

⚡ Fourthline

Navigating KYC in Germany: How to streamline your onboarding while staying GwG compliant

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Quick Takeaways

- The German identification landscape is diverse and fragmented. This can cause issues for enterprises who want to grow, scale, and expand into new territories.
- New compliant, alternative solutions that fit your AML requirements and risk tolerance are highlighted.
- Find out how three innovative solutions can help you innovate faster and avoid common Know Your Customer (KYC) pitfalls.

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KYC onboarding: complacency in the German market

While financial enterprises understand the importance of staying in lockstep with the evolving regulatory KYC landscape, they also know it's only half the battle. It's one thing to be compliant and keep the KYC onboarding suite clear of regulatory missteps. It's another thing to onboard customers in the most time- and cost-efficient way while ensuring a seamless user experience.

German-based enterprises have been navigating these elements of KYC complexity ever since the European Union adopted the AML4 directive in 2015. Following this, the German Anti-Money Laundering Acts (GwG) required enterprises to identify applicants, and in 2015 the local financial regulatory authority (BaFin) introduced video identification procedures.

Video Identification (Video Ident) is the most commonly used verification method in Germany, but is it the best onboarding solution for all enterprises? Video Ident is only scratching the surface, and enterprises don't have to be limited to relying on only one identification method.

German enterprises could reduce costs, improve the end customer experience, and be equipped to handle peak performances – by leveraging a suite of untapped identification methods that fit their business needs.

Identity verification: a snapshot of the German landscape

BaFin outlines a number of identification methods that adhere to regulations: in-person verification at a valid location such as a post office (Post Ident), video identification (Video Ident), electronic identity verification (eID) through near-field communication (NFC), or a qualified electronic signature (QES) with a microtransaction.

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Compliant identification methods for German enterprises

Identification method	How it works	Conversion	UX	Scalability	Cost
Post Ident	In-person verification	⊗	⊗	⊗	⊗
Video Ident	Video verification	✓	⊖	⊗	⊗
German eID	NFC & ID verification	⊗	✓	✓	✓
AML Ident	Bank-grade KYC + QES	✓	✓	✓	⊖
Bank Ident	Bank Account Login + QES	⊖	✓	✓	✓
Reliance	Fourthline's PI license (art. 25 AML4)	✓	✓	✓	✓

Postal Identification (Post Ident)

In simple terms, Post Ident is an in-person identity verification method performed at a local bank branch or post office by a bank or Deutsche Post employee. The verification process is straightforward: a customer looking to open a bank account (or any account that requires identity verification) receives a Post Ident coupon issued by the financial institution. An employee at the post office or bank cross-checks the information on the coupon against the customer's identity card and confirms the identity for the financial institution.

The in-person aspect of customer onboarding nearly ensures accurate fraud detection, but it comes at a price.

As it requires people to leave their homes, in-person verification is not an optimal user experience for most people and can negatively impact conversion rates, especially when compared to a fully digital verification method.

Video Ident

Video Ident requires an uninterrupted live video conversation between the customer and a KYC analyst during the onboarding process. On the back end, analysts must be trained to conduct the video identification process. The Video Ident process must be end-to-end encrypted for privacy and security standards.

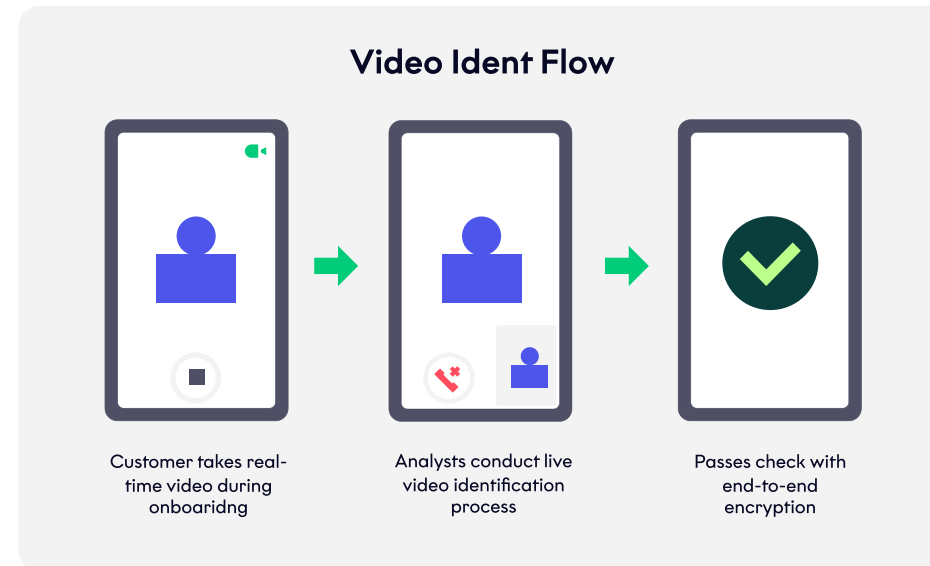
Video KYC is the most common identification method in Germany. But meeting all the requirements, including the manual process of having trained professionals available in real time to verify each exchange, can be costly for businesses. Additionally, it's a less scalable option when it comes to unexpected changes in onboarding volume or during times of peak performance.

