



BEST PRACTICE SERIES

PREPARE FOR A WORLD OF ELECTRONIC ID CHECKS
WITH VELOCITY

REPORT

JULY 2020





ELECTRONIC ID CHECKS WITH VELOCITY

INTRODUCTION

Charles Gaddy is the co-founder of GDC, which stands for Global Data Consortium. In dialogue with PassFort, he explains how criteria for electronic identity checks vary around the world.

Different regions have different regulations. Different regulations call for different approaches to ID validation.

This sounds complex and in many ways it is, because ID checks need to happen with velocity while regulations change with velocity.

New data protection laws are introduced. New methods to launder money are developed. And financial services firms are bound to stay on top of this, while being responsible for controlling and securing customer data.

Charles argues the best way to handle this, and handle it at pace, is to validate identities digitally with a worldwide wealth of data sets brought together by experts.

ACKNOWLEDGEMENTS

Thanks to Charles Gaddy for his contribution to this report.

SPIKES IN NEW FINANCIAL SERVICES CUSTOMERS

Tom: Can you tell us about the backdrop for compliance checks as GDC sees them?

Charles: A path developed around identity verification that allowed financial services companies to comply with different regulations and money laundering directives. This backdrop has been present for a while and involved going from the 3rd to the 4th to the 5th now to the 6th anti-money laundering directives for example.

The landscape also, more recently, included Payment Services Directive 2 (PSD2) and secure customer authentication.

What we've seen accelerate work on risk management is COVID and ramifications of everybody being at home.

We had been on a steady path of growth with adoption of digital compliance solutions becoming more and more prevalent as Financial Services firms grew and payments providers and challenger banks took over. But the pandemic has created large spikes in new financial services customers, which equates to larger identity verification needs.

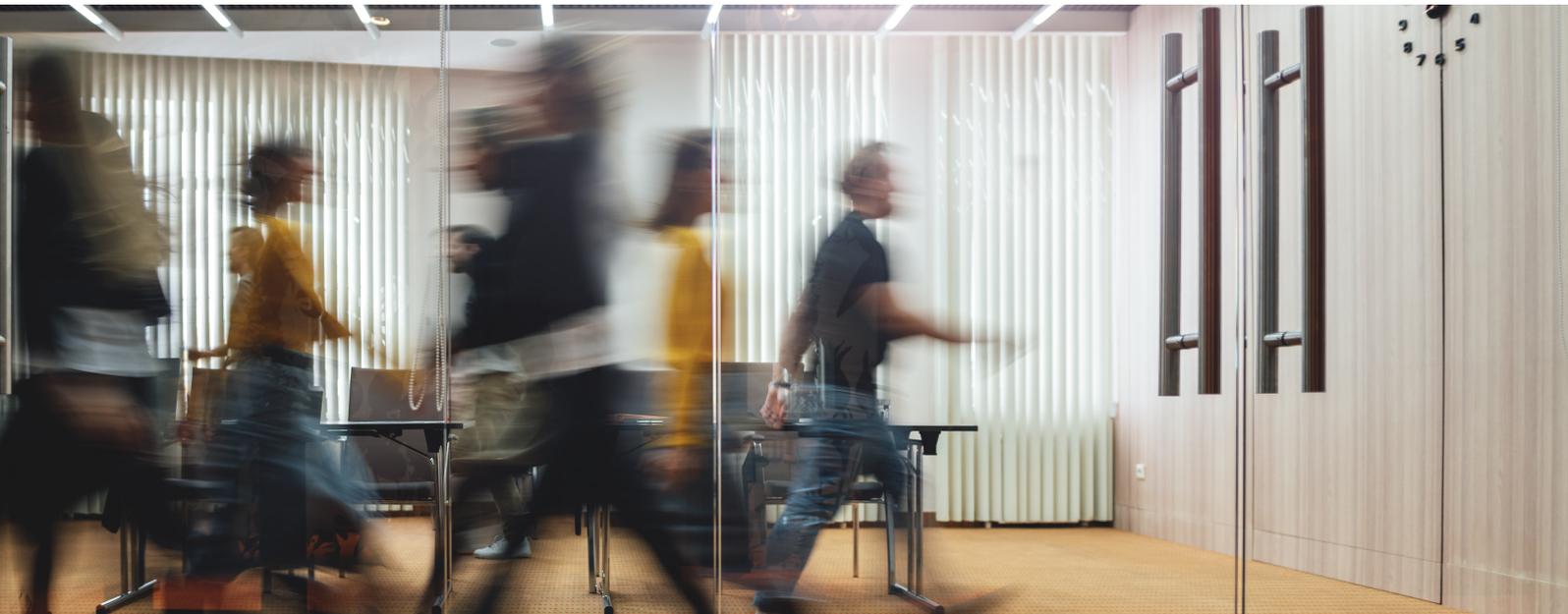
ALCOHOL OR ACCOUNTS - CUSTOMERS NEED VERIFYING

Tom: You have seen a shift in consumer behaviour in recent months and what does that look like?

