Customer Due Diligence

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Customer Due Diligence is integral to the KYC process, for example by ensuring the information a potential customer provides is accurate and legitimate. But it is also a constant process, extending to customers old and new, and their transactions.

Customer due diligence requires ongoing assessment of the risk of money laundering posed by each client and the use of that risk-based approach to conduct closer due diligence for those identified as higher non-compliance risks. That includes identifying customers as they are added to sanctions and other AML lists.

According to the U.S. Treasury's Financial Crimes Enforcement Network, the four core requirements of customer due diligence in the U.S. are:

- Identifying and verifying the customer's identity
- Identifying and verifying the identity of beneficial owners with a stake of 25% or more in a company, opening an account
- Understanding the nature and purpose of customer relationships to develop customer risk profiles
- Conducting ongoing monitoring to identify and report suspicious transactions and update customer information

Customer due diligence seeks to detect money laundering strategies including layering and structuring, also known as \\“smurfing”\\—the breaking up of large money laundering transactions into smaller ones to evade reporting limits and avoid scrutiny.

One rule in place to foil layering is the AML holding period, which requires deposits to remain in an account for a minimum of five trading days before they can be transferred elsewhere.

Source: https://www.investopedia.com/terms/a/aml.asp

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