Moody's
ANALYTICS

NEW GLOBAL RESEARCH

Perpetual KYC: Transforming risk and compliance

MOODYS.COM/KYC

SECTION ONE

About the research

CONTEXT & OBJECTIVES

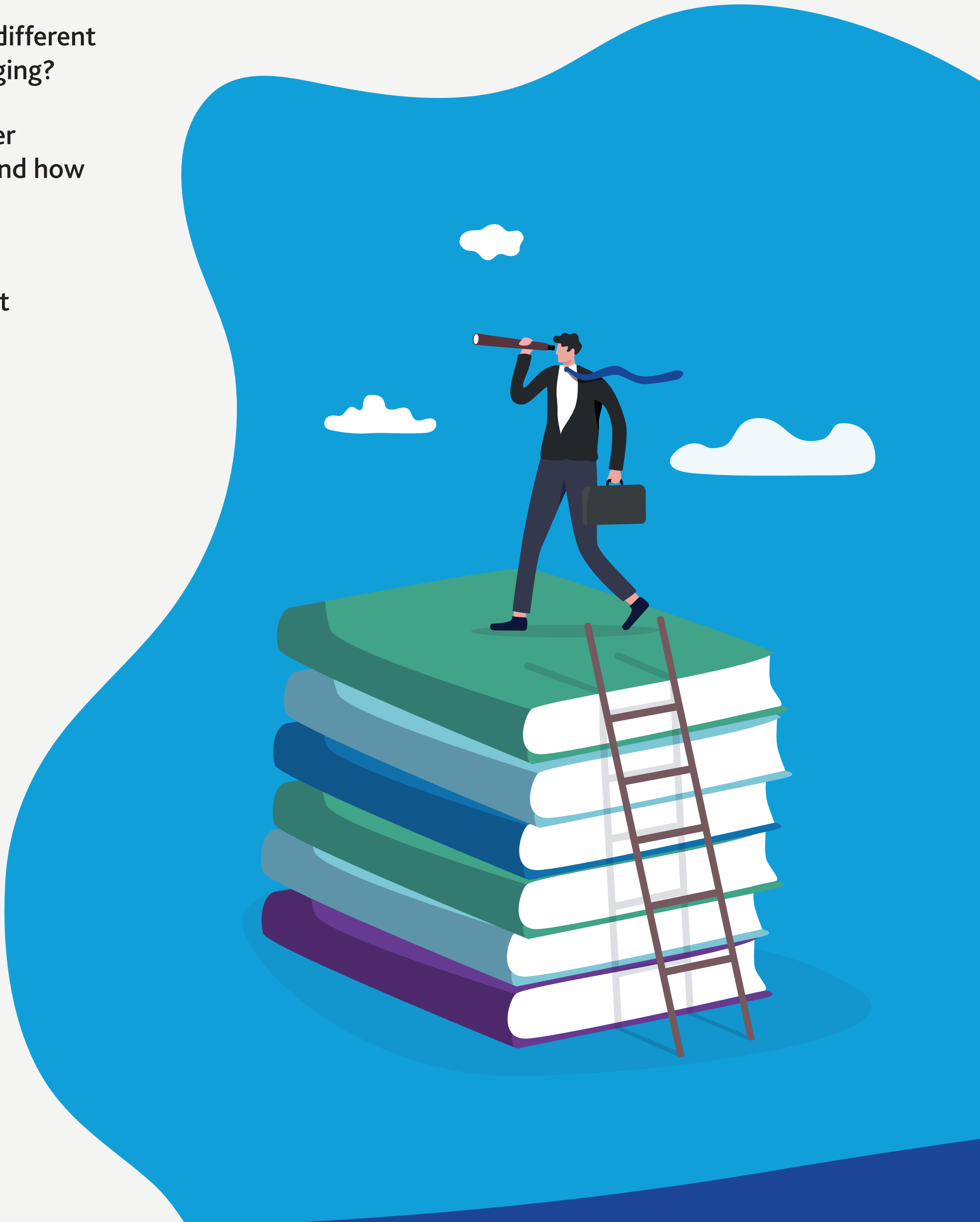
Know Your Customer (KYC) has traditionally been a manual and time-consuming process for companies, as well as a technically challenging activity.

These demands have led to the emergence of "perpetual KYC" (pKYC), which involves carrying out an ongoing KYC process based on specific triggers and taking advantage of real-time data inputs.

As perpetual KYC is not yet mainstream, we wished to understand levels of awareness of the term, and interest in this approach to risk management and compliance.

To frame this, we wanted answers to these questions:

- How is KYC carried out today across different company types, and how is this changing?
- How is KYC perceived across the wider business and among senior leaders, and how are attitudes to it evolving?
- What are the key challenges faced by implementers of KYC today, and what would they most like to change?



MOODY'S ANALYTICS

METHOD

We partnered with research consultancy Context Consulting to design and conduct the study as an independent third-party.

This research is based on 60 in-depth interviews with 58 firms, across 9 countries, and three sectors:

- **Traditional finance:** including banking, asset management, and wealth management
- **Fintech:** including payments, FX, money transfer, and cryptocurrency trading
- **Corporates and Professional Services:** including industry majors, law, accountancy, and real estate firms

The people interviewed were primarily senior compliance specialists, although we also interviewed some executives outside of compliance to provide a wider perspective.

The study was global in scope, with interviews spanning three regions and markets:

- North America (Canada and USA),
- Europe (Austria, France, Germany and the UK),
- Asia Pacific (Australia, Malaysia and Singapore).

Our discussions included the following topics:

- How companies approach KYC today
- Attitudes and perceptions towards KYC
- Key compliance challenges
- Exploring perpetual KYC: what it is, and perceived benefits

SECTIONS / REGION	Europe	North America	APAC	TOTAL
Traditional finance	12	5	8	25
Fintech	6	2	4	12
Corporates & Professional Services	12	7	2	21
TOTAL	30	14	14	58

SECTION TWO

Background

Before exploring attitudes to KYC in detail, we wanted to understand the broader context within which compliance operates, and which shape the high-level challenges it faces. A varied picture emerges, with different themes resonating in each market segment.

