

nCino KYC Africa

# Everything You Need to Know About **Ultimate Beneficial Owners (UBOs)**

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# Executive Summary

Ultimate Beneficial Owners (UBOs) are critical to effective Know Your Client compliance and financial crime prevention, yet identifying and managing them remains a significant operational challenge for Accountable Institutions. Without proper UBO identification frameworks, institutions may face regulatory penalties, heightened compliance risk, and exposure to money laundering and terrorist financing threats.

This whitepaper aims to provide Accountable Institutions with a practical framework for UBO compliance.

Drawing on nCino KYC's deep expertise in South African FICA compliance and regulatory requirements, this guide addresses questions such as:

- What are UBOs and why do they matter?
- What challenges arise in identifying beneficial owners?
- How can institutions build sustainable, scalable processes to identify and manage UBOs while maintaining regulatory compliance?

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# Why **UBOs Matter**

Those with less honourable intentions may seek opportunities to retain control over criminally derived assets by inhibiting the ability of law enforcement to trace the origin and ownership of assets. Companies, trusts, and other similar legal arrangements are seen by criminals as potentially useful vehicles to achieve this outcome. The only way for businesses to prevent criminals from using complex structures or legal persons to conceal true ownership is by assessing their clients and truly understanding who profits from and operates the business. This is where the concept of identifying UBOs becomes critical.

There are a number of local and international scandals, such as the Pandora papers and the tender fraud case surrounding "Cat" Matlala as well as Bosasa Cash and Trust Network. Cases such as these emphasize the need for rigorous customer due diligence (CDD) and accelerated regulatory drive for enhanced ownership disclosure and transparency.

To mitigate your risk of unknowingly becoming engaged with an entity that has something to hide, beneficial ownership identification and verification have become essential components of the Know Your Client (KYC) process.

# **Defining** Ultimate Beneficial Owners

## What is a UBO?

FATF DEFINITION

The Financial Action Task Force (FATF) defines an Ultimate Beneficial Owner as **the natural person who ultimately owns or controls a customer and/or the natural person on whose behalf a transaction is being conducted.** It also includes those persons who exercise ultimate effective control over a legal person or arrangement.

A UBO is effectively the person at the top of "the tree", who has ultimate benefit from, or ultimate control of, an entity and its operations.

## Who is a UBO?

Typically, a UBO is:

- The majority shareholder of a company, or
- A person who holds at least 5% of shares in the company

However, not all entities have a majority shareholder or even shareholders at all.
In cases without clear majority shareholding, you can take a risk-based approach and use a process of elimination, looking first for ownership, and then control.

For different entity types such as listed companies, trusts , private companies etc – there will be different types of "shareholders" to look out for.

**Learn more about these in our UBO training session.**

**Book here >>**



# Understanding **Beneficial Ownership Categories**

Beneficial ownership falls into three distinct categories:

### Controlling Ownership

The natural person who holds 5% or greater shareholding in a proprietary company or entity. This is the most straightforward form of UBO identification.

1

### Controlling Rights

Those who exercise controlling rights over a legal person, even without significant shareholding.

Examples include:

- Elected Chairperson of a residential management company
- Board members with decision-making authority
- Parties with contractual rights to control operations

2

### Management Control

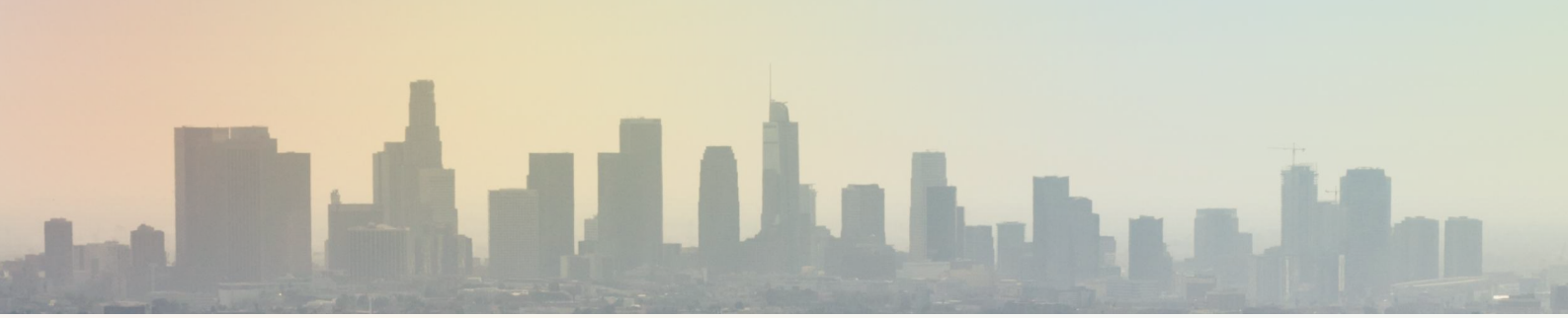
Those who exercise executive management control over a legal person, particularly relevant for larger corporate structures.

