

Whitepaper

# Institutional KYC

Ripe for  
Disruption  
through  
BPaaS







## Abstract

Numerous challenges exist within the institutional KYC landscape, including the collection and verification of vast amounts of complex client data, compliance with evolving regulatory frameworks, and how a business can use these considerations to make a proportionate decision. Addressing these challenges requires significant investments in resources, technology, and skilled personnel. The time is right to explore new operating models like business process as a service (BPaaS) which aim to disrupt existing operating models by providing 'best in class' service with minimal business disruption.

## Key Takeaways

- Current industry challenges for Institutional KYC
- Future of Institutional KYC
- TechM's KYC BPaaS Solution Advantages and Solution Tenets
- TechM's KYC Platform Reference Model and Target Operating Model

## Introduction

Institutional know your customer (KYC) refers to the process of verifying a client's identity before establishing a business relationship with them. This process is an integral part of the regulatory compliance requirements that financial institutions and other businesses must comply with in order to prevent money laundering, terrorist financing, and other financial crimes.

By implementing robust KYC procedures, businesses can minimize their exposure to financial crime risk and protect their reputation and financial stability.

However, numerous challenges exist within the institutional KYC landscape, including the collection and verification of vast amounts of complex client data, compliance with evolving regulatory frameworks, and how a business can use these considerations to make a proportionate decision. Addressing these challenges requires significant investments in resources, technology, and skilled personnel.

A bank or financial institution has several options to choose from to solve the challenges and one of these models involves engaging external service providers to handle various aspects or end-to-end delivery of KYC processes.

Outsourcing KYC processes has proved beneficial for banks and financial institutions due to collaboration with industry experts providing dedicated and specialized processes, tool, and platforms. The time is right to explore new operating models like business process as a service (BPaaS) which aim to disrupt existing operating models by providing 'best in class' service with minimal business disruption.



## Current Industry Challenges

Institutional KYC involves gathering and verifying information about the organization, its beneficial owners, and other individuals associated with the organization. This information may include the legal name of the organization, its registration number, physical address, ownership structure, and the identity documents of its beneficial owners and key personnel. The process has several challenges due to stringent regulatory requirements and the challenge of obtaining accurate and verified data while maintaining client experience.

Some of the major challenges faced by the institutional KYC workspace can be broadly classified under the following buckets:

