



FLA INDUSTRY STANDARD FOR THE PREVENTION OF FINANCIAL CRIME AND TERRORIST FINANCING IN MOTOR FINANCE CREDIT APPLICATION PROCESSING

INTRODUCTION

1. Finance and Leasing Association (FLA) motor finance members have both a legal and moral obligation to ensure that they correctly identify their customers in the credit application process in order to prevent financial crime and terrorist financing.
2. The requirements set out in the [Money Laundering Regulations](#) and the [Joint Money Laundering Steering Group \(JMLSG\) Guidance](#) are the minimum legal requirements that all FLA motor finance members must comply with in the battle against money laundering, fraud and terrorist funding. This document in no way seeks to replace members' legal obligations.
3. The remainder of this Standard sets out the approach required by full FLA members to due diligence when considering a credit application and acceptable methods for conducting these checks. Appendix 1 outlines common sales channels available for obtaining motor finance and identifies for each what evidence of identification (Know Your Customer) and verification of this evidence (Prove Your Customer) is required to meet the Standard.

RISK ASSESSMENT

4. Members will undertake appropriate steps to identify, assess and mitigate the risks of money laundering and terrorist financing to which its business is subject, taking into account information made available by the FCA [and JMLSG Guidance](#) on risk factors¹ that relate to their customers, products, services, transactions and delivery channels.
5. The assessment of the risks inherent to a member's business will inform its risk-based approach which determines the level of due diligence undertaken for each individual customer. Risk assessments must be documented, kept up to date and made available to the FCA on request.

CUSTOMER DUE DILIGENCE (CDD)

6. There is a fundamental requirement to identify customers and verify their identity through CDD. Where the customer is a business, members should identify its beneficial owners and be satisfied they know who the owners are. A beneficial owner of a business is a person who owns or controls more than 25% of the business (even indirectly). When a relationship is commenced, there is a requirement to obtain information regarding the purpose of any transactions, and the source of any funds.
7. CDD requirements must be carried out:
 - When establishing a business relationship
 - When carrying out an occasional transaction over €15,000 (or equivalent), whether the transaction is carried out in a single operation or in several which appear to be linked

¹ See FCA Financial Crime: a guide for firms Part 1 and Part 2; and JMLSG Guidance Part I paragraphs 4.43-4.69.

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- Where money laundering or terrorist financing is suspected
- Where there are doubts about previously obtained customer information
- As appropriate, for existing customers on a risk-sensitive basis

8. The vast majority of transactions completed by FLA motor finance members will usually fall into one of the above categories and therefore fall within the scope of CDD. The level of CDD measures must be taken on a risk sensitive basis, depending on the type of customer, business relationship or product.

SIMPLIFIED DUE DILIGENCE (SDD)

9. Members can apply simplified customer due diligence in relation to a particular business relationship or transaction if it is determined that the business relationship or transaction presents a low degree of risk of money laundering or terrorist financing, taking into account:

- The risk assessment carried out (see paragraph 4 above).
- Information and guidance from the FCA.
- Risk factors relating to: the type of customer e.g. business, consumer, financial institution, business listed on a regulated market; where the customer resides or has been established; and the motor finance product and sales channel it is delivered through.

ENHANCED DUE DILIGENCE (EDD)

10. EDD requirements must be carried out on a risk-sensitive basis²:

- In any case identified where there is a high risk of money laundering or terrorist financing based on the assessment of risk.
- In any business relationship **with a person established in a high risk third country or relevant transaction** where **either party is established in a high risk third country**.
- When the transaction is with a politically exposed person (PEP)³ – a person that holds a prominent public function in the UK or overseas – or family member or known close associate.
- Where the transactions are complex, unusually large, follow an unusual pattern or serve no apparent economic or legal purpose.
- In any other situation which presents a higher risk of money laundering **or terrorist financing**.

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EVIDENCE OF IDENTITY

11. As standard under CDD, members must obtain for individuals:

- full name
- current residential address, and
- date of birth

12. Members must obtain for **incorporated** business customers⁴:

- full name
- registered number (if any)
- registered office in company of incorporation
- business address

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² See JMLSG Guidance Part I paragraph 5.5

³ See FCA Finalised Guidance – FG17/16 The treatment of politically exposed persons for anti-money laundering purposes – July 2017

⁴ See JMLSG Guidance, Part I, paragraph 5.3.126 onwards

13. Additionally for private or unlisted businesses:

- names of all directors
- names of all beneficial owners (to include ultimate beneficial owner or controlling person)

VERIFICATION OF IDENTITY

(See further JMLSG Guidance Part I Chapter 5.3)

Private customers

14. Members must verify customer identities through reliable and independent sources. This can be done through:

- documents provided by the customer, or;
- electronic data, or;
- a combination of both.

