

KYC requirements in Payout and Money Transfer projects

Know Your Customer (KYC) processes usually generate many questions. Key requirements and decision points are summarized in this article.

The KYC regulations are directly related to AML (Anti-Money Laundering), regulatory and payment scheme requirements. In general, any payment or banking institution has to know who their customers are, what the source of their customers' money is and how the customers use the money held by the payment institution. To limit the risk of supporting terrorist or illegal activities, regulators require payment institutions to be aware of and monitor them.

The key question in every project is: "Who is the owner of the money on the account?" There may be the following situations:

1. **CONSUMERS** - If consumers own the money on account, the KYC process has to happen. It usually means that the user (consumer - not a company) needs to provide his/her ID document or passport and selfie, a meeting or video call needs to happen to make sure that the consumer is a real person who signs a contract with the payment institution. There are many additional verification ways that the payment institution may require, but these are the main ones.
2. **BUSINESSES** - If a company owns the money, the KYB (Know Your Business) process has to happen. It usually means that the user (company owner, manager etc.) needs to provide not only his/her ID document and make a selfie or a video call, but the payment institution needs to check beneficiaries (owners of more than 25% of shares in the company).

In both cases, the payment institution is obliged to check whether the consumer, company director or company owner is on various sanctions lists, e.g. OFAC or UN sanctions lists.

The above rules are critical and in fact all other implications are results of them. In projects related to the implementation of Payout to Cards, the first question we need to answer is: "Who is the owner of the money on the account?" If the consumer is the owner of the account (scenario 1) - the consumer must go through the KYC process. If the business is an owner of the money on the account (scenario 2), the KYB process will have to happen and there will be no additional KYC.

In the majority of Payout to Cards projects we are in Scenario 2. It means that the KYB process needs to happen and there will be no additional verification of consumers. The reason for that is that we usually talk with payment institutions, wallets, fintechs that have registered users, the users have their accounts (already after KYC) and our money transfer institution will work directly with this business customer to enable Payouts from accounts of this payment institution to the

receiver. The account owner will be a payment institution or a business that we work with. From a legal point of view, our customer (B2B customer) will take money from the user's account, place it on their own account and initiate a payment to the receiver from their own account. In such a situation we will do KYB, we will verify if our partner has a legal right to perform such activities and it will be enough. We will request our partners to send us some customer (Sender) data including the first name, last name, but nothing else.

In some situations there will be a need to initiate direct payments from the consumer account to the receiver - Scenario 1. In this scenario we will require that either the partner does a professional KYC process according to requirements (see above) and sends results of KYC to us, including a selfie, ID documents etc. Or in specific cases we can perform KYC on behalf of the partner.

I hope I clarified the topic. Please make sure that you define quickly if you are in scenario 1 (consumer KYC) or scenario 2 (business KYB) and you can quickly enable Payouts with us.

Thanks for reading.

Revision #7

Created 11 April 2024 12:17:32

Updated 12 April 2024 06:51:14