

Share and share alike: Meeting compliance needs together with a KYC utility

*What should financial
institutions consider when
choosing a Know Your
Customer (KYC) utility?*



The heart of the matter

Maintaining the same business-as-usual environment to comply with Know Your Customer (KYC) requirements is no longer good enough. In response to regulatory requirements and the need to drive operational efficiencies, financial institutions are starting to take a closer, but cautious, look at several new utilities that focus on KYC processes. Let's explore the factors that financial institutions should consider when choosing a KYC utility.

Over the past five years, various global teams at PwC have been monitoring how the financial services industry could significantly benefit from a KYC shared-services-like center. We recommended the creation of a central unit—now referred to as a KYC utility—that generates efficiencies and improves quality by consolidating specific, noncompetitive processes, such as KYC, into a shared-services utility structure for multiple member institutions.

Now, a number of initiatives have come to market offering financial institutions the opportunity for greater industry collaboration and the ability to glean customer information related to such activities as onboarding. Financial institutions have several options to consider:

- Industry collaborations—a utility developed by a specialist venture in collaboration with partner financial institutions.
- Utility service providers—a utility or similar “KYC as a service” offered by a single provider.
- Jurisdictional utilities—a utility that is designed to undertake core due diligence on behalf of all regulated entities within a single regional jurisdiction, potentially mandated.

Many financial institutions see real benefit in engaging with one of the several KYC utilities, regardless of the type. As such, they've started strategic and tactical analysis regarding the use of these services.

In this whitepaper, we'll explore factors to consider when choosing a KYC utility. In future articles, we'll explore the ways in which financial institutions and their customers can engage with KYC utilities, the regulatory and information security considerations of using a KYC utility, and how financial institutions can best leverage the opportunities KYC utilities can provide. After all, if institutions “share and share alike” when it comes to KYC data, everyone wins.

What is a KYC utility?

A KYC utility is a central repository that stores the data and documents required to support a financial institution's KYC procedures. Once a customer's data has been entered into a utility, member financial institutions can access and leverage the information for their own individual KYC requirements.

An in-depth discussion

Our observations

The following factors have led to the emergence of KYC utilities in the financial services industry:

- Financial institutions face scrutiny by global regulators of anti-money laundering (AML) processes, systems, and controls. Resulting noncompliance fines have been significant, as have increases in operational costs for remediating problems and developing an improved business-as-usual environment to comply with KYC requirements.¹
- Individual regulators now accept KYC services provided by a utility.
- Individual financial institutions feel that using a KYC utility can align with the financial institution's risk appetite.
- Customers become frustrated when they're forced to complete the same onboarding paperwork multiple times.² Not only is this costly for individual banks, but they also miss out on the chance to gain competitive advantage. After all, information uncovered during the onboarding process is valuable.
- Technological developments make it easier to enhance gathering of underlying data, match data between multiple sources, and offer new verification techniques (such as biometrics).

KYC utilities: The value

With the financial services industry primarily operating independent processes to gather customer data, financial

institutions are incurring substantial costs. Duplication of effort across financial institutions creates numerous redundancies while financial institutions adopt inconsistent practices for KYC activities, constraining their operational effectiveness (see Figure 1 on next page).

When working with a KYC utility, financial institutions don't collect information on all customers. Rather, when a new account is opened, the institution checks to see whether data for that customer is already included in the shared KYC utility database. If the data for that customer already exists in the utility, the financial institution will ask the customer for permission to access the data. If it isn't, the KYC utility will capture and verify data for that customer, then store it for future use by all participants.

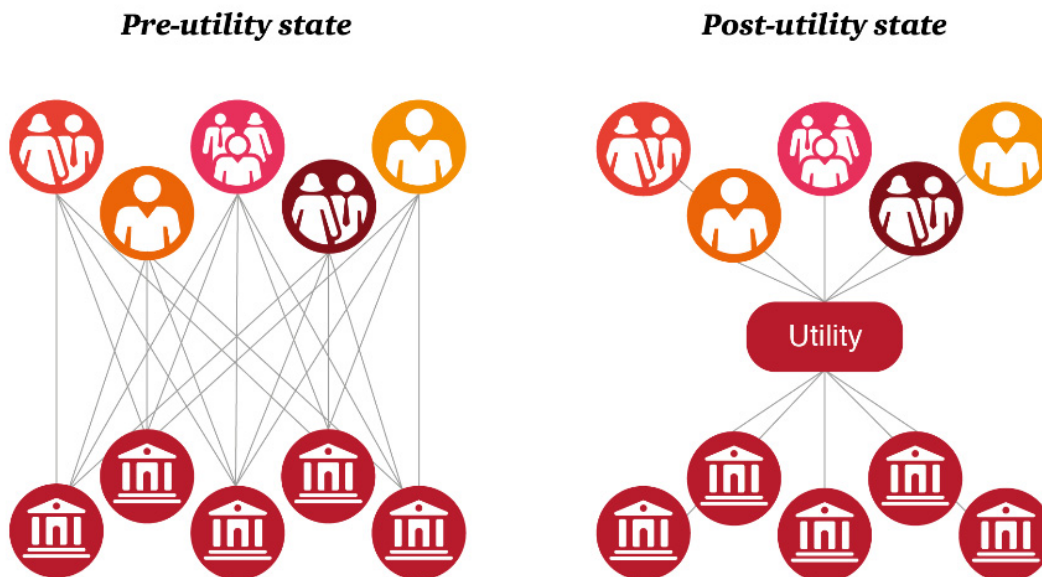
¹ For more information, see PwC's "Anti-Money Laundering: Know Your Customer Quick Reference

