

# Transforming KYC: Three technologies to watch

By Carol Stabile | 19 July 2017

bobs guide

Gathering and validating the data needed to comply with Know Your Customer (KYC) is not easy. Documents can be forged. Ownership structures can be concealed. And practices like trade-based money laundering make it difficult to track money flow.

Not only have bad actors become more adept at masking their true identities and activities, but traditional rules-based systems that financial institutions use to identify risk are proving inadequate to handle today's challenges. The sheer volume of information that must be collected, screened and continually monitored for KYC is delivering a barrage of false positive alerts that are straining compliance budgets and resources.

The escalating cost of compliance and risk exposure caused by inefficiencies in the KYC process are compelling banks to explore new solutions. Here are three of the latest KYC and Customer Due Diligence (CDD) technologies that are changing the way institutions gather, verify, monitor and store customer information.

## Artificial intelligence

AI is the foundation of many new technologies for KYC and CDD. AI-based systems are dynamic. They incorporate prior knowledge and continually "learn" and update rules based on new information in order to predict future actions. AI solutions can process large amounts of data quickly and are highly effective at detecting hidden links and identifying anomalies, which makes the technology ideal for on-boarding and monitoring.

Although AI solutions can process complex data faster than humans, AI won't replace a bank's staff for investigation and decisioning alerts – at least not yet. But, AI can streamline operations by automating manual processes as well as provide additional information to support alert investigation.

## Social biometrics

Financial institutions have discovered what recruiters have known for some time. Using social biometrics – a person's footprint gathered through Google, Facebook and other social networks – can provide valuable information about an individual that can't be gleaned from other sources.

Biometrics defines a broad category of human actions or characteristics that can be used to identify individuals. It includes social biometrics, iris scans, keystroke patterns, voice and other measures.

The effectiveness of social biometrics for verifying identity is based on the premise that it is more difficult to create an entire social network developed on a false persona than it is to alter static identity documents and support information traditionally used in KYC. This makes anomalies in a person's online presence easier to detect than they would be through conventional data. Social biometrics has the added benefit of capturing information about millennials, the underbanked and the unbanked, who have little credit history but often have a social presence.

Another benefit of social biometrics is that it incorporates constantly changing information from the internet, which offers a dynamic view of exposure. When used in concert with traditional credit and KYC data for AML and compliance, social biometrics provides banks with a more robust way to assess risk and identity theft and fraud.

## Blockchain

Once associated only with Bitcoin, blockchain may prove to be one of the biggest disrupters to the financial services industry. It will enable banks to keep up with changing regulations, quickly validate customer information for KYC, eliminate duplicate processes and provide a more seamless customer experience for on-boarding.

The technology behind blockchain is based on a distributed, time-stamped ledger with “blocks” added for every transaction. Digital information can be distributed, but not copied, so blockchain provides a fool-proof, immutable history of a person or company’s financial activity. With distributed technology, there is no single point of failure. And since information is not stored in a central location, it is almost impervious to hackers, making blockchain extremely secure and conducive for financial transactions.

Blockchain technology offers to bring greater efficiency and automation to the KYC process. Sharing of documents and information between banks and external groups happens without any middlemen and in near real time. Everything is transparent and ledger records are publicly available, making it easier to prove compliance or spot red flags indicating possible money laundering or other illicit activities.

Blockchain technology is already finding its way into a wide range of industries, where it is used for everything from tracking shipping containers to helping big-box retailers manage their supply chain.

Judging by the benefits the technology can offer, it’s only a matter of time before the financial services industry jumps on the bandwagon.

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Carol Stabile joined Safe Banking Systems in 2006 as Senior Business Manager with responsibility for client engagements and relationship management. In 2007, Carol developed the company’s marketing and PR strategy leading to major rebranding in 2007 and 2012 and recognition by industry research firms such as Aite, Celent and Chartis. Carol’s role has grown with the company and she now leads SBS’ sales and marketing teams.