

20
YEARS

ACAMS moneylaundering.com International

AML & Financial Crime CONFERENCE

March 16-18, 2015 Diplomat Resort & Spa Hollywood, FL

The Evolution to Know Your Customer's Customer

March 17th, 2015
4:40 PM – 5:55 PM

Presented by:
Tom Obermaier
CEO, RDC

Bart Claeys
Head of KYC Compliance Services, SWIFT

Alan Schienberg
Former Head of AML

The Next Wave

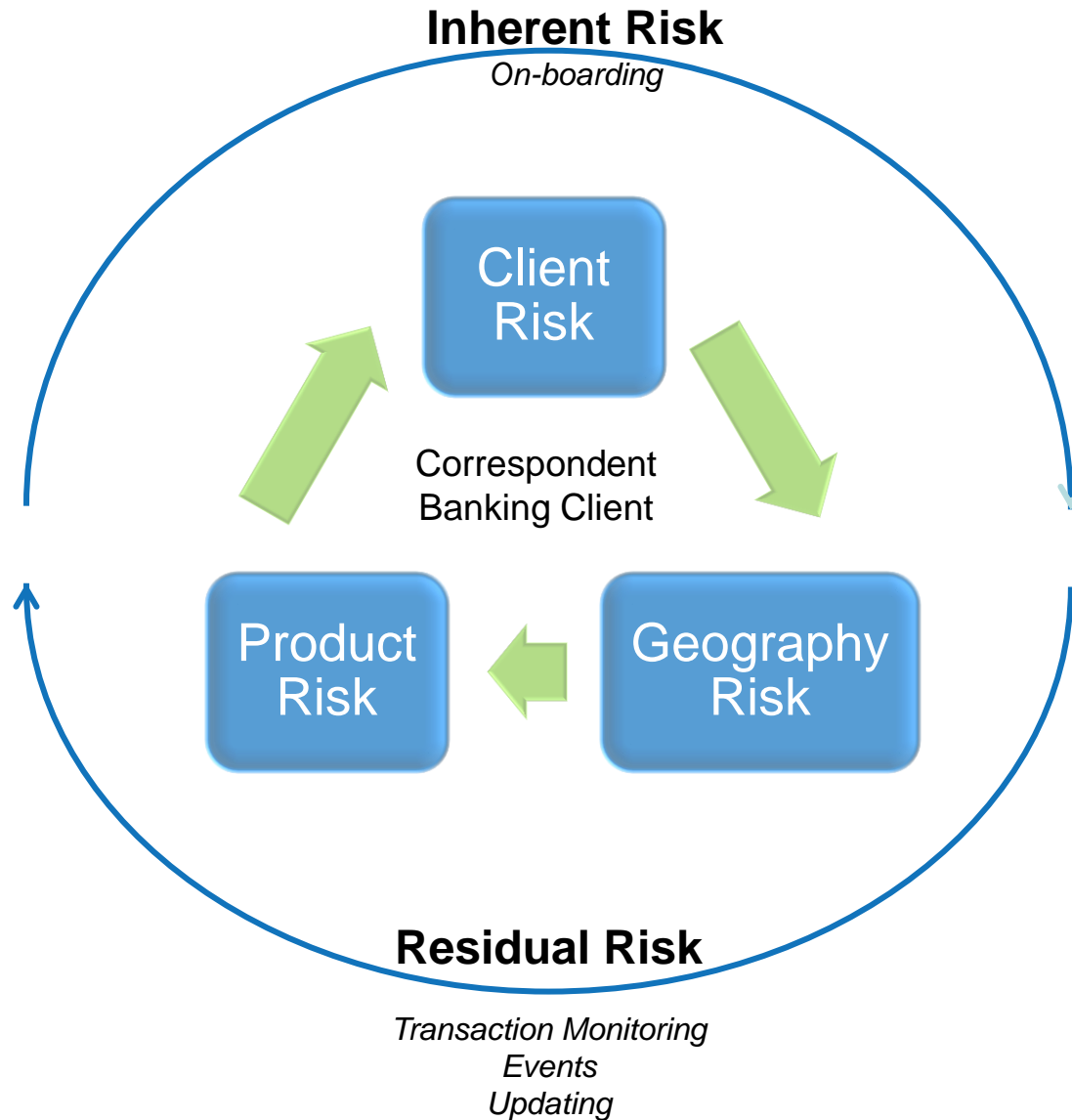
- ❖ Correspondent Banking
- ❖ Corporate Banking
- ❖ Corporate & Investment Banking
- ❖ Commercial Banking
- ❖ Private Banking
- ❖ Retail Banking