- Data
- People/Organization
- System
- Process

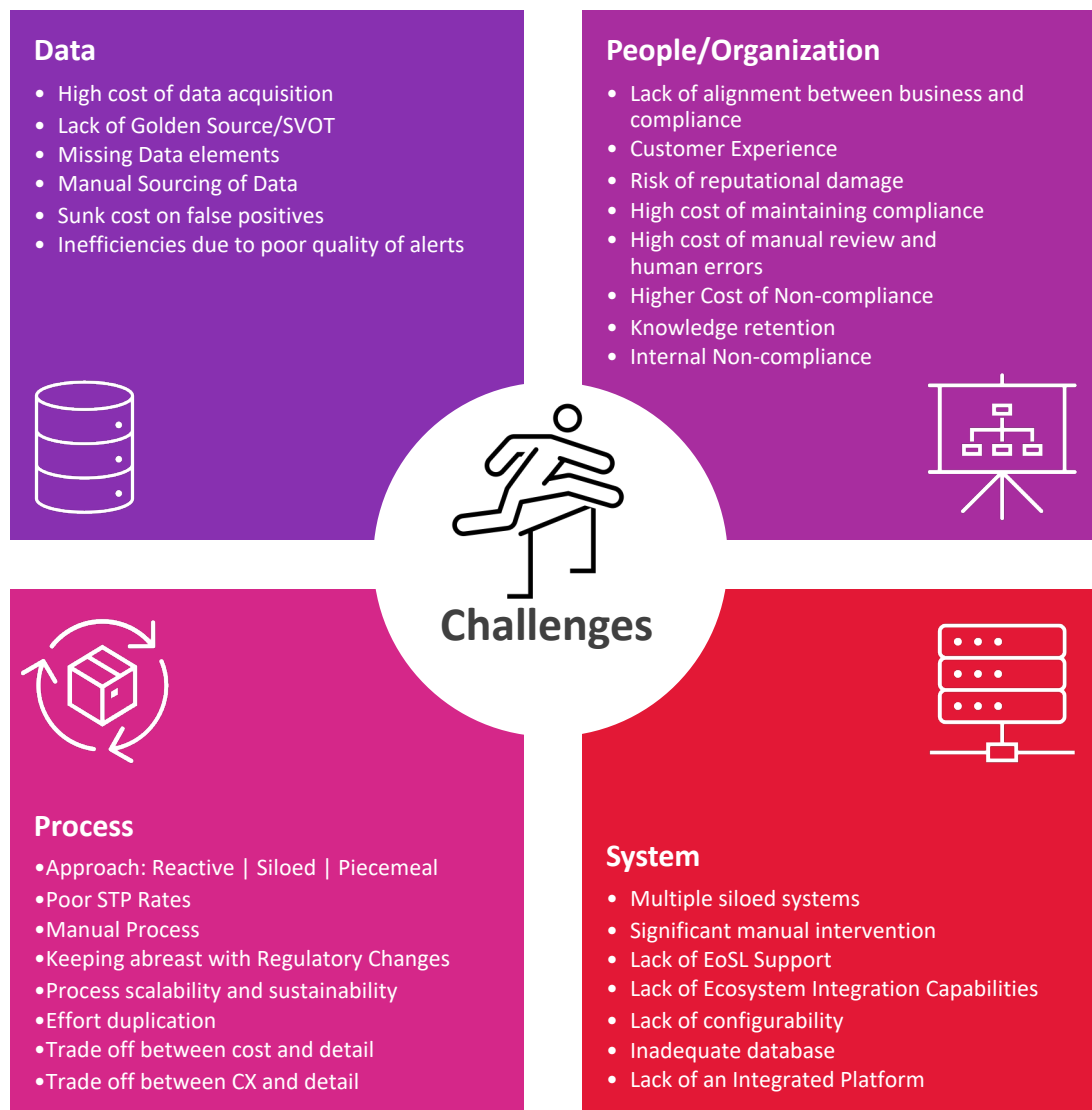


Figure 1: Current Industry Challenges

Addressing these challenges requires a combination of technological solutions, process improvements, and regulatory cooperation. Businesses must continue to invest in their KYC capabilities, listen to their client's and work closely with regulators to ensure that they are meeting their compliance obligations while also minimizing operational costs and risks.



## Future of Institutional KYC:

The future of institutional KYC is likely to involve a greater focus on regulatory compliance and risk management by leveraging increased use of technology and data analytics to improve efficiency and accuracy. As regulatory requirements continue to become more stringent, financial institutions will need to invest in systems and processes that can help them manage their client due diligence obligations more effectively.

We look forward to greater collaboration between financial institutions and regulators. As regulators continue to ramp up their enforcement efforts, financial institutions will need to work closely with regulators to ensure that they are meeting all compliance obligations and staying ahead of emerging risks.

Due diligence can be a time-consuming and resource-intensive process, and some firms are beginning to collaborate with each other to share information and streamline the process. This trend is likely to continue, with firms working together to reduce the costs and risks associated with due diligence.

Institutions will increasingly turn to regtech, automation and artificial intelligence to streamline the due diligence process and improve accuracy. This may include the use of machine learning algorithms to analyze data and identify potential risks or red flags, or to reduce the number of false positives more easily.

Environmental, social, and governance (ESG) factors are becoming more important to institutional investors for their investment decisions and firms may need to incorporate these factors into their due diligence processes. This could involve analyzing a company's carbon footprint, its labor practices, or its diversity and inclusion policies.

Past and current KYC processes involve manual processing, siloed data, physical documentation and verification, repechecks, checks and cost which may be outdated in the future with the evolution of automation and advancements in machine learning.

