THE ABC’S OF AUTOMATING CDD, KYC AND AML

HOW TO BRIDGE
THE COMPLIANCE GAP
WITH ROBOTIC PROCESS
AUTOMATION
Introduction

A potential customer initiates contact with your financial institution. Perhaps an individual wants to open an account or get approval for a mortgage, or a company needs business checking or a loan. The relationship begins, and these four key factors will determine the success of the customer relationship and, ultimately, the growth of your organization:

1. **Verifying the trustworthiness and true intent of applicants:** Bad actors and internet scams are reported every day in the news. Some cases create unwanted publicity and expenses for the institutions involved. Your bank’s first priority is to assess its own risk and put the proper identity checks in place to balance risk, reward and costs.

2. **Creating an excellent customer experience:** The average time to onboard a new financial customer is expected to increase from 28 days to 32 days this year\(^1\). What’s taking so long? Customer Due Diligence (CDD) checks, for one.

3. **Meeting stringent Know Your Customer (KYC) compliance requirements:** Financial institutions with US $10 billion or more in revenue have seen their average spend on KYC-related procedures increase to US $150 million in 2017, up from US $142 million last year\(^2\).

4. **Monitoring existing customers’ identities:** Despite the increased spend on KYC compliance, financial institutions aren’t quite taking care of existing business: The uncomfortable truth is that, for established financial institutions, the vast majority of financial crime and fraud originates from current customers, the so-called “back book.”

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\(^1\) Thompson Reuters 2017 Global KYC Surveys Attest to Even Greater Compliance Pain Points

\(^2\) “Know Your Customer compliance costs continue to grow at financial firms: surveys,” The Business Times

\(^3\) Citibank bankrolls 30,000 compliance employees at an average salary of £46,000 (£1.2b per year in salary).

– MarketWatch
Customer Due Diligence Automation is Vital for World-Class Banks

In an era of increased commoditization in financial products and services, how can your financial institution stand out? 

**Customer experience is key.** Savvy customers expect a rich, omnichannel experience that includes digital self-service—without multiple requests for the same information.

Yet most banks operate with a less-than-modern technology infrastructure and a growing list of rules and regulations.

When CDD processes rely on manual input of information between systems, customers are often asked to provide the same information repeatedly.

Compliance automation not only reduces cost and improves operational efficiency, but it lays the groundwork for a better customer experience. It’s a no-brainer for banks that want to break out of the “commodity” box.

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In one study, banks contacted clients an average of **four times** during the onboarding process (often different personnel from different departments), and corporate clients reported an average of **eight contacts** across a higher number of different bank departments.

— Thompson Reuters 2016 Know Your Customer Survey
The Rise of Swivel Chair Automation

Manually performing compliance checks is a tremendous burden. It requires human workers—often highly paid analysts or compliance specialists—to act as the conduit between several systems, moving between applications to search one after another by keyword and paste results into a single document. Only then can analysts do the job they were hired to do: Analyze the results and make recommendations.

This manual data collection process is often referred to as “swivel chair automation,” calling to mind a cubicle farm full of workers spinning left and right in their chairs, looking from one monitor to another as they log into systems and copy and paste information. It’s not exactly the picture of purposeful and efficient operations.
1. Reduced Productivity

No matter how well-skilled, employees can only work so fast; we also need a lot more food and rest than computer software. Despite complaints that may be overheard near water coolers, none of us is really able to work 24 hours a day, 7 days a week.

2. Diluted Customer Experience

An inefficient KYC process causes a ripple effect on customer service. In an era of automation and digital transformation, customer onboarding should be more efficient, but in fact, it’s lengthening: In a single year, average onboarding time increased from 28 days to 32 days.

3. Diminished Accuracy

Employees can be error-prone, especially when completing a large volume of work. Even an experienced worker will fluctuate in accuracy, despite their skill and best intentions.

4. Increased Expense

Much of what you’re paying for in KYC compliance is, essentially, a copy and paste task. Highly repetitive work siphons valuable time away from compliance specialists who could be spending their time analyzing information instead of gathering it.

*Thompson Reuters 2017 Global KYC Surveys Attest to Even Deeper Compliance Pain Points*
5. Weakened Compliance and Security
Since 2008, banks have collectively paid more than $300 billion in fines for non-compliance. People make mistakes, adopt shortcuts and bend rules under pressure. Manual processes set the stage for regulatory non-compliance.

6. Insufficient Standardization
Each analyst has his or her own work style and preferences. Multiplied across dozens or hundreds of workers, reconciling these workflow variations is costly. Manual processes are highly inconsistent when it comes to research and analysis.

7. Incomplete Process Visibility and Analytics
Manual processes are inconsistent and much harder to track than automated processes—and who has time to track and optimize, anyway? Your organization has enough on its plate just trying to keep the day-to-day KYC wheels turning.

8. Limited Elasticity
When repetitive tasks depend on human workers to complete them, scaling up or down rapidly is extremely difficult. Increasing the amount of enhanced due diligence required for higher-risk customers is nearly impossible when you’re handcuffed by limited technology and labor resources.