Very Important Trend

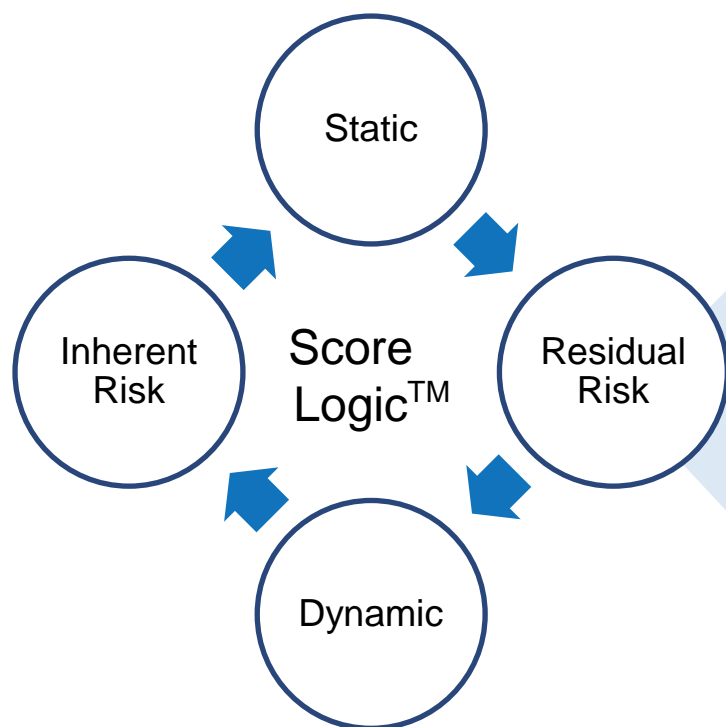
Drivers

- US Regulatory Pressures
- Global Industry Initiatives
- Stronger Technology

Reflected In Dynamic Customer Risk Assessment



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

General Approach

$$Fx = \sum \left(\frac{1}{.33}\right)X, \left(\frac{1}{.33}\right)Y, \left(\frac{1}{.33}\right)Z$$

Three FFIEE Risk Categories Equally weighted

Client

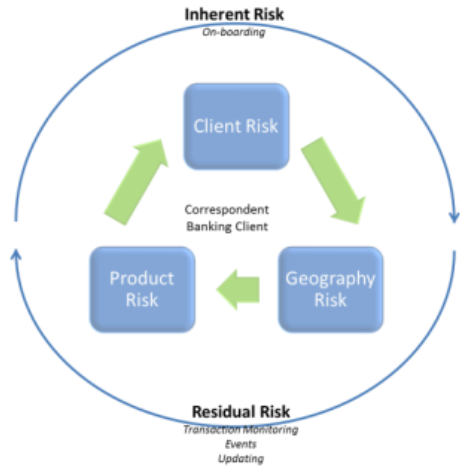
Product

Geography

Risk Factors For Each Differ Per Customer
Type

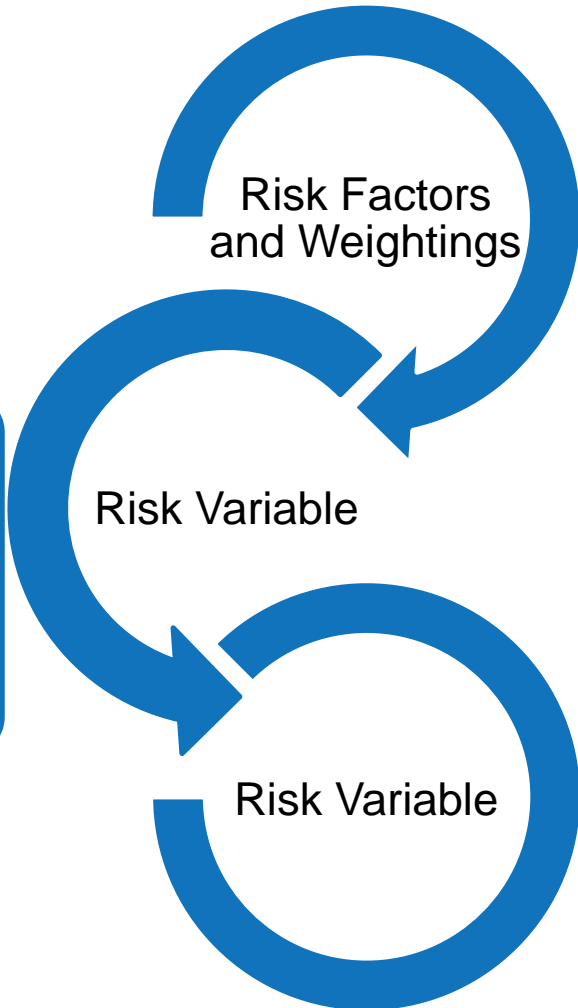
Model Dynamic: Scoring Modality Different For
New & Established Clients

