KYC GUIDE

Perpetual KYC Guide

Automating Third-Party Compliance

dun & bradstreet

Perpetual: /pəˈpɛtʃʊəl/

Occurring repeatedly; so frequent as to seem endless and uninterrupted "The perpetual rhythm of ocean waves"

Perpetual KYC:

A continuous, real-time process of updating and verifying third-party information to monitor and notify of potential compliance risks.

Meeting the ever-growing burden of KYC regulation

SECTIONS

This guide is divided into modular sections – so you can read it start-to-finish or jump to the section you're most interested in.

As digitalisation, data, and AI converge; a powerful new set of tools is emerging for fighting financial crime – and for committing it. Criminals and sanctioned persons can now create sophisticated networks of shell companies and digital identities without even leaving their keyboards. At the same time, an ever-increasing regulatory burden is pushing many compliance departments to the edge of their capacity – and beyond.

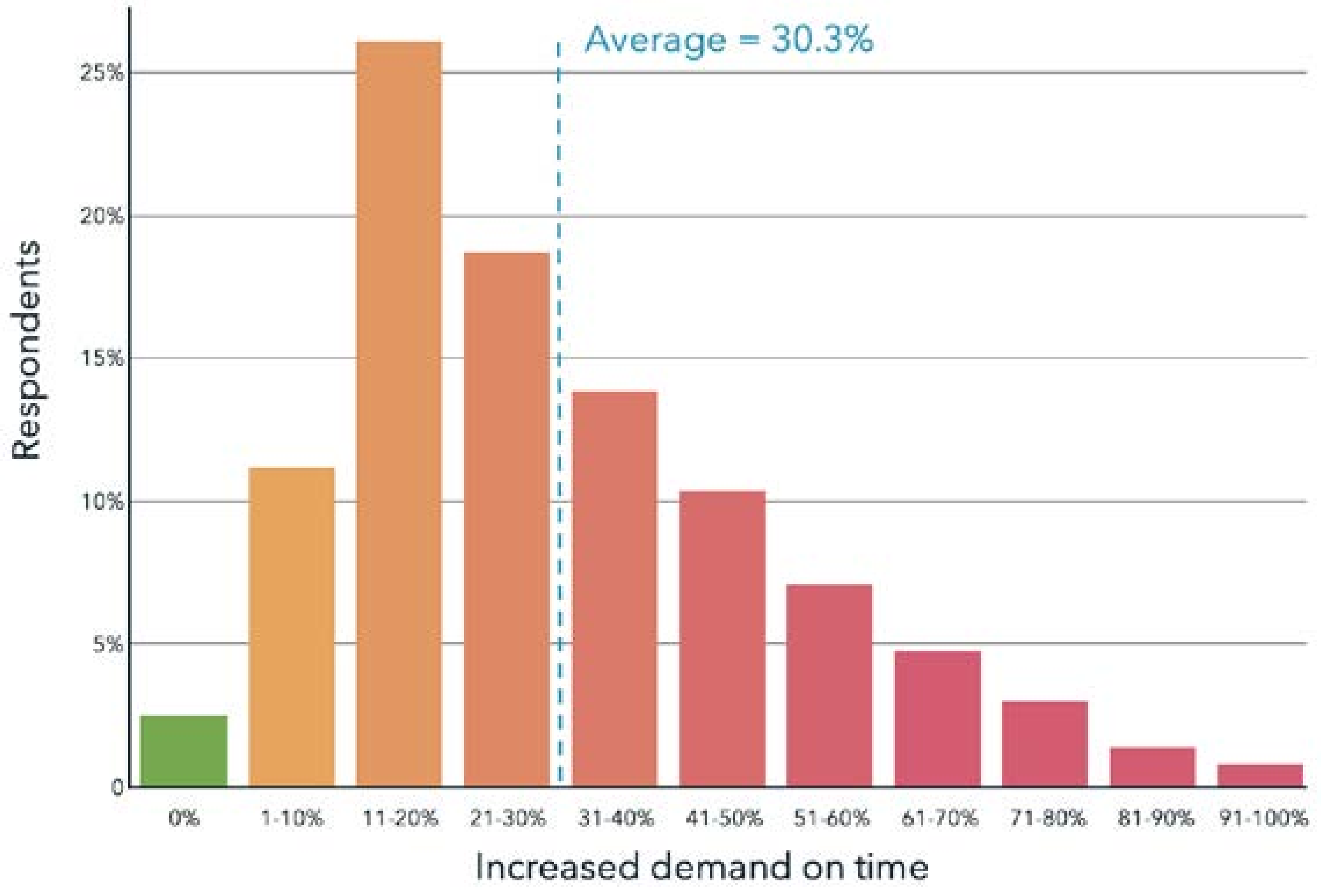
In this guide, we share insights and best practices gained through our experience working with regulated companies, as well new technologies that are giving compliance professionals a powerful new set of tools. We look at how automating Know Your Customer (KYC) workflows with a policy-led risk engine can accelerate onboarding and help businesses evolve towards always-on compliance – also known as Perpetual KYC. We look at the ways this can increase the effectiveness of third-party risk management and we also quantify the reductions in workload and costs they can generate.

While we refer primarily to know-your-customer (KYC) terminology, this guide is equally valuable for know-your-business (KYB) and know-your-vendor (KYV) compliance processes.

Survey: Impact of compliance regulations

To understand the impact that the recent increase in regulatory demands is having on compliance workloads, we surveyed 1,354 compliance professionals across Europe. This is what they told us:

"By how much, if at all, has the demand on your compliance team's time increased in the past year?"



Methodology

The survey was carried out on Dun & Bradstreet's behalf by Censuswide in an online survey during April 2024. 1,354 compliance decision makers were surveyed across 9 countries: UK (150 respondents), Sweden (151), Norway (150), Denmark (150), Finland (150), Austria (150), Germany (152), Switzerland (150), and Poland (151). The sector breakdown is as follows: architecture, engineering & building, arts & culture, education, finance, healthcare, HR, IT & telecoms, legal, manufacturing & utilities, retail, catering & leisure, sales, marketing and media, travel & transport.

Agree or Strongly agree

Impact on workload

66% Over the past year, regulatory demands on our compliance team have significantly increased.

64% The ever-expanding regulatory landscape puts immense pressure on our compliance team.

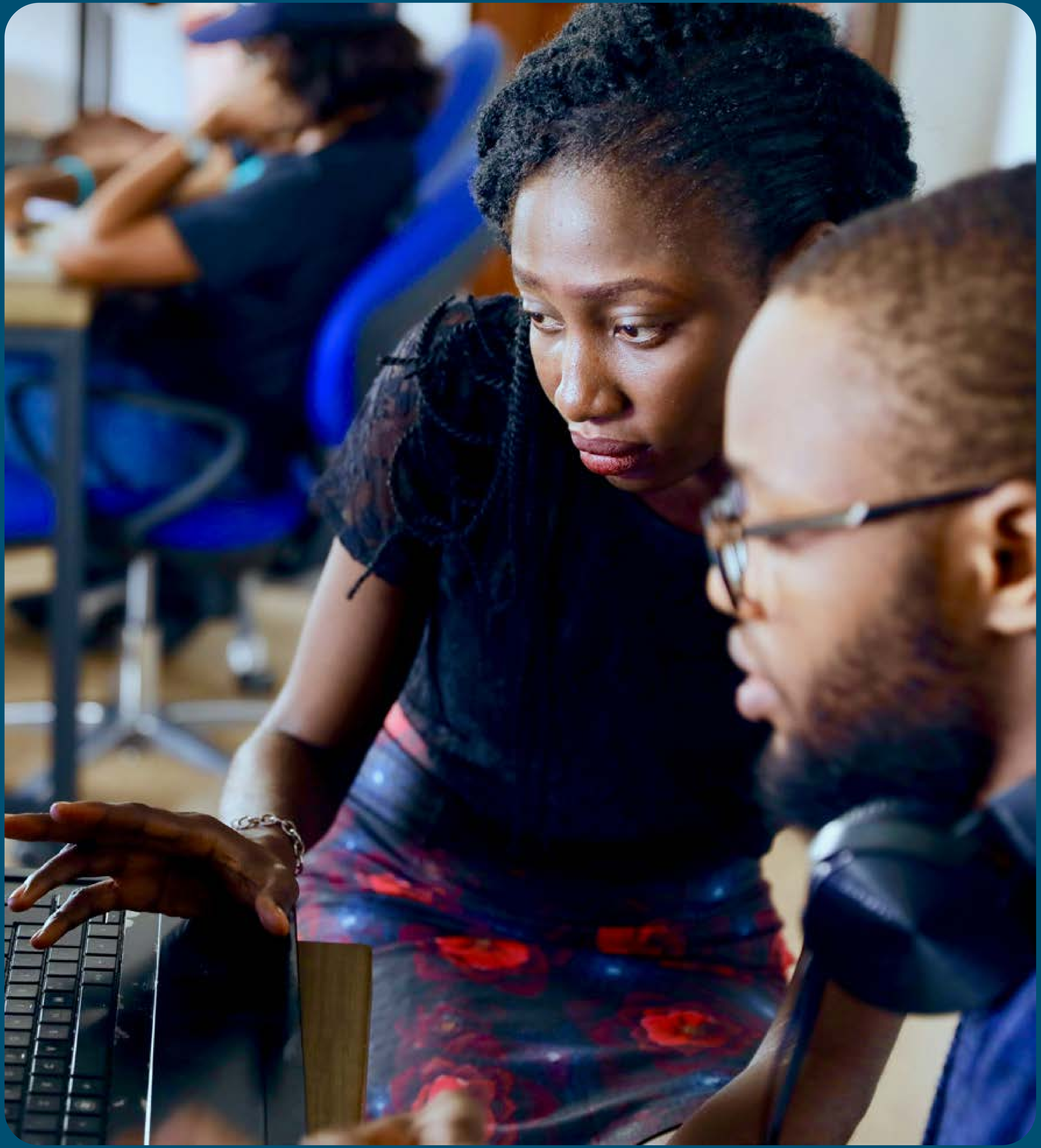
62% Even with the increasing regulatory complexity, we do not have additional budget to invest more in compliance processes in the next 12 months.

