

The background of the slide is a photograph of a person's hands using a payment terminal. A semi-transparent logo for the Payments Strategy Forum is overlaid on the image. The logo consists of two overlapping rounded shapes, one yellow and one green, with the text 'payments strategy forum' in white lowercase letters centered within the intersection.

payments  
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forum

## **Financial Crime, Security and Data Working Group**

**Payments Strategy Forum  
26<sup>th</sup> April 2017**



# Agenda

- A. Financial Crime summary**
- B. Financial Crime workstream progress update**
- C. Key risks and issues**
- D. Plan up to consultation date**
- E. Trusted KYC sharing**
- F. Tactical Transaction Analytics solution**

# A. Financial Crime summary

## Summary

### Current Status

#### WS01: Transaction Analytics

- Tactical solution scope and approach defined
- Vendor engagement for delivery of the service

#### WS02: KYC Sharing

- Concluded definition of the collaborative industry approach to KYC Data Sharing

#### WS03: Data & Information Sharing

- Focus of the solution has been defined as developing a positioning paper for the legal framework required to address the identified detriments and realise the benefits

#### WS04: Identity Guidelines

- Identity Guideline 'strawman' Scope document and revised Exec Summary paper have been agreed by the workstream
- Stakeholder map has been prepared to enable socialisation of the proposals

#### WS05: Liability Model

- The approach and scope of activities has been finalised in the development of a terms of reference

#### WS07: Education

- Work has concluded with the formal handover to FFA on the 31<sup>st</sup> March

### Next Steps

- Engage participants in tactical solution delivery and data permissions
- Finalise commercials with vendor for tactical solution
- Confirm the entity to handover tactical solution from end Q2

- Define the standards and governance principles
- Identify the body/entity to take delivery forward
- Pursue broader stakeholder engagement

- Develop complete draft of the positioning paper
- Engage with wider financial crime SME community for validation

- Produce the final Identity Guideline Scope document
- Agree an implementation approach that will be handed over for execution to a suitable entity / body

- Finalise questionnaires for pilot survey of participants, both access providers and indirect PSPs

## B. WS01: Transaction Analytics

### Key Activities since the Last Forum Update

- ▶ Agreement reached on the scope and approach for delivering a tactical analytics solution in 2017
- ▶ Stakeholder engagement continues through the workstream as well as the Financial Fraud Action (FFA) Board and the Joint Fraud Taskforce (JFT).
- ▶ Vendor engagement for the tactical solution has commenced with a view to going live in September 2017 with a funds repatriation service and next phase of the network analysis tool (mule account identification).
- ▶ Home Office have asked for an autumn update on funds repatriation from JFT and FFA.
- ▶ Commercial discussions with tactical vendor have commenced, facilitated by Faster Payments. Agreeing the funding model and central team requirements to support delivery is required, but this will probably depend on the scope, number of participants and service delivery entity.
- ▶ The strategic scope is being developed focusing on a scaled up broader service; accessible to all PSPs with a competitive supply of the solution.

### Key Upcoming Activities

Key to achieving the September date are the following:

- ▶ Finalise the scope and contract with vendor and participants
- ▶ Engaging the participants to allocate analysts for tactical development
- ▶ Agree Owning and Service Delivery entities, e.g. one of the PSOs/ NPSO – and pursue hand-over by end Q2
- ▶ Strategic solution scope and approach finalisation

### Overall workstream RAG status

**Previous**

G

**Current**

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**Forward**

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- ▶ The plan is tight to achieve September tactical commitments, but the workstream continues to make excellent progress with high levels of stakeholder engagement.

**R**

Serious challenges exist, and the committed baseline has been or will be missed. Mitigating plans and resources are not in place.

**A**

Issues exist with some risks to committed baseline. Mitigating plans and resources agreed and in progress.

**G**

Issues may exist, but on target to deliver against the committed baseline.

## B. WS02: KYC Sharing

### Key Activities since the Last Forum Update

- ▶ Conclusion of the analysis of the potential approaches to implement KYC data sharing and the high level definition of the required collaborative industry approach has completed.
- ▶ The key finding is that there is a need to develop an open data sharing framework to create a competitive environment to initially share and exchange KYC data, subsequent phases will provide additional KYC services to participants.
- ▶ Enabling this environment would be through the collaborative development of de minimis standards and an oversight body.
- ▶ Proposed approach to developing design principles for standards has been developed.

