The ABC's of Automating CDD, KYC and AML

How to Bridge the Compliance Gap with Robotic Process Automation

KOFAX

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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 corporate banking customer is 90 to 120 days.[1] What's taking so long? Customer Due Diligence (CDD) checks, for one.
3. **Meeting stringent Know Your Customer (KYC) compliance requirements.** The projected total cost of financial crime compliance across global financial institutions came in at $213.9 billion in 2020, increasing from $180.9 billion the prior 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."

1 The Onboarding Conundrum – A Poor Experience for Business Customers and Banks – Finextra

2 True Cost of Financial Crime Compliance Study: Global Report June 2021 – LexisNexis

3 Solving the KYC Puzzle with Straight-Through Processing – McKinsey

"Banks typically employ around 10% of the workforce in financial crime-related activities. KYC reviews are often the costliest activity."[3]

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.

4 The State of Customer Onboarding in Corporate Banking - Kyckr

"A recent survey discovered that more than half (51.2%) of business bank account customers were asked for more information during the account opening process up to as much as 5 times more. Additionally, 39.3% had to go into a physical branch location to complete the set-up process."[4]

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.

8 Drawbacks of Swivel Chair Automation

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 if banks want customers to complete the process. Nearly one-third (31.8 percent) have abandoned setting up an account midprocess because it was taking too long.[5]

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.

5 The State of Customer Onboarding in Corporate Banking - Kyckr

8 Drawbacks of Swivel Chair Automation

5. Weakened Compliance and Security

The projected total cost of financial crime compliance across financial institutions worldwide was $213.9 billion for 2020, increasing from $180.9 billion the prior year.[6] 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.

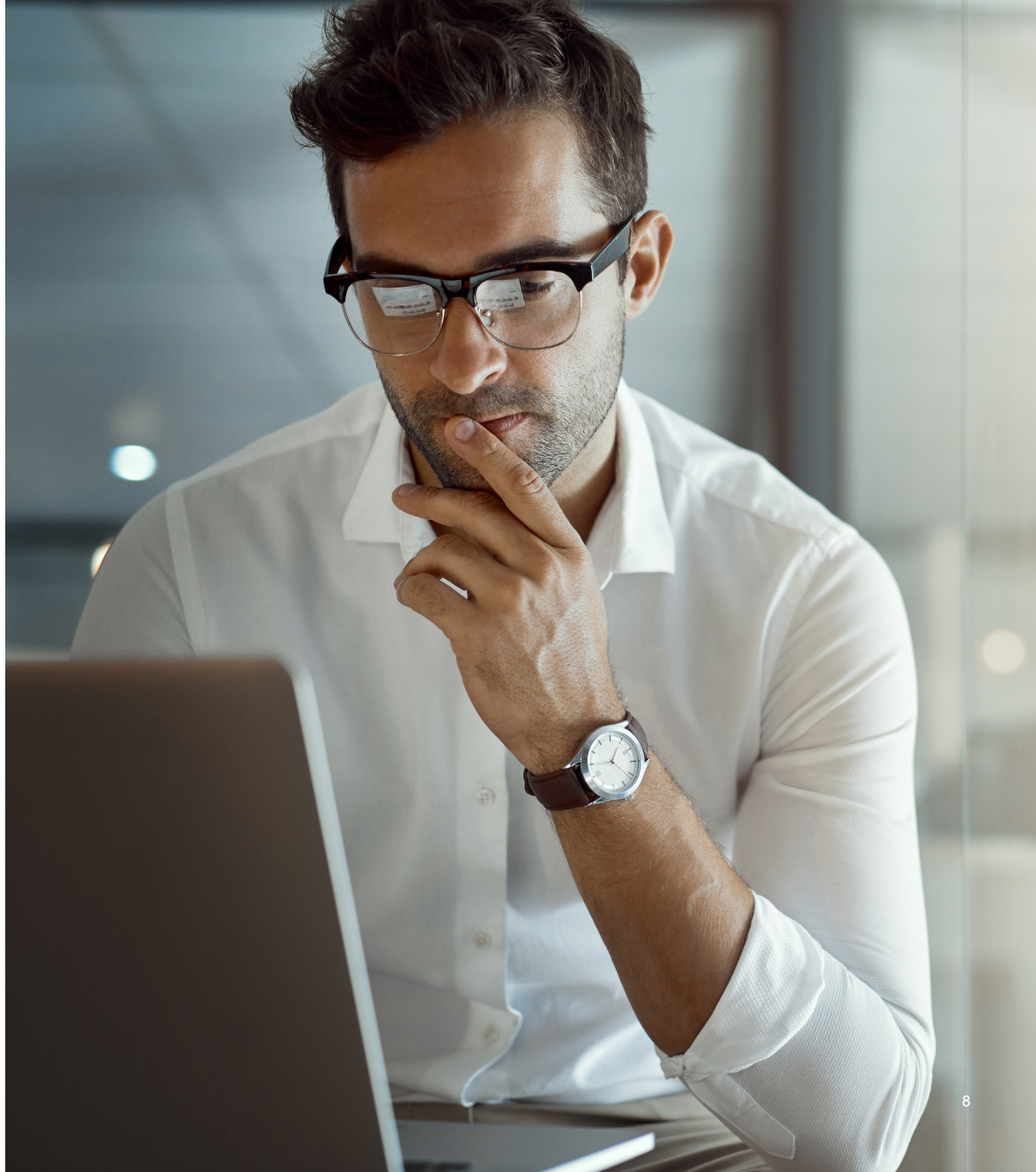
6 Global True Cost of Compliance 2020 - LexisNexis