Correspondent Client Risk



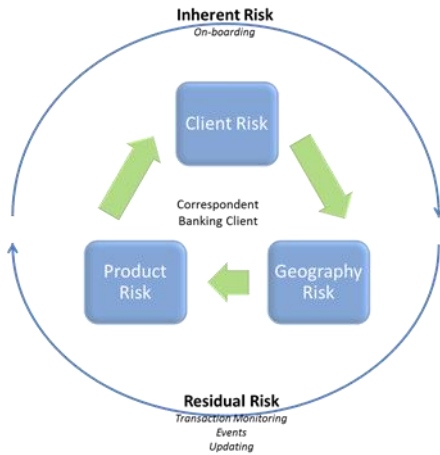
Organizational Risk	5%
Regulatory Risk	10%
Customer Risk	20%
Event Risk	20%
Status Risk	20%
Primary Risk	25%

- Shell Banks
- Nested Correspondents
- High Risk Industries
- High Risk Currencies
- High Risk Geographies
- High Risk Counterparties

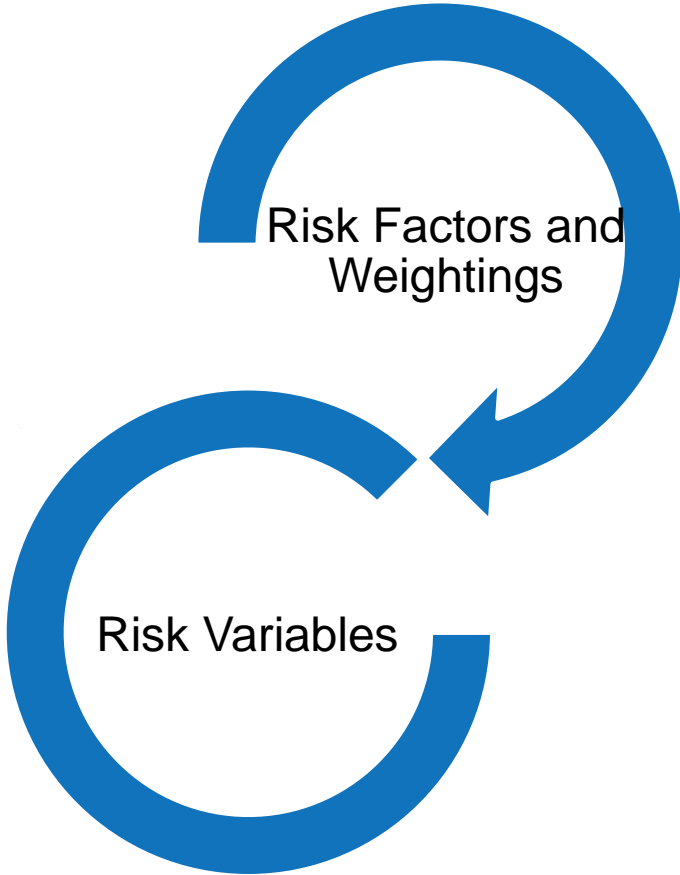


- External Risk Development
- Subpoena Customer**
Subpoena Client
- Subpoena Counterparty**
SAR Client
- SAR Customer**
- SAR Counterparty**
311 Request
Law Enforcement Inquiry

Correspondent Product Risk

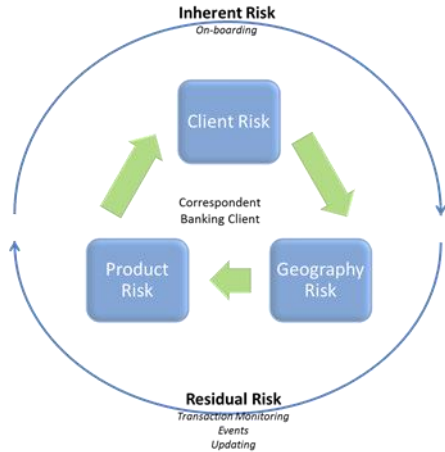


- SAR
- Law Enforcement
- Subpoena
- Black List
- White List
- External Risk Development

