



Simply Treasury

WHITE PAPER

FOCUS

KYC



SPOTLIGHT

VOICES OF THE REAL ECONOMY

COMPLEXITY

"The complexity of KYC has increased dramatically during recent years."

L. Grisot, Treasurer Ferrero

ADMINISTRATIVE BURDEN

"KYC requirements have increased so much that they are now one of our main concerns when starting new business. Central KYC, accessible to all banks, would save significant time for corporates."

J. Geyer, Cargolux

VALUE DISTRACTION

"While KYC is fundamental, banks should not take treasurers further away from value creation."

B. Defays, KCTG

STANDARDS

"The Holy Grail of a standardized, automated KYC is still some way off."

F. Masquelier, EACT Vice-Chairman

REDUNDANCY

"The lack of harmonization implies significant work for corporations."

B. Scholtissen, Aperam

KYC

DEFINITION

BEFORE:
AML CHECKS

NOW:
TODAY'S
REGULATION IS
TOMORROW'S KYC

25
HOURS

AVERAGE TIME
SPENT PER WEEK
ON KYC BY MNC
TREASURY TEAMS

(Source: NeuGroup 2018 survey)

François Masquelier



Chairman of Luxembourg Corporate Treasury Association, ATEL

INTRODUCTION

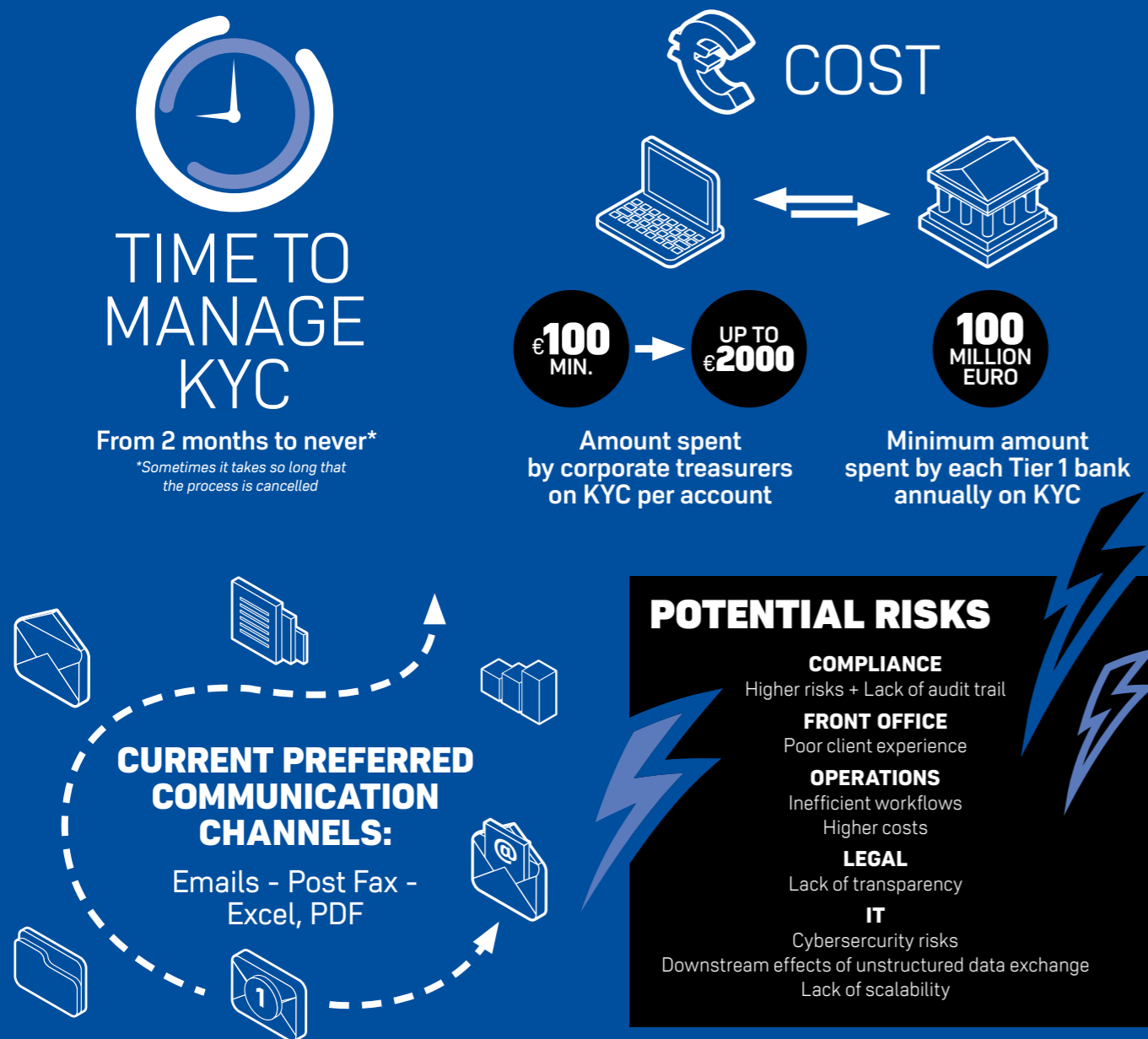


Treasurers have always been concerned by pain points faced by its members and solutions to remove them. KYC has become a serious concern over recent years: it is increasingly complex to fulfil all unstructured and non-harmonized requests. In all recent surveys, KYC was listed as a top priority for corporates and its rising costs are a source of frustration. KYC consumes lots of time, resources and money. KYC unique platform with attached registers, accessible by all banks and all corporates, would create significant savings.

Banks try to alleviate some of the regulatory pressure on them by increasing the volume of KYC information they require from multinational companies. On average, large MNC's have around 10 strategic bank relationships and for the largest 15 plus. Multiple banking relationships make the management of KYC documentation and data with financial counterparties more time consuming and complicated for corporates. Banks take longer to on-board corporate customers. One of the biggest impediments is the lack of common standards and comprehensive lists of required documents. You never know when your KYC process will end."

KYC IN SHORT

Several efforts have been made to standardize KYC across the industry, with limited effects. Is it all about standards or is it about something else? Here is a quick overview of the key issues experienced by corporate treasurers and their banks.



Solving the KYC conundrum involves approaching the solution differently.

Paul-Gerhard Haase, designated co-founder, Cinfoni



