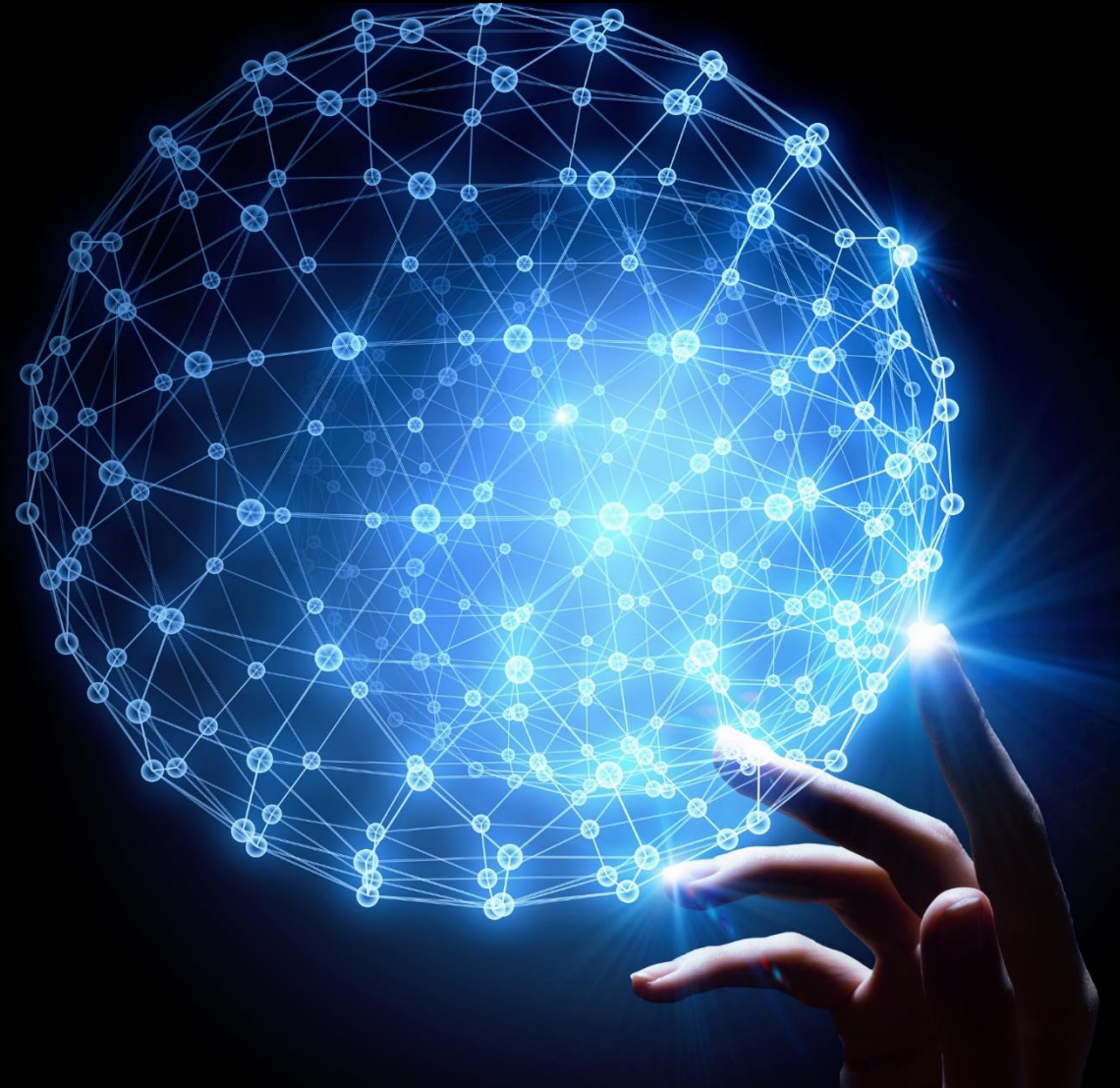




Digital KYC Utility for UAE

Concept Paper



Overview of KYC shared utility concept

What is Know Your Customer (KYC)?

