

Know your customer  
remediations:  
maximizing outcomes  
while minimizing costs





Remediating know your customer (KYC) files under regulatory scrutiny or recognized customer file deficiencies has long been a pain point for financial institutions. Remediations are traditionally high-cost and grueling undertakings with negative impacts on businesses and customers alike. While the cost of remediation may seem ever-increasing with minimal return, financial institutions can take advantage of industry lessons learned and technology enablers to minimize costs and business disruption, support positive customer interactions, and streamline processes to enable effective organizational outcomes and maximize investment returns.

## KYC remediations are most often associated with the following:

### High costs

Large amounts of work in short periods of time require financial institutions to hire additional full-time employees or third-party support. Scope changes and challenges in rapidly upscaling – both the operating model and workforce’s knowledge set – can cause costs to balloon beyond initial estimates.

### Operating model disruption

Remediations distract from frontline business and compliance priorities and often require employees to “burn at both ends” for long periods of time, resulting in decreased focus on business-as-usual activities, morale and an increase in employee turnover.

### Poor customer experience

From a customer’s perspective, remediation outreach occurs at random, often without a clearly articulated request. Outreach is ad hoc, often resulting in multiple customer touch points, which can negatively impact the client’s experience with the institution.

While the above may be a typical experience, it need not be.

### Minimizing cost and disruption: capitalizing on lessons learned across the industry

Remediations are often mandatory events; to the extent that a remediation’s scale and deadline exceeds operational capacity, certain incremental costs are unavoidable. These costs, however, can be proactively managed.

Financial institutions instinctively respond to the typical tight timeframes of remediations with an “all-hands-on-deck” execution model. Deploying quickly, however, can limit critical conversations regarding scope, population management, customer interactions, team structures, operating models, governance and technology. Bypassing such conversations is nearly always a driver of unforeseen incremental costs. Nimble organizational response must be grounded in the right planning to build an efficient factory around a clearly scoped remediation.

### Confirm scope

The simplest approach to managing costs is to reduce the overall population. At the outset of remediations, compliance leads and the front line should partner to identify customers for exit/restriction or de-prioritization and later decisioning based upon dormancy and whether the cost of remediation outweighs the relationship value (e.g., customers with low revenue relationships requiring enhanced due diligence).

### Understand scale

Financial institutions should build a forecasting model to predict the number of team members needed to complete a remediation timely. Population models should forecast the count and type of resources needed based upon estimated levels of effort and anticipated dependencies (e.g., customer outreach returns per month and activity cycle times, such as approvals and quality assurance reviews). The forecasting model should predict both the number of team members required by role (e.g., analyst, quality assurance) and when these teams can be downscaled away from remediation. Throughout the remediation, the forecast model can serve as an assessment of progress against goals. Model assumptions should be continually tested for appropriateness and adjusted to support realistic forecasting.

### Scale purposefully

Financial institutions should avoid the instinct to immediately show substantial progress in lieu of purposeful planning (e.g., right-size-population and team, define standards, enable technology and governance regimes, create and deliver substantive training). Quick progress almost inevitably comes at the expense of actual sustained progress and leads to re-work and rapidly increasing costs. Remediation programs should be stable, stress-tested and adequately approved before deploying a fully scaled approach. Finally, financial institutions should scale actions in a way that allows appropriate focus on business-as-usual (BAU) program execution in parallel to remediation.





## Improving the customer experience: turning a challenge into a business opportunity

Remediations are commonly a negative experience for customers. Customers view ad hoc requests for information or documentation that they consider private or closely held with skepticism. Information requests that require several people in an organization to collect, review and verify are similarly viewed as an inconvenience and annoyance. Financial institutions can fundamentally change the nature and quality of customer interactions by enabling team members to streamline the outreach process to require that the outreach is properly contextualized, comprehensive and necessary.

### Provide customers the “full picture”

Active collaboration and support of the front line is a critical component to a successful remediation. Financial institutions should conduct ample frontline training to enable these team members to appropriately communicate both the basis for outreach and the requirements needing completion, including detailed directions on how to fulfill these requirements. This type of front-office partnership not only improves outreach response rates, but also increases customer engagement and lays the groundwork for the opportunity to positively engage customers.

### Contact the right customers, at the right time

Managing customer outreach should focus on minimizing disruptions to the customer experience. At the outset of a remediation, financial institutions should assess the population for opportunities to group accounts by parent customers to leverage customer information across multiple accounts. Operating model considerations, such as tracking the number of outreaches to a customer and determining the right team members (e.g., seniority and functional role), are important components of improving customer outreach.

### Contact your customers for “must have” information

Outreach requests should be narrowed before submission to customers. Many firms have begun to invest in third-party data solutions to verify customer information without conducting customer outreach. Alternatively, information or documentation should be sourced from internal systems (e.g., credit underwriting) or publicly available sources (e.g., secretary of state) to resolve remediation requirements. Compliance leaders should evaluate whether existing policies and procedures are overly proscriptive and by extension restrictive in how and where information can be sourced and can consider moving toward more “risk-based” approaches for gathering and verifying information.





Once financial institutions have mastered “the basics,” financial institutions should consider whether there is opportunity to use requests for information to expand existing client relationships. As most remediation populations include customer accounts that have not been refreshed recently (or ever), customer outreach to these customers can prove beneficial beyond completing a compliance exercise. Some customers’ products and services needs have likely changed since their last interaction with the financial institution, and some customers may welcome an opportunity to adjust their product needs.

### **Enabling long-term success and sustainability**

Remediations can serve as the testing ground for longer term enhancements to people, process and technology to support future sustainability. Once remediation activities are stable, financial institutions should take a forward-looking approach and use the remediation as a lens into opportunities to better enable the future program. Commonly, through looking to achieve operational transparency or reduce redundancy or manual effort, there are lessons learned and enhancements created that can be ported into the BAU environment (e.g., operational reporting, robotic process automation, differentiated people models). Additionally, where third parties are engaged to support remediation activities, financial institutions should leverage the vendor’s industry insights regarding KYC processes, requirements, technology and people models as a means to continually identify enhancement opportunities within both the remediation and BAU environments.

The views reflected in this article are those of the author and do not necessarily reflect the views of Ernst & Young LLP or other members of the global EY organization





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