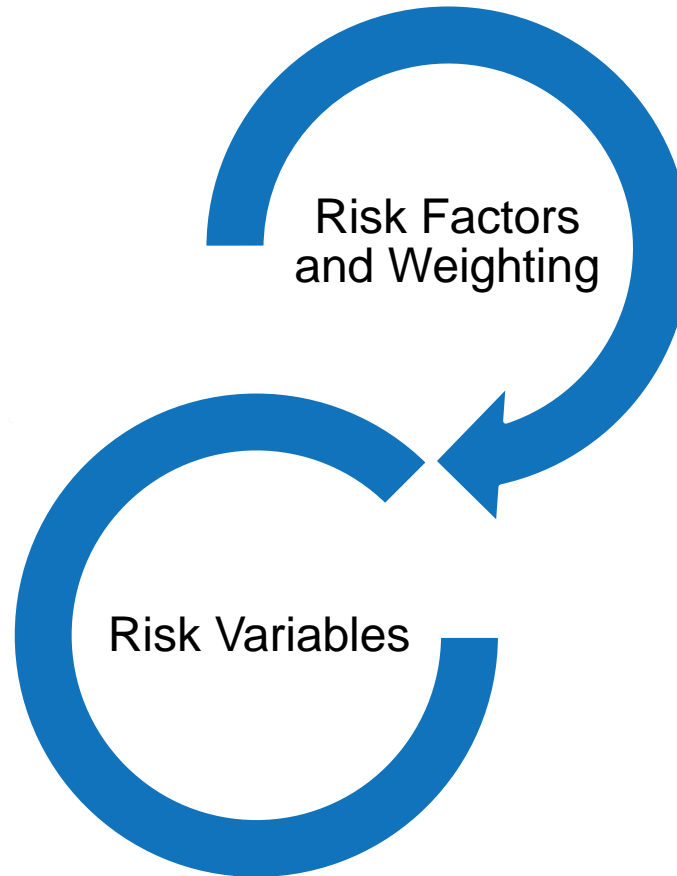


Organizational Risk	5%
Regulatory Risk	10%
Customer Risk	20%
Event Risk	20%
Status Risk	20%
Primary Risk	25%