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* "World’s Biggest Banks Fined $321 Billion Since Financial Crisis," Bloomberg
TRADITIONAL DUE DILIGENCE, INCOMPLETE RESULTS
Closing the Due Diligence Gap: 3 Traditional Options

Let's look at the three options traditionally considered by financial organizations burdened with growing manual due diligence duties:

1. **Manual**
   It’s likely your IT department has a longer to-do list than it can handle, and process automation projects often fall into the “important but not urgent” category. Meanwhile, the job still needs to be done, and the easiest way to get it done is to throw more people at it.

2. **Custom Development**
   If you’ve made the case to IT to prioritize a custom development project to automate some of your most painful customer due diligence tasks, congratulations! It’s unlikely a custom dev project will be able to cover every data source (an average of 40 internal and external systems), but it’s a good start.

3. **Outsource**
1. Manual
Assigning people to swivel between more than 40 internal and external systems like GBG, LexisNexis and kyc.com is neither cost-effective nor scalable. With more data being generated than ever before, spread across an increasing number of applications and locations, manual customer due diligence checks should be a last resort for your financial organization.

2. Custom Development
Building a custom CDD solution that integrates multiple applications and data sources with processes is complex—especially when trying to connect legacy systems and established desktop applications such as email and Microsoft Excel with online sources like websites, portals and services. Your compliance unit will always be at the mercy of IT when—not if—an integration breaks.

3. Outsource
Although it’s possible to lower costs with outsourcing, you’re separating important business processes—data gathering and analysis—while leaving your bank open to manual errors and exposure of compliance risk.

Automation: A Flexible and Cost-Effective Alternative
To become agile and efficient, your financial institution needs a combination approach—a flexible solution that embraces both the power of your people and the innovation of new technologies to create savings (up to 70 percent) and speed up onboarding to give your institution the competitive edge.
THE MISSING PIECE:
ROBOTIC PROCESS AUTOMATION
What is Robotic Process Automation?

Robotic process automation (RPA) doesn’t involve physical robots who sit at desks screening customers and occasionally revolting against their human supervisors. The robots used in RPA are software robots, comprised of powerful and dynamic process flows. What do these intangible integration and automation flows do? It’s simple: they mimic specific actions a person would take while working on a computer.

For example, in a typical customer due diligence process flow, a compliance officer might search dozens of internal and external systems one after another by keywords, copying and pasting search results into a document. Only then can the officer analyze the search results and make a recommendation.

With RPA, a robot takes the exact same steps as the compliance officer, automatically searching and extracting data from internal and external systems and organizing that data into a standardized report within minutes. If the customer is deemed low-risk per the bank’s risk scoring models, an approval can be automatically routed. Compliance officers can prioritize cases that need more thorough validation and research to correctly assess the risk of the application.

Because RPA sits on top of (rather than replacing) your existing technology, it is both complementary to core systems and non-disruptive for day-to-day business. **In short, robotic process automation solves problems that were previously unsolvable.**

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70% of C-level survey respondents said they had to dedicate more time to KYC over the last 12 months, distracting them from more strategic, revenue-related activities.

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6 Thompson Reuters 2016 Know Your Customer Surveys Reveal Escalating Costs and Complexity
Customer Due Diligence: Before and After RPA

The numbers speak for themselves: Take a look at how a typical robotic process automation scenario creates not just time savings, but the ability to add additional data sources, increase the number of investigations per week and finish investigations faster.

<table>
<thead>
<tr>
<th></th>
<th>Before</th>
<th>After</th>
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<tbody>
<tr>
<td>CDD investigations</td>
<td>15 minutes</td>
<td>30 seconds</td>
</tr>
<tr>
<td>AML investigations</td>
<td>20 minutes</td>
<td>2.5 minutes</td>
</tr>
<tr>
<td>Analysts hours spent</td>
<td>20 FTE</td>
<td>8.5 FTE</td>
</tr>
<tr>
<td>on data-gathering and process</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Data sources</td>
<td>40 internal and external systems like LexisNexis, GBG and kyc.com</td>
<td>Able to add additional data sources like social media websites in less time</td>
</tr>
<tr>
<td>Search results</td>
<td>Compiled manually into a single document with copy/paste</td>
<td>Automatically delivered to analyst in single structured document</td>
</tr>
<tr>
<td>Process</td>
<td>Inconsistent across dozens or hundreds of workers</td>
<td>Standardized, integrated with internal systems</td>
</tr>
<tr>
<td>Audit trail</td>
<td>Incomplete audit trail</td>
<td>Full audit trail</td>
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REAL-WORLD RESULTS: CUSTOMER DUE DILIGENCE SUCCESS STORIES
Highly skilled analysts spent hours a day combing through internal and external systems to gather relevant information on customers. With constantly-changing legislation, the bank had to scale up resources to keep pace—an unsustainable approach with manual CDD and KYC investigations.

