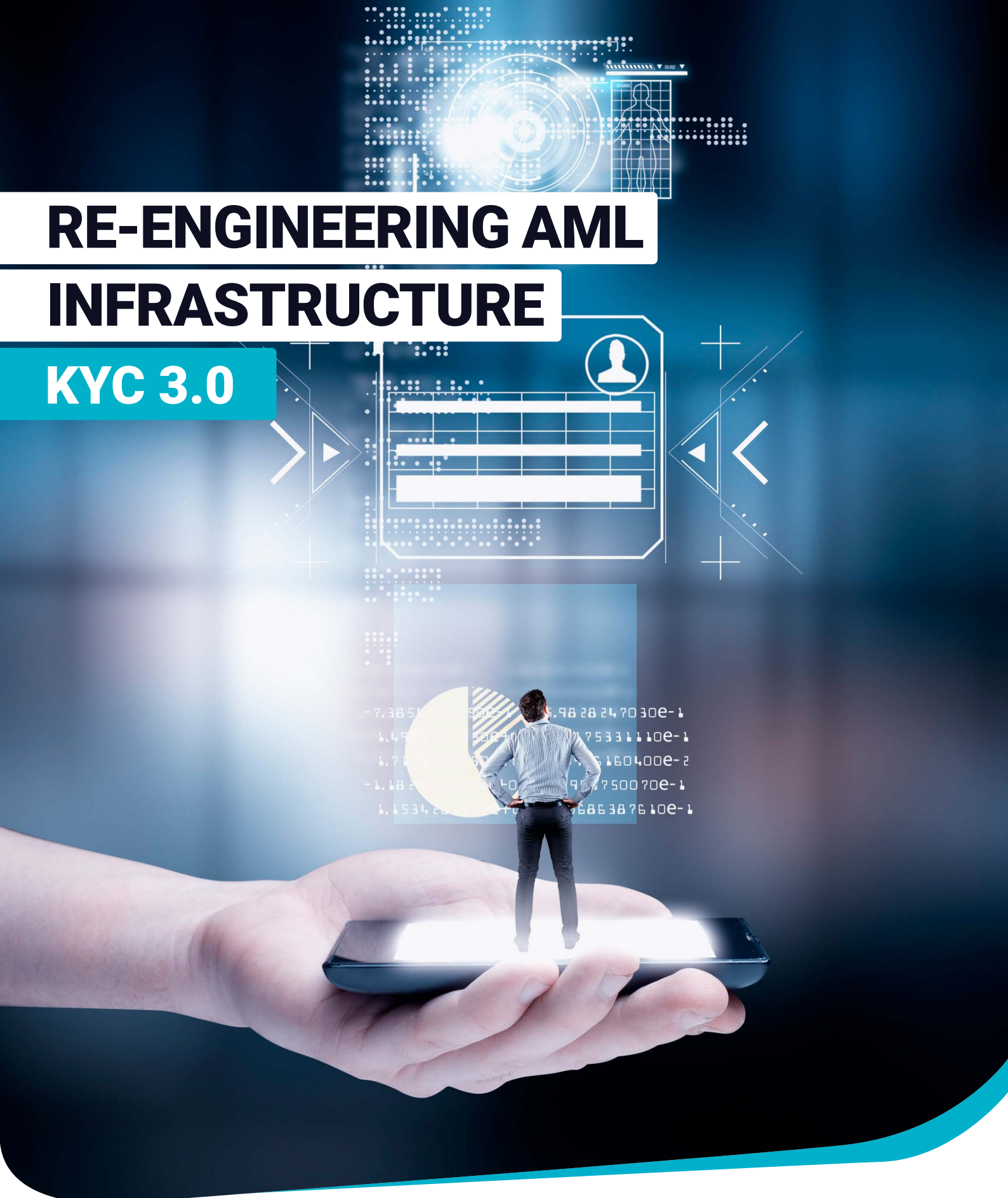


RE-ENGINEERING AML INFRASTRUCTURE

KYC 3.0



finboot tech



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OVERVIEW



FINANCIAL CRIME IS ON THE RISE

The pandemic has accelerated digital transformation for all, which while positive, also means increased opportunities for fraudsters and more sophisticated scams. In turn it has also raised the bar for financial institutions to keep pace with - or ideally, ahead of - new threats.

It's a war without an end as each battle demands reinforcements. These reinforcements come in the form of technology as we move towards a cashless world. **And so, a digital world requires a digital solution.**

Anti-Money Laundering regulations apply pressure to financial institutions to be the gate keepers and raise the bar on customer onboarding and verification checks. These checks are not static and need to apply for the duration of the customer relationship not just onboarding.

