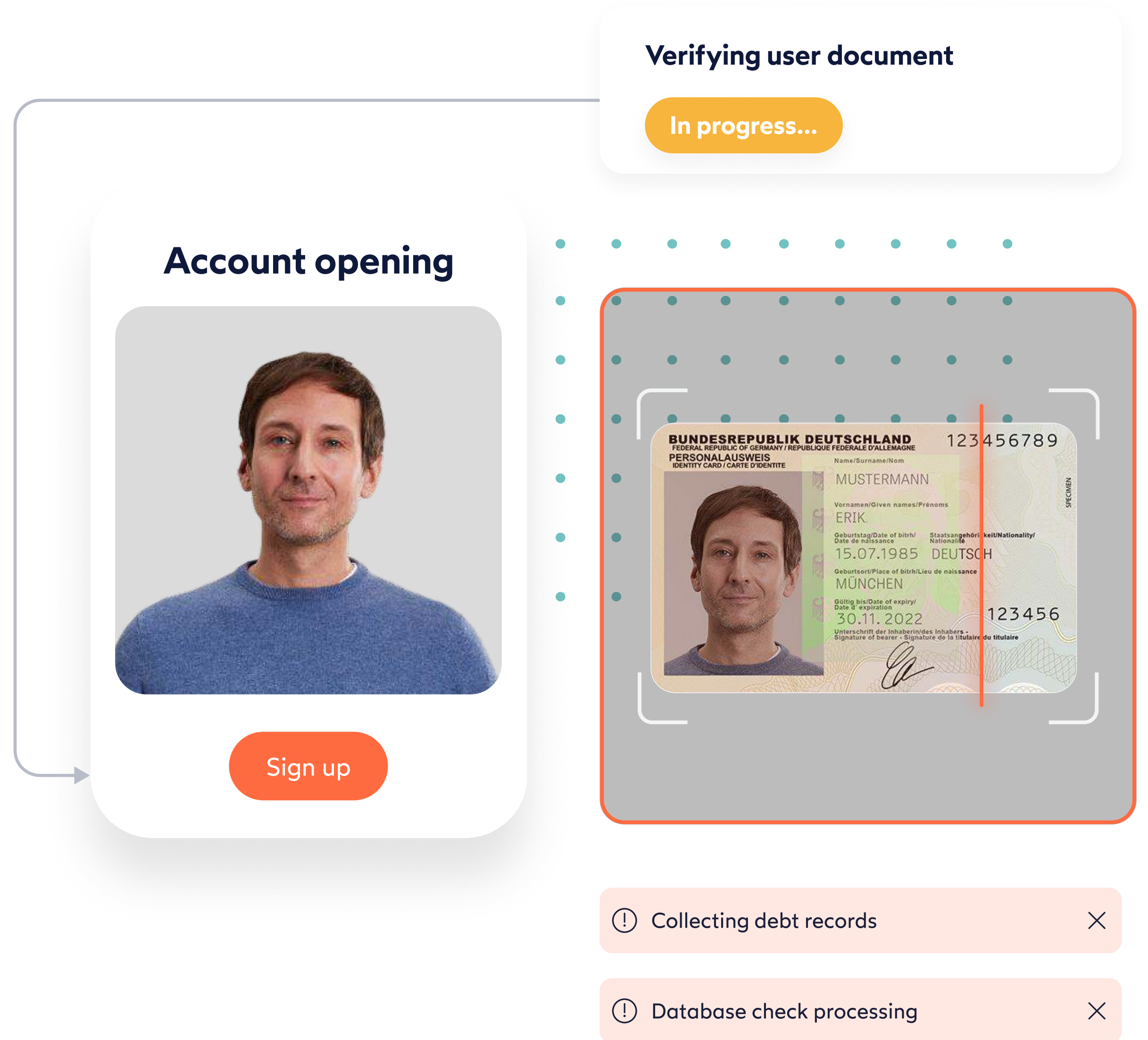
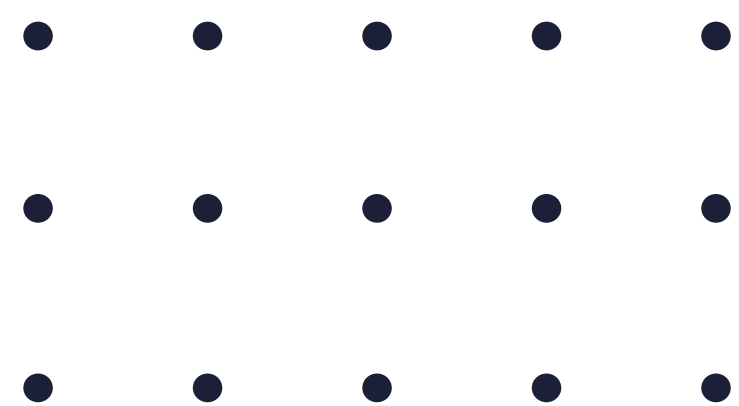


# IDnow.

# Building trust through KYC in banking.

Learn how to set up the perfect KYC process that meets regulatory requirements and drives conversion rates.



In today's online world, it's hard to know who to trust. Digitalization and globalization have resulted in significant business challenges, such as increasing risks of fraud and identity theft, especially in the banking sector. Verifying prospective customers before they become users has therefore never been more important.

For this reason, the Know Your Customer (KYC) process has become an integral step in securing financial transactions. Although a common compliance 'tick-box' requirement, some KYC processes can be overly complicated and lack transparency, which can lead to customer abandonment during onboarding. To set up a KYC customer journey that works for the business and the customer, it's important to understand the role of KYC, how it works and how it can be used as a competitive differentiator.



## Chapters:

- **KYC: The key to success.**
- **KYC & regulations.**
- **The KYC process explained.**
- **IDnow's product portfolio.**

# KYC: The key to success.

KYC processes can be conducted through various methods, such as in-person verification, video call verification or online automated verification.

