

CAN IT BE OUTSOURCED?

CONSIDERATIONS FOR
SELECTING A 'KNOW YOUR
CUSTOMER' AND ANTI-MONEY
LAUNDERING PARTNER

FOR CUSTOMERS, THE CHOICE BETWEEN YOUR FIRM AND THE NEXT WILL BE MADE ON THE BASIS OF SECURITY AND SERVICE QUALITY

Today's regulated markets are competitive, fast-moving and innovative.
Today's customers are informed, demanding and ready to shift their loyalty.

Together, these influencing factors create the ideal environment
for progressive firms to challenge and take market share.

More entrenched firms are finding they need to increase their focus on
creating effective, controlled processes that comply with principles-based
regulations and provide their customers with the level of service they expect.

Engaging third party suppliers for the delivery of key financial crime processes
is proving to be increasingly effective in this new environment.

BALANCING DEFENCE AND EXPERIENCE

Your customers expect fast and personalised service, from the minute they walk through the door, to their last transaction. Today's customers, who now have access to more information and options than ever before, will find it easy to transfer their loyalty if certain expectations are not met.

A general shift towards principles-based regulation has seen financial services markets become increasingly competitive - with firms given more freedom to develop controls that are relevant to their chosen markets and structure. With this freedom, however, comes increased responsibility to ensure that controls are risk sensitive, relevant and suitable for the task they were designed to perform.

Organisations that maintain heavy-handed, slow or otherwise outdated 'know your customer' (KYC), 'know your business' (KYB) or anti-money laundering (AML) processes are finding themselves becoming less competitive than their peers and less attractive to customers. Examples of weak processing include:

- Failure to maintain a 'single customer view' for each customer
- Failure to proactively monitor for changes to customer's KYC data - including failures to identify sanctioned and / or Politically Exposed Persons (PEP)
- Requesting customers provide KYC data that could be otherwise collected through non-intrusive checks
- Failure to correctly align customers to appropriate risk classifications
- Slow / inconsistent decision making
- Inadequate use of compliance resources that may lead to a backlog of reviews or compromised quality

In an increasingly digital world, in which we can open bank accounts on our phones and send money overseas with the click of a button (and in which data breaches have become common place) firms must manage the conflict between speed and control, between customer experience and security. In this digital world, effective KYC and AML controls have become more important than ever and, yet, they can also be more challenging.

In this paper, we will outline what firms can achieve through outsourcing their KYC and AML processes to a specialised partner. It's time to consider the benefits of outsourced processing and select your partner in financial crime defence.

CAN KYC / AML PROCESSES BE OUTSOURCED?

The simple answer is ‘Yes’. Outsourcing KYC and AML processes to experienced suppliers transfers some of the burden of delivering effective, competitive and customer centric processes to those suppliers. By ensuring that the service delivered is benchmarked against industry practice, it is possible for the supplier to provide solutions that meet all key performance metrics, which typically include:

- Customer satisfaction measures
- Quality
- Processing / decision speed
- Risk management (e.g. assessing the customer’s ‘financial crime risk’)
- Adherence to compliance requirements
- Cost efficiencies

For firms operating in regulated sectors, it must be noted that accountability for ensuring compliance cannot be outsourced. Skilled and experienced suppliers, however, frequently have extensive industry insight and so are ideally positioned to ensure that the processes meet, totally, a range of standards. Where the supplier combines operational delivery experience with expert financial crime advisory services, the partnership will be far more beneficial.

REGULATORY RESPONSIBILITY CANNOT BE OUTSOURCED.

BUT DELIVERY CAN

When working with a third party supplier, no matter the size, it is vitally important to have a clear view of who you are doing business with and what risk they are exposed to. Similarly to how your firm will collect KYC data and perform due diligence on its customers, firms need to perform their due diligence on their partners as well.

When outsourcing operational functions, the main party must also take reasonable steps to avoid adding undue operational risk; and not outsource functions in such a way as to impair the quality of internal controls or the FCA’s ability to monitor compliance with regulatory obligation.

