White Paper

Customer Due Diligence: A Proactive Solution for Mitigating Regulatory and Reputation Risk

Contents

Rethinking Customer Due Diligence

To stay in compliance with Bank Secrecy Act and Patriot Act regulations, financial institutions must assign an anti-money laundering (AML) risk rating to each customer. These ratings correspond to the level of AML risk that each customer presents to a financial institution. Ratings typically fall into three categories: high, medium and low.

When your financial institution fails to assign a proper AML risk rating to customers, it negatively affects the quality of customer due diligence (CDD), as well as the accuracy of your overall assessment of risk that each customer poses to your organization. Failure to identify risks, in turn, can lead to deficiencies in your AML program, which lead to fines, enforcement actions and reputation damage.

But the value of effective CDD data can extend beyond compliance and into enterprise risk management. Specifically, you can use new analytical tools to monitor deviations in customer transactions or personal information in real time, continuously assess the AML risk of each customer relationship, and establish an expectation about his future behavior. After determining a customer's AML risk, you can systematically monitor customer accounts based on her risk level. For example, for customers who have a low risk level, you may choose to monitor them continuously using algorithms run automatically by the software. And for customers with higher risk levels, you may decide that they warrant more frequent and robust monitoring than a typical, "low risk" customer.

The goal is to take a more comprehensive and continuous approach to CDD where risk ratings are always up to date and reflective of the latest demographic and transactional changes.

How Does Your CDD System Measure Up?

Traditional and homegrown CDD systems aren't able to support this level of risk management. For example, most support a very manual, time-consuming AML scoring process – which prevents it from being done frequently. In addition, not all CDD solutions provide the same level of customer risk analysis. Most analyze risks using the same set of limited factors – demographics, geography, and products and services; they also fail to factor in event-based data, such as instances of suspicious activity, deviations from expected activity and other high-risk events.

This paper will help you evaluate your organization's CDD processes and technology relative to current risks and needs. In addition, it will explain how automated analytical tools can help you accurately segment and identify customers by the risk they represent so you can monitor them appropriately and make the best use of investigative resources. Given recently enacted compliance laws like the Foreign Account Tax Compliance Act (FATCA – see sidebar), there's never been a better time to re-examine your current CDD processes and enabling technology.

FATCA Is Firmly on the Horizon

FATCA will have a significant impact on the operational activities and technology landscape of foreign financial institutions. For example, your organization will be required to install and maintain new operational systems designed to identify US tax-liable entities at the point of onboarding. This will be a challenging exercise, with foreign financial institutions (FFIs) needing a holistic view of their client base in order to run the appropriate FATCA scoring of a full client relationship.

The Limitations of Traditional CDD Systems

Most financial institutions need a faster, more accurate way to assess the risk of a customer relationship and establish an expectation about the customer's behavior. To understand why, consider the following scenario in which your bank uses a reactive risk rating system to score customers on a periodic basis.

Let's assume you've just completed your latest scoring. What happens if customer A, with a history of a low-risk rating, suddenly has a high-risk event the week after being scored? For example, imagine that for many years, this customer has had transactions that occur within the United States – and this information, taken into consideration with other data, has meant she warranted a "low" risk rating.

Suddenly, this customer starts sending and receiving multiple wires from high-risk jurisdictions. This change in transactional activity should trigger a score change, but it can't – not until your next rating process scheduled in three months (and that's if your current processes even support transactional information). So during this time, decisions regarding this customer, including monitoring levels, will be based on an out-of-date risk rating.

This is just one example of the limitations of traditional CDD systems. Put simply:

- They are not event based – so when events occur between prescheduled scorings, the bank must make decisions based on inaccurate information, and the risk reports provided to management are usually out of date.
- They can't analyze all customer data for risk at once due to system processing limitations, so they base their risk rating methodologies on an analysis of a subset of customers, which is inherently less accurate and increases the likelihood that customers are scored inaccurately.
- These systems also tend to generate too many false positives, sending limited investigative resources on useless wild goose chases.

What's Needed: A SAS Perspective

SAS has worked closely with top financial institutions for more than 35 years, creating solutions to address critical business needs. In the financial services industry alone, SAS data integration, fraud detection, risk management, regulatory compliance and other software is used by more than 3,000 financial institutions worldwide, including 97 percent of banks in the Fortune Global 500®.

Using our knowledge gained through this experience, we've developed a clear vision for what's needed in a CDD system today. Financial institutions need a system that:

- Accurately scores customers for risk on a continuous basis.
- Identifies high-risk customers and proactively mitigates those risks.
- Makes up-to-date risk scoring and reporting across the entire customer base available at any time.

Armed with a more accurate measurement of customer risk, you can manage risk more proactively – for example, by using the right combination of policies, controls and procedures. You can increase the effectiveness and accuracy of work items generated, and reduce resources required to work on false/positive scoring to focus on the real risks.

How SAS® Can Help

SAS Customer Due Diligence, which was developed with a premier North America financial institution with a significant presence in Canada and the United States, is designed to meet these needs. Part of the SAS Financial Crimes Suite, SAS Customer Due Diligence is a **robust, scalable and easy-to-use solution** that enables financial institutions (FIs) to assess the risk of a customer relationship during customer onboarding, as well as drive your monitoring program throughout the entire customer life cycle.

