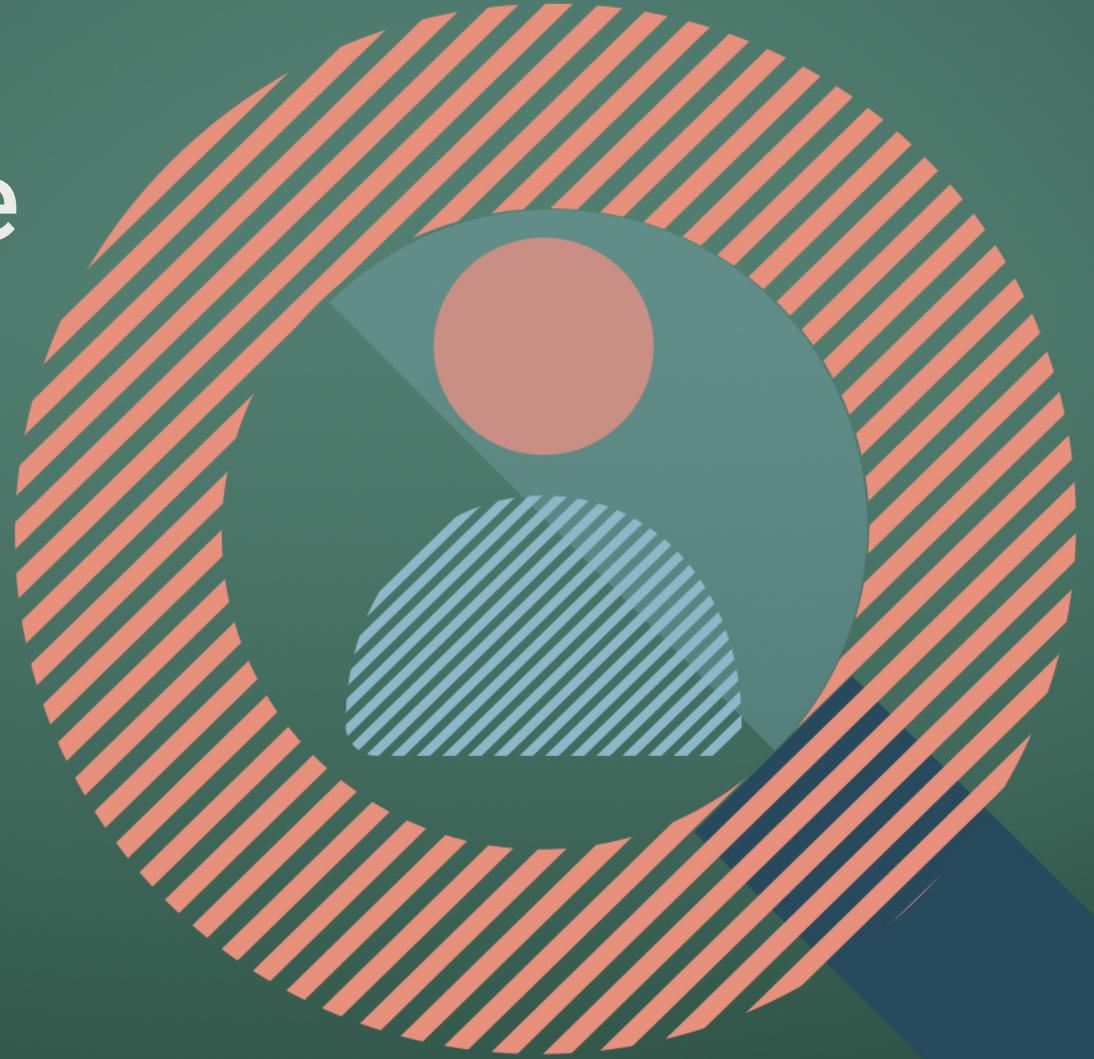


Using KYC to deliver competitive differentiation

Revealing why KYC is no longer just a regulatory requirement but a matter of competitive survival



#KYC

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Introduction

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From regulation to differentiation, the customer must still be at the heart of the KYC journey

Regulatory compliance is fundamental to an effective KYC operation, but it is only the start. As brands undergo rapid and necessary digital transformation in response to COVID-19, the importance of the experience created during the KYC process must not be overlooked.

In fact, KYC processes are increasingly viewed as competitive differentiators, for both clients and consumers alike across multiple industries. KYC can be flexed to provide differentiation linked to an organisation's broader strategy, whether that is delivering a seamless journey for customers, rapid response times or reduced cost.

As digital and customer-friendly platforms mature, in both retail and B2B environments, customer expectations for this process have been raised whilst organisations have been able to drive down processing costs.

What is KYC and why does it matter now, more than ever?

