

CIMA amends guidance to accommodate e-KYC and Digital ID Systems

Insights - 13/09/2023

At the end of August 2023, the Cayman Islands Monetary Authority updated its guidance on the use of e-KYC by Financial Service Providers.

While the Cayman Islands Monetary Authority (CIMA) does not specially endorse the use of a particular system or provider, it has opened the door for financial service providers (FSPs) to apply their own risk-based approach to the selection and use of a system that best suits their own requirements.

The growth of e-KYC

The application of e-KYC (**electronic-Know Your Client**) has gathered pace around the world over the last few years as a method of either replacing or enhancing traditional KYC processes, accelerated by both the drive for efficiency in compliance processes and by events such as the COVID-19 pandemic. Whilst Cayman based FSPs are already able to use electronic identification documents per a risk-based approach to identification and verification, CIMA's most recent update is aimed at providing guidance on how a financial service provider might use an e-KYC system or service provider in obtaining and monitoring the information.

What this means in practice

Financial service providers can apply a risk-based approach to using e-KYC solutions to remote onboarding and ongoing monitoring, provided that they both:

- conduct a risk assessment of applying the solution to its own customer base. This should take into consideration the specific nature of those customers, including elements such as geography, products and services, and delivery channels
- demonstrate consideration of the adequacy of the e-KYC system or provider itself in addressing the risks related to the FSPs' own business. This is expected to include evaluating the level of

confidence and accuracy in the reliability and independence of the e-KYC system and its components. Depending on the nature of the e-KYC solution, this may also require a risk assessment of any potential outsourcing arrangements

This second point is referred to in the guidance as "assurance levels", a concept that is specifically referenced in the Financial Action Task Force (FATF) Guidance on Digital Identification (2020). Other jurisdictions are also using this FATF guidance as a basis to update their regulatory frameworks to ease the adoption of e-KYC. For example, the September change to the Money Laundering Order in Jersey includes reference to a digital identification system that complies with FATF Guidance as constituting a reliable and independent source for the purposes of customer due diligence.

Benefits of e-KYC

If applied correctly the use of e-KYC has many benefits. It can speed up onboarding times, reduce administrative burdens on internal teams and in some cases could give a better risk outcome. However, what this latest CIMA amendment highlights is that if a financial service provider is considering applying e-KYC measures to its customers, then there are a number of things that need to be addressed to ensure the decision to do so is a robust one.

How we can help

At Ogier Regulatory Consulting we can assist financial service providers with navigating the regulatory requirements including conducting reviews and providing advice on e-KYC and Digital ID systems.

Georgia Scott spoke at the Cayman Islands Institute of Professional Accountants' Cayman Business Environment Update 2023 on Wednesday 13 Sept. In a Cayman Islands AML update, she spoke about topics relating to eKYC and digital IDs.

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Key Contacts



[Georgia Scott](#)

Head of Ogier Regulatory Consulting

[Cayman Islands](#)

E: georgia.scott@ogier.com

T: [+1 345 815 1885](tel:+13458151885)



[Gavin Baxendale](#)

Client Director

[Cayman Islands](#)

E: gavin.baxendale@ogier.com

T: [+1 345 815 1915](tel:+13458151915)

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