EACT Briefing

Focus: KYC

THE EUROPEAN ASSOCIATION OF CORPORATE TREASURERS

SPOTLIGHT
VOICES OF THE INDUSTRY

COMPLEXITY

« The complexity of KYC has increased dramatically during recent years. »

L. Grisot, Treasurer Ferrero

ADMINISTRATIVE BURDEN

« KYC requirements have increased so much that they are now one of our main concerns when starting new business. Central KYC, accessible to all banks, would save significant time for corporates. »

J. Geyer, Cargolux

VALUE DISTRACTION

« While KYC is fundamental, banks should not take treasurers further away from value creation. »

B. Defays, KCTG

STANDARDS

« The Holy Grail of a standardized, automated KYC is still some way off. »

F. Masquelier, EACT Vice-Chairman

REDUNDANCY

« The lack of harmonization implies significant work for corporations. »

B. Scholtissen, Aperam

KYC
DEFINITION

BEFORE:

AML CHECKS

NOW:

TODAY'S REGULATION IS TOMORROW'S KYC

25 HOURS

AVERAGE TIME SPENT PER WEEK ON KYC BY MNC TREASURY TEAMS

(SOURCE: NEUGROUP 2018 SURVEY)

INTRODUCTION

« EACT, the European Association of Corporate Treasurers, representing 23 national associations of corporate treasurers has always been concerned by pain points faced by its members and solutions to remove them. KYC has become a serious concern for our members over recent years: it is increasingly complex to fulfil all unstructured and non-harmonized requests. In all recent surveys, KYC is listed as a top priority for corporates and its rising costs are a source of frustration. KYC consumes lots of time, resources and money. Central KYC registers or solutions, accessible by all banks and all corporates, would create significant savings. »

Jean-Marc Servat,
Chairman EACT

« Banks try to alleviate some of the regulatory pressure on them by increasing the volume of KYC information they require from multinational companies. On average, large MNC's have around 10 bank relationships and for the largest 15 plus. Multiple banking relationships make the management of KYC documentation and data with financial counterparties more time consuming and complicated for corporates. Banks take longer to on-board corporate customers. One of the biggest impediments is the lack of common standards and comprehensive lists of required documents. You never know when your KYC process will end. »

François Masquelier,
Chairman of Luxembourg Corporate Treasury Association, ATEL

KYC IN SHORT

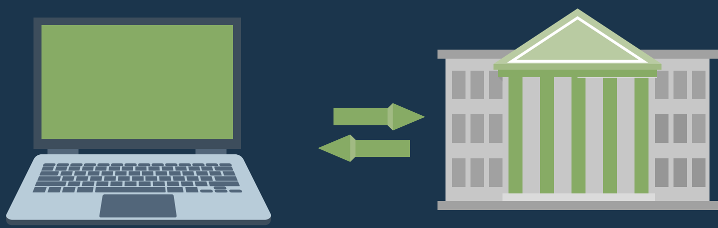
Several efforts have been made to standardize KYC across the industry, with limited effects. **Is it all about standards or is it about something else?** Here is a quick overview of the key issues experienced by corporate treasurers and their banks.

TIME TO MANAGE KYC

From 2 months to never*

**Sometimes it takes so long that the process is cancelled*

COST



€100 min. → up to €2000

Amount spent by corporate treasurers on KYC per account

100 million euros

Minimum amount spent by each Tier 1 bank annually on KYC

CURRENT PREFERRED COMMUNICATION CHANNELS:

Emails - Post
Fax - Excel, PDF

POTENTIAL RISKS

COMPLIANCE
Higher risks + Lack of audit trail

FRONT OFFICE
Poor client experience

OPERATIONS
Inefficient workflows
Higher costs

LEGAL
Lack of transparency

IT
Cybersercurity risks
Downstream effects of unstructured data exchange
Lack of scalability

« Solving the KYC conundrum involves approaching the solution differently. »

INTER
VIEW

Dan Matthies (Bloomberg): solving KYC with data

Dan Matthies, head of KYC at Bloomberg, says that technology can solve KYC information problems, helping firms avoid the costs, resources and delays that are incurred today.

« People focus on standardization of processes. I believe that the solution lies in standardizing data. »

Dan MATTHIES,
Head of KYC, Bloomberg

What is your analysis of the current KYC landscape?

