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The implementation of a financial compliance tool to simplify  
the finance application process for small international  
businesses

Bachelor thesis

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## Abstract

Regulations regarding financial compliance have changed drastically over the last five years. The specific changes are complex and therefore difficult to understand. However, all businesses are subject of the changes, which means the more complex compliance processes must be conducted by all banks and businesses. For small businesses without dedicated compliance departments, this can be an overwhelming and time-consuming task. The aim of this research is to find out if there is a way to simplify this compliance process, by building and implementing a compliance tool for small businesses.

The research was conducted following a specific case for international trading and shipping firms MRL handel and SDW shipping, which have been struggling with financial compliance since recent changes in regulation.

Result of the research have provided a structured overview of the CDD and KYC processes needed for financial compliance. With this overview, the complex processes have become easier to comprehend and understand. Furthermore, the research has uncovered multiple limiting factors in banks KYC process. The research further shows that the implementation of a financial compliance tool for small businesses is impossible, since each compliance investigation as conducted by banks is fully individual and custom tailored to the specific case. This is because of the rule-based nature of the investigations, which should be changed to a risk-based nature of investigation for a tool to work.

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## Abbreviations

AML:	Anti Money Laundering
AMLD:	Anti Money Laundering Directive
KYC:	Know Your Customer
CDD:	Customer Due Diligence
EDD:	Enhanced Due Diligence
UBO:	Ultimate Beneficial Owner

## 1. Introduction to compliance and relevance

This chapter will offer an introduction to compliance for businesses, an explanation of the compliance regarded by this thesis, and the relevance and motivation of the research.

### 1.1. Compliance for businesses explained

Compliance in business is defined as the way companies and organisations ensure and enforce applicable rules, laws, and regulation (Leisering, 2022). For business, compliance often gets categorised into four groups (Besley, 2023):

1. Financial compliance
2. IT and data compliance
3. Health and safety compliance
4. Legal compliance

For this thesis focus will be on financial compliance.

Financial compliance contains the rules and regulations in terms of finance. This may include keeping detailed archives of receipts and invoices, and being able to present this data whenever asked (Besley, 2023). For businesses, this helps prove legitimacy of income, and compliance with acts like Anti Money Laundry and Terrorism Financing (AML) and the Sixth Anti Money Laundry Directive (6AMLD), introduced in 2021. Both 6AMLD and AML are directives implemented by the EU, to combat money laundry and terrorism funding worldwide.

Since the housing crisis of 2008, financial compliance has drastically increased in importance, both in Macro and Micro level finance, as both banks and businesses face large monetary fines and social punishment when not adhering to new rules and regulations (Rampton, 2022).

Then, in 2020, the European Union introduced the Fifth Anti Money Laundering Directive, or 5AMLD. This directive was a development of the Fourth Anti Money Laundering Directive introduced in 2015 (Electronic Identification, 2022). This directive, among other things, includes much more thorough Customer Due Diligence regulation for banks and businesses, in order to ensure the origin of capital. Upon 5AMLD, the Sixth Anti Money Laundering

Directive was added on the third of June 2021 (Ripjar, 2021). This directive further solidifies 5AMLD by harmonising definitions and introducing 22 predicate offences which may indicate the need for money laundering (Koster, 2020).

The introduction of 6AMLD introduces more clarity and explanation regarding specific crimes and the sanctions in place for committing them. An example of these sanctions is the 775 million euro fine issued by the Dutch Public Prosecutor to ING, for failing to comply with regulations.

Customer Due Diligence, or CDD, involves investigating and monitoring the identity and the activities made by a customer (Electronic Identification, 2022). CDD is used whenever there is a new business deal, infrequent business deals, suspicion of money laundry, or whenever previous documentation and information have not been reliable (CRIF). Customer Due Diligence is a critical component of a company's risk management strategy, as well as compliance to law, such as the Anti Money Laundry Act (AML) (Electronic Identification, 2022).

## 1.2. Relevance of the research

This research was conducted for MRL handel BV and SDW shipping BV, both of which are part of Schipper Beheer BV. MRL handel BV is a trade organisation exporting lorries and other large machinery from Europe to Bolivia. SDW shipping BV is an organisation organising the shipping of said machinery from several European ports to Chili, with land transport to Bolivia afterwards. Recently, both organisations are struggling to comply with newly set regulations regarding financial compliance, which became apparent after an application for finance was rejected.

Even though both organisations are highly profitable, the entire holding is threatened because of the inability to comply with new regulations. With Schipper Beheer BV, there are many other international organisations suffering from ever changing EU regulations regarding Anti Money Laundering and Terrorism Funding. Not solving this issue will result in many organisations shutting down.

Furthermore, this research adds to existing literature by structuring the available information on CDD and KYC, which offers a process-based overview of CDD and KYC. While information

is available on both subjects, the available literature is mostly rule-based, or function-based, which adds to the complexity of the subject. By analysing the data, and structuring it in a process-based fashion, the process is less complex and easier to understand.

The aim for less complexity and more process-based KYC and CDD information, has led to the construction of a tool, which would standardise the KYC and CDD processes for businesses. A tool such as this has not yet been publicly constructed or used.

## 2. Problem statement

In this chapter, the problem leading to this research paper will be explained per relevant aspect and involved issue. Firstly, there will be an explanation of the European legislation leading to the problem. Then, the measures taken to comply are mentioned via an explanation of both standard Customer Due Diligence (CDD) and Enhanced Due Diligence (EDD). Following this, two problems relevant to the host organisation, third party payments and CDD limitations in South America, are explained. These specific problems are mentioned as examples of niche problems which add to CDD and Know Your Customer (KYC) complexity. Next, the role of the banks as gatekeepers is given. This explains why banks are using extensive KYC and CDD processes for their customers. Following this explanation, the consequences of non-compliance will be mentioned for both banks and businesses, followed by a future perspective for KYC and CDD.

