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WHITE PAPER

Private Sector Information Sharing

How technology advancements are heralding a new age of information sharing – and what this means for Financial Institutions worldwide.

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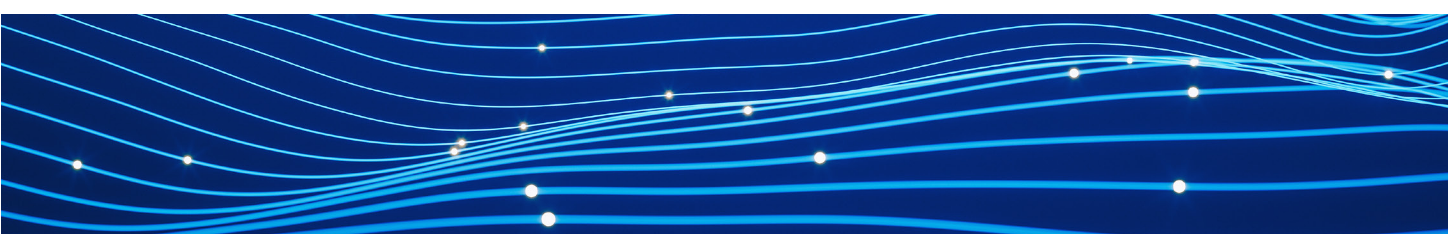
Technology is driving an ever faster rate of change in the compliance industry, accelerating faster than we have seen before

With technological change comes regulatory change, opening up opportunities for implementation of new technologies within Financial Institutions (FIs), and encouraging human agents to focus on tasks which are more challenging and non-replicable by machines.

Today, the industry is at a real inflection point. We are witnessing the development of new technologies, such as artificial intelligence (AI), machine learning, blockchain, big data, behavioural analytics and many others, which are making their way into different operations within FIs. Whilst many will think of these developments as ‘the future’, the reality is that the future is already here, and that some FIs are already implementing these technologies into their processes. Challenger banks have been particularly effective in building such technologies into their compliance processes as a part of their customer on-boarding function.

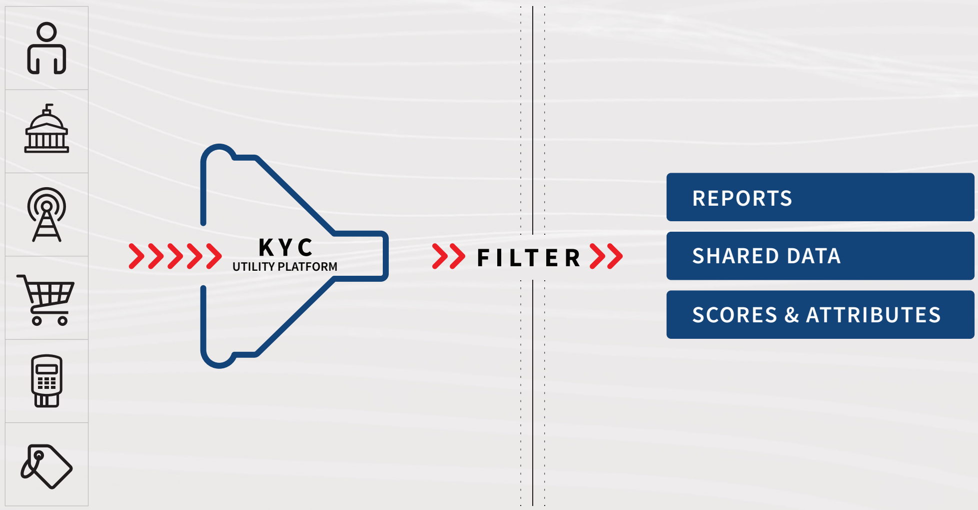
The benefits of these technologies for FIs is clear. FIs are sitting on a goldmine of data. They have direct access to historical information on customer spending patterns.

As such, they can leverage data and technology to further customer segmentation, product cross-selling, fraud prevention, risk assessment, compliance and reporting, and finally improving customer support. However, FIs are still struggling with data siloes and a lack of acceptance of cloud technologies, which is limiting their capabilities to further their implementation of the new technologies, and more importantly of data sharing amongst institutions. Only once these issues have been eliminated will FIs truly be able to start thinking about data sharing and the benefits that come with it. Additionally, analytics could be a key tool in the battle for market share that FIs should leverage and it could drive new revenue generation.



