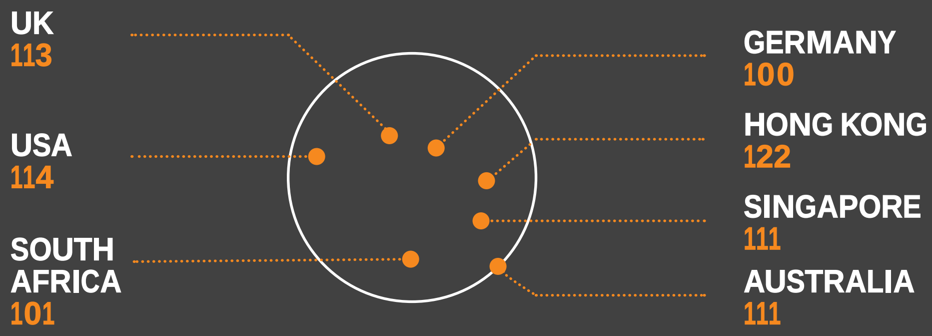
This report is based on research commissioned by Thomson Reuters and conducted by an independent third party in January and February 2016. A total of 772 decision makers completed this survey from financial institutions (FIs). A separate survey of 822 corporate decision makers was undertaken. All decision makers were involved in KYC-related T53c-1 (d T53c-1 (d T53c-1 (d T5 (e)-M82)16 (e (cisio

Respondents by region from financial institutions



Seniority

Organization turnover – mean US $ billions

HOW WE GOT HERE

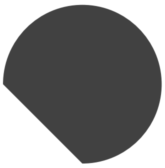
In the past, KYC procedures only involved routine checks on new clients. The globalization of banking, the events of 9/11 and the financial crisis of 2008 put an end to this relatively relaxed approach. Driving change has been the Financial Action Task Force (FATF), established as a G7 initiative in 1989 to develop policies to combat money laundering. FATF has been the prime mover behind the adoption of a risk-based approach (RBA) designed to move compliance on from a rigid, ‘one size fits all’ methodology to a more pragmatic style. The welcome principle behind this is that FIs can direct their resources more efficiently, so that the greatest risks receive the highest levels of attention.

The less welcome side-effect has been that by leaving room for FIs (and their national regulators) to interpret KYC policies and procedures as they see fit, the picture has become more complex and less coherent. As well as the lack of a common standard for applying existing KYC rules, FIs face the consequences of continuing changes to those rules. The 2012 FATF Recommendations provided FIs with a number of challenges, such as identifying the ultimate beneficial ownership of a customer organization. These Recommendations are increasingly filtering into new regulations across the globe. In addition, there needs to be preparation for the next round of FATF mutual evaluations (which assess a country’s compliance with the FATF Recommendations).

HOW WE GOT HERE

While it is well known that FIs and their customers have found current KYC processes complex and time-consuming, it is important to accurately measure the challenge in order to better address it. Our survey shows the true scale of the problem: to take just one statistic, 13% of corporates said they changed banks because of KYC issues. A sobering thought for financial institutions operating in a highly competitive marketplace.

In the short term, FIs believe the KYC compliance burden will continue to increase as they deal with the many challenges involved, such as the need for ongoing monitoring of client details. In the medium term, recognition of the problem is driving investment in improving KYC processes and increasing the uptake of third-party industry solutions, such as Thomson Reuters Org ID™ and Client Onboarding solutions.



A growing number of employees are required to fulfil KYC compliance.

This is highlighting a shortage of qualified staff and is proving to be an increasing drain on financial institutions' senior management resources.

The average FI has 68 employees working on KYC adherence and processing, with half of all respondents saying numbers had increased over the last 12 months. Yet, despite this rise, the survey identified that the biggest single challenge in conducting the KYC process was a lack of people resources (36%). The UK stands out as the country with the highest number of staff working on KYC, seeing an average of