The costs of failure are high - losses from fraud and fines can be substantial and most financial institutions (FI) and professional service firms, such as accountants, auditors, and accountants, have succumbed with their existing systems.

The Financial Action Task Force (FATF) is the global money

laundering and terrorist financing watchdog and is the closest thing to global guidelines and standards but implementation is not enough as the financial cost of fraud remains with the FI, meaning FI's and professional service firms need to set higher thresholds to protect themselves and their customers. This further complicates the tapestry as each institutions' operating standards are not common, requiring checks to be redone even if a customer is already a client of a known counterparty or even if they are client of a different unit within the same group.

The solution to unravelling and removing bottlenecks is technology. More specifically, Blockchain technology.

Blockchain was borne in the financial ecosystem more than a decade ago to ensure traceability of digital assets with no central authority. It has demonstrated to be a secure and robust tool that will bring numerous benefits to the sector. Now is the moment to start seeing those benefits.

Everyone in the digital world is creating a digital footprint and this is mistakenly being used as their profile. The digital identity is different. Operating digitally requires a digital identity but today we have one for each application or interaction, which doesn't make sense.

We each carry one passport, one driving licence and have one set of documents which are provided for identification. The same needs to happen in the digital world, counting with one digital ID.

In the enterprise/professional environment, customer onboarding is a well-known frustration for both parties. Customers need to provide and update documentation regularly as they get pinged to update their information. Multiply this across each intermediary and you realise why so many people are employed simply to manage compliance. Customers often balk at repeated requests for identification documents, and it is known to drive inertia from changing banks, financial service providers and professional service firms.

LOOKING AHEAD, IMAGINE A WORLD WHERE CUSTOMERS CAN BE ONBOARDED ONCE AND THEIR VALIDATION STATUS CAN BE SHARED TO MULTIPLE INSTITUTIONS, WITH THE CUSTOMERS PERMISSION.

Here is where new technologies such as blockchain play a relevant role, the technology can be used to create a selective shared database between different financial institutions, this will lower the access barrier, improve the user experience but also ensure maximum levels of security.

Follow us in this journey to understand the benefits and of this technology and how you can benefit from them.



THE KYC PROCESS



The Know-Your -Customer (KYC) process is the first step in the implementation of AML regulations. KYC checks, carried out during the client onboarding process require a verified identification of the beneficial owner: i.e. making sure the customer is who they say they are. Mistakes here are hard to uncover later and can lead to costly mistakes.

The KYC checking procedure is not standardised. Each FI will adopt its own multi-stage process involving the collection, analysis and verification of the information

provided. This process is largely manual in nature.

Typically, the customer is asked for their full name, address and date of birth which are then checked against supporting documents such as a passport, driving licence and current utility bill. The checking process also uses external databases to verify the information is correct. Finally, there are international databases to be checked to ensure that the customer is not on a sanction list or a politically connected person. Once completed, a risk

assessment is assigned to the customer which determines if they are able to open an account and if so, what limits may be set.

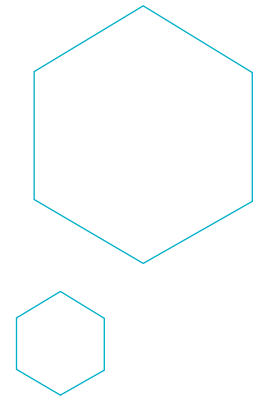
The customer must be re-assessed regularly as their relationship develops with the FI and further information comes to light. KYC is dynamic and so requires an up-to-date log of a customers' financial journey, which needs to be compared against their original risk assessment prepared at the time they were onboarded.



In some countries, such as India and Bangladesh there has been a rise in the use of Electronic-KYC. e-KYC is the process where verification of the customer can be completed digitally through the use of a common national database. **For example, India launched the National Identification Scheme in 2009** which now records more than 1.3 billion people making it the largest of its kind in the world. Each citizen is given a Unique Identification Number (UID), also known as Aadhaar, which is now the only mechanism to open a bank account or apply for government services.

The process of onboarding a customer into Aadhaar is the same as onboarding into a FI. Documents are collected, identity checked and biometrics (fingerprints and retina scan) recorded.

E-KYC IS QUICKLY BECOMING THE FASTEST WAY TO ONBOARD NEW CUSTOMERS AS WE MOVE INTO AN INCREASINGLY DIGITAL WORLD.