ROUTINE, LABOUR-INTENSIVE PROCESSES
ARE THOSE MOST SUITABLE FOR HANDING OVER
TO A TRUSTED THIRD PARTY TO MANAGE. THESE INCLUDE:

KYC

INVESTIGATION
OF ALERTS

DUE DILIGENCE

CUSTOMER RISK
ASSESSMENT

SANCTION / PEP
CHECKING

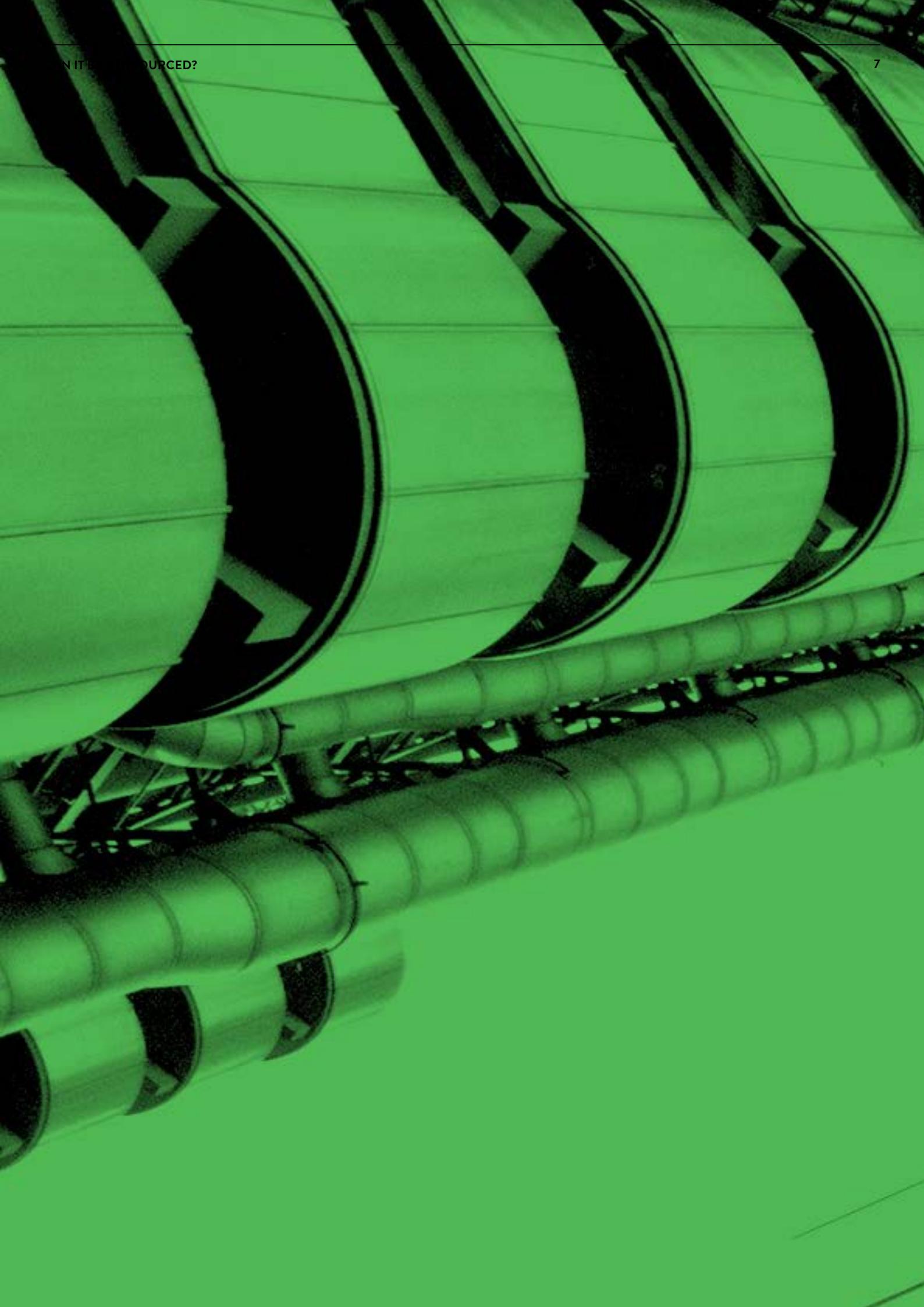
ROBOTIC
PROCESS
AUTOMATION

BENEFITS OF OUTSOURCING YOUR FINANCIAL CRIME PROCESSES

By studying the market in depth, Huntswood has found that firms are struggling both to deliver on financial crime processes (KYC being a particular point of pain for many firms) and struggling to balance security and compliance with customer experience. Customers often complain that they are repeatedly disrupted by their firm for ‘requests for proof’ that are unnecessary, not risk-sensitive or requested at multiple points within their journey as opposed to only once at onboarding.

