

Oracle Know Your Customer: Product Overview

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Introduction

Generally speaking, Know Your Customer (KYC) in the context of compliance and money laundering refers to the steps taken by a financial institution to:

- » Establish the identity of a customer
- » Understand the nature of a customer's activities, or nature of business if the customer is a legal entity, to make sure that the source of the funds is legitimate
- » Assess the money laundering (ML) and terrorist financing (TF) risks associated with that customer

A KYC program includes the following components as well:

- » **Customer Identification Program (CIP)** – CIP requires the collection, verification and recordkeeping of customer identification information and the screening of customers against lists of known terrorists.
- » **Customer Due Diligence (CDD)** – CDD, also referred to as simplified due diligence, is information obtained for all customers. Information obtained for CDD should enable a financial institution to verify the identity of a customer and assess the risks associated with that customer.
- » **Enhanced Due Diligence (EDD)** – EDD, also referred to as special due diligence, refers to additional information collected for higher-risk customers to provide a deeper understanding of customer activity to mitigate the associated heightened Money Laundering/Terrorist Financing (ML/TF) risks.

Oracle Financial Services Know Your Customer

Oracle Financial Services Know Your Customer is used by financial institutions to help run a KYC program like the one described above. This product is used to understand the **customer** from demographic information, related party information and transactional behavior over time to assesses the risks from ML/TF perspective. In order to do that a risk assessment is performed by executing a **rule based** or **algorithm based risk scoring model**. Based on the risk profile generated from such an assessment the customer is passed through a **due diligence workflow**.

The rules and risk parameters that are seeded with the product's risk scoring models and pre-packaged due diligence workflows are derived from the following regulatory guidelines adopted around the world:

- » USA PATRIOT Act
 - » Section 312 – Special Due Diligence for Correspondent Accounts, Private Banking Accounts and Politically Exposed Persons [PEPs]
 - » Section 326 – Verification of Identification also known as CIP
- » FATF
 - » Recommendations 10 and 22 – Customer Due Diligence and designated nonfinancial businesses and professions (DNFBPs): Customer Due Diligence
 - » Recommendation 12 – Politically Exposed Persons
 - » Recommendation 13 – Correspondent Banking
 - » Recommendation 14 – Money or Value Transfer Systems
 - » Recommendation 24 and 25 – Transparency and Beneficial Ownership of Legal Persons and Legal Arrangements
- » Wolfsberg Anti-Money Laundering Principles for Private Banking (2012) and Correspondent Banking (2014)

In addition to these regulatory guidelines various regional regulators deem certain types of customers and accounts to be riskier than others from ML/TF perspective, some examples are:

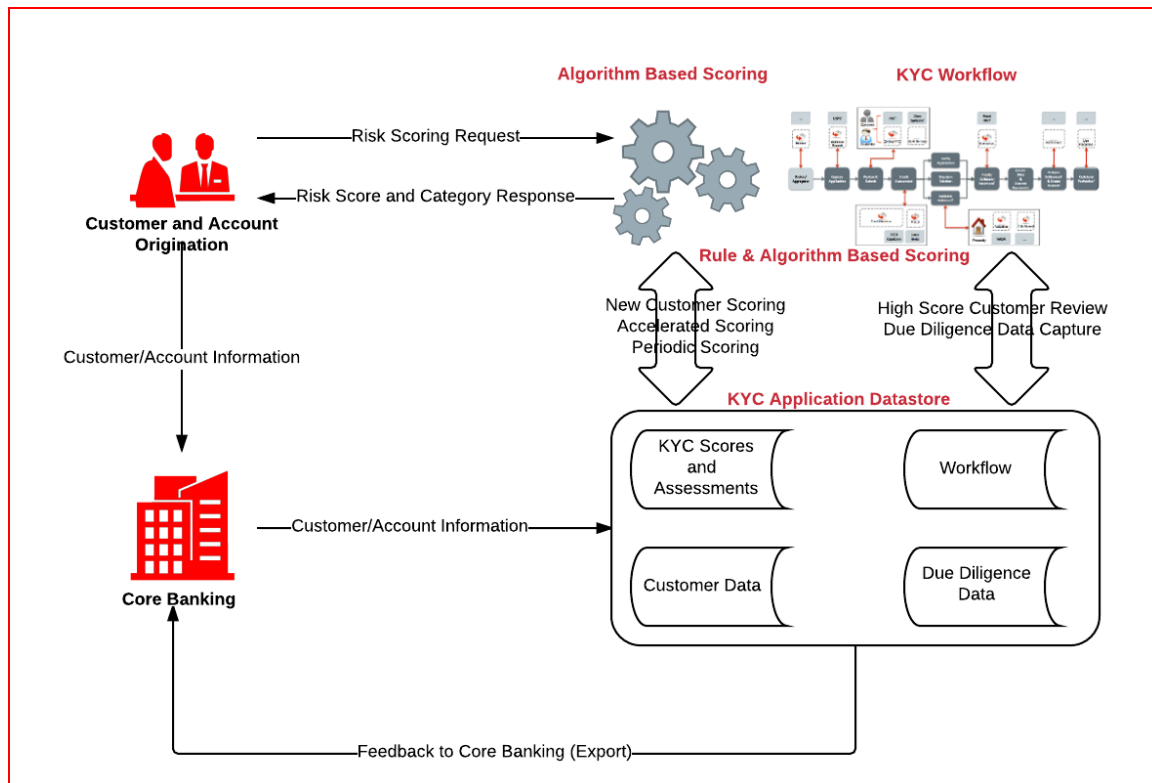
- » Customers who are self-employed “business owners”
- » Doing Business As (DBAs)
- » Professional service providers (e.g., attorneys, accountants)
- » Correspondent banking customers
- » Private banking customers
- » Politically exposed persons (PEPs)
- » Charitable organizations
- » Trusts
- » Certain types of business entities
 - » Shell companies
 - » Private investment companies [PICs]
 - » Limited liability companies [LLCs]
 - » Nonbank financial institutions (NBFIs)

