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Know Your Customer (KYC): The Challenges Faced by the Banking Sector When Onboarding New Client Organizations

Research Findings

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May 2018**

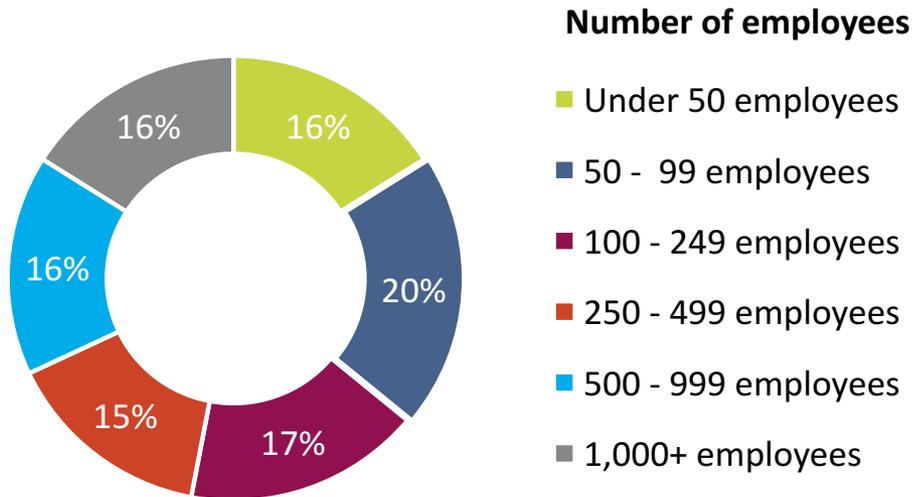
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Research Background

Research Overview



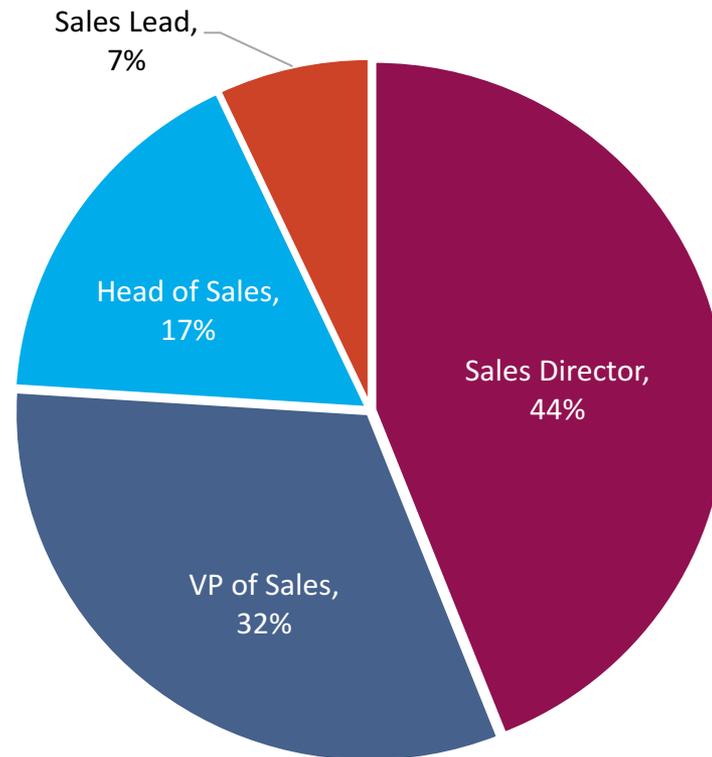
This research explores the challenges that the banking sector faces when it comes to onboarding new client organizations, with a view to investigating, in particular, the implications of Know-Your-Customer (KYC) regulation. The research was conducted among 102 senior salespeople in the banking sector.



	35
	34
	33
Total	102

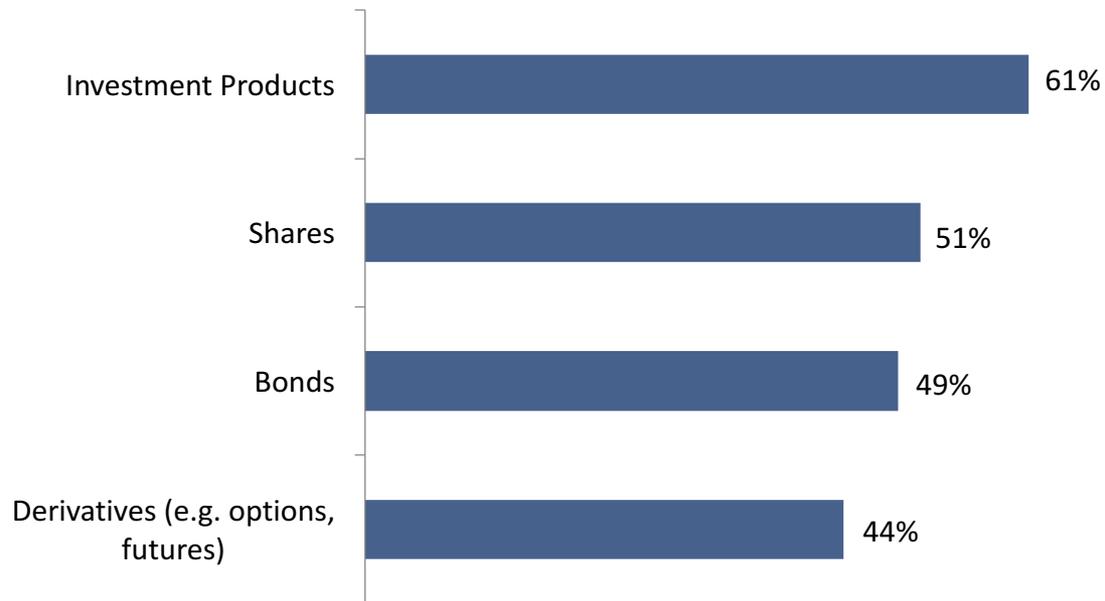
Base: Total (102) S3 How many people are employed by your organization?

Job title



Base: Total (102) S4 Could you please confirm your job title?

Responsibility for buying and selling...



Base: Total (102) S2 For which of the following do you have responsibility within your organization?

Key Takeaways

The onboarding process is far from slick



**There is no one stop shop
for identifiers**

- Institutions use, on average, 4 identifiers

**Identifiers are often
inconsistent**

- 49% report issues with the same ID being used for different entities
- 47% report that an entity may have more than one identifier

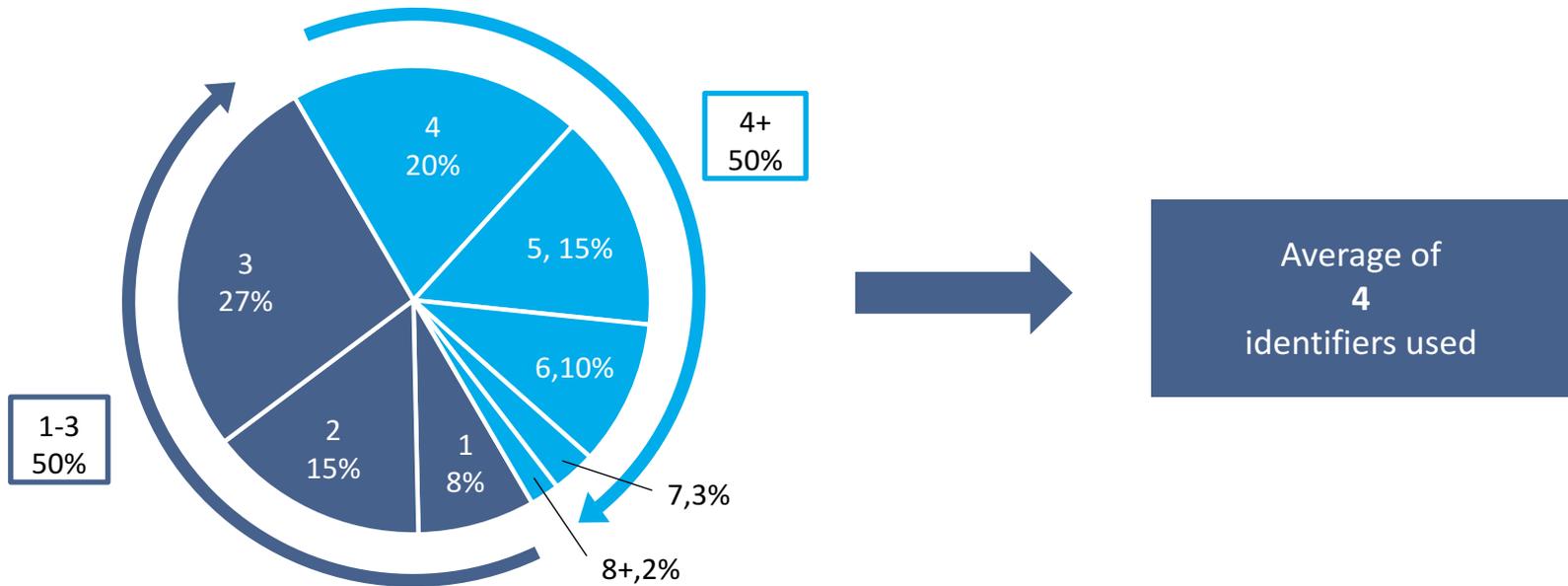
**Onboarding therefore creates
a significant burden**

- It typically takes 6 weeks to onboard a new client
- 57% of sales people spend at least 1.5 days a week onboarding

Entity Identifiers

Financial institutions use, on average, four identifiers to help identify client organizations

In order to accurately identify client organizations with the most up-to-date data, financial institutions tend to use a variety of different identifiers for cross-checks. On average they use 4 different identifiers internally, but about a third say they use 5 or more identifiers.