In-person KYC remains prevalent in regions where traditional banking practices dominate, such as in many parts of Africa and South Asia. Conversely, video KYC has gained traction in regions with high digital adoption, including North America and Europe, offering a convenient and efficient alternative. Fully digital KYC, which leverages AI and biometric verification, is increasingly popular in tech-savvy markets like India and Southeast Asia, reflecting a global shift toward more streamlined and secure customer verification methods.

KYC must be conducted before a company onboards a new customer, but it should also continue throughout the business relationship. This is because the purpose of KYC is to know who their customer is, which includes verifying their identity and financial activities, as well as assessing the risk they pose.

Although KYC is a compliance requirement for many industries, it is a crucial process for financial services, as this sector poses a heightened risk of money laundering due to the facilitation of large financial transactions.

A key part of KYC is the collection of documents that prove the identity of the customer and their proof of address. Nowadays, many of these checks are carried out electronically rather than physically in a branch – this is known as eKYC. KYC applies to any relationship between a customer and a company. Know Your Business (KYB) refers to a business relationship between two companies, which requires additional checks to verify the authenticity of the company, and the key persons and beneficial owners.

## The importance of KYC in banking.

The KYC process is crucial in all situations where customers are involved in financial activities. Verifying a new customer's identity and assessing potential risks helps banks establish trust in a customer profile, allows the bank to understand the nature of customer activities and provides protection from losses and fraud. Money laundering, in particular, remains a global problem that requires rigorous measures to combat effectively.

According to the United Nations, money laundering accounts for **2-5% of global GDP (about US\$800 billion to US\$2 trillion)** and banks have a major role in protecting against it. Criminal activity in this sector can affect the financial institution involved, customers, and wider markets and economies. Identity fraud can also cause serious financial harm. For example, in the United States, **\$16.1 billion in losses** was attributed to identity theft in 2021.

Money laundering  
accounts for

**2 to 5%**

of global GDP

(about US\$800 billion to US\$2 trillion).

Mitigating fraud isn't the only reason why KYC is important. Banks that fail to comply with AML requirements are also liable for AML fines. In 2023, financial institutions paid out a whopping **\$6.6 billion in fines globally** for non-compliance with Anti-Money Laundering (AML) regulations, which was a 57% global increase.

The banking sector is also facing pressure from the sharp increase in volume of digital transactions, with more people banking online now than ever before. According to McKinsey & Company, **73% of the world's interactions with banks** now take place through digital channels. The days of visiting a bank to inquire about services or make a transaction are quickly coming to an end. Customers are now unwilling to visit brick-and-mortar bank branches, even if they could. In the UK, almost three-fifths of its bank network have closed since 2015. Numbers that are reflected elsewhere in the world.



**UK**

**86%** of adults use online banking or remote banking.



**GERMANY**

**84%** use online or mobile banking to carry out essential bank transactions.



**FRANCE**

**96%** of people actively use their online banking services.



KYC needn't be seen as a tick-box exercise that must be performed. The banking sector should see KYC as a valuable competitive differentiator; to not only reassure new customers that you take their business seriously, but existing customers that your bank is a safe and secure place to transact.

Offering a safe and secure KYC process doesn't mean it needs to be slow and cumbersome, it can be intuitive and be customized according to customer preference. In 2024 and beyond, as industries undergo their digital transformation, KYC will continue to become even more important.



**Rayissa Armata**

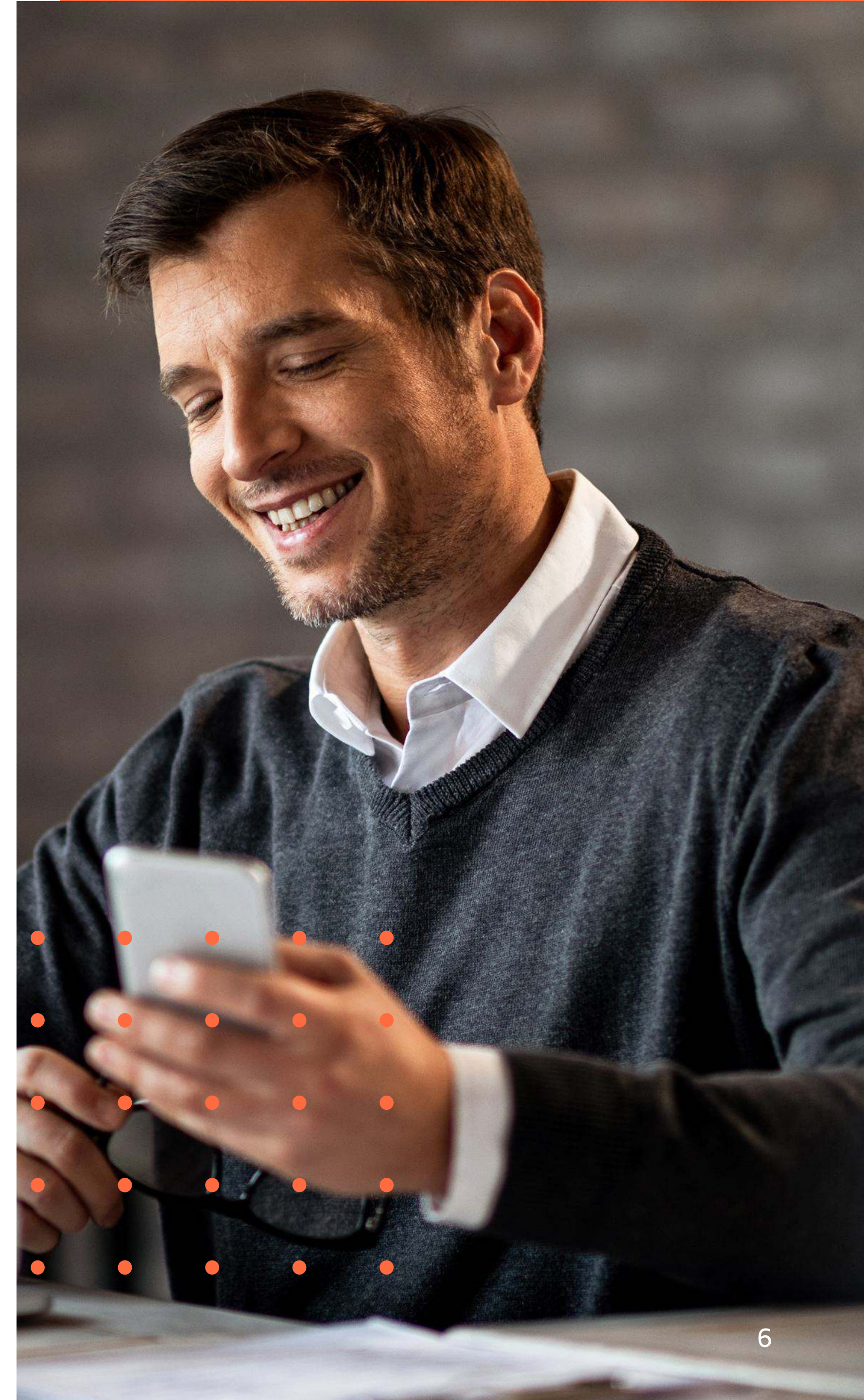
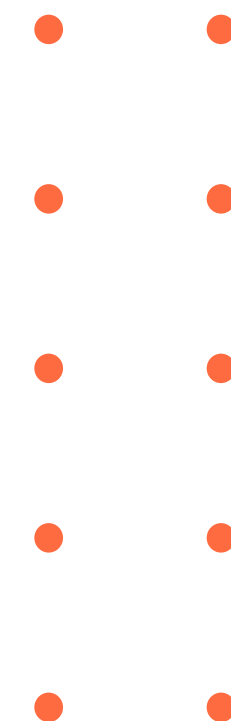
Director of Global  
Regulatory Affairs at  
IDnow

