

# KYC models

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TalTech / SEB

# Landscape

## Customer



- Multiple and duplicated information requests and points of contact
- Long onboarding process
- Time consuming renewals

## Financial institution



- Increasing KYC costs
- Data quality
- Changing regulatory targets
- Risks of KYC failure
- Scrutiny by regulators
- Sub-optimal customer experience

## Regulator



- Difficult to oversee individual FI approaches and processes
- Complex international standards
- Recent top tier banks' KYC failures

# Financial crime becoming more sophisticated

## The Russian LAUNDROMAT EXPOSED

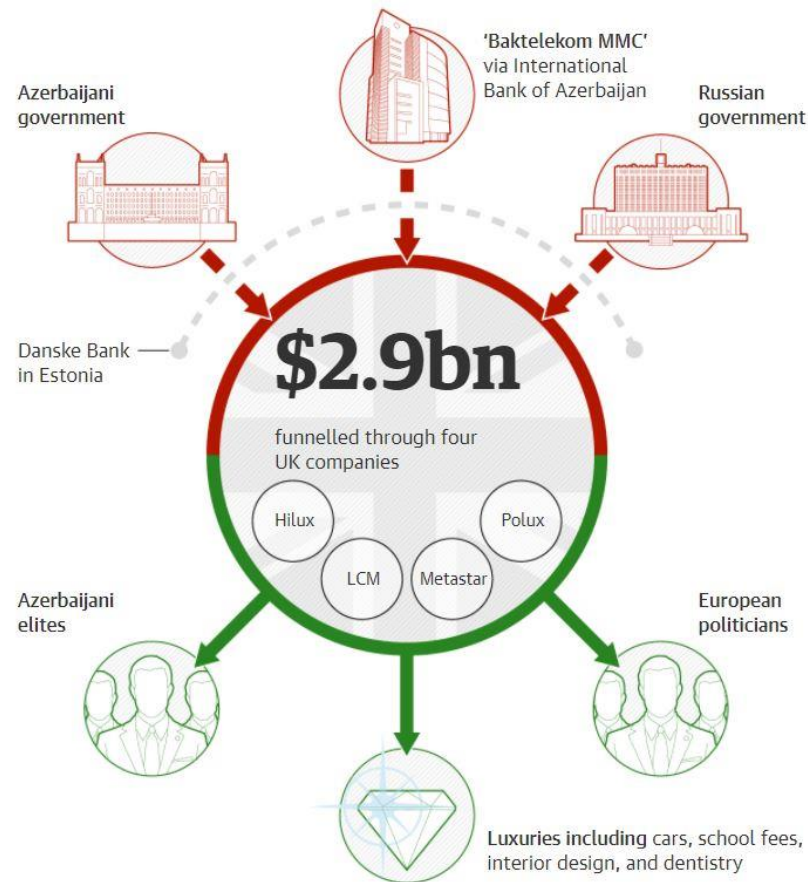
Between January 2011 and October 2014 \$20.8 billion from 19 Russian banks was laundered.

The money went to 5,140 companies with accounts at 732 banks in 96 countries

How was this scale of criminality possible?  
How did it work?

- 1 First, two companies - secretly belonging to Russian money launderers - one formal overseas. They exist only on paper and do nothing in the real world.
- 2 Company A becomes a "creditor" by appearing to lend a sum of money to Company B, which signs a contract promising to repay. But no actual money changes hands.
- 3 This debt is guaranteed by the Russian company (or companies) that set up the deal. Crucially, the deal always involves a Moldovan citizen.
- 4 Company B defaults on the fictitious debt, prompting Company A to "call in" the guarantee, demanding a repayment from the Russian company.
- 5 Since the debt was guaranteed, in part, by a Moldovan citizen, the matter must be resolved in a Moldovan court. Corrupt judges - who are part of the scheme - issue an official court order that the Russian company must honor the guarantee and repay the debt.
- 6 The Moldovan court appoints a judicial executor - also part of the scheme - to arrange the transfer. The executor opens an account in Moldindconbank to which the Russian company then deposits the money, "settling" the fake unpaid debt.
- 7 The Russian money is now in Moldindconbank - laundered, certified by a Moldovan court, and ready for use. Some is used to purchase luxury goods. Much of it continues on to a Latvian bank, TSBK Komerbanka, from which it's passed through a number of shell companies to accounts all over the world.

## The Azerbaijani Laundromat sent billions of dollars through four UK companies



# TROIKA LAUNDROMAT

FRAUD MONEY IN TROIKA'S UNIVERSE OF COMPANIES

## SHEREMETEV FUEL FRAUD

- Pool Service Limited
- Schulhof Investigation GmbH

## FRAUD EXPOSED BY MAGNITSKY

- Zarina Group Inc
- Reaton Ltd
- Vanterey Union Ltd
- Protection Company Inc
- Lorwick Holdings Ltd
- Whitewood Industrial Corp.

