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Quick Insights Report

KYC/ Due Diligence Practices in Banks and Financial Institutions in Sri Lanka

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In the era of technology driven trends such as digital banking and mobile payment systems, customer on-boarding gains significant importance. If done right, Know Your Customer (KYC) and due diligence at the customer on-boarding stage allows the organisation to truly know their customer. It also allows for the right kind of inputs for many internal functions such as anti-fraud, transactions monitoring, and risk management.

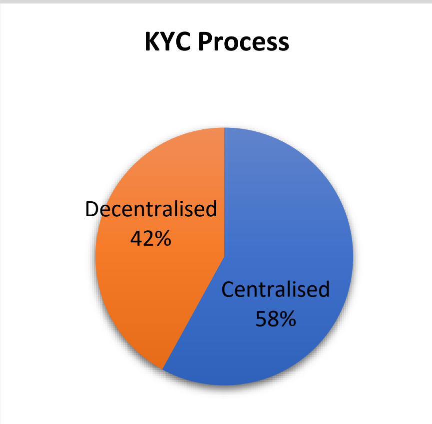
Compliance officers from top banks, life insurance and finance companies in Sri Lanka were surveyed about the KYC and due diligence practices at their respective organisations through Fintelekt's KYC/Due Diligence Survey conducted in April 2018. This Quick Insights Report highlights the results drawn from the survey.

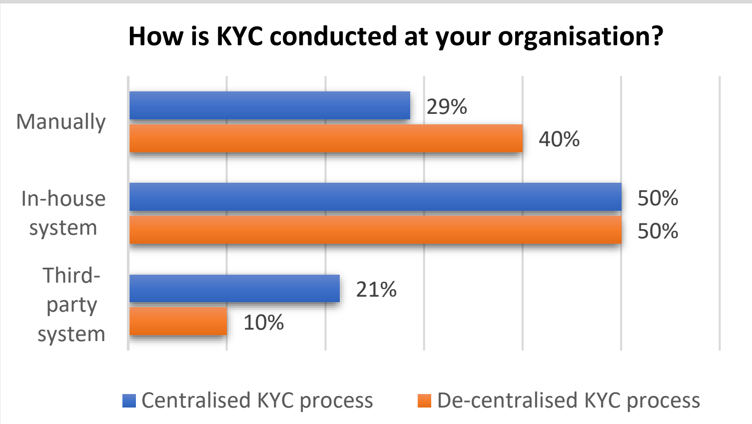
Customer on-boarding practices

KYC process

The Fintelekt survey found that 58 per cent of the organisations that participated in the survey have a centralised KYC process, which is shared across departments/channels. 29 per cent of these organisations use manual processes for KYC, which would typically make it difficult to easily access KYC documents across other channels/departments within the organisation. The remaining organisations have an in-house or third-party system for automated KYC.

42 per cent organisations conduct de-centralised KYC, i.e. KYC is done separately for different channels/ departments. In 40 per cent of the organisations that have a decentralised system, KYC documents are collected and stored manually. In another 50 per cent of the organisations, there is an in-house system to store KYC documents. The remaining 10 per cent employ a third-party system.



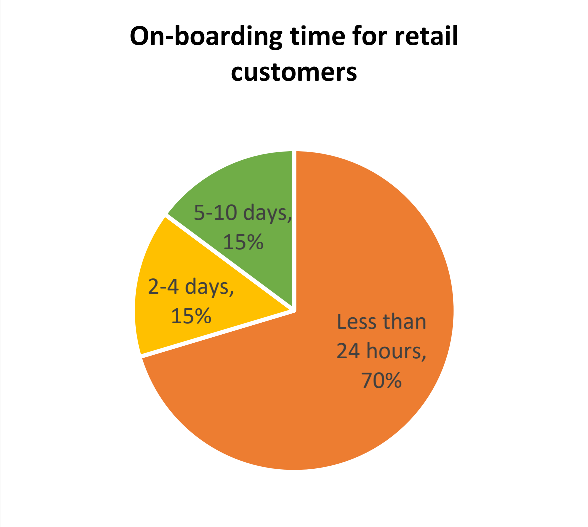


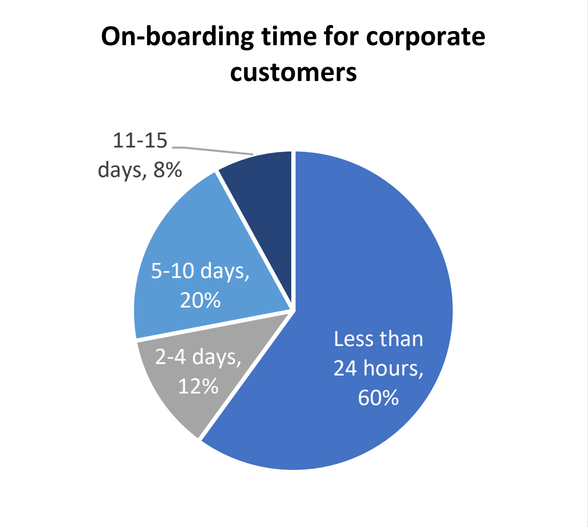
Time taken to on-board

The survey responses suggest that the average time taken to onboard a retail customer is less than 24 hours for 70 per cent of the organisations that participated in the survey. 15 per cent of the organisations take between 2 and 4 days to onboard a customer, while another 15 per cent take between 5 and 10 days to onboard a retail customer.