Growing enterprises who leverage this solution— and need to take on a large influx of applicants with unpredictable volumes — could run into hurdles. BaFin has outlined strict requirements for Video Ident: employees need to be specifically trained to authenticate through video, the quality of

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the video produced has to be of a certain caliber, and the video authentication must be done with a live connection. This can be a tall order for growing businesses that need resources to meet each requirement. The requirements, combined with queues and costs, can make Video Ident limiting: while German customers are used to this identification method, conversion outside of Germany can be up to 50% lower.

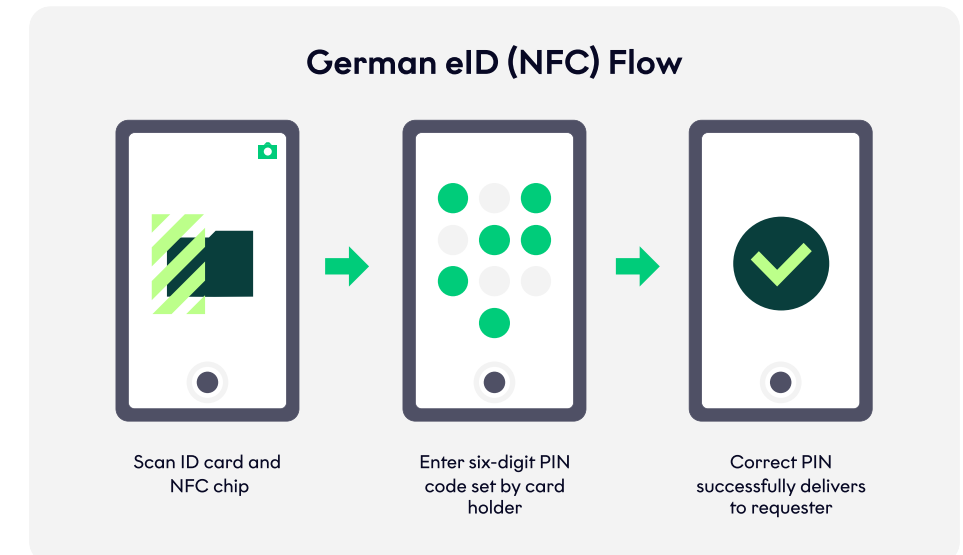


German eID (NFC)

The electronic identification (eID) service lets German citizens and non-citizens use their digital national ID to identify themselves by leveraging a mobile app and the NFC contactless chip reading capabilities on their smartphones.

The digital ID can be unlocked by holding a smartphone with an NFC reader to the NFC chip located in the identity document. The customer then enters a six-digit PIN that has been set by the cardholder in the mobile app. After entering the correct PIN, the identification data is securely forwarded to the financial institution requesting it.

This method of verification is fully digital and, while a high conversion rate would be expected due to a smooth user experience, customer conversion for this method can be a hit or miss. For users who remember their PIN code conversion is high. However, in practice, people rarely have their PIN codes memorized or readily on hand, and therefore can't share their identity through eID. For the latter, conversion can be practically 0%.



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Alternative compliant solutions: customized to fit your business needs

Fourthline has identified key solutions for German enterprises seeking compliant alternatives to Video Ident that can be tailored to risk appetite and built to optimize conversions.