Guide," January 2015, www.pwc.com/AML.

² For more information on customer onboarding at financial institutions, see PwC's "All aboard: Delivering the onboarding

experience customers demand," August 2015, www.pwc.com/FSI.

Figure 1: Using a KYC utility helps eliminate duplicative KYC activities.



Current situation

- Significant process redundancy
- Long wait turnaround times for new client acceptance
- AML/KYC as one of many tasks
- AML/KYC spending as a 'cost'
- Frequent regulatory oversight
- Inconsistent AML/KYC standards
- Marginal AML/KYC effectiveness

Utility vision

- Economies of scale
- Rapid new client acceptance
- AML/KYC as core competency
- Significant reduction in regulatory visits
- Common AML/KYC standards
- Optimal AML/KYC effectiveness

By consolidating noncompetitive processes into a shared services structure performing work on behalf of participating financial institutions, a centralized KYC utility improves efficiency and enhances KYC quality. For example, the time needed for a financial institution to make a customer acceptance decision can be reduced significantly, which in turn can mean improved risk management and faster onboarding.

While utilities are currently offering only limited service covering the core elements of KYC, we anticipate that those services will be expanded over time to include more complex elements of enhanced due diligence and those that will help enable financial institutions to satisfy additional regulatory requirements.

Share and share alike:

Meeting compliance needs together with a KYC utility

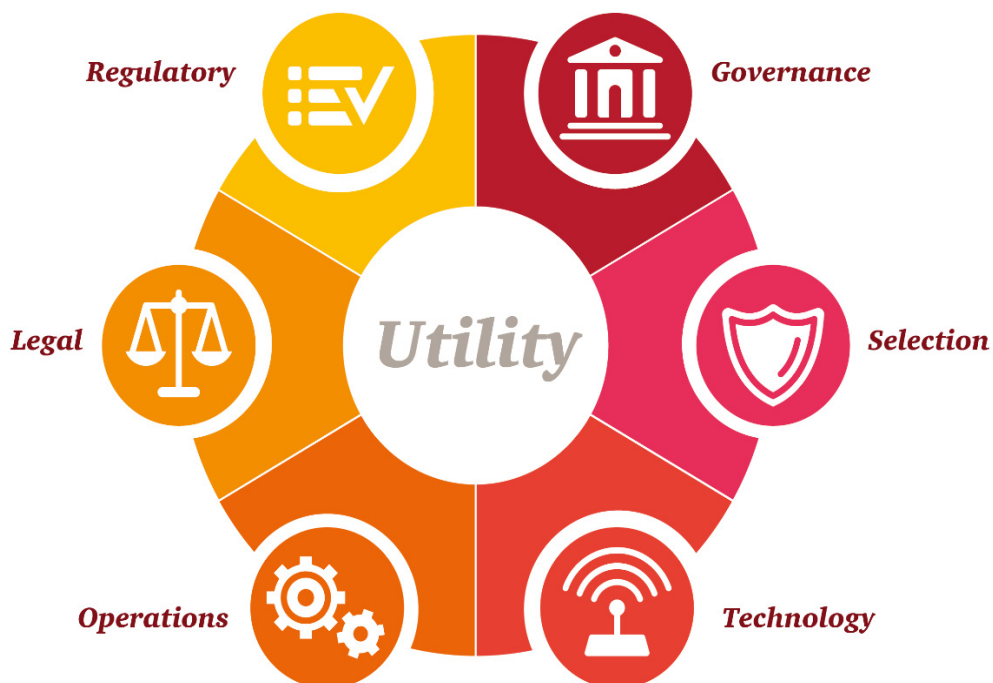
Our recommendations

As shown in Figure 2, we recommend that financial institutions consider the following before selecting a KYC utility:

- The **regulatory** impact.
- Any **legal** implications of using a KYC utility.
- How **operations** will need to change.
- The **governance** and engagement model.
- The **selection** of the most appropriate KYC utility or utilities.
- **Technology** integration.