Outsourcing financial crime processes to a third party supplier (especially one that offers both a technological solution and the advisory support to back it up) can mitigate many of the causes of customer complaints (through consolidated duplicitous processes and checks, for example) and deliver a number of other benefits, including:

- A single customer view file
- Development of an internal standard for KYC checking across multiple business units and align this with general industry best-practice
- Robust quality assurance and ongoing assessment
- Access to regulatory subject matter expertise that could help optimise procedures
- Real-time reporting of KPIs and capacity planning can be taken off a client firm’s hands
- Lower cost of KYC and AML checking and the related investigation processes (a cost that is increasing year upon year)
- Reduced onboarding times
- Ensure that ongoing checks are completed regularly and made fit for purpose
- Allow the client firm to keep pace with regulatory changes and manage regulatory requirements
- A third party supplier can manage multiple lists (such as sanctions lists) across various jurisdictions



FIVE BENEFITS OF A KYC / AML PARTNERSHIP



A FOCUS ON VALUE
CREATION

COMPLIANT
PROCESSES

FLEXIBILITY AND
CONTINUOUS
EVOLUTION

TRANSPARENT
GOVERNANCE

ORGANISATIONAL
CULTURE

1

FOCUS ON 'VALUE CREATION AND OUTCOMES'

Achieving 'value' in terms of a financial crime control process means more than just meeting compliance standards. Your outsourcing partner should be well-versed in current regulation and be able to articulate their approach to current FCA principles, specifically, those related to the defence against financial crime.

Regulatory compliance should be considered the minimum threshold for any firm, with additional design priorities to include:

- **ENABLING DELIVERY OF STRATEGIC GOALS**
Ensuring that the KYC solution offered enables growth into your firm's chosen markets and does not, in fact, become a constraint
- **OPERATIONAL COST OF DELIVERY**
As noted earlier, labour-intensive, routine processes such as KYC during onboarding, sanctions and politically exposed person (PEP) checking and similar operations can be made significantly more efficient by outsourcing them to a focused, dedicated partner, delivering significant cost reduction benefits for your firm

- **COMPETITIVE ADVANTAGE**
KYC continues to be a significant cost to business. With the more routine and low-risk operations outsourced, firms can use their 'freed-up' resources to focus on innovation and stepping through to new markets and opportunities.
- **STRATEGIC FLEXIBILITY**
Many KYC models are inflexible, reliant on dated technology and process design that cannot keep pace with current development. There can be a temptation to stick with an existing solution for simplicity and security's sake rather than change to a less costly, higher quality and more flexible alternative. Sometimes, the leap of faith and amount of trust required can prove too much for firms, though a partner offering appropriate advisory support

should help alleviate that concern.

- **GREAT CUSTOMER EXPERIENCE**
Your customers should recognise your organisation as being both better to engage with and more secure than your competitors. It should be easy for them to open accounts and to transact. A good outsourcing partner will work with you to deliver processes that increase customer experience, while also defending you from potential criminals.
- **HARNESS DATA AND TECHNOLOGY**
An exceptional third party supplier will be one that owns an effective technological infrastructure and can integrate it with your own. Bespoke workflow solutions such as this will allow for a more effective operational model, removing duplicated processes and enriching data.

2

COMPLIANT PROCESSES

When choosing a supplier, you should ensure that they thoroughly understand not just the technology required to provide KYC, sanction and / or PEP checks, but also have deep knowledge of the regulatory and risk landscape.

A third party supplier will enable you to better benchmark your processes against other firms, as they will have an understanding of the industry beyond that of a large, inwardly focused firm. By outsourcing various regulatory processes, you will be entrusting them to a partner who has likely ‘seen it all’ and ‘done it all’.

Better still, an outsourcing partner that employs individuals who are experienced at managing and overseeing financial crime processes will understand the practical challenges involved in making the process and controls work.