Impact on business

55% Overload of false positive matches occasionally forces us to reject customers due to time constraints.

61% Excessive workload forces us into reactive firefighting instead of proactive risk management.

58% It has become harder to access the data we need for Ultimate Beneficial Ownership (UBO) assessment over the past two years..



Automating third-party compliance and KYC onboarding

In a world of distractions, being able to focus on what matters – is what matters most. That's especially true when it comes to KYC. You can't do a deep dive on every customer or third party. But at the same time, you don't want to let any risky ones slip through.

That's where compliance automation comes in. In essence, automating your KYC onboarding is the process of defining your company's risk policy and then configuring a risk engine to implement it for you.

Automating KYC starts with your risk policy

The foundations of KYC automation aren't technology – they're your organization's risk policy. This is where you set the rules your risk engine will follow. By configuring your risk engine according to the parameters and thresholds of your risk policy, it will be able to separate those who can be onboarded directly – from those who need further investigation.

However, it's not just a fire-and-forget solution. Just as risks and regulations keep evolving, you should also make sure your risk policy keeps evolving too. Each time a sanction package or regulation is updated – or you choose to adjust your risk appetite – you should update your policy and risk engine. If you would like to learn more about risk policy, download our e-Book: How to Create an Effective Third-Party Risk Management Policy.

Identify and verify customers and third parties

Risk engines do the heavy lifting when it comes to automating KYC workflows. When you enter or upload a potential customer or third party – or let an Application Programming Interface (API) do it for you (see below) – your risk engine goes straight to work verifying their identity. However, this is sometimes easier said than done, particularly if your risk engine is drawing data from multiple data sources. If one source has a record for Halibox, another has one for Halibox Industries, and a third has it misspelt as Halifox; your risk engine might unknowingly choose one – and carry out an assessment based on only part of the data. This can lead to misidentification that can miss potential risks – or false positives that create extra work in the process of trying to reduce work.

However, this is nothing new. The need for clear and unambiguous identification of entities has been central to due diligence processes and compliance management for a long time. It is one of the main reasons the Data Universal Numbering System (Dun & Bradstreet D-U-N-S®) was established in 1963. Every entity is assigned a D-U-N-S Unique Identifier. This enables multiple data sources to be consolidated to that number – rather than having to overcome the ambiguities of trying to do it based on names. By consolidating to a single, unique record, the D-U-N-S Number reduces data duplicates and siloes and makes it easier to trust that your data is complete.

Set your parameters and see who is really pulling the strings

After your risk engine has identified each third party, the next step is to identify the directors, the corporate linkages, and the beneficial owners. Once these are established, your risk engine can screen all entities and individuals identified in the process against a range of risk factors. This can include watchlists, sanction

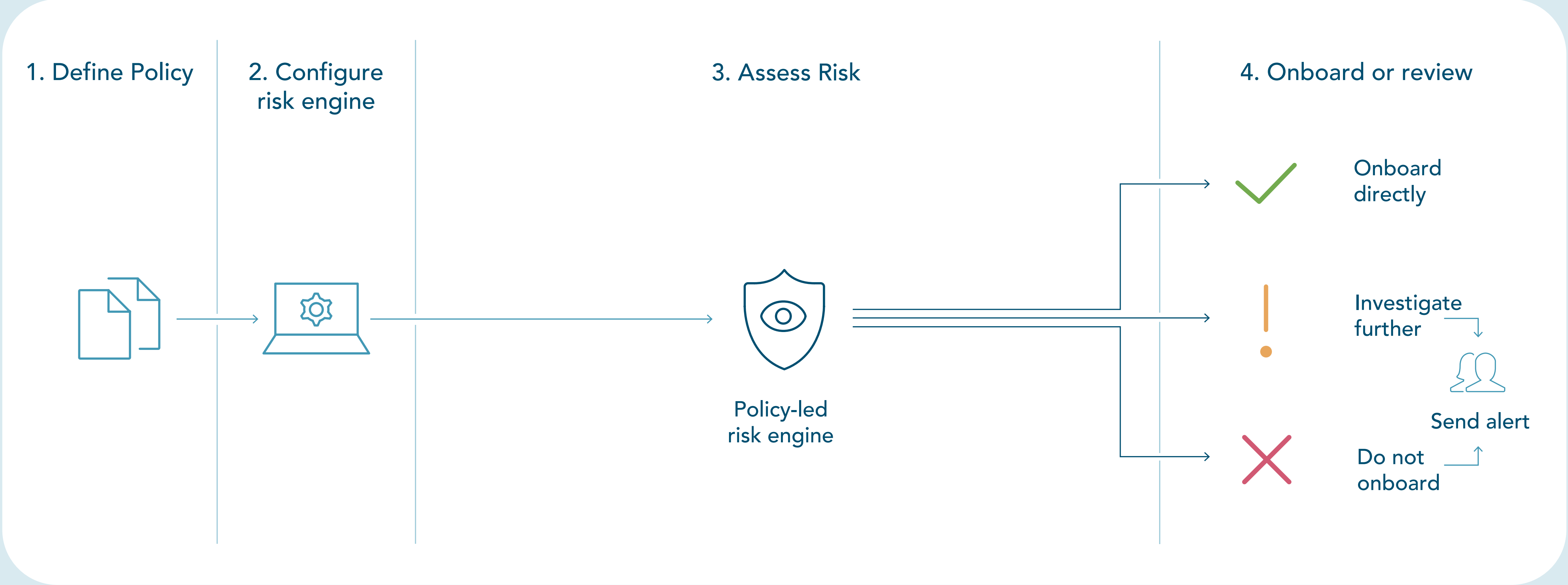


Fig 1. End-to-end KYC automation from policy to implementation

lists, and Politically Exposed Persons (PEP) lists. If you have the data foundations in place, you may also choose to assess other factors such as country of operation, industry, adverse media risk, cyber risk, and Environmental Sustainability & Governance (ESG) performance. The more categories of risk you can assess, the clearer insight you can gain. However, the quality of your insights can only be as good as the quality of your data.

Asses third party-risks against your policy

Once your risk engine assesses and categorizes the risk of each customer or third party, it compares this assessment against your risk policy. Those who meet the thresholds of your risk policy proceed in an automated onboarding workflow. Those that don't are paused and the risk engine generates an alert for you to investigate further. The outcome is less time needed for manual processes and paperwork. This in turn reduces due diligence delays and bottlenecks. But just as importantly, it gives you more time to focus on what matters and increases your ability to raise the effectiveness of your compliance efforts.

Scalability: Web interface, APIs – or both

When you are processing small numbers of records, it is often most practical to use a dashboard to interface with your risk engine. You simply type in the entity name – or upload a batch of names – and your risk engine will start executing your onboarding workflow.

When onboarding on a larger scale – for example for vast numbers of customers - an API can be used to interface directly with other systems (eg a CRM or ERP system). This enables it to run the verification, risk assessment, and compliance checks as automated steps in a larger due diligence process and feed the results directly back to the calling application.

False positives can be truly negative

The underlying aim of automated KYC onboarding is to say 'yes' faster and 'no' when it matters. If compliance professionals can focus on the cases that need their attention, they can more effectively manage risk. However, if the risk engine doesn't have suitable data to clearly verify identity – or if you have multiple records for the same person in different capacities – it can be difficult to connect the dots and bring together all the information needed for an accurate assessment. Instead, your risk engine may be forced to red flag cases 'just in case'. In most cases, these will be false positives that can be cleared on further investigation. However, it is this further work, under the weight of huge numbers of false positives, that is overwhelming compliance departments all over the world. As a result, some companies are even forced to say "no" to all false positives – rather than working out which ones actually need to be investigated.