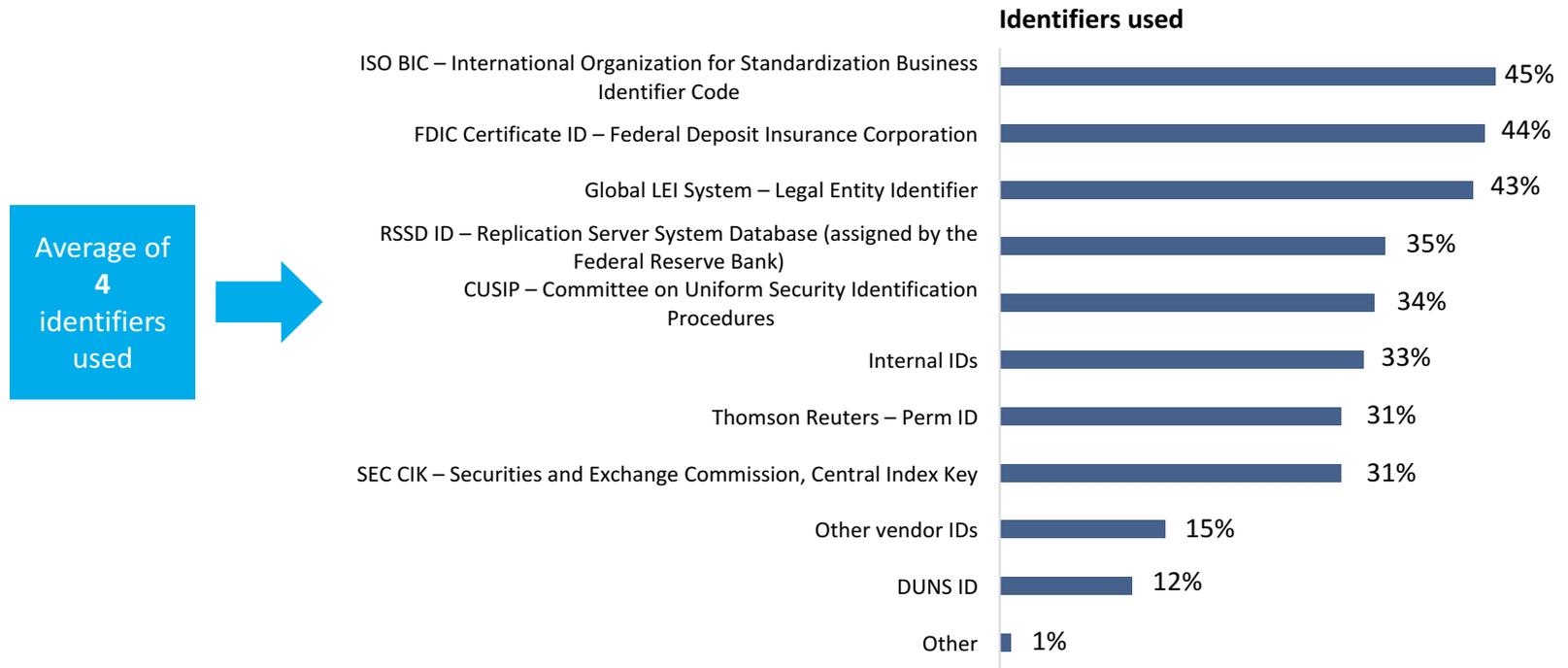


Base: Total (102)

Q3 On average, how many different identifiers does your organization use to identify each client organization you do business with?

No single identifier has gained global acceptance

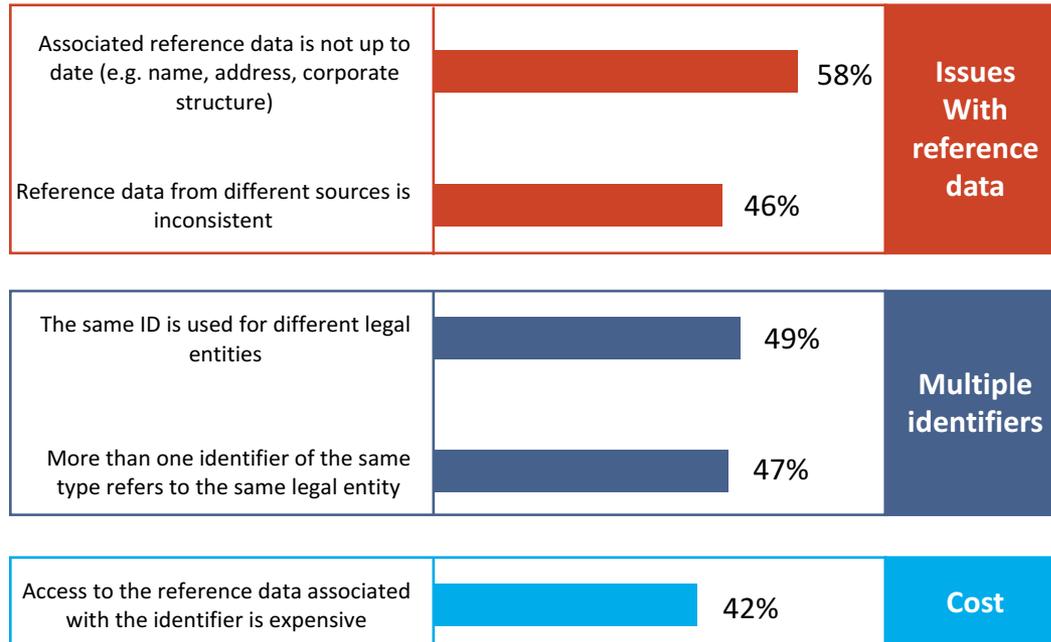
There is no single identifier which acts as a standard for the industry. However several are used by a substantial proportion of organisations.



Base: Total (102) Q3 On average, how many different identifiers does your organization use to identify each client organization you do business with? Q2 Which of the following identifiers does your organization use to identify clients (i.e. legal entities) you do business with? Please select all that apply

The proliferation of identifiers often throws up inconsistencies

Financial institutions use multiple identifiers for cross-checking. But this creates confusion because the same ID may be associated with multiple entities (49%), and different IDs can relate to the same entity (47%).