In some cases, suppliers have great technology skills but little regulatory or practitioner experience, or they could be great at providing advice, but have not been responsible for managing processes. A shortage of balanced skills and experience is unlikely to provide the right outcome.

Regulatory assurance can be achieved with the right balance of:

- Advisory support
- Technological solutions (such as Robotic Process Automation)
- Complete or tailorable workflow management
- Skilled case handlers

Your financial crime outsourcing partner will not simply make processes easier, they will fully understand financial crime risk.

ENSURE YOUR CHOSEN PARTNER UNDERSTANDS THE IMPORTANCE OF EXISTING, COMPLEX REGULATIONS APPLICABLE TO YOUR COMPANY (E.G. INFORMATION SECURITY, DATA PRIVACY, ETC).

KEEP YOUR CUSTOMER IN MIND

3

FLEXIBILITY AND CONTINUOUS EVOLUTION

As the saying goes:



**A BUSINESS
THAT DOESN'T
CHANGE IS A
BUSINESS THAT'S
GOING TO DIE.**

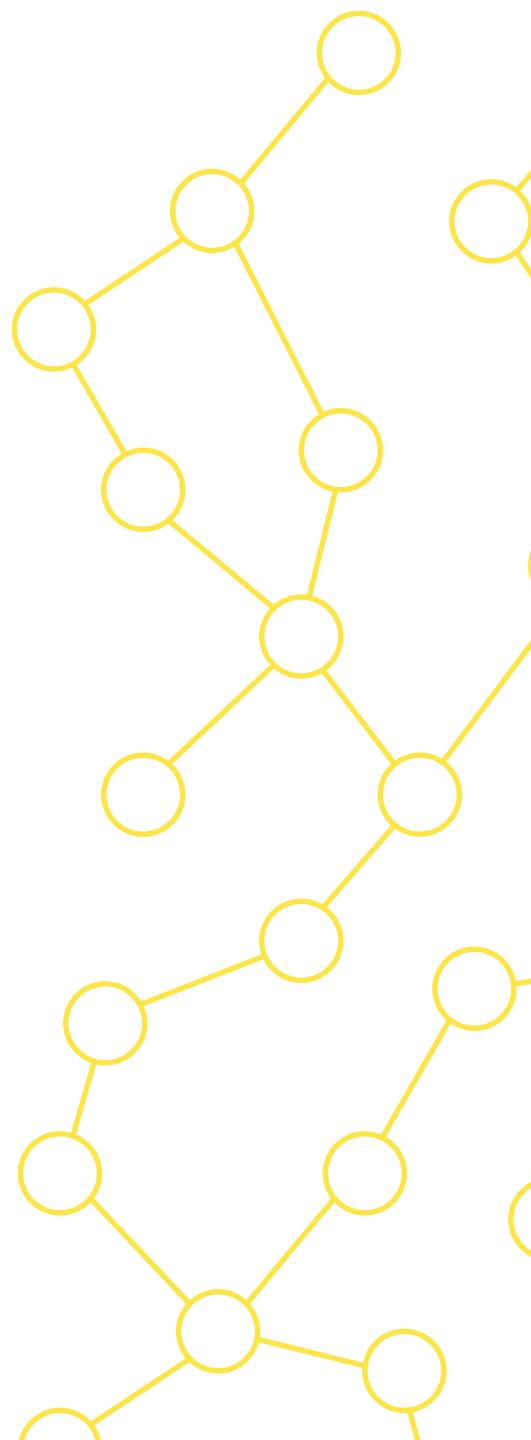


This maxim holds true even, and especially, within financial crime. As the financial crime landscape continues to evolve with the emergence of digital technologies, new methodologies and ever-increasing complexity, firms will need to respond by constantly evolving and improving their processes.

One of the things that we have found clients constantly calling out for from an outsourcing partner is the need for flexibility - for partners that can tailor their offerings to their clients' needs. There is no single KYC standard, much to the pain of many within the industry, so a partner that can tailor their offering to suit, or even improve, processes currently in place within a firm will be a valuable one indeed.

