BLOCKCHAIN IN THE FINANCIAL INDUSTRY – FUTURE PERSPECTIVES IN EU AND BALTICS

In partnership with Latvijas Banka, Estonian Banking Association, Swedbank, Blockchain Development Association of Latvia and Latvian Blockchain Association
REMOTE IDENTIFICATION OF CUSTOMERS

14:20 - 15:00

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CLIENT REMOTE DIGITAL ON-BOARDING

... a short introduction to recently adopted rules
with an insight into travaux préparatoires
Procedures for the entity obliged by the Law on the Prevention of Laundering of Proceeds of Crime and Terrorist Financing to perform client remote identification.

Prepared in cooperation with the Alternative Finance Services Association of Latvia, the Latvian Leasing Association, the Latvian Chamber of Commerce and Industry, the Latvian Insurers Association, and the Latvian information and Communication Technology Association.
identifying the customer and verifying the customer’s identity on the basis of documents, data or information obtained from a reliable and independent source, including, where available, electronic identification means, relevant trust services as set out in Regulation (EU) No 910/2014 of the European Parliament and of the Council or any other secure, remote or electronic identification process regulated, recognized, approved or accepted by the relevant national authorities.

It follows that the directive explicitly demands an expressis verbis regulation of the process used for new digital and remote client on-boarding, in order to safeguard public interests.
Procedures for the entity obliged by the Law on the Prevention of Laundering of Proceeds of Crime and Terrorist Financing to perform client remote identification (hereinafter – the Regulation).

Before

Obliged entities performed Enhanced Due Diligence (hereinafter – EDD) in all cases of client remote on-boarding. Exception – use of electronic signature.

Other firms (previously among them consumer lending companies) are free to use any technology they please.

After

Obliged entities are not bounded to perform EDD in all cases of client digital remote on-boarding if they introduce one or several methods for remote identification prescribed by the Regulation.
The regulation is binding only to those firms subjected to special obligations under AML/CTF regulations (obliged entities). Other firms can follow and introduce the same approach. Or not.
Technology always develops faster than law, but the main purpose of law is to protect society in situations where public law legal interference is with utmost importance.

That’s why the Regulation enframes the process (methods), and lets businesses compete on the best technological solution.
Remote digital client on-boarding creates a greater risk. What can be prevented on spot, remains unseen in this process (e.g., a third person directing and controlling a client, possibly a homeless person who sold their identity).

This requires effective internal controls and risk mitigating measures. EDD is one of them. The regulation allows to replace EDD with smarter solutions if the identified risks allow it.
Basic principles of this regulation:

- Risk-based approach;
- Addresses only key issues, leaves the details to businesses;
- Acknowledges risks originating from countries with high level of corruption.
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This requires effective internal controls and risk mitigating measures. EDD is one of them. The regulation allows to replace EDD with smarter solutions if the identified risks allow it.
Margin of discretion

Obliged entity may choose to which countries’ nationals it’ll offer remote digital client on-boarding.
1. Only obliged entity decides whether to offer remote digital on-boarding and the method to be used in this process.

2. Obliged entity is empowered to cancel remote digital on-boarding or ask for on-spot identification at any time it pleases to.

3. Obliged entity must demonstrate the knowledge to manage and mitigate risks originating from on-boarding customers from particular countries.

4. Proper and comprehensive risk assessment in respect to services available is crucial. Manuals for fraud and forgery typologies as well as trends is a must.
Applies to both natural persons and legal entities.

Applies to both, new clients as well as identification of a new representative of the existing customer.

No additional requirements in regards to EDD apart from those provided by the law or FCMC regulations.
The Regulation doesn’t apply to existing client authentication to access bank’s on-line services.

The method used to remotely on-board a client might affect what particular bank’s services are available to the client, which authentication tools at a later stage are assigned to access bank’s on-line services.

According to the Credit institutions law introducing of remote digital on-boarding of clients might be subjected to the FCMC’s approval.
METHODS

Secure electronic signature, e.g., under Latvian law or eIDAS. Latvian firm may accept e-signatures from other countries. This could be done even before eIDAS schemes are notified from other EU member states.