DEDICATED RESOURCES

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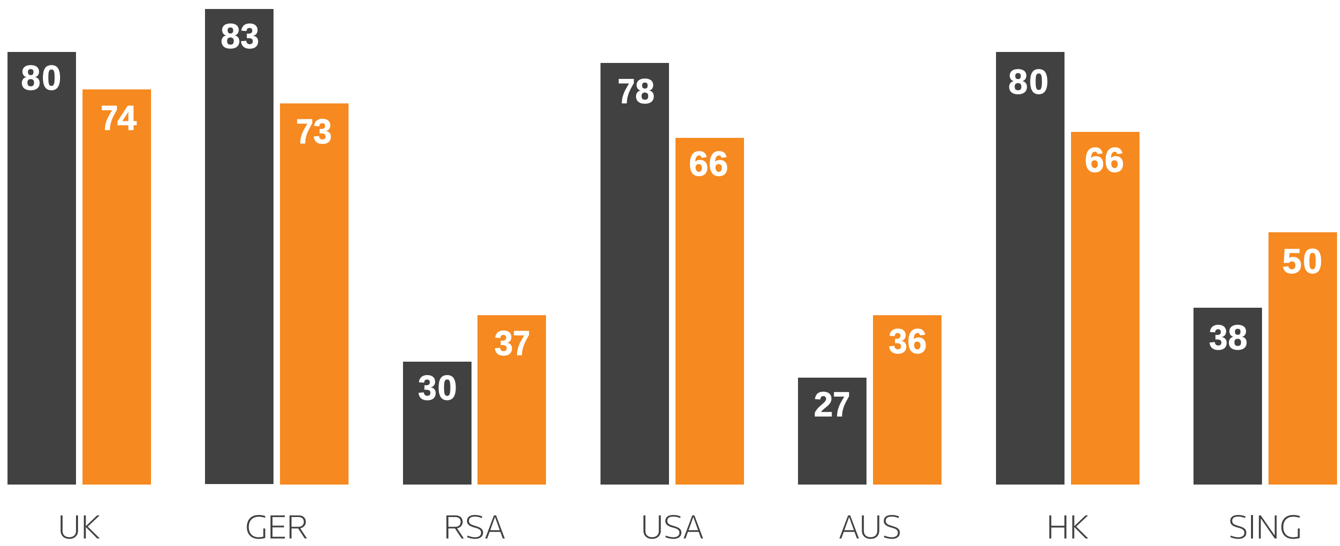
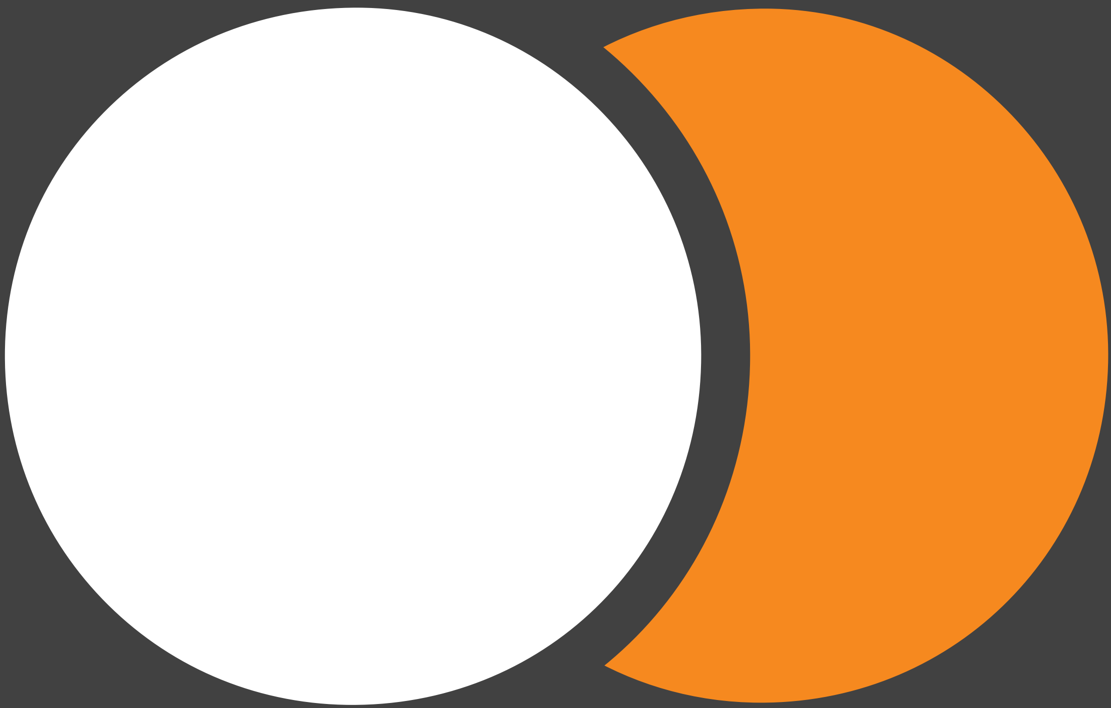


CLIENT ONBOARDING



Average of 24 days to onboard a new client.

Investment managers fared much worse in terms of average longest onboarding periods (at 68 days) compared to that of banks (at 48 days).

Banks reported that 37% use front office staff to complete onboarding processes.

Financial institutions reported that it took on average 24 days to onboard a new client, which is 22% higher than in the previous 12 months. That figure may only get worse before it gets better, with FIs anticipating that time to onboard will increase by 18% over the coming 12 months. This means that by the end of 2016, average onboarding time will rise from 24 days to just over 28 days. In term of individual regions, the US is the most pessimistic, expecting a near 30% increase in onboarding times over the next 12 months.