Overall, the future of institutional KYC will require institutions to remain flexible and adaptable to changing technological and regulatory landscapes, while continuing to prioritize accuracy, client impact, and regulatory compliance.

Given the future of Institutional KYC industry and its current challenges, BPaaS solution such as TechM's KYC is the way forward for institutional KYC due to its ability to cater to all the regulatory requirements and make the process efficient, streamlined, and robust.

# Enabling KYC with TechM's BPaaS

## Solution: Credible Alternative to Deal with Challenges

TechM's KYC Solution - BPaaS, or business process as a service can offer several advantages for institutional KYC, including:



**Cost-effectiveness:** BPaaS enables organizations to save on costs associated with maintaining and managing their own IT infrastructure. The service provider takes care of all the hardware, software, and maintenance, reducing the need for in-house IT staff.



**Efficiency:** BPaaS solutions can automate many of the processes involved in client due diligence, which can make the process more efficient and reduce the time it takes to complete. This can be especially beneficial for institutions that have a high volume of clients to onboard/review.



**Expertise:** BPaaS providers specialize in providing business process services to their clients. This means that they have the expertise, experience, and resources necessary to carry out due diligence processes effectively and efficiently. This expertise can help companies to improve their due diligence processes and reduce the risk of errors and non-compliance.



**Scalability:** BPaaS solutions can scale up or down depending on the needs of the business. This is particularly important for companies that experience fluctuations in demand for their due diligence services. With BPaaS solutions, companies can easily scale up or down their due diligence services to meet the needs of their clients.



**Agility:** BPaaS solutions are cloud-based, which provides ease of access, and agility, along with more effective operational resilience.



**Security:** BPaaS providers invest significantly in robust security measures to protect their clients' data. This can help companies to reduce the risk of data breaches, cyber-attacks, and other security threats.



**Compliance:** BPaaS solutions can help institutions ensure compliance with regulatory requirements. By automating many of the processes involved in due diligence, BPaaS solutions can help to ensure that all required information is collected, and that due diligence is performed in a consistent manner.



**Data accuracy:** BPaaS solutions can help to improve the accuracy of data collected and verified more quickly and accurately, reducing the risk of errors or omissions through automation.



**Bespoke services:** Decisions and alerts can be tailored to a firm's risk appetite, using bespoke criteria and thresholds of acceptance. These can consider risk factors such as client's sector, jurisdiction, product and communication channel.

Overall, BPaaS solutions can provide FIs with multiple advantages for due diligence, including cost savings, expertise, scalability, agility, and security all leading to better customer experience.

### TechM BPaaS Solution Tenets:

TechM's KYC platform would be an integrated solution which would carry out the following:

