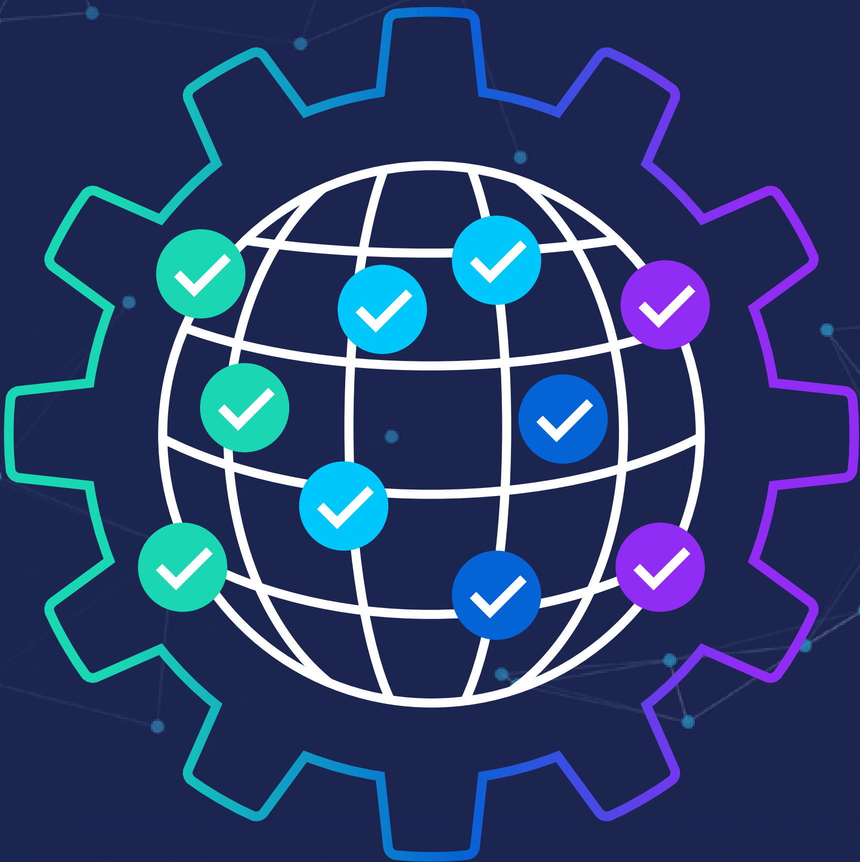


Rethinking due diligence

Why fintech companies must embrace digital transformation

Umazi

The demands around due diligence are increasing as regulations multiply, but the processes that underpin it have not evolved to keep up.

For too many companies, due diligence still involves collecting, assessing and updating corporate identity-related credentials in a largely manual way. The result is a repetitive, inefficient, time-consuming, cumbersome, non-standardised and expensive procedure that needs to be refreshed on a periodic basis in line with regulatory requirement.

That's why **it's time to rethink due diligence**.

What are the current issues?

1 The cost of onboarding for compliance

Reaching out to the same clients repeatedly for the same information in order to validate credentials is an extremely inefficient use of time and resources, and frustrating for everyone involved.

Some banks are reporting that it can take up to 140 days to onboard a high-risk customer with an associated cost of up to $3000.

Moreover, research shows that the cost of KYC is spiralling and that the next few years will see significant increases as more remediation requirements put further pressure on organisations.

