NICE Actimize

Best Practices Guide

Ultimate Guide to E2E KYC: 6 Critical Focus Areas

Why KYC Needs a New Approach

The traditional approach to Know Your Customer (KYC) isn't working anymore. Manual data gathering, periodic reviews, and disconnected systems—they all lead to unnecessary increases in risk exposure for your financial institution (FI). The legacy approach can result in missed information, an inaccurate understanding of customer risk, and ultimately, misaligned customer risk scoring.

This can have serious ramifications across the customer life cycle, from unknowingly onboarding high-risk customers, or even criminals, to inaccurate monitoring of customer activity and potentially overlooking suspicious activity.

FIs need to adapt, break down silos between departments, better leverage data and modernize their technology to future proof their on-going KYC processes. This will increase risk scoring accuracy and deliver a better overall customer experience.

Improve KYC Practices

How can you achieve an effective and optimized KYC program?
By focusing on these six core areas:

1 Initiation

2 Profile Enrichment & Verification

3 Screening

4 Risk Assessment

5 Acceptance & Activation

6 Continous Monitoring

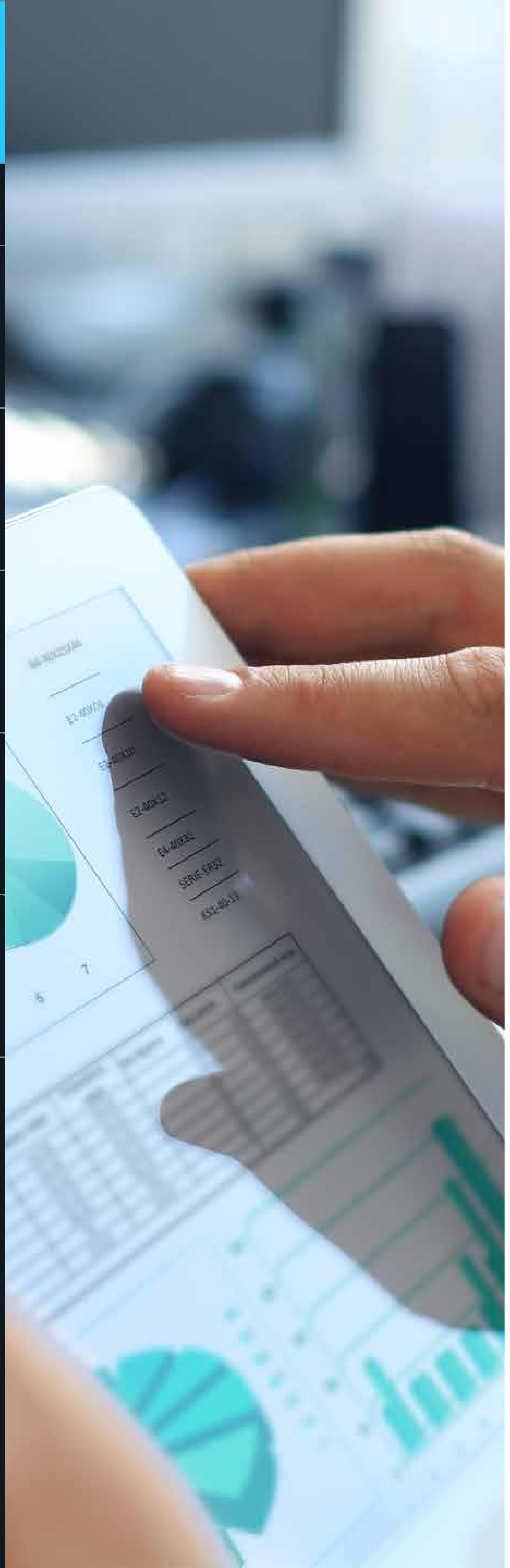
Focus Area 1: Initiation

Capturing critical data from the start sets up KYC and downstream practices for success. To properly determine customer risk, it's critical to collect accurate information and documentation.

Any effective onboarding process starts with collecting information directly from the potential customer. Collecting the critical data elements from your customer is an important step that helps you determine two things:

- If customers are who they say they are
- Insight into their expected behavior

Many onboarding processes are now digital, making it even more important that the critical information is captured to validate and verify the customer.



Customer Information to Collect at Initiation

Data collected by FIs during onboarding typically includes customer profile data and risk related data.

Examples of customer profile data:

- Name
- Date of Birth
- Address
- Identification Number

Examples of risk related data:

- Source of Funds
- Anticipated Transactions (Value and Volume)
- Source of Wealth
- Occupation

Retail vs. Corporate Onboarding

Onboarding for retail and corporate customers varies, as regulations require different information to verify the identity of an individual vs. an entity and evaluate the risk level. For corporations, it's important to understand the structure of the organization, especially the ultimate beneficial owners, the industry, type of business, and jurisdictions it operates in.

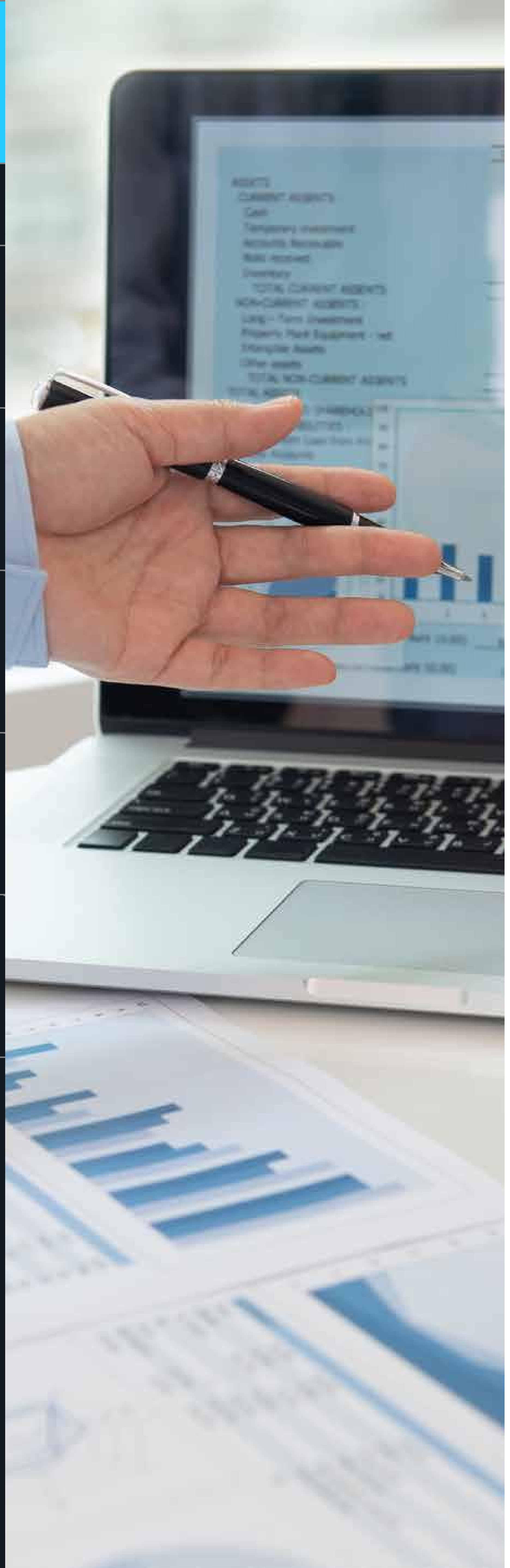
Information required for retail and corporate onboarding include, but are not limited to:

Retail Onboarding

- Individual's identity documents (name and DoB)
- Address
- Occupation
- Income
- Purpose of the account
- Expected transaction frequency and volume

Corporate Onboarding

- Identity of owners and controllers
- Corporate registration documents
- Address and jurisdictions of operation
- Nature of business
- Source of funds
- Purpose of the account
- Expected transaction frequency and volume



Considerations for Capturing Critical Customer Information

The initial information captured has a big impact on the rest of the KYC process, so it's important to ensure the quality and completeness of the data. Questions to ask to improve critical customer information capture during onboarding include:

