



Next Generation KYV

Point of View by
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Introduction

Know Your Vendor (KYV) has languished behind its older cousin Know Your Customer (KYC) for well over a decade. Though very similar in concept, KYV has not gotten the same level of importance as KYC, since it does not contribute to revenue. But times are changing. With guidance from the U.S. Office of the Comptroller of Currency (OCC) on what constitutes the Know Your Customer processes, financial institutions are gearing up for upcoming Know Your Vendor programs, which we call next generation KYV. Tagging it as “the next generation” is important as tools and techniques learned in other parts of the organization can be applied to know your vendors. Typical lateral uses of tools and techniques are (1) use of smart compliance, i.e., risk scoring, rules based decision making, semantic modeling; (2) advanced analytics; (3) machine-learning paradigms; and (4) robotics based operations automation. All these techniques contribute to vendor risk management, vendor selection, vendor rationalization, vendor performance optimization, and vendor incentives and contract negotiations.

With a state-of-the-art KYV program, financial institutions easily achieve the following benefits:

- Lower costs
- Better negotiated contracts
- Less disruption to key processes
- Lower reputational risk and costs
- Better contract adherence
- Lower litigation possibilities and costs

The current state of KYV solutions

Apart from the payment systems, contract onboarding and vendor record components, the rest of the KYV process is driven using spreadsheets and word documents. Vendor profiles are evaluated using a questionnaire rather than due diligence processes and structures. In most organizations, many vendor profile records are not digitized. In large banks, for example, there may likely be 10,000 or more vendors. Most organizations also do not use advanced analytics on vendor information. This can create difficulties in taking decisions, reducing risk, rationalizing vendors and implementing terminations. In addition, the sheer volume of paper documentation makes it difficult to detect and plan for breach of contract and litigation.

On the organizational design and operations side, it is a common story that vendor management teams are undersized, overworked and don't have the power to make vendor related decisions based on analytics.

What should a state-of-the-art KYV solution do

On the Processes

For new vendors, it is critical to have a workflow based onboarding process similar to the KYC process. It should perform basic vendor identification (VIP), follow that with vendor due diligence (VDD) and end with enhanced vendor due diligence (EVDD) for specific cases which

merit a deep dive based on advanced risk scoring. A state-of-the-art system also uses watch list filtering to analyze key vendor stakeholders. Modern smart compliance solutions, like NextAngles from Mphasis also allow for negative news and conflicts of interest filtering. An analytics based dashboard is vital for management decision making (e.g., reduce concentration risk, legal risk, country risk, etc.). For existing vendors used by an organization, a KYV solution enables digitization of their records (vendor case docket, contracts, task orders, payment schedules etc.), risk scoring and scheduling them for renewals or remediation, based on their score.

The key steps and what is involved:

- VIP (vendor identification)** – Collect basic vendor information and perform initial filtering. This includes data attributes such as name, legal ID, address, tax ID, etc.
- VDD (vendor due diligence)** – Conduct a deeper dive into the vendor profile, looking at products they offer, their balance sheets, etc. This stage provides a first draft of the risk score
- EVDD (enhanced vendor due diligence)** – Analyze the management team, board of directors, other customers and vendors of the vendor. Finalize the risk score
- Screening** – Match the short-listed vendor representatives against watchlists, such as politically exposed people (PEP), Office of Foreign Assets Control (OFAC), Her Majesty's Treasury (HMT), etc.)

