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## THE EVOLUTION OF KYC AND BLACKSMITH'S ROLE AS A PERPETUAL KYC FACILITATOR

### WHITE PAPER

In this white paper, Blacksmith CEO and KYC Expert Nynke Postma shares her views on the newest KYC trends and developments. One of the most important trends in KYC today is Perpetual KYC. In order to combat financial crime more effectively and efficiently, financial institutions are faced with the challenge of adopting a new approach to KYC and shifting from periodic customer reviews to continuous risk-based monitoring of their customers. A precondition for the transition to perpetual KYC is further digitalisation and streamlining of the whole KYC/CDD process. Read on to find out how RegTech and FinTech solution providers such as Blacksmith can help facilitate the transition to Perpetual KYC.

[www.blacksmithkyc.com](http://www.blacksmithkyc.com)

## The evolution of KYC and Blacksmith's role as facilitator

Criminals are able to commit financial crimes with ever increasing efficiency and sophistication and are taking advantage of the increasing digitalization within financial institutions. The COVID-19 pandemic has yet again demonstrated the agility of criminal groups and their ability to modify their methods to take advantage of new opportunities for defrauding individuals and companies. KYC/CDD processes remain a cat-and-mouse game of criminals finding their way into our financial system until they are detected and their activities are blocked.



### Shift to perpetual KYC

Over the past years, the industry has invested billions to further digitalize and automate customer onboarding and monitoring processes in an attempt to stay a step ahead of criminal organizations. Institutions have come to realize that they need to invest in both closing their front door to prevent criminals from penetrating their system, and simultaneously monitoring the changes and behaviours of their existing customer base. For KYC, this means that they have to transform their processes and tooling from onboarding and periodic customer reviews to continuous monitoring of events that impose additional risk, also referred to as perpetual KYC.



### Regulatory pressure

At the same time, regulators are enhancing regulations and increasing audits to supervise the financial system. Under the pressure of changing regulations and substantial fines, over the years, the KYC/CDD process has become a highly complex exercise for many financial institutions in which they have to collect and check huge amounts of data and evidence scattered across multiple sources. In addition, financial institutions are also developing their own specific requirements due to the applicability of national and supranational regulations, their interpretations of legislation, and their individual risk appetite based on past experiences and audits. It has become a huge challenge for the industry to remain compliant with these ever-changing requirements. Analysts find themselves torn between complex requirements and huge amounts of data becoming available for them to analyse





## FinTech/RegTech KYC solutions

Over the past years, there has been an exponential growth of FinTech/RegTech solutions in the market, focusing on for example data collection and analysis, ongoing monitoring of transactions and industry watch lists, workflow management etc. Some of the KYC solutions that are currently being marketed are seemingly simple off-the-shelf standardised tools; however, these are often difficult to implement since they do not cater for an s specific requirements of financial institutions. Others are highly customizable but require lengthy implementation processes and take years to integrate into a bank's architecture and processes.

The KYC process is managed through a set of requirements and business rules with regard to data requirements, risk indicators and tolerance levels that analysts need to follow. On the other hand, there is human interpretation and decision-making involved. KYC solutions should therefore focus on enabling rules-based process steps as well as facilitating analysts to leverage their insights for risk-based decision-making. Nevertheless, today, despite all solutions available in the market, we see many financial institutions leveraging their human capital for the wrong things. KYC requirements are laid down in lengthy policy documents that analysts need to continuously familiarize themselves with and analysts are manually collecting and processing large amounts of data. In the final steps of the process in which all data and requirements need to be analysed, analysts often find themselves overwhelmed and discouraged by the sheer amount of data and unfathomable instructions. The financial industry needs to leverage its human capital much better than it does today, changing the analyst profile from operations staff to seasoned risk experts.



## Blacksmith as a Perpetual KYC facilitator

At Blacksmith, we aim to facilitate the transition in the industry from periodic customer reviews to perpetual KYC to help institutions remain compliant and enable analysts to focus once again on their core task: risk-based analysis. In order to achieve this, a business rules engine, that captures the KYC requirements of the institution, has become indispensable to enable future processes and automation.