For corporate customers, on-boarding is typically completed within 24 hours for 60 per cent of the organisations. For 12 per cent organisations, it takes between 2 and 4 days, for 20 per cent between 5 and 10 days, while for the remaining 8 per cent, customer on-boarding time is between 11 and 15 days.

70 per cent organisations conduct Ultimate Beneficial Ownership (UBO) checks during on-boarding, while 22 per cent do it during due diligence for high-risk customers. 8 per cent respondents were not aware of the process followed at their respective organisations.

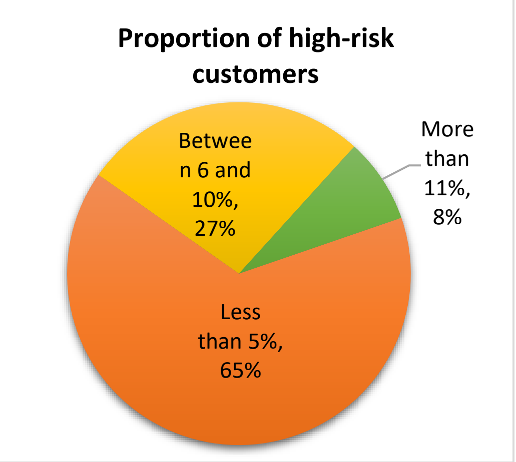




High-risk customers

High-risk customers accounted for less than 5 per cent of the total portfolio at 65 per cent of the organisations. Another 27 per cent of the organisations reported high-risk customers to be between 6 and 10 per cent of the entire portfolio. The remaining had a relatively larger proportion of high-risk customers (more than 11 per cent).

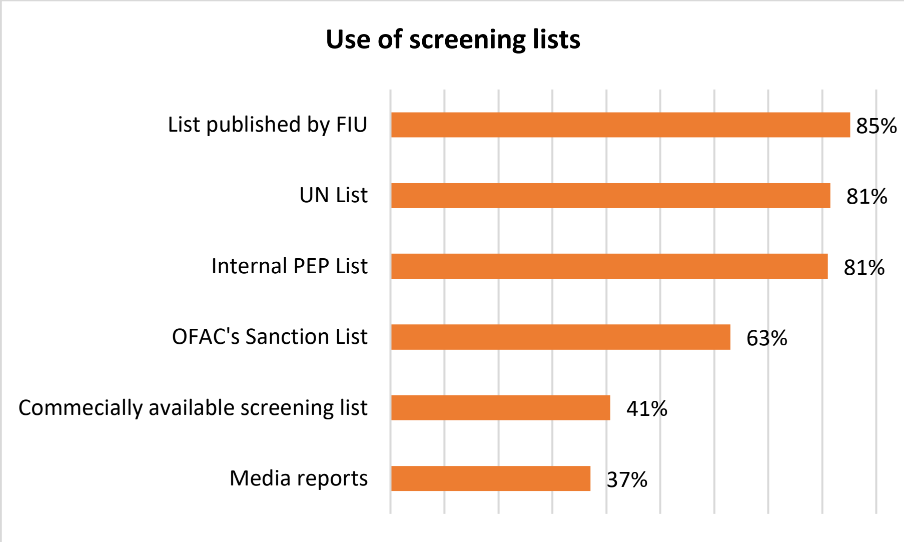
For the roughly 38 per cent organisations that reportedly have a higher proportion of high-risk customers (more than 5 per cent), customer on-boarding time would increase due to greater due diligence and AML checks.



Technology Usage and Automation

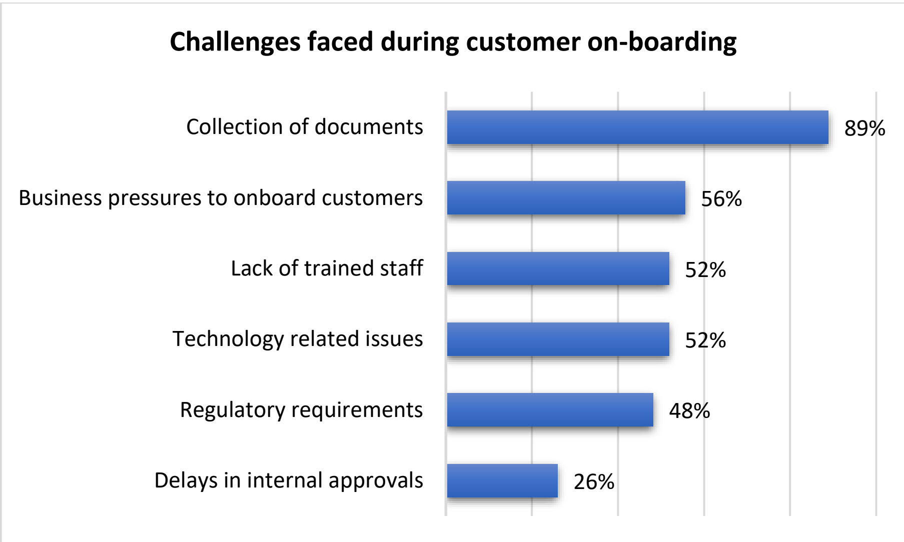
Across organisations that participated in the survey, 52 per cent organisations have a system developed in-house to store KYC documents digitally. 15 per cent use an automated third-party system, while the remaining 33 per cent are still maintaining KYC documents manually.

