



# **Reducing the cost of compliance:** **A bold move towards Know Your** **Customer (KYC) managed services**

# Contents

<b>Introduction .....</b>	<b>3</b>
<b>Evaluating the drivers behind financial institution KYC expenditure.....</b>	<b>4</b>
An investigation of financial institutions' KYC processes.....	4
Cost profile of a Tier 1 financial institution KYC budget.....	5
<b>Managed service models, transforming cost into investment.....</b>	<b>6</b>
Reducing the cost of ownership for KYC.....	7
Mutualisation: The secret behind managed service cost efficiencies.....	8
<b>The evolution towards a utility model.....</b>	<b>9</b>
<b>Conclusion.....</b>	<b>10</b>

# Introduction



Improving the cost and efficiency of Know Your Customer (KYC) processes has been at the forefront of financial institutions' strategies in recent years.

This focus is largely being driven by:

- Boards who are placing unprecedented pressure on the KYC function to reduce operating expenses
- Regulators who are expecting enhanced compliance measures and standards from financial institutions
- Clients who are expecting an improved and streamlined banking experience

Firms are therefore having to evolve their KYC function and operating models in what is ultimately a revenue compressed environment.

Large global financial institutions<sup>1</sup> are no exception to this landscape and are looking to, or have embarked upon, transformative projects to reduce their high KYC operations spending (on average, US\$150m<sup>2</sup>, with some of the largest global banks reportedly spending up to US\$370m<sup>3</sup>, excluding remediation spending, which can drive the figure up to US\$670m<sup>4</sup>) while simultaneously trying to improve efficiency and client experience. Such projects include evaluating the adoption of managed service offerings, and ultimately a utility type solution, as models by which to achieve compliance with regulatory requirements in a more cost-effective, efficient and customer-centric way.

However, with often complex, fragmented and bespoke KYC processes spanning several functions and business lines across a typical financial institution, banks face significant challenges in identifying their overall KYC expenditure. These challenges are exacerbated by jurisdictional variations in policies and processes. As a result, financial institutions often struggle to calculate a baseline by which to conduct a like-for-like comparison with managed service offerings, an exercise that is required to accurately evaluate the business case benefits of alternative models.

In order to overcome such hurdles, Thomson Reuters, in partnership with a number of financial institutions<sup>5</sup>, has conducted time and motion studies (live evaluation of KYC processes) to identify, then assess, the drivers behind high operational expenditure and inefficient processes to better understand how adopting managed service offerings might reduce their cost base. Our research has shown that, by adopting a KYC managed service, large financial institutions could save upwards of 35-60% per KYC review.

*Large global financial institutions are looking to, or have embarked upon, transformative projects to reduce their high KYC operations spending (on average, US\$150m).*

<sup>1</sup> For the purpose of this paper, "large global financial institution" denotes a top-ranking G-SIB

<sup>2</sup> Thomson Reuters Global KYC Survey 2017, an independent research survey of over 1,000 financial institutions commissioned by Thomson Reuters. Figure is based on group-wide spend of financial institutions with a turnover of \$10bn+

<sup>3</sup> Based on spending estimates cited in the Celent paper titled "Artificial Intelligence in KYC-AML" (August 2016)

<sup>4</sup> Based on spending estimates cited in the Celent paper "Artificial Intelligence in KYC-AML" (August 2016)

<sup>5</sup> Thomson Reuters has worked with nine of our KYC as a Service clients, which includes eight of the top G-SIBs, to evaluate the benefits of the managed service solution. Studies have been included both time and motion studies as well as a top down approach to reviewing budgets and FTE costs.



# Evaluating the drivers behind financial institution's KYC expenditure



Given the global footprint of large financial institutions and their respective KYC operations teams, time and motion studies have been conducted covering a series of operational hubs across continents in both onshore and offshore locations.

Thomson Reuters internal and third-party consultants have interviewed, observed and reviewed various KYC analyst and management teams over a series of sprints, usually lasting up to 8 weeks. The studies critically evaluated KYC processes by both analysing the time taken to build or refresh a KYC record and the cost components that go into that process.

The time and motion study findings were then combined with proprietary research collated from large financial institutions to provide unparalleled insight into the greatest opportunities for KYC cost savings and efficiencies throughout the industry.