### 2.1. Anti-Money Laundry Act

The Anti-Money Laundry and Terrorism Finance Act, or AML, involves laws and regulations concerning the legitimacy of money coming into a business or bank. With 5AMLD, which was introduced in 2020, the EU entered the fifth version of this act. 5AMLD aims to create transparency within banks and businesses and to empower EU financial intelligence units.

Upon the Fifth Anti Money Laundering Directive, the Sixth Anti Money Laundering Directive was added on June third, 2021. This directive involved 22 predicate offenses which could indicate money laundering. These predicate offenses include counterfeiting, drug trafficking and organised crime, among other offenses (Koster, 2021). A full list of all 22 offenses is shown in Appendix A (TookiTaki, 2022).

Furthermore, 6AMLD introduces direct liability for any legal person intentionally committing money laundering offenses (Rose, 2021). Sanctions for these crimes are strict and could include closure of the business or business section caught money laundering (Directive of EU parliament, 2018). In addition, the sanctions for natural persons have been increased from a maximum of one year in prison, to four years in prison. Many member states already had



implemented higher maximum sentences for natural persons before obligated by 6AMLD (Lavenpartners, 2021).

The problem with the compliance to this act, as for now, is that the needed work is primarily manual, and therefore needs many manhours to fulfil (Swift). Automatic systems are available, but are usually designed for large banks or financial institutions. These systems can trigger tens of thousands of times per day, with over 90% of these triggers being a false positive, once again meaning many manhours to put right (Swift).

## 2.2. Customer Due Diligence

Customer due diligence is the process of collecting and evaluating information provided by a customer or potential customer (Awgu, 2022). This process is divided into four activities:

1. Customer identification and verification
2. Understanding the nature and purpose of the business-customer relationship
3. Beneficial ownership identification and verification
4. Ongoing monitoring for suspicious activities (Awgu, 2022).

Customer identification and verification is part of the Know Your Customer (KYC) or Know Your Business (KYB) activities within a company. KYC and KYB are similar in goal, which is to collect relevant information from a person or a business, on which business decisions can be based. KYC involves collection of legal names, appearance, date of birth and address, among other relevant information. This information is reviewed in public databases, based on which can be decided whether the customer is fit for business (LogicLoop).

There are several methods in use to conduct customer verification and identification, including knowledge-based authentication (KBA), two factor authentication, credit bureau-based authentication, database methods, online verification and biometric verification (SanctionScanner, Identity verification methods).

KBA, is an authentication process in which questions are used to secure access to locations or online accounts. This authentication is based on knowledge only the true owner or authenticated person would know. An example of this would be the name of a pet or the occupation of a parent (Incognia).

Two-factor authentication is based on three factors. The knowledge factor, the possession factor, and the biometric factor. The knowledge factor often being a password, which then triggers a fingerprint verification on a phone or tablet. This method has recently been implemented in many organisations, such as online platforms and universities, to further secure user data (Molinaro, 2022).

The Credit bureau-based authentication method collects data from one or more credit bureau databases, which contain a large amount of data including names, addresses, social security numbers and more. This method introduces a more secure authentication process without influencing the user experience (SanctionScanner, Identity verification methods).

Database methods collect data from several databases and match the information with the identity information received from the customer. This method is usually fully automated, which reduces the need for manual reviews. However, the big downfall of this method is that there is no way of knowing if the person making the transaction is also the person whose information is checked, since online identities are difficult to authenticate (SanctionScanner, Identity verification methods).

Online verification uses techniques to determine whether the person possessing government issued identification is in line with the information on the card. This can also be done by introducing artificial intelligence to verify the ID. Usually this technique is done by asking a photograph of the owner and the ID together, so the legitimacy can be checked (SanctionScanner, Identity verification methods).

Biometric verification methods have been in use for a long time. It relies on unique features of the human body to verify the identity and legitimacy of a person. These features could be face recognition or fingerprint scanning (SanctionScanner, Identity verification methods). This method, as mentioned, is also used in combination with the two-factor verification method.

KYB involves collection of information from a business. This includes the full legal name, beneficial owners, key employees, business activity and financial history. Based on this the applying business is either accepted or rejected as a customer.

KYC and KYB are often combined, as individuals found in KYB are often screened using the KYC process (Logicloop).

After the identity of the customer is known, businesses need to understand the purpose and nature of the relationship. This is needed to understand possible transactions and activities coming from this relationship (YouVerify, 2022). Furthermore, it helps realise the overall risk image of a customer (PEGA, 2022).

With customer identity known, and the need and purpose of the relationship explained, the beneficial ownership of the customer's company has to be identified. A beneficial owner is a person or entity with a 25% or larger direct or indirect ownership in a company. In addition, a beneficial owner is any person with a significant amount of control in a company. Depending on the company, this can be a CEO, managing director or chief (Jellumlaw, 2019).

With all the necessary customer information gathered, and the relationship established, constant monitoring of the customer regarding illegal activities is needed (Awgu, 2022).

In addition to standard Customer Due Diligence, a more extensive investigation is needed for high-risk customers. This is called Enhanced Due Diligence.