KYC is the process of verifying the identity of clients and assessing potential risks of illegal intentions for the business relationship. It provides the backbone of financial institutions' ("FI") anti-money laundering efforts to combat terrorism financing and detect criminal behaviors world over.



Problem Statement

- Current KYC and customer onboarding process is cumbersome, repetitive and inefficient which presents significant challenges for financial institutions, customers and regulators



Concept and Solution

- Proposed eKYC utility provides a centralised location where customer identification and verification can be performed once for a customer, rather than several times by different entities for the same customer



Key solution features

- Based on blockchain platform with immutable audit trail, seamless and secure information sharing, GDPR compliant, use of digital signatures, customer consent model

Current KYC process is cumbersome, repetitive and cost intensive...

Challenges in the existing KYC process specific to the UAE market



High customer onboarding cost due to manual, paper-based and siloed KYC process



Poor Customer experience due to multiple customer touch-points and long onboarding time



Variation of KYC and onboarding requirements captured by financial institutions



High cost related to KYC refresh associated with collecting updated information and data



FIs face **increasing regulations and threat of penalties** due to incomplete customer information

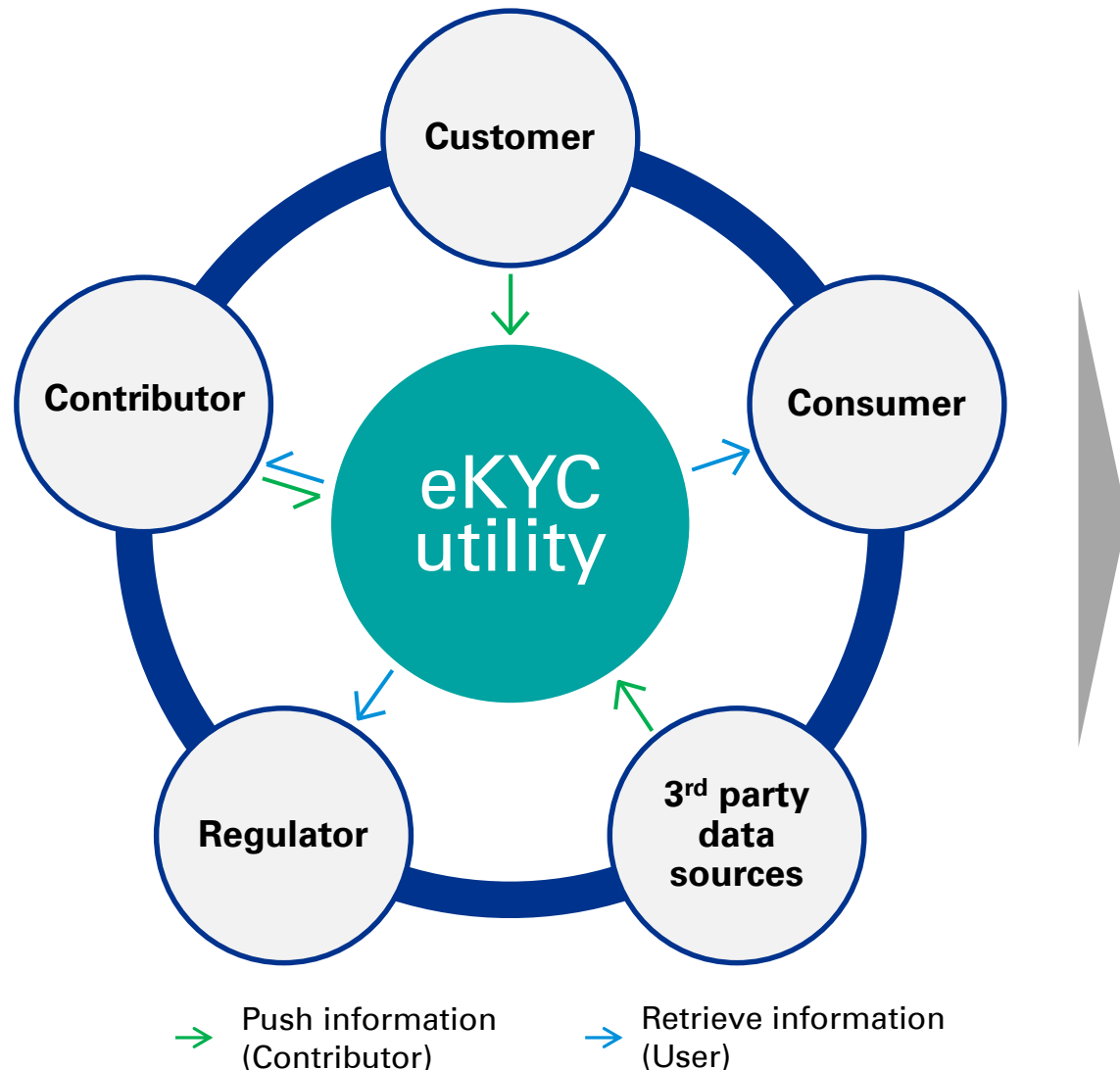


Lack of information sharing between FIs for KYC records and ongoing AML monitoring

Requirements to overcome challenges

- ✓ Enable peer to peer sharing of KYC data between stakeholders
- ✓ Digitize KYC and customer onboarding process
- ✓ Standardize robust baseline KYC requirements across FIs
- ✓ Protect and secure collected customer information
- ✓ Ongoing updates of obsolete or outdated customer information
- ✓ Reduce cost for all participating stakeholders
- ✓ Compliance to relevant KYC regulations and standards

