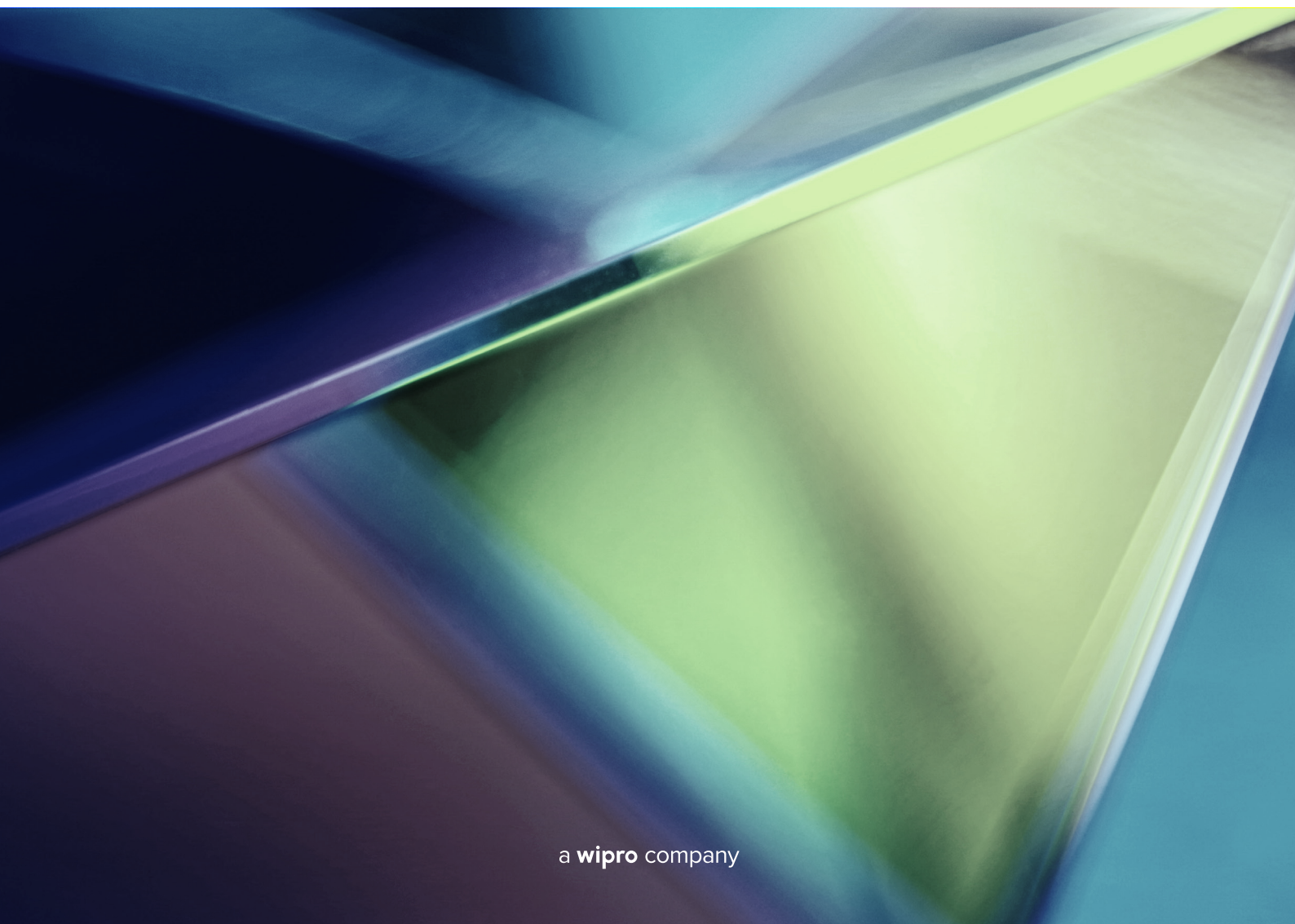


CAPCO

SOLVING THE CLIENT KYC DOCUMENT CHALLENGE

USING XCEPTOR TO ELIMINATE MANUAL
EFFORT IN KYC DOCUMENT PROCESSING



EXECUTIVE SUMMARY

- **Client Know Your Customer (KYC) collection and research remains a significant cost and time challenge for banks** – KYC is increasingly banks' biggest operational cost in time and effort,¹ with significant impacts to the client experience, and delay to time to revenue.²
- **Firms are moving to decrease client friction and onboarding costs by increasing KYC automation investment³** – Companies are seeking ways to reduce human-dependent KYC, increase tool-optimized processing,⁴ and move from point-solutions to automation across multiple steps.
- **Capco and Xceptor partnered to explore the Client KYC Document Challenge and how to tackle it** – We explored ways to streamline the collection, digitalisation, and downstream processing of common client KYC documents.
- **Coordinating multiple process steps to target Straight Through Processing (STP) is best to enhance KYC review efficiency** – Our approach combined multiple functions of the Xceptor platform and was able to perform straight-through-processing (STP) on common KYC review steps, taking only seconds per document.

