

## INTERPRETING AND IMPLEMENTING KYC

# Safety, trust and fair treatment for at-risk groups

Banks have taken significant steps around the Know your customer (KYC) process with the recent influx of refugees into the UK. But adaptation of KYC policies and improvements in staff training are vital if banks are to be seen as champions of the vulnerable – from people with learning difficulties to survivors of domestic abuse.

**K**now your customer (KYC) is a bank's process of checking and verifying a client's identity before providing them with financial services. It is important for banks and FIs to be able to confirm that clients are who they say they are.

The financial rules that banks must follow (for example, when someone applies to open an account) ensure that banks have sufficient information about their customers. They enable banks to identify and understand their customers, maintain the accuracy of details relating to the accounts, and check on the relationship between the customer and bank, such as establishing the reason for the account. KYC also enables banks to review customer accounts for suspicious and illegal activity and is an important stage in the battle against money laundering and criminal activity.

But KYC requirements can be open to interpretation. In certain situations, there can be issues proving identity, particularly in relation to segments of vulnerable customers. This may include people who have been homeless, or are refugees, for example.

So how are – and how should – financial organisations interpret KYC when it comes to vulnerable groups? How can they make the process effective, while ensuring it still delivers on requirements of confirming identity?

During the KYC process, customers are asked to show proof of identity with a photograph and proof of address. ID documents that are often used are a passport or driving licence. A list of approved documents is usually provided by the FI.

There are certain circumstances where, for vulnerable groups, using these standard documents for checks proves a barrier. One such case is customers who are sufferers and survivors of domestic abuse.

One bank that has a policy in place to support these customers is Allied Irish Bank (AIB). This is largely due to Rosie Lyon, Executive Assistant, AIB, and winner of the Institute's Young Banker of the Year 2021. Rosie's successful idea looked at changing the way banks provide services for customers who have experienced domestic abuse.

Working in collaboration with the Head of Fraud at AIB, she instigated new procedures for onboarding customers in this specific group. They can now open an account at AIB using a letter from their GP, or from a refuge.

"If someone approaches us and says they want to open a bank account and have suffered domestic abuse, we can open a bank account for them without identification and proof of address," explains Lyon. "We carry out our background checks anyway, from a KYC perspective and fraud perspective."

As part of the extensive work Lyon is undertaking in this field, she uses her own experience of domestic abuse to raise awareness within AIB and the wider banking community.

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Financial Conduct Authority (FCA)

Raising understanding and awareness among bank staff is an essential part of the process in improving customer experience for vulnerable customers, Lyon says. She stresses that policies should be put in place properly. Advertising that isn't backed up by awareness or proper staff training isn't any good, either.

“If the staff aren't trained in KYC procedures, or putting the support flag up, or opening accounts without ID, proof of address, or whatever procedures there are for certain vulnerabilities, then that customer is not going to get the best service that they need in their situation,” Lyon explains.

It is important that staff dealing with vulnerable customers understand that someone in a difficult situation may, for example, be dealing with anxiety or depression and may also be tearful. They also need to realise that, as Lyon says: “Anybody can become vulnerable at any moment of their life.”

The steps banks need, according to Lyon, are raising awareness first, then implementing specialised training for staff before enhancing policies and procedures.

As well as banks having a responsibility to respond to the needs of vulnerable customers, customers must make sure they tell banks if they have specific needs, so they can be offered the support they require.

One useful practical tool that AIB have is a “support flag”, where notes can be added to the account of a vulnerable customer.

However, as Lyon points out, the notes should be properly updated and staff must make sure they open the notes. This simple practice saves the person from having to retell their story again and again. Reliving their experiences may cause them to retraumatise, and consequently become a barrier to accessing services.

#### Getting it right

Vulnerability is widespread. The Financial Conduct Authority's (FCA's) recent Financial Lives research showed that 27.7 million adults in the UK have characteristics of vulnerability. These include poor health, experiencing negative life events, low financial resilience or low capability.

An FCA spokesperson said that firms should make sure that their frontline staff have the right skills and capabilities to recognise and respond to a range of characteristics of vulnerability. “We also expect them to monitor and evaluate where they have not met the needs of customers with characteristics of vulnerability so that they can make improvements – including through flexible customer service provision and by taking such customers into account at all stages of the product and service design process.”

The spokesperson pointed out that given the increased cost of living, it is more important than ever that firms get this right. “Consumers who are in the most vulnerable circumstances face the greatest risk of harm and need particular attention to make sure they are treated appropriately,” the spokesperson said.

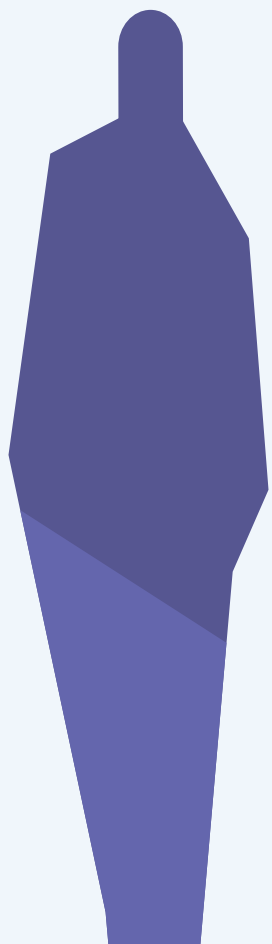
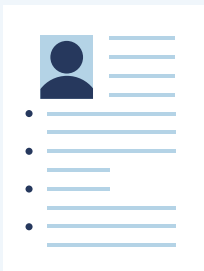
“We expect firms to understand the needs of customers in vulnerable circumstances within their target market and customer base. It's likely that these needs will vary and will often require additional measures to ensure that customers in vulnerable circumstances can achieve outcomes as good as those for other customers.”