Correspondent Geography Risk

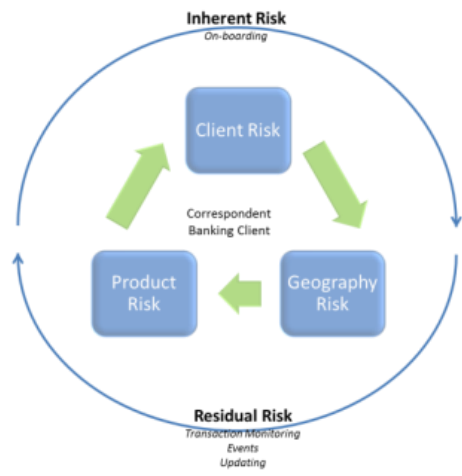


Expected Traffic
Unexpected Traffic

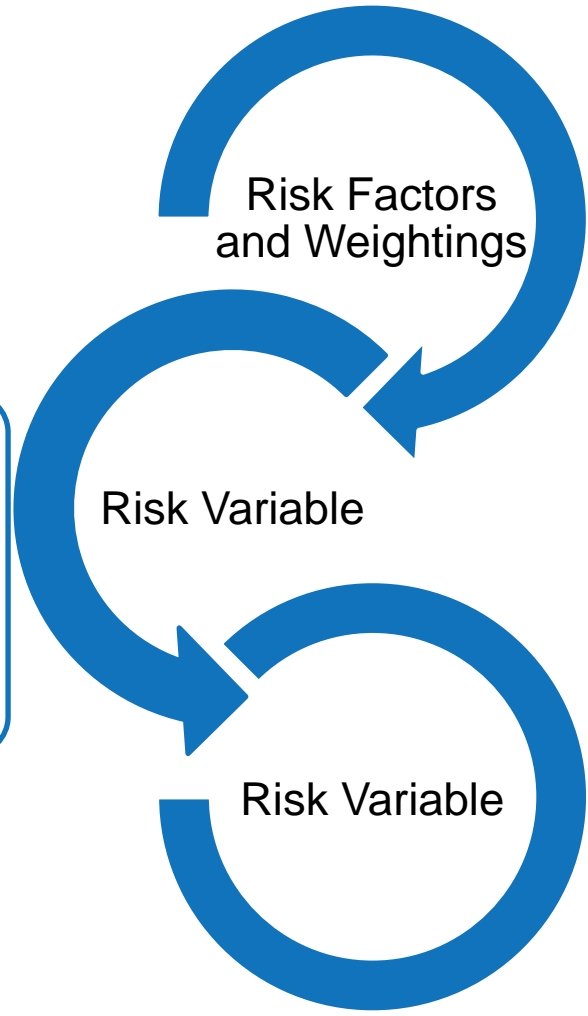


Client Domicile	50%
Availment	25%
Counterparty	25%

Private Client Risk



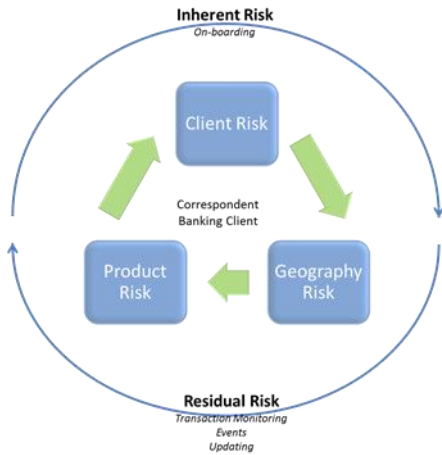
Source of Wealth	25%
Source of Funds	25%
Identity Risk	10%
Event Risk	20%
Status Risk	20%



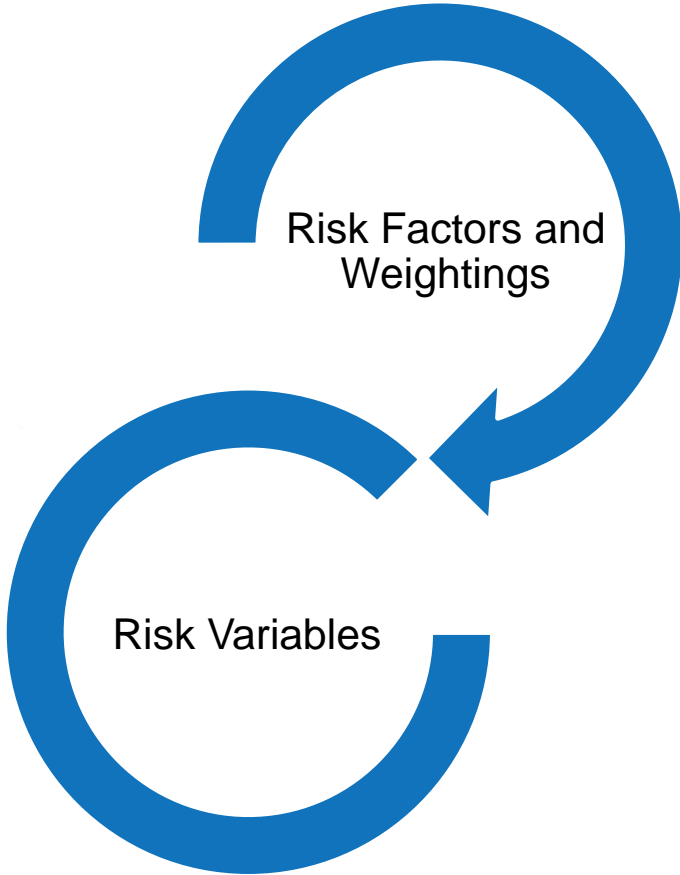
- OECU Regulated Institutions
- OECD Non-Regulated Institutions
- Non OECD Institutions
- Passive Investment
- Active Investment
- OECD Local
- High Risk

- External Risk Development
- Subpoena Customer**
- Subpoena Client
- Subpoena Counterparty**
- SAR Client
- SAR Customer**
- SAR Counterparty**
- 311 Request
- Law Enforcement Inquiry

Private Product Risk

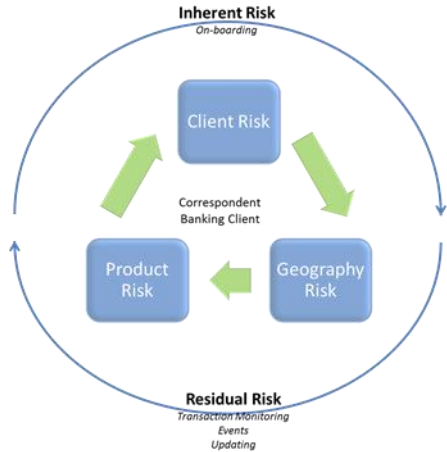


Relationship Size	10%
Relationship Length	5%
Investment Vehicle Type	25%
Funds Flow	25%
Cash Activity	25%



