



Thought leadership

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Do KYC Utilities Need to Cannibalize Their Business Model with Blockchain to Survive?

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Know your customer utilities are competing to establish leadership and differentiation in a fragmented market. As critical mass is the primary determinant of success and value-add, we expect either consolidation or an exit, leaving one or two remaining utilities. In order to survive and thrive, utilities should consider their value proposition and digital strategy against emerging market threats and opportunities and differentiate their product with a first-mover mentality.

Blockchain could disintermediate many industries based on two operating model changes — standardize-and-distribute and centralize-and-automate. Standardize-and-centralize presents a major threat to the KYC utilities' value proposition. Parallels can be drawn with fellow intermediaries, the Nasdaq and

the Australian Securities Exchange, which are currently piloting and invested in blockchain firms Chain and Digital Asset Holdings, respectively. Ignore the threat, and they could be disintermediated entirely. Instead they are positioning themselves to lead a new phase for stock exchanges that, while greatly diminishing their administrative role, continues to centralize the incumbent's role.

Given this, KYC utilities must consider whether blockchain is genuinely disruptive and whether they must cannibalize their model in response.

Is blockchain disruptive to the KYC utilities' value proposition?

Blockchain uniquely solves a number of technology constraints to a more effective utility model. These include:

1. Permissioned distributed database and validation techniques enable member banks to write, view and edit corporate profiles onto one network.
2. Private keys enable those corporate profiles to be viewed or edited only by member banks that have access rights.
3. Encryption and the distributed database enhance cybersecurity and data transfer compliance.
4. Smart contracts constantly auto-execute KYC, anti-money laundering or other controls or conduct data validation.
5. Authoritative sources' data feeds constantly auto-update client data directly from sources such as OFAC sanctions lists or company registration data.

The benefits case includes a 55% reduction in operations costs and 30% in compliance. However, many benefits rely on further standardization in KYC and AML policy, uncertain regulatory acceptance and digitization of authoritative source data. Utilities must consider whether such changes are realistic in the medium to long term.

How does blockchain cannibalize the utility model?

The key components of the current model that would be disintermediated include the centralized user interface and the data collection and validation. The intermediary responsibilities would transition to: maintaining industry policies; administering permissioned access; manage private keys; establishing relationships with authoritative sources; and maintaining a secure technology design and smart contracts code.

Strategically, the utility should address the risk of doing nothing and the response of competitors, including KYC data service providers like Dun & Bradstreet and Bankers Almanac.

How should utilities approach blockchain?

Utilities should conduct detailed research into blockchain technology and consider whether it is a genuine disruptive force. Partnering with technology specialists may help to independently assess the market threat (or opportunity) and conduct a strategic business case assessment to determine if change is fundamental to survive and thrive.