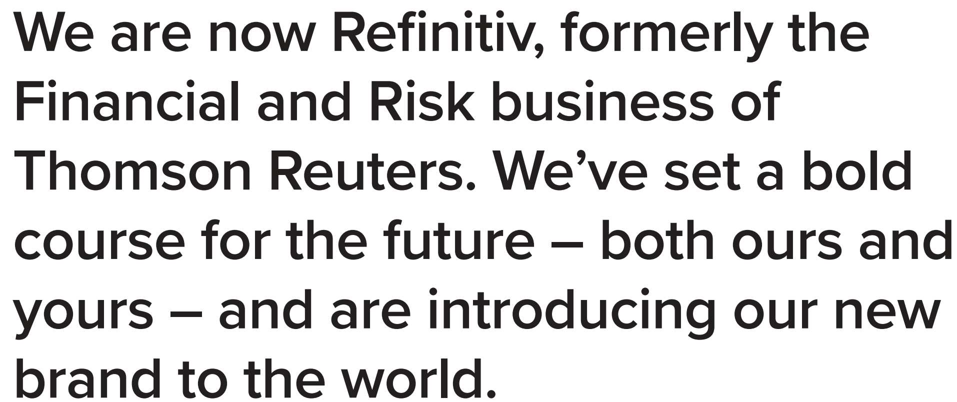
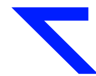


We are now Refinitiv, formerly the Financial and Risk business of Thomson Reuters. We've set a bold course for the future – both ours and yours – and are introducing our new brand to the world.

As our brand migration will be gradual, you will see traces of our past through documentation, videos, and digital platforms.

Thank you for joining us on our brand journey.



KYC compliance: the rising challenge for corporates

An independent survey discussing the real impact of global changes in Know Your Customer (KYC) regulation on corporates.

No one can help you Know Your Customer like Thomson Reuters

The intelligence, technology and human expertise you need to find trusted answers.

the answer company™

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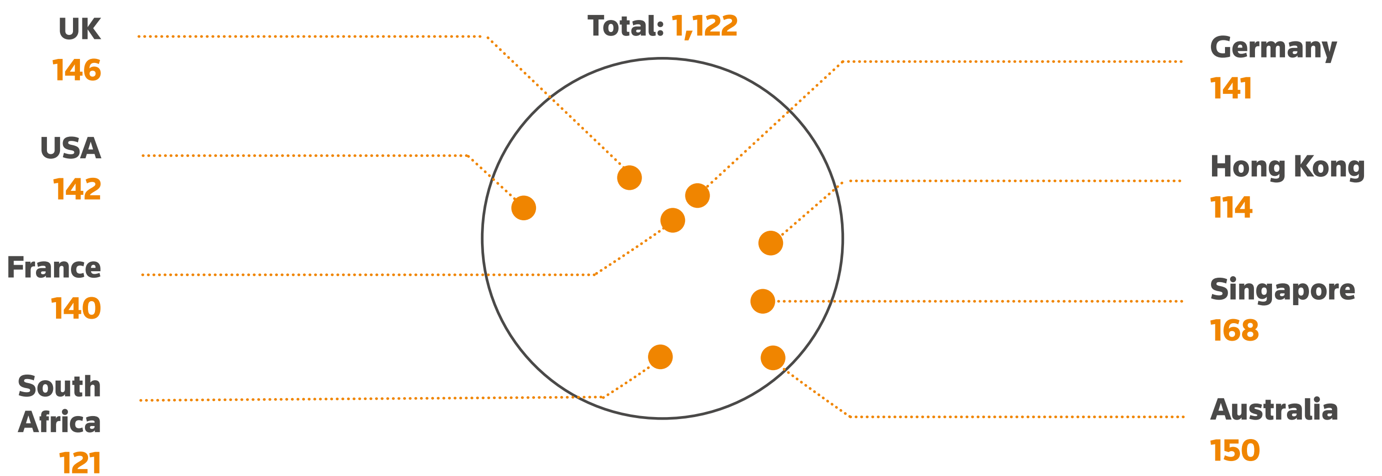
About the survey

This report is based on research commissioned by Thomson Reuters and was conducted online by an independent third party in April and May 2017. A total of 1,122 decision makers at non-financial corporations completed the survey. All of them were involved in KYC-related activities within their corporate organizations across Singapore, Hong Kong, South Africa, USA, UK, France, Australia and Germany.

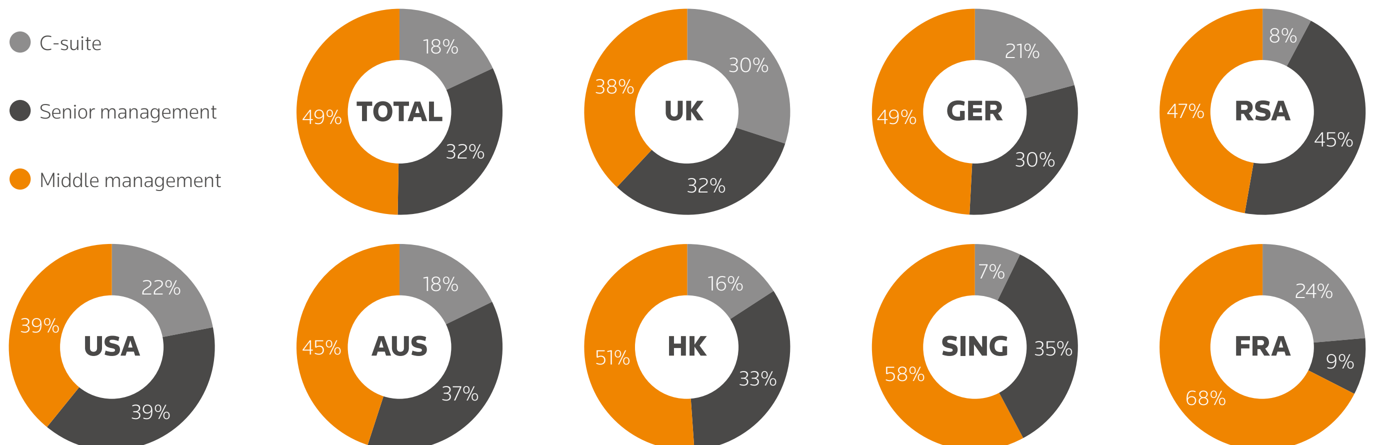
For the purposes of comparison with the Thomson Reuters KYC 2016 survey for Corporates, which was carried out by the same independent third party, please note the following differences: the 2016 survey did not include France and surveyed 822 decision makers.

Respondents by region from corporate institutions



Seniority

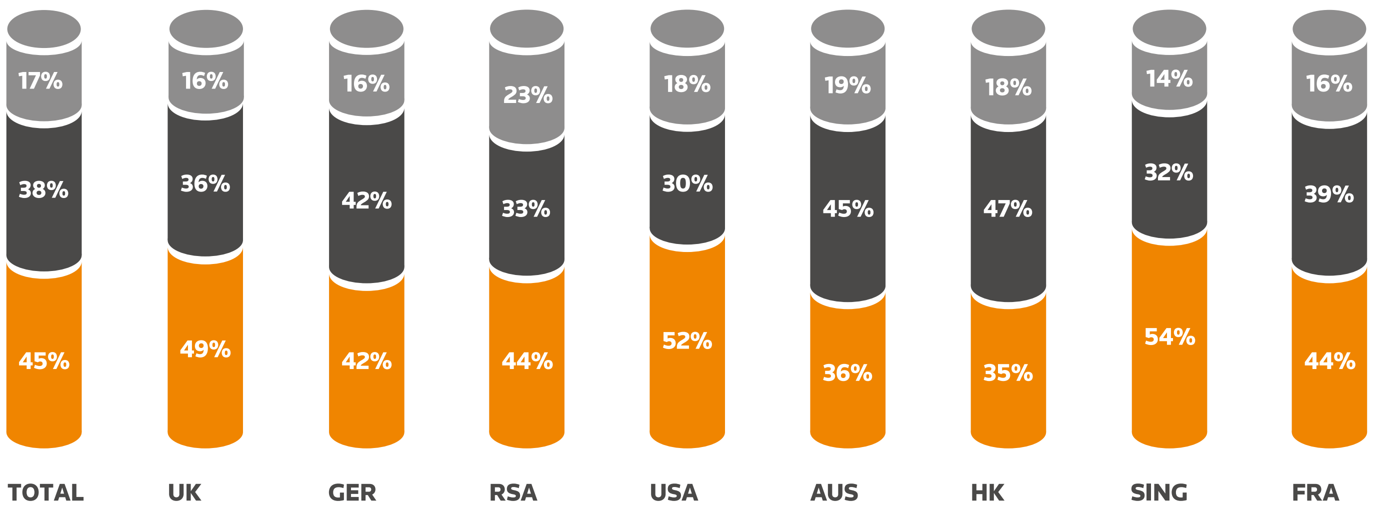
Q. Which of the following best describes your seniority within your company?



