

Oracle's Approach for Beneficial Ownership

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Table of Contents

Disclaimer	1
Introduction	1
Oracle's Solution Coverage for Beneficial Ownership	1
1. Beneficial Ownership Identification	1
2. Identity and Information Verification	2
3. Risk-Based Due Diligence	2
A) Risk Scoring and Assessments	2
B) Due Diligence	3
C) Ongoing Monitoring	3
Conclusion	3

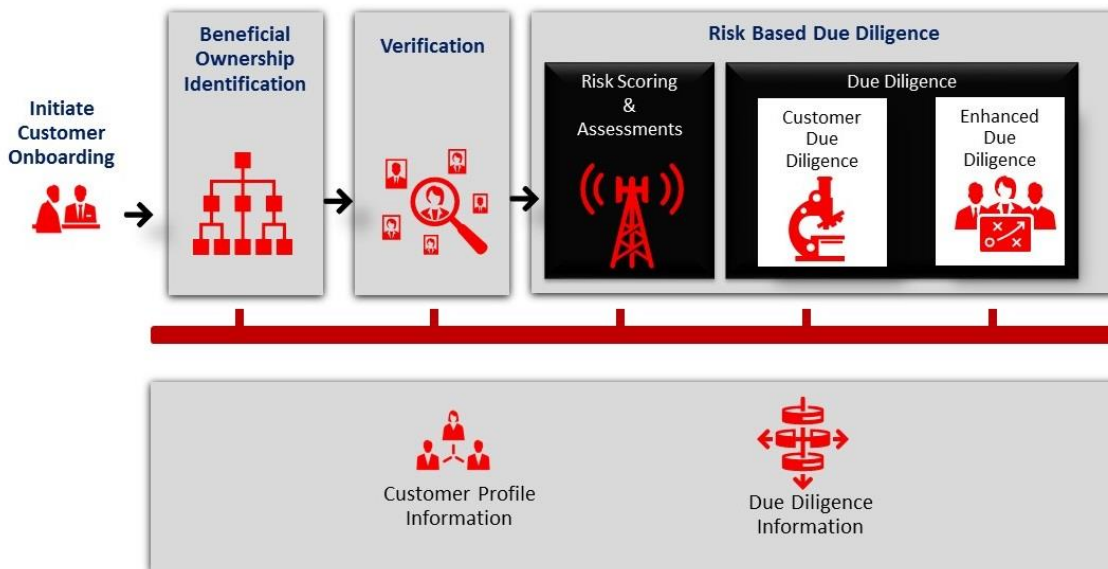
Introduction

Fueled by the lead of the Panama Papers, on May 5, 2016, the Financial Crimes Enforcement Network (FinCEN) issued final rules under the Bank Secrecy Act to clarify and strengthen customer due diligence requirements for banks, brokers or dealers in securities, mutual funds, and futures commission merchants and introducing brokers in commodities. The rules require banks to identify and verify beneficial owners of their legal entity customers at the time a new account is opened.¹

Oracle's Solution Coverage for Beneficial Ownership

Oracle Financial Services Know Your Customer allows financial institutions to meet regulatory requirements, improves overall customer relationships, and provides cost effective measures to identify and prevent financial crimes. The application is pre-integrated with financial crime and compliance management solutions to offer institutions an end-to-end compliance management platform.


The following flowchart depicts a typical process for a Beneficial Ownership program:



1. Beneficial Ownership Identification

Beneficial Ownership is measured by an “ownership prong” requiring identification of individuals owning x% equity in the legal entity customer, where x is defined by the bank as per their geography and client profile, and a “control prong” requiring identification of a single individual having significant management responsibility. The Oracle Financial Services Know Your Customer **Questionnaire** functionality offers a centralized framework-based approach for firms to define their information gathering procedures as part of their customer onboarding process.

¹ [Customer Due Diligence Requirements for Financial Institutions](#): A Rule by the Financial Crimes Enforcement Network



Below are examples of information that can be gathered as part of the questionnaire. Financial institutions can configure the questionnaire as per their requirements.

- » Names of Beneficial Owners of a legal entity customer
- » Date of birth of individual beneficial owners
- » Address of the individual beneficial owners
- » Social security number or other government identification

Once established in Questionnaire framework, questions will be presented during the onboarding process for information gathering.

Beneficial owners of a legal entity may be an internal customer or non-customer to the institution. Although the beneficial owners are not customers, there is an obligation on the institution to capture the information of beneficial owners in the system. Oracle Financial Services Know Your Customer considers such individuals as an external party. All the required information like name, date of birth, identity related information and address of beneficial owners are captured as external party details. This is a part of Oracle's standard financial crime data model structure.

2. Identity and Information Verification

As per FinCEN, the identity of beneficial owners must be verified. Which mean, verification procedures should be addressed in a financial institution's Customer Identification Program (CIP).

