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# Saving a bundle on banks' data costs

Setting up utilities to  
manage client data



# Contacts

## Australia

Chuck Lyman  
Partner, PwC Australia  
+61-040-0279-358  
chuck.lyman@pwc.com

## Austria

Hendrik Bremer  
Senior Executive Advisor,  
PwC Strategy& Austria  
+43-664-5152-927  
hendrik.bremer  
@strategyand.de.pwc.com

## Belgium

Fernand Dimidschstein  
Partner, PwC Belgium  
+32-477-597-386  
fernand.dimidschstein  
@pwc.com

## France

Romain Godard  
Partner, PwC France  
+33-6-8046-1942  
romain.godard  
@strategyand.fr.pwc.com

## Germany

Dr. Johannes Bussmann  
Partner,  
PwC Strategy& Germany  
+49-170-2238-535  
johannes.bussmann  
@strategyand.de.pwc.com

Dr. Peter Gassmann  
Partner,  
PwC Strategy& Germany  
+49-170-2238-470  
peter.gassmann  
@strategyand.de.pwc.com

Thorben Wegner  
Manager,  
PwC Strategy& Germany  
+49-170-2238-411  
thorben.wegner  
@strategyand.de.pwc.com

## Italy

Francesco Legrenzi  
Partner, PwC Italy  
+39-3669-607-919  
francesco.legrenzi  
@strategyand.it.pwc.com

## Middle East

Jorge Camarate  
Partner,  
Strategy& Middle East  
+97-156-995-7347  
jorge.m.camarate@pwc.  
com

## The Netherlands

Eugenie Krijnsen  
Partner, PwC Netherlands  
+31-6-3060-4300  
eugenie.krijnsen@pwc.com

Jeroen Crijns  
Director, PwC Netherlands  
+31-6-5156-6470  
jeroen.crijns  
@strategyand.nl.pwc.com

## Spain

Raquel Garcés Sañudo  
Partner, PwC Spain  
+34-649-693-586  
raquel.garces.sanudo  
@pwc.com

## Sweden

Erik Wall  
Partner, PwC Sweden  
+46-010-2133-125  
erik.wall@pwc.com

## Switzerland

Dr. Markus Weiss  
Director,  
PwC Strategy& Switzerland  
+41-79-8782-196  
markus.weiss  
@strategyand.ch.pwc.com

Adrian Harder  
Senior Associate, PwC  
Strategy& Switzerland  
+41-79-4197-191  
adrian.harder  
@strategyand.ch.pwc.com

## Turkey

Ozan Cigizoglu  
Director, PwC Turkey  
+90-212-355-23-41  
ozan.cigizoglu  
@strategyand.tr.pwc.com

## United Kingdom

Alan Gemes  
Partner, PwC UK  
+44-0790-0163-290  
alan.gemes@pwc.com

## United States

Ashish Jain  
Principal, PwC US  
+1-773-818-0134  
ashish.jain@pwc.com

Jeff Lavine  
Partner, PwC US  
+1-202-494-5694  
jeff.lavine@pwc.com

## About the authors

**Dr. Johannes Bussmann** advises clients in the financial-services industry for Strategy&, PwC's strategy consulting business. He helps European banks develop IT and operations strategies and has more than 30 years of experience with banks' organizational and operating models and IT systems. Based in Munich, he is a partner with PwC Strategy& Germany.

**Dr. Markus Weiss** advises clients in the financial-services industry for Strategy&. He drives Strategy&'s utility efforts and works with banks and banks' service providers to transform their business and operating models. Based in Zurich, he is a director with PwC Strategy& Switzerland.

**Thorben Wegner** advises clients in the financial-services industry for Strategy&. He works with international banks on strategies at the intersection of risk, regulation, operations, and IT. Based in Frankfurt, he is a manager with PwC Strategy& Germany.

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## EXECUTIVE SUMMARY

**Large banks around the world each spend as much as US\$88 million a year collecting and storing data from corporate clients<sup>1</sup> — information they are obliged to gather in order to comply with anti-money laundering (AML) regulations. Yet this activity brings no competitive advantage.**

Most corporate banking clients are small and medium-sized enterprises (SMEs) working with between one and five banks. In Germany, for example, SMEs account for almost all corporate banking relationships. These companies must regularly share the same information, which is often publicly available, with each bank they work with, but in various formats. The largest companies account for a very small proportion of the overall market, but typically work with between 30 and 50 banks and have to provide the same regulatory data to all of them.