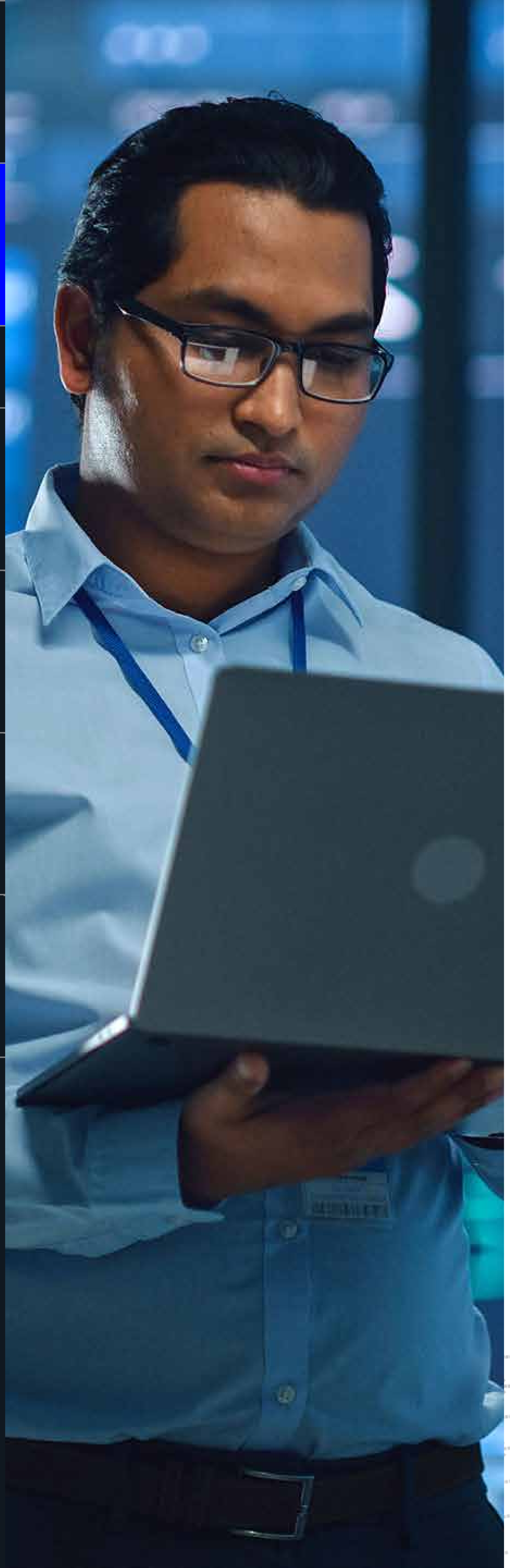
- How dynamic is the onboarding process? Is it manual, digital or both?
- How do you categorize the information you have gathered?
- Where are the bottlenecks in the onboarding process?
- What controls exist to ensure all relevant data is captured?
- What sources did you use to gather the data?
- What is the governance process at the onboarding stage, and does it align to your organization's risk-based approach?

Improving Customer Onboarding

FIs need to decrease the number of touch points to minimize customer friction and improve the overall onboarding experience. Seamlessly moving from data collection to verification with increased use of automation and machine learning will speed up onboarding, increase accuracy, and reduce repeated customer outreach.

In our digital world, less information is required upfront as there are ample authoritative sources banks can leverage to enrich and validate customer profiles. To expedite onboarding, firms need to strike the right balance: Capture the critical customer information from the start, without overburdening the customer with unnecessary or repeated outreach, while still obtaining sufficient information to derive an accurate risk profile and risk score.

New machine learning technology can aid with auto-populating onboarding information, even from trusted third-party data sources, and assist with dynamic flow of onboarding and decrease complexity. This ensures the right questions are asked and the correct information is captured.



Focus Area 2: Profile Enrichment and Verification

The ability to access third-party data in real-time to enrich and validate client provided information is essential.

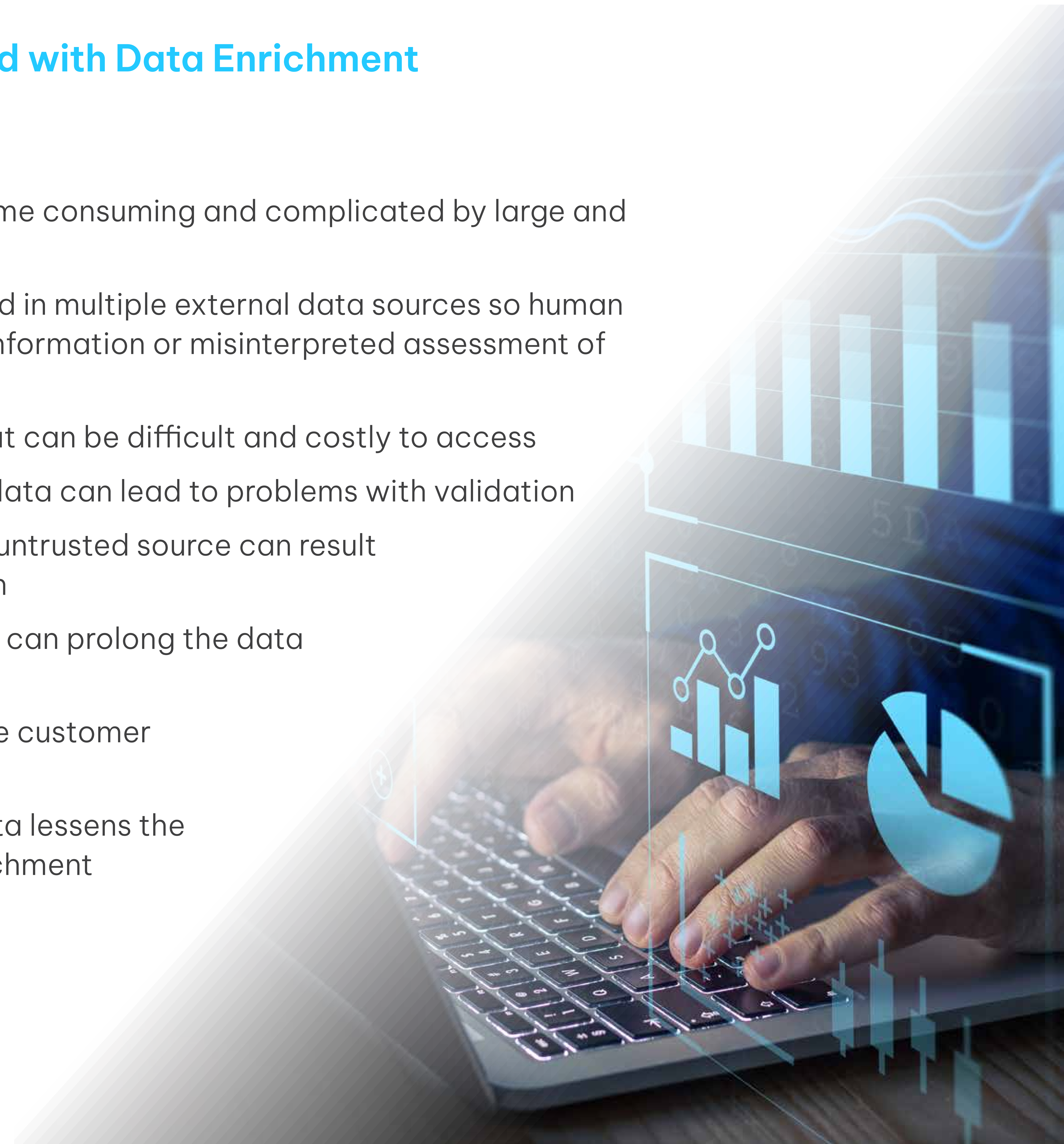
You cannot rely on customer-provided information being complete, accurate, or truthful. Before making an onboarding decision, the data collected needs to be checked for accuracy. Information provided by the customer must be independently validated and verified, and compared to and supplemented by government, public, and private third-party data sources.

The Importance of Data Enrichment

Data enrichment provides valuable insight by supplementing the captured critical customer information with additional data, often from third-party sources, enabling FIs to build a robust customer profile. Without data enrichment, risk decisions would be based on information primarily provided directly by the customer which is not fully reliable. Data enrichment also enables more effective ongoing monitoring of customers, with more accurate results when identifying suspicious activity.

Challenges Associated with Data Enrichment and Verification:

- Data enrichment can be time consuming and complicated by large and complex data sets
- Information is often located in multiple external data sources so human error can result in missed information or misinterpreted assessment of the data
- Quality data is essential but can be difficult and costly to access
- Conflicting or duplicated data can lead to problems with validation
- Checking data against an untrusted source can result in incorrect data validation
- Variables in data structure can prolong the data enrichment process
- Data gets stale, leaving the customer profile outdated
- Poor quality of existing data lessens the effectiveness of data enrichment



Focus Area 1: Initiation

Focus Area 2: Profile Enrichment and Verification

Focus Area 3: Screening

Focus Area 4: Risk Assessment

Focus Area 5: Acceptance & Activation

Focus Area 6: pKYC: Continuous Monitoring

Considerations for Data Enrichment and Verification Processes

Data enrichment and validation are important to creating a robust and accurate customer profile. To enhance effectiveness, data needs to be high quality and usable. Questions to ask to improve data enrichment and verification include:

- How do you collect enrichment data (manual or automated)?
- How is the data validated and verified?
- What checks are in place to ensure the data validation and verification sources are accurate and trusted?
- When was the data last updated?
- How is the data used by your systems and teams?
- What data sources are used to validate and enrich?
- How is the data connected or managed?