“

31% of respondents said KYC has negatively affected their banking relationships – and 28% said they had abandoned the account opening process at least once due to KYC challenges

”

SWIFT & Eurofinance, The KYC Conundrum⁵

1. SWIFT, Global Webinar (2021) <https://www.swift.com/swift-resource/249771/download>,
2. Arachnys, Onboarding commercial banking customers: automate to accelerate (2020) <https://www.arachnys.com/onboarding-commercial-banking-customers-automate-to-accelerate/>
3. Capco, Capital Markets in 2021 – 7 key themes impacting Global Markets (2021) https://www.capco.com/-/media/CapcoMedia/Capco-2/PDFs/Capco_Capital-Markets-in-2021---7-Key-Themes-Impacting-Global-Markets.ashx
4. Capco, Investing in Dynamic KYC (2020), https://www.capco.com/-/media/CapcoMedia/Capco-2/PDFs/Investing_in_Dynamic_KYC.ashx
5. SWIFT – EuroFinance, Solving the KYC Conundrum (2019), <https://www.eurofinance.com/news/solving-the-kyc-conundrum/>, pg. 13

INTRODUCTION

In this paper, we discuss the use of the data and process automation platform Xceptor to accelerate and streamline the processing of key client KYC documents.

Working in partnership, we used the Xceptor platform to fully automate the collection, change assessment and downstream preparation of one common KYC document: the Wolfsberg Financial Crime Compliance Questionnaire (FCCQ).

We wanted to demonstrate what can be achieved by reducing human-dependent client KYC document processing, and how errors can be avoided with more accurate, automated approaches.

In our previous papers on the future of KYC, *The Journey towards Really Getting to Know Your Clients*⁶ and *Augmented Review: an Essential Step to Getting Started with pKYC*,⁷ we explored how reducing human-dependent processing is increasingly a bank's "new minimum" – that is: the new baseline demanded by the constantly rising industry standards, and by clients' growing expectations for zero-friction, digital, and near-instantaneous servicing.

In response, many firms already position "increased automation" as a central pillar of their KYC optimisation strategies. However, to realize these capability enhancements most effectively, Capco's experience shows firms must also have:

- **A joined-up approach across the end-to-end delivery:** coordinating the planning, prioritisation, and delivery, but also the measurement and benefits realisation of automation (including FTE save calculations and any redeployments), and
- **An overarching target to increase straight-through processing (STP):** i.e., connecting in sequence both within and across multiple steps of the KYC operational lifecycle.

Our practical demonstration using Xceptor helps "bring to life" the real-world use cases of the platform, but also shows how Xceptor can support the move to the step-change capability advancements seen with *Augmented Review* and *pKYC*.

6. Capco, *The Journey towards Really Getting to Know Your Clients*, (2020), <https://www.capco.com/intelligence/capco-intelligence/the-journey-towards-really-knowing-your-clients>

7. Capco, *Augmented Review: An Essential Step to Getting Started with pKYC*, (2021), <https://www.capco.com/intelligence/capco-intelligence/augmented-review-an-essential-set-to-getting-started-with-pkyc>

WHAT IS XCEPTOR?

Xceptor is a no-code, process, and data automation platform. It can ingest and export documents in any-source and any-format and provide the capability to develop, manage and integrate the automation of multiple complex processes using a single solution.

Xceptor offers the flexibility to provide point-solution automation of specific tasks, or the ability to scale up to full end-to-end,

multi-step automation across multiple systems and processes.

Xceptor is deployable anywhere that would otherwise require bespoke tooling or robotic process automation (RPA) solutions. And as a single platform solution – multiple automation operations can be managed with a single coordinated approach, and with far richer cross-process business intelligence (BI) and management information (MI) oversight.