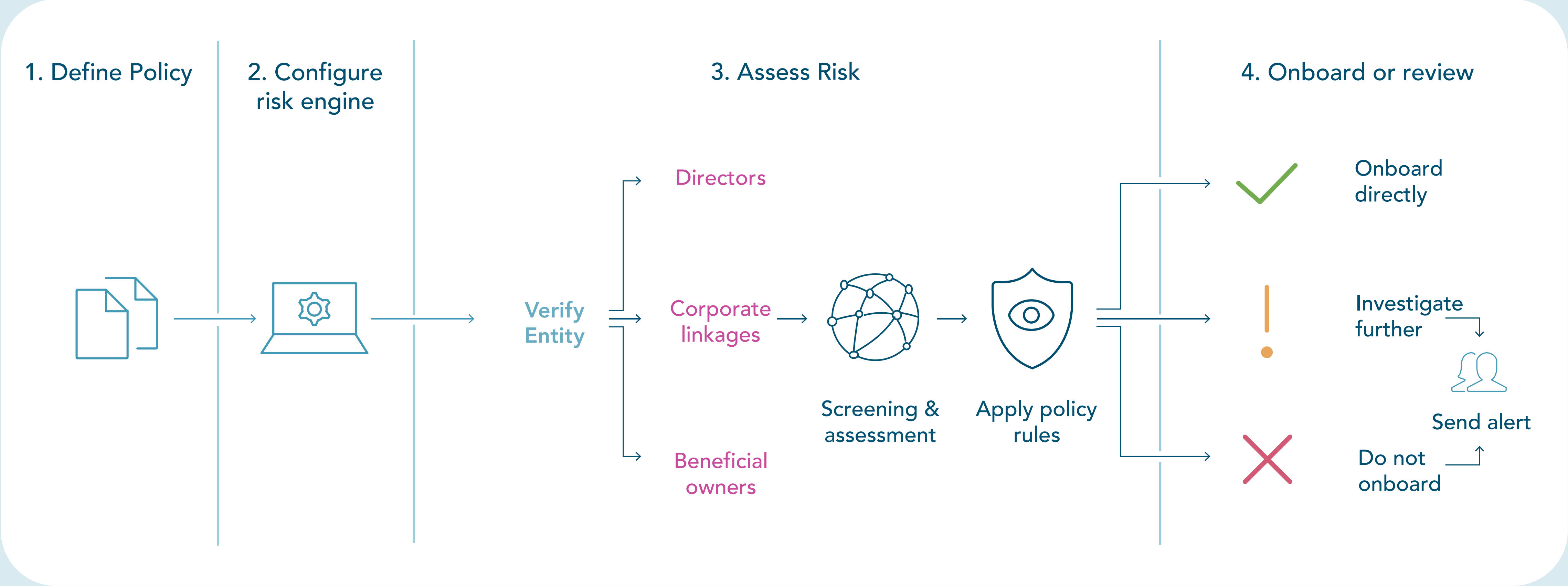
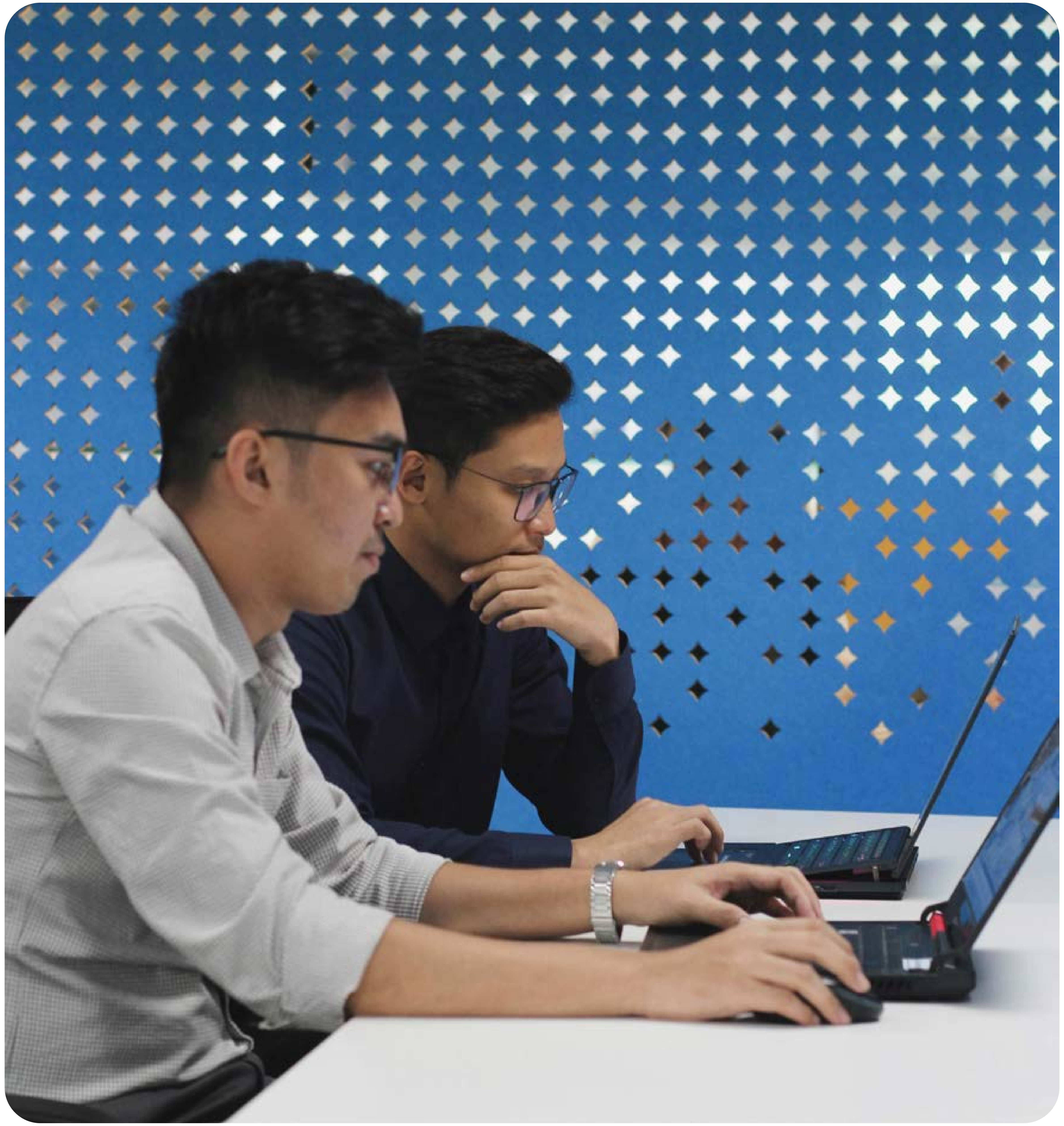


Fig 2. What's under the hood in a third-party compliance risk engine



The solution lies in taking a broader view and combining a variety of data sources to gain a more granular view at the verification stage. This can include attributes such as DOB, Gender, Nationality etc. The more detail and data points that can be cross-referenced, the higher the probability of getting a clear match. This makes it possible to keep false positives to a minimum.

Dun & Bradstreet research indicates a potential decline in false positives of up to 75% when name analysis is enriched with additional information.

This is another area where the D-U-N-S Number provides a clear benefit. When a record is built around a unique number – rather than a potentially ambiguous name – it makes it possible not only to verify exactly who you are dealing with, but also to consolidate and cross-reference data from multiple sources into a single record.

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Perpetual KYC for always-on compliance

Periodic reviews are an effective way of managing third-party risk – until the day after you carry them out. From then on, the clock is ticking and there is no way of knowing how many changes to a counterparty's directors, beneficial owners or compliance status occur until the next review cycle – in one, two, or five year's time.

From a compliance professional's perspective, periodic reviews are also a frustratingly inefficient use of their time and focus. Needing to run checks on all records to find if any have changed, it's like looking for a needle in a haystack. That's why Perpetual KYC has been a topic of increasing interest in recent years.

The central concept of Perpetual KYC is always-on monitoring. Once you've onboarded your customers and third parties, your risk engine can constantly monitor them to see if any changes occur that could result in them no longer complying with your risk policy. These can include things such as a change of:

- Director
- Beneficial owner
- Operational location
- Sanction status
- Adverse media coverage
- Politically Exposed Persons (PEP)
- Legal events
- Financial health

Essentially, you choose which risks you want to monitor according to the data you can source. Then, any time a third party's status changes so they are no longer within the parameters of your policy, you receive an automated alert to carry out further investigation.

While the concept has been well proven and adopted by large corporations, it is only now that digitalization and data technology have converged to a point where Perpetual KYC is becoming a compelling proposition for companies of all sizes.

Inversely, if one of the regulations you need to comply with changes – or you update your risk policy – your risk engine will automatically apply the new parameters to all your customers and

Fig 3. What a difference a month makes. Director changes in the UK business universe in one month.