## REINSURANCE FRAUD

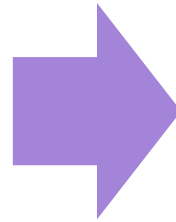
- South American Reinsurance Company

Each dot represents one company  
Lines represent money flow between companies

- Troika's network of companies
- Companies sending money offshore
- Companies mentioned in criminal cases about money laundering

# De-risking trend

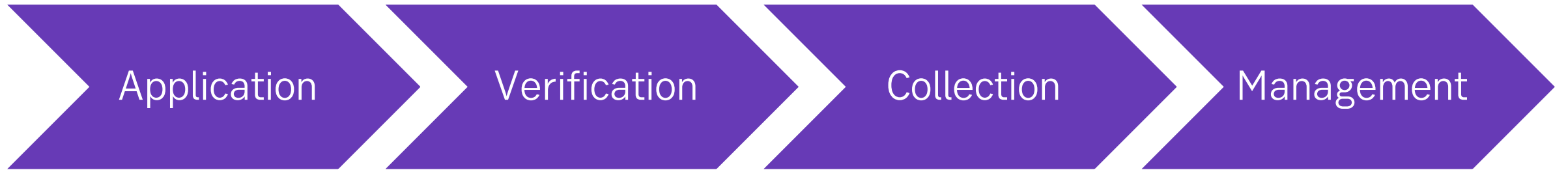
- FI's opting to exit entire categories of customers
- Whole segments of consumers and entire product lines are being abandoned
- Safer to avoid high-risk clients altogether than to manage the associated compliance costs



- May lead banks to outlaw entire lawful industries
- Could force some of these entities and individuals to turn to service providers with limited AML capabilities or to the shadow banking system

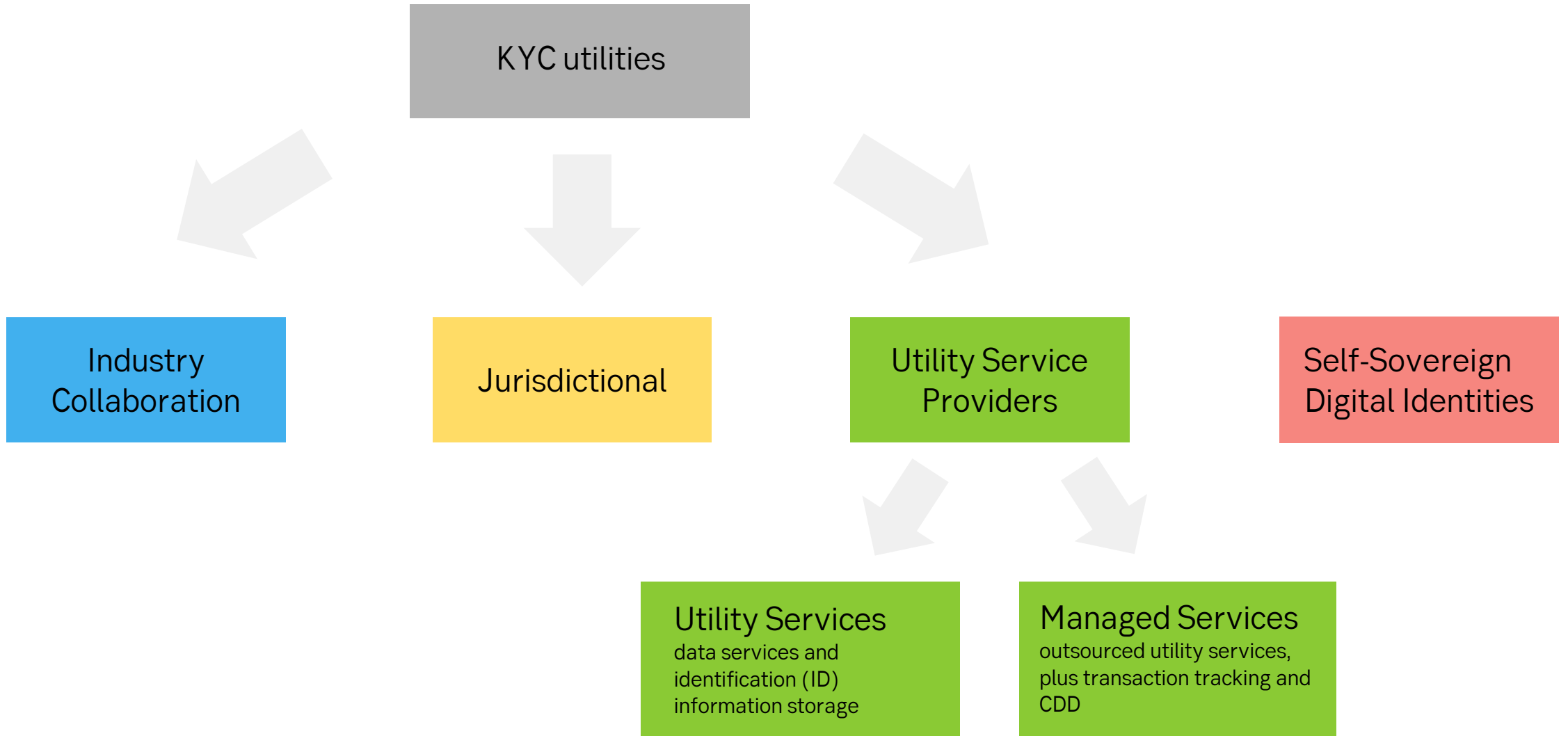
In order to help ensure the future health and security of the financial system, it will be imperative for all players to work together

