The rise of compliance utilities: Panel summary

In the last few years, increasingly onerous regulatory requirements have prompted the development of shared utility solutions for areas such as KYC, sanctions screening and compliance data analysis. One of the sessions at Sibos 2016 focused on the development of compliance utilities, the potential barriers to success and the factors organisations should consider when building a business case for adoption.

Contents

Executive Summary

Panelists

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David is responsible for leading the bank's strategy and execution of its client on-boarding function across its footprint. Standard Chartered was one of the original partners in SWIFT's KYC Registry initiative.

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Mark is responsible for Compliance, Account Administration and Claims and is a member of the SWIFT Board.

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Global Head of Anti Money Laundering, Financial Crime Compliance, HSBC.

HSBC was an early partner in the development of SWIFT's KYC Registry and works with several other utility providers.

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A specialist in anti-money laundering, Matthew has led global projects to remediate KYC records at several global banks.

Session highlights

- Shared utilities are being developed in areas including KYC, sanctions compliance (including lists, screening and quality assurance) and compliance data analysis.
- Regulators are becoming more comfortable with utilities, as long as the right controls are in place.
- Barriers to success range from internal resistance to concerns about how utilities are viewed by regulators.
- In order to build a business case, organisations should fully understand the benefits of a utility as well as knowing where it will be used within the organisation.
- Shared utilities should not be regarded as outsourcing: they are simply an effective means of collecting information.
- SWIFT's KYC Registry is already providing considerable time savings for banks that request data from the Registry, as well as those contributing data.

Barriers to success

One of the panel discussions at Sibos 2016 focused on the rise of compliance utilities, which are being developed to support the growing demands of regulatory compliance. Panellists noted that such utilities have particularly focused on Know Your Customer (KYC) compliance. They include SWIFT's KYC Registry, which has shown strong traction in the market.

As one of the experts pointed out, banks are currently spending a lot of time and resources keeping up with new regulation, and many are considering how to put the necessary infrastructure and resources in place to comply with these regulations. As a result, banks have increasingly collaborated with third parties to share ideas, best practice, policies and technologies in order to find solutions.

The resulting solutions include utilities focusing on such areas as KYC, sanctions screening and testing, and compliance data analysis – although KYC is the area that has seen the most emphasis to date. The question is whether the benefits brought by utilities have become significant enough to cause a more important change in the industry – and if not, when this might happen. The panel said that momentum is building, but that the tipping point may not have been reached in all the relevant areas. One panellist noted that local and industry-specific utilities have gained traction, but that the picture is less clear at a global scale. Another said that the tipping point had been reached in the bank-to-bank space, but that the jury is still out where end clients and corporates are concerned.

Despite these variations, the panel said that regulators are getting more comfortable with the concept of utilities, as long as the right controls and systems are in place. Meanwhile, "more of the right people" are being involved in the relevant conversations, bringing greater momentum to development in this area.

The panel was asked about barriers that might prevent a shared utility-based approach from working. One expert noted that these range from internal resistance to concern about how the approach will be received by regulators. Nevertheless, regulators do understand the concept, as well as the associated complexities.

The panellist added that banks need to make sure that internal and external stakeholders are sufficiently educated about what banks are doing differently.

Meanwhile, adoption may be hindered by a recognition that a critical mass is needed in order for a specific utility to succeed. With a number of different utilities available, some parties may sit on the fence until it becomes clear which solutions will be widely adopted.

Another panellist said that trust is another issue that can stand in the way of adoption. The panellist had heard from local banks who had started a local utility. "One of the biggest issues that they had in getting past their tipping point [...] was the issue of relationship managers introducing the shared utility providers to clients," the panellist explained. "It is such an issue of trust and relationship, and that was really one of the elements that took a lot of time to manage correctly."

Building a business case

The panel said that the concept of a utility is about breaking down barriers, and that people who are considering building a business case should pick up the phone and talk to the relevant experts at other banks. Demonstrating that big banks are leveraging this concept to achieve sustainable KYC may be useful when it comes to getting buy-in from people who are sceptical about the concept.

It is also important to have a clear understanding of the benefits to the organisation. The panel noted that the most obvious metric is the time – and therefore cost – that can be saved internally, given that completing a correspondent banking KYC profile can take as much as 40 hours. In order to demonstrate the benefits of a utility, however, banks first need to have a clear understanding of what their KYC costs actually are at the outset. While some banks have achieved this, others may have less clarity about how much time these activities take and what the costs actually are.

The panel explained that when building a business case, it is also important to articulate the benefits of having more accurate data, and of enhancing that data on an ongoing basis. In addition, shared utilities can bring considerable benefits from an on-boarding perspective, speeding up the time to revenue.

