

White paper

Rethinking KYC:

Improving the customer journey
with seamless digital ID

nets::

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1. Introduction

Banks and other businesses must balance the imperative to be compliant on one hand with the imperative to offer world-class digital experiences to customers on the other.

Traditionally, Know Your Customer (KYC) comes with visits to branch offices. It's time consuming, costly, and limited to office hours. Different solutions for KYC have hit the market over recent years, but do not offer a fully digital and automated process. Optical solutions using photos of identity documents are not secure, real-time video calls with an operator are invasive and costly, and both have poor conversion rates and require manual intervention.

This white paper examines how to overcome these challenges with an automated digital identity verification flow that lowers friction and optimises the experience, while ensuring security, simplicity and customisation.

2. Keep Your Compliance

Let's face it. The world of financial technology (or 'fintech') involves lots of buzzwords, jargon and obscure terminology. Know Your Customer (KYC) is usually associated with the process of verifying your customer's identity. But it is also determining customers' risks and compliance with specific regulations, storing data, and conducting ongoing monitoring, making reports to authorities, and much more.

CIP Customer Identification Program for making sure your customers are who they claim they are	CDD Customer Due Diligence for the standard or enhanced process of collecting more in-depth information	AML Anti-Money Laundering for detecting suspicious activities based on a risk-based approach	KYB even Know Your Business as an offset of KYC, focusing on companies as a whole rather than individuals.
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Like it or not, KYC is a buzzword which is here to stay. Even though KYC can morph into multiple meanings, the overall context with the aid of clear examples should always give you an idea on what is being discussed.

So why you need KYC or, in other words, how do you Keep Your (Own) Compliance?

Compliance - a necessary evil?

Compliance is often viewed as a necessary evil for businesses. A process that creates friction with your customer, which must be fulfilled in order to meet complex regulations.

KYC helps you filter out those criminals and fraudsters who you want to keep away from your business and from your legitimate customers. No bank or other business in the world wants a money laundering scandal associated with their brand.

Most KYC processes across the globe can be done through four pillars: document collection, data assessment, continuous monitoring of activity and reporting. Such steps may be perceived as annoying, but they are still necessary to prevent 'more serious' evil.

That said, none of your customers are likely to be motivated to fill in forms, attach copy of documents, click on multiple 'next'-buttons before they have even tried out your service. We live in an instant world where our attention spans are short. The younger generations (read Millennials and Gen Z) may expect the opening of a bank account, or similar, to be as simple and fast as the opening of a social media account.

You don't need to reinvent the wheel to reduce friction. Your onboarding journey 'simply' needs to be finely tuned to your own customers' expectations. More convenient, faster, digital.

3. A fragmented world of ID solutions

“ Good digital ID is identification that is verified and authenticated to a high degree of assurance over digital channels, unique, established with individual consent, and protects user privacy and ensures control over personal data.

McKinsey Global Institute report, Digital identification: A key to inclusive growth

The Covid-19 pandemic has lit a fire accelerating the growth of remote working, the rapid deployment of digital solutions, and the lower up-front costs.

The challenge resides in our global diversity. Because of their different histories and cultures, European member states rely on different types of digital verification.

