

Ongoing Customer Due Diligence and Remediations

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FINTRAIL

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Ongoing Due Diligence

The FINTRAIL and Jumio teams have been discussing why regulated businesses are expected to perform ongoing due diligence on clients, why it is important to remediate gaps identified, and the approach businesses should consider when performing this remediation.

Financial institutions and others in the regulated sector are expected to apply due diligence measures on existing customers at various intervals throughout the business relationship.

Here are some scenarios where a due diligence refresh may be required:



- **Risk-based KYC refreshes** - Customers represent different levels of risks to the business with higher risk customers likely to need a KYC refresh at more regular intervals than a lower risk customer.



- **Screening** - There is a regulatory expectation to regularly rescreen customers against PEP, sanctions and other lists. If that rescreening process results in a potential or positive match, organisations are expected to fulfil any related due diligence requirements (e.g. if a customer becomes a Politically Exposed Person (PEP), an institution may need to perform additional due diligence and collect more information on their source of wealth.)



- **Customer risk rating** - Customer risk rating methodologies should be dynamic which means risk levels associated to the customer may increase or decrease depending on the risk. Where a customer increases in risk, businesses should ensure they are performing commensurate due diligence on an ongoing basis in line with the customer's new risk level.



- **Customer Due Diligence (CDD) File Gaps** - If an organisation finds common themes relating to gaps in its customer CDD files, it is likely that it will need to remediate those gaps to ensure they truly understand who their customers are, to meet their regulatory requirements.



- **Changes to Business Relationship** - If a customer starts using additional products and services, or there are other changes to the nature of the business relationship, the risk the customer now poses to a firm may change and require additional CDD to be applied.



- **Suspicious about the Customer** - Suspicious transaction activity or customer interactions may prompt a firm to perform additional CDD to acquire more information to investigate their suspicions and explain the customer's behaviour.



- **Policy & Procedure Changes** - Anti-financial crime documentation is not static and should be updated regularly to remain relevant for the environment firms are operating in. When a policy or procedure is updated, consideration should be made as to whether the changes warrant any requirement to perform due diligence on customers to meet the new standards.



- **System Failures** - In circumstances where an internal or external system used for due diligence has become unavailable, financial institutions should consider whether their customers who have been onboarded during this period have been verified correctly. If they haven't, those customers should be re-KYC'ed to ensure records are correct and up to date.



- **New Systems** - Similar to any policy or procedural update, where businesses have adopted a new system or technology to meet their CDD requirements, consideration should be given to their existing customer base and whether they need to be verified again through that new system.



- **New Client Acquisition** - It is common practice for acquisitions to occur within the regulated sector, but the practicality of transitioning the customer base is not always thoroughly thought out. If a business has acquired 1,000 customers from another, they should consider whether they need to perform a KYC refresh on these customers in line with their own CDD policy.



- **Tax requirements** - Let's also not forget about the Foreign Account Tax Compliance Act and Common Reporting Standard (FATCA/CRS) requirements when applying CDD measures in order to fulfil any international tax compliance regulations. If not already considered, businesses may need to remediate any missing information.



Importance of Remediating Gaps

So what if you identify gaps in your Customer Due Diligence files through your internal assurance programme or an external audit, or you face a similar scenario to those mentioned above? First, breathe and then begin to assess how you are going to remediate the gaps. It is important to be proactive with any remediation to prevent the issue escalating further. It is not just a regulatory breach or fine relating to the specific CDD gap a business needs to consider. Many downstream controls within an anti-financial crime framework rely heavily on a business knowing its customers. If you don't truly know who your customers are, other controls could well be ineffective.



Operationalising a Remediation Process

Knowing the problem is only part of the issue and implementing the remediation plan may require an entire team to take accountability. Here are FINTRAIL and Jumio's top considerations when operationalising a remediation process:

- Inform **senior management** of the issue once the true extent is known.
- **Raise the risk** through your risk management process and ensure it is captured on future risk assessments.
- Set out a **remediation plan**.
- Assigning **roles and responsibilities** will ensure accountability and mean targets are more likely to be met in a timely manner.
- Assess whether **additional resources** are needed and whether budget approval for these resources is required.
- **Identify the risks** associated with not performing the remediation so that stakeholders are aware of the consequences.
- Once you identify the risks, apply a **risk-based approach** to how you perform the remediation. Consider prioritising high risk or active customers first as they may represent a higher risk to the business.
- Consider if the process should be **manual, automated** or a hybrid of the two, and whether there is a way that you can use a technology solution like the Jumio KYC Platform to make the process quicker and easier.
- Perform a **retrospective review** and ensure the gap that originally prompted the remediation is closed.



Policy & Procedural updates for ongoing due diligence.

Implementation of risk based ongoing customer due diligence.

Creation of remediation framework.

Deployment of FinCrime resources to run the remediation process.

Provision of automated solutions to allow seamless user experience for ongoing due diligence.

Assist organisations with the automation of the remediation process.

KYC and AML Identity verification process based on a government-issued ID (e.g., a driver's license) and a corroborating selfie including liveness detection.

End-to-end identity and eKYC platform, including ongoing screening and transaction monitoring

Thank You

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