iDenfy

KYC Risk Assessment

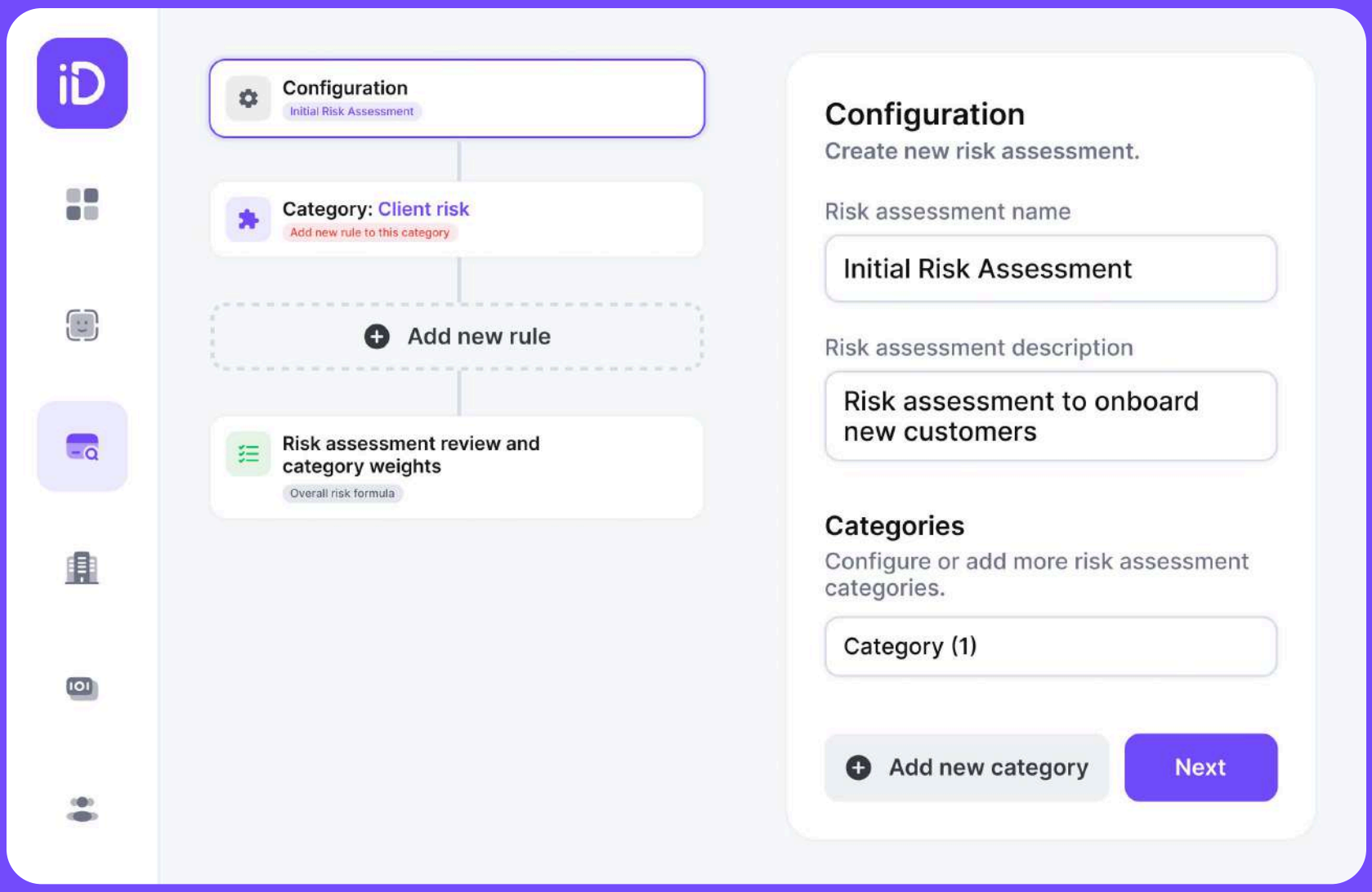

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Table of Contents

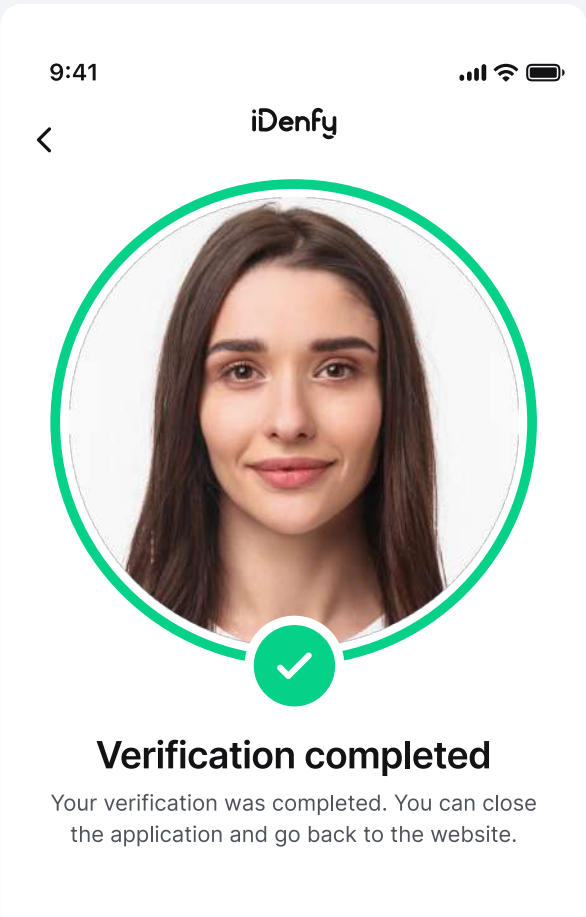
03 Understanding KYC Risk Assessment

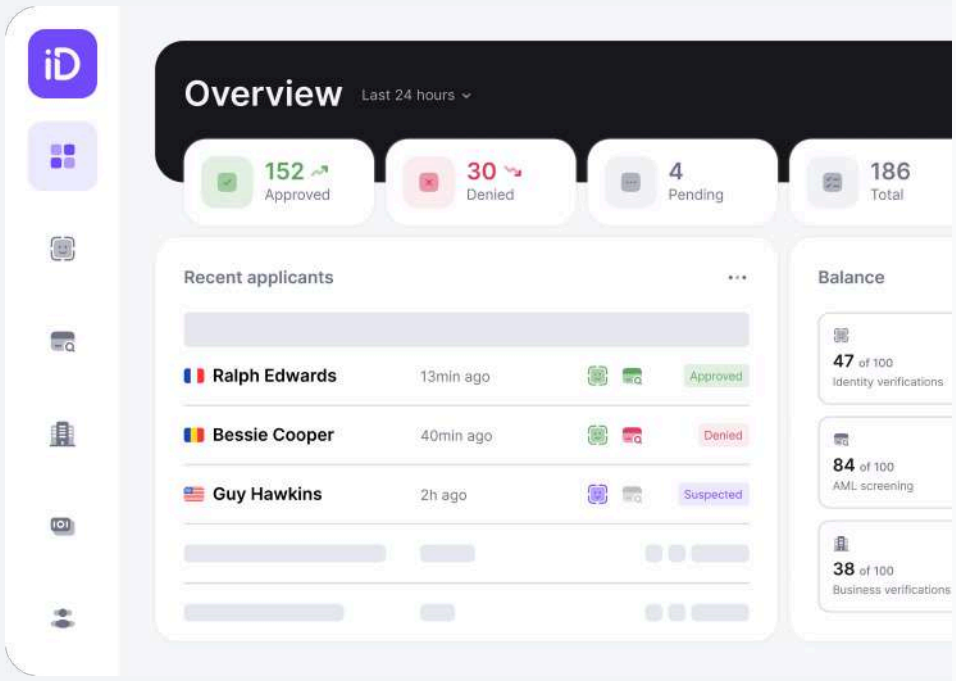
04 The Main Challenges

14 Solutions for Better Risk Management

16 iDenfy's Software Guide

22 Identity Verification Session from the User's Side





Understanding KYC Risk Assessment

This product guide provides detailed information on KYC risk assessment and how our automated software simplifies the work for your internal compliance teams based on the specific requirements in various industries, including fintech, cryptocurrency, iGaming platforms, and others.

