Corruption blitz highlights importance of KYC, FIC

By Craig Hills

1 Dec 2020

Over 100 people have been arrested in South Africa's corruption crackdown in 2020 and it's of particular interest to note that many of these cases involve allegations of money laundering and fraud. This has shone a spotlight on why issues such as Know Your Customer (KYC) and compliance with the Financial Intelligence Centre (FIC) Act are so important when it comes to preventing these types of crimes in South Africa.

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KYC is a term that has been coined in recent years to indicate the importance for businesses — particularly those in the financial sector — when it comes to conducting several checks on their customers. These checks assess, for instance, whether customers are who they say they are, and also whether they pose a business risk.

These risks can range from previous criminal records to what is known as politically exposed persons, or PEPs. Ultimately, businesses need to decide whether or not to take on the risk of a particular customer, but it’s crucial that they go into such decisions fully knowing what’s at stake.

The FIC Act goes further to add legal weight to such circumstances. Back in October 2017, this law was amended and strengthened in SA to counter issues such as money laundering and financing of terrorism.

This piece of legislation has forced financial service providers (FSPs) and what are known as accountable institutions to move towards a risk-based (rather than a rules-based) approach. This has modernised the way that institutions conduct customer due diligence in relation to financial transactions.

Who exactly needs to comply?

As per law, registration with the FIC is a legal requirement for all accountable and reporting institutions. If your organisation fits into one of the two categories mentioned below, then it’s crucial for you to ensure that you comply fully in order to avoid possible fines and other penalties. Complying will also go a long way in protecting your business.

The first category is that of schedule 1 accountable institutions. The kind of parties involved here includes the likes of attorneys, executors of trust companies, estate agents, banks, long-term insurance companies, gambling companies, foreign exchanges, money remitters and more.

Meanwhile, the second category is that of schedule 3 reporting institutions, and this specifically includes motor vehicle dealerships and traders dealing in Krugerrands.

While many businesses in these categories are a long way down the road in terms of compliance, the fact is that other smaller companies — especially the likes of real estate Aaencies and motor vehicle dealerships — may be at risk of falling short and will need to get up to speed.

What are the compliance criteria?

The FIC Amendment Act Framework consists of seven pillars of compliance. What's key to recognise is that the change of the Act in 2017 means that the legislation went from being rules-based to risk-based.

The customer onboarding pillars that the applicable businesses need to focus on are:

1. Client identification and verification
2. Record keeping
3. Reporting
4. Implementing a risk management compliance programme
5. Identifying a person in your business who is responsible for compliance
6. Training of employees on the importance of compliance and onboarding customers appropriately
7. Finally, registration with the FIC.

Central to all this is deciding whether your business needs to go the traditional, paper-based KYC approach or the more modern eKYC route.

EKYC uses more modern technologies such as biometric authentication and remote onboarding, meaning that a customer doesn't physically have to be present to be onboarded. Their identity can be verified remotely via the likes of smartphone technology, and this can result in a safer, more efficient KYC process for both your business and your customers.

In closing, it's never been a more important time to ensure your business is safeguarded from the risks out there. It will make for a safer operating environment over the long-term while ensuring the prosperity of your business.

ABOUT THE AUTHOR

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