54%

agree

The use of different legal identifiers for the same legal entity leads to inconsistencies with updates to different reference data sets

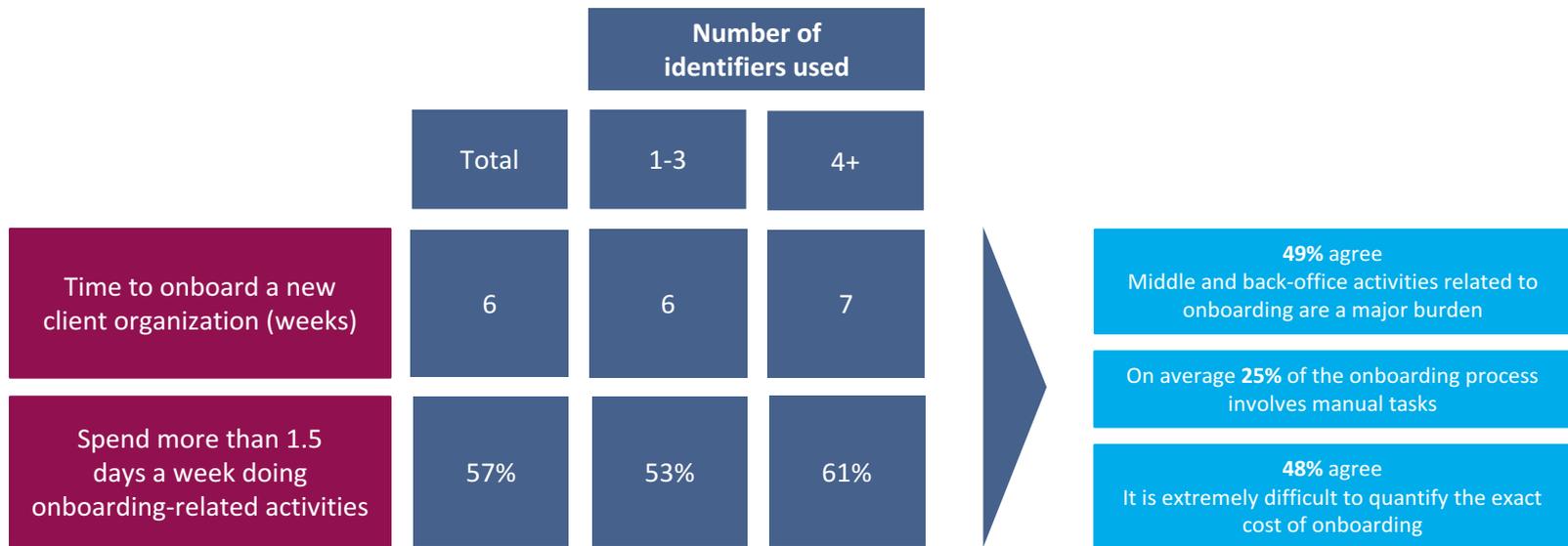
Base: Total (102)

Q4 Which, if any, of the following issues does your organization face with the identifiers currently used? Please select all that apply. Q20 To what extent do you agree or disagree with each of the following statements?

Onboarding Issues

Onboarding is a burdensome and time-consuming process

New clients typically take 6 weeks to onboard – more if 4+ identifiers are used. A quarter of the process involves manual tasks and 6 in 10 senior salespeople spend more than 1.5 days of their week onboarding.



Base: Total (102)

Q5 In a typical week, what proportion of your time is spent doing activities related to the onboarding of new client organizations?; Q6 On average, how long does it take for your organization to onboard a new client organization?; Q9 What proportion of your company’s process for the onboarding of new client organizations involves manual tasks?; Q20 To what extent do you agree or disagree with each of the following statements?

There is little consensus as to what is taking the most time, pointing to a lack of consistency in process

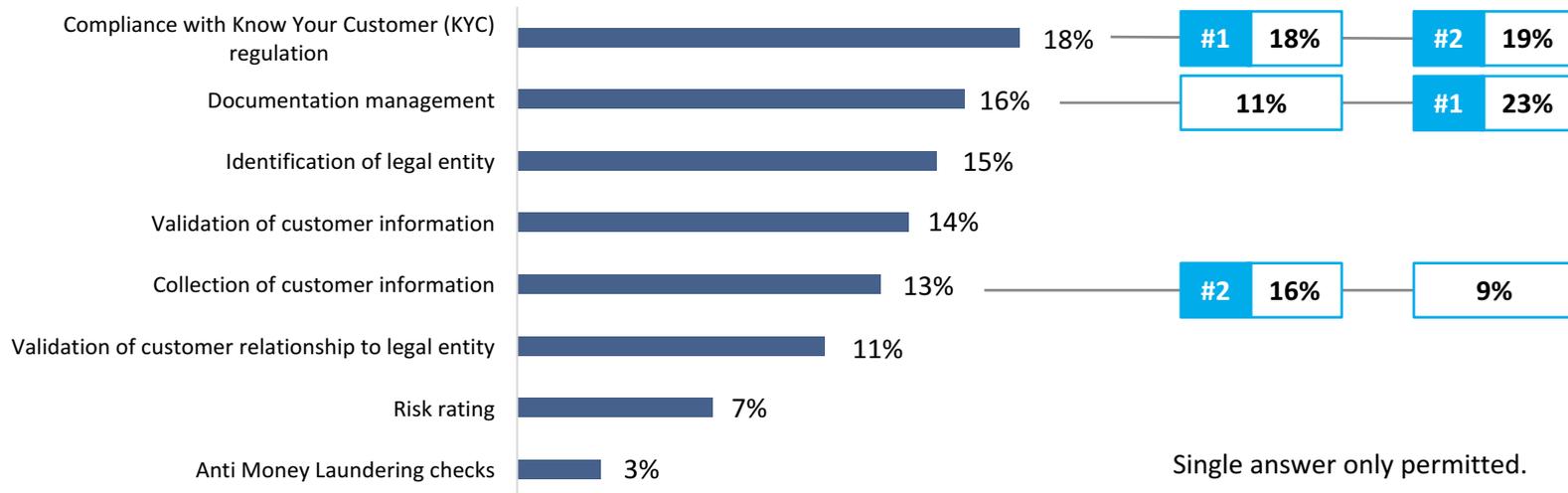


0 – 250 employees



250+ employees

Stage of onboarding that takes the longest



Base: Total (102) Q10 Which stage / aspect of the onboarding process for new client organizations takes the longest? Please select one.

But in general, reliability of information and lack of resources are a significant challenge for many

Smaller businesses struggle in particular to reconcile data from multiple sources (55%).

Top 5 challenges of onboarding

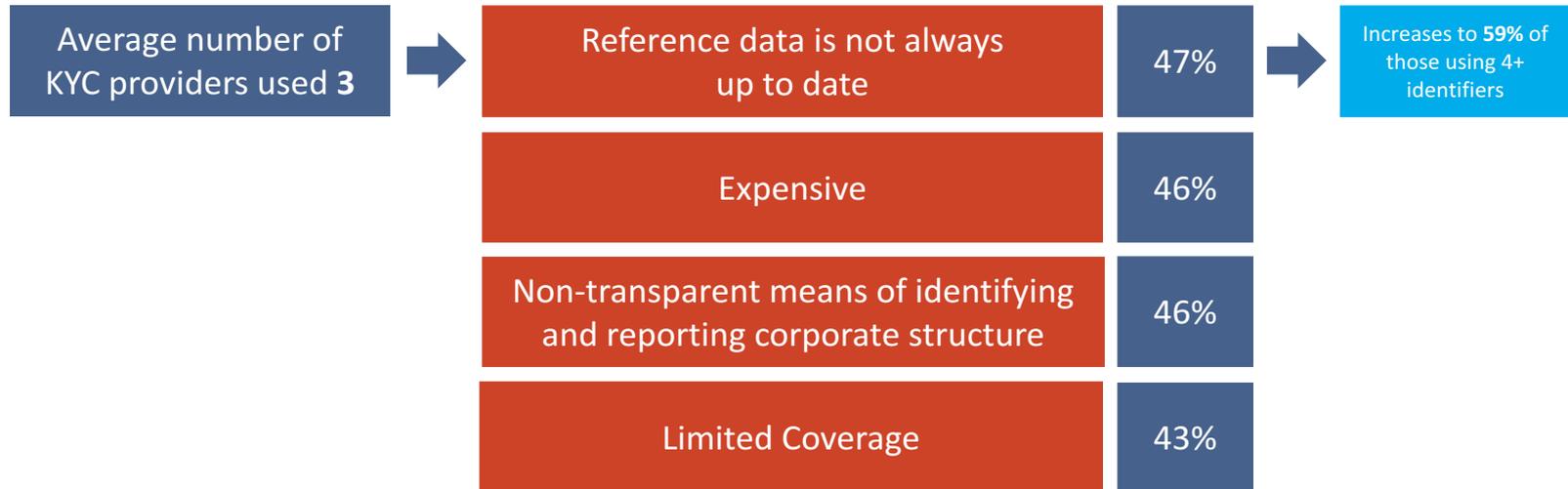


Company size	
0-250	250+
49%	66%
47%	64%
49%	55%
49%	51%
55%	40%
44%	45%
38%	40%
51%	19%

Base: Total (102) Q1 Thinking about onboarding new client organizations, what would you say are the top challenges your organization faces? Please select up to 5.

KYC providers have not yet shown their value in the marketplace

Most use KYC providers, however many complain about out-of-date reference data (47%) and the cost of these solutions (46%).