KYC risk assessment, or customer risk rating, is a day-to-day compliance process for regulated entities who need to evaluate potential risks linked to their customers, and this way, prevent fraud while applying a risk-based approach to Anti-Money Laundering (AML) compliance. The main issue is that a manual risk management strategy is ineffective when the company has to handle large volumes of verifications involving multiple risk assessment companies.

Common KYC Risk Assessment Challenges

01 Struggles with data accuracy and integrity

02 Regulatory complexity

03 False positives and false negatives

04 Overly complex KYC for non-standard users

05 A high volume of onboarding requests

06 Complex ownership structures

07 Evolving fraud techniques

08 Global reach and cost management

So, to scale and assess required risk factors, regulated entities tend to opt for an automated risk assessment service for a more practical approach. This allows businesses to navigate a handful of customization options, such as automatically assigning risk levels, adjusting risk weights, and setting no-code rules.

The Main Challenges

1. Data Accuracy and Integrity

Challenge

Verifying the accuracy and authenticity of customer-provided documents (e.g., IDs, proof of address).

Risk

Fraudulent documents or inaccurate data can lead to onboarding high-risk individuals without detection.

Mitigation

Use of advanced AI-driven tools for document verification, cross-referencing databases, and enhancing due diligence checks.

Efficiency, cost, and reliability are the key pinpoints when we talk about our KYC risk assessment solution. The AI-powered service solves all the most important data accuracy and integrity problems listed above. Our solution has custom flows, catering both to individual customers and corporate clients, helping you examine customer backgrounds and detect unusual red flags.

Our KYC risk assessment solution helps **mitigate risks and solve challenges** while providing compliance teams with up-to-date data required for accurate risk profiles, determining if they:

- Pose a money laundering risk
- Are a politically exposed person (PEP)
- Are involved in financing terrorism
- Appear on watchlists or blacklists
- Are sanctioned or linked to a sanctioned business

You can set up your risk categories depending on your risk appetite. For example, if you choose the geographical risk, you can assess the location factor, which is very important, as money mules often open accounts in different countries as a way to avoid getting caught.

The Main Challenges

2. Regulatory Complexity

Failure to adhere to constantly evolving laws and regulations can majorly impact anyone in the industry. This is why we continuously monitor regulations around the world to comply with them and provide the best services to our partners — both while mitigating risks and ensuring the best possible user experience.

Challenge	Risk	Mitigation
Navigating and adhering to constantly evolving regulations across different jurisdictions.	Failure to comply with local and international KYC regulations (e.g., AML, CFT, or GDPR) can lead to heavy fines and reputational damage.	Regularly updating compliance procedures and implementing RegTech solutions that keep up with jurisdictional changes.

With an industry-leading support team and a highly skilled in-house KYC team based in our headquarters, we have successfully managed different compliance challenges for over seven years, specializing in high-risk, regulated environments where we're flexible to change and update our KYC solutions based on specific requests.

In non-regulated industries, conducting internal risk assessments is **also valuable for identifying potential risks.** This approach helps:

- Maintain customer trust
- Protect your brand's reputation
- Ensure that you prevent fraud
- Automate the risk management process

So it all comes down to you. You have the flexibility to adjust our KYC risk assessment service so that it fits your fraud prevention strategy, ensuring that you completely control the whole process.

The Main Challenges

3. False Positives and False Negatives

Nobody wants to use a system that fails to detect suspicious activity and incorrectly determines it as genuine, as this is the case of false negatives. Our specialists help you choose the right custom rules, improving the solution's abilities instead of allowing you to use overly lenient rules that enable fraud to go undetected.

Challenge	Risk	Mitigation
Screening processes may generate false positives (flagging low-risk individuals) or false negatives (missing high-risk individuals).	Both scenarios can be costly. False positives slow down legitimate onboarding, while false negatives allow risky customers through.	Tuning risk models and leveraging machine learning for better accuracy in risk assessments.

Our industry-leading solution provides you with options to select the filters you wish to apply from predefined templates, allowing you to create an entirely custom KYC risk assessment flow. If you can't find a rule that meets your needs, you can create your own by specifying the possible values and assigning the corresponding risks.

Our partners trust us due to our ability to maintain extremely high standards across the product board, our incredible ease of use, and the accuracy of our RegTech solutions.

The Main Challenges

4. Complex Identity Verification for Non-Standard Customers

The sources used for verification can vary depending on your internal risk assessment, your operating industry, and your use case. That's why these factors determine the overall strictness of ID verification. For enhanced verification, we offer eIDV or database checks that allow you to cross-reference KYC data with two or more sources. For example, SSNs in the USA with the user's personal information (such as name and address). In age-restricted sectors, we can add age verification checks or combine document and selfie checks for a more robust approach.

Challenge	Risk	Mitigation
Verifying customers' identities without traditional documentation (e.g., refugees or customers in countries with less robust ID systems).	Legitimate customers may be excluded from services, or risky customers may exploit loopholes.	Adoption of alternative methods, such as biometric verification, NFC verification, document verification, and extra AML screening tools.

To mitigate these challenges, we receive information from extensive global databases that allow us to smoothen the identity verification process. At the moment, we support four main document types for your KYC process (passport, ID card, driving license, residence permit). Supported countries can be found here.

The Main Challenges

5. High Volume of Onboarding Requests

In high-risk industries with different risk factors, such as banking, a high pass rate sometimes indicates that the verification system is not effectively detecting malicious actors, especially if the company is using an outdated solution. So, despite having a large customer base, it's also crucial to understand the specifics regarding your user population contributing to the pass rate.

That said, we provide you with a "know-how" expert guide on handling large numbers of KYC requests to match your needs. Our manual review team takes no more than three minutes per verification to review results (if you request extra manual checks for a better accuracy rate) and either approve the user or reject it. With this multi-layered KYC approach, we can help you onboard users quickly and convert more customers by adjusting false denied results generated by the AI software. This is one of the reasons our partners trust us so much.