For face-to-face identification, originals of any documents should be seen unless electronic identification and verification processes are being used.

15. Members must make checks on the evidence provided to satisfy themselves of the customer's identity, and keep a record of the checks made. Checks include ensuring:

- Visual likeness with the customer and any photo ID
- The customer's date of birth matches the apparent age of the customer
- The ID is valid
- The spelling of names and addresses correspond exactly
- The address on the ID matches the address given

16. Members must be vigilant of forgeries, and should check that the documents are not:

- unclear or fuzzy
- rough or uneven over the required information
- tattered or uneven around any photograph or the required information
- lacking a holographic picture or watermark

If any of the above is apparent, members must make further enquiries of the customer, and ask for further evidence of identity.

Business customers

17. Members must take reasonable measures to understand the ownership and control structure of any entity that seeks to form a business relationship. Members must also obtain proof of registration and information relating to beneficial owners per the PSC registers which may be obtained from the customer, Companies House, or a third-party provider⁵.

18. Members must take reasonable measures to verify the identity of a beneficial owner so that they are satisfied that they know who the beneficial owner is. The obligation to verify the identity of beneficial owners will not be satisfied by relying only on information contained in the PSC register.

⁵ See further JMLSG Guidance Part I 5.3.129A.

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19. If members find, in the usual course of business, any material discrepancies relating to the beneficial ownership information they obtain, against what is held on the PSC register, these discrepancies must be reported to Companies House.⁶

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20. If no beneficial owner has been identified members should take reasonable measures to identify and verify the senior person in the body corporate responsible for managing it, such as the Managing Director or Chief Executive Officer⁷.

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21. Members may deem it appropriate, on a risk-based approach, to verify the identities of one or more directors (and other signatories). Verification would be appropriate for those who have the authority to operate an account or who give the entity instructions concerning the use or transfer of funds or assets.

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DIGITAL IDENTITIES AND ELECTRONIC VERIFICATION

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22. Digital identities and digital/electronic verification may be used to meet a firm's customer identification obligations. A firm should first consider whether digital identities and digital/electronic verification are suitable for its customer base, and should then have regard to Part I, paragraphs 5.3.51-5.3.52 and 5.3.79-5.3.84. Firms should be satisfied that information supplied by a provider is considered to be sufficiently extensive, reliable, accurate, independent of the customer, and capable of providing an appropriate level of assurance that the person claiming a particular identity is in fact that person. When using electronically sourced evidence to verify identity, firms should ensure that they have an adequate understanding of the data sources relied on by the external agencies that supply the evidence. Firms should be satisfied that these sources provide enough cumulative evidence to provide reasonable certainty of a person's identity, and conform with the guidance set out in Part I, Chapter 5. An electronic check that accesses a single database (e.g., Electoral Register check) is normally not enough on its own to verify identity although it may be sufficient where, for example, the source has been issued by a government authority and contains cryptographic security features.

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NON-FACE-TO-FACE CUSTOMERS

23. Members are obliged to consider non-face-to-face transactions as a customer risk factor that might require the application of EDD, if the transaction or business relationship is deemed to be 'high risk'. In this situation the following steps should be considered:

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- Seeking additional independent, reliable sources or information to verify the customer's identity
- Taking supplementary measures to verify and certify the documents supplied
- Ensuring that the first payment will be carried out through an account opened in the customer's name with a credit institution
- Communicating with the customer at a verified address
- Maintaining ongoing monitoring of the customer's transactions
- Providing an Internet sign-on password to a verified address

24. Members should consider the FLA's Best Practice on undertaking due diligence and preventing fraud through non-face-to-face sales channels.

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⁶ See JMLSG Guidance Part I 5.3.129A.

⁷ See JMLSG Guidance Part I 5.3.170.

RELYING ON ANOTHER PARTY TO COMPLETE CDD

25. Members may rely on a third party, ~~or may use an agent or outsourced provider~~ to carry out CDD measures, ~~subject to certain requirements, but~~ members remain ultimately liable for compliance with the ML Regulations.⁸

~~Where a member relies on a third party to carry out CDD measures, it must immediately obtain from the third party all the information needed to identify the customer or beneficial owner.~~

~~Members must enter into arrangements with the third party being relied on which enable it to obtain from the third party immediately on request copies of any identification and verification data and any other relevant documentation on the identity of the customer or beneficial owner.~~

If the member relies on a 3rd party to complete checks, responsibility for completion of adequate CDD checks remains with the member and appropriate quality assurance procedures should be put in place.

