



FINANCIAL SERVICES FEDERATION

18 March 2021

Louise Cavanagh
AML Group, Regulatory Services
The Department of Internal Affairs Te Tari Taiwhenua
PO Box 805
Wellington, Wellington 6140
New Zealand

By email to: louise.cavanagh@dia.govt.nz

Dear Louise

Thank you for the opportunity for the FSF to comment on the draft Electronic Identity Verification Guideline (“the Guideline”) in relation to the Amended Identity Verification Code of Practice 2013 (“the Code”). The FSF is grateful to the Department of Internal Affairs (“DIA”) for being recognised as a key stakeholder and for the opportunity to provide feedback on this Guideline.

By way of background, the FSF is the industry body representing responsible non-bank lenders, credit-related insurance providers, and fleet leasing providers. We have over 65 members and affiliates providing these products to more than 1.5 million New Zealand consumers and businesses. Our affiliate members include internationally recognised legal and consulting partners. A list of our members is attached as Appendix A. Data relating to the extent to which FSF members (excluding Affiliate members) contribute to New Zealand consumers, society and business is attached as Appendix B.

The FSF agrees that it is appropriate to update the current Explanatory Note, particularly considering recent technological advancements and innovations, and the exponential uptake in such means of electronic verification. The Covid-19 pandemic has been a prime example of where electronic verification became more heavily relied upon, and biometric verification an even more compelling mode of verification. The draft Guideline is far more comprehensive than the Explanatory Note released in December 2017, and depicts the complexities involved with electronic verification whilst also clearly articulating expectations and scenario-based recommendations.

The FSF’s submission is generally in support of the draft Guideline, as articulated below, however, we do urge the DIA to consider our suggestions to further improve the Guideline in its reflection of the industry.

General Comments

The FSF notes that much of what was already existent in the previous Explanatory Note has not been reworked or amended in the draft Guideline. The FSF submits that this is a positive aspect of the Guideline. As opposed to having to comply with completely new expectations, entities now have their already existing foundation to build upon.

The FSF is pleased to see the incorporation of a list of the most commonly used electronic sources in New Zealand, in [15]. Such a list is invaluable, it provides a reference point as to what most other entities are employing and perhaps facilitates further consideration as to the suitability and trustworthiness of one's own source for electronic identification verification.

The examples provided on page 8 and onwards of the Guideline are found to be very helpful. The FSF is particularly pleased with this aspect of the Guideline and its format. The scenario based example, along with a conclusion on compliance and accompanying rationale, provides invaluable real-world references.

Flexibility to accommodate for industry and technological advancement

The FSF would like to direct the DIA to paragraph 16 in the draft Guideline, where it states, "none of the electronic sources listed in paragraph 15 above incorporate such a mechanism". As this might be the case at the time of writing, the draft paragraph has not accounted for the inevitable evolution of the sources and providers of AML/CFT tools. All non-Government providers are continuously improving their offering, in line with market pressures and the exponential demand for electronic solutions.

The FSF therefore suggests that paragraph 16 be accordingly amended to reflect this. The guidance should have "**currently**" added, or, more preferably, adopt alternative wording to acknowledge the inevitable changes to the sources listed.

Single independent source requirements

Paragraph 12 of the draft Code mentions biometric information and what such information should include. While this is helpful, the FSF notes that, currently, the only acceptable provider of this biometric information is RealMe.

The FSF believes there are other high confidence biometric solutions available in the New Zealand market and these should be considered in context of this single source requirement.

The FSF suggests a list of criteria to be issued and if biometric providers can demonstrate that they meet all listed requirements from the regulator, then credit providers should reasonably be able to rely on a single source of biometric information from one of these providers to meet their compliance requirements.