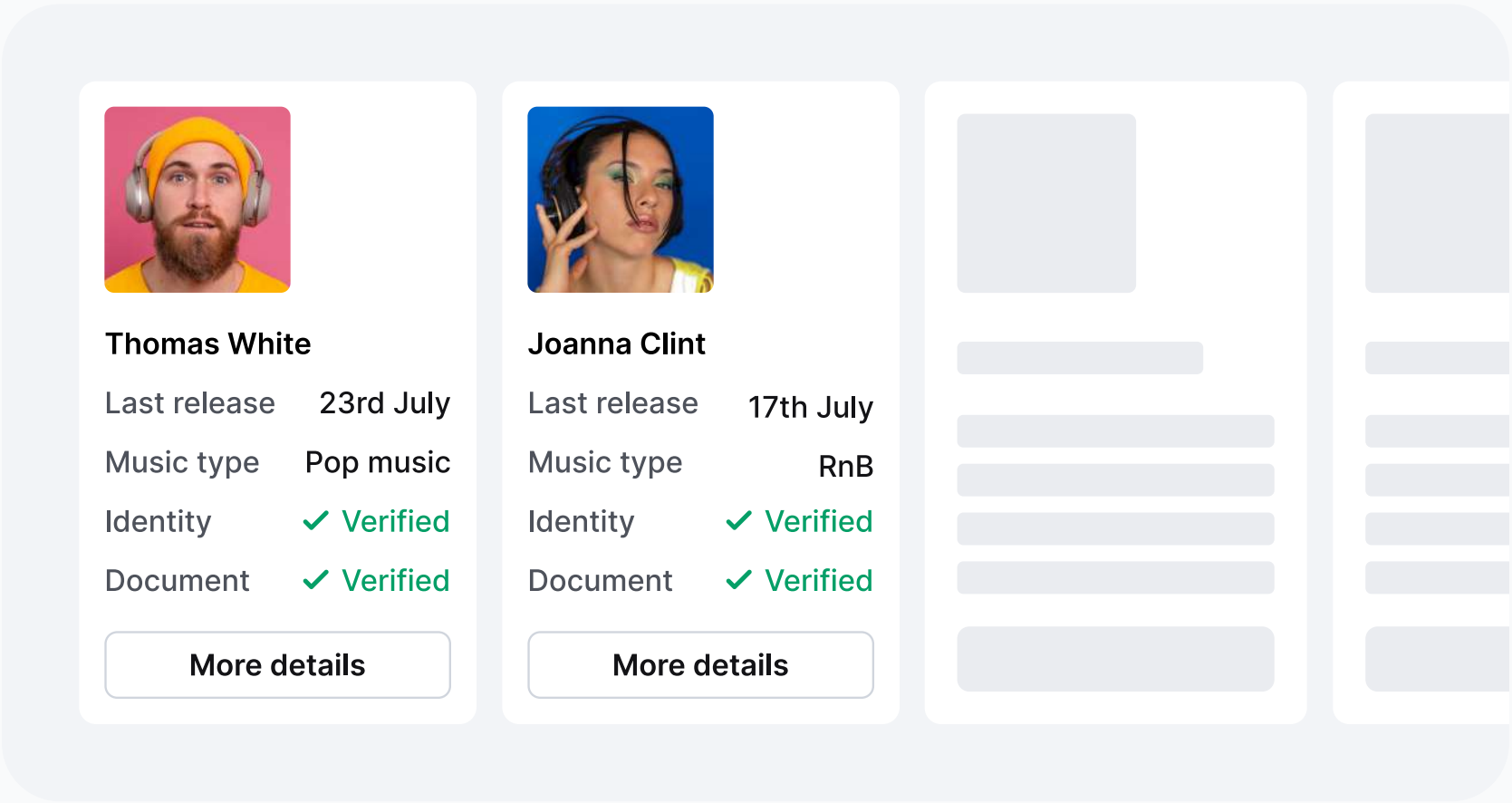
Challenge	Risk	Mitigation
Processing a large number of KYC requests efficiently, especially during peak periods.	Losing customers due to a complex verification process and onboarding fraudulent accounts.	Automation of the KYC process, using AI and workflow optimization tools to handle higher volumes without compromising accuracy.

You can streamline both KYC/KYB and AML checks without needing multiple vendors, as our RegTech suite covers complete compliance requirements under a single, easy-to-use platform with multiple automation features, such as our risk assessment service. We cater to specific market requirements, such as fintech, and have the technical expertise to back our claims with concrete solutions.

The Main Challenges

Using our **automated KYC risk assessment** and other fraud prevention features, you can:

- Assess geographic risks, such as the customer's country of residence, to identify those from prohibited jurisdictions
- Evaluate other risk factors like country of origin, age, and PEP statu
- Check for any adverse media or links to criminal activity that could harm your company's reputation
- Verify if the customer operates in high-risk industries, such as gambling



The Main Challenges

6. Complex Ownership Structures

We offer a fully automated solution not only on our KYC but also on our KYB dashboard. This way, you can easily onboard individuals, companies, and related entities. For example, sending custom questionnaires makes it simple to collect data required for verification, so you don't have to exchange lengthy back-and-forth emails with the client. The same principle applies to high-risk customers, such as ultimate beneficial owners (UBOs), who need to be verified and screened more rigorously.

Challenge	Risk	Mitigation
Identifying ultimate beneficial owners (UBOs), especially where the ownership structure is opaque or hidden.	Hidden UBOs may engage in money laundering or financing of illicit activities.	Enhanced due diligence (EDD) tools, government registries, and proper KYC/KYB measures can help uncover complex ownership structures.

When you are working with business verifications, we provide you with an option to create a customized ownership structure information request and ask shareholders to disclose the percentage of shares they hold. This automated approach allows you to easily go through and find individual, company, or government entity shareholders while asking them to disclose shares-related information.

As a bonus, our built-in risk assessment tool allows you to verify the provided UBO information by cross-referencing it with reliable sources like government databases, public records, or other trusted sources to ensure its accuracy. This helps get a deeper look into another company's true ownership chain, allowing you to identify all individuals who own or control the company.

The Main Challenges

Verify UBOs

using document verification, selfie verification, and proof of address.

Cross-reference UBOs

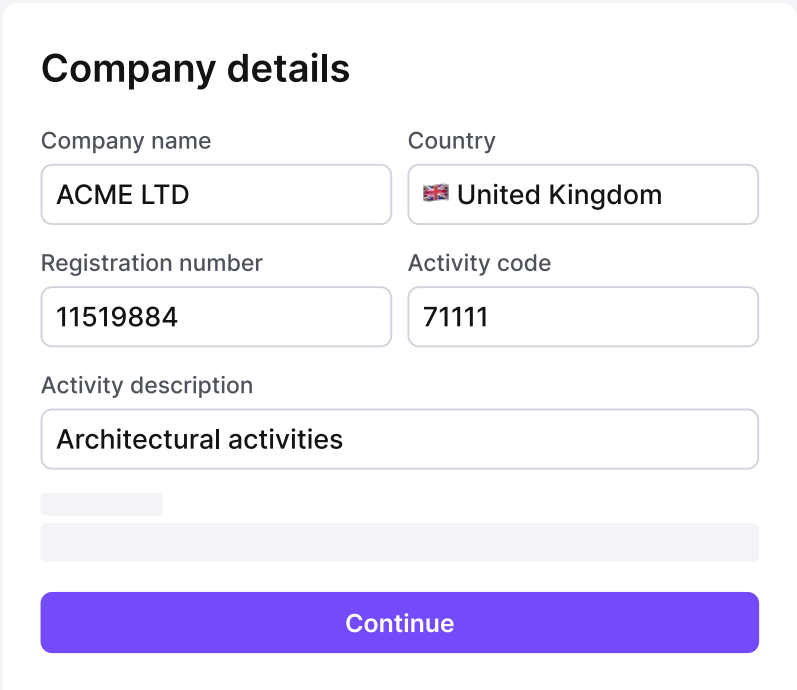
with sanction databases and PEP lists to confirm they are not linked to corrupt activities.

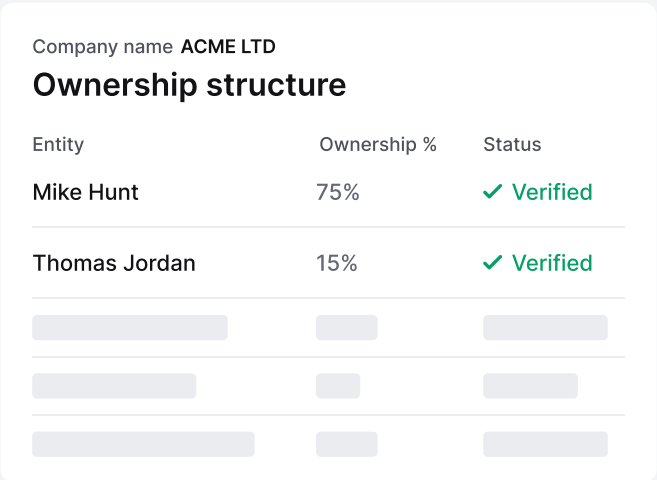
Perform adverse media checks

to automatically identify negative mentions in the news.

Apply EDD measures

for high-risk customers, such as PEPs, or when dealing with complex ownership structures.





The Main Challenges

7. Evolving Fraud Techniques

Our KYC software recognizes pictures, 3D masks, deepfakes, and other fraudulent ways of trying to trick identity verification by creating three-dimensional face maps. This results in bulletproof user verification and login methods with a stunning success rate of 99%.