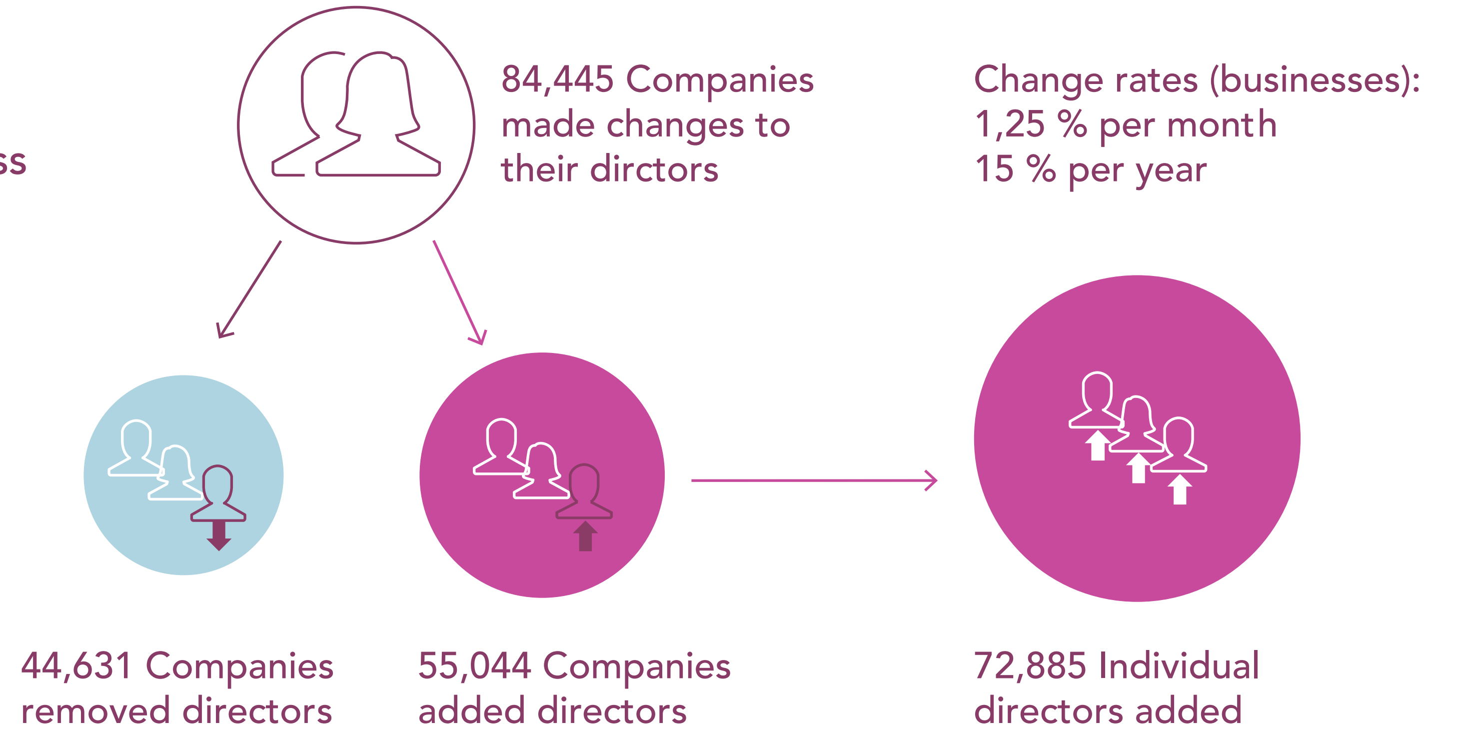
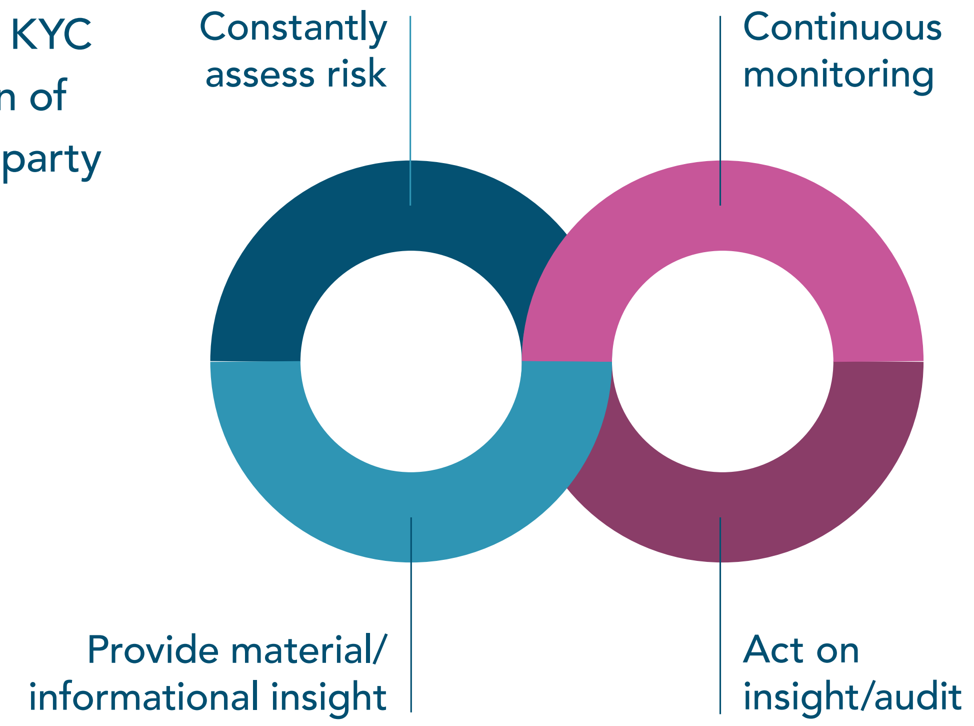


Fig 4. Perpetual KYC is the foundation of always-on third-party compliance



third parties. You will receive a notification of any customers or third parties that don't meet the redefined conditions.

Always-on compliance needs 'living' data

A challenge for many companies is to combine multiple sources of data while making sure they all stay up to date. Managing this can take up a large proportion of a compliance team's time and energy.

To simplify third-party compliance, using a data provider who can curate, standardise, and integrate data from a broad range of sources has several benefits. One of the biggest is to remove a lot of the manual data-handling workload from compliance teams, so they can focus on higher-value tasks.

But even more fundamental to Perpetual KYC, is that it makes it possible to ensure data is always as accurate and up to date as possible. If the data provider is able to combine data from multiple sources into a unique, consolidated record, any time that record is updated, the change is reflected in every connected instance of that record. This is what is referred to as a 'living' single source of truth. This is the key to the 'always-on' aspect of Perpetual KYC. If any changes within a third party mean they no longer comply with your risk policy, this will automatically trigger an alert to investigate further.

Turning compliance into business resilience

Perpetual KYC enables perpetual compliance. But it also enables a lot more. The data foundations it provides enable proactive and fact-driven decision making. Having a rich and always up to date source of third-party intelligence – and the tools to interact with it – enables you to make fact-based decisions and unlock strategic insights.

A good example is screening for ESG factors to ensure that your partners comply not just with their obligations, but also with your expectations. As ESG becomes increasingly important as a selection criterion, being able to show that you and your supply chain partners have good ESG practices can unlock new business opportunities. It can also prevent you from unknowingly exposing yourself to reputational risk.

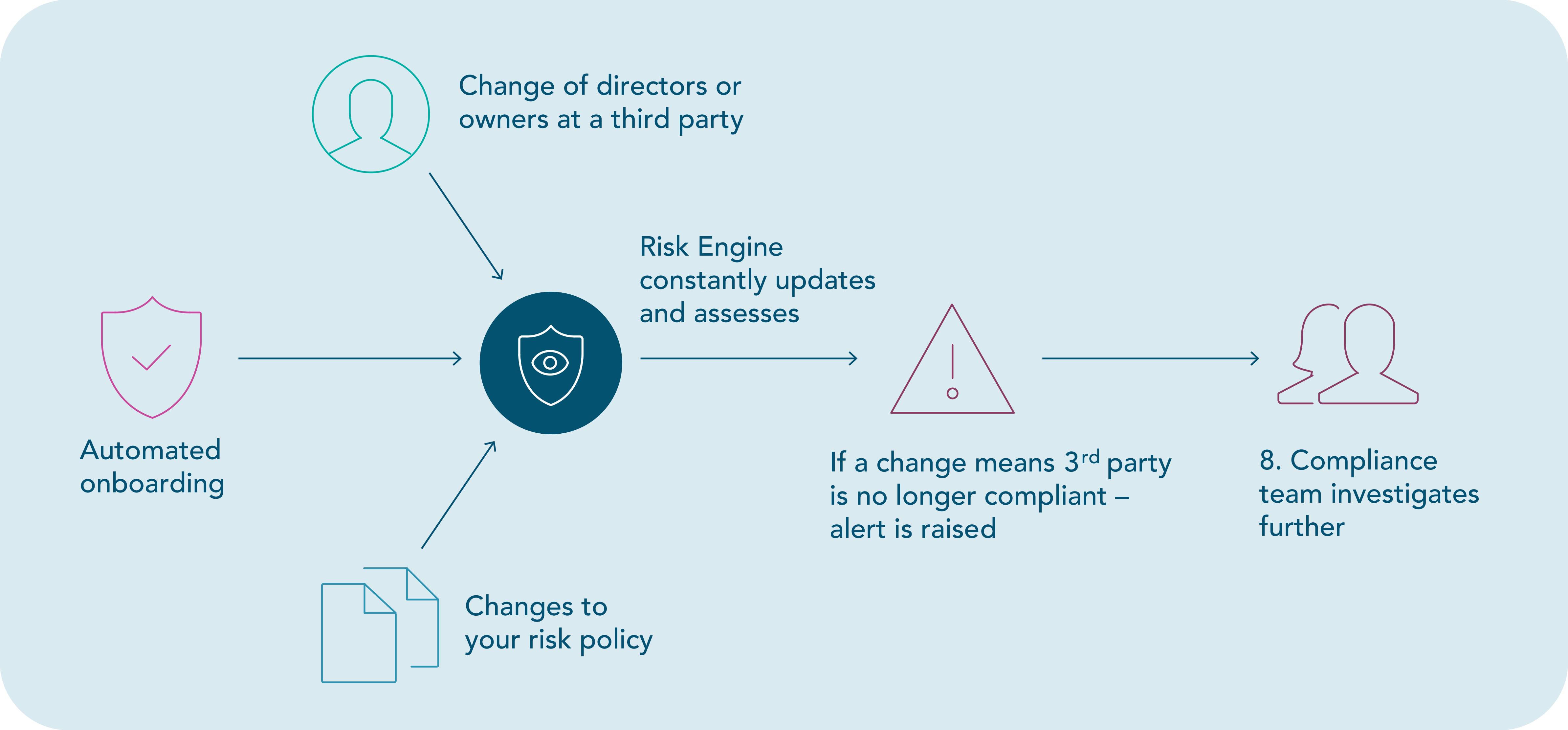


Fig 5. Staying on top of compliance means monitoring changes in third-party status – and changes in assessment criteria.