# Typical customer on-boarding process



# Example process in case of shared KYC utility

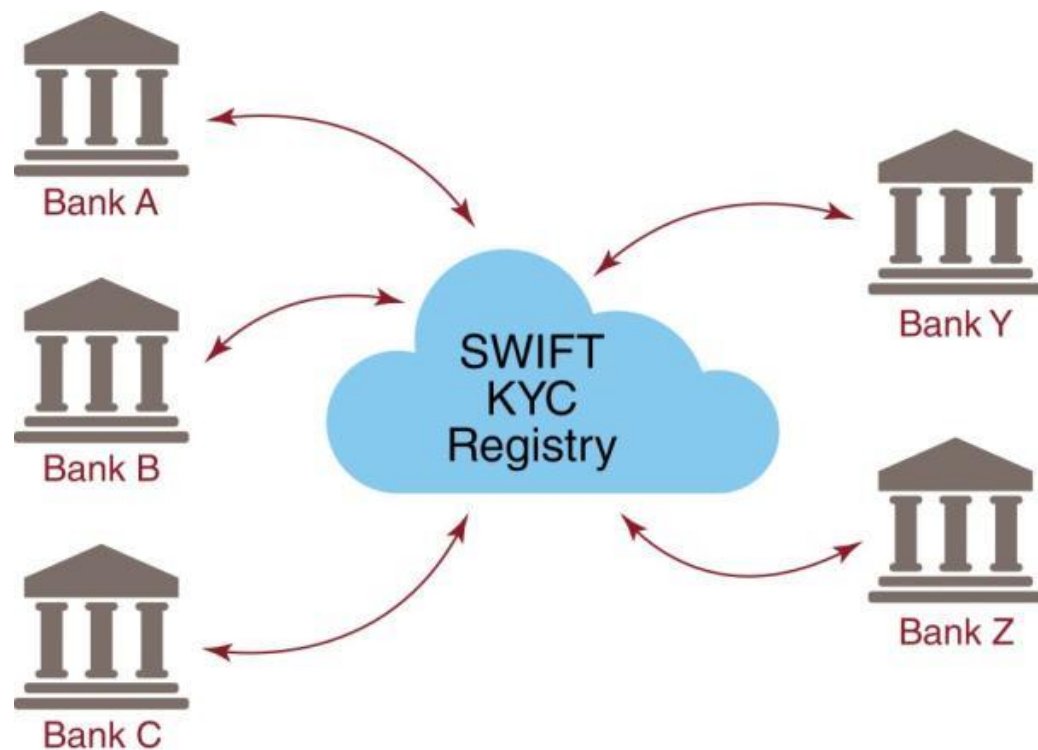




Source: Adl and Haworth 2018; Sengupta 2017

# The SWIFT KYC Registry

A single source to share & collect your KYC data for Correspondent Banking



5500  
banks  
registered

60% coverage in terms of SWIFT-connected banks  
75% coverage in terms of SWIFT transactions volume



## Standardized baseline

*Extensive information including legal entity data, ownership, client and product segments, detailed AML questionnaire, tax/FATCA/CRS information*



