

# KYC

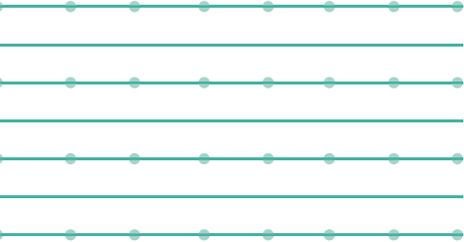
HOW TO EMBRACE DIGITAL KYC PROCESSES  
AS A LUXEMBOURG-REGULATED INSTITUTION



**FINOLOGEE**  
DIGITAL FINANCE



# HOW TO EMBRACE DIGITAL KYC PROCESSES AS A LUXEMBOURG- REGULATED INSTITUTION



Established banks are finding the competition increasingly tough these days as they face up to a wave of scrappy young challengers. New digital banks are entering the market all the time, and the most successful are proving a real threat to the dominance of traditional banking institutions.

Whether we are talking about first movers such as N26 and Revolut, which are building international reach, or fast-moving newer followers including Monzo and Bunq, the emergence of digitally-focused banks has brought much greater choice and flexibility to consumers - not least thanks to their customer-centric approach and enhanced user experience.

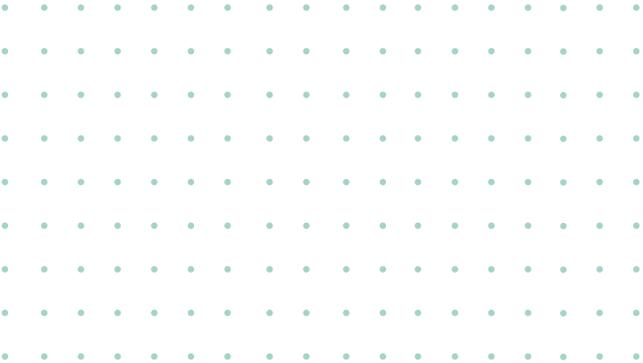
Coupled with a historical decline of trust in established institutions, in part down to taxpayer bailouts during the global financial crisis, but also the impact of social media on consumer attitudes, the result is that neobanks are claiming millions of new customers at the expense of high street banks. The argument often used by established traditional banks that neobanks are just cash burning and/or cash negative institutions is not valid anymore, e.g. N26 breaking even and becoming a profitable company.

There's also the threat that big tech companies such as Google, Apple, Facebook and Amazon, with their databases of hundreds of millions of users, could soon start flexing their muscle more seriously in financial services markets. These players are already making inroads into areas such as payment services, with groups such as Amazon and Alipay holding EU e-money institution licences from the Luxembourg Ministry of Finance.

In the past, compliance issues have been a significant barrier to entry for financial technology providers large and small, but today their technical capabilities have largely overcome this hurdle, allowing their enhanced user experience to develop as a competitive advantage.



# DRAWING ON APIs



However, the battle is far from lost for incumbent financial institutions. Just as new fintech firms have harnessed digitalisation, so too can their established rivals. Using application programming interfaces (“APIs”), traditional players can outsource processes that once required costly and not always efficient direct human involvement.

In their early days, new generation online banks Revolut and N26 outsourced customer identification procedures to digital platforms such as Onfido and IDnow. This remains the default strategy for non-digital specialists. For pure player digital banks and large retail banks, thanks to the industry’s embrace of APIs, they can draw on a vast number of modules, services and programmes using APIs instead of outsourcing the full process to specialist platforms.

Just for KYC due diligence checks, providers such as Docusign and Luxtrust are enabling institutions to retrieve and authenticate customers’ digital signatures efficiently and cost-effectively. Shufti Pro and AriadNEXT are doing the same for ID documents.