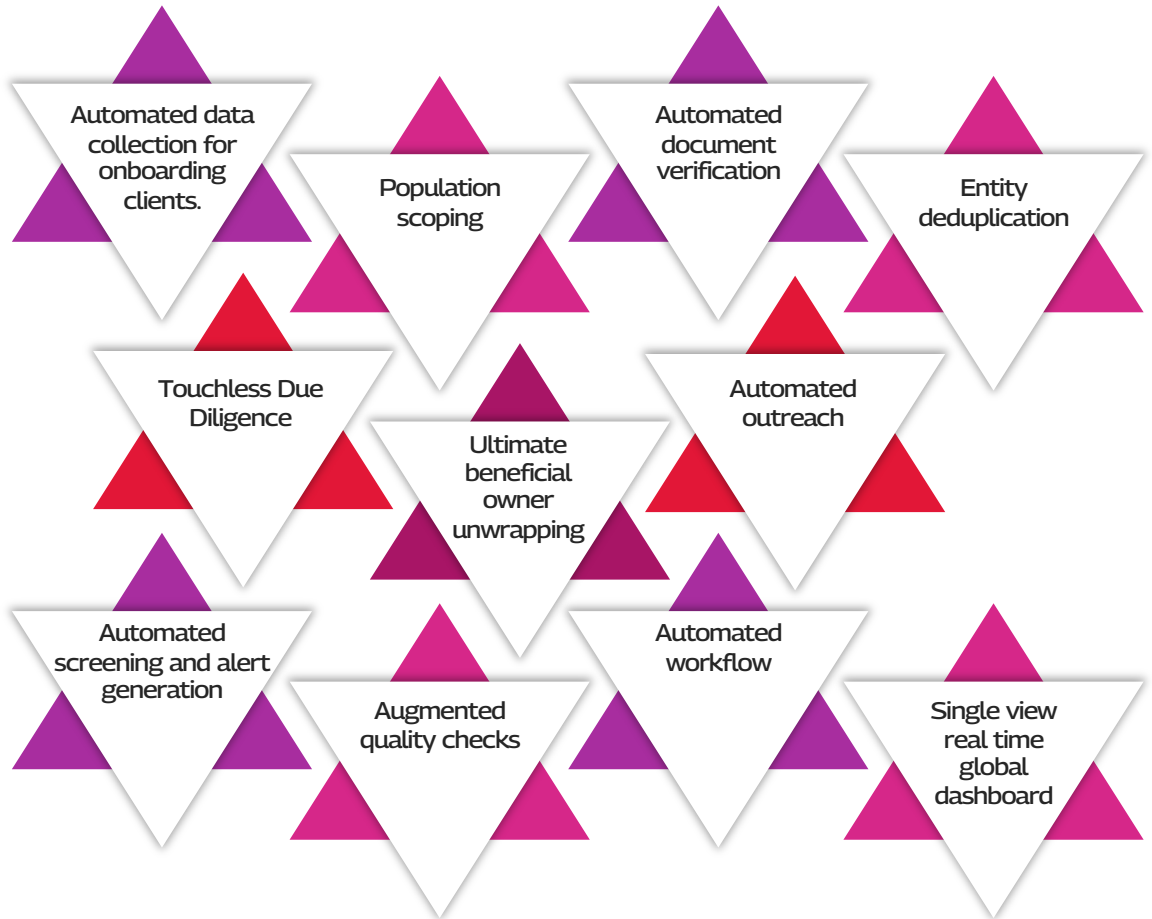


Figure 2: TechM BPaaS Solution Tenets

### The key solution tenets would be as follows:

- Compliance needs to be a strategic priority for banks: and not a reactive measure when the regulator comes knocking.
- Alignment between business and compliance: to avoid natural conflicts of interest.
- Aligned agile cross function teams: to ensure seamless execution of strategic priorities.
- Straight-Through Processing is an overarching priority: as it allows the banks and financial institutions to onboard clients with little to no manual intervention
- Focus on timely and cost-efficient data collection: to reduce turn-around time.
- Strike a balance between Customer Experience and cost of data acquisition: to reduce client drop outs
- Focus on Perpetual KYC: to mitigate risk and right-size efforts.
- KYC industry consortiums to reduce unit costs: Organizations having global KYC capability can build a consortium for approach, information and process sharing. This can increase the efficiency of the process and reduce the cost by standardizing processes and leveraging learnings across members.
- Leverage AI and ML: Artificial intelligence (AI) and machine learning (ML) can increase the efficiency and cost-effectiveness of an institutional KYC operations by automating data extraction, risk scoring, identity verification, screening and continuous monitoring.