### 2.3. Enhanced Due Diligence

Enhanced Due Diligence is used for high-risk customers. The origin of the high-risk rating could be due to geographical location, political exposure, profession or the nature of the product or service provided. To determine the risk-level, a risk-assessment is done. Based on this assessment, the choice for CDD or EDD is made (Kereibayev, 2023). Potential triggers for a high-risk assessment are divided into three subcategories. The customer risk factors, geographical risk factors and product risk factors (Kereibayev, 2023).

Customer risk factors include cash-intensive businesses, non-residents, close relatives to politically exposed persons and more (Kereibayev, 2023).

Geographical risk factors are locational, meaning the risk applies regardless of the market a business is active in. Countries or locations considered high risk are those considered Sponsors of Terrorism by the secretary of state. Also, countries which are not in the Financial Action Task Force (FATF) program. Lastly, a country is considered high risk if the regime in said country does not have sufficient anti money laundering legislation (Kereibayev, 2023). The risk assessment of geographical risk factors considers both the country in which a customer or business is based, and the countries in which the business is active (Kereibayev, 2023).

Product risk factors are indicators related to the complexity of the products, services or transactions. In this, the risk related to the level of transparency of the product, the complexity of the product and the value of the product should be taken into consideration (Kereibayev, 2023). High risk products include oil, arms, cultural artifacts, precious metals, tobacco products and more.

For high-risk customers a more thorough due diligence program is needed (Stankevičiūtė, 2023). Enhanced Due Diligence differentiates from 'normal' CDD in several ways. Where CDD uses a relatively simple framework for low-level transactions with lower risk, EDD needs a more complex framework, which is often tailored to the situation. In addition, EDD requires a more thorough investigation and more specific processes, as can be seen in figure 1 (Stankevičiūtė, 2023).

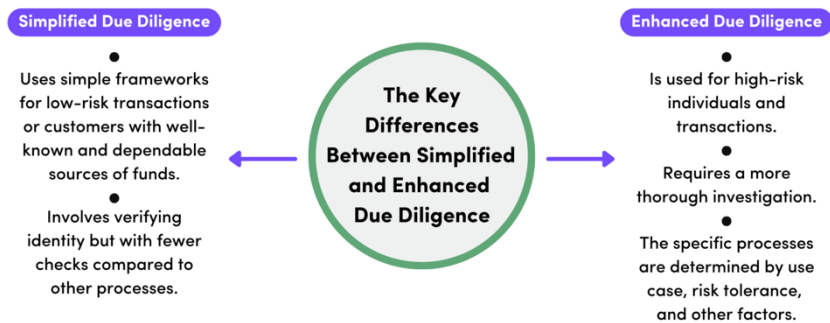


Figure 1: Differences between CDD and EDD (Stankevičiūtė, 2023).

Furthermore, EDD requires additional data from the customer. This includes the source of funds of the customer, transaction purpose and backgrounds, official records and registration documents (Kereibayev, 2023). Also, third-party data might be needed. This could include banking information, information on relationships with financial institutions, information about board members and beneficiaries, and official management records (Kereibayev, 2023).

Unfortunately, the cost of both Customer Due Diligence and Enhanced Due Diligence are currently high, especially when a degree of automation is used. Therefore, many smaller international businesses are currently doing all due diligence related work by hand. This, however, is time consuming and could negatively affect the profitability of the company when margins are slim.

#### 2.4. CDD in South America

This research is conducted due to a problem mentioned by a company active in South America. Due to cultural differences, CDD is more challenging than in Europe. In this part of the world, international companies often have many different suppliers and customers, most of which are small companies and organisations, not affected by compliance regulation, since local compliance regulations are often far behind, fuelled further by the cash-intensive market character. These small entities do not have the capacity, nor money to involve

themselves in the elaborate compliance management needed by larger, international companies (McKenzie, 2015).

Furthermore, the culture of Latin-America generally means people are offended by AML research and CDD, seeing it as a sudden lack of trust, which causes them to stall for as long as possible, or simply end the relationship altogether (McKenzie, 2015).

These complications are a large cost for the international business involved in this process. Even though the regulation is out of control for these organisations, the performance can be influenced by the refusal to comply by third parties.

### 2.5. Third party payments

Third party payments in business refer to money being paid by a different company than the billed company (Investopedia, 2022). In the past, this method was used often for payments from high-risk countries, or when banks would not accept payments from countries. By letting a different company pay, the money would have a different source, which means less interference from the banks. This, however, is no longer allowed freely. Third party payments are suitable for money laundry and illegal payments (van der Burgh and van der Pol, 2023). The only way a company would be able to use third party payments in their business is if the correlation between the billed party and the paying party is clear and reasonable, the money is traceable and the bill is paid in full.

### 2.6. Banks as gatekeepers

Banks in the European Union function as so called “Gatekeepers” to fight money laundering. Banks are obligated by law to have this function (van de Laan, 2022). Gatekeepers in the financial world are entities responsible for a safe access to financial services like bank accounts, loans and more. To ensure this, banks have to do their own due diligence on new and existing customers, and make sure the services needed are in full compliance with all European legislation (van de Laan, 2022). For some customers this gatekeeper’s role acts as a limiting factor, with small business owners often getting a slower response, or no service at all (van de Laan, 2022).

For banks to ensure safe financial services, the banks customers have to ensure their compliance with all EU legislation as well, this means using CDD and EDD for all new and existing customers, which is why banks a large portion of resources is used for Customer Due Diligence and Enhanced Due Diligence as a measure to comply to the new sixth anti money laundering directive.