Challenge	Risk	Mitigation
Bad actors continually adapt their fraud techniques, making traditional KYC processes less effective.	The use of synthetic identities, stolen information, or deepfake technology to bypass identity verification.	Ongoing updates to fraud detection algorithms, use of biometrics, and continuous monitoring of KYC processes.

With our biometric verification and liveness detection technology, even the most subtle movements are detected, such as blinking or smiling, making it harder to trick the system with static images. Biometric verification can be combined with other verification methods, like document verification and screening against AML lists, adding extra layers of security and improving accuracy.

The Main Challenges

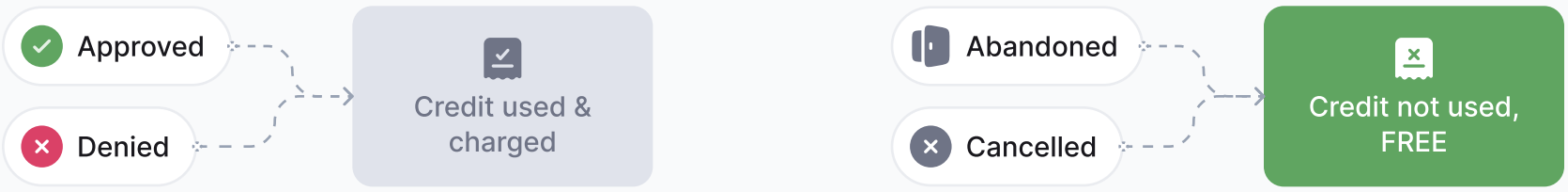
8. Global Reach and Cost Management

We comply with national and international standards and assist you in the whole journey of implementing our KYC solutions. While regulatory requirements vary by jurisdiction and can be complex, with our expertise in this field, we help you navigate these challenges. We offer an API for browser integration and an SDK for mobile apps, along with various plugin options.

Challenge	Risk	Mitigation
Global companies face KYC challenges specific to each market, including different types of acceptable documents and varying risk levels.	Inconsistent KYC procedures across regions can create compliance gaps or delays.	Adopting a localized yet standardized approach, leveraging country-specific knowledge to fine-tune global KYC operations.

Addressing these challenges requires technological solutions, robust data management, and ongoing regulatory awareness to create a flexible yet compliant KYC and risk assessment framework. This is exactly what we do to simplify your life as our partner. Our team offers free assistance and provides all the necessary documentation to help ease this process.

Our extensive document base verifies niche documents in specific local regions while also helping you convert more users on a global scale, saving you time and costs. We’ve designed a unique pricing model (PAY-PER-APPROVED), unlike other vendors, where you still have to pay for verifications even if they aren't approved, including charging for fake and expired verifications. Our goal is to be transparent and flexible, helping both small startups and large corporations benefit from our RegTech solutions.



Solutions for Better Risk Management

We offer both KYC and KYB risk assessment solutions to help you apply a risk-based approach and ensure complete compliance. Instead of working with multiple tools, you can onboard individuals and other companies using our software, keeping track of risk profiles through accurate, up-to-date data.

Some examples of the functionalities that come with our KYC/KYB risk assessment software include:

- **Creating a custom risk assessment flow** that suits your needs best, where you can manage the fields, set restrictions, and limit the countries you wish to work with based on your business needs and best practices.
- **Assigning risk levels based on specific countries.** There are five risk levels (very low, low, medium, high, and very high) to which you can assign any existing countries based on your risk appetite or global risk score data. You can also disable any risk scores you don't need and limit their levels by disabling the levels you don't need. You can set default risk scores for unselected countries.

If you're in the gambling industry

you might want to filter certain countries and assign risk levels to individuals based on their country's GDP.

If you're in the investment sector

and want to conduct deals only with individuals from low-risk countries, you can filter out high-risk entities and assign the "high" risk value.

- **Allocating risk score weights.** In some cases, partners have different weights regarding the risks they measure. This feature allows you, as a partner, to assign different weights, which allows you to either accept or reject the verification.

Solutions for Better Risk Management

- **Creating no-code custom rules.** This lets you create your own custom rules instead of choosing from predefined ones.

If you work in a marketing-related field

you can ask individuals to provide their monthly income during identity verification and later assess your target audience.

If you're in the healthcare sector

you can request individuals to verify their identity and share information about their health conditions.

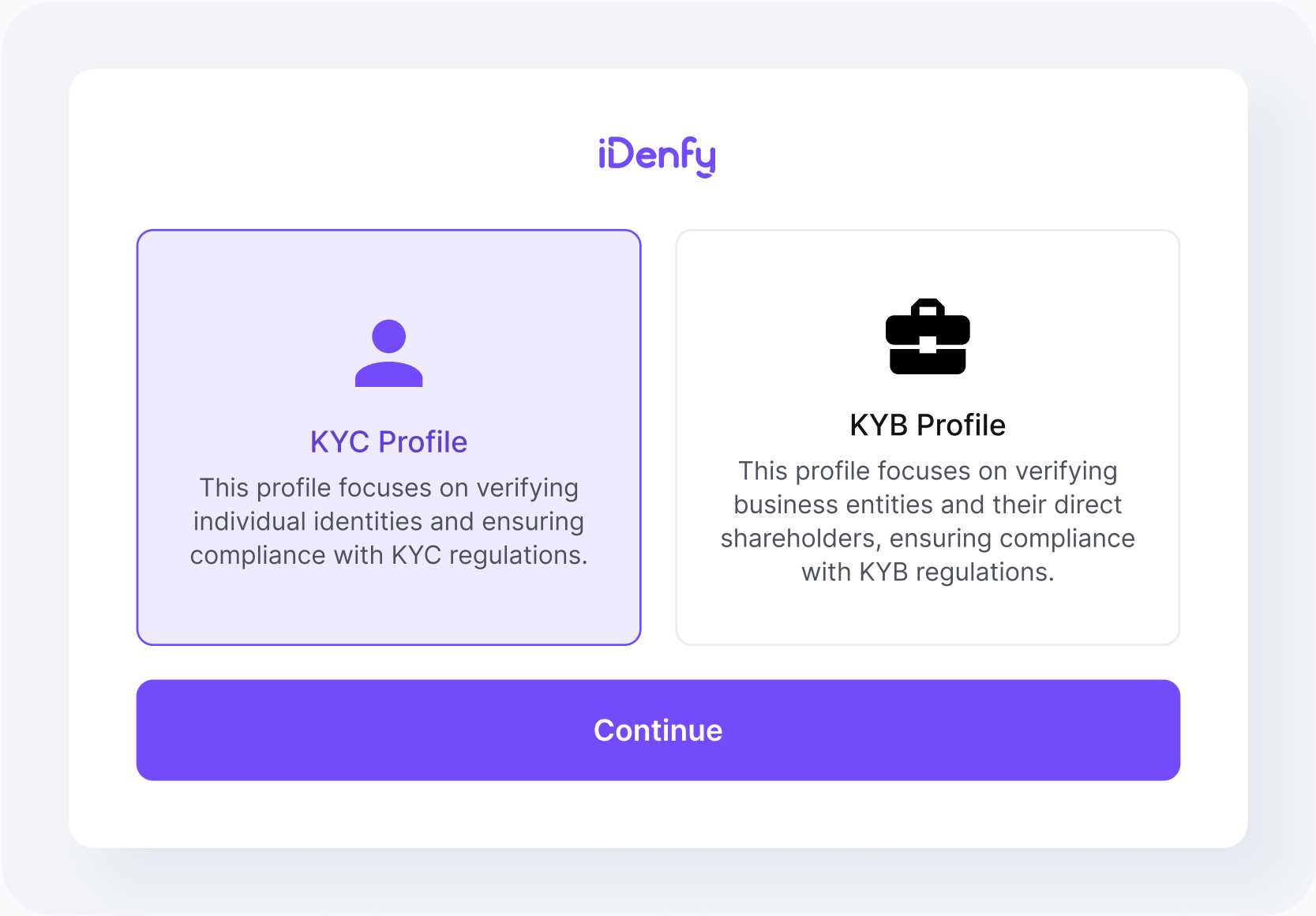
- **Changing the risk score manually.** Once identity verification is completed and the risk score is assigned, you can evaluate the risk score. If you spot a discrepancy or believe that the risk score was not assigned to your compliance, you can change the risk score manually before or after you edit your created custom flow.

iDenfy's Software Guide

We break down the step-by-step process of how you can get started with our KYC risk assessment solution.