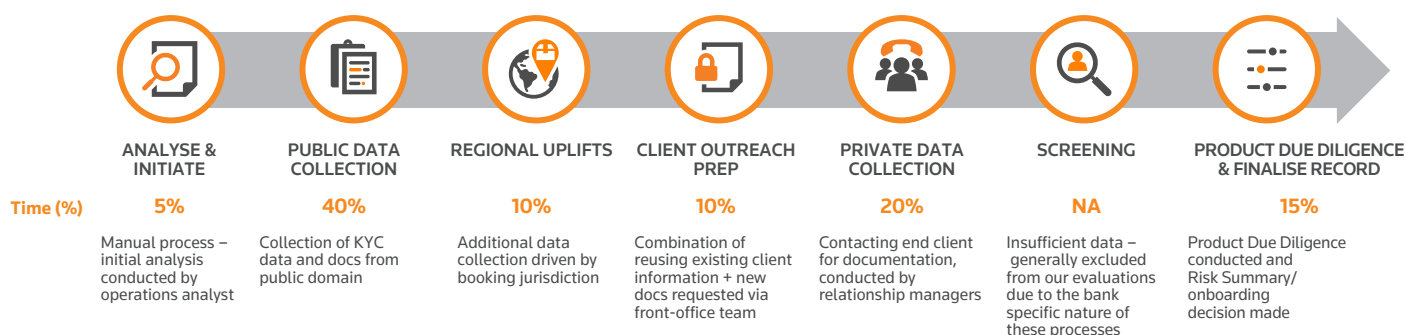
It is important to reconcile time and motion studies against top down full time equivalent (FTE) and management information. Time and motion studies alone represent an analysis on a subsection of the KYC process and therefore, when extrapolated across volumes of KYC reviews or against varying entity types or bank divisions, can create inaccuracies at the holistic business case level.

## An investigation into financial institutions' KYC processes

The time and motion studies have broken down the average time an analyst or other accountable individual takes to complete each core step of a KYC record build. The premise of this exercise is to be able to accurately calculate the time and materials required per step to extrapolate the costs associated with each and identify the greatest opportunity for savings and process efficiency gains.

Thomson Reuters findings demonstrate that a significant portion of the time and effort for the KYC record build process is concentrated around the collection of public data, which is a predominantly manual and administrative process. These are consistent with wider industry studies, conducted by firms such as Celent, which cites that bank analysts typically spending 50-65%<sup>6</sup> of their time on data collection and aggregation.

### Thomson Reuters Findings:<sup>7</sup>



The time and motion studies, indicate that a typical KYC process at the point of onboarding takes on average 15 hours per file to conduct, which is further supported by Oliver Wyman analysis which found that KYC at the point of onboarding for a corporate client can take from 15.3 to 25 hours of processing time.<sup>8</sup>

<sup>6</sup> As cited in the Celent paper titled "Dawn of a New Era in AML Technology" (September 2018)

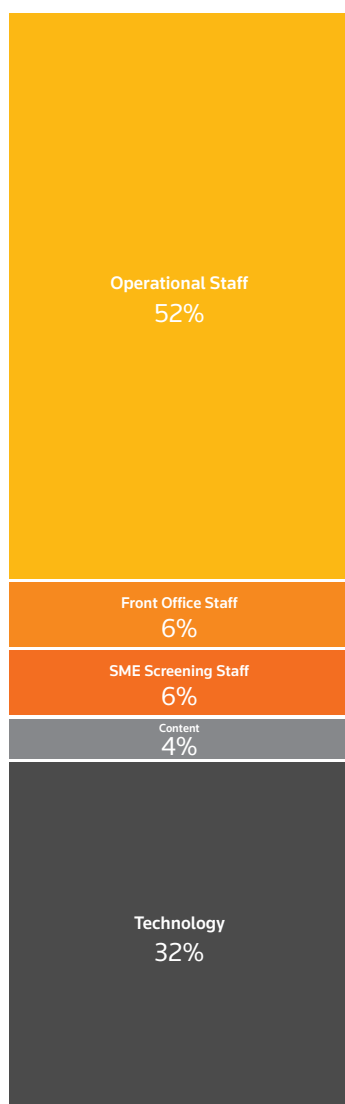
<sup>7</sup> Time and Motion studies do not consider the total effort required by front office relationship managers for client outreach. This effort is quantified from top down analysis of average FTE cost and customer interviews.

<sup>8</sup> As cited in Celent paper "Artificial Intelligence in KYC-AML" (August 2016)

## Cost profile of a Tier 1 financial institution KYC budget

By evaluating the time and materials required to complete a KYC record, and combining this with the infrastructure leveraged as part of the process, financial institutions can evaluate their overall KYC expenditure and assess where their biggest spend is concentrated. For large financial institutions this is typically headcount costs.