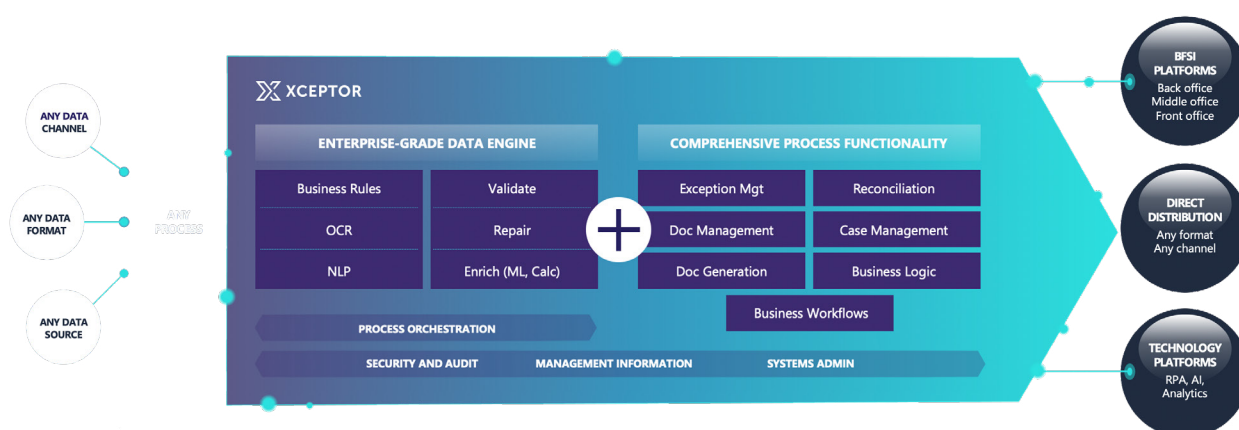


Figure 1: Xceptor functional visualisation: Xceptor provides full end-to-end automation and data processing capability, and critically accepts inputs from any channel, any format, and any data source, providing broad options for deployment.

THE CLIENT KYC DOCUMENT PROBLEM

When collecting KYC documentation, banks are required to complete several complex and multi-step processes whenever they:

- Onboard new, or periodically review the risk profile of existing clients
- Understand the client's potential financial crime risk
- Capture the necessary data to meet regulatory obligations

As KYC processing complexity and regulatory rule sets grow in size and complexity, simply scaling human teams to process these requirements has become unsustainably expensive, and simply too slow to keep pace with the need.

Firms are therefore looking to automation and smarter technology deployment to alleviate and augment their human KYC analysts to achieve the needed efficiencies.

Common stages in the client KYC document processing (1 – 6)

For many firms, processing KYC documents commonly involves the following six stages – and even with all the complete documents immediately available (Outreach steps 1-3), the careful collection, comparison and change evaluation effort (steps 4-6) is still measured in work-days – and time away from revenue generating client services:

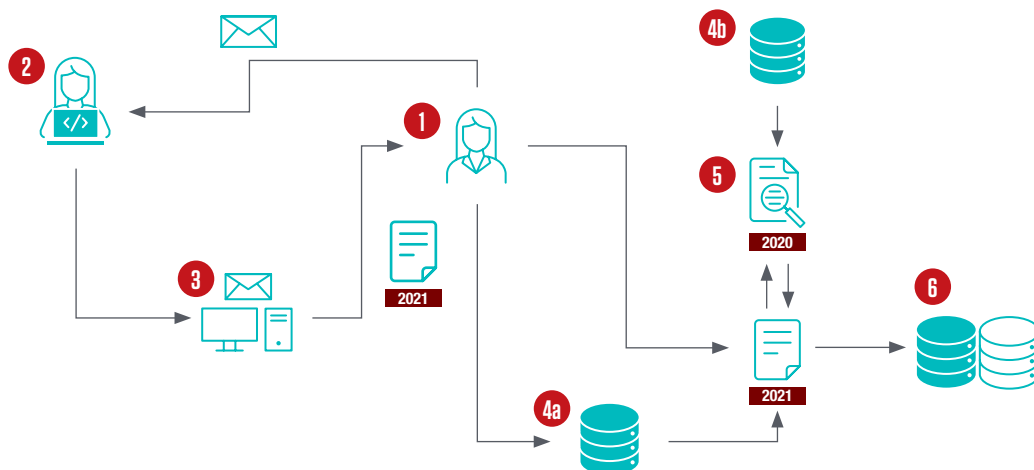


Figure 2: A simplified process view of client outreach: the Relationship Manager (RM) has many manual steps to initiate the request, track, and process a key client document back into the Bank's KYC system of record