Examples include:

- Chief Executive Officer (CEO)
- Chief Financial Officer (CFO)
- Chief Operating Officer (COO)

3





# **The Challenges** in Identifying UBOs

**THE PARADOX OF UBO IDENTIFICATION**

The regulatory requirement for UBO identification has created an interesting paradox: regulators require more granular identification and verification of beneficial owners in an environment that has very limited accessible public information around ownership.

## Key Challenges

### 01 Lack of Public Information

With thousands of companies being incorporated each year, sometimes with minimal information requirements, identifying UBOs presents a significant challenge. The lack of accessible company ownership information leads to heavy reliance on client declaration and self-certification.

This was highlighted as a key finding in the 2021 Mutual Evaluation Review of South Africa carried out by the Financial Action Task Force (FATF), which noted that law enforcement faces challenges in readily obtaining accurate and updated beneficial ownership information about companies and trusts, limiting effective investigation.

### 02 Complex Legal Structures

The increased presence of:

- High-secrecy jurisdictions
- Shell corporations
- Offshore legal structures
- Nominee shareholders

These arrangements are deliberately designed to conceal true UBOs and are particularly common in entities used for illicit activities.

## 03 Information Inconsistency

- Lack of clarity around beneficial ownership definitions and thresholds across global regulations and guidance
- Inaccurate or non-existent ownership registers in various jurisdictions
- Reluctance of clients to disclose potentially confidential information
- Client lethargy around endless disclosures

## 04 Emergence of Illicit Use

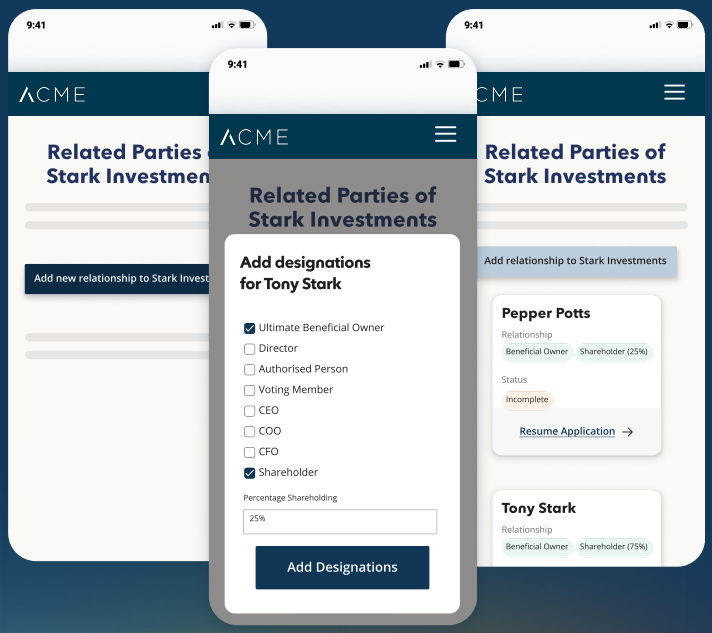
Over recent times, it has become clear that corruption, fraud, drug and human traffickers, as well as terrorists, are leveraging companies to provide a level of legitimacy to their illicit activities, transactions, or funds. Recent tender corruption scandals highlighted the use of entities attempting to disguise the flow and ownership of illicitly gained funds.

South Africa continues to rely heavily on client self-certification regarding beneficial ownership due to the absence of a comprehensive beneficial owner register.

> **"significant money laundering risks remain largely unaddressed for beneficial owners of legal persons and trusts."**
>
> FATF Mutual Evaluation Review of South Africa, 2021

## The nCino KYC Approach

nCino KYC streamlines the verification of identities for all identified UBOs, helping businesses maintain compliance without excessive paperwork. While the platform cannot directly obtain shareholders information from CIPC, the system assists with the gathering of UBO information; it can significantly streamline the gathering of information as well as the identity verification process.



# **A Step-by-Step Approach** to Identifying and Verifying UBOs

The FIC Amendment Act requires that you identify and verify all UBOs in the same way you must identify and verify your clients.

**STEP 1**

### Identify and Verify the Client Entity or Legal Person

Begin with the client, understand the basic legal structure, incorporation details, and regulatory status.

**STEP 2**

### Research the Ownership Structure

Conduct thorough research into how the entity is structured.

