Infopaper

Achieving standardisation in KYC compliance

Standardisation brings efficiency gains in compliance processes

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The complexity and cost of know your customer (KYC) compliance is massive, and constantly growing. Regulation differs across jurisdictions and the rules themselves are often open to interpretation. To address these challenges, SWIFT and other industry players support a more standardised approach to KYC compliance. Initiatives such as SWIFT's KYC Registry – with over 4,000 member banks signing up in less than three years – are already making significant strides in this area.

Keeping costs under control

Regulatory penalties for failures in compliance affect not only financial institutions, but also their Heads of Compliance, who may be held personally liable for any failings. At the same time, these fines are growing steadily. For compliance leaders, it's therefore more important than ever to mitigate the risk of regulatory penalties, while also reducing the cost of compliance.

Achieving this requires both effective systems and high quality data. If systems are to work effectively, the information they handle needs to be accurate and complete. And standardised information makes it easier for systems to speak to each other, giving compliance officers a clearer understanding of how technology across the organisation can help them address their current challenges.

Growing complexity

KYC has been the focus of numerous regulatory developments in recent years. In the US, the Financial Crimes Enforcement Network (FinCEN) has published regulations positioning risk-based Customer Due Diligence (CDD)/KYC programmes as the fifth pillar of an anti-money laundering (AML) programme. When commercial customers open new accounts, financial institutions must identify and verify the identity of any individual Ultimate Beneficial Owner (UBO) who owns 25% or more of the company opening the account. Banks must also understand the nature and purpose of customer relationships in order to develop customer risk profiles, and conduct ongoing monitoring in order to identify suspicious transactions and maintain customer information.

In Europe, meanwhile, the Fourth EU Anti-Money Laundering Directive (AMLD4) has reduced the threshold for Ultimate Beneficial Ownership (UBO) from 25% to 10%. The directive also introduces transaction monitoring requirements and incorporates Funds Transfer Regulation 2015 (EU FTR 2015), which aligns EU law with FATF Recommendation 16 guidelines for originator and beneficiary information in payment messages.

Challenges to overcome

With the growing need for greater transparency across correspondent banking activities, a more standardised approach to KYC processes is long overdue.

Current challenges include:

- **Inconsistent regulatory requirements.** A lack of a global consensus between regulators on what constitutes acceptable KYC compliance complicates the process for institutions operating in multiple jurisdictions.
- **Rules should encourage harmonisation instead of fragmentation.** KYC regulations tend to state that banks should make every reasonable effort to gain a sound understanding about their clients' activities, businesses and payments behaviour, without necessarily indicating how this can be achieved in practice. Banks often interpret the rules differently, with some choosing to apply a more stringent approach than others.
- **Differing internal policies.** Disagreements about how much data is actually needed for KYC compliance are common. Compliance teams focus on protecting an organisation by asking for all information that could possibly be relevant, whereas client-facing relationship managers may be reluctant to ask questions that seem superfluous.
- **The need for future-proofing.** It's one thing being compliant with the rules today, but what about tomorrow? Banks need to future-proof their KYC processes to avoid breaches further down the line.

Due to diverse regulatory demands and the overall risk appetite of individual institutions, banks want to streamline and standardise KYC processes wherever possible to reduce the administrative burden, contain costs and mitigate risk.

Achieving standardisation in KYC compliance

The KYC Registry

Created by SWIFT, The KYC Registry is a global repository of up-to-date due diligence documents and data which helps correspondent banks and funds players manage compliance KYC and AML rules across multiple jurisdictions. It provides a single, central source of KYC information, which SWIFT validates and checks for completeness and accuracy. Banks upload a standardised set of KYC data and documents – the baseline – and share it with chosen counterparties. Information is supplied in an agreed format and is readily comparable.