Organization size

Q. Which of the following would you use to describe the size of your company globally?

Large Medium Small



Role in organization

- Treasury
- Risk management
- Compliance
- Finance director
- Financial control
- Procurement
- Corporate secretary
- General counsel
- Other financial decision-making role

Please note that this report also draws on the findings of further research carried out by the same independent third party, using the same methodology, but which focuses on FIs' experience of KYC processes.

Please note that the standard convention of rounding has been applied and consequently some totals do not add up to 100%.

Key findings

MULTIPLE BANKING RELATIONSHIPS INCREASE THE KYC BURDEN

The KYC burden on corporates is being magnified by their high number of banking relationships.

- On average globally, each corporate has 10 banking relationships.
- Bigger organizations have more banking relationships, as many as 14 in some cases.

CLIENT SERVICE SUFFERS

Financial institutions' lack of common KYC standards continues to create issues for corporates.

- 85% of corporates have not had a good KYC experience.
- 12% changed banks as a result.

ONBOARDING TIMES RISE

KYC procedures continue to lengthen client onboarding times.

- Average onboarding times have risen from 28 days in 2016 to 32 days in 2017.
- Corporates are contacted an average of eight times by banks during the onboarding process.

MATERIAL CHANGES ARE NOT BEING REPORTED

Corporates are still not passing on all material changes.

- 30% have not made their banks aware of all material changes.
- The average time corporates spend updating their FIs about material changes has risen to 30 days, up from 27 days in 2016.

IMPACT OF REGULATION

The regulatory pressure on banks is being passed down to corporates by increasing the volume of KYC information required.

- Half of all respondents say that changes to regulatory requirements are driving the amount of time they spend on KYC.
- On average, corporates spend 26 days a year supplying additional regulatory information, up from 23 days in 2016.

The KYC challenge continues, but solutions emerge.

One year on from our last survey and, while the KYC compliance challenge has intensified, it is also driving the uptake of new approaches.

Then and now

Since our 2016 survey, we might expect that the KYC compliance challenge would have eased, with the systems now firmly in place to make the KYC process more efficient for corporates.

Our 2017 survey reveals that this is not the case: banks are taking longer to onboard their corporate clients, who are still not passing on a significant proportion of material changes. As a result, corporates are waiting longer to enjoy the benefits of their new banking relationships and spending valuable senior management time responding to multiple requests for compliance-related information. Client experience is suffering, with 12% of corporate clients saying that they had changed banks as a result of KYC issues.

It seems clear that the regulatory environment is putting increasing pressure on banks, who are passing it onto corporates in the form of an increased workload as they seek to provide more KYC-related information. This, as our separate FI survey reveals, is leading to a change in the dynamics of KYC, with more banks looking to invest in external resources and third party solutions to help improve the efficiency and regulatory compliance of their CDD/KYC processes.

For corporates, increased awareness of the problem is leading to greater uptake of third party industry solutions, such as Thomson Reuters KYC as a Service and client onboarding applications, which can help to make KYC processes more efficient.

Expanding requirements

Customer Due Diligence (CDD) is a collective term for the collection of information about, and the verification of, a client's identity and business. CDD requirements for anti-money laundering purposes have been in place in a number of countries since the early to mid-1990s. More recently, in response to major events such as the global financial crisis they have evolved to include a more detailed understanding of risks such as sanctions, politically exposed related parties and ultimate beneficial ownership in the case of legal entities.

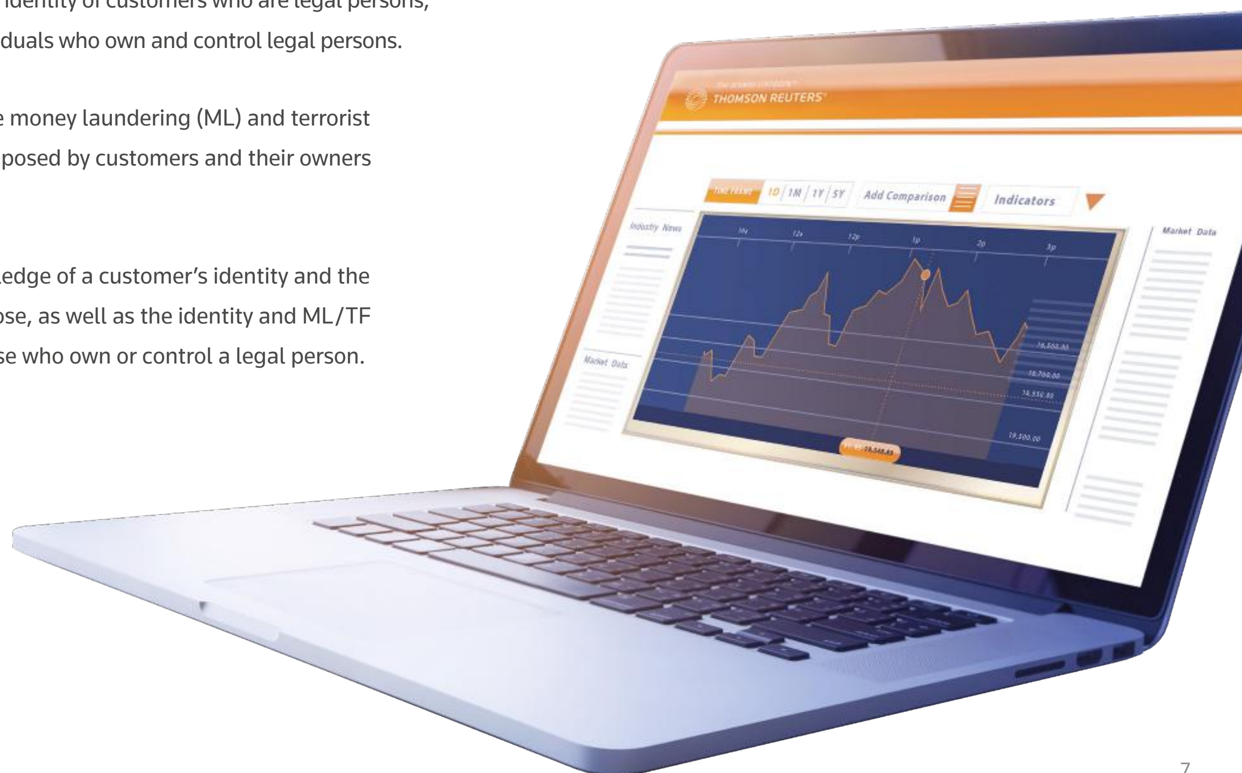
These requirements continue to become increasingly intrusive for both regulated firms and their clients, as all FATF member and affiliate countries, move to implement the 2012 revisions to the Financial Action Task Force (FATF) Recommendations.

The FATF 2012 revisions have placed addition requirements on:

- Understanding the identity of customers who are legal persons, including the individuals who own and control legal persons.
- Understanding the money laundering (ML) and terrorist financing (TF) risk posed by customers and their owners and controllers.
- Maintaining knowledge of a customer's identity and the ML/TF risk they pose, as well as the identity and ML/TF risks posed by those who own or control a legal person.

As the FATF undertakes its fourth round of mutual evaluations, against a backdrop of global activity, which is set to continue until 2025, the financial services industry has been working to resolve expanding CDD requirements through extensive in-house remediation, automation initiatives and most innovatively through the adoption of shared CDD services.

Our independent survey examines the impact of these increasing CDD/KYC requirements on corporates and highlights the challenges and opportunities they present.



MULTIPLE BANKING RELATIONSHIPS INCREASE THE KYC BURDEN

The greater the number,
the bigger the burden.

The average number per corporate grows to 10, just below the 2016 finding of 11 global banking relationships.