**Financial institutions' KYC spend can be broadly categorised into three portions:**



### People costs

**Compensation** – the salaries, bonuses and fringe benefits of employees are typically costs that rise year on year

**Training** – given the compliance nature of KYC operations, staff are continually trained to evolving industry standards

**Employer contributions** – additional overhead for employers

**Front Office staffing** – the KYC process typically spans multiple functions and requires a portion of time from individuals whose remit is well beyond KYC. For example, often the responsibility for collecting private documentation for clients often falls to the front office, which results in considerably higher cost implications and detracts from revenue-generating opportunities

**Facilities** – the real estate and equipment to support multiple operational hubs, which in part are often located in high-cost jurisdictions, and a global client base

### Content costs

**Acquisition of content** – limited integration to primary public sources of data is driving up operational costs for firms and placing more burden on the end client and the manual collection of information

**Screening content** – large financial institutions typically use multiple screening content providers, that creates duplicate license fees.

### Technology costs

**Run the bank** – significant costs are allocated to the maintenance of on average 3-5 legacy applications and manage internal and external integration issues that are required to complete portions of a fragmented KYC process

**Change the bank** – the continual investment in the development of applications to ensure technology within the bank is evolving, centralising and driving efficiency

**Infrastructure and end user technology** – as technology amortises, firms continually invest in keeping Infrastructure and EUT up to date

<sup>7</sup> Time and Motion studies do not consider the total effort required by front office relationship managers for client outreach. This effort is quantified from top down analysis of average FTE cost and customer interviews.

<sup>8</sup> As cited in Celent paper "Artificial Intelligence in KYC-AML" (August 2016)

# Managed service models – transforming cost into investment

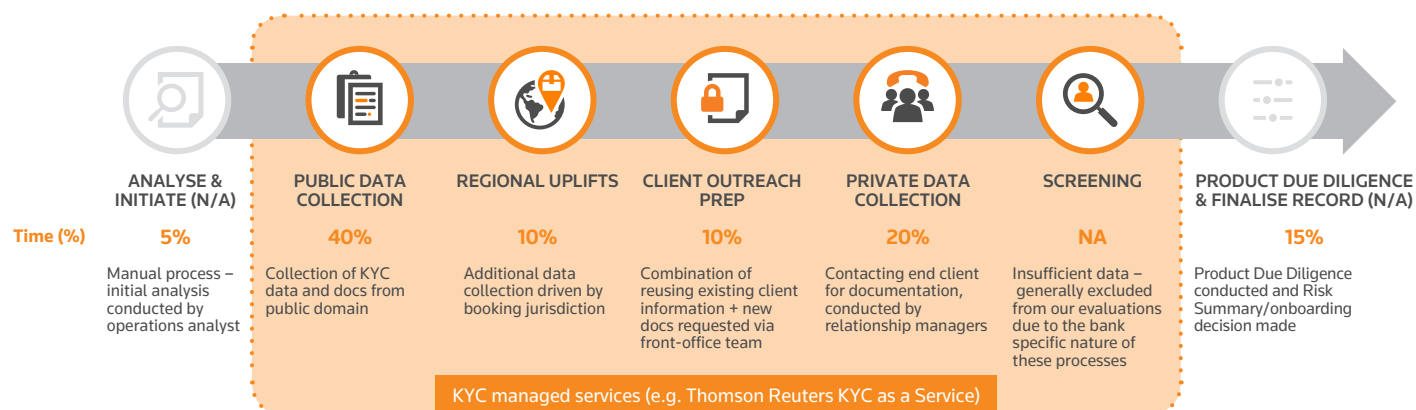


With KYC costs escalating across the industry and firms struggling to address inefficiencies throughout their processes, many financial institutions have looked towards managed service offerings to reduce these pressures.

KYC managed services provide an opportunity for financial institutions to reduce manual operational effort across a significant portion of the KYC process and consequently the people costs associated with completing KYC. This enables financial institutions to redeploy their operations staff to focus on more complex, high-value tasks such as risk decision making and increasing their monthly throughput of KYC reviews. Additionally, from a Front Office perspective, the opportunity cost of their KYC activities is reduced, and capacity for revenue generating activities is maximised.