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.** Fast. Cheap. Good. Pick two. This old saying applies when outsourcing manual data-gathering, and you're still not solving for human errors and productivity limitations.



The Problem with Tradition

Tradition, a.k.a. "the way we've always done it," is a wonderful way to celebrate special holidays and customs, but in the rapidly-changing business world, this approach often falls short of delivering an ideal outcome.

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.

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.** While RPA is often the major missing piece in automating KYC checks, it's still just one piece of the larger automation puzzle. As banks continue further down the path of digital transformation, more advanced tools beyond RPA alone are needed to unify processes and achieve true digital workflow transformation and intelligent automation. To avoid piecemeal solutions that don't integrate, an intelligent automation platform that includes such technologies as document intelligence, process orchestration, AI, machine learning and optical character recognition in addition to RPA makes it easy to scale automation across the enterprise, in both the front and back offices.

> "60% of financial institutions expect their compliance budget to increase slightly or significantly in the next decade. Regulatory change is listed as the top compliance challenge."[7]

7 2020 Cost of Compliance – Thomson Reuters

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.

	Before	After
CDD investigations	15 minutes	30 seconds
AML investigations	20 minutes	2.5 minutes
Analysts hours spent on data-gathering and process	20 FTE	8.5 FTE
Data sources	40 internal and external systems like LexisNexis, GBG and kyc.com	Able to add additional data sources like social media websites in less time
Search results	Compiled manually into a single document with copy/paste	Automatically delivered to analyst in single structured document
Process	Inconsistent across dozens or hundreds of workers	Standardized, integrated with internal systems
Audit trail	Incomplete audit trail	Full audit trail

Real-World Results: Customer Due Diligence Success Stories

European Bank Saves Thousands of Person-Hours a Week on Know-Your-Customer (KYC) Checks

The Problem

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 Solution

The bank deployed Kofax RPA 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

