White paper

Know your customer (KYC): challenges and solutions

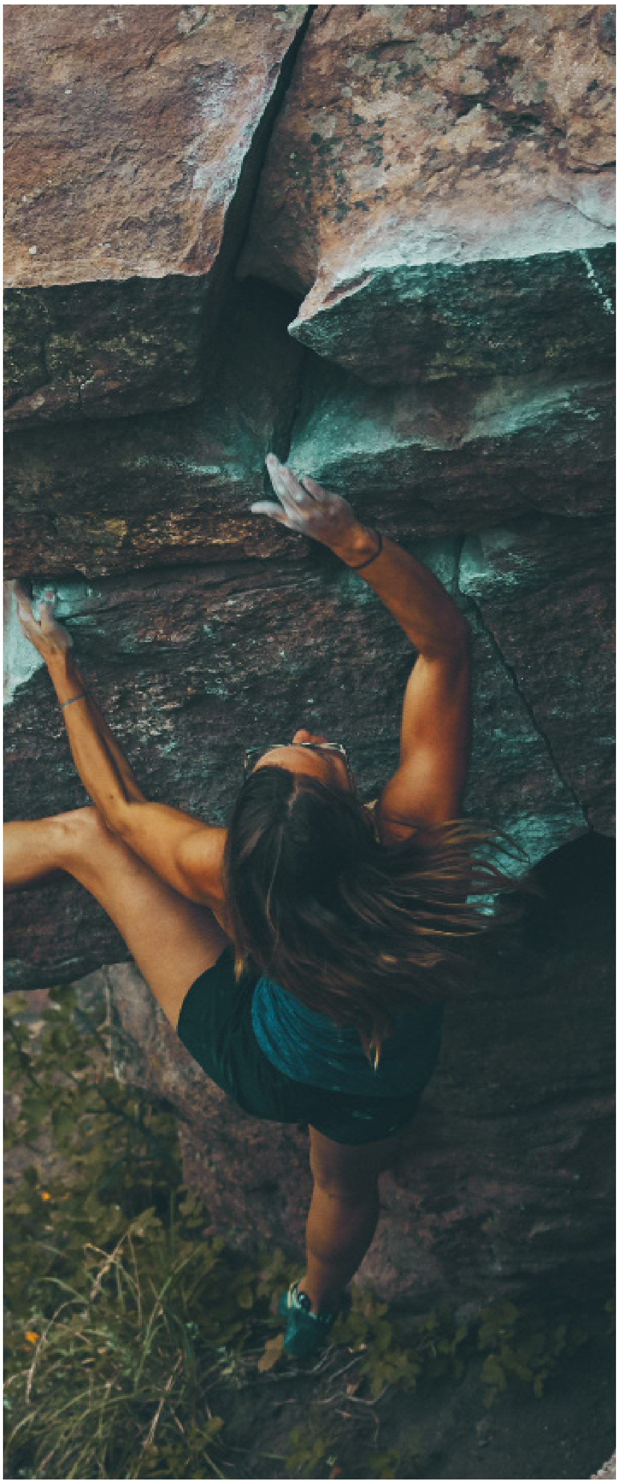
Exorbitantly high penalties, damage to reputation: the commitment required for the **Know Your Customer** process is high. What are the main challenges within the KYC process? How does it work exactly? And what is the role of external data? **In this paper we explain all about the challenges of KYC, and solutions to them.**

KYC: part of Customer Due Diligence

Do you know your business relations? And do they have a checkered history? These questions are central to Know Your Customer (KYC). That is the process in which you verify the identity of your business relations and investigate the risks associated with a future business relation. KYC is part of Customer Due Diligence (CDD). KYC focuses on knowing business relations, while CDD involves continuous monitoring during the customer relation.

KYC should protect your organization, not disrupt it

The importance of a well-oiled and high-quality KYC process cannot be emphasized enough - and extends beyond the back office. In fact, it is an essential aspect for stimulating business growth rather than hindering it, while at the same time getting risk management arranged properly.



KYC is intended to protect your organization from fines and reputation damage, but it should not disrupt business processes such as onboarding new customers. An efficient and effective KYC process based on high-quality, real-time data ensures that customers are brought on board quickly and smoothly. Without unnecessary requests for information, without wrong assumptions and with automation of processes.

This then ensures that your compliance team excels in the big KYC balancing act: verifying customers with the speed of business while at the same time eliminating risks and stimulating revenue growth.

The complex minefield of the KYC team

As a KYC team, it's like you're playing rugby on a minefield. You constantly have to zigzag to avoid challenges. These include:

Increasing regulation

National and international legislators are, understandably, drawing up more and more rules to govern the KYC process. An ever-increasing mountain of responsibilities is being placed on you as a service company. And are you expanding to another country? Then you may have to deal a whole other set of foreign rules.

The concealment skills of white-collar criminals and terrorists

Criminals and terrorists are unfortunately particularly good at hiding their illegal activities. For example, by using shell companies or complex international corporate structures.

Companies keep changing all the time

In the US alone, every hour 159 new companies are formed, and 182 change hands. In other words: companies are constantly changing. What if your customer data is from yesterday, but tomorrow that company gets a new owner which is on a sanctions list? No matter how thorough your KYC check is, it is no match for the time factor.

Meanwhile, the clock is ticking and costs are rising...

Even without challenges such as checking relations and prospects for possible risks, ascertaining UBOs, checking fraud and Politically Exposed Persons (PEP) lists and identifying false positives, KYC is a very time-consuming - and therefore expensive - process. And then you also have to archive and report all steps in an unambiguous way in order to prove that you have acted in accordance with the law. Meanwhile, your colleagues in sales are champing at the bit to take a new potential business relation to the next level.

