Diligencia

How to accelerate customer onboarding in the Middle East & Africa

Five common KYB/KYC challenges and potential solutions

Speed read

The KYB process in the MEA region can be painful and slow – which may hold back an organisation's performance in the region.

At Diligencia we know that the process of onboarding corporate customers and third parties (KYB/KYC*) based in the Middle East & Africa can be a real bottleneck for organisations – particularly those which are regulated and offer discretionary services, such as legal advice or private wealth management.

Customer onboarding and business acceptance teams can find themselves stuck between a rock and a hard place: as compliance professionals their responsibility is to adhere to what internal policies and external regulations dictate, whilst delivering an efficient and timely service to internal stakeholders. Too often the net result is that the customer due diligence (CDD) process is long and drawn out – ultimately delaying the organisation's ability to earn fees, or in the worst case losing business altogether.

Based on conversations with Diligencia's own clients in this area, we have selected five of the most common challenges that CDD teams face when onboarding customers in the MEA region, along with some potential ways to accelerate and streamline the process.

1 Validating company details and UBOs

Language issues, naming conventions and a lack of publicly available information make it difficult to validate company information and identify UBOs.

How do you ensure corporate information, which you may have received via a client questionnaire or the original documentation, is correct and up to date?

If the documents are in Arabic you may need to have them translated, but even if they are in English it can be challenging to match the entity data as provided with what you can find in the public domain – either via search engines, the company's website (if they have one), or other resources. There may be a number of possible matches, either because there are several companies with similar names – for example within the same family group – or the official name of the organisation appears to have multiple variants in English (Arabic can be transliterated into English in different ways).

If your subject entity is owned by another organisation, such as a family office or holding company, and you are required to identify the ultimate beneficial owner, what are your options? You could of course contact your client (possibly multiple times) until you are satisfied that you have identified the UBO, or ask them upfront to declare their UBO. The latter approach is certainly worth doing, but the customer may require an explanation of how you define a UBO and why you are asking.

Look for regional data providers, engage with sources on the ground, or join a centralised data verification programme e.g. the LEI.

Other ways of addressing this challenge include trying to corroborate the information yourself – either via a proprietary database of legal entity data, or via services that retrieve corporate documents on a per instance basis. You may even find a local lawyer or services agent in that jurisdiction who will approach the corporate registry on your behalf. Alternatively, you could encourage your customer or third party to join a scheme where such corporate data is centralised and independently verified, such as the Legal Entity Identifier, a G-20 sponsored programme governed by the GLEIF, which is now being widely adopted by many retail and investment banks.

2 Identifying companies and their activities

Establishing what a company does can be tricky, but is important for good governance.

Establishing the corporate details and ownership of your prospective customer or third party is only one piece of the KYB jigsaw puzzle. Part of the customer onboarding process should also entail understanding the purpose and activities of the organisation. There are two good governance-related reasons for doing this: firstly, to avoid doing business with a shell company that has been set up to launder money or other nefarious activity; and, secondly, to highlight high risk activities such as the provision of customs clearance services (increased bribery and corruption risk) or the manufacture of dual-use electronic components that could be used in weapons systems (proliferation risk).

Registered activities, regional online sources and local contacts can all help.

Finding out what a company does sounds straightforward, but in reality can be problematic – especially in the MEA region where not all companies have a website, or indeed anything more than the most basic directory listing. The registered activities of an organisation, normally included in its trade licence or corporate record, can be helpful here as it will give a good indication of what it is legally permitted to do in that jurisdiction. Regional news and social media channels (local language skills are useful) may also shed more light on its activities in the form of contract announcements, attendance at trade shows, or even job vacancies. If more detail is required, a quick telephone call to the local chamber of commerce or industry association will be instructive – or you could of course ask your customer.

3 Source of wealth

Understanding how a family (business) made its money is often a key part of the KYB process.

