Why Do KYC Checks Matter to Consumers, Bankers, Lenders and Insurers?

Written by
Merryl Dusaran

When you happen to process transactions in banks and financial firms, you might have heard about KYC. You might think that it is just a mere requirement to process your financial transaction, but KYC is more than that in the business.

KYC, in a nutshell, is identifying and verifying consumer's identity through documents and information provided before accepting them as a new client. Consumer's basic information such as name, date of birth, and address are obtained for individual consumers. For non-individual consumers, name and authorized signatories, the legal status of the entity, and beneficial owners' identity are collected.

Banks and other financial institutions stringently embrace KYC because of its importance to the business world. KYC's objective is to prevent businesses from being used for criminal activities. Incidents relating to terrorism, money laundering, corruption, and other illegal financial activities are prevalent. The KYC process has been used as a tool to prevent financial crimes and to comply with Anti-Money Laundering (AML) regulations to ensure business security.

Bankers, lenders, and insurers rigorously demand that consumers should provide detailed information to prove their identity. The strict implementation of KY checks allows companies to protect their business as well as their customers who might be harmed by financial fraud.

The accompanying process of KYC helps a business better understand consumers and their financial transactions. From here, they can manage risk by the ease of access to the client's activities.

What is KYC?

Know Your Customer (KYC) is a mandatory process for banks, lenders, insurance providers, and other financial companies for identifying and verifying customer's identities. Financial businesses are required to evaluate their customers and gather background information to assess risk factors.

Companies implement strict KYC process to prevent any illegal activities such as tax evasion, corruption, fraud, and terrorism. Customers who undergo the KYC process provide detailed information and required documents needed to ensure that they are who they are claiming to be.

> **As identity theft continues to be a threat, every business wants to ensure that their customers are who they**

Different financial institutions, as well as non-financial institutions, implement KYC to their business. Standard KYC policies incorporate the following elements:

Customer Identification Program (CIP)

As identity theft has been widespread, a business needs to ensure that the customers are who they claim to be.

Customer Identification Program (CIP) requires financial institutions to verify the identities of the customers who wish to use their products and services. Businesses collect customer information such as name, date of birth, and address. To verify that it is accurate, documents, non-documentary methods, or a combination of both should match the information provided by the customer.

Documents as proof of identification and proof of address are required. Acceptable proof of identification includes passport, driver's license, and voters identity card. For proof of address, accepted documents include a bank statement or a utility bill issued within three months of the current date.

Customer Due Diligence (CDD)

Financial institutions assess if they can trust a potential client by conducting a detailed risk evaluation with extensive background checks. Customer Due Diligence (CDD) is where customer's information is evaluated for any potential risk for or money laundering activities.

Information such as the source of funds, the purpose of the account up to financial statements, and other documents might require the customer to provide. CDD process, though differ around the globe, is expected to identify customer risk profiles and monitor their activities accordingly.

Ongoing Monitoring

Transaction activities of the consumer, especially those with high-security status, are under the ongoing monitoring process of financial institutions. With a deep understanding of the transactions under a customer's account, banks can control and prevent potential risks