1. Client's periodic review is due and the relationship manager initiates outreach, via email, to request a key document needed to complete an internal risk review
2. Client responsible person receives the request for information and responds
3. Key document arrives to the team inbox as an email
- 4a,b. Relationship manager accesses an internal KYC System (potentially more than one) to understand key KYC facts, retrieve historic documents, and gain context on the client relationship
5. Relationship manager manually assesses the new information for changes since the last review
6. Relationship manager completes the review, manually updates the internal assessment form, and accesses the system of record to capture the new data from the client

The top three issues to address

In our review of the typical process and associated challenges, we identified three core problems to solve for within our demonstration. These included:

1. Significant manual effort to accurately read and extract key client facts,
2. Manually dependent onward data entry to prepare the data, and
3. Slow aggregation and transformation of key data to make useful risk assessments.

Characteristics to identify automation opportunities in client documentation

Firms will be familiar with principles for automation candidacy from the broad deployment of RPA; when selecting candidates for automation, the best return on investment for the effort will exhibit the following characteristics:

- Entail repetitive, similar tasks
- Utilize rules-based processing
- Have high volumes of cases (scale)

Common challenges of manual dependency and their impacts on KYC processing

Challenges	Common Process Impacts
Multiple, disconnected processes	<ul style="list-style-type: none"> • Slower processing, with duplicate effort to engage with multiple systems each time • Multiple steps also increase the human error and data entry error risk at each step
Manual data keying and extraction	<ul style="list-style-type: none"> • Repeat data keying (entry) is repetitive of effort, prone to human error risk, and slower • Manually downloading files is slower and may not follow naming or file-type tagging rules necessary for further downstream automation • Data extraction errors of key facts into downstream systems can cause “missed” risks and reduce controls effectiveness • Data entry error is a primary cause repeat requests for information from a client – reducing service quality and effectiveness
Poor data aggregation and multi-source enrichment	<ul style="list-style-type: none"> • Poorer leveraging of attained data, reducing timeliness of availability and accuracy of information increases risk of making the wrong risk decision • “Missed facts” significantly increases regulatory risk where a key fact was available to the business, but not acted upon
Email-dependent Outreach	<ul style="list-style-type: none"> • Little or no management information (MI) on status, hard to track initiation and request aging • Response management is ad-hoc and dependent on analyst or relationship manager performance • Poor standardisation and quality control of communications, naming conventions for documents or completeness of requests • Poor insight into performance or business intelligence to target improvements
Poor scalability to demand	<ul style="list-style-type: none"> • Human dependency risks bottle necks to processing • Increases in volumes (or decreases in capacity) significantly impact area performance
Poor client experience	<ul style="list-style-type: none"> • Poor client experience from the high-friction process – especially from incomplete or duplicate requests (“I already sent this...”), poor leveraging of existing data and documents (“you should already know that...”) <ul style="list-style-type: none"> • Bad client experiences reduce client satisfaction which has been strongly linked to poorer relationship profitability,⁸ worse client retention over time, and reduced opportunity for onward cross-selling for related products⁹

Table 1: A summarized view of common challenge types attributable to manual dependent KYC and outreach processing

8. American Express, Customer Service Barometer 2017, (2017) (via BusinessWire), <https://www.businesswire.com/news/home/20171215005416/en/WellActually-Americans-Say-Customer-Service-is-Better-Than-Ever>

9. Harvard Business Review, The Value of Customer Experience, Quantified (Peter Kriss, 2014), <https://hbr.org/2014/08/the-value-of-customer-experience-quantified>

DEMONSTRATION CASE STUDY: CAPCO-XCEPTOR KYC DOCUMENTATION AUTOMATION

For our technical demonstration, we chose to automate the ingestion, change assessment and data transformation of one example KYC document, in this case the Wolfsberg Financial Crime Compliance Questionnaire (FCCQ).

The Wolfsberg FCCQ was a good candidate due to several factors:

- The Wolfsberg questionnaire is a common document for assessing regulated financial institutions (FI)

- It is often requested on an annual basis for the same entity
- It is collected for multiple clients, which share and submit this industry standard document type
- The data it contains describes key AML controls of the client and thus is of high value for risk assessing FI clients
- The Wolfsberg FCCQ has an established structure and common layout

Xceptor-enabled KYC document processing (1 – 6)

To build the functional demonstration, we combined multiple capabilities of the Xceptor platform to achieve end-to-end STP of the collection, evaluation, and processing of the KYC document.