Select the profile type

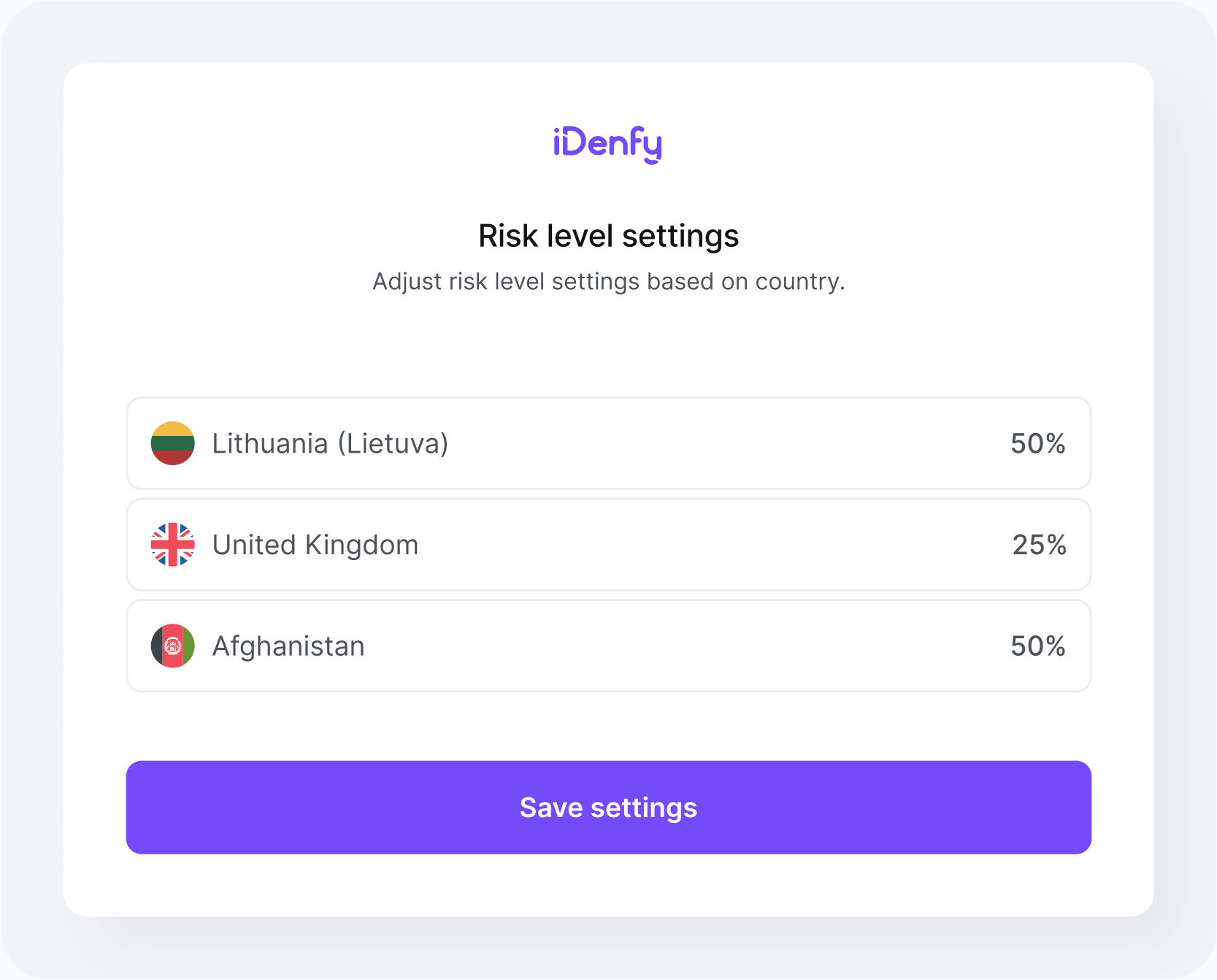
When selecting a risk assessment profile type, you have two options: either KYC or KYB evaluations. The KYC option allows you to add extra verification steps for identity verification for individual clients (not companies).



iDenfy's Software Guide

Configure risk levels

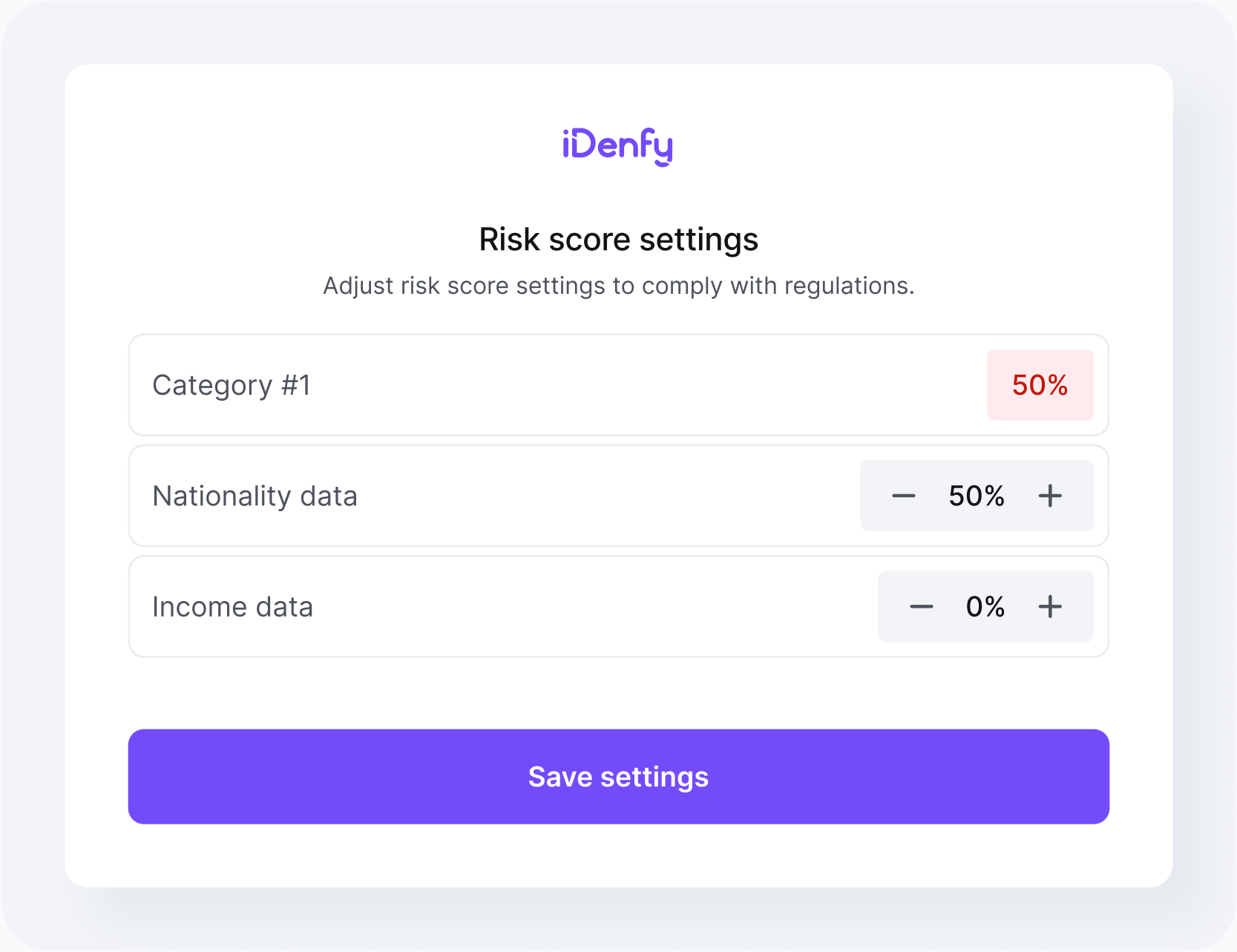
You can assign different risk levels to countries that align with your business model or internal risk assessment. This allows you to categorize countries based on perceived risk, helping you tailor your compliance measures accordingly and prevent from working with risky individuals.



