Know-Your-Customer (KYC)

Research Notes

- KYC which stands for Know Your Customer, is a legal requirement for centralized exchanges to verify their users' identities. It is designed to ensure that their users do not use crypto to launder money, dodge income tax, or finance illegal activities.

- In a KYC process, It will need to verify the user's:

    - full name

    - residential address

    - date of birth ID

    - document confirming the above info

- Benefits of using KYC:

    - **Boosts compliance:** KYC is a legal requirement in crypto. Failure to do KYC due diligence can result in fines or even licensing issues linked to AML and CFT legislation.

    - **Reduces fraud:** Implementing KYC protocols prevents fraud of all types, as you learn more about your customers and can monitor or block anyone who appears to be high-risk.

    - **Increases trust:** Implementing robust KYC can increase consumer trust, as it demonstrates to your customers that you take their business seriously and follow the law.

- ○ **Protects your reputation:** Your crypto platform's reputation is similarly boosted and protected as you can demonstrate the solid steps you've taken to protect customers' assets and accounts.

- Some challenges include

  - ○ Fake IDs and Deep Fakes, which can act like a bypass to KYC process, however we can implement programs like Onfido, which has a software that is able to detect when someone uses a Fake ID or a Deep Fake video.

  - ○ Compliance Risks where if we fail to correctly implement KYC, we can face hefty fines.

  - ○ Balance of UX and Security, where we may face a few loss of customers if there is way too many obstacles to access our platform, instead of being easy and quick to access without any heavy verification processes like KYC.

Resources:

- https://seon.io/resources/kyc-in-crypto/#:~:text=Crypto%20KYC%20
- https://seon.io/resources/comparisons/best-kyc-software-tools/