How Much Data Do You Really Need to Collect to Know Your Customer?

Is it still KYC – Know your customer/client ?

- Why do we do it?
- Why do we collect customer data ?
- Why is KYC important ?
- Who does it affect/impact ?
- How do you decide what’s needed ?
- Are there any best practices ?
- Any other things to know?

Before entering into any relationship/partnership/ agreement do you…

…do your due diligence?

- **Would you hire someone without an interview?**
- **Would you lend someone money without knowing if they could pay it back?**
- **Would you buy a car without a test drive?...well**

Why do we do it?

Mandated	• Regulatory Requirements i.e. Fintrac, Patriot Act • Identification, Customer Due Diligence, Enhanced Due Diligence • Proof of due diligence
Personalization	• Targeted Services – device, location, frequency • Better authorization – performing acts on behalf of another • Goal planning
Identity Proofing	• Better authorization • Reduce identity theft • Reduce fraud
Research	• Trending and improved RPA (robotic Process Automation.) • Improved posture (suitability rule) • Risk scoring

- KYC became law in 1991
- FINTRAC Requirement: Financial Transactions and Reports Analysis Centre of Canada
  - Sector Specific Guidance (i.e. Accountants, FI's, Casinos, Brokers, Agents of the Crown
- Penalties: Large Cash Transactions, disbursements, suspicious transactions, record keeping
- Criminal Charges linked to PCMLTFA: Proceeds of Crime, ML and Terrorist Financing Act
  - Summary convictions at $250K and/or imprisonment

- Act on the Prevention of Transfer of Criminal Proceeds – 2007
- 2011 Update to include what to capture.
- 2013 update to include penalties and enforcement by the Japan Financial Services Agency

- Individual member states their own additional legislation ,but EU issued Guidelines:
- 4AMLD, 5AMLD, 5AMLD for what to collect.
- Details defined for (Personally Identifiable Information) PII

- KYC large part of AML back to Bank Secrecy Act (1970), no part of:
- Money Laundering Control Act of 1986 (more for records for tax, criminal/regulatory problems)
- Annunzio-Wylie Anti-Money Laundering Act of 1992 (after it became a federal offence, bigger penalties)
- Money Laundering and Financial Crimes Strategy Act of 1998 (gone nationwide now)
- USA Patriot Act of 2001 - Added Customer Identification (CIP) and Customer Due Diligence (CDD) as a response to 911
- Anti-Money Laundering Act of 2020 – now global because of new technologies (blockchain, AI etc.)

Who else has done this?

General frameworks are around Anti-Money Laundering
When did the rest realize the importance.
Regions on board include, but are not limited to:

- **China: 2006**
- **India: 2002**
- **Singapore: 2007**
- **Australia: 2006**
- **New Zealand: 2013**
- **France: 2009**
- **Germany: 1993**
- **Italy: 1991**
- **Spain: 2010**
- **Switzerland: 1977**
- **Mexico: 2004**
- **Argentina: 2000**
- **Brazil: 1998**
- **Chile: 2006**

- **Common Attributes collected:**

•Driver's license
•Passport
•Permanent Account Status Card
•Voter Identity Card
•Name
•Gender (sex)
•Date of birth
•Country of birth
•Nationality
•Employment information
•Address
•Telephone number
•Email address
•Code of Taxpayer Registration (RFC)
•Advanced Electronic Signature

Why do we collect customer data ?

- **Collect**

Collection with ***consent*** can be done:

- during registration of a new identity
- during a process requiring enhanced identification
- real time from usage (event data, location etc.)
- through integration with tertiary applications
- CIP (Customer Identification Program)
- CDD (Customer Due Diligence Program)

- **Use**

1. Removes the risk of onboarding customers or performing transactions that could involve money laundering, fraud or other illegal activities like financing terrorism.

i.e. This is very important when onboarding a politically exposed person, or those that may require enhanced due diligence (e.g. from suspect areas)

2. Used for Personalization of Services
3. Used for Authorization
4. Marketing ☹

Why is KYC important ?

- Estimated 3.5%+ ($106T) of the worlds Gross Domestic Product is laundered every year.
  - Around $3.7+ trillion US dollars.
- Anti-Money Laundering (AML) laws require it.
- Lowers Risks of Fraud
- Lowers Risks of Fines
- Lowers Risks of Reputational Damage
- Piece of mind that you know who you are forming a partnership with.

Who does it affect/impact ?

The usual suspects: (e.g. Canada)

Because they have to collect and use the KYC:

- Accountants
- Notaries
- Casinos
- Precious metal and stone dealers
- Agents of the crown
- Financial institutions
- Life insurance companies
- Money services businesses
- Real estate brokers and developers
- Securities dealers
- …

- The ones whose data is collected and used for their safety and for “an improved” user experience.