AML and “know your customer” (KYC) regulation is expanding, and compliance with these laws is being more closely monitored by companies around the world. Meeting these regulatory obligations adds cost at a time when banks are continuing to struggle to improve profits in an environment of low interest rates. Banks that share compliance data would reduce their financial burden in the same way they already do when they use specialized shared services such as Visa’s payments service and credit ratings from agencies such as Moody’s. There is no benefit to multiple banks doing the same thing in slightly different ways.

We believe banks could greatly reduce the cost — and time — involved in collecting, storing, and reviewing regulatory client data by creating a shared data utility. Using our assessment of the German corporate banking market, we estimate that:

- Sharing client data management could cut banks’ compliance costs by more than half, helping banks break out of a vicious circle of ever-increasing regulatory costs.
- Using a data utility could reduce the cost of maintaining and reviewing client data by as much as 65 percent and the cost of on-boarding clients by around 50 percent.
- Banks could significantly reduce employee hours spent reviewing regulatory client data. If five banks each have had 100 people manually reviewing records, a data utility among them may need only 150 people, not 500.
- Some 80 percent of banks’ regulatory client data costs come from maintaining the data, with the addition of new client data accounting for the remainder.

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<sup>1</sup> Annual spend per financial institution in Australia, France, Germany, Hong Kong, Singapore, South Africa, the U.K., and the U.S., covering on-boarding of new clients and reviewing and carrying out of due diligence on existing clients, based on a survey of more than 1,000 decision makers by Refinitiv in 2017.



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Banking regulators are generally supportive of the use of data utilities for this purpose, and these entities are already up and running in the U.S. and South Africa. Banks in some other countries, including Singapore and Germany, are developing their own models.

We believe there is an opportunity for banks to reduce their compliance costs even further in the longer term by connecting regional and national data utilities. These utilities would then act as clearinghouses for data, i.e., clearing and conducting the exchange of required regulatory data among banks in different jurisdictions.

## Working better together

**Regulatory client data — such as the names of board members or ultimate beneficial owners — is information that’s commoditized and widely available. Even for banks that collect and store this data in the most efficient way possible, the ability to show that a client is not involved in laundering money or funding terrorism does not provide an edge over rivals. So it makes sense for banks to collaborate on these tasks or for them to be outsourced to a service provider.**

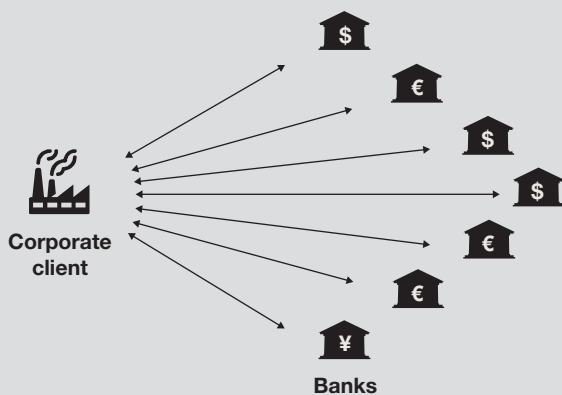
A data utility would also provide a better experience for banks’ corporate clients. Companies would not have to fill in different forms for different banks, each asking for variations of the same data. Requests from banks for this kind of data make for a bureaucratic chore and a source of frustration for every company with two or more banking relationships (see *Exhibit 1*). With a data utility, companies could take ownership of their data by maintaining it via one central portal; furthermore, changes to regulatory requirements affecting the types of data corporate clients must share and how banks must store and review it could be implemented just once (instead of each bank having to change its data-gathering processes every time).