This may involve:

- Reviewing incorporation documents
- Analyzing shareholder registers
- Understanding trust deeds and beneficiary structures
- Tracing indirect ownership through holding companies or other entities

**STEP 3**

### Identify the UBO Through Process of Elimination

Ask yourself the following questions:

**Who has controlling ownership of the legal person?**

- The natural person /s with 5% or greater shareholding of private company
- Members of a close corporation
- Partners in partnerships

**Who exercises controlling rights over the legal person?**

- The Elected Chairperson of a residential management company
- Board members with specific decision-making powers
- Parties with contractual control mechanisms

**Who exercises executive management control over the legal person?**

- The CEO, CFO, and COO of a listed company
- Executive directors
- Persons with operational control

STEP 4

**Identify and Verify These UBO Parties**

Once identified, conduct due diligence on the UBOs themselves, including:.

- Verification of identity
- Adverse media screening
- Sanction list screening
- Source of funds assessment
- Assessment of UBO's risk profile

# **Practical Approaches** to UBO Management

## Risk-Based Approach

Assessing a UBO is relatively straightforward for publicly listed companies or entities with clear direct shareholders. However, it can become significantly more complex for privately-owned companies where ownership is concealed by layers of indirect ownership.

**Adopt a three-line-of-defence methodology:**

LINE 1

**Primary identification**

Standard thresholds for UBO identification (typically 5% shareholding)




