

Anti-Money Laundering and
Know Your Customer Programs:
Sustainability through
Managed Services

High performance. Delivered.

KYC



AML



The financial services industry is experiencing increased regulatory scrutiny, prompting institutions to rapidly evolve their Anti-Money Laundering (AML) and Know Your Customer (KYC) programs. Recent developments such as the new US Department of the Treasury Financial Crimes Enforcement Network (FinCEN) Customer Due Diligence Rules—requiring Beneficial Ownership—and increased regulatory enforcement are driving organizations to expand their policies and standards accordingly.

Institutions are now expected to capture and verify additional AML/KYC information on their clients, periodically update AML/KYC information and expand reviews to include relationships across business lines.¹ As a result, we are seeing institutions experience production volume increases of as much as 25 times. These increased volumes, compounded by aging IT systems and infrastructure, contribute to the large and rising cost of AML/KYC compliance, spanning core functions including:

- Customer Due Diligence at Onboarding and Refresh of Customer Information
- Economic Sanctions and Office of Foreign Assets Control (OFAC) Screening
- Negative News and Politically Exposed Person (PEP) Screening
- Transaction Monitoring and Investigation

Addressing these issues calls for new approaches, including, in many cases, adapting a managed services model for AML and KYC functions.

1. "Customer Due Diligence Requirements for Financial Institutions," Federal Register, Vol. 81, No. 91, Department of the Treasury, May 11, 2016. Access at: <https://www.gpo.gov/fdsys/pkg/FR-2016-05-11/pdf/2016-10567.pdf>

The Case for Change

Organizations choosing to migrate to an AML/KYC managed services model and improve their operations can derive significant benefits (see below).

Cost Reduction	Access to Skilled Talent	Increased Scalability	Improved Quality
<ul style="list-style-type: none">• Scalable and cost-efficient operating model with a variable cost structure—ranging from an estimated 20% to 60% reduction• Expedited completion—leveraging “follow-the-sun” capabilities	<ul style="list-style-type: none">• Access to wider talent pools and lower cost locations• Resource flex options (ramp up/down), alignment of skill/cost to work complexity• Embedded training and development capabilities	<ul style="list-style-type: none">• Standard, effective and repeatable approach to managing AML at scale• Improved transparency into operational productivity, quality, capacity and forecasting• Building a global AML/KYC capability	<ul style="list-style-type: none">• Confidence through early identification and feedback focused on common issues• Balanced approach by calibrating sampling based on performance (e.g. reduced review for higher performers)• A culture of quality by incorporating quality into performance management



Barriers to Improving AML and KYC

Though organizations are focused on increasing the rigor and scope of their AML/KYC functions, many are struggling to expand their operations accordingly. Key barriers include:

Unsustainable Processes

Existing operational teams built for smaller volumes of case work often lack the foundational infrastructure needed to meet the increased demand. Processes are frequently manual, with a heavy reliance on informal tools and interim solutions. As a result, executing these processes is often costly, time consuming and error prone. Moreover, there is typically not enough focus on continuous process improvement and effectiveness. Instead, as new requirements or permutations are added, processes become increasingly complex. For example, many organizations are now expanding their AML/KYC processes to collect and verify additional Beneficial Ownership information, perform periodic reviews of their entire customer base (instead of only higher risk populations), screen all clients for Negative News, and maintain monitoring coverage across their client's full relationship (including all client, account and transaction data). However, many organizations pay insufficient attention to collecting this additional information in a simplified and/or automated manner. As a result, many of these activities are highly manual and cumbersome to execute.

Furthermore, processes are rarely analyzed and segmented by the skills required to perform the task. Analyzing the work required to execute a process is critical to the efficient alignment of resources. For example, lower complexity processes such as false positive reviews, simplified Customer Due Diligence (such as for publicly traded companies), or Level 1 transaction monitoring investigations are often not distinguished from their more complex counterparts. These lower complexity processes also make up the majority of operational volume and are typically the most expensive processes to execute. Without appropriate segmentation, higher skilled resources can be aligned to low complexity processes, which drives up overall costs.

Skilled Talent Shortage

Organizations often source their teams locally, which limits the number of available resources and also increases labor costs. Few organizations are taking advantage of lower-cost locations to staff their teams, including near-shore and off-shore talent. Where lower cost locations are used, teams are often scattered across locations and are not well integrated. The lack of integration limits an organization's ability to pool resources and to flexibly ramp headcount up or down as needed. This can lead to challenges in balancing capacity resulting in further inefficiencies. This lack of flexibility becomes particularly challenging when addressing remediation efforts, backlogs and seasonal demand.