Pascal Morosini, CEO, i-Hub



Paul-Gerhard Haase (Cinfoni): Music to All KYC Players' Ears

INTERVIEW WITH NEW PARTNERS

Many treasurers find growing AML and KYC requirements a headache merely on a national level. But Paul-Gerhard Haase believes the harmony of "custom information network intelligence" or Cinfoni, of which he is the designated co-founder, can meet the need for regulatory compliant, trusted and immutable data that is repeatable across international boundaries.

"Cinfonic" Variations on a Theme

The sheer volume and complexity of anti-money laundering and "know your customer" requirements intended to prevent money laundering, white-collar crime and the financing of terrorism, have become increasingly onerous for banks. Up to now, each bank has had to have its own audit, and the largely manual research processes could often take several weeks. But two years ago, in the process of establishing an AML/KYC platform for the German market, Paul-Gerhard found, in talking to banks and treasury associations, that a "German-only approach was not sufficient." He began the development of "customer information network intelligence" that was conceptualised as "Cinfoni." This was because he saw its capability of growing into a system that will allow various players to contribute and collaborate on combined AML/KYC solutions in much the same way as he saw a symphony orchestra working in harmony.

With Cinfoni we are establishing a unique, dedicated protocol for cross-border regulatory data exchanges that hasn't previously existed.

Paul-Gerhard Haase, designated co-founder, Cinfoni

Regulated Rhapsody

"With Cinfoni we are establishing a unique, dedicated protocol for cross-border regulatory data exchanges that hasn't previously existed," says Mr. Haase. Cinfoni allows the exchange of KYC-company data and documents

among banks in a standardized and automated process. The Cinfoni protocol is flexible enough to link local initiatives with their international counterparts. For example, a German-based corporate that wants to open a bank account with a German-based bank needs to fulfil all the Germany specific regulatory requirements. With Cinfoni,

once a single regulatory reliable record has been created, validated and data verified, including the required documents, it can be forwarded to whatever banks requiring them, as often as they are required – even across national borders, if the corporate who owns the data gives consent. This is made possible because the entire process of composing and distributing the records is coordinated with the national financial regulators and meets the highest security requirements.