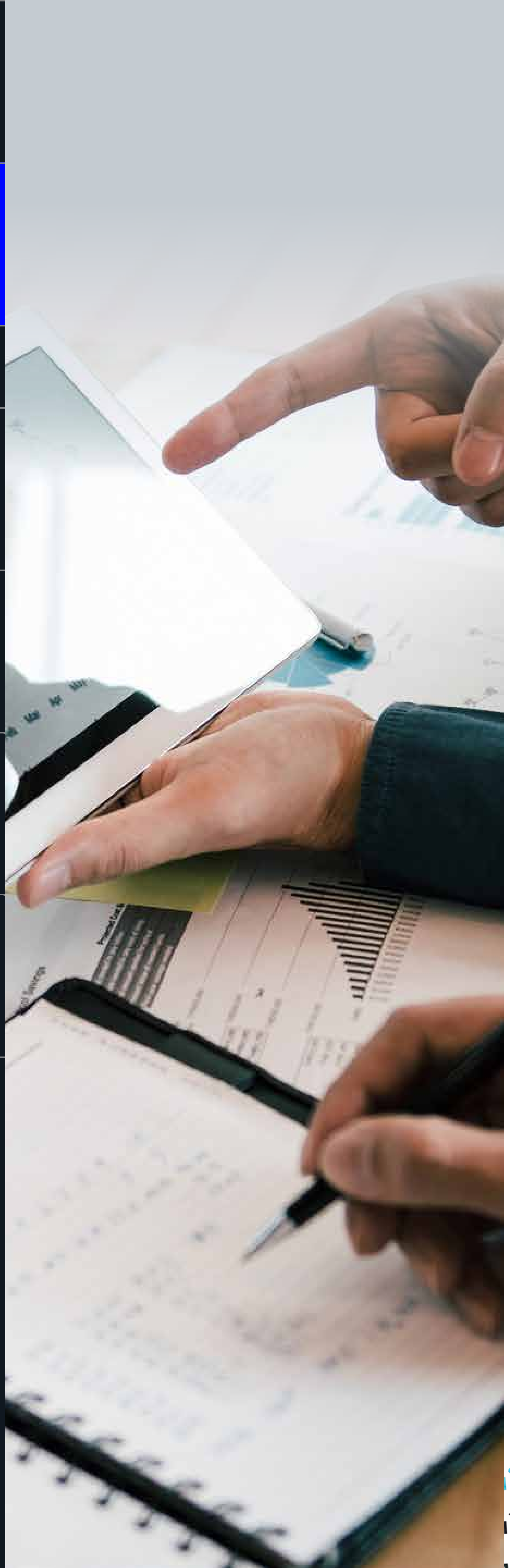
Achieving Effective Data Enrichment

To achieve effective data enrichment, FIs need to:

- Use technology tools to assist in fast and accurate data gathering
- Aggregate the information from trusted global sources into a single point
- Continuously monitor data sources for any changes
- Compile one, comprehensive customer profile with collected data

The benefits of effective data enrichment include:

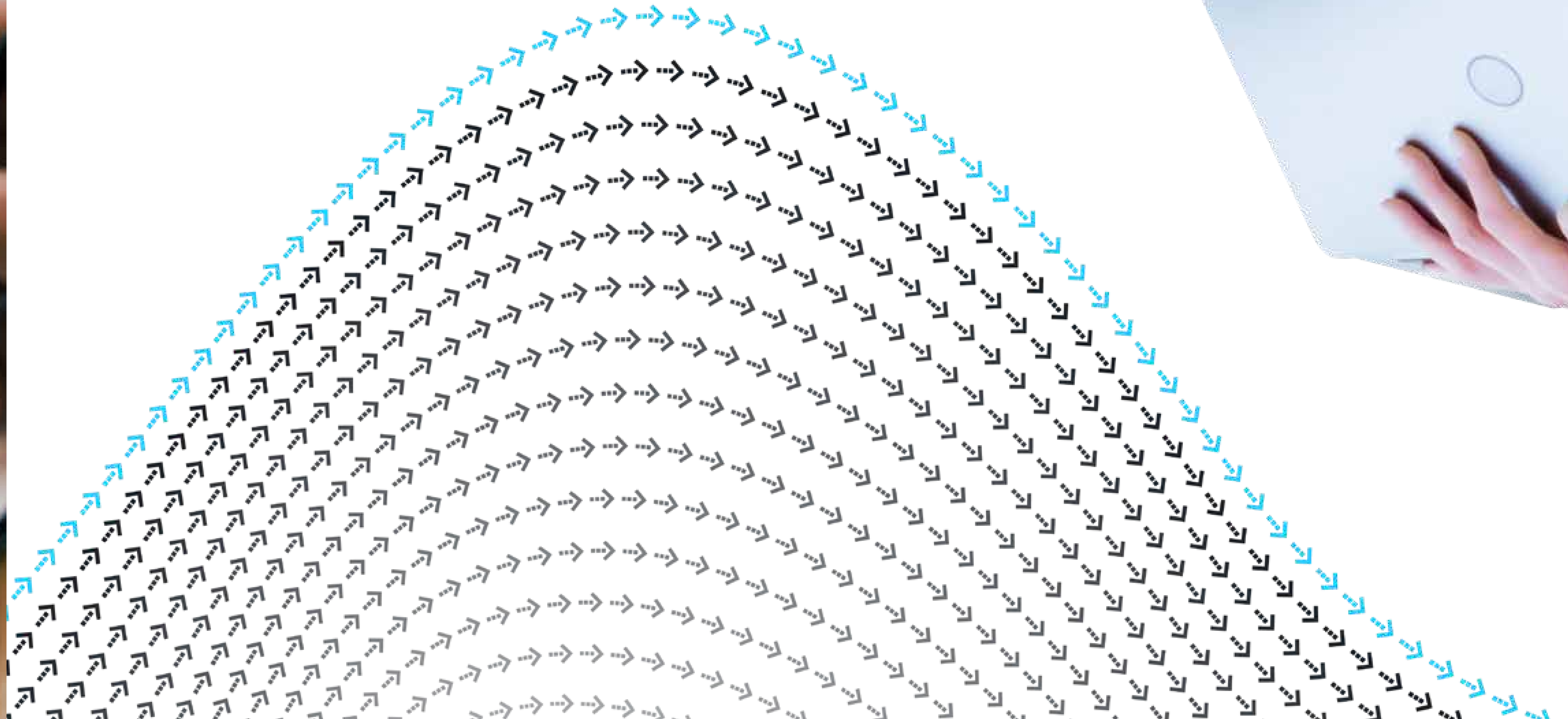
- Better risk management and ratings with access to all relevant information
- Faster onboarding and due diligence
- Lower customer friction
- Fewer manual processes
- More informed decisions
- Regulatory compliance with a full audit trail
- More cost-effective