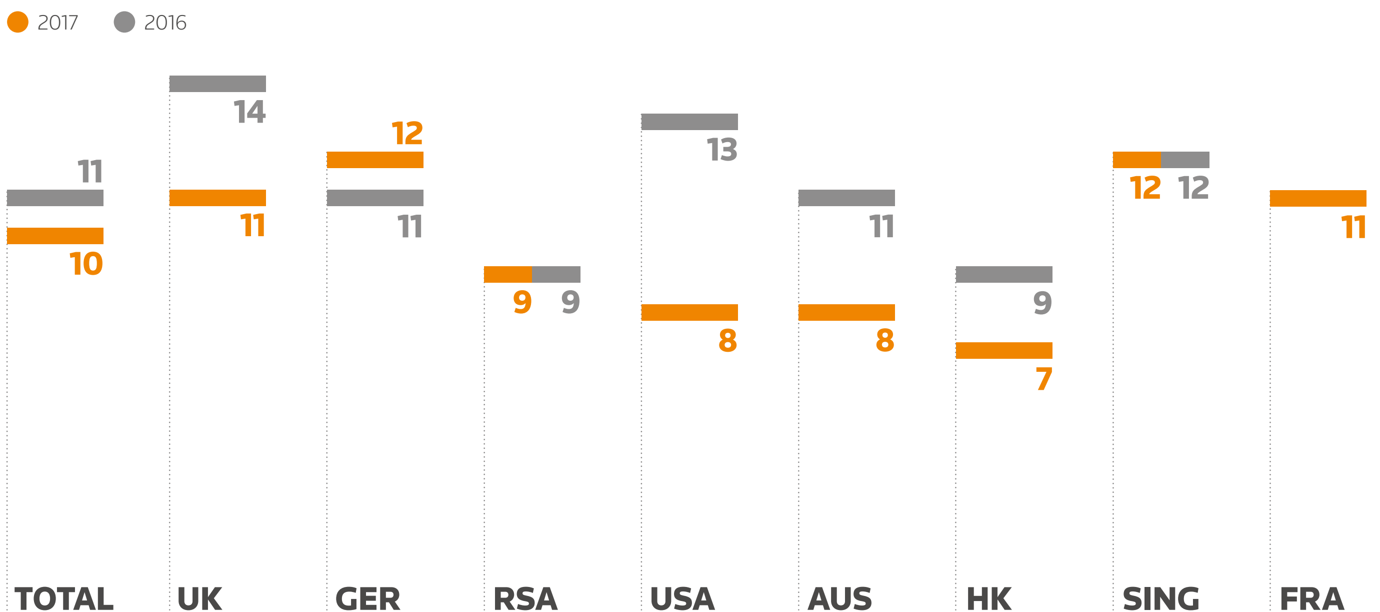
More relationships are making life difficult for corporates

In an increasingly globalized economy, corporates are engaging in banking relationships with multiple institutions spanning multiple jurisdictions. Given local variances in KYC-related policies between individual banks and the lack of standardization across different regulators, corporates operate in a complex compliance environment. Multiple banking relationships magnify this problem, making managing the provision of KYC documentation to financial counterparties significantly more time-consuming and complex for corporates.

Corporates now have an average of eight regional banking relationships, down from the nine reported in our 2016 survey. When we widen the picture to include global relationships, the average number per corporate grows to 10, just below the 2016 finding of 11 global banking relationships.

Global banking relations

Q. How many banking relationships do you have at a global level (including in your region) that require you to supply KYC information and documents?



Generally, the larger the corporate, the more banking relationships it will have.

A closer look at the survey results reveals that 21% of UK respondents cite 10+ banking relationships at a global level, down from 30% in 2016, and 12% report that they have 30+ global banking relationships, down from 15% in 2016.

Is KYC reducing banking relationships?

Could this trend towards fewer banking relationships be partially driven by the KYC burden? When we bear in mind that each additional banking relationship subjects the corporate to a new and potentially different set of KYC requirements, it would be understandable if corporates were a little more cautious about extending their banking affiliations. If so, there must be a concern that any such unwillingness to enter new relationships could impact corporate growth, potentially holding it back from entering new jurisdictions or exploring financing options. What we can say for sure is that KYC compliance issues can be a deal breaker, with 12% of all 2017 respondents saying that they abandoned a banking relationship because the KYC process was too slow.

Under the microscope – what level of detail are corporates expected to provide?

To take one example, the documentation required to open a single account with a US bank could include: the passports of all signatories; the names, addresses and dates of birth of all directors; utility bills and bank statements for all authorized signatories; documentation regarding US tax status (W8-BEN); certified articles of association; certified articles of incorporation; confirmation of EMIR status; confirmation of Dodd-Frank exemption; and board authorizations. Bearing in mind that each bank may require variations of the above, along with additional information when new products are used and/or national regulations change and the problem grows exponentially.

CLIENT SERVICE SUFFERS

A lack of common standards at financial institutions is negatively impacting client service.

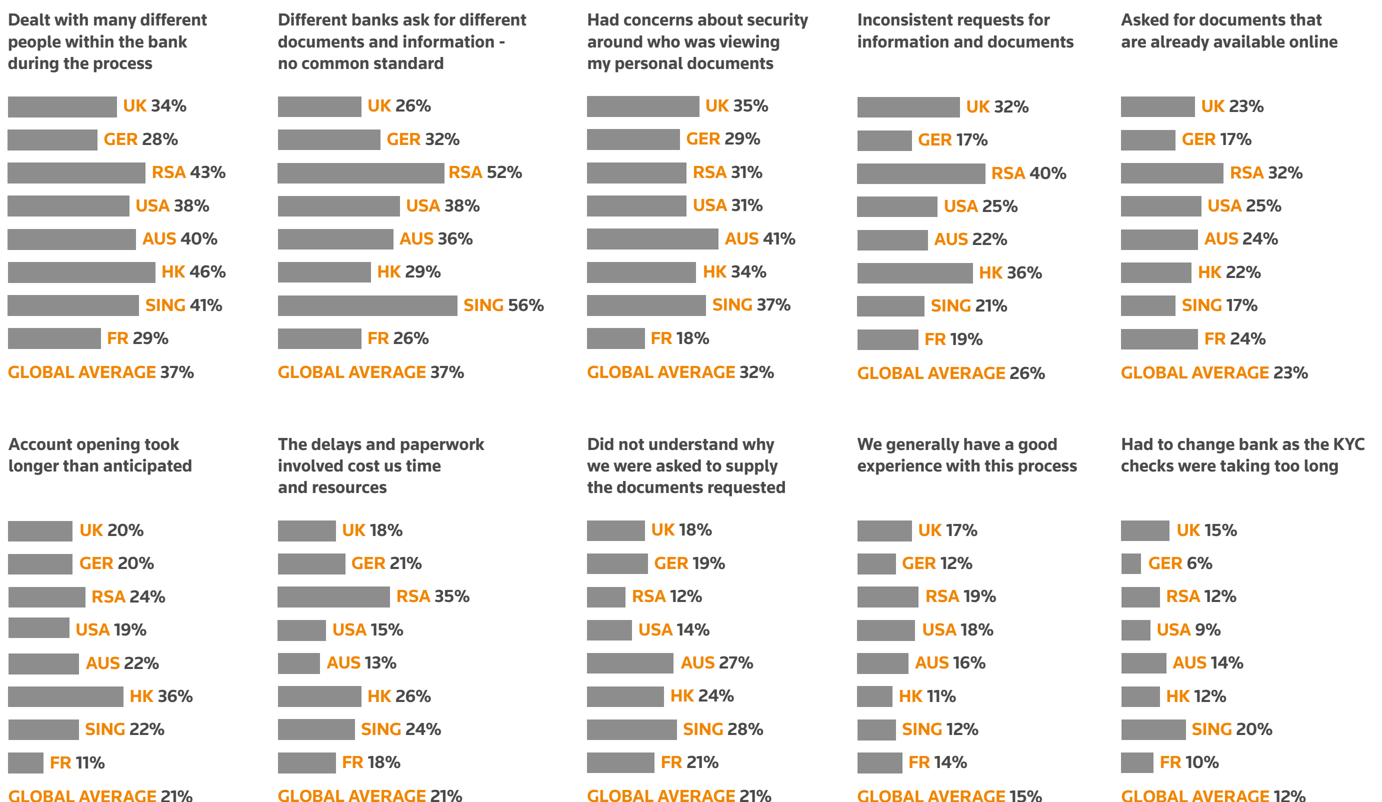
Financial institutions and regulators have shown that they are committed to moving towards standardized KYC requirements.