Insufficient Training

Another key challenge is the effectiveness of training programs. While most organizations have broad training covering their overall AML program, the content is often less focused on process-specific skills. For example, staff performing investigative functions would require skills focusing on the identification of red flags, analyzing transactions and understanding AML risks unique to various customer types (for example, non-governmental organizations or charities). Staff without role-specific training often do not receive instruction in these skills and are left to build such skills "on the job." This leaves resources ill-equipped to perform their day-to-day activities. This, in turn, can contribute to quality and throughput issues. Additionally, there is often not enough focus on identifying common issues and providing supplementary training to fill skill gaps. Training is not a one-time event; it is critical to the ongoing skill development of the operations team.

Inconsistent Quality

As a control function, maintaining quality is critical to AML/KYC programs, yet it often remains a challenge. Gauging the appropriate sampling frequency for quality reviews is a common difficulty. Organizations often opt to perform quality checks on 100% of case work, or even to have multiple iterations of quality reviews to improve results. This yields higher quality metrics, but erodes productivity and can lead to backlogs. Conversely, sampling too infrequently, or using sampling sizes that are too small, can result in high defect rates. Few organizations utilize quality data and metrics in order to calibrate sampling and improve their quality reviews.

Additionally, quality is often treated as a standalone activity, with feedback from reviews not fully utilized. Defects are a clear indicator of problem areas and can be used to signal process and resource deficiencies. For example, multiple resources with similar defects may be an indication that a process is not clearly articulated (in its procedures) or is error prone. Highly manual processes often result in increased error rates and can be addressed through improvement efforts or automation to improve quality. Finally, quality metrics are often not incorporated as an input into the performance management process. Quality metrics can be used to provide a quantitative way to measure associate performance and improve resource alignment.

A Managed Services Solution

We believe that organizations can accelerate their progress toward achieving AML/KYC sustainability by transitioning to a managed services approach.

Such an approach can quickly and effectively address common challenges by taking advantage of preferred industry practices and proven approaches. Organizations considering migration to this model should focus on three main areas.

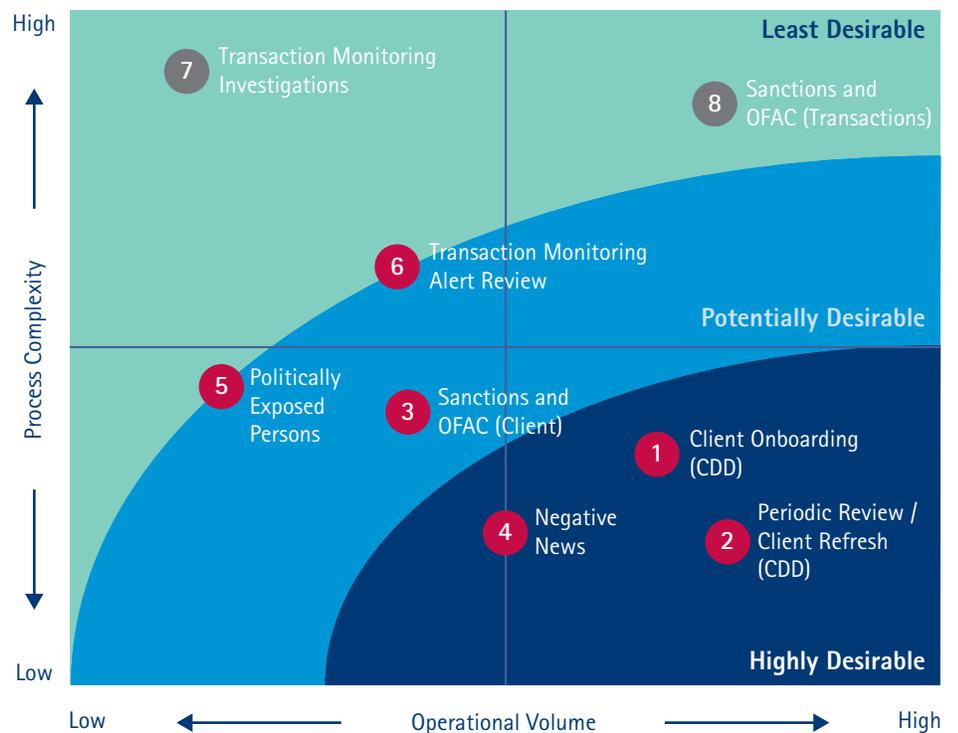
1. Defining Scope and Transformation Journey

A critical first step in transitioning to a managed services model is selecting in-scope functions. In our experience, the greatest value can be realized by focusing on functions that are less complex and involve high volumes of work, as seen in Figure 1. Organizations often choose to first focus on Periodic Customer Reviews (such as Client Refresh or Remediation efforts) or false positive reviews for Negative News Screening. For Periodic Customer Reviews, the largest volume of work is associated with lower complexity reviews. For Negative News Screening, the bulk of the work is related to clearing false positive "hits," which is also high volume and low complexity in nature. Addressing these functions first can help to quickly reduce costs while reducing the complexity and amount of work required. More complex processes, such as those requiring investigative or other specialized skillsets can be transitioned as well, but require longer timeframes.