### TechM's KYC Platform Reference Model

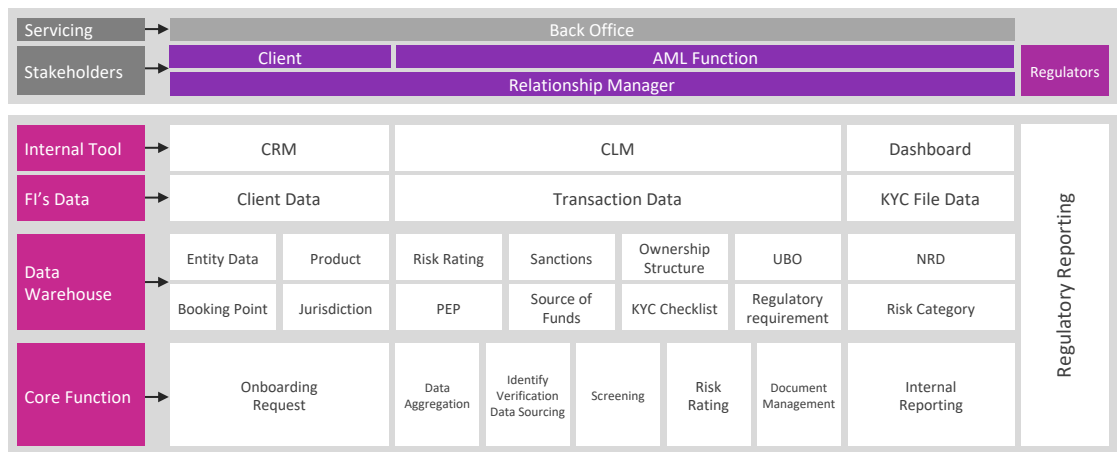


Figure 3:: TechM's KYC BPaaS Platform Reference Model

Tech Mahindra provides a complete solution which has capability to integrate third party service provider, financial institution's internal tools & critical data warehouses to produce the desired outputs. The solution also integrates the stakeholder & servicing layers during the onboarding, review, signoffs, and regulatory reporting stages:

- Stakeholders:** Tech Mahindra's BPaaS solution will provide a single view for all stakeholders including the relationship managers, Bank's AML functions and regulators. This also provides a seamless flow of information to & from the back-office operations to Bank's business lines.
- Internal Tools:** Tech Mahindra's BPaaS solution will incorporate all the critical tools for upstream and downstream operations involved in a review. This includes:
  - Client Relationship Management:** This will be a one stop solution for all account enquiries from the client. This will log all the new request for an account or a request for a new product in an existing account.
  - Client Lifecycle Management:** A CLM tool is the system of records that holds all the information on the bank's clients. It encompasses various stages, including client on-boarding, due diligence, ongoing monitoring and off-boarding if applicable.
    - Case Management:** A case management tool helps in analysing the population based on their risk categories, next review dates and type of refresh required.
    - Document Management:** Bank's single document repository which holds all the client specific documentary proofs related to onboarding and KYC review. This system works in sync with the client lifecycle management tool.
    - Data Warehouse for Critical Data Elements:** Bank's database with all the data elements that are captured during the on-boarding, ongoing relationship, and refresh of a client.
  - Dashboard:** The BPaaS solution also provides a dashboard with the summary of population which helps the banks & service providers understand and gauge the effort necessary and create efficient execution plans.
- Potential Partner:** Tech Mahindra will partner with all the third-party data/information providers and integrate the third-party systems in the BPaaS solution resulting in a streamlined data collection capability.
- Reporting:** Tech Mahindra's BPaaS solution encapsulates a consolidated reporting suite that can provide critical reports for Internal stakeholders and regulators. This reduces the inefficiencies caused by manual consolidation for regulatory audits.

