

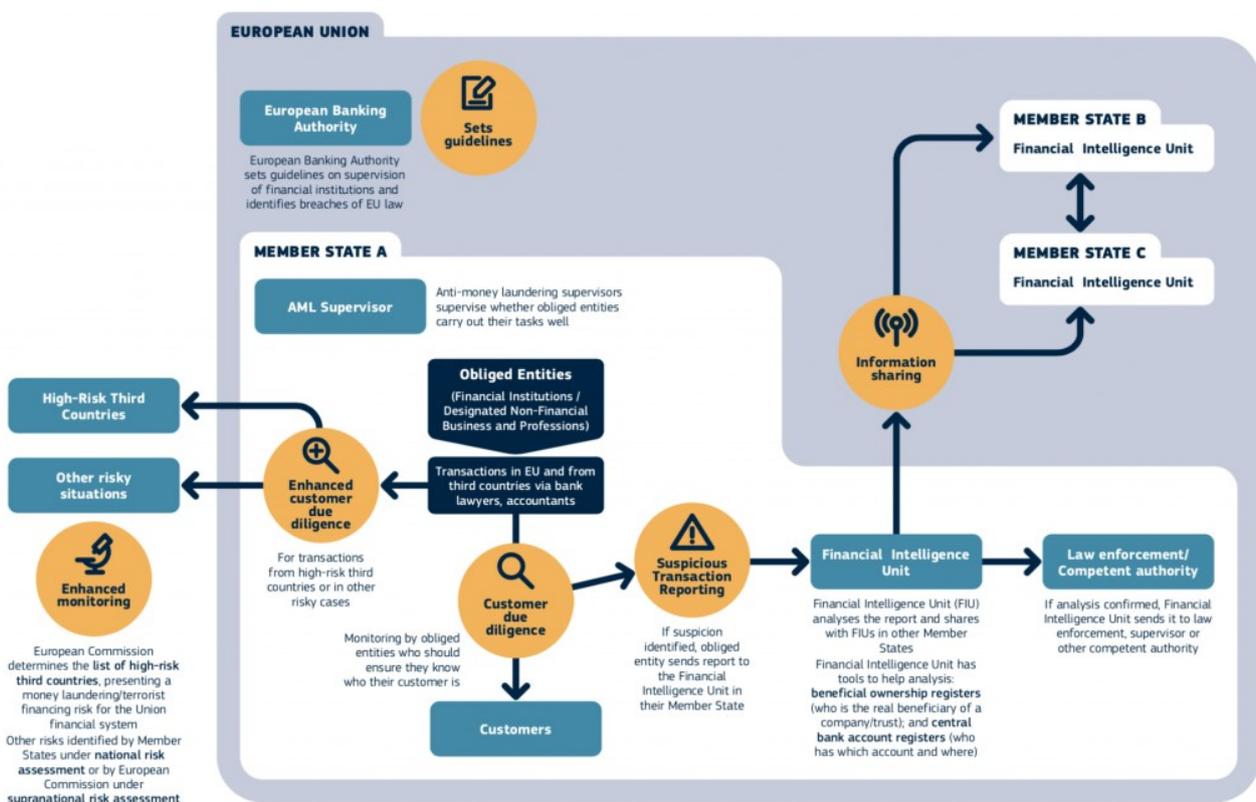
// KYC verification process

The entire identity verification procedure encompasses a lot, however, the most important ones are:

- Customer Identification Program (CIP)
- Customer due diligence
- Ongoing monitoring

The importance of the KYC process is followed by 3 steps to the KYC verification process.

Preventing money laundering and terrorist financing across the EU How does it work in practice?



Example for KYC process by EU commission

// Introduction

In this modern era, fraudsters and criminal groups have come up with enormous resourceful ways to fulfill their malicious purposes. It is a common practice of such criminal groups to misuse the systems of legitimate entities such as banks and other financial institutions, credit unions, e-commerce, etc in order to avail free services, commit frauds and convert ill-gotten gains into 'clean money'. However, financial institutions mostly rely on the system of controls which aimed at collecting knowledge about customers. This is also known as 'Know Your Customer (KYC)'.

Similarly, another major issue is that businesses are knowingly or unknowingly used for money laundering activities which at the end turn out not to be compliant with global and local AML regulations. This dirty money is then used for terrorist financing, drug-related financing, and other criminal activities. The businesses that do not comply with the obligations of regulatory authorities are subjected to harsh penalties. AML compliance is, therefore, compulsory for businesses to consider at first hand.

// KYC Verification Process Steps

Just like the way traditional banking institutions were used to verify an identity, online KYC verification is performed. KYC verification process steps include;

1. Collection of Information

The first step in KYC verification involves the collection of personal information from an online user. The user is supposed to enter all the personal details at the time of account registration.