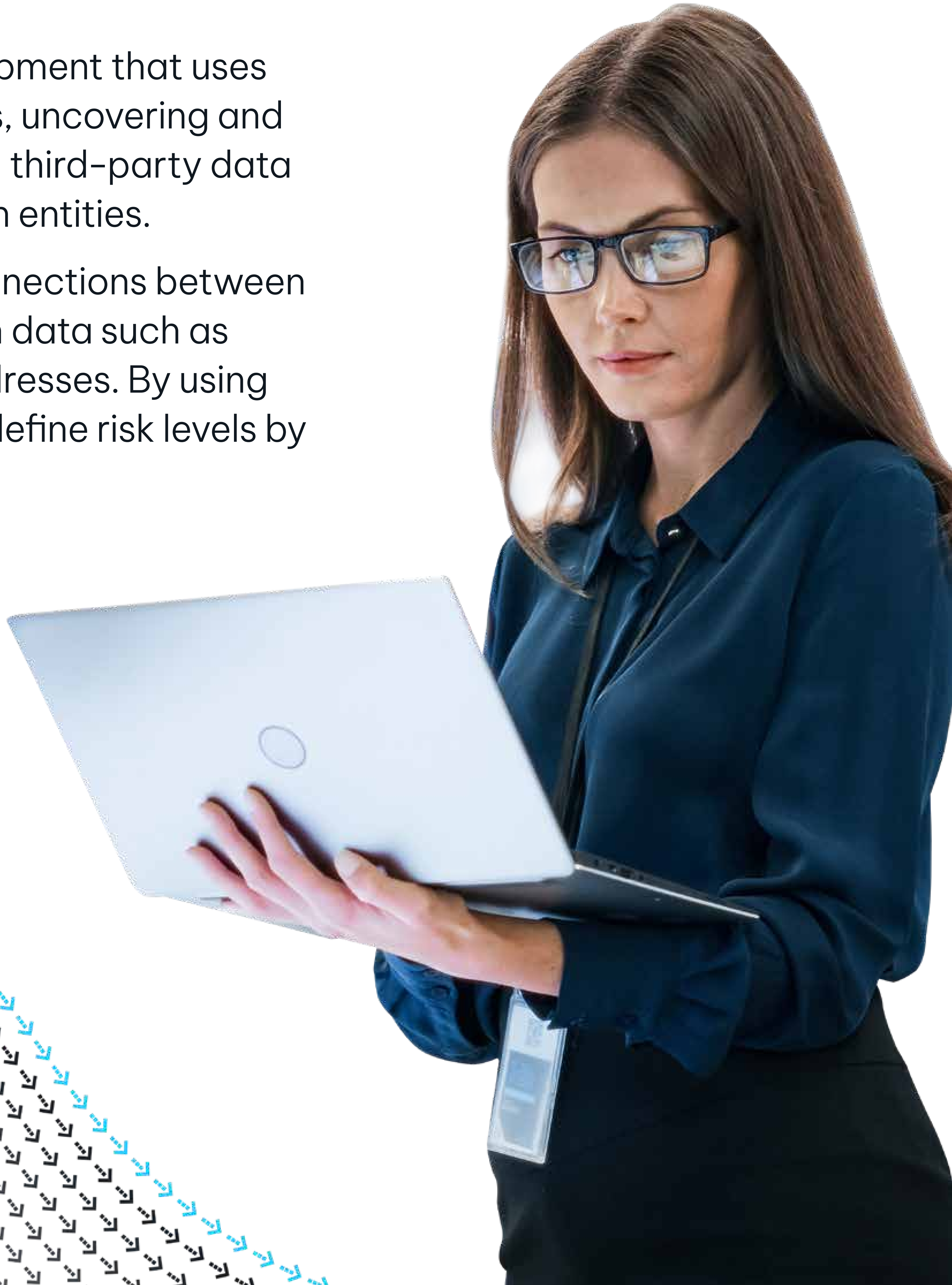


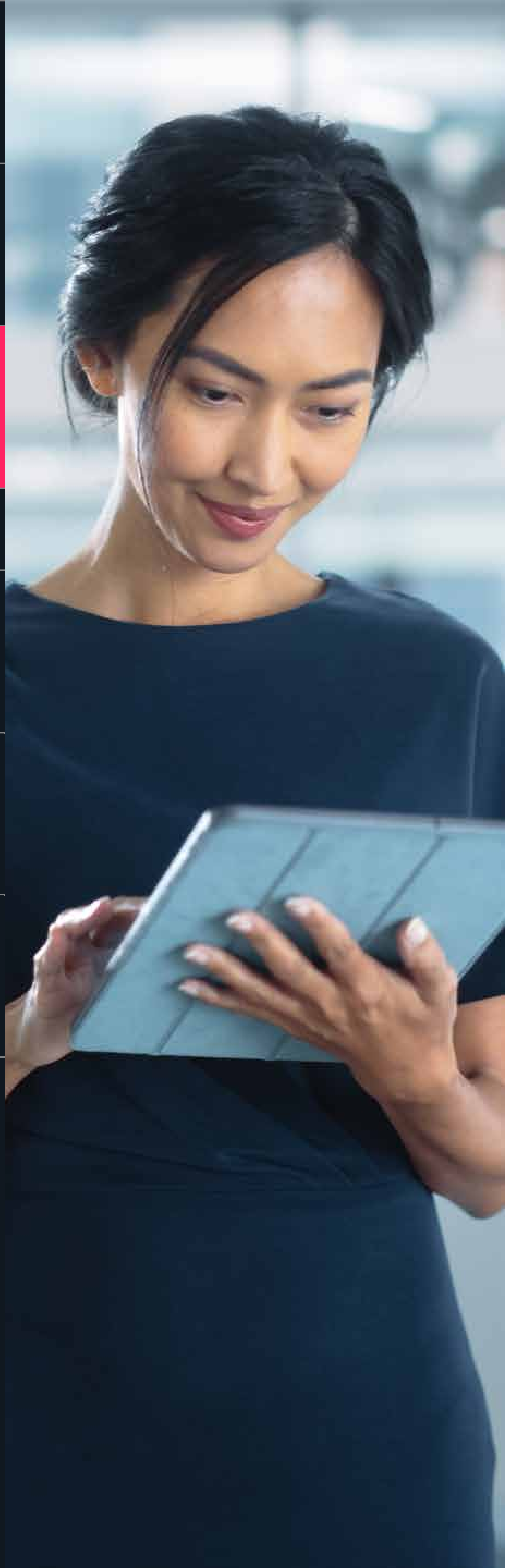
Enhance Customer Profiles with Network Analytics

Network analytics is an exciting technology development that uses data to build links and connections between entities, uncovering and visualizing relationships. Internal customer data and third-party data are used to identify direct and indirect links between entities.

With this technology, FIs are able to understand connections between individuals or corporates through shared attribution data such as addresses, phone numbers, device IDs, or email addresses. By using network analytics, FIs are able to more accurately define risk levels by understanding the customer's relationship network.







Focus Area 3: Screening

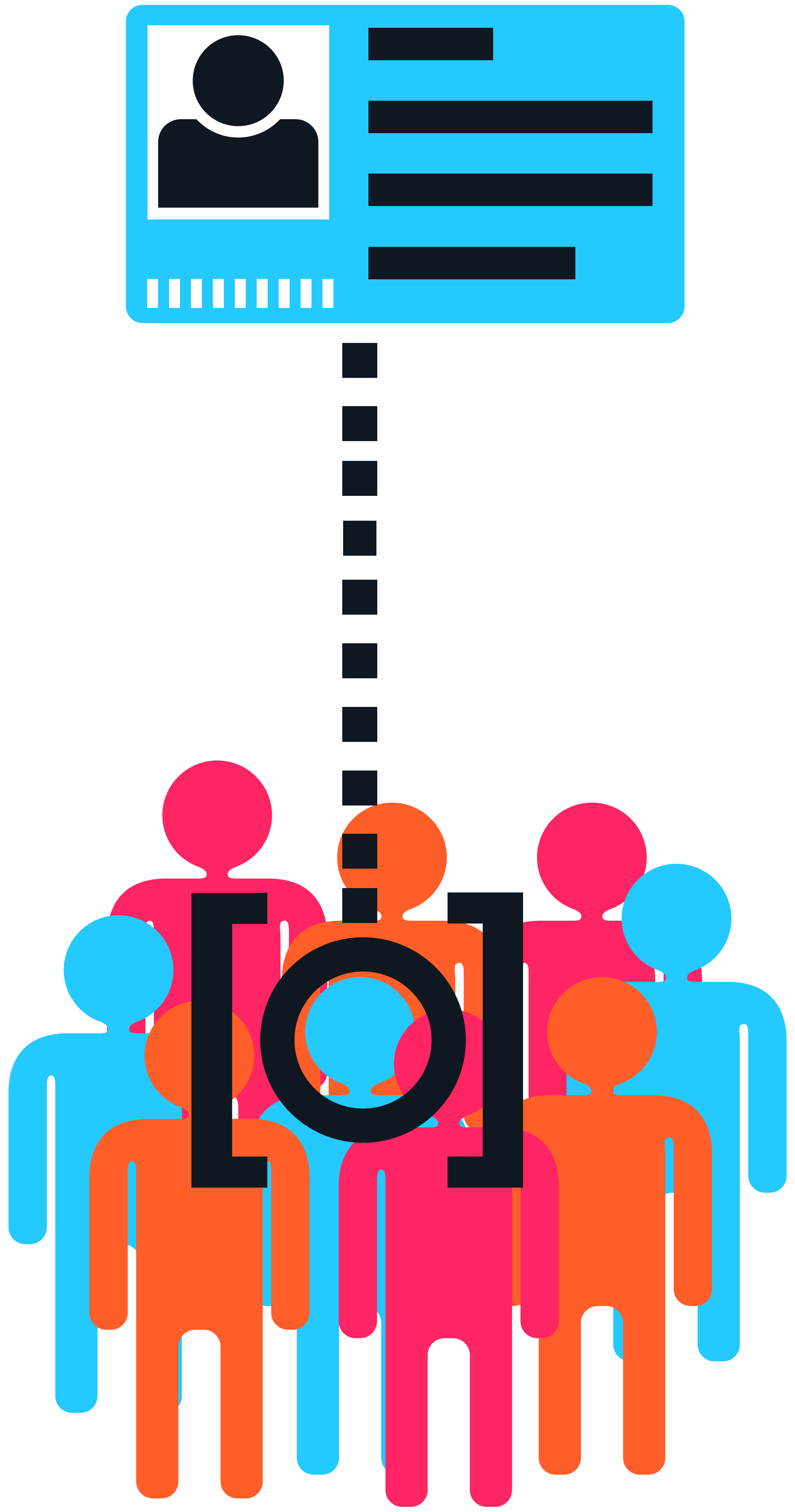
At this stage of KYC it is important to:

1. Screen customers against watchlists to identify additional risks
2. Understand if, as a result of a hit against a watchlist, a customer should be high-risk or unable to hold a business relationship with the organization

Often, when it comes to corporate entities, associated entities are also screened to better understand the risk of the entity being onboarded or remediated. Not only is this a critical step in the customer risk assessment, it's also a regulatory requirement.

Customers are screened against government and other trusted third-party lists to determine politically exposed persons (PEPs), sanctions, or if there is adverse media or other identifiable information which will impact their risk profile.

Customers must be screened during onboarding and on an ongoing basis to capture any change to their overall risk.



Modern Screening Challenges

Not having a consolidated and comprehensive understanding of a customer leads to inaccurate screening. Insufficient customer profiles can potentially result in high false positive hits or missed positive watchlist matches.

Disconnects between screening and KYC can introduce unnecessary risk and impact the accuracy of the customer risk score.

Considerations for Screening

Effective screening requires accurate customer data.
Some questions to evaluate your screening efforts are:

- How do you ensure that customers and related parties are being screened correctly?
- How do you integrate your screening results into your KYC process?
- How integrated are your KYC and screening teams, and do they need to be integrated?
- What automation exists in your customer screening process during KYC?
- How often is your screening data updated?
- Does your screening system contain the right watchlist data you want to screen your customers against?

Achieving Effective Screening

Tight integration between screening and all of the steps of a KYC program is essential for a seamless and compliant client onboarding and ongoing relationship. Using the latest advances in technology, your FI can achieve a tight, harmonious integration between both systems used for KYC, and the many teams within an FI that touch the KYC process. An ongoing and automatic feedback loop ensures always-accurate identification of customers on watchlists and a continuous assessment of customers' risk based on results.