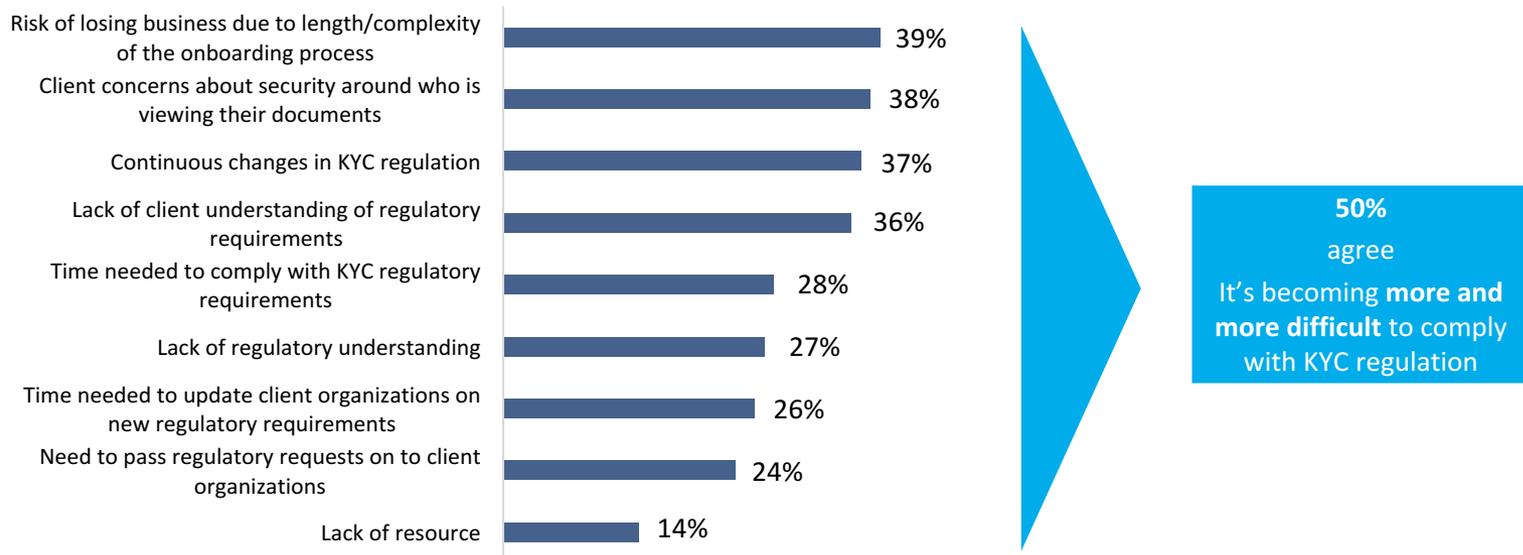


Base: Total (102) Q14 How many KYC service providers does your organization use to aid KYC processes?
 Q15 What would you say are the main drawbacks of using KYC service providers? Please select all that apply.

Assessing the Business Impact

Clients are not always sympathetic to the demands compliance places on institutions

2 in 5 senior salespeople say that the risk of losing business due to the length and complexity of the onboarding process is a top challenge. Clients are particularly concerned about the amount of information they need to share with third-parties.



Base: Total (102)

Q13 Still thinking about compliance with Know Your Customer (KYC) regulation, what are the top challenges for your organization? Please select up to 3.; Q20 To what extent do you agree or disagree with each of the following statements?

Long onboarding processes can lead to loss of business

Around 15% of business is at risk as a result of the client losing patience with the process.

And 14% of business is lost because the client identity cannot be verified.

Proportion of business estimated to be lost:



14%

Transaction is rejected because not enough information is known about the legal identity of the counterpart



15%

Legal entity leaves because onboarding process is too difficult / takes too long

55%

agree

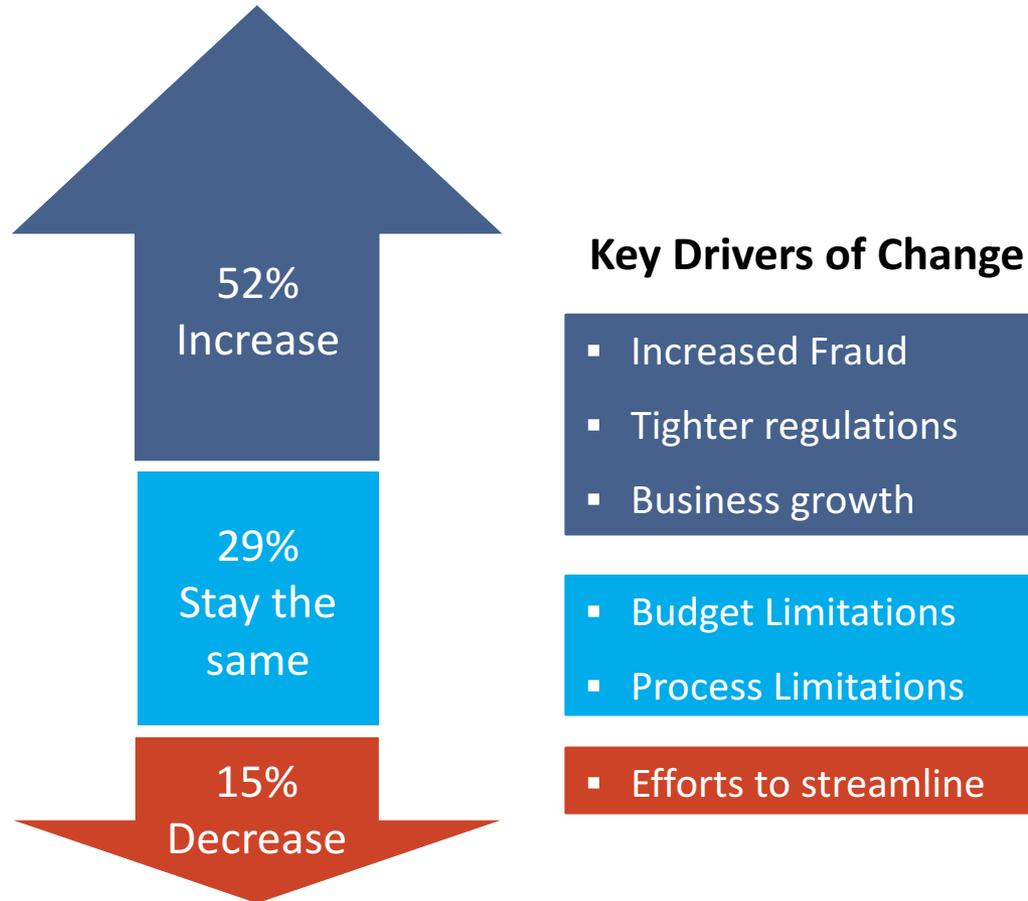
Prospects might turn to competitors if it takes too long to onboard them as new client organizations

Base: Total (102)

Q16 What proportion of your organization's business doesn't go ahead due to each of the following reasons? Q20 To what extent do you agree or disagree with each of the following statements?

So, will things get better?

52% believe the time to onboard will increase over the next 12 months



Base: Total (102)

Q7. How do you expect the time to onboard new client organizations to change over the next 12 months?

Q8. Please give a reason for your answer.

52%

Expect the time to onboard new clients to increase

Increased Fraud

“Day by day, the fraud and risk factors are growing. So, to avoid them at all cost there has to be better technologies and steps to undergo before taking clients onboard.”

“With more regulation and more scams, it will take a little longer to complete all the procedures for client onboarding.”

Tighter Regulations

“The KYC takes longer to provide the required information as compared to previous set up.”

“With the implementation of KYC, the validation process time is to be increased.”

