KYC and KYB requirements in card issuing

KYC (Know Your Customer) processes usually raise a lot of questions. In this article, I would like to summarize the most important decision points and requirements.

KYC regulations are directly connected with Anti-Money Laundering (AML), regulatory and sometimes with payment scheme requirements. In general, every payment or banking institution must be aware who its customers are, should know the source of its customers' funds, and should have information about the ways customers use money held by the payment institution. Regulators require that payment institutions know and monitor this in order to limit the risk of supporting terrorist or illegal actions.

The main question in every project is: "Who is the owner of the money on account?" We can have 2 situations:

1. CONSUMERS - If the consumer is an owner of the money on account, the KYC process has to happen. Usually it means that the user (consumer - not a company) needs to provide an ID document or passport and selfie, meeting or video call needs to happen to make sure that consumer is a real person signing a contract with a payment institution. There are various additional verification ways that a payment institution may require, but those are the key ones.

2. BUSINESSES - If a company is an owner of money, the KYB (Know Your Business) process has to happen. Usually it means that the user (company owner, manager etc.) not only needs to provide an ID document and make a selfie or a video call, but the payment institution needs to verify beneficiaries (the owners of more than 25% of shares in the company).

In both cases the payment institution is obliged to check whether the consumer, business manager or business owner is not present on various sanction lists, i.e. OFAC or UN sanction list.

These rules are critical and in fact all other implications are outcomes of them. In projects connected with launching Payout to Cards, the very first question that we need to answer is : "**Who is the owner of the money on account?**" If the consumer is an owner of the account (scenario 1) - the consumer needs to go through the KYC process. If the business is an owner of the money on account (scenario 2), the KYB process will have to happen and there will be no additional KYC.

There may be non-standard situations that will require some analysis. Let me present a few interesting scenarios:

- **Lendtech** - a company that provides loans to consumers. Let's imagine that this company is giving a loan of 1000 EUR to a consumer. We can have a project in two versions:
  - if the consumer receives a loan on his/her personal card - then we have the KYC requirement.
  - but if a card is just a part of Lendtech account and formally the consumer gets a loan at the moment he/she takes out money from the card account - we do not have any KYC requirement; we just need to do KYB for Lendtech. It can simplify user acquisition a lot.
- **Insurance** - an insurance company sends insurance value to users after a claim process or just after an accident:
  - if the user receives a gift card with 1000 EUR, which is the value of the claim, and at the moment of receiving the card, 1000 EUR on this card becomes his/her ownership - we have the KYC requirement for the user.
  - but if the user receives a card with a limit of 1000 EUR and when they pay - they use the insurer's money to cover costs of the claim, we do not have any KYC requirement. KYB will be enough for us.
- **Money transfer company** - let's imagine that the company sends a virtual card with 1000 EUR from Europe to the receiver in Singapore:
  - if the user receives a virtual gift card, and 1000 EUR belongs immediately to this user, we have to do KYC of this user
  - however, if users receive a virtual card with a limit of 1000 EUR and the money becomes theirs the moment they pay or withdraw funds from the card, KYC is sufficient. KYC is not required.

As you can see, there can be different approaches to KYC and KYB requirements, so it is worth reviewing the legal structure and thinking about how to improve the user experience in such projects.

Thanks for reading.