Getting on the front foot with KYC

Compliance and know-your-customer due diligence is here to stay. The best approach to ensure that it doesn't bring your treasury operations to a halt is to start improving your own methods of due diligence, senior treasurer executives advise

The time for grumbling about the myriad banking requests for corporate information just to open a new bank account is over. Treasurers and compliance experts agree it is best to get used to the fact that invasive due diligence is now a part of life.

"We have been through the same learning curve," said Deepak Chandran, chief financial officer, at Singapore-based Wipro Unza. "We started telling the banks to stop intruding. We have now moved to a dialogue where we learnt to understand the financial institutions' needs and to a stage where we learn how to get through this."

His comments were made at the Asian Treasurer Series, the first of a two-part event focusing on handling compliance and KYC and sponsored by Thomson Reuters, held on February 17 at the Mandarin Oriental in Singapore.

UNPRECEDENTED ENFORCEMENT

The intrusion Chandran is referring to is directly linked to the fallout of the financial crisis. Its effects resulted in more burdensome regulation and unprecedented levels of enforcement, pushing financial institutions to change how they operate and work with companies. Because of this, treasurers working for companies of all sizes can easily wait up to 30 weeks just to open an account.

To give a brief explanation, in the case of individuals, the process ranges from proof of identification and address through to understanding a person's source of wealth, business interests and family connections, especially if they

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have politically active family relations. For businesses it means understanding the business, the entity structure, history, directors and shareholders, and how the business operates and makes money.

This problem is likely to get worse, especially with Basel III, Dodd-Frank, FATCA and major anti-money-laundering regulations all kicking in. Thus treasurers must find the most effective and efficient way possible of handling KYC processes with their banks, allowing them to focus on more important matters such as acquiring financing and managing working capital.

"There may be one set of rules but clearly there are too many practices," Francois Gumy, Asia treasurer at Mondelez International, said at the Asian Treasurer Series event. "Surprisingly discrepancies in integrating KYC in Singapore are very high."

The frustration felt by treasurers is also felt on the other side of the fence. The level of work required to satisfy compliance departments is only matched by the seeming lack of consistency of what is required and how many times it is needed. The problem is that KYC is an expensive part of onboarding a new client and each financial institution must do its own homework. It is not good enough to claim that, because another entity has already KYC'd a certain client, you don't have to.

"There are no universal guidelines for the banks," said Roshini Subapanditha, head of enhanced due diligence, at Thomson Reuters. "For every entity – they have to go through this [process] again and again and again. The left hand does not know what the right hand is doing."

BE PRO-ACTIVE

Wipro Unza's Chandran decided to get on the front foot. Instead of fighting back against the requests, he now works extensively to learn the requirements of the major global regulations irrespective of whether they would immediately affect his business.

He said: "We may have zero exposure to the US right now, but if there is a [Foreign Corrupt Practices Act] relating to business in North America, then we want to be in a position where we can easily comply with it. It is wise to train yourself now, not after an acquisition into a new market, for example."

To do this Chandran said the fast-moving consumer good company started closely scrutinising its supply chain – who it buys from and who it sells to. "We have to train our team dealing with banks to be more cautious about how our operations are linked. Ask yourself: Which shipping line am I using? Which truck service am I using, and who owns it? What are their sources of funds?"

Although the process will be similar to that of how treasurers feel when the banks are asking similar questions, should a company find itself having ties to potentially unsavoury characters then some difficult conversations with its own lenders may occur in the future. "Once you get flagged up, its hard to lower it," Chandran said.

All this seems sensible, but it is costly. Serious due diligence will likely require increased compliance head count, not something a CFO particularly wants to hear.

"Treasurers need to make the management team aware of this new paradigm," remarked Benny Koh, a former treasurer at Temasek Holdings and now consultant at Deloitte. "You need to tell the CFO and company director what the implications are and the effect compliance and KYC is having on access to capital and also from a system standpoint."

Chandran underlined the point: "There is no point trying to pass it off as the banks' problem. They will be very happy to close your account, because the cost of non compliance is far higher than the business they can get from you."

KYC REGISTERS

But this doesn't mean that third party software providers can't play a role in making the process easier. In fact many are, like Thomson Reuters Org ID managed KYC service. The rise of the utility approach to KYC processes can help solve treasurers' problems. This means that treasurers only need to provide their information once to a system of their choice, and then on that platform they can choose different banking partners with just a click of the mouse, cutting down handling times.

Registry services can make the transmission and communication of corporate information much simpler, especially compared to manual and paper-based practices followed at many institutions at present.

Such utilities should free up corporate treasurers' time, allowing them to focus on more pressing issues. Like running a treasury department, for example... ■