Business Growth

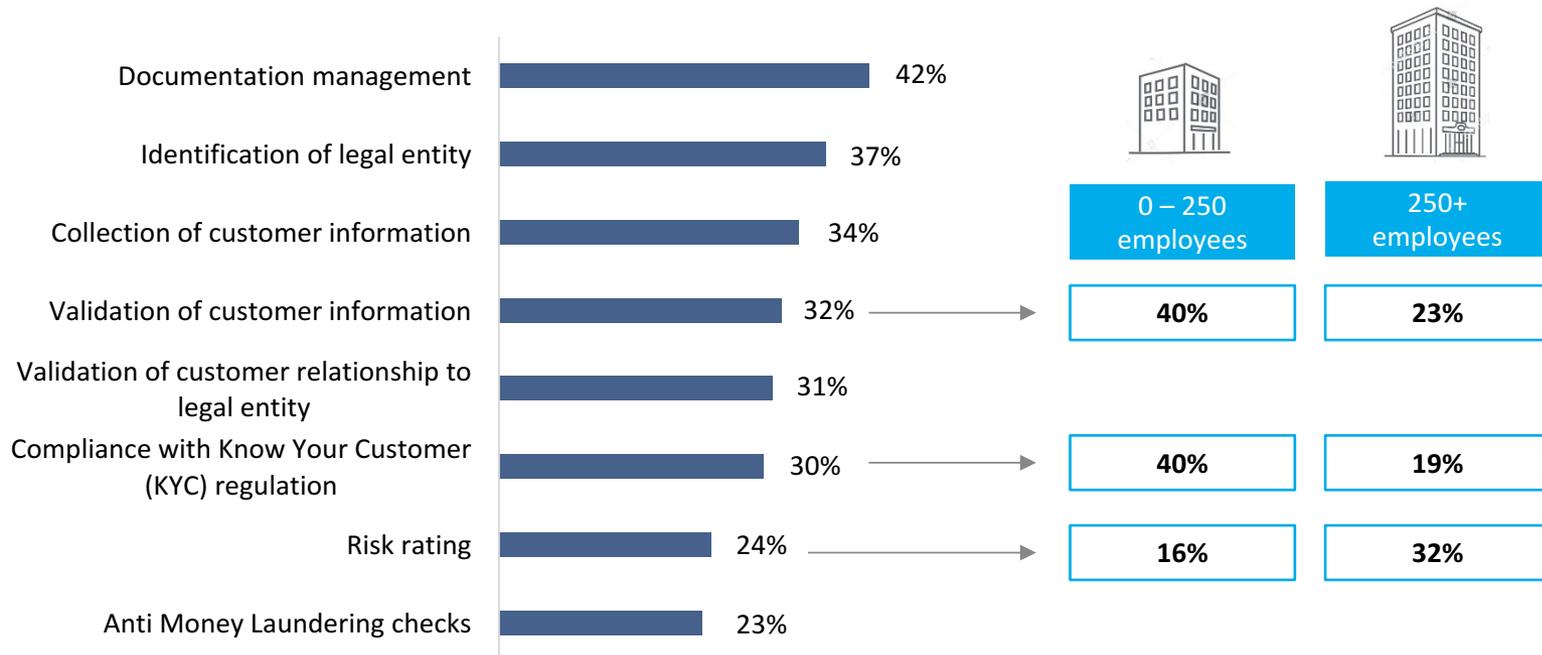
“We are expanding our business aggressively.”

“We are about to change our manpower and, while new employees adjust and gain speed we expect the time [to onboard] to increase.”

Base: Total (102) Q7. How do you expect the time to onboard new client organizations to change over the next 12 months?
Q8. Please give a reason for your answer.

Documentation management represents most scope for improvement

Identification of legal identity also has the potential to be made more efficient according to 2 in 5 senior salespeople in the banking sector.



Base: Total (102) Q11 And which stages / aspects of the onboarding process for new client organizations have the biggest scope to be improved in terms of efficiency? Please select up to three.

New technologies are expected to become part of the onboarding process

The majority of financial institutions expect new technologies such as digital signatures and blockchain to be integrated in the onboarding process of new client organizations.

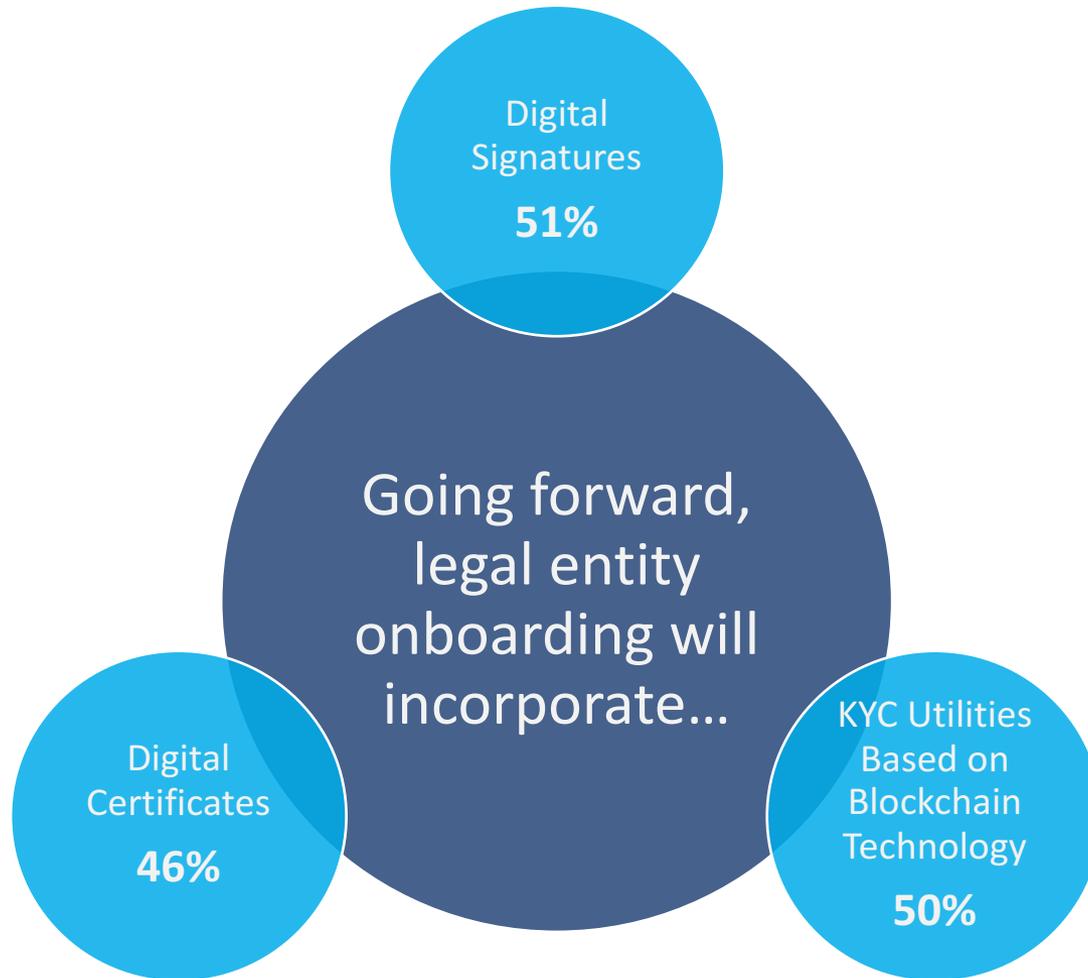
	Company size	
	0-250	250+
Digital Signatures	42%	62%
KYC Utilities Based on Blockchain Technology	36%	66%
Digital Certificates	44%	49%

But

61% *agree*

The rise of digital will make identity verification harder due to a rise in the number of legal entities transacted with.

Base: Total (102) Q20 To what extent do you agree or disagree with each of the following statements?



The KYC burden is an ongoing one

Only two thirds of financial institutions believe they hold accurate client information. Less than a third of clients can be relied on to report material changes to their legal entity, so the burden remains with the institution to conduct regular reviews.



Base: Total (102) Q17 How would you rate the accuracy of the information your company holds on client organizations it onboarded in the past?; Q18 What proportion of your client base do you believe promptly reports any material changes about them as a legal entity?; Q19 And how frequently does your organization review the information you hold about the structure of your clients' legal entity?; Q20 To what extent do you agree or disagree with the following statements?

Summary

- 1** Institutions are facing an increasing burden as a result of the need to comply with KYC
- 2** Lack of reliable and consistent identifiers is creating more work and less certainty
- 3** There is clearly an opportunity to align on one identifier to generate efficiencies