Inconsistent approach

Corporates still believe that the KYC process is highly inefficient, but our survey does show that some improvements have been made in the last year. In 2016, 47% of respondents reported that different banks ask for different documents, and this figure fell to 37% in this year's survey. Financial institutions and regulators have shown that they are committed to moving towards standardized KYC requirements, as well as aligning internal processes, but there is still a long way to go. It does not, however, explain the apparent lack of internal bank communications, with 37% of respondents (40% in 2016) saying they had to deal with many different people or departments within an individual bank during the KYC process. Inconsistent requests for information and documents were cited by 26% of respondents (down from 34% in 2016), suggesting that banks' internal processes are improving but are not yet not fully aligned.

Challenges to providing KYC documents and information

Q. What types of challenges has your organization experienced when it has been asked to provide KYC documents and related information to the financial organizations it works with for compliance?



More time being spent on KYC activities

These inconsistencies are definitely a factor in the increasing amount of time that corporates are spending on KYC activities, with 58% of total respondents saying that this has increased over the previous 12 months. At least this is below the 63% figure recorded in our 2016 survey.

All the above factors are impacting corporates' attitudes to the process: 85% did not have a good experience of the KYC process and 12% changed banks because of it. Although both these figures represent a marginal improvement on last year's survey, there is clearly a long way to go.

On a regional basis, 15% of UK corporates said they had changed banks due to the KYC process, compared to 20% in our last survey. Singapore stood out with 20% of corporates changing bank due to KYC-related issues, and this figure has not changed since our 2016 survey.

C-suite impact

It can be seen as a positive that, as in last year's survey, more than a quarter of C-suite respondents said that they continue to focus more time on the adoption of a new approach/solution to managing KYC document requests. Although the C-suite may prefer to concentrate their attention on more growth-oriented areas, at least it suggests that managing the administrative burden of providing KYC information is something that corporate boards are committed to solving.

Poor KYC experiences

The 2012 FATF Recommendations aim to create a more pragmatic approach to KYC, encouraging banks to focus more tightly on the areas of their operations that are most vulnerable to money laundering and other risks. One might therefore expect smaller companies (not as complicated and likely to operate in less high-risk jurisdictions) would have a slightly easier ride in terms of KYC processes. The survey results, however, show small companies are suffering almost as much, with 84% saying they did not have a good experience of KYC, which is only just below the overall average of 85%.

Security concerns

Banks require extensive documentation and, from passports of company directors to beneficial ownership details, these documents are often of a personal and confidential nature. Where it is still a regulatory requirement to provide hard copy documentation, the fear is that physical documents can get lost en route, even when sent by special delivery. This year, 32% of corporates felt security was a key concern during the KYC process, only slightly down on the 33% seen in our 2016 survey. Thomson Reuters KYC as a Service can help solve this problem by enabling quick and easy sharing of client identity documents via secure web-based portals and APIs, directly into banking systems.

Another way to cut onboarding time and reduce security issues would be by minimizing banks' dependency on clients to provide documentation by instead collecting as much information as possible from official sources in the public domain.

Is a standardized solution already in sight?

"If corporates could upload whatever client information their banks needed, and enable their banks to have secure access whenever they needed it, many of their KYC challenges could be greatly reduced. That's the driving force behind the creation of KYC-managed services such as Thomson Reuters KYC as a Service, which provides a secure portal to distribute KYC information as well as update and monitor KYC records. Instead of each financial institution managing its own client documentation collection, a third party provider acts as a central and secure data repository and conduit. The information is uploaded and can then be distributed to selected and approved FIs. The corporate has full visibility and control over who can access and view the confidential information and documents are held according to strict data and information security requirements. Banks can effectively self-serve, checking the portal when necessary and requiring little more than confirmation that the information is up to date. The result is a huge reduction in time and cost, allowing the company secretary and treasury team to get on with what really matters – running their business efficiently."

Dominic Mac, Global Head of KYC Industry Solutions, Thomson Reuters

ONBOARDING TIMES RISE

Longer onboarding times are threatening banking relationships.

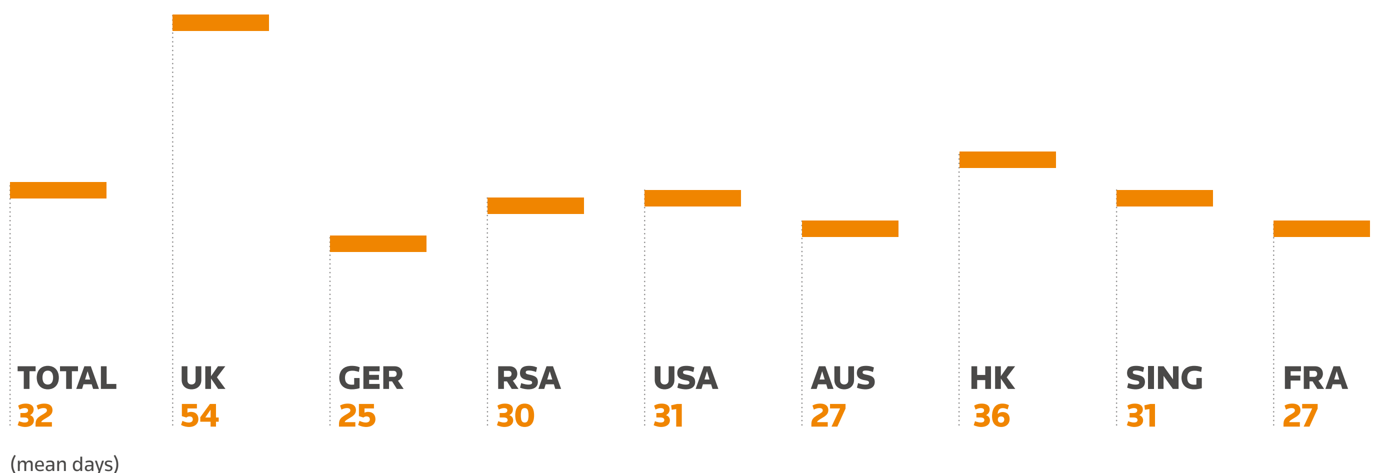
Despite significant investment by banks and more time being spent by corporates on supplying compliance-related information, onboarding times have continued to rise, which has resulted in 12% of corporates citing the process as the reason for not establishing/progressing a relationship with a financial institution.

Client onboarding results

Back in 2016, corporates expected onboarding times to increase by 20% over the 12 months ahead. This proved only slightly too pessimistic, with the average rising from 28 days in 2016 to 32 days in our 2017 survey. When asked what was the longest onboarding process corporates had experienced, this averaged 45 days – and just over a quarter (27%) had been involved in an onboarding process that took two months or more.