Questions around source of wealth are normally a stock element of the KYC process (i.e. onboarding an individual as a customer), but when a private wealth management firm is asked to take on a family office as a client, then source of wealth also becomes relevant in a KYB context. Similarly, when a law firm advises on a major transaction involving one or more families in the MEA region, the obligatory source of funds question can broaden a source of wealth identification exercise.

Without access to financial data, look for corporate interests, inherited wealth and patronage.

Given the constraints of how much information is publicly available in the MEA region – the major one being the lack of financial reporting for private companies – estimating the net worth of an individual or family could at worst be described as a glorified guessing game. However, with enough contextual information, we believe that it is possible to make at least an informed assessment of whether an indicated source of wealth is realistic and plausible. At Diligencia we look for three indicators: percentage shareholdings, together with revenue estimates for each holding (easier for public companies); inherited wealth is likely to be a key contributor, which often requires the mapping of multiple generations of the family, and understanding how and when wealth was generated – retrieving historical gazettes and periodicals, if necessary; and, finally, political patronage – which becomes relevant when individuals are members of (or associated with) ruling families in the region, or hold political or advisory positions.

4 Conflicts of interest

Access to accurate and reliable entity data can help identify and prevent conflicts of interest.

A failure to avoid conflicts of interest can cause a number of regulatory and reputational issues for professional services firms. A law firm onboarding a client which shares a director or shareholder with a company that is the counterparty in a dispute it is advising on may have to decline the business. In a corporate context, you may think twice about supplying a product to a new customer that is linked to a competitor.

But such conflicts or risks are not always apparent, and the information you receive from your prospective customer or third party may not always be as comprehensive or granular as you would hope. Sources of corporate data that link entities and map out relationships across jurisdictions are invaluable when it comes to identifying potential conflicts.

5 Cultural reticence / awkward conversations

Questions and information requests are often bounced back to the client, which can result in awkward conversations - and delays…

The vast majority of information that goes into a CDD file is generated from the client or third party themselves. So it stands to reason that when questions arise or more information is required to complete the CDD process, these are naturally passed back to the organisation's primary contact with the (potential) customer – often a relationship manager or partner at a law firm. However, our clients tell us that individuals and organisations in the region can be reluctant to share details or documents – either because they are not used to being asked to disclose such information, or due to cultural attitudes towards information that they may consider private. Following up, often multiple times, with a customer can be awkward for the relationship manager or partner, especially when they are in the early stages of building a rapport and establishing trust.

…whilst a smooth and efficient onboarding process can enhance an organisation's brand.

A potential solution here is for the law firm or financial institution to front-load some of their research effort, and present their findings to the customer upfront – either via a partially pre-filled CDD form or even a bespoke microsite for each client which can house all the documents and information that has been gathered so far. This has the obvious benefits of reducing the time spent by the customer completing the form, streamlining the process by reducing the need for follow-up questions, and perhaps even impressing the customer with a well-designed workflow and detailed research. A smooth and efficient onboarding process can be a source of competitive advantage and brand endorsement; conversely, institutions can and do receive negative feedback and suffer reputational damage from slow and inefficient onboarding.

! Conclusion

Good quality data and technology are increasingly important to KYB - and can improve the bottom line.

Each of the challenges and solutions outlined above depends on developing an onboarding system that takes into account not only the risks associated with the MEA region, but also the constraints when it comes to gathering accurate and reliable information. Equipping your onboarding team (both customer-facing staff as well as business acceptance teams) with adequate research resources and technology tools can deliver real benefits – both to your customer's experience and the performance of your business.

* KYB – Know your business
KYC – Know your customer

OXFORD • DUBAI • TANGIER

CONTACT US TO FIND OUT MORE

WWW.DILIGENCIAGROUP.COM | INFO@DILIGENCIAGROUP.COM

Diligencia helps customers from around the world to find essential information on organisations registered in Africa and the wider Middle East, drawing from primary sources that are otherwise hard to find. Using our curated data, we enable our clients to effectively manage their compliance obligations, market strategies and counterparty risks in the MEA region.

Diligencia