The local regulators want the financial institutions to perform additional due diligence on these types of customers.

Product Overview

KYC Process Flow

The following diagram describes the process flow at a typical financial institution using Oracle Financial Services Know Your Customer:



- » The customer origination module of the financial institution invokes KYC Algorithm Based scoring (with a limited set of parameters as compared to batch) to receive a risk score and risk category as response. The origination module completes the on-boarding process with that information and updates the core banking system.
- » An end-of-the-day batch process exports all new and updated customer, account and demographic information and this data is fed into the KYC application.
- » Every day scoring and assessments is performed by the KYC application for **new customers**, customers meeting the criteria for **accelerated review** because of critical changes to customer and account information and for customers meeting the criteria for **periodic review**. KYC scoring is performed by Rule and Algorithm Based Scoring after the customer is on-boarded.
- » These assessments generate cases based on score thresholds and additional assessment rules. Assessment review and due diligence is performed through these cases using **KYC Workflow**. The due diligence workflow also helps capture additional data from the customer required for a proper KYC assessment. KYC workflow also helps initiate account closure for accounts and customers deemed to be exceptionally risky by the financial institution.
- » An export generated out the KYC application that serves as a feedback to the core banking system.

Risk Scoring

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:

- » Customer type
 - » Individual
 - » Legal Entity
 - » Correspondent Bank
- » Invocation
 - » Real-Time Account On-boarding
This is performed during the customer and account origination process within the financial institution. This is a real-time request and response.
 - » Deployment Initiation
This is performed during the very first time ALL the customers and accounts at the financial institution are risk scored and assessed.
 - » Periodic Re-review
This is performed for customers and accounts that are deemed to have elevated risk.
 - » Accelerated Re-review
This is performed on customers and accounts where critical information has changed or have exhibited propensity for ML as reported by the transaction monitoring system.

Risk Parameters

Real-Time Account On-boarding Risk Parameters

Risk Assessment Parameters	Individual	Legal Entity	Correspondent Bank
CIP Risk - Primary Customer / Joint Customer	x	x	x
CIP Risk - Interested Parties		x	x
Corporation Age risk		x	x
Existing Interested Parties Effective Risk *	x	N/A	N/A
Geo Risk - Countries of Operations		x	x
Geo Risk - Country of Headquarters		x	x
Geography Risk - Country of Citizenship	x		
Geography Risk - Country of Residence	x		
Industry Risk		x	
Length of Relationship Risk	x	x	x
Operational Risk - Markets Served by the bank			x
Risk associated to Source of Wealth	x		
Watch List Risk - Primary Customer	x	x	x
Watch List Risk - Interested Parties	x	x	x

* This would be considered if the customer for whom the request has been sent is an existing customer.

