

The battle for Electronic Verification

By Tony Fitzgibbon, CEO FCS OnLine

I F NOT ALL, most readers of this article are well aware of the Australian Federal Government's determination to prevent money laundering (ML) and terrorist financing (TF); and whilst it has taken some time for the government to enact this significant measure in combating ML and TF, the Anti-Money Laundering and Counter Terrorism Act 2006 has now come into effect.

Of course the primary focus of the AML/CTF Act is, as one would expect, to target industries that are susceptible to money laundering and terrorist financing, and to ensure that these organisations report any suspicious transactions. It's a fairly hefty weight to bear when you consider the many layers within an organisation such as a bank, with many systems and manual processes that are used to manage a transaction. And so when it comes to compliance, organisations have a lot to do, and have very little time to do it in.

Without wanting to trivialise the complexities of compliance, there are some real concessions made by the regulators that go towards assisting organisations manage their compliance costs. In fact one, being Electronic Verification (EV), can not only reduce inefficiencies in current identity verification processes, but also improves the customer experience.

Electronic Verification is a workable solution for a number of reasons:

- It is a highly cost effective way of complying with the identity verification component of KYC.
- It is also one of the most reliable methods of identifying irregular particulars of suspect customers.
- It removes human error and provides a discrete separation between the customer facing staff and the due diligence application.

- Technology minimises the inconvenience that may be caused if customers were forced to produce paper identification documents.

The AML/CTF Act has resulted in the creation of Electronic Verification Safe Harbour Principles. These principles dictate that where AML/CTF risk is low to medium, organisations can use EV as a means of identifying a customer. In addition, unlike the 100 point check, EV also enables financial institutions without branch networks to provide an online service without significant impact on the business and importantly the customer.

Whilst EV has been seen as a major step of helping organisations comply with their obligations of Know Your Customer (KYC), the viability of EV has been under threat before it has even been implemented due to conflicting legislation, industry and regulatory confusion.

Currently information derived from credit reports cannot be used as a verification medium for AML/CTF validation.

The Australian law reform commission is shortly to issue a paper for public review in an attempt to alter this law. This process is expected to take approximately six months, after which the public response will be considered and a decision made as to whether this information can be utilised, bearing in mind the specific privacy implications contained in the Privacy Act regarding Credit Report information. This is at least twelve months away! Meanwhile financial institutions must be compliant by December 12th 2007.

FCS OnLine however, has been lobbying directly and in close association with a number of industry associations on behalf of its customers and industry to ensure that the intent of the legislation, in so far as allowing Electronic Verification for KYC, can

progress to its fullest potential. Through striving to gain access to datasets created and maintained with a **high level of integrity** such as the:

- Electoral Roll
- Registry of Births, Deaths and Marriages
- Drivers License
- Immigration Status
- Telephone information

As a case in point, in March 2005 FCS OnLine outlined in a submission to the Commonwealth's Joint Standing Committee on Electoral Matters in March 2005, that amendments to the Commonwealth Electoral Act 1918 made in July 2004 unwittingly blocked the ability to use the electoral roll for verification purposes in relation to the Financial Transaction Reports Act 1988 (FTRA).

In an additional submission in August 2005, FCS outlined:

"Since making our submission of 31 March 2005, the issues of anti-money laundering and terrorist financing have come more into public view. FATF (Financial Action Task Force) recommendation 5 on Money Laundering was to the following effect: "Financial institutions should undertake customer due diligence measures including identifying and verifying the identity of their customers when" establishing business relations etc., and that should be done "using reliable, independent source documents, data or information". We understand that the implementation of The Forty Recommendations are likely to be implemented by the Government. There are also related recommendations in relation to terrorist financing...

Our submission of 31 March 2005 was that the legislation and regulations be amended so as to permit the use of the electoral roll including old versions for the purpose of verification of a person's particulars where



the person concerned has consented to verification from time to time of personal particulars.

We would also add that a Member of Parliament recently made the point that it is simply not possible for any of us to borrow money without surrendering privacy – for example, banks will want to see copies of tax returns and much personal financial information, which is of a highly confidential nature – compared with simple electoral roll details (which after all are a matter of public record anyway).

Fortunately, as a result of proactive lobbying efforts by FCS OnLine, Industry Associations and other industry leaders, the Commonwealth Electoral Act 1918 – Sect 91A was amended to enable the use of electoral roll information to verify, or contribute to the verification of, the identity of persons for FTRA and AML/CTF purposes.

The Electoral Act is just the beginning and it is just one example of why a broader review of legislation is necessary to ensure Australia remains up to speed with international anti-money laundering and fraud prevention efforts.

With identity fraud costing billions of dollars annually in Australia alone, let alone the cost money laundering and terrorist financing, it is imperative that governments undertake full and meaningful reviews of any current and future legislative changes that may inadvertently impede the ability to effectively verify the bona fides of customers.

Although the AML/CTF Act is designed to counter the threat of ML/TF, its effectiveness will ultimately depend on whether or not its implementation is inhibited by other laws

with competing objectives. Irrespective, FCS OnLine will continue to actively identify inconsistent legislation and lobby government to ensure the AML/CTF Act purpose isn't frustrated. We will lobby alongside our customers and partners if need be.

So, are Electronic Verification solutions available today? Indeed, but as with all things, not all are as they seem. Some are based on old technology with limited capabilities and potentially using data that is at best suspect and worst restricted by the Privacy Act.

As always, it's a case of buyer beware! Users of EV should look for a provider who ensures their EV platform is scalable enough to support the inclusion of new data sets as they are approved by regulators, such as the electoral roll.

EV customers also need to ensure their provider is au fait with the AML/CTF Act and has sufficient broader knowledge of the nuances of the Australian market. They would also be wise to partner with a provider, that has a continued focus on lobbying the law makers, in the interests of its customers, to ensure compliance with the AML Act isn't hindered by competing laws and that the AML Act itself continues to meet its true objective.

To make Electronic Verification a cost effective solution that meets the needs of the industry and AML/CTF compliance, a provider has to continue investing heavily in R&D and working with industry to break down the barriers to gain access to additional trusted sources of data.

It has been paramount for FCS OnLine to invest in its technology solution Identi-Check®, and develop

methodologies that support the technology and the business process that surrounds electronic identity verification is an ongoing focus.

To facilitate this, FCS adheres to 4 fundamentals aimed at providing comfort to its customers and to reduce the complexities associated with compliance:

1. Its EV solution electronically corroborates identity information particulars supplied across multiple independent data sources.
2. It provides a high degree of veracity in the corroboration and matching processes.
3. FCS provides complete transparency into the reportable methodologies used behind the scenes so that organisation who have implemented their EV solution have:
 - i. A very high level of comfort surrounding their approach to EV, and;
 - ii. A verifiable process and accompanying documented methodology which can be presented to the regulators.
4. FCS will continue to lobby government to gain access to additional trusted datasets in order to assist organisations cost effectively meet the true objectives of the AML/CTF Act; identifying money laundering and terrorist financing.

FCS OnLine is an Australian provider of Electronic Verification software and services. FCS OnLine's CEO Tony Fitzgibbon has over 10 years experience delivering services to Australia's financial services sector.

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