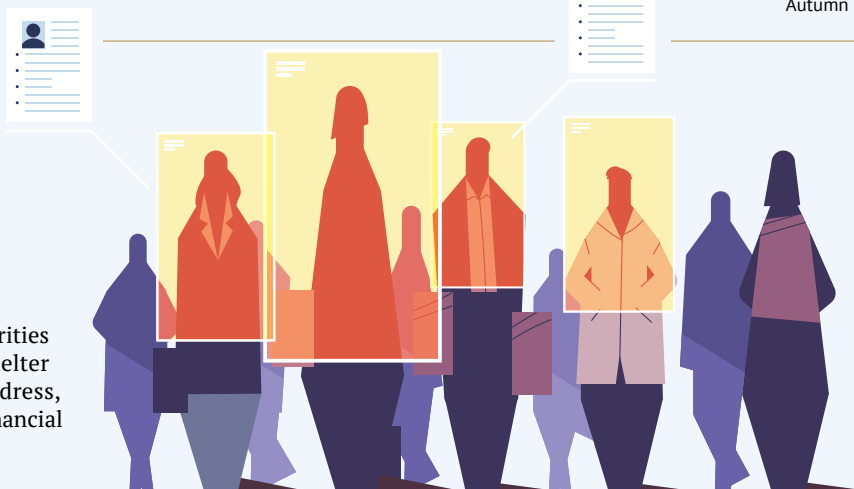
The FCA has published recent guidance for firms on the fair treatment of vulnerable customers, as well as its new Consumer Duty, which sets out how businesses will be required to put their customers' needs first.

#### The humanitarian need

Many banks have adapted their KYC onboarding process to cater for refugees arriving from Ukraine after the Russian invasion of the country at the end of February.

At Barclays, step-by-step instructions on opening an account include how to give details of an address if being hosted. At AIB, customers can open a bank account with a Ukrainian passport and a basic level of English using their smartphone, or in branch. At NatWest there is an in-branch interpreter service available. HSBC UK launched a service last year to help Afghan refugees resettle in the country and has helped 320 Afghan settlers with opening an account. The bank is also committed to enabling financial access for groups that would otherwise be excluded from the system, as part of its No Fixed Address programme.





For this scheme, HSBC has worked with UK charities including national homelessness charities Shelter and Crisis, to help people without a fixed address, or those experiencing financial abuse, regain financial independence by opening a bank account.

Using adapted or simplified forms of KYC for humanitarian purposes is the subject of some debate. Some argue that KYC regulation is a barrier to financial inclusion for refugees. Often, refugees do not immediately have the identity documents required to open an account.

European think tank Bruegel has conducted research on financial inclusion of refugees in Europe, and suggests the creation of a European identity document for refugees would widen inclusion.

In a recent blog discussing the issue, they also suggest that countries review how their specific KYC rules are put into practice, and that they should provide guidelines about the financial inclusion of refugees, if they have not already done so.

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**Rosie Lyon,**  
Executive Assistant, AIB,  
and Institute’s Young Banker  
of the Year 2021

#### Tech challenges the norm

Another instance where KYC has been adapted is among challenger banks. While the onboarding process at a traditional bank may take days, or even weeks, account opening can be completed in minutes by some challenger banks.

Widespread changes in digital use, and in acceptance of providing sensitive data online, mean that many customers are choosing this option. ID checks carried out in this way use advances in technology for identification, for example, a customer photographing and uploading a passport or driving licence or taking a selfie or selfie video.

For some vulnerable groups, the more advanced tech skills needed may make this type of KYC process less accessible to them. For other vulnerable groups, being able to carry out the whole process online will be beneficial.

Certainly, the differing KYC processes of many challenger banks are calling into question traditional approaches.

#### Boosting the budget

With all of these advances in KYC – whether digital or otherwise – banks should commit to spending time and money on research to make KYC work for vulnerable groups.

Increasing expenditure could lead to major improvements in this area, says Lyon. “Obviously, everybody’s got a budget, we’ve all got budgets,” she continues. “But if we want to put our customers first and do the best for them, then more of that budget needs to go into our vulnerability teams, our specialists, to make sure that we have all the products to provide customers in vulnerable situations with.”

Despite the challenges that need to be overcome before the issues can be 100% resolved, banks including AIB and HSBC are proving there are ways KYC can be successfully adapted to meet specific needs.

When onboarding of vulnerable customers is carried out well, what difference does it make to them?

“I think it brings more trust back to the banks,” says Lyon. “If a customer has had one bad experience, and they talk about it to everybody else, then everybody else talks about it, then the trust is completely gone. “That feeling of trust needs to be built up, especially for vulnerable customers, to make sure that they feel safe and that they can contact a bank and be treated fairly and well. They need to know there will be procedures in place, without a staff member being completely confused, or their being transferred to about five different departments,” she emphasises.

“Some people think banks are just there to lend money and to be a place to save money. But actually, banks can do so much more for their customers.” **CB**

**To further explore the role of KYC and due diligence required by FI’s in the creation of new accounts, read the scenario described in Bob Souster’s column on pages 59-60.**