> **The skills shortage has become more visible over the years especially on the tech side – software developers, testers, business analysts.**
>
> **We are facing a squeeze due to Big Tech companies – as well as competitors – branching into fintech and we often lose staff to these giants, as we don't have that scale.**

TRADITIONAL FINANCE

A prevailing sentiment among traditional finance firms is the need to increase their competitiveness through digital transformation. This pressure is heightened by the emergence of agile new entrants, and all eyes are on ways to improve customer retention and acquisition.

Compliance teams are trying to support growth but face multiple issues, preventing them from delivering optimally. There exists a tension between this ambition, and the reality of often outmoded, legacy systems, as well as the challenge of finding and retaining skilled staff.

> **A key challenge is the demand for faster processing, the customer wants to become a customer and requires a business account and expects that this is quickly done. We are held back by out-of-date systems.**

FINTECH

While most fintechs are more digitally advanced, often being "digital natives", they too face challenges in the pursuit of rapid growth, and do not have the advantage of a long-established customer base to rely on. A factor that emerged from our research is that fintechs also face a skills shortage as they compete with a wider range of firms, and this includes "Big Tech" players branching into their sector.

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The sheer variety of companies within the corporates and professional services segments makes it harder to generalize about their experiences, but several themes emerge. Key among these are economic headwinds, a result of post-Covid recovery and the Ukraine war, as well as intensifying commercial pressures.

Supply chain risk is higher than ever due to current global instability and is exacerbated in firms with the most internationally diverse supply chains.

From a compliance perspective, this creates additional pressure on KYC processes, to verify that firms are not dealing with sanctioned companies and individuals, something made more difficult by opaque ownership structures.

> **It all comes down to supply chain management. The logistics task is problematic. Covid created large challenges for most supply chain models, especially in terms of access to labor and finding people that are prepared to drive trucks and trains and run the shipping.**

SECTION THREE

KYC today

WHAT'S IN A NAME?

We wanted to clarify what terms are used to describe the process of KYC, both to provide a common understanding and to understand how customers perceive the area of activity.

There are different perspectives on KYC's role in the compliance hierarchy within different sectors and disciplines. KYC is often used interchangeably with other terms and acronyms – and other terms associated with KYC can have subtle distinctions and alternative meanings.

Most commonly, KYC is considered to form a part of Customer Due Diligence (CDD), which in turns sits within the compliance category.

> **People interchange the terms KYC and CDD. It's one and the same really.**
>
> **We do KYC, of course, but we tend to call it third-party risk management instead of KYC.**
>
> **I would think KYC is a bit more specific to financial institutions.**

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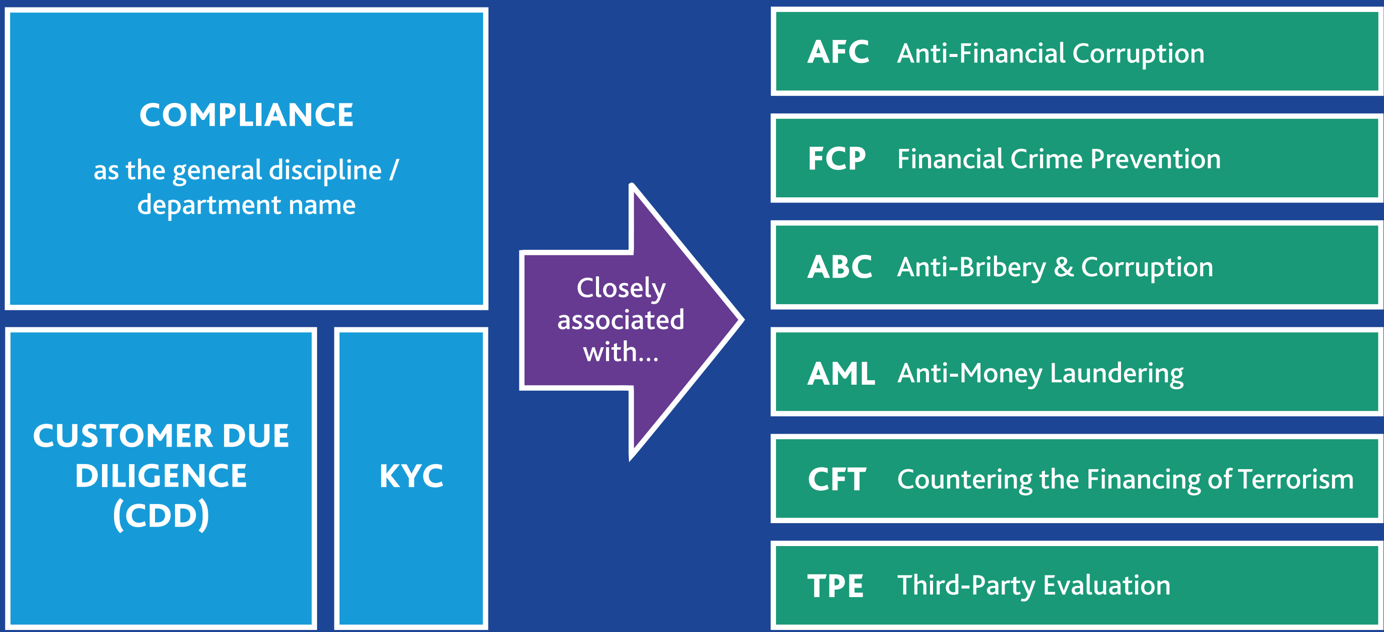
A host of three-letter acronyms are used in the world of compliance, each speaking to a different type of risk, including: AML (Anti-Money Laundering), (ABC) Anti-Bribery and Corruption, (AFC) Anti-Financial Corruption, FCP (Financial Crime Prevention), and CFT (Countering the Financing of Terrorism), and (TPE) Third-Party Evaluation, to name a few.

For compliance professionals, this surfeit of names can make it more difficult to communicate to colleagues and stakeholders what exactly is meant and required by KYC, as outlined below.



SPECIFIC SOLUTIONS FOR SPECIFIC NEEDS

What further complicates matters is a glut of terms starting with 'KY', from the relatively well-known KYB (Know Your Business) and KYS (Know Your Supplier), to more narrowly used terms such as KYA (Know Your Agent), KYV (Know Your Vendor) and even KYCP (Know Your Counterparty).