 **Digital Policy Manager**

Blacksmith's Digital Policy Manager (DPM) is a unique business rules engine, which has been built on the deep industry knowledge of a bank and can be intuitively configured by policy experts without the need to code. The business rules with regard to data requirements, risk indicators and tolerance levels can be used by any other tool that requires this logic to automate a certain step in the KYC process. For example, a data aggregator can be connected to use the business logic to filter relevant data that is required for a customer review. The business rules can tell your transaction monitoring systems which behaviour to monitor and whether a change poses an increased risk for your institution. A workflow tool can be easily customized by guiding analysts only through the relevant process steps for a client under review.

A single source of truth to manage KYC requirements enables quick implementation, customization, and integration of tooling in an organisation's future processes, instead of having misaligned requirements that are captured and hardcoded in multiple places. Like a big retailer that distributes its products across platforms, you want to have one place where you store your terms and conditions. If something changes, there is only one place where you will have to update your requirements, and all other tools will be automatically adjusted to the new situation.

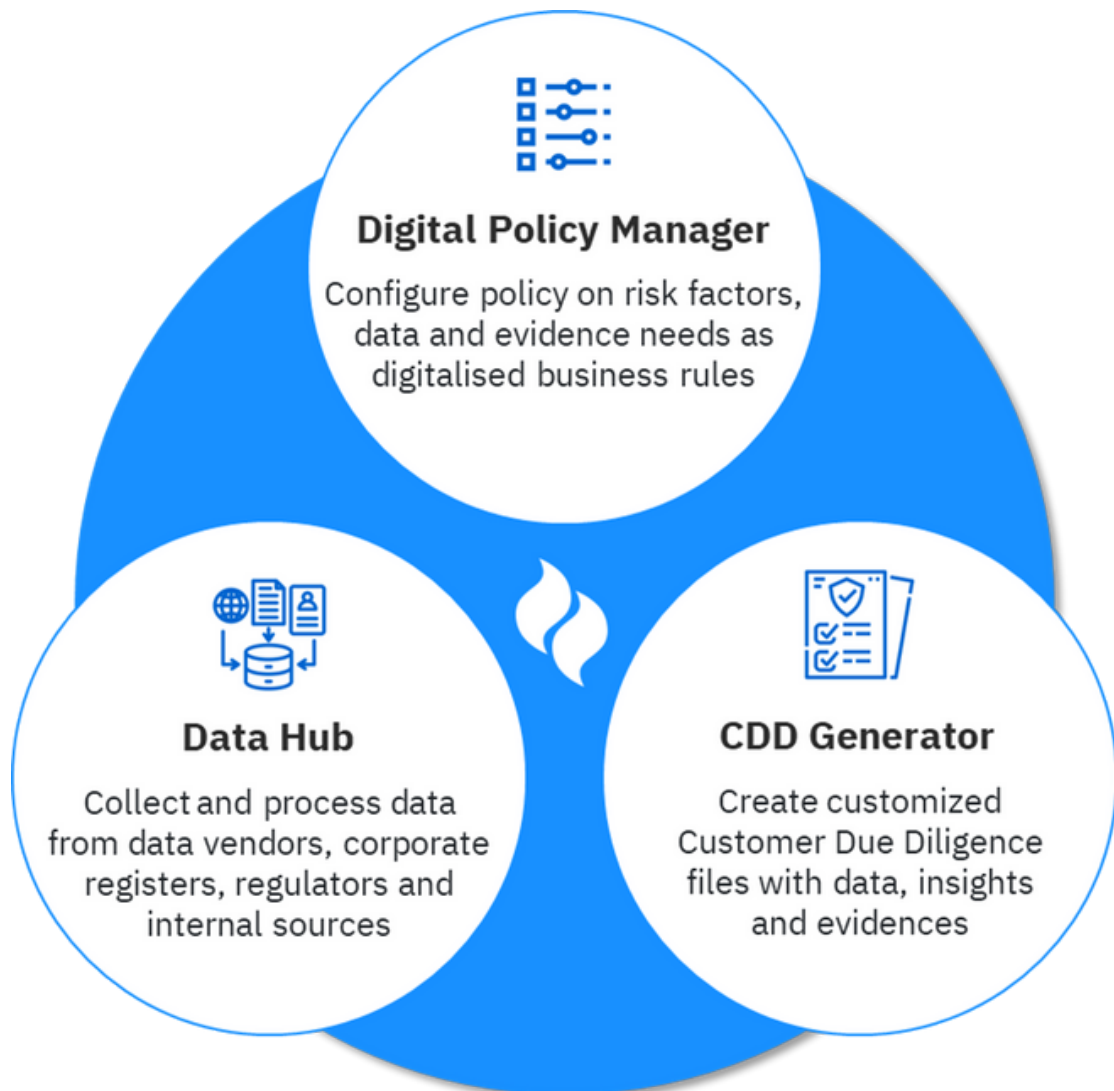
The settings in the DPM provide valuable insights into how banks manage their KYC processes and risks. Such insights can be used to share best practices and create benchmarks to be distributed across the industry. Institutions can choose from a catalogue based on common industry practices that fit their client portfolio and risk appetite. Such benchmarks explain how the industry has translated regulations into KYC processes. In the future, these best practices can be used by regulators to clarify, improve, and simplify legislations and it could potentially help regulators from across the globe to align and standardize regulations across jurisdictions.