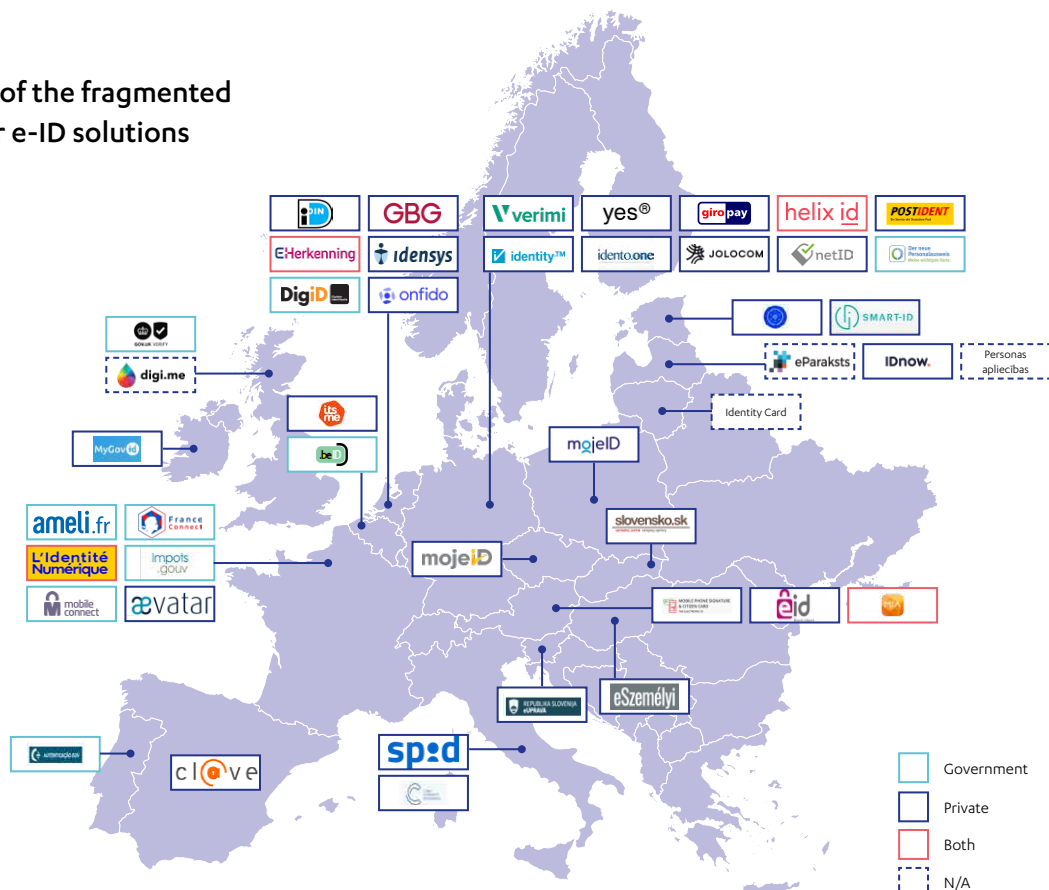
The lack of a one-size-fits all formula is widely acknowledge by European policies and regulations focused on securing desired common verification outcomes while relying on each national identity infrastructure.

Once a digital ID is legally recognised, the private sector can rely on it for KYC (identification and authentication) thanks to eIDAS – the 2014 European Union regulation on electronic identification, authentication, and trust services, encourages member states to build and recognise private and public cross-border electronic identity verification systems.*

