

Digital transformation of KYC

Part of effective client lifecycle management



| The dynamic backdrop for CLM

Significant global events, such as the Russia-Ukraine war and subsequent international sanctions, have meant compliance leaders need to adapt their know your customer (KYC) activities that are part of client lifecycle management (CLM) to address this dynamic backdrop. Compliance with sanctions, for example, needs to be immediate and periodic reviews that take place throughout the client lifecycle can leave organizations exposed to risk.

Governments around the world are also continually updating anti-money laundering, modern slavery, supply chain, and fraud-prevention regulations. This has resulted in increased financial penalties, for instance, by mid-August 2023, the US Office of Foreign Assets Control (OFAC) — which enforces economic and trade sanctions — had already fined businesses around the world more than \$550 million. This was triple the total amount fined in the previous three years combined.

With ongoing changes to sanctions regimes, regulations, and compliance standards, the volume of KYC-related activity needed throughout a client's lifecycle has grown significantly in recent years. According to Moody's data*, from 2020 to July 2023 the total risk instances for sanctioned entities and those sanctioned by extension increased from 17,425,216 to 63,249,031. These data points have a knock-on effect for businesses, because as the number of sanctioned entities grows, additional work is needed in other areas of KYC, such as checking beneficial ownership against an expanding list of entities.

Sanctions are just one consideration for compliance leaders. There are other areas of regulation, such as the UK's Economic Crime and Corporate Transparency Bill 2023, Canada's Forced Labour and Child Labour in Supply Chains Act 2023, and potential changes to beneficial ownership thresholds in the EU – all aimed at fighting financial crime – which will once again bring a step-change in requirements for KYC, risk management, and compliance that are a vital part of CLM.

The question is: how can organizations keep pace with evolving compliance demands while managing customer experiences throughout the lifecycle of a relationship?

It's a balancing act that is no mean feat.



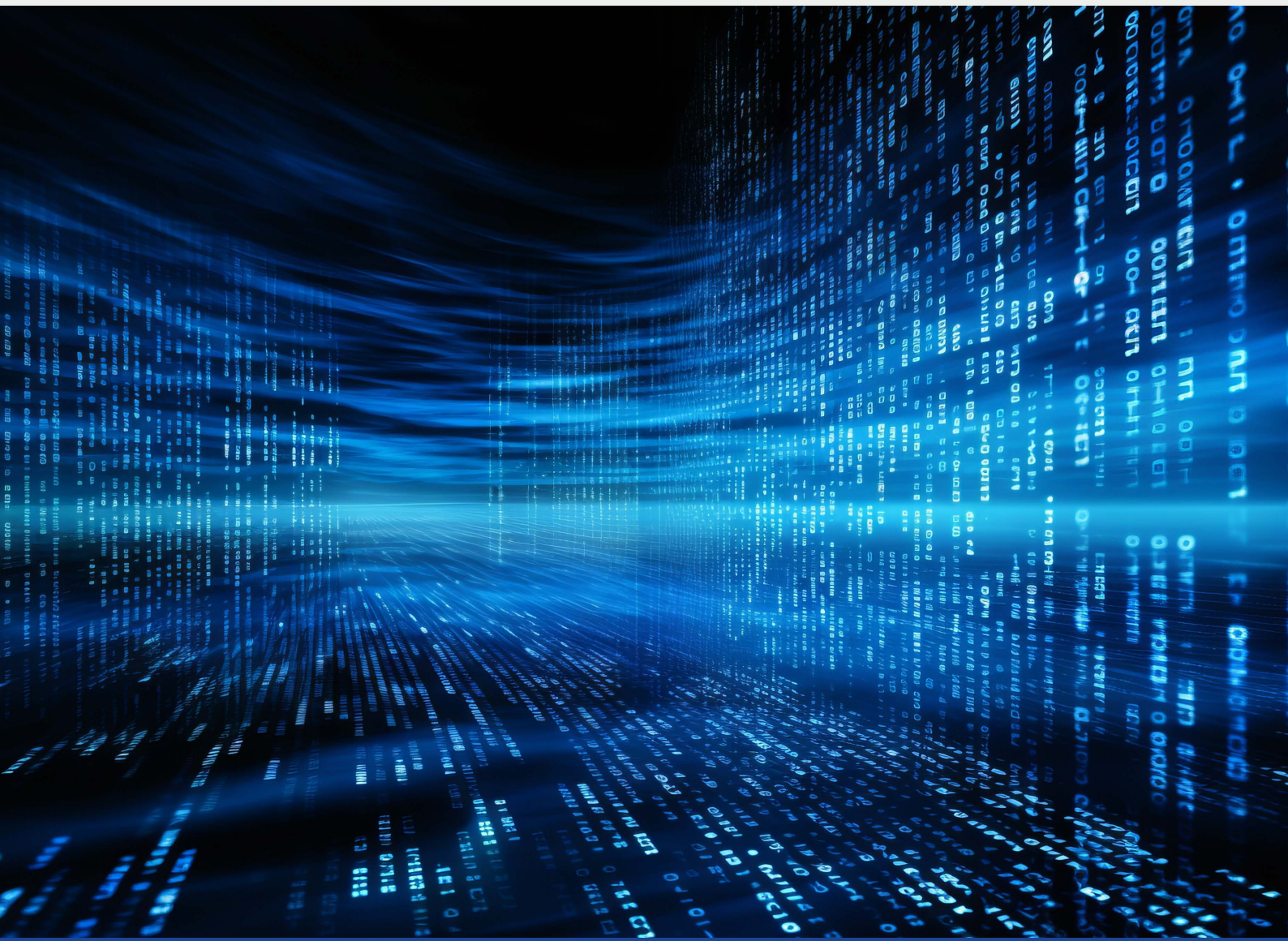
*Data source Moody's Analytics' Grid database correct as of July 2023

