The Evolution to Know Your Customer’s Customer

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4:40 PM – 5:55 PM

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The Next Wave

- Correspondent Banking
- Corporate Banking
- Corporate & Investment Banking
- Commercial Banking
- Private Banking
- Retail Banking
Very Important Trend
Drivers

- US Regulatory Pressures
- Global Industry Initiatives
- Stronger Technology
Reflected In Dynamic Customer Risk Assessment

Inherent Risk

On-boarding

Client Risk

Correspondent Banking Client

Product Risk

Geography Risk

Residual Risk

Transaction Monitoring Events Updating
Overall Goals

Typicality Gauge
- Client performance in line with predictable types

Transaction Monitoring
- Client generates predictable range of transaction monitoring alerts

Suspicious Activity Reporting
- Client activity generates predictable range of suspicious activity reporting

Proactive Risk Management
- Primary risk identifiers highlight areas for enhanced risk management

Score Logic™
- Static
- Residual Risk
- Dynamic
- Inherent Risk
General Approach

\[ Fx = \sum (0.33)X, (0.33)Y, (0.33)Z \]

Three FFIEE Risk Categories Equally weighted

- Client
- Product
- Geography

Risk Factors For Each Differ Per Customer Type

Model Dynamic: Scoring Modality Different For New & Established Clients
Correspondent Client Risk

Risk Factors and Weightings

- Organizational Risk: 5%
- Regulatory Risk: 10%
- Customer Risk: 20%
- Event Risk: 20%
- Status Risk: 20%
- Primary Risk: 25%

Risk Variables:
- Shell Banks
- Nested Correspondents
- High Risk Industries
- High Risk Currencies
- High Risk Geographies
- High Risk Counterparties
- External Risk Development:
  - Subpoena Customer
  - Subpoena Client
  - Subpoena Counterparty
  - SAR Client
  - SAR Customer
  - SAR Counterparty
  - 311 Request
  - Law Enforcement Inquiry
Correspondent Product Risk

Risk Factors and Weightings

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Risk Variables

- SAR
- Law Enforcement
- Subpoena
- Black List
- White List
- External Risk Development

Inherent Risk
- On-boarding
  - Client Risk
  - Correspondent Banking Client
- Product Risk
- Geography Risk

Residual Risk
- Post-merger/acquisition
  - Event
  - Updating
Correspondent Geography Risk

Risk Factors and Weighting

- Client Domicile: 50%
- Availment: 25%
- Counterparty: 25%

Risk Variables

- Expected Traffic
- Unexpected Traffic
Private Client Risk

Risk Factors and Weightings

- Source of Wealth: 25%
- Source of Funds: 25%
- Identity Risk: 10%
- Event Risk: 20%
- Status Risk: 20%

Risk Variable

- OECU Regulated Institutions
- OECD Non-Regulated Institutions
- Non OECD Institutions
- Passive Investment
- Active Investment
- OECD Local
- High Risk

External Risk Development
- Subpoena Customer
- Subpoena Client
- Subpoena Counterparty
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Source of Wealth
Source of Funds
Identity Risk
Event Risk
Status Risk

Risk Variable

Risk Variable

Inherent Risk
On-Boarding

Residual Risk
Transfer Misunderstanding
Events (upset)

Client Risk
Correspondent Banking Client

Product Risk

Geography Risk

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Regulated Institutions
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Private Product Risk

Risk Factors and Weightings

- Relationship Size: 10%
- Relationship Length: 5%
- Investment Vehicle Type: 25%
- Funds Flow: 25%
- Cash Activity: 25%

Risk Variables

- Revenue/AUM
- 3 year AUM Growth Rate
- Relationship Length with Institution
- Trusts
- Private Company
- Market Developments

Risk Factors and Weightings

- Relationship Size
- Relationship Length
- Investment Vehicle Type
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- Cash Activity

Inherent Risk

- Client Risk
- Correspondent Banking Client
- Product Risk
- Geography Risk

Residual Risk

- Revenue/AUM
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Private Geography Risk

Risk Factors and Weighting

Client Domicile  50%
Fund Source/Domicile
Wealth Domicile
Availment  25%
Counterparty  25%

Risk Variables

Expected Traffic
Unexpected Traffic
Industry Initiatives
The SWIFT you know - the global provider of secure financial messaging services

- 22.68 million FIN messages peak day (2013)
- 5+ billion FIN messages per year (2013)
- 10,500+ SWIFT users
- 10.4% Increase in FIN traffic (2013)
- 200+ Countries and territories
SWIFT Compliance Services: Moving towards a Utility Vision

**2012**
- Sanctions Screening
- Sanctions Testing
- Compliance Forum Osaka

**2013**
- 100 Screening customers
- Compliance Forum Dubai
- Dedicated compliance unit

**2014**
- 300 Screening customers
- Screening of all formats
- KYC Registry rollout
- SWIFT Profile

**2015**
- 300 Screening customers
- Screening of all formats
- KYC Registry rollout
- SWIFT Profile

**SWIFT 2020**
- Client/Name screening
- Sanctions list management service
- Additional KYC services
- AML testing & tuning
- Analytics for smaller institutions
- FATF 16 information quality

**Compliance Analytics**
- SWIFT acquires Omnicision
- 250 Screening customers
- Compliance Forum in Boston
- The KYC Registry