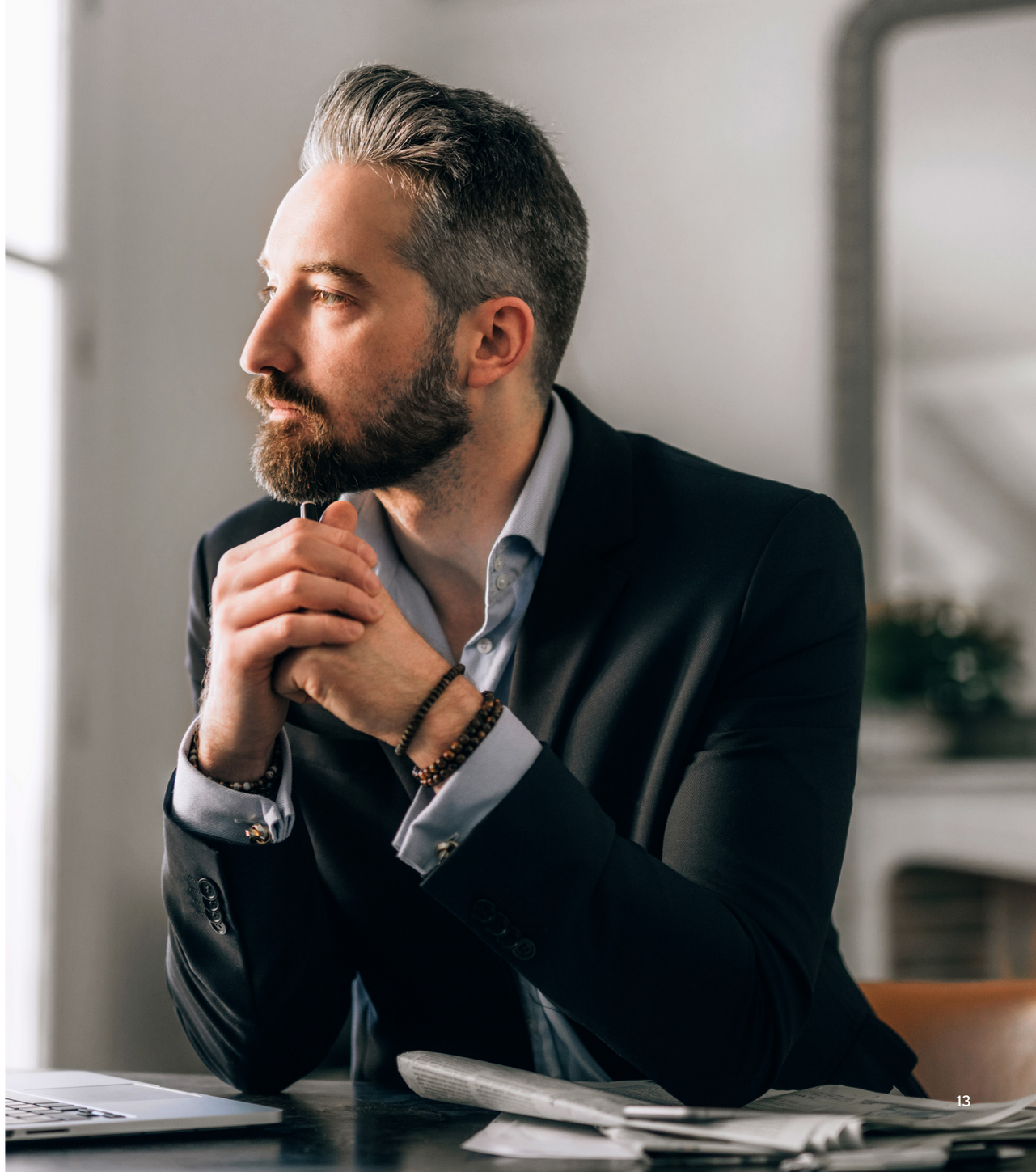
Other business units noticed the compliance team's automation success, and now the bank has established a Center of Excellence for Robotic Process Automation, which is leveraged across Retail and Private Banking, Corporate Clients and Operations.

Read the Full Story >

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



How RPA Transforms Your Business

	Before	After
Employees / Operations	• 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	• Automatic • Error-free • Rules applied systematically • Complete audit trail • Easily and quickly scalable • Automated annual reviews • Free up time of highly paid analysts
Customers	• Long onboarding process • Multiple requests for same information • Customer attrition	• Faster customer onboarding • A single request for information • Improved customer experience
Business	• Slower time to revenue • Increased operational costs • Significant regulatory fines from non-compliance	• Faster time to revenue • Decreased operational costs • Decreased regulatory fines from standardized compliance

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

8 Solving the KYC Puzzle with Straight-Through Processing — McKinsey

Through increased automation and shorter case-handling times, leading banks are able to realize a number of benefits:

- Significantly lower KYC operating costs (20 – 30% faster processing)
- Better-quality KYC reviews (15 – 40% increase in quality)
- Improved customer experience
- Higher levels of employee satisfaction[8]

Additional Resources

Learn more about how robotic process automation can benefit your financial services organization:

- Improve Your CX and Compliance with a Mobile Banking Strategy
- Five Case Studies to Inspire Your Onboarding Strategy with Intelligent Automation
- Challenging the RPA Status Quo
- What is Finance Automation? Your Comprehensive Guide
- Marginalen Bank Harnesses Automation to Shrink the Cost of Compliance

Power Your Processes. Empower Your Customers.

Power your customer due diligence with the Kofax Robotic Process Automation Platform.

For more information, ask for a demo of Robotic Process Automation from Kofax.
Contact us at info@kofax.com or give us a call at +1 949.783.1333.
https://www.kofax.com/products/rpa

Kofax software enables organizations to work today like the workplace of tomorrow.

Kofax intelligent automation solutions help organizations transform information-intensive business processes, reduce manual work and errors, minimize cost, and improve customer engagement. We combine RPA, cognitive capture, mobility & biometrics, process orchestration, analytics capabilities and professional services in one solution. This makes it easy to implement and scale for dramatic, immediate results that mitigate compliance risk and increase competitiveness, growth and profitability.

Kofax provides a rapid return on investment for over 20,000 Kofax customers in financial services, insurance, government, healthcare, supply chain, business process outsourcing and other markets. Kofax delivers its software and solutions through its direct sales and services organization and more than 650 indirect channel partners in more than 60 countries throughout the Americas, EMEA and Asia Pacific.

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