Rule-based Assessment Model Parameters

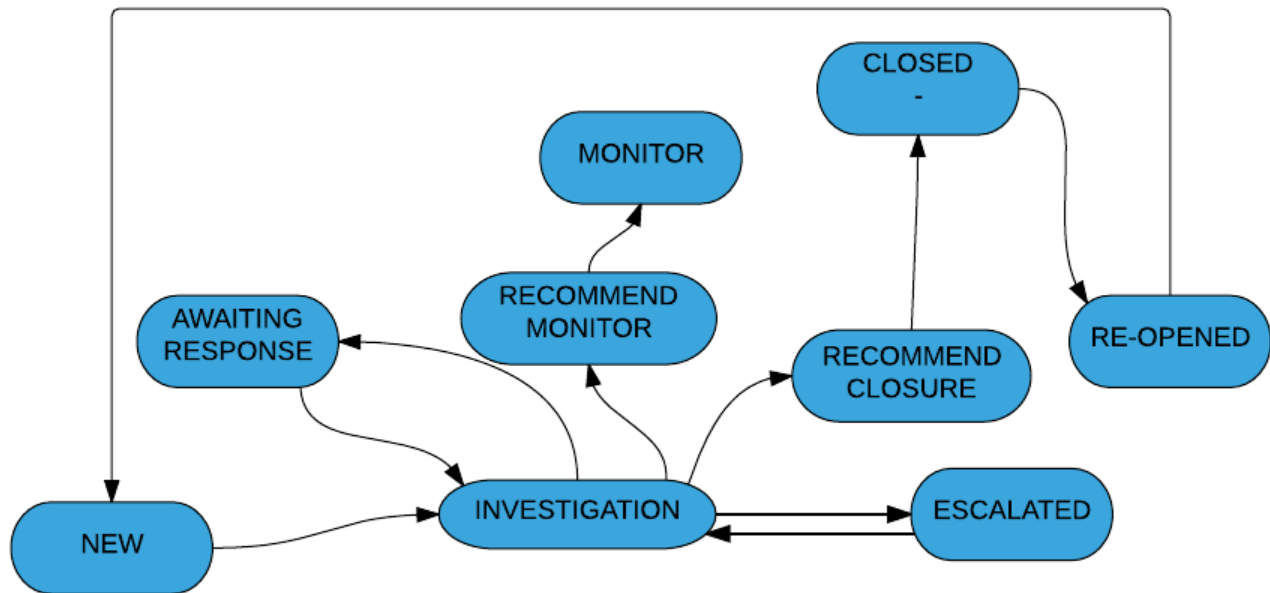
Rules	Individual	Legal Entity	Correspondent Bank
Geo Risk - Country of Citizenship	x		
Geo Risk - Country of Residence	x		
Occupation Risk	x		
Watch List Risk	x	x	x
Geo Risk - Country of Head Quarters		x	x
Industry Risk		x	
Legal Structure And Ownership Risk		x	x
Geo Risk - Country of Operations		x	x

Algorithm-based Assessment Model Parameters

Risk Assessment Parameter	Individual	Legal Entity	Correspondent Bank
CIP Risk - Primary Customer	x	x	x
CIP Risk - Interested Parties	N/A	x	x
Corporation Age Risk		x	x
Geo Risk - Countries of Operations		x	x
Geo Risk - Country of Citizenship	x		
Geo Risk - Country of Headquarters		x	x
Geo Risk - Country of Residence	x		
Geo Risk - Country of Taxation	x		
Industry Risk		x	
Legal Structure and Ownership Risk		x	
Length of Relationship Risk	x	x	x
Negative News Risk - Interested Parties		x	x
Negative News Risk - Primary Customer	x	x	x
Occupation Risk	x		
Operational Risk - Markets Served by the bank			x
Operational Risk - Products Offered by the bank			x
Risk associated to Public Company			x
Risk associated to Source of Wealth	x		
Watch List Risk - Primary Customer	x	x	x
Watch List Risk - Interested Parties		x	x
Risk associated with Account Type	x	x	x
Risk associated with Method of Account Opening	x	x	x

Due Diligence

The workflow of Oracle Financial Services Know Your Customer enables financial institutions (FI) to perform initial Customer Due Diligence, Enhanced Due Diligence, and continuous monitoring of customers. A typical workflow of a KYC Case is shown below:



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

- » Flexible and configurable workflow, roles and permissions capabilities which allows the FIs 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 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 integral part of KYC application workflow. Additional configuration allows for questionnaires to be used for conditional data capture as well.



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