Consideration should also be given to the type of customers and interaction points required. For example, AML/KYC activities involving large corporations or institutions can rely more on operations teams, as customer information is typically available, and missing information can be obtained from a client manager. However, for mass

market customers, there is often no client manager and accounts are typically opened the same day. In these cases, the use of third-party data sources or direct client contact may be necessary. Such factors should be reviewed and considered to determine the functions that are most suitable prior to transition.

Figure 1. Managed services are applicable across core functions that span the complete AML/KYC process



Source: Accenture, September 2016

2. Prepare and Transition to a Managed Services Model

Once an AML/KYC function is selected, several activities are critical to prepare and transition to managed services.

Process Standardization

Standardization and simplification of operational processes and procedures is critical. Desktop procedures should break down the precise steps needed to execute the process and non-value-added steps should be removed. There should be a clear understanding of where the processes start and stop, and if any handoffs between groups are required. Case management and/or workflow tools can be utilized to reduce productivity impacts related to handoffs. The complexity of each operational process should be understood and tiered to allow for alignment of work, and manual processes should be identified and automated where possible.

Training

Training should be updated to become role-based, with the level and depth of training commensurate to the processes staff are to perform. This approach should give staff the baseline knowledge to adequately perform their duties. Training should provide coverage across the core AML program, the organization, and the processes and systems to be used. Process subject matter specialists should be aligned to lead training sessions, especially at the beginning of the transition.

Location Selection

Target locations should consider factors such as the labor market, existing technology infrastructure, existing facilities, language requirements, and data privacy restrictions. Offshore or nearshore locations can be utilized for lower complexity work to reduce resource costs. For higher complexity work, labor markets should be reviewed for availability of required skills.

Mobilization

A detailed mobilization plan outlining knowledge transition and ramp-up schedule is essential. A ramp-up schedule provides the ability to progressively add resources in waves. A progressive ramp-up also helps identify peer groups that can provide additional production support, including coaching or handling common questions.

Quality

Establishing quality routines is a critical step in maintaining control of production during ramp-up. Dashboards should be in place to measure and communicate progress, as well as to identify common problem areas that may yield opportunities for continuous improvement. Coaching and continuous training is vital for filling in skillset gaps. As ramp-up continues and resources demonstrate mastery of skills, accreditation methods can be used to consistently gauge competency levels. Sampling percentages can be calibrated and focused on newer or lower performing resources, with lower percentages aligned to more experienced resources.

3. Transform and Improve the Managed Services Platform

After migrating to managed services, further efficiencies can be gained through ongoing improvement efforts. Processes should be analyzed to determine bottlenecks or activities with lower performance to identify opportunities. Highly manual processes are candidates for system enhancements or automation. For example, higher performing organizations are now looking at Robotic Process Automation to drive straight through processing and reduce costs. These solutions can be deployed quickly and facilitate automation of high frequency/low complexity activities, such as sourcing account data from internal systems or capturing client data from third-party websites. A continued focus on simplifying and standardizing processes creates further opportunities for automation. Finally, by streamlining these activities, resource capacity is freed up to focus on higher value activities. This increases the value of higher skilled resources by focusing their work on more complex and more demanding tasks.

Additional Considerations

When considering managed services options, it is important to keep the following in mind:

Transparency

Any transformational program should be clearly communicated with the organization's Financial Crimes Compliance department and with regulators.

Accountability

Organizations are expected to know and be accountable for their customers and associated risks. Thus, it is critical to retain quality assurance processes and approval responsibilities within the organization and not outsourced.

Governance

Appropriate reporting should be in place to monitor and manage to production schedules and service level agreements (SLAs). Governance should be established to oversee performance and facilitate rapid decision-making and issue resolution.

Data Privacy

Awareness of data privacy laws and other restrictions that apply to local jurisdictions is critical. Such limitation may alter service delivery locations or require variations to the process to accommodate local requirements.

Conclusion

As organizations increase the size and scale of their AML/KYC operational units to meet heightened requirements, many are seeking opportunities to scale their operations and drive additional efficiencies. They can accelerate their progress to sustainability by taking advantage of an AML/KYC managed services solution. Through managed services, organizations can lower costs, drive higher quality, and increase flexibility.

Accenture has helped multiple clients address these challenges as part of their journey toward sustainability by deploying AML/KYC managed services. By combining our deep industry experience with gold

standard business process outsourcing (BPO) capabilities, Accenture can help organizations perform key AML/KYC functions utilizing a highly controlled, scalable and cost-effective model.

Accenture utilizes a proven model that is highly controlled, scalable and cost effective to transition to a managed services solution with pace and certainty. Please contact Accenture to learn more about how we can help your organization in its efforts for sustainability through AML/KYC managed services.

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Acknowledgements

The authors would like to thank the following Accenture employees for their contribution to this document:

Garikai Mparutsa
Yvonne Fung
Sean Wolf

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