



KYC: Review Refresh Renew

As regulatory consultants, we have become accustomed to the reaction we get from clients when we mention the word 'remediation'. The word itself is an indication of failure, that policies and procedures ('P&P') were either not in place or were not followed correctly.

The legislation and regulatory expectation is that customer records should always be kept up to date.

However, with the volume of change in Anti-Money Laundering/Countering the Financing of Terrorism ('AML/CFT') legislation and guidance year on year, gaps can emerge in the information and documentation used to verify a customer's identity inadvertently. In addition, customer control and ownership can change from time to time and new business acquisitions can lead to the identification of divergent approaches in customer identification which can result in inadequate customer records being on-boarded as part of

the transaction. Ultimately, there are several reasons why a customer record may become 'out of date' through no fault or failure of the financial institution. Notwithstanding the above the legislation and regulatory expectation is that customer records should always be kept 'up to date'.

In response to this many firms have developed a 'remediation' approach to maintaining customer records. This means that periodic reviews and trigger events are



In Deloitte, we have developed an approach to reviewing customer records that is designed to prevent future remediation

used to determine whether the customer records are kept up to date. For many organisations, a customer won't be picked up in a periodic review for many years and might never hit a trigger event, which ultimately results in remediation activity being required.

An alternative approach would be to apply an ongoing focus to keeping customer records up to date, with regular testing, data collection, targeted reviews, golden source record retention and reporting to demonstrate to the board and other stakeholders that an appropriate risk based approach is being taken to identify customers and maintain those records. By including an assessment of the current and potential future requirements as the EU directives continue to enhance standards, an element of future proofing could be included to avoid future remediation projects and unnecessary costs.

At Deloitte, we have developed an approach to reviewing customer records that is designed to prevent future remediation work by applying a robust, risk based, future looking regulatory gap analysis and ongoing approach to KYC. The key components of our approach are as follows:

01. Identification of gaps

We perform sample testing as an efficient method to identify categories of customers where there is a greater risk of there being deficiencies in the

documentation and information on record. This involves segregating clients into cohorts and testing a sample from each cohort in order to inform next steps and focus.

02. Standards and future proofing

We set the standard against which customer files are reviewed in order to manage the effort now and into the future. If seeking to future proof against upstream obligations most files will need some form of improvement. This will however be offset by less work once the upstream obligations come into force.

03. Jurisdictional differences

For entities that are part of a group, attention is paid to the group standards to ensure that they are sufficient to meet local requirements and also to standardise requirements across the group, this is key when managing customer relationships in many different locations.

04. Technology

We use technology solutions to develop the most appropriate operating model for the ongoing management of KYC (Facial Recognition software, Application Programming Interface ('API') links to data sources) and to automate the process or reduce the need for manual intervention where possible.

Case Study: KYC Back Book review and refresh at a Global Wealth Manager

Deloitte was engaged to support its client with a risk based review and refresh of its customer KYC documentation. Some of the customers had been with the firm for more than 20 years and had not been picked up in trigger event monitoring or periodic reviews. We sample tested a number of customer cohorts, agreed the standard of information and documentation that would need to be met, assessed the technology available to support the project and conducted a pilot exercise to test all assumptions. With the results of the pilot in hand we were able to implement a tailored approach to reviewing and refreshing the customer documentation in line with the firms risk appetite, group standards and the regulator's expectations. Some of the key takeaways from this engagement were as follows:

Technology

It was possible, with the use of APIs, to batch screen many of the customers through an e-verification tool in their geographic location. Data sources and scoring were mapped and reviewed for correlation to client's e-verification methodology and risk ratings. The output was sample tested to confirm

that the results conformed to the client's scoring methodology. Screening output was uploaded to our bespoke in house case workflow and case management tool. Where a customer record was fully verified electronically, this was captured automatically in the system. Where the record could not be fully e-verified, KYC specialists reviewed the findings with four eye peer review to either close the case on the basis that the customer file was complete, or move to the next stage in the process to address the deficiencies.

