

TIP SHEET



Does your Customer Due Diligence Program meet your expectations or complicate operations?

See how automated tools and technology solve four of today's biggest CDD challenges

Customer Due Diligence (CDD) is the cornerstone for all BSA/AML programs. Effective CDD contributes to sustainable success at the enterprise level. A solid CDD strategy also protects against the operations impacts that result from non-compliance or regulatory action, including reduced productivity, diminished shareholder value, reputational damage, costly regulatory enforcements and remediation expenses.

The geopolitical upheaval and economic uncertainties being experienced across global markets underscore the integral roles the compliance department plays within financial institutions (FIs) and non-bank financial institutions (NBFIs). In this tip sheet we'll explore today's top CDD challenges and detail the ways big data technology and automation support an optimal CDD strategy to help successfully navigate compliance obstacles.

Challenge #1:



Heightened regulatory oversight and complex requirements directly hit the bottom line

Governments around the world are increasing regulatory oversight and expanding their use of targeted monetary policies and economic sanctions. The list of rules and regulations is long, geographically diverse and marked with overlapping or contradicting requirements that complicate the efficiency of compliance efforts. The level of ongoing regulatory oversight and scrutiny around Customer Identification Program (CIP), CDD and Customer Risk Rating methodologies has also steadily increased, leaving AML Officers managing the operations burdens of frequent regulatory inquiries about the institution's CDD practices.

Compliance teams must balance an ability to consistently and accurately evaluate customer risk and execute appropriate risk mitigation strategies with the agility to adapt their processes to meet evolving regulatory expectations and answer to stringent oversight. To accomplish these tasks, many FIs and NBFIs are forced to grow their compliance operations by investing in additional analysts and investigators or making capital outlays to increase technology and compliance tools. These extra expenses negatively impact margins and revenues, positioning compliance as an even bigger burden in the cost of doing business.



Solution: Few businesses can afford to let compliance challenges contribute to inefficiencies, employee turnover or revenue erosion. To add enterprise value, the compliance function must be both effective and cost-efficient. An automated CDD solution can help minimize delays and costs by supporting specific compliance requirements and activities and reducing duplication of due diligence efforts by internal compliance teams. Automated CDD technology provides the runway to support a scalable and integrated Know Your Customer (KYC) ecosystem that can improve workflow consistencies and contribute to further enterprise efficiencies. Automated CDD solutions support customized risk parameters which save time and reduce delays and expenses associated with false positives and alert remediation. Automated CDD tools also significantly simplify audit preparation by creating an easy way to maintain and document processes and decisions and deliver critical performance metrics on demand.

Challenge #2:



Limited resources lead to increased risk exposure and opportunity costs

Compliance teams are often expected to maintain an optimal compliance program in spite of ongoing budget constraints. Deficiencies in resources and technology can present onerous challenges for the AML/BSA Officer and staff. The inability to hire incremental resources to support the prospect of a new high-volume line of business or complete an Enhanced Due Diligence (EDD) project for a prospective client base results in missed opportunities and lost customer revenue. Lacking the resources to manually screen large volumes of customers, automate decisions and easily pinpoint applicants that require further due diligence investigation opens the door to financial crime and/or the reputational damage that comes with being associated with nefarious organizations and bad actors.



Solution: The challenge of making up for missed revenue opportunities can be significant for most FIs and NBFIs. In that same vein, it is difficult to financially recover from exposure to AML/BSA and reputational risks that create detrimental, long-term impacts on brand affinity and shareholder value. Even though budgets are constrained, an effective compliance team must still work to add value and decisioning insights that help accelerate revenue generation. Automated CDD tools and technology can cost-effectively handle high-volumes of screening and scale to support new revenue opportunities. Automated CDD solutions also facilitate the ability to integrate into key compliance and customer management workflows during onboarding and across the customer relationship. By increasing onboarding speed, reducing onboarding friction and improving decisioning consistency, automated CDD solutions streamline baseline due diligence and automatically scale up through more thorough enhanced due diligence and investigations as customer risk may warrant. Automation adds a layer of protection against compliance and fraud risks while creating the capacity to rapidly respond as new revenue opportunities arise.