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

Private Geography Risk



Expected Traffic
Unexpected Traffic



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

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)

10.4%

Increase in FIN traffic (2013)

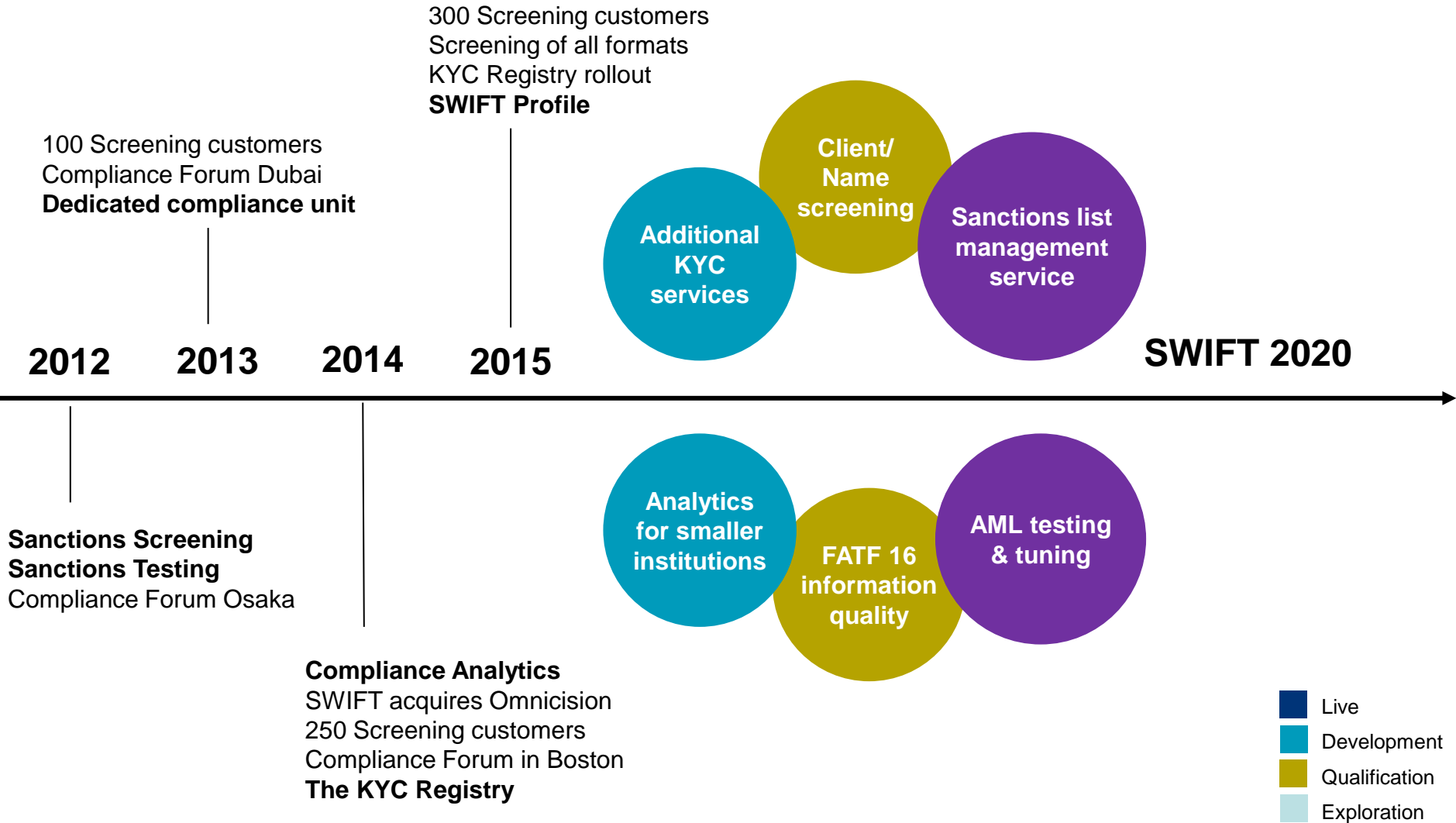
10,500+

SWIFT users

200+

Countries and territories

SWIFT Compliance Services: Moving towards a Utility Vision



Today's market: An unprecedented challenge to comply with KYC requirements

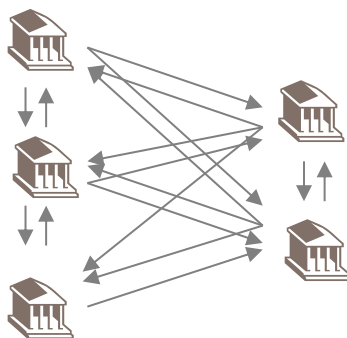
The Cost of FI KYC is becoming prohibitive



