



KPMG's Customer Due Diligence Managed Service Solution

KPMG International

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Know Your Customer (KYC)/Customer Due Diligence (CDD) operations: A costly and labor intensive challenge for financial institutions

Financial institutions spend an average of USD\$48M a year on KYC/CDD operations with some major financial institutions spending USD\$500M annually, yet many struggle with inefficient and ineffective delivery centers while non-compliance fines are on the rise¹. Leaders at major financial institutions have increased their focus on reducing the cost of compliance by improving the efficiency and effectiveness of KYC/CDD operations.

KYC/CDD operational challenges are considerable. They include:

Process Inefficiencies

Globally inconsistent, fragmented and non-standardized KYC/CDD processes with limited end-to-end automation resulting in lower staff productivity and rework.

Fragmented Data

Siloed, duplicative and inconsistent data (structured and un-structured) offers limited ability to search and access internal and/or public sources to meet compliance needs.

Minimal Technology Investments

Increased case volumes call for continuous investments in technical capabilities (e.g., Case Management, AI) to adequately scale operations and minimize investment in human capital.

Negative Customer Experience

Cumbersome and disjointed on-boarding and periodic customer refresh processes and systems resulting in redundant and inconsistent customer outreach to collect and verify KYC/CDD data.

Labor Intensive Operations

Significant manual processing creates an unattractive workplace, with redundant activities and poor controls resulting in sub-optimal quality and rework.

Limited Controls

Increased AML/KYC requirements have raised “the cost of doing business” through additional controls (e.g., manual, systematic) required to meet compliance needs.

In this environment, leadership at major financial institutions need to consider a new approach to KYC/CDD compliance — Managed Services. A Managed Service delivery model will enable them to deliver efficient KYC/CDD business operations with a reduction in the total cost of KYC/CDD compliance, an enhanced customer experience, and improved risk management/financial crimes compliance.

“The reality in this business is that significant inefficiencies exist in financial institutions’ AML/KYC operations. We continually see operations management struggling to address increasing case volumes, aggressive processing cycles, talent management issues, ever changing compliance requirements and a need for high quality outputs all while balancing the need to do more with less.”



Binoy Pilakkal
Principal, KPMG in the US

¹ “Know Your Customer Will Be A Great Thing When It Works.” Forbes, July 10, 2018

Business Impact: Analyzing Cost Drivers in KYC/CDD Operations

The cost of KYC/CDD operations can be broken down into three broad categories:

- **People-related costs (64%)²** — Over half of the costs associated with KYC/CDD operations are related to management and staff salaries and benefits.
- **Technology costs (32%)²** — A third of the costs are driven by maintaining existing legacy applications and managing internal and external data integration issues that support different aspects of the KYC/CDD process. Moreover, the constant investment in new technology and required technological infrastructure contributes to high costs.
- **Content costs (4%)²** — These costs are associated with information acquisition for the banks' customers that are readily available from public sources and data aggregation providers. Content costs are often driven up in banks that use multiple screening content providers that require costly licensing fees.




² "Anti-money laundering compliance costs US financial services firms USD\$25.3B per year," LexisNexis Risk Solutions, October 11, 2018

KPMG's KYC/CDD Managed Service as a solution





KPMG's KYC/CDD Managed Service solution is designed to help financial institutions reduce the overall cost of the KYC/CDD function by optimizing the manual operations so that the staff can focus on value-add services. By leveraging KPMG's KYC/CDD Managed Service model, financial institutions can:

- Lower their cost of compliance, deliver consistent quality and improve the client experience
- Anticipate and prevent the conditions that prompt increased government scrutiny and the possibility of lengthy investigations
- Avoid costly remediation to repair identified deficiencies, freeing up resources for other customer focused initiatives

Financial institutions typically spend **900** minutes to conduct a KYC/CDD client refresh; with KPMG's KYC/CDD Managed Service solution, we have been able to reduce processing time to **400** minutes.