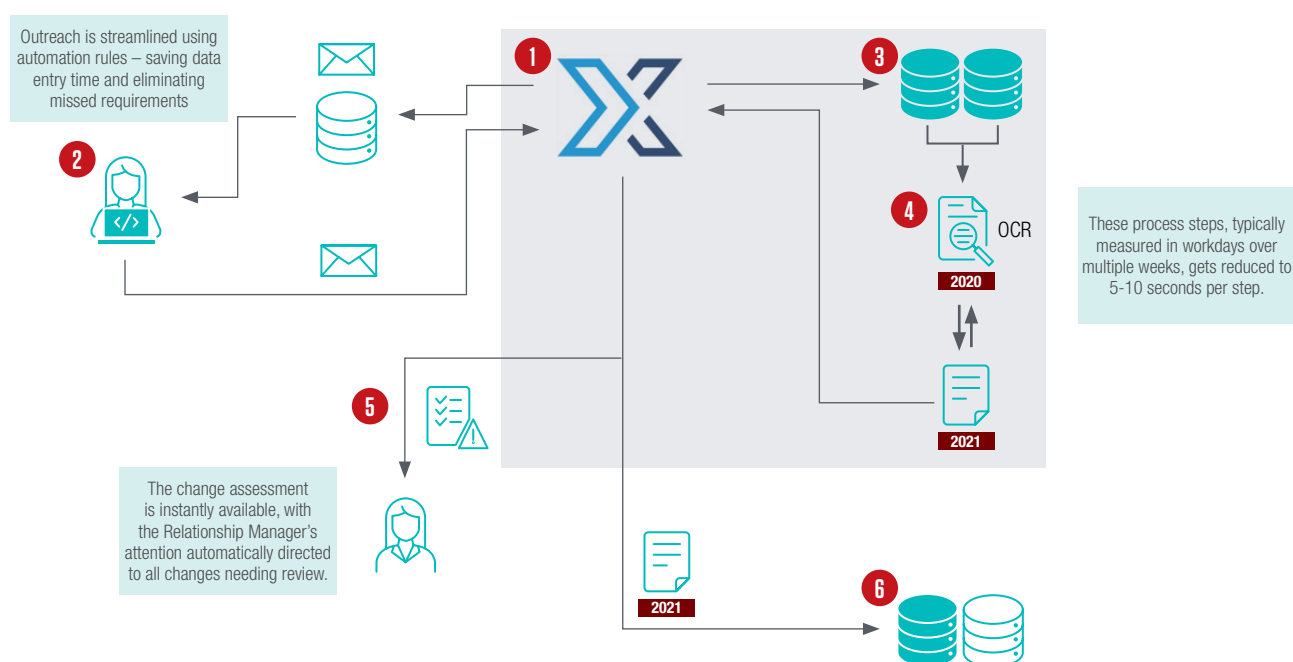


Figure 3: A simplified view of Xceptor-optimized client outreach process: the relationship manager is no longer the central point of the process and is freed up to focus on value-added client servicing or risk-critical processes

1. Xceptor integrates with existing email client and initiates work based on Book of Work (BoW) and document checklist – never missing a client or key document request
2. Client's responsible person receives the comprehensive request and responds
3. Email and document attached is accepted as an inbound source and last year's document is accessed from the system of record for comparison
4. Xceptor's optical character recognition (OCR) module¹⁰ automatically scans and extracts from the documents
5. An automated change assessment (based on comparison of the 2020 and 2021 documents) is presented to the relationship manager
6. Subject to approval or no change, the updated internal form is enriched with the Wolfsberg Questionnaire data and output to downstream systems for onward processing

Xceptor prepared modules

Xceptor has a number of prepared 'modules' which contain pre-created rules for fast deployment of automation for common use-cases.

In our demonstration, Xceptor used a selection of the rules within the client outreach module and was integrated with the existing email client (Outlook).

Using this approach, Xceptor successfully:

- Automated initiation of outreach requests based on a representative Book of Work
- Automated the download and tagging of key documents when received from clients, enabling further downstream automation and data quality control

Whilst not fully deployed in this case, Xceptor can also provide tracking of client responses, automate client outreach chasers, or provide predictions and warnings of requests likely to miss critical deadlines.

Enrichment and automated assessment – combining internal and external KYC research

In our demonstration, we combined Xceptor's OCR module and scanning capabilities to collect and extract key KYC data. We also automatically prepared and populated that data into a representative internal form. In this case, a risk assessment summary leveraging the client's KYC data and statements on their AML and other financial crime controls.