# KYC & regulations.

## The regulatory impact on KYC processes.

KYC processes have evolved significantly over the last decade thanks largely to a dynamic regulatory framework. These developments were mainly initiated at the European level and then transposed to the national level. AML laws have also gradually imposed standards applicable to KYC. There are six versions of the Anti-Money Laundering Directive, each of which was developed and released in response to political and societal issues surrounding money laundering and the latest fraud techniques.

Following the terrorist attacks that occurred in Europe between 2015 and 2016, the [5th Anti-Money Laundering Directive \(5AMLD\)](#) was established to respond to new emerging trends in terrorist financing.



Amending the 4th Anti-Money Laundering Directive (4AMLD), 5AMLD strengthened the already existing provisions of the previous directive and developed requirements concerning ultimate beneficiaries, **Politically Exposed Persons** or risky transactions. Conditions were extended to transactions involving virtual currencies and prepaid cards, marking a significant step forward in the fight against money laundering in the digital age. 5AMLD also focused on improving intelligence exchanges between the Financial Intelligence Units (FIUs) of its member countries.

While the banking sector and insurance companies are the main industries that are required to perform KYC, so-called non-financial companies are also included. For example, gambling platforms, real estate agents, art dealers, cryptocurrency platforms and sellers of luxury jewelry and precious metals.

Although not specifically designed for KYC, it is also important to consider the General Data Protection Regulation (GDPR) restrictions and requirements. This directly influences the way customer data is managed and requires companies to ensure that personal information collected for KYC is handled in accordance with the principles of privacy and data security.

Companies that do not comply with a country's KYC obligations not only risk reputational harm and the potential loss of licenses but are also subject to heavy penalties from their national supervisory authority.



## Regulatory updates in Europe and the UK.

AML, Combating the Financing of Terrorism (CFT) and KYC regulations are constantly evolving. Each new directive and legislative proposal aim to improve existing measures and adapt regulations to new technological and financial realities.

AMLD6, the latest AML directive, came into force in December 2020. Specifically, it introduced an expanded definition of money laundering offenses to encompass acts such as tax evasion, corruption and cybercrime. It also reinforces sanctions for companies and individuals who have not complied with their KYC obligations, along with strengthening international cooperation between FIUs in member countries to facilitate investigative work.



In July 2021, the European Commission presented a package of legislative proposals to strengthen the EU's AML/CFT rules. Among them was the creation of **the MiCA regulation** (adopted in 2023), which aims to make crypto-asset transfers more transparent as well as AML requirements applicable to the crypto sector.

In May 2024, the European Council adopted **a new set of AML/CFT rules** to harmonize all AML/CFT provisions within a single regulation. The list of entities subject to AML/CFT rules was expanded to include luxury goods dealers, as well as football clubs and agents.

To reduce identity theft, France introduced a **PVID standard** in March 2021, requiring identity verification providers and KYC providers to offer a certified service that is equivalent to face-to-face.



The PVID-standard goal was developed to add due diligence measures to the remote identity verification process to ensure financial and banking institutions comply with 5AMLD by using robust and effective ANSSI-certified solutions. Key to becoming certified as a PVID-standard provider is offering reliable identity verification equivalent to face-to-face experience or a high level of assurance of identity theft prevention.

Although not technically required to follow EU's rules and regulations (e.g AMLD), the UK has similar regulations to Europe, enacted via the [Proceeds of Crime Act 2002](#) and the Electronic Identification and Trust Services for Electronic Transactions Regulations (2019). In March 2024, His Majesty's Treasury launched a consultation focused on improving the effectiveness of UK's Money Laundering Regulations (MLRs), particularly when using digital identity.

## Regulation and cryptocurrency: MiCA regulation.

The **MiCA** (Markets in Crypto-Assets) regulation is a legislative initiative of the European Union to regulate the market for crypto assets and create a harmonized legal framework for member states. Introduced in September 2020 and adopted in 2023, MiCA is aimed at different players in the crypto-asset industry, including token issuers, crypto-asset service providers and investors. Its objective is to ensure consumer protection, while ensuring better competitiveness and innovation in the sector.

# Country/Product Matrix\*

A comprehensive overview of the banking regulator-approved digital KYC process by country.