### 2.7. Consequences of non-compliance

Consequences of non-compliance for businesses are the imminent termination of bank accounts with one specific bank. This would mean switching to a different bank, but since EU banks must comply to the same regulation, the chances of termination at subsequent bank are high with no made changes.

Since banks work as gatekeepers for money streams into the EU (European Commission), they are in charge of making sure incoming money is compliant with EU regulation. Not achieving this can lead to fines from the government, often reaching hundreds of millions of dollars (Cameron & Cameron, 2023).

For businesses, the increased security mentioned in the sixth anti money laundering directive influences the day-to-day business activities. Businesses are required to offer banks increasingly large amounts of financial and operational data regarding themselves and customers (Valkama, 2023). Smaller business, however, often do not have the manpower to gather all needed data, which limits the availability of financial aid if needed (van de Laan, 2022).

### 2.8. Future projective

With European AML legislation changing every two or three years, it to be expected there will be further changes to the legislation between now and 2025. European legislation is constantly being adjusted, elaborated and strengthened, with the sixth anti money laundering directive quickly following the fifth. On the 20<sup>th</sup> of July 2021, proposal 2021/0250 was issued, proposing a repeal on directive 2015/849 (European Commission, 2021, chapter 1). 2015/849 is also known as Anti Money Laundering Directive 4, which was introduced in May 2015

(Eerste Kamer). The 4AMLD introduced substantial changes compared to the at the time outdated 3AMLD, which was introduced in 2005 (Cooper, 2023). Based on the 4AMLD, 5AMLD and later 6AMLD were built. These directives are all intertwined, as recent directives elaborate on or slightly alter the outgoing directives, in turn increasing complexity (Ingman, 2019). This could also be the reason why the 2021/0250 proposal was chosen to revisit 4AMLD.

Proposal 2021/0250 is the name used in the proposal itself. This directive is expected to be called the “new 6AMLD”, with the current 6AMLD becoming a separate legislation (Cameron, 2023). To prevent confusion, the “new 6AMLD” will be referred to as 2021/0250 in this thesis.

One of the changes included in 2021/0250 is the further traceability of crypto currency. This means any Crypto Asset Service Provider will have to include a KYC style compliance protocol in their operations, whenever the provider wants to be active in the EU (Lomas, 2022).

Another aim of the new proposal 2021/0250 is to simplify and streamline the Anti Money Laundering legislation, since it is considered complex. The new directive, then, should be shorter than the outgoing 2015/849, or 4AMLD (European Commission, 2021, chapter 3). The proposal mentions several ways to achieve this simplification, such as simplifying the cash regulations. This regulation now limits cash trade above €10.000, with anything over this level needing extensive additional paperwork. This would be replaced by a full prohibition of cash trade over €10.000, reducing the need for paperwork, and therefore simplifying the regulations (European Commission, 2021, chapter 3).

The 2015/849 regulations included a requirement for supervisors from home and host member states to cooperate in the fight against money laundering. These requirements were later strengthened to ensure the information stream between supervisors would not be limited or prohibited. There was not, however, a clear legal framework. This will be changed according to the 2021/0250 proposal, which means there will be legal guidelines and a legal framework to ensure smooth and unhindered communication and cooperation between member state supervisors (European Commission, 2021, chapter 5 point 67). In addition, the supervision in several member states had been entrusted to self-regulatory entities. This meant the supervision was insufficient, with little to no public scrutiny. This is aimed to be



solved in the 2021/0250 proposal by implementing a public authority to oversee the supervision by self-regulatory entities (European Commission, 2021, chapter 5 point 69).

### 3. Research Question

The aim for this thesis is to help small international companies achieve a position in which it is easy to assure finance for operations. Taking into consideration the mentioned information and issues regarding compliance and CDD, a research question can be formulated. The research question is as follows:

How can a future proof financial compliance tool help small international businesses in assuring finance for their operations?

This research question can be approached in several different ways. Namely the finance aspect and the future proof aspect. For these two approaches of the research question, two sub-questions can be formulated:

1. Which customer information is needed to comply with European banking regulations?
2. What are expected future changes in regulation that can influence the compliance of small businesses for finance?

With these sub-questions answered, the main research question can be answered.

## 4. Methodology

This chapter aims to explain the method of data collection and the method of data analysis. The research is conducted with the aim of building a tool, which means specific qualitative data from different financial sources was needed, in addition to literary research regarding AML regulations and related subjects.

### 4.1. Method of collecting data

For the needed qualitative data from financial sources, focus lied on banking institutions, with the aim to interview three banks regarding their KYC and CDD process. Banks generally have very low transparency regarding their KYC processes. Combining this with the relatively new, and complex 6AMLD regulations means there is relatively little literature available to analyse, meaning most information had to come from the interviews with the three banks. Before this, however, extensive literary research was conducted to find any and all information needed to prepare for the interviews and get a more detailed indication of the data needed for the investigation. Preparing the interviews with literary research meant the questions could be as specific as possible, meaning the answers could be specific as well.

Due to time restraints, high travel time and the complexity of the questions, the interviews were conducted remotely, both by calling and sending questions in e-mails to three banks: ABN AMRO, ING and Rabobank. The three banks were asked equal questions regarding their KYC and CDD processes, and their future perspective on KYC and AML regulations.

Due to the information needed being confidential, both ABN AMRO and Rabobank refused to answer any questions, with only the confidentiality as a reason. ING was willing to answer interview questions, however, the answers could only be general, and specific qualities of the KYC and CDD process were not disclosed. More about these limitations can be read in chapter 8.