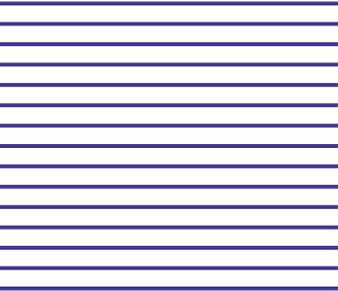
But from a digital transformation perspective, the use of these tools are only the beginning, because digital transformation is enabling banks to change their operating models and fundamentally rethink the services they provide. Take the example of N26, with its banking-as-a-platform approach creating an ecosystem of providers of complementary services, such as TransferWise for currency transfers, Raisin for saving accounts, vaamo for investment solutions and Schufa for credit score calculations.

Another model is called banking-as-a-service, with Uber’s relationship with BBVA as a prominent example. The integration of BBVA’s API-based services within Uber’s mobile app provides unbanked drivers with a digital account.

There is also the capabilities-as-a-service model of Singapore’s DBS, which has created an API platform open to developers, FinTech firms, traditional retailers and other financial service providers. The CaaS portal of Singapore’s DBS Bank offers more than 200 APIs that other banks or service providers can incorporate into their own operations. Then there are platform-only providers such as Solaris Bank, Railsbank and Wirecard - Goldman Sachs also aims to become a platform provider as part of its core strategy for the coming years.



# IS DIGITALISA- TION THE RIGHT APPROACH?



This broad range of models illustrates that neo-banks don't necessarily need a banking licence from the start if they can outsource key processes to high-quality external providers, making the barriers to market entry lower than ever.

Established institutions can exploit the opportunities too, for instance by digitising their KYC and other compliance processes. But first they need to ask whether digitalisation is the right strategy.

Existing players should determine the scope of the digitalisation process, asking themselves: Will you introduce digital KYC for all clients, only individuals, or only corporate entities? Will you digitalise the entire KYC process, or just parts of it? Digitising KYC processes requires a lot of effort, budget and time, which is why these questions should not be taken lightly.

Depending on an institution's specific business lines, focus and activities, certain kinds and degrees of digitalisation may make more sense than others. In retail banking, the need for human interaction is typically lower than in other areas - reflecting the amount of money and level of customer engagement involved - so digitalised KYC and onboarding processes are easier to introduce.

By contrast, private banking involving substantial wealth revolves more around regular face-to-face interaction and requires a heightened degree of trust, so digitised KYC may be less appropriate, although it may have a role to play for entry-level clients and certain types of processes, such as retrieving a digital copy of an ID document.



# PLANNING THE USER JOURNEY

Assuming that the economic drivers of your business are pushing you toward digital KYC processes, deciding exactly how to implement them is the next challenge.

## 1

### BENCHMARKING

You should closely follow and analyse what rivals and service providers are doing in terms of digital KYC - including neo-banks, but also intermediaries and catalysts such as mortgage brokers, especially since traditional banks in the mortgage loan market are potentially more exposed than others.

## 2

### CRAFTING YOUR STRATEGY

Crafting a clear strategy is essential. You'll need to determine exactly what you want from digital KYC procedures, which internal departments will be involved and if external services will be required to implement your plans.

# 3

## DESIGNING A USER JOURNEY THAT MEETS CLIENTS' EXPECTATIONS

You also need to plan a KYC user journey that will meet the expectations of your clients. This will require decisions on:

- Whether to pre-identify and pre-authenticate users
- Whether to use technical risk assessments of user behaviour
- Which data and information you'll need to collect and analyse
- Which identification methods will be used
- What kind of user consent will be necessary
- How sanction lists checks will be automated

# 4

## REVIEWING & CHALLENGING INTERNAL PROCEDURES

Once these questions have been settled, you should review and, if need be, rethink existing internal procedures that might facilitate or obstruct the ideal digital KYC procedure. This might entail reconsidering the institution's existing KYC policies, since some aspects may not be completely suitable for digitalisation.

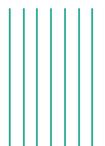
# 5

## IN-HOUSE, OR OUTSOURCE?

One of the most important decisions is whether to build a digital KYC system internally or to outsource. Only you understand your own budget and in-house capabilities - if these don't seem capable of providing digital KYC internally, it may be necessary to assess the offerings of the growing number of outsourced KYC service providers.