\*based on current research with a trend seen toward more automated solutions either with QES or automated with manual review and video recording of ID or liveness

1. Usage of NemID for verification
2. Usage of BankID for verification
3. AI allowed if a selfie for document matching is provided
4. Usage currently under review by authorities
5. AI allowed if an additional check by an agent after the verification is included in the process

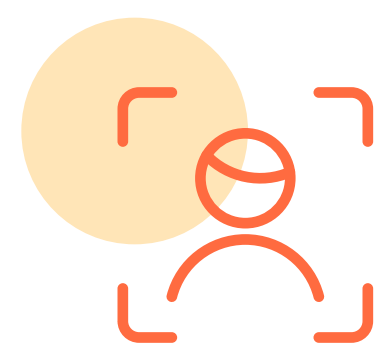
Country	Agent-based verification	AI-based verification	Qualified Electronic Signature
Austria	✓	✓(NFC)	✓
Belgium	✓	✓	✓
Bulgaria	✓	✓(w/liveness)	✓
Croatia	✓		✓
Cyprus	✓	✓(w/liveness)	✓
Czech Republic	✓	✓	✓
Denmark	✓	n/a <sup>1</sup>	✓
Estonia	✓	✓(w/database check)	✓
Finland	n/a <sup>2</sup>	n/a <sup>2</sup>	✓
France	✓	✓ <sup>5</sup>	✓
Germany	✓	✓(eID)	✓
Greece	✓	✓	✓
Hungary	✓	✓	✓
Iceland	✓	✓	✓
Ireland	✓	✓	✓
Italy	✓	✓	✓
Latvia	✓	✓ <sup>3</sup>	✓
Liechtenstein	✓	✓	✓
Lithuania	✓	✓(plus 1ct transfer)	✓
Luxembourg	✓	✓(w/liveness)	✓
Malta	✓	✓(w/ supplementary safeguards)	✓
Monaco	✓	Unknown	
Netherlands	✓	✓	✓
Norway	n/a <sup>2</sup>	n/a <sup>2</sup>	✓
Poland	✓	✓	✓
Portugal	✓	✓ <sup>5</sup>	✓
Romania	✓	✓	✓
Slovakia	✓	✓(1ct transfer)	✓
Slovenia	✓	tbc <sup>4</sup>	✓
Spain	✓	✓ <sup>5</sup>	✓
Sweden	n/a <sup>2</sup>	n/a <sup>2</sup>	✓
Switzerland	✓	✓(NFC)	✓
Turkey	✓		
UAE	✓	✓	
United Kingdom	✓	✓	✓

# The KYC process explained.

## What does the KYC process involve?

AML regulations specify what must be included in the KYC process. However, the technical implementation of this process is left to the financial institutions. In general, the KYC process consists of three main steps, or components.

They are:



**Identity verification**, or the Customer Identification Program. The first step in the KYC process is to verify that the customer is who they claim to be.



**Customer Due Diligence (CDD)**. This step aims to establish whether the financial institution can trust the customer. The fixed-term contract consists of assessing a client's risk level and determining whether they can be trusted. It also sets the frequency with which the client should be monitored.



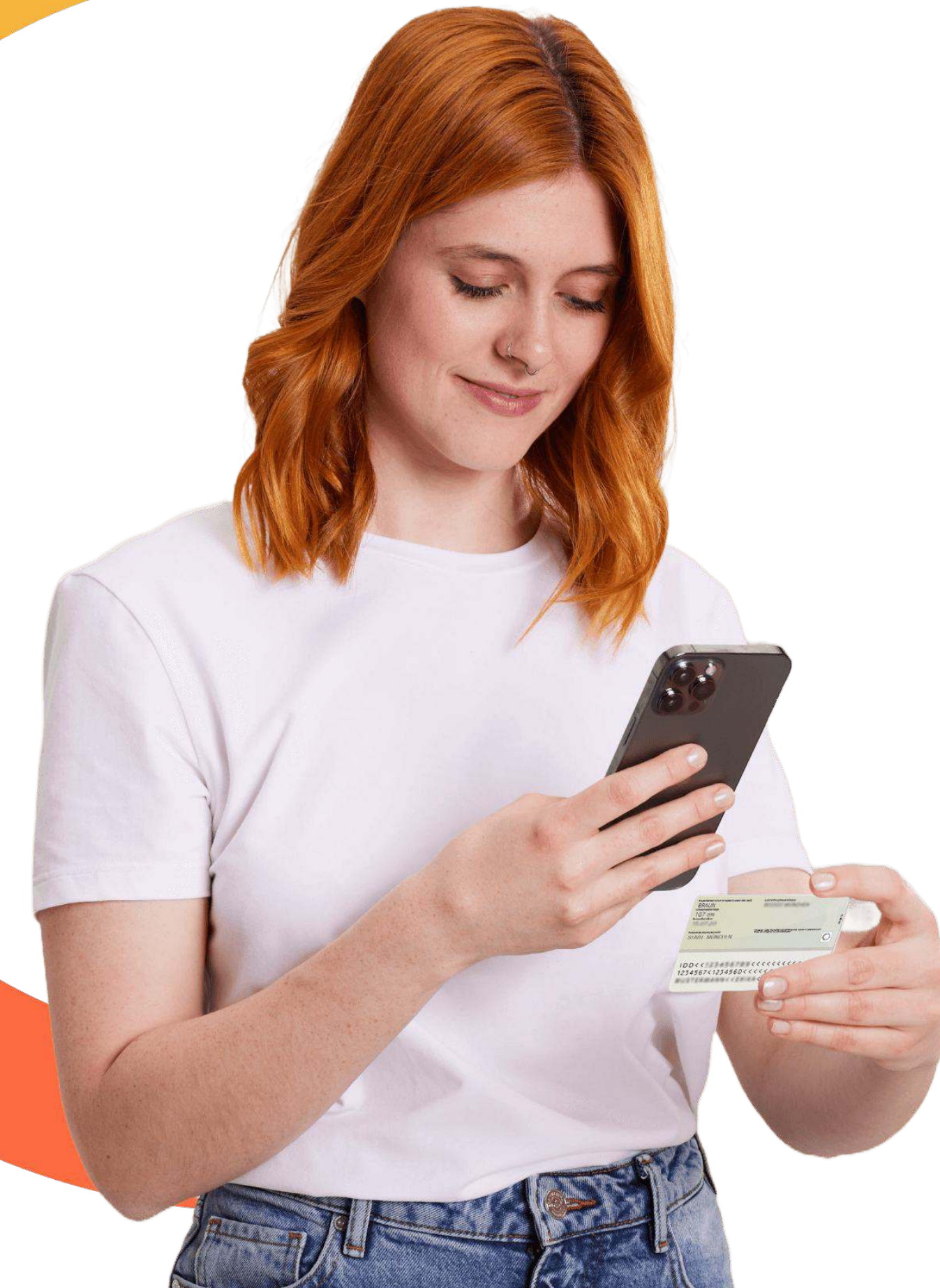
**Continuous monitoring**. KYC is not just about verifying new customers during onboarding. Financial institutions must have a permanent KYC program in place for ongoing checks and monitoring. This includes re-verifying customers' identities when they want to perform a certain action like opening an account, transferring money or requesting a service, alongside continuous monitoring. This step is undoubtedly the most relevant and vital today.