I see today that everyone focuses on the same thing: a standardization of processes. If you look at the way regulators in Singapore and Hong-Kong constantly need to differentiate themselves in order to preserve a competitive advantage, you quickly understand that there are so many obstacles to regulators, countries and banks to agree on standard processes. Around the world, standardization might simply prove impossible. No single bank can solve an industry-wide problem: it is too complex and would require enormous investment. My view is that a more constructive approach is to search for standardized data instead. This way, you can become 'process agnostic' and reach your goals while allowing all stakeholders to maintain their own specific requirements.

How should KYC look in the future?

I see one main transformation: the industry needs to shift from emails to automation. Having an army of people requesting tons of documents from corporate treasurers today is highly inefficient. In the future, corporate treasurers should only need to grant access to specific data stored in a secure place. We will switch from documents to data. One of the key benefits of this evolution is that multiple, static requests will become continuous flows. Machines will automatically distribute information to authorized parties depending on the rules that were introduced during the set-up. Updates will be made in real time everywhere and corporate treasurers will have total control over their data. Our experience over recent years in KYC has clearly shown that asset managers, for example, are willing to simplify their KYC experience. However, they also insist on remaining in control which is critical in the GDPR context: granting access to their data is far better than asking them to put it in a common basket.

What benefits do you anticipate for corporate treasurers and banks?

They will be relieved from the current burden and will be able to create value out of their own data. Banks will better serve corporate treasurers who will be able to extract critical information to drive their businesses. But to achieve this revolution, an essential factor is critical mass. At Bloomberg for example, we already have over 3,000 firms and 200 banks in our 'Entity Exchange' community, who are responsible for over 65,000. Solving the KYC conundrum is a journey. The sooner each firm starts their own, the faster the whole industry will realise the change that it's been seeking.

TAKE AWAYS

CONTEXT

Treasury agenda is often hijacked by regulatory topics requiring urgent attention. Corporate treasurers should invest more in KYC solutions.

- Multiple bank relationships have increased KYC burden KYC negatively impacts client experience.
- Opening new bank accounts takes more and more time
- KYC costs are increasing significantly as requirements inflate and are not standardized
- Data and documents are transferred via unsecured means implying high risks on sensitive pieces of information

POTENTIAL SOLUTION TYPES

- Proprietary solutions (e.g. within a same bank group for its customers across the world)
- National solutions (e.g. working groups in France and in Luxembourg on blockchain – DLT but limited to local banks)
- Global market infrastructure solution (e.g. SWIFT register for SWIFT users only)
- Independent and open to all solutions (e.g. Entity Exchange from Bloomberg)