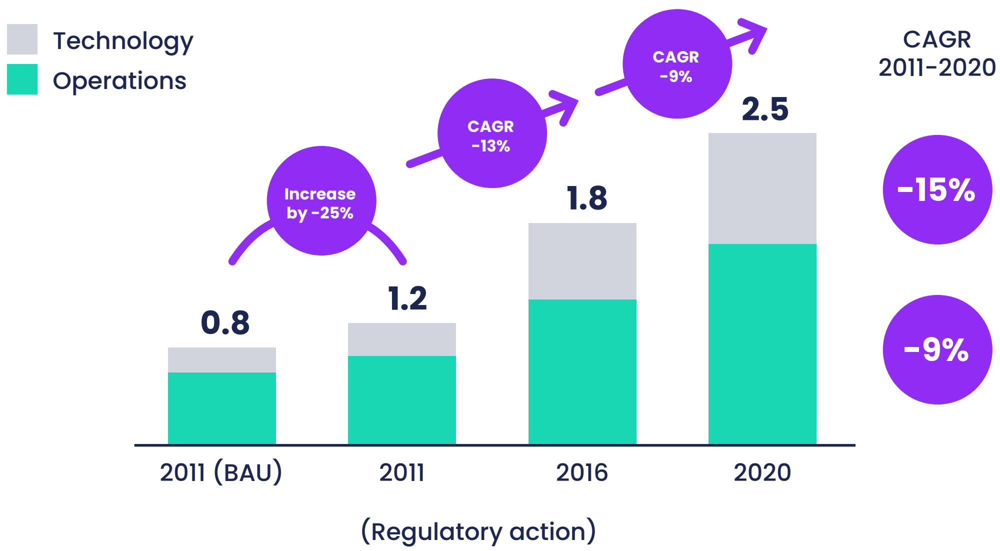
Time to onboard a new customer

High risk	Medium risk	Low risk
90–140 days	30–80 days	40–90 days

Average cost **$400–1400**

Oliver Wyman's Global KYC benchmarking study on Global Banking & Markets KYC

Top 100 banks approximate spend on KYC remediation ($billion)



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The cost of refresh/periodic review

Managing risk requires a periodic review of the full profile. How often this happens depends on the jurisdiction – in Europe it's generally done at one- three- and five-year intervals.

A recent **fintech refresh** involved:

20,000+	1,000	80,000+
Entities screened	**Enhanced Due Diligence files reviewed**	**Documents ingested**

The process took a large team **five months**

3

The cost of due diligence remediation

Less than perfect onboarding processes can result in the need for due dil remediation, which is a challenging and, once again, costly experience.

A poll taken of audience members at a financial industry conference showed that **approximately 90% of the audience** had been involved with client profile remediation programmes, with half of those saying they had participated in multiple, repeat client remediation programmes.

90% of the audience had been involved with client profile remediation programmes

4

Poor results resulting from manual systems

To err is human, and unfortunately even highly skilled validators make mistakes.

It's also well known that specific checks, such as screening customers against blacklists, are prone to producing **a high number of false positives and false negatives**.

> **"A digital identity is now well established as one of the most significant technology trends for enabling and maintaining trust – and so combating fraud."**
>
> Trusted Transactions report

5 Poor customer experience

As well as being a pain point for the companies involved in onboarding customers, the process often negatively impacts the customer experience.

People understandably get tired of submitting endless paperwork, often the same documents to different departments within an organisation. They want a process that is quick and seamless, and once completed results in information that can be stored and reused.

> **"We lose 30-40% of our clients during onboarding because the process can take up to 12 weeks."**
>
> **Japan-based financial Institution, reported in Proviti**

Almost 60% of companies view compliance as a barrier to entering new markets. This is primarily because there is no standardised communication between corporates and regulated institutions.

6 The challenge of keeping up with changing regulations

With regulations being regularly revised and extended to combat financial crime, customer due diligence is becoming an increasing burden on both data validators and data creators.

Anticipated new regulations will mean fintech companies will need to increase their budget for compliance by 20% while some banks are reporting that they will increase headcount capacity by 120%.

What's coming down the line?

Some of the most significant elements of financial due diligence in recent years have related to Anti-Money Laundering Directives (AMLD).

AMLD 5 covered politically exposed people and ultimate beneficial ownership, among other issues, and raised awareness of the critical need for real-time monitoring of compliance.

AMLD 6 aims to harmonise money laundering offences across different organisations and processes and introduced the question of who is ultimately responsible if due diligence fails to identify a risk that subsequently exposes an organisation. It suggests that those deemed responsible for due diligence could face large fines.