2. Ask the user to Upload an Evidence

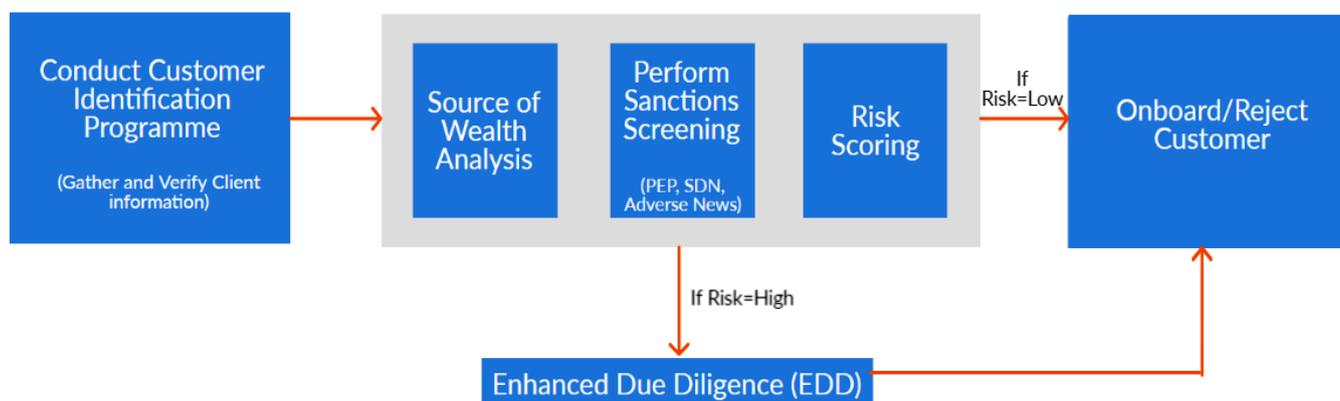
After collecting information, in the second step, ask the user to upload a supporting piece of evidence as an identity proof. This helps the system verify that the user-entered information is not fake and holds authentic data.

3. Verification of information

Once the user uploads a document as proof, the document template is identified and examined against several checks. It is to ensure the uploaded document is not tampered or photoshopped. Once it's validated, the data is extracted. There can be two ways to fetch the data from documents:

Data extraction through OCR in which the system automatically extracts the data from the identity document and check the authenticity of the information. Data extraction without OCR in which the user manually enters the information and the IDV solution checks the user-entered information against the one present on the identity document.

// Customer Identification Program



In the KYC procedure, the Customer Identification Program (CIP) is the initial step. The identification of high-risk customers should be done beforehand to mitigate the risks. The mandate of CIP is to ensure that the entity performing a financial transaction is verified. This is necessary to curb money laundering, terrorist financing and other illegal criminal activities that disrupt the overall financial system.

In CIP, financial institutions are supposed to collect the user information to open a bank account. This information includes;

- ✓ Name
- ✓ Address
- ✓ DoB
- ✓ Identification number

After collecting this information, it is verified against supporting shreds of evidence that could be in the form of biometric verification or document verification. In addition to this, CIP includes risk assessment of customers and business accounts. This helps financial institutions build parameters against which each customer will be given a risk rating. KYC procedures, therefore, are predefined that contribute to the prevention of the frauds. At this point, businesses decide CDD and EDD procedures.

// Customer Due Diligence

This is a process in which a customer's information is screened against KYC protocols. In KYC compliance, this is the second step in which basic customer information is collected online in real-time. In CDD, the information collected includes;

- ✓ Name
- ✓ Address
- ✓ Age
- ✓ Date of birth

All this information is used to verify the onboarding customer. After this, the customer is assigned a rating as per credentials after the AML screening procedures and financial credibility. In case, if the customer ID is found in watchlists or PEP records, the risk is considered high and further Enhanced Due Diligence process is performed.

CDD concludes that how much a customer profile is a risk for an institution. In private and offshore banking, CDD is supposed to be done more deeply to inspect any suspicious identities in the system. CDD should be a scalable method that could ultimately reveal the involvement of money laundering and terrorist funding in the financial system by identifying the identities.

// AML Screening

KYC compliance does not end here. One-time customer verification does not conclude the inevitable credibility of that identity. Instead, a continuous identity screening should be performed in an institution to deter the risks of fraud from even the authorized entities. The ongoing financial transaction monitoring is important to identify suspicious transactions and unusual money flow in the financial system.

For this, a risk mitigation strategy is defined that includes parameters against which monitoring needs to be performed. These indications include;

Transaction above the specified threshold

- ✓ A large number of frequent transactions
- ✓ Unusual/suspicious activities

// Corporate KYC

Know Your Business or 'KYB' is a process that ensures verification of corporate entities or businesses you are dealing with. This is as important as KYC compliance. Business verification includes verification of Ultimate Beneficial Owners (UBOs), third-party businesses, and other corporate entities. KYB deters the risks associated with fraudulent business entities. Not only this, as per regulatory requirements and regulations about UBOs verification, KYB has become more than necessary to build a clean customer base as well as business relationships.

// It all adds up to

An efficient KYC solution is the need of every businesses sector. To comply with the changing KYC and AML requirements, organisations need a KYC solution that adequately follows all steps of KYC compliance. Shufti Pro is a one-stop solution for enterprises to cater to your KYC practices.

All processes regarding KYC are automatically processed by ShuftiPro service and is supervised by our AML officer.
