PROFIT

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for investment and trade

Know your customer

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1. Introduction

In many countries it is now a requirement to demonstrate that you “know your customer”. Some people now talk about the need to “know your business” (KYB) and use the phrase “know your customer” (KYC) to refer to individuals. In this factsheet, however, we follow the general use if the phrase without differentiating between businesses and individuals since both are customers. KYC is intended to make it harder for banks to be used by criminals who are seeking to launder money but is used by others to avoid corruption and bribery as well. Regardless of the motive, it is important that all businesses know their customer: this requires that you verify the identity of your clients or customers preferably before, but otherwise during, the time you do business with them.

KYC allows businesses to protect themselves through being able to show that they are doing business legally and with legitimate organisations.

2. Knowing your customer

Knowing your customer is simply undertaking basic due diligence to check that they are who they say they are. If there is any chance that you will be offering them credit, you should be making these checks anyway, so this requirement is unlikely to add to your burden. Financial institutions will want, and will be more easily able, to gather data about individuals’ and businesses’ credit records; you may therefore only gain access to limited information through your own due diligence process..

You will need to gather a certain amount of basic information about your customers. The starting point is to ask them, but you may want to seek evidence to support their answers. Do not make the assumption that it is all correct just because they claim that it is. Ask for references and proof of information. Check with other suppliers of the business, if you can. Check their website. Look for them elsewhere on the internet as well. Check them out on social media, especially Twitter and Facebook. Ask for copies of accounts, preferably audited, and if necessary check with the accountant who prepared them. Create a customer profile so that you have all the information in one place.

3. Why know your customer?

Apart from it being sensible to know to whom you are selling, it is also a requirement in many countries. For example, if you are exporting to India, the customs authorities will want to confirm the receiver's identity and address. Before you ship to a new address in India, the receiver needs to provide their KYC proof to your carrier, if they are not already know to the carrier. The carrier will save the details in their KYC database for future shipments to the same address. However, you will need to repeat this process if you change your carrier or send goods to a different address. If a business has several addresses, everyone you use will need to be registered separately in the carrier's KYC database. Missing documentation may both delay your shipment and lead to penalty fees.

4. KYC databases

Large numbers of online databases and consultancy services are springing up to help with these requirements. If you are only exporting a small amount, the likelihood is that this will be easiest and cheapest if you do the checks yourselves or in collaboration with your carrier.

5. Further information

PriceWaterhouseCoopers has prepared a quick reference guide to Know Your Customer covering risks and regulatory guidance for many countries including India, Thailand and Vietnam. See https://www.pwc.com/gx/en/financial-services/publications/assets/pwc-anti-money-laundering-2016.pdf. This also sets out all the questions that you should ask as you undertake due diligence on your customers.

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