
A Guide to Optimizing Your KYB Process: The Pros and Cons of Building In-House, Single Partnerships, or Waterfalled Data

KYB refers to the legal and regulatory requirement that certain financial institutions must create a process to verify each business customer, verify that business's managers and owners, and potentially monitor and reassess the risk of that business over time. KYB can be a costly and time consuming process with elaborate verification requirements. Moreover, the rules are relatively new – KYB requirements were only established in 2016 – and are constantly being updated with new rules and guidance.

Amid this landscape, financial institutions (FIs) generally have three different options in meeting their KYB compliance and customer onboarding goals:

1. Handling the process fully in-house
2. Working with a single outsourced service and data provider
3. Waterfalling multiple data providers and orchestration platforms

Whether you're looking to optimize your process amid new legislation or build your process from the ground up, determining the best option depends on their level of risk as well as their overall business objectives.

Fully In-House

Many smaller FIs choose to build their KYB processes purely in house, instead of relying on a service or data provider that specializes in KYB. Internal KYB teams build processes and technology and hire staff to approve or deny businesses based on company policies and standards.

THE PROCESS

Invest

An FI uses their engineering team to build a bespoke technology product in-house or hires an operations or compliance team to manually approve businesses. Most invest in a combination of the two – a technology infrastructure layer and a manual team for performing verification.

Collect Identifying Information

As part of the customer identification program (CIP), FIs are required to collect certain information from business customers, including basic identifying information such as name, address, and Tax ID number (TIN). For legal entity business customers, FIs are also required to obtain information about beneficial owners and at least one control person. A beneficial owner for KYB is a natural person with at least a 25% ownership or voting stake in the business, whether they directly own that stake or through one or more other legal entities. Because the goal of identifying beneficial owners ultimately seeks to identify actual people, not more legal entities, the beneficial owners are sometimes also called ultimate beneficial owners (UBOs).

Verify Businesses

Internal teams and/or data infrastructure pull the data needed to verify the identity of the business customer, such as matching names, addresses, registrations, and other filing details from Secretary of State (SoS) filings, for a basic verification, and risky activities or financial information for a more sophisticated KYB process. The KYB process also runs businesses against Office of Foreign Assets Control (OFAC) watchlists to confirm they aren't engaging with parties subject to sanctions. Building in-house typically means that this verification is highly manual, and obtaining even public information such as state registrations can be tedious and time-consuming.

Verify Beneficial Owners

In addition to verifying and screening the business entity itself, FIs must also verify and screen the beneficial owners and control persons. The KYB process must also run those persons against the OFAC watchlists to confirm that these associated persons are also not subject to sanctions.

Monitor Businesses Over Time

The CDD Rule expects that KYB may need to be a continuous process, where FIs check and recheck information about the businesses they work with based on risk profile. In-house KYB requires that FIs invest in internal, bespoke methods of updating their customers' information and reverifying and rescreening businesses over time.

THE PROS

- **Control:** You know your team, your business, and your risk profile better than a third-party provider could. Building KYB in-house allows you to leverage this knowledge across every step of the process, and deeply customize a solution for your needs.
- **Good for simple KYB processes:** If you have a simple product with a limited risk profile and only need to verify a small number of customers to meet your KYB needs, then building in-house could make sense. You can avoid a high initial cost from setting up a partnership with a provider, as well as build a process that manually verifies businesses relatively easily.

THE CONS

- **Lack of expertise:** Often organizations building KYB processes in-house may rely on talent with less specialized KYB knowledge. You may be building KYB infrastructure with a team of engineers lacking a compliance background, for example.
- **Limited auto-approval coverage:** FIs typically develop less sophisticated technology to pull data, match data, and approve businesses with that data than a data provider who specializes in KYB and built their engineering team with that product functionality in mind. In turn, an FI's internal system will likely be highly manual and slower than a specialized system – and thus may lead to lost customers who use another, faster provider instead.
- **Costly:** Whether you dedicate an in-house engineering team to create an infrastructure for approvals (and data integration), rely on a large staff for manual approvals, or some combination of the two, there is a large overhead for internal KYB.
- **Time-consuming:** Alongside financial resources, an in-house KYB process takes more of an FI's own time to build and run. This operational investment can come at the expense of building and running traditional operations or better financial products at FIs.