Oracle Financial Services Know Your Customer's standard Account Opening Interface feature allows for providing the beneficial owners' information through Oracle Financial Services Know Your Customer onboarding interface, which can be utilized for the identification program of the beneficial owners along with the legal entity who is a prospective customer in the onboarding process.

Additionally, Oracle Financial Services Know Your Customer allows for maintenance of gathered and verified documents during onboarding, which is later accessible during the due diligence process to the back office.

3. Risk-Based Due Diligence

As per the guidelines, firms are required to implement and maintain appropriate risk-based procedures for conducting ongoing customer due diligence, to include:


- » Understanding the nature and purpose of the customer relationships
- » Conducting ongoing monitoring to identify and report suspicious transactions and, on a risk basis, to maintain and update customer information

Oracle Financial Services Know Your Customer understands the customer profile from demographic information, related party information, and transactional behavior over time to assess the risks from a Money Laundering/ Terrorist Financing perspective. The rules and risk parameters of the product's risk scoring model(s) and pre-defined due diligence workflow(s) are derived from the following regulatory guidelines adopted around the world, such as the USA PATRIOT Act, Financial Action Task Force (FATF), Wolfsberg and many more.

A) Risk Scoring and Assessments

Oracle Financial Services Know Your Customer assesses the risk associated with a customer by considering different attributes of the customer. The attributes and the model used to assess the risk differ based on various Customer types such as Individual, Correspondent Bank, and Legal Entity.

For Legal Entity customers, standard risk parameters such as Watch List Risk for Interested Parties (Risk associated with the interested parties and beneficial owners of a primary customer), Legal Structure and Ownership



Risk, Geography Risk and additional attributes of the entity are modelled to derive the customer risk assessment. Currently the out-of-the-box model caters to watch list and identity related risk attributes of a beneficial owner(s), which meets the regulation requirements of the final rule. Additionally, the risk attributes of a beneficial owner can be extended as required. The customer risk assessment is performed by executing a rule-based or algorithm-based risk-scoring model.

- » **Algorithm-based risk scoring methodology:** Allows for multiple risk parameters with different weights as part of scoring engine
- » **Rule-based risk scoring methodology:** Can be leveraged to define auto high and prohibited scoring policies

B) Due Diligence

The workflow of Oracle Financial Services Know Your Customer enables financial institutions to perform initial Customer Due Diligence, Enhanced Due Diligence, and continuous monitoring of customers. Based on the risk profile generated from such an assessment the customer is passed through a due diligence workflow.

Some key features of the workflow that enable the financial institution to perform these functions are:

- » Flexible and configurable workflow, roles and permissions capabilities that allow financial institutions to change the workflow to suit their unique needs.
- » Capability to incorporate front office relationship managers and branch managers into the workflow to make them part of the KYC process and act as line of defense. With additional configuration, customers can also be incorporated into the workflow.
- » Enhanced communications features including emails, which make additional data gathering for due diligence an integral part of the KYC application workflow. Additional configuration allows questionnaires to be used for conditional data capture as well.
- » Capability of building interfaces with third party enhanced due diligence systems such as Negative News, Customer Screening, identity verification for usage in the risk scoring assessment.

C) Ongoing Monitoring


Continuous identification of customers who are due for risk scoring and verification is critical component of risk-based approach. Oracle Financial Services Know Your Customer identifies the customers who are due for periodic review and also the automatic reviews due to change in information or behavior (both customer and system), which includes the following:

- » **Account Opening Module:** New accounts opened by new customers or new accounts by existing customers.
- » **Periodic Review:** Customers who are due for review as a part of continuous process of review.
- » **Accelerated Review:** Customers who are to be re-reviewed due to change in their information or change in behavior, or re-assessing.

Updating of beneficial ownership information is triggered when normal monitoring detects heightened risk in the profile or activities of a legal entity customer. Once triggered, customer profile information will be available for further due diligence as defined by firm's policies.

Conclusion

There is obvious importance of this regulation in the fight against financial crime and terrorism financing. The issue of beneficial ownership has always been a tricky one, given the impact it can have on the relationship between business development and compliance. With compliance being tasked to apply a risk-based approach to meet requirements with local and global anti-money laundering regulations, the bigger challenge is the ability to dig into the elaborate and complex ownership structures of every single customer to determine beneficial ownership and satisfy other compliance obligations.



While the financial services industry will continue to learn more about effective regulatory programs around these new regulations, an end-to-end, robust platform, which not only provides business friendly information gathering/identification framework, but also a robust risk assessment platform for compliance will certainly be a step in right direction. Lastly, an end-to-end platform compliments the “bank to branch” streamlined enterprise approach, which is where the industry is headed.





To give adequate time for retooling of Beneficial Ownership program, compliance with the final regulation becomes mandatory by May 11, 2018. Once in force, it will apply to all new accounts, but will only apply to existing accounts when the bank detects information relevant to re-evaluating a customer’s risk profile.



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