### EXHIBIT 1

#### How a data utility simplifies the handling of data from corporate client to bank

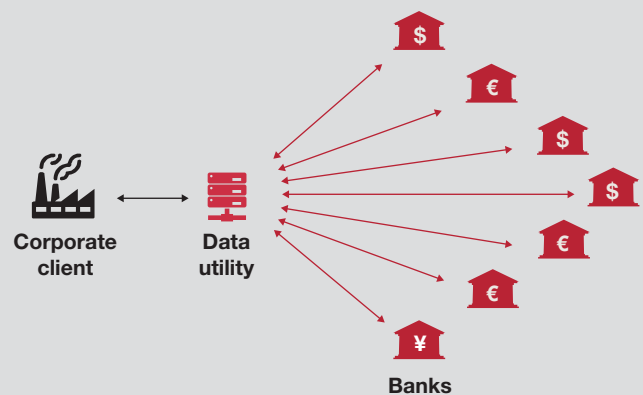
##### Without utility

Client data **to each bank** it works with (varying formats and amounts of data at different points in time) and requests from banks to clients for data



##### With utility

Client transfers **standardized** data (format and amount) **once** to the utility, which then distributes data to banks



Source: PwC’s Strategy&



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Such a utility would also be in a good position to maintain the highest standards of data collection and review, and would be able to implement regulatory changes in a single iteration for the benefit of all its user banks.

Other benefits of a data utility for banks include a lower likelihood of failing to comply with regulatory requirements and incurring fines, as well as more transparency. With the right data standard, having a single source would enhance the quality of the regulatory data held on companies.

We found that 80 percent of banks’ regulatory client data costs come from maintaining the data. Regulators typically ask to review different clients’ data at different times, and drawing on the data to check it often involves laborious manual work in different languages. As AML and KYC regulations increase, performing these checks will become even more onerous. For example, many banks do not have digital processes that support the identification of the ultimate beneficial owners of corporate clients or the verification of their identities from passport copies.