Only 41 per cent of the financial organisations that participated in the survey use a commercially available screening list. The remaining are using lists published by the FIU (85 per cent), UN list (81 per cent), internal PEP list (78 per cent) and OFAC Sanction list (63 per cent). 37 per cent are using media reports.



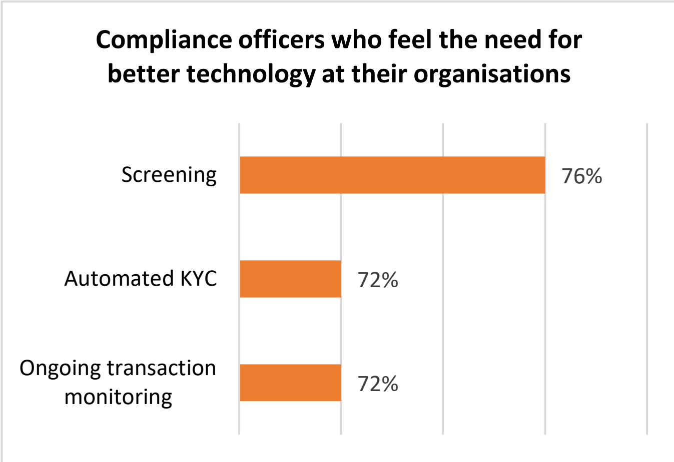
Customer On-boarding Challenges

Collection of documents during customer on-boarding was cited as a challenge by the largest number of organisations (89 per cent). Business pressures to onboard the customer was the second most important challenge (faced by 56 per cent) organisations, while 52 per cent said that they were challenged due to lack of trained staff or technology related issues. Regulatory requirements created challenges for 48 per cent of the organisations.



Investment Requirements

Out of the responding compliance officers, 93 per cent felt the need for better technology to be implemented in their organisations – 76 per cent felt the need for better technology for screening, 72 per cent for automated KYC and 72 per cent for ongoing transactions monitoring.

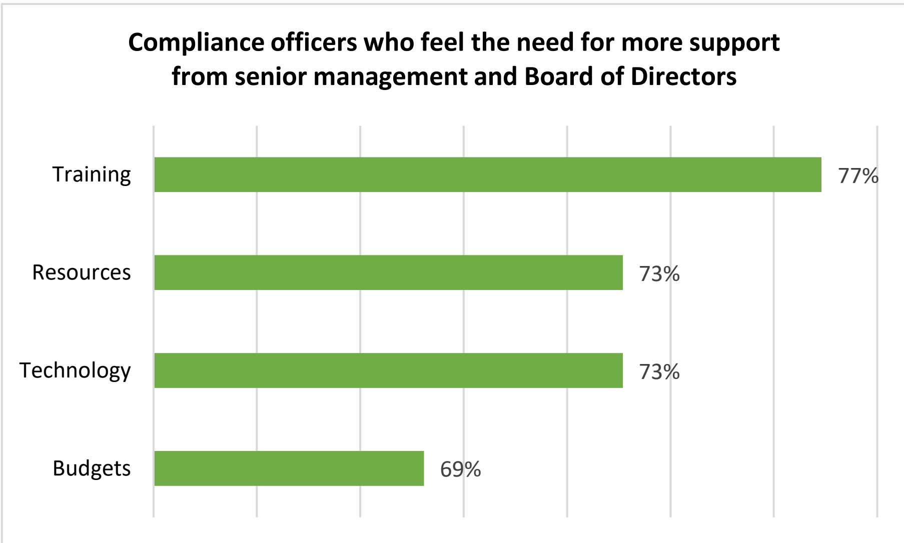


From an AML/KYC point of view, it is critical for banks and financial organisations to have the right technology in place for storage of KYC documents digitally so that they are available when needed during transaction monitoring or due diligence.

Organisations that are on-boarding customers fairly fast (in less than a day or within 2 days for instance) based on manual documentation are taking the risk of missing out on important screening checks, or the identification of ultimate beneficial owners in the case of corporate customers.

Support from Top Management

Further, 96 per cent of the compliance officers felt that they needed more support from the senior management and Board of Directors for various AML compliance issues – the highest (77 per cent) was for training, 73 per cent for technology, and another 73 per cent for resources.



Key Takeaway

The survey points to the need for greater awareness about the significance of up-to-date AML/KYC processes within banks, insurance companies and finance companies in Sri Lanka. Investment in the right technology and training will lead to robust customer on-boarding and will in turn form the cornerstone for the AML/CFT policy within the organisation.