## Up-to-date information

*Time-stamped data. Any changes are communicated in real-time to correspondents*



## Data verification by SWIFT

*All data verified by SWIFT compliance professionals*



## Cooperative business model

*Unlimited number of users, volume-based pricing and guaranteed maximum spend*

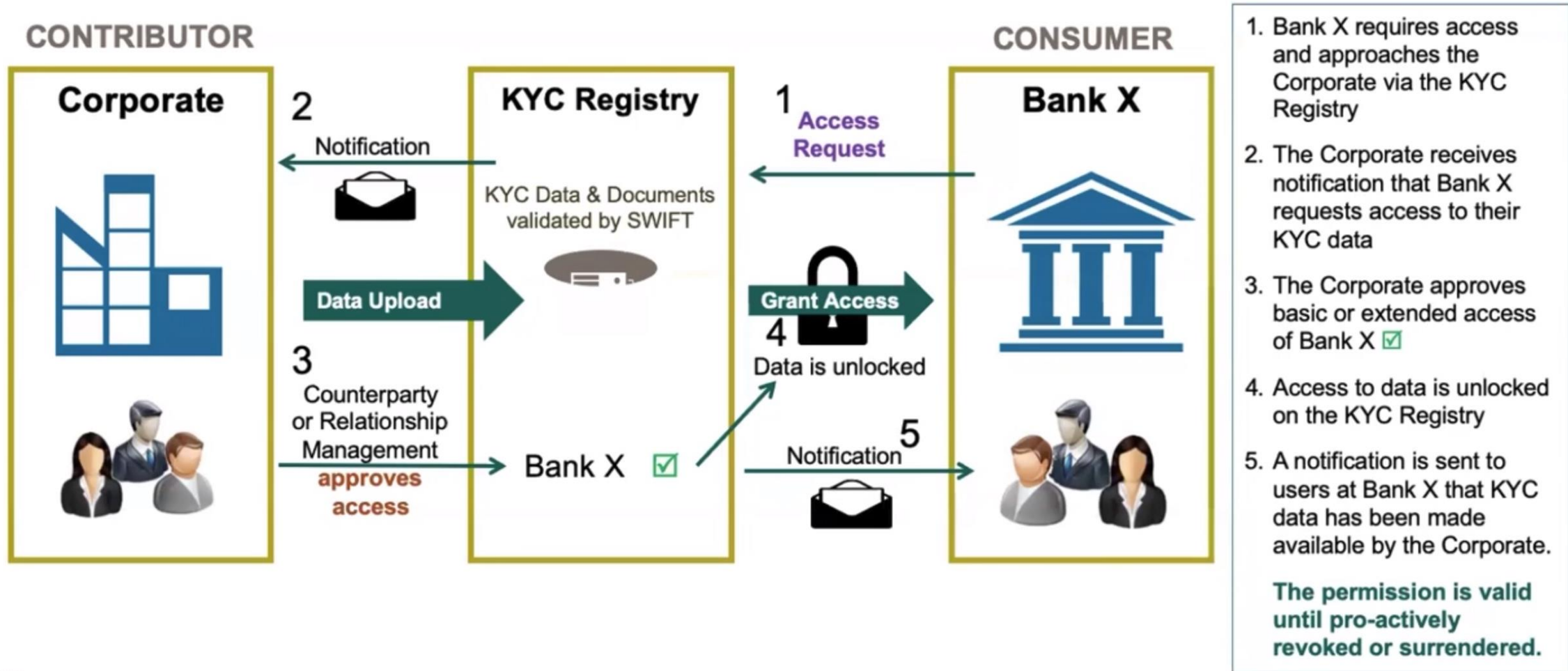


## Secure, user-control access

*User Approved sharing of KYC data*



# SWIFT KYC registry for corporates



# D.KYC (Deloitte Know Your Customer)

Managed Services  
outsourced utility services,  
plus transaction tracking and  
CDD

**Deloitte.**

## About

- Launched in 2018
- Provided by Deloitte Luxembourg
- Integrated managed service that combines numerous KYC/AML/CTF services, expertise, and workflow management.

## Features

- Counterparty onboarding - Initial risk scoring and due diligence
- Ongoing monitoring and due diligence
- Watchlist and adverse media screening
- Documents verification/qualification
- Oversight & Reporting
- Data hosted in Luxembourg

# D.KYC operating model



# Singapore MyInfo Personal Data Platform

Jurisdictional



<http://www.myinfo.gov.sg>



## What data items are in MyInfo?



- NRIC
- Name
- Sex
- Date of Birth
- Nationality
- Country of Birth
- Race
- Dialect



- Relationship
- Name
- ID Type
- ID Number
- Marital Status
- Marriage Date
- Divorce Date



- Name of Employer
- Occupation
- Highest Education Level
- Name of School
- Year of Graduation



- Yearly Assessable Income
- Year of Assessment
- Monthly Household Income
- CPF Account Balances
- CPF Contribution History (14 Months)



- Mobile Number
- Home Number
- Email Address
- Mailing Address
- Billing Address
- Registered Address
- Type of Housing



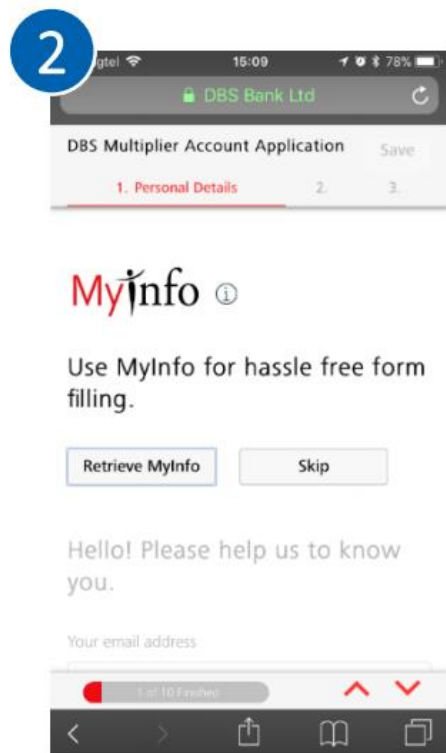
- Ownership of Private Residential Property
- Vehicle Number