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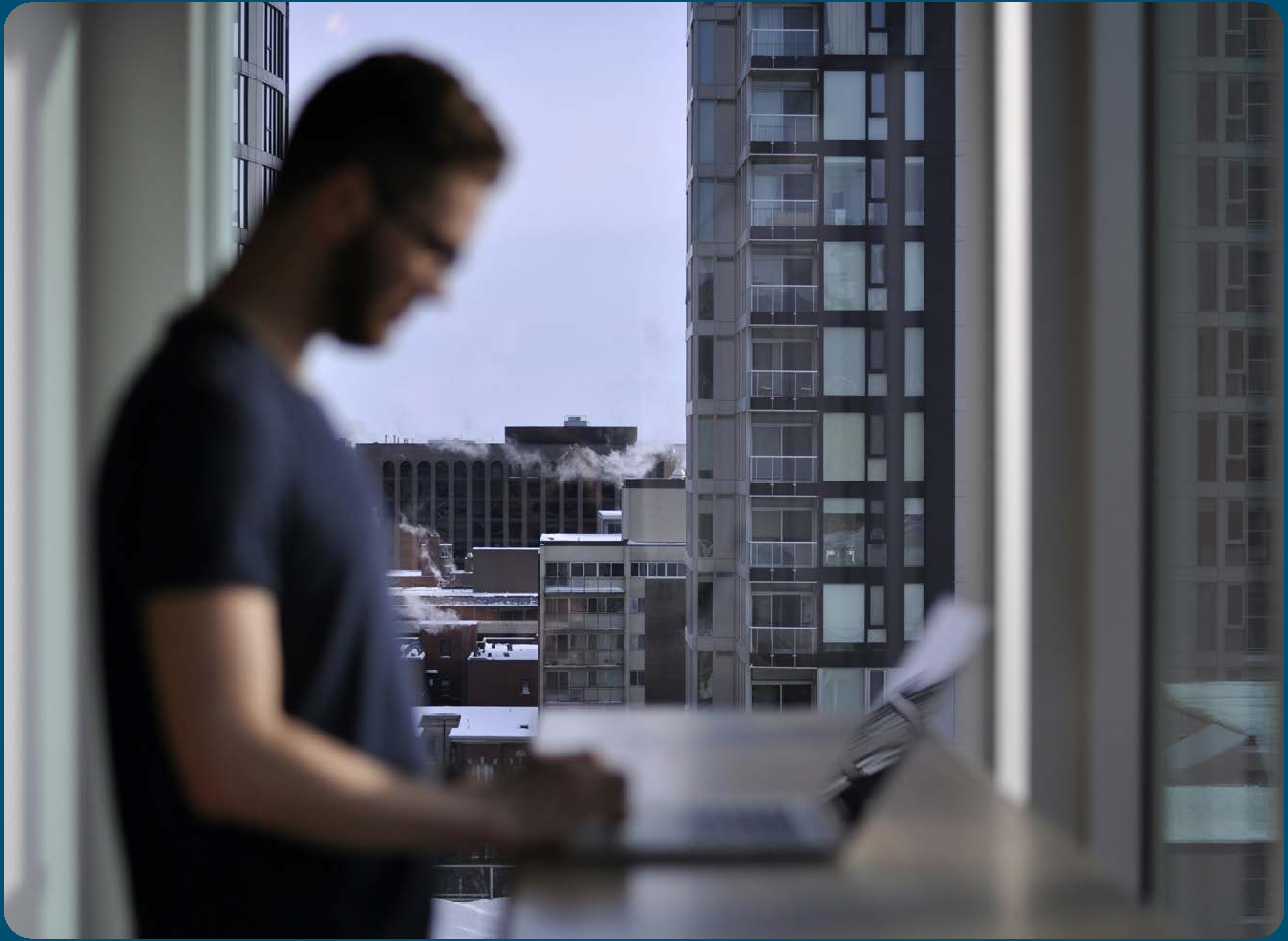


The surprising cost savings of Perpetual KYC

As KYC regulations have escalated, so has the cost and workload of carrying out third-party compliance. As well as needing to invest more in personnel, technology, and data sourcing; broader inflationary pressures have also compounded rising costs.

One of the benefits of automating third-party compliance and Perpetual KYC is that it makes it possible to reduce and reframe these costs. Moving the focus from being seen as a cost centre, to a cost avoidance centre, comes down to being able to measure it.

Taking the example of banks, we analysed the cost of Perpetual KYC compared to traditional screening, based on the typical hourly rates of KYC analysts and open-source information about the average time it takes to complete a periodic KYC refresh. This research reinforces the benefits outlined in this guide:

Faster reaction to risk.[1] Our research suggests that only half of the counterparties are likely to be subject to annual KYC reviews, with the remainder placed on a longer timeline in which changes to their risk profile will not be promptly flagged. EU guidelines now ask organisations to keep their risk assessments up to date[2], something difficult to achieve on a 5- or even 3-year cycle.

More streamlined processes. A 2019 survey of bank treasurers found that the time spent on processing KYC requests was the joint-most commonly cited KYC challenge.[3] In our analysis of a hypothetical company, Perpetual KYC reduced the time spent on KYC from ~200,000 working hours a year to ~22,000 – in other words, by almost 90 percent.

Significant cost savings. Our hypothetical company spent £2.7 million annually on a traditional KYC process; Perpetual KYC reduced this to ~£312,000. Given that some financial institutions are reported to spend as much as USD 500 million annually on KYC and customer due diligence[4], even for those that spend relatively less, the savings from P-KYC are potentially considerable.

It should be noted that we did not factor in additional costs such as firmographic changes (changes to names, industry codes, addresses), transaction monitoring alerts (which can often absorb sizeable KYC resources for banks[5]), or screening alerts for sanctions, PEPs and adverse media. How individual companies handle these varies widely, so in calculating the overall cost differential between traditional KYC and Perpetual KYC they would need to evaluate these overheads as part of their own analysis.

Another, harder to measure factor is the demotivating aspect of qualified compliance professionals needing to spend time on manual data-handling tasks. Although this is difficult to quantify, it is often anecdotally linked to high staff turnover.

Research by other companies has identified similarly large cost reductions from adopting a Perpetual KYC approach. When PwC analysed a