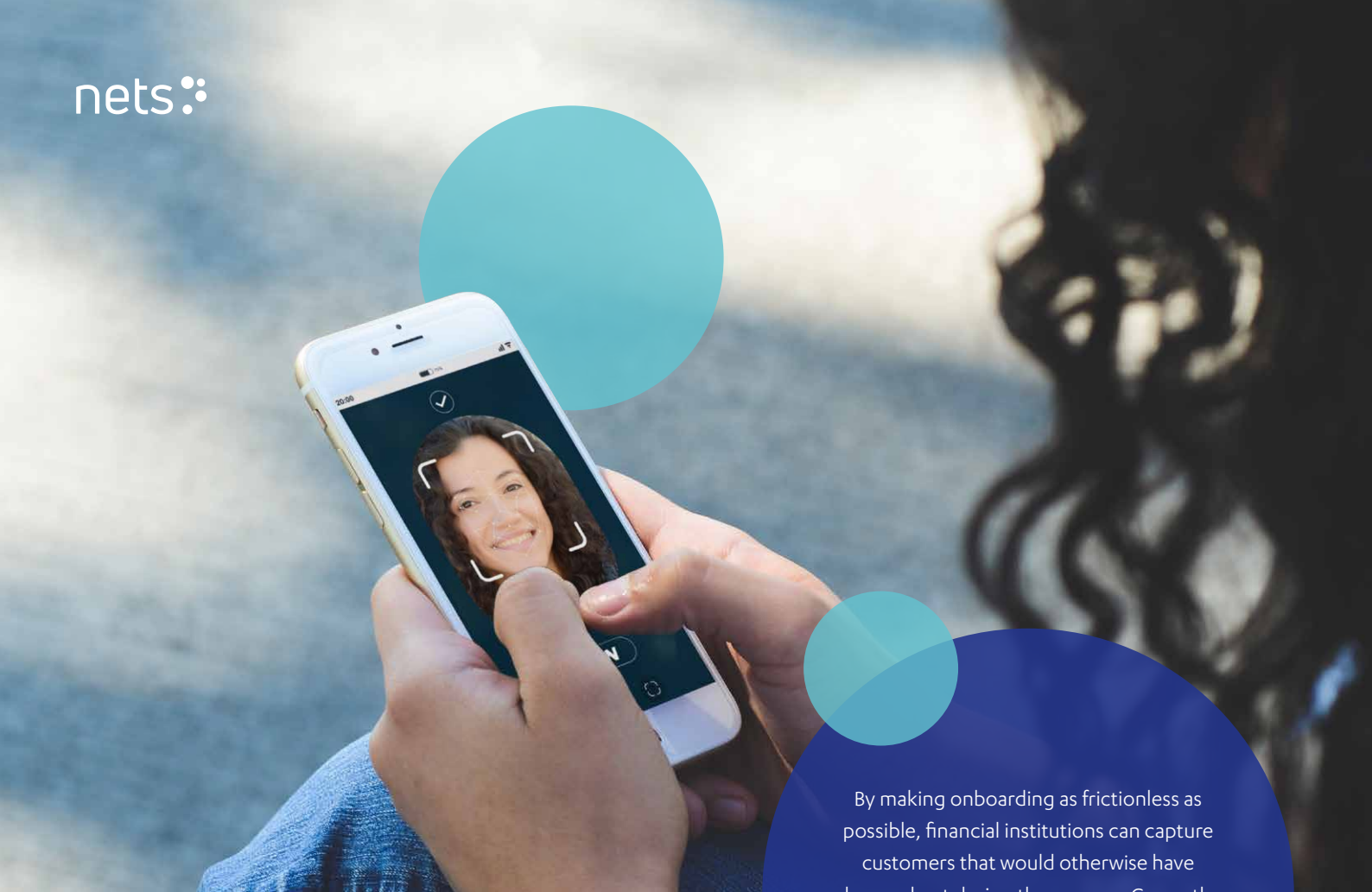
Simply put, eIDAS provides a set of standards for secure and seamless digital identity verification. Promising, yes, but let’s not forget the dangers of weak digital verification.

With the exception of digitally mature markets like the Nordics, the current offer for digital ID solutions in Europe is very fragmented. Mixed providers, governmental or private, are often operating in one country serving just a small proportion of the population with discrepancy in their security and assurance.

Overview of the fragmented market for e-ID solutions



*European Commission, (2018a), Digital Single Market Policy: Trust Services and Electronic Identification [eID].



By making onboarding as frictionless as possible, financial institutions can capture customers that would otherwise have dropped out during the process. Currently, firms plan for a drop out rate as high as 85% for those who start an application for a digital product.*

4. Enhancing your customers' experience

Year 2022 (present time, not the future). A Norwegian citizen can digitally access or open a bank account at any Norwegian bank from anywhere in the world. This is because all Norwegian banks accept the same digital ID, BankID, in what is considered a semi-centralised, federated system.