Increase in pressure to reconcile & 'de-risk'

Increase in AML/KYC fines (>\$3 billion/2 years)

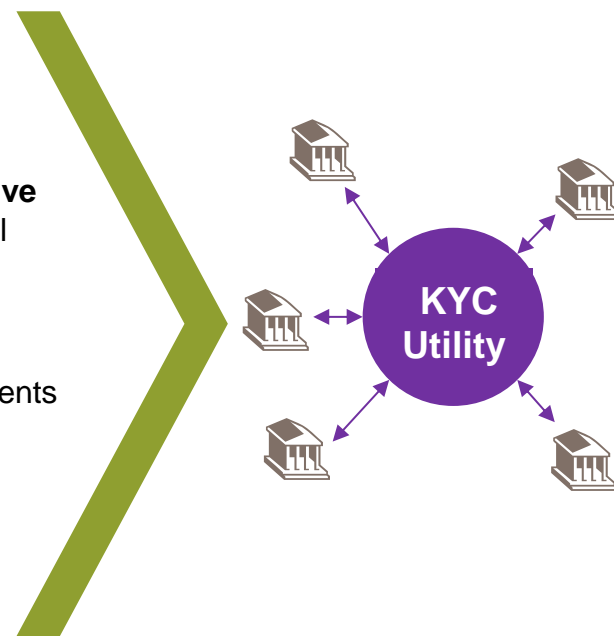
Increase in KYC complexity: FATF/FATCA



Cumbersome, 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

Category I - Identification of the customer

- Licenses and Proof of Regulation, Certificate of Incorporation, et cetera
- Legal name, auditor, regulator, addresses

Category II – Ownership and management structure

- Declaration of UBO and shareholders >10%: full names and identifying data
- Board of Directors Lists: full names and identifying data
- Group structure
- MA/AA, Annual Reports, Shareholder listings, certified group and organisational charts

Category III – Type of business and client base

- Revenue breakdown by legal entity
- Operating geographies and customer verticals

Category IV – Compliance information

- Enhanced AML Questions
- AML docs: AML Controls, Wolfsberg Questionnaire, US Patriot Act, response to negative news

Category V – Tax information

- TIN, GIIN, FATCA information & proof of registration, documentation

The SWIFT Profile: unique content

What it does

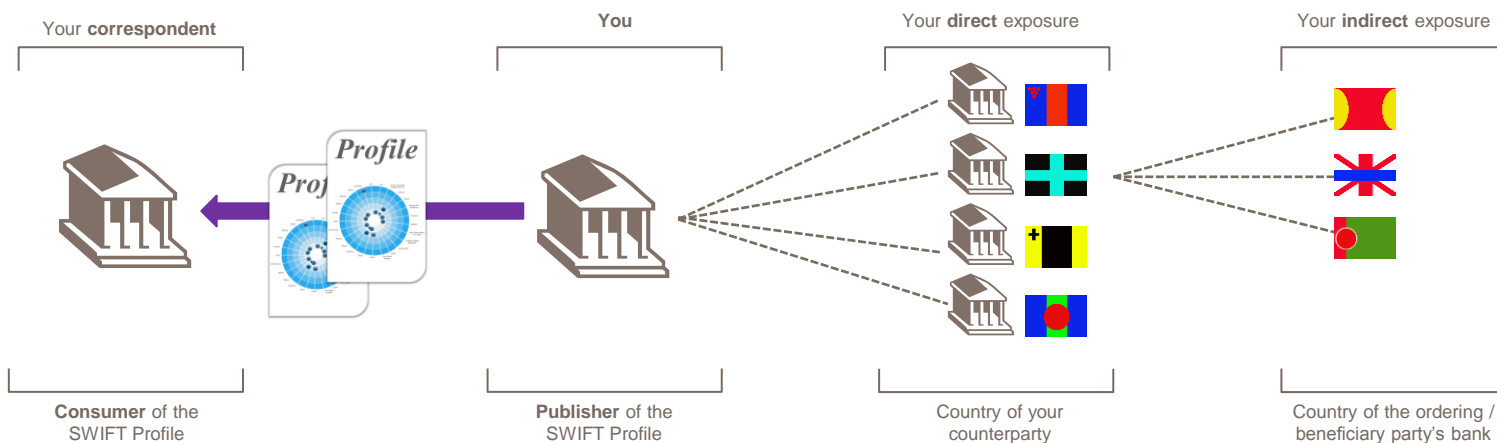
- Provides transparency about a bank's SWIFT network traffic
- Indicates payments to/from countries that are considered to be high-risk by FATF or are under EU or OFAC sanctions
- Mitigates 'Know Your Customer's Customer' risk (KYCC)