## How identity verification has evolved.

In the past, customer onboarding and identity verification was typically done in person at a bank branch. Customers would show physical identity documents and proof of address, and an employee would ensure validity of documents and that it matches the new customer.

These days, KYC is often carried out online. Identity documents are checked and verified in processes that are fully or partially automated, helping banks fight fraud attempts, stay compliant and meet the demand for an ever-increasing volume of identity verification and KYC checks.

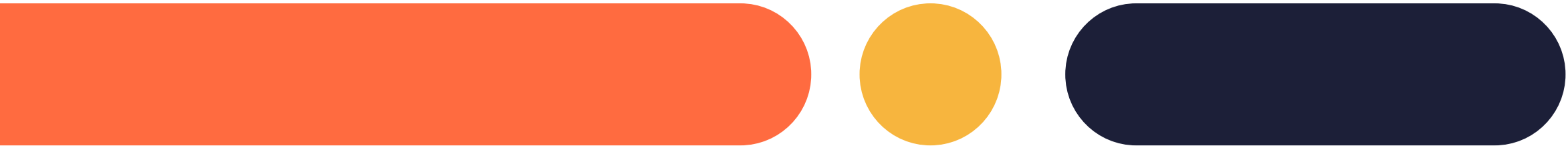
Automated identity verification products like **Autolent** allow for full document verification, as well as likeness checks between the photo on the ID document and the user. To comply with rigorous regulations like PVID, manual reviews can be performed alongside automated identity checks for a powerful hybrid combination of human expertise and artificial intelligence.



As required by regulation, these checks continue throughout the customer relationship to meet the company's CDD requirements.

Customer risk assessment is specific to the bank and based on its own policies. Risks may vary from one individual to another, with some users deemed a higher risk than others. Depending on risk level, customers may be required to submit more information.

The image is a composite of four distinct UI elements. At the top left is a circular profile picture of a woman with curly hair. To its right is a 'Document verification' section featuring a circular refresh icon. Below these is an 'Open an account' form with fields for 'Email', 'Nome', and 'Password'. The password field includes a strength indicator: 'At least 8 characters, 1 uppercase letter, 1 number, 1 symbol'. A 'Sign up' button is positioned below the form. To the right of the form are two notification boxes: 'Debt collection records' and 'Data backup in progress', each with a close button. At the bottom right is a credit card mockup showing the Mastercard logo, the number '1244 1234 1345 3255', the name 'Yessie', and the expiration date '02/25'. A grid of black dots is visible in the background on the right side.