# Consent based data sharing

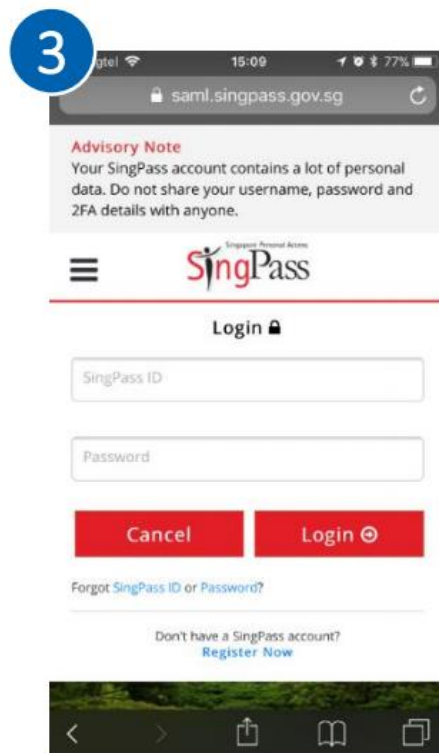
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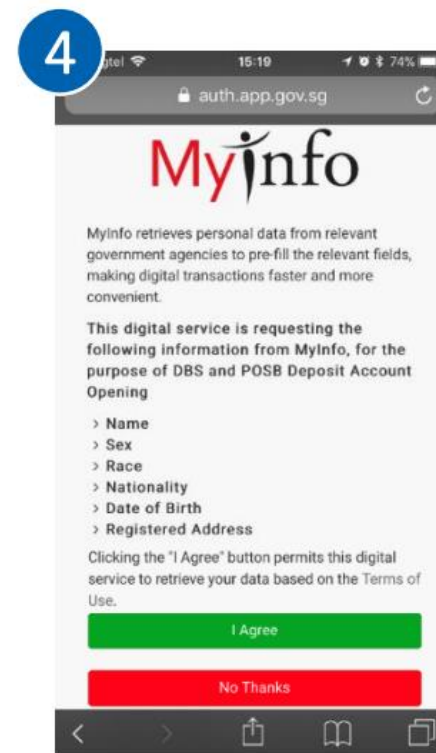
Visit bank's Web site



Apply with MyInfo option



Login with SingPass & 2FA



Consent to share MyInfo profile



Complete and submit

Now available at:



# Streamlining private sector services

Jurisdictional



## Legacy Process

- Regulatory Requirement
- Proof of Identity
  - Income statements
  - Other supporting docs



## With MyInfo

Verified Data  
From  
Authoritative Source  
through APIs



Seamless bank  
account opening



KYC And compliance  
efficiencies

## Outcomes

Convenience for citizens  
and  
Productivity and cost savings  
for businesses

Pilot banks have reported:

Average usage by 50% of eligible customers.

Up to 80% reduction in application time for customers.

Up to 15% increase in approvals from better data quality.


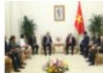


# MAS working with group of banks in Singapore to build joint KYC utility for countering money laundering and terrorism financing

Methods of detecting and preventing the abuse of the financial system cannot remain static, as criminals are constantly finding more creative ways to perpetrate crimes.

by Priyankar Bhunia — 27 October, 2017 in Cyber Resilience, FSI/Fintech, News, Singapore



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In a speech delivered at the Association of Banks in Singapore (ABS) Financial Crime Seminar on July 2017, Mr. Chua Kim Leng, Assistant Managing Director, Monetary Authority of Singapore (MAS) talked about how banks can work smarter on the AML/CFT (anti-money laundering / countering the financing of terrorism) front.

Technology

# Singapore's Bank Intel-Sharing Plan in 'Coma' on Cost Concern

By [Chanyaporn Chanjaroen](#) and [Andrea Tan](#)  
October 12, 2018, 3:44 AM GMT+3

- ▶ Utility is meant to save costs of opening corporate accounts
- ▶ Costs of the plan exceeded expectations, MAS's Ravi Menon says

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Ravi Menon on Oct. 13 Photographer: SeongJoon Cho/Bloomberg

# Design desicions

1. **Mutualisation** - one single KYC record
2. **Centralisation not decentralisation**
3. **Exclusion** of private individuals and private banking
4. **Harmonised policy and operating model**
5. **Customer interaction by bank not Utility**
6. **Ownership model** - separate company, with independent management. Banks will not have any ownership.
7. **Adoption strategy**
  - ensuring ecosystem connectivity with other data sources
  - ensuring the ability to ingest and output many different types of data formats
  - exploring ways to increase adoption rate of the Utility, e.g. regulators mandating the use of the Utility



## INDUSTRY BANKING KYC UTILITY PROJECT AFTER-ACTION REPORT – KNOWLEDGE SHARING

### INTRODUCTION

1. A party proposing a geographic or cross-border Know-Your-Client (“KYC”) utility capability for corporates will benefit from the foreknowledge that this subject matter is much more technically demanding and operationally challenging than appears from a cursory analysis.
2. For the past 2 years, such a project was undertaken by an industry utility steering committee (the “IUSC”) comprising Singapore indigenous and large international banks, reporting to the Council of the Association of Banks in Singapore (“ABS”). The objective was to create:

***A centralised utility capability for performing, to the maximum degree possible, end-to-end KYC tasks in respect of corporate customers, mutualising each such record in order to reduce duplication and to prevent criminals exploiting information asymmetry between institutions.***

In September 2018, the project was put on hold by the ABS.