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



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

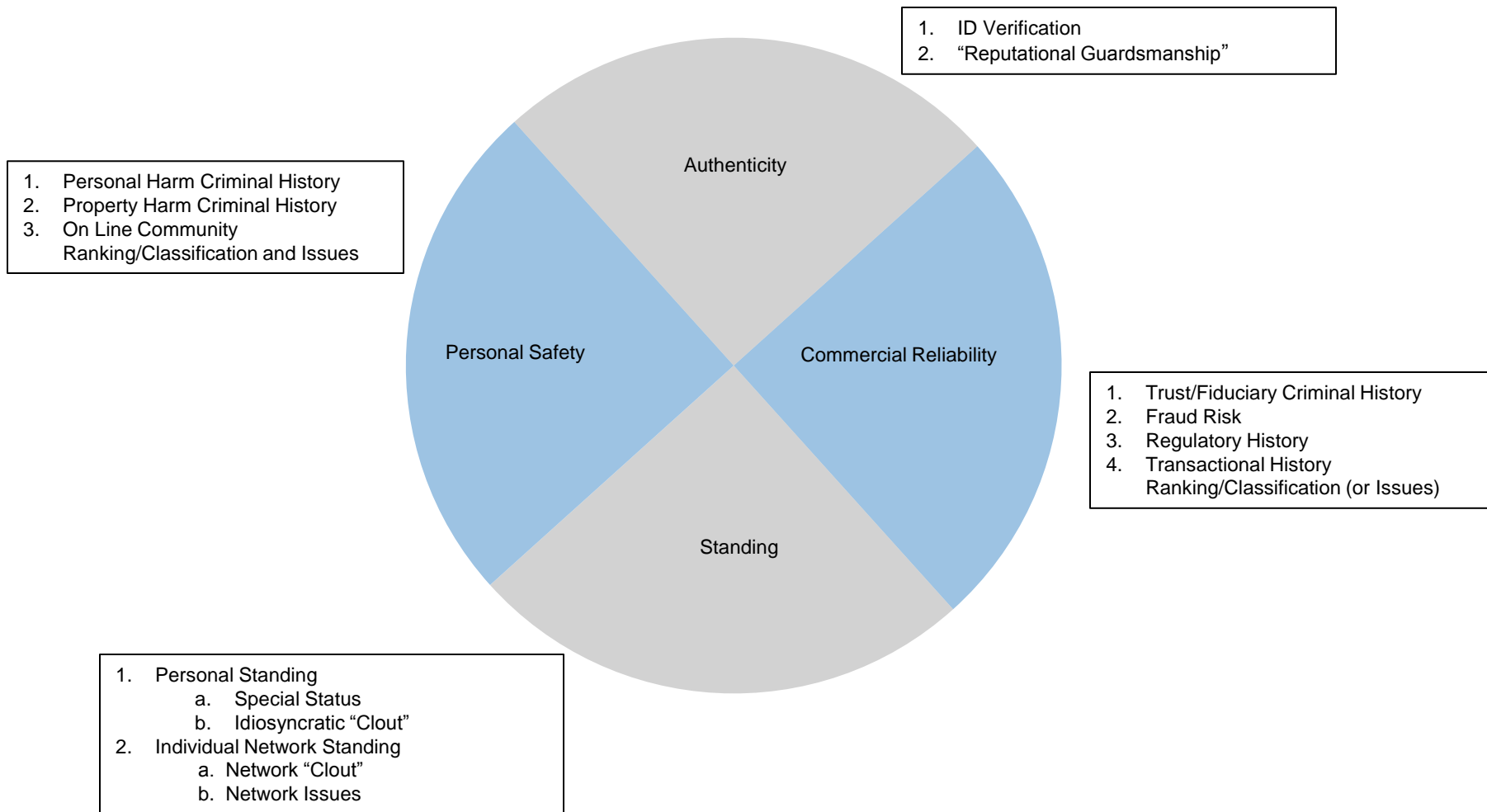
- Screen all High Risk Clients Customers and Counterparties
- Monitor all 'Names' going forward
 - SAR
 - Subpoena
 - External Events

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



Q & A