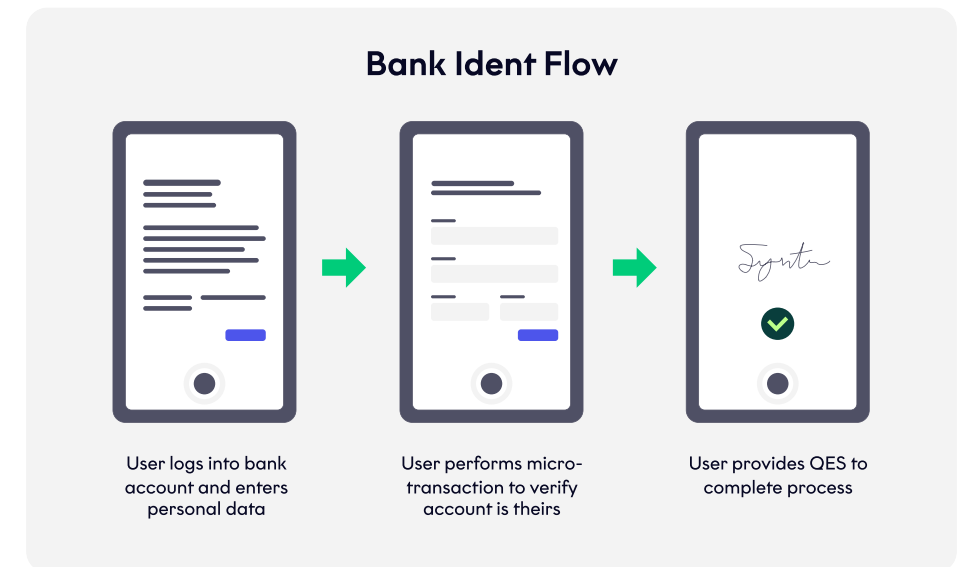
1. Bank Ident

Bank Ident is a fully digital onboarding flow with a robust user experience that's compliant with German law. The onboarding flow consist of three steps:

1. A user supplies their personal data (in the background, the user's data is checked against an independent database).
2. The user is then asked to log in to their bank account and initiate a microtransaction to verify the account is theirs.
3. To complete the onboarding process, the user provides a Qualified Electronic Signature (QES).

Bank Ident offers a strong user experience with one potential downside: in some cases conversion can be lower than expected. Two parts of the process can negatively impact conversion rates:

- During Step 1, a mandatory database check is performed. As certain databases have low coverage, this could return a "no match" for the supplied user data.
- Enterprises sometimes report a drop in conversion (up to 20-30%) due to the bank account log-in during the microtransaction step. Not every customer is used to this and/or has a German bank account.



To remedy this, there is a back-up process to avoid these conversion pitfalls: AML Ident.

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2. AML Ident

Fourthline has built a versatile and scalable solution for enterprises seeking an alternative to Video Ident or Bank Ident. Within BaFin requirements, customers can be verified through a bank-grade KYC flow, which includes an ID&V check with QES, and a bank account check.

While initially it may seem like a more complex process, it's seamless for clients and customers.

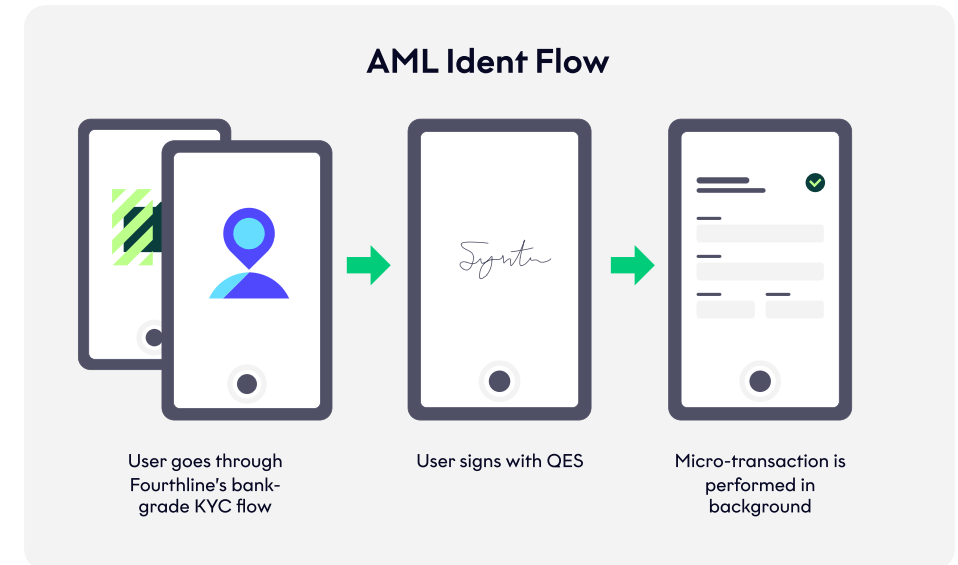
Here's how it works:

1. A user goes through Fourthline's (white label) bank-grade KYC flow including ID&V, biometrics, liveness, and proof of address. (See following section for details on this flow.)
2. After completing the flow, the customer provides a Qualified Electronic Signature (QES).
3. Finally, a bank account check is done to verify the customer is the account holder. Under BaFin regulations, this can happen asynchronously.