What this diversity of nomenclature serves to underline is that every segment, and at times every company, has specific risk management and compliance requirements that call for specific solutions, meaning a one-size-fits-all approach will not do.

KYC: MOVING BEYOND ONBOARDING

While Know Your Customer, or KYC, is broadly used and understood as a term, not everyone ascribes the same definition to it, and this points to the fluid nature of KYC.

We identified a progression in the industry shifting from viewing KYC purely as an onboarding issue towards a lifecycle management issue. This depends to a large extent on the risk profile of the counterparty; the higher the risk, the greater the desire to keep on top of changing risk profiles.

This move towards a lifecycle approach has implications for the workload of compliance teams, and places them under greater pressure to find solutions and data sources that support the approach.

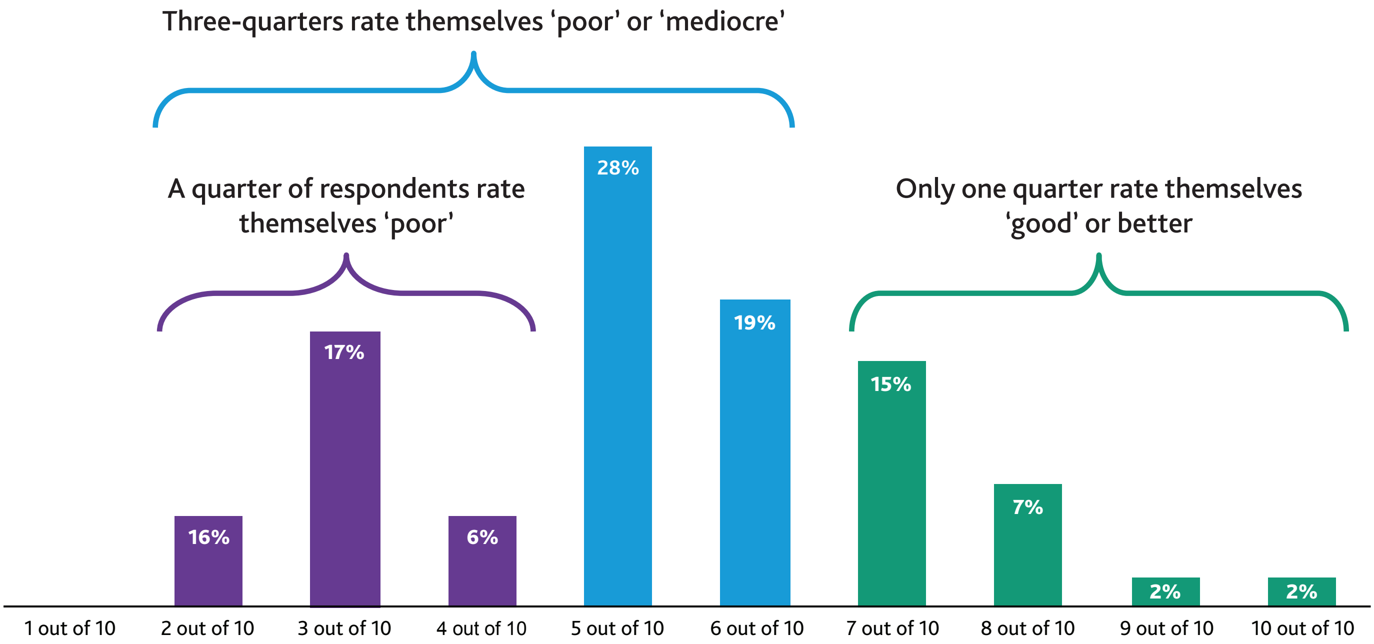
While most companies use a mix of time-based and event- or trigger-based screening for ongoing risk monitoring, the current approach needs improvement, with a desire to fine-tune their risk criteria and avoid false positives, as well as more regular updating of data sources.

FIRMS ARE AT DIFFERENT STAGES ON THEIR DIGITAL TRANSFORMATION JOURNEY

We asked executives to evaluate their level of KYC sophistication on a 10-point scale, with 1 being manual and paper-based, and 10 being automated and digital.

This graph shows how our interviewees evaluated themselves in terms of their journey to KYC digitalization.

SOPHISTICATION OF KYC TRANSFORMATION



There is clearly room for improvement, with three in four firms rating their level of KYC sophistication as 'poor' or 'mediocre'.

Many traditional banks and professional services firms made up the 28 percent of respondents that rated themselves as poor (4 or less out of 10).

These firms are frustrated with largely manual processes and an overload of paperwork, as well as having legacy systems that are not integrated. Moreover, these firms tend to be reluctant to believe improving KYC can solve their issues.

> We do have tools that help screening of investors but the whole process behind CDD and KYC is all really manual and involves a lot of back and forth with the investor relations team.

> Our KYC is pretty advanced, but we still have to do a lot manually. It is not fully automated, and it will never be possible, but it is also not a 100% manual process.

In the middle tier of sophistication (rating 5-6 out of 10) are many large and complex institutions that have invested significantly in KYC but are frustrated with their current state.

Often, such firms have achieved "semi-automated" KYC processes but find it hard to progress towards greater automation due to IT limitations, as well as the complexity of the products and markets in which they operate. Having invested heavily, they worry about the costs and the possibility of reaching the next level.

Finally, around one in four of the companies interviewed rated themselves in the higher sophistication bracket (rating 7 or more out of 10). These tended to include younger, more agile companies, and were most likely to be fintechs.

A key differentiator of these leading companies is integrated IT, particularly connecting KYC with customer relationship management systems. There is also a mindset difference, with a strong belief that KYC can help them to differentiate.

However, executives in these more advanced firms emphasize they aim to strike a balance between automation and human agency.

> Over the past few years, we have implemented many changes, and are getting closer to automating the entire onboarding process.

SECTION FOUR

Attitudes, perceptions, and challenges of KYC/pKYC

HOW VISIBLE IS KYC IN THE BOARDROOM?

A key objective of the study was to learn how KYC is perceived among company boards and senior leadership teams. We started by investigating the level of awareness of KYC within the C-suite.