Digital transformation of KYC as part of client lifecycle management (CLM)

The challenge for businesses is balancing opposing forces: on one side, there's the ever-changing compliance and regulatory requirements. On the other, there are the business goals of driving competitive advantage, customer satisfaction, and operational efficiency. Organizations that take a proactive approach to KYC, leveraging automated solutions to provide in-depth, real-time data about clients can balance the two sides of this equation most effectively.

Firstly, with automated access to real-time data sources, businesses have a more complete picture of customer risk. Then they can make swift and well-informed decisions to mitigate those risks. This KYC data can also be used to augment understanding about clients throughout their lifecycle – providing opportunities to upsell/cross-sell products and to deliver better experiences. Automating compliance activity can streamline tasks and reduce interventions, removing burden from clients and compliance teams. And digital-first KYC experiences can also boost client satisfaction.

Digital transformation of KYC, as part of a client lifecycle management strategy, brings efficiency to risk management, while also having the ability to reduce churn at onboarding and to improve ongoing brand loyalty.



A path to perpetual KYC

The answer to balancing compliance efficiency while delivering good KYC-related client experiences lies in digital transformation.

KYC is a set of processes involving data gathering, due diligence checks, creation of risk profiles, and analysis and assessment of risk before decisions are made about who to work with and how they should be monitored. Each of these elements can be finely tuned to improve operational efficiency and drive better client journeys.

For many organizations, the workflow behind KYC, at customer onboarding for example, still isn't very far removed from the paper-based processes of decades gone by. Identity data and other risk-relevant information is gathered at the onboarding stage and periodically reviewed thereafter – sometimes with years between renewal checks. This approach can leave organizations exposed to risk and create gaps in knowledge about their clients.



A process of periodic reviews or risk monitoring at set intervals can also increase a compliance team's workload. Wholesale KYC refreshes to update client profiles are time consuming, as are remediation projects. And effort may not even be pointing resources to the most high-risk cases - just those coming up to a monitoring milestone.

As discussed at the start of this paper, managing risk and refreshing KYC data should be continual because material factors change all the time. This means moving KYC-related people, processes, and technology towards a path of perpetual KYC (pKYC). Businesses can take their existing risk policies and procedures and digitally transform them into a workflow of checks that run at onboarding and then throughout the lifecycle of a client relationship.

Businesses can leverage automated solutions to refresh client data and create risk profiles that are "always on." If nothing material has changed on a client's risk profile, they are not asked for information unnecessarily. However, should a new risk-relevant factor emerge overnight, this can be flagged on the profile for immediate review, and not overlooked for a matter of years because the renewed checks weren't due.

Using pKYC, businesses can be alive to new risks and new opportunities. If it's clear a client is going through a new review process – applying for a mortgage for example – could they be open to conversations about other products such as insurance? pKYC can vastly improve operational efficiency related to onboarding and risk monitoring, while presenting new opportunities for compliance efficiency and cross-selling, while leaving clients unaware a process is taking place behind the scenes.