## TechM's KYC Platform - BPaaS Target Operating Model

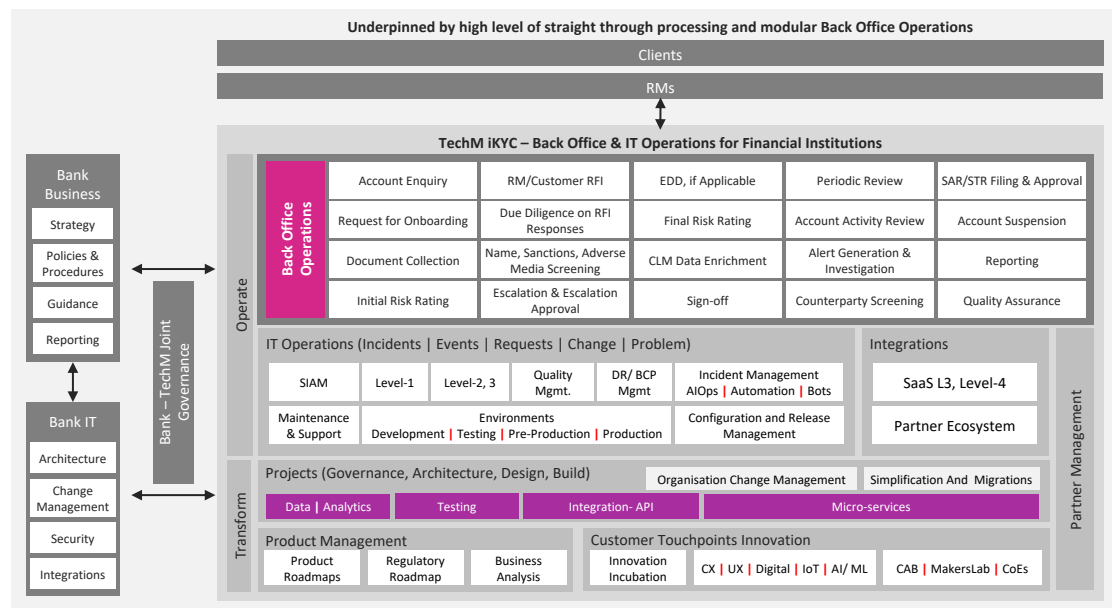


Figure 4: TechM's KYC Platform – BPaaS Target Operating Model

The service provider takes complete responsibility for conducting the due diligence process from start to finish. The provider is responsible for all aspects of the process, from tools, platform, IT support, data gathering and analysis to risk assessment and ongoing monitoring. This can be done through an end-to-end BPaaS solution that focuses on the below service components and all their related aspects:

- Resources
- Tools and Platforms
- Automation Services
- Program Management
- Governance
- Delivery Site
- IT Support
- SLA Management
- Reporting & Dashboards

When selecting an outsourcing model, institutions should consider factors such as the level of expertise required, the cost of outsourcing, and the level of control and oversight they want to retain over the process. Institutions can outsource responsibility but will still retain accountability in the eyes of the regulator. It is therefore essential to choose a reputable third-party provider with a proven track record of providing high-quality services.

The TechM KYC solution works on a three-tier Target Operating Model

- Back Office:** This comprises experienced KYC practitioners augmented by technology and automation to manage client lifecycle End to End. The process starts with the onboarding request and goes downstream to onboarding, account opening, remediation, periodic refresh, ongoing monitoring, escalations, quality controls and sign-offs.
- IT Operations:** This layer of the platform incorporates all the third-party platforms, support for the BPaaS, configuration management, incident management and maintenance for the platform.
- Governance, Architecture, Design and Build:** This is the transformation layer for the TechM KYC solution which encapsulates change management, innovation, product management and analytics. All the changes are managed through a process that is logged and auditable. This will be a dynamic stage that will consider all end user feedback and improve the solution over time.



## Future of BPaaS

The future of BPaaS looks promising, as more and more businesses are recognizing the advantages of outsourcing their processes to third-party providers. As technology continues to evolve and become more sophisticated, we can expect BPaaS providers to offer even more advanced services and features to their clients. Additionally, the increasing adoption of artificial intelligence (AI) and machine learning (ML) in business processes is likely to fuel the growth of BPaaS in the coming years. These technologies can help streamline and automate processes, making them more efficient and cost-effective.

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Deven Bharat Doshi is the Head - Financial Services Competency with Tech Mahindra. In this role, he leads the digital charter advising financial institutions to drive digital transformation focusing on modernization, cost optimization and revenue enhancement through new and innovative business models. Deven brings with him over 20 years' experience in areas such as Business, IT Consulting and Practice Development.

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