A consensus emerged that this topic does have visibility in most firms, although the extent and the nature of that varies widely. We conclude the level of attention paid to KYC by the board is a function of mindset or culture in companies, the digital sophistication level – i.e. the level of automation, as well as the direct experience of fines or other penalties.

In companies with a strong customer orientation, KYC is considered an integral part of the overall customer experience, while for others the level of investment required to manage KYC ensured it was on executives' radars.

In a minority of firms, compliance professionals felt they need to fight a battle to get leadership to take notice of the topic. In these environments, KYC is visible to executives, but more as an irritant, as something in conflict with commercial goals, or simply as a lower priority.

KYC: GOOD COST OR BAD COST?

We next asked whether KYC is more likely to be viewed as a "good cost" – i.e. one that delivers positive ROI - or a "bad cost" that throws money into a regulatory void.

There are still many boardrooms in which KYC is considered a "necessary evil", something that must be done as a regulatory necessity, and which adds cost rather than value. A common characteristic of firms where this view prevails is that they struggle to operate KYC efficiently and find it difficult to get information from customers and generate insight from the data they do capture.

However, we found an encouraging number of senior leaders view KYC as a good cost that delivers value. In these organizations, we were most likely to hear about the customer relationship-enhancing benefits of effective KYC, and the fact that strong KYC ensures the integrity of operations and the protection of the firm's reputation.

ARE YOU PLAYING DEFENSE OR OFFENSE?

Clearly, there are very different attitudes to KYC, and this divide is something that can be felt when interviewing firms. One way to characterize this is between an offensive or defensive mindset to KYC.

The defensive mindset is still more prevalent and is in line with traditional views of compliance. Such firms view KYC primarily as a risk avoidance exercise and emphasize the compliance and reputation management aspects of KYC.

By contrast, in a minority of companies, we identified a more offensive mindset, where KYC is perceived as an opportunity to develop relationships with customers. Typically, in such companies, a senior champion – from outside the compliance department – helps foster and drive a culture of customer focus and intimacy.

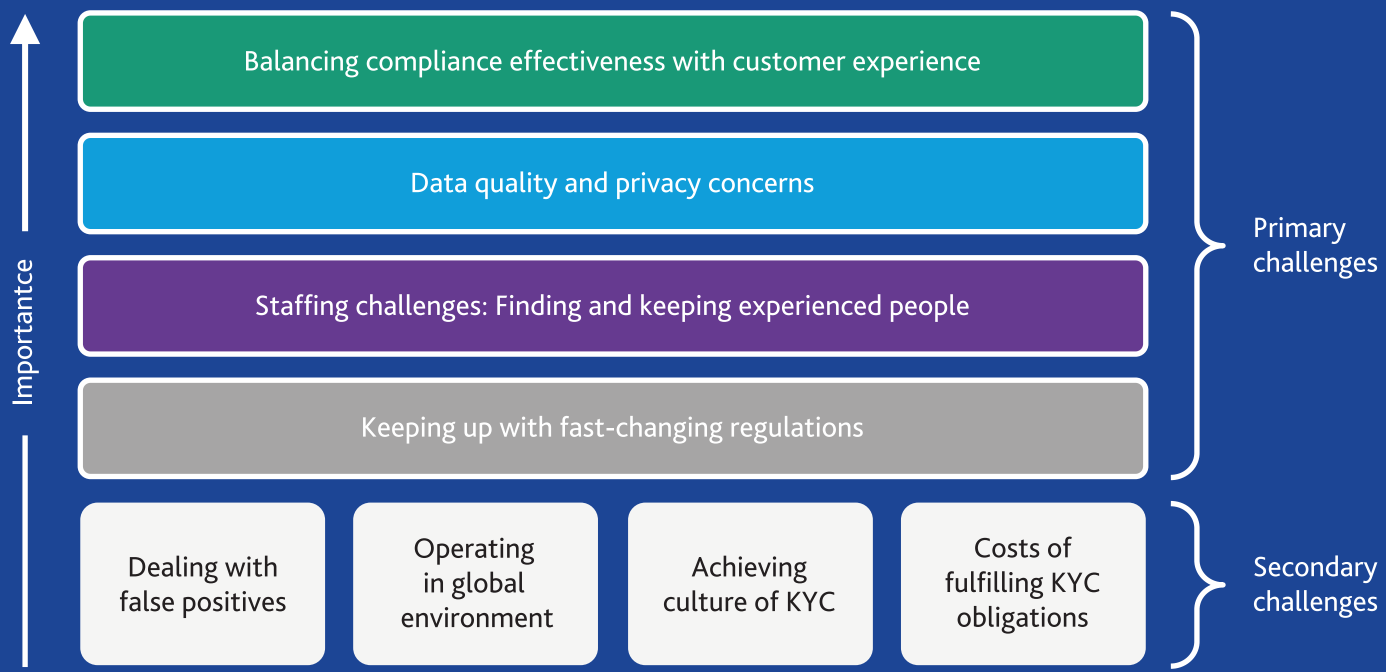
> **It is crucial to our management board to maintain their license, especially being active in certain countries. And we don't want any bad press. We also hope to reduce costs through automation.**

> **KYC is ingrained in everyone's head in that it's important to do it right the first time. It's seen as a value-add to onboard customers in the right way, so they are happy, and we are secure.**

ACHIEVING KYC EXCELLENCE IS NOT SIMPLE, AND IS BESET BY CHALLENGES

A key objective of this study was to understand the specific KYC challenges compliance professionals face.

We were able to consolidate feedback into eight key topics, with four primary and four secondary challenges.



BALANCING COMPLIANCE EFFECTIVENESS WITH CUSTOMER EXPERIENCE IS PARAMOUNT

The most important challenge, in terms of the quantity and nature of comments, is managing the customer experience around KYC.

Striking the right balance between compliance effectiveness and customer experience has proven elusive for many organizations.

The KYC process can feel intrusive, a major turn-off for customers, who can be reluctant to provide information or are simply unclear as to what they need to do.

Another key concern is the lack of a single customer view. In traditional finance especially, the lack of integrated systems means information is fragmented, resulting in repeated or unnecessary requests, annoying customers and driving up costs.