Focus Area 4: Risk Assessment

Overall Customer Due Diligence (CDD) and appropriate customer risk scoring is the fundamental outcome of taking a risk-based approach to KYC. Customer risk scoring determines how the relationship is managed throughout the customer life cycle, how stringent the monitoring needs to be, and ultimately, how much the customer will cost the business to effectively manage the risk of maintaining the relationship.

Elements of Customer Risk Scoring

Typically, customers are rated low, medium, or high risk, and the level of due diligence performed is based on the risk level. For some low-risk customers, simplified due diligence (SDD) is applied, such as for publicly listed companies that have already been thoroughly vetted. Other low risk, and most medium risk customers, receive standard CDD. High-risk customers, and those who meet other defined criteria, such as specific industries or respondent banks, are subject to enhanced due diligence (EDD). With EDD, FIs apply more rigorous and frequent due diligence checks.

Typical Organizational Defined Review Periods

6 months
Very high-risk customer review

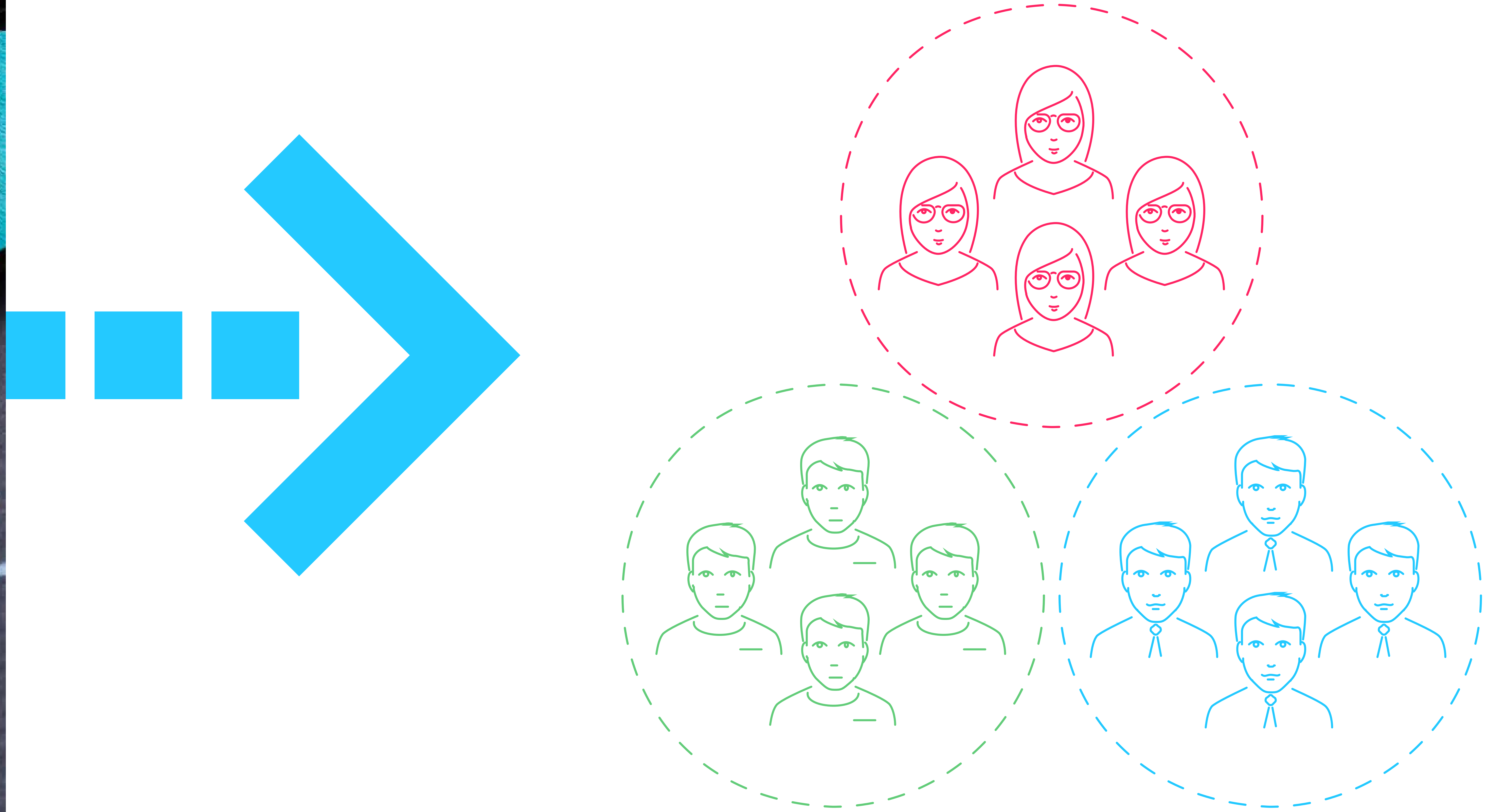
1 year
High-risk customer review

2-3 years
Medium-risk customer review

3-5 years
Low-risk customer review

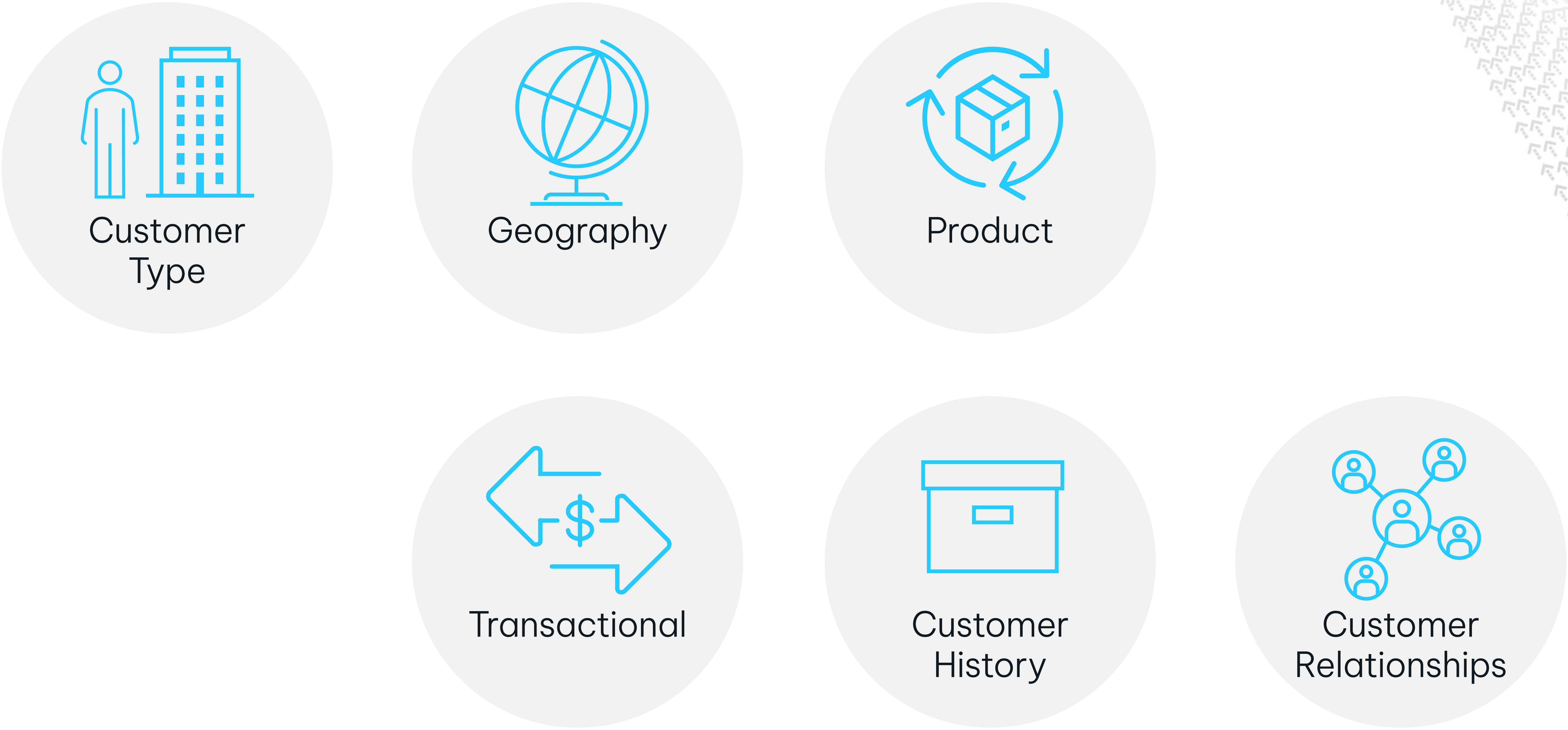
Customer Segmentation

Segmentation enables FIs to apply a more targeted approach to risk scoring and effectively perform ongoing due diligence. With segmentation, FIs group customers based on customer type, such as retail or corporate, along with other factors that are taken into account during customer risk assessments.