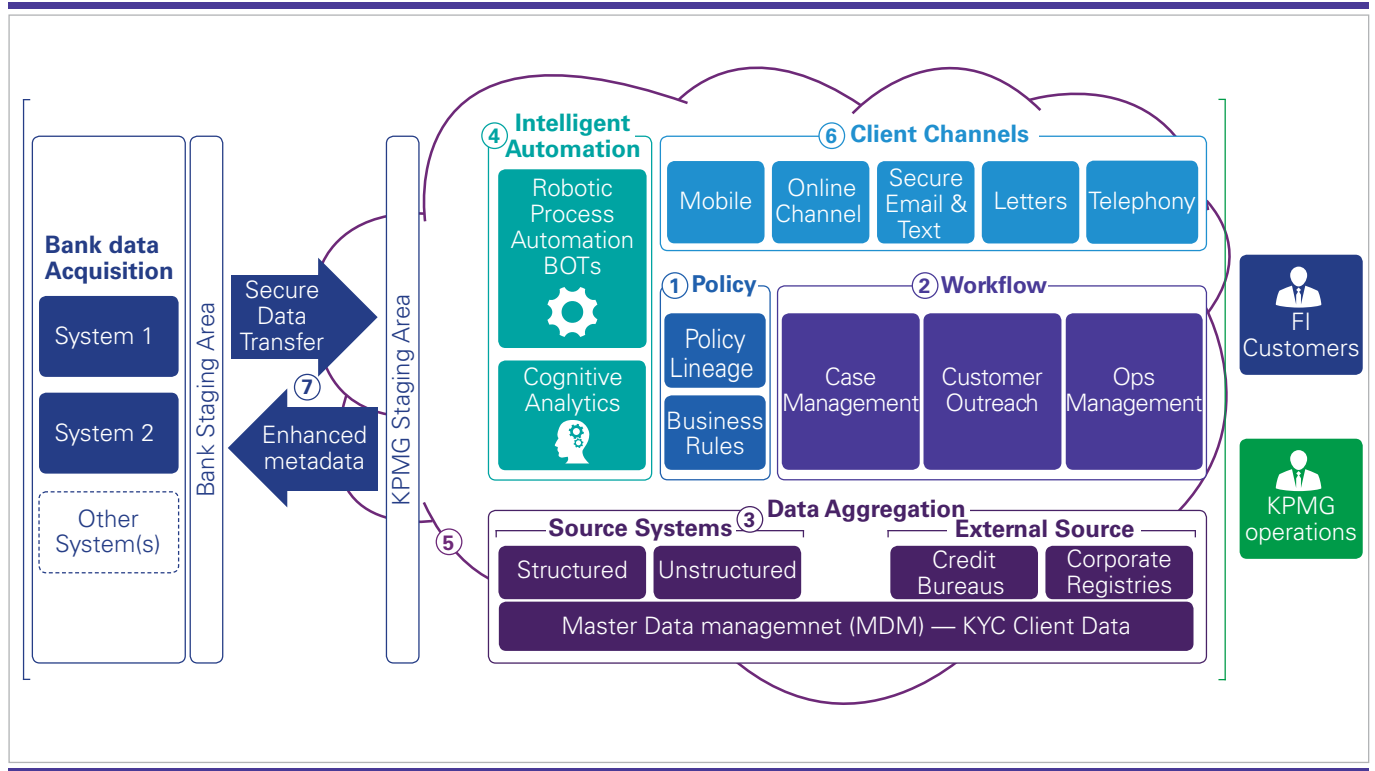


KPMG has identified four critical areas in which the KYC/CDD Managed Service model optimizes efficiency and case resolution time:

<p> Pre-KYC/CDD</p> <p>Average Handling Time (mins)</p> <table border="0"> <tr> <td>Financial Institution</td> <td>KPMG</td> </tr> <tr> <td>125</td> <td>→ 40</td> </tr> </table>	Financial Institution	KPMG	125	→ 40	<p>Effective KYC/CDD operators should identify potential risks early in the process. KPMG's KYC/CDD solution automates both the identification of data conflicts and the construction of individual electronic customer profiles by leveraging a rules-based approach. This streamlined process enables timely identification of customers for risk-exit consideration.</p>
Financial Institution	KPMG				
125	→ 40				
<p> Data acquisition</p> <p>Average Handling Time (mins)</p> <table border="0"> <tr> <td>Financial Institution</td> <td>KPMG</td> </tr> <tr> <td>200</td> <td>→ 20</td> </tr> </table>	Financial Institution	KPMG	200	→ 20	<p>KYC/CDD is largely a data model problem — and KPMG addresses this problem by optimizing the acquisition of data on an ongoing basis. Automating the data acquisition process can reduce the average handle-time (AHT) from 250 to 20 minutes. We achieve this result by automating sourcing from bank systems and in turn automating verification of customer data using third party databases (e.g., Equifax, Dun & Bradstreet). This data is then run against the data collection rules that have been decomposed from the financial institutions policies.</p>
Financial Institution	KPMG				
200	→ 20				
<p> Customer outreach</p> <p>Average Handling Time (mins)</p> <table border="0"> <tr> <td>Financial Institution</td> <td>KPMG</td> </tr> <tr> <td>175</td> <td>→ 110</td> </tr> </table>	Financial Institution	KPMG	175	→ 110	<p>Maintaining ongoing communication with customers is critical in ensuring that the data and documents meet KYC/CDD requirements. KPMG's KYC/CDD Managed Service optimizes the customer outreach process through digital strategies that proactively engage customers and tailored RFI's that ask customers only the questions appropriate for their KYC/CDD profile. In this model, customers digitally self-certify information and submit documents electronically, through a customer portal. Letter and chaser cycles are also fully automated.</p>
Financial Institution	KPMG				
175	→ 110				
<p> KYC/CDD review</p> <p>Average Handling Time (mins)</p> <table border="0"> <tr> <td>Financial Institution</td> <td>KPMG</td> </tr> <tr> <td>400+</td> <td>→ 230</td> </tr> </table>	Financial Institution	KPMG	400+	→ 230	<p>KPMG achieves significant process optimization with analysis that focuses on decision making rather than data collection. Automated QC drives both efficient execution and continuous learning. Moreover, process improvement is driven by holistic financial review and automated summary generation to improve business decision making. Finally, we provide a full audit trail with recorded links to core documents throughout the process, in compliance with KYC/CDD requirements.</p>
Financial Institution	KPMG				
400+	→ 230				

KPMG’s KYC/CDD Managed Service model combines domain/subject matter expertise, technology and data, and operational excellence to help deliver scalable, high quality and cost effective services.

KPMG is able to drive down the average handling times based on our comprehensive KYC/CDD solution that encompasses state-of-the-art technologies that provide world-class KYC/CDD compliance capabilities. KPMG’s KYC/CDD architecture is a holistic solution that brings together all of the components of the KYC experience from case initiation, requirements gathering, client outreach, and case completion, all on a scalable cloud infrastructure.



- ① Policy Lineage/Rules**
 - **Policy lineage** and **traceability** to determine the **right set of questions** to be asked based on customer type
 - **Complex policy rules engine**
- ② Workflow–Case Management**
 - Automate business processes **to support end-to-end process orchestration**
 - **Event based processing** and role based assignments
- ③ Data (Internal/External)**
 - Obtain data **from internal and external sources** (e.g., Credit Bureaus, US corporate registries)
 - Harvests **public information** direct from primary sources
- ④ Intelligent Automation**
 - **Automation** of highly repetitive **manual tasks**
 - **Leverage NLP** to **extract data** from documents
 - Implement **intelligent interactions** leveraging AI to **facilitate customer interactions**
- ⑤ Cloud**
 - **Cloud** will provide the ability to **scale the infrastructure** to align with **volume increases**
- ⑥ Client Channels**
 - Enable online channel for **self-service capabilities**
 - Provide **omni-channel experience**
 - Integrate with the bank’s **existing infrastructure/ channels**
- ⑦ Integration Layer–Secure Data/Documents Exchange**
 - **Exchange data and documents** with bank’s systems in a **secure way**



Case Study 1

Top 10 Global bank

After trying unsuccessfully to develop a solution to combat financial crime, a global bank client headquartered in China sought KPMG's assistance in creating a scalable solution to review 440,000 customers against its financial crime policy standards over a four-year period. The bank wanted to move from a compliance tick-the-box exercise and implement a holistic process that would provide an audit trail. Equally important, the bank wanted to improve the customer experience by leveraging information customers had already submitted.

