## **Know Your Customer:**

Know Your Customer is a use in the investment and financial services world to verify customers and know their risks and financial situations. KYC is meant to protect financial institutions from fraud, corruption, money laundering, and terrorist financing. The three main components of KYC are customer identification program (CIP), customer due diligence (CDD), and enhanced due diligence (EDD) [3]

KYC refers to steps a financial institution takes to:

* Determine the identity of the client [2]
* Recognize the nature of the customer's operations (the main objective is to confirm the legitimacy of the customer's money source) [2]
* Evaluate the customer's money laundering risks so that you can keep an eye on their activity. [2]

Know Your Customer (KYC) procedures are essential for compliance and risk management initiatives to succeed. Banks and businesses are dedicating a significant amount of time and resources to fulfilling their regulatory duties related to anti-money laundering (AML) and KYC compliance as these requirements grow more strict. Standardized KYC criteria and internal process alignment are being pushed, but obstacles still need to be addressed. The KYC process has been improved by a number of international and local initiatives, but more aggressive and cooperative efforts are required to bring about significant change. [3]

**To create and run an effective KYC program the following is required:**

**Customer Identification Program**

Financial institutions must collect four specific pieces of identifying information from clients, namely their name, date of birth, address, and identification number, as mandated by CIP regulations [1]

* Due to the pervasive identity theft that affects millions of Americans and results in billions of dollars being stolen annually, identity verification is essential. [2]
* Legal obligations such as the global Financial Action Task Force (FATF) recommendations and the U.S. Customer Identification Program (CIP) mandate identity verification for financial institutions. [2]
* Accurate client identification through customized policies and risk assessments is the goal. In order to open an account, you must provide your name, date of birth, address, and identification number. [2]
* Methods of verification, including non-documentary procedures and document inspections, need to be carried out quickly. [2]

**Customer Due Diligence**

All of a customer's credentials are gathered as part of the CDD process in order to confirm their identification and assess their risk profile for any questionable account activity [1]

* Trusting potential clients is a primary concern for financial institutions, necessitating Customer Due Diligence (CDD) to mitigate risks from criminals, terrorists, and Politically Exposed Persons (PEPs). [2]
* CDD comprises three levels: Simplified Due Diligence (SDD) for low-risk situations, Basic CDD for all customers to verify identity and assess risks, and Enhanced Due Diligence (EDD) for higher-risk customers. [2]
* Practical steps in a CDD program include verifying identity and location, understanding business activities, and digitally storing relevant information. [2]

**Enhanced Due Diligence**

Customers who are more vulnerable to money laundering, terrorism funding, or infiltration are the target audience for EDD, and further information gathering is frequently required [1]

* Ongoing assessment is crucial to determine if EDD is needed for existing customers, considering factors like location, occupation, transaction types, and expected patterns. [2]
* Continuous monitoring of customers is essential, involving oversight of financial transactions and accounts based on established risk thresholds. [2]
* Factors to monitor may include spikes in activities, unusual cross-border transactions, individuals on sanction lists, and adverse media mentions, depending on the customer and risk mitigation strategy. [2]
* Periodic reviews of accounts and associated risks are considered best practices, ensuring account records are up-to-date, transactions align with stated purposes, and risk levels are appropriate. [2]

**Conclusion**

KYC compliance is pivotal in enabling seamless cross-border payments in real-time, fostering heightened trust, transparency, and collaboration while minimizing risks. Embracing a communal approach is imperative to expedite compliance procedures and foster innovative, collaborative strategies to combat financial crime. [3]

Works Cited

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[3] What is KYC?. Swift. (n.d.). https://www.swift.com/your-needs/financial-crime-cyber-security/know-your-customer-kyc/meaning-kyc