Once the solution is deployed, you can use:

- A user-friendly user interface (UI) to manage the creation of the risk rating methodology using parameters, attributes and rules. Build a more accurate picture of how a customer interacts and transacts with your institution using a broad spectrum of data elements that enables you to use multiple sources of data across departments and additional databases.
- Event-based scoring to continuously monitor for risk changes within the customer base. Review customer events **when they happen** – rather than over longer time intervals – and get automatic alerts if there's any change in customer attributes based on the criteria set.
- Highly configurable workflow tools with investigator and manager views containing visual diagrams of workflow states and transitions to monitor the entire customer relationship.
- The built-in SAS workflow to ensure that standard CDD processes are adhered to. The software provides an automated means of moving the work item throughout the organization to complete the review. The task list requires signoff by individuals in order for the item to continue to move forward, while tracking any changes made through historical versioning for later examination. Event notification is capable of texting or emailing pertinent case information to an interested party.
- A transparent risk rating methodology that can be continuously tuned and refined – including clear audit trails.

At the same time, convergence with other SAS Financial Crimes Suite solutions allows for broader insight into a given customer's behavior and facilitates communication between departments within the institution. By managing due diligence through a convergent framework, not only do you gain budgetary relief through incremental installation in a phased approach, but you also expand your view to stated risk as it compares to customer transactional behavior, product risk and personal identifying information.

To save resources, most organizations review only higher- to medium-risk entities periodically; however, SAS Customer Due Diligence performs continuous monitoring and will alert your institution daily if a customer risk rating changes from low risk to medium or high risk.

Powerful Analytics for Dynamic Risk Rating

SAS provides incomparable techniques to access and aggregate data across the organization while performing analysis. This provides you with the most accurate and valuable information for reducing risk and increasing transparency in your customer relationships. With SAS Customer Due Diligence, you can:

- Use an automated triaging queue for efficient review and disposal of work items.
- Investigate relevant alerts.
- Report to regulating agencies.
- Triage alerts and move them to a case or generate cases directly.
- Manage cases and assess customer activity.

According to "The Forrester Wave™: Enterprise Fraud Management, Q1 2013," "SAS provides a strong overall offering with the best visual link analytics capabilities. … The solution offers great case management, extensive reporting and data analytics based on SAS' own ecosystem."

How SAS® Customer Due Diligence Is Different

- Convergence with other SAS Financial Crimes Suite solutions allows for broader insight into a customer's behavior and facilitates communication between departments.
- A user-friendly UI for creating a risk rating methodology using parameters, attributes and rules.
- The ability to continuously tune and refine your risk rating methodology, complete with full transparency and audit trails.
- Event-based scoring to continuously monitor for risk changes within the customer base.
- One segmented investigative UI for managing the alert inventory and another to document investigative findings.
- Highly configurable workflow tools with investigator and manager views and visual diagrams of workflow states and transitions.

The Benefits of SAS® Customer Due Diligence

With SAS Customer Due Diligence, you can not only streamline compliance when it comes to anti-money laundering, but also leverage CDD activities to proactively protect against financial and regulatory risk. For example, imagine being able to support your organization's operational risk program, which has much broader implications than just maintaining compliance. This foundational "risk radar" can positively affect many decisions as they relate to your clients and your overall reputation because once it's deployed, you can:

- **Review events automatically.** Review events when they happen – rather than over longer time intervals. In addition, investigators and analysts are automatically alerted if there's any change in customer attributes, based on the criteria set.
- **Manage risk attributes with speed, flexibility and agility.** Build a more accurate picture of how a customer interacts and transacts with your institution using a broad spectrum of data elements that enables you to use multiple sources of data across departments and additional databases.
- **Increase scoring control.** The flexibility to use weighted scoring for each attribute, as well as weighted scoring at the larger category level, allows financial institutions greater control over customer scoring. Work items, or alerts, can be generated on one or many attributes, and can also be run with other scenarios (nested rules) to enrich the data for more accurate risk scoring.
- **Enable more thorough analysis with fewer resources.** Ensure adherence to standard processes and internal policy requirements with a flexible workflow environment that lets you set compliance standards according to your institution's regulating agency. Fully auditable case management capabilities automatically track all aspects of investigations for more efficient triage, distribution and reporting.
- **Integrate with the SAS® Financial Crimes Suite.** Take a phased approach to due diligence implementation with an integrated framework that helps you manage your total cost of ownership. You can start wherever your needs are greatest, and add on over time as your needs change. The modules are available in the SAS Financial Crimes Suite and simply require licensing and configuration, not additional implementations of baseline platforms.
- **Be prepared for the next wave of regulatory requirements.** And you can do so while maintaining a highly accurate understanding of the clients you do business with.

Learn More

To learn more about SAS Customer Due Diligence and the SAS Financial Crimes Suite, please visit sas.com/en_us/software/fraud-security-intelligence/customer-due-diligence.html.

To contact your local SAS office, please visit: sas.com/offices

107075_S117274.0514

THE POWER TO KNOW®