...which can be radically simplified through eKYC utility on blockchain



eKYC utility solution features



Customer Consent Model - Customer retains ultimate ownership and consent to share information and data



GDPR Compliant - eKYC solution maintains conformance to the applicable GDPR regulations making it scalable



Decentralised P2P network - Allows network parties to exchange data and reach consensus without intermediary



Interoperability - Ease of integration with 3rd party systems and technical architecture



Secure - Private and immutable distributed ledger which enables sharing of KYC information using cryptography



Immutable Audit Trail - Non-temperable audit trail of all read/write/access activity with regulator node

Benefits of eKYC utility across stakeholder ecosystem

Benefits delivered to different stakeholder groups through eKYC

Regulators

Convergence of market towards a common set of higher KYC standards



Consortium Members

Cost efficiencies driven by unified KYC standards



Availability of real time updated customer data



Increased frequency of KYC data refresh



Customers

Enhanced customer experience and convenience



Control over personal data



An initiative such as the eKYC utility platform is envisaged to help mitigate some of the general KYC challenges that exist in the UAE financial service sector today.

However, it is important, for the financial services regulators and market participants to work closely and collaboratively in order to make the eKYC utility a successful platform for all to benefit from.

KYC shared utility was co-developed with consortium members...

Sponsor



Advisor



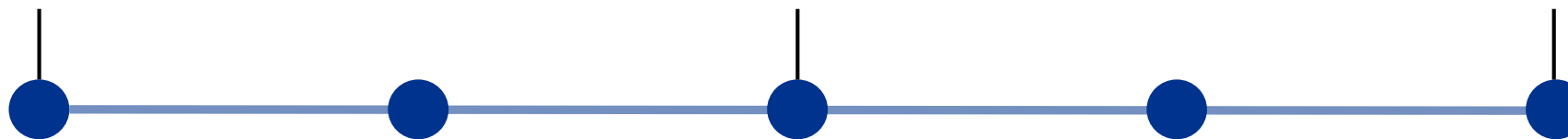
Consortium Members



Vision, strategic objectives and framework of KYC utility defined by ADGM and KPMG

Initiated co-development of KYC shared utility business and operating model

Tested and refined KYC shared utility prototype with four distinct KYC scenarios



Identified and on-boarded consortium members (3 banks and 3 Exchange houses)