The process of knowing your customer, commonly shortened to KYC, describes the actions that organisations undertake to verify the identity of their customers. This usually takes place at the start of doing business together, or during an engagement. It is increasingly common for banking institutions, credit companies, insurance providers and other organisations to screen customers, by requesting detailed information in order to ensure that they are not involved with practices like fraud or money laundering. The term KYC can also refer to regulated practices that are similarly used to verify client identities.

The global pandemic has driven many formerly on-site processes online, making comprehensive proof of identity increasingly a remote activity. In this new climate, businesses must ensure that they are using the most robust and comprehensive processes possible.

“Traditionally seen as a necessary regulatory requirement, KYC processes are increasingly seen as competitive differentiators”

Key facts

- In the UK, 25% of applications are abandoned due to KYC friction
- Manual KYC checks cost the average bank £47 million per year*

*A typical UK bank will waste £10m annually on inefficient KYC checks as AMLD4 regulation comes into force', Globe Newswire 2017

Heightened public awareness of the role some of society's most trusted institutions have played in money laundering, terrorism funding and tax evasion has led to increased pressure to implement 'gold standard' KYC and anti-money laundering controls for many businesses.

However, in reality, these 'gold standard' controls consist of teams of hundreds, if not thousands, of operators working on largely manual processes around the globe, whilst insight and action get lost in management bureaucracy and strategic indecision.

As a result, organisations inadvertently disregard the spirit behind KYC and customer experience is inhibited by stringent requirements and out-dated methods, covering identity and source of funds verification.

Requirements for customers to register bank accounts face-to-face or provide physical proof of identity contribute to inefficient back-office operations, and also frustrate customers who have become familiar with rapid service in online businesses.

Customer experience is inhibited by stringent requirements and out-dated methods, covering identity and source of funds verification

Common fraud scenarios

- **Business identity theft:** Fraudsters opening fake business accounts under the names of legitimate companies.
- **Phishing:** Hackers impersonating a trusted vendor to convince customers to authorise payment or to enter into a fake transaction.
- **Shell companies:** Firms purposefully setting up with the objective of committing fraud or to launder money.
- **Voicemail message scams:** Business fraud through utilising voicemail that is delivered via e-mail. While at first glance the e-mail appears to be official, it normally has malware attached to it.
- **Invoice fraud:** From completely fake to inflated invoices, companies can face a myriad of invoicing fraud schemes.

Automation and outsourcing solutions

The average UK bank wastes £5m each year on inefficient KYC processes. There is also a huge variation in cost of KYC processing, ranging from £10 to £100 per check.*

The prospect of increasing regulatory attention on small to medium sized financial service organisations, and the related cost increases, is daunting. Implementing this in other industries with a greater degree of fragmentation or tighter operating margins, such as Art and Antiquities, Telecoms and Legal Services, is even more difficult and costly.

However, just as many organisations outsource employee on-boarding background checks as standard, the growth of KYC as a service has meant that businesses don't have to manage and maintain internal KYC teams.

*A typical UK bank will waste £10m annually on inefficient KYC checks as AMLD4 regulation comes into force', Globe Newswire 2017

This will be accelerated by advancing technology: up to 70% of KYC processing, particularly ID verification and fraud detection, can be automated.

The remaining 30% of manual oversight can easily be provided by a third-party outsourcer, such as the Webhelp Group, allowing economies of scale and a reduction in operational complexity.

Organisations need to re-set their thinking and accept KYC as an opportunity, not a burden. Embracing specialist outsourcers and increasing the use of digital platforms will enable increased automation, reduced complexity and improved customer journeys.

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Using KYC to deliver competitive differentiation

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Fast facts about KYC

The UK has been awarded the highest ranking globally for AML and counter-terrorist financing (CTF) measures by FATF.*

COVID-19 has created pressure on businesses to cut cost and improve profitability, but increasing fraud cases are likely to occur.

The highest number of annual Suspicious Activity Reports across all European countries, is found in the UK.**

60% of banks and financial institutions have struggled to find people with compliance expertise or staff with the right skills.***

*FATF Report 2019

**Suspicious Activity Reports: Annual Report, UK NCA FIU 2019

***Compliance and Financial Crime Market Report 2019: A Time of Transition, BarclaySimpson.com 2019

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From platform to police

Financial services is not the only industry where regulators have been under increasing pressure. Gaming, online platforms, marketplaces and high-tech firms have increasingly been the focus of new regulation and scrutiny.

Since the 2008 recession and the rapid growth of social media, regulators have turned their focus to tax avoidance and the power of dis-information campaigns. Large, market dominant platforms that have traditionally shown little responsibility for policing their users have found themselves in the public eye and under-pressure to reform quickly.

Lean operating models, fiercely competitive industries and highly-digitised customer journeys have allowed platform businesses to adapt quickly to changing regulatory and customer requirements.

The growth of e-KYC

Retail banking, in particular fintech, is leading the way. Challenger banks, such as Monzo, have taken modern retail's core tenets of customer centricity and digital enablement and applied them to retail banking.