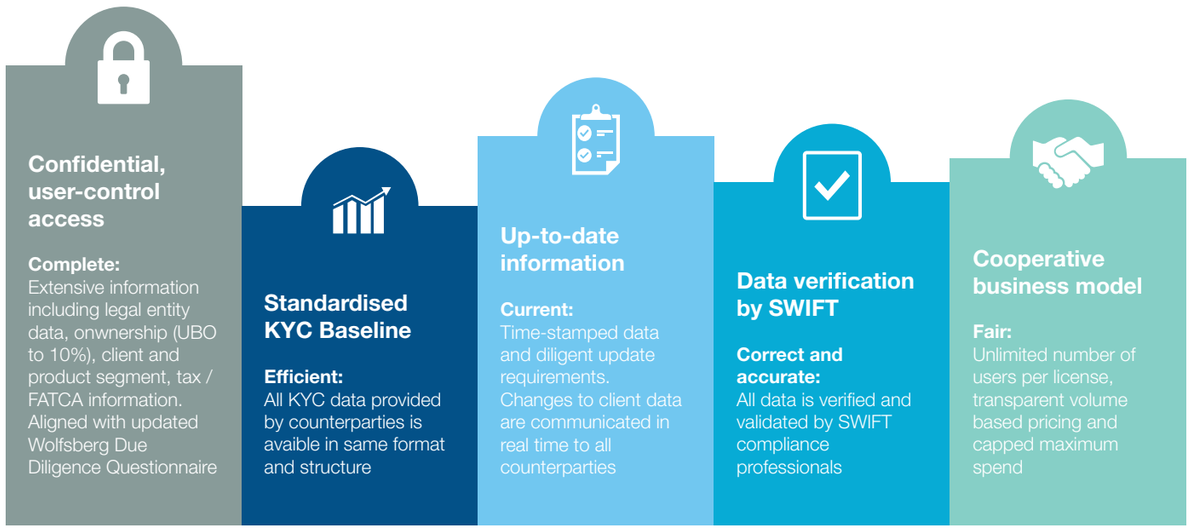
The path to standardisation

Simply sharing information is not enough to achieve true KYC standardisation. Consistency in terms of the information structure and format is also essential. And The KYC Registry meets these criteria, providing users with standardised, comparable information from their correspondents in an agreed format.

KYC baseline

Developed in collaboration with leading correspondent banks from around the world, the baseline covers:

1. Customer identification (regulatory statutes, contact details, regulator, proof of existence)
2. Ownership and management structure (key controllers, ownership, shareholders, UBOs)
3. Type of business and client base (business scope, products and services offered, geographical presence and reach, industry focus)
4. Compliance information (policies and procedures, compliance contact information)
5. Tax information (tax identifiers, FATCA information)



The KYC Registry – The 5 Pillars of Trust

Extending the baseline

SWIFT continues to evolve the Registry's standardised content in close cooperation with customers, led by the members of its KYC Registry User Group.

As regulators require even more information and greater levels of detail, banks are responding by adjusting their KYC policies and requesting higher volumes of data from their counterparties. In order to accommodate this, SWIFT has extended its 'baseline' set of KYC data and documentation, increasing the number of data points and document types on the Registry from 150 to around 400.

The extended baseline is expected to cover up to 95% of banks' current KYC requirements. This exponential increase in information will allow banks to carry out enhanced due diligence (EDD) on specific correspondents. Banks will be able to choose on a case-by-case basis how much information to provide to their counterparties.

That said, it is important to remember that not everything can be standardised. No matter how comprehensive the baseline, regulators expect banks to verify certain information through site visits and other forms of personal interaction. However, the ability for banks to download the overwhelming majority of documents and data points they need at the click of a button will free up time for additional customer contact and risk analysis.

An integrated approach

Standardisation also comprises a move toward integrating internal compliance data and processes across different business lines, rather than having different teams focusing on sanctions, AML and KYC processes – as is often the case. Efficiency gains can be achieved by adopting a more holistic approach internally.

Operational efficiency

Banks can use SWIFT's suite of KYC, Analytics/AML and sanctions products and services to manage risk effectively. From KYC Adverse Media to Payments Data Quality, we can help you integrate your compliance and operational processes and achieve greater efficiency.