Appendix

Top 5 challenges of onboarding new client organizations



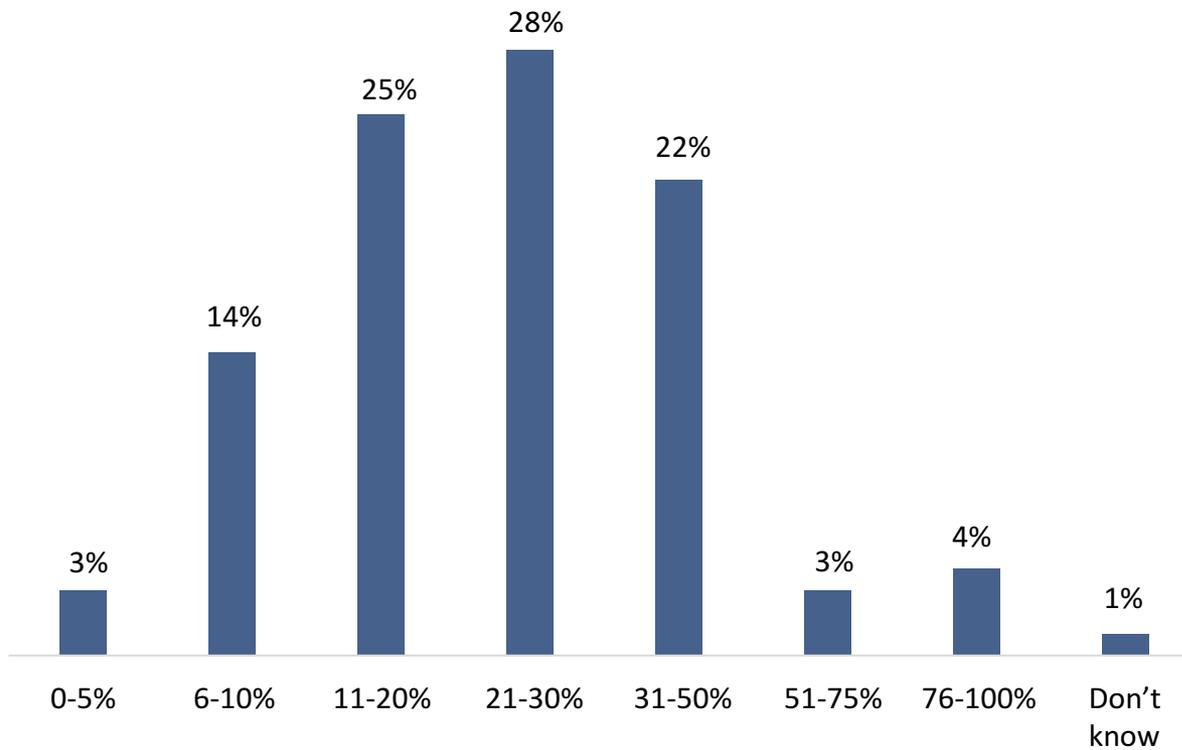
	Total	Company size		Number of identifiers used	
		0-250	250+	1-3	4+
Contradictory information from different sources	52%	49%	55%	39%	65%
Time needed to complete onboarding process for client organizations	50%	49%	51%	37%	63%
Reliability of information	57%	49%	66%	55%	59%
Resources needed (e.g. time, people, money)	55%	47%	64%	53%	57%
Accurate identification of legal entities	44%	44%	45%	33%	55%
Difficulties reconciling client information from multiple internal and external sources	48%	55%	40%	45%	51%
Lack of process automation	39%	38%	40%	39%	39%
False positives with Anti Money Laundering alerts	36%	51%	19%	35%	37%

Base: Total (102) Q1. Thinking about onboarding new client organizations, what would you say are the top challenges your organization faces? Please select up to 5.

Onboarding time



Proportion of time spent doing onboarding-related activities in a typical week



Base: Total (102)

Q5 In a typical week, what proportion of your time is spent doing activities related to the onboarding of new client organizations?

Onboarding time

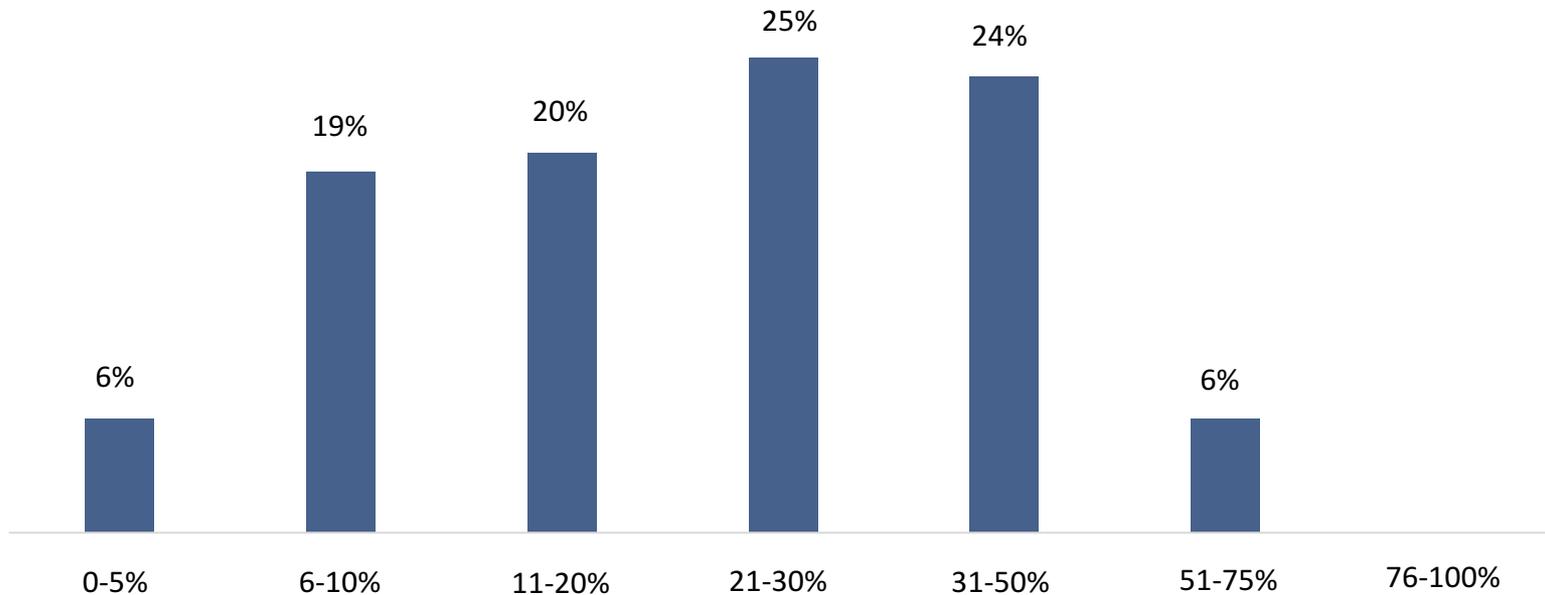


Average time it takes to onboard a new client

More than 4 months	1%
3 to 4 months	8%
2 to 3 months	17%
1 to 2 months	30%
Between 1 week and a month	36%
Less than a week	7%
Don't know	1%

Base: Total (102) Q6 On average, how long does it take for your organization to onboard a new client organization?

Proportion of onboarding process that involves manual tasks



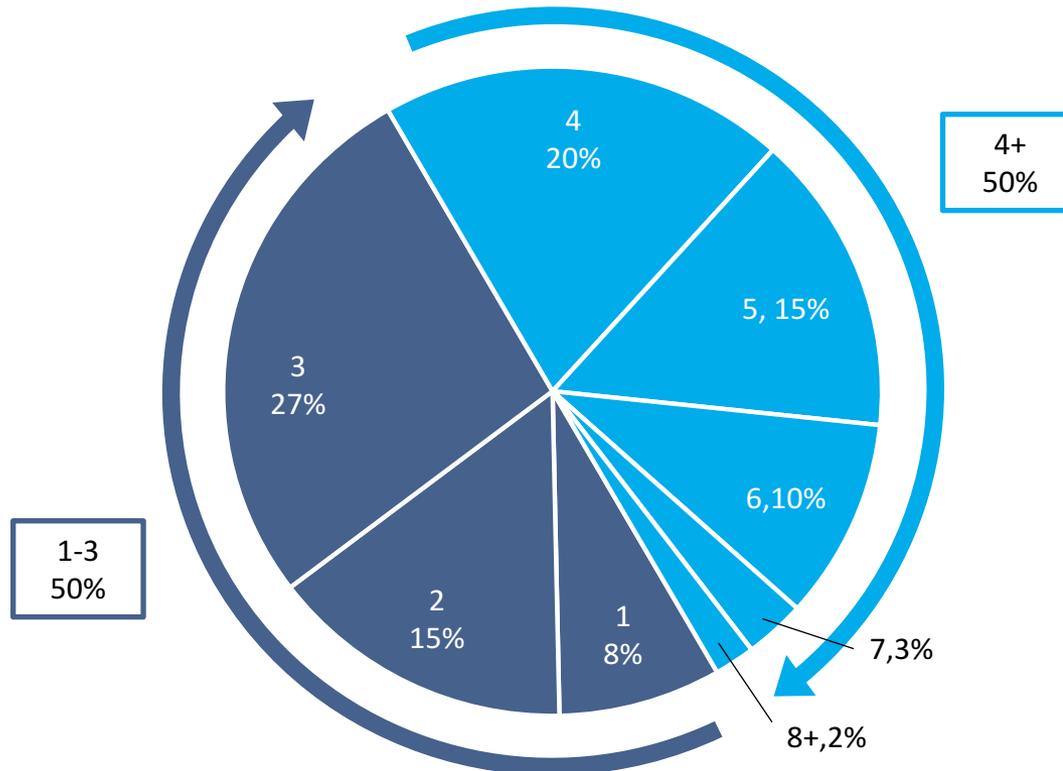
Base: Total (102)

Q9 What proportion of your company's process for the onboarding of new client organizations involves manual tasks?