There can also be concerns among front-line staff that if compliance is overly onerous, it can push customers into the arms of competitors, causing tension between sales and compliance teams.

> **There is always lots of negative feedback about KYC. Customers will say "other banks don't ask me for this" or "I want to give you my money, but you seem not to want it."**

DATA QUALITY AND PRIVACY CAUSE MAJOR ISSUES FOR FIRMS

Another widely expressed challenge focuses on the quality of data feeding into the KYC process. There are many misgivings around the source material behind KYC.

These concerns include the accuracy of customer-supplied information, the ability to validate identity digitally, the frequency with which commercially available databases are updated, the complexities of identifying ultimate business owners (UBOs), and the effort required to integrate data and convert this into insight.

Alongside data quality is data privacy, which creates a tension for many compliance teams. On one hand, it is crucial that they know as much as possible about customers. On the other hand, possessing this data exposes the firm to risks associated with the misuse of data.

> **Data quality is a massive problem. We have multiple systems in which the same information has to be entered several times, which stands the risk of false information. We don't want to have to do this, we want to have a 360-degree view on the customer.**

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HITTING A FAST-MOVING TARGET: THE RACE TO KEEP UP WITH REGULATORY CHANGES

The task of keeping up with changes to KYC places further stress on compliance teams, whether this is around fast-changing regulations, or keeping on top of changes to watchlists.

The consequences of the Ukraine war have underscored this challenge, adding hugely to the lists of sanctioned individuals and organizations, and accelerating the need for firms to demonstrate they are acting in good faith.

In addition to the speed at which regulations change is the need to make sense of what can be very nuanced amendments, and the ensuing challenges of retraining front-line staff, informing customers, and updating internal systems add further demands on already overloaded teams.

> **Constantly changing requirements from regulators are a pain. We have to release an upgrade to policy every six weeks.**
>
> **Interpretation is always changing and that means retraining teams all the time. The systems have to be aligned to the changes too. Sometimes sales have to fill in forms manually for weeks until the system catches up.**

FINDING AND KEEPING TRAINED STAFF IS INCREASINGLY DIFFICULT

Another challenge which has increased noticeably in recent years is staffing, which encompasses several inter-related themes.

Many organizations have been contending with high rates of attrition, not least due to the Covid-19 pandemic and the inherent lack of job satisfaction in many compliance roles. This has intensified the need to find and recruit new staff. However, with high levels of competition for a limited pool of professionals, costs have increased dramatically.

This has the effect of ramping up compliance budgets and making it very difficult, if not impossible, to build and maintain adequate teams. And once staff have been recruited, the need to train them adds further time and cost. These issues particularly affect smaller players.

> **Getting the necessary staff is not a problem for us, but retaining talent is. Some companies offer a very large salary for a year's contract to automate a process and that is something we cannot compete with.**

SECONDARY CHALLENGES NONETHELESS CAUSE SIGNIFICANT CONCERNS FOR MANY KYC PRACTITIONERS

Beyond the four primary challenges described, we identified four issues which, though less pressing, create further difficulties for many KYC teams.

First, the inability to fine-tune systems so that only relevant changes in customer risk profiles are flagged can result in many alarms.

Dealing with false positives takes up significant amounts of resource, and risks upsetting customers, exacerbating internal concerns about the impact of KYC on customer experience.

For companies trying to implement a more trigger-based approach to KYC, this can be a major issue and enhance concerns about moving to a more automated approach.

Second, many of the companies interviewed operate in a global environment, and this exacerbates the compliance challenges they face. Dealing with multiple regulatory frameworks and harmonizing KYC policies across borders and subsidiaries makes this task significantly more difficult.

Even relatively common issues such as identifying customers with names in different characters and alphabets can pose challenges for data quality, an issue identified most often in Asia Pacific. More seriously, there continue to be areas of the world which are almost impossible to get accurate data on.

Third, achieving a "culture of KYC" was raised as an issue. We heard numerous compliance executives revealing their frustration with internal perceptions that they are a police force, at odds with wider commercial goals. This can lead to compliance teams being involved late in the sales process, limiting their ability to support commercial efforts.

They often struggle to prove the value of compliance to the wider business, and instead want to create, as one interviewee described it, a "360-degree compliance culture", in which all functions are geared towards this goal.

Lastly, the costs of fulfilling KYC obligations can be considerable. It is widely anticipated that the costs of KYC compliance will continue to rise, and this can create or heighten the barrier in terms of a board's willingness to invest further in KYC solutions. What is critical for compliance teams is to be able to credibly quantify the benefits of KYC solutions.

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WHAT ONE THING WOULD YOU IMPROVE?

We asked interviewees what one aspect of KYC they would most like to improve. This question exposed the differences in ambition level between firms, shaped largely by their current level of sophistication.

Companies who rate themselves lower in terms of KYC sophistication tended to focus on relatively simple improvements which would increase their level of automation and reduce the need for manual input.

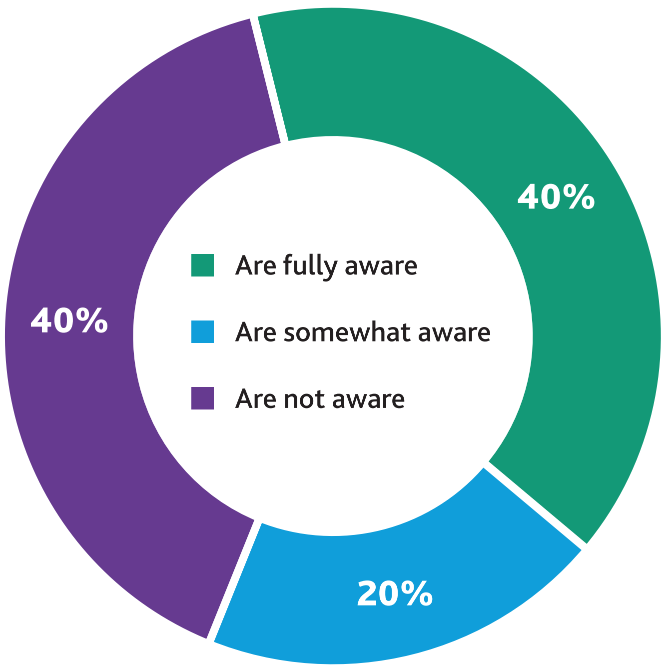
Key wishes included:

- automating individual KYC workflows,
- speeding up customer onboarding,
- reducing error rates,
- reducing paperwork,
- introducing digital customer ID verification.

