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# Guidelines for Identity Verification, Authentication and Risk Assessment – Executive Summary

Document Context:

This document was finalised in June 2017 as part of the Guidelines for Identity Verification, Authentication and Risk Assessment workstream activities. This document will be used as deliverable for handover. This document provides a high-level summary of the proposed guidelines.

# GUIDELINES FOR IDENTITY VERIFICATION, AUTHENTICATION AND RISK ASSESSMENT

## Executive Summary

The Guidelines are an end to end specification for how identity management should be implemented by Payments Service Providers (PSPs), from inception of their relationship with an end-user, through payments transaction processing (sending and receiving) and ongoing payments related account management activities (such as record keeping), up to the termination of the relationship.

### Key Problem Areas Being Addressed

Weaknesses in identity management have enabled criminals to access and misuse the payment system to either inject illicit funds, move illicit funds, fund criminal activity, fraudulently obtain funds, assets, goods or services, or to evade financial sanctions.

Common sources of weaknesses are related to PSP internal policies and procedures, which can be: incommensurate with the degree of risk faced; inconsistently applied within the organisation; prone to errors in their application; and vulnerable to compromise due to PSP colleague coercion or external actors with inside information.

The Guidelines will provide a basis for more effective technology deployment; focussed detection and prevention of previously unknown identity misuse scenarios; reduced instances of incorrect linkage of applicants or transactions to genuine and valid identities (e.g. by greater use of the JMLSG anti-impersonation check); and greater protection of identity data to prevent loss and misuse.

Fraud and financial crime actors target payments systems and, with the improvements in transaction execution controls, are increasingly using compromised identities to avoid detection. Whilst the Guidelines will reduce the detriments and problems outlined above and many of those covered in the 'Payments Strategy for the 21st Century' Document, they should be seen as an important part of a broader defence and not as a standalone remedy for all detriments.

For example, the regulatory requirements are for a PSP to be 'risk-sensitive' and the JMLSG Guidance is for the PSP to be 'reasonably satisfied' as to a customer's identity. The Guidelines will set out payments-related interpretations of these to ensure that a fraudster cannot 'arbitrage' between PSPs and acquire a stronger false identity based on opening an account where a PSP has taken a significantly different approach.

Voluntarily adopting these Guidelines will assist PSPs to reduce levels of identity related fraud and financial crime associated with, for instance, Direct Debit Mandates, Cardholder Not Present payments and Authorised Push Payments. The Guidelines will recognise that they will be used alongside other tools available to PSPs that will continue to evolve, especially in online services such as documentation validation, for example.

### Purpose of the Guidelines

In summary, the Guidelines will be a document that:

- better enables PSPs, particularly smaller organisations and new entrants, to make identity management control design decisions and develop practical execution processes which raise the barrier against identity misuse, both in their organisations and the payment sector generally;
- consolidates and enhances understanding of the key requirements of existing identity management requirements applicable to Payment Services Providers that are embedded within a wide range of regulations, formal guidance, good practice guides and electronic identity management schemes; and providing references to the source requirement;
- identifies areas where alternative practical options exist to achieve day to day compliance and sets out a minimum baseline for compliance where necessary;

- will reinforce the risk-based approach that is a common theme of the existing regulations and guidance, with a view to PSP controls being as tight as they practically can be, while being as flexible as they need to be to reduce and not add to end-user detriments;
- provides a common basis for PSPs to assess the level of risk associated with placing reliance on a counterparty PSP's identity management, thus removing duplication of effort which will be more efficient, quicker and reduce end-user detriment.

A Guidelines Scope Document has been produced that sets out in detail what the Identity Guidelines will cover, including a synopsis of the content of each of the chapters.

### Positioning in Relation to Existing Regulations and Guidance

The obligations that PSPs have regarding identity management emanate from a variety of pieces of legislation (all with different core themes and objectives) and multiple agencies, regulators and authorities also have an interest in identity management and have issued usage rules and guidance material.

Regarding consumer payments, the core 'pillars' of financial crime compliance are: AML, CTF, Sanctions, Fraud and Cyber/Data Security. Identity Management is a common theme that cuts across all of these pillars and therefore can be a source of understandable confusion amongst PSPs.

The Guidelines will take account of existing regulations and guidance and will adopt a similar approach to the JMLSG Guidance, by explicitly stating which regulatory or guidance provision a paragraph relates to. They will however have a narrower focus than the JMLSG as they will only consider aspects relating to payments, but with reference to a broader range of material such as the EU Payment Services Directive.

Whilst the Guidelines will build on existing guidance, they will not create any new obligations but rather highlight where existing provisions are more or less relevant to the specific payments environment and where there are risk-based judgments that can be made whilst retaining good controls that are fully compliant.

The Guidelines will not be sector specific in terms of end-users or target markets for PSPs, but will be specific to the role of the PSP in making and receiving payments. If there are any sector specific considerations in the context of payments then these will be drawn out where relevant.

### Plan for Implementation

The Guidelines Scope Document will be the basis of the development of the Guidelines, which will be completed in draft form by the end of 2017. There will follow a period of testing, validation and refinement involving representative stakeholders in a suitable environment, concluding in a final set of Guidelines ready for publication by the end of June 2018. It is envisaged that initial adoption will be by the testing participants but that a further set of PSPs will use the Guidelines to revise/establish their Identity Management policies and procedures during the second half of 2018 and that they will be provided with additional support by the implementation team during that period.

It is proposed that the new consolidated financial services trade association body, UK Finance, is charged with leading the development, testing and implementation of the Guidelines as outlined above. It is further proposed that UK Finance is accountable for providing the governance associated with content, usage and future development of the Guidelines.

It is envisaged that UK Finance will commission a suitable third party to draft, consult and finalise the Guidelines, ahead of formal publication by one or more institutions and voluntary adoption by PSPs. As part of this process, consideration must be given to appropriate certification and maintenance activity and responsibility.

### PSF Workstream Deliverables

- A Guidelines Scope Document: setting out the topics, structure and key elements in order that the construction of the Guidelines can be commissioned.
- A Guidelines Development and Implementation Approach Document: setting out the timetable of deliverables in order that the Guidelines will be published by end Q2 2018.
- An agreed Governing Body for the Guidelines: as agreed by key stakeholders, including within the proposed body.
- An agreed owner and sponsor for the development and implementation of the Guidelines: as agreed by key stakeholders, including within the proposed body.
- A review of the solution Business Case Evaluation: covering costs, financial benefits and non-financial benefits with reference to the previously identified user detriments.