Charles: Absolutely I have. One of the best examples is my wife stuck at home and ordering all kinds of things that then show up. It's amazing what will show up when you're stuck in a pandemic!

Whether you're trying to order an age-controlled substance, like a nice gin, or you're trying to open a bank account, there will be digital KYC [Know Your Customer] checks for all these things.

As a vendor or provider, you need to know someone is who they say they are. And, in the case of financial institutions, you actually need to know that they are who they say they are and that you are complying with the regulations around onboarding those customers.



GLOBAL DATA MATCHING

Tom: Can you give us an overview of how electronic identity checks work with GDC?

Charles: GDC stands for Global Data Consortium. The key to this is the word consortium, which is a network; it's a network of data providers.

Local data providers specialise in different types of data sets. They have access to credit data in Brazil, driving registration data in France, commercial and consumer data in Vietnam and Singapore. And the list can go on.

There are different types of data within these data sets from all over the world, which allows us to verify elements on individuals to confirm they are who they say they are.

The number of sources we can bring to bear allows a financial services company to comply with different regulatory guidelines in different markets.

In some markets, say the European Union, you have to have a certain number of sources and meet certain guidelines and thresholds to pass a match and be compliant when you're opening a bank account for somebody for instance.

GDC and our partners come together to meet these thresholds and the financial services customers' needs. What we bring to bear, and what's compelling for PassFort, is that we're adding velocity, accuracy and coverage to the process.

PassFort has a concept of STP, Straight Through Processing, which is all about how quickly, in an automated manner, and with velocity and accuracy you can move people through an onboarding process. We fit nicely into that because our APIs are meant to verify identities at velocity.

We don't require someone to take a picture of a driving license. We don't require a thumbprint or biometric check. We're doing checks based on registered data. All solutions can have their place in a tech stack, but we think specifically as it relates to verifying data elements, creating a network is the right approach.



VELOCITY, ACCURACY AND COVERAGE

Tom: Thinking about the digital customer experience, do you think GDC is building an experience that is fit for the future?

Charles: We all use the term onboarding a lot. I see the things we bring velocity, coverage and accuracy to starting to become part of what isn't necessarily considered onboarding. What I've seen more recently is a concept of digital enrollment as regulations extend into areas beyond onboarding.

Look at GDPR for example and the way PII [personally identifiable information] is managed and controlled - you're in a Scylla and Charybdis situation. Financial institutions have GDPR concerns around use of customer data and at the same time you have money laundering directives that you have to adhere to that require access to lots of personal data.

We see the growth path for digital enrollment in lots of different ways. It might be from opening a bank account, which everybody does, to successfully taking insurance premiums. Even if you have to do subsequent checks later, you have done what you needed to do to allow initial enrollment to occur.

