

Know Your Customer – in-house or outsourcing

From time to time, our customers ask us whether it is better to perform **Know Your Customer** activities in-house or to hire a company to do it for them. In this article we would like to answer this question.

KYC activities are very important. **On-boarding** your customer is actually the first process that the customer uses, so smooth processes are critical for our future relationship with a particular customer. If the process does not work correctly, the customer can block and all our marketing and acquisition efforts will be useless. But how to do it right?

You can have 2 general scenarios:

Scenario 1 - build KYC in-house

You can start building this process yourself using **your IT team**. Actually, it is not so difficult. The process consists of a few **obligatory steps** that have to be performed by user:

1. Get user data
2. Get user photo or video
3. Get pictures of user's document or documents
4. Check sanction lists
5. Approve / decline / get into interaction

It seems to be easy ☹ but actually it is not so easy. There are some security and legal regulations that need to be fulfilled. There are specific requirements of payment institutions that will have to be fulfilled. You need to collect this knowledge, be ready to update your systems. Additionally, you have to think of automatizing this process on your side so that the user does not wait too long for approval of their application. From a financial perspective it sometimes can be much cheaper than automated KYC. Let's do a quick calculation. If you hire a person and pay 10 EUR per hour to this person for performing KYC activities you can imagine that such a KYC employee will perform simple consumer KYC actions (verification of data, photos etc.) for one customer during 1 minute. It means that the cost of processing a single application is 10 EUR divided by 60 minutes = 0,16 eur per user!!!

Additionally, if you need to perform regular scanning of sanction lists, avoiding per user costs becomes more critical because there may be requirements that users are scanned against sanction lists once per month... If you have 0,1 eur cost per such scanning it means that you have variable cost of your operations. Very important disadvantage.

Advantages:

- Full control over the process
- Possibility of changing process in-house after product launch
- Full control over costs
- Possibility to avoid variable costs per user
- Possibility to avoid recurring costs per user
- Quicker responses to regulatory complaints as everything is in your system
- No dependency on external partners

Disadvantages:

- You need to spend time and energy on this process
- Time consuming process
- High fixed costs (team to develop and update the system)

Scenario 2 - outsource KYC

In this scenario you perform a tender and **choose the best KYC provider** for you. You can be quick with this process, you will get all technology this partner has but you will have to pay per user and maybe for some development and customizations. You will have an outsourcing company that most likely will have to be officially registered at your regulator as you are outsourcing anti-money laundering processes to this partner. It is definitely an easier process at the beginning of your journey but think about dependencies and cost.

In the long term you may also encounter problems with your partner that some specific requirements or unhappy path for your users does not work correctly. You should not think that you can automatize 100% of your on-boarding processes and you do not need to hire anyone. You must have some manual process, possibility to check application yourself and you must hold data yourself for future use.

From a financial perspective – you will have to pay per user or sometimes recurring fees per verification additionally. This may be a heavy cost for your business model. I think that this long term dependency is the critical disadvantage and you need to be careful.

Advantages:

- Quick time-to-market
- Professional processes achieved quickly

Disadvantages:

- High variable costs – clicks per user, monthly per user etc.
- Dependency on particular vendor
- Tendency to forget that you must have manual processes built together with such partner
- Risk of regulatory incompliance in case you do not monitor partner correctly

Summary

It is a difficult choice. In our opinion, in the short-term, it may be better to involve a 3rd party. However, in the long term, risk of dependencies, partner stability and variable fees seem important and you need to carefully consider if you do not want to have those capabilities in-house. Please also remember that while implementing 3rd party automatic solutions, you must have a manual process ready to process unusual customers.

Our services in this area are focused on this strategy. We use both 3rd party vendors and an internal system for managing KYC processes for ourselves and for our customers.

Revision #3

Created 17 May 2024 05:51:26 by Krzysztof Drzyzga

Updated 21 May 2024 07:56:01