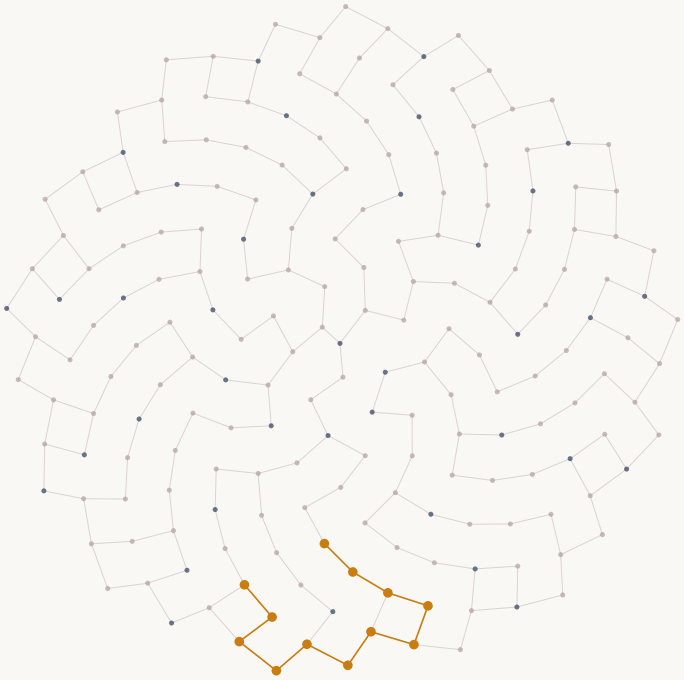

KYB Automation Gap: Why 30% Verification Falls Short

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KYB / FINANCIAL SERVICES

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By Sayari Analyst Team · Published April 2025

FinCEN's beneficial ownership rule and payment fraud sophistication have raised the bar on what KYB must accomplish-and most platforms are still running 1990s matching logic against modern threats.

For the last decade, compliance teams at payments platforms and fintechs have operated under a comfortable assumption: if your KYB automation rate sits around 30%, you're doing fine. That assumption is broken.

The shift happened in two places. First, FinCEN's beneficial ownership rule-now law and enforced-requires documenting and verifying individuals behind legal entities, not just matching company names. Second, fraudsters moved to layered ownership structures designed to evade the name-matching logic that legacy KYB platforms depend on. The result: 30% automation no longer works for fraud prevention or regulatory defense.

This gap between what platforms can automate and what regulators require isn't a traditional technology problem. It's a question of whether your KYB system is answering the question regulators are asking. Most aren't.

The Problem: Automation Limits and Regulatory Misalignment

Most legacy KYB platforms achieve roughly 30% automated verification rates, now a normalized baseline. The remaining 70% go to manual review. At scale-millions of onboarding events per year-this creates a cost and throughput bottleneck. Every volume surge pushes more cases into manual queues. Hiring more reviewers stretches TAT and deteriorates onboarding economics. Worse, the 70% manual workload masks a deeper problem: the architecture automating the other 30% isn't catching fraud. It's just avoiding false positives.

Legacy KYB solutions match entity names and registered identifiers against database records. This works with straightforward ownership structures. Name-match screening is fast, scalable, and produces clean decisions. But when an applicant is a subsidiary of an offshore holding company controlled by beneficial owners in three jurisdictions, name matching doesn't answer the regulatory question. It produces a false negative-the system approves, and the fraudulent merchant gets through. The bottleneck worsens as volumes grow and fraudsters layer ownership structures. The 30% rate doesn't improve because the underlying logic isn't designed to improve it.

FinCEN's beneficial ownership rule establishes a clear standard: financial institutions must identify and document individuals who own, directly or indirectly, 25% or more of a legal entity. This applies to corporate customers, partnerships, trusts, and other structures. The rule requires documented evidence tracing ownership from the legal entity through corporate structure back to individual(s). A match between an applicant's stated business name and a registered entity name does not satisfy this standard. Neither does a business registration number match alone.