Collaboration is the future

The concept of ecosystems, consortiums and utilities is strongly viewed in the market as key for future developments and FI collaboration. The ‘utilities’ are a data platform where information is shared across companies and industries to solve common problems, such as difficulties in customer on-boarding. In this model, the data sharing model could be centralised (managed by a central entity), or decentralised (managed by all the utility participants). This concept is seen as the solution to managing costs, gathering data centrally and eliminating data siloes.



Today, market participants are beginning to explore and test the creation of a centralised entity to manage on-boarding – data sharing and common on-boarding could help the industry mitigate some of the challenges that it is facing today. The lack of one such a body in the industry is causing challenges for FIs during the on-boarding process, however countries, government and FI consortiums are coming together to create these ecosystems. It is believed that through the creation of an ecosystem in the form of a KYC utility where FIs would gather data in the initial processes of on-boarding or share data about their customers on an ongoing basis, FIs could mitigate most of the on-boarding challenges, such as multiple on-boarding for the same entity. The formation of such a body would also shorten the process of on-boarding and allow for FIs to have a common view of what is going on with a prospect or customer.

Some countries/regions have already undertaken the task to create a central ecosystem, which will help them to gather data, manage data on an ongoing basis, and screen and verify their customers, with the ultimate goal of making the on-boarding process smoother for all parties involved. Unfortunately, not all of these attempts have been a success, where such projects have taken on more than initially anticipated, and with that, failure has resulted.

Benefits of creating a centralised utility

ECONOMIES OF SCALE

Currently, all obliged entities administer KYC checks bi-laterally with their customers, with each bank duplicating the same checks for the same customers. By pooling resources and reducing duplication through a common KYC utility platform, the administrative efficiency of the overall process is greatly improved, and the risk of human error greatly reduced. Scale from pooling may enable the use of innovative machine learning and AI solutions not supported by any one obliged entity's data, further enhancing the risk management capabilities of the banking industry, while also containing industry costs.

CONSISTENCY

A centralised KYC utility supports consistency by aggregating data from agreed sources against common regulatory standards, without compromising the liability of individually obliged entities to account for required KYC and AML standards. At a macro supervisory level, this reduces the risk of bad actors entering the financial system through a "weak link".

RESPONSIVENESS

A centralised KYC utility built on flexible technology provides a vehicle that can quickly respond/adapt to new KYC-related updates, regulations and central directives, by providing a consolidated vehicle that is able to implement the changes in real time, simultaneously. This is contrary to the current non-utility model, where new regulations or expectations are issued centrally by governments, then implemented by obliged entities through many different internal processes and with inevitably varying timelines.

TRANSPARENCY AND REPORTING

A KYC utility created and managed under a public-private mandate provides a unique opportunity for real time regulatory access to insights on KYC on-boarding throughput, and on-going customer on-boarding trends and activities in the market. This would include the ability to see the types of customers that are being on-boarded, to observe on-boarding rejection rates and trends, to produce regular reporting on volumes, and to carry out customer profile/segmentation analysis.

LEADERSHIP ROLE

Responding to some of the challenges regulated entities face in the market presents regulators with a unique opportunity to take a leadership role in establishing a KYC utility that can become a role model for other countries.

Of course, we mustn't forget that there is a pressure on FIs and increasingly other type of entities to do compliance right. Compliance misses carry huge reputational and financial risks. When thinking about implementation of new technologies, in this case data sharing, we should think about how the implementation of such technology harms the entities in question the least and how those entities can benefit from it in the long-term. Most importantly, they still need to be performant and explainable to regulators, they need to work with a risk-based approach and compliant with exiting privacy regulations.

At LexisNexis Risk Solutions, we are leveraging big data, digital networks and the latest technologies, to bring science to risk management.

We are able to detect money laundering patterns and suspicious behaviours for our customers, through providing technology solutions which allow them to build consortiums and ecosystems to help deal with the challenges of on-boarding and ongoing monitoring. Our experience in managing data helps us digest vast disparate data sets, overlay it with proprietary super-computing systems and unique identifiers. At LexisNexis Risk Solutions we integrate complete risk and identity intelligence from multiple sources by connecting the dots and providing actionable insight for our customers. Today, we manage more than six globally recognised consortiums in areas of KYC, Consumer Credit Intelligence, Mortgage, Insurance and other data information sharing services.

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For more information on any of our technology solutions, or for a free demo, please visit risk.lexisnexis.com/EMEA

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