

ERFF Consensus Paper – Digital on-boarding, December 2016

ERFF welcomes the emphasis on digitalisation, consumer-focus and breaking down national borders in the European Commission's Green Paper on retail financial services and in the Commission's subsequent Action Plan (due early 2017). We believe the digitalisation of services will bring benefits to consumers, as well as to established players and new entrants (fintech). For customers, these will include greater choice, convenience, and access to a wide range of services.

However, there are still many hurdles to overcome. For instance, for customers "new to the bank" their digital journey with a service provider begins with "digital on-boarding" – i.e. identifying themselves and signing up to an account. In our view, **customers and service providers should be able to use technologies such as eIDs, biometrics and video legitimization of identity at this step, so long as these ensure security in line with eIDAS legislation.** But to make this is possible throughout the EU requires greater harmonisation and implementation of legislation across all Member States. More broadly, such harmonisation is also necessary for the creation of a single market in retail financial services.

1) Difficulties in digital on-boarding

Digital on-boarding with financial institutions compares poorly with other online experiences.

Harmonisation across Member States is required for easier access and a single digital market in financial services.

Nowadays, consumers can shop online for numerous goods and services. Yet, while this is an everyday phenomenon in many business sectors, it is still not fully established for financial services.

The main problem arises when customers decide to embark on a new business relationship with a financial institution via the Internet. Financial services providers across individual Member States have come up with various solutions to facilitate remote customer "on-boarding", however these solutions are not necessarily accepted in other Member States. To move to a single method, standards in each Member State need to be harmonised and to allow for resilient identity solutions which can be used cross-border. A reliable digital identification mechanism is key to fully enabling online financial services and a genuine single market for financial services. In our experience, customers are looking for a seamless, fast and secure way to open bank accounts and / or to access other bank products and services. They want a fully digital way without having to visit the nearest branch of their chosen service provider.

Currently, the financial sector is regulated under the 3rd Anti Money Laundering (AML) Directive through legislation transposed at national level. This requires regulated entities to complete customer due diligence checks to ensure that they know who their customers are. Such checks tend to rely on the use of reliable, independent information to prove an identity. This can be documentary e.g. sight of a passport, or electronic such as using credit reference agency data. However, the lack of fully uniform electronic processes for verifying a customer's identity causes

challenges in completing remote opening of accounts or access to other financial products sold to “new to bank” customers. In general, all these due diligence mechanisms make the user experience of signing-up as a customer of a financial institution through digital channels relatively slow and difficult compared to what is technically possible. It is also more difficult than signing-up for services with other kinds of companies online, where simplified due diligence can be used (i.e. where customer verification is not required). Moreover, most customers see this simpler sign-up as the benchmark for how their online experience should be.

Finally, it is important to note that identifying and on-boarding the customer is the start of a relationship. For end-to-end digitisation of the customer journey, there has to be legal coverage for electronic signing processes so that the customer can remotely sign contracts associated with the products being proposed.

Electronic delivery of documents (such as contracts, terms & conditions) also needs to be well-defined. Today, the daily business between banks and customers still relies on paper to a large extent. Many of the information requirements banks have to fulfil are still paper-based due to (mostly national) legislation. To ensure seamless digital communication with the customers, clear standards and definitions for a secure transfer of information are required.

2) How can eIDAS help?

eIDAS legislation could give customers the convenience of a digital identity useable across borders, but only if private sector use of eIDs is accepted in all Member States.

Under the eIDAS legislation, Member States should be able to accept digital identities issued in other Member States, granting citizens access to online public services throughout Europe. However, it remains up to Member States to determine private sector access to government-issued eIDs.

For banks and insurance companies, a digital on-boarding process that re-uses home state national ID schemes developed under the eIDAS legislation could reduce operational costs and the time required for Know Your Customer (KYC) checks. Digital identities could also significantly reduce fraud rates and allow for blocking the re-use of fraudulent eIDs (something which is not possible with many physical IDs).

Equally, new entrants might be able to enter the market with reduced costs of developing on-boarding processes and could choose to offer services as a digital-only offering.

For customers, the main benefit would be that they would have a digital identity which could be readily verified and used across borders by multiple parties including both government and private sector services. The result would be a more seamless, faster, secure and successful application journey, with a greater ability to move between service providers and hence to benefit from competition in the market. In effect, consumers would have a secure means of proving their identity via a familiar verification process.

3) Aligning anti-money laundering rules with Digital Single Market

Technologies such as video identification can meet the needs of AML legislation so long as they conform to eIDAS legislation. Greater acceptance would benefit customers.

To date, some national anti-money laundering laws still require physical identification at the start of the on-boarding process. This could change with the adoption of the proposed review of the 4th AML Directive, which explicitly states that electronic means of identification issued in alignment with the eIDAS legislation meet the minimum requirements for identity verification.

Conversely, alternative identification methods based on other technologies (e.g. biometric analysis, video calls or third party verification services) are not yet seen as equivalent to face-to-face due diligence checks undertaken by financial institutions. An exception is Austria, where video identification will be possible from 1 January 2017. Meanwhile in Germany, there is continued discussion between the government and industry on allowing video identification under the BAFIN legislation (Rundschreiben 04/2016 (GW) – Videoidentifizierungsverfahren).

