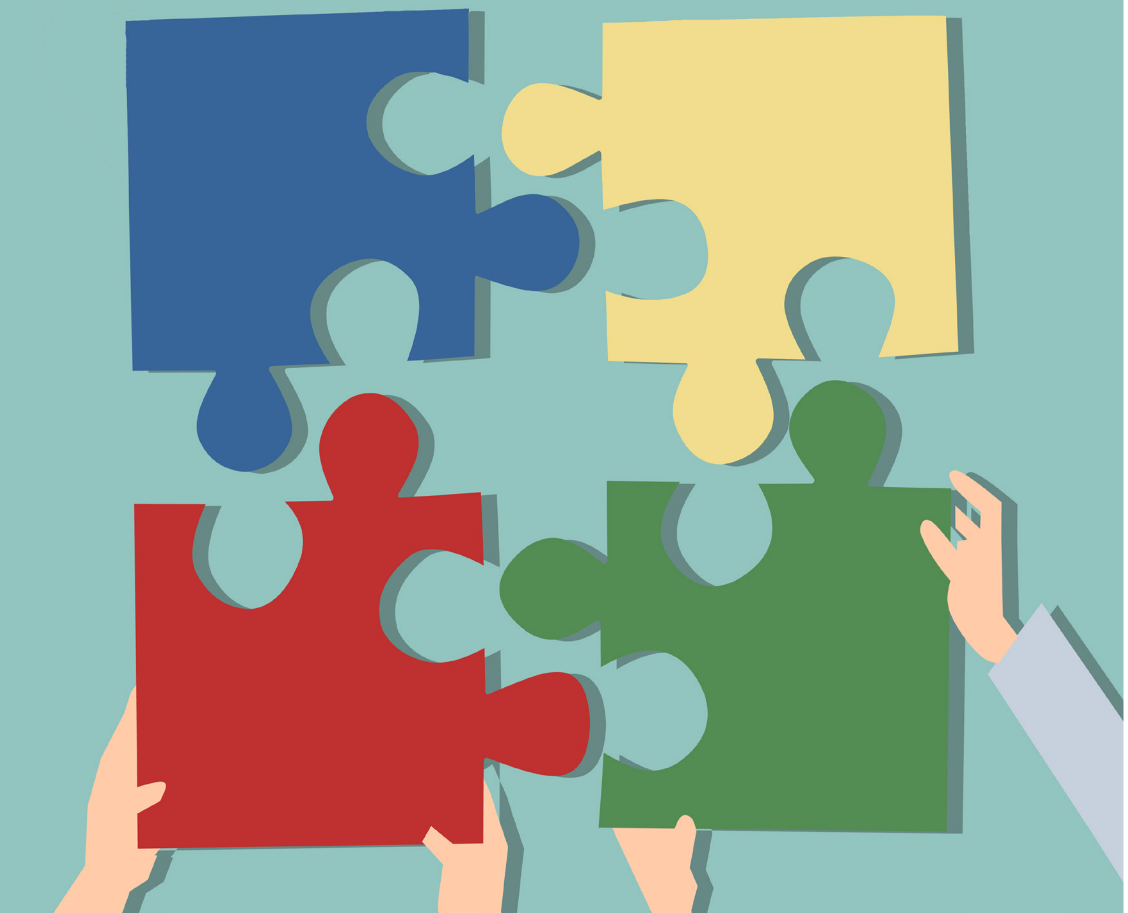
A KYB system will not just be able to counter current issues but also have enough capacity and flexibility to detecting and mitigate future problems before they arise. With more data available than ever, an effective KYB platform can enable information to be analysed faster and with less errors, leading to deeper and more effective risk decisions while simultaneously cutting costs.

The risk management function will continue to take a central role in the success of financial institutions in the coming years. As such, it is essential to retool it to be a focal point of the business. A technology-first KYB system can forge a continuous cycle of compliance and agility which both simplifies the full client lifecycle and serves as a bedrock of all future innovation.

[5] Compliance Week, “The Evolving Role of ML in Fighting Financial Crime”, 2020 https://www.complianceweek.com/surveys-and-benchmarking/survey-machine-learning-will-eventually-help-win-the-war-against-financial-crime/29400.article

The Role of KYB for Life in a Post-COVID Recovery

By Justin Fitzpatrick, CEO, DueDil



Financial services providers, whether incumbent or challenger, must confront a few major problems to digitally onboard their small business customers. The first is scarce or poor quality data on the business, causing many to shift that burden to the customer.

Making the customer responsible for providing information results in long delays at best, high drop off rates and missed revenue at worst. Without the ability to quickly and easily reference the information the customer provides against multiple authoritative sources it also increases the potential for misrepresentation or fraud.

The second major problem is getting an accurate view of what the business actually does. Standard Industry Classification (SIC) codes were created at a time when the economy looked very different.

As the economy transitions from a manufacturing to a services base and companies don't fit neatly into a well-defined box, the number of businesses that classify themselves

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Justin Fitzpatrick, CEO, DueDil

> "In a given day roughly 10,000 UK businesses will undergo some significant change. This is on top of the thousands of businesses incorporated every week. And these are only the changes where there is a reporting requirement.
>
> Justin Fitzpatrick, DueDil

as 'other' has increased. 'Other' can mean many things, each with vastly different risk profiles, making automated risk rating or underwriting a serious challenge.

Finally, financial services providers are required to comply with myriad regulations. These include being able to produce auditable evidence that they understand the entity they're onboarding and the people behind the business.

Understanding which customers are safe to onboard (and which to avoid) is becoming more difficult, precisely at the time customer expectations for fast, frictionless digital experiences are becoming the norm.