Identifiers and KYC providers used



Number of identifiers used



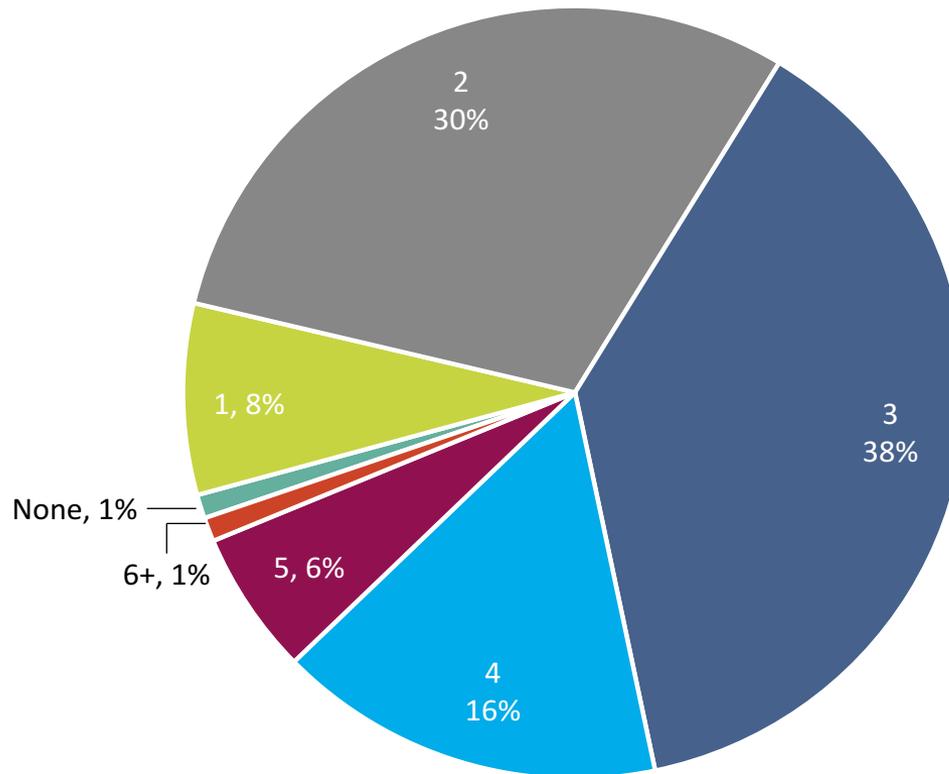
Base: Total (102)

Q3 On average, how many different identifiers does your organization use to identify each client organization you do business with?

Identifiers and KYC providers used



Number of KYC providers used

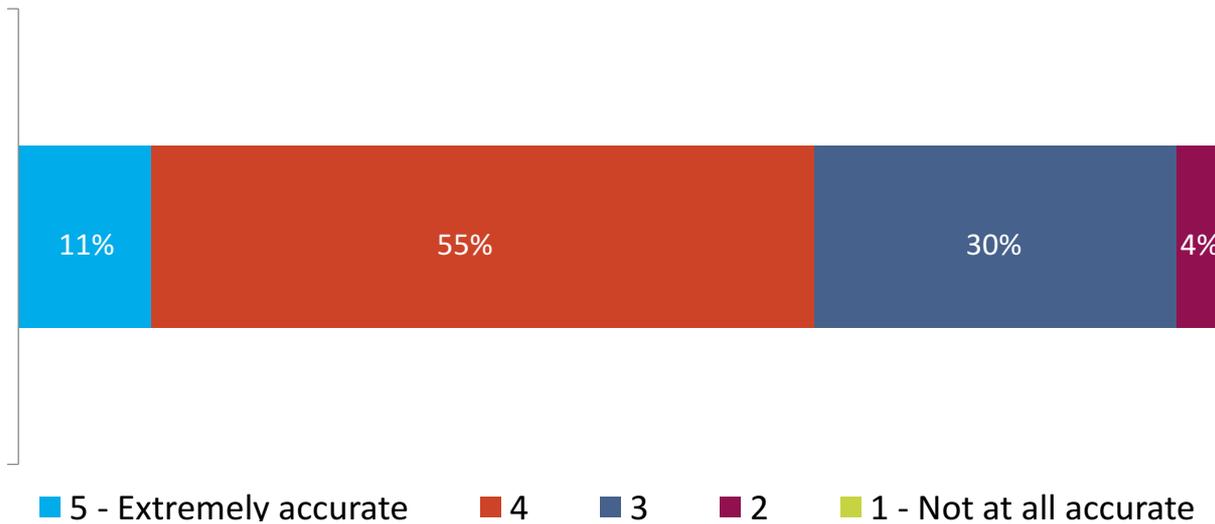


Base: Total (102) Q14 How many KYC service providers does your organization use to aid KYC processes?

Accuracy of client information



Accuracy of information held about client organizations



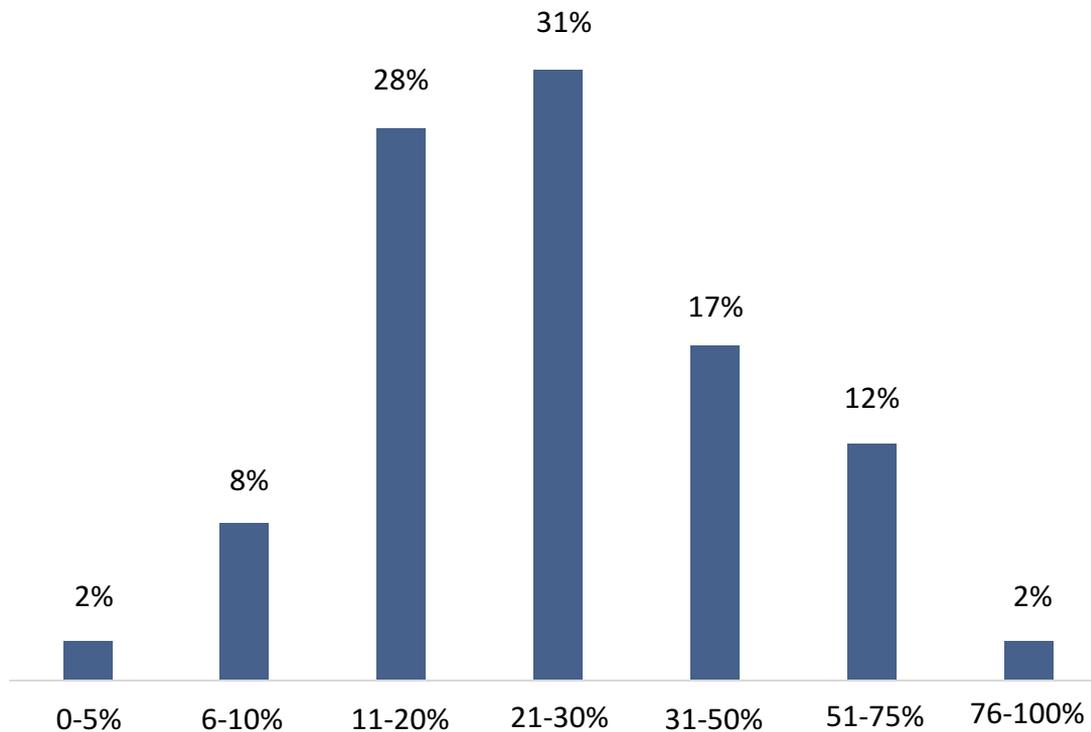
Base: Total (102)

Q17 How would you rate the accuracy of the information your company holds on client organizations it onboarded in the past?

