

# Beneficial Ownership

*Why the Devil Really is in the Detail*





## EXECUTIVE SUMMARY

Do you *really* know your customers, your vendors, and your third parties? You must today. Beneficial Ownership and Ultimate Beneficial Ownership (UBO) identification and verification are critical requirements for combating everything from financial crime, tax evasion and corruption, fraud and money laundering, to trafficking and terrorist funding. These activities are happening around the world at an unprecedented pace, and can have a devastating impact on an organization's reputation, value and bottom line.

This white paper explores the issues and challenges of Beneficial Ownership. It highlights ways to gain confidence on ownership issues with customers, discusses the importance of a single customer view and role of data analytics, and showcases a master data management (MDM) approach that could improve operational efficiency and on-demand enterprise-wide risk visibility.



## COMPLIANCE, COMPLEXITY AND YOUR CUSTOMERS

Compliance risk. It's not a new phenomenon, just one that is growing significantly in complexity in today's world, and creating unprecedented challenges for financial institutions worldwide. 'Know-your-customer' (KYC) expectations and requirements have steadily become more onerous in an effort to tackle financial crime, tax evasion and corruption, as well as combat international fraud, trafficking (guns, drugs and humans) and terrorist funding. But while financial organizations are familiar with conducting Bank Secrecy Act/Anti-Money Laundering (BSA/AML) risk assessments, regulation now requires them to provide granular detail of new and existing customers.

Today, effective Beneficial Ownership and Ultimate Beneficial Ownership (UBO) identification and verification have become an essential component of the onboarding and remediation process. Furthermore, the new regulations do not just affect financial institutions. The obligation impacts all industries with know-your-vendor (KYV) and know-your-third-party (KYTP) onboarding processes. This includes organizations requiring credit risk analysis and other industries with relevant regulatory obligations such as real estate agents, dealers in precious metal and stones, law firms, accountancy practices and casinos.

Beneficial Ownership identification and verification is at the heart of the latest raft of international AML and Counter-Terrorist Financing (CTF) regulations, standards and recommendations. That should come as little surprise to anyone. According to the World Bank's 'Stolen Asset Recovery Initiative,' corrupt politicians used secret companies to obscure their identity in 70% of more than 200 cases of grand corruption. Public anger over the use of tax avoidance frameworks by the political and business elite is at an all-time high, aggravated by a series of leaks and exposés, the latest being the now infamous Panama Papers. An increase in terrorist attacks across Europe, Northern Africa and the U.S., as well as continued geopolitical instability in the Middle East has fueled AML/CTF concerns and accelerated government promises on rooting out financial support for terrorist groups. This represents a considerable undertaking.

A 2013 report by the United Nations Office on Drugs and Crime (UNODC) found that criminal proceeds were in the trillions of dollars annually, with global detection rates of illicit funds by law enforcement estimated to be as low as 1% for criminal proceeds and the seizure rate a measly 0.2%. Somewhat predictably, regulators consider financial institutions as a valuable first line of defense, hence the focus on proactive prevention, not just detection and reporting. Non-compliance brings with it heavy financial penalties as well as potential reputational risk, and following the introduction of personal liability, possible criminal proceedings for individuals seen to fail in their due diligence duties.

### A QUICK VIEW OF THE AML REGULATORY LANDSCAPE

**Guidance:** Federal Financial Institutions Examinations Council (FFIEC) Bank Secrecy Act/Anti Money Laundering (BSA/AML) Examination Manual

**International standards:** Financial Action Task Force (FATF), Financial Crimes Enforcement Network (FinCEN)NPR, Basel CDD, The Wolfsberg Group

**Regulation:** 4th EU AML Directive, Persons of Significant Control Register (UK), FCPA/UK Bribery Law, Foreign Account Tax Compliance Act (FATCA), US Patriot Act (Title III International Money Laundering Abatement and Anti-Terrorism Financing Act)



## THE NEED FOR ENTERPRISE-WIDE AML RISK ASSESSMENT

With enhanced scrutiny by regulators, robust customer due diligence (CDD) and onboarding/customer identification processes (CIP) have become the focus for Beneficial Ownership and UBO identification and verification. Previously, Beneficial Ownership may not have been a mandatory element in CIP and therefore not highlighted as a key factor in existing control models. It is also likely that the data management obligations and controls were not considered as a separate factor in the overall compliance risk assessment. Therefore, it is crucial organizations conduct an enterprise-wide AML risk assessment to identify gaps in existing controls, policies, procedures and processes to ensure compliance.