Digitalising KYC or any other process ultimately requires confirmation that a real business opportunity or requirement exists that can be achieved through digital means. It requires forensically breaking down the various needs to be met, working out how they can be met digitally, and deciding whether you would be better off conducting them externally or internally.

But it's important to remember that digitalisation should not only help your institution compete with digital native challengers, but improve and ease the KYC experience for your clients.





# THE CHECKLIST

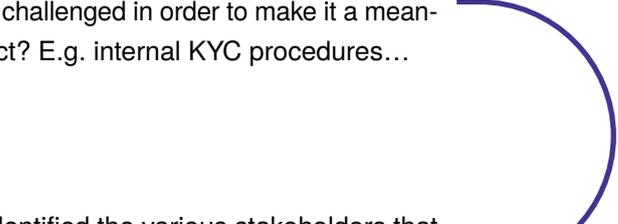
Here is a checklist to help you kickstart the process of digitising your KYC processes, such as customer onboarding or remediation:



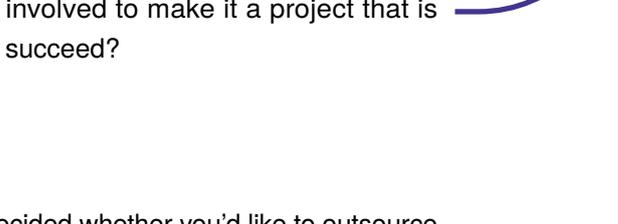
## TO BEGIN



Have you identified a real business need or opportunity that can be brought to life via its digitisation? E.g. resources saved internally, more efficient processes, higher customer reach, ...



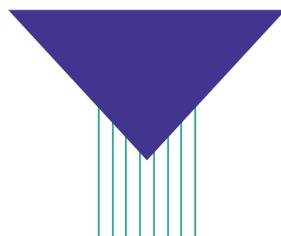
Have you analysed what aspects need to be reassessed and challenged in order to make it a meaningful project? E.g. internal KYC procedures...



Have you identified the various stakeholders that need to be involved to make it a project that is probable to succeed?



Have you decided whether you'd like to outsource the full project, carry out the project with the support of a third party, or do it all by yourself?



## YOU MIGHT FIND YOURSELF IN ONE OF THESE 3 SITUATIONS

### WORK WITH AN EXTERNAL TECHNICAL PROVIDER

- Have you identified providers that master all 3 essential areas, i.e. compliance, technical capabilities, and user experience?
- Have you compared various solutions and clarified all practical aspects when implementing digital KYC solutions with an external provider?
- Have you identified regulated providers to make sure you are compliant with the regulations that apply to you? (CSSF outsourcing circulars & EBA Guidelines on outsourcing)
- Do you want to rely on an external hosted platform or do you prefer to go for a system with components set up on premise (software solution)?

### DO IT YOURSELF WITH THE SUPPORT OF AN EXTERNAL ADVISOR (E.G. CONSULTANCY OR LAW FIRM)

- Have you defined the scope of the mission you need an external provider's support on?
- Have you identified providers that have the necessary experience and access to resources matching your specific needs?

### DO EVERYTHING BY YOURSELF

- Have you defined the scope of the project and feel confident about being able to complete it by yourself?

### EXTERNAL PROVIDER

- Have you decided whether you want to use only APIs or do you want the provider to build your full-fledged system?
- Have you made sure the external provider has completed its due diligence with 3rd party products it is offering?

### ON PREMISE DEPLOYMENT

- Is there any solution that meets your requirements (build or buy)?

IF NO, YOU NEED TO BUILD IT

IF YES

- Is this solution future proof, extensible and does the required (additional) effort to deploy it on premise make sense in your context?

## FOR BOTH OF THESE SITUATIONS, ASK YOURSELF THE FOLLOWING QUESTIONS

- Do you have the necessary resources confirmed by top-level management to complete the project in a timely manner and high quality?
- Have you made an extensive analysis on what API providers to choose to digitise your processes (e.g. Ariadnext, IDnow, Onfido, LuxTrust, DocuSign, ...)
- Are you entitled to and did you carry out a due diligence process to select those providers? CSSF Circulars, etc.
- Do you have the necessary in-house technical resources to test and integrate all chosen providers?
- Do you have the necessary user experience experts in-house to successfully keep users (prospects & clients) and their needs at the center of your digitisation project?



