Don't lose your customer during KYC refresh

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KYC refresh considerations to enhance the customer experience

Lured by the flexibility, convenience and customer-centric experience offered by financial technology firms and other companies offering alternatives to traditional banking, there is an extremely competitive landscape for customer loyalty in the financial services industry. Customer experience is a critical differentiator for establishing customer loyalty and must be considered even within risk mitigation programs, such as in Know Your Customer (KYC).

Unfortunately, across the financial services industry, KYC refresh is predominantly treated as an administrative exercise consisting of scheduled reviews that yield little to no meaningful risk mitigation, and often strain client relationships due to poor customer experiences related to the inconvenient, cumbersome, and, at times, invasive requests for information and documentation.

While Financial Crimes Enforcement Network (FinCEN) recent guidance[1] may accelerate a shift to risk-based, event-driven refreshes that can pave the way to more positive customer experiences (and better risk management), the accompanying infrastructure and operational changes required will mean long timelines and significant investments required for implementation.

However, there are other program considerations that institutions should consider in order to enhance the customer experience during the KYC refresh process:

- Evaluate if outreach is necessary
- Meet customers' expectations of simplicity and convenience
- Explore alternatives to the customer outreach model
- Manage and prioritize the refresh population
- Enable data-driven reporting to prevent or forecast bottlenecks

What follows are program considerations and what institutions are exploring or have implemented across the financial services industry to address them.

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[1] FIN-2020-G002: Frequently Asked Questions Regarding Customer Due Diligence (CDD) Requirements for Covered Financial Institutions.

Evaluate if outreach is necessary

Across the industry, institutions have begun to evaluate the criticality or risk mitigation value of the KYC requirements that most often result in customer outreach. For example, while identifying beneficial owner information serves a legitimate purpose in the detection of financial crimes, is requiring an annual signed attestation providing any additional risk mitigation value? If the underlying person exerting significant control undergoes change, does the requirement to obtain primary identification (e.g., copy of driver's license) provide any additional risk mitigation value for a domestic, low risk rated customer?

To address this, institutions should evaluate and inventory KYC policies and procedures, with the objective of standardizing them across lines of business and rationalizing documentation requirements that cause significant pain points during KYC refresh but yield little to no risk mitigation value.

Another approach used by institutions has been to leverage third-party data providers and KYC utility models, such as that recently developed by a consortium of six banks in the Nordic region,[2] to access centrally stored customer data. Enabled by connectivity to these data repositories, available KYC information is pre-populated into the KYC refresh file to reduce the information requested during customer outreach. In certain instances when all required customer information can be sourced from a data provider, such as confirmation that there has been no changes to customer information collected at onboarding or the last refresh, the need for customer outreach may be altogether eliminated.

[2] "Nordic KYC utility takes shape," October 2019, *Global Trade Review website*, www.gtreview.com/news/europe/nordic-kyc-utility-takes-shape/, accessed October 25, 2020.

Meet customers' expectations of simplicity and convenience

As the world becomes more digital, customers have come to expect simplicity and convenience, and these expectations are carrying over to their banking relationships. This increasing expectation for simplicity and convenience is not just a retail-centric shift; it is also occurring for commercial banking products. For example, more customers expect a simple interface with forms pre-populated for review combined with the convenience of multichannel delivery (e.g., the option of physical documentation to a branch or ability to submit electronically).

Across the financial services industry, institutions are exploring or have implemented the following to meet customers' expectations:

Secure self-service digital portals that guide a customer through a step-by-step process to complete all required information for a KYC refresh

Customer-completed KYC profiles through secure self-service digital portals eliminates email traffic that is difficult to manage efficiently. Additionally, self-service portals enabled with electronic signature capabilities avoid the need for paper documents or required physical signatures.

For the customer, the self-guided process provides simplicity, convenience and security. As an added benefit to the financial institution, self-service portals with mandatory fields confirm that all required data is reviewed and submitted, serving as a systemic or "built-in" quality check, as well as enabling more targeted outreach based on only what is missing. Overall, this reduces processing time and the need for multiple instances of customer outreach.

