KYC: Register Your Interest

Corporate treasurers may want to register their interest with SWIFT, which is launching a Know Your Customer (KYC) Registry this year for correspondent banks and their treasury clients in order to help them meet their financial crime regulatory and counterparty audit obligations, writes **Neil Ainger**. The shared platform KYC compliance service will eventually be made available for direct access by treasurers if enough interest is shown says SWIFT, but it faces competition from rivals and SWIFT is first launching a new shared anti-money laundering (AML) platform this spring called Compliance Analytics as part of its drive to add compliance to its existing payment and securities traffic.

The increasingly onerous and expensive regulatory regime that is now coming into place post-crash, covering everything from capital adequacy under Basel III, to tax under the Foreign Account Tax Compliance Act (FATCA) and financial crime under strengthened anti-money laundering (AML) and Know Your Customer (KYC) rules is something that finance professionals from banks to treasurers cannot ignore. Large fines, reputational damage, counterparty risk and lost business await those that try.

In order to mitigate this risk, many are turning towards shared platforms from the likes of SWIFT; Thomson Reuters, with its Accelus Org ID KYC platform; the Depository Trust & Clearing Corporation (DTCC), with its securities offering; Markit; and the rival Swiss-based KYC Exchange AG in order to meet their Know Your Customer and other regulatory obligations. By sharing the compliance burden, instead of relying on expensive proprietary systems, financiers can gain economies-of-scale operational savings and potentially access value-adding shared services like billing and auditability that wouldn't otherwise be available. This is the rationale behind SWIFT's new KYC Registry, which is launching this year, aimed at correspondent banks and their corporate treasury customers.

KYC Registry: Timeframe

According to Luc Meurant, SWIFT's head of its new Compliance Services unit, which is seeking to add financial crime compliance traffic to its existing payment and securities messaging traffic, the KYC Registry will be introduced this year alongside the organisation's existing Sanctions Screening service and its mooted anti-money laundering (AML) service. The new Know Your Customer KYC Registry platform is slightly behind the new AML platform, which at the time of writing is due to be unveiled at SWIFT's London Business Forum in the UK on 29 April - and will no doubt use Omnicision technology and expertise after SWIFT acquired the UK vendor this March - in the launch queue. The full KYC unveiling is not due until December 2014. "We're not planning to launch the KYC Registry at our Sibos 2014 trade show in Boston in late September because we want time to build and test the KYC platform first and ensure the database is fully populated by year end," explains Meurant, as he goes on to explain the preparatory work undertaken so far.

Six banks have already piloted SWIFT's new KYC Registry platform with Citi, JP Morgan, Bank of America Merrill Lynch, Societe Generale, Commerzbank and Standard Chartered all joining the initiative in January 2014, with four more banks, including Barclays, "joining now" according to Meurant. A further 20 correspondent banks will join in summer 2014 for phase three of the pilot before the platform is thrown open to all 7,000 of the correspondent banks in the world and SWIFT tries to get as many of them as possible to sign up and populate the database. "Its purpose is the collection of documentation and data between correspondent banks, which with about 7,000 of them active internationally this equates to approximately 1.3 million relationships to be assessed. SWIFT wants to centralise this data on one register and offer enriched services like counterparty tracking and so forth. The data is user-provided and user-controlled though," he stresses, "and it will be held in Europe under EU laws."

Direct Corporate Access: Of Interest?

"Direct corporate access [without the bank intermediary] might be possible by 2016 or even earlier," hints Meurant. "I see no reason why the SWIFT KYC Registry cannot be accessed by corporates but the data is bank-user populated remember, so it will be up to them. I see no reason why it cannot happen, however, in say a couple of years' time or sooner, although my priority at the moment is to get the Registry up and running."

But do treasurers want direct access to the SWIFT KYC Registry, or any other rival platform for that matter, like the KYC Exchange AG platform, which is already live and says it too may target corporate customers later down the line? Surely, most corporate treasurers would look to the bank to handle their KYC counterparty obligations for them?

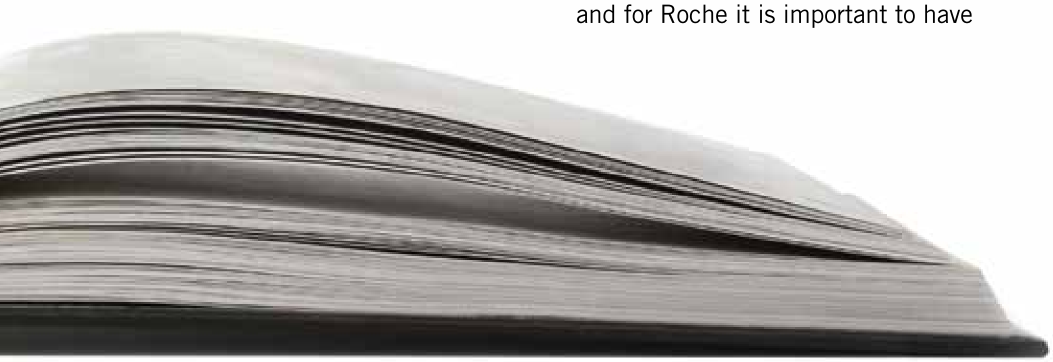
That certainly seemed to be the opinion of Martin Schlageter, head of treasury operations at the world's third largest pharmaceutical firm Roche and a recent attendee at the International Payments Summit (IPS) 2014 trade show in London, when gtnews questioned him on this topic. "Banks can help us with on-boarding and for Roche it is important to have KYC embedded fully into our processes with their assistance. There might well be a need for banks to support each other better in their data sharing [and get better oversight of the chain]. I'll be interested to see how the market develops, but for now I'd expect the bank to do this."