Key to flexibility and continuous evolution is an appropriately worded contract that caters for changing requirements from the outset. This could take the form of a 'contract for services', as opposed to a specific and perspective work order that would prevent a third party partner taking a truly flexible approach. An internal drive to integrate RPA into a partnership can also yield multiple benefits for both business and customer.

It is worth investigating how much of a service level agreement or contract is set aside for innovation or the management of talent and performance. Do you believe your teams are well-rounded enough to cover all of your organisation's needs - now and into the future?



4

TRANSPARENT GOVERNANCE

Ensuring appropriate and ongoing governance is an organisation's responsibility, as companies cannot contract out their regulatory obligations, and should therefore take reasonable care to supervise the release of outsourced functions. Before entering into an outsourcing arrangement, an organisation should analyse how the arrangement will fit with their own:



REPORTING STRUCTURE



BUSINESS STRATEGY



OVERALL RISK RATING PROCESS



ABILITY TO MEET REGULATORY OBLIGATIONS

Service Level Agreements (SLA's) should be drafted with regard to:

- The identification of qualitative and quantitative performance targets to assess the adequacy of service provision
- The evaluation of performance through service delivery reports and periodic self-certification
- The independent review by internal or external auditors
- The remedial action and escalation processes for dealing with inadequate performance

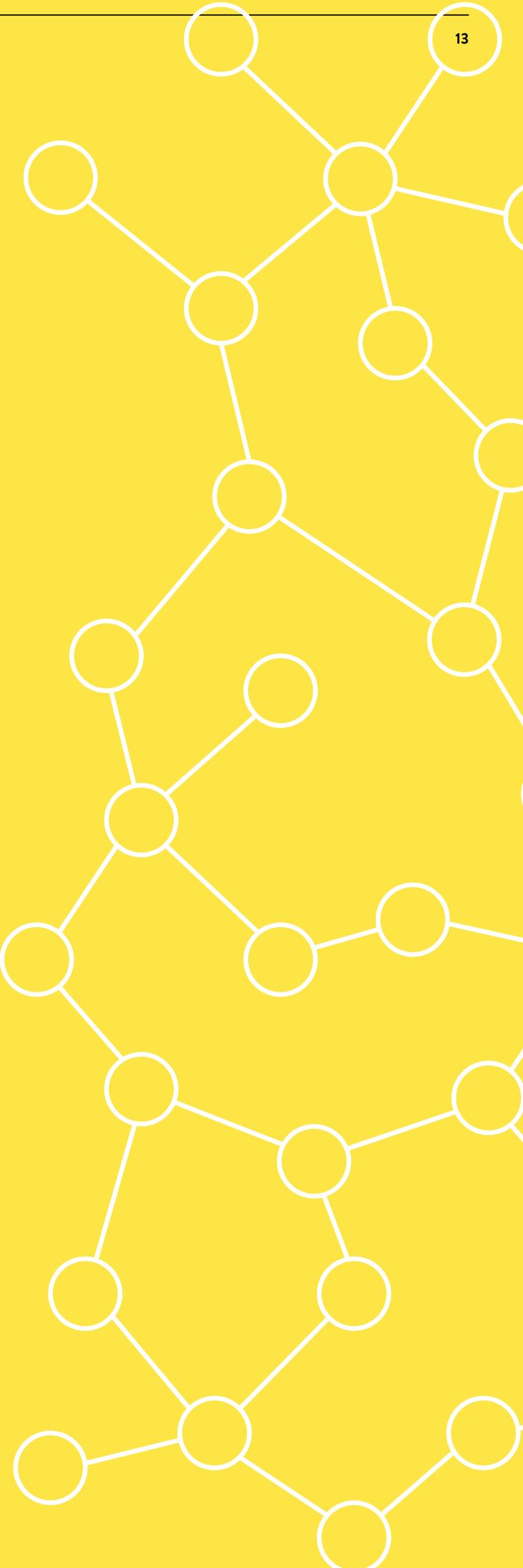
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ORGANISATIONAL CULTURE

The right fit, in terms of company culture, should be considered a critical element when choosing an outsourcing partner, as there is a clear link between poor culture and poor conduct. Investigate whether your chosen service provider has the right compliance culture and that they view financial crime risk and risk rating in the same way as you. Business processes and people all contribute to the overall culture of an organisation: they should ‘live and breathe’ the values of your firm and be dedicated to protecting your customers, your firm and markets in general from harm.