CREATING FLEXIBILITY FOR FINANCIAL SERVICES

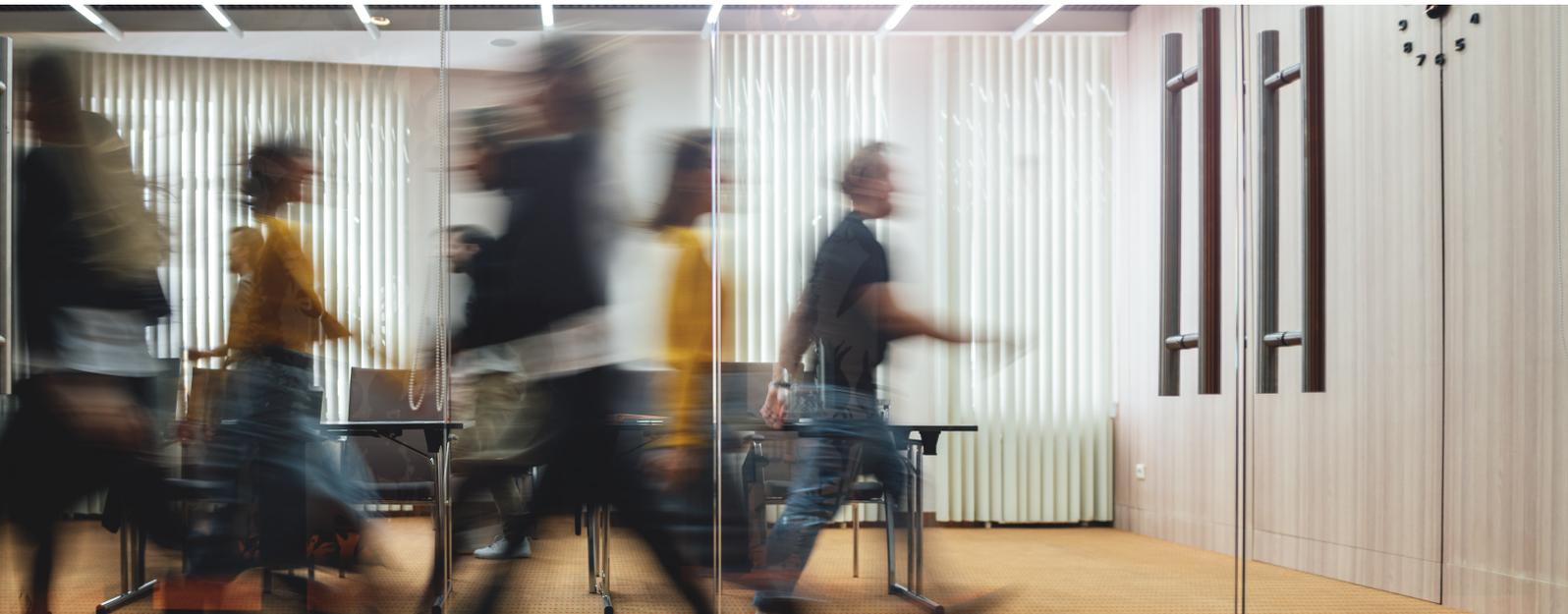
Tom: When you look at what GDC brings to conversations with financial services firms, what are their main areas of focus for clients?

Charles: When you use a term like Financial Services, all kinds of things are in that. One is challenger bank X who wants you to walk down the street with your mobile phone and open a bank account, but then there's Forex as well.

We've got customers in the foreign exchange space moving money through different currencies around the world.

Forbes recently published a great article about this huge leap with Western Union, Remitly and other players in the remittance space. Since the pandemic, moving money across borders has gone up month over month. There has been a 15% or 20% increase since March 2020 when lockdowns started to happen.

Electronic ID checks need to work for any business with clients that transfer money, complete remittance or payments - it's all going to need digital ID checks.



SPEED OF RESPONSE TO NEW REGULATIONS

Tom: You mentioned a few times the concept of velocity. I'm pretty sure you're talking about velocity in the context of customer onboarding, but would you also say there's been an increase in velocity around regulation and the amount of threats in the marketplace?

Charles: That is a great observation because yes, when I've been using the term velocity up until this point it's been how quickly can we check someone during a customer onboarding process to cut down friction and prevent abandonment. But velocity or the rate at which the regulatory environment is evolving and changing is also high.

We saw the introduction of AMLD5 and the enforcement of GDPR. We've seen a lot of things happen in rapid succession - open banking guidelines, new California regulations - there's been a lot of dominoes falling.

As that happens, one of the sweet spots for GDC is to provide customers and partners with the ability to leverage our data network in an appropriate way.

As each of these regulations comes along, it's a joint opportunity, because our customers downstream - bank X - will be better ready to adhere to any new guidelines. When a business goes to get a Forex license in Cyprus or a gaming license in Malta, they are going to be better prepared if they can adapt to new regulation with velocity.

Tom: Do you think this influx of regulation is creating difficulty in balancing the friction in customer onboarding?

Charles: Regulations increase complexity, but complexity does create opportunity. In order for that opportunity to be met and a goal to be achieved, you need to be able to bring the right amount of velocity to it.

There are manual review teams and analysts out there, and always will be, but companies using those manual processes will respond to complex regulations slower and this could cost them customers and market share. Also, if you can improve the customer experience by doing things right but doing them faster, you're putting money back into the pocket of the company while creating a better customer experience.



EMBRACING DIGITAL TRANSFORMATION

Tom: Do you think the established players, the really big institutions, need to do more to embrace velocity?

Charles: Absolutely, but they have a lot of challenges. They have legacy equipment, legacy data, legacy customers.

Then look at the requirements in Europe for securing customer data on those you are authenticating. A lot of customers using bigger banks may not even have a mobile number, so how do you do two-factor authentication with them?

There are solutions, but established players are dealing with a different set of challenges because they bring legacies that need to be maintained at the same time they need to embrace new enhancements.

Tom: Everything is changing. People are working from home. Do you think that's going to create more complications and difficulty for established firms over the smaller, more agile firms in financial services?

Charles: We are seeing larger institutions embracing things they already had in plan but moving faster to roll them out because of the ease with which newer organisations, without the legacy and other overheads, can pivot and provide service.