Video identification in the form of a specific video interview via a dedicated app or website using an encrypted connection, which also includes presenting an identification document. A list of technical and behavioral rules to be met. Similar to Swiss/German model.

Universal, secure, and suitable for a wide range of services and customers. Suitable for banks.
METHODS

Identification via bank transfer.

Such as granting a small loan remotely, or activating a parking fees account.

Not allowed to open an account for further payments suitable for the «second generation» remote identification via bank transfer.

Selfie and identity document’s photo sent to a service provider (usually via a dedicated app). Similar to the UK model.

Suitable for low-risk, low-volume transactions within Latvia, the Baltics or the EU. Suitable mostly for FinTech, e-money institutions, firms.
Video-identification is performed by ensuring compliance with at least all of the following requirements:

- it is performed in real time, by interviewing the customer in a synchronized video and audio streaming and using an encrypted connection;
- the comparison of the face image of the private individual with the image on the private individual’s personal identity document that has been obtained during the video streaming;
- the video-identification clearly reveals the head and the shoulders of the private individual, their face image without shadowing, the image can be clearly distinguished from the background and other objects;
- the face of the private individual may not be covered;
- the photo images on the presented documents are clearly visible;
- there are questions asked and answered during the video-identification to adjust or verify the information regarding the customer;
- the audit trail of the audio and image information flow is fixed with an unchangeable timestamp, the name and surname of the remotely identified private individual and their IP address;
- ensured continuity of the streaming process. In case the process is interrupted, the video-identification is performed repeatedly.
No digital on-boarding by selfie/document photo and/or bank transfer method for clients (or clients with Ultimate Beneficial Owners) who are nationals of the countries with high level of corruption or companies which are shell companies.

3000 euro monthly transaction limit for clients who must undergo EDD unrelated to remote on-boarding, e.g., PEPs or casinos and are remotely on-boarded by a selfie/document photo and/or bank transfer method.

No statutory transaction limit in regards to other methods provided by the Regulation (eIDAS or video identification).
OTHER RISK REDUCING MEASURES

Methods mentioned above can be combined in order to mitigate risks. The obliged entity may choose to stick only to one method.

For high risk customers from third countries bank transfer commonly used to mitigate risks in addition to on-spot identification, and can not be considered as digital remote on-boarding.

The Regulation allows to monitor client’s digital behavior, use of the AI, utility bills, geolocation, to compare voice of the person, e.g., the voice in the video identification interview and the client’s personal video blog.
The government intends to legislate and make secure electronic signature as the only legal way to establish a company in Latvia (also remotely). It definitely will correspond with the method to use for opening a bank account remotely.
The obliged entity is entitled to use any technology it deems proper but only the four methods mentioned above offer an exemption from obligation to undergo EDD.

ONLY 4 METHODS?
EDD is performed when the law requires to do so. Obliged entities may perform EDD any time due to the risk assessment/fresh information obtained.

Obliged entities apply EDD measures to manage and mitigate the risks appropriately.
TRANSITIONAL PROVISIONS

01
No transitional provisions in place.

02
New client – new regulation applied.

03
Existing client on-boarded remotely in the past – either perform EDD or apply the Regulation.
OUTSOURCING

Firms are allowed to outsource digital on-boarding, but the decision to enter into the business relationships is up to the firm itself; the decision can be passed by a machine though.

Outsourcing requirements – for banks EBA guidelines and coordination with ECB/FCMC might be needed.

No requirement for a service provider to be registered in the EU; must demonstrate that the service provider is fit and proper in regards to the EU anti-money laundering rules.
No need to access population register or the invalid document register, but the obliged entity can use it as a risk mitigating measure if it is entitled to access the register.

In order to provide a loan or a credit card to a customer (Latvian resident) on-boarded remotely, still paper form or secure electronic signature is needed.

The law on the Credit Register is about to be amended soon regarding this particular provision.
COPY OF ID

Photo of the ID taken by the person is considered as a copy of the ID in the meaning of the AML/CFT law.

In case of on-boarding of legal entities, additional documents regarding registration etc. must be provided in any suitable form (mail, e-mail).
Q&A AND CLOSING

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THANK YOU!

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