Accuracy of client information



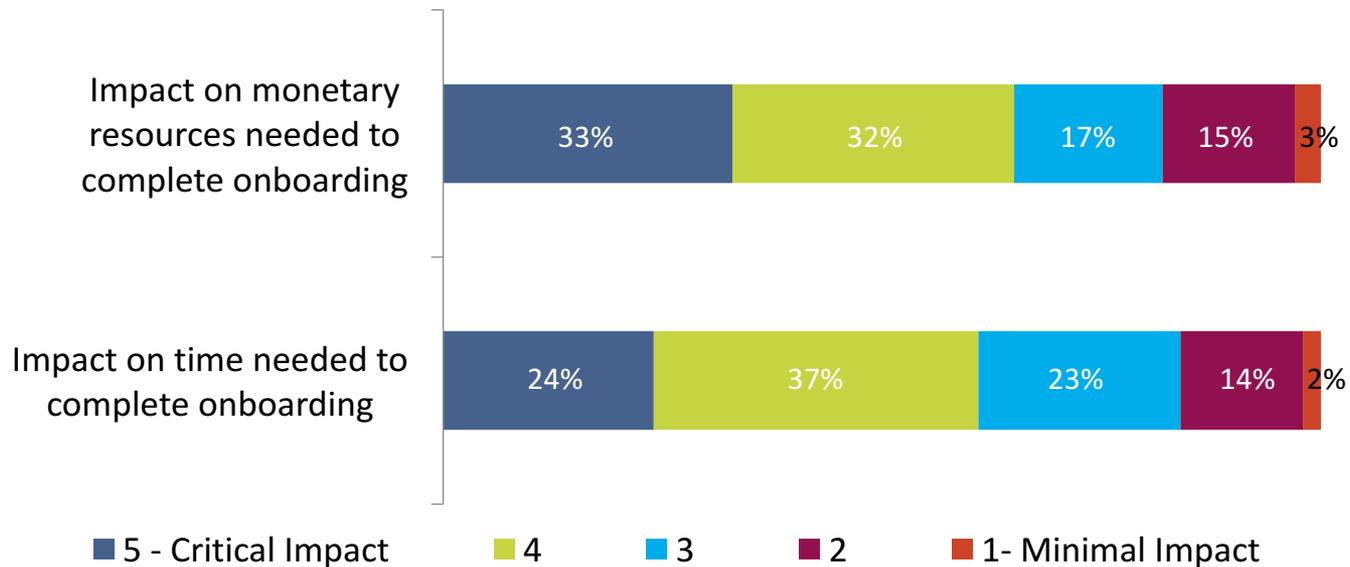
Proportion of client base that promptly reports material changes



Base: Total (102)

Q18 What proportion of your client base do you believe promptly reports any material changes about them as a legal entity (e.g. changes in identity information, including who owns or controls them)?

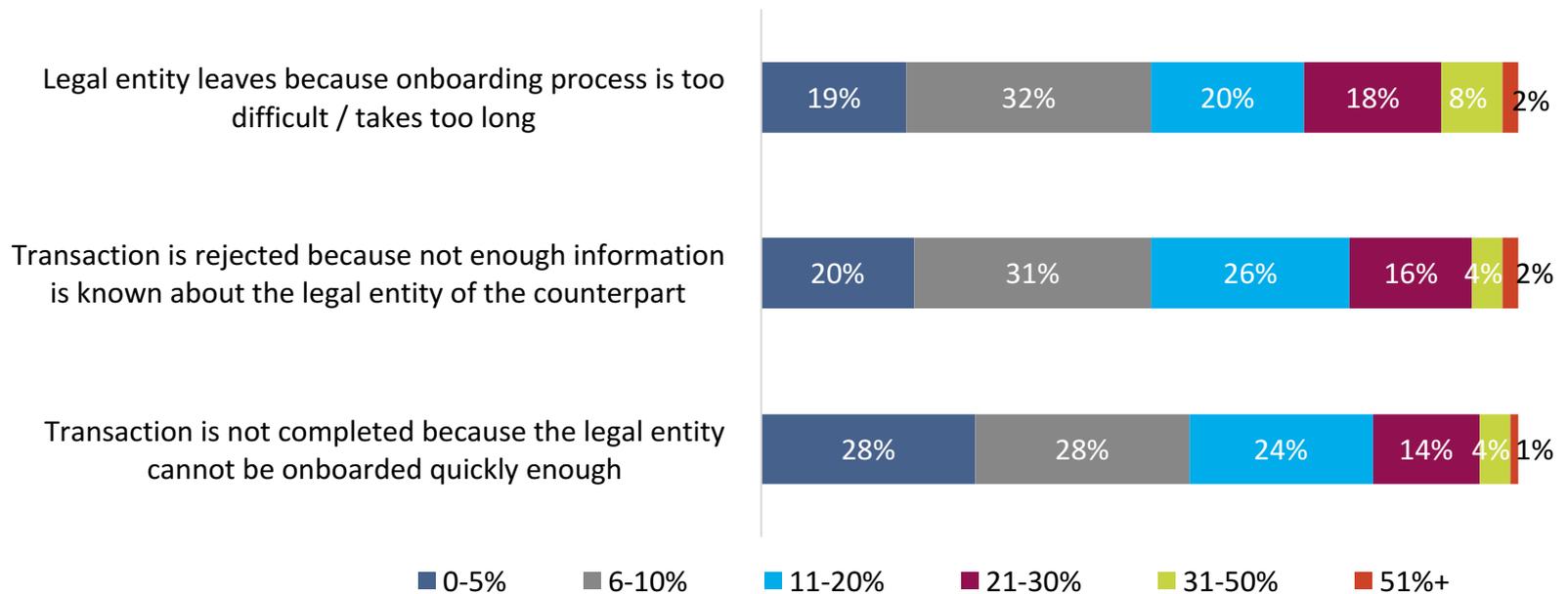
Impact of compliance with KYC regulation



Base: Total (102)

Q12 What is the impact of ensuring compliance with Know Your Customer (KYC) regulation on the time and monetary resources needed to complete the onboarding process for new client organizations?; Q20 To what extent do you agree or disagree with each of the following statements?

Proportion of business lost due to onboarding and ID verification issues



Base: Total (102) Q16 What proportion of your organization’s business doesn’t go ahead due to each of the following reasons?

52%

Expect the time to onboard new clients to increase

Increased Fraud

“Day by day, the fraud and risk factors are growing. So, to avoid them at all cost there has to be better technologies and steps to undergo before taking clients onboard.”

“With more regulation and more scams, it will take a little longer to complete all the procedures for client onboarding.”

Tighter Regulations

“The KYC takes longer to provide the required information as compared to previous set up.”

“With the implementation of KYC, the validation process time is to be increased.”

Business Growth

“We are expanding our business aggressively.”

“We are about to change our manpower and, while new employees adjust and gain speed we expect the time [to onboard] to increase.”

Base: Total (102) Q7. How do you expect the time to onboard new client organizations to change over the next 12 months?
Q8. Please give a reason for your answer.

29%

Expect the time to onboard new clients to stay the same

Budget Limitations

“As our organisation is facing crisis filled year, we have limited budget to spend and access to some of the clients data is expensive.”

“Currently our budget is flat so we can't change.”

Process Limitations

“I don't think there is anything else we can do to increase the speed of getting clients onboard with us.”

“Company has just this year taken under new systems which have improved our methods drastically. So, in coming 12 months I assume it to stay the same.”

“Certain processes and due diligence cannot be further streamlined. Also at the mercy of other organizations timelines.”

Base: Total (102)

Q7. How do you expect the time to onboard new client organizations to change over the next 12 months?

Q8. Please give a reason for your answer.

15%

Expect the time to onboard new clients to decrease

New systems

New process

Business decision

Speed up collection

“My organization is taking over some latest technologies to speed up the collection of information and significantly reducing the risk of fraud.”

Technology

Streamline

Better work force

Better strategies

“Technology has streamlined our processes.”

Base: Total (102)

Q7. How do you expect the time to onboard new client organizations to change over the next 12 months?

Q8. Please give a reason for your answer.

Better Knowledge, Better Business

Solution proposed by GLEIF to the issues identified with the research

The findings in this report speak volumes about the need for an accurate and transparent source for legal entity identification.

Too many businesses, especially in the financial services industry, are losing vast amounts of time and money each time they make a business transaction as a result of a range of inefficient processes – and it's that inefficiency that means they run the risk of losing the business anyway.

Not to mention encountering compliance and security issues because of poor identification.

Adoption of LEIs promises to deliver real business capabilities, benefits and quantifiable value for those businesses that make the switch.

Not only will it reduce operational friction, but it also makes information more accessible and reliable. This opportunity to cut costs and get more efficient and accurate in their operations, all whilst gaining deeper insights into the global marketplace, should appeal to all businesses.

But then so should the fact that a global standard for legal entity identification, with open access to transparent and high quality reference data for all, would be a force for good in the financial industry as a whole.

We enable smarter, less costly and more reliable decisions about who to do business with

For more information and regular updates on GLEIF activities and LEI developments, visit the GLEIF website which is available in 14 languages at www.gleif.org

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