iDenfy's Software Guide

Allocate risk score weights

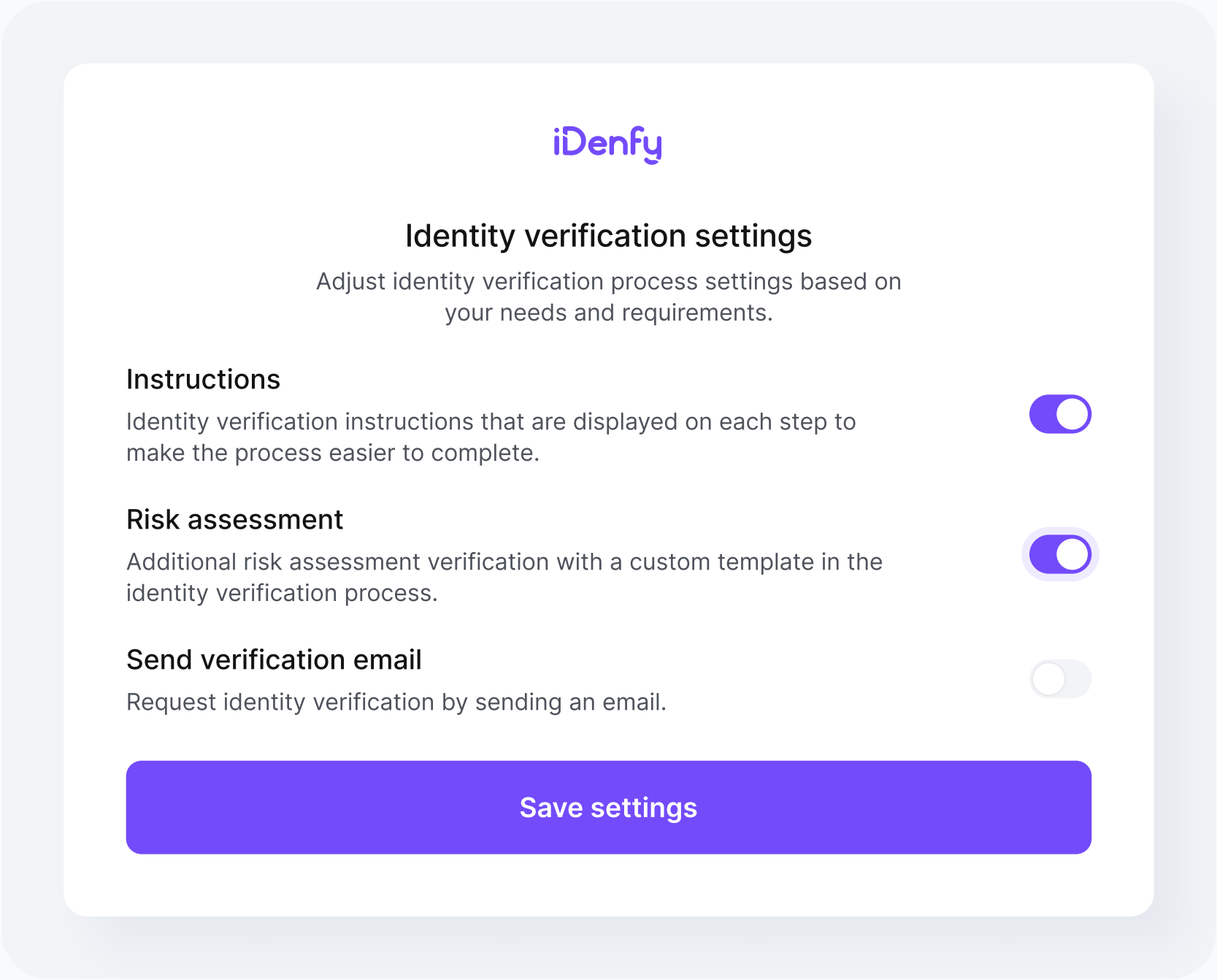
You can portion out different risk scores to your created rules based on your company's needs. If you only create one rule, it will automatically be assigned 100% of the weight by default. This flexibility allows you to fine-tune how each rule impacts the overall risk assessment, allowing you to take a customized risk management approach.



iDenfy's Software Guide

Turn on the risk assessment feature

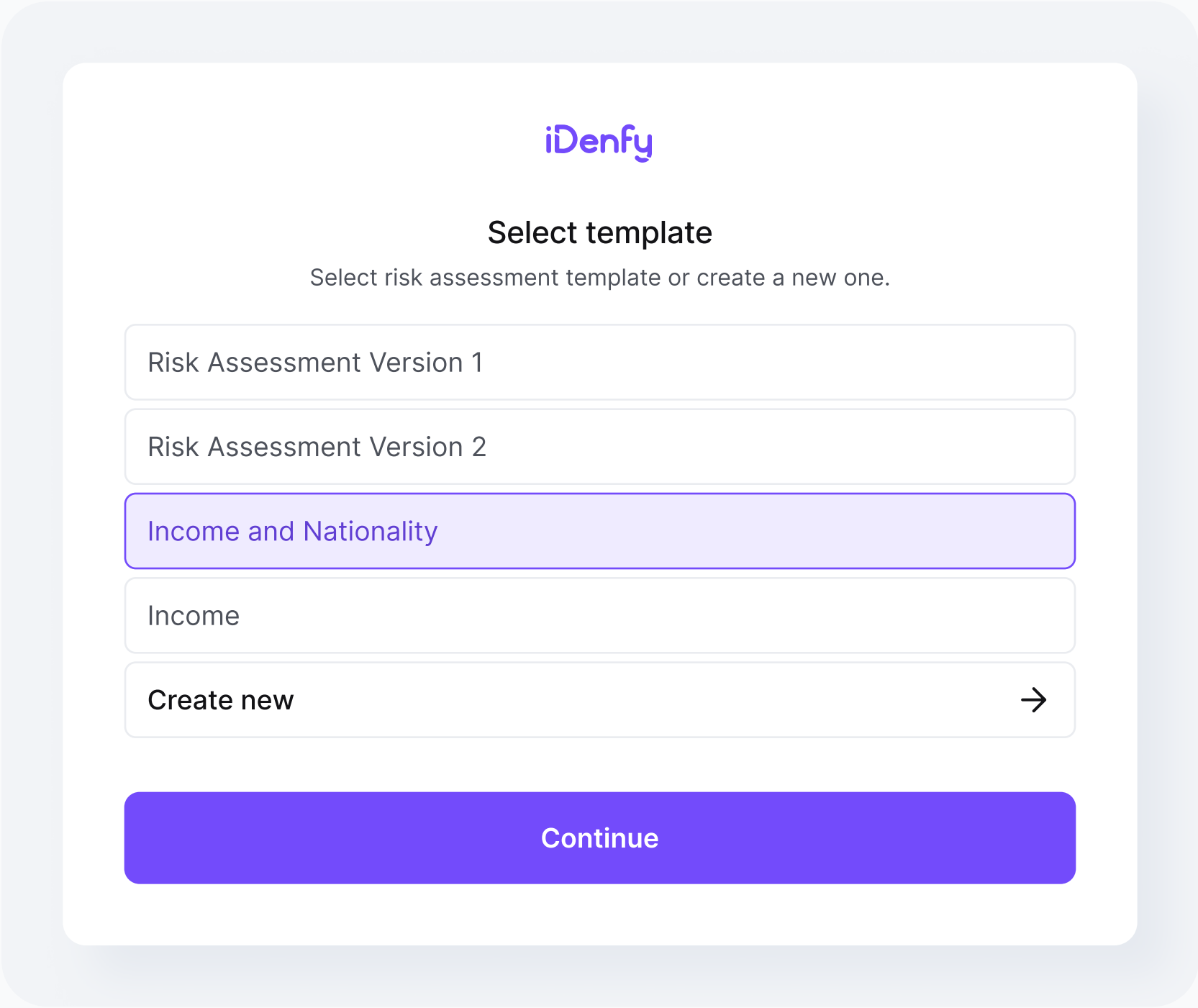
When you're ready to perform identity verification, you can easily include KYC risk assessment as an additional feature in your IDV flow. To do this, first, initiate the ID verification process and locate the risk scoring section. Then, click the toggle button to enable risk assessment.