Additionally, RealMe requires a consumer to create and verify an identity online. Currently, RealMe does not have broad enough coverage of the adult New Zealand population to be a viable single source solution. According to the information provided by RealMe, there are currently 1.08 million RealMe identities created by individuals. Once overlaid with the adult population of New Zealand, the FSF estimates this to only cover approximately 30-35% of the relevant population. Ultimately, RealMe is unlikely to be viable as a single independent source for all businesses.

As per our suggestion, a criterion required to be complied with by all potential biometric providers will provide more opportunities for providers to qualify as appropriate sources of biometric verification.

Bank statements and their relevance

The FSF suggests that a New Zealand bank statement could be added to the list of data sources used to verify an individual's name and address (paragraph 15). Bank statements are routinely obtained to support an applicant's affordability assessment (as per responsible lending obligations under the Credit Contracts and Consumer Finance Act 2003), and the FSF suggests they could be applied here as well.

Additional methods – phoning the customer

The FSF requests further guidance around the suggestion that phoning the consumer provides further verification. Lenders are uncertain as to how appropriate verification can be achieved through this method.

Documenting EIV procedures (paragraph 19)

The FSF notes that paragraph 19 and onwards are completely new. The dense information on this topic is well laid out in its figure format.

Despite the FSF's praise for the layout of such information and guidance, the FSF expresses concerns in regard to its prescriptive nature. The Code itself, and its relevant clauses, articulate the relevant criteria in a more principles-based form. What the figures do is formulate a type of "checklist" of specific information that each entity should include when documenting EIV procedures. Whilst the FSF is sure this was drafted with the best intentions the checklist appears to be excessively more prescriptive than what is required in its parent instruments.

When considering a purposive interpretation, the purpose being the Guideline's purpose to provide clarification to reporting entities that seek to comply with Part 3 of the Code, there is therefore a conflict. The FSF believes that these drafted paragraphs do attempt to provide clarification, but also impose further new and comprehensive reporting requirements onto entities, which go far further than the Code does itself, and thus, conflict with its purpose.

The Code specifically states that it is "suggested best practice", whilst what is set out in paragraph 19 of the proposed Guideline goes far further and suggests that in-depth due

diligence sits within an entities programme. The reporting programme and documentation of procedures should record how the legislation is met (how the EIV is used) rather than including a lengthy assessment of the suitability of the tools used. Currently, the drafted Guideline imposes such a prescription.

The FSF would also like the DIA to consider the disparities of resources available to various reporting entities. What resources one entity has is vastly different to what another may have, and therefore, what risks and deficiencies are present as a result. Thus, imposing a sort of “checklist” of requirements which may not apply to all entities is not beneficial, but rather, may require the reallocation of resources to comply with the Guideline, as opposed to customer orientated investments.

In light of the above arguments, the FSF urges the DIA to consider a more principles-based approach on this topic. The FSF suggests reverting to guidance similar to the current Explanatory Note, being paragraph 16 *Inclusion with AML/CFT Programme*. The guidance could reference the criteria in the Code, mention additional methods, record-keeping, and the like. There should be a statement for a single independent source, and another when two reliable and independent sources are used. The assessment of how EIV meets legislative requirements would ultimately be much better suited for an internal compliance document rather than the programme itself.

Such formats would not exceed the requirements stipulated in the Code and would appear less confronting and resource intensive than the drafted “checklist” format proposed.

In Summary

As articulated in the submission above, the FSF is generally pleased with the proposed Guideline. There are many points in the drafted Guideline which will be found useful by reporting entities.

The FSF has outlined its main concern to be the prescriptive nature of the guidance provided under *Document your EIV procedures in your AML/CFT programme*. Reverting to a similar principles-based guidance, as is present in the Explanatory Note, would address our concerns and better represent the purpose of the Guideline and better suit the variety of reporting entities.

As the submission articulates, further amendments to the Guideline should be made to better suit the industry and cater for its advancements. The FSF’s suggestions on paragraphs 12,15 and 16 will ensure that such advancements are catered for by establishing opportunities and flexibility for industry advancements.