The DPM will increase the number of process steps in the KYC process that can be automated based on a clear set of business rules. This will allow analysts to focus on those steps in the process that cannot be captured in a business rule and require human intelligence. At Blacksmith, we believe in automating that which can be automated and letting your human capital do what they are good at.



## DataHub and CDD File Generator

The DataHub and CDD File Generator are two other Blacksmith product modules that can be used to facilitate the full process of tailored CDD file generation for customer reviews. The DataHub provides access to the databases of a number of leading data aggregators that source information directly from primary sources. The CDD File Generator creates customised customer due diligence files with data, insights and evidence driven by the policy settings and populated with the data from the selected and prioritised databases in the DataHub. The CDD file can be viewed and the analyst can see where action is required and evidence is missing. The structure of the CDD file and the way it is delivered can be customized (PDF or API).



A blacksmith is shown in a traditional forge, working on a piece of metal on an anvil. The scene is filled with bright sparks and a glowing fire in the background. The blacksmith is wearing a dark t-shirt and safety glasses. The forge is cluttered with various tools and equipment, and the walls are made of stone.

# Blacksmith

Know Your Customer

## Mission

With the combination of the Digital Policy Manager, DataHub, and CDD file generator, Blacksmith provides a unique set of tools to facilitate the shift towards perpetual KYC. By facilitating perpetual KYC and a risk-based approach to customer due diligence, Blacksmith aims to contribute to helping financial institutions safeguard the financial system and combat financial crime. Our future development and roadmap are based on this mission.

## About Blacksmith

Blacksmith, the only RegTech with policy digitalisation as the core of its solution, was founded in 2017 by Nynke Postma and originally developed at ING innovation Labs in Singapore. In addition to our flagship customer ING, Blacksmith's customer base includes corporate and institutional banks in several different countries.

## Nynke Postma - Founder & CEO at Blacksmith KYC

Nynke has 20 years of experience at ING in program- and product management, software delivery and fraud management. Prior to moving to Singapore, Nynke led a strategic merger of daily banking operations for ING's two core markets of the Netherlands and Belgium, impacting 11 million retail customers. Today, Nynke leverages her experience to grow Blacksmith and its next phase of scaling. Next to her role at Blacksmith she is the Chair of the Singapore Eurocham Financial Services Committee, representing European businesses at economic authorities and business associations. Nynke holds a degree in Business Administration.

## Get in touch

Want to learn how Blacksmith transforms your KYC due diligence process? Or are you interested in seeing us in action? Get in touch! Contact us via [www.blacksmithkyc.com](http://www.blacksmithkyc.com) to order an on-site demo or send us an email anytime. We're happy to talk!

### Website

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