Game Changer

Starting from scratch, without the hindrance of legacy protocols, Paul-Gerhard believes Cinfoni is a "game-changer." He says that whereas legacy systems are highly centralised, Cinfoni is based on distributed ledger technology. DLT is a digital system that records transactional data in multiple places at the same time so it can be accessed on a localised basis. This means that Cinfoni has created a co-operative, federated platform for AML/KYC requirements as an alternative to centralised storage and access to data. Its network taps local expertise and local relationships, the so-called "local KYC heroes", including local regulators. Data does not have to be transmitted through a centralised hub as the information is available to all users all the time thus facilitating cross-border interoperability. This delivers users regulatory compliant, trusted and immutable data that is repeatable among multiple jurisdictions. Cinfoni's protocol, therefore, provides international solutions to the previously slow and bureaucratic process of collecting, entering and exchanging data. It gives access to regulatory compliant KYC record production that can be flexibly adjusted to banks' needs. This creates a dynamic standard covering data and process/workflow and opportunities for a scalable evolution for the expansion of the network and growth in the number of participants. First participants have joined the cinfoni initiative. During the ATEL winter conference Luxembourg based i-Hub announced to be a player for Luxembourg in addition to the first network node established by Arvato Financial Solutions for the German jurisdiction. There is more to come: Further international partners will follow in 2021.

TAKE AWAYS

CONTEXT

- Treasury agenda is often hijacked by regulatory topics requiring urgent attention. Corporate treasurers should invest more in KYC solutions.
- Multiple bank relationships have increased KYC burden. KYC negatively impacts client experience.
- Opening new bank accounts takes more and more time.
- KYC costs are increasing significantly as requirements inflate and are not standardized.
- Data and documents are transferred via unsecured means implying high risks on sensitive pieces of information.

POTENTIAL SOLUTION TYPES

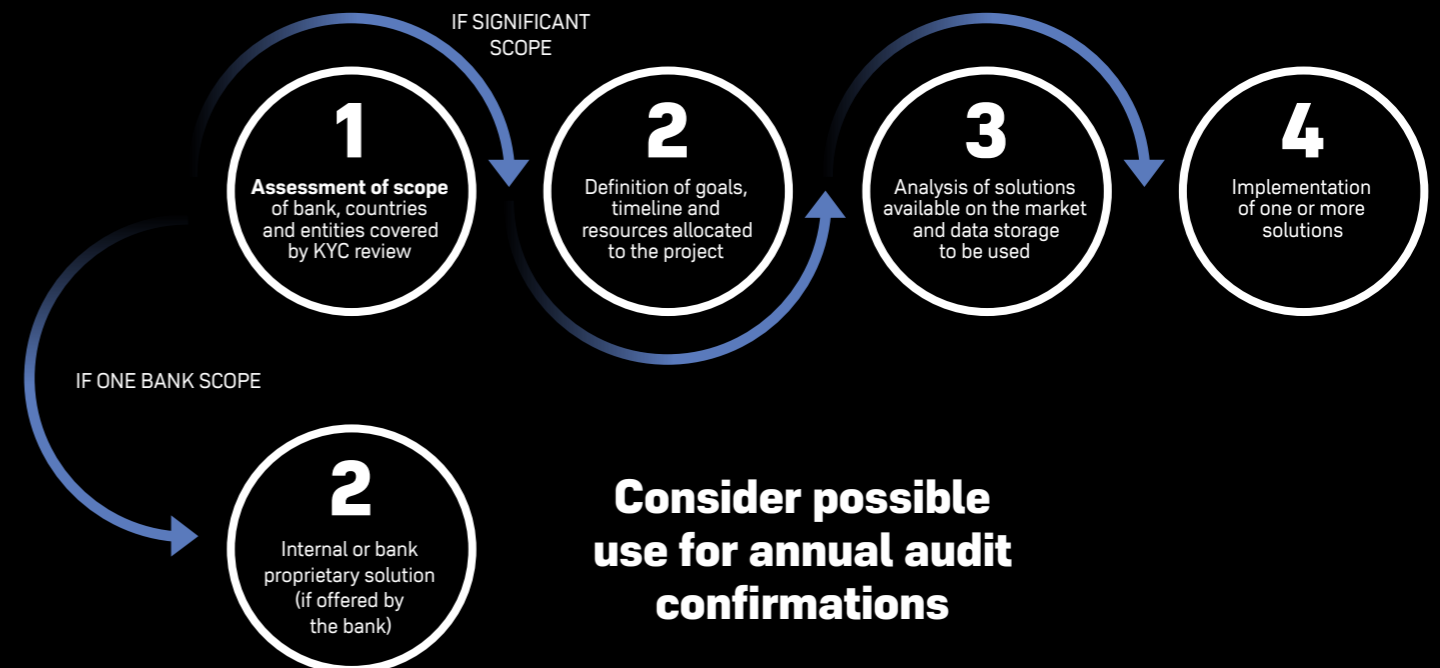
- Proprietary solutions (e.g. within a same bank group for its customers across the world)
- National / Domestic solutions (e.g. I-Hub, Clipeum or even DLT domestic solutions)
- Global market infrastructure solution (e.g. SWIFT register for SWIFT users only)
- Independent or cooperative platforms providing tailored « best-of-breed » solutions in KYC (e.g. Cinfoni)