In a recent [Enigma webinar](#), CEO of end-to-end KYB platform Detected, Liam Chennells said that while many FIs are often thinking of 100% automation as their “north star” – small improvement attempts across a KYB process can also make an impact.

Internal KYB make sense for FIs who can develop a semi-automated process that meets their compliance goals – however broader automation and using KYB for client growth and retention may require a partner.

Single outsourced service and data provider

Some FIs work with one outsourced service and data partner to either supplement a preexisting, in-house KYB process or to help build their business onboarding processes from the ground up.

THE PROCESS

Invest

An FI partners with a single service and data provider, usually paying the provider a setup fee as well as annual fees to license that provider's data to continually verify businesses over time. An FI's single provider typically handles auto-approvals – so an FI doesn't have to build an infrastructure in-house. FIs also invest resources into manual approval for businesses that can't be auto-verified. Some partner with a single provider who provides a manual verification service on top of auto-approvals, other FIs approve in-house.

Verify Businesses

The service and data provider auto-approves certain businesses and flags others for manual review. Businesses without an SoS filing; that have a mismatched address, name, or person; that conduct activities in high-risk industries like cannabis or adult entertainment, for example; or that may be a match to the OFAC list are all flagged. Businesses that aren't auto-approved are either manually approved in-house at the FI, or the provider offers a manual verification service for the FI (at an additional cost).

Verify UBOs

The service and data provider pulls the data needed to verify UBOs when present and runs UBOs against the OFAC list.

Monitor Businesses Over Time

In partnership, the FI and provider work together to update customer information and confirm business and UBO legitimacy over time. To do this, your vendor will check the status of SoS registrations periodically, re-screen for risky activities periodically, and re-screen against OFAC list periodically.

Establish Trust in External Provider

If FIs are concerned about moving beyond their own front door with their KYB solution, they may enact processes to monitor their data partner's accuracy such as taking a small sample of auto-approved businesses periodically to ensure that they're correctly auto-approved.

THE PROS

- **The middle path:** A single provider partnership can allow you to maintain some internal control while building a customized solution that works for you with just one dedicated partner.
- **Focus on core competencies:** By outsourcing the majority of your compliance needs to a third party, you can focus on your core services and strengths.
- **A tight partnership:** One service and data partnership allows you to work closely with just one team, learn to trust each other, and establish strong communication
- **Reduce overhead and costs:** With more auto-approvals, you can spend less time onboarding and onboard more clients. Companies using Enigma as their sole KYB provider are estimated to reduce KYB costs by 80%, for example.

THE CONS

- **The middle path:** With a single provider partnership you're losing out on the control you'd have by solely working in-house as well as the broader scope of data you'd have access to with multiple waterfalled data partners.
- **Onboarding:** With a new partner, you will have to spend time onboarding to a new platform and getting your team acquainted with new tech and new data.

Waterfalled data providers via orchestration platforms

Many FIs work with multiple data providers via an orchestration platform to meet their KYB compliance goals, “waterfalling” multiple datasets into their auto-approval process. Typically, an FI using multiple data sources does so with the help of a third-party data aggregation platform such as Alloy or Oscilar that integrates multiple data providers’ data into one singular KYB decisioning endpoint. The waterfall of data providers used by these platforms is usually based on both costs and approval times (e.g. latency), assuming the accuracy of all providers’ data is similar.

THE PROCESS

Invest

Invest in a third-party data aggregation platform that uses multiple sources for auto-approvals for FIs. Once again, FIs also have to find a solution for manual approval either in-house or with a partner.

Verify Businesses

The data platform auto-approves businesses and flags risky businesses, businesses without SoS matches, and businesses on the OFAC list. To do this, the platform attempts to verify identity using one data provider. If this provider can’t automatically match the business, it is then passed onto the next data provider (and so on and so forth). Typically, a multiple-provider platform will have higher match rates for auto-approvals and more data on risky activities. Businesses that aren’t auto-approved are then manually approved.

Verify UBOs

The data platform auto-approves UBOs, with the help of matched data from multiple data providers. KYB requirements allow FIs to trust self-reported UBO information from businesses, unless they have doubt it isn’t true. One area where an FI might have doubt, for example, is when an owner name is present in KYB data but is different from the owner name on the business application. Additionally, the data platform also screens UBOs on the OFAC list.

