



"We have already taken the proactive step of writing to our correspondents to highlight our support for SWIFT's KYC Registry"

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Lloyds Bank extracts real value from its trusted relationship with The KYC Registry

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"Over the past few years in particular, 'Know Your Customer' (KYC) requirements have evolved and the amount of time we have been spending on due diligence has escalated," says Mark Brotherton, Director, Fraud & Financial Crime, Commercial Banking, Lloyds Bank. Lloyds Bank had been sending out far more anti-money laundering (AML)/KYC questionnaires than before, and the number received continues to increase from a wider population of correspondent banks. As a consequence, increasing numbers of institutions are now refusing to fully complete other institutions' questionnaires, requiring gap analysis to be conducted using existing sources. Brotherton continues, "While we are very comfortable with our KYC standards, we saw the SWIFT KYC Registry as a solution to this and we took the opportunity to streamline an end-to-end process that was in danger of becoming cumbersome. It was not only the volume of questionnaires that had increased; we had also seen the scope broaden. They were becoming much more exhaustive."

Determining the true cost of maintaining the correspondent bank population is very difficult, not least because this is a large-scale process involving significant potential risk. Inevitably, the level of senior-management oversight has become more intense over time. "This is becoming more and more important. How do you put a value on a Group Executive Committee spending time on monitoring progress?" says Brotherton. The operational cost of the KYC process – dedicated staff time, salaries, chasing banks, etc. – is quantifiable, but the real cost is greater than that. "Throughout the organisation, senior people are spending their time on this," says Brotherton who

goes on to point out that the potential cost of non-compliance would be significantly higher both in terms of reputation and financial impact.

Time and cost saved, staff morale uplifted

"We believe that SWIFT's KYC Registry includes a number of unique elements that make it particularly suited to Lloyds Bank's compliance needs," says Brotherton. "As a member-owned, not-for-profit co-operative, SWIFT occupies a position of trust in the market. Trust is crucial where data-sharing is concerned." Initially, Lloyds Bank took a project approach to implementation of The KYC Registry, with the appropriate governance around it, but quickly moved to a business-led implementation supported by compliance, payments and legal colleagues. "This meant that we were able to manage the implementation on an end-to-end basis, for both inward enquiries and the enquiries that Lloyds Bank undertakes on other institutions. It was important that there was business ownership from within the Commercial Division throughout, which is why I became, and remain, the Lloyds Bank Accountable Executive," says Brotherton. "As the Local Money Laundering Reporting Officer for the £5bn Commercial Division, I am part of the first line of defence."

"I am often asked about how we compiled the business case," says Brotherton. "The reality is that this was the easy part, notwithstanding competing investment priorities. We focused on the end-to-end financial benefits including freeing up significant valuable relationship management time."



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Implementation has already had a positive impact, not least on the morale of the team at Lloyds Bank. "We are excited about the opportunities that are presenting themselves as The KYC Registry evolves," says Brotherton. "As well as the time savings and consistency, we are seeing an uplift in staff engagement as our professionally trained staff spend more time analysing data, and less on compiling it." Data held on The KYC Registry is readily available to subscribers; thus, any requirement to "chase" data becomes redundant. This is an efficiency gain not only in the context of enquiries sent out, but also with regard to Lloyds Bank's own response times to enquiries received.

"Like many of our peers, our operating model dictates that when we receive questionnaires, we have to reach out to various parts of the organisation to obtain the relevant data. Now that our data in The KYC Registry is fully populated, we expect considerable time savings, and also a continued development of our excellent relationship with our correspondents," says Brotherton. A further benefit of The KYC Registry is that any follow-up communications after the completion and delivery of a questionnaire will typically be more focused than in the past, and as Brotherton suggests, more aligned with the correspondent's specific risk appetite. "We are already starting to see a return on our investment with recent due diligence on some of our larger correspondent groups being 95% completed via the Registry prior to reaching out to the correspondent. The KYC Registry enables this clear-cut exchange of data and as we have integrated it with the SWIFT analytics tools, and automated adverse media tracking, we have a far more integrated and effective due diligence process. It will also form an element of our CSP (Customer Security Programme) review process."

Opportunities to improve industry alignment

"Inevitably, we will see improvements in processes across the whole bank, not just in AML," says Brotherton. "One of the key points about The KYC Registry is that it helps to drive consistency across the industry. But the true cost benefits will be achieved in the cooperation between all member banks." Brotherton has recently undertaken a review of a sample

number of the questionnaires received by Lloyds Bank. "It is apparent that there are variations in the questions that each institution currently asks. This is a huge opportunity for banks to work together, and within their own risk appetites, to ensure that the additional questions, beyond The KYC Registry, are kept to a minimum. The issue here is that if Lloyds Bank (or any other bank) was to address, say, fifty questions via the Registry, but then every potential correspondent was to ask a further fifty questions of its own, The KYC Registry would become just a step in a larger – more cumbersome – process."

The solution is for member banks to work together to achieve a balance between having sufficient information in the Registry, but not too much. SWIFT is facilitating these discussions extremely well. For Brotherton, The KYC Registry itself represents a route to this solution, in that it enables far more substantive and effective communication between institutions. "It would take too much time and effort to answer all the questions on The KYC Registry so that all banks' questions are covered," says Brotherton. But the Registry delivers a terrific opportunity to address this issue and thereby to achieve further efficiency gains in a collaborative fashion. Industry alignment is becoming more of a reality following the addition of the updated Wolfsberg Correspondent Banking Due Diligence Questionnaire (CBDDQ) questions to the Registry.

Efficiency gained, efficiency shared

"We have previously taken the proactive step of writing to our correspondents to highlight our support for SWIFT's KYC Registry," says Brotherton. The opportunity is for all banks to work together and achieve consistency in their fight against financial crime. SWIFT has developed the content of The KYC Registry on the basis of input from member banks, and has acted upon suggestions for improvement, and this will continue to evolve. "An example is that there are now commentary boxes that allow organisations to provide context to their answers." There has been no attempt to exclude potential contentious questions, and the Registry is as appropriate for regional as for the larger banks. "Irrespective of their size, banks will attract value from The KYC Registry," Brotherton says.

Key benefits of The KYC Registry? "It helps make a cumbersome process much easier, and there is the comfort of knowing that this is SWIFT-managed." Banks remain responsible for their own due diligence, but SWIFT's reputation, and the trust associated with SWIFT, is beneficial to the process. Brotherton adds: "For decades, there has been a good level of trust across the correspondent banking community, but this was in danger of being eroded. The KYC Registry is proving an ideal opportunity to build on that trust and to complement the more specific transaction-monitoring queries that inevitably will still be a feature of future due diligence. Equally, the analysts undertaking this Enhanced Due Diligence are finding their roles much more interesting, which promotes engagement levels and the retention and attraction of talented colleagues."

Banks with an interest in using The KYC Registry should contact SWIFT and conduct their own due diligence on whether the solution meets their legal and regulatory requirements.

For more information, please contact your SWIFT account manager or visit www.betterKYC.com