FINANCE LATVIA ASSOCIATION

What is a *shared KYC utility*?

Concept. Models. Framework.

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Introduction/background (I)

The Cabinet of Ministers on September 25, 2018 approved the plan on AML/CFT activities for implementation by the end of 2019.

Paragraph 4.10 provides that a shared KYC utility might be one of the solutions.

Finance Latvia Association is mentioned as one of the responsible organizations.

Introduction/background (II)

Finance Latvia Association includes banks and other financial institutions, and other closely integrated service providers to financial institutions.

In cooperation with the government last year we have successfully delivered a regulation on public-private information sharing partnerships (Latvian JMLIT).

Now we are looking to deliver a legal framework in order to create opportunities to launch one or several shared KYC utilities. We are not creating a KYC utility as a business product.

Ultimate goal

- Fight financial crime by joining efforts. A shared KYC utility is one of the tools to use.

- Improve culture of compliance with more affordable expenses.

- Reduce a need for de-risking by providing additional risk mitigating tools.

KYC utility and shared KYC utility

- **KYC utility** – many obliged entities have their own or outsourced IT solutions that gather, analyze and cross-reference client related data.

- **Shared KYC utility** – several or many obliged entities (beyond a consolidated group):

  i. share data gathered from/about their clients (like via credit bureaus)

  ii. getting data from public registries

  iii. cross-referencing data to find predefined irregularities.

- Several models and layers, combinations are possible.

Focus

- ML/TF exists outside financial institutions, shared KYC utility has no ‘’banking only’’ focus. Finance Latvia mainly see as a tool to improve AML/CFT/Sanctions governance throughout **non-banking sector**. Smaller obliged entities feel left alone.

- There can be **many** shared KYC utilities – with banking only focus, notaries only, all obliged entities inclusive etc. Depends on trust and similarities of the *modus operandi* of obliged entities (banks only, for example).

Shared KYC utility

- Shared KYC utility with verified data from public registries and/or containing information shared by obliged entities. Both can work together or separate.

- Shared KYC utility – some similarities to credit bureaus. Credit information bureau -> Shared KYC utility = «AML/CFT information bureau».

- Shared KYC utility is good to set up with sound private-private information sharing (blacklists, grey lists).

DIGINNO

DIGINNO project could deliver **a basis for a broader shared KYC utility** – access to public registries and cross-border data obtained from those registries sharing in order to verify the client and/or create their profile.

Targeted financial sanctions

- Improving list based sanctions control by importing relevant lists from EU,OFAC, UN. Already happening.

- List based sanctions v. sectoral sanctions. Shared KYC utility can be an answer.

- Help to identify persons who must be screened (from shared KYC forms) but are not identified without EDD (but those who did EDD, identified them and shared their names), for example, in case of **sectoral sanctions.**

Inclusion of corporates

Firms other than obliged entities need to be included with limited access (full access only to obliged entities). It must at least include sectoral sanctions screening and other corporates which could be named in law as corporates who are entitled to more data in order to carry out vetting of their business partners (for example, those who trace with dual use goods).

What a shared KYC utility is not?

- Reliance on KYC utility information – no exemption from liability. It is a proof of effort.

- Recognition and acceptance of the results of CDD/EDD performed by other obliged entity is not a purpose of a shared KYC utility.

- It is not Facebook or Instagram. Verified users only (obliged entities). Can’t obtain information without contributing own data.

No ‘’IT’’ without ‘’I’’

Shared KYC utility mostly is not only about sophisticated IT tools but also about several channels where information can be obtained and imported in the system:

- public registries;
- filled and filed KYC forms;
- basic tax related information;
- financial sanctions lists;
- information obtained through private-private information sharing;
- cross-referencing the data (ratings, alerts, flags, notes).

Evolving role of state registries in information sharing

- Registries are populated with required data.
- No access to public registries (including tax related), no effective shared KYC utility.
- Single channel to public registries (no separate channels for each obliged entity). Access to useful information in order to address risks (to profile the customer).
- Access to state registries of all Baltic countries. State borders help to remain unnoticed.

Legal perspective (I)

Our approach is that a shared KYC utility has focus on **legal entities** only and those individuals that are associated to legal entities.

Information solely about individuals are stored only in regards to access the public registries to identify any individual as a client, and international sanctions, PEPs.

Legal perspective (II)

- GDPR is one of the reasons. Shared KYC utility helps minimizing data processing. The same thing doesn’t need to be done by every obliged entity.
- GDPR demands national legal framework on shared KYC utility.
- Unified KYC form for sharing; additional fields remain individual.
- Cooperation in AML/CFT should not be considered as a breach of fair competition.

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Thank you!