3. This report is published by the IUSC to share knowledge around:
  - a. The problem statement
  - b. Core design decisions made
  - c. Achievements
  - d. Challenges
  - e. Learning experiences

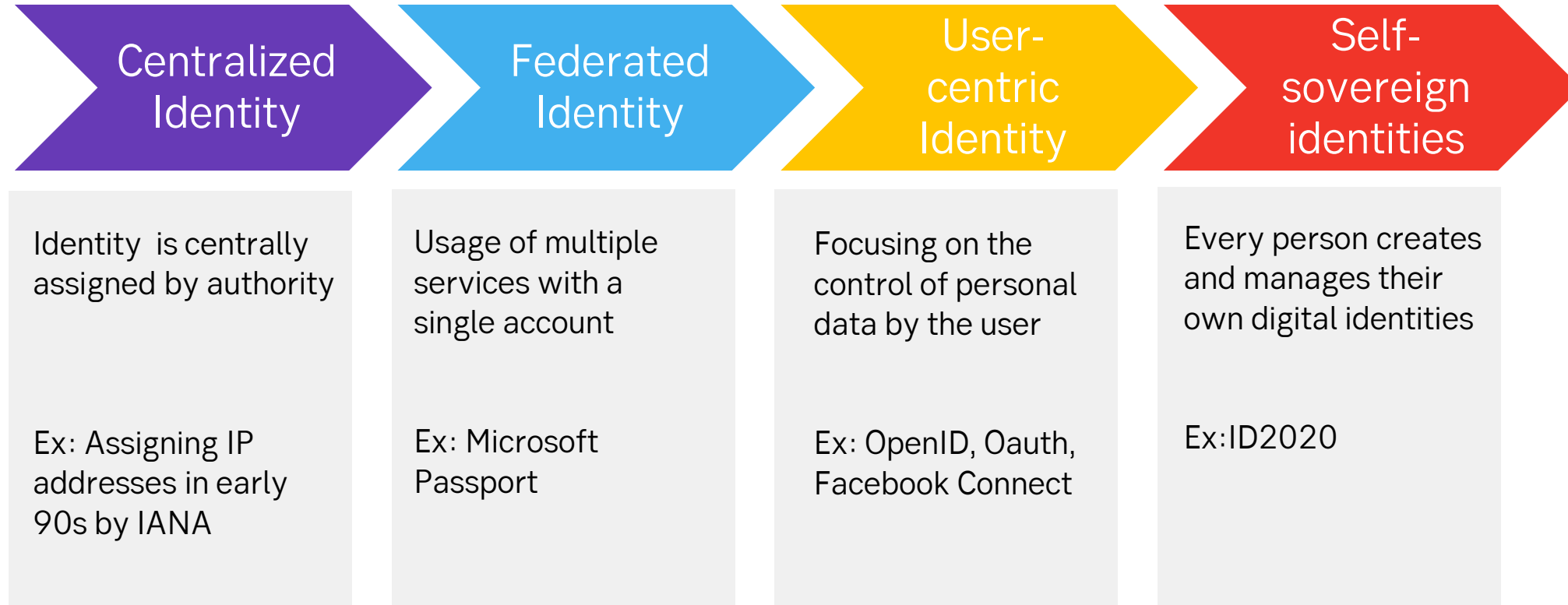
This report is not intended as a technical paper but as an incisive reflection on the problem to be solved, the key decisions around which similar projects are likely to pivot, and discusses the trade-off options associated with these decisions.