### Key Upcoming Activities

- ▶ Develop design principles for the standards. The starting point will be agreeing what participation we want to encourage and protect to determine where we may need to develop a standard.
- ▶ Develop key principles for the oversight body.
- ▶ Identification of a potential delivery body to lead the work through to implementation
- ▶ Broader stakeholder engagement to include banks, vendors and SME business representatives.

### Overall workstream RAG status

**Previous**

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**Current**

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**Forward**

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- ▶ Progress is in line with expectations, achieving consensus has required smaller incremental progress up to now
- ▶ Now we need to engage phase 1 participants and refresh working group membership in line with Q2 activities.

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Issues exist with some risks to committed baseline. Mitigating plans and resources agreed and in progress.

**G**

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## B. WS03: Data & Information Sharing

Key Activities since the Last Forum Update	Key Upcoming Activities						
<ul style="list-style-type: none"> <li>▶ The objective of the workstream is focused on producing a positioning paper on the legal framework required, and the benefits of sharing all financial crime data centrally will achieve when it is in place</li> <li>▶ The solution team's view is that the draft Criminal Finance bill is not as supportive as the industry hoped for the sharing of more fraud information and data.</li> <li>▶ The positioning paper is focused on covering:               <ul style="list-style-type: none"> <li>• Problem statement and detriments</li> <li>• Critical Barrier to success: legal framework</li> <li>• Benefits of sharing all financial crime</li> <li>• Current state, and planned improvements (Fraud, AML, Terrorist Financing, Anti Bribery and Corruption (ABC) etc).</li> <li>• Recommendation and way forward</li> </ul> </li> <li>▶ FFA continues to progress its plan on the sharing of confirmed fraud and has provided an updated to JFT and Joint Money Laundering Intelligence Taskforce (JMLIT) on the developments of the Fraud Model.</li> </ul>	<ul style="list-style-type: none"> <li>▶ Complete the analysis and benefit documentation</li> <li>▶ Socialise paper with AML, ABC, Terrorist financing subject matter experts including BBA and JMLIT</li> <li>▶ Identification of the appropriate entity / body to hand this solution over to.</li> </ul>						
<b>Overall workstream RAG status</b>							
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<ul style="list-style-type: none"> <li>▶ Progress is good to develop the positioning paper.</li> </ul>							

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**A** Issues exist with some risks to committed baseline. Mitigating plans and resources agreed and in progress.

**G** Issues may exist, but on target to deliver against the committed baseline.

## B. WS04: Identity Guidelines

### Key Activities since the Last Forum Update

- ▶ The Identity Guidelines Workstream has made good progress, both in shaping the content of the guidelines and also regarding how they might be developed, implemented and used over the next 18 months.
- ▶ A 'strawman' Guideline Scoping Document has been agreed by the workstream participants, together with an updated Executive Summary setting out the purpose, key problem areas to address and positioning in relation to existing regulations and guidance.
- ▶ A stakeholder map has been prepared to enable full consultation and socialisation of the proposals prior to handover for development and implementation during June/July 2017.
- ▶ A draft Implementation Approach document has been prepared for discussion and agreement that envisages three stages following the handover of the Guideline Scoping Document:
  - Guideline development (H2 2017)
  - Guideline testing and validation (H1 2018)
  - Guideline adoption (H2 2018)

### Key Upcoming Activities

- ▶ Activity is now focussed on finalising the Guidelines Scoping Document and agreeing an implementation approach that will be handed over for execution to a suitable entity / body during June/July 2017.
- ▶ This will include socialisation with, and obtaining feedback and support from, a number of key stakeholders.

### Overall workstream RAG status

**Previous**

G

**Current**

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**Forward**

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- ▶ Activity is on track to meet the workstream plan key milestones, including agreement of final deliverables by mid June 2017.

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## B. WS05: Liability Model

### Key Activities since the Last Forum Update

- ▶ The approach and scope of activities has been finalised in the development of a terms of reference.
- ▶ The solution will identify concerns and gaps with regard to liability in current Joint Money Laundering Steering Group (JMLSG) guidance for both Indirect Access Providers (IAPs) and indirect Payment Service Providers (iPSPs) and therefore if the industry should develop best practice guidance
- ▶ The mechanism to achieve this is through a survey of IAPs and iPSPs, the PSR has agreed to use their tools for regulatory consultation for this survey and is investigating resources to analyse and anonymise results
- ▶ An early draft of the IAP questionnaire has been developed and is being iterated with the group, with the iPSP questionnaire at the initial stages of drafting.

