



Managing Sanctions Compliance in a Global Economy

PART 3: IMPLEMENTING CUSTOMER RISK PROFILING

Competing in today's multifaceted, global economy is a high-stakes game of risk and reward. Regardless of industry, companies have ample growth opportunities—but along with that growth comes an increasingly complex landscape of rules, regulations and compliance pitfalls. As such, compliance has become a demanding aspect of everyday business operations, and success requires a measured, holistic program that includes four key components: real-time screening, retroactive monitoring, customer risk profiling and a centralized compliance management system.

To help businesses understand how to approach compliance and enterprise risk strategically, CSI's sanctions compliance white paper series explores each component of a holistic compliance program. As part three in our four-part series, this white paper examines customer risk profiling: the challenges businesses face, possible technology solutions and recommendations for next steps.

Understanding Risky Relationships

Companies face myriad responsibilities in mitigating the risks associated with doing business in a global economy. First, all customers and transactions must be screened in real time to ensure illicit activity isn't unknowingly facilitated. Then, customers must be rescreened as new sanctions updates are issued to ensure that the status of "good" customers hasn't changed for the negative. But risk mitigation responsibilities don't end there: truly effective risk management includes creating and enforcing consistent customer risk profiling processes across the organization.

At its core, customer risk profiling is the process of ensuring a customer or vendor is who they say they are and that it is prudent to do business with them. While that sounds simple, the reality is far more complicated, typically involving multiple business functions, different sets of data, numerous points of monitoring and constant feedback across all of those functions and processes.

And now more than ever, businesses are expected to have a robust and accurate risk profiling program.



In the past two years, global financial scandals have led to increased scrutiny and regulatory pressures, particularly in the realm of customer risk profiling, or know-your-customer (KYC) protocols. The 2015 Panama Papers scandal, in which leaked legal documents outlined billions of dollars in illegal offshoring, tax evasion and fraud schemes, led to widespread global regulatory changes.¹ Just a year later, the Monetary Authority of Singapore actually shut down BSI Bank, in large part due to significant KYC shortcomings.² Financial institutions and businesses alike are finding that KYC processes are required to ensure legal business operations—and to prevent the likelihood of incurring crippling penalties from negligent practices.

In fact, it's no longer just a best practice to have a robust customer risk profiling operation. It is expected that an organization employ "a holistic and enterprise-wide approach to KYC/CDD [customer due diligence] ... in order to effectively manage the increased requirements vis-a-vis KYC/CDD risk attached to customers."³

Fortunately, businesses are taking heed. A 2016 Dow Jones and ACAMS global anti-money laundering (AML) survey of 812 businesses found that a growing number of organizations were enhancing identity verification processes due to the previously mentioned regulatory changes.⁴ However, according to the results, 39 percent of respondents cited both enhanced identify verification and standardized onboarding processes across business units as their greatest challenges.

So, while companies see the need, they also recognize it's a difficult undertaking. Because whether it's called KYC or identity verification, customer risk profiling isn't a one-time, static endeavor. Much like real-time screening and retroactive monitoring, customer risk profiling must be an active, fully integrated component of a holistic compliance program.

¹ FinOps Report. *Panama Papers Fallout: Heavier KYC/AML Fallout (UPDATED)*. May 5, 2016. <http://finops.co/investors/panama-papers-fallout-deeper-digging-in-kyc-and-aml-compliance/>

² Monetary Authority of Singapore. *MAS Directs BSI Bank to Shut Down in Singapore*: <http://www.mas.gov.sg/News-and-Publications/Media-Releases/2016/MAS-directs-BSI-Bank-to-shut-down-in-Singapore.aspx>

³ ACAMS. *Know Your Customers: Advanced Requirements*. December 9, 2016. <http://www.acamstoday.org/kyc-enhanced-requirements/>

⁴ Dow Jones & ACAMS. *Global Anti-Money Laundering Survey Results 2016*.

Complex Relationships Are a Challenge

Customer relationships are critical to any organization's success. Customer interactions drive revenue and growth, but they have the potential for adverse effects as well. Facilitating a transaction for one illicit customer can damage a company's reputation beyond repair and potentially lead to crippling penalties. For instance, in 2016 alone, nearly 38 percent of the fines issued by the Office of Foreign Assets Control (OFAC) to businesses other than financial institutions totaled \$1 million or higher.⁵

Companies must understand the risks associated with every customer relationship, especially when expanding into new markets or adding products and services. But given the operational need for a framework for customer risk assessments, businesses face three main challenges in establishing effective customer risk profiling protocols: aggregating multiple data sets, monitoring and instantly predicting potential impacts, and establishing continuous feedback between various interests within an organization.