Impacts on Customer Risk Scoring

FIs take a range of factors into account when determining risk levels, such as:



Considerations for Your Customer Risk Assessments

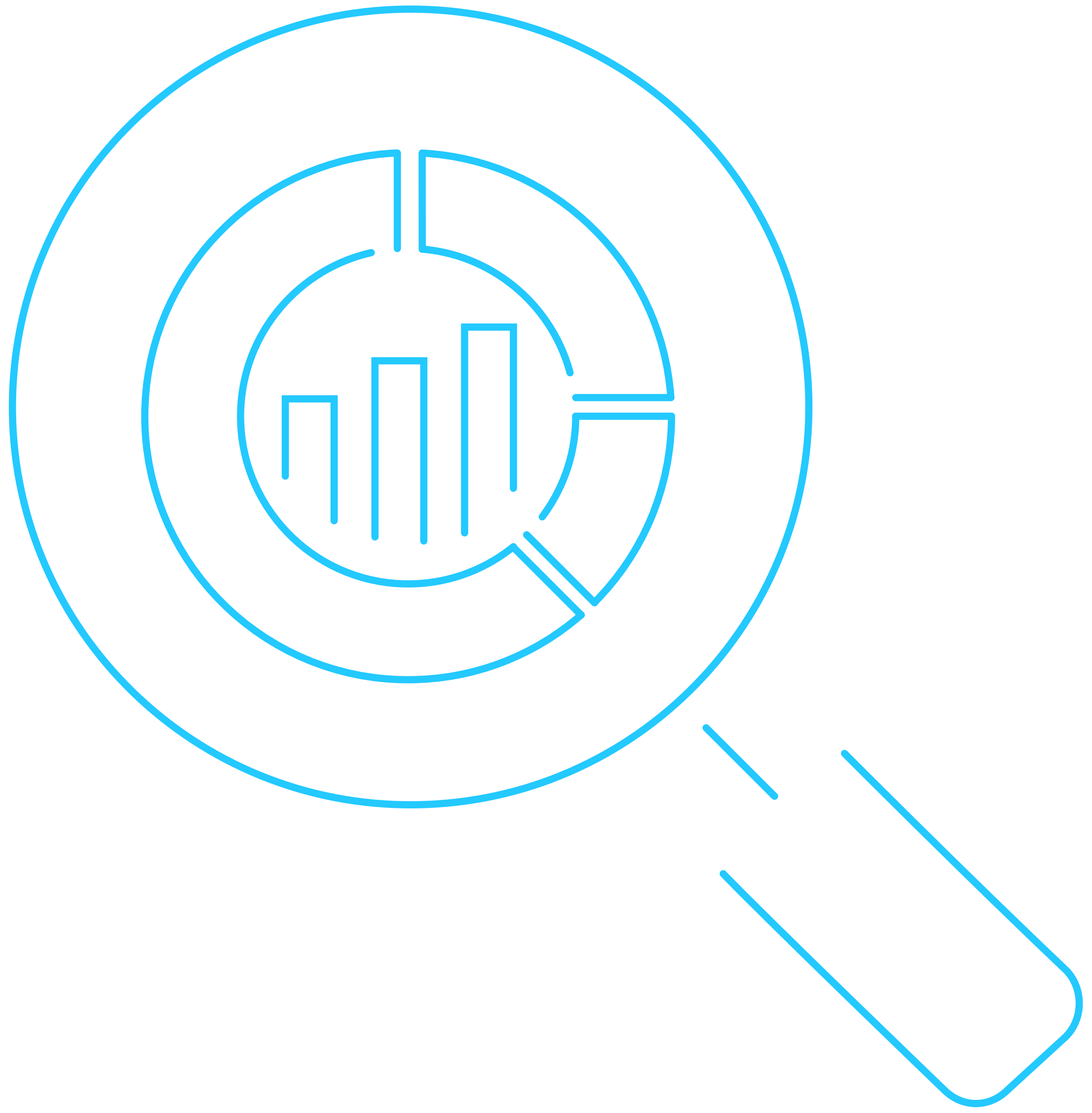
Customer risk assessments are not only important for due diligence efforts but also to manage your firm's risk appetite. Some example questions to gauge the effectiveness of your risk scoring processes include:

- How often do you update your KYC / CDD policies and procedures and your customer risk profiles?
- When did you last review the risk parameters in your KYC solution?
- What information is used to inform your customer risk score, and is it comprehensive enough?
- What is your FI's risk appetite?
- What customers require EDD?
- Is the level of due diligence each customer is subject to clear in your policies and procedures?
- Is the requested service or product appropriate for the customer's risk level?
- What is the customer distribution among the risk levels?

Focus Area 5: Acceptance & Activation

When analysts don't have all the critical customer information, it's impossible to make informed decisions for customer acceptance and account activation. Lack of the necessary data can lead to approval based on incorrect customer risk assessments, which could result in the following challenges:

- Wrongly refusing, offering restricted or inappropriate financial services to satisfactory customers
- Unintentionally providing financial services to criminals
- The wrong level of due diligence and ongoing risk monitoring being performed
- High workload on needless reviews, resulting in a high-cost KYC program and potentially increased customer friction due to unnecessary outreach
- High-risk customers being missed and monitored incorrectly
- Suspicious activity not being identified and going unchecked



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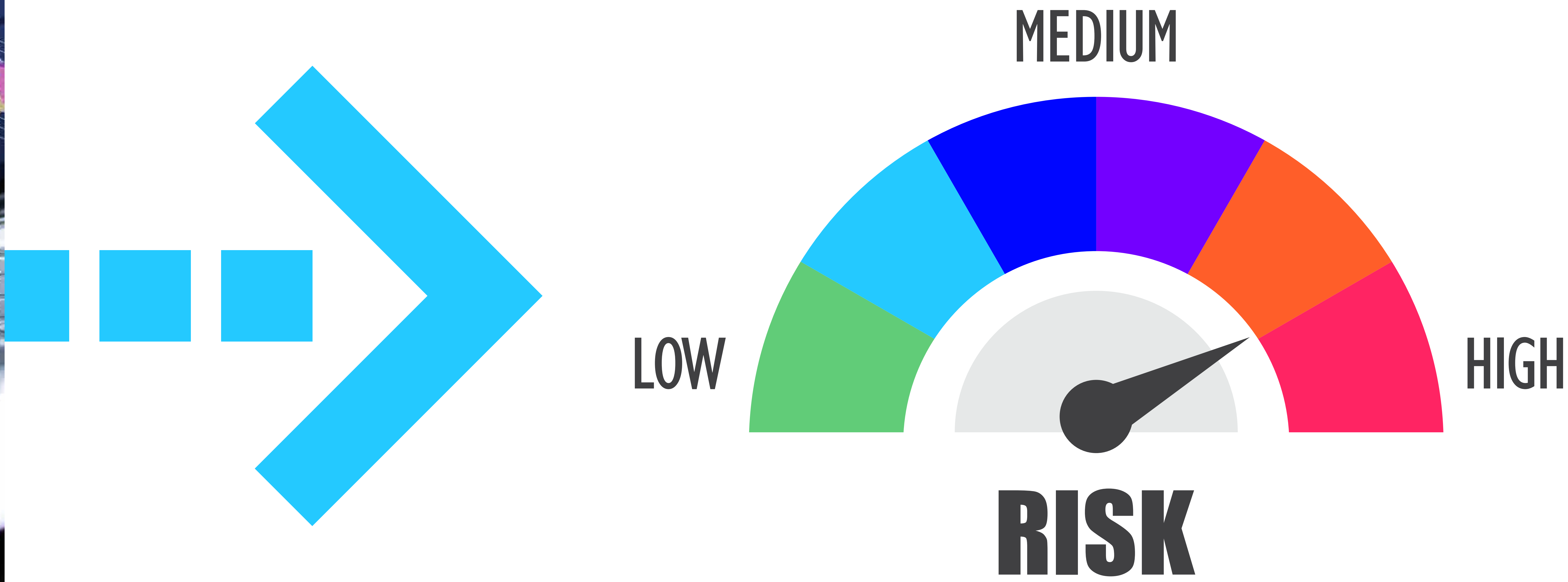
Responsibilities in a Customer Risk Assessment

During a customer risk assessment, analysts need to:

- Confirm the completeness and accuracy of the data
- Validate the customer's risk level is correctly assigned based on the extensive risk information available



Considerations for Effective Acceptance & Activation

Organizations can assess the quality and effectiveness of customer reviews by asking the following questions:

- What information is available to assess the customer?
- What training have the analysts had in KYC/CDD reviews, and is it sufficient?
- How long do customer reviews take?
- What is delaying timely and accurate customer reviews?
- How can gaps or risks in customer reviews be mitigated, including reduction of human error?
- How are customer review decisions being audited?
- Are unnecessary reviews being conducted?
- How can unnecessary reviews be reduced?