Setting the right culture goes a long way to guarantee a successful partnership aligned with business, defence and regulatory outcomes. Do you think they will be easy and reasonable to do business with, as well as compliant with the letter of the contract, legislation and regulation?

It is imperative that outsourcing is viewed as a partnership. Your provider should understand and embrace your company’s vision and values, aligning to the cultural standards that you wish to achieve.



HUNTSWOOD, YOUR PARTNER IN FINANCIAL CRIME DEFENCE

Financial crime controls will certainly always present firms with a significant, ongoing cost and risk causing disruption (no matter how necessary) to the customer experience. Firms also often struggle to benchmark their arrangements against their peers and find it even more challenging to adapt their existing processes with sufficient pace to benefit from advances in technology.

However, by outsourcing certain elements of financial crime controls - such as KYC during onboarding, continuous sanctions and / or PEP screenings (or screenings of other kinds) - or selecting a partner that owns an automated workflow solution, firms can minimise both the costs and risks associated with financial crime defence.

THE HUNTSWOOD KYC MANAGED SERVICE CAN PROVIDE FIRMS WITH AN EFFECTIVE SOLUTION TO THE KYC CHALLENGES, ENSURING THAT;



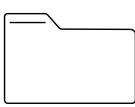
CLIENTS RECEIVE EXCELLENT SERVICE



REGULATORY COMPLIANCE OBLIGATIONS ARE SATISFIED



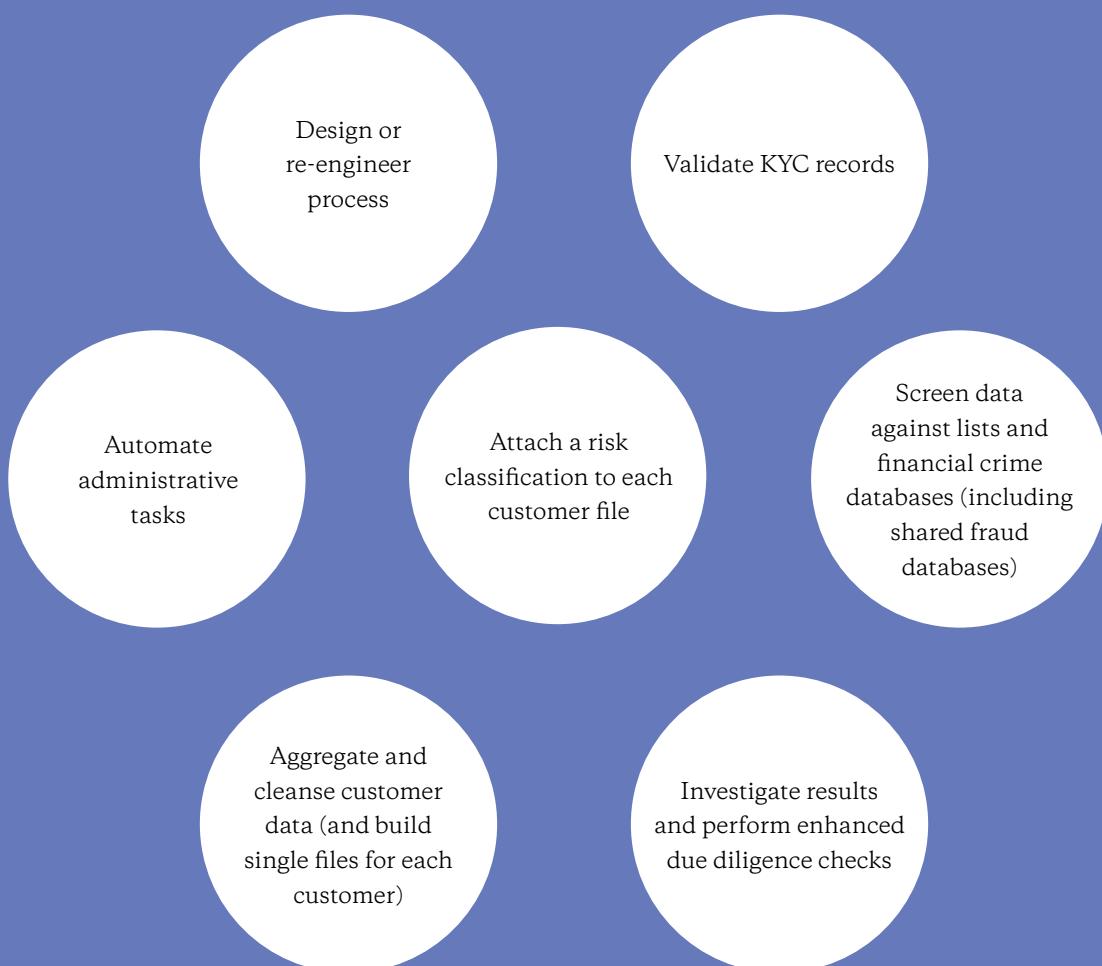
CHANGES TO DATA ARE DETECTED AUTOMATICALLY AND ARE UPDATED WITH MINIMAL CUSTOMER DISRUPTION