Fig 6. Time savings from Perpetual KYC

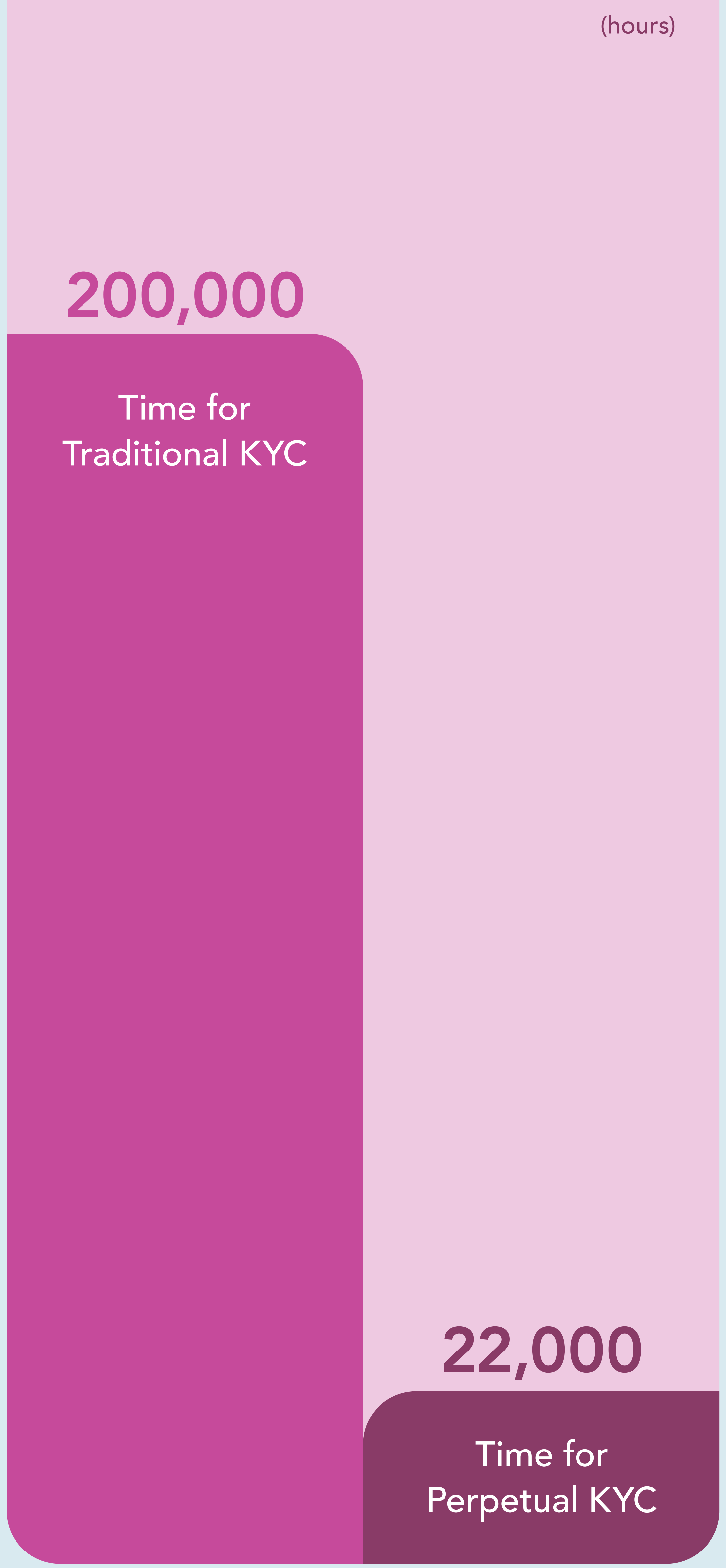
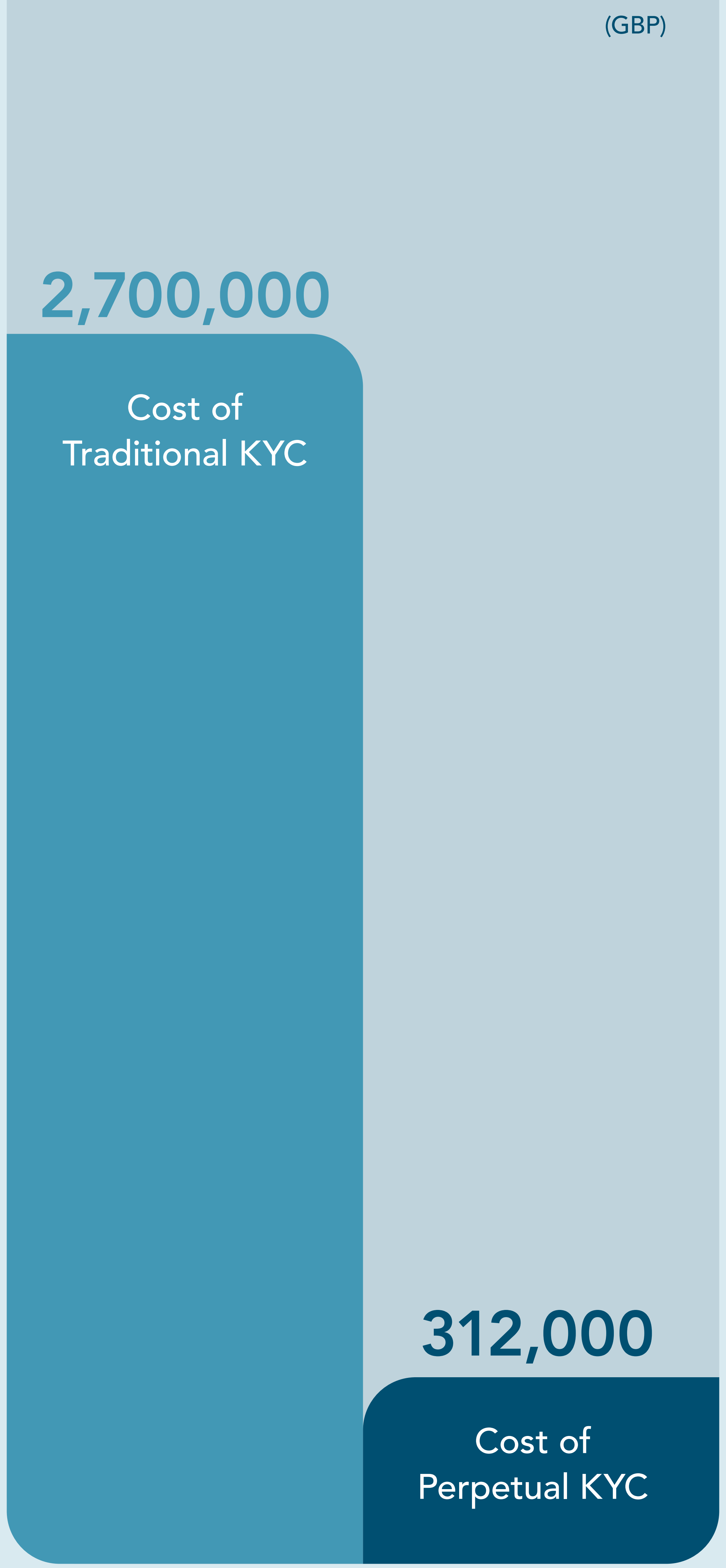


Fig 7. Cost savings from Perpetual KYC



medium-sized bank, it found savings of between 60–80 percent, in cash terms equivalent to around USD14.4 million annually for a book of corporate customers and USD13.2 million for retail customers.[6]

Speed of turnaround has benefits for customer retention and new business – particularly in the banking sector, where speed of onboarding is a competitive differentiator. Institutions that use legacy KYC processes are slower when it comes to onboarding than are digital natives that have shifted to Perpetual KYC.[7] Surveys show that KYC processes are a pain-point for many customers – 89% report a less-than-good experience, while around half abandon the process of account creation altogether.[8]

An often-underestimated benefit of Perpetual KYC occurs at an organisational level. It enables compliance teams to involve other units into the processes. For example, if Sales or Customer Service is the first point of contact in the customer onboarding workflow, as soon as they start entering customer data, the policy-based risk engine can start compliance assessment.

This provides a better customer experience, as it leads to faster, smoother onboarding – while also increasing the accuracy of compliance efforts. Because all of this starts automatically, without even needing to involve the compliance team, it leads to a big workload reduction.

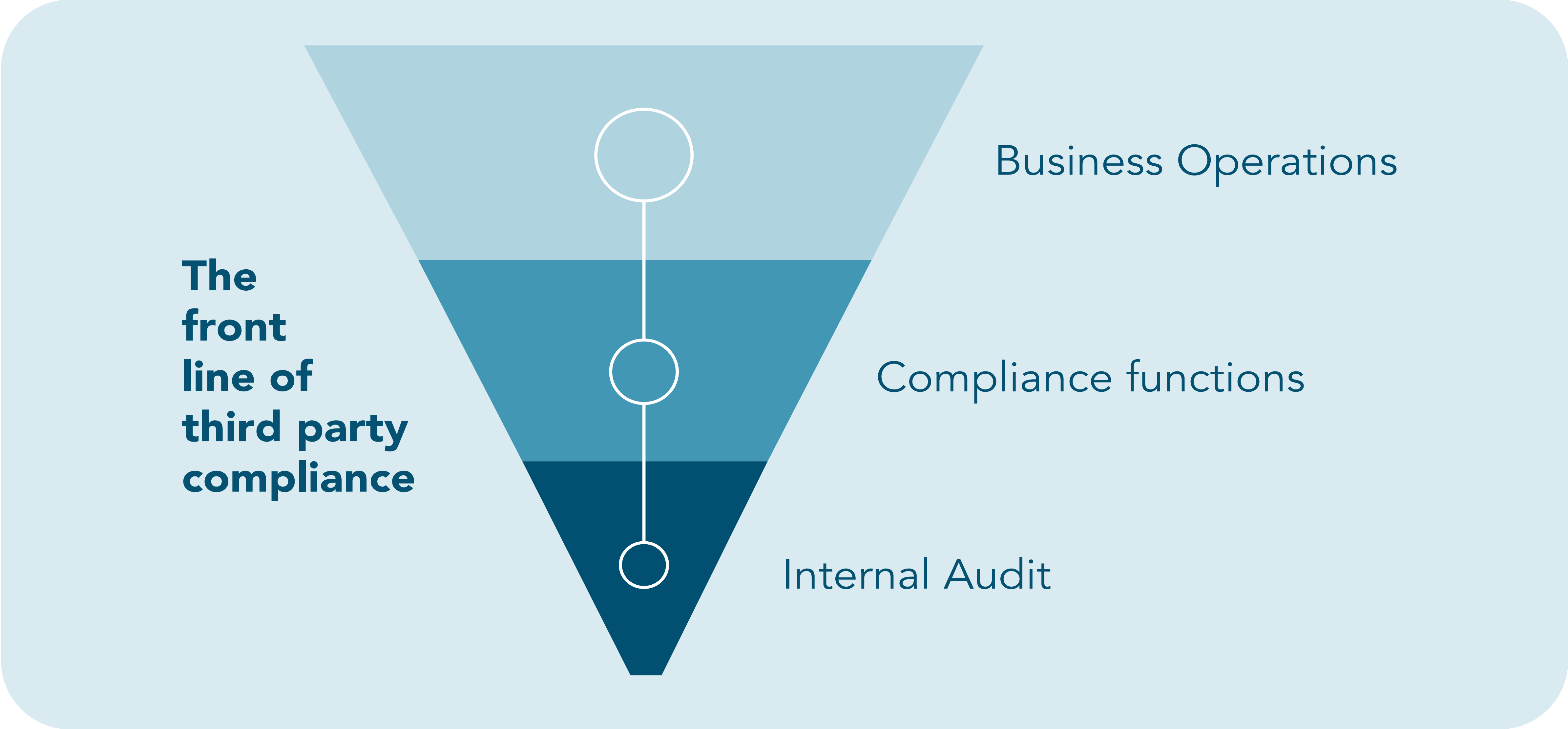


Fig 8. Automating third-party compliance reduces the load on compliance teams – so they can focus on what matters.

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Peeling the onion of Ultimate Beneficial Ownership

When it comes to compliance regulations, doing the right thing is no longer enough. You need to be sure your customers and third parties do the right thing too. A big part of this is understanding the Ultimate Beneficial Ownership (UBO) of the entities you do business with. This is an area that regulators are placing increasing emphasis on. However, in many ways, it is becoming harder rather than easier to work with.

Discovering an entity's Ultimate Beneficial Ownership is the hardest KYC task reported by companies, with 62% of respondents to a recent survey naming it as their biggest challenge.

