

10 AML regulation and identity verification

Further EU harmonisation is needed to facilitate digital cross-border activity

In the banking sector, the digital onboarding of new customers is conditioned by AML/CFT regulations. Despite the AML Directive, the valid methods for identity verification vary across the EU. This hampers the Single Market and creates an uneven playing field between banks located in different member states.

Customers are nowadays accustomed to signing up easily to digital services (such as social networks or on-demand streaming) from their computers or mobile devices in just a few seconds. After providing some personal information, accounts become fully operational and customers can immediately start enjoying the services. However, in the case of banking services, digital onboarding – the process of turning a non-customer into a new one through digital channels – is far from being so straightforward. This is because regulations on **Anti-Money Laundering and Combating the Financing of Terrorism (AML/CFT)** require financial institutions to verify the identity of their customers and know their occupation and/or economic activity. Verifying the identity of new customers by remote means is the main challenge to digital onboarding from both the regulatory and the technical perspective.

Although the Financial Action Task Force (FATF) sets global standards for AML/CFT, specific customer due diligence requirements are set at the national level. Even in the EU, where the AML Directive rules, national transpositions and supervisory criteria lead to significant differences across countries in the authorised methods for remote verification of the identity of new customers. In Germany, for example, in November 2014 the Federal Financial Supervisory Authority (BaFin) approved the use of a video call as a valid method. This has enabled German banks to implement fully-digital customer onboarding processes that take just a few minutes.

In contrast, banks operating in other EU countries with more restrictive regulations have to rely on identity verification methods that are not real-time, such as requiring new customers to make a first transfer of funds from a bank account that they hold at another financial institution. In the particular case of Spain, the AML/CFT supervisory authority (Sepblac) approved a new method in May 2015 in which the bank asks the customer to provide the number of an account that he holds at another institution and then the bank checks the customer's identity with that institution. Although this mechanism removes the need to transfer funds, it still excludes unbanked individuals and delays the account opening process by between five and seven working days. The only real-time identity verification method that is allowed in Spain – the national electronic identity (eID) card – is in practice difficult to use, due to hardware and software requirements. The non-harmonisation of valid identity verification methods in the EU creates an uneven playing field between banks located in different member states offering digital financial services across the Union. For instance, making use of the “single passport” mechanism, a German bank may acquire customers in Spain under an identity verification method (video call) that financial institutions established in Spain are not allowed to use. This uneven playing field introduces incentives for regulatory arbitrage.

The Green Paper on retail financial services that was recently launched by the European Commission (EC) aims to identify and mitigate the barriers to cross-border activity that hamper the EU Single Market. One of these barriers is the difficulty in complying with heterogeneous AML/CFT requirements when acquiring cross-border customers through digital channels. Verifying their identity is particularly troublesome, not only due to the restrictions in the authorised real-time methods, but also because of the absence of a clear framework for the private sector to use national eID systems. The Electronic Identification and Trust Services Regulation (eIDAS Regulation) creates an interoperability framework for the national eID systems to be recognised by public bodies across the EU. However, it leaves it up to Member States to define the terms of access for the private sector.

Digital channels offer a great opportunity to overcome the existing EU market fragmentation. Therefore, facilitating the digital onboarding of cross-border customers should be among the top priorities of the EC's Green Paper.

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