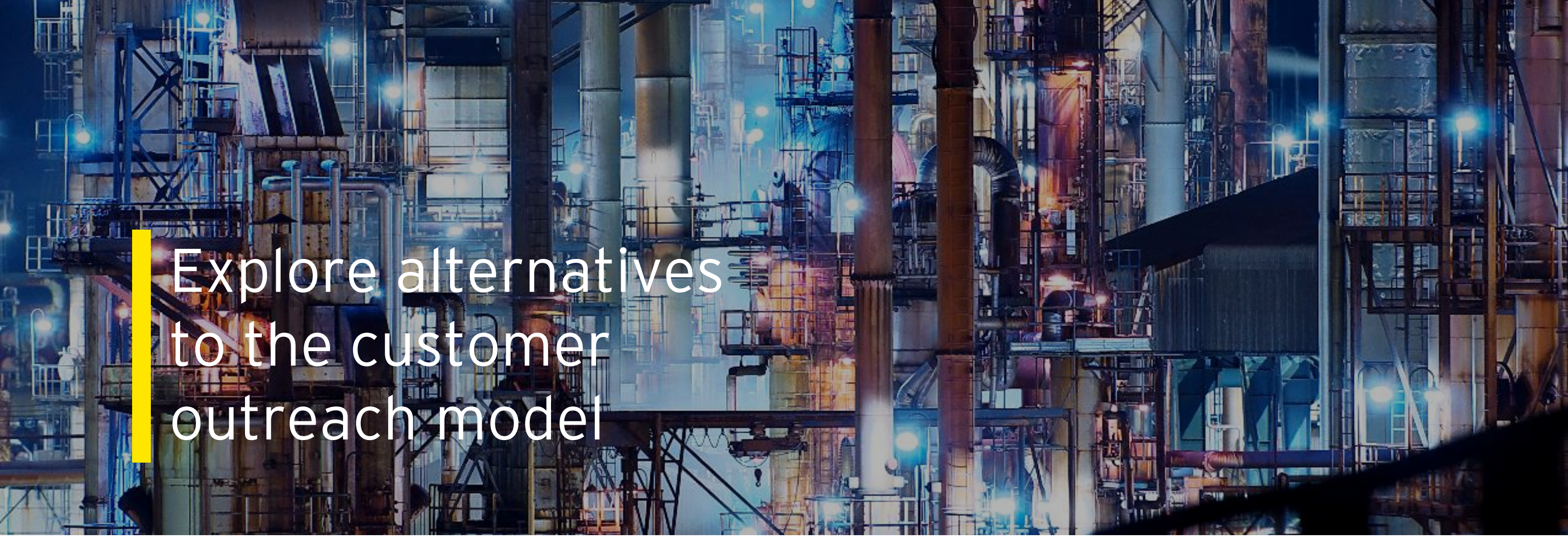
KYC platforms that can enable programmatic generation of KYC requirements based on key attributes, such as entity type, jurisdictions served or products used

Digital KYC platforms that automatically generate mandatory fields based on key attributes can be greatly beneficial in confirming that all required data is collected in accordance with policy requirements, in one consolidated request to the customer.

For the customer, digital KYC platforms that automatically generate mandatory fields reduce the need for multiple requests and forms (e.g., a customer completes the standard KYC form, a risk rating is assigned in a separate KYC process step, then, based on risk attributes, the customer may be contacted again to fill out a high risk or enhanced due diligence form). Digital KYC platforms can also be used to determine the optimal set of documentation required to satisfy a holistic set of requirements. For example, the KYC platform can be designed to identify what relevant documentation will maximize coverage for all possible document requirements, as well as group documents by policy expiration dates, thus reducing the overall amount of outreach required.

Technology enablers that reduce manual processes

Whether stand-alone or integrated within the deployment of other KYC program enhancements, such as self-service portals, the use of technology enablers results in better outcomes for the customer experience. Financial institutions, specifically large banks that may have upwards of thousands of KYC profiles to refresh annually, have successfully used application programming interfaces (APIs) to automatically source internal and external data sources to reduce error-prone manual processes, aid in pre-populating KYC forms and automate negative news searches. For the customer, this can result in a more comprehensive request for information during initial outreach and visibility into missing documentation or requirements.



Explore alternatives to the customer outreach model

The typical customer outreach model across commercial lines of business is through sales or relationship managers. As the interface to the customer, the sales or relationship manager is typically charged with collecting required information and documentation, usually in the form of a request for information (RFI) to the customer. Typically, the majority of KYC refreshes that require an RFI will result in multiple outreaches to complete all requirements in the RFI. The count is typically much higher for more complex or riskier relationships.

Not surprisingly, the constant outreach to the customer is often frustrating and erodes the customer experience, overall impacting customer loyalty and retention.

Institutions are increasingly exploring alternatives to the customer outreach model, such as:

Support for sales and relationship managers

Sales and relationship managers are often asked to convey KYC requirements to the customer. In less mature programs when the customer is not accustomed to the KYC refresh, relationship managers may find themselves fielding questions from the customer on context for the request or pursuing alternative solutions for missing documentation. Moreover, there is often a disconnect between sales and KYC operations teams on acceptable RFI responses. For example, a typical RFI question is: does the customer have controls for operations in high-risk jurisdictions? While a response of "yes" can be technically correct as an RFI response, the expectation often is a risk narrative describing unique jurisdictional risks and company-specific controls for mitigating those risks.