26. Finally, members should be aware of the requirements for senior management responsibility, ongoing monitoring of customers, staff awareness and training, and record keeping requirements which are not subject to this Standard.

BEST PRACTICE: GOING BEYOND THE FLA STANDARD

27. FLA members have identified several other processes that lenders might wish to consider to further strengthen their resilience to fraud, these are:

28. Private customers

- **Obtaining an insurance certificate** from the customer to satisfy that the person insured to drive the vehicle is the same person listed on the finance agreement (and therefore no fronting has taken place). An insurance certificate ~~will~~ also reveal the level of excess the customer is subject to if they need to make a claim. Lenders can assess whether this falls within the terms and conditions of the agreement and that the level of excess is affordable.
- **Asking the customer to share their driving licence details** using the DVLA’s Share Driving Licence service. This information will provide lenders with details which used to be provided on the paper counterpart. The service confirms that the driver has not been disqualified or has any medical conditions which prevent them from driving, or limitations to the vehicles they can drive. The customer would need to know their driver number, NI number and post code in order to share their driver record. The DVLA’s premium line service can also provide this information.
- **Investigating the source of funds for any large deposits/cash transactions**, particularly those made above €15,000 and/or where such a deposit is out of keeping with the customer’s known financial status.
- **Request self-employed trading accounts, SA302 and corresponding tax year overview or bank statements** if the customer does not hold a permanent job and an affordability check returns indifferent results.

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As soon as possible make available to it any information about the customer (and any beneficial owner) which the third party obtained when applying CDD/EDD measures.¶
As soon as possible send it certified copies of standard proofs, identification and verification data and other relevant documents on the identity of the customer (and any beneficial owner) which the third-party obtained when applying those measures.¶

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⁸ See JMLSG Guidance Part I paragraphs 5.6.4 onwards.

- **Verification of the customer on delivery of the vehicle** should be considered for non-face-to-face transactions. The vehicle could be delivered to a verifiable address associated with the contract holder. It could then be handed over to the individual making/signing the agreement who can produce picture ID that appears valid and contains details that are consistent with previously supplied information.

29. Business customers

- **Identify and verify all beneficial owners (including ultimate beneficial owner)** by carrying out the same CDD checks that would be made for private customers/individuals and screening them against PEPs and sanctions lists.
- **Identify and verify all directors or key directors** (including Finance Director and Managing Director) by carrying out the same CDD checks that would be made for private customers/individuals and screening them against PEPs and sanctions lists.

Members might wish to apply the above checks where the business is deemed a higher risk.

30. Supplier due diligence

- **Validating the supplier** to ensure the broker or dealer referring the customer is a legitimate business. Checks include:
 - Ensuring the business is FCA authorised by checking the [Financial Services](#) register.
 - Checking the website and company details.
 - Checking the address using web tools such as Google maps to confirm the external building looks like a valid business.
 - Contacting a business situated nearby to ask if the supplier ~~is~~ an active company.
 - Checking previous accounts information on Companies House (if not a new business) or those available from a Credit Reference Agency for corporate information.

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Appendix 1

ACCEPTABLE EVIDENCE OF IDENTITY FOR PRIVATE CUSTOMERS

Listed below are common sales channels for obtaining motor finance along with the corresponding identification and verification practices deemed acceptable under the Standard.

The Standard is not designed to stop any individual lender adopting a risk-based approach within what is/is not acceptable for each sub-division of the JMLSG Guidance, e.g. any pass rate for Knowledge Based Authentication questions. It instead attempts to deliver a standard industry wide approach to ensure the FLA membership is legally compliant and implements effective risk based anti-fraud measures.

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Category 1 Face-to-Face Transaction

Definition

Where the customer has a '*direct and face to face*' interaction with the finance company or a recognised, known and appointed agent of the finance company.

Note: Even if the member relies on a 3rd party to complete checks, responsibility for completion of adequate CDD checks remains with the finance provider.

Examples

- Manufacturer captive or independent finance company providing finance to an individual at an FCA registered and franchised Dealership.
- Direct approach from a customer into a 'branch' of the finance company.