Average time to onboard

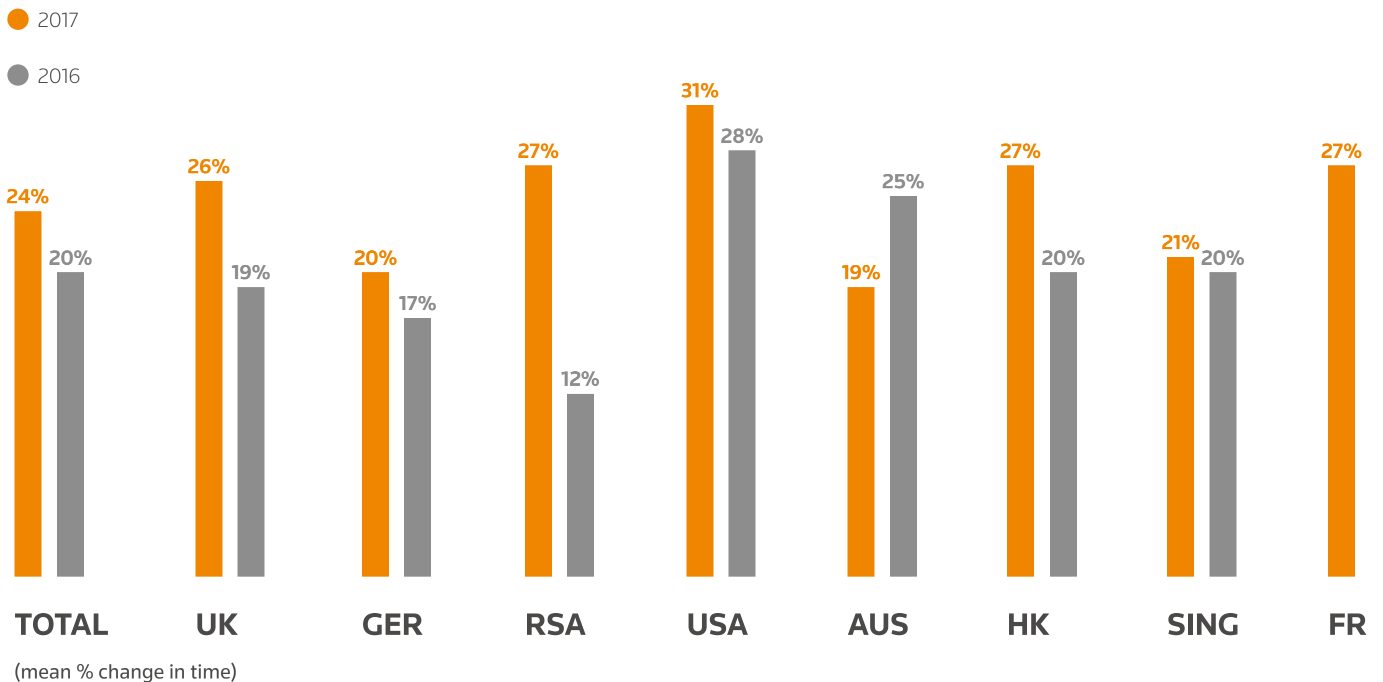
Q. How long does the entire process take, on average, for your organization to be onboarded as a new client by a financial services organization?



Yet all this is despite significant investment by banks to alleviate the problem, suggesting the issues around onboarding are getting more complex and far-reaching as the regulations evolve. Corporates don't expect the situation to improve, predicting a further 24% rise in onboarding times in the 12 months ahead, with the US the most pessimistic, expecting a rise of 31%.

Expected time to onboard in the next 12 months

Q. Approximately how do you expect the time to be onboarded as a new client will change over the next 12 months?



Banks are duplicating requests

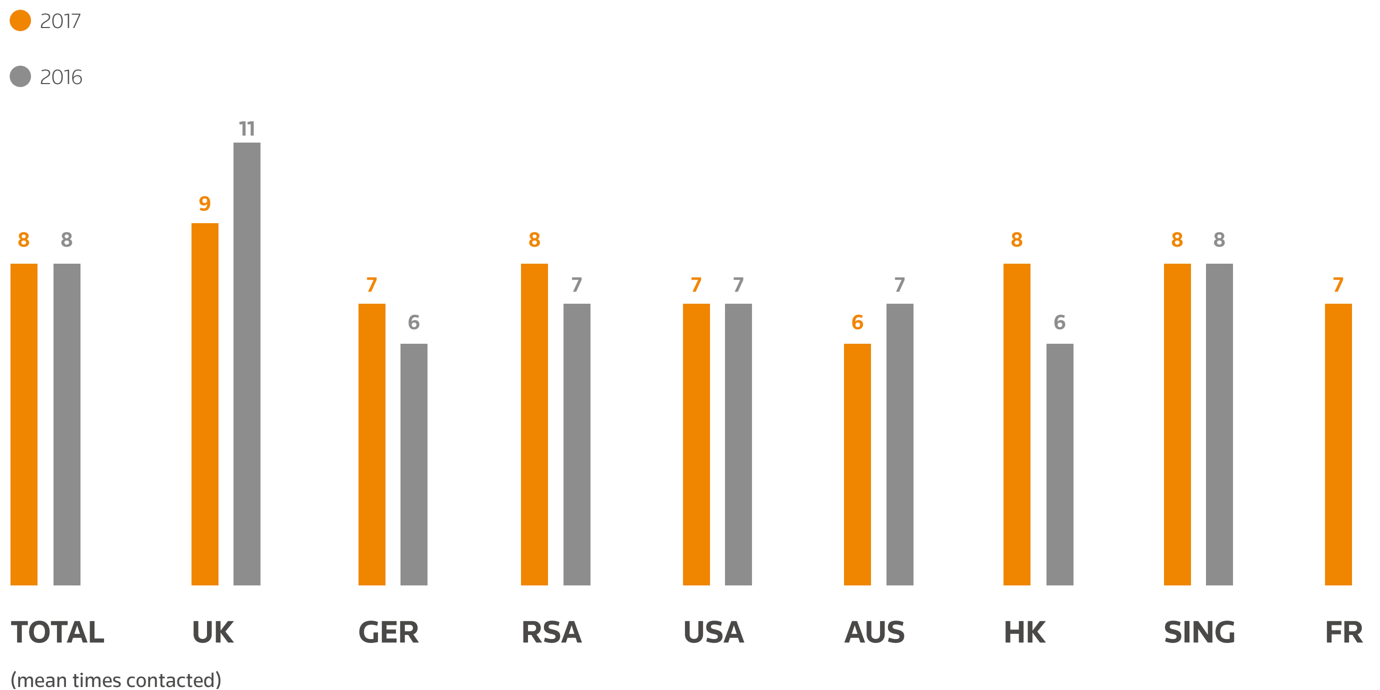
Banks rely on corporates to provide a significant amount of documentation to fulfill onboarding requirements. In order to gather this information banks contact corporates an average of eight times, the same number as in our 2016 survey. The banks themselves, however, say they contact corporates on average just four times, suggesting that they are struggling to track processes internally and may be duplicating requests due to mismanaged handoffs between teams. This view is backed up by the fact that one in five corporates said their bank contacted them 10 or more times during the onboarding process.

"An already complex compliance landscape is being compounded by varying interpretations of regulations at an institutional level and differing approaches in designing and executing KYC programs to fulfill regulatory expectations."

Source quote: https://risk.thomsonreuters.com/content/dam/openweb/documents/pdf/risk/white-paper/the-rise-of-jurisdictional-managed-services-2017.pdf

Times contacted during onboarding process

Q. How many times have you been contacted (telephone, email, etc.) during the onboarding process?



MATERIAL CHANGES ARE NOT BEING REPORTED

Not all material changes are being passed on by corporates, but the banks could do more to make the process easier and faster.

There is a real danger that banks may have out-of-date information on their clients, significantly weakening their risk management profile.

Reporting material changes results

KYC responsibilities now go well beyond the onboarding stage. Corporations must update their bank on any organizational revisions which change their identity information, including who owns or controls them, and these changes could impact their risk rating as a customer. The onus is on the corporate to report these changes, but banks have a part to play too, by making the updating process easier and/or continuously monitoring for ongoing changes.

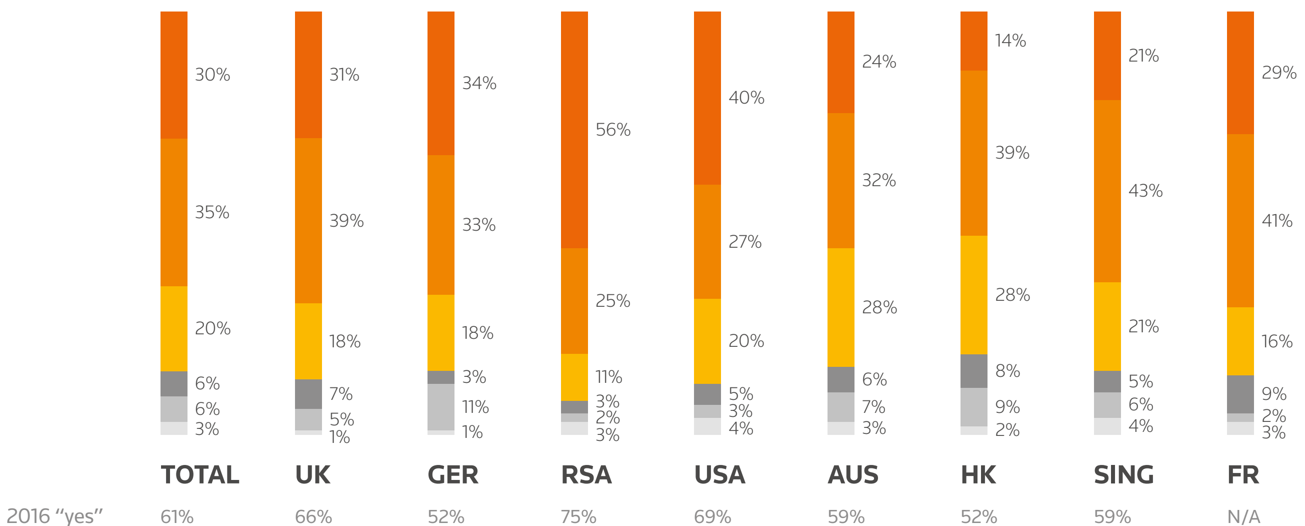
Gaps in both corporate and banking processes

Three-quarters of corporates surveyed had a material change to their organization during the preceding 24 months, and the average number during that period was six. These findings are consistent with our 2016 survey. However, 30% had not made their financial institutions aware of all the changes (31% in 2016). Given that our survey of FIs reveals that many only undertake periodic reviews of client records, there is a real danger than banks may have out-of-date information on their clients, significantly weakening their risk management profile.