A key driver in reducing additional outreach is a dedicated help desk or outreach team that supports sales and relationship managers to help clarify requirements and acceptable responses, suggest documentation alternatives or provide context for a request if they expect a customer may challenge an RFI. Another similar approach has been to embed KYC subject-matter advisors with the sales and relationship teams. In both instances, the key to success is that the help desk, outreach team or KYC subject-matter advisors have a deep understanding of KYC requirements so that they are not simply a "middleman" passing information back between KYC operations and sales but can provide valuable context and insight.

As an alternative, institutions have explored direct outreach to the customer by the KYC operations team. Success with a blended approach first (sales and KYC operations jointly reaching out to the customer; KYC operations joining conference calls with the sales team to lead RFI discussions) may indicate the institution is ready to explore more direct outreach by KYC operations.

Customer-centric alignment of KYC operations teams

Grouping KYC operations team members by specialization — relationship, region, industry or revenue tiers (highest-performing team members dedicated to highest-revenue customers) — has been found to improve the customer experience. The specialization enables KYC operations to share tangible examples for risk-related RFIs. For example, a KYC specialist focused on customers that are pawn shops, typically viewed as a high-risk industry among most institutions, can readily share examples of how state-specific laws that regulate and license pawn shops can also be effective BSA and AML risk mitigants and provide specific guidance on information to collect from the customer.

This approach not only aligns analysts to policies, customers and services that they are familiar with but also supports the relationship development between relationship managers and KYC operators. A positive rapport between operations and sales creates efficient and streamlined processes for similar customer segments and promotes a culture of one team driving toward a focus on revenue and customer centricity.

Manage and prioritize the refresh population

A leading practice across the industry is to reduce and prioritize the refresh population by identifying duplicate or dormant accounts, group interrelated accounts into family relationships and consider customer exits based on specific criteria, such as the commercial value of the account when considered against risk and the additional control requirements.

Too often, institutions perform ongoing due diligence on dormant and/or duplicate accounts, diverting resources and time away from risk, as well as more strategic or commercially valuable customers. In other instances, institutions usher dormant accounts through the same KYC processes as strategic and high-revenue accounts. A lack of prioritization can cause the most important customers to miss refresh deadlines and trigger automatic restrictions, such as limiting transaction activity or placement and notification of pending account closure.

Enable data-driven reporting to prevent or forecast bottlenecks

The complexity of most institutions' KYC processes makes them prone to developing bottlenecks, which can push volumes forward and cause backlogs near completion deadlines. For the backlogged customers, this runs the risk of missed completion deadlines that may automatically trigger restrictions or account closures.

A leading practice across the industry to prevent KYC process bottlenecks is step-by step workflow reporting with core features, such as:

Dashboard summary enabled by data collection and reporting on each process step

The dashboard view enables KYC operations leaders to quickly identify production trends that, when reviewed in tandem with capacity projections for upstream functions, such as quality control or second line review and approval, can identify the likelihood of bottlenecks developing and help determine the best course of action to address them (e.g., flex resources, prioritize certain customers).

A customer-facing dashboard can also be created to provide visibility to the customer on progress of the KYC refresh (e.g., KYC steps, KYC requirements, percentage complete, missing information, due dates). As customers have come to increasingly expect a real-time, simple view of progress through all aspects of their day-to-day experience (such as food order delivery or application status), this expectation is carrying over into their banking experience as well.

Defined service level agreements (SLAs) for required handoffs

The completion of a KYC file involves handoffs between multiple functions, such as sales and relationship managers for customer sales and outreach, screening executed by a separate bank operational unit, and second line review and approval, to name a few. SLAs must be defined and agreed upon by all involved functions, and successful workflow reporting incorporates SLAs to define critical paths, calculate the likelihood of bottlenecks developing and in which process step, and prompt escalation triggers.

Key takeaways

Enhancing the customer experience during KYC refresh should be top of mind for institutions in order to remain competitive in today's financial services industry. There is no one-size-fits-all approach, and the opportunities discussed in this highlight the need to customize your strategy based upon risk, operational complexity, client type and known pain points. It is critical to commit to a future KYC strategy that is aligned to business objectives, customer experience and regulatory compliance. The strategy of leveraging industry insights has proven to be an accelerator in making decisions on the program changes that are best suited to your institution.

Contact us

Our global Financial Crimes Compliance team has worked with a number of financial institutions to support KYC program enhancements that range from tactical process and technology enhancements to multiyear KYC program transformations.

Contact any of the following Ernst & Young LLP professionals to find out more about how we can support your KYC program:

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