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THE CASE FOR PERPETUAL KYC

White Paper

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Original thought leadership article by Manny Cohen in Private Banker International

Do you worry about the issues around AML/KYC compliance for your business and whether you could end up in Jail?
Do you sleep at night?

So, another financial institution gets a fine for failures in taking proper due diligence. When are financial institutions, and especially banks, going to learn that prevention is better and cheaper than stomping up fines and taking reputational hits?

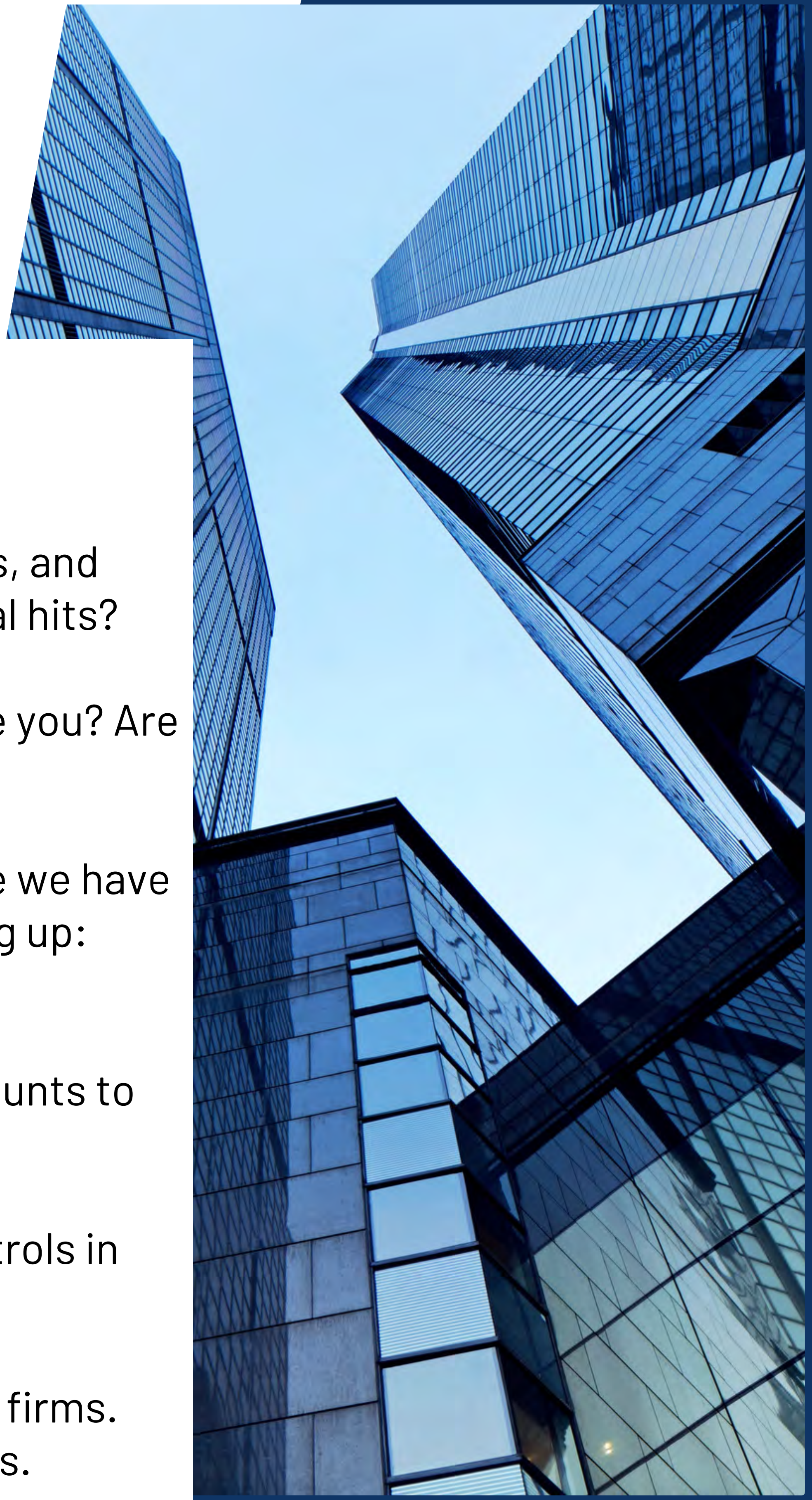
One day soon, a financial institution won't just be fined. Someone is going to be made an example. Is that going to be you? Are you going to jail? 4-14 years, according to 6AMLD! Think you're not in the firing line? Think again!

During various conferences and exhibitions we've exhibited at, such as AML and FinCrime or RegTech events, where we have spoken to compliance professionals or money laundering reporting officers (MLRO's), the same theme keeps coming up:
"I don't sleep at night".