Yet legacy name-match KYB platforms verify exactly this: entity existence in a registry and name matching. That's verification of existence, not beneficial ownership. Fraudulent merchants understand this gap and use layered ownership structures-offshore holding companies, interim LLCs, trust arrangements-to break the visible name chain between ultimate beneficial owner and operating entity. An applicant may truthfully provide their immediate parent company name, but if the beneficial owner is three layers removed, a name-match system won't surface it. Upon fraud review, a BSA examiner will ask: Who actually owns this entity? The rule exists because FinCEN and federal banking agencies saw ownership obfuscation as material compliance risk. Beneficial ownership verification has been part of customer due diligence guidance for years, but the 2024 rule made it explicit, enforceable, and tied to examination findings.

Why Legacy KYB Platforms Hit an Automation Ceiling

Legacy KYB platforms weren't built for beneficial ownership resolution. They were built for a lower-volume era when entity verification meant confirming existence and basic details. The architecture hits a wall when asked to trace beneficial ownership across multiple corporate structures and jurisdictions.

The core limitation is probabilistic matching. Legacy systems compare names and identifiers against database records and apply similarity scoring-fuzzy matching logic designed to handle misspellings and variations. A 92% match score looks good until a fraudster named "Michael Smith" controls an entity through an intermediate company with slightly different spelling, or uses a trust with generic terms in thousands of filings. Probabilistic scoring produces both false negatives (fraudulent entities pass because name variation breaks the chain) and false positives (legitimate applicants flagged because of rare initials or non-English characters).

This explains the 30% automation rate. The system is tuned conservative-it approves only high-confidence cases, because false positives (rejecting legitimate merchants) are more visible and costly than false negatives (approving fraudsters until detected later). Conservative tuning reduces false positives but also reduces automation.

The architecture isn't broken; it's answering the wrong question. It's optimized to match names. Regulators ask it to verify beneficial ownership.

What Deterministic Beneficial Ownership Resolution Changes

Deterministic beneficial ownership resolution works differently. Instead of probabilistic name matching, it traces ownership relationships across multiple corporate registries and jurisdictions, linking each ownership record directly to government registry filings.

When a beneficial owner appears in a regulatory filing in Canada, a corporate registry record in the UK, and an ownership disclosure in Singapore, deterministic resolution identifies them as the same individual through data triangulation, not similarity scoring. The result is an ownership chain depending on registry records-the evidentiary standard regulators expect.

Platforms using deterministic beneficial ownership resolution achieve automation rates around 55%-a 25 percentage point lift over legacy systems. Across millions of onboarding events, that's millions of decisions shifted from manual review to automated approval, each with documented ownership traces.

Fraud detection improvement is equally material. Because deterministic resolution traces ownership through registry records rather than matching visible names, it surfaces layered and obfuscated structures that probabilistic systems miss. That's a 2× improvement in accuracy for identifying fraudulent merchant applications using ownership obfuscation.

Regulatory exposure shifts significantly. When a beneficial ownership rule examination asks the basis for an automated approval, examiners expect a traceable ownership chain. Deterministic systems produce that chain-ownership linked to government registry filings across 250+ jurisdictions. Probabilistic systems produce similarity scores and flags. The first defends against BSA examination findings; the second creates regulatory exposure.

The Path Beyond 30%

The KYB automation gap won't close on its own. It closes when platforms recognize that beneficial ownership resolution-not entity name matching-is the regulatory question, and that deterministic resolution across corporate registries is the only way to answer it at scale.

Sayari's beneficial ownership graph was built for this purpose: to resolve ultimate beneficial ownership across multiple jurisdictions and corporate structures, and link each ownership relationship back to the government registry filing documenting it. Rather than probabilistic matching, it uses deterministic ownership triangulation across corporate registries, allowing compliance teams to automate beneficial ownership decisions at the standard regulators require.

If your KYB automation rate is 30%, you're operating within an outdated framework. The beneficial ownership rule, payment fraud sophistication, and examiner expectations have moved the bar. The question isn't whether you can improve automation-it's whether you'll do it with a system built for a different era, or one designed for the compliance landscape that actually exists.

Please visit sayari.com to learn more.

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