The FSF appreciates the importance of such a Guideline, particularly in such times as today, where more than ever, business is conducted online. However, the FSF does not support any piece of guidance so onerous that it extends beyond its parent instruments and does not recognise the diversity of resources and the inevitable advancements.

Once again, the FSF is grateful to the Department of Internal Affairs for the opportunity to make a submission on the draft for consultation: Electronic Identity Verification Guideline and would be very happy to speak to any points which may require clarification.

Yours sincerely,

A handwritten signature in black ink, consisting of several overlapping loops and a vertical stroke, resembling a stylized 'D' or 'Y'.

Diana Yeritsyan
Legal and Policy Manager

Appendix A



FINANCIAL SERVICES FEDERATION

Membership List as at February 2021

Non-Bank Deposit Takers Leasing Providers	Vehicle Lenders	Finance Company Diversified Lenders	Finance Company Diversified Lenders	Credit-related Insurance Providers	Affiliate Members
<u>Rated</u> Asset Finance (B) <u>Non-Rated</u> Mutual Credit Finance Gold Band Finance ➤ Loan Co <u>Leasing Providers</u> Custom Fleet Fleet Partners NZ Ltd Lease Plan ORIX NZ SG Fleet	AA Finance Limited Auto Finance Direct Limited BMW Financial Services ➤ Mini ➤ Alphera Financial Services Community Financial Services European Financial Services Go Car Finance Ltd Honda Financial Services Mercedes-Benz Financial Motor Trade Finance Nissan Financial Services NZ Ltd ➤ Mitsubishi Motors Financial Services ➤ Skyline Car Finance Onyx Finance Limited Toyota Finance NZ Yamaha Motor Finance	Avanti Finance ➤ Branded Financial Caterpillar Financial Services NZ Ltd CentraCorp Finance 2000 Finance Now ➤ The Warehouse Financial Services ➤ Southsure Assurance Flexi Group (NZ) Limited Future Finance Geneva Finance Home Direct Instant Finance ➤ Fair City ➤ My Finance John Deere Financial Latitude Financial Metro Finance Pepper NZ Limited Personal Loan Corporation Pioneer Finance Prospa NZ Ltd South Pacific Loans	L & F Group ➤ Speirs Finance ➤ Speirs Corporate & Leasing ➤ Yoogo Fleet Thorn Group Financial Services Ltd Turners Automotive Group ➤ Autosure UDC Finance Limited <u>Credit Reporting & Debt Collection Agencies</u> Baycorp (NZ) ➤ Credit Corp Centrix Collection House Equifax (prev Veda) Illion (prev Dun & Bradstreet (NZ) Limited Intercoll Quadrant Group (NZ) Limited	Protecta Insurance Provident Insurance Corporation Ltd	255 Finance Limited Buddle Findlay Chapman Tripp Credit Sense Pty Ltd Experian EY FinTech NZ Finzsoft GreenMount Advisory Happy Prime Consultancy Limited HPD Software Ltd KPMG LexisNexis PWC Simpson Western Verifier Australia Total: 66 members

The Financial Services Federation (FSF) is the association for responsible finance and leasing companies operating in New Zealand. This infographic is a snapshot of our 40 lending members, the membership list can be found at our website www.fsf.org.nz.



Consumer Lending

1.6 million
Consumer Loans

\$7.5 billion
Total Assets



Business Lending

172,4000
Businesses Loans

\$7.6 billion
Total Assets

\$355,039,962

Secured

\$2,996,322,244

Unsecured

\$2,484,376,195

Motor Vehicle

\$654,604,625

Mortgage

\$609,678,636

Secured

\$79,625,359

Unsecured

\$4,134,085,468

Motor Vehicle

\$186,477,244

Operating Lease

\$133,896,221

Mortgage

FSF lending members data survey period as at 29 February 2020 . Data collected and aggregated by KPMG. Values in NZ\$.