Things like the pandemic and its by-products are going to force some firms to go from a trudge to at least a jog or maybe even a flat-out sprint to get there. With everything that's changing and with different regulations, we are seeing an acceleration of digital transformation.

Tom: We talked about the global landscape for compliance and how an advantage of GDC's is having localised data sets. What are the major regulation differences between financial services in Europe versus the U.S. for example?

Charles: From roughly 2016 to today, Europe has taken a lead on data privacy and money laundering regulations. Those standards then proliferate around the world. The California regulations; AUSTRAC; FINTRAC - you can trace these all the way back to GDPR or the anti-money laundering directives. There is a test bed in Europe. When the test bed works, then you see it start to spread further.



**PROOF IS TRUST.
TRUST MITIGATES RISK.
WITH TRUST COMES CREDIT**

Tom: Where do you see the world of identity verification going in the next few years? Do you think everyone is going to embrace the fact that financial services will be repeatedly disrupted by global events?

Charles: My crystal ball is a little cloudy, so I'll give you the high points. Within the next two years, KYC-type regulations that are coming in at velocity are going to need to be there in other parts of the risk and regulatory workflow.

You're going to need to check businesses at the same pace as individuals - their beneficial owners and connections between entities will all be done with velocity. Payment providers want to open up access to merchants and it not take seventy documents and four weeks.

Then we have questions like, where do biometrics and device authentication fit in with these data checks? It's interesting to see in the US there is a backlash on facial recognition. IBM got out of the business altogether.

Tom: I don't know how much you can tell us about the future of GDC, but in response to some of those future trends, what is GDC going to be doing?

Charles: We have several different things in R&D, and one of those is verifying a business at velocity. How do you do that when another entity is tied to it or there are multiple entities? Doing this and meeting our customers' needs is going to be vital.

Beyond that, there are also more markets around the world where sources of data and sources of identity just aren't available. At GDC, we're very much of the opinion that identity and the proof of identity is the gateway to growth in markets.

If I can prove that you are who you say you are, then I can establish trust. And once I can establish trust, I can mitigate risk. Once I can mitigate risk, I can extend credit and credit is what makes the world go around. We see our tech enabling markets where credit is not readily available.

To enable an identity - to prove an identity - allows people to move down a path of development and growth.



SUCCESSFUL VALIDATION IN DIFFERENT MARKETS

Tom: What success metrics should firms use around risk and compliance?

Charles: I'm not going to give a percentage figure, because ultimately what we see is there are levers to adjusted to produce the number one metric customers want and that's pass rate.

The thing about pass rate is each market has unique challenges and we guide customers through them to achieve an optimal pass rate.

For example, in the US you can expect pass rate to be above 80%. There are credit bureaus that operate here, social security administration, etc. And the same for the UK - there are electoral roles, multiple credit bureaus, driving data and the list goes on.

France - there is no credit bureau readily available. No real government sources. We have some, but they are few and far between. So, when those sources aren't available, what does that do to match rate?

Look at China. Verifying someone's address is not nearly as important as their name, bank, national ID number and mobile phone number. Those are the elements primarily used in that market.

Similarly, we're working with a multinational that wants to go into the Australian market. They say they have a great input data to verify against and send us a proof of concept. We run through it together, but they come back and the match rates are really low. They ask what happened and when we look at the input we learn that in Australia to use the credit bureau you have to have the suburb details. There are roughly eight suburbs in Sydney, so if the location of a person is sent as Sydney, you won't get a verification match as it's no specific enough.

There are unique markets all around the world. For instance, not everyone in Ghana will have an address, so what data elements do you use to verify an individual in that market? It's things like mobile phone, name, bank ID number and other values that are equally valid, just different.

We have to become flexible in the sourcing of the data as well as the use of it. Pass rate is the thing that cuts the friction, because if I can verify you online to the appropriate regulatory guidelines, I can move you through a process quickly and you can open the account, apply for credit, make your investment, transfer your money.





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This report was created from a transcript of a discussion between Charles Gaddy, co-founder of GDC, and Tom Andrews, PassFort's head of RevOps. It is part of our best practice series focused on digital transformations of customer lifecycle management processes.

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ABOUT PASSFORT

PassFort offers a single SaaS solution for full customer lifecycle management.

KYC, KYB, AML and other compliance processes are automated through PassFort around a central risk-engine. All data providers needed to complete customer due diligence are integrated with the platform. Smart policies digitise the workflow of checks needed for customer onboarding, off-boarding and ongoing risk monitoring. Teams from Compliance, Onboarding, KYC and Operations can collaborate in the Portal to communicate with customers, progress applications and monitor risk.

Headquartered in London, PassFort serves financial institutions of all types and sizes, processing more than 150,000 compliance journeys each month.