Guide

# Mesh ID's Ultimate Guide to Investor Onboarding

Mesh ID

# Preface

Onboarding of individuals and companies is a major pain point for fund managers, administrators and custodians. In addition to increasingly onerous regulatory requirements there is the demand for a frictionless customer experience from clients who have become accustomed to easy access to consumer financial services.

Anti-money laundering and beneficial ownership compliance continue to come under scrutiny from regulatory bodies, with key drivers including evolving domestic and international regulatory requirements, global political pressures, and work carried out by organisations such as the Financial Action Task Force, the European Commission and the US Financial Crimes Enforcement Network.

The IHS Markit/SIFMA report 'The Future of Client Onboarding[1]' refers to a sector that having been long overlooked, under-resourced and underestimated is now coming into the spotlight.

Buy side and sell side parties alike now recognise that improving the onboarding experience provides a competitive advantage by creating positive client relationships. Simultaneously, a new wave of onboarding technologies is bringing the potential for true digital transformation within reach for the first time.

One of the firms surveyed for the IHS Markit/SIFMA report described the ideal onboarding platform as one that would allow the client to access a draft contract as well as a request for any data and KYC documentation, enabling them to upload everything and sign electronically.

There is also an acknowledgment that efficient onboarding and lifecycle management processes must find a way to balance speed to revenue with adequate protection against risk. When the onboarding process is too lengthy and onerous, fund managers and administrators run the risk of losing business to institutions that execute this process more efficiently.

In this guide we explore some of the key customer onboarding issues faced by fund managers across a number of key categories, namely:

- Identity verification
- Address verification
- Client screening
- Form filling (particularly subscription documents)
- Risk assessment

(1) https://www.sifma.org/wp-content/uploads/2020/04/IHS-Markit-and-SIFMA-AMG-The-Future-of-Client-Onboarding.pdf

The starting point for any customer onboarding process is identity verification.

# 1. Who are you?

One of the most important aspects of identity verification is recognising the value of collecting multiple data points, rather than just relying on a single source. Regulated firms have much to gain from being able to demonstrate to regulators that they are doing more than the minimum required.

The ideal solution is a combination of a low-friction process that does not alienate potential customers by forcing them to complete a complex and time-consuming series of actions to confirm their identity, and a solution that maximises conversion rates.

Some of the key questions to ask when assessing the effectiveness of a customer onboarding programme include:

- Are you confident that the supplied documents have not been tampered with?
- Can you confirm that the person providing the documentation is the person identified in the documents?
- Is the system able to distinguish between a 'live' image and a photo or screen grab?

In terms of KYC requirements, there has been a trend for converging on standardised requirements in Europe and the US in particular, which has gone hand-in-hand with tax compliance and anti-money laundering initiatives. In many cases this has been prompted by incidents of non-compliance or high profile scandals. However, there is still fragmentation where individual regulatory bodies and authorities impose slightly different requirements. It is also important to recognise that regulations and legislation are constantly evolving, which means KYC requirements may become even more onerous in the future.

# 2. Where are you?

A good example of how to demonstrate compliance with the spirit as well as the letter of customer onboarding regulation can be found in the process by which individuals establish that they live at the location they have supplied as their home address. The basic approach might be to ask for a copy of utility bill, but these are among the easiest documents to fake. Anyone with an internet connection and a few dollars can buy a fake utility bill from any country in the world.

Basing the verification process on a document that can be so easily manipulated is a good example of bad practice. There are many benefits to firms in providing regulators with proof that they are approaching the process like a detective collecting evidence from multiple data points – an approach that also increases customer confidence that the firm is taking the issue of identity verification seriously and not just viewing it as a box ticking exercise.

Where utility bills are used to establish identity, it is important to make it as easy as possible for clients to provide the necessary documentation. Rather than requiring them to download a bill from their utility company website, print it out, scan it and submit it, allowing them to grab the document on their smartphone and submit it digitally makes the process much easier.

An important component of an effective address verification system is the ability to identify legitimate mismatches where the client has typed the name of their street incorrectly, for example.

Using Google Address check is one way of ensuring that the correct address pops up when the individual starts inputting their address details, significantly reducing the potential for incorrect or illegitimate address entry.

However, since access to personal information such as registered address varies from country to country and it might not be possible to use digital means to confirm address, it is important to offer other mechanisms for verification. For example, the address supplied can be matched with the location of the device being used. Another option is to have a unique code sent to the address provided, which then has to be input as part of the application process.

# 3. What are you?

Recent geopolitical tension has underlined the importance of being able to identify blacklisted individuals or entities. Firms have to be able to determine not only whether a potential customer is subject to sanction, but also whether they are classified as a politically exposed person since the latter would not necessarily show up on a list of the former.

Sanctions lists are published by government agencies and are publicly available, and there are service providers who continually monitor these lists. Where the process becomes more involved is when it has to take account of a variety of behaviours that can damage a firm's reputation. The smart approach to ensuring that such persons are flagged during the onboarding process is to deploy AI to monitor all the information relating to them that is available online.

New names are added to sanctions lists all the time, so regular screening and reassessment is important. The frequency with which this activity is undertaken will depend on the budget available - the more frequent the screening, the more expensive it will be - with overnight updates being the most common option.

It is also worth considering whether to extend this monitoring to dark web activity (the dark web is the part of the internet that isn't indexed by search engines). The decision making process should take account of the value of collecting multiple data points as discussed above.