Keeping financial institutions up to date

Q. Have you made all the financial institutions you deal with aware of all those material changes?

- Yes all of the material changes
- Yes most of the material changes
- About half of the material changes
- Less than half of the material changes
- Only a few of the material changes
- None of the material changes

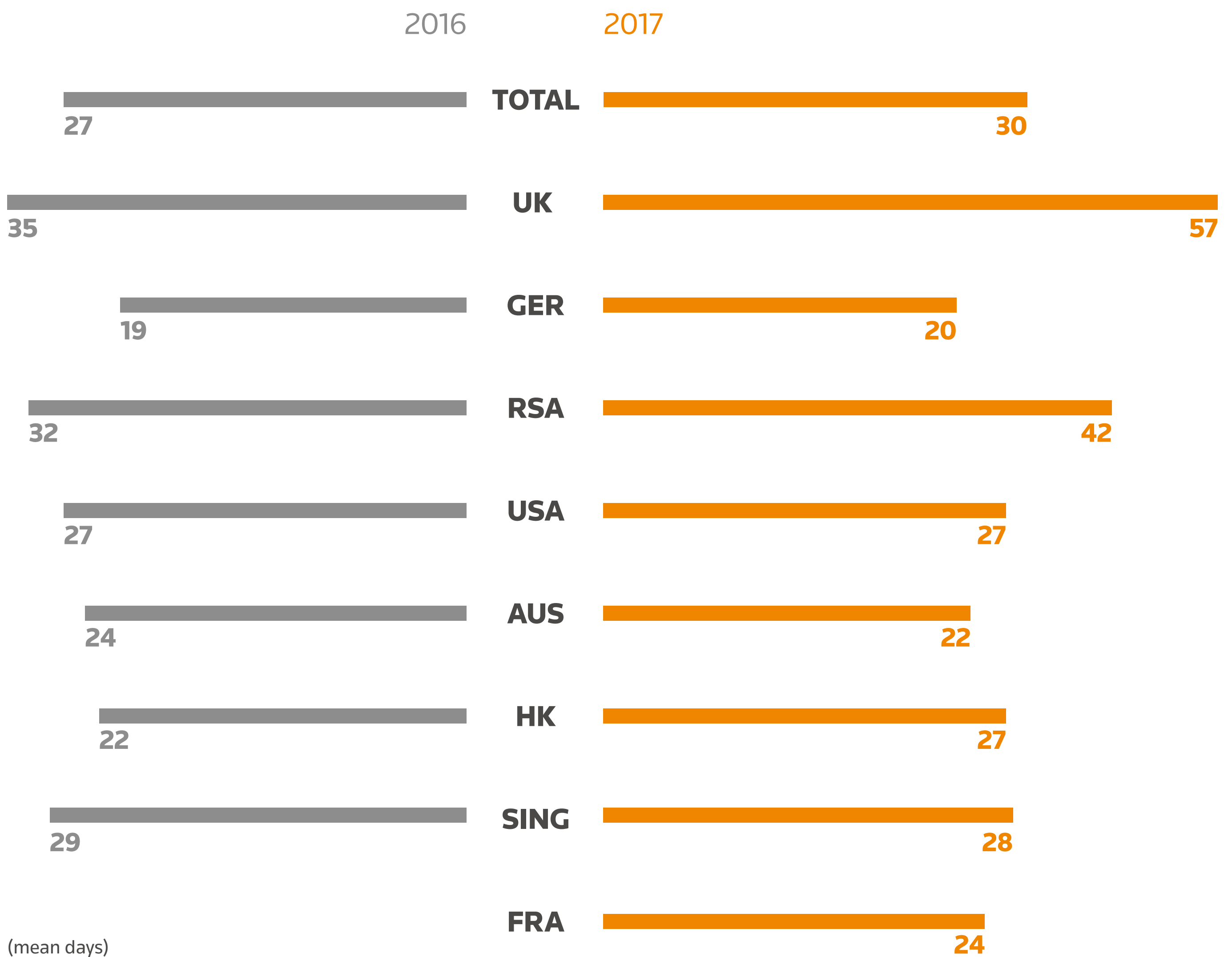


More time is spent updating changes

One of the factors holding corporates back may be the sheer amount of time it is taking to report changes. On average, corporations are now spending 30 days a year bringing their banks and other FIs up to date about material changes, up from 27 days in 2016. This is expected to lengthen further, with corporate survey respondents forecasting it will increase by an average 28% in the year ahead.