- **KYC Adverse Media:** Monitor negative news coverage relating to banks around the world and access the Dow Jones Risk & Compliance database of articles about financial institutions, as well as official statements by regulators and authorities. Available to KYC Registry users.
- **SWIFT Traffic Profile:** Understand direct and indirect exposures to high-risk or sanctioned territories across your global correspondent network. Available to KYC Registry users.
- **Payments Data Quality:** Achieve compliance with originator and beneficiary information requirements set for FATF Recommendation 16, EU FTR 2015, the US 'Travel Rule' and similar regulations.
- **Compliance Analytics:** Get a global view of branch and correspondent activity across all your group entities, allowing you to review your correspondents' risk ratings and assess your own KYC activities for higher-risk clients.
- **Name Screening:** Screen customer and UBO names against sanctions, Politically Exposed Persons (PEP) and private lists, improving your sanctions compliance and customer due diligence.

Better integration between internal processes has many payoffs. For example, you could identify a correspondent on The KYC Registry and use Name Screening to find out whether any of the correspondent's UBOs are politically exposed.

Once you have put the appropriate risk management processes in place, you can use the Relationship Management Application (RMA) and RMA+ to control the types of transactions that you conduct with that correspondent.

You can then use additional compliance tools, such as Sanctions Screening and Compliance Analytics, to check that transactions with the correspondent are compliant and in line with expectations.

Achieving standardisation in KYC compliance

A community effort

There is much to be gained by adopting a collaborative approach in the fight against financial crime, and The KYC Registry brings banks together to share data collectively.

In many smaller countries, factors such as limited access to trade finance and the closure of correspondent banking relationships have prompted central banks to amend local regulatory standards to enhance transparency. Many central banks have encouraged their members to join The KYC Registry so they can share data, information and documentation across the banking community.

Trade associations and lobby groups also play an important role in driving standardisation. The Wolfsberg Group is driving standardisation across the industry and is currently revising its Due Diligence Questionnaire for Correspondent Banks. SWIFT is implementing this questionnaire in its entirety as part of the Registry's baseline, further supporting standardisation and industry best practice development.

The combination of regulatory uncertainty and criminals' ever-expanding arsenal makes financial institutions of all sizes vulnerable to illicit activity. But, as an industry, we can fight back by adopting a proactive approach that prioritises building an appropriate internal culture, implementing adequate defences and collaborating with the wider industry and regulators to drive standardisation.

For Heads of Compliance, this means that compliance costs can be contained and the risk of fines and reputational damage can be mitigated – no small consideration when you may be held personally liable for any compliance failings.

What is KYC standardisation?

The industry is demanding greater standardisation in KYC compliance – but what does this mean in practice? And how can you, as Head of Compliance, benefit from more standardised data and processes? KYC standardisation has two distinct components:

- **Standardisation of input:** Standardisation is needed in the KYC data and documentation being sent and received by banks.
- **Standardisation of process:** This, in turn, can promote standardisation in terms of how banks use the information they receive, allowing them to align their processes at an industry level.

Initiatives that aim to achieve KYC standardisation cannot be undertaken in isolation. That's why SWIFT is working to build standards with the industry, rather than just for the industry. We are working with industry groups such as the Wolfsberg Group and The KYC Registry User Group to understand – and address – KYC challenges at an industry level.

As a result of this collaboration, The KYC Registry continues to evolve and add more value. For example, the Registry's KYC dataset or 'baseline' has been aligned with the updated Wolfsberg Due Diligence Questionnaire (DDQ). Registry users can now answer every question in the Wolfsberg DDQ directly on the platform, driving further efficiency in KYC and AML compliance.

For more information
visit www.swift.com/complianceservices
or contact your account manager

About SWIFT

SWIFT is a global member-owned cooperative and the world's leading provider of secure financial messaging services.

We provide our community with a platform for messaging, standards for communicating and we offer products and services to facilitate access and integration; identification, analysis and financial crime compliance.

Our messaging platform, products and services connect more than 11,000 banking and securities organisations, market infrastructures and corporate customers in more than 200 countries and territories, enabling them to communicate securely and exchange standardised financial messages in a reliable way. As their trusted provider, we facilitate global and local financial flows, support trade and commerce all around the world; we relentlessly pursue operational excellence and continually seek ways to lower costs, reduce risks and eliminate operational inefficiencies.

Headquartered in Belgium, SWIFT's international governance and oversight reinforces the neutral, global character of its cooperative structure. SWIFT's global office network ensures an active presence in all the major financial centres.

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57322 - September 2017