**Key Events**
- 2013: SWIFT acquires Omnicision
- 2014: KYC Registry rollout
- 2015: SWIFT Profile

**SANCTIONS SCREENING**
- Compliance Forum Osaka

**SANCTIONS TESTING**
- Compliance Forum Osaka

**SANCTIONS SCREENING AND TESTING**
- Compliance Forum Osaka
Today’s market: An unprecedented challenge to comply with KYC requirements

The Cost of FI KYC is becoming prohibitive

- Increase in pressure to reconcile & ‘de-risk’
- Increase in AML/KYC fines (>3 billion/2 years)
- Increase in KYC complexity: FATF/FATCA

Cumbersonse, repetitive and inefficient bilateral exchanges

Complex and inconsistent requirements across jurisdictions

Unavailable and poor quality of information

As a result the industry has witnessed a new development: the growth of the KYC ‘utility’
The KYC Registry: Single source of directly sourced, validated KYC data for correspondent banking

1 Standard data set
- Customer ID
- Customer base
- Ownership
- Management
- Compliance / AML
- FATCA
- 95+ data points
- 30 Documents

2 Feature-rich platform
- Secure
- Workflow tools
- Notifications
- Easy to use
- Export/ Report

3 Validated data
- Comprehensive
- Fact-based
- Ex-industry professionals
- Multiple quality checks of data and documents

4 Unique content
- CDD data
- EDD data
- SWIFT Profile for ‘KYCC’

5 Community-led
- 7000+ correspondent banks use SWIFT
- 1.3M+ connections
- UGM/NMG
- Development banks
- Working Group
A standard set of KYC data

<table>
<thead>
<tr>
<th>Category I - Identification of the customer</th>
</tr>
</thead>
<tbody>
<tr>
<td>- Licenses and Proof of Regulation, Certificate of Incorporation, et cetera</td>
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<tr>
<td>- Legal name, auditor, regulator, addresses</td>
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<tr>
<th>Category II – Ownership and management structure</th>
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<tbody>
<tr>
<td>- Declaration of UBO and shareholders &gt;10%: full names and identifying data</td>
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<tr>
<td>- Board of Directors Lists: full names and identifying data</td>
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<tr>
<td>- Group structure</td>
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<tr>
<td>- MA/AA, Annual Reports, Shareholder listings, certified group and organisational charts</td>
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<th>Category III – Type of business and client base</th>
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<td>- Revenue breakdown by legal entity</td>
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<td>- Operating geographies and customer verticals</td>
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<th>Category IV – Compliance information</th>
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<td>- Enhanced AML Questions</td>
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<td>- AML docs: AML Controls, Wolfsberg Questionnaire, US Patriot Act, response to negative news</td>
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<th>Category V – Tax information</th>
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<td>- TIN, GIIN, FATCA information &amp; proof of registration, documentation</td>
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The SWIFT Profile: unique content

**What it does**
- Provides transparency about a bank’s SWIFT network traffic
- Indicates payments to/from countries that are considered to be high-risk by FATF or are under EU or OFAC sanctions
- Mitigates ‘Know Your Customer’s Customer’ risk (KYCC)

**What you get**
- Aggregate view of incoming and outgoing high-risk payments
- Traffic analysed by volume, amount and correspondent
- 3 levels of report detail and 4 report refreshes per year
- One fixed annual cost

**Key benefits**
- Unique insights into a bank’s true payments activity
- Hard data to substantiate declared behaviour
- Enables you to focus compliance-to-compliance dialogue on areas of immediate concern

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**Diagram:**
- **Your correspondent**
- **Your direct exposure**
- **Your indirect exposure**
- **Publisher of the SWIFT Profile**
- **Consumer of the SWIFT Profile**
- **Country of your counterparty**
- **Country of the ordering/beneficiary party’s bank**
How Do I Know My Customer’s Customer?
Key Questions

- **Who Do I Have To Know**
  - All of the Bank’s Customers?
  - Some of Them?
  - Which Ones?

- **Where Does It Stop:**
  - Do I have To Know My Customer’s Customer’s Customer’s?

- **What Do I have To Know?**
  - Full KYC
  - Sanctions Plus?
  - PEP’s
  - Other?
Risk Based Approach
Three Approaches

Transaction Monitoring
- Screen Clients Customers and Counterparties on High Work? Transaction Monitoring Alerts
- Monitor All ‘Names’ going forward
  - SAR
  - Subpoena
  - External Events

High Risk Clients
- Screen all High Risk Clients Customers and Counterparties
- Monitor all ‘Names’ going forward
  - SAR
  - Subpoena
  - External Events

Prophylactic
- Screen all Clients Customers
- Perfect for all smaller correspondent business
- Monitor all ‘Names’ going forward
  - SAR
  - Subpoena
  - External Events
The Future
Trust Diligence™ Universe

1. ID Verification
2. “Reputational Guardsmanship”

1. Personal Harm Criminal History
2. Property Harm Criminal History
3. On Line Community
   Ranking/Classification and Issues

1. Personal Standing
   a. Special Status
   b. Idiosyncratic “Clout”
2. Individual Network Standing
   a. Network “Clout”
   b. Network Issues

1. Trust/Fiduciary Criminal History
2. Fraud Risk
3. Regulatory History
4. Transactional History
   Ranking/Classification (or Issues)
Q & A