



DIGITAL TRANSFORMATION OF THE CUSTOMER DUE DILIGENCE PROCESS

WHITE PAPER

Jorrit Sprakel, KYC Expert at Blacksmith KYC, explains why you can no longer postpone digitalising your Customer Due Diligence process and provides advice on the various approaches you can take to embark on a digital transformation.

www.blacksmithkyc.com

Digitalise or pay the price

Digital transformation of the Customer Due Diligence process is essential for Financial Institutions. It is simply not possible to fight financial crime, avoid fines for non-compliance and keep the skyrocketing costs of compliance under control without digitalisation.



Customer Due Diligence (CDD)

Customer Due Diligence is an essential element within an effective Anti-Money Laundering (AML) framework. CDD forms the basis through which sanction risk is managed, and a well-defined and documented customer risk profile can show that a transaction that appears suspicious is actually quite normal or vice versa. In other words, the efficiency and quality of the CDD process cascades through to other parts of an AML framework. This also means that shortcomings in a CDD file can lead to serious consequences for Financial Institutions (FIs), making the correct execution of the CDD process of vital importance for FIs to protect their business, clients, and reputation.



Insufficient access to high quality data

There is plenty of evidence that FIs are struggling with the execution of their CDD processes. The data needed for the process is scattered across sources and often requires manual retrieval which is made more cumbersome due to frequent paywalls and access restrictions. Yet it is essential to be thorough at this stage as missing information can expose an FI to unacceptable risks, reduce the overall quality of the customer risk profile and increase the burden on client outreach, which in turn will impact the client relationship.

These challenges hold true, especially for clients with global ownership structures, for example, a survey performed by RiskScreen in 2022 found that large corporations are considered one of the most challenging client segments to onboard, with the process of gathering the necessary documents and unwrapping ownership structures rated as the biggest problems [1].

[1] RiskScreen, [The 2022 Onboarding Survey](#).



Complex and voluminous KYC policy manuals and instructions

Besides the cumbersome process of gathering data and documents, the actual risk analysis brings its own challenges. Analysts often have to work with hundreds of pages of instructions. This can easily lead to interpretation differences resulting in a decrease in standardisation and quality. In addition, studying and applying these instructions is time consuming. What's more, KYC policy documentation is subject to frequent changes due to changes in regulatory requirements and dynamic external risk factors. Consequently, FIs have to update their KYC policies and work instructions regularly.



Skyrocketing compliance costs

The challenges set out above are some of the factors that play into the trend of increasing costs and pressure on the compliance function. For example, LexisNexis identified double-digit increases in Financial Crime Compliance costs in most part of the globe between 2019 and 2020, of which a significant part is attributed to higher labour costs.[2] Combining this trend with the fact that compliance officers are struggling with a lack of budget and a shortage of skilled personnel while being confronted with fast-paced regulatory change, as shown in a 2022 APAC survey conducted by Thomson Reuters,[3] leads to a fairly obvious conclusion: there is a strong need to apply smart technological solutions. This is further exemplified by a 2022 survey by LexisNexis which found that FIs in the APAC region that had previously invested in technology solutions saw a lower increase in costs as opposed to FIs that had not invested in technology solutions. [4]

[2] [LexisNexis, True Cost of Financial Crime Compliance](#)

[3] [Thomson Reuters, Cost of Compliance 2022](#)

[4] [Custom Market Insights, Global RegTech Market 2022 -2030](#)

Digital transformation

If digitalisation of the CDD process is the way forward, what is the best way to approach this? Do you opt for solutions that fit the existing process and make them more efficient, or do you look for solutions that transform the process itself?

According to Custom Market Insights, the global RegTech market amounted to USD 8.1 Billion in 2021 and is expected to see double-digit growth for the foreseeable future.[5] Selecting the right solutions in such a market can be a daunting endeavour, especially considering that it is very common for FIs to use three or more tools in their CDD onboarding process alone.[6] And of course, once the desired solutions have been selected, implementing these and ensuring that they work in synergy brings its own challenges for large organisations.