In general, differences in national identification requirements hinder the cross-border acceptance and use of digital identities. A consistent transposition of AML rules would allow for a common digital on-boarding process and development of a single market in retail financial services.

However, information derived from eIDAS eIDs will only provide a partial solution to overall KYC and risk-based on-boarding requirements. We would support completing the eIDAS attribute-set with additional data points (e.g. place of birth, gender, current address) to make it in sync with the information-set banks need when on-boarding a customer, according to AML legislation.

The market also needs to allow for sharing of fraud and suspicious activity data across borders. This would ensure that the market developed is safe for genuine customers and does not provide increased opportunities for fraud, money laundering and terrorist financing.

4) Tackling the limitations of eSignatures

Wider acceptance of eSignatures would allow customers to have a simpler, secure and fully digital experience in all aspects of their relationship with the financial institution.

To be specific, an electronic signature could be something as simple as ticking a box that says that the terms and conditions of the product to be contracted have been read and which acknowledges agreement with them. Or in other situations, it could involve methods as sophisticated as using eIDAS digital certificates.

In this context, the information which the financial institution has to gather from the customer with whom it begins a relationship depends on two factors: the regulatory framework and the level of risk that the institution wishes to assume.

Though financial institutions would like to use private identification keys stored in an eID as a form of customer identification, many national authorities and regulators remain reluctant to allow this – despite the eIDAS legislation stating that the legal effect of an eSignature should not be denied on the grounds that it has an electronic form. An appropriate adaption of the current requirements would ease the digital conclusion of contracts without impairing consumer protection.

5) Expanding the use of eID

Digital on-boarding is key to offering customers fully digital banking services throughout the EU. This depends on EU-wide use of eIDs and acceptance of technologies that meet eIDAS legislation.

Currently, there is no level playing field of national eID infrastructures that can be used for remote identifications in the eIDAS framework in the near future. The availability and volume of eIDs differ significantly between Member States. (For instance, eID is optional and little activated in Germany, while in Belgium eID is the automatic norm for everyone). In addition, the implementation of eIDAS may take years and success is not guaranteed. However, there is an acute need for technologies to help a large number of customers to on-board digitally. Not every method of remote identification is automatically more risky than a physical process. Therefore, digital on-boarding of customers to banks should be fully recognised as secured and trustworthy solution in EU Member States. To ensure technology neutrality and a smooth transition to the market, methods of remote identification – whether established or new to the market – should be allowed, if they provide at least for a substantial level of security according to the eIDAS legislation (e.g. remote authentication methods such as video legitimation using videoconferences).

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About ERFF

The European Retail Financial Forum (ERFF) is a pan-European forum bringing together around one table consumers, business and policymakers to support the opening up of retail financial markets in Europe. Representing all aspects of the retail sector - traditional, wider investment and digital - we are citizens-focused, favour removing key barriers and increasing choice and transparency for all customers across borders in ways that keep Europe competitive. www.erff.eu

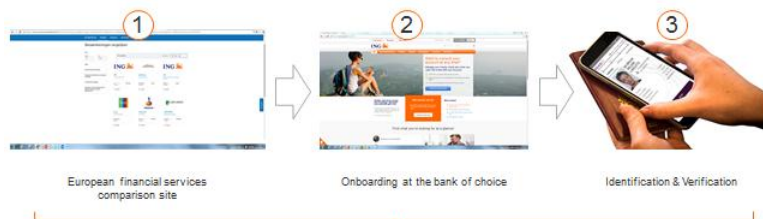
Members:

Allianz, Barclays, Commerzbank, Erste Group, ING, KBC, Wealth Management Association (WMA)

Annexe: key steps of digital on-boarding

Whatever the technology, digital on-boarding involves processes of identification and verification. In some countries customers can use technologies such as video identification and verification but the process is not fully digital. Instead, customers take photos of themselves and their ID documents during a phone call with the bank, and a bank employee in a call centre then verifies the identification.

Financial services onboarding process (high level)



Digital onboarding of customers

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③ Identification & Verification

Modern technology for remote identification

1. Remote identification starts with the collection of personal data and the relevant data of the ID document.
2. Banks need to check the validity of the ID document
3. Matching the customer to its ID document is the last step in the identification process.

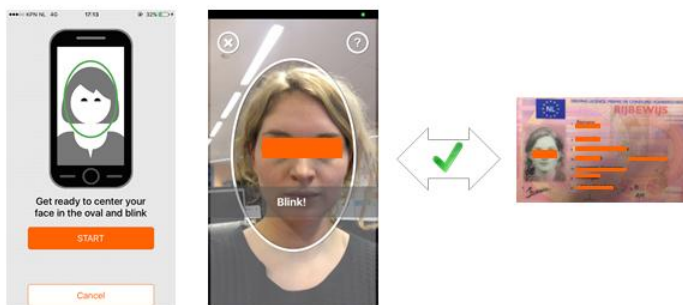


In the EU there needs to be room for using new technology.

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Facelink



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