We explore each of these considerations in this section.

Figure 2: What to consider before transitioning to a KYC utility



While KYC utilities gather customer information, financial institutions remain accountable for adequately and properly knowing their customers and making the final decisions regarding customer acceptance.

The regulatory impact

Although some regulators are still considering their views on the use of KYC utilities, it's clear that KYC utility services should not be seen as a replacement for a financial institution's own KYC procedures. While KYC utilities gather customer information, financial institutions remain accountable for adequately and properly knowing their customers and making the final decisions regarding customer acceptance. As a result, financial institutions may have to supplement the services of a KYC utility with their own additional requirements (including product due diligence) and then determine the suitability of the customer in accordance with their own risk appetite.

We recommend that financial institutions seek out KYC utilities that use consistent processes that are economically competitive, align with the policies and procedures of participating financial institutions, and can quickly adapt to meet evolving regulatory expectations.

Any legal implications of using a KYC utility

We recommend that financial institutions understand potential legal implications whenever they look to procure any contract with a third party. This way, all parties understand the implications of entering into a contractual relationship.

For example, a key area of concern for many financial institutions when it comes to the KYC utility service model is ensuring compliance with the differing data privacy requirements across the jurisdictions in which they operate. Local laws may, for example, prevent customer data from being stored outside the country, and the use of a KYC utility may constitute a breach of these requirements. In our experience, the challenge of meeting data privacy

requirements is one of the key challenges to successful integration with a KYC utility.

We recommend that financial institutions engage legal and data privacy experts from the start of the process. Additionally, having the legal department and data privacy experts thoroughly understand the scope of services is vital.

How operations will need to change

When planning an integration with a KYC utility, financial institutions should also think about operational considerations. Existing KYC procedures, systems, and capabilities should be modified or refined to make the most efficient use of a KYC utility's output and to enhance the financial institution's ability to realize cost savings.

In the short term, a utility's output should provide financial institutions with the data and documents needed to:

- Identify and verify the existence of the financial institution's customers.
- Identify and/or verify controllers and ultimate beneficial owners.

Depending on the utility's KYC policy and standards, the output might be sufficient to meet a financial institution's needs with respect to its core due diligence requirements. However, the financial institution might receive slightly less or slightly more information than required, which may result in changes to existing

operating procedures. The range of services offered by a KYC utility is also likely to expand over time. Financial institutions should also consider how new products might be integrated within the existing service model.

For some financial institutions and their customers, the level of procedural and organizational change required in the short term may delay the realization of benefits.

The governance and engagement structure

We recommend that financial institutions implement governance to confirm that the quality of information provided by the utility is maintained at a satisfactory level. The ideal governance model will vary depending on the needs of the financial institution and its level of integration with a utility, but, at the very least, key stakeholders (such as compliance, operations, legal, data privacy, technology, and human resources) from across the institution should be engaged in the governance process.

We also recommend that financial institutions monitor the performance of the utility. This can be achieved by establishing an ongoing performance management function to help executives determine when and how they can decommission or redeploy existing resources and technology to help fully realize cost savings.

The selection of the most appropriate KYC utility or utilities

When considering utility adoption, financial institutions should carefully consider what benefits they're looking to realize and confirm that the utility's design and service offerings meet those needs, align with their risk appetite, mirror their global footprint and client base, and support the products and services the financial institution offers.

For example, some utilities have been designed around specific market segments, such as correspondent banking. This type of deep service offering could be used in tandem with other, broader utility offerings to provide a financial institution with the most thorough coverage of its requirements.

Some financial institutions may also wish to consider the strategic benefits of working with a KYC utility by considering how the arrangement may influence future product offerings.

Technology integration

One of the biggest opportunities for potential cost savings when becoming a member of a KYC utility is the integration and rationalization of existing technology, from workflow tools to the use of third party data sources and screening applications.

Data security is also a clear priority for financial institutions and their customers. This is especially crucial because a repository that holds a large amount of sensitive data can be a potential target for criminals, nation state-sponsored attacks, "hacktivism," or organized crime. Financial institutions should look to connect with a KYC utility that has a robust security framework and incident response plan. The plan should outline steps to mitigate the risks and potential impacts of an attack and require that utilities implement access and other physical security controls to confirm that any personally identifiable information related to customers is safeguarded.