For starters, criminals and those wishing to conceal their identities now have an array of new digital tools. With a few AI prompts, they can create a company identity, logo, website, and online presence – all in less time than it takes to make a cup of coffee. This is compounded by cross-border analysis becoming more challenging as previously available UBO registers are becoming harder to access due to conflicting privacy laws or being placed behind paywalls. Add to this a lack of standardisation between countries, each with their own regulation, implementation, and documentation requirement – and the UBO challenge is not getting easier.

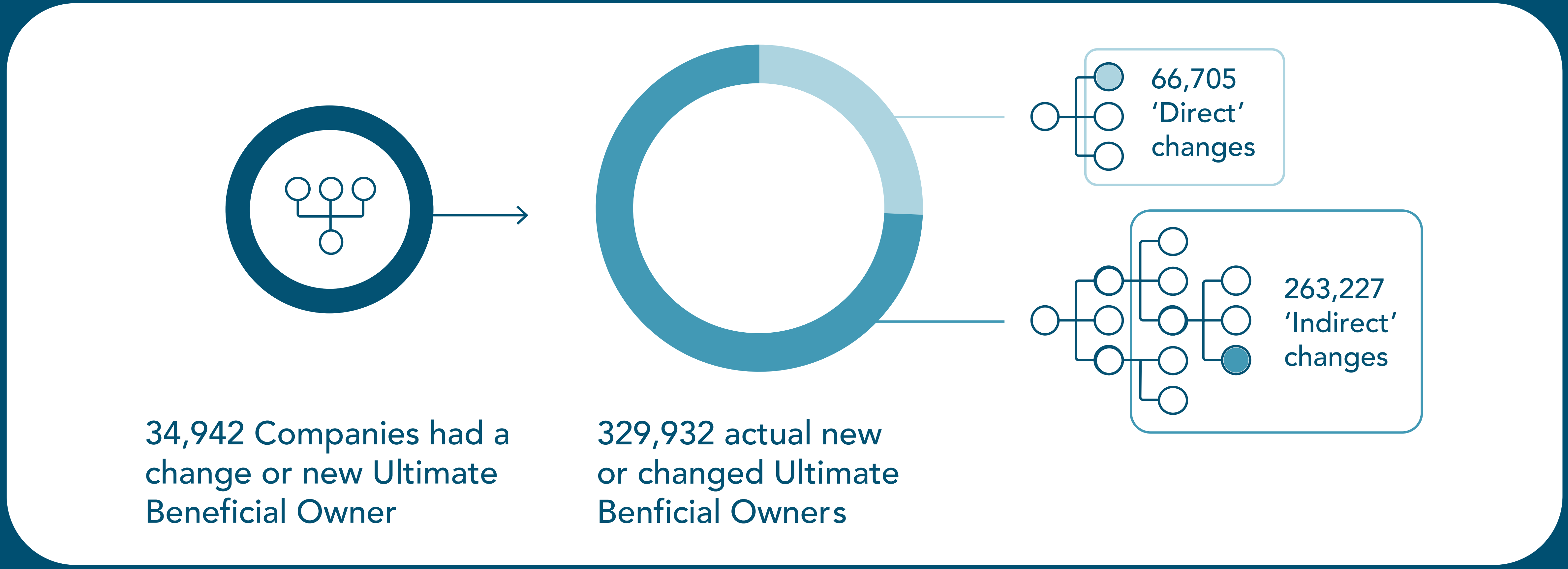


Fig 9: UBO changes that occurred across the UK company universe in one calendar month.

The constant change of UBO structures cannot be underestimated, as the following diagram to the right shows. Digging deeper into these figures reveals the further complexity of tracking UBO structures. In some cases, it may only be small percentages of ownership that change. But these small changes can add up if an individual has ownership stakes in multiple companies.

The European Union's Fifth Anti-Money Laundering Directive (5AMLD), the Financial Action Task Force (FATF), and other regulations set a threshold for identifying beneficial ownership over 25%. However, there are also indications that regulations will call for this threshold to be lowered as data technology becomes available that makes this possible.

A risk-based approach to KYC compliance

The pragmatic approach is to not try and deep dive on every single case, but to treat each risk on its merits.

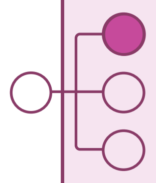
- What is the nature and purpose of the business relationship?
- Are they involved in a high-risk industry?
- Do they operate in countries with inadequate AML regulations?
- How complex and transparent are their ownership structures?
- Are there Sanctioned or Politically Exposed Persons behind the company?

If none of these are the case, Simplified Due Diligence (SDD) will generally suffice. However, if they do fall into one of these categories, then it's time to dive deep and carry out Enhanced Due Diligence (EDD).

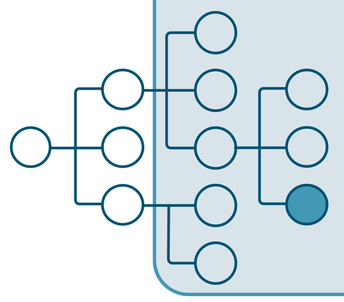
Connecting the dots – a holistic approach to UBO

Getting past the smoke and mirrors that financial criminals create, requires cross-referencing and cross-linking data from multiple sources. This is where having splintered data sources can make things difficult. If you have the same company listed as Smith Inc in one record and Smith Ink in another – and only get half their data – you greatly dilute your ability to track their connections.

To connect the dots, you need to be able to standardise and consolidate data into unique, and comprehensive records. This will make it possible to reveal which other entities they are connected to – and who their directors and owners are. This kind of network intelligence is invaluable when it comes to determining UBO. Some of the analysis can potentially now be performed by artificial intelligence, allowing for even greater speed and customisation.



Beneficial Ownership Range	Proportion of changes
0 – 25%	62%
25% – 50%	13%
50% – 75%	12%
75% – 100%	14%



Beneficial Ownership Range	Proportion of changes
0 – 25%	92%
25% – 50%	4%
50% – 75%	2%
75% – 100%	2%

Fig 10: Small changes have a big effect: The majority of beneficial ownership changes apply to small beneficial ownership levels.

UBO is another area where D-U-N-S records have a distinct advantage. As D-U-N-S acts as a unique identifier, it enables granular tracking of corporate linkages. This is a result of three main factors. Firstly, D-U-N-S has been an identity verification standard for over 60 years. This provides a rich foundation of historical linkage tracking to build upon. Secondly, D-U-N-S-based records enable UBO data to be standardised and synchronised between countries. This enables cross-border tracking in a way that many official registers are unable to due to GDPR and other reasons. And lastly is the fact that each D-U-N-S Number consolidates data into a single, unique core record. Each time this record is updated, it automatically updates every connected instance of that record. It is this 'living' source of data that is the foundation of live UBO tracking and Perpetual KYC.

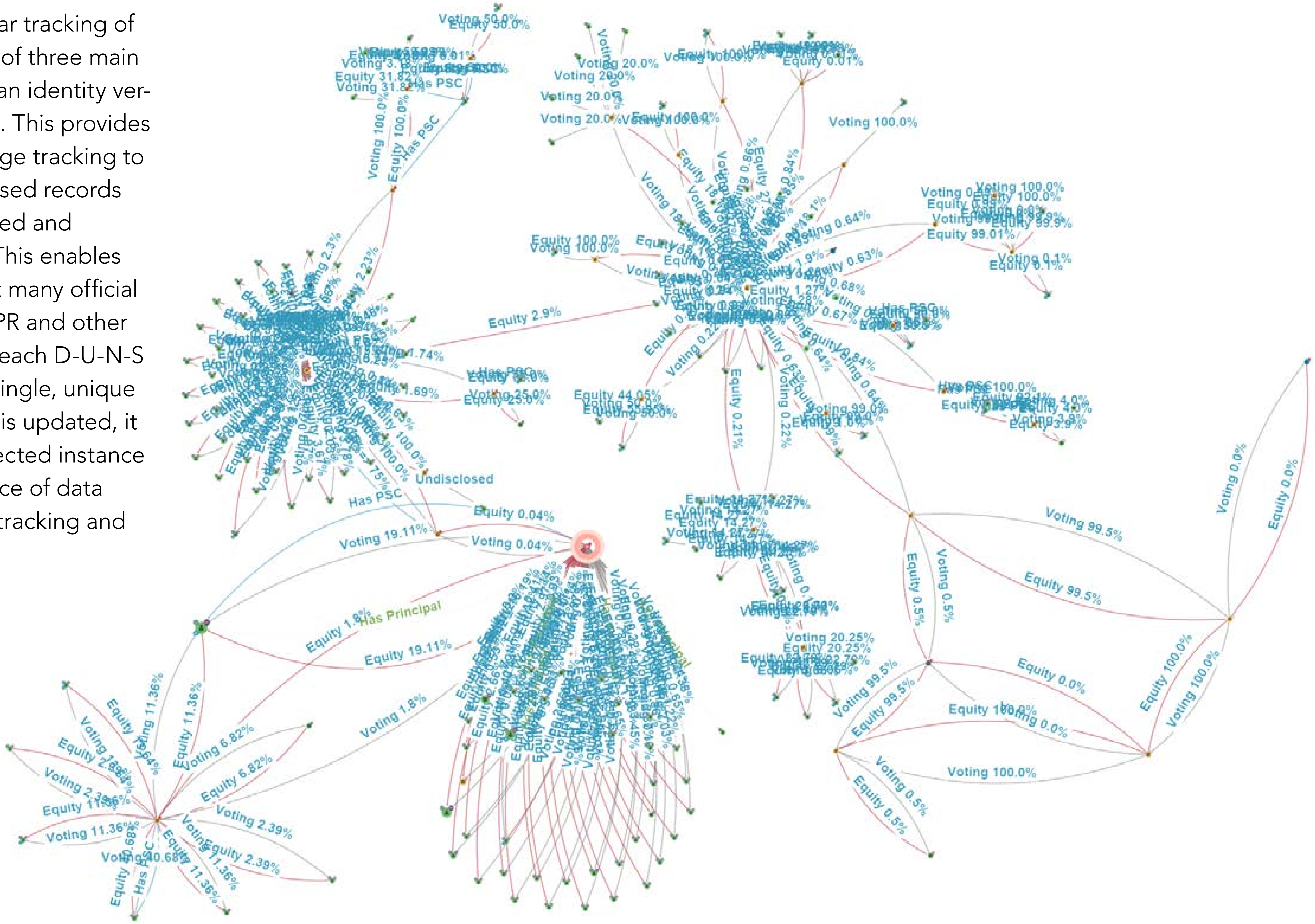


Fig 11. The beauty of being unique. This image shows the connections to a single D-U-N-S number.