1. Aggregating disparate data sets to get a comprehensive view of customers

The sheer amount of data across an organization, particularly one with multiple business units or an expanding list of product or service offerings, can be overwhelming. A customer or vendor is likely to have multiple identities in different contexts throughout a business, depending on the business unit, product or service in question. For example, a customer might have different identity data in their email account versus their mobile wallet, mobile app store and/or other financial accounts. While three of these accounts could indicate a legitimate customer relationship, the fourth could indicate otherwise. And a flag on one account negatively affects them all. So, without an aggregate profile of all customer accounts, the risk of doing business with a prohibited party grows exponentially.

That's why a healthy customer risk profiling framework should not only manage customer data efficiently, but also aggregate it across business functions to provide a comprehensive view of each customer relationship.



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⁵ Computer Services, Inc. *Understanding OFAC: A Best Practices Compliance Guide for All Businesses*: <http://csiweb.com/resources/white-papers/understanding-ofac-a-best-practices-compliance-guide-for-businesses>

2. Monitoring and predicting potential impacts

Additionally, an organization pursuing market or product expansion should have a compliance solution in place that can monitor and predict potential operational impacts from a risk perspective. Every organization should have the ability to build a comprehensive profile of not just their customers, but their entire customer base, allowing an enterprise view of their onboarding functions.

For instance, perhaps a company eyeing expansion into China finds that, based on customer risk profiling, it needs to add two analysts to effectively screen customers in that geography. Then, that risk framework becomes a benchmark for expanding services into other geographies.

And effective risk profiling has additional operational benefits as well. Businesses should have the capacity to not only aggregate past experiences in terms of matches and alerts, but also use that data predictively to model future risk scenarios: How often are customers being flagged? What are the outcomes of those situations? What are the operational costs of managing customer onboarding? A robust customer risk profiling solution can answer those questions to help a business determine if existing products or services—or future offerings—are worth the cost of compliance.

3. Establishing continuous feedback among KYC, sanctions, transaction monitoring and analyst data

Finally, there's a danger when various compliance systems and departments don't play well together.

Communication is key—among all KYC functions, sanctions screening and transaction monitoring—to creating a truly holistic approach throughout the enterprise. That means not just communication between disparate teams within a business (onboarding, compliance and legal), but also between the various data sources.

And KYC protocols must be continuously applied as customer relationships within an organization change and evolve to match the developing dynamic of the organization itself. Any gaps in information sharing between people or processes exposes an organization to unnecessary regulatory risks.



Learning How to Simplify KYC Protocols

Verifying the identity of your customers is essential. However, the challenges that stand in your way can seem insurmountable, given the volumes of data that must be aggregated from across the organization. But instead of relying on manual processes and disconnected systems, companies can leverage automated solutions that streamline customer risk profiling activities.

For modern compliance programs, technology solutions exist that can aggregate data across an entire organization, as well as adapt to patterns within the information and predict future risks (i.e., machine learning). Such a platform can sift through troves of data from multiple entry points, and learn to make better decisions when it comes to flagging and alerts.

Just like online platforms can take someone's search results or social media comments and target advertising to them, customer risk profiling solutions can recognize patterns in customer data and make recommendations based on customers' identities, purchases and even relationships with third parties. In turn, compliance analysts can approve, deny or adjust compliance actions based on the platform's behaviors, which provides yet another level of feedback for the solution to fine-tune its analysis.

Further, adequately managing customer risk profiling goes beyond data management and customer profile aggregation; it also requires a manageable user interface, making it easier for internal teams to view risk holistically.

Particularly when dealing with data from multiple sanctions systems or business silos, it's important that it be presented in a way that is digestible by multiple interests within an organization. For instance, a company could have effective protocols in place, but it might require analysts to log into six separate platforms to view and manage them, which can increase the risk of them not seeing the entire customer relationship.

The most effective approach is to consolidate customer risk profiling into a unified platform. Ideally, it would be included in a central identity risk hub—a platform that provides a comprehensive view of not just identity verification processes, but also real-time and retroactive watch list screening data.

Knowing your customers is essential. Profiling your customers' risk potential is critical.

Sanctions Compliance Series

Looking to build a holistic approach to sanctions screening? Don't miss the other three white papers in our series:

- [Deploying Real-Time Watch List Screening](#)
- [Maximizing Automated Retroactive Screening](#)
- [Creating a Centralized Compliance System](#)

About CSI Regulatory Compliance

CSI takes risk management and regulatory compliance seriously; we know you do, too. Since regulations constantly change, we've developed comprehensive solutions that address today's requirements and adjust to meet tomorrow's demands. Our industry-leading solutions include watch list screening, identity verification and compliance consulting. Financial institutions and businesses alike trust CSI's expertise to enhance their compliance programs and reduce operational costs.

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