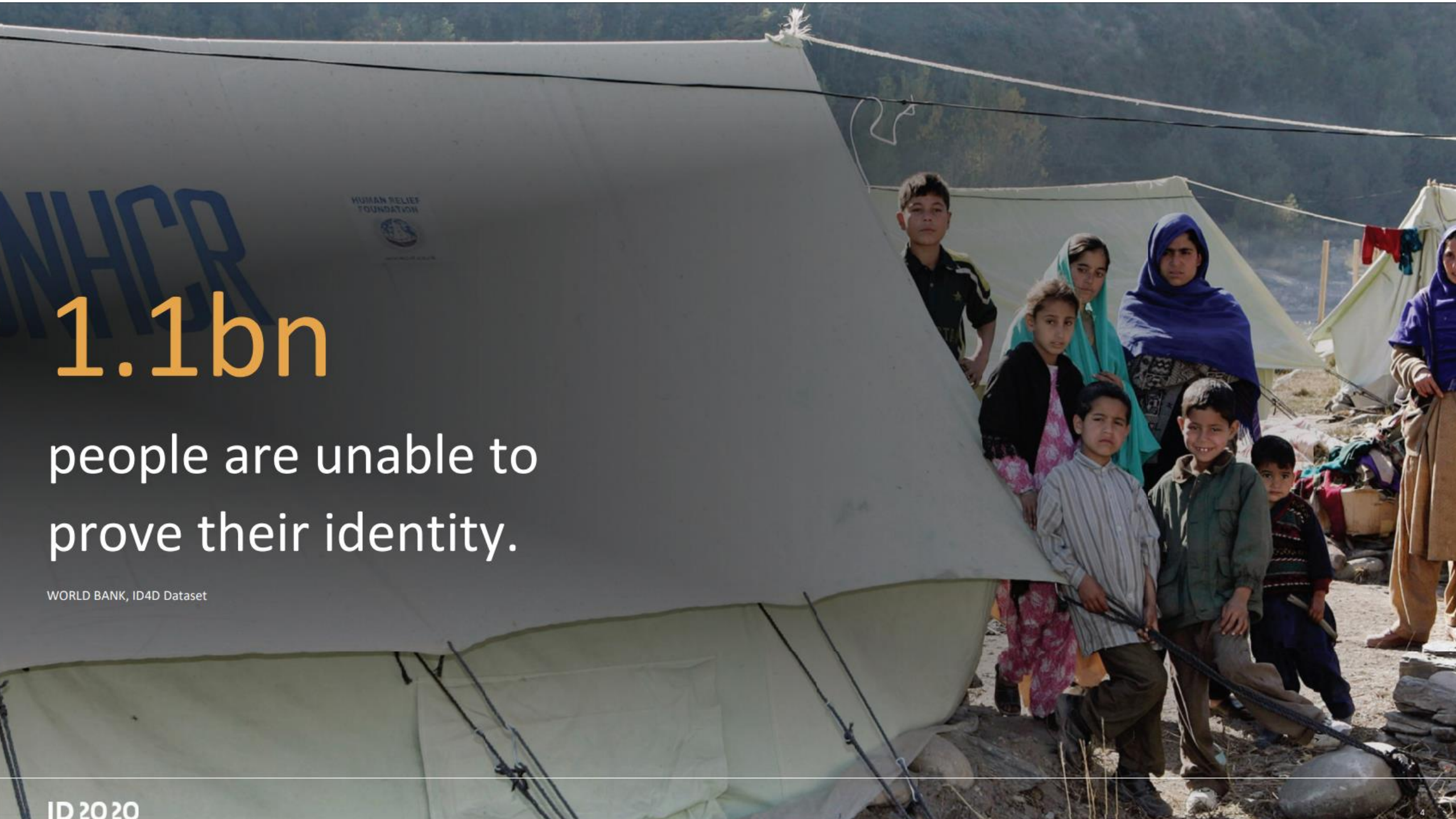
4. The parties involved in the project are of the firm view that KYC remains an industry-wide pain point from the perspective of regulatory risk, operational cost and customer experience. Most significantly, criminals are able to exploit asymmetric information between institutions. A KYC Utility *mutualising*<sup>1</sup> KYC information could help to identify and prevent such asymmetry. Secondly, doing KYC on a bank-by-bank basis means the consequential cost to the economy from both the direct, aggregate cost of operationalising KYC and the consequent impact on business efficiency cannot be underestimated – which translates into impact on the customer experience. As such, the problem statement deserves continued consideration.
5. Parties wishing to obtain more detailed underlying documentation relating to the project are welcome to contact ABS at [banks@abs.org.sg](mailto:banks@abs.org.sg). Provision of the documentation may be subject to non-disclosure conditions. Meetings with key IUSC personnel can also be arranged upon request.

<sup>1</sup> The maintenance of a single KYC profile record for a customer, consolidating all available data so that the benefit of the mutualised profile can be shared, subject to appropriate controls, with other banks who have onboarded that customer, and with the authorities.