Challenge #3:



In-house data doesn't accurately keep pace with dynamic risk

Across the lifecycle of a relationship, changes in a customer profile or behavior naturally occur. Life events and business circumstances are fluid, which means the low-level risk client that was onboarded a few years ago may not represent the same nominal risk today. In-house data helps identify risk in transactions, account/ownership changes, use of higher-risk products and services and possibly geographic risk. Yet it cannot provide near real-time perspective into targeted risk information such as, negative media, legal events, assets, income and residency risk. Due diligence risk isn't static or one-dimensional. To proactively protect against unforeseen risk and identify new revenue/upsell opportunities, compliance departments must start with a complete, more holistic view of relevant customer risk and then continually monitor profile changes across the customer lifecycle.



Solution: Valuable CDD solutions are defined by the ability to identify individuals or organizations that may be involved in suspicious activities and financial crime without delaying core business operations. Automated CDD tools underpinned by technology with big data processing capabilities can quickly identify targeted risk information on a business entity, executive officer or person without impacting the customer experience. By incorporating big data technology, regulatory intelligence and guidance, public and commercial records and financial crime compliance insights, automated CDD tools enable FI and NBFIs to focus on targeted risk categories and refine their view of specific types of adverse information tied to certain consumers. Automated solutions keep stronger pace with dynamic risk by distilling more comprehensive and complete risk perspective into actionable insights that simplify real-time screening, streamline ongoing monitoring, save time and reduce resource outlays.

Challenge #4:



Disparate data and inefficiencies reduce immediate value realization from acquisitions and new product development

Operations roadblocks caused by CDD challenges and data discrepancies can tarnish a new acquisition or product launch. Time spent navigating the distinctions between expanded customer bases or meeting the delivery requirements of a new line of business (LOB) or product diverts resources and expertise from other compliance demands and core business activities.

Acquisitions typically mean an influx of large new customer databases and the need to manage data disparities across a rapidly growing network of branch and non-branch offices. Compliance departments need a way to quickly identify and isolate incoming customer risks, remove integration barriers and streamline efforts toward process standardization and decisioning consistencies. To capture immediate acquisition value and protect the enterprise, most FIs and NBFIs are required to amplify customer due diligence, process high volumes of customer data and perform data look-backs, data cleansing and hygiene — all while keeping day-to-day compliance workflows in efficient motion.

The addition of new LOBs or the launch of new products drives revenue and growth, but initially, it also increases compliance workloads. Compliance teams are tasked to support the specific compliance requirements and customer experience nuances inherent to the newly implemented line of business or product. They also might need to evaluate policies and implement rules that reflect the scope and risk potential of the new product or LOB.



Solution: Automated CDD solutions can reduce and eliminate the due diligence delays that typically arise with acquisitions and business expansion. Automated CDD solutions can quickly scale to screen high-volumes of customer data and return decisioning insight in targeted, specifically-tailored risk categories that inform critical decision points and help with policy creation. The built-in flexibility and agility of Automated CDD tools enable organizations to customize decisioning parameters and risk tolerances to meet business case-specific compliance requirements to improve acquisition integration speed and support streamlined product development. With expanded customer data intelligence and refined risk insight, FIs and NBFIs can immediately ramp up a new product or fully leverage an acquisition investment without slowing compliance workflows or incurring unnecessary risk.

Increase the effectiveness of your CDD program by identifying and avoiding specific customer risks before they impact your business

The LexisNexis® Due Diligence Product Suite offers cutting-edge big data solutions that can solve your biggest compliance challenges. Our industry-trusted tools quickly complete high-volume screening and deliver customized and targeted due diligence intelligence to help your compliance team automate due diligence decisions while avoiding risk or added friction. Let us help create a CDD strategy that centers on the customer experience and contributes measurable value across the enterprise.

To learn how we can help your organization achieve more effective Customer Due Diligence, please call 800.658.5638 or visit risk.lexisnexis.com/products/due-diligence-attributes



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