While in most European countries you may have to rely on physical passports, identity cards or other documents to verify your customers' identity, in Norway this is digitally done with BankID. On top of that, while elsewhere you may still use pen and paper to sign an agreement, in Norway this is digitally done with BankID.

Replace Norway with either Sweden, Denmark, or Finland (each relying on its own national digital ID) and you have a picture of why the Nordic countries are stand-out examples to learn from when it comes to KYC digitisation and secure verification of identity across any vertical.

With that being said: Houston, we still have a problem.

How do you digitally identify a foreigner living in Norway who does not have BankID? A question which can be translated, in a broad sense, to how do you identify a EU citizen who does not have a national ID?

Do not panic if you don't have an answer. Massive literature and research on this topic will comfort you in telling that you are not alone, as most banks and businesses doing KYC in Europe are reportedly experiencing high (30, 50, or even 60% pending on what source you trust) customer abandonment rates due to verification challenges.

Wouldn't it be nice to have a digital, secure, and cross-border digital ID, to solve the onboarding conundrum in Europe? No more friction in the form of lack of country harmonization, digitisation and automation – aka manual, legal and laborious tasks.

5. How to navigate in today's complex KYC ecosystem

Welcome to a new era where KYC is being used to shift gears, accelerate and improve the customer experience.

Imagine buying a car. If this is your first car, you have plenty of models, colours, and dozens of options to choose from, to match your preferences and needs. But if you already have a car, the very same process may be more challenging. Maybe you still like that 'something' about your car, maybe it's not entirely up to you to decide as your family members also have a say.

Nets Passport Reader, a newly launched cross-border digital ID solution, is your car engine in both scenarios. It is either pre-built in your newly bought car or it can be swapped into your existing car.

The illustration below gives a high-level overview of how Nets' digital ID can be seamlessly integrated into any bank or organisation's existing KYC processes, covering identity

“ The time to be digital is now. Frictionless customer onboarding with digital identity gives a fast, user-friendly and secure journey for the customers.

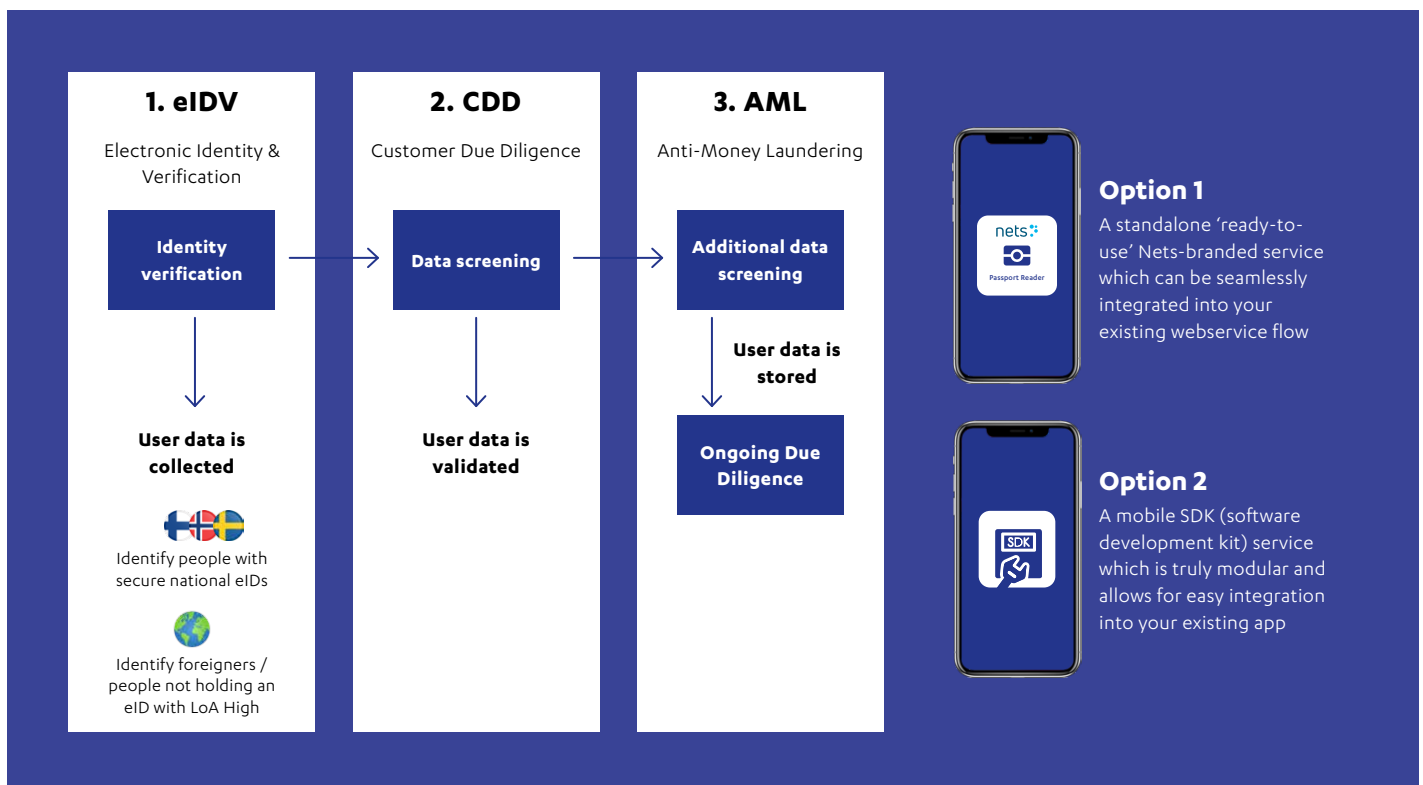
Nets offers digital identity solutions and are often approached as a trusted advisor and collaboration partner. With a growing European footprint we are proud to help even more businesses navigate in today's complex KYC ecosystem.