There is an obvious value-add for a firm in being able to notify a customer that their credit card details are for sale on the black market and offer solutions to improve the security of their financial information as part of the compliance process. Likewise, customers will benefit from the assurance that such checks have been carried out and that they would be notified if anything untoward was found.

# 4. Signed, sealed, delivered

An efficient mechanism for completing subscription documents has the potential to considerably reduce friction for fund managers and clients alike. Managers can derive considerable benefits from using a system that automates the process of filling in these documents in the same way as the completion of regulatory forms.

Most subscription documents are still presented in PDF format with little or no intelligence built in to direct the individual filling it in to the appropriate sections and away from the sections they don’t need to complete. With dozens of fields it is also easy for someone to make an error, for example by failing to follow instructions such as ‘if you answer ‘yes’ here go to section x’ or providing too much information that requires the document to be completed again.

By digitising the process and using embedded logic to enable investors to go to specific sections based on their profile, the documents can be structured so that the level of response depends on the type of client.

They can also be populated with information the firm already holds on the client to simplify the process – a crucial feature in a document that can run to more than 100 pages. This approach also means that when the client has completed the document it is presented in the exact format the manager requires.

# 5. No more risky business

Every firm has its own risk appetite in terms of the kinds of clients it will take on board and will want to establish factors such as the structure of the entity they are going to use. The criteria range from the straightforward to the complex and are weighed up at the end of the assessment to rank potential clients.

In some cases the decision will be that the client cannot be onboarded, while in other cases it might be determined that additional or enhanced due diligence will be required to obtain more information.

There are some obvious factors that will raise red flags from a risk perspective, such as an application from a client based in a jurisdiction that is subject to sanctions or deemed politically exposed.

Every firm will have a risk management committee that assesses the findings of the risk review process and makes a determination based on the information presented to it. In most cases this process is still largely or even exclusively undertaken manually and reliant on human judgement and discretion.

A degree of human or manual intervention is not necessarily a bad thing when it comes to risk assessment. While it makes sense to automate time consuming processes where there is no scope for alternative interpretations of the data, the majority of firms will want to retain the ability to look at all the information available before making a final decision.

This approach underlines the value of a risk assessment tool that allows firms to codify basic risk assessment matrix or rules algorithms so that as answers are provided during the clients' digital journey, the information is automatically populated and scored according to the firm's own rules and the output is provided in a format that can be used to inform the final decision.

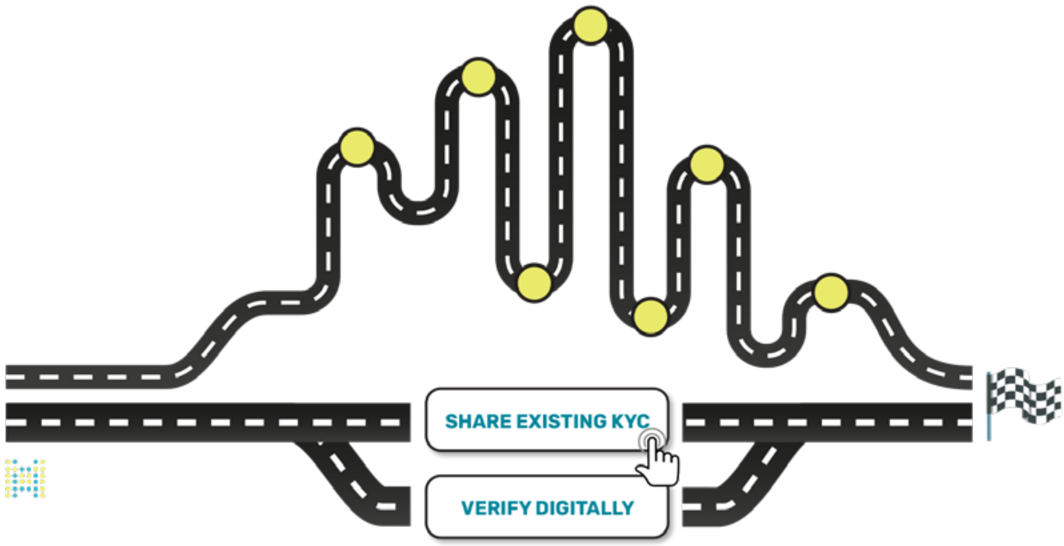
At this point the firm is able to make a call on what to do with the output in terms of whether it needs to provide more information to enhance the process or is satisfied that it has an acceptable answer based on its own algorithms and rules.

There is no hard and fast rule for how often firms should undertake risk assessments. Obviously a risk assessment will be carried out prior to a client being onboarded, but the frequency with which the extent of the risk presented by the client is reviewed will depend on their risk profile. In many cases such reviews will be conducted at multi-year intervals. However, if the client has certain characteristics that could raise their risk profile, their suitability could be assessed on a more regular basis.

# In conclusion

Fund managers, administrators and custodians face similar challenges when it comes to customer onboarding regardless of location or size of fund.

We believe that information already collected and verified by a previous party should form the starting point for your due diligence processes. This ensures that the customer relationship is built on a foundation of trust, enabling compliance teams to focus on value-adding tasks while offering clients a seamless process.



Mesh ID speeds up the onboarding of individuals and companies by automating the collection, verification and sharing of KYC and client due diligence information.

Founded by fund industry insiders, it has developed a fully automated, next-generation KYC onboarding solution for fund managers, fund administrators, and corporate services providers.

Access to SaaS-based features, from digital ID verification to intelligently designed subdocs, enables compliance teams across the globe to automatically onboard fund investors quickly.

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