Leading financial organizations are increasingly taking advantage of data analytics tools and information-management best practice to migrate away from traditional 'siloed' compliance testing toward a more analytical, integrated approach that ensures 'end-to-end' data efficiency, accuracy and validation. Ultimately, just how Beneficial Ownership information is internally collected, verified, maintained and shared is a decision for leaders and stakeholders. But the importance of having a single customer view (SCV) fed by reliable, accurate and timely data cannot be underestimated in ensuring compliance and achieving operational efficiencies.

### COMMON BENEFICIAL OWNERSHIP PROGRAM WEAKNESSES

- Risk assessments not performed, documented or shared with other business units
- Inadequate AML risk-rating
- Ineffectual policies and procedures
- Lack of AML risk 'ownership'
- Reliance on manual input (re-keying errors)
- Costly and burdensome remediation cycle
- Poor communication between front line and compliance staff
- Poor staff training



## OWNERSHIP COMPLEXITY — BOTTLENECKS, PINCH POINTS AND BLIND SPOTS

With millions of new companies being registered annually around the world, often with little information required, the sheer scale of identifying an organization's true owner (or owners) cannot be underestimated. Complex ownership structures and the existence of high secrecy jurisdictions such as the Cayman Islands and US 'shell corporation capitals' in Nevada, Wyoming and Delaware, only go to further complicating Beneficial Ownership and (UBO) identification and verification. In the meantime, very few countries have successfully defined the term Beneficial Ownership, its scope or threshold. And where there are clear definitions there are still variations, meaning that organizations have multiple Beneficial Ownership compliance initiatives to manage.

### BENEFICIAL OWNERSHIP THRESHOLDS

**KYC, KYV, AML and CTF:** a 25% or more threshold for ownership

**FATCA and CRS:** a 10% threshold for ownership

**High risk or Politically Exposed Persons (PEP):** a threshold as low as 1% or 0.01% is required

It is no secret that the new BSA/AML/CTF regulations have created a problematic paradox. The requirement for more granular identification and verification has intensified, but access to information is still limited. Indeed, Beneficial Ownership and UBO relies heavily on customer self-certification as well as information held in company registries and financial institutions, Trust and Company Service Providers, regulatory bodies or authorities. However, most of these sources have limited or no access (in particular off-shore entities), or contain unreliable, incomplete data. Although there is much anticipation surrounding the creation of central registries as defined in the 4th EU AML Directive, only the UK has actually committed to creating a public register of Beneficial Ownership. As of July 2016, firms will provide Companies House, UK's registrar of companies, with their own 'persons with significant control' (PSC) register when delivering their confirmation statement (which replaces the annual return). By 2017, Companies House will hold PSC information for all UK firms in scope.



## CONFIDENCE ON WHO'S BEHIND YOUR CUSTOMER

Although ownership challenges are considerable, they are not insurmountable. To demonstrate that the organization's compliance program has exhausted "*all reasonable measures*" to identify and verify the Beneficial Ownership of existing and new customers, financial institutions should adopt a combination of the best available mechanisms for risk-based, KYC and customer due diligence (CDD). This should include self certification, integrating/cross referencing with registry data or reputable partner's Beneficial Ownership data against sanctions, watch lists and politically exposed persons (PEPS), as well as adverse media and open source findings (i.e. Google) for enhanced due diligence (EDD).

While some financial institutions have opted to create their own data retrieval teams, this is a costly and time-consuming exercise. The problem? With robust CDD at the core of the client onboarding and remediation process, organizations need to know that their Beneficial Ownership data is accurate, reliable, timely, robust and verifiable. This assurance means organizations can spend more time on EDD if flagged as necessary. Third party, Beneficial Ownership data providers such as Dun & Bradstreet can help append the information that ensures entity resolution as well as Beneficial Ownership requirements. We have expertise in all geographic regions, meeting both data privacy laws and international legal standards.

### 'AN APPETITE FOR DATA'

Dun & Bradstreet gathers data from 30,000 data sources in more than 200 countries, owns in excess of 300 million entity records with 19 million global linkages and 90 million shareholder connections to support identification of Ultimate Beneficial Ownership.