From the perspective of the customer, the third step requires no action. Because a bank account check can be triggered at a later time, the first incoming transaction can be used to verify the account holder's name. This is especially useful for regulated institutions, like online brokers, who

receive bank account details when customers upload funds for the first time.

Using AML Ident, enterprises can circumvent high costs and scalability challenges associated with Video Ident, or conversion loss due to bank account log-ins.



3. Fourthline's Reliance solution: scaling beyond Germany

Because the GwG applies to all German companies and German citizens, a German financial institution that wants to grow across Europe still has to adhere to GwG requirements – even if it onboards customers outside Germany.

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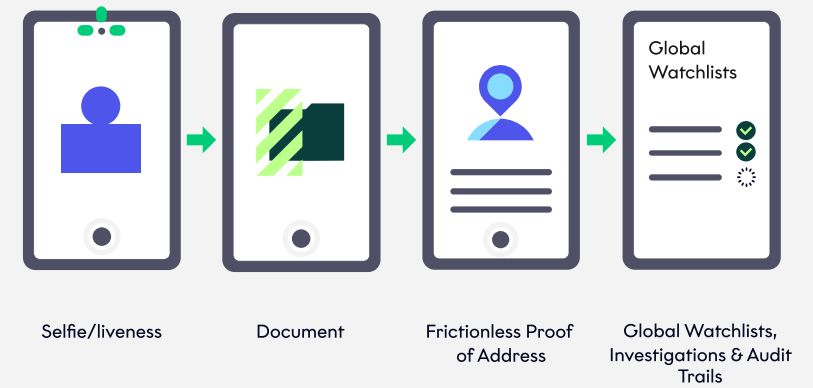
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However, the lack of familiarity with the Video Ident flow for non-German customers becomes a barrier of entry, negatively impacting conversion rates with up to 40% conversion drop.

German financial institutions can onboard non-German customers without Video Ident by using Fourthline's Reliance solution. More specifically, by relying on Fourthline's payment institution license, German enterprises are allowed to onboard non-German customers outside Germany under the Dutch interpretation of the AML (the Wwft). With Reliance, Fourthline's end-to-end or customizable bank-grade KYC is completely compliant and includes the full suite of products: identity and verification, biometrics, proof-of-address 2.0, anti-money laundering global watch lists, ongoing screening and monitoring, and anti-fraud investigations.

The Reliance solution offers a streamlined user experience that optimizes conversion and is ideal for (fast-scaling) German companies looking to grow outside their home country.

Reliance: Bank-Grade KYC Flow



Clients who partner with Fourthline can customize their flow and tailor the solution to match their risk appetite and expansion plans, this results in:

- Reducing costs compared to Video Ident.
- Avoiding unnecessary conversion losses.
- Stopping suboptimal user experiences, by requiring less action from the end user and eliminating wait times.
- Designing a product that can scale and adapt to large volumes or peak performances.
- Onboarding non-German customers with a streamlined KYC flow.

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- Adhering to all BaFin requirements and a fully compliant onboarding process.
- Tailoring modular KYC solutions exactly to your risk appetite.

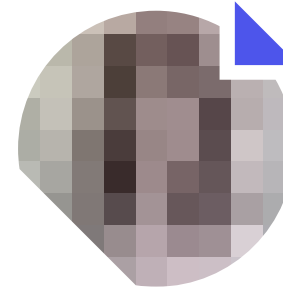
Enterprises that remain complacent with solutions that aren't optimized for their business may be missing out on untapped opportunities.

"We believe implementing a fully BaFin-and GwG-compliant onboarding flow doesn't mean compromising business growth, cost savings, and scale," says Krik Gunning, CEO of Fourthline, "the identity verification method that works for some may not work for others; it all depends on individual business needs."

We have extensive experience in the German market and are here to help.

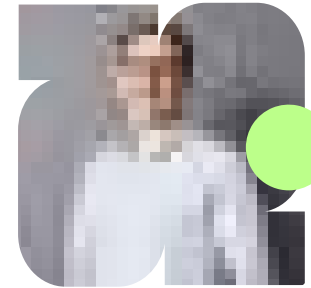
If you're curious to learn more, contact one of our experts at www.fourthline.com

Here's what our partners say:



"Fourthline's compliance expertise across different European jurisdictions has made rolling out into new markets far easier... their deep domain knowledge allowed us to grow much faster than we otherwise could have."

Delia König, Managing Director
- Identity at Solarisbank



"Fourthline came out on top based on conversion rates, customer experience and handling times."

Alexander Emeshev
- Vivid Money co-founder