Silje Arnesen, Senior Vice President / Head of eSecurity & Digitisation

verification and ongoing due diligence, without posing restrictions or creating dependencies.

Choosing the Nets ready-to-use app minimizes custom development at for the bank/business to enhance time-to-market significantly. Choosing the Software Development Kit (SDK) modular approach allows you instead to build a truly native solution.

Do you need additional help to revamp or build from scratch your whole end-to-end KYC/AML compliance? Customers' due diligence and risk-based assessment can be implemented in the most synergistic way through Nets' partners specialised in fully digital eKYC solution.

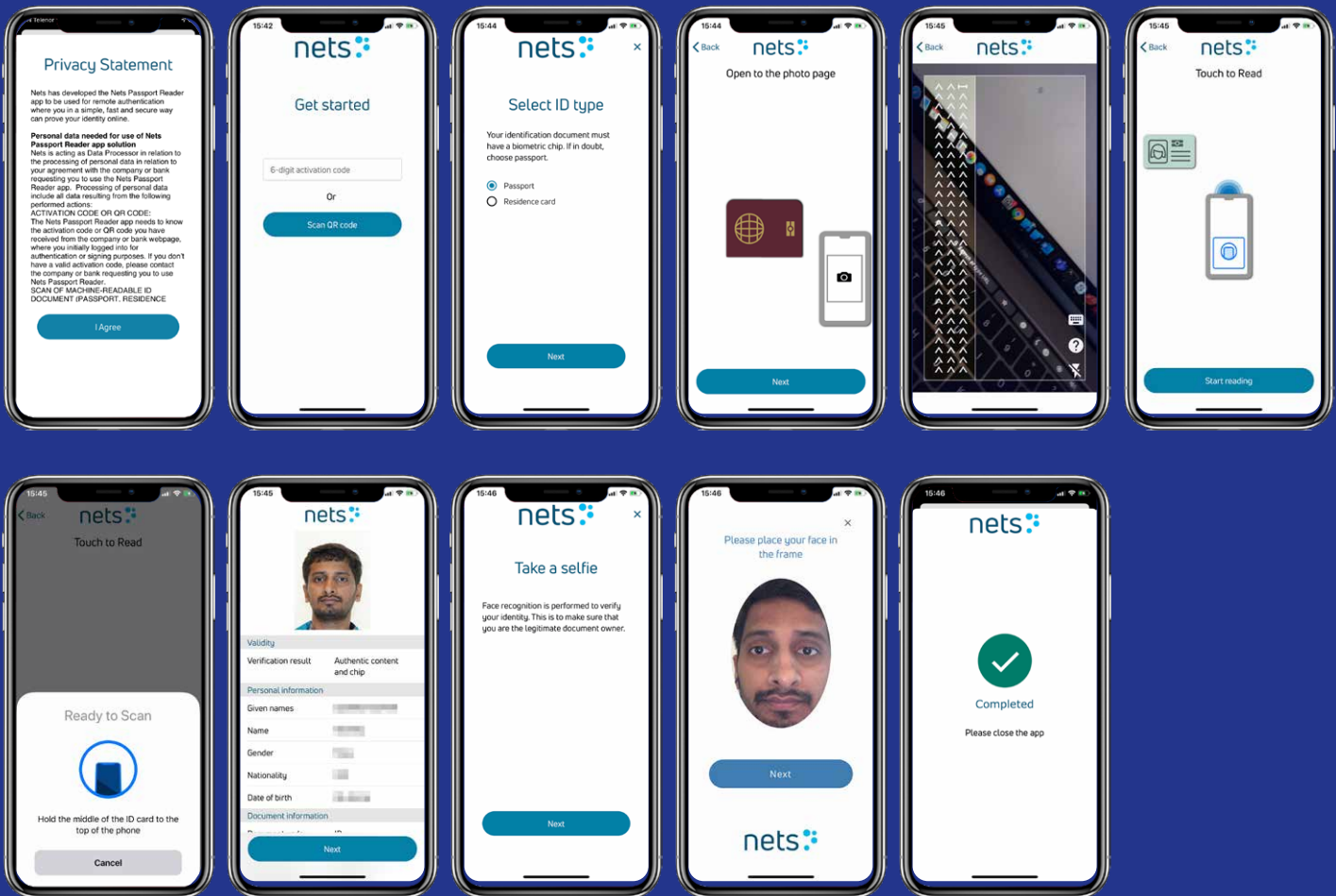


6. One solution – modular deployment for multiple use cases

Regardless of what kind of services and products you offer to your customers (whether banking and financial services, healthcare, e-commerce, gaming, transport, telecommunications, cryptocurrency and blockchain, university onboarding etc) you can safely use the Nets Passport Reader to verify the identity of any person not holding a digital ID with full European and Global coverage.

The Nets Passport Reader can be used for multiple use-cases, including users' remote onboarding (KYC identity verification), re-authentication according to anti-money laundering (AML), and authentication-based signing – securing a seamless interaction with the end-users. It allows customers to sign an agreement, approve credit increases or open an account, in one seamless action.

The in-app authentication process is fast, user-friendly and secure and can be performed in 1.4 minutes. Watch Nets Passport Reader in action: www.nets.eu/solutions/digitisation-services/identification/Pages/Passport-reader.aspx





7. Underlying state-of-the-art technology

Nets Passport Reader was recently featured in the Enisa (European Union Agency for Cybersecurity) report on Remote ID Proofing, published on March 2021. The report provides an overview of the current legal and regulatory landscape in Europe, specifically addressing how Nets' digital ID (used by the Norwegian Digitisation Agency, DigDir) is the de facto standard for secure remote authentication in Norway.

1. Nets Identity broker

Nets Passport Reader is hosted and managed in Nets E-Ident identity broker service, which provides your customers with an activation code to safely establish a unique authentication session.