Reliable data will give you the confidence you require to make the right compliance decisions — whether you are a small private entity or a publicly listed company, or an organization with a simple or complex ownership structure or unusual location. Dun & Bradstreet's capability far exceeds the in-house data collection of financial institutions. If an independent data provider is introduced into the Beneficial Ownership data management program, then the compliance department should assess the third-party risk associated with Beneficial Ownership and entity ownership structure data. Also, effective controls should be implemented.

## KYTP – THIRD-PARTY DATA PROVIDER CHECKLIST

- ✓ **Data Accuracy and Granularity:** How accurate is the entity ownership structure, does it cover all the layers up to the global ultimate parent, what is the percentage of ownership traced?
- ✓ **Data Freshness:** How frequently is data refreshed and what triggers a re-refresh?
- ✓ **Data Coverage:** How many geographic regions does the chosen third-party data provider cover, and what is the percentage of entities covered in each region compared to the total number of registered entities?
- ✓ **Data Security:** How is data transferred between the third-party data provider? How is it handled and stored within the provider organization and is there any risk associated with data privacy, confidentiality breach or other security risk?
- ✓ **Legitimacy, consistency and reliability:** What are the data origins and collection methods? Is the process/procedure legitimate and reasonable? How consistently is the procedure being followed and does the third party have a compliance program in place?
- ✓ **Stability:** How long has the third-party data provider been in business, and what is its size, reputation and financial performance?
- ✓ **Integrity:** How well does the provider's data integrate into your existing corporate systems and adapt to any future upgrades?



## IT'S ALL ABOUT THE DATA — AND A ONE-STEP SOLUTION

The adoption of a master data management (MDM) approach can really help achieve the 'deep dive' required by Beneficial Ownership requirements. At the same time, it can improve operational efficiency and on-demand, enterprise-wide risk visibility. By placing information into a central data repository at the heart of the organization, business units across the enterprise are able to access a 'golden copy' or 'single customer view' (SCV). By automating customer due diligence processes via entity resolution software, organizations have the flexibility to spend more time and effort on enhanced due diligence while keeping human resources costs in check.

Key to this is the utilization of the D&B D-U-N-S® Number — a unique nine-digit identifier for businesses. Allocated to more than 300 million businesses worldwide, D-U-N-S Numbers bring together extensive global data, corporate and minority linkage as well as local data capture for in excess of 90 million shareholder connections with checks run against sanction lists, PEPs, stock exchange and regulators' lists. D-U-N-S stands for data universal number system. The D-U-N-S Numbers also allow for data to be easily integrated into enterprise data management and propriety processes. It is then accurately referenced and linked to help ensure that the data needed is accessible when required, comparable for quick analysis and research. It also provides the ability to easily access relevant documents and information.

Paul Westcott, Dun & Bradstreet's Global Product Manager Compliance, explains that D-U-N-S Numbers represent a potential 'one-step' solution for Beneficial Ownership and UBO screening.

"Adopting D-U-N-S is a valuable and effective strategy as it enables financial organizations to not only verify a business's legitimacy, but ensures entity resolution as organizations can be confident that they are investigating the right individual," he explains.

"It also enables financial institutions to break the costly and lengthy remediation cycle. As D-U-N-S is continually updated, it can be confidently used in know-your-customer verification of existing customers in line with recommended internal and external timeframes. And as it sits in the center of the business, it can help speed up decision-making and enable efficiency gains across all business departments. Such connectivity is highly desirable."



## CONCLUSION

Reliable, continually updated data sources are vital in achieving Beneficial Ownership identification and verification as well as in wider regulatory compliance and enterprise-wide AML risk management. All the while, financial institutions will need to carefully balance the requirements of regulators with the needs of their wealthier customers seeking to take advantage of legal wealth management frameworks and offshore entities. Understandably, financial institutions want to protect the privacy and confidentiality of their clients, however, Beneficial Ownership compliance represents a value-added opportunity for them. It can greatly improve operational efficiencies, reduce costs, mitigate risks and increase business agility through the adoption of a data-analytical approach. While the complexities of Beneficial Ownership throw up complex challenges, approaching Beneficial Ownership compliance from a more analytical, integrated approach could help financial organizations become more agile and risk-robust enterprises. And that's good for their business, and their customers.



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