



Abacus
Australian Mutuals

Association of Building Societies and Credit Unions

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Mr Malcolm Crompton
Managing Director
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Dear Mr Crompton,

Privacy Impact Assessment: electronic verification using credit reporting information

Abacus – Australian Mutuals is the industry body for credit unions, mutual building societies and friendly societies.

Credit unions and mutual building societies are Authorised Deposit-taking Institutions (ADIs) regulated by APRA under the *Banking Act 1959*. All ADIs are reporting entities under the *Anti-Money Laundering and Counter Terrorism Financing Act 2006*.

Abacus supports the implementation of the Australian Law Reform Commission (ALRC) recommendation that the use and disclosure of credit reporting information for electronic verification under the AML/CTF Act be expressly authorised in the AML/CTF Act.

As noted in the Consultation Document for this Privacy Impact Assessment, the availability of reliable electronic data matching has the potential to support competitive neutrality between businesses and increase customer convenience.

Credit unions and mutual building societies are strongly customer-focused organisations and provide important competition and choice in retail banking across Australia.

The commercial development of electronic verification options has been hampered by a lack of access to data.

For example, Community CPS Credit Union comments that “we do have access to things like the BDM service for validating a name change or birth but the process is archaic, slow, expensive and does not cover all required situations and suffers from the fact that hardly anyone offers a birth certificate as identity any more.”

The addition of credit reporting information to the sources of data available for electronic verification purposes is a welcome but incremental step.

Reporting entities would be in a much stronger position to effectively meet their AML/CTF obligation to verify identity if they had access to the National Document Verification Service (DVS). Such access would be on similar terms to those proposed

in relation to credit reporting information, i.e. a 'match/no match' response without any disclosure of any other information.

The key point is that reporting entities using the DVS would be seeking, via a secure, electronic on-line system, only to validate documents¹ *already provided to them by customers*.

Thank you for inviting Abacus to participate in this Privacy Impact Assessment. Here are our responses to the specific issues raised in the Consultation Document.

Whether the proposal will result in organisations (including credit reporting agencies) gaining access to new information that they would not otherwise have had.

Reporting entities will not gain new information about individuals as a result of this proposal, other than that an individual has or does not have a listing on a credit information database.

In fact, this proposal could mean that individuals have to surrender less personal information than they are required to do now. The capacity to verify identity information electronically means that reporting entities do not always need to see proof-of-identity documents, such as passports or drivers licences. These documents contain information, such as photographs and other data, that is additional to name, address and date-of-birth.

Credit reporting agencies will not gain new information about individuals other than the number and frequency of electronic verification requests.

Whether the proposal will result in individuals having the same, or more or less control over their personal information.

The proposal allows individuals to have more control over their personal information, for the reason outlined above.

Victoria Teachers Credit Union says the proposal "allows an individual access to financial products and services without the need for them to send copies of their personal and valuable documents through the postal system where there is a risk of interception and illegal use or reproduction."

Whether credit reporting information is sufficiently accurate, complete and up-to-date to be a reliable source of identity information.

There are mixed views among Abacus members about this but the regulatory and commercial drivers in a competitive market for identity verification services will determine whether credit reporting information becomes a robust EV tool.

Clearly, credit information providers will have a powerful incentive to ensure their data is accurate and reliable.

¹ Australian passport, driver's licence, birth certificate, Australia citizenship certificate.

The ALRC reported the view of stakeholders that credit reporting information is used in comparable jurisdictions for electronic identity verification and that the use of credit reporting databases has key advantages because they are 'a regulated source, with comprehensive coverage and commercial electronic accessibility'.

Victoria Teachers Credit Union says "it is the responsibility of the organisation to ensure they fully research their chosen EV provider and that they have a sound understanding of the methodology used and that it complies with their risk assessment."

AUSTRAC's advice to reporting entities is as follows: "You need to use reliable and independent documentation and/or electronic data sources. You will need to decide on what is 'reliable and independent' according to your own risk-based systems and controls."

Whether there are other existing means of electronic identity verification that are adequate for verifying identity for AML/CTF purposes.

Existing EV applications have gaps and limitations.

Community CPS Credit Union says there is "no reliable EV method currently available in Australia."

Victoria Teachers Credit Union says there is "currently no means of verifying an individual's identity to the level required by AUSTRAC that is time and cost effective."