It is a position supported by Stuart Madell, cash manager, finance treasury operations at Shell, who corroborated this viewpoint by telling gtnews: "I'd expect my bank to do that", when discussing KYC duties.

KYC and Financial Crime

Like it or not, treasuries are involved in the inter-related KYC, AML and other financial crime sanctions and other checks undertaken on global trade finance and payment flows around the world. Although they might expect their banks to undertake this regulatory duty for them, their operations are covered by such laws too.

As the chief executive officer (CEO) of the rival KYC Exchange AG fronted data communication platform, Marcel Krist, explains: "Yes, the most urgent need for shared services platforms like this is in the correspondent banking segment presently, as many banks are reducing the number of bank-to-bank relationships due to the high cost of KYC. This could have a very negative effect on the international cash and trade business, in particular where emerging market-based counterparties are concerned. But you can see how it impacts others too. This is why our platform has been designed to allow two business partners to exchange KYC-related data - saving significant cost and time when doing so - and is suitable for any other type of counterparty: be it corporates, funds, asset managers, insurance companies or government entities. It could, for instance, be used by corporate treasurers in two distinct ways: (a) to submit the corporate's own KYC data to any banking partner and (b) to request KYC related data from their banking partners or from other corporates."



Data Exchange Platforms

Who controls the data, and is possibly liable, then becomes a key question depending upon who is accessing the multitude of different shared services platforms out there, covering the securities, correspondent banking and other areas. It is still something that needs to be fully established. As SWIFT's Meurant admits: "Financial crime prevention rules for treasurers are still developing, but it is of interest to them as part of their increasing focus on risk, and is often driven by an awareness of FATCA and other such supranational rules that touch them. In terms of liability, the KYC Registry works on the same principle as SWIFTNet, with liability resting with the data providers that use the platform to reach counterparties, but we'll do everything we can to protect data from hackers and others using existing strong SWIFT security protocols, hosting the data under the EU's data protection act, etc."

Whether corporates will get access to the bank information and vice versa sounds like something still to be determined, and Meurant stressed that all these issues are currently under debate. As he says though, there are millions of corporates and only 7,000 correspondent banks, so it is natural they are part of the debate.

"Effective KYC, money laundering, screening, fraud identification and so forth are all areas which can significantly impact a bank, as recent regulatory fines have shown [*i.e. HSBC, Standard Chartered, etc.*]," says Brendan Reilly, head of client and market execution, global cash management at Barclays. "The magnitude of the transactional and regulatory risk means that smart banks will want to find smart solutions to control the risk effectively, while at the same time minimising the increase in cost [*and protecting others in the financial chain, including treasurers*]. We do expect that corporates will increasingly question those banks that appear to have less onerous standards when on-boarding clients [*as risk moves up the corporate agenda*]."

Interoperability and Conclusions

The battle to attract volume to the scalable KYC shared services platforms from SWIFT, KYC Exchange, DTCC and others across different segments of the financial landscape is now well and truly underway with the numerous aforementioned launches this year. But it won't be until next year that we will see who has attracted the most volume, offers the most competitive pricing, value-adding services, direct corporate access and so forth.

One thing that is for sure is that eventually all these various different KYC platforms from Markit, Thomson Reuters' Accelus Org ID KYC platform and others will have to interoperate if the search for economies-of-scale savings, user convenience and effectiveness is to accelerate. Recreating siloed infrastructures covering securities, correspondent banking, and other segments serves no-one's interests, so ultimately interoperability will be on the agenda in 2015 and beyond once the winning platforms have been established.

As Barclays' Reilly says: "There are a number of market initiatives out there at present. Barclays, for instance, has been working actively with DTCC on their solution [and is involved in the SWIFT KYC Registry pilot], but the challenge for the industry is that any given initiative can only be successful through ubiquity in particular material segments. That is why we want to encourage banks to work together to identify and agree on the best solutions, and where appropriate - where the solutions or segments are complementary - encourage those initiatives to then work together." If that isn't a call for interoperability, no doubt mirrored by treasurers and others involved in the financial supply chain, then I don't know what is. Interoperability will be the next battleground for financiers.