The four steps in the KYC process

The KYC process can be roughly broken down into the following four steps.

1. Get to know your customer

First of all, verify who your customer is, by asking the following questions. What is their official name and address? What is their business activity and does this fit within the overall picture? Is your customer part of a larger company structure, and what are the other companies in the group? Who are the ultimate beneficial owners (UBOs) and key executives? Do they also hold positions in other companies?

2. Screen the customer for possible risks

Good, now you (superficially) know your customer. Time to screen them for relevant risks. You do this by checking the company, trade names, directors and ultimate owners against PEP lists, sanction lists and negative news items. This results in possible hits, in other words possible cases of fraud or corruption, for example.

This is followed by the false positive process. False positives are marked as red flags in the screening process, but do not necessarily turn out to be danger signs. If the director of your potential new client is called John Smith, for example, his name might show up on a PEP list. This is just someone else with the same common name, however. So false positives need to be filtered out, leaving only true positives.

3. Adjust your KYC process based on the risk assessment

How far you go in your KYC investigation is determined on the basis of your risk assessment. If there is an increased risk of money laundering, you go further in your due diligence. This is referred to as a risk-based approach, in which you look not only at the customer, but also at the nature of the relation, the product or the transaction. Both the policy and the implementation must be properly recorded, so that you can always justify certain decisions further along in the onboarding process.

Based on the defined criteria you can apply a traffic light system. This in turn promotes the possibility of automation. For example, the results of the screening can be divided into three categories:

- No problem encountered (green light)
- Significant problem encountered (red light)
- A more thorough assessment is needed (amber light).

If there is a green light, the transaction can be continued. A red-light case is usually turned down by companies and, depending on the risk and applicable regulations, notified to the competent authorities. If there is an amber light, additional research must be carried out in order to obtain a green light or red light.

4. Monitor your relations continuously

Because companies are constantly changing, screening has to be a continuous process. Has the management changed, or the company name? Has your customer taken over another company that is a high risk? Changes from the previous screening can occur not only at the client, but also in the sanction lists, PEP lists and in negative news items.

Companies subject to due diligence laws must continue to monitor the business relation. Other companies often do not bother with monitoring. Or they only periodically check the high-risk entities. If you look at all the various compliance, financial, strategic and reputation risks, continuous monitoring is simply crucial.

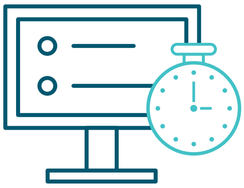
The role of external data in the KYC process

Your business relations, the lists and other data you screen for are changing all the time. It is not feasible to collect data on all of this yourself. So for your KYC process it is advisable to use the services of a company that maintains a database of all company data, relevant screening factors such as PEP lists and negative news items and - especially in the case of B2C - consumer information.

In view of the speed of change of all this information, the external data you use must be up to date 24/7. And in order to be able to separate the wheat from the chaff, the data must also be complete and verified.

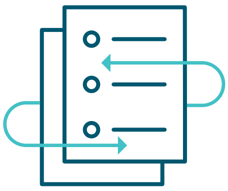
Integrated data

External data for your KYC process can be integrated directly into your CRM or ERP, so that you always have access to up-to-date, complete and verified data such as company data, UBO, sanction and PEP lists, corporate structures, news items and judgments. This offers the following three advantages:



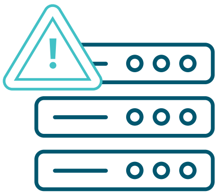
1. Automated onboarding

With integrated compliance data in your systems, you can automate onboarding. This reduces the onboarding time for standard cases from hours to minutes, improves the customer experience by reducing waiting times, saves you time (and therefore costs) and frees up resources to focus on risky or complicated accounts.



2. Continuous updating for immediate and adequate intervention

With up-to-date external data you can continuously update profiles of customers, suppliers and third parties. Relevant changes are then immediately detected. For example, you are much more likely to be able to intervene immediately and adequately if a customer ends up on a sanction list.



3. Additional data for a proactive compliance approach

Your internal data is usually a static and outdated collection of stand-alone data points, which therefore by definition falls short in terms of detecting threats from outside. If additional data flows into your systems about complex corporate structures or beneficial ownership, for example, this enables you proactively to tackle imminent risks.

Data and solutions from Altares Dun & Bradstreet

The Dun & Bradstreet Data Cloud, the world's largest commercial database, contains a wealth of compliance data. Includes information on more than 330 million companies worldwide, 100 million beneficial owners (for which ownership up to 0.1% is available), 1.5 million PEPs, 700 blacklists, global sanction lists, watch lists such as the Interpol Terrorism Watch List, lists of wanted persons, payment and trade data, judgments, media releases, directors and D-U-N-S numbers.

The database is fed from 30,000 sources and updated 5 million times daily. The patented DUNSRight™ process with numerous automatic and manual checks ensures that data is current, complete, reliable and consistent 24/7.

IndueD: watertight and efficient compliance process

IndueD is the due diligence platform of Altares Dun & Bradstreet, powered by the Dun & Bradstreet Data Cloud. Investigate and verify business relations at the touch of a button, bulk screen thousands of companies simultaneously, enrich their records with additional insights, continuously monitor your portfolio, and track digital audit trails.

Would you like to know more?

If you would you like to know more about the Dun & Bradstreet Data Cloud or indueD, go to www.altares.nl or www.altares.be. Or call our customer service in the Netherlands (010-7109560) or Belgium (02-4818300).