### 4.2. Method of analysing data

With interviews conducted and data collected, the data received from ING was combined with information available online, to make the analysis as specific as possible. Since data was limited, and not all questions asked could be answered, the results were divided into three main subjects:

1. Application of new customers
2. Application for finance
3. Future perspective

These specific subjects were chosen based on the research sub-questions and the answers given and can be found in chapter 6. With these subjects explained, the answer to the sub-questions could be formulated.

After analysis of the interview data, in combination with online information concerning ING, a conclusion was formed. This conclusion is based on the results from interviews as mentioned in chapter 6, and the literature research conducted for this research, as mentioned in chapters 2 and 5.

## 5. Theory

This chapter will provide theoretical information regarding the main aspects of the research. Also, it will aim to provide a theoretical foundation for the information gathered from the interviews. Firstly, a diagram will be shown and explained regarding the flow of activities needed to achieve compliance via Customer Due Diligence, Enhanced Due Diligence and gathering of internal business data needed for finance.

### 5.1. Operationalisation diagram

The path of compliance for businesses can be complex. There are several separate paths to consider and many different types of data to gather. To make the process more understandable, a flow diagram was constructed based on available literature. In this diagram the flow of data and the process needed for finance application is laid out. The process is divided into two tracks: Organisation data and customer data, which in turn have subsequent activities.

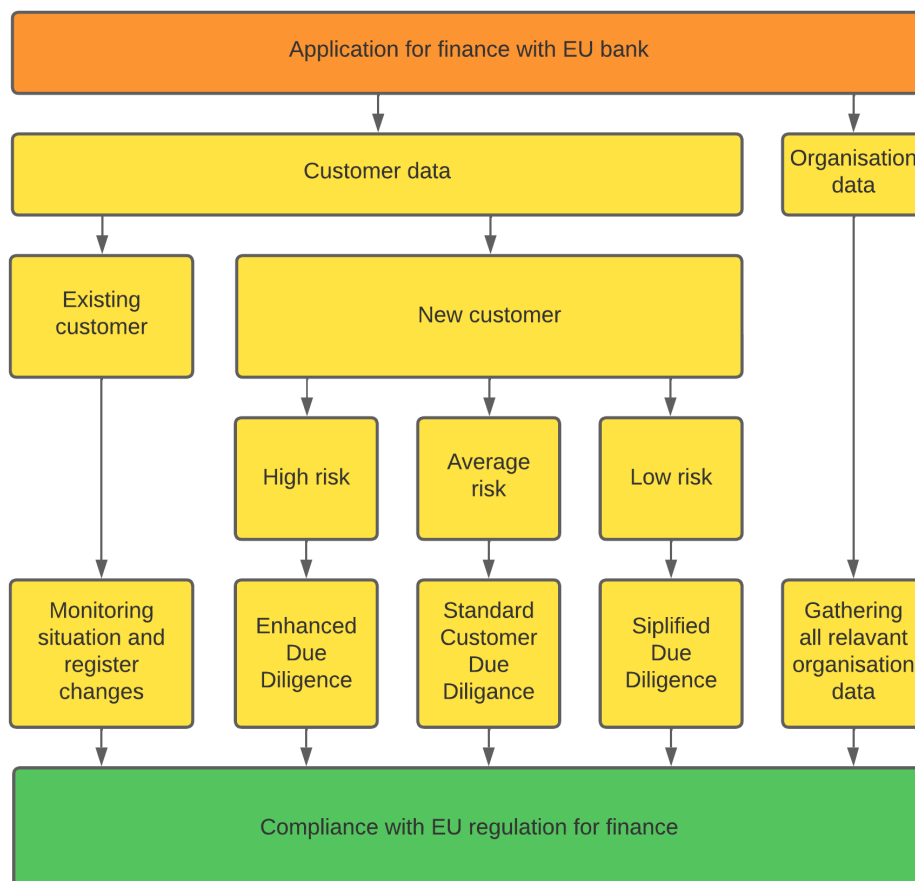


Diagram 1: Application for finance flow diagram based on available literature.

Starting with the organisational data. This phase is extensive, yet relatively easy. In this stage, the information needed by the bank regarding the organisation requesting finance will be gathered and sent to the bank. This information includes the activities of the organisation, the beneficial owners, the sources of revenue and more relevant data for finance. The extend of the information and data needed tends to differ between banks, but the main aspects needed at ABN AMRO, Rabobank and ING are similar, according to the KYC information available on the respective websites. This data includes full identification of the organisation, including registration and identification of all UBOs. Furthermore, the address is required and verified. For organisations based in the Netherlands, the KvK number is asked, with which further information regarding the organisation is gathered. Lastly, some questions may be asked regarding the market the organisation is active in. An overview of the needed data as mentioned on the banks' websites is given in table 2.

Data needed	ING	ABN AMRO	Rabobank
ID of representatives	Yes	Yes	Yes
KvK registration	Yes	Yes	No
Tax alligable country + TIN	Yes	Partically	Partically
UBOs	Yes	Yes	Yes
Working sector + Income source	Yes	Yes	Yes
Organogram	No	Yes	Yes
Expected money streams	No	No	Yes
Origin of cash	No	No	Yes
Measures of compliance to AML laws	No	No	Yes

Table 1: Needed customer data as mentioned on banks' websites

This information is needed for all new business customers, so it can be regarded as standard CDD. Any additional information regarding EDD or high-risk customers is not mentioned and will be asked in the interviews.

Customer data gathering is more substantial than organisational data gathering. Firstly, a division is made between new and existing customers.

