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Growth and investment – The unintended victims of financial crime regulation

As a global industry, financial services needs to do a better job of opening bank accounts for people, investors and businesses. David Craig, president of financial and risk at Thomson Reuters, suggests standardising data, shared facilities and Know Your Customer information are among the solutions that address the needs of regulators and industry members

Perhaps the starkest example of the unintended consequences of regulatory reform – certainly the most visible consequence to customers – is that it is now so difficult to open the bank accounts that are the first step in international commerce for any growing business. What started out as a challenge to money launderers now poses a palpable threat to the world's financial centres, and we can do it much better.

This century has seen a welcome international consensus to ensure the proceeds of crime cannot be rendered invisible simply by being transferred across borders. Banks are now the front line of defence against organised crime and the responsibility falls on all financial technology providers to support financial institutions in stamping out money laundering and criminal financing.

But this is to agree the end and not the means. It is one thing for policy-makers to decree that something has to be done; it is quite another for businesses to carry out that order.

Looking at it from the customer's perspective

An investor will probably find the experience a daunting one – first, requiring the provision of onerous amounts of personal information to verify their identity, and then the process of checking that identity against global registries of individuals and organisations. Indeed, multiple banks may require the same information at the same time (or they may need something else entirely, as their compliance teams interpret the rules differently). In the worst instances, all of this can take up to six months. And the fact that physical documentation needs to be presented increases the risk of it being intercepted: addressing one risk (money laundering) creates another (identity theft).

The institution's perspective

This Know Your Customer (KYC) process is inconveniencing a potential customer right at the outset. It is also an additional cost to doing business. This is not a differentiator, nor does it add value to the customer. There is no direct benefit to the company; the benefit is the common protection of the financial system – and society at large – from the proceeds of illegal activities.

Those costs are certain to increase. As organised crime seeks new, smarter ways of legitimising its spoils, more scrutiny will be necessary, more regulation will be imposed and longer checks will inevitably result.

Meanwhile, the banks must also check their existing customers to comply fully with the KYC rules. We have spoken to several UK banks, which are currently analysing client numbers in the hundreds of thousands.

Thomson Reuters is a global business, and knows this is a problem being faced by other financial centres as well as in London. Financial Stability Board chairman Mark Carney told the Group of 20 finance ministers he would investigate why correspondent banking services were decreasing in number – and, specifically, how much of that responsibility the regulatory burden bears. A striking example of this has been the widely reported withdrawal by some major global banks of their money transfer services in Africa.

And, recently, the KYC issue has leapt up the agenda in the UK, where the government has noted that foreign investors are finding the UK's account-opening processes unwieldy, making the UK a less attractive place to invest. As the Treasury is well aware, financial services generates almost one-eighth of the UK's gross domestic product and employs more than two million people across the country, so this is a significant problem.

A recent meeting of banking chiefs and senior government representatives wrestled with this issue, sharing their experiences of long processes and disgruntled customers. A different example from the retail end of the customer spectrum was offered – a crowdfunding platform that could be joined online immediately and from which, within the space of a few minutes, a user could make their first investments. From the customer's perspective, the gap between conventional banks and these new digital disruptors is only going to grow.

The ultimate solution for financial firms would be shared facilities in which all financial institutions would participate, sharing KYC information to produce a secure repository of client records. The client would have to present the information only once, to a single institution, and then all could access it. The data could be screened, updated for corporate actions and the service adapted to accommodate regulatory updates as they happen. And, best of all, from the policy-maker's perspective, standardising the data allows anti-money laundering resources to be better targeted at catching increasingly skilful criminals.

Thomson Reuters has launched such an industry solution – Org ID – which creates new data standards that, we believe, capture the needs of both regulators and industry members alike. It celebrated a year in operation last month. Other firms have other solutions, too, in varying stages of development.

The result should be a solution that ensures robust compliance across the industry, absorbing and implementing future regulatory changes while minimising both the cost to the bank and customer frustration levels. Account opening need never be a barrier to business again.

For more information

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