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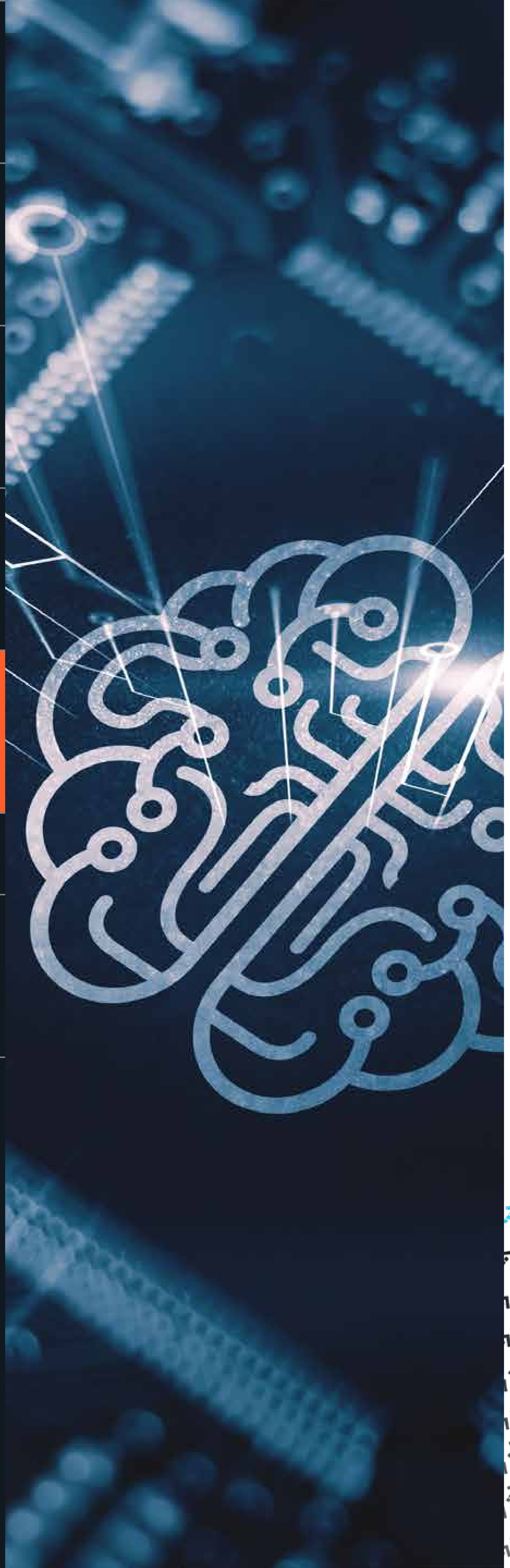


Effective Customer Acceptance and Account Activation

Automation, data intelligence, and AI can dramatically increase the effectiveness and efficiency of the customer review process.

Correctly implemented technology enables organizations to decrease the time onboarding and remediation takes, increase the accuracy of decision making, and limit customer friction.

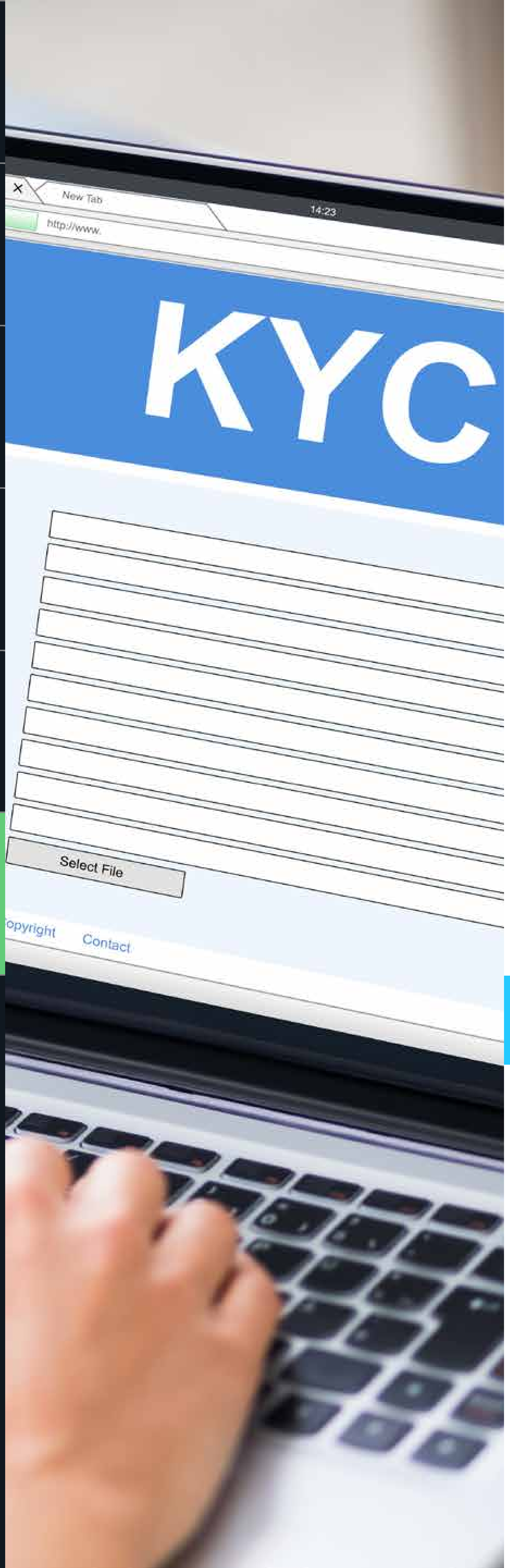
By modernizing and standardizing your KYC review processes, you can create a consistent workflow that yields higher results, reduces workload, and minimizes human error. Ultimately, a modernized and future-proof KYC program will reduce review time, reduce costs, mitigate risk, and increase productivity.

Focus Area 6: pKYC – Continuous Monitoring

Periodic KYC checks follow set intervals, typically based on the customer's risk level. However, this approach adds unnecessary risk, as changes in a customer's risk level may go unknown for years. pKYC is based on the perpetual dynamic nature of a customer relationship. In today's digital financial ecosystem, to know your customer fully, firms must continuously monitor a customers behavior and activity for changes. Periodic checks are simply not effective anymore.

Firms lacking technology or that rely purely on periodic reviews face a myriad of challenges including:

- A historical lack of integration means not all risks are considered, leading to inaccuracies in risk assessments.
- A lack of native third-party data integration can leave customer profiles inaccurate, with missing or outdated information.
- Changes in transactional activity and fraud events are rarely considered during periodic KYC checks, leaving valuable data unaccounted for in risk scoring.



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Periodic vs. Perpetual KYC

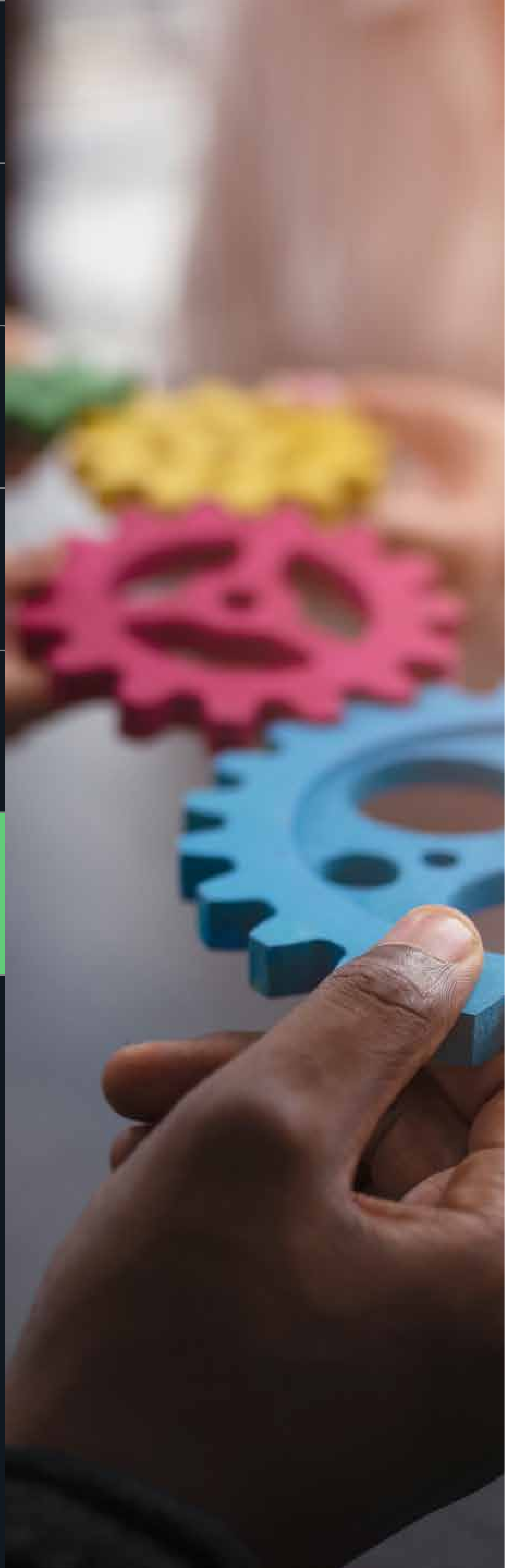
Historically, most FIs have taken a periodic approach to KYC. However, now firms are modernizing with a more proactive approach with perpetual KYC (pKYC), or event-driven KYC, with periodic KYC used as a backup for when events don't occur.

Periodic KYC

- KYC checks follow set intervals
- Customers are only reassessed to determine if the risk level has changed during remediation
- Reactive, static approach
- Manually intensive and time consuming

Perpetual KYC

- KYC checks are event driven
- Customer risk score is reassessed when real-time changes are identified, which impact the customer profile or risk (such as change in address)
- Proactive, risk-based approach
- Near real-time results



The Importance of Integrating Other Solutions for Decisioning

Creating an interdependent relationship between multiple data points, including screening, transactional and third-party sources, risk and compliance teams can transform KYC and provide multiple benefits essential for a comprehensive risk assessment of a customer.