By contrast, firms who rated themselves as more sophisticated in terms of their approach to KYC tended to have more subtle and nuanced goals. This reflects the fact they already have a good degree of automation in place and are striving to fine-tune their methods.

The key improvements cited by these customers include fully achieving a single source of data, having full standardization across countries, having better quality and closer to real-time data, integrating cryptocurrencies more effectively, and achieving a compliance culture.

AWARENESS OF PKYC



SECTION FIVE

Reactions to the pKYC concept

At this point, we focus on the concept of perpetual KYC, or pKYC. To gauge awareness and levels of understanding, we asked interviewees if they were aware of the term pKYC and, if so, to define it for us.

Currently, there are patchy levels of understanding of pKYC, with only four in ten participants stating they fully understand the concept. Six in ten were either not aware of the concept at all or claim only to have a partial understanding.

Five attributes consistently appeared in the definitions of pKYC provided by interviewees, which distinguish it from traditional KYC:

- Ongoing
- Continuous
- Trigger-based
- Real-time
- Automated

To provide a consistent level of understanding, we then shared this definition of pKYC with interviewees:

- The process of perpetual KYC removes the issue of looking at risk associated with an individual or corporate customer in a snapshot in time.
- Traditionally, organizations perform KYC checks at onboarding, classifying customers into categories of risk – high, medium, low.
- Thereafter, customer information is typically refreshed periodically, following a one-, three-, or five-year cycle.
- In contrast, perpetual KYC is the practice of maintaining accurate customer data through updates based on changes in customers' behaviors and circumstances in near real-time.

Most reactions to pKYC, as we defined it, were positive. Some consider this to be light years ahead of what they have, while others see it more as an incremental improvement, but a step forward nonetheless.

Among the key advantages cited are that pKYC promises a holistic, end-to-end system, with potential to be a one-stop shop. Avoiding the pitfalls of a time-based approach to risk monitoring is key for many, due to a more consistent or ongoing approach to monitoring customers. Others point to the improvements in efficiency by being more automated and less labor-intensive, and still others appreciate the near real-time updating of information.

> **If you only review high-risk customers once a year, lots can change in that time due to a political crisis or similar. One person can suddenly become a PEP or adverse events can happen. Risk ratings can constantly change. Relying on a timeframe rather than a real- time basis is weak.**

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> **The downside is we have so many fragmented systems thanks to historic acquisitions. Plumbing anything new into this is a nightmare. Lots of this is dependent on having a consistent underlying IT platform.**

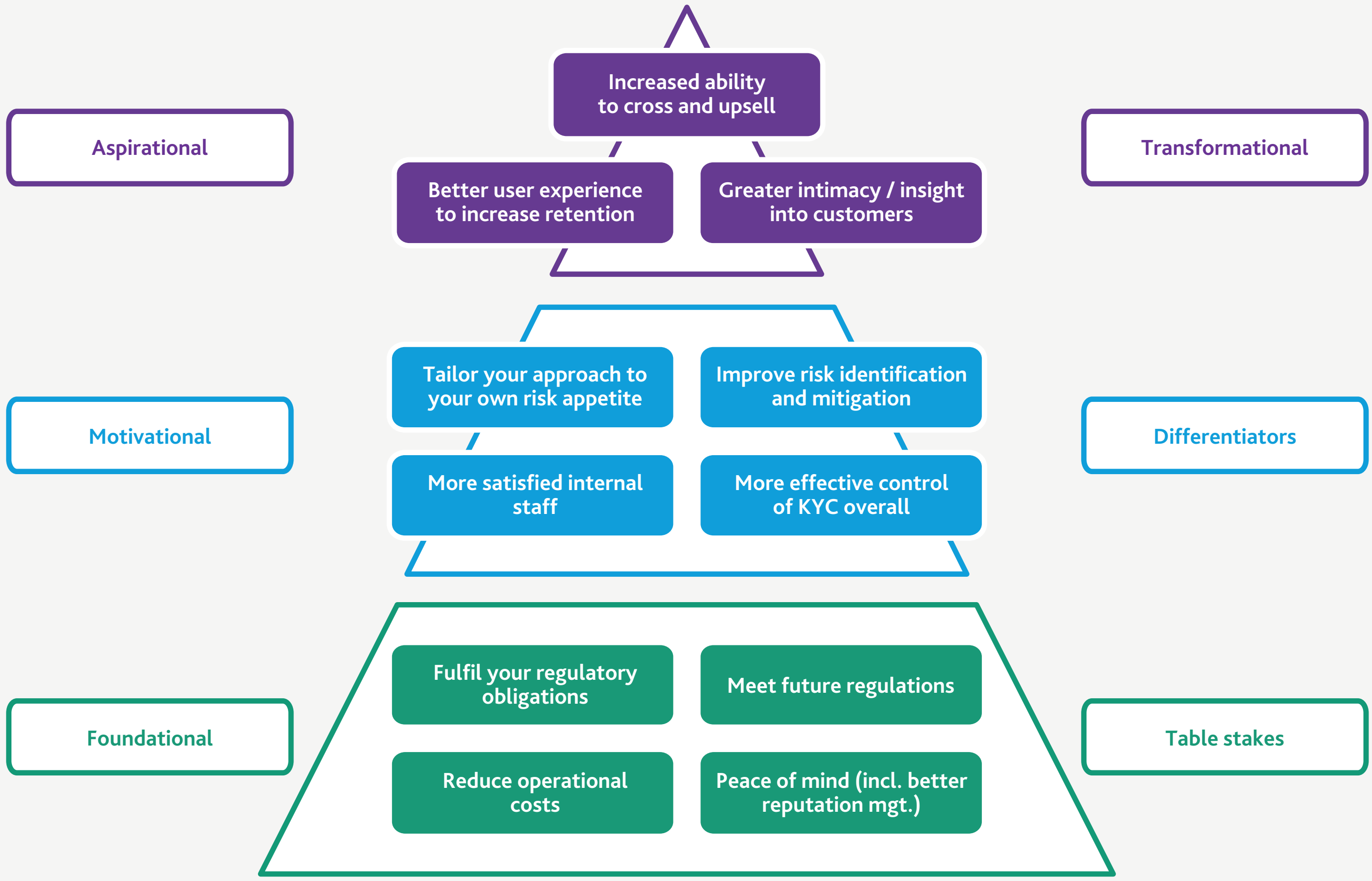
However, not everyone is convinced. Some consider pKYC to be unrealistic, for three reasons; that the quality of the data is questionable, that legacy systems would prevent the real-time data updates described, and that it would potentially raise too many false positives for internal teams to cope with.