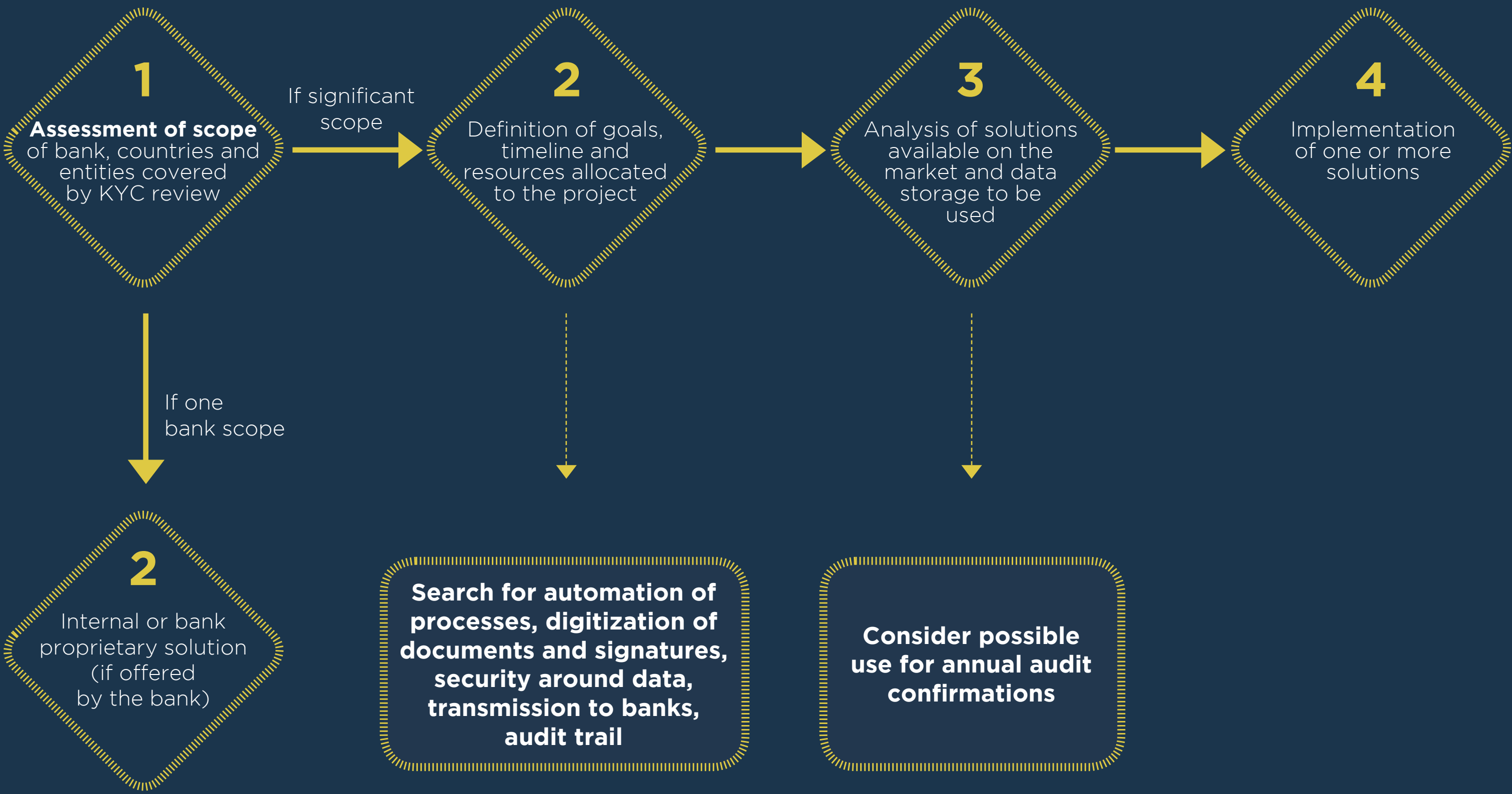
SMOOTHER AND MORE SECURED KYC PROCESS WILL CREATE VALUE

A standardized, automated KYC solution covering all types of users would be fantastic. It remains for different reasons some way off. However, we have good reasons to remain optimistic as lots of initiatives are emerging. There is unfortunately no single, fit-all solution. There are many parallel initiatives, of which some seem promising and others more difficult to roll-out.

We treasurers have the duty to move and to adopt one or several of them rather than to keep complaining about unstoppable KYC compliance rules. No one knows what could be achieved within a reasonable time and at acceptable costs. Nevertheless no one can complain if he/she doesn't try to move things forward. I am convinced that if we succeed in developing a solution, even if not perfect, we will bring value to the community, create awareness and momentum, boost all other initiatives and eventually play our role as a treasury association in serving our members.

By François Masquelier, Vice-Chairman of EACT, Treasurer RTL Group, Chairman of Luxembourg Corporate Treasury Association, ATEL

IMPLEMENTATION STEPS



CONCLUSION

Across the world, regulators have demonstrated no mercy to financial institutions that violated the stringent new post-GFC compliance rules. Now they are promising to punish corporations that do not respect AML and KYC requirements. Perpetual KYC compliance remains, for many reasons explained above, one of the hottest topics in treasury mainly because of the administrative burden and difficulties it creates.

There are several initiatives and solutions (in process or already live). They are all good and not necessarily in competition. Depending on your size and your complexity or degree of sophistication, one or the other may be a better fit.

Corporate treasurers complain rightly about KYC constraints. However, we believe it is time for action and to adopt or test some of these existing solutions. If the buy-side waits for standardization from the sell-side or from regulators, things could remain complex for years. No one could claim which one(s) will be successful. But it is our duty as treasurers to at least test some solutions to get rid of some costs, administrative burden and to secure KYC data processing.

THE
EUROPEAN
ASSOCIATION
OF
CORPORATE
TREASURERS

13,000+
PROFESSIONALS

23
NATIONAL TREASURY ASSOCIATIONS

6,500
COMPANIES REPRESENTED

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