KYC models need to upgrade

Know Your Customer (KYC) and anti-money laundering approaches will need a complete overhaul to cope with the wave of digital change, the mainstreaming of blockchain technology *and efforts to bank two billion unbanked people, says Ideco.*

Know your customer (KYC) and anti-money laundering (AML) is a worldwide focus in the financial services sector, as regulators seek to embed greater transparency in transactions and stamp out fraud and money laundering. But KYC and AML management models in their current form present challenges. “Effective KYC and AML are vital, as a wave of digital change and the mainstreaming of blockchain technology increases financial services’ risk profiles, but the current KYC and AML models need an urgent upgrade if they are to cope with future demands,” says Marius Coetzee, CEO of SA-based identity specialists Ideco.

Coetzee notes that currently, standards for KYC are inconsistent across borders and even between various financial institutions. The verification data and documents needed by one institution may differ from those required by another. KYC can also add challenges, cost and frustration to the onboarding of customers and processing of transactions. Last year, Thomson Reuters found that major financial institutions spend up to $500 million annually on KYC and customer due diligence, and that customer onboarding time increased by 22% in 2016 and was expected to increase by another 18% in 2017, with customers voicing growing frustration at the amount of information they had to share, as well as the fact that they had to do so repeatedly when engaging with their banks.

“In South Africa, we’ve heard figures ranging from R180 to R1,800 with regards to the cost of onboarding a new customer in ways that are compliant and trusted,” says Coetzee. “But as banks step up their efforts to bank the world’s unbanked people – estimated to total around two billion people – questions will arise around whether the cost of onboarding these new customers will be recouped. Traditional KYC typically requires proof of identity, proof of residence and contact ability; but across much of the developing world, people may lack identity documents or formalised addresses. This hampers KYC efforts and could even stand in the way of unbanked people enjoying formalised banking services.”

Overcoming these hurdles demands fresh approaches to identity management and KYC models, he says. “It’s a complex challenge: it’s crucially important to enable the digital economy, but equally crucial to protect identity and mitigate risk. We have the ‘first world’ on one side, the ‘third world’ on the other, and the digital world rising fast,” says Coetzee. Amid growing calls for self-sovereign identity and fully digitised identity management, standardisation and digitisation of identity within a trusted environment is set to become key to effective KYC, and modes of managing identity verification and authorisations will have to become increasingly advanced in future, Ideco believes. Advanced biometrics is already being harnessed as an important tool for KYC, but the real benefits of biometrics emerge when scanners and readers are integrated into a secure ecosystem for identity verification and management. “This is one reason Ideco continuously invests in identity as a service technology, harnessing biometrics, cloud and mobile technologies to enable a trusted ecosystem that facilitates enrolment and verification of identity in such a way that there is trust for all parties,” says Coetzee.

“We have a number of patents in this space – including customer-centric cryptography which encrypts and protects consumer data, with an additional layer of security which prevents access to the data unless the owner of that data – the consumer, is present in the transaction.” An integrated trusted identity ecosystem such as this offers ease of use, a high level of compliance and trust for all parties, says Coetzee. Ideco is currently in talks on expanding its identity as a service platform in a number of markets, presenting a simpler, secure solution to the KYC challenges.