ST. KITTS BRANCH
Financial Services Regulatory Commission

NewsLetter

May 2026
Issue No. 143

Know Your Employee - KYE

Key Takeaways

1. Formulate effective Training Programmes and KYE policies.
2. Conduct thorough screening and due diligence before hiring.
3. Maintain complete and up-to-date employee records.
4. Monitor employee behaviour for indicators of suspicious activity.
5. Perform regular staff evaluations and training assessments.
6. Strengthen risk management through ongoing employee oversight.

What is KYE?

Know Your Employee (KYE) is the process of verifying the identities and background of current employees and prospective hires. Its purpose is to confirm that individuals are who they claim to be and to assess any potential risks, including any prior criminal activity. Regulated entities should develop and implement a KYE program to safeguard the business and identify potential risks.

Why KYE Matters

Today's headlines are filled with stories of employees whose actions have resulted in reputational damage and financial loss for businesses. While eliminating all risks may be unlikely, regulated entities can significantly reduce their exposure by applying practical KYE measures.

From the moment an employee is recruited, to the ongoing monitoring of his/her workplace behaviour, regulated entities must remain vigilant in protecting itself from fraud, misconduct, and operational risks.

It is equally important to understand the employees who interact with customers on behalf of the regulated entity. KYE policies and procedures, combined with strong internal controls, help ensure that employees act in line with the entity's values and regulatory obligations.

EVERY EMPLOYEE PLAYS A ROLE

All employees, regardless of their position or responsibilities, can expose the regulated entity to ML/TF/PF risks if proper controls and KYE procedures are not in place.

KYE Policies and Procedures

In accordance with Paragraph 13 of the Financial Services (Implementation of Industry Standards) Regulations (FSRC), Regulated Entities must develop and implement robust internal policies and procedures for all employees.

These should be consistent with AML/CFT/CPF laws, regulations and industry standards and be proportionate to the entity's size, nature of business and level of risk.

KYE starts the moment an individual is considered for employment. Therefore, the regulated entity must collect and verify due diligence information during the recruitment process.

IMPORTANT

A robust AML/CFT/CPF program must include KYE policies and practices for ALL employees.

Effective KYE practices help organizations protect their operations, customers and reputation. Regulated entities must implement the following:

1. Establish training programmes and KYE procedures.
2. Perform due diligence checks and screening.
3. Robust monitoring of employee behaviour.
4. Proper maintenance of employee records.

1 Training Programmes and KYE Procedures

A regulated entity should establish effective training programmes for all employees.

Key Focus Areas

- Employee awareness and compliance training
- Internal policies and procedures
- Fraud prevention and detection
- Ethical workplace conduct
- Ongoing staff development
- Relevant Laws and Regulations

2 Due Diligence and Screening

A regulated entity is obligated to ensure that the following information is collected:.

- Employee's personal information (including full name, address, and contact information)
- Copies of valid identification and proof of address
- Police record
- Evidence of how well the potential employee performed at his/her previous place of employment
- Employment history
- Financial and professional references
- Copies of qualifications and training

Best Practice: Documents provided should be verified and certified using original documents and references.

3 Monitoring Employee Behaviour

Management should monitor employee behaviour to identify suspicious activities. These behaviours include:

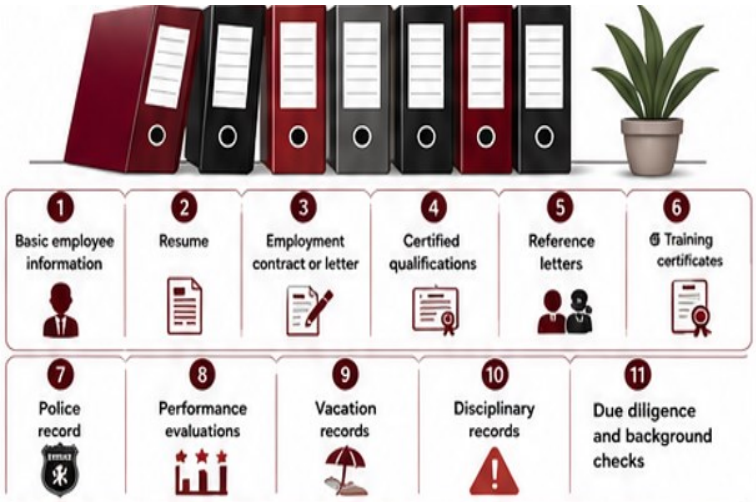
- Lifestyle inconsistent with salary or income
- Sudden changes in standard of living
- Refusal to take vacation
- Refusing assistance from colleagues
- Receiving gifts or gratuities regularly
- Reluctance to accept promotions or changes
- Staying late after working hours unnecessarily
- Returning to the office at unusual times

Why Monitoring Matters

Continuous monitoring helps to identify risks early and protects the business from fraud and misconduct.

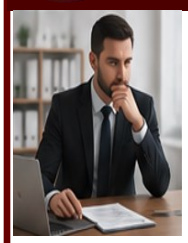
4 Maintain up to date Employee Records

Upon employment, a comprehensive Human Resource file should be maintained for each employee. These files should include the following:



Management's Responsibility: Management should regularly review employees' files to ensure information remains relevant and timely.

Case Study



A financial institution hired a new employee to assist with customer transactions and record management. Due to staffing shortages and operational demands, the recruitment process was completed quickly. Over time, management noticed unusual behaviour. including the employee regularly working after hours and displaying sudden lifestyle changes inconsistent with their salary. A later internal review uncovered fraudulent activity involving customer records and unauthorized transactions.

References

Saint Christopher and Nevis Financial Services (Implementation of Industry Standards) (Amendment) Regulations, 2020

Unit 21. (n.d.). *Know your employee (KYE): Preventing internal fraud threats*. https://www.unit21.ai/fraud-aml-dictionary/know-your-employee

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