Validated outputs and applicability to the UAE market with consortium members

...through a structured approach over a duration of 4 months



Business model

- Defined the vision, mission and strategic objectives of KYC shared utility
- Defined service offerings for KYC utility including KYC record sharing, KYC refresh, sanction screening, customer authentication etc.
- Evaluated various ownership and operator options in context of the UAE
- Developed governance principles including onboarding/off-boarding criteria for members
- Developed commercial and incentive model for exchange of KYC records, including pros and cons of rebate and compensation model



Operating model

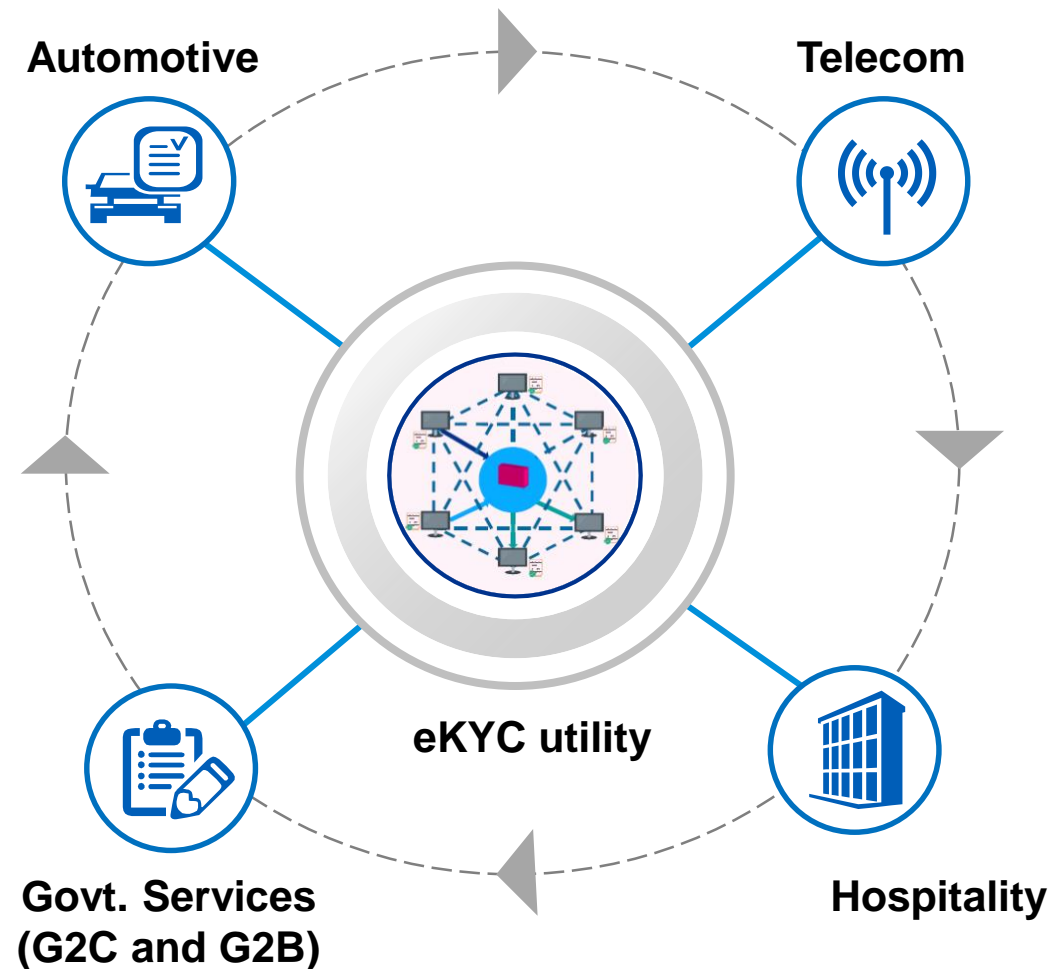
- Validated applicable UAE processes and regulations pertaining to KYC/AML for retail customer segment
- Conducted interviews with consortium members to understand the variations in KYC process and data captured
- Standardised minimum KYC data fields to be captured for creating record on KYC shared utility
- Created to-be process flows and user journeys to support the prototype
- Identified 3rd party sources for integration to KYC utility (example – Emirates ID Authority)
- Developed functional specifications for the KYC utility