Some more advanced participants wonder how different pKYC is compared to what they already do, while less sophisticated companies are more likely to see this as excessive in view of their needs.

This is especially true among corporates and professional services firms, as their relationships are often lower in volume and less transactional.

pKYC is perceived to offer benefits that vary in impact from marginal gains to transformational.

We next asked interviewees to describe the benefits of a perpetual approach to KYC. These were distilled into 11 themes that can be grouped along the lines of Maslow's hierarchy of needs.



1 Four base-level benefits are highly important but are generally considered table stakes for any new KYC system. Though important, these would be expected.

Among these foundational benefits, interviewees felt pKYC would make it easier for them to meet regulatory obligations and keep pace with future standards as they evolve.

The increased level of automation promises to help reduce operational costs, while the system would provide greater peace of mind, including better reputation management.

2 Four further benefits can be viewed as motivators, helping to add value in comparison with today's systems.

The perpetual approach can help improve risk identification and mitigation, while providing more effective control of KYC overall.

Crucially, firms would be able to customize their approach to closely match their risk appetites. Furthermore, this could lead to higher satisfaction among hard-pressed compliance staff.

3 The three final benefits have the potential to significantly differentiate the pKYC approach. If these can be delivered they are perceived as potentially transformational, with the ability to switch KYC from an essentially defensive activity into a more offensive, revenue-generating one. These are all customer-specific factors.

- First, the perpetual approach promises a better user experience, which can help to drive increased retention and deliver on the desire for greater compliance effectiveness without compromising the customer experience.

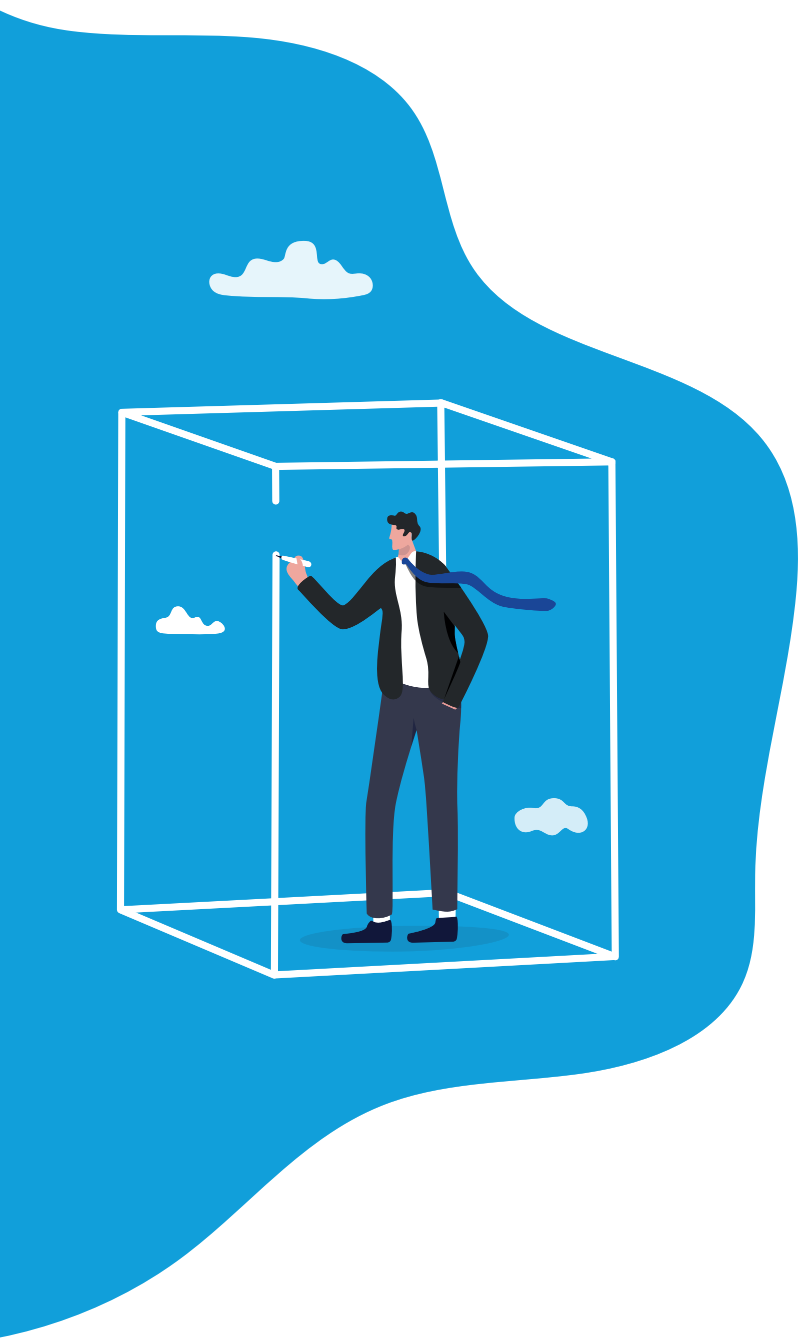
- Second, the new approach promises greater customer insight, providing the singular customer view on an ongoing basis, rather than the current sporadic approach.

- Thirdly, these benefits combine to increase the potential to cross and upsell products and services around customer needs.

BARRIERS NEED TO BE OVERCOME TO ACHIEVE PKYC

Of course, achieving the benefits of pKYC requires significant change, and we wanted to understand the barriers compliance professionals felt they would have to overcome.