iDenfy's Software Guide

Select a preferred template

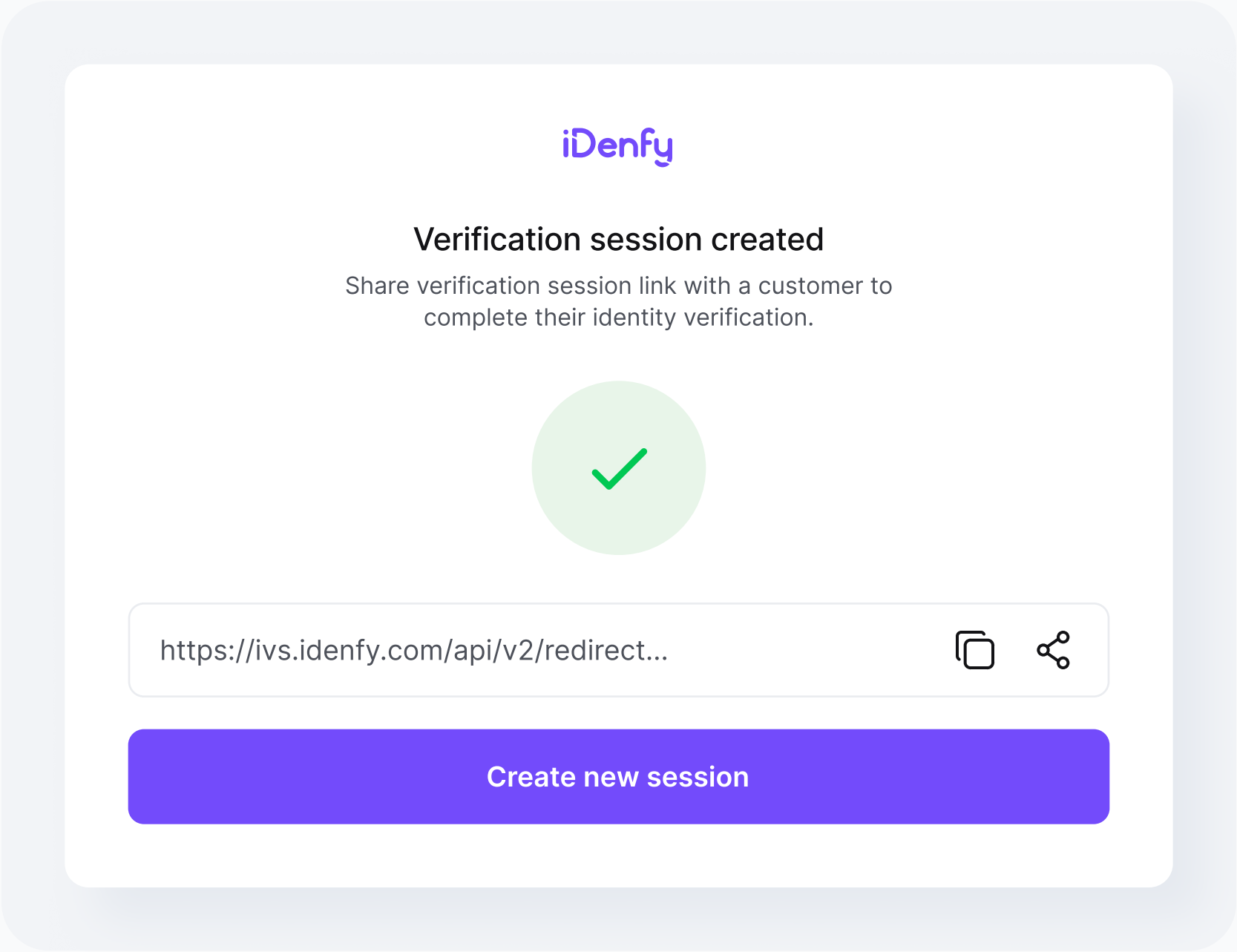
After that, you are now able to select the risk assessment templates you created to suit your needs best. If you do not have them yet, you can follow this flow to create templates.



iDenfy's Software Guide

Generate a one-time session token

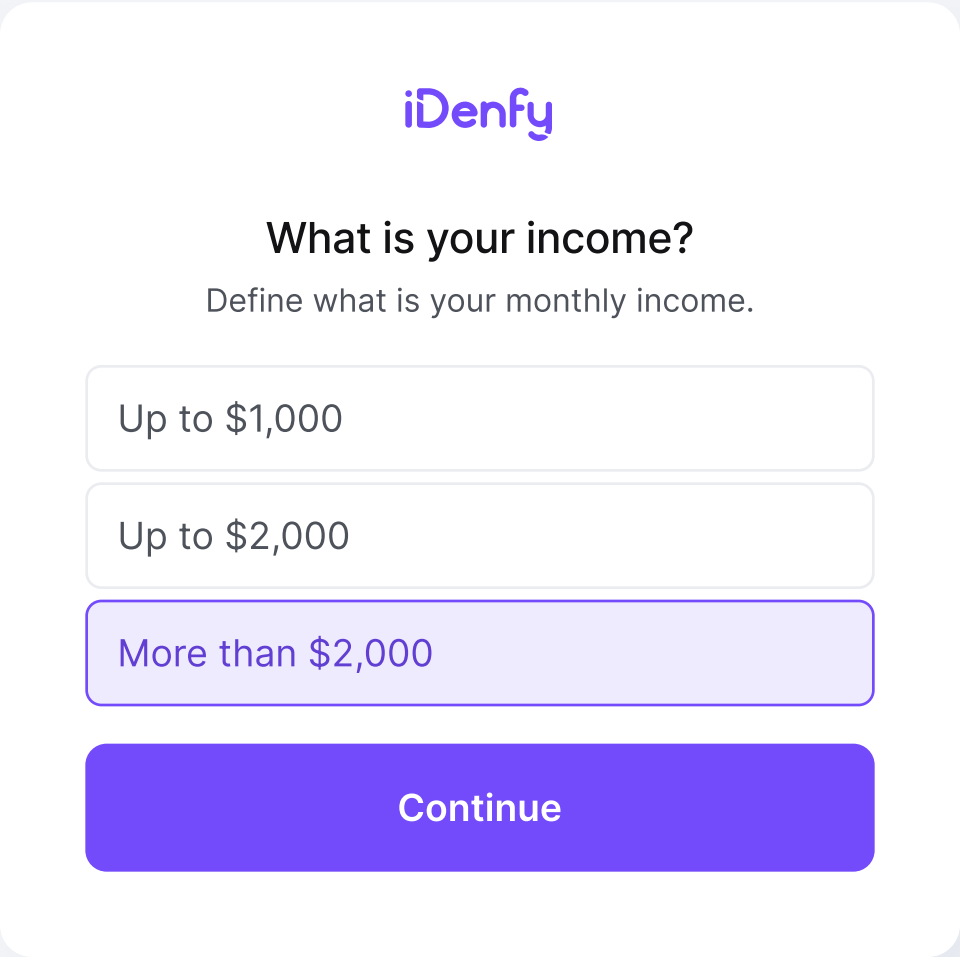
For the final steps of identity verification creation from our dashboard, you must double-check to ensure that all the information is selected correctly. Once this is done, click "create" token and generate a one-time session token. The token then needs to be copied and sent to the person verifying.