Technology model

- Developed User Interface and User Experience design screens for bank RM portal and regulatory portal
- Compared 3 key blockchain platform to evaluate best-fit platform for KYC utility
- Defined on-chain and off-chain technology architecture
- Identify reference architecture for the solution to be adopted by participating consortium members
- Develop cybersecurity guidelines for API security, private key governance and application security
- Developed prototype, conducted user acceptance test and refined prototype based on collected feedback

Vision to expand KYC utility across sectors and wider region

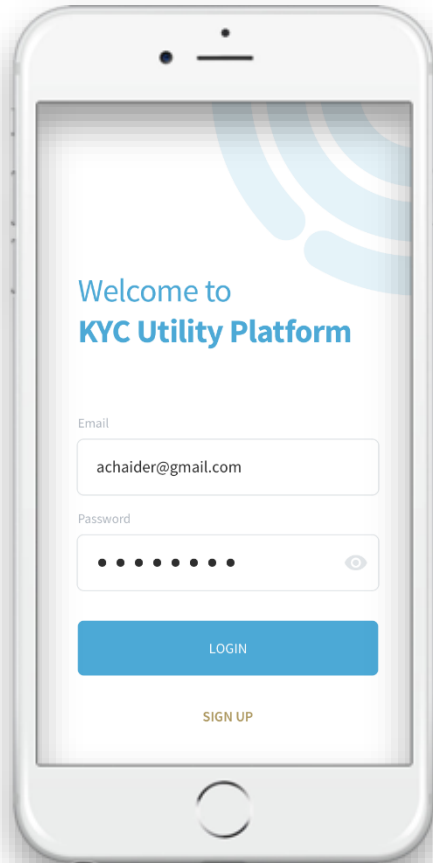


Long term vision

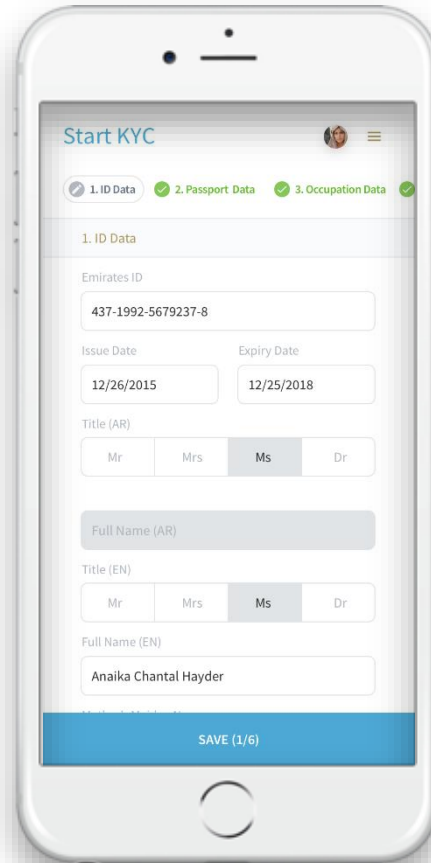


- Recognize eKYC as the prime channel for KYC in the financial services sector
- Expand usage of eKYC to other industries and sectors
- Enable cross border eKYC utility usage to benefit the wider region
- Integrate eKYC with trusted government data providers to establish digital identity

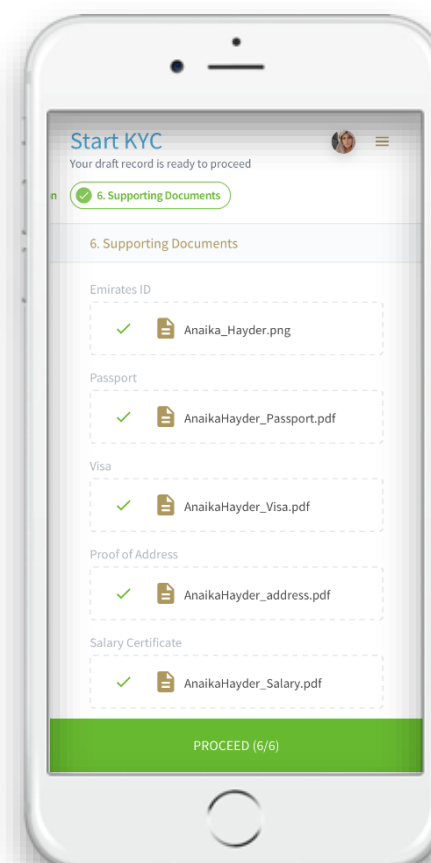
Prototype design screens for UAE KYC utility platform