### Key Upcoming Activities

- ▶ Finalise the key questions for the group to discuss pilot with IAPs
- ▶ Complete a draft of the iPSP key questions and syndicate to WS IPSP stakeholders for review
- ▶ Agree plan for survey timetable and share with PSR to agree timing and resource support

### Overall workstream RAG status

**Previous**

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**Current**

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**Forward**

G

- ▶ Progress has been good, but achieving a July update on the results of the survey may prove challenging

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## B. WS06 Sanctions Data

## WS07 Education

WS06: Key Activities since the Last Forum Update	WS07: Key Activities since Last Forum Update						
<ul style="list-style-type: none"> <li>▶ We have now been provided details of the HMT contact, and a meeting has been set for the 9<sup>th</sup> May.</li> <li>▶ However the HMT contact has indicated we will also need to engage the FCO</li> </ul>	<ul style="list-style-type: none"> <li>▶ This solution has been officially handed to the FFA on the 31<sup>st</sup> March 2017 and concludes the PSFs work.</li> </ul>						
Overall workstream RAG status							
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<b>Previous</b> G	<b>Current</b> C	<b>Forward</b> C					
<ul style="list-style-type: none"> <li>▶ Access and timely engagement with stakeholders is challenging</li> </ul>	<ul style="list-style-type: none"> <li>▶ PSF to obtain quarterly updates from FFA on progress</li> </ul>						

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# C. Financial Crime – Key Risks, Issues and Dependencies

## Key Risks and Issues

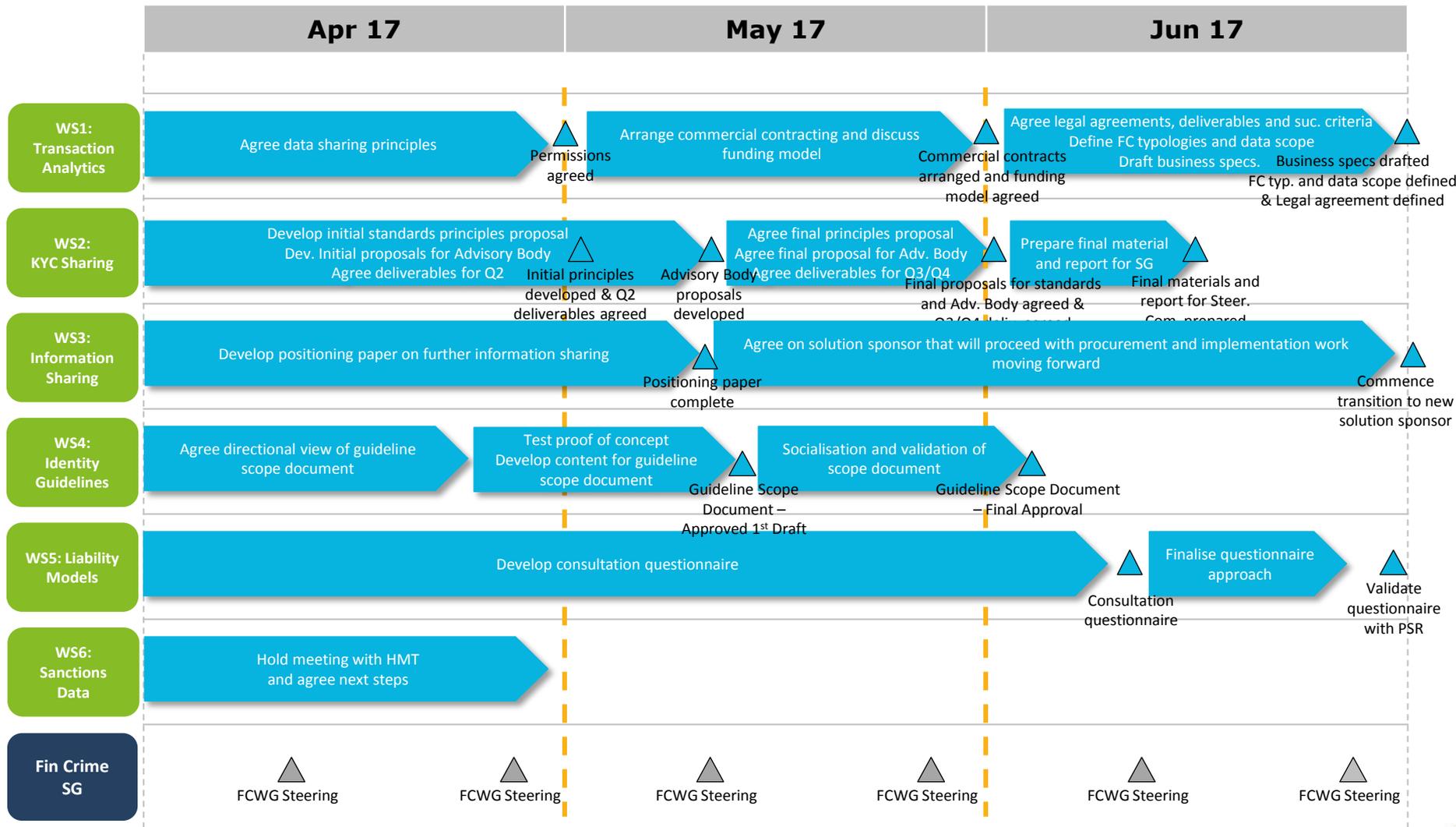
ID	Type	RAG	Res. Date	Title	Description / Impact	Actions/ Decisions
FC-001	Risk	G	30/06	Solution handover	There are 6 distinct solutions with a number of potential owners for who should take these forward from the PSF and there is a need to identify and select the right body/entity per solution to continue the PSFs work.	Analysis per solution has commenced with a view to providing an end to end recommendation in May.
WS1-003	Risk	G	31/05	Participant engagement and ongoing support	The tactical solution requires commitment from the participants to establish the processes to support the service and deliver results in the autumn. Participants will also have to commit ongoing resources to respond to the outputs of the service, and this require an appropriate level of commitment from the PSPs involved.	Initial delivery workshop scheduled on data requirements. Email to FFA Board members on their support and need to commit analysts.
WS1-001	Risk	G	31/05	Grant of permissions	Transaction analytics tactical solution will require participants to grant permission for the use of their data. Delays in achieving this may result in delays to achieving the stated objective of a September go live.	Vendor for tactical solution to draft permissions document based on POC extension to share it with the participants as soon as possible
WS1-002 002	Risk	G	01/05	Funding model	The tactical solution will require a funding commitment from participants to seed the development of the service in 2017 and until the strategic solution is in place.	Suggested approach is for the FFA / JFT to draft a letter to CEOs on the need for their ongoing support to fight financial crime and support the service.
WS1 & 3	Risk	G	31/07	Legislative change	Two solutions have identified a dependency on a change in legislation to fully realise their benefits and address the identified detriments.	Suggestion is to draft a positioning paper to outline the requirements on future legislation for the PSF to support.

