

A pocket guide to: **KYC Quality Assurance**

To find out how FCR Compliance can help you with your KYC quality assurance needs, please contact steve@fcrcompliance.com



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KYC Quality Assurance (QA): 6 Key Considerations

- 1.** The QA process is a review of file quality which should be conducted either by an independent internal business function or outsourced.
- 2.** QA is a sample-based review, applying a consistent methodology focused on quality and risk.



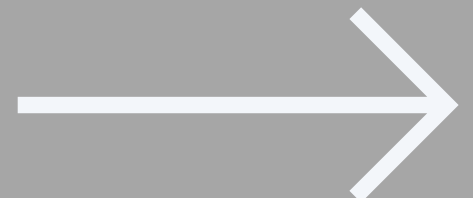
3. QA should be applied to **both onboarding and periodic review.** An independent/outourced process should also be applied for any customer **file remediation** projects.

4. Not all failures are created equal. It is good practice to distinguish between regulatory fails and other quality related fails.



5. Having a target pass rate of 100% isn't realistic. Set an achievable pass rate, documented in your risk metrics.

6. To be effective, a QA program must be clearly documented, including the 'so what' test. This is achieved by detailing feedback loops and escalation processes.



Why should I focus on KYC Quality Assurance?

QA speaks to the following key
program areas:

1. Governance and oversight
2. Risk assessment
3. Policies and procedures
4. Training



1. Governance and oversight

- File QA pass rates are a **key risk indicator (KRI)** and **Management Information** metric.
- Pass rates should be reported monthly to a relevant committee, charged with the oversight of file quality and suitably positioned to act where quality related issues arise.



- The owners of the KYC/CDD processes and associated stakeholders, should be mapped via your operating model. If the file pass rate drops, this model can be used to identify who owns the fix and any downstream consequences.
- QA pass rates should be included in your MLRO report.



2. Risk assessment

File QA pass rates are a **Key Risk Indicator**.

Consideration **must** be given to:

- What types of fails constitute a regulatory risk?
- What additional fails should be reported?
- What level of failure is acceptable?



**All of the above MUST
be formally
documented.**



3.Policies and procedures

The QA process should assess how polices and procedures are applied to **customer files**.

The focus should be on ensuring that the correct information is captured and assessed.



KYC file information feeds **downstream controls**, such as PEP and sanction screening, and customer risk assessment.

The QA process should test the quality of information relied upon by downstream controls.

The QA process should include a **feedback loop** to team leaders, managers and owners of policies, procedures, systems and controls. They should be made aware of any issues.



4. Training (feedback loop)

Failures should be investigated to establish if the issues are thematic, or linked to specific individuals.

Where thematic issues are identified, ask:

- Has this area been covered in recent training?
- Was the training effective?
- What was the participation rate?
- Is new training required?



Where failures are linked to individuals:

- Identify how you can support the individual with tailored training.
- Monitor the quality of the individual's output. Critically, this monitoring should be in addition to the main QA sample.





Steve Lockwood

Steve is one of FCR Compliance's founders. He has been a financial crime specialist for over 20 years.

Steve started his career in law enforcement investigating organized crime money laundering, he moved to the UK Financial Conduct Authority (FCA) as an investigator in Enforcement and then as a specialist supervisor in the Financial Crime Supervision team. Here he conducted reviews of regulated firms' financial crime compliance programs.

Since 2017 Steve has been helping clients to assess, develop and remediate their Financial Crime compliance programs.

In 2023 Steve was appointed to the International Compliance Association (ICA) panel of external experts.



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