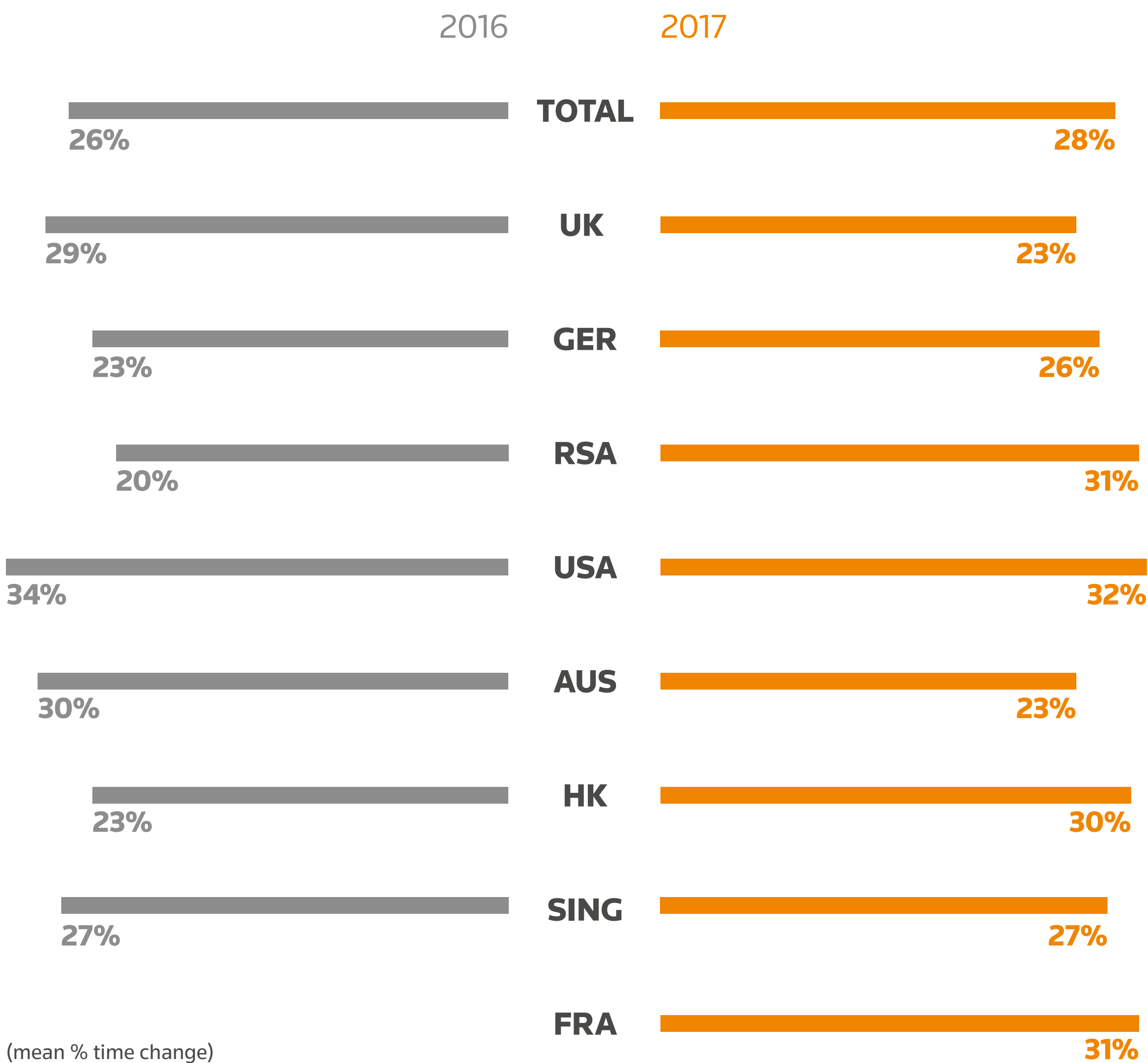
Time spent updating on material changes

Q. How long collectively has your team and related stakeholders in the organization had to spend on updating all the financial services organizations you do business with about your material changes?



Expected increase in time updating financial institutions on material changes

Q. Over the next 12 months, how much time do you expect your organization will spend updating the financial institutions it works with about your material changes?



IMPACT OF REGULATION

The FATF Recommendations 2012 continue to drive changes to KYC requirements and this will inevitably impact corporates.

Changing regulation was identified as the single biggest factor driving the amount of time spent by corporates on fulfilling KYC requirements.

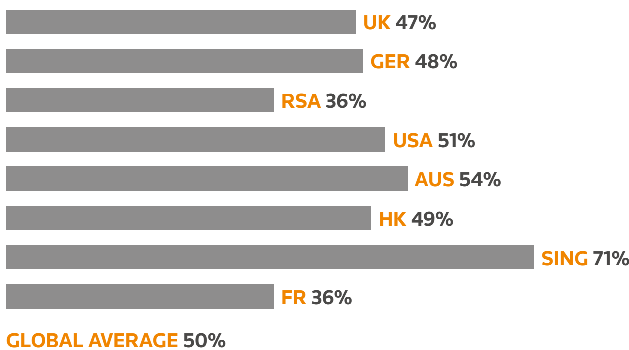
Regulatory change results

Changing regulation was identified as the single biggest factor driving the amount of time spent by corporates on fulfilling KYC requirements. It was selected by half the survey respondents, down from 56% in 2016, and ranked highest in Singapore, where 71% chose it as the single biggest factor, compared to 64% in 2016. This supports the view that changes in rules and regulations continue to deepen the burden for corporates. As the regulatory timeline shows, this process is set to continue as more regions bring in new regulations. Other drivers cited were changes within the corporate's own organization (42%), changes within the financial institution (40%) and the adoption of a new solution/approach to managing KYC documents (24%).

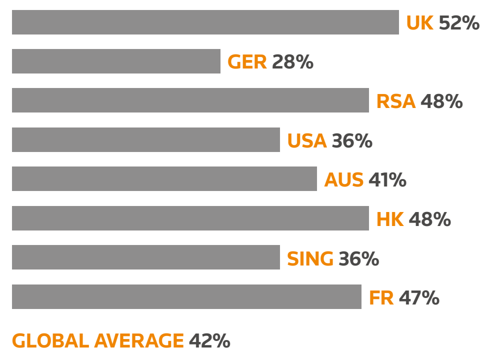
Drivers for fulfilling KYC requirements

Q. What is driving the amount of time that your organization spends on fulfilling KYC requirements for financial institutions?

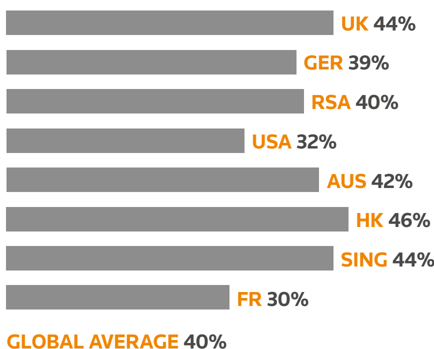
Changes to regulatory requirements for KYC



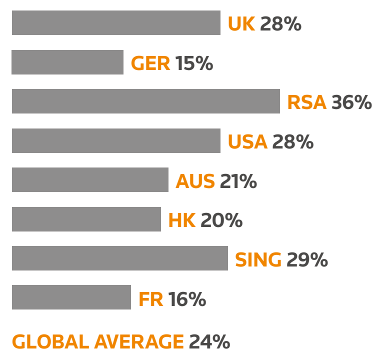
Changes to our organization



Changes at the financial institutions organizations we work with



Adoption of a new approach/solution to managing KYC document requests



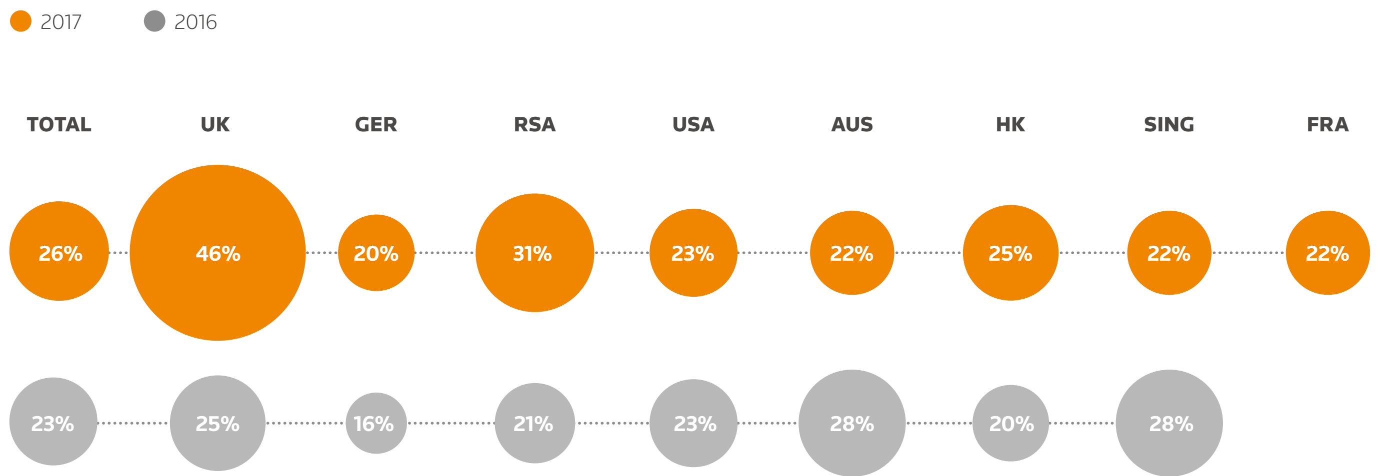
Time spent on regulation increases

Looking at the impact in more detail, changes in regulation mean banks need to constantly refresh their customer records to remain compliant. As a result, corporates are being asked to supply more and more detail and this is resulting in a significant call on resources, with the average corporate spending 26 days supplying additional regulatory information, up from 23 days in our 2016 survey and this process is set to increase further.

Corporates expect the time taken to provide banks with updated KYC documents and information is expected to increase by 24% in the 12 months ahead.

Time taken to make financial institutions aware of additional information

Q. How much time has your team and related stakeholders spent supplying this additional documentation and information to these financial services organizations?