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# D. High level milestone plan for 6 Fin Crime Solutions in Q2



### NOTES

- Plan will be updated on an ongoing basis based on the input/out from each workstream
- Weekly meeting for status updates will be scheduled on each Friday
- Fortnightly FinCrime WG – Steering Group under the way

▲ Milestone/ deliverables

▲ Meetings/Workshops

## E. Trusted KYC sharing (1 or 2)

The focus of the KYC Data Sharing workstream during Q1 has been researching the viability of a variety of existing and emerging solutions, analysing the market focus and the potential collaborative role of the industry versus the provision of solutions by commercial providers.

- The analysis of the market and potential solutions has identified that SMEs should be the focus of the PSF recommendation, due to:
  - Their materiality to the UK economy (50% of GDP)
  - The absence of existing KYC solutions
  - The high relative cost of responding to KYC related enquiries versus the value of the services SMEs typically engage.
- The review of the market of current and potential models to share and process KYC data identified a wide variety of potential commercial solutions that should emerge and, given the right conditions, would serve both the PSP and wider beneficiaries of KYC data.
- Our analysis has therefore focused on how to create an effective market for potential commercial providers to serve the diverse needs of participants (PSPs and SMEs), as well as how such a market would potentially evolve.
- The basic components to allow the sharing of KYC data are mechanisms to message and exchange data. The introduction of a set of core interoperable vendor solutions will allow banks the freedom of choice from more than one provider.
- The expectation is that interoperability will allow vendors to evolve and differentiate their range of services in time to include offerings such as KYC data exchanges, digital passports through to the more advanced artificial intelligence risk scoring options for KYC validation.
- Success also requires awareness and adoption by SME customers, and SMEs would have to trust how their data was going to be exchanged, what it was going to be used for, and ultimately that the custodian of their data was trust worthy.
- We propose that the collaborative PSF approach should allow for competing solutions, that are interoperable, and give SMEs confidence in how their data will be used.