Identification Options

Photo Identification
Know Your Customer / Prove Your Customer
➤ Passport
➤ Photo Card Driving Licence
➤ National Identity Card
➤ HM Forces ID card
➤ Firearms certificate or shotgun licence
➤ Identity card issued by the Electoral Office for Northern Ireland
<i>Any of the above documents can be used on their own for Category 1 customers</i>

Or

Non Photo Identification	
Section 1	Section 2
Know Your Customer	Prove Your Customer
<ul style="list-style-type: none"> ➤ Valid (old style) full UK driving licence ➤ Recent evidence of entitlement to a state or local authority-funded benefit (including housing benefit and council tax benefit), tax credit, pension, educational or other grant 	<ul style="list-style-type: none"> ➤ Instrument of a court appointment ➤ Current council tax demand letter, or statement ➤ Current bank statement, or credit/debit card statement, issued by a regulated financial sector firm in the UK, or a third country, <u>subject to equivalent requirements⁹</u> ➤ Utility bills issued by a UK regulated electric, gas, water or telephone/mobile telephone provider
<p><i>One document from Section 1 and one from section 2 is required, but they must be original documents - internet printed documents in pdf format are acceptable (see below). Bank statements, council tax letters and bills must be current (date must be within the last 3 months)</i></p>	

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The original of any physical document must be in date, seen and endorsed by the Finance Company or their recognised, known and appointed agent as "A Fair and true likeness of the individual and a True Copy of the original" in the case of any photographic Identification. Alternatively "A True Copy of the original" in the case of non-photo I.D. documents.

Or

Electronic Identification via an approved supplying agency	
Section 1	Section 2
Know Your Customer	Prove Your Customer
<ul style="list-style-type: none"> ➤ One match on an individual's full name and current address and ➤ A match on the individual's full name and <i>either</i> his current address or his date of birth. <p>Examples of potential likely data matches are:</p> <ul style="list-style-type: none"> ○ Voters roll ○ Public data e.g. CCJ ○ Digital account information 	<ul style="list-style-type: none"> ➤ Confirming the first payment to be carried out through an account in the customer's name with in the UK, or a third country, <u>subject to equivalent requirements</u>, ➤ Reviewed and tested Knowledge Based Authentication questions¹⁰ ➤ <u>Tests using biometric data e.g. matching photos or live video against photo ID etc.</u> ➤ Verify Debit/Credit Card in customers name and not stolen ➤ Send confirming letters to the customer's verified address with either return information required, or passwords, internet log-ins etc. ➤ Any other credible and proven verification test that detects impersonation.
<p><i>The two sections need completing separately in order to comply</i></p>	

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Or a combination of any of the above sections 1 and 2 to ensure that there is at least one 'Know Your Customer' and one 'Prove Your Customer'.

⁹ i.e. a third country subject to requirements in national legislation having an equivalent effect to those laid down in 4MLD

¹⁰ KBA questions should be reviewed and tested by members to ensure they apply an effective anti-impersonation test. See FLA Best Practice on the implementation of Knowledge Based Authentication.

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Category 2

Non-Face-to-Face Transactions with the Finance Company, but Face to Face customer contact with an FCA authorised motor dealer

Definition

Where the customer has a '*direct and face to face*' interaction with an FCA authorised dealer, but the finance company has no direct contact with the customer, nor is part of the same group as the dealer.

Note: Even if the member relies on a 3rd party to complete checks, responsibility for completion of adequate CDD checks remains with the finance provider.

Examples

- Customer attending a non-franchised, independent FCA authorised dealer and being introduced to an independent Finance company direct by the dealer or via a broker.

Identification

Options

Documentation	
Section 1	Section 2
Know Your Customer	Prove Your Customer
<ul style="list-style-type: none"> ➤ Passport ➤ Photocard Driving Licence ➤ National Identity Card ➤ HM Forces ID card ➤ Firearms certificate or shotgun licence ➤ Identity card issued by the Electoral Office for Northern Ireland ➤ Valid (old style) full UK driving licence ➤ Recent evidence of entitlement to a state or local authority-funded benefit (including housing benefit and council tax benefit), tax credit, pension, educational or other grant 	<ul style="list-style-type: none"> ➤ Instrument of a court appointment ➤ Current council tax demand letter, or statement ➤ Current bank statement, or credit/debit card statement, issued by a regulated financial sector firm in the UK, <u>or a third country subject to equivalent requirements</u>, ➤ Utility bills issued by a UK regulated electric, gas, water or telephone/mobile telephone provider
<p><i>One document from each section above is required, but they must be original documents - internet printed documents in pdf format are acceptable (see below). Bank statements, council tax letters and bills must be current (date must be within the last 3 months)</i></p>	

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The original of any physical document must be in date, seen and endorsed by the Finance Company or their recognised, known and appointed agent as "A Fair and true likeness of the individual and a True Copy of the original" in the case of any photographic Identification. Alternatively "A True Copy of the original" in the case of non-photo I.D. documents.

