The customer is king

BANKS' EVER-INCREASING KYC REQUIREMENTS ARE HINDERING THE OPERATIONAL EFFICIENCY OF CORPORATE TREASURIES. HERE, ANNA MAZZONE EXPLORES SOME INNOVATIVE SOLUTIONS TO THE PROBLEM

ILLUSTRATION: SHUTTERSTOCK

In the past, banks just performed basic know-your-customer (KYC) checks on their new clients. Requests were fairly predictable in nature and adding services to an existing account generally didn't involve additional KYC requests. The globalisation of banking, the events of 9/11 and the financial crisis of 2008, have changed all this, however.

These events have led to increased regulations and rigorous enforcement by regulators. Banks are understandably tightening up on KYC due diligence in the face of hefty fines for non-compliance and, most importantly, the threat of reputational damage.

KYC checks performed on clients are now extensive, with additional checks for additional services. The list of document requests is increasing exponentially.

Moreover, requests vary by bank and by geography, and because there is no 'standard', it is difficult to predict exactly what information will be required. Facilitating these different requests slows an already time-consuming process.

By way of example, the documentation required to open a single bank account could include, *inter alia*: the passports of all signatories; the names, addresses and dates of birth of all directors; utility bills and bank statements for all authorised signatories; documentation regarding US tax status (W8-BEN); certified articles of association; certified articles of incorporation; confirmation of European Market Infrastructure Regulation (EMIR) status; confirmation of Dodd-Frank exemption; and board authorisations.

As James Kelly, head of treasury at Rentokil Initial, observes: "Collating the data can be nigh on a full day's work. KYC requests really slow execution." The result is that corporate treasurers are wasting time collecting documents and carrying out repetitive activities, and the client experience is suffering.

There is a further serious problem – the security of sensitive client information and the secure delivery of documents to the right person. Documents can get lost, even when sent by special delivery that requires a signature. This is a further waste of valuable time, since treasurers have to check that documents have arrived.

Email is not secure, since sensitive information can be intercepted. "We've had instances where we've asked signatories for passports, utility bills and dates of birth and they've been concerned about how they are going to be sent and what we are going to do with the data," Kelly explains. "I think we owe a duty of care to our signatories and anyone we are sending data on behalf of."

Different perspectives

Corporate treasurers are clearly facing a multitude of challenges surrounding the KYC requirements of different banks and their time-consuming, on-boarding processes. One statistic reveals that clients may wait for up to 34 weeks before they are fully on-boarded with a financial institution – each week of delay costs both the corporate and its banker.

When tendering for new business, banks may not necessarily disclose the extent of the documentation needed unless specifically asked, which adds to the difficulties faced by corporates.

But let us not forget that banks also face challenges. These include fines; operational, staff and IT costs; lost revenue due to customer attrition; and the threat of reputational damage if they fail in the KYC due diligence required by the five big regulations: Anti-Money Laundering; the Foreign Account Tax Compliance Act; EMIR; the Markets in Financial Instruments Directive; and Dodd-Frank.

For banks, there is no competitive advantage in implementing these regulations – they are simply requirements.

One fundamental problem is that, essentially, many banks do not view KYC from a client perspective at all. This is damaging bank/client relationships and surely presents an opportunity for banks to offer an efficient, value-added KYC function as a differentiating feature.

Kelly's perspective is this: "I think back to the days when I could open a bank account in 24 hours and now I am told that that's never going to be possible again because of KYC. If we can at least start to tame the KYC process, we might begin to see a bit of an improvement in service again."

Innovation to the rescue

KYC managed services are adding enormous value in this space by enabling quick and easy sharing of client identity documents via secure, web-based portals. The information is uploaded and can then be distributed to selected and approved financial institutions only.

The end client has full visibility and control over who can access and view strictly confidential information, and documents are held according to strict data and information security requirements.

These solutions aim to improve the end-client experience and essentially accelerate the ability to do business. Banks can effectively self-serve, checking the portal when necessary – requiring little more than confirmation that the information is up to date.

From an end-client perspective, these portals offer a quick, efficient way for corporate treasurers to manage their documents. Information can simultaneously be shared with multiple banks, rather than having to send individual sets of documents to each bank.

The time savings are self-evident and duplication of effort is virtually eliminated. Moreover, information is securely stored and delivery is guaranteed.

An added benefit to the end client is that the service is free, since the banks pay for it. Although KYC is an industry problem, it is the banks that must meet regulatory obligations, so it stands to reason that they should foot the bill. These costs can be onerous but, as a group, banks can share costs, making them more manageable.

There are many different platforms available, leading to the inevitable question of which one the banks should adopt. Many think that they should decide which KYC platform to use, but corporates can, and do, use multiple banks – the benefits to them are dramatically reduced if each bank uses a different platform or supplier.

As Kelly notes: "At Rentokil Initial, we transact with nine banks internationally and probably 100 more locally. Let's say that between them they end up with 10 different providers. The benefits that we get as a corporate from being able to share information are dramatically reduced because we have to remember 10 log-ins and provide the information 10 times. We really need to push the banks to adopt different systems. I think the choice of supplier should just sit with us."

Embracing the future

It is no secret that compliance requirements, especially around tax compliance, are only going to become more onerous. More and more strictly confidential information will need to be sent and received around the globe.

Innovation will ensure that these exchanges are both efficient and secure, allowing both corporate treasurers and banks to focus on maximising operational efficiency.

KYC managed service providers are bringing much-needed change by transforming the old model of 'many to many' to the new model of 'one to many'.

In the process, they may just be rescuing some failing relationships between corporates and their banks.

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A NOTE ON SECURITY

KYC managed service providers address the crucial concerns around information security. They are also able to streamline the process of sharing sensitive information across different legal entities and structures within banks by obtaining the necessary data privacy authorisations. As for banks requiring original documents, most of them are satisfied with electronic documentation and embedded client e-signatures to certify that documents are true copies. Similar technology is used for documents signed by a notary.

This article is based on an ACT webinar that took place on 17 February 2015. To view it in full, see www.treasurers.org/operationalefficiency

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