Meanwhile, it is important to understand where KYC information is consumed within the organisation. The business case will be undermined if other parts of the organisation continue doing their own KYC without making use of the utility.

"If you look at our clients, 25% of them have actually put an entry out on The KYC Registry. That is quite compelling."

David Fleet
Managing Director, Client Onboarding & Management, Standard Chartered

Other considerations

The panel discussed a number of other considerations relating to the use of utilities. These included the following:

Outsourcing.
The shared utility approach is not a form of outsourcing, although this is sometimes misunderstood. As one expert noted, "These are more effective ways of collecting information, more effective means of collecting documentation and more effective ways of obtaining disclosure."

List management.
The number of politically exposed persons (PEPs) named on commercial lists has grown from around 150,000 to over 1.2 million in the last ten years. This has major implications for banks in terms of how this is managed, and there is a considerable opportunity to expand the work being done at an industry level to include list management.

Organisational changes.
The panel was asked which organisational changes may be needed in order to support a utility. One important factor is the governance arrangements in terms of who is responsible for KYC within the organisation, in terms of decision making as well as any assurance activities that may be required.

> **"A lot of the focus is around the consumption side of utilities, but equally important is the quality of the information that is submitted."**
>
> **Matthew Russell**
> Partner – Forensic Services, PwC

Developing The KYC Registry

During the discussion, some of the panellists talked about their own experiences in working with SWIFT to develop The KYC Registry. One key issue was the need for standardisation in areas such as correspondent banking questionnaires, which can be complex to fill out. The Registry enables members to contribute the relevant information in a standard way, expediting the process when that information is needed.

The benefits of this are already being seen. Different banks have different risk appetites, and top-up work will be needed to cover these variations. Nevertheless, significant time savings can be made by the parties seeking to access information if three quarters of the relevant information is readily available. Likewise, the banks contributing data can see considerable time savings: one of the panellists noted that their bank had already received hundreds of requests through the Registry, which would otherwise have been processed through the bank's relationship management or back office.

In the securities area, meanwhile, a standards-driven approach is preferable to a data-driven approach. As one expert noted, this means saying, "If I'm the depository or the sub-custodian at the top of the chain, the first thing I have to do is tell my customers what I expect of them. The second thing is those customers need to be able to tell me what it is they are doing against that standard. And then I need some way of verifying that."

The expert added that The KYC Registry fitted into this need for a framework that would not only provide the documentation and information for custodian customers, but also form the basis for disclosure about the specific data needed.

Beyond SWIFT's KYC Registry, the experts said there is an appetite to broaden out what utilities are doing. Transaction screening is one area where this could happen. Payments are frequently screened and stopped for further investigation, and in some cases the same payment may be stopped multiple times. While banks may build internal utilities to support this process, there may also be scope to do so at an industry level.

Nevertheless, one of the experts pointed out that tensions are arising in terms of different institutions' risk appetites. Different institutions have different views on whether transaction screening undertaken by a third party is acceptable, or whether this is taking the deference of risk appetite too far. A dialogue is therefore needed in order to find common ground for mutualised solutions.

> **"I am pleased to say that quite a lot of custodians are beginning to use The KYC Registry in order to reach their sub-custodians. And that is extremely encouraging."**
>
> **Mark Gem**
> Chief Compliance Officer and Member of the Executive Board for Clearstream

Why use a utility?

When polled about their usage of compliance utilities, audience members indicated:
- 71% have joined a utility
- 18% are evaluating adoption
- 11% are not planning to join/other.

The panel was asked what people in the second category should bear in mind.

The experts said that joining shared utilities makes a strong statement about an institution's commitment to market transparency and fighting financial crime. One panellist noted that from an effort point of view contributing data to a KYC utility is not comparable to buying a new computer system – it simply means sending out information in a different way. Ease of access to these products may be better than people imagine.

The panel pointed out that correspondents probably need to be open to more than one KYC utility, depending on their own organisation needs and which utilities their clients choose to use.

Finally, an expert noted that the effort that banks apply to KYC is arguably disproportionate in the bigger picture of managing financial crime risk. There are many other equally important activities which take place within the organisation. If a shared utility enables organisations to release skilled resources to focus on other areas, this may have wider benefits in the fight against financial crime.

Conclusion

The panel discussion illustrated that shared utilities have an important role to play in helping banks comply with regulatory requirements. While greater understanding is needed about some aspects of how utilities work, banks using this model are already seeing considerable time and cost savings in terms of both accessing and contributing data. As the experts explained, regulators are becoming more comfortable with this model, contributing to the growing momentum in this area.


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