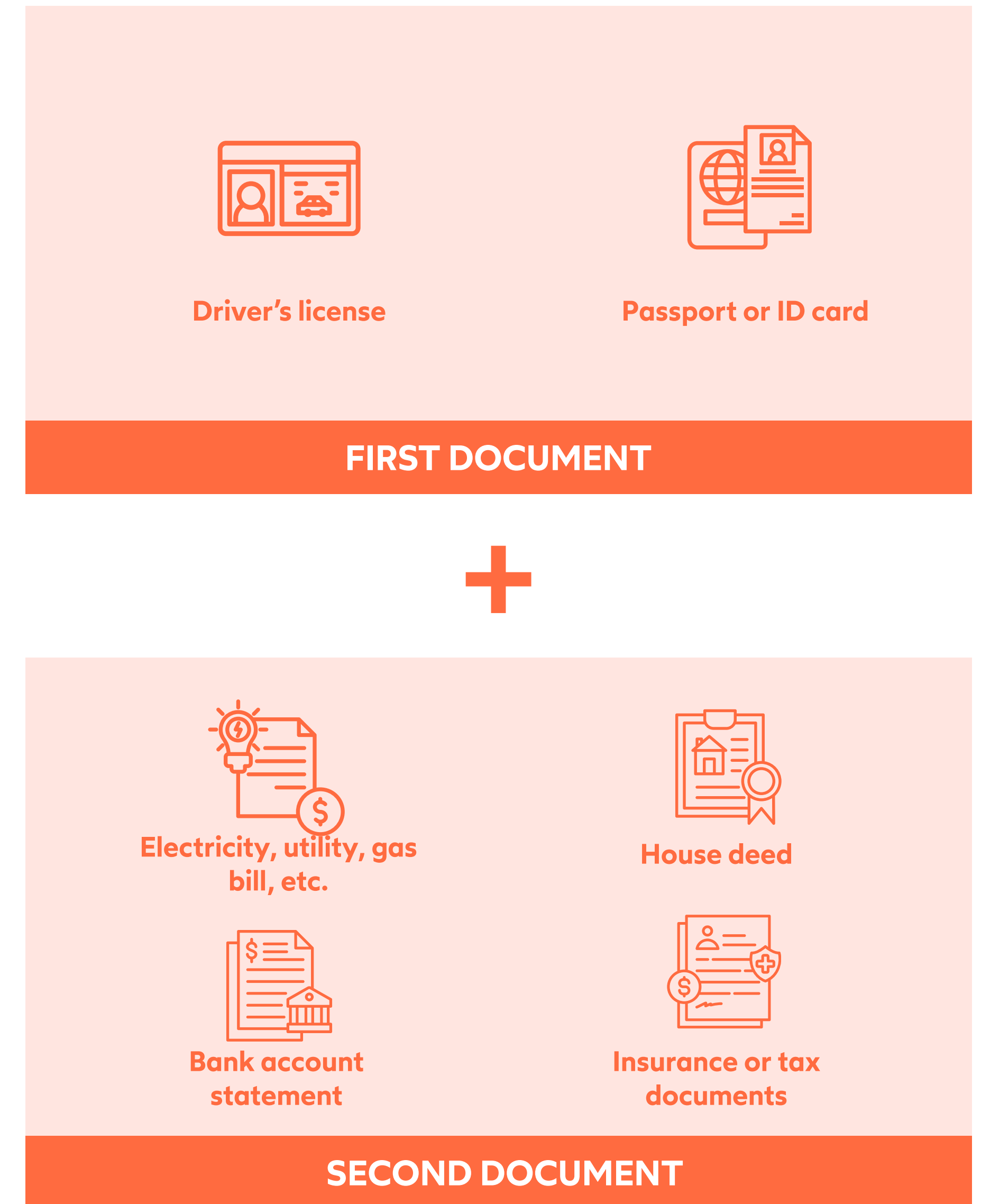


## Types of documents analyzed.

KYC requires two documents to be submitted to open a bank account or access a service. The first is an identity document with a photo of the applicant and can be any one of the following: driver's license, passport, residence permit or identity card. Accepted documents and information can vary between countries and users.

The second document required is proof of address. Acceptable forms may include: a utility bill (electricity, gas, etc.), bank details, deed, rental agreement, insurance or tax documents.

Other documents can also be checked, such as a certificate of employment and/or income. However, since most of these credentials are linked, a KYC solution can cross-check data to verify the customer's identity. It is up to the bank to decide which documents it wants its customers to provide.



## The importance of customer engagement, experience and expectations.

While it is mandatory to comply with regulations, the customer experience should not be neglected. The old adage that "the customer is king" remains true, especially when banks move services online.

Organizations with effective customer experience see an increase of **92% in customer loyalty**. In this regard, customers can be a major driving force behind a bank's success or failure. There are various things to consider when designing the ideal KYC customer journey.

Firstly, are customer expectations. Proficiency and experience with different identification methods varies by country. French residents are more accustomed to online identification than Italian residents, for example. It is also important to consider customer service availability.

In some southern European countries, users may be active at night and want to sign up and transact at that time, while further north, it's more likely to be earlier in the day. This is why it is necessary to provide a real-time 24/7 service, accessible at any time and from any location.

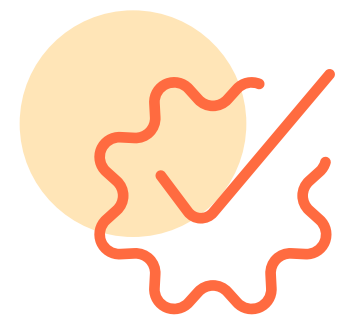
Customer engagement is also very important. As the public are already used to fast and frictionless buying processes and hyper-personalized interactions in other areas of their digital daily life, they expect the same from their bank.

Users expect to be able to sign up for a product or service quickly, and delays in this area may make them lose interest. As there is now a wealth of choice for customers and bank loyalty may no longer be rewarded, the onboarding and verification process is a vital opportunity that can lead to higher conversion rates.

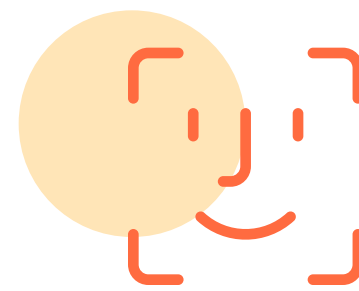
## The benefits of KYC in banking.

The main goal of the KYC process is to prevent criminal activity. This helps to protect the bank, its customers and the wider financial markets from fraud and other financial crime. This goes some way to explaining why regulations are so strict.

However, there are other reasons to comply with KYC, including:



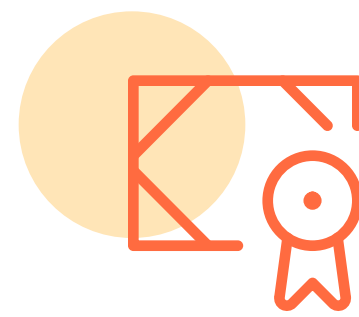
**Cost efficient:** Good KYC processes can help businesses increase their conversion rates and reduce the costs of manual processing.



**Improve the customer experience:** When properly implemented, the KYC process helps avoid friction between the company and the user by granting instant access after verification.



**Build trust in the organization:** While the checks and requirements can be onerous, customers want to see that their bank is taking the issue seriously. Compliance establishes credibility.



**Meet legal requirements:** As complying with regulations is a legal responsibility, non-compliance can result in hefty fines and lawsuits. Apart from the monetary impact, non-compliance can also damage the company's reputation.

# IDnow's product portfolio.

## How do IDnow products help with KYC?

IDnow has been a global leader in the identity verification industry since 2014. During this period, the financial sector has seen many major changes, especially regarding KYC.

IDnow offers a range of products, from automated to expert-led, to support initial customer onboarding, identity and address verification, as well as ongoing KYC and identity verification checks.

As international compliance is a key consideration for banks, especially when scaling, IDnow's products comply with relevant regulations in multiple countries.