Only personal data that is needed to fulfil your KYC purposes is collected. Nets processes personal data with care and handle all the compliance complexity related to mobile device data transport, processing, storage, transfer, access and control.

2. NFC technology for secure document verification Nets Passport Reader makes use of the Near Field Communication (NFC) chip in the document for secure document verification. It works with any ICAO 9303 compliant ID documents including, aside from 190+ passports worldwide, also residence cards, identity cards and driving licenses.

NFC technology is the most secure on the market and is the only trusted component certified at eIDAS High.

3. Biometric certifications drive success

Combined with the NFC data, Nets' biometric solution passed the highest requirements and certifications against spoofing attack. The facial matching algorithm provides you with a confidence score based on international standards such as FAR (false acceptance rate), with a max confidence score of 1:950.000 FAR which is the leading threshold worldwide.

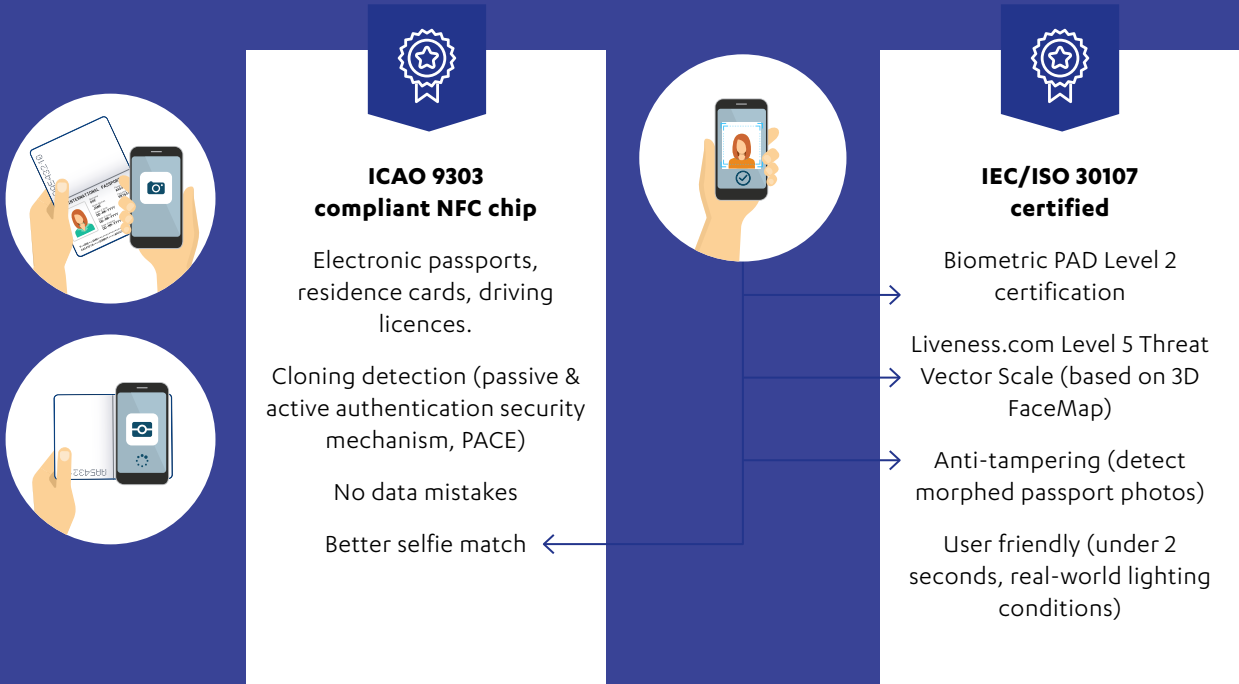
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I am particularly proud of our collaboration with Nets to provide foreigners access to Norwegian government services. ReadID disrupts the remote identification industry, which still largely relies on OCR and video identification technologies. Our new certification proves an unequalled trustworthiness of both our technology and we as a company at the highest level of identity verification: qualified digital signatures and eIDAS eID High. This is a gamechanger for us and helps us scale out business further by reducing audit overhead.