Existing customers are those who have already been subject to either standard Customer Due Diligence or Enhanced Due Diligence in the past. For these customers, only monitoring is needed.

New customers are those who have not yet been subject to Simplified Due Diligence, Customer Due Diligence or Enhanced Due Diligence at the organisation with which business is now conducted. For these customers, all relevant information is yet to be gathered. To streamline this, the group of new customers can be separated into high-risk, average risk and low-risk customers. For the high-risk customers, Enhanced Due Diligence is used. For average-risk customers, standard Customer Due Diligence is used. For low-risk customers, simplified Due Diligence will suffice.

With this system in place, and all relevant information gathered, the organisation will comply with the banking regulations, which will enable the bank to grant the desired finance.

### 5.2. Existing customers

For existing customers, the due diligence process can be rather simple. The most important activity needed is proper monitoring of the situation within the customer's company, and making sure any changes are noted, and in line with the compliance protocol at that moment. Furthermore, the situation might occur where the regulations regarding Customer Due Diligence or Enhanced Due Diligence change, in which case any needed additional information should be gathered from the existing customers. All this can be easily done by monitoring the relationship and the customer (Wheeler, 2021).

The monitoring of the customer can be done by regularly pinging the customer information gathered with constantly updating databases, such as OFAC, HMT, UN and thousands of other government, regulatory, law enforcement, fitness and probity watchlists. With implemented AI, this can be done in real time, which ensures compliance for the organisation and customers (Wheeler, 2021).

### 5.3. Low risk new customers

Low risk customers are customers who are very unlikely to be involved in money laundering or terrorism funding. Among others, this includes financial institutions subject to money laundering requirements, entities accountable to community institutions, public authorities with a publicly available identity and transparent accounting and customers offering insurance or pensions (Cameron, 2023).

The fourth European Anti Money Laundry Directive, published in 2016, stated that organisations can no longer use SDD as the “standard” method of Due Diligence. For all customers in the SDD process, a full explanation of the choice of using SDD only is obligatory (Cameron, 2023).

The goal of SDD is the same as for standard CDD and EDD, which is to identify the customer and prevent any illegal activities. The process of SDD is divided into four steps.

The first step of SDD is to identify the new customer, done by the Customer Identification Process (CIP). This stage occurs before the new business relationship has been established. An important aspect of this step is to make sure the information gathered comes from reliable sources (Cameron, 2023).

The second step of SDD is determining the required level of Due Diligence for the new customer. In this stage, an early risk-assessment is done based on basic customer information such as geographical location, the type of customer, products or services provided, account type and ownership structure. If the customer is deemed low-risk, the third step can be made (Cameron, 2023).

The third step of SDD is the start of a less detailed identification process based on public data. Beneficial owners may be identified, but no additional documentation is needed. In addition, the nature and purpose of all relationships will be based on the product or service provided by the customer, and the nature of the client (Cameron, 2023).

The fourth and last step of the SDD process is the ongoing monitoring of the client. This is done to ensure the client remains low risk. If any unusual activities are discovered, more advanced levels of CDD may be needed (Cameron, 2023).

#### 5.4. Average risk new customers

Average risk customers are customers whose risk of non-compliance is above average, though not high enough for EDD to be needed (Law Insider). These customers are usually of slightly higher profile, for which the standard Customer Due Diligence process is used.

The process of standard Customer Due Diligence builds on the first two steps of SDD, which are the identification of the client and the determination of the risk level, and with that the required Due Diligence level. When the client is considered of above average risk, the



Customer Due Diligence process will conduct a more substantial form of identification. This includes comparing government issued ID with a photograph, scanning all relevant databases, obtaining a prove of address and placing the customer in so called “risk pools”, for ongoing monitoring (Wheeler, 2021).

#### 5.5. High risk new customers

High risk clients are those who impose a high money laundering or terrorism funding risk. This could be based on geographical location, the products or services the client is offering, or the nature of the client itself (Dow Jones, 2023). In addition, high risk clients can also be former average risk clients, which have been exposed by the ongoing monitoring done in the existing customer stage. High risk customers also include customers who conduct abnormally large or unexpected transactions with banks, though this information is not available for non-financial organisations.

For high-risk customers, Enhanced Due Diligence is needed. EDD builds on the SDD and CDD processes but conducts more research to find additional information about the client. This includes identification of the beneficial owner, verification of the source of funds and the source of wealth, RCA of involved people with a PEP status, and more (Cameron, 2023).

As mentioned, the SDD, CDD and EDD processes share steps and analyses. This is because the different kinds of Due Diligence are not separate processes, but rather an addition to each other in case of higher risk clients. A diagram explaining these relationships is given below.