## E. Trusted KYC sharing (2 of 2)

The proposed solution is for the industry to collaborate in creating an environment within which commercial providers can offer services to PSPs and SME-customers that facilitate effective sharing of KYC data. This benefits PSPs of all sizes in managing their financial crime risk and will improve the SME customer experience.

- The proposal is that the industry collaborates through the PSF to establish an environment where KYC data exchanging is possible and has the potential to scale to meet market demand through the implementation of:
  - Minimum standards to facilitate the exchange of KYC data (core data fields, data usage, interoperability and sharing mechanism characteristics)
  - Governance body and framework – overseeing the participation in the sharing of KYC data, and evolving the standards to meet SME and market demand
- The anticipated market response to creating this environment is that commercial vendors would enter the market and offer solutions initially focused on the sharing and exchanging of KYC data. These would meet the core standards and establish a competitive landscape that would match the diverse needs of the different PSP participants.
- This proposal will address the identified detriments by giving SMEs faster access to new products and services and enabling banks/PSPs to better manage KYC risks, and lowering barriers for smaller PSPs
- The expectation is that these commercial solutions will evolve through successive phases to provide new services, such as digital passports, and the advisory body will need to monitor how the market develops and will adapt the standards for new services, as appropriate, and if necessary look to further support adoption.
- The workstream's immediate focus is to progress phase 1, with the next steps being to identify options for the scale and scope of the standards and governance body. Followed by stakeholder testing before bringing back a detailed final solution for the endorsement of the Forum in July.

## F. Transaction Data Analytics and Data Sharing – Tactical solution scope

The Tactical Solution is intended to bring live a service in 2017 utilising an enhanced and updated version of the solution developed during the FFA Proof of Concept (FFA UK Pilot) in 2016

### Tactical Solution Objective

- Provide a service to the payments industry capable of identifying Money Mule accounts and supporting the industry's commitment to repatriating funds. This will be an enhancement of the FFA UK pilot from 2016 capable of providing an on going service to a broader range of participants, while the strategic model is evolved over the next two to three years.
- The strategic solution will extend the breadth of the payment data used, and extend the range of crime types targeted, and also provide the industry with a more proactive real time defence to fighting financial crime.

### Tactical Solution Scope

- The scope of the tactical solution in terms of data and financial crime analytics patterns coverage will include the following:
  - Funds Repatriation - Aiming to identify the source of frozen funds by tracing payments back to their originating account
  - Money Mule Network Identification - Updated version of the solution included in the 2016 FFA UK pilot
  - Transactions coverage: Faster Payments & BACS
  - Analytics will use confirmed Fraud data to help reducing false positives
  - The tactical solution is intended to be run for the 12 original PSPs from the 2016 FFA UK pilot with other PSPs joining either in September or in subsequent iterations of the solution

## F. Transaction Data Analytics and Data Sharing – Tactical solution approach

In 2016, Vocalink partnered with FFA UK to develop and trial a solution that takes BACS and FPS data, for the identification of “money mule” accounts. The Tactical Solution will leverage this existing initiative, building on the capabilities to meet the “money mule”, funds repatriation, and predictive analytics capabilities

- The WG during Q2 will prioritise handover of ownership of the tactical solution to the right entity / industry body
- The critical path activities to enabling a service in 2017 include:

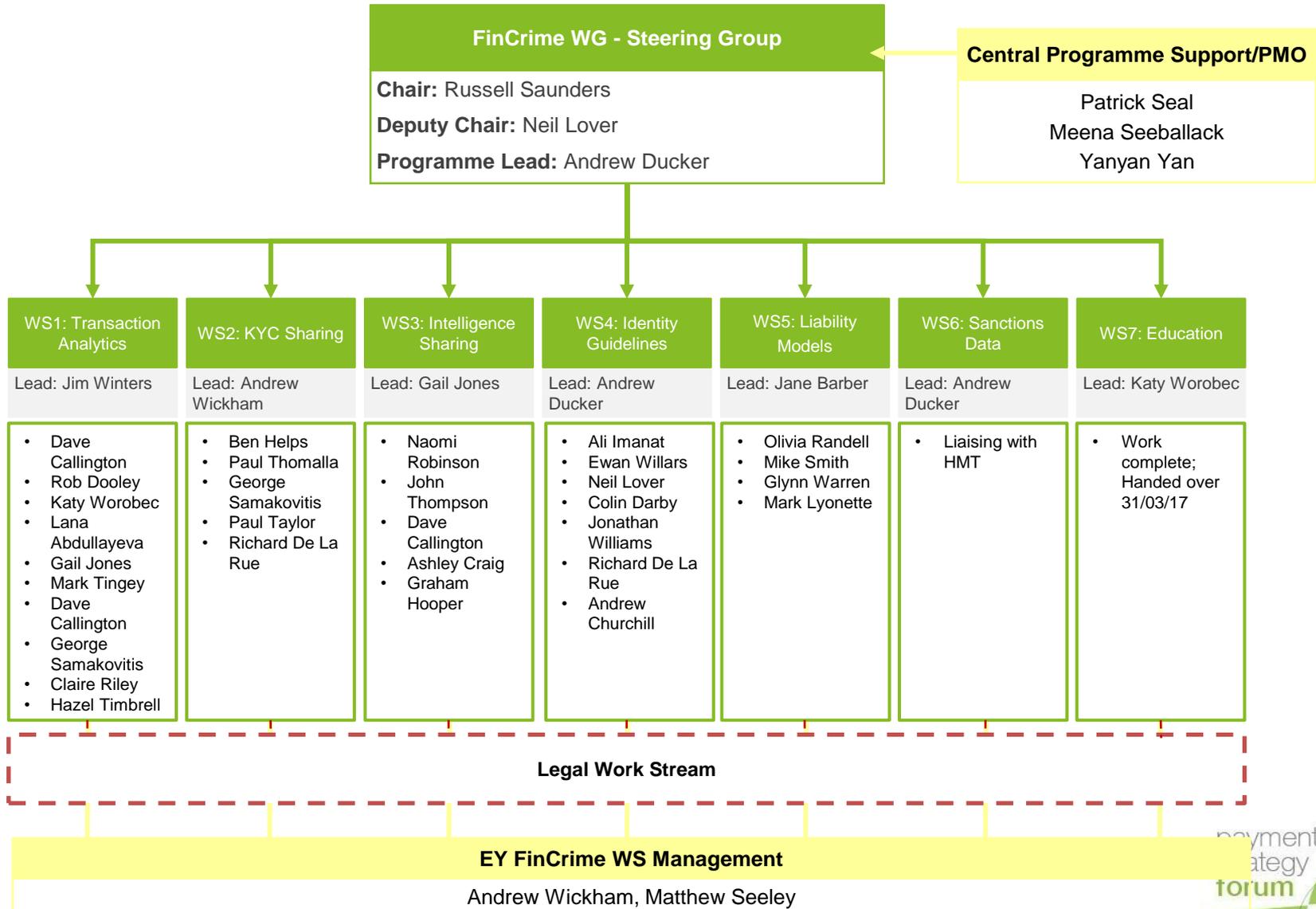
Action	Comments
Support interaction with tactical solution vendor	<ul style="list-style-type: none"> <li>• This will be key to determine:               <ul style="list-style-type: none"> <li>• Final tactical solution design and operational approach</li> <li>• Timeline requirements for data provision and permissions (from those who would participate) to meet implementation timeframes</li> <li>• Commercial agreement/costing and contractual arrangements</li> </ul> </li> </ul>
Engage with participants	<ul style="list-style-type: none"> <li>• Those organisations who may be involved in this solution will need to be engaged to get a full view of the solution participants</li> <li>• Note: A wide scale participation is desirable as it reduces capability for bad actors to abuse the payments systems</li> <li>• A number of resources from the industry will need to be identified to enable the implementation of the solution in 2017</li> </ul>
Agree the definition and implementation of a funding model	<ul style="list-style-type: none"> <li>• This will be required to support the operation of the service (until the launch of the Strategic solution)</li> <li>• Note: The funding approach must be equitable and agreeable to all participants</li> <li>• As part of this activity, it will be required to find a service delivery body/entity to whom the solution will be handed over</li> </ul>
Create the solution framework	<ul style="list-style-type: none"> <li>• The Tactical Solution must include a Framework for its use. This must be considered and determined to ensure the maximum benefit can be realised</li> <li>• The Funds Repatriation Framework will need careful consideration, to ensure funds can be appropriately repatriated within the current legal landscape</li> <li>• The commitment of participants will need to be determined, to ensure it is well understood what action is expected from those who are involved with the solution</li> </ul>



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## Appendix

# Financial Crime WG - structure



# Discussion and Questions