The bank deployed Kofax Kapow™ to automate CDD and KYC checks overnight. When analysts arrive at work the next morning, the information is there waiting.

**Outcome**

- CDD investigations: From 15 minutes to 30 seconds
- Corporate investigations: From 10 minutes to 70 seconds
- AML investigations: From 20 minutes to 2.5 minutes
- Analyst hours saved: Thousands per week

**Bonus outcome:**
Other business units noticed the compliance team’s automation success, and now the bank has established a Center of Excellence for Robotic Process Automation, which is leveraged across Retail and Private Banking, Corporate Clients and Operations.

Read the full story >
Small and medium businesses often struggle to get funding from traditional financial providers—often because processing conventional loan applications is expensive for lenders.

Spotcap knew if they could make the loan process incredibly fast and efficient, they could revolutionize the SMB lending landscape. Spotcap developed a proprietary credit algorithm using predictive models, then fully automated the application process that results in a loan offer within minutes. Kofax Kapow is a key player in this process, automating the collection of thousands of data points in real time for Spotcap’s algorithm to analyze.

Achieved a full ROI with Kapow in under a year
More than €100 million in funding secured since launching in 2014
Organizational growth of more than 300 percent from 2015-2016
Ranks among the top 30 fintech companies in Europe and top three in Germany

Bonus outcome:
Spotcap’s next move is to use Kapow robots to automate and streamline internal processes—everything from importing data into spreadsheets to copying and pasting information to and from different business systems. The results? Employees are free to focus on more rewarding work, with impactful results for SMB clients.

Read the full story >
Is Robotic Process Automation Right for You?

Financial services organizations that benefit most from robotic process automation:

- Are committed to a faster onboarding experience for customers that includes swift identify verification
- Have a complex or time-consuming data collection process for KYC, CDD and AML compliance
- Want to move from reactive monitoring to proactive due diligence and adaptation to fast-changing regulations, external threats or internal processes
- Are committed to increasing the level and scope of enhanced due diligence for higher-risk applicants
- Have a large “back book” of existing customers whose identities need to be checked at set periods
The View from a Leading Analyst

Financial services research firm Celent

“Banks traditionally use in-house and/or best-of-breed solutions that are siloed, static, and simple rule-based, with limited capabilities to support advanced analytics and automated workflows, thereby relying heavily on manual intervention.

Kapow robots automate this process by consolidating the several lists into a single data structure, so that a single query can be made for finding a match. Instead of checking individual names, a list of input names can be taken from a bank’s internal system, and the complete list can be automatically checked against the consolidated list, thereby automating the complete process.

Search results could be copied and pasted automatically into a single document for further analysis. Kapow integrates audit trail information for regulatory purposes, and includes all information that might potentially fall under an audit.”

—Celent, “Innovation in Compliance Technology: Emerging Themes and Vendor Solutions”
# How RPA Transforms Your Business

<table>
<thead>
<tr>
<th>Employees/Operations</th>
<th>Before</th>
<th>After</th>
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<tbody>
<tr>
<td></td>
<td>Manual, Data entry errors, Rules applied unevenly, Questionable audit trail, Not easily scalable, Manual annual reviews, Majority of analysts’ time spent collecting, not analyzing, information</td>
<td>Automatic, Error-free, Rules applied systematically, Complete audit trail, Easily and quickly scalable, Automated annual reviews, Free up time of highly paid analysts</td>
</tr>
<tr>
<td>Customers</td>
<td>Long onboarding process, Multiple requests for same information, Customer attrition</td>
<td>Faster customer onboarding, A single request for information, Improved customer experience</td>
</tr>
<tr>
<td>Business</td>
<td>Slower time to revenue, Increased operational costs, Significant regulatory fines from non-compliance</td>
<td>Faster time to revenue, Decreased operational costs, Decreased regulatory fines from standardized compliance</td>
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Four Must-Haves for Your RPA Solution

If you’ve decided to investigate robotic process automation for automating customer due diligence, consider a solution that:

1. Doesn’t require coding or developers
2. Is scalable and flexible
3. Can extract and use data from multiple sources—especially websites, web portals, and web apps as well as internal and external applications
4. Supports end-to-end digital transformation with a comprehensive process automation platform for account openings, loans, mortgages and wealth management

“While our global surveys show compliance challenges remain significant for banks and corporations, those that take a proactive approach to the regulatory environment by using available technology to streamline KYC processes can put themselves ahead of the curve for competitive advantage.”

—Dominic Mac, global head of KYC Industry Solutions at Thomson Reuters
Learn more about how robotic process automation can benefit your financial services organization:

- Infographic: The Top 5 Reasons You Need Robotic Process Automation for KYC
- Solution Overview: Know Your Customer Automation
- White Paper: KYC Sparks an Automation Revolution with RPA
For more information, ask for a demo of Kapow Robotic Process Automation from Kofax.

Power your customer due diligence with the Kofax Kapow Robotic Process Automation Platform. For more information, contact us at info@kofax.com or give us a call at +1 949.783.1333. kofax.com/rpa