Checklist: Are you ready for Perpetual KYC?

The benefits of Perpetual KYC are clear: reduced cost and workload combined with increased compliance effectiveness. Is your organisation ready to make the transition? Run through our checklist and find out.

DATA QUALITY

1. Have you got your data in order?
Perpetual KYC uses automation to accelerate onboarding and monitor the changing status of your third parties. This relies on having data that is not just detailed and accurate, but also always up to date. That's hard to achieve if you are trying to manually stitch together data from a variety of sources. The solution is to have a 'living', single source of truth that consolidates and standardises a broad range of data sources – and automatically keeps them up to date.

RISK POLICY

2. Have you defined the risks you are willing to accept?
Before you can start to automate your KYC onboarding and monitoring, your company needs to clearly define a risk policy. This should spell out the level of risk your company is willing to accept in a way that is clear and unambiguous enough that it can eventually be applied by an algorithm. This can be a challenge if different parts of an enterprise have different risk assessment rules, for instance between the retail and commercial arms of a bank. In these cases, it is necessary to decide whether to unify those views or to make your risk policy more granular.

AUTOMATED ONBOARDING

3. How much of your onboarding can you automate?

At the heart of Perpetual KYC is a policy-driven risk engine. This applies your company's data policy during the onboarding process to assess which cases reach the threshold of needing to be flagged for further investigation. This is the key to reducing onboarding workloads and bottlenecks and enabling compliance professionals to focus on the cases where their attention is needed most.

ALWAYS ON MONITORING

4. How can you know which changes need your attention?

Your policy-led risk engine is also the key to monitoring your customers' compliance status on an ongoing basis. It detects which customers don't meet the parameters of your policy and triggers alerts for additional screening. This is the "perpetual" or always-on aspect of Perpetual KYC. Here it is important that your risk engine is able to cross-check new directors or key individuals joining a customer's company against all relevant screening and risk databases. For example, sanction lists and company registries.

FALSE POSITIVE MANAGEMENT

5. How confidently can you say 'No!'

False positives can be the mud in which compliance gets stuck. Without the right filtering capabilities, common names can generate overwhelming numbers of false positives.
The solution is to have a unique identifier that cross-references multiple data sources to verify a match. This increases accuracy and reduces the number of false positives.

ENHANCED DUE DILIGENCE

6. Do you have the right tools to dig deeper?

Perpetual KYC engines are powerful tools – but they're just that, tools. They provide huge value by filtering out the customers that don't need your attention – so you can focus on those that do. Many checks will meet the requirements of your policy and pass straight through the system. However, when an onboarding check or status change triggers a warning, the system will generate alerts for humans to check. From there, it's in the hands of your compliance professionals to dig deeper and carry out enhanced due diligence to understand the risk and recommend an appropriate course of action. A Perpetual KYC platform should provide the tools and data needed to do this.

Perpetual KYC is both a journey and a destination
However, it's not something you can simply "switch on". If you are still at the point of periodic review, the best approach is to build on what you have in manageable steps. Taking a phased approach will be more manageable and start delivering results sooner than delaying until you are 100% ready. The most important thing is simply to get started.

Full event-driven perpetual KYC
All aspects of data that drive your risk rating are continuously updated with new information and assessed immediately.

Hybrid trigger/event-based review + periodic refresh
Certain events, such as RM triggered, or client triggered changes initiating a full review prior to anniversary.
In addition to daily sanctions monitoring plus fallback scheduled review.

Periodic Review + daily sanctions
Periodic review of bulk of the client file overlaid with daily monitoring of Sanctions, PEPs and Adverse Media.

Periodic Review
All aspects of client reviewed on scheduled basis

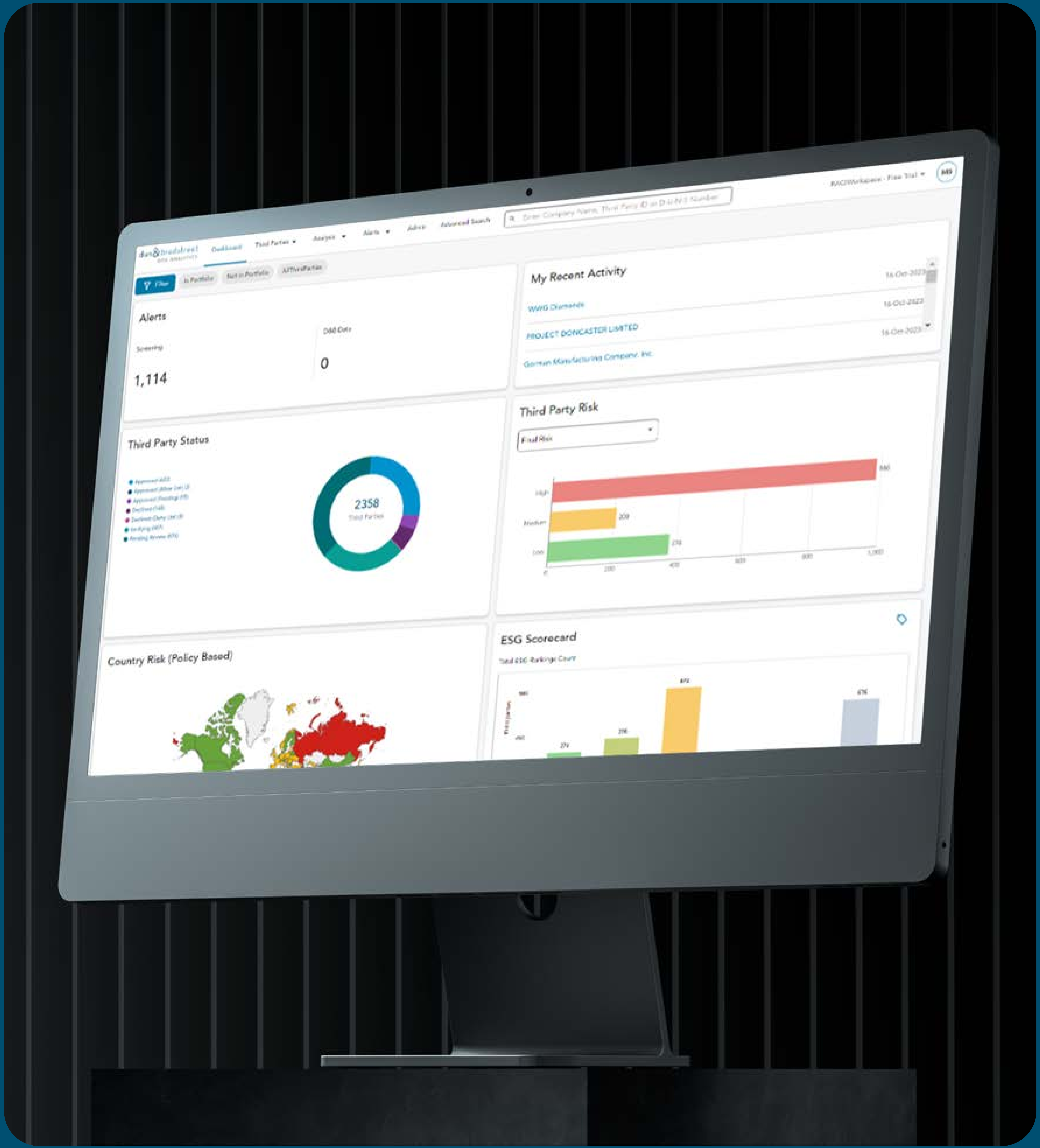
Fig 12: The steps to Perpetual KYC

Introducing D&B Risk Analytics Compliance Intelligence

W D&B Risk Analytics Compliance Intelligence is a new KYC / KYB / KYV solution that was designed to give compliance professionals the tools to automate third-party compliance and enable Perpetual KYC. It has a highly configurable risk engine that draws on Dun & Bradstreet's 540 million consolidated business records. Because these records each have a unique D-U-N-S number, this removes ambiguity from identity verification and enables corporate linkage tracking. The solution assesses third-party risk on multiple dimensions that you define according to your risk policy. This includes criteria such as Cybersecurity and ESG-related risk as well as screening against 100+ watchlists and sanction lists from screening providers such as Dow Jones.

Learn more about the time and cost savings you can achieve.

Sign up for a free trial today



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