Quality & Reporting

A quality assurance methodology was applied throughout the project and regular reporting was produced from the system to demonstrate progress and to facilitate governance and the escalation of issues. We were able to move completely away from manual checklists and spreadsheets and incorporate all data, documents, checks and controls in one place with transparent reporting. The approach was configured for multiple customer types, locations and risk categories. We facilitated access to the system by users in multiple locations, performing roles such as initial review, peer review, escalation, quality assurance and read-only access to meet stakeholder requirements.

People

Technology is a key enabler to any project of this nature. But it can't be done without the right people. Efficient, knowledgeable, and highly-focused, the Deloitte Delivery Centre's people are the go-to experts for a whole range of specialist and administrative support. From an AML perspective the DDC allowed flexibility in terms of team size as required. A wide resource pool of AML specialists was available with additional resourcing rolled on as we stepped from pilot to core delivery and rolled off as we moved to close. This provided a cost efficient solution, flexed to meet volume and complexity demands throughout the project.

Results

The most remarkable outcome from this project was that 75% of customer files were renewed without any customer engagement. While we did the heavy lifting, the client had full visibility and could see immediate progress which facilitated more informed updates to senior stakeholders and the regulator.

If you would like to discuss our approach in more detail, please contact us.



Contacts



Sean Smith
Partner
Regulatory Risk
seansmith1@deloitte.ie
+353 1 417 2306

Sean is a partner in the Risk Advisory department of Deloitte where he provides risk, compliance and regulatory advisory services to financial and non-financial institutions.



Laura Wadding
Partner
Regulatory Risk
lwadding@deloitte.ie
+353 1 417 2934

Laura is a Partner in the Irish firm's Risk and Regulation team, within the Risk Advisory Department, specialising in Governance, Risk Management, Compliance and Culture in financial services.



Steve O'Donovan
Manager
Regulatory Risk
stodonovan@deloitte.ie
+353 1 417 2717

Steve is a Manager in the Irish firm's Risk and Regulation team, within the Risk Advisory Department, specialising in Anti Money Laundering, Financial Crime and Compliance in financial services.

Dublin
29 Earlsfort Terrace
Dublin 2
T: +353 1 417 2200
F: +353 1 417 2300

Cork
No.6 Lapp's Quay
Cork
T: +353 21 490 7000
F: +353 21 490 7001

Limerick
Deloitte and Touche House
Charlotte Quay
Limerick
T: +353 61 435500
F: +353 61 418310

Galway
Galway Financial Services
Centre
Moneenageisha Road
Galway
T: +353 91 706000
F: +353 91 706099

Belfast
19 Bedford Street
Belfast BT2 7EJ
Northern Ireland
T: +44 (0)28 9032 2861
F: +44 (0)28 9023 4786

[Deloitte.ie](https://www.deloitte.ie)

Deloitte.

At Deloitte, we make an impact that matters for our clients, our people, our profession, and in the wider society by delivering the solutions and insights they need to address their most complex business challenges. As the largest global professional services and consulting network, with over 312,000 professionals in more than 150 countries, we bring world-class capabilities and high-quality services to our clients. In Ireland, Deloitte has over 3,000 people providing audit, tax, consulting, and corporate finance services to public and private clients spanning multiple industries. Our people have the leadership capabilities, experience and insight to collaborate with clients so they can move forward with confidence.

This publication has been written in general terms and we recommend that you obtain professional advice before acting or refraining from action on any of the contents of this publication. Deloitte Ireland LLP accepts no liability for any loss occasioned to any person acting or refraining from action as a result of any material in this publication.

Deloitte Ireland LLP is a limited liability partnership registered in Northern Ireland with registered number NC001499 and its registered office at 27-45 Great Victoria Street, Lincoln Building, Belfast, BT2 7SL, Northern Ireland.

Deloitte Ireland LLP is the Ireland affiliate of Deloitte NSE LLP, a member firm of Deloitte Touche Tohmatsu Limited, a UK private company limited by guarantee ("DTTL"). DTTL and each of its member firms are legally separate and independent entities. DTTL and Deloitte NSE LLP do not provide services to clients. Please see www.deloitte.com/about to learn more about our global network of member firms.