Basically, the volume of fines to financial institutions around the world has been constant since about 2015 and amounts to billions every year, with about $8bn in 2022 alone.

All fines are not in the billions, for instance, a European bank was fined $50 million for failing to put in adequate controls in place to prevent money laundering. Just not carrying out enough checks and having the right processes.

This fine was from the UK's FCA, who are not known for handing out high values and being particularly aggressive to firms. However, the whole environment post-COVID has got harder, stronger and more difficult for all regulated businesses.



KNOW-YOUR-CUSTOMER
KYC

Under the Know-Your-Customer (KYC) regulatory requirements, regulated companies, banks and financial institutions are expected to keep relevant information on their clients throughout their lifecycle and for a period afterwards (usually 7 years) to protect their business from money laundering and other crimes.

This is enforced in every country by the national regulators, such as the United Kingdom's Financial Conduct Authority (FCA), Bank of France, Federal Financial Supervisory Authority – Germany, Central Bank of Ireland and Monetary Authority of Singapore (MAS). It is mandated by international bodies, such as the Financial Action Task Force (FATF).

However, such periodic reviews are manual, time-consuming, creates considerable workload, is costly and provide poor customer service.

In the last 18 months, all kinds of extra complications have opened up, such as sanctions through the Ukraine/Russia war; and where before there were already some modes of sanctions against North Korea, Iran and a few Russians, this has rapidly ramped up. Many things have changed since March 2022. Sanctions have been brought in not only from the US primarily, but by many other countries such as the UK and a raft from the EU, Australia, Canada etc.

With globalisation, the myriad of interconnecting investments, investors, supply chains and businesses make it more and more difficult to define connections. Companies in the mainstream and in the high street may be linked in some way by either the ownership chain or the supply chain to sanctioned businesses. These businesses in themselves may be everyday normal running businesses, but they, in turn, may have an individual involved who has been sanctioned. Not only this, but individuals within those companies may become politically exposed (PEPs), throwing up red flags.

Businesses constantly get new beneficial owners, new direct shareholders and new officers to run them. A business or individual may be on-boarded and have a good running account with a financial institution and an excellent relationship down the value chain to relationship managers and individuals within the institution, giving them a low-risk rating.

However, nothing stays still, things change constantly, and because your customer or supplier may be classed as low risk, your own internal policies may not need them to be checked unless something specific to business happens. Often, they may be checked every three years to take some kind of a look at them and update the KYC.

But what happens in between? People are constantly coming on or off sanctions and may be connected to your customer.

This means whenever there is a change, to a company or the status of an individual, whether it be to becoming a PEP directly or by association or going into or out of Sanction or getting adverse media or a company changing directors or ownership, you need to know.

Due diligence for KYC has become a nightmare. Your nightmare.

PERPETUAL KYC: A REVOLUTIONARY APPROACH TO AUTOMATE CUSTOMER REVIEWS:

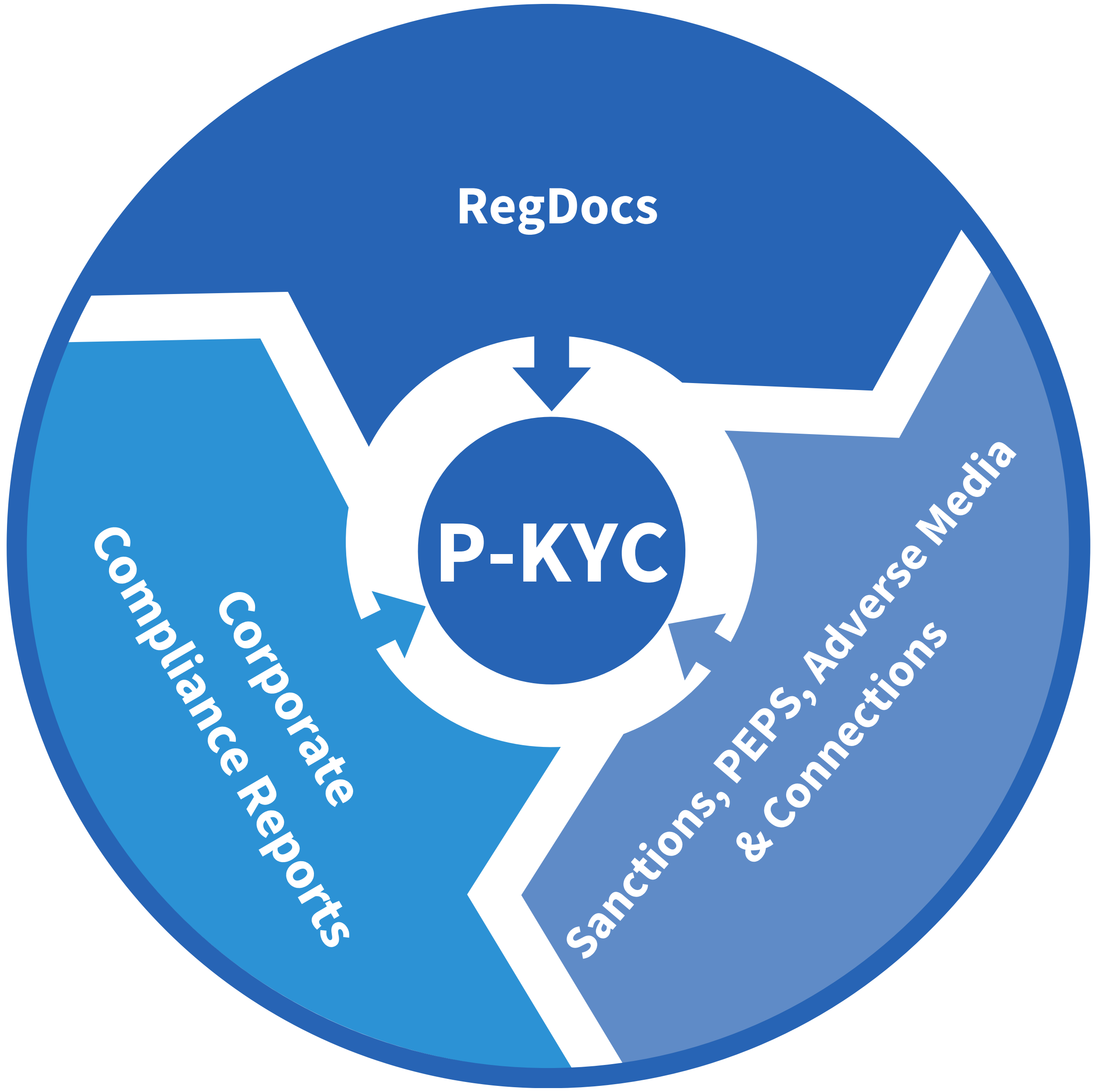
So, this is why compliance professionals started talking to us about the problem. The fact that it's now also difficult to get enough staff or the right kind of staff. It is said that for regulated businesses, something like 15% of staff/staff time is spent just on compliance issues.

So, for the last couple of years, I set my team and myself the task of solving this problem.

- Our universe at Armadillo is 500 million companies, 1 billion businesses and 5 billion individuals for verification purposes. The challenge has been to monitor all the changes, so we came up with a new concept system called the Armadillo HUB using next-gen tech that can even work with legacy systems.

- It's a ball of code using AI and RPA that can plug in any kind of database and looks for changes. It can assist with automated monitoring of corporates and individuals for new amendments or what we call Perpetual KYC. It looks for changes in a business or to an individual. Linking them to verifications of sanctions, PEPs, adverse media and connections

- Armadillo's revolutionary system for onboarding and monitoring is an automated Perpetual KYC and DD solution that has been launched to solve this problem of constant, moving goalposts that stops you sleeping at night. Who is sanctioned? Who's been appointed? Who is taking over any business anywhere in the world?



REDUCE OPERATING COSTS, ELIMINATION OF MANUAL AND TIME CONSUMING TASKS:

This will mean massive cost savings for regulated businesses. They will be able to upload their whole portfolio of companies or individuals into the system and be fed information throughout the year of any changes that happen.

Once into our system you can sleep at night!!

Typically, KYC costs now constitute approximately 3%[*1] of a bank's total operational cost base, which is a significant cost item. While the effort imposed on banks for KYC compliance requirements differs by country, risk level and customer type, it has overall grown by a factor of 14 times over the last decade.