Or

Electronic Identification via an approved supplying agency	
Section 1	Section 2
Know Your Customer	Prove Your Customer
<ul style="list-style-type: none"> ➤ One match on an individual's full name and current address <p>and</p> <ul style="list-style-type: none"> ➤ A match on the individual's full name and either his current address or his date of birth. <p>Examples of potential likely data matches are:</p> <ul style="list-style-type: none"> ○ Voters roll ○ Public data e.g. CCJ ○ Digital account information 	<ul style="list-style-type: none"> ➤ Confirming the first payment to be carried out through an account in the customer's name with <u>in the UK, or a third country subject to equivalent requirements</u>. ➤ <u>Reviewed and tested</u> Knowledge Based Authentication questions ➤ Verify Debit/Credit Card in customer's name and not stolen ➤ <u>Tests using biometric data e.g. matching photos or live video against photo ID etc.</u> ➤ Send confirming letters to the customers verified address with either return information required, or passwords, internet log-ins etc.
<p><i>The two sections need completing separately in order to comply</i></p>	

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Or

Electronic Identification and Documentation	
Section 1	Section 2
Know Your Customer	Prove Your Customer
<ul style="list-style-type: none"> ➤ One match on an individual's full name and current address and ➤ A match on the individual's full name and either his current address or his date of birth. <p>Examples of potential likely data matches are:</p> <ul style="list-style-type: none"> ○ Voters roll ○ Public data e.g. CCJ ○ Digital account information 	<ul style="list-style-type: none"> ➤ Passport ➤ Photocard Driving Licence ➤ National Identity Card ➤ HM Forces ID card ➤ Firearms certificate or shotgun licence ➤ Identity card issued by the Electoral Office for Northern Ireland ➤ Valid (old style) full UK driving licence <p>Recent evidence of entitlement to a state or local authority-funded benefit (including housing benefit and council tax benefit), tax credit, pension, educational or other grant</p>
<p><i>One document from each section above is required, but they must be original documents - internet printed documents in pdf format are acceptable (see below).</i></p>	

The original of any physical document must be in date, seen and endorsed by the Finance Company or their recognised, known and appointed agent as "A Fair and true likeness of the individual and a True Copy of the original" in the case of any photographic Identification. Alternatively "A True Copy of the original" in the case of non-photo I.D. documents.

Or

a combination of section 1 and section 2 checks from any of the three tables, ensuring you are satisfied of a risk based approach that is delivering both 'Know Your Customer' and 'Prove Your Customer'

Category 3

Non-Face-to-Face Transactions, where the finance company, dealer or broker has had no face to face contact with the customer

Definition

Where the customer has applied direct to the finance company, dealer or broker (potentially via the internet) and it is unlikely a suitably authorised individual will see the customer face to face to take and verify any ID documents.

Note: Even if the member relies on a 3rd party to complete checks, responsibility for completion of adequate CDD checks remains with the finance provider.

Examples

- Internet application to an 'online broker' who sources a vehicle for the applicant, introduces the customer direct to a finance company and delivers the car to the customer, self-invoicing the deal to the finance company.
- Direct application to a finance company who then place the customer into a dealership.

Identification Options

Electronic Identification via an approved supplying agency	
Section 1	Section 2
Know Your Customer	Prove Your Customer
<ul style="list-style-type: none"> ➤ One match on an individual's full name and current address <p>and</p> <ul style="list-style-type: none"> ➤ A match on the individual's full name and either his current address or his date of birth. <p>Examples of potential likely data matches are:</p> <ul style="list-style-type: none"> ○ Voters roll ○ Public data e.g. CCJ ○ Digital account information 	<ul style="list-style-type: none"> ➤ Confirming the first payment to be carried out through an account in the customer's name with in the UK, or a third country <u>subject to equivalent requirements</u> ➤ Reviewed and tested Knowledge Based Authentication questions ➤ Verify Debit/Credit Card in customer's name and not stolen ➤ Tests using biometric data e.g. matching photos or live video against photo ID etc. ➤ Send confirming letters to the customer's verified address with either return information required, or passwords, internet log-ins etc. ➤ Any other credible and proven verification test that detects impersonation.
<p><i>The two sections need completing separately in order to comply. Information from section 1 can include details provided through any form of correspondence with the customer or a third party</i></p>	

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Additional verification check

Where identify is verified electronically, copy documents are used or where the customer is not physically present members should apply an additional verification check to manage the risk of impersonation fraud. Acceptable methods of check include:

- Verifying with the customer additional aspects of their identity (biometric data) which are held electronically;
- Requesting the applicant to confirm a secret PIN or biometric factor that links them incontrovertibly to the claimed identity.
- An additional verification check consisting of robust anti-fraud checks that members routinely undertake as part of their existing procedures (~~see, Section 2 under each of the categories~~ above).

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