YOUR PEOPLE SPEND LESS OF THEIR TIME BUILDING CASE FILES AND INSTEAD SPEND MORE TIME EVALUATING THE RESULTS

OUR SOLUTIONS PROVIDE OUR CLIENTS WITH ACCESS TO LEADING, INNOVATIVE SOLUTIONS.

WE CAN;





ABOUT HUNTSWOOD

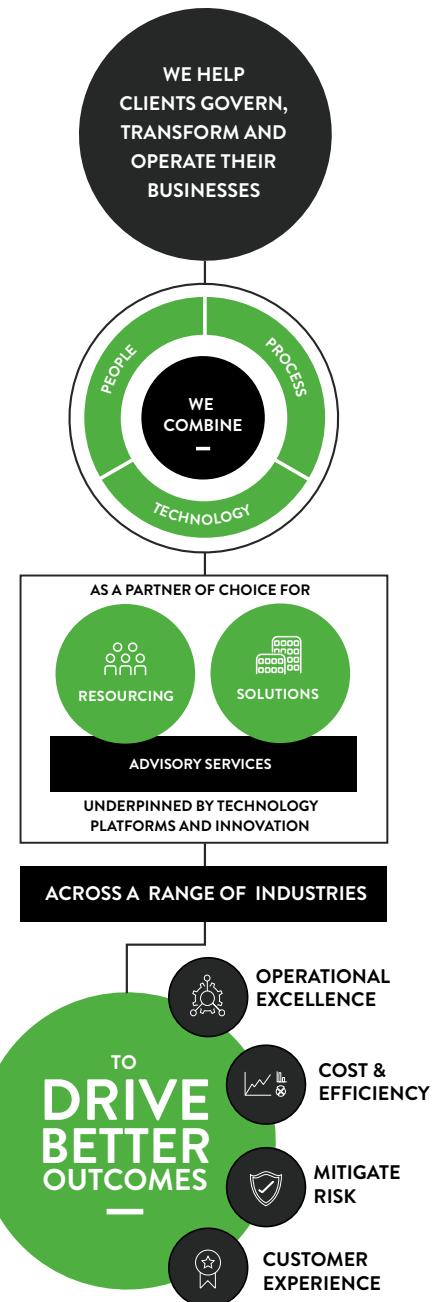
We help firms govern, transform and operate their businesses to drive better outcomes.

When our clients need support, it almost always involves customer considerations, it is often multi-channel and always requires an approach that is compliant with regulation.

In our engagement with clients we are, above all else, collaborative and always at the forefront in the development of innovative, tailored and transformative solutions. These typically combine people, processes and technology to drive better customer, commercial, and regulatory outcomes.

Our services include resourcing and outsourcing solutions, backed up by an expert advisory capability.

We have a solid reputation for being easy to work with, which has been earned through continuous improvement and consistency in exceeding our clients' expectations throughout all stages of delivery.



AUTHORS



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Matt is a Director at Huntswood, leading the development of Huntswood's external engagement strategy, to help position and support our brand and services within the marketplace.

Matthew has a background in conduct regulation and professional services having worked as a supervisor at the Financial Conduct Authority (FCA) and for two of the "Big 4" advisory firms, where he led and contributed to work in relation to Conduct Risk.

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