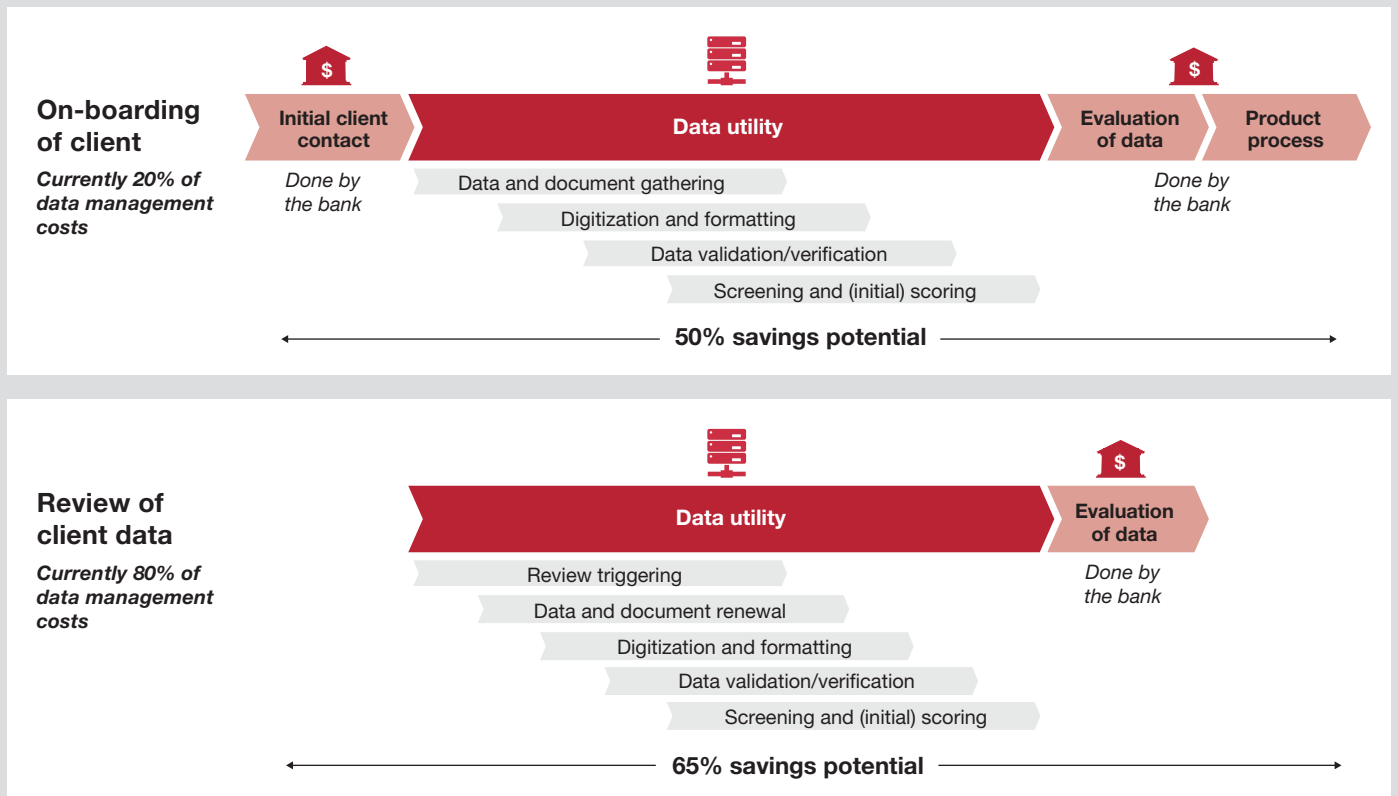
## How a data utility would work

The utility could carry out a range of tasks to support client on-boarding and data review, such as collecting data and identifying corporations and related individuals; storing, maintaining, and managing that information securely in a central database; and organizing distribution and access management for user banks. As Exhibit 2 shows, large banks could save 50 percent of the costs involved in on-boarding a new client's data, and as much as 65 percent of the costs of reviewing clients' reference data records.

A new client of any of the user banks would initially give the data needed for regulatory purposes directly to the data utility, which would then distribute it to the bank. Once a second bank started doing business with that company, it would access the company's data record directly from the utility, as would further banks working with the same client.

### EXHIBIT 2

#### Where the cost savings lie in the data management process



Source: PwC's Strategy&



Depending on the data standards set by each country, virtually every kind of static data (information not related to transactions carried out by the bank for the client), including data on company officers and beneficial owners, could all be drawn from a data utility or exchanged between collaborating banks. Using automated reconciliation of information supplied by the company against trusted data sources, the utility would establish itself as the most reliable source in the market.

We also believe that in the longer term, regional or national data utilities could establish networks across jurisdictions, increasing the potential for cost savings.



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## Making a shared data utility a reality — obstacles and recommendations

**Drawing on our firsthand experience of designing and establishing a data utility for banks, we believe there are two significant hurdles to overcome: setting up the utility as a separate entity that all parties recognize as neutral, trustworthy, and stable, and finding a data standard on which all participants agree. Getting costs right is also important.**

The first hurdle is understandably difficult. For banks, it means working with their biggest competitors and making certain they are not losing out by pooling data or paying more than their fair share.

We recommend that banks agree to work on setting up the data utility together, with a governance model focused on the acceptance of the utility by clients, banks, and regulators from the outset. We believe the best way of doing this is to establish a joint committee of representatives from the banks and the service providers used to set up the utility.

Depending on the law that applies in a particular country, if the data utility is set up as a new subsidiary of the banks, this could be a shareholder committee. In a different jurisdiction, it could be a committee that steers the service provider running the utility or a committee of bank representatives overseeing a joint service contract with a service provider. Whatever the appropriate legal framework in that country, the committee's governance role must be to represent the common interests of all the banks and their corporate clients, and not the interests of particular banks.



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As time-consuming as designing and establishing a data utility may end up being, a neutral governing body with enough independence from the particular interests of any one bank in the group is needed to design and, to a certain extent, operate the model successfully (for example, to define and protect a data standard). This is especially true in the current fast-moving environment of changing bank agendas and senior executives. For example, data on common corporate clients could be shared through the data utility or even through direct data transfers between cooperating banks. Both of these models would benefit from oversight by this governing body, which would be set up beyond the remit of the banks.

The second hurdle is agreeing on a common data standard. At present, every bank has its own way of collecting, recording, and reviewing corporate client information, using its own interpretation of local regulations. Some banks also collect additional data from corporate clients in line with their own internal risk and compliance policies.

It's important to note that a governance standard for data is very important to clients. Companies want to share only data that is genuinely required for regulatory compliance. Creating a standard data set for the utility should not mean storing anything over and above that.

We suggest three possible approaches to finding a data standard:

- Take the data model of a leading bank, seek alignment with regulators, and require all the banks using the utility to follow it.
- Build a data model from the bottom up: Each bank brings its preferred model and negotiates a collective standard with the others.
- Have regulators set the standard. A collective effort with regulators can save banks from individually having to align their interpretation of the regulation with the regulator.