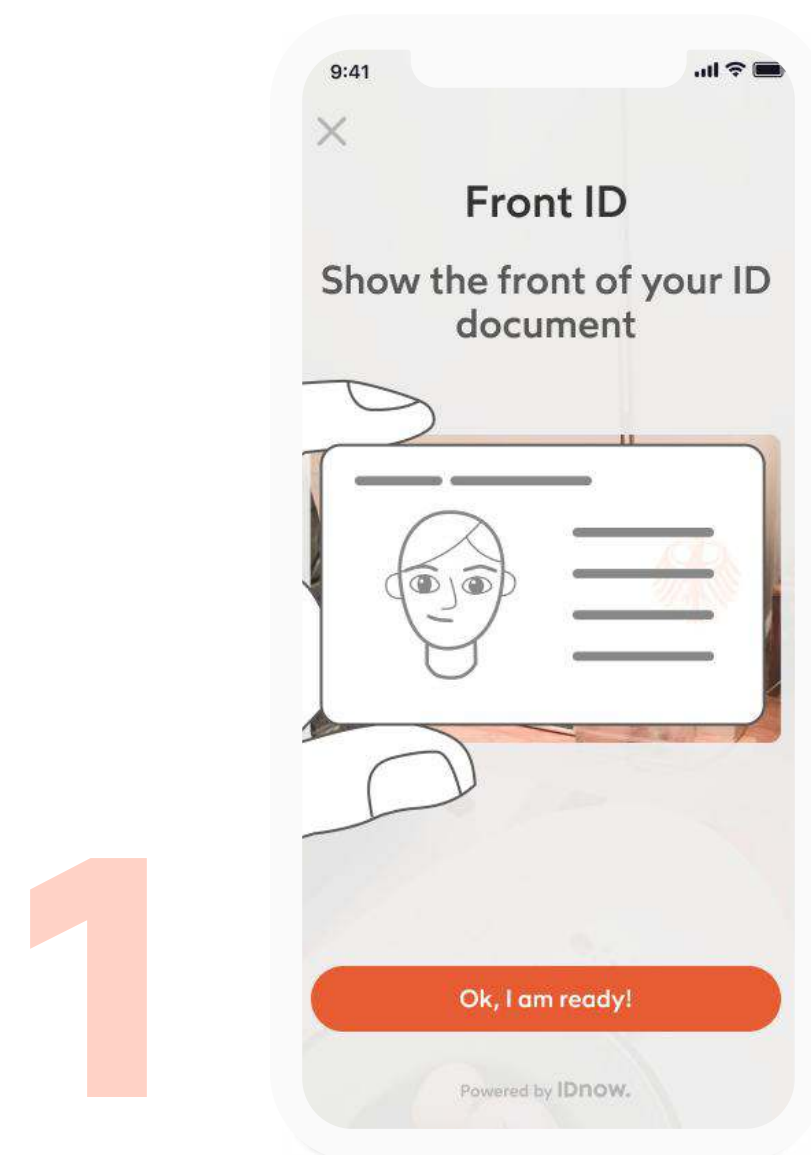
While the trend toward fully automated verification checks is well established, IDnow also offers additional manual reviews alongside automated identity checks for a powerful hybrid combination of human expertise and artificial intelligence to meet PVID requirements in the French market, for example.

Trust is earned and maintained through the implementation and ongoing use of a reliable KYC process.