- **Customers**
  - Potential Customers
- **Clients**
  - Potential Clients
- **Suppliers**

- **…the future brings us**
  - 3rd Party Service Providers
  - Open Banking entities.

How do you decide what's needed ?

Rule of thumb

Gather only the information: you have asked for, what you have concent for,

& … for the purpose of the relationship or the 'intended nature' of the relationship.

Collect Fit for Purpose.

Follow your regulatory requirements:

Examples could include:

Customer due diligence

- **Name**
- **Date of birth**
- **Address**
- **Official document with a photo (from accredited source)**
- **Optional:**
- **Passport, Drivers license, Identity cards**
- **Utility bills, Bank statements**
- **Electoral register & Credit agencies for checks on data**
- **Beneficial owner: company partnership, trust**
- **Birth certificate, Military ID**
- **Social Insurance/Security card #**
- **Citizenship card/proof.**

Are there any best practices ?

- Not just once..you grow through what you go through
- Not just when net new
- When requirements are not met
- When suspicious (events, data, actions etc.
- When switching collected data (i.e. paper to digital)
- Do regularly: set intervals, by risk level or type, random

Imagine if you could….

- log in to your smart phone and ask SIRI or Google to ***open a bank account***
- your assistant could validate you are on your home network that is trusted by your service provider
- your service provider could validate your device because it is a: valid, purchased, registered device on a TelCo network that is trusted
- your personal assistant could validate your voice based on a biometric signature you have stored on your device that you needed to sign in with.
- you signed in with a pin and facial/voice recognition so we have a higher level of confidence it's you on your device.
- when asked for identification, you take a photo of your drivers license and the photo is compared with your face ID, your address is compared with the postal service open APIs and your date of birth with a national registry
- your drivers license validation shows that you have a passport that is expired, but it shows you are a citizen and asks for the middle 3 digits of your SSN/SIN as another form of proof
- those 3 digits are verified by a state/provincial service that shows you are person and are over the age of 16 and can open a bank account but because your last trip was to South America you are a person of interest requiring "Continued Due Diligence"
- because you are over 16 and the bank you are asking for an account has validated you have filed taxes an assumption is made on last years tax filing that you have earnings that you may wish to deposit to start your account and you are asked if you wish to link any additional services.
- because your surname is "Escobar" the banks artificial intelligence tools have made a follow up phone call…

Could the future have….

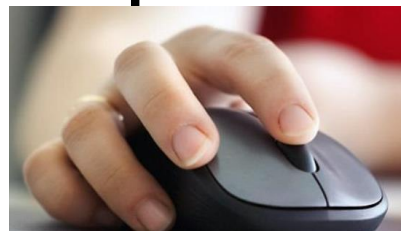
- KYC that will include:

- Typing Speed

- Gate

- Screen pressure
- Gyroscope movements
- Voice Patterns

- Mouse movements and click speed



identiverse

How is KYC Changing and why?

Advancement or Cost Savings?

- **Availability of new technology for proofing**
- **Desire for speed and efficiency with lower error rates**
- **More user requested Identity attributes**
- **NIST is an active player for Identity proofing.**
- **Desire for savings: cost, time, errors, effort etc.**
  - **Swift says 72% of payment exceptions were done because of error.**
- **More data information points**
  - No longer a single repository. Now starting to link, device, network, location, trends, verified knowledge sites, watch lists, sanctions (driven from Ukraine conflict), biometrics
  - Went from in person to digital and non-in-person
  - Integrations for “negative news” i.e. scanning social media, public media sites for related attributes
  - EU declared member states must have central registries of corporate ownership with accessible data
  - Real time validation and risk scoring as one step or process.
  - Automated document analysis
    - Use of AI and Machine Learning for analysis and validation, extrapolation, collection

Any other things to know?

When should you collect?

- **Business relationship building**
- **Sales events**
- **Suspect of ML or financing terrorism**
- **Customer doubt**
- **Customer circumstance change**
- **High value transactions**
- **High value payments**

What about Automation?

- **It will take work**
- **Massive amounts of data**
- **Model training – can create prejudiced results**
- **Accurate and complete data**
- **Dedicated or “approved” sources of truth**
- **Possible data lake development**
  - **Ownership**
  - **Policies for retention**
  - **Acceptable Use**
- **Potential inaccurate Identity verification**
- **Fake document verification**
- **Fake voice identification.**

THANK YOU!

Denny Prvu

Global Director of Architecture
Innovation and Technology

RBC