Some barriers are concerned with the system itself. There is scepticism among those who simply remain to be convinced. A key concern is around data quality, without which no pKYC system can function effectively.



There is a concern that regulators would need to buy in to a system of this type. There is also resistance to an overly automated approach, in which they are unable to understand the logic underlying the model, which could leave companies unable to understand their own system.

As we were told often, human intelligence must be allowed to remain supreme in KYC.

Other barriers are more internal in nature. As with any major technology project, change management can be fraught with difficulties, and many of the interviewees were speaking from first-hand experience of implementing compliance systems.

There is also a question over how much a pKYC solution would cost to implement. Linked to this is the challenge of communicating the benefits of pKYC in a compelling enough way to convince boards to sign off on the investment.

While compliance executives largely understand and buy in to the benefits of a perpetual approach, many felt they would need support to sell this internally, along with credible numbers on return on investment.

Despite these practical concerns, the potential benefits of pKYC mean there is a widespread appetite to overcome any barriers, and compliance executives are keen for suppliers to bring solutions to the table.

SECTION SIX

Key takeaways

COMPLIANCE TEAMS ARE UNDER GREATER PRESSURE TO DELIVER AND FACE OBSTACLES IRRESPECTIVE OF THEIR SECTOR

Across all sectors, global instability and economic turbulence is placing increased onus on compliance departments.

In traditional finance, there is an imperative to step up digital transformation to improve competitiveness, particularly against agile new entrants, but firms are hindered by outdated systems and staffing challenges.

While fintechs are well-equipped in terms of digitalization, they are under pressure to grow fast, entering new markets in the face of stiff competition and regulatory constraints, and they too struggle to attract skilled professionals.

Corporates and professional services firms, by contrast, face economic headwinds and are in many cases still recovering from Covid-19, as well as the consequences of the Ukraine war. Supply chain risk is a particular concern for compliance teams in corporates.

AUTOMATION IS KEY, YET EVERYONE IS ON A JOURNEY OF DIGITAL TRANSFORMATION

There is a tension between KYC effectiveness and efficiency - between doing it well and doing it affordably - which means automation is key.

Companies increasingly recognize that digital transformation is an ongoing process. It's a process of honing and refining, observing, then honing and refining.

There is much room for improvement. Three in four firms consider their level of KYC sophistication as either "poor" or "mediocre".

Low sophistication firms are still dealing with far too much paper, and often pin the blame on outmoded IT and management resistance.

More advanced firms are introducing automation but stress the limitations of these systems, and human insight is a requirement.

BOARDS ARE MORE LIKELY TO SEE THE VALUE OF INVESTMENT IN KYC, BUT IT IS NOT A GIVEN

KYC is perceived as a good cost that has the potential to deliver ROI by an encouraging number of firms, and this is part of a positive trend.

Regulatory tightening, heightened risk, and a desire to be competitive drive many boards to take an enlightened view of KYC investment. This is not universally the case though and KYC investments are seen as a difficult sell for many compliance teams, despite the fact firms face challenges with how KYC operates today.

Staff attrition and recruitment, data quality and privacy issues, and customer experience concerns are among the main problems compliance teams are seeking to overcome.

THERE IS A NEED TO EDUCATE THE MARKET AROUND PKYC, BUT THERE IS AWARENESS THAT IT CAN BE TRANSFORMATIONAL

With only four in ten companies feeling they fully understood the term "perpetual KYC", there is a clear need to educate the market further.

Among those who understand pKYC, they identify five attributes most regularly: ongoing, continuous, trigger-based, real-time, and automated.

Benefits of the pKYC approach outlined can be grouped into foundational, motivational, and transformational factors that can turn KYC into an "offensive" activity.

The possibilities offered by pKYC to turn customer data into insight, to facilitate the customer experience, and to boost cross sell and upsell opportunities are potentially transformative.

SECTION SEVEN

Executive Summary

COMMENTARY FROM KEITH BERRY, GENERAL MANAGER, MOODY'S ANALYTICS KYC

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KYC processes were born out of the need to onboard third-parties and manage compliance processes in a way that satisfied regulators. What has evolved over time is the ambition of KYC to deliver competitive advantage; to create better compliance experiences; and to uncover risks associated with counterparties throughout the lifecycle of a relationship.

The sophistication of regulatory technology and data solutions available to support companies in achieving their ambitions for KYC have rapidly developed but, as this research into KYC shows, there are ongoing internal struggles – both financial and cultural – for companies across all sectors that mean they are at very different stages of their journey towards digital transformation of KYC and realizing the value it can bring.

Automation and intelligent solutions emerge as the path forward because it's the nature of risk to morph and change. KYC checks at onboarding and KYC processes designed to satisfy regulators are no longer enough. Organizations need to think of KYC as a perpetual process.

Risk assessment is a continual process. As one of the interviewees rightly pointed out, factors can simply change overnight, especially when it comes to those who are politically exposed or subject to sanctions. Doing the task of perpetual KYC without bringing together people, processes, and technology would be inefficient, if not impossible. The research clearly articulates that accessing and verifying the data would be too slow, resourcing and maintaining the teams needed would be too hard, and adapting to changing regulation or political forces would be crippling in today's global market.

The research shows that companies want to understand the risks they face in near real-time, because this has the potential to be "transformational" in driving efficiency and competitive advantage.

It's the new ambition for those of us working in KYC - to understand risk, so decisions can be made with confidence. This is how we transform risk and compliance.

Understanding risk doesn't mean building a one-size-fits-all approach to comply with regulation. It means understanding the specific and nuanced risks faced by each business in its sector in its global theatres. It means taking a 360-degree view of data and making decisions that are right for a business and its customers.

How a firm uses the union of data, risk insights, and technology as key components of a KYC process to create its own always-on picture of risk in near real-time should be based on its risk appetite; its vision for compliance journeys; and its operations structure. That's what needs to be supported through the development and articulation of perpetual KYC solutions, which has become abundantly clear through this research material.

I would like to personally thank all the interviewees, who took time out of their busy schedules to share their insights into the world of KYC and risk management. The findings are already helping us at Moody's Analytics transform risk and compliance solutions.

I would also like to thank the team at Context Consulting for their diligence in completing this project with Moody's Analytics KYC.

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