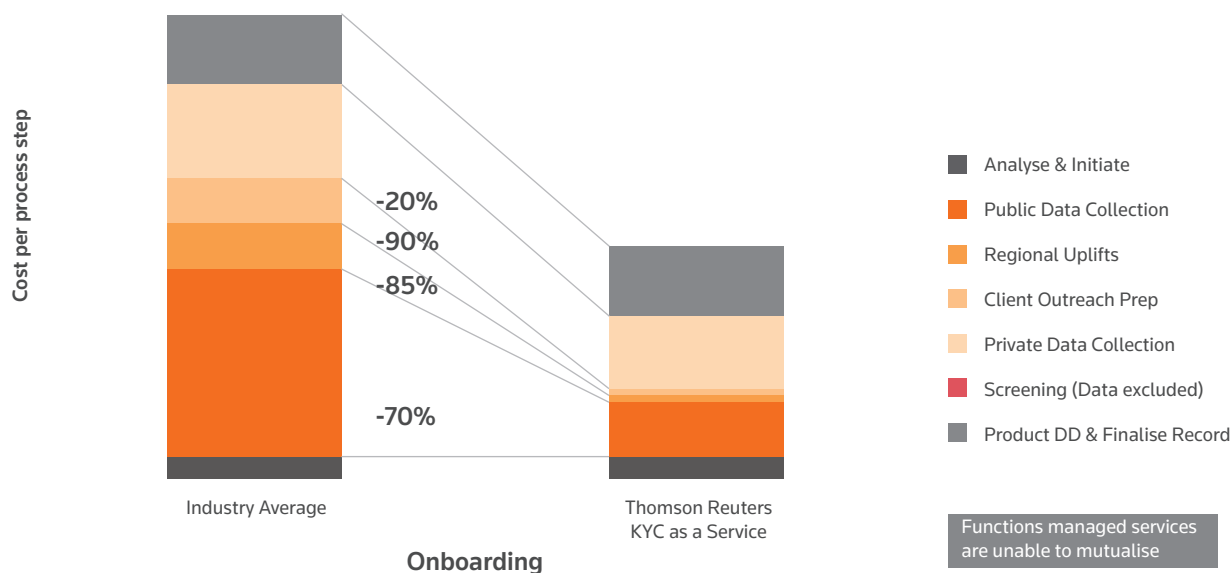
Whilst the scope of KYC managed services differs between vendor offerings and components implemented by financial institutions, the chart below outlines the potential for a full end-to-end solution to reduce a financial institution's in-house operational effort by up to 80%.

## KYC managed service scope:



## Reducing the cost of ownership for KYC

Using our own KYC as a Service offering as a proxy for all KYC managed services, we have compared the time and materials required to complete a record for a managed service with that of a large financial institution baseline. The cost savings achievable by adopting the model are considerable and upwards of 35% per KYC review<sup>9</sup>, generating additional operational capacity for financial institutions, especially in the public data collection step of the process.



The total cost saving is dependent on the proportion of the KYC process and client requests managed by the vendor service versus what is retained in-house by the financial institution, but has been demonstrated to be as high as 60% per review. When reviewed in line with an industry average annual KYC expenditure of US\$150m, adopting a managed service could save a large financial institution between US\$50-90m per year. Whilst the majority of this will be realised in the KYC operations function, there is opportunity for additional cost efficiencies across the front office. Relationship manager driven client outreach is contributing towards 6% of the institutions overall KYC spend, which in tangible terms, equates to a US\$9m time and materials cost that also detracts from revenue generating activities.

*The overall cost savings achievable by adopting the model are considerable and upwards of 35-60% per KYC review.*

<sup>9</sup> Cost savings are measured against the average fee charged per KYC record by managed service providers, as opposed to their underlying cost of producing the record

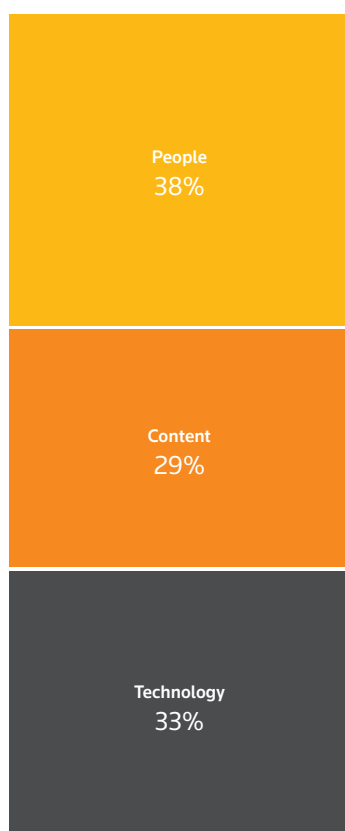
## Mutualisation: The secret behind managed service cost efficiencies

A highly automated and centralised operating model, predicated on technology, content and resource mutualisation, lies at the core of the managed service provider's ability to deliver KYC records at a significantly lower cost per review than large financial institutions.