# Evolution of digital identities





1.1bn

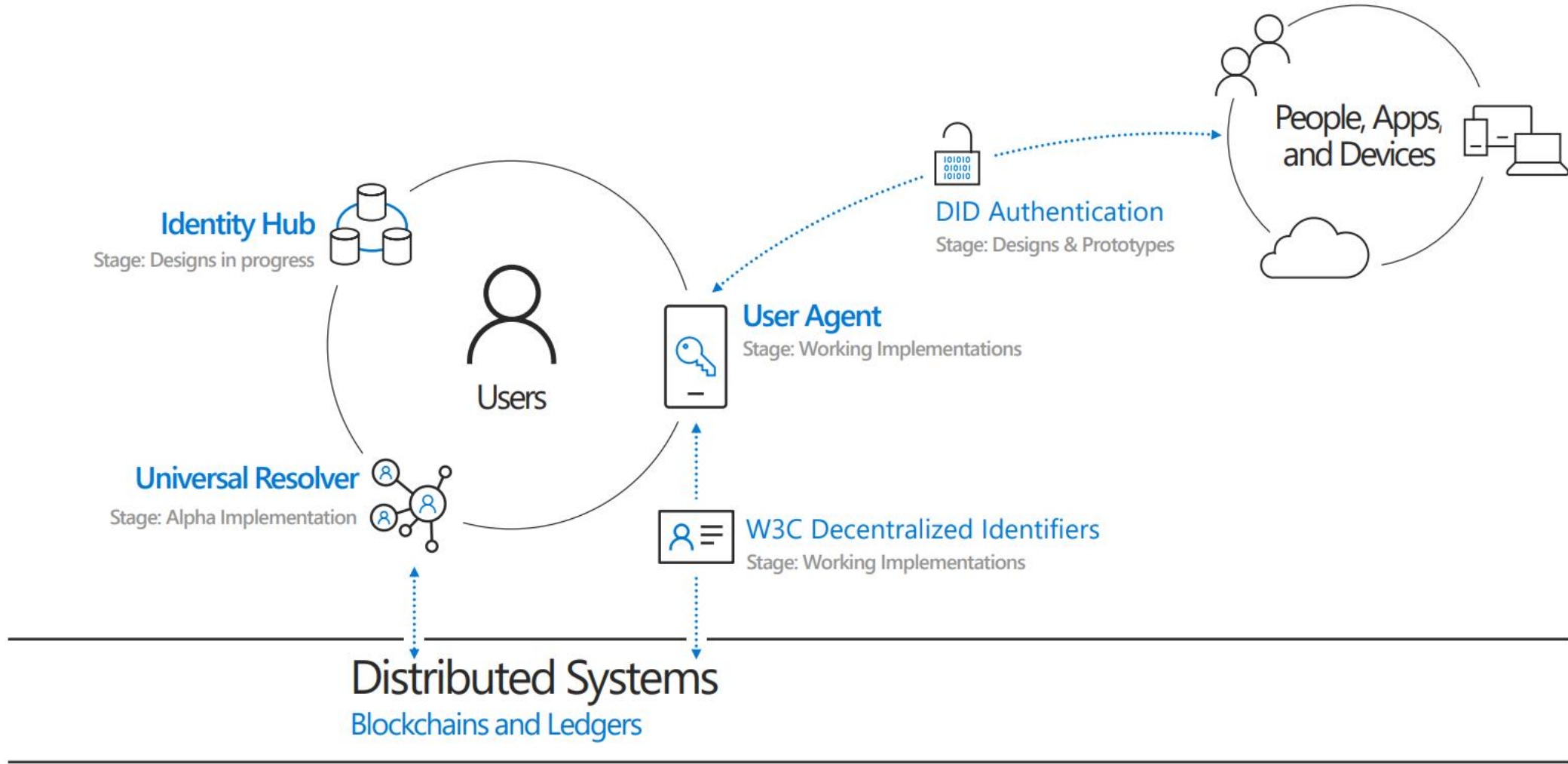
people are unable to  
prove their identity.

WORLD BANK, ID4D Dataset

# Ten Principles of Self-Sovereign Identity

- 1. Existence.** *Users must have an independent existence.*
- 2. Control.** *Users must control their identities.*
- 3. Access.** *Users must have access to their own data.*
- 4. Transparency.** *Systems and algorithms must be transparent.*
- 5. Persistence.** *Identities must be long-lived.*
- 6. Portability.** *Information and services about identity must be transportable.*
- 7. Interoperability.** *Identities should be as widely usable as possible.*
- 8. Consent.** *Users must agree to the use of their identity.*
- 9. Minimalization.** *Disclosure of claims must be minimized.*
- 10. Protection.** *The rights of users must be protected.*

# Self-Sovereign Identity model



# Opportunities

- person ultimately has full control
- increases the freedom of the individual
- trustworthiness no longer directly tied to local governments
- protection of privacy as an important design objective (GDPR)
- selective sharing of personal data with service providers follows the idea of data economy and privacy by default/design
- transparency created by self-governance could also strengthen the European digital single market by removing barriers of missing trust

# Challenges

- challenge to offer solutions that help persons to manage the additional administrative efforts sufficiently comfortable
- protection of the privacy of persons
- difficulty of prohibiting profiling by third parties
- data formats and standardized interfaces for securely exchanging evidences and digital identities
- distributed ledger technologies have limitations in terms of speed and volume

# Conclusion

- Less corruption, tax evasion, money laundering, and other criminal activities
- More consistent information
- Better information management
- Reduced risks
- Cheaper and easier to create new relationships