5. **Go-No-Go** – Use the risk score, screening results and VDD/VEDD scores to decide whether to proceed with the vendor. If the decision is to proceed, define limits for the vendor (e.g., largest contract value, netting, maximum concentration limits, maximum allowed spend). At this stage, it is even possible to identify whether a vendor is also a customer of the financial institution (circular relationships)

On the Technology

With rule and semantic model based smart compliance solutions (e.g. NextAngles), the following becomes possible:

1. **Vendor rationalization and termination** – Consolidate or prune vendors for a more optimized profile, where concentration risk is high or non-performance is evident.
2. **Vendor related forecasting** – Get proactive alerts for your vendor management teams, notifying them about vendors that are likely to slip on a contract and the timing and type of potential disruptions.
3. **Contract negotiation** – Enable better negotiations and automatic generation of contracts and terms and conditions with machine learning and recommendations.
4. **Compliance Risk** – Evaluate questionnaires and information from vendors and internal audit team to check compliance with applicable laws, such as privacy and records retention laws, the Foreign Corrupt Practices Act (FCPA), U.K. Bribery Act, etc.
5. **Country Risk** – Get the risk profile of a country and its legal processes for foreign vendors. Also

NextAngles solutions is designed to take every aspect into consideration providing a holistic solution.

understand available socio-economic and political indicators for that country and how they might impact the vendor

6. **Concentration Risk** – Understand distribution of vendors by factors, such as geographies of operations, products or services offered and commonalities with other vendors
7. **Legal Risk** – Evaluate vendor’s potential to create legal issues based on their history and similarities with cluster groups

Approaching a KYV transformation for a Financial Institution

Following are some key activities and steps to be taken in transforming a financial institution from current state KYV to next gen KYV. These activities are especially important for institutions at the lower end of digitization.

1. **Digitize data** – The key ingredient in a smart compliance and analytics solution is the availability of useful/informational data. The first step is to get all the vendor and contracts data into digital form and represented in a well-defined data model. The smart compliance solution semantic model might be a good starting point.
2. **Define KYV processes** – Move away or supplement a questionnaire based approach with mature KYV processes, as described earlier. Define the processes, train the vendor management organization and implement a workflow solution to support the processes. This can be done for the more complex vendors as simple vendors might still go through the questionnaire process.
3. **Implement smart compliance** – Once the data is digitized and processes are up and running, implement the smart compliance solution. This will bring all the benefits outlined above.
4. **Advanced analytics based decision making** – It is now possible to derive full analytical insight with the KYV function. Optimize a sample set of vendors and risks using smart compliance and study the results over a defined window. Once the vendor management team trusts the output of the smart compliance solution, the scope can be expanded.

NextAngles has the measures for a financial institution to implement and maintain KYV data.

Some financial institutions are already well digitized and have possibly implemented one of the very few off-the-shelf solutions for supplier lifecycle, contracts, requests for proposals, or payments capabilities. For these organizations, the transformation to next generation KYV begins by implementing smart compliance (step 3). Even with well-established KYV processes, a smart compliance solution can still bring key insight which could heavily aid in optimizing the KYV function.

What Mphasis can do for you

Mphasis provides services (consulting, technology & process outsourcing) to know your vendor:

- Implement and tune smart compliance solution (NextAngles)
- Define or re-engineer business processes
- Write business requirements, functional requirements and build points of contact
- Evaluate vendors (for traditional supplier lifecycle management)
- Implement or upgrade a vendor platform
- Data engineering – digitization, modeling
- Provide skills for KYV operations



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Sameer Pendse has over 24 years industry experience across the UK, US, Far East and India. With extensive experience in collaborating with banking and capital market prospects and customers in building out transformation programs, Sameer was presales head for a leading core banking product. He has led various consulting engagements and has been the principal architect around pursuit oriented prototypes. He played a crucial part in building teams for NPA, Audit and Regulatory engagement domains.

Sameer, a GARP certified Financial Risk Manager, holds an executive MBA in strategy and international business and a computer engineering degree with AI and parallel processing.

About Mphasis

Mphasis is a global Technology Services and Solutions company specializing in the areas of Digital and Governance, Risk & Compliance. Our solution focus and superior human capital propels our partnership with large enterprise customers in their Digital Transformation journeys and with global financial institutions in the conception and execution of their Governance, Risk and Compliance Strategies. We focus on next generation technologies for differentiated solutions delivering optimized operations for clients.

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