

KYC during Lockdown and beyond

Enhancing Banks' Ability to Automate KYC

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This insights paper was prepared by the Risk & Compliance practice at Evalueserve. For a detailed analysis on how the Covid-19 crisis can impact your anti-financial crime operations and your immediate opportunities to enhance them during the lockdown and beyond, please contact us at KYCSolutions@evalueserve.com

The global lockdown may accelerate automation and new ways of working with lower costs

How COVID-19 can impact your anti-financial crime operations

Many AML / CTF authorities have issued guidance during the lockdown and virtually all state that the impacted entities are expected to continue to meet their financial crime obligations and especially KYC. The guidance from supranationals to local regulators encourages a risk-based approach, and points strongly to the use of technology, to both aid the social distancing measures and to detect new patterns of fraud and money laundering, with the encouragement for self-declaration of non-compliance or other constraints.

Meeting fast-changing expectations

It is important to exercise vigilance in response to the fast-changing risk environment and the evolving patterns of criminal activity, including fraud and identity theft. Automating file maintenance and choosing providers who can cross-check data with company registers and the latest news, can help mitigate risks.

Are updates to your KYC files late because of the current pressures?

Despite the additional regulatory requirements this year, almost no regulators are loosening their expectations. Most are pointing to the risk-based approach – giving regulated institutions flexibility – and almost all are encouraging digital and automation options, both to reduce risks of fraud and identity theft, and to help clients and customers in situations where face-to-face identification is not possible. Some are also encouraging analytics of customer behavior trends to spot fraud and new types of criminal activity.

Automation and RPA can make this process largely hands-free, reducing operational cost while meeting regulatory expectations.

COVID-19 regulatory guidance summary

Highlights of specific regulatory guidance in response to the current situation:

Supranational (FATF)

- Use of technology, including Fintech (financial technology), Regtech (regulatory technology), and Suptech (supervisory technology, used by regulators to supervise firms), to the full extent, in line with FATF standards
- Digital customer onboarding, including digital ID, as appropriate
- Due diligence: leverage flexibility of risk-based approach, including simplified due diligence measures for legitimate non-profit organizations to facilitate the delivery of government-introduced pandemic benefits
- Delivery of digital financial services, including digital/ contactless payments

UK (FCA)

- Client identity verification needs to continue, but firms have flexibility within FCA rules. This is an obligation under the Money Laundering Regulations 2017 (MLR) and we expect firms to continue to comply. The MLR and Joint Money Laundering Steering Group guidance already provides for client identity verification to be carried out remotely, and outlines appropriate safeguards and additional checks that firms can perform to assist with the verification.
- For example, firms can:

- Accept scanned documentation sent by e-mail, preferably as a PDF
- Seek third-party verification of identity to corroborate that provided by the client, such as from its lawyer or accountant
- Ask clients to submit 'selfies' or videos
- Place reliance on due diligence carried out by others, such as the client's primary bank account provider, where appropriate agreements are in place to provide access to data
- Use commercial providers that triangulate data sources to verify the documentation provided
- Gather and analyze additional data to triangulate the evidence provided by the client, such as geolocation, IP addresses, and verifiable phone numbers
- Verify phone numbers, e-mails and / or physical addresses by sending codes to the client's address to validate access to accounts
- Seek additional verification once restrictions on movement are lifted for the relevant client group

US (FinCEN, OCC)

- Compliance with Bank Secrecy Act (BSA): maintaining risk-based approach and responsible implementation of innovative approaches to meet compliance obligations
- Reporting: priority on submitting suspicious activity reports, especially for imposter scams, investment scams, product scams, insider trading, benefits fraud, charities fraud, cyber-related fraud, etc., with expedient notification to FinCEN and the functional regulator about potential delays in filing and using new online contact mechanism
- Beneficial ownership information: existing customers of eligible federally insured depository institutions and federally insured credit unions do not require re-verification to receive Paycheck Protection Program (PPP) loans, unless required by the institution's own compliance framework
- Currency Transaction Report (CTR) filings: current suspension of new filing obligations for sole proprietorships and entities operating under a "doing business as" (DBA) name

Canada (FINTRAC)

- Reporting: priority on submitting suspicious transaction reports, including new reporting mechanisms and / or voluntary self-declaration of non-compliance
- Verification of identity: once authenticated, expired government-issued photo IDs may be considered as valid, if the issuing authority has extended the validity period

Australia (AUSTRAC)

- Verification of identity: allowing use of alternative risk-based processes, such as:
 - Using electronic copies (scans or photographs) of reliable and independent documentation, coupled with a video call to compare physical identity of the customer with the scan / photograph; requiring the customer to provide a 'selfie' to compare with the scan / photograph; or outbound telephone call to the customer to ask questions to ascertain their identity, and
 - Relying on disclosure certificates to verify certain types of information about customers who are not individuals
- Reporting: importance of submitting high-quality, accurate, and timely suspicious matter reports (SMRs)

Singapore (MAS)

- Customer verification: digital channels and non-face-to-face transaction options, such as video or teleconferencing, to perform customer verification

How Evalueserve can assist your financial crime operations amid COVID-19 outbreak and beyond

Evalueserve can help your organization reassign and reprioritize its financial crime resources (from onboarding to remediation), automate ongoing processes, manage overflow of KYC cases, and analyze transactions for suspicious activity.

Evalueserve has been supporting clients with analytics and research for 20 years and has expanded its client base to over 250 Fortune 1000 companies. When it comes to fighting financial crime, we have low-cost in-house tools, as well as an industry-leading partnership with Encompass and the experience of working with 8 out of the top 10 investment banks. We can provide you ad-hoc assistance, or empower you in your journey to develop and implement your longer-term vision.

Immediate opportunities:

- Use our EDD capabilities to gauge the quality of our work
- Set-up alerts for select sectors, clients, topics – use news aggregation to stay current
- Leverage our analytics and admin teams to help support Small Business Loan programs
- Ask us to estimate the automation opportunity and draft the future vision

For more details, contact us at: KYCSolutions@evalueserve.com

About the Authors



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Anna is the Global Head of Risk and Compliance Practice at Evalueserve. She has more than 15 years of work experience with financial services clients. She started her career at McKinsey, where she worked for over a decade, and helped transform some of the largest financial services organizations. She is a banker, and has served across multiple functions, from branch transformation, product strategy, process optimization, and cross-border IT platforms, to finance and treasury functions and capital optimization. Anna has developed a banking simulation that is used to train new FS consultants on the roles of different parts of a bank and interactions between them. She has also worked at EY and Russell Reynolds. Anna holds a PhD in business administration.



Vesna McCreery

Vesna is a Senior Advisor to Evalueserve. Following a career of 20 years in financial services, Vesna now provides financial services firms (FIs) and fintechs with financial crime advisory services and works extensively with regulatory technology firms on product development, and matching FIs to regtechs.

Vesna started her financial crime career at Goldman Sachs, and continued on through Merrill Lynch to Deutsche Bank. She has led global financial crime functions at institutions such as RBS and Barclays, contributing to the lifting of the Deferred Prosecution Agreements by the US Department of Justice (DOJ) in both, and also served as the financial crime advisor to the Monitor of HSBC, working closely with the DOJ, FCA and the FED. She worked at a start-up consultancy, Exiger, with a stint at KPMG as a business and product developer. Vesna has a keen interest in corporate culture and reputational risk and how they are best executed through complying with regulatory requirements, combining innovative approaches, including AI, with tried and tested people and process solutions.

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