# The Due Diligence Process

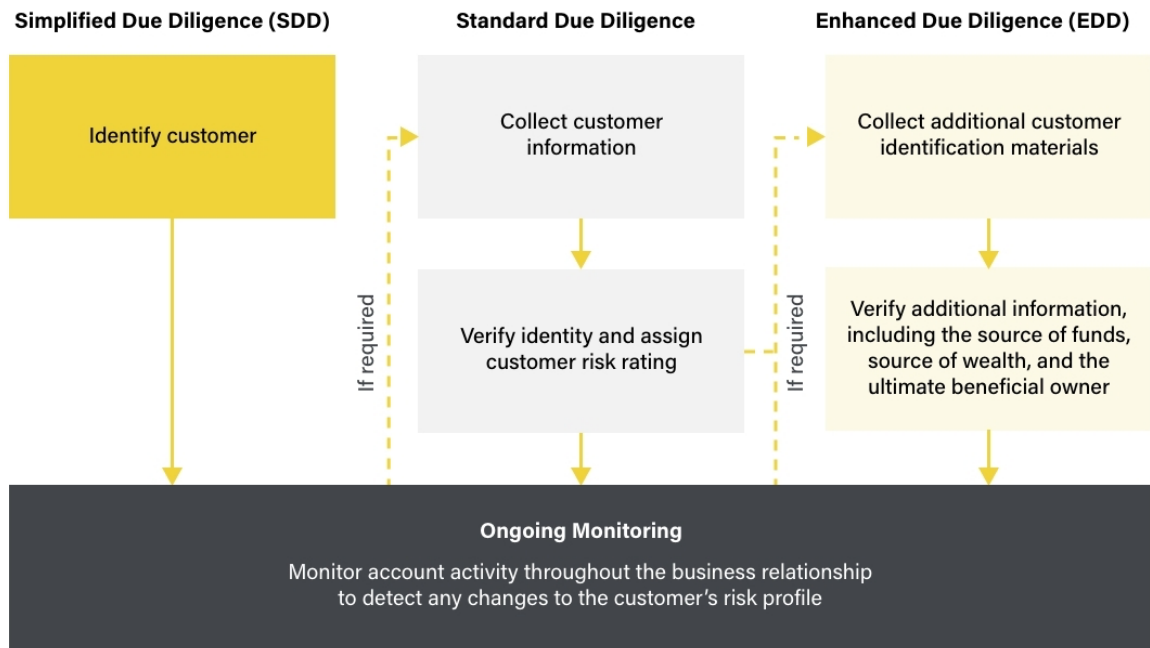


Figure 3: The Due Diligence Process (Cameron, 2023).

## 6. Results

Three banks were contacted for interviews. All three banks responded to the interview request, yet only ING offered information additional to the information available online, responding with a more detailed explanation of the processes used by ING for Customer Due Diligence and finance application. Though helpful, this explanation remained general in nature.

Unfortunately, more specific information regarding the exact data and processes used by ING for the application of new customers, finance application and risk-analysis were not disclosed, due to the confidential nature of the information. The confidentiality was also used by Rabobank and ABN AMRO as a reason not to partake in the requested interviews.

With the information available online and the general information given by ING, the following questions are answered as detailed as possible. Unfortunately, however, the research will not be as detailed as intended.

To make the limited available data as understandable as possible, this chapter is divided into three sub-chapters. Sub-chapter 6.1 explains the application process for new customers. Sub-chapter 6.2 explains the additional processes needed for finance application. Sub-chapter 6.3 offers insight in the future perspective from a bank's perspective. For the creation of a future proof financial compliance tool, this information is essential.

Information used in sub-chapters 6.1 and 6.2 was provided by Bianca Borst. Information used for sub-chapter 6.3 was provided via phone by Gerrit Keen.

### 6.1. Application process for new customers

Whenever a new business customer applies for a bank account or finance at ING, customer investigation is started. This investigation is done for all new customers for ING, because European regulation regarding AML and Terrorism Funding requires banks to gather sufficient information and data regarding customers, bank accounts of these customers, and transactions done by these customers. This investigation gives the KYC department of ING a risk-profile of the customer. The exact contents of this risk-profile and how it is determined cannot be disclosed by ING.

After the customer investigation and the risk-profiling are completed, ING will decide whether the customer can or cannot open an account or receive finance. The reasons for potential

refusal cannot be disclosed fully, but generally refusal occurs when a customer cannot answer all the banks questions, or when the customer cannot explain and take away high risks.

## 6.2. Additional information needed for finance

For the application for finance, some more information is needed. This information is in addition to the CDD information mentioned in 6.1.

For finance, an investigation is conducted to determine whether a customer can safely meet the obligations regarding the finance as determined by ING.

The base of the financial judgement is the business plan combined with the market in which the customer is active, and financial data of the customer. After this, the owners of the applying business is analysed regarding potential track-records, relevant experience and vision. The business model is analysed, and the USP (Unique Selling Proposition) is determined, compared to relevant competitors. With this information gathered and analysed, the potential of the payment capacity is determined. This is to determine the probability of the customer being able to pay back the financed money and cover the interest. Also, the equity of the customer is compared to the balance sheet, which determines the solvency of the customer. Thereafter, the debtors and inventory, both quantity and quality, are determined as well as developments in the market and region. These developments could regard changes in laws and regulation, new chances for the customer, market positions and potential threats. Lastly, it is determined whether the private living situation can still be sustained with sufficient income.

## 6.3. Future perspective for 2025

For now, the investigations and data gathering necessary for CDD and KYC is rule-based. This rule-based research means most customer cases are regarded individually, which means there is a high workload for the KYC and CDD departments of banks. This is expected to grow even further soon, since there are no known prospects of change. For the workload to be reduced, the rule-based research will have to change to risk-based research, which is not on the agenda.

For the implementation of a compliance tool for international organisations, this rule-based to risk-based change is of the essence as well. The rule-based research approach, which makes

the research individual and therefore complex and time-consuming, is the limiting factor for the implementation of a generalised compliance tool. Only if the processes would be much less complex, and more structured, a tool would work.

## 7. Conclusion

The aim of this research paper was to investigate how the implementation of a financial compliance tool could help international organisations in the application for finance at European banks. This meant answering two sub-questions regarding the necessities of financial compliance and the future prospect of the laws regarding compliance.