KYB is a Process Not an Event

Financial services providers must get better at KYB. There is too much cost, complexity and unnecessary risk introduced by the current systems and processes. Too many customers are left waiting for a decision after a long process, only to learn they can't access the products they need.

Financial services providers need to move from treating KYB as a box-ticking exercise to a process of always improving their knowledge about their customers and their needs.

The approach many financial services providers take to monitoring the risk of their customers is a case in point. The FCA's Financial Crime Guide requires that "A firm must conduct ongoing monitoring of its business relationships on a risk-sensitive basis."[1] Sounds sensible.

In practice, however, this means that customers are looked at on a preset schedule depending on their risk banding. Due to the large number of SME customers a financial services provider has it could be many months and some cases up to a year before the KYB and risk rating is updated. Like the drunk man searching for his keys under the lamppost, things rarely go off plan with a business exactly at the time and place you decide to examine it.

KYB for Life

In any B2B interaction your exposure to your counterparty is constantly changing. In some transactions this exposure is relatively small, easily understood and time limited. For others, as is the case with counterparty risk for many financial services providers, the exposure can be large, difficult to understand and last for months or years.

Moreover, it's not just the nature of these transactions that makes the challenge for financial services providers and insurers so much greater. The rate of change within SMEs compounds the difficulty of understanding a large and diverse customer base.

In a given day roughly 10,000 UK businesses will undergo some significant change.[2] This is on top of the thousands of businesses incorporated every week. And these are only the changes where there is a reporting requirement.

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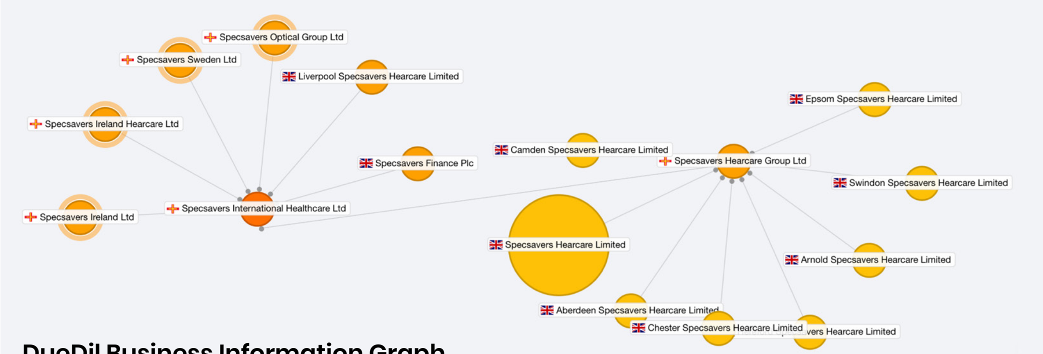
[1] FCG Financial Crime Guide: "A firm's guide to countering financial crime risks (FCG)" https://www.handbook.fca.org.uk/handbook/FCG/3/2.html

[2] DueDil Business Information Graph (B.I.G.)™



DueDil Business Information Graph

Changes to the financial or credit profile of the business happen even more frequently. Moreover, the rate of change tends to accelerate during times of stress or economic shock. Clearly the old way of doing things is being tested and it's not making the grade.

KYB ought to be viewed as an ongoing process with a related set of capabilities and the tools to support those capabilities.

First, financial services providers need to be able to quickly and accurately assess the risk of an SME so that both the financial services provider and the prospective customer know where they stand.

Second, the SME customer needs to be able to onboard via a seamless digital experience that fulfils the regulatory obligations of the financial services provider, but that can be completed in minutes rather than days by the SME with limited input of information.

Finally, the financial services provider needs to be able to continuously monitor their exposure to that small business customer. They must understand the risk of that business at any point in time without the need for expensive and time-intensive reporting requirements for the SME.

About DueDil

Founded in 2011, DueDil is a company intelligence platform that delivers insights on every UK and Irish company and the people behind them. DueDil provides a complete view of the UK and Irish market so the SME onboarding process is as robust as it is frictionless. All of this is available in a single "KYB for Life" platform that ensures compliant onboarding and proactive risk monitoring.

In March 2020, DueDil was named "RegTech Partner of the Year" for the second year running at the British Banking Awards in recognition for its work transforming the digital customer journey for tens of thousands of UK SMEs. DueDil has a number of well-known clients, including Santander, Metro Bank, Funding Options and TSB Bank.

Investors include Augmentum Fintech plc, Oak HC/FT and Notion Capital.

DueDil Website: https://www.duedil.com/

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About FinTech Futures

FinTech Futures is a digital publishing platform for the worldwide fintech community – from the industry veterans to those just entering the space, and everyone in-between!

We provide daily news, in-depth analysis and expert commentary across a comprehensive range of areas.

Our broad readership and solid reputation, combined with in-depth coverage across fintech on a worldwide scale, makes us the leading resource for technology buyers, sellers, developers, integrators and other specialists across the sector.

Our website attracts nearly one million monthly page views and our daily newsletter is delivered to over 42,000 key decision-makers in the financial services and technology sectors. The brand is active across the key B2B social media platforms, with over 40,000 followers on Twitter @FinTech_Futures and over 20,000 members in our LinkedIn groups.

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About the author:

Alex Hamilton is deputy editor at FinTech Futures. He has been reporting on the financial technology sector for more than five years across a variety of industry publications and has written extensively on digital transformation, cybersecurity, and enterprise technology. He holds a masters degree in ancient history from the University of Nottingham.

He can be contacted at: alex.hamilton@fintechfutures.com

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