# KEY TAKEAWAYS

In a nutshell, here are the four essential recommendations we believe you should take into account:

# 1

It is essential to find the sweet spot between compliance, technical capabilities and user experience

# 2

Do not simply digitise current processes – you should completely rethink and challenge them, getting rid of redundant ones. Start from user needs and internal requirements and build-up.

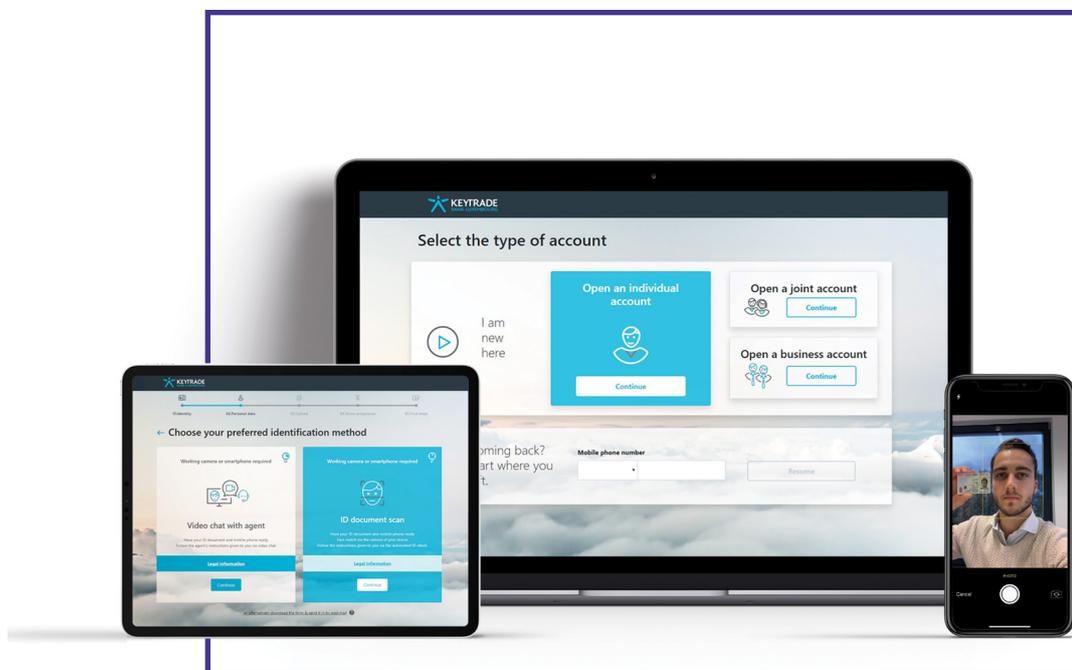
# 3

Define whether digitising your KYC processes will help you increase and enhance your business. Also determine in which areas it is a must-have and in which other areas it is a nice-to-have.

# 4

Make an educated assessment about whether you're able to build the digital KYC processes yourself in the timeline you want or need to abide by, or if you should consult an external party to outsource the digitalisation process.