What the consequences of rejection might be.

The consequences of a failure to verify identity information would be a requirement for the reporting entity to find another means of verifying the customer's identity.

We do not see any evidence for the suggestion in the in the Consultation Document that rejection could result in an individual being "black listed" or put on a watch list.

Whether the use of a scoring system rather than a 'match/no match' response provides a more viable option for electronic verification.

Reporting entities and identity verification service providers should be left to decide this question according to their own risk-management framework.

Victoria Teachers Credit Union says the 'match/no match' response "provides the greatest level of consistency and transparency and is therefore the model we currently favour. An amount of 'fuzzy logic' is applied to assist with spelling errors. This is not to say that the scoring method is also not effective."

Community CPS Credit Union comments that the amount of discretion implied by a scoring system might require consultation with AUSTRAC.

Whether or not there is on balance benefit to the individual and the community from the proposal.

The Australian Law Reform Commission has comprehensively examined this question and the ALRC concluded that, on balance, the proposal should be approved because:

- electronic identity verification provides significant advantages for both credit providers and individuals;
- electronic identity verification is less privacy intrusive than the need to present physical records to verify identity; and
- there are limited alternative sources of accessible data suitable for electronic identity verification.

Individuals and the community benefit from a robust AML/CTF regime and this measure supports AML/CTF compliance.

It will provide some further latitude for reporting entities to meet their AML/CTF obligations in a more customer friendly way than requiring customers to produce documents in person.

Victorian Teachers Credit Union says “EV allows individuals to obtain financial products and services online or remotely and reduces the need to attend a branch which makes the process more efficient and less time-consuming for the customer. Without the benefit of EV, individuals that seek financial services or products are required to produce either originals or copies of valuable documents. These are documents that if lost or intercepted could have damaging results, including identity theft. The documents are often then stored permanently on imaging systems or third party data warehouses which introduces the risk of internal fraud.”

The Consultation Document raises possible undesirable consequences, including marginalisation of people without credit reporting histories and lack of take-up of more effective EV options.

We do not see any likelihood of individuals become economically marginalised because they can't be identified for AML/CTF purposes because they lack a credit reporting history. Reporting entities operate in competitive markets and are constantly seeking to recruit customers with or without credit histories. Reporting entities currently meet their AML/CTF obligations to verify customer identity without access to credit information data and in future credit reporting information will not be the sole means for verifying identity.

Reporting entities and other stakeholders, such as consumer advocates, can be expected to continue to pursue all effective mechanisms to meet AML/CTF identity verification obligations that are pro-consumer and pro-competitive. Authorisation of the use of credit reporting information will give impetus to debate about alternative mechanisms.

Whether there are harms or benefits to individuals or the community that have not been so far identified?

We are unaware of any harms or benefits that have not been so far identified.

Issues requiring further consideration.

The Consultation Paper noted the following issues requiring further consideration:

- the legislation should prohibit the secondary use or disclosure by reporting entities of credit reporting information obtained for identity verification purposes;
- reporting entities should have positive obligations to seek consent from individuals before using credit reporting information to verify identity; and
- reporting entities should have processes in place to resolve mismatches between the information individuals provide and credit reporting information.

Secondary use or disclosure

The "credit reporting information obtained" is restricted to confirmation of identity information already provided by the customer – name, address and date of birth. A prohibition on secondary use or disclosure of this "information" creates unnecessary complexity and could have unintended consequences.

Obligation to seek consent

Under the proposal set out in the Consultation Document, a reporting entity would only be authorised to send a request for electronic verification to a credit reporting agency with the consent of the customer.

Abacus notes that this would create procedural and record-keeping obligations and regulatory risk in cases where a request is accidentally sent without consent. These considerations may deter use of this option for identity verification.

Victoria Teachers Credit Union notes that in the context of using EV for ongoing customer due diligence, "this was identified as an issue in the UK where the Financial Services Authority granted financial services organisations an exemption from obtaining express consent from individuals providing the EV check was being carried out for the purposes of remediation."

Resolving mismatches

Abacus cautions against prescription on this matter and suggests instead that reporting entities be free to respond according to their own risk-management framework.

I can be contacted on 02 6232 6666 if you wish to discuss an aspect of this submission.

Yours sincerely



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