Case study: Selecting a KYC utility

A global financial institution wanted to explore whether a KYC utility could help with its KYC processes. The client hoped to reduce the number of customer touchpoints during the onboarding process in order to improve the customer experience, especially for customers with multiple banking relationships with the institution. The client also wanted to achieve operational efficiencies and reduce costs, but needed to make sure that its internal processes and systems could manage the expected output from the utility and that the bank's internal requirements could be met by the utility.

PwC helped the financial institution:

- Design an approach to benchmarking various KYC utility service providers against its specific requirements and develop success criteria for the implementation.
- Establish a pilot of the services offered by the utilities prior to full implementation by developing operating procedures, process flows, and roles and responsibilities.
- Confirm the existence of a robust governance model to internally manage the use of and engagement with various KYC utilities. This was significant as the client looks to transition to full implementation of the services offered by a KYC utility.

Through the piloting of the services offered by the various utilities, the global financial institution was able to select a KYC utility service provider.

What this means for your business

In an environment in which financial institutions need an agile, cost-effective KYC service model, KYC utilities provide a viable solution. Using a KYC utility to perform some of the KYC processes enables financial institutions to get back to business, which is about knowing—and thus, being able to sell to—their customers.

The use of a KYC utility also offers the opportunity for additional business benefits to financial institutions and their customers:

- The **potential cost efficiencies** gained through centralization of onboarding processes.
- Improved **customer experience** by reducing the number of touchpoints and onboarding time.
- Earlier **revenue recognition** for financial institutions through a reduction in the time required to make customer acceptance decisions.
- Increased **standardization of KYC quality and compliance** across the industry.

Although there can be many benefits, the financial services industry will need to commit to long-term participation to enable KYC utilities to become a market-changing success. When financial institutions “share and share alike,” this continued industry collaboration and investment will help deliver a solution that has the long-term potential to deliver industry-wide efficiency. And, financial institutions, regulators, and law enforcement will be equipped with the information they need to prevent and detect financial crime—all while delivering the potential to enhance the customer experience and drive future business.

For a deeper conversation, please contact:

Michael Savelloni

+1 (646) 471 6444

michael.b.savelloni@pwc.com

<https://www.linkedin.com/in/michael-savelloni-3182395>

Richard Major

+44 (0) 20 7212 6279

richard.john.major@uk.pwc.com

<https://uk.linkedin.com/in/richard-major-436a355>

Jeff Lavine

+1 (703) 918-1379

jeff.lavine@pwc.com

<https://www.linkedin.com/in/jeff-lavine-9437a4a>

Damian Kalinowski

+48 519 507 197

damian.kalinowski@pl.pwc.com

<https://pl.linkedin.com/in/damiankalinowski>

Mark Highton

+1 (203) 539-4267

mark.j.highton@pwc.com

<https://www.linkedin.com/in/mark-highton-971577>

Kathryn Westmore

+44 (0) 20 7213 2941

kathryn.m.westmore@uk.pwc.com

<https://uk.linkedin.com/in/kathrynwestmore>

About us

PwC's people come together with one purpose: to build trust in society and solve important problems.

PwC serves multinational financial institutions across banking and capital markets, insurance, asset management, hedge funds, private equity, payments, and financial technology. As a result, PwC has the extensive experience needed to advise on the portfolio of business issues that affect the industry, and we apply that knowledge to our clients' individual circumstances. We help address business issues from client impact to product design, and from go-to-market strategy to human capital, across all dimensions of the organization.

PwC US helps organizations and individuals create the value they're looking for. We're a member of the PwC network of firms in 157 countries with more than 195,000 people who are committed to delivering quality in assurance, tax, and advisory services. Find out more and tell us what matters to you by visiting us at www.pwc.com/US.

Gain customized access to our insights by downloading our thought leadership app: PwC's 365™ Advancing business thinking every day.

*A publication of PwC's
Financial Services Institute*

Marie Carr
Principal

Cathryn Marsh
FSI Leader

Kristen Grigorescu
Senior Manager

Gregory Filce
Senior Manager

Follow us on Twitter @PwC_US_FinSrvcs

"Share and share alike: Meeting compliance needs together with a KYC utility," PwC, December 2015, www.pwc.com/fsi.

© 2015 PwC. All rights reserved. PwC refers to the US member firm or one of its subsidiaries or affiliates, and may sometimes refer to the PwC network. Each member firm is a separate legal entity. Please see www.pwc.com/structure for further details. This content is for general information purposes only, and should not be used as a substitute for consultation with professional advisors.