Monitor Businesses Over Time

In partnership, the FI and data platform work together to confirm business legitimacy over time. Once again, an FI’s waterfall data platform – with multiple data providers – will check the status of SoS registrations periodically, re-screen for risky activities periodically, and re-screen against the OFAC list periodically.

Establish Trust in External Provider

Similarly to FIs who partner with one provider, an FI waterfalling multiple sources can conduct checks on each of those individual sources monthly to confirm auto-approval legitimacy.

THE PROS

- **Maximum coverage:** The more data sources you incorporate into your KYB process, the more coverage you’ll have for auto-approvals of the businesses you’re working with.
- **Further reduced overhead and costs:** Like partnering with a single provider, data waterfalling allows you to auto-approve more businesses – and thus onboard more customers, more quickly. Waterfalling, however, multiplies these auto-approvals and savings. Enigma, for example, cuts costs an extra 50% for FIs already using a provider.
- **Adaptable:** Using a system built to incorporate multiple providers and accommodate changes to KYB legislation will help you adjust your KYB process as needed over time. You can easily incorporate new data sources as your needs or laws change.
- **Goes beyond KYB:** An upfront KYB check can also help with fraud checks, risk checks, and underwriting, and it could be long-term beneficial to set up infrastructure that enables the integration of different data sources to tackle different data needs

THE CONS

- **Multiple parties to work with:** When waterfalling multiple data sources, you’ll need to work to establish communication and trust with multiple providers. You’ll potentially lose control and customization as you incorporate more providers.
- **Overkill:** If you have relatively simple KYB needs that pull from only 1-2 data sources, you may not need a tag team of multiple data sources to meet your needs.

In the same [Enigma webinar](#), Heidi Hunter, CPO of identity verification data provider IDology praised the data waterfall process for “smaller organizations looking to move quickly into the [identity and KYB] space.” Hunter added, “layering those capabilities, you are able to get information from many different sources to give you a clearer view [and] drive ROI.”

How to Choose the Right KYB Process For You

The key to choosing the right solution for you is thinking through your organization's risk profile and your overall goals and needs.

Want absolute control over KYB? It might make sense to keep your process completely internal. Want to have a close partner to enhance the power of your data or solve more compliance requirements for you? It might make sense to partner with just one service and data provider for all your KYB needs. Want to maximize auto-approvals with the highest business coverage you can find? It might make sense to waterfall multiple providers into your process.

In conversation with Enigma, Alloy CPO Parilee Wang added that choosing the right solution now might not be the right solution in six months to a year given changing legislation and needs. "We're getting access to new types of data that can change how you make decisions," said Wang. "There are new vectors of fraud coming daily at this point. There are new technologies that folks can take advantage of. So the one thing I advocate for very strongly is the value of flexibility, and cheap flexibility."

If partnering with one data provider or waterfaling multiple providers seems like the right fit for you right now, Enigma KYB can help you jump-start or streamline your current KYB process.

Conclusion

Foundational KYB legislation is relatively new and continued legislation has been changing the KYB landscape – even as recently as the past few years. In 2022, for example, FinCEN established a registry requiring certain domestic and foreign corporations, limited liability companies (LLCs), and similar entities to file a report with the federal government identifying the entity's ultimate beneficial owner, to come into effect January 2024.

The obligations to know your customer expand beyond financial institutions. For instance, the INFORM Consumers Act, passed this year, requires online e-commerce platforms to engage in identity verification of high third party businesses on their platform.

The rapid evolution of legislation can make it difficult for financial institutions to keep up with their compliance requirements.

Amid this landscape, FIs can handle KYB in house, work with a single outsourced service and data provider, or waterfall multiple data providers and orchestration platforms. Choosing the right process requires weighing pros and cons with your institution's values and needs.

Get In Touch

Thinking Enigma might be a fit for your company or have further questions on optimizing your KYB process? [Get in touch](#).

About Enigma

Enigma provides comprehensive intelligence about the identity and financial health of small and medium businesses across the United States. By engineering better data from hundreds of public and third-party sources, Enigma tells the complete story of every business, so that companies of every size can access the financial services they need to grow and thrive.

Enigma KYB streamlines business onboarding workflows for compliance, risk, and product professionals. Benefit from extensive SoS filings coverage, high-risk activity classification, and OFAC screening. Cut KYB costs by up to 80%, accelerate auto-approvals, welcome more customers, and safeguard your brand's integrity.