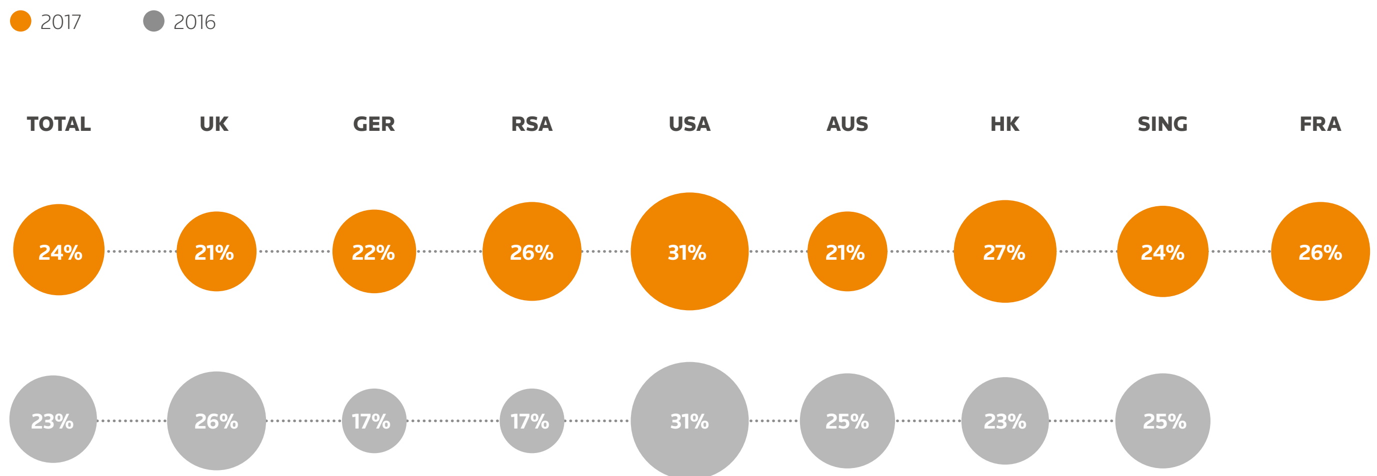


(mean days)

Corporates spend on average 26 days supplying additional regulatory information, up from 23 days in 2016.

Expected increase in time to provide KYC updates to financial institutions

Q. Over the next 12 months, how do you think the following will change for your organization fulfilling requests from financial services organizations to provide updated documents and information for KYC with regards to the following aspects?



(mean % change in time spent)

TURNING A NEGATIVE INTO A POSITIVE

Our survey reveals that current KYC processes are inconsistent, inefficient and time-consuming – yet corporates expect this situation to get worse. They forecast that average onboarding times will rise by 24% in the year ahead.

While complex, non-standardized and changing regulation is clearly a major underlying cause, there can be little doubt that the processes by which the banks are applying it are also contributing to the poor experience described by our survey respondents.

Yet with C-suite and other senior managers having to deal with KYC issues personally, there can be little doubt it is high on the boardroom agenda. This, combined with the greater amounts of time and money being dedicated by FIs and corporates to address the challenge, should continue to drive change.

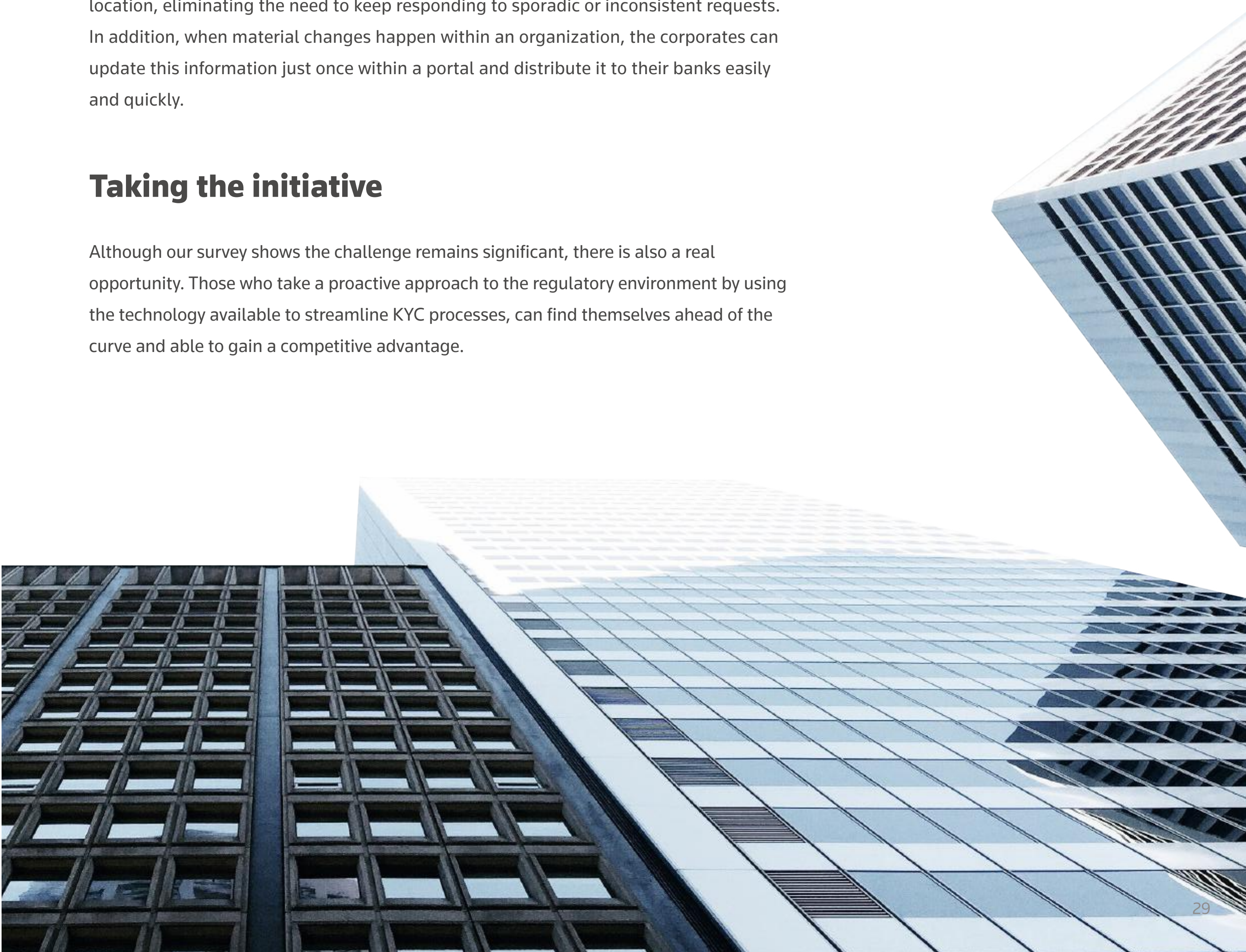
The digital opportunity

Perhaps the greatest opportunity to simplify and speed up processes is by improving the centralization and management of KYC information. We see from our survey the impact when this does not happen, with respondents citing multiple and duplicated requests for KYC information and documentation. The ability to standardize and securely share KYC information is crucial to overcoming such problems, and digitization is key to enabling this.

With banks increasingly accepting electronic documents, this is not only helping to relieve some of the security concerns around supplying original documents, but is also further clearing the way for KYC solutions. Once a corporate's data has been entered or uploaded to a secure portal, financial institutions can access the information without the need to interact directly with the corporate's senior management. In addition, if a corporate uses a digital KYC solution, such as Thomson Reuters KYC as a Service, then they only have to upload and maintain one set of KYC documents from a secure central location, eliminating the need to keep responding to sporadic or inconsistent requests. In addition, when material changes happen within an organization, the corporates can update this information just once within a portal and distribute it to their banks easily and quickly.

Taking the initiative

Although our survey shows the challenge remains significant, there is also a real opportunity. Those who take a proactive approach to the regulatory environment by using the technology available to streamline KYC processes, can find themselves ahead of the curve and able to gain a competitive advantage.



No one can help you Know Your Customer like Thomson Reuters

In a landscape of continuous change and increasingly complex regulation, Thomson Reuters empowers the world's leading banks and investment managers to make informed decisions, with our trusted content at its core. We offer a flexible suite of integrated solutions, which have been further strengthened by our acquisitions of Clarient and Avox. Together, these improve the quality of key data on which critical decisions are made, drive operational efficiencies, enhance regulatory compliance and improve the overall client experience.

We provide a connected suite of services to support FIs and their clients to meet the challenges of increased regulation and reporting obligations.

- Thomson Reuters Verified Entity Data as a Service (formerly Avox)
- Thomson Reuters KYC as a Service (formerly ORG ID & Clarient)
- Thomson Reuters Enhanced Due Diligence
- Thomson Reuters Screening Resolution Service
- Thomson Reuters Client On-Boarding

Our award-winning assets of 350,000 built KYC records, 1.25 million actively managed legal entity profiles and database of 7 million legal entities, ensure Thomson Reuters firmly sets the standard in KYC compliance solutions.

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