The first sub-question of this research paper read: “Which customer information is needed to comply with European banking regulations?”. Combining the information analysed in chapter 5 with information supplied by ING, it can be said that the information needed can vary greatly depending on the customer. There is, however, information which is needed in every case, as mentioned in chapter 5, and summarised table 1, which is shown below once more.

The second sub-question of this research read: “What are expected future changes in regulation that can influence the compliance of small businesses for finance?”. Combining the information analysed in chapter 5, and summarised in table 1, with the information supplied by ING, it can be said that the laws will add to the existing method of regulation, which means banks will have to maintain the rule-based research and analysis.

Data needed	ING	ABN AMRO	Rabobank
ID of representatives	Yes	Yes	Yes
KvK registration	Yes	Yes	No
Tax alligable country + TIN	Yes	Partically	Partically
UBOs	Yes	Yes	Yes
Working sector + Income source	Yes	Yes	Yes
Organogram	No	Yes	Yes
Expected money streams	No	No	Yes
Origin of cash	No	No	Yes
Measures of compliance to AML laws	No	No	Yes

Table 1 (Copy): Needed customer data as mentioned on banks’ websites.

With the sub-questions answered, the main research question can be answered. The research question regarded the change the implementation of a financial compliance tool could make for international businesses. Based on the information mentioned in this thesis, it can be concluded that the implementation of a financial compliance tool is not achievable for international businesses. Because of the rule-based research a bank is required to conduct, the fact that the processes banks use for compliance are confidential and the complexity of the compliance, all cases of KYC, compliance and CDD conducted by banks are completely individual. This means a potential tool to aid the process will have to include all specific and niche aspects of compliance, which is not achievable.

A compliance tool could work, however, if the rule-based research process would change to a risk-based research process. A risk-based research process would mean the process of CDD is determined fully by the risk profile of a customer. This would strongly simplify the process, with pre-determined research levels for any risk-profile. If this rule-based research process would be the case, the tool could be constructed for the different risk-levels, which could then help international business in their application for finance.

## 8. Limitations

There were several limitations in this research, which have led to the situation where the research sub-questions could only partly be answered with general information. This chapter will explain the limitations of this research. The limitations will be categorised in three parts. Limitations of method, limitations of data gathering and the limitations in conclusions.

### 8.1. Limitations of data gathering

The biggest limitation of the research was the fact that specific information about the CDD and KYC processes of banks is confidential, which means the banks cannot disclose this information for the research conducted for this thesis. The confidentiality of the information also means both ABN AMRO and Rabobank did not engage in the interviews. Only an explanation of the confidentiality was offered as a response. This limited the extent to which the first sub-question of this thesis could be answered.

Furthermore, it became apparent that the only way one could conduct an interview with banks, is to know a person within the right organisation. Initially, all three banks refused to answer questions. Only via an acquaintance the needed data could be gathered.

Reason for the banks secrecy around their CDD and KYC processes and protocols, could be explained by the pressure Dutch banks have been under. In December 2022 Dutch public prosecution service started a case against Rabobank regarding AML activities. This case was started after the Dutch national bank, DNB, notified authorities (NOS, 2022). Furthermore, in 2019, ING suffered a KYC “affair”, in which DNB was considered biased (RTL Nieuws, 2019). These cases are examples of the high pressured issued by Dutch government and the DNB, which could explain why the banks are reluctant to give any information regarding the processes used by KYC departments.

## 8.2. Limitations of conclusion

The second limitation was the level of complexity in the compliance process. This meant the tool needed for the research could not be built. This, however, did lead to the realisation that the process could become too complex to be achievable for banks, which means structural change is needed in EU regulations.

For the tool to be built, the EU regulations regarding AML and Terrorism Funding would have to change in a way which enables banks to switch their KYC and CDD processes from rule-based analysis to risk-based analysis. If this change is made, the KYC process could be based on a risk-score given to a customer, which then triggers a more standardised CDD process. If this change is made, a financial compliance tool could also be conducted for international businesses.

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## Appendix

### Appendix A: List of offences

All 22 predicate offences as mentioned in the sixth Anti Money Laundering Directive (TookiTaki, 2022).

1. Terrorism
2. Drug trafficking
3. Arms trafficking
4. Organized crime
5. Kidnapping
6. Extortion
7. Counterfeiting currency
8. Counterfeiting and piracy of products
9. Environmental crimes
10. Tax crimes
11. Fraud
12. Corruption
13. Insider trading and market manipulation
14. Bribery
15. Cybercrime
16. Copyright infringement
17. Theft and robbery
18. Human trafficking and migrant smuggling
19. Sexual exploitation, including of children
20. Illicit trafficking in cultural goods, including antiquities and works of art
21. Illicit trafficking in hormonal substances and other growth promoters
22. Illicit arms trafficking

## Appendix B: Interview questions

Interview questions as used in interviews with ING, ABN AMRO and Rabobank.

1. I am currently conducting research on different customer due diligence levels. Considering a standard due diligence procedure: What is the data needed to accept a new business customer?
2. The [bank] website mentions needed data from a new customer. If this data is provided and the customer applies for finance, is more data needed?
3. How is the risk-level of a new customer determined? When is a customer subjected to EDD? Does this just concern transactions, or are UBOs, staff and geographical location considered too?
4. Considering an EDD scenario, which data has to be added to the gathered CDD information? How detailed is this process? Is financial information of customers' customers considered too? Are all staff members considered in the investigation? How about family of the staff?
5. What is the future projective for the next 3 years? Literature mentions new legislations regarding crypto currencies. Do you see big changes happening in the next three years? Will these changes have an impact on international trade?