Regionally, looking at FIs' current average longest onboarding time, this is an astonishing 58 days, with German FIs logging a massive 80 days. Interestingly, within the FI sector, investment managers fared much worse in terms of average longest onboarding periods (at 68 days) compared to that of banks (at 48 days).

Banks contacted their clients an average of four times during the onboarding process. Contact was made from a number of different bank departments – interestingly, this information does not tally with figures from the corporates themselves, who were surveyed separately. Corporate clients report a significantly higher number of average contacts – eight – across a higher number of difact was made from a number of

REGULATORY CHANGE

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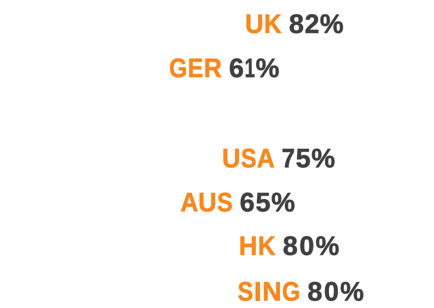
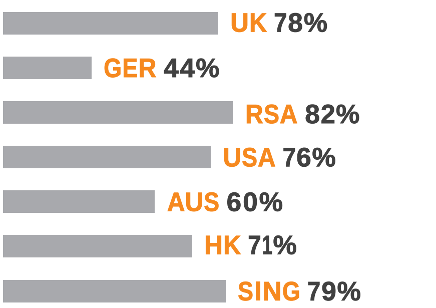
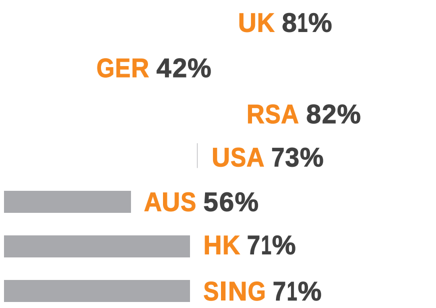
Change in regulation / legislation



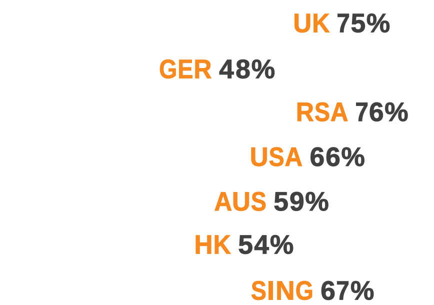
Financial penalties



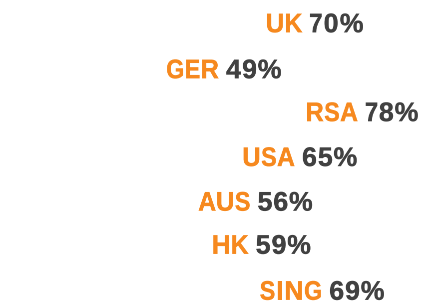
Restrictions on business activity or operations



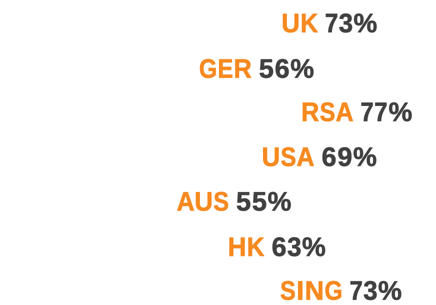
Damaged reputation



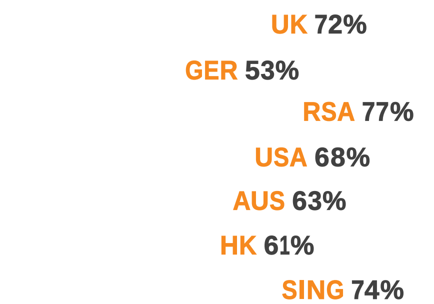
Loss of investor confidence



Poor client experience



Loss of revenue through inability to onboard / length of onboarding process



ONGOING MONITORING

KYC compliance is a big issue and it is only getting more complex.

FIs annually devote considerable time to KYC for onboarding and monitoring ongoing changes and considerable time to understanding and implementing new KYC regulations, months of management and staff time that could without doubt be more productively spent.

Our survey makes clear the rising costs associated with KYC, the shortage of appropriately skilled staff and the lack of necessary technology to manage a constantly evolving set of regulations. The result is increased onboarding times than expected, expected to rise a further 18% in the year ahead, inconsistent requests for information and excessive client contact during the KYC process. At the same time, a lack of adequate ongoing monitoring is resulting in potential risks being missed.

Although in the short term both KYC costs and processing times will rise, there are reasons for optimism ahead: 76% of those surveyed recognize that regulatory change is a significant issue, and there is increased attention from senior managers. There is also a higher level of FI engagement with the regulator.

There is clearly room for global regulators to further clarify requirements and address some of the more complex challenges that exist. There is also a real opportunity for forward-thinking organizations to take a proactive approach to the

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