10. Xceptor can combine with client's preferred OCR solutions – in this case, the existing ABBYY OCR tool was used. Website: <https://www.abbyy.com/>

Below is an example risk assessment document updated with multi-source information automatically combined from the client's Wolfsberg questionnaire answers and existing bank records to create a single, enriched record.

REFERENCE KYC DEMO

- completes a Wolfsberg FCCQ or CBDDQ,
- engages in cross-border and/or other higher risk Correspondent Banking services,
- provides or offers Securities Custodians and Intermediaries services

Retail Banking <input checked="" type="checkbox"/>	Financial Markets / Trading <input type="checkbox"/>
Private / Wealth Management <input checked="" type="checkbox"/>	Securities Servicing / Custodian <input checked="" type="checkbox"/>
Transaction Banking <input checked="" type="checkbox"/>	Broker / Dealer <input type="checkbox"/>
Investment Banking <input type="checkbox"/>	Development Banking <input type="checkbox"/>
	Other <input checked="" type="checkbox"/>
	Please Specify:

Figure 4: Representative internal risk assessment form has been populated from three sources, to create a single, enriched single client view. Colours represent the content sources to illustrate aggregation. Highlighted in yellow, we see the client has opened three new business areas since 2020, potentially presenting new areas of AML risk.

By utilising Xceptor's intelligent automation capability, change assessment against last year's document can be automated to increase the speed and accuracy of review. Material changes were then able to be highlighted and surfaced to the RM, saving worker review time by focusing attention only on areas of actual change.

Other example areas firms can use Xceptor's data automation and OCR capability include:

- Automated validation of client's documents for completion: i.e., is wholly completed, with no missing fields
- Key word and phrase scanning: automate identification of high-risk jurisdictions, significant change in operational jurisdiction, or other "watch list" items

- Identify negative or missing answers for mandatory criteria: e.g., within the FCCQ, that the client has adequate politically exposed persons (PEP), or sanctions screening

Through the OCR scan and Xceptor's ability to output to any format, the extracted data can be automatically transformed into other downstream systems or internal document type for onward processing. For one example, a recent change to the client name or company officer can be automatically forwarded to adverse media and screening teams for processing.

A BROADER CONTEXT: AUTOMATION & STRATEGIC KYC

As firms look to improve the KYC processing maturity and leverage automation across their operations, it is unlikely any single solution will wholly solve all issues. Instead, firms will need to consider several approaches in combination: improving operational efficiency over time, and with a coordinated approach to digital, technology and data strategy.

Data automation, aggregation and API-enabled research has been a key enabler to saving banks time and money and accelerate their journey towards perpetual KYC.

As a broad format platform for data and process automation, Xceptor is a powerful option to sequence many parts of the end-to-end and STP automation of KYC, as it can enable: (1) the automation of task initiation and (2) the connection between two systems by ingesting upstream output and structuring it for downstream ingestion.

Key Takeaways for Firms:

- **Human-dependent KYC processing is increasingly obsolete:** with highly competitive markets, firms are under ever rising profit and cost-to-service challenges for the same client base, and slower human-dependent processing isn't keeping pace

- **Firms must continuously innovate to stay relevant:** regulators are demanding ever higher standards of firms, whilst growing client expectations of digital, zero friction, and near instant servicing is making the need for these enhancements urgent and necessary
- **Industry is trending towards increased STP of KYC:** firms are looking to radically improve their KYC maturity by adopting augmented review and perpetual KYC solutions, and are using these API-enabled research and more holistic & combined process automation, to increase STP of KYC across their client servicing
- **Available market solutions are advancing:** advances in tool offerings, in both capability and effectiveness, is helping banks make this transition, but a multi-factor and holistic approach is still required as no single solution addresses all needs
- **Scalability across processes is key:** due to the broad format and scalability of Xceptor's platform-based solution, the platform offers a flexible solution to achieve the needed STP of KYC across KYC processing, reduce client friction and time to revenue, and help firms advance on their journey towards perpetual KYC

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ABOUT CAPCO

Capco, a Wipro company, is a global technology and management consultancy specializing in driving digital transformation in the financial services industry. With a growing client portfolio comprising of over 100 global organizations, Capco operates at the intersection of business and technology by combining innovative thinking with unrivalled industry knowledge to deliver end-to-end data-driven solutions and fast-track digital initiatives for banking and payments, capital markets, wealth and asset management, insurance, and the energy sector. Capco's cutting-edge ingenuity is brought to life through its Innovation Labs and award-winning Be Yourself At Work culture and diverse talent.

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