Identity Verification Session from the User's Side

Answering various questions

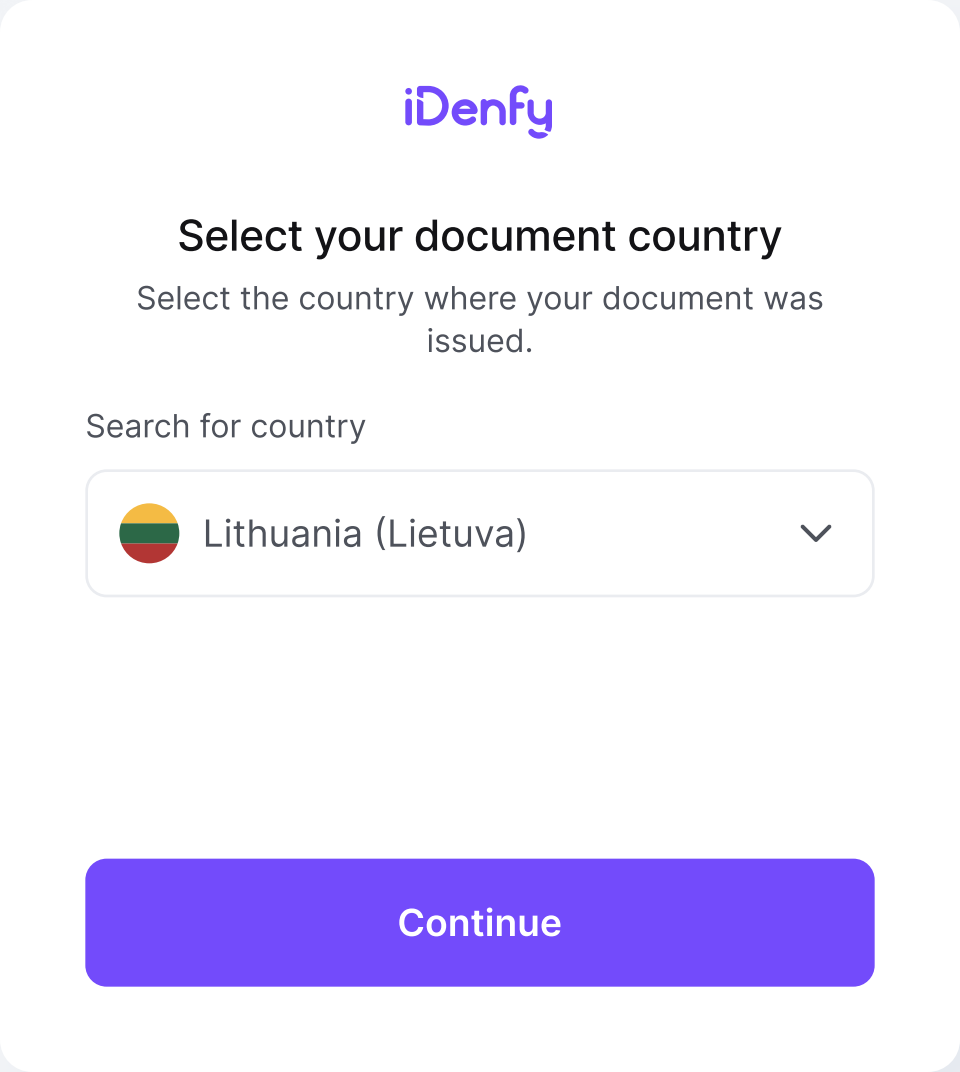
As soon as the user clicks on the link, they are brought to the identity verification space, where they will now need to provide their personal details so that you can be sure that they comply with the requirements your company has. Here, the user sees one of the custom KYC risk assessment questions (in this case, regarding their income) that you've previously created.



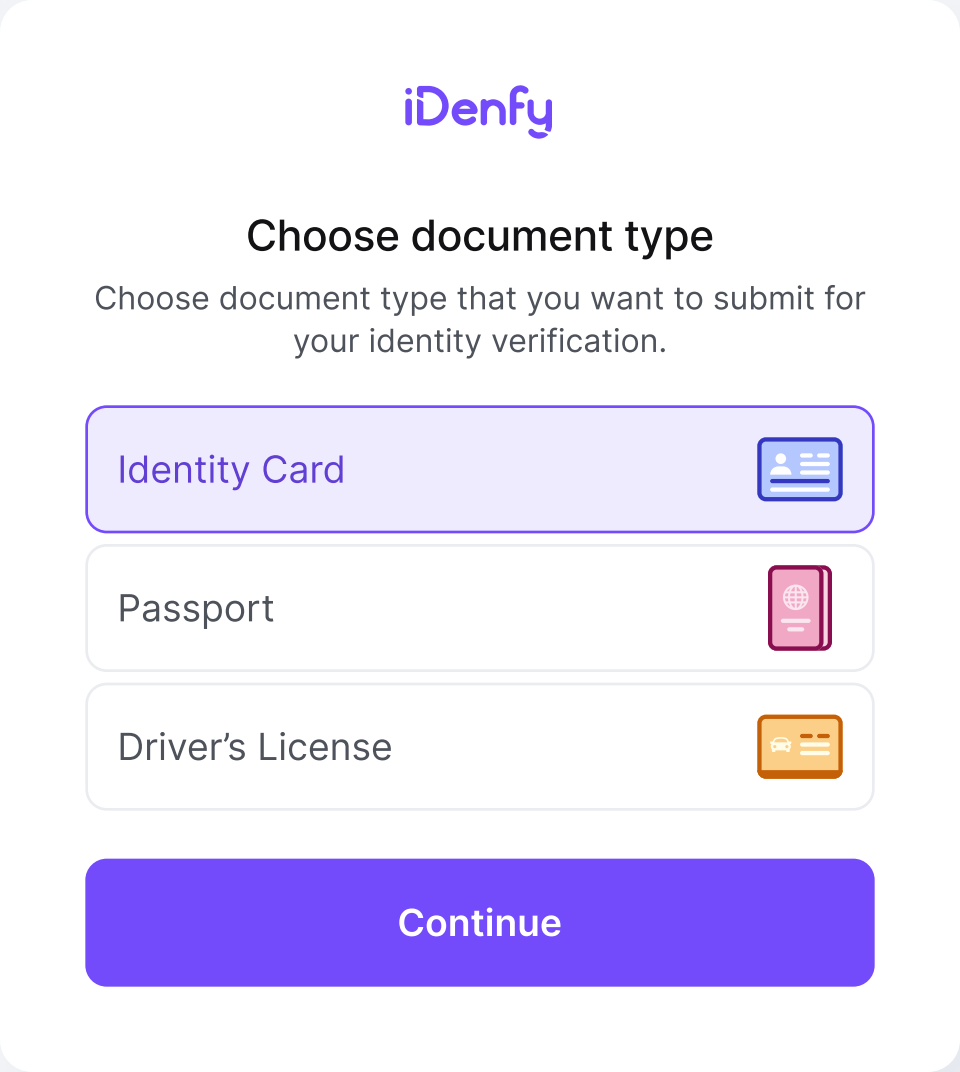
Identity Verification Session from the User’s Side

Selecting their country

The user is always required to select their country of residence. However, we've added an extra step in the risk assessment process that assigns a specific risk level to the chosen country. If a country isn't assigned a risk level, it will be set to the default level.



Identity Verification Session from the User's Side

Choosing their document type

The user verifying their identity must always select a document type as one of the mandatory risk assessment steps. The other stages of the KYC flow include asking them to take a selfie, providing their name and surname, and adding other details that you've set as necessary.