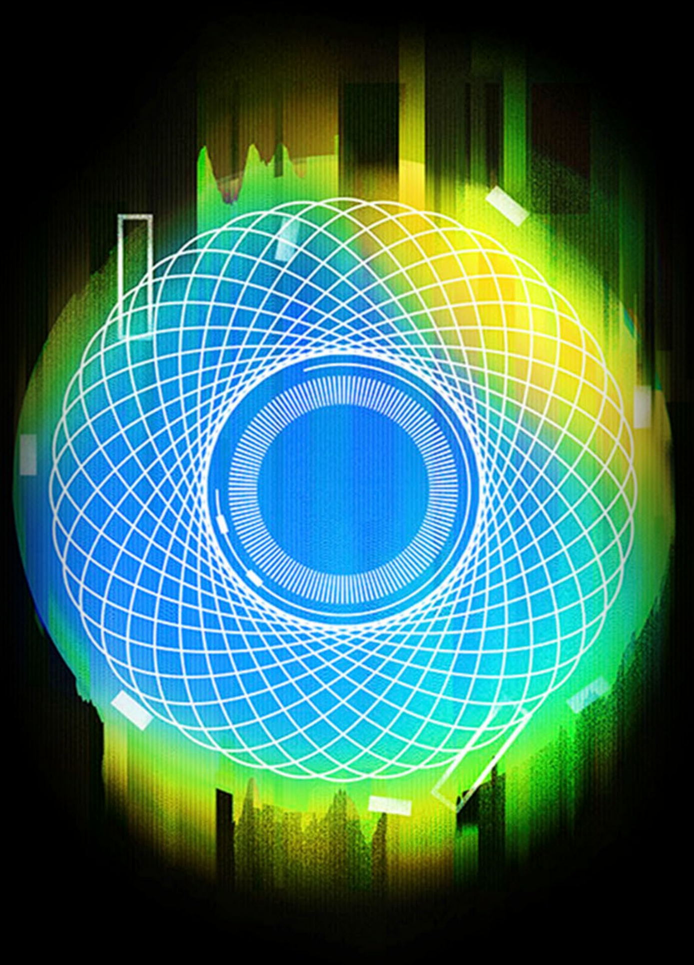
Deloitte.



Future of Financial Crime

Revolutionising due diligence for the digital age

Revolutionising due diligence for the digital age

Due Diligence (DD), including Know Your Customer (KYC), is moving from a manual and periodic exercise to a digital first, automated, and integrated model. This will provide a single, continuously updated view of changes to the customer's financial crime (FC) risk.

This is the third article in our Future of Financial Crime (FoFC) series and looks at the changes in customer DD needed to deliver better risk outcomes, reduce cost, and build competitive advantage.

Financial services (FS) institutions must consider how they respond to changing customer expectations, new entrants who are taking market share (including digital banks and embedded payment providers), continued regulatory scrutiny, and evolving regulatory requirements.

These changes have far-reaching implications for FS institutions' business and operating models, and create multiple challenges in how they conduct DD and customer lifecycle management in a way that is efficient and effective, namely:

- Customers who are demanding more personal, tailored, less intrusive and digital experiences;
- Processes that are fragmented across the organization, with a large number of manual processes used to capture, consolidate, validate and risk assess basic data; and.
- Costs being too high, with legacy high volume, low value processes requiring large operational teams.

Addressing the challenge effectively is not just a matter of compliance, it is essential for sustainable business growth and competitiveness over the longer term. To achieve this requires an incremental set of capabilities which, when implemented, are complementary and can provide a 'sum of the parts' benefit. Points to consider include:

- Digital first - the majority of customer information will be collected, validated and updated via digital channels for retail, wealth and corporate customers;
- Externally validated - all customer data will be validated and assessed against external data sources where available (e.g., through open banking and third-party data providers) to improve data quality and automate tasks that are currently performed manually;
- Automated processes - using existing and emergent technology (including direct system integration, artificial intelligence (AI), robotic process automation and machine learning) so that human intervention is required only in exceptions cases (e.g., for complex plausibility statements) and reviews required for model tuning;
- Single customer risk score – which responds rapidly to changes in the nature of the customer's business and actual behaviour, to develop a single, integrated customer risk score of expected and actual behaviour. This is underpinned by high quality, accurate and complete customer data, as an essential foundation for effective DD (Note: we will cover this topic in more detail, in the next article in this series); and,
- Continuous customer monitoring - for most customers, perpetual KYC will replace traditional periodic reviews. A well-tuned customer risk change model will ensure that the number of cases requiring human intervention will be much lower than typically seen in a periodic review approach.

  Together these capabilities will allow for more efficient and effective control and oversight of DD and FC risk across the customer lifecycle.

  Through our work with FS institutions, we understand that some of these capabilities are planned or ongoing; and, when implemented together, we believe they will deliver significant benefit, including:

- Enhanced risk management.

Better quality data enabling an enhanced and up-to-date understanding of the customer risk exposure, which will allow the FS institution to make better risk-based decisions as to where it focuses its resources.

"Addressing the challenge effectively is not just a matter of compliance, it is essential for sustainable business growth and competitiveness over the longer term."

- **Improved customer experience**

By delivering a digital first, automated and integrated DD model, the FS institution will be able to enhance its customers' experience across the full lifecycle, from on-boarding to off-boarding. Additionally, the removal of periodic review (e.g., 1,3,5 year) will reduce the impact on legitimate customers, creating a competitive advantage.

- **Cost optimization**

Moving from the current model of a manual and periodic exercise with a high volume of manual, low-value tasks to a digital first, automated and integrated model for DD and continuous monitoring, will drive significant cost savings. From our work with new entrants and partnering with emergent technology (including AI), we believe the majority of the tasks currently undertaken manually can be automated. This can lead to at least a 30-40% reduction in cases requiring manual intervention and can allow for significant re-deployment of existing AML operations staff to focus on higher value tasks.

When implemented alongside an intelligence-led, enterprise-wide risk assessment and a holistic approach to monitoring customer's expected/actual behaviour, the adoption of these changes to customer DD, represent a real shift towards a more integrated, efficient and effective approach to FC.

"… we believe the majority of the tasks currently undertaken manually can be automated. This can lead to at least a 30-40% reduction in cases requiring manual intervention…"

Get in touch

Please get in touch if you would like to discuss this topic further. Also look out for future articles in our Future of Financial Crime series – up next, a focus on intelligence-led risk management– what this means, why it's important, and some of the areas that need to be a focus over the short, medium, and longer term.

Sofus Emil Tengvad
Managing Partner
Forensic
stengvad@deloitte.dk
+45 30 38 03 27

Rasmus Grejs Beyer
Partner
Financial Crime Advisory
rbeyer@deloitte.dk
+45 24 94 59 22