In 2018, Monzo increased its customer base by 75%, at one point signing up an average of 20,000 customers per week. Slick customer journeys that verify user identity in minutes with immediate access to bank accounts are a stark contrast to face-to-face verification in branches and manual processing of documents.

Slick customer journeys that verify user identity in minutes with immediate access to bank accounts are a stark contrast to face-to-face verification

Managing addiction in gaming

The gaming industry has long been subject to stringent regulatory requirements. Historically, casinos have been a prime method for laundering money. As gaming has increasingly moved online, governments have required tighter identity checks, not only to reduce opportunities for account abuse and money laundering, but also to manage addiction.

As gaming has increasingly moved online, governments have required tighter identity checks

Lessons we can learn from digital industries

Continued

The balance between regulation & customer service

The growth in sharing economy platforms such as Airbnb and Bla Bla Car have allowed thousands of individuals in the UK to take part in a historic surge in self-employed income (from 3.3 million self-employed in 2001 to 4.8 million in 2017), whether as sole enterprises or additional income alongside salaried employment.*

Airbnb declared in October 2020 that it would begin providing the UK's HMRC with this information. And, whilst it cooperates in providing information to local authorities, it also supports users in understanding tax requirements and offers access to a discounted accounting subscription.

This balance between regulatory requirements and customer service is also seen in the Airbnb digital KYC on-boarding process. Identity and account verification occurs through the app and it is equally important to verify guest identities as well as property owners.

A seamless customer journey and the clear advantages to reciprocal verification makes the process a differentiator.

Using KYC to deliver competitive differentiation

Controlling anti-social media

Social media has come under fire in recent years for not policing content. The ease for users to establish fake accounts and spread dis-information is well-known and has been the focus of much attention by law makers across the globe, particularly after the role social media played in the Brexit Referendum and US election in 2016.

There are an estimated c.48million bots on Twitter** and c.66million fake accounts on Facebook***. It has been suggested that many of these are controlled by hostile states or political interest groups. There has been a huge amount of effort to fact-check articles and verify content. So far, efforts at introducing KYC have been limited, largely due to a desire to simplify on-boarding processes for legitimate users.

*Going Solo: The rise of self-employment' BBC News 2018

**'Online Human-Bot Interactions: Detection, Estimation, and characterisation' University of Southern California and Indiana 2017

***'Facebook Revealed it Removed 583 million Fake accounts', Digitaltrends.com 2018

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Two focus areas for KYC

The KYC landscape is changing. It is becoming more viable and cost-effective for companies to use external services to combine automation with human expertise.

As the financial services industry strives to emulate the smooth service that digital start-ups have demonstrated, they will feel the pressure to improve customer experience across KYC interactions.

1 Technology: When correctly applied to KYC processes, technology will be key to accelerating activation, enhancing customer experience and decreasing fraud.

2 People: Automation used in parallel with expert operational teams will provide critical differentiation, value-added analysis and enhanced customer interactions.



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Improving your KYC

Gobeyond Partners work with clients to transform their KYC offering, designing bespoke solutions for individual client needs. With over 20 years' experience in the financial services sector, they provide transformation consulting and design KYC-ready operating models. This enables clients to manage their KYC in-house, improve existing processes, introduce digital, or build a new function from the ground up.

As part of the **Webhelp Group** they can introduce expertise in delivering KYC as a service. Webhelp offer either a pure outsourcing model or a hybrid in-house KYC technology platform with outsourced specialist KYC and KYB processing teams.

About the authors

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A leader in organisational, cultural, regulatory and digital transformation in financial services across three continents.

Virginie combines an ability to think strategically with a strong delivery track record. She is able to understand different perspectives quickly and to simplify the complex, engaging stakeholders at all levels of an organisation to get things done.

With a collaborative style, a pragmatic approach and high levels of energy she takes pride in enabling teams to implement innovative customer-centric change.



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Ali has spent the last 15 years designing and delivering transformations across the UK, Europe, the US & Asia.

He has operated in a number of different sectors from manufacturing to retail and travel, and has focused the most recent part of his career on financial services.

He adopts a pragmatic approach to change, involving teams, focusing on outcomes and driving a sustainable benefit. He sees skills transfer as a key success criteria of any transformation.

About Gobeyond Partners

gobeyondpartners.com

Gobeyond Partners is a new type of consulting firm that partners with its clients to solve complex customer journey challenges. By combining deep sector expertise with an award-winning approach to client service and value, Gobeyond Partners brings its clients' transformation vision to life.

Part of the Webhelp Group, the team at Gobeyond Partners operates globally - understanding what it takes to transform organisations in the face of changing customer behaviours, cost pressures, and legacy systems.

The firm's unique customer journey view is broad and deep, helping clients break down organisational silos and deliver a fully connected omnichannel customer experience.

