Banks tackle the KyC challenge

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The increasing cost of 'know your customer' resources within financial institutions is becoming a major strategic issue. One not to be neglected under any circumstances.

Know your Customer, or KyC operations, are expensive for financial institutions costing them $370 million (€327 million) annually, according to the consulting firm Celent. This 'knowledge of the customer', which involves verifying a customer's identity and assessing potential risks involved in establishing a business relationship with them, is becoming increasingly restrictive as regulations, particularly within the European Union, have steadily tightened in recent years.

These activities, which were typically an after-thought prior to the early 2010s, have become a major concern for financial sector players. They have forced Corporate and Investment Banking institutions to set up entire departments dedicated to this business, mobilizing significant resources and requiring increasingly larger budgets.

As a result, the number of staff dedicated to KyC has increased tenfold over the past decade. Many banks (HSBC, JP Morgan, etc.) have even launched programs worth billions of dollars to meet the challenge.

Regulators today rely largely on financial institutions to detect fraudulent movements or financing of banditry, terrorism or any other illegal activity (money laundering, fraud, etc.). The complexity of the dirty money circuits forces banks, and CIBs in particular, to increase their vigilance with regard to KyC or face serious regulatory and financial consequences in the event of non-compliance.

The reputation of an institution can quickly collapse in the public eye, not to mention, the large amounts of fines are another major risk. Finally, the implementation of increasingly restrictive processes to respond to this regulatory increase in KyC may also discourage customers and prospects if the 'customer path' becomes too restrictive.

This point becomes a real criterion of differentiation. While the best banks manage to automate and are satisfied when the process takes two weeks, more aggressive institutions now aim for two or three days, with new FinTech players itching to disrupt the process (like Revolut or N26).

Turnover remains too high

Despite the costs incurred and the priority given to this issue by financial institutions, KyC processes are still too costly and inefficient in terms of the results obtained. Most CIBs do not have adequate tools for retrieving all the necessary information and centralizing it in a simple interface allowing the dedicated analyst to deal with the subject quickly and efficiently.

Admittedly, technical solutions do exist (data sharing between institutions, implementation of predictive models, etc.) but the resources allocated to this type of activity are still insufficient, which ultimately ends up posing a recurring problem for financial institutions. Some cases can be very expensive to investigate. Faced with these problems, regulators must do more to position themselves to facilitate the exchange of documents between banks, while attempting to avoid jeopardizing data confidentiality.

In addition, KyC personnel often feel that they are performing tedious tasks. It is difficult to attract qualified profiles and turnover remains excessive. The challenge is to recruit employees with sound financial and legal knowledge for control functions that are often not highly valued internally. KyC is no longer an ancillary function but is becoming a major strategic issue.

Human resources departments in financial institutions, particularly at CIBs, need to be able to offer career plans to their KyC-dedicated employees with attractive possibilities for advancement to attract more profiles to this fast-growing business.

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