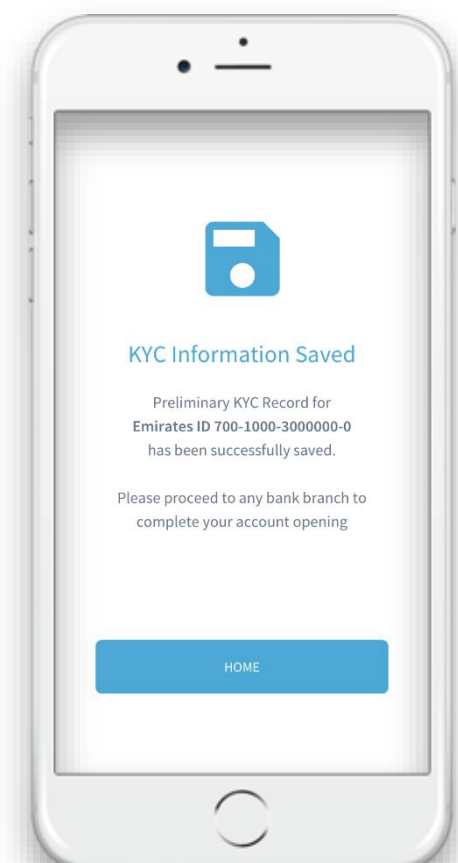
Log in to mobile app



Data collection

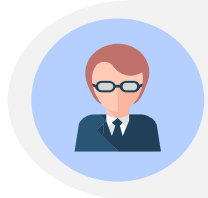


Upload of documents



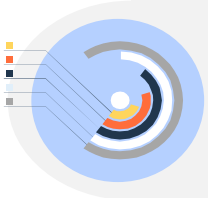
Creation of preliminary
KYC record

Key success factors and takeaways



Ownership of KYC utility

Federal entity is well-positioned to own the KYC utility as it inspires greater trust across stakeholder group, maintains custody of sensitive customer information and operates on a non-profit mandate thereby maintaining a neutral ground to exercise governance, decision making and dispute resolution, thereby assuring participation inclusiveness. The utility can be operated in-house or outsourced.



Governance and tiering of membership participation

Not all members can contribute KYC records to shared utility. Clear guidelines and pre-requisites were identified for any member to qualify as a contributor of KYC records or information. Due diligence and review on the contributor qualification would be performed by KYC owner to ensure quality of compliance standards and process of the potential contributor.



Mitigation of contributor liability

To facilitate a seamless exchange of records and build trust, a liability model is required which sets out potential liable parties for instances such as inaccurate information, misuse of information, data breaches etc. Data verification and consent from customer is a key identified lever to address concerns about liability arising from collection of incorrect data. No information on risk assessment and acceptance of client will be shared on utility. Ultimate decision and responsibility of client acceptance rests solely with onboarding firm.



Commercial model

Revenue model that operates on the basis of fees offered to data contributors, and charges levied on data consumers is considered a sustainable model of operation. The commercial model also considers a certain percentage of success fee for the operator of KYC utility.



Applicability and efficiency upside

International extraterritorial requirements such as FATCA and CRS, as well as ongoing KYC refreshes, require heavy documentation which is typically completed through a manual process. KYC utility helps in digitizing the process as consumers can retrieve copies of completed and valid extraterritorial records as part of KYC and customer onboarding process.