Benefits of leveraging pKYC in a CLM strategy

With a perpetual KYC (pKYC) approach, organizations can be alert to new risks, such as changing sanctions lists, new fraud typologies, PEPs changes, and so on, while ensuring clients aren't asked for compliance-related information unnecessarily. Building on existing risk policies and procedures, and digitally transforming them to create efficiency and real-time risk status makes pKYC an increasingly popular approach as part of a CLM strategy.

pKYC facilitates digital-first client experiences that are seamless and efficient, while automating the necessary data checks - only asking clients for more information or documentation when necessary, ensuring no key information is missed, but no unnecessary interventions are added to compliance processes.

At onboarding a risk profile is created through a workflow of integrated, automated KYC checks. The risk profile is digitally captured and curated with client data maintained in one place. Then continuous monitoring of both material and immaterial risk data – such as entity data, sanctions, watchlist, adverse media and PEPs information – can begin. This empowers businesses to apply an effective risk-based approach to compliance, to monitor risk indicators, and to investigate new risk alerts without delay.

When a client is identified as presenting a possible risk through a pKYC process, compliance teams can make decisions about what to do next with regards to enhanced due diligence or off-boarding. And if nothing changes on a customer profile, there is no disruption and no need for wholesale reviews, resulting in better experiences.

Having a configurable CLM solution is advantageous for companies dealing with regulatory changes, as it allows for simple adjustments to be made in line with updates, without the need for a complete process or system overhaul. Indeed, Moody's Analytics customers using its bespoke CLM solutions make on average eight changes to their KYC workflow configurations each quarter.

Beyond complying with regulation, the right CLM solution can turn compliance into a value driver through improved customer experiences. According to research conducted by RegTech Associates for Passfort, a Moody's Analytics solution, of the customers who enjoyed a "better than expected" compliance experience, 77% were more likely to recommend their provider and 60% were more likely to buy another product.

Businesses can unlock significant value by providing better compliance experiences during customer onboarding and throughout the lifecycle of a relationship. Rather than just meeting regulatory requirements, enhancing customer compliance experiences can lead to increased customer loyalty, advocacy, and business growth.



The future of CLM: introducing AI

So, what next in the world of KYC as part of effective client lifecycle management?

The introduction of further AI-related innovations has the potential to significantly bolster KYC, particularly perpetual KYC screening, within a CLM strategy. These technologies are well suited to the dynamic nature of risk and compliance as global events, evolving regulations, and changing criminal behaviors can all necessitate swift detection of patterns, execution of due diligence, and adaptation of processes. AI can support the automation of real-time data collection and analysis.

And we know from a recent Moody's Analytics study into the adoption of AI in compliance that 83% of our survey respondents expect widespread adoption of AI in risk and compliance in the next one to five years. The top three areas where AI is already most often applied to KYC and CLM are data analysis and interpretation, risk management, and fraud detection. AI helps streamline repetitive data checks and tasks, can be used to tailor due diligence investigations, and identify patterns of behavior that may be suspicious.

While ongoing adoption of AI technologies is likely in CLM due to the part it can play in enhancing risk management and improving operational efficiency, data quality will be the key. Both organization of internal data related to clients and use of external data sources to train and power solutions.



Conclusion

By embracing innovation and digital transformation of risk management and compliance through a pKYC model as part of client lifecycle management, organizations can adapt to changing regulation, address threats in real-time, and enhance client experiences.

The move from periodic KYC checks to perpetual KYC signifies a proactive approach to client-related risk, ensuring data is always up-to-date and companies are always alive to opportunities. The crucial role of data shouldn't however be underestimated, both data quality and organization are key to success. With access to this real-time, risk-relevant data, businesses can understand where risks lie across their client base and use this 360-degree view for upselling/cross-selling too.

The move to pKYC doesn't have to be daunting as the right technology can leverage existing risk policies and processes, digitally transforming them, as part of an overall evolving CLM strategy. Choosing flexible and configurable pKYC and AI-enabled technology also ensures workflows and data checks can be tailored and adapted swiftly and simply.

The digital transformation of KYC as part of a CLM strategy is about creating seamless, efficient, and continually adaptive systems for risk management and for the improvement of client experiences. The use of technology chosen and implemented with a keen understanding of driving customer insight, managing risk, and meeting regulatory demands creates a balance for better, more harmonious client relationships throughout their lifecycle.

GET IN TOUCH

Contact information

To find out how Moody's can help you unlock the potential for compliance and risk management as part of your CLM strategy, please visit: moodys.com/kyc or get in touch.

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