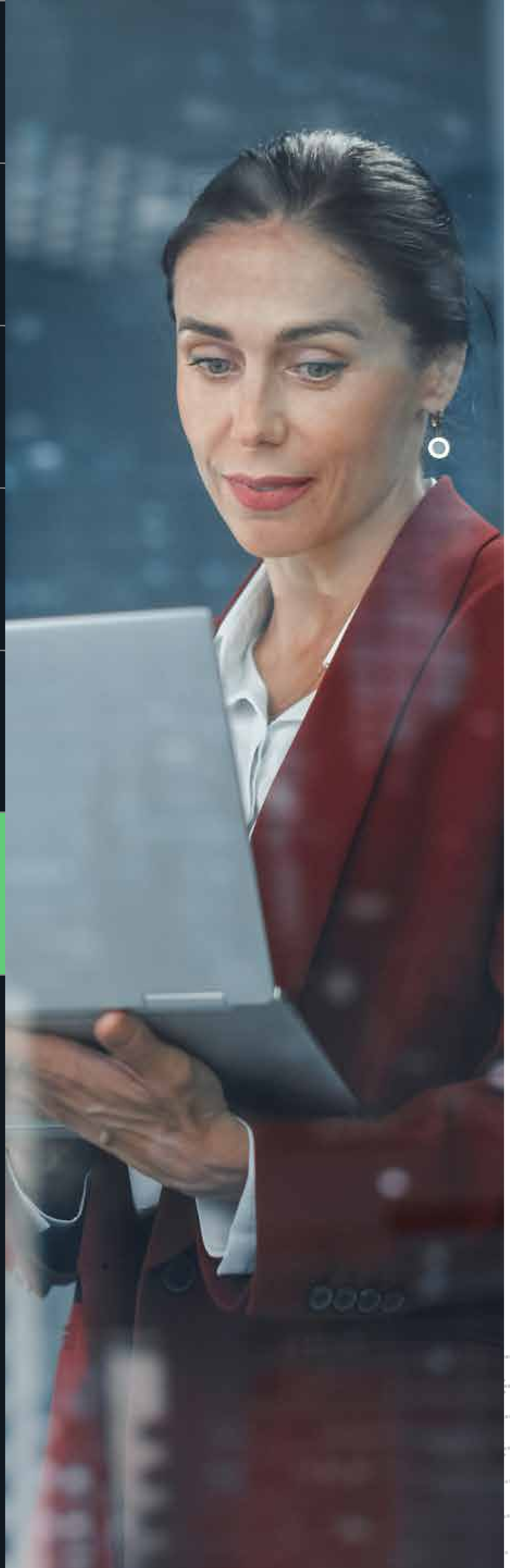
Integration between compliance solutions creates a feedback loop, ensuring relevant risk data such as fraud incidents, screening hits, or high-risk changes in transactional activity are fed into KYC to reassess the customer risk score.

The feedback loop should work both ways, with risk information from KYC being automatically shared with other risk and compliance systems. This ensures that they have the correct customer information to accurately monitor for appropriate risks.

Considerations for Your Approach to KYC

Some considerations to evaluate KYC effectiveness:

- How integrated are your risk and compliance solutions with KYC?
- How often do you risk rate your customers?
- What, if any, risk events trigger a reassessment of your customers' risk?
- What gaps exist in the current system?
- What information is considered when remediating customers?
- Is the remediation process automated?
- Have you adopted a perpetual KYC approach in your firm?
- What limitations does your current system have?
- What is your future strategy when it comes to perpetual KYC?

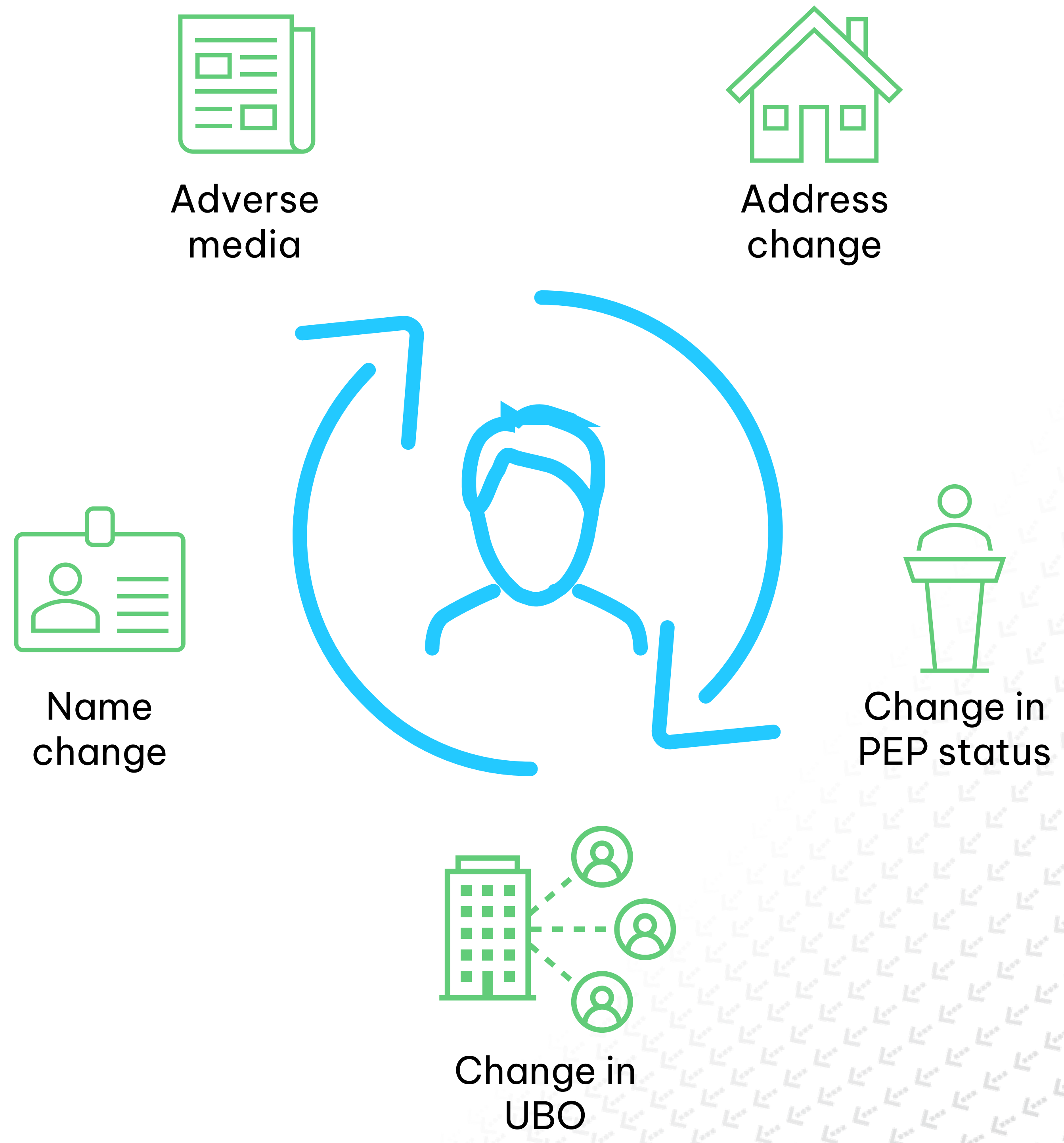


Achieving Perpetual KYC

Perpetual KYC is the expectation

Only with seamless and automated harmonization between risk and compliance solutions and CDD can you achieve perpetual KYC.

To truly understand and manage risk, firms need to fully understand customers at all times throughout the customer life cycle. The only way to do this is to use data from multiple sources, both internal and external, on an ongoing, perpetual basis. FIs need an automated way to continually monitor for changes, adjust the risk score accordingly, and take appropriate action to manage the risk. Shared, accurate, and up-to-date information is critical to achieving effective perpetual KYC.



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Six Critical Areas to Focus on for Truly Effective KYC

There are many elements that go into creating a successful KYC program. Critically, FIs must ensure they fully understand their customers and their risk. To accomplish this, they need to have access to the right data, and have the right processes, procedures, and systems in place to derive an accurate customer profile and risk score. It's also imperative to have a continuous feedback loop to ensure customer risk scores are always accurate. By focusing on these six core areas, FIs can achieve truly effective KYC and remain compliant, while increasing efficiency, reducing risk, and minimizing friction in the customer experience.

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What area do you need to focus on today?

NICE Actimize is an experienced technology partner who can help you future proof your KYC program. Discover how our suite of KYC solutions can improve the customer experience while minimizing risk across the core areas of customer lifecycle management:

Onboarding → **Perpetual KYC**

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Start your journey to future proof E2E KYC today

Learn more

About NICE Actimize

As a global leader in artificial intelligence, platform services, and cloud solutions, NICE Actimize excels in preventing fraud, detecting financial crime, and supporting regulatory compliance. Over 1,000 organizations across more than 70 countries trust NICE Actimize to protect their institutions and safeguard assets throughout the entire customer lifecycle. With NICE Actimize, customers gain deeper insights and mitigate risks. Learn more at www.niceactimize.com.