The challenge of due diligence and the supply chain

Arguably the biggest challenge ahead in the due diligence arena is the anticipated requirement to include everyone in the supply chain. This will hugely increase the work involved in achieving compliance. Consider, for example, a major supermarket chain that might have over 100,000 suppliers or an international company that has a global network of suppliers. It's evident that the current manual-based processes will not be able to cope.

It's evident that the current manual-based processes will not be able to cope.

> **"In the UK, the projected annual cost of financial crime compliance alone is $49.5bn, whilst another study found that more than a third of financial services respondents said they would be spending more than 5% of their revenue on compliance."**
>
> The Global City

Anticipated supply chain regulation

In a recent vote, the EU Parliament backed a legislative initiative paving the way for a new EU directive on Corporate Due Diligence and Corporate Accountability.

As part of this initiative, lawmakers called for the urgent adoption of an **EU-wide regulation** that will require companies to identify, address and remedy the environmental, social and governance (ESG) risks in their supply chains.

The idea that organizations should be held accountable and liable when they harm – or contribute to harming - the environment, human rights or good governance principles has been around for decades.

German Supply Chain Due Diligence Act

The companies concerned must make reasonable efforts to ensure that there are no violations of human rights in their own business operations and in the supply chain. **The Act** explicitly clarifies that a mere duty of effort is established and not a duty to succeed or guarantee liability.

The due diligence law would hold companies, their suppliers, and sub-contractors liable when they harm or contribute to harming human rights, the environment, and good governance.

The law would require companies to "cease, mitigate and prevent" risks in their supply chains.

The EU on due diligence for eu businesses to address the risk of forced labour in their operations and supply chains

Additionally, the EU Parliament requested to **include a ban** on importing products linked to human rights violations. Especially companies linked to forced labor by Uyghurs in Xinjiang exporting to the EU will be under strict observation.

When a company hasn't performed effective due diligence on the suppliers or third parties they engage with, **a number of risks could go unidentified.**

It's time to embrace digital transformation

It seems unbelievable that in the second decade of the 21st century, when technology is ubiquitous in daily life, from GPS to smart speakers, that the highly complex and vitally important process of due diligence is most frequently carried out on a spreadsheet.

Implementing a digital solution presents multiple benefits.

Reduce costs by eliminating repetition

What if you could create a digital corporate identity that has been verified and risk assessed by regulated institutions and could be safely stored and shared with other organisations? A solution that enables due diligence to be carried out once, but the results used many times.

Improve results by eliminating human error

What if there was a digital solution that reduced human involvement thereby minimising errors that can cause delays and increase risks, and, moreover, free up human resources to work on other aspects of the business.

the highly complex and vitally important process of due diligence is most frequently carried out on a spreadsheet

Strengthen risk assessment by introducing real-time monitoring

What if we could improve the mechanism for fighting crime and corruption, without burying the good guys in paperwork.

Improve the experience for all

What if we could leave behind the pain and frustration of endlessly repeating the same tasks and carry out due diligence in a more efficient and effective manner by using pooled data; a system that would foster financial inclusion, ease access to available information and reduce stress.

Prepare for future challenges

Now is the time to prepare for future challenges, such as supply chain compliance. Now is the time to streamline and automate, to work smart, and to grasp the competitive advantage that digital transformation offers.

> **“Customer due diligence is the most expensive activity in the financial crime customer lifecycle... due to the highly manual approach most institutions employ. Our experience demonstrates that up to 50% of this cost can be taken out by leveraging smart and proven technology...”**
>
> Sean Kennedy, Partner, Oliver Wyman

If you feel like you’re drowning in the paperwork involved in due diligence, UMAZI can help. UMAZI is creating the first global network of trust with the goal of automating due diligence.

Our digital solution enables validated data to be held securely, reused and updated in real-time, saving everyone involved time and money and improving the experience for all.

Get started on creating your digital ID

Book a call

Umazi.io