Voice of consortium members

Head of Compliance, UAE Bank

“Collective information sharing between banks will provide complete customer visibility allowing banks to be more vigilant on an ongoing basis and during fresh onboarding”

Compliance Officer, UAE Bank

“KYC shared utility will help reduce cost of completing KYC simply by relying on information provided by another trusted source”

Relationship Manager, UAE Bank

“Customers are increasingly demanding faster turnaround time to start relationship with a bank. KYC solution will help drive faster customer onboarding”

Back Office Support Team, UAE Bank

“Biggest issue for a bank today is KYC data refresh in terms of cost and effort. If my records are always up-to date, it will reduce my risk of incomplete customer info.”

Chairman and CEO, Exchange House in UAE

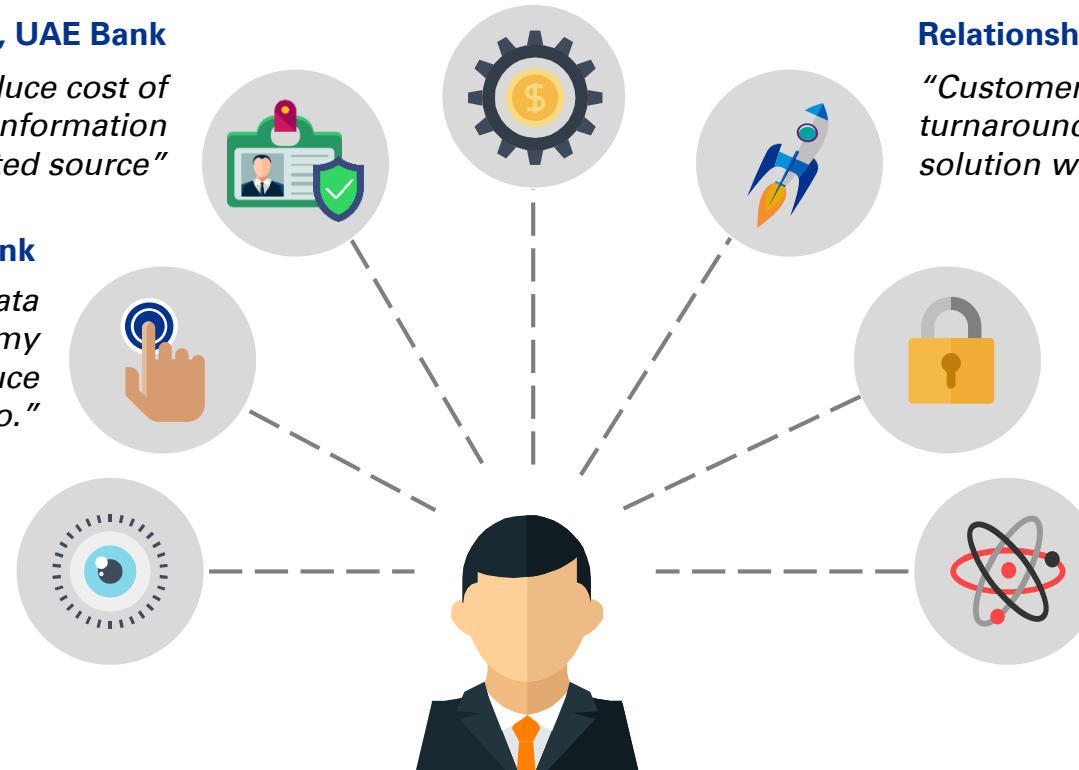
“Our business will significantly benefit from KYC utility as it will increase quality of compliance, specially for high value transactions”

Branch Operations Manager, UAE Bank

“I would like to see an end-to-end virtual KYC (using) OCR, video conferencing ... biometrics for verification.”

Head of Digital, UAE Bank

“KYC utility will make a vast difference if the process of digital verification and authentication of customer can be completed through the solution”



The background is a dark blue space filled with numerous glowing, semi-transparent blue cubes of various sizes and orientations. These cubes are interconnected by a network of thin, light blue lines and dots, resembling a data network or a digital cityscape. The overall effect is a sense of depth and technological complexity.

Thank You