
KYB Requirements Checklist

Know Your Business (KYB) refers to a financial institution's (FI's) duty to verify a company's and company owner's identity before doing business with them. The goal is to avoid working with any businesses involved in money laundering, fraud, or other financial crimes.

If you're a bank, fintech, online marketplace, or other FI working with other businesses it's critical to meet the CDD Rule's mandate to verify a business, verify that business's managers and owners, and monitor and track risk of that business over time.

Amid a rapidly changing legislative landscape, Enigma has put together a checklist of the data generally needed to meet KYB requirements – and the options you have to find and integrate that data into a comprehensive KYB process.

Collecting Your Data

To find, aggregate, and use this data to onboard customers you have three different options: handling the process fully in-house, working with an outsourced service and data provider, or waterfalling multiple providers.

Know Your Business

In order to verify the identity of a business, you'll need to collect:

- A business's name and aliases
- A business's addresses
- A business's proof of active registration
- Whether or not it conducts business in a high-risk activity
- Whether it exists on a watchlist

Know Your Owners

You also have to collect data on each Ultimate Beneficial Owner (UBO) – or anyone with more than a 25% stake in the company – and at least one person with significant managerial control. To do so, you'll need to collect:

- The owner's name, date of birth, address, and SSN/TIN
- Whether or not the owner is listed on crime or watch lists

In-House KYB

Many smaller FIs choose to take their KYB processes in house, instead of relying on a data provider or providers. Internal teams build processes and technology to approve or deny businesses based on these KYB standards. To build a process in-house you must:

Invest

An FI uses their engineering team to build an auto-approval infrastructure in-house or builds a team to manually approve businesses. Most invest in a combination of the two – an auto-approval infrastructure and a manual team for when that fails.

Verify Businesses

Internal teams and/or data infrastructure pull the data needed to verify businesses – name, addresses, registrations status, and other filing details from Secretary of State (SoS) filings, and more, especially for customers engaged in risky activities. Internal teams and/or data infrastructure also run businesses against the Office of Foreign Assets Control (OFAC) list to confirm they aren't engaging with parties subject to sanctions.

Verify UBOs

Internal teams and/or data infrastructure pull the data needed to verify UBOs. The FinCEN anti-money-laundering unit is currently working on establishing a database of UBOs in the future. However, currently, UBO info is sometimes present on the SoS filing and sometimes is not. Internal teams and/or data infrastructure also run UBOs against the Office of Foreign Assets Control (OFAC) list to confirm they aren't engaging with parties subject to sanctions.

Monitor Businesses Over Time

The CDD Rule mandates that KYB is a continuous process, where FIs check and recheck information about the businesses and UBOs they work with based on risk profile. In-house KYB requires that FIs invest in updating their customers' information and rechecking business legitimacy over time.

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. To build a process with a single partner you must:

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 auto-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 are matched 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 from SoS filings 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 every month to ensure that they're correctly auto-approved.

Waterfall Your Data Providers and Orchestration Platforms

Some 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. In order to build a waterfalled KYB process you must:

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 and one person with significant managerial control:

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 on an SoS filing 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.

Conclusion

To meet KYB requirements, you need a long list of data on the businesses you’re onboarding and the owners of those businesses. To find, aggregate, and use that data you can work in-house, work with one partner, or use multiple providers in a data waterfall.

Wondering about the pros and cons of each process or what might be the best fit for your company? Get in touch.

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.