[5] [Custom Market Insights, Global RegTech Market 2022 -2030](#)

[6] [RiskScreen, The 2022 Onboarding Survey](#)

RegTech market

Market size

8.1 Billion USD

2021

Growth

Double-digit

2021

Tools in onboarding process

3+

2021

Four criteria to move forward

In order to make the KYC digitalisation journey more viable, there are a number of criteria that can help an organisation to move forward.

Keep it simple

1

The best KYC tools are those that can be incorporated into your existing way of working and have the ability to support you in your digitalisation journey, meaning that regardless of where your organisation is in the process, the tooling will facilitate that journey, not determine it. The main benefits of such a tool can be summed up as follows:

- No need for extensive projects to implement new procedures to realise the first benefits
- You are in control of the pace of improvement
- Gradual improvement instead of big bang changes

Consolidate data gathering

2

Not all sources of KYC data allow for automated API retrieval, but many do! Most FIs use multiple data vendors and various other sources in their CDD process. You can, of course, build the automated connections inhouse, but do not underestimate the IT effort it takes to set up and maintain this. There are many solutions out there that can consolidate and automate this process and, ideally, your solution should give you the flexibility to easily configure in detail what information to retrieve from your sources and make available to your analysts. The benefits of such a tool are clear:

- One consolidated location where your analysts can retrieve their CDD information
- Reduction of the time per file to retrieve CDD data
- Flexibility to add or remove data sources based on your current policy requirements
- Reduction of the information overload, only provide actionable data to the analyst

Digitalising your policy

3

There are many advantages of moving away from document-based policies to a digital policy. Significant improvements can be made with a configurable digital policy, and ideally your tool allows you to create business rules and update your policy settings through a self-service user interface. The main benefits can be summed up as follows:

- Instantly update regulatory changes or updated external risk factors in your policy settings and implement these throughout the organisation
- Applying automated business rules smartly can significantly reduce the effort required by analysts to sift through data and highlight potential risks in the customer profile
- Automation of policy execution reduces ambiguity in the CDD process and increases standardisation of your CDD evidence

Involve your compliance function

4

To realise the maximum benefits of any new tooling, it is highly recommended to ensure close cooperation between your policymakers, who know which risks have to be mitigated, and the operational departments, who know what information is available. You will find that along the digitalisation journey elements of the work instructions become obsolete and that automation empowers you to include additional verifications in your CDD risk assessment. Involvement of both these departments will allow you to:

- Identify opportunities to create a more holistic risk profile of your clients by expanding automated CDD checks, while at the same time reducing throughput time
- Ensure you stay in control of your Financial Crime risk exposure throughout the process

To conclude

To protect your business and clients and stay in control of your compliance costs, digitalisation of the CDD process is essential. This will allow your business to quickly respond to changes in regulatory requirements and emerging financial crime threats and will also standardise the execution of the process creating valuable efficiency and quality improvements. The process of digitalisation does not have to be complex, instead explore the tooling that is available and has the flexibility to fit into your business processes and has the capability to support you in your journey towards a more efficient and effective CDD process.

We hope that we have been able to convince you that digitalising your CDD process is not only necessary but also feasible provided you take the right approach. At Blacksmith KYC, we have developed an easy-to-use plug-and-play KYC tool that allows you to digitalise your CDD process step-by-step.

About Blacksmith

Our KYC solution combines three key features:

- a Digital Policy Manager with an easily configurable business rules engine
- a DataHub that connects you to primary data sources
- a CDD File Generator that generates CDD files based on your unique digitalised KYC policy and the data sources of your choice

Blacksmith, the only RegTech with policy digitalisation as the core of its solution, was founded in 2017 and originally developed at ING innovation Labs in Singapore. In addition to our flagship customer ING, Blacksmith's customer base includes corporate and institutional banks in several different countries.

Get in touch

Want to learn how Blacksmith transforms your KYC due diligence process? Or are you interested in seeing us in action? Get in touch! Contact us via www.blacksmithkyc.com to order an on-site demo or send us an email anytime. We're happy to talk!

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