LINE 2

**Risk-based review**

Enhanced scrutiny for higher-risk structures or clients



LINE 3

**Documentation**

Demonstrate that all reasonable measures have been taken to identify the UBO

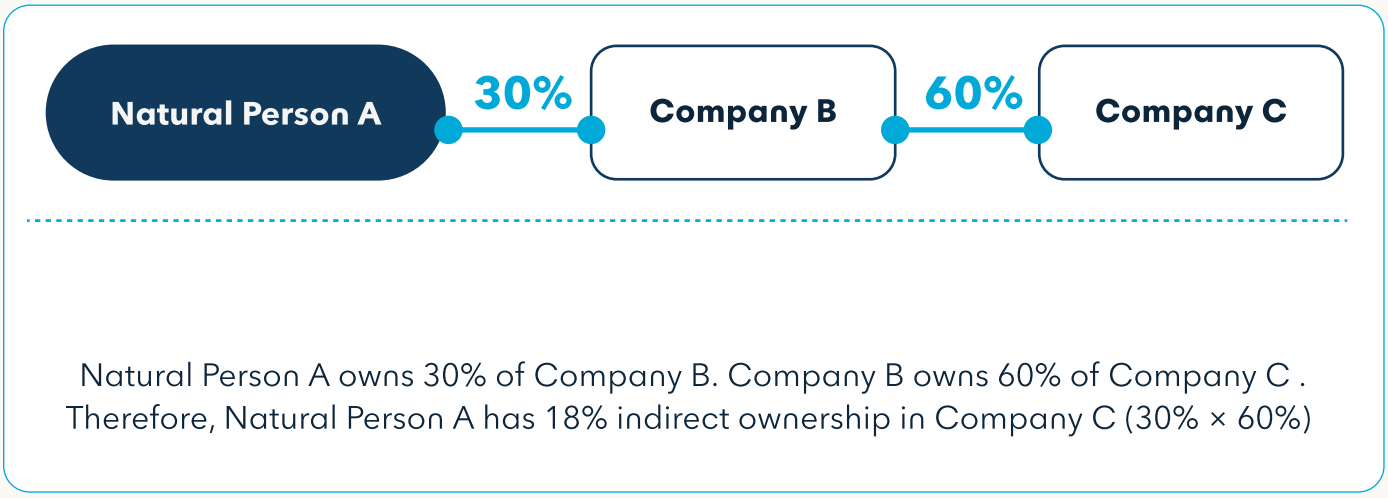


## Understanding Direct vs. Indirect Ownership

**Direct Relationships:**
A natural person holds direct ownership of the entity (e.g., owns 20% of Company ABC).



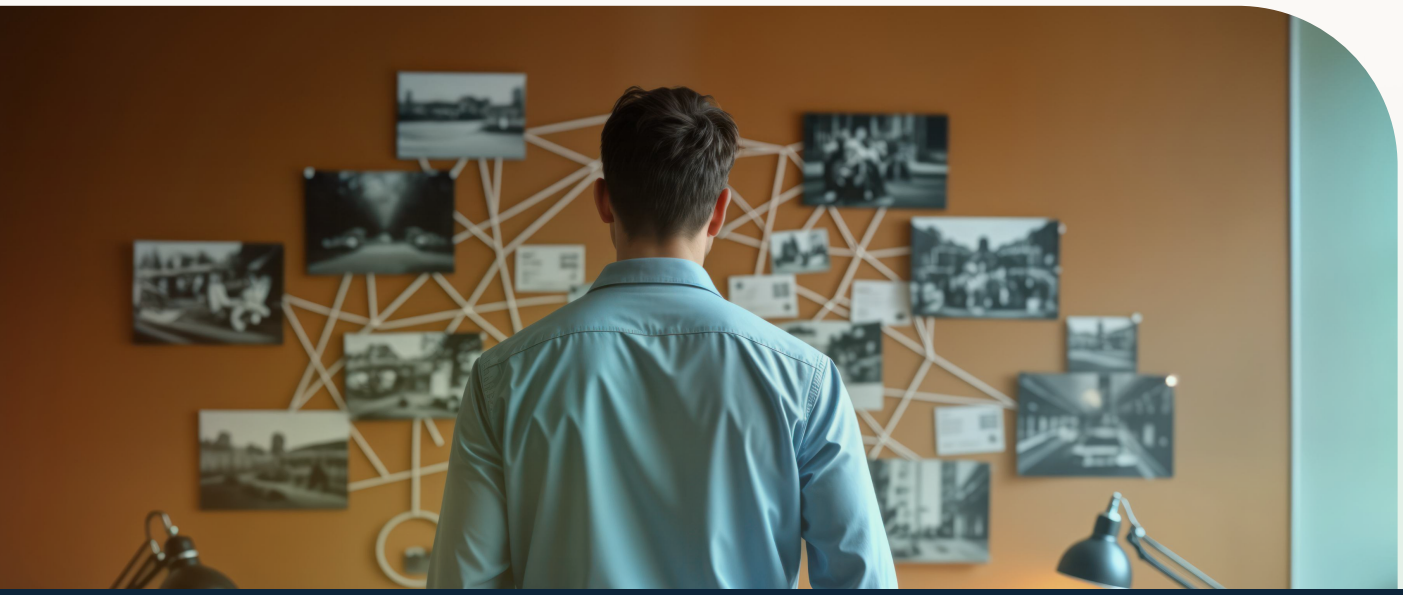

**Indirect Relationships:**
A natural person holds ownership of the entity through one or more other entities.
For example:




Natural Person A owns 30% of Company B. Company B owns 60% of Company C .
Therefore, Natural Person A has 18% indirect ownership in Company C (30% × 60%)

## Calculating Shareholding for Complex Structures

By working through the layers of hierarchy, identifying the natural persons, and calculating their indirect holdings, you can soon identify the true ownership structure - finding that elusive needle in the haystack.



## Verification Approaches

Given the lack of publicly accessible data in South Africa, it is acceptable to:

- Request client declarations around their ownership and structure

For higher-risk clients, it may be wise to request:

- An independently verified or certified organogram
- Company structure diagrams created or reviewed by an external accountant, auditor, or attorney
- Updated corporate governance documentation

Apply risk-based verification proportionate to:

- The complexity of the ownership structure
- The client's risk profile
- The nature and size of transactions
- The jurisdiction and transparency level



# Building Your **UBO Framework**

### Governance & Documentation

- Establish clear UBO identification policies aligned with FIC requirements
- Document your risk-based approach and approval thresholds
- Maintain detailed records of UBO verification conducted

### Technology & Processes

- Implement systems that can map ownership through multiple layers
- Establish procedures for monitoring changes in beneficial ownership
- Create alerts for adverse media involving identified UBOs

### Ongoing Monitoring

- Update UBO information periodically or when changes are announced
- Monitor for transactions that might indicate change of control
- Conduct adverse media screening on identified UBOs
- Review effectiveness of UBO identification on a regular basis

### Training

- Ensure front-line staff understand the difference between legal ownership and beneficial ownership
- Provide practical examples of complex ownership scenarios
- Train on the risk-based approach and when to escalate for enhanced due diligence

# Conclusion

Understanding who truly owns and controls your clients, not just who is listed on the legal documents, is fundamental to effective KYC and AML compliance. While navigating complex legal structures deliberately designed to conceal UBOs can present challenges, a structured risk-based approach combined with robust processes enables Accountable Institutions to fulfill their regulatory obligations.

The key is to move beyond simply accepting what is presented and to ask the critical questions: Who benefits? Who controls? And what reasonable measures can be taken to verify this?

By implementing comprehensive UBO identification and verification procedures, Accountable Institutions can significantly reduce their exposure to money laundering, terrorist financing, other financial crimes, and demonstrate to regulators that they are taking beneficial ownership transparency seriously.

# **Partner with** nCino KYC

nCino KYC  is committed to helping Accountable Institutions simplify UBO identification and management. Our compliance solutions are purpose-built for the South African regulatory environment, providing intuitive workflows that reduce manual effort, minimise compliance gaps, and enable your team to manage beneficial ownership data with confidence.

By partnering with nCino KYC, institutions gain access to technology that transforms UBO compliance from a complex, resource-intensive process into a streamlined, auditable operation. Learn how nCino KYC helps financial institutions, law firms, high-value goods dealers, and other regulated entities strengthen their AML programs and maintain ongoing compliance with evolving FICA requirements.

Ready to simplify UBO compliance? Contact nCino KYC today >>

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