KPMG implemented new regulatory technology tools and provided a managed service solution through a dedicated operational center. The combination of advanced technologies and regulatory domain knowledge allowed for the codification of regulatory and policy rules into an operational workflow. A customer portal was designed and installed on the bank's website so that customers had a single login to self-clear open items. The bank's workflow system now creates an electronic file — allowing the bank to make holistic decisions with a fully auditable process.

All the applications and customer data are held in a secure cloud environment, which has been approved by the regulator.

Results and lessons learned

The client has an automated process designed to improve its protection against financial crimes. The compliance process, which in the past took 11 hours per case, now takes fewer than 5 hours, providing significant operational efficiencies and savings to the bank. With this solution, KPMG helped the bank:

- Deploy the solution within six months
- Price the solution on an outcome based, per case model, independent of initial technology start-up cost
- Reduce end-to-end case processing time by approximately 50 percent and attain high first-time-right quality scores
- Leverage customer analytics to improve monitoring of financial crimes and enable the bank to enhance its relationship with customers based on a deeper understanding of their business activities and potential future needs



Case Study 2

Top 3 investment bank

A KPMG investment banking client sought a multi-year partner to assist in reviewing a significant volume of customer files in keeping with Anti-Money Laundering requirements, enabling it to complete the work within the mandated timeframe. Working closely with the client, KPMG's Managed Services team designed and mobilized an on and offshore operation to complete the review population on a yearly rolling basis.

KPMG's initial priority was to mobilize the operation, with a pilot team receiving intensive training on the client's system and policy. This accredited team was able to train the broader group of KYC analysts and Quality Control (QC) staff within 8 weeks. KPMG ensured integration with the client organization was efficient from the outset and built a real partnership with the client leadership and team members.

KPMG has delivered an outsourced KYC operation for 4 years, achieving consistently high quality assurance scores with 130 resources across Leeds (UK) and India.

Results and lessons learned

With this solution, KPMG helped the client:

- Maintain a full scale on and offshore operation to meet client requirements
- Exceed the client's internal quality standards by achieving a consistent 96 percent pass rate at QA, delivered ahead of case completion targets. More recently the client has used KPMG professionals to supplement its internal QA team to provide assurance on in-house reviews
- Completed an in excess of 15,000 client files to the required quality and timeframes over the period
- Achieve efficiencies by capping our monthly fee based on agreed number of cases and quality standards processed per month

How KPMG can help drive sustainable benefits

KPMG has a demonstrated history of working with clients to implement scalable and efficient KYC/CDD solutions that deliver quality service to customers and people.

We are a leader in KYC/CDD Managed Service

KPMG is currently operating multiple turn-key KYC/CDD refresh operations supporting leading global financial institutions.

We have mobilized large KYC Refresh operations in a Global Delivery model

KPMG's proven service delivery framework leverages our deep KYC/CDD mobilization/transition and operations experience to reduce delivery risk and achieve targeted outcomes.

We have deep domain knowledge in AML/KYC and QC/QA

KPMG has deep domain knowledge in regulatory compliance, AML/KYC policies and operations and will decompose a client's policies to define data/document requirements, create/ refine procedures that align with the policies, and embed our AML SMEs in the operations.

We deliver results... both high quality outcomes and significant cost savings

KPMG is committed to delivering significant cost savings and improving KYC/CDD Refresh cycle times and quality scores.

We have a portfolio of technology and IP assets

KPMG's KYC/CDD Technology components automate the construction and completion of the Customer KYC/CDD Record, which drives efficiencies and improves case cycle times.

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