DIGITAL ECOSYSTEMS REQUIRE A DIGITAL SOLUTION. ENTER BLOCKCHAIN.

What is a Blockchain?

A Blockchain is a ledger similar to one used by banks to keep track of your account with the exception that all the data is cryptographically encrypted and timestamped.

Blockchain technology has advanced significantly from an original distributed ledger technique developed to keep track of bitcoin ownership. Unlike a traditional database blockchain

databases can be the single source of truth and allow collaboration between organisations without compromising data privacy. Blockchain's immutability (append only) characteristics enable the optimal audit record which is increasingly critical for all areas of business operations and transactions reporting. Finally, Blockchain can automate decisions based on logic: Smart Contracts.

By recording, who said what and when, Blockchain can place the customer at the centre of the data collection and updating process.

A smart contract could automatically halt trading on an account if a customer fails to update documents or fails verification.



KYC POWERED BY BLOCKCHAIN

Consider a world where each customer has their identification stored in the form of a digital passport on a Blockchain. The passport provides the information required by a financial institution for onboarding. The passport can be updated in real time by its owner and made accessible for a KYC check.

The digital passport with the history of the customer and their journey can be used repeatedly on request once the customer has provided permission. Inside the financial institution, the digital passport can be used to onboard the customer to separate teams without the need to go back to the customer. In fact, the personal information need not be shared to another business unit

just a 'digital certificate' to confirm that the customer's digital passport is updated, authenticated and verified. This will not only reduce time, costs and administration but will make the process of cross-selling banking services (Bancassurance) seamless.

Furthermore, the same digital passport could be provided to other financial institutions for KYC verification. Any specific information requirements could be updated by the customer creating a comprehensive passport whose contents could be confirmed but not shared with all those connected to the digital passport in real time. Over time, this will drive standardisation of KYC requirements.

**THIS MAY SOUND
FUTURISTIC
BUT THANKS TO
BLOCKCHAIN, THE
TECHNOLOGY TO DO
IT EXISTS TODAY.**

Customers are always looking for ways to make their lives easier and faster particularly as we now juggle more than ever, and the boundaries between home and work life are blurring. Digital passports are the answer and could be used to store much more than KYC information such as medical data for use by health insurance products, insurance information and tax status.

To achieve this vision, we need to build a set of interconnected networks where data can be shared to those with the right permissions in a compliant, safe and secure manner. In es-

sence, a network of networks where each party can finally trust what they are being told because the history is stored and is immutable. Discrepancies can be flagged, and cover can be priced or refused immediately, all without needing to share the personal details of the customer.

Blockchain is re-engineering business processes and systems to enable a secure, trusted environment of data management and sharing between parties in a trusted way. This will allow organisations to exist beyond their current boundaries.





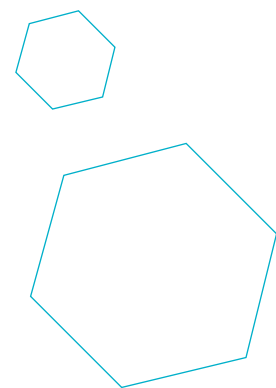
BARRIERS TO ADOPTION:

A barrier to greater Blockchain adoption is the question of which Blockchain to use? According to IBM Research Institute Report more than 75% of CTOs and CIOs ranked interoperability and integration as a priority for choosing a Blockchain technology.

The use of middleware solutions such as Finboot's Marco solve this problem as it is compatible with all types - and therefore becoming a favoured solution vs building applications on a single Blockchain ledger. Let's not forget Blockchain is

the foundation to the creation of new asset classes such as Cryptocurrencies and NFT's. Coinbase lists more than 15,000 cryptocurrencies with an aggregate market cap of over US\$2.6 trillion (Coinbase).

In 2022, the question of whether this asset class is here to stay will be firmly behind us. Regulators are at long last catching up and new rules and guidelines will drive mainstream adoption further, fuelling the growth of the underlying Blockchain technology through greater familiarity.





SUMMARY

Blockchain could have a major role in re-engineering the AML infrastructure and KYC identification procedures.

Thomson Reuters estimates, KYC can take up to three months and its financial institutions can spend more than US\$500m annually on KYC and related due diligence and compliance. With costs estimated

to keep rising, the benefits this technology presents to banks and financial institutions are not negligible.

Blockchain provides a new paradigm in AML infrastructure and provides a digital solution to an increasing digital world.

Do you want to improve transparency,
traceability and data sharing across your supply chain?

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