# DIGITAL TRANSFORMATION IS A MINDSET CHANGE

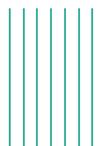


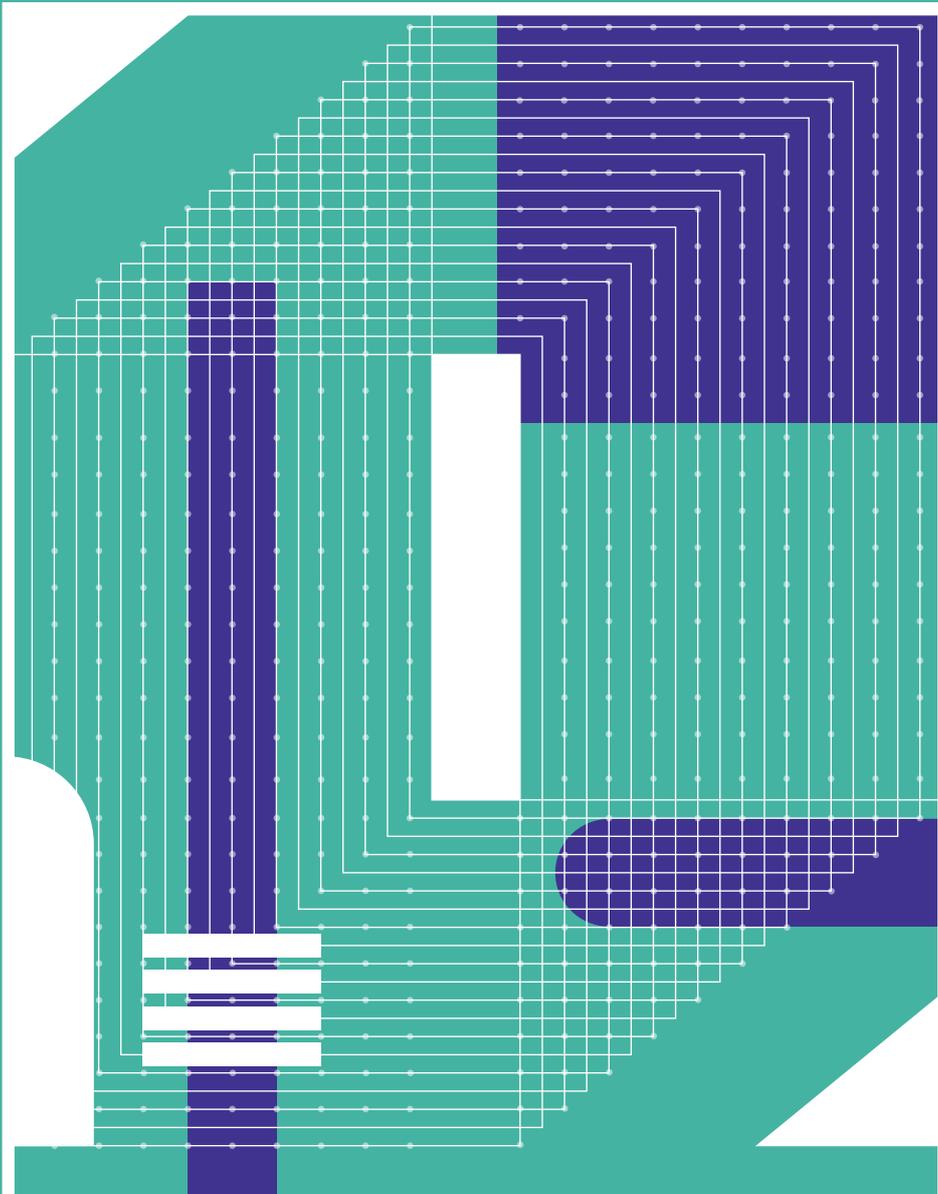
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Finologee implemented a **FULL DIGITAL ONBOARDING FOR KEYTRADE BANK LUXEMBOURG** and is currently working on a full-fledged KYC back office tool.

For more information,  
please contact our team visiting

[WWW.FINOLOGEE.COM](http://WWW.FINOLOGEE.COM)





#### ABOUT US

Finologiee, a Luxembourg-based FinTech and RegTech specialist, offers a versatile and trusted platform that connects financial institutions with market-leading digital solutions, essentially serving as an “App” repository. Its institutional clients can easily source and implement features that have been verified by Finologiee, such as ID document validation, video chat, messaging, electronic signatures, access to bank accounts (PSD2) and KYC/Onboarding tools. Finologiee offers both its own applications developed in house as well as best-in-class FinTech products. Founded in 2017 by the entrepreneurs behind Digicash, the Luxembourg banks’ mobile payment system, Finologiee already serves more than 33 banks and institutional clients. Finologiee is regulated by the Commission de Surveillance du Secteur Financier (CSSF) as a Professional of the Financial Sector (“Support PFS”).



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