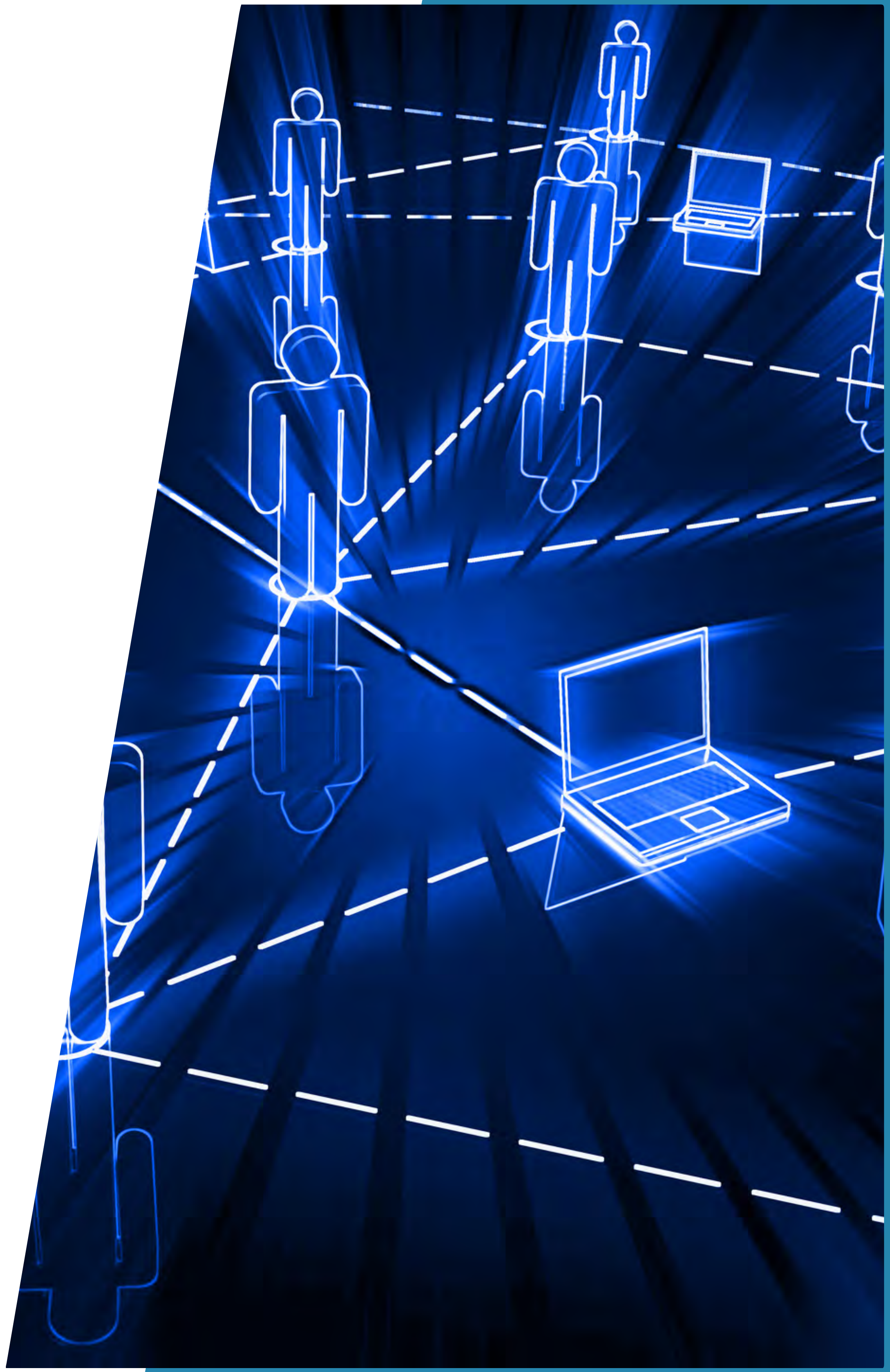
Medium-sized banks are spending approximately $24 million annually on KYC of corporate and retail customers, respectively.[*2]

MITIGATE RISK:

Mitigate the risk of uncertainty by being informed of any client changes

More Accurate and Improved Quality:
Improve accuracy and quality by using AI and RPA to automate mundane, repetitive tasks and risk of error searching for information.

Improve Customer Service:
Improve customer service by not having to request information from your customers, which is time-consuming, slows down and loses you control over the process. It is also annoying for your customers.



Remember - Once in Armadillo's system ……. you can sleep at night!!

THE ARMADILLO PERPETUAL KYC-
WHAT WE MONITOR:

Global service, access to Armadillo's universe of 500 million companies

Automate monitoring of our compliance verification report for any changes on clients and suppliers.

The Armadillo Hub allows you to download an initial report as a baseline.

Our platform then continuously identifies any changes from that base information and will alert you in real-time of any changes to the previously collected information via system access, API or email. Then, continuously identifies and flags any changes.

CONCLUSION:

Perpetual KYC mitigates the risk of not being informed of any client changes and the risk of uncertainty.

UBO's	Directors	Shareholders	Family Tree
Sanctions	Adverse Media (Reputational Risk Exposure)	Previous Directors	Connections
Financial Information & Charts	Corporate Linkage	Company History	
Legal Events	Addresses (primary, registered and mailing)		

Perpetual KYC is the process of responding to changes in real-time rather than periodic reviews of information. It's proactive, rather than reactive aRMadillo®

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A Global Regtech100 Company

Armadillo 2011-2024 has been featured in the top 12 of the 100 most innovative tech businesses in the world

- Original Company Documents
- Sanctions, PEPs, Adverse Media & Connections
- UK Legal Search & Compliance Reports

- Perpetual KYC
- Biometric Digital Identity On-Boarding
- Social Media Searches
- Translation Services

Based on research by PwC
*1: Based on PwC research.
*2: Five medium-sized banks, with an average of 8,600,000 private customers and 370,000 corporate customers offering retail and corporate financial services, have been sampled to illustrate the annual total cost and time spent on KYC reviews.