Maarten Wegdam, Innovalor/ReadID CEO

Secure verification

Nets' Passport Reader Solution makes use of the Near Field Communication (NFC) chip in the document for secure document verification. NFC technology is the most secure on the market and is the only trusted component certified at eIDAS High Level of Assurance (LOA).



8. EIDAS compliant identity proofing

The Nets Passport Reader is eIDAS certified by BSI, one of the world's largest certification bodies. When used for identity proofing the service can be configured across Europe for eIDAS High – the highest level of assurance. When used for digital signing, Nets' service supports both Advanced Electronic Signature (AdEs) and Qualified Electronic Signature (QES) with qualified certificate (qCert) for legally binding signatures across Europe.

Kai Magnus Olshausen, Director of Trust Services in Nets Group, quotes: "Since we introduced the Nets Passport Reader in 2020, it has brought security and simplicity to remote identification across the Nordics. As part of the leading European PayTech, Nexi Group, it is important that Nets not only demonstrates that we are following international standards but documents it with a certificate by an external auditor like BSI, an acknowledged global provider of independent assessments. The certificate proves that we are living up to the highest market

expectations when it comes to trust in digital identities. It also positions Nets well for the ongoing eIDAS 2.0 revision, which is focusing on the upcoming creation of an EU digital wallet initiative".

Download Nets' Trust Service Practice Statement (TSPS) here:
<https://www.nets.eu/solutions/digitisation-services/identification/Pages/Passport-reader.aspx>

9. Get started with a fully digital identification process

As explored in detail throughout this whitepaper, the new approach to KYC compliance is digital-first, customer-centric, modularity driven and powered by scalable automation.

Legacy systems, disconnected data and complex manual processes should not be a showstopper but rather a starting point to embrace change with a strategic step-by-step approach, by asking:







- 1 What part of your KYC process (or building block) should be redesigned first?
- 2 What is your desired conversation rate?
- 3 Do you have global presence or a desire to grow?

Powered by today's innovative technology, it is possible to reach a level of reliability and security higher than traditional 'in person' checks, allowing banks and other business subject to KYC/AML regulation to:

- ✓ get a fully digital and automated process to verify a business' customers' identity cross-border without having to rely on manual intervention to prove authenticity
- ✓ lower friction and optimise a business' customers' experience while ensuring security, simplicity and customisation.

Having designed and implemented leading identification solutions over the last 20 years, Nets is the trusted Nordic service provider within payments, information and digital security.

Nets supported ID solutions

 <p>NORWAY</p> <p>4 million users</p>	 <p>DENMARK</p> <p>5.5 million users 2.5 million use the Code app</p>	 <p>Nets is designing Denmark's next-generation fully-digital eID solution. Summer 2022 MitID replaces NemID</p>
 <p>eKYC solution to the Norwegian Digitisation Agency</p>	 <p>BANK ALLIANCE'S ID SOLUTION</p> <p>1.1 million digital identities</p>	 <p>NORWEGIAN ID PROVIDER BUYPASS</p>



Nets supporting European ID solutions:

Member of the EU Digital Identity Wallet Consortium. Creating a digital identity for all Europeans.



About Nets

Nets is a part of Nexi Group - a leading European PayTech, with 9.000 employees in 25 countries and 60 locations and trusted by 1.000 financial institutions.

Believing in simplicity and security as the foundation for growth and progress, Nets powers payment solutions as well as digital identity, signing, and archiving solutions for an easier tomorrow across Europe.

We are enabling Pay Tech Ecosystems for the Next Level within Compliance, Trust and Identity Proofing requirements.

As leading eID solutions provider we look forward to bringing the Nets' competencies to International Markets. Our EU compliant Customer Onboarding solution, is covering identity proofing, identification, authentication, and authorization.

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