Through centralising the KYC process and associated cost components for multiple financial institutions, the cost of ownership is distributed across each subscribing customer, with managed services vendors, like Thomson Reuters, absorbing the investment risk. Thomson Reuters is able to further mutualise investment and operational costs for our customers by leveraging the scale of our technology and content specialist enterprise and integrating with the organisation's wider technology, content and operational capabilities.

Consequently, when comparing our cost components to those of a large financial institution, technology and content make up a greater proportion, delivering efficiencies and economies of scale both in terms of spend and processing effort.

### Distribution of a KYC managed service cost base:



### Thomson Reuters managed service costs can be broadly categorised into three areas:

#### Global KYC operations

Ability to adapt to the fluctuation in managed service customers' KYC activity and demonstration of a global KYC operations capacity – which is capable of operating in 60+ languages and can complete the end-to-end KYC process with round-the-clock processing – enables fungibility and rapid scalability to meet dynamic demand without the need for high-cost remediation programmes. Our Thomson Reuters team consistently publishes 7,000+ KYC records per month.

#### Content and automation

Significant and ongoing investment in the automation of content acquisition from public data sources, delivers dynamic monitoring capabilities and reduces the administrative burden on clients to provide KYC documentation. Such content and automation have led to operational efficiencies and the ability to deliver at scale.

#### Technology

A single workflow platform that was designed in collaboration with several global financial institutions, this platform underpins all KYC operations and integrates content and third party systems seamlessly, driving efficiency.



# The evolution towards a utility model



As pressure continues to mount on financial institutions to provide a better banking experience for their clients in a cost-constrained environment while remaining compliant, some firms are looking beyond managed service models towards utilities to carry out KYC to achieve even greater cost efficiencies.

Since savings upwards of 35-60% have already been demonstrated, we are at a unique point for the industry whereby financial institutions are not only realising, but are able to quantify the benefit of collaborating with their peers to mutualise the effort of conducting KYC. This has led to a number of consortiums forming to actively evaluate expanding on the efficiency gains already realised by working towards a transformative utility model for the industry.

A utility model opens up the opportunity for increased cost and operational efficiencies through the mutualisation of a greater portion of the KYC process, by completing the build and maintenance of full KYC records to a common standard.

*Since savings upwards of 35-60% have already been demonstrated, we are at a unique point for the industry whereby financial institutions are not only realising, but are able to quantify the benefit of collaborating with their peers to mutualise the effort of conducting KYC.*

# Conclusion



Through conducting time and motion studies, coupled with top-down evaluations of FTE and infrastructure costs, large financial institutions have been able to model the tangible and significant cost benefits of adopting a KYC managed service both as part of their business-as-usual KYC process and large-scale remediation programmes.

Such analysis has been able to demonstrate between 35-60% cost saving per KYC review on a like for like basis between a managed service per-record fee and in-house operations.

However, the impact on a firm's bottom line and the percentage cost saving against the overall KYC expenditure (of on average US\$150m) is dependent on each firm and their decisions in redeploying their operations staff, as well as the volume of KYC reviews they conduct via a managed service provider.

What is clear from these findings is that the potential cost savings and transformational effect that adoption of a managed service could have on the entire KYC lifecycle (onboarding, refresh and remediation) are too big to remain un-explored. In an increasingly complex and competitive marketplace, any opportunity that can significantly increase profit margins whilst simultaneously improving client experience is an opportunity that needs to be considered seriously.

*The potential cost savings and transformational effect that adopting a managed service solution could have on the entire KYC lifecycle are too big to remain un-explored.*

## Moving forward with Thomson Reuters KYC as a Service

KYC as a Service offers end-to-end client identity, verification, screening and monitoring for accelerated client onboarding, remediation and refresh built on an interactive platform that streamlines KYC compliance and the distribution of due diligence documentation. KYC as a Service boasts a market-leading number of built, published and maintained KYC records. With over 400,000 records, we have established ourselves as the go-to managed service provider in the industry, servicing over 55 financial institution clients globally on an ongoing basis. Contact us to hear more about how we can help your firm achieve a multitude of efficiency gains across your KYC operations.

**risk.tr.com**

The intelligence, technology and human expertise  
you need to find trusted answers.



the answer company™  
**THOMSON REUTERS®**