SMOOTHER AND MORE SECURED KYC PROCESS WILL CREATE VALUE

A standardized, automated KYC solution covering all types of users would be fantastic. It remains for different reasons some way off. However, we have good reasons to remain optimistic as lots of initiatives are emerging. There is unfortunately no single, fit-all solution. There are many parallel initiatives, of which some seem promising and others more difficult to roll-out. We treasurers have the duty to move and to adopt one or several of them rather than to keep complaining about unstoppable KYC compliance rules. No one knows what could be achieved within a reasonable time and at acceptable costs. Nevertheless no one can complain if he/she doesn't try to move things forward. I am convinced that if we succeed in developing a solution, even if not perfect, we will bring value to the community, create awareness and momentum, boost all other initiatives and eventually play our role as a treasury association in serving our members.

By **François Masquelier**, CEO of Simply Treasury

IMPLEMENTATION STEPS



CONCLUSION

KYC issues affect all stakeholders. Both banks and end-clients want to spend more time on running their business and less time on KYC. The KYC process remains on the top 3 challenges of all multi-national companies' treasurers.

People focus on standardization of processes. I believe that the solution lies in standardizing data.

Across the world, regulators have demonstrated no mercy to financial institutions that violated the stringent new post-GFC compliance rules. Now they are promising to punish corporations that do not respect AML and KYC requirements. Perpetual KYC compliance remains, for many reasons explained above, one of the hottest topics in treasury mainly because of the administrative burden and difficulties it creates.

There are several initiatives and solutions (in process or already live). They are all good and not necessarily in competition. Depending on your size and your complexity or degree of sophistication, one or the other may be a better fit. Corporate treasurers complain rightly about KYC constraints. However, we believe it

is time for action and to adopt or test some of these existing solutions. If the buy-side waits for standardization from the sell-side or from regulators, things could remain complex for years. No one could claim which one(s) will be successful. But it is our duty as treasurers to at least test some solutions to get rid of some costs, administrative burden and to secure KYC data processing.

We entered a period when new solutions are emerging, offering corporate treasurers hope to sort out a key and growing challenge. The KYC issue is so complex that there are room for several solutions to cover the whole market, from large multinational companies using and preferring SWIFT KYCR to companies not using SWIFT, from publicly listed companies to non-listed ones, and from mid-cap's to SME's with multi-bank relationships. As for Trade Repository for example, there is room for several solutions, local and international, and if they are interoperable, they can even be connected and integrated. We believe treasurers should consider existing solutions and test them even if the market, as for others, will consolidate and evolve over time. It is time to on-board a KYC solution.



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KYC AIMS AT ESTABLISHING CUSTOMER'S PROFILE

While "KYC" may seem insignificant to most people, it has an important meaning in the business world. The process of knowing your client is what companies do to verify the identity of their customers before starting to do business with them. The term also refers to regulated banking practices used to verify customer's identity. It is compulsory for financial institutions to require their clients to provide detailed information to ensure that they are not involved in corruption, illicit businesses, or money laundering.

KYC's policies have been expanding for some time as issues related to corruption, terrorist financing and AML become more widespread. KYC's policies have now become an essential tool in combating illegal transactions in international finance. KYC protects companies by ensuring that they do business legally and with legitimate entities who might otherwise be harmed by financial crimes. Financial institutions also review lists of potential exposed individuals, or PEP's (i.e. Politically Exposed Persons). Once in place, the bank can constantly monitor the activity of the customer's account and ensure that nothing seems irrelevant or suspicious.