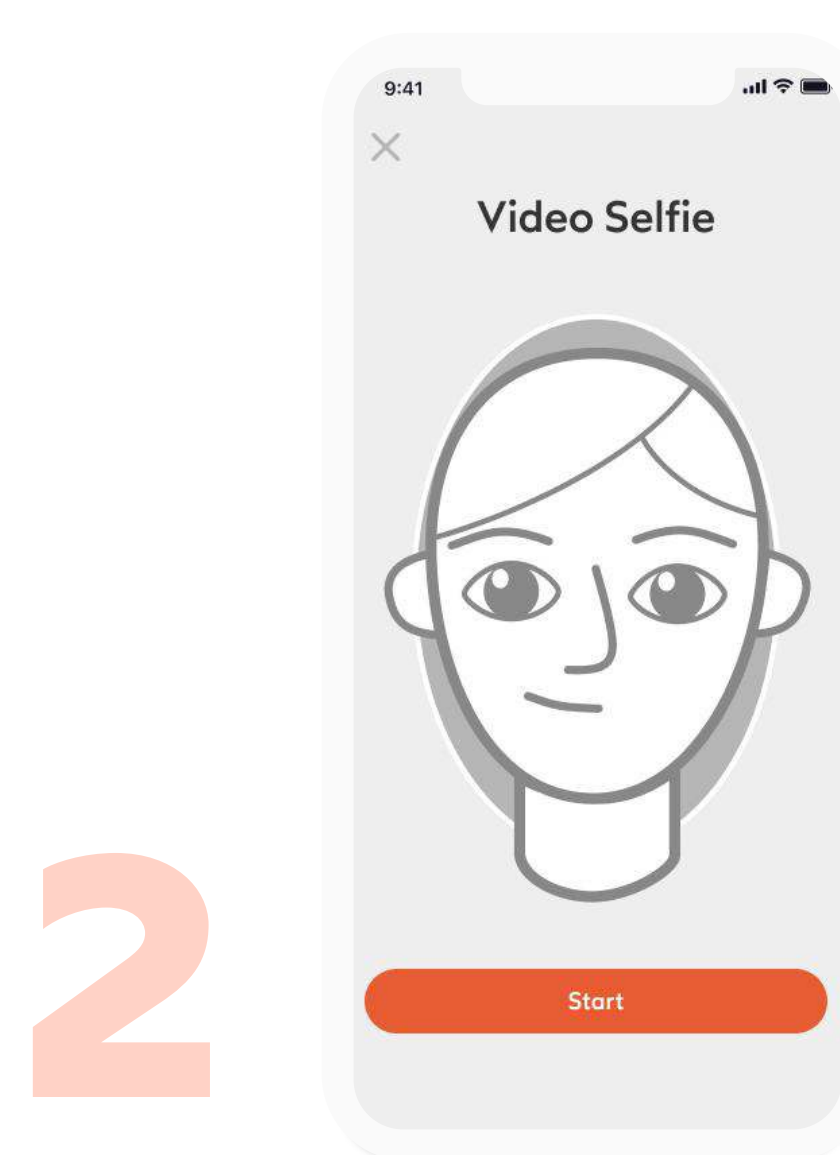


## How does it work?

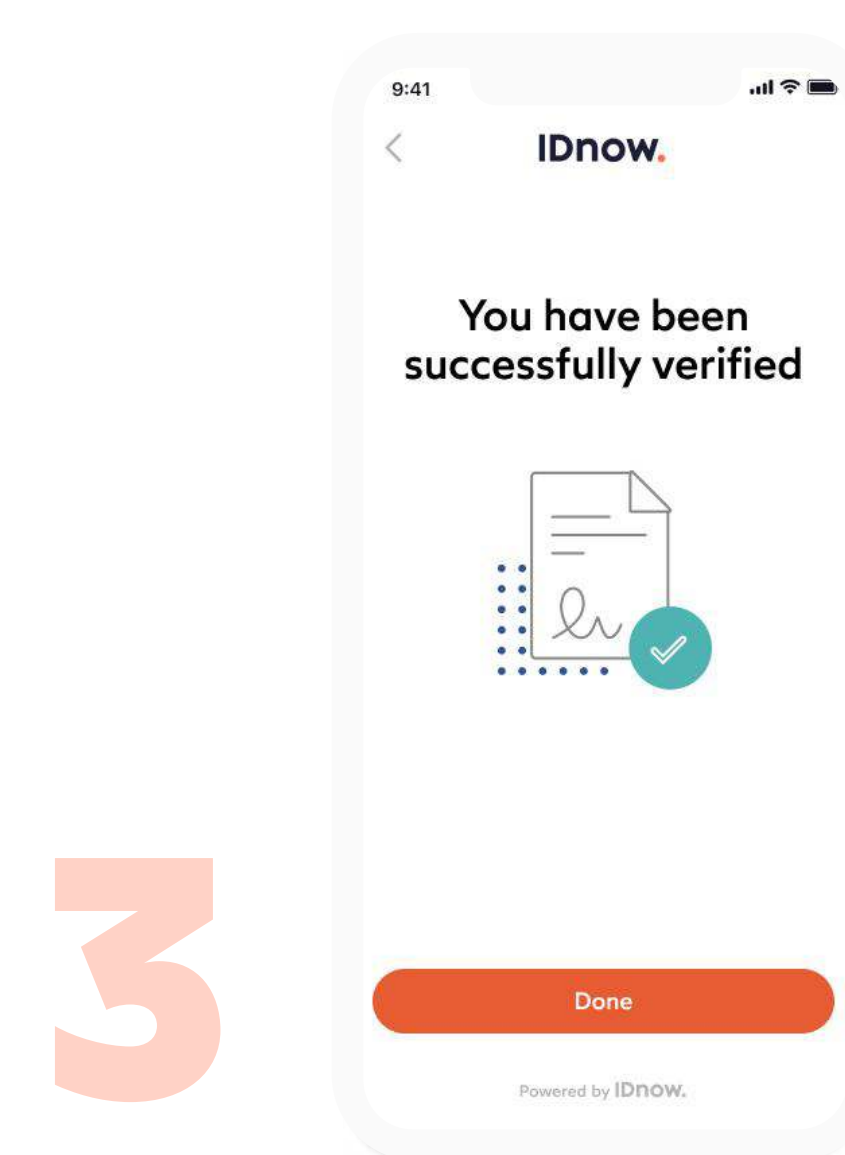
From ID document scans to full identity checks, IDnow offers a range of automated services, including [Autoident](#) and [IDCheck.io](#), to ensure a smooth and instant customer experience. User onboarding is automated, fraud is detected, and services are fully compliant with KYC and AML/CFT standards.



**Document capture:** Our web or mobile SDK enables high-quality dynamic scanning for ID document capture, while providing excellent user experience.



**Biometric capture:** Our biometric tools enable users to take a selfie or facial recognition video to verify their identity and that it matches the submitted document.



**Automated and/or manual data verification:** Our fully automated document verification API extracts and verifies data in less than 12 seconds. In addition, a team of fraud experts can check documents manually.

## IDnow in action.

# Ma French Bank chooses IDnow to boost its digital objectives.

Founded in 2019, Ma French Bank is a 100% online bank subsidiary of La Banque Postale.

In order to meet AML/CFT requirements, while offering an efficient and, above all, frictionless and compliant digital onboarding process, Ma French Bank integrated IDnow's automated identity verification solution, IDCheck.io in 2020.

### 1

#### Why?

Ma French Bank contacted IDnow to help it offer efficient and compliant online customer onboarding.

### 2

#### How:



Capturing customers' identity documents



Biometric scan of document holders



Real-time verdict on the authenticity of documents and physical presence of the person during the verification process

### 3

#### Results:



Improved conversion rate



Decrease in abandonment rate



2x faster processing time

# FAQ

## What types of documents do banks typically require for KYC?

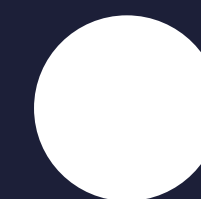
In most cases, KYC processes require a government-issued ID (such as a passport or ID card) and proof of address (such as a utility bill or a recent bank statement).

## How does the KYC process contribute to the fight against money laundering?

KYC helps prevent money laundering by requiring banks to verify the identity of their customers and monitor their transactions for suspicious activity. By having a better knowledge of their customers, banks can quickly identify and report any abnormal or potentially illegal transactions to their supervisory authority.

## What are the consequences if a bank does not comply with KYC requirements?

Any bank that fails to follow European KYC regulations is subject to heavy penalties, significant fines or loss of operating licenses. It can also cause reputational harm. Additionally, any bank facilitating illegal activities could be liable to investigations by judicial authorities and criminal prosecution.



## How is the KYC process evolving with the adoption of new technologies?

Banks are now using tools like artificial intelligence and biometric checks to improve the efficiency and accuracy of KYC checks. This allows for faster and more secure customer identification, reducing fraud risks and compliance costs.

## What are the main challenges banks face when implementing KYC processes?

Common challenges include managing large amounts of data, protecting customer privacy, complying with current regulations (e.g. 6AMLD) and detecting sophisticated fraud attacks. Maintaining the balance between rigorous verification and a smooth customer experience is often a major challenge for banks.





Over **900 clients**  
around the globe



Team of  
**450+**



**+100M** identifications  
per year

# Want to know more?

Get in touch with us at  
[sales@idnow.io](mailto:sales@idnow.io)  
[www.idnow.io](http://www.idnow.io)

**IDnow GmbH HQ**  
Auenstraße 100  
80469 Munich, Germany

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