Other key success factors for establishing a data utility are:

- Start with banks in one national or regional jurisdiction to reduce the risk of dealing with multiple sets of banking and data regulations.
- Design the utility with a focus on clients' needs. A shared service will never succeed without client acceptance.
- Involve a large group of user banks in the setup phase: Critical mass brings down cost, and is even more essential from a client perspective.
- Talk to regulators early in the design process and throughout implementation to communicate the benefits and receive their backing.
- Design the data utility to manage data from companies of all sizes, from SMEs to multinationals. Banks have a large number of small corporate clients that are particularly cost sensitive when it comes to management of their data. However, maintaining the data of large multinationals is especially costly owing to its complexity.



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- Operate the utility on a “cost plus” principle — that is, limit its operating margin to a small fraction of its total costs. This will help ensure banks' and corporate clients' acceptance of the utility as a service provider and thus strengthen market adoption.
- Design open application programming interfaces for the data utility database or direct data transfers between cooperating banks to ensure seamless access to relevant data for multiple banks and their clients, and to make it easy for new banks to start using a cooperative solution.
- Finally, maintain a strict focus on standardization of the services offered to all banks and of the company data collected in order to benefit the business case. Costs will largely be determined by how well the utility is able to distribute the same data, always managed according to the same policy, of different banks.

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## Data utilities are on the rise worldwide

**Abu Dhabi:** In 2018, the emirate's Financial Services Regulatory Authority ran a proof-of-concept project for a KYC data utility.

**France:** Société Générale in 2017 initiated a project — known as Clipeum — that will allow companies to upload KYC documents. It so far reportedly involves Allianz, Commerzbank, Banque Postale, Bpifrance, Crédit Agricole, Euler Hermes, Natixis, UniCredit, and investment manager Tikehau Capital, and is set to go live in 2020.

**Germany:** A group of Germany's biggest banks, working with Strategy&, PwC's strategy consulting business, has developed a concept for a data utility. The concept has attracted the attention of banks and regulators in other countries including France, Switzerland, and Austria.

**Guernsey (Channel Islands):** PwC worked with authorities to set up a data utility for identifying and verifying corporate client data during the on-boarding process. The utility also carries out continual screening to meet KYC requirements for Guernsey's financial institutions.

**Hong Kong:** A KYC data utility for Hong Kong is being developed by a private company after having been initiated by the Hong Kong Association of Banks in 2017.

**Nordic countries:** Six banks in the Nordic region announced in May 2019 that they are setting up a joint venture called Nordic KYC Utility to conduct customer KYC checks. They are: Danske Bank, Swedbank, Handelsbanken, Nordea, SEB, and DNB.

**Saudi Arabia:** The Saudi Arabian Monetary Authority has initiated the idea of a KYC utility, which differs from the approaches in other regions because it includes retail as well as corporate clients.

**Singapore:** A centralized, regulator-driven approach toward creating a KYC data utility was initiated by the Monetary Authority of Singapore in 2017.

**South Africa:** A utility that supplies KYC data on corporate clients to banks is already operating, set up by Refinitiv, formerly part of Thomson Reuters, and a group of local banks.

**United States:** A group of banks and investment firms created a utility called Clariant to manage the data of entities involved in brokerage transactions. It was acquired in 2017 by Thomson Reuters.



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## Act now

**The need to save costs when it comes to collecting and maintaining data makes the creation of data utilities a compelling priority. Indeed, we already see evidence that some regulators have been called upon by banks to support data utility initiatives.**

The banks involved will need to respect the highest principles of handling sensitive data, because trust is essential among corporate clients if the utility is to work well. In particular, banks should refrain from attempting to monetize required regulatory data.

Ultimately, each jurisdiction will come up with its own approach to how data utilities are established, taking into consideration effective governance, secure data standards, and other issues. But we see national utilities and their data standards as the start of a bigger move toward regionalization of data utilities and standards and, eventually, perhaps a global solution — although this will depend heavily on the extent to which regulators can make progress on making cross-border harmonization of rules and data standards a reality. One result would be a more holistic view of data, allowing regulators greater visibility in the fight against money laundering and other financial crimes. And that clearly will benefit everyone.

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