



Addressing Anti-Money Laundering and Counter- Terrorism Financing (AML/CTF) Law Using Voice Biometrics

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1. Background

In December 2006, the Australian Parliament passed the Anti-Money Laundering and Counter-terrorism Financing Act aimed at combating over \$11 billion in money laundering annually and threats to national security. This act compels businesses in the financial sector to meet their obligations with regards to customer and employee due diligence, reporting and record keeping and applies initially to all banks, credit unions and building societies, and extends to casinos, TABs, wagering service providers and bullion dealers.

The AML/CTF Act follows an evaluation by the Financial Action Task force on Money Laundering (FATF) in October 2005 which found that Australia did not comply with international recommendations on anti-money laundering and counter terrorism and imposes a number of obligations on businesses that provide transactional services. These requirements include:

- ongoing risk based identification and verification of new and existing customers
- ongoing verification and monitoring of transactions
- verification of employee identity, behaviour and instructions to customers
- reporting on suspicious and excessive funds transfers
- customer and transaction reporting and record keeping
- establishing and maintaining an AML/CTF program and appointing a designated compliance officer
- provision for independent audit

2. Purpose

This paper aims to provide businesses with understanding and assistance on how technology solutions can support their efforts to comply with the obligations of the AML/CTF Act. Through the use of biometric voiceprint technologies, businesses are equipped with the ability to:

- consistently verify the true identity of people contacting their organisation.
- apply specific business rules to determine which customers require further authentication and under which circumstances
- provide a level of privacy to their customers by protecting their personal details
- extend their service offering to outsourced resources without compromising customer details
- ensure the authority of employees involved in particular customer transactions
- provide detailed reports on 'suspicious' transactions and authentication claims

This paper outlines the key impacts of the AML/CTF Act on businesses and consumers with regards to compliance and privacy and highlights how consultancy and technology solutions can assist in:

- identification of customer purpose and appropriate routing of calls
- a consistent approach to evidentiary caller identification for non-repudiation
- security restriction of employee access to information
- protection of customer privacy



3. Impacts on Business

Following the release of these regulations, every Australian organisation must examine their legal obligations. Organisations that deal in transactional processes with customers, in particular financial institutions and gambling service providers will be required to establish an AML/CTF program which will monitor its services to prevent instances of money laundering or financing of terrorism. Such a program will, in part, need to address risk identification and mitigation, due diligence on customers, employees and third parties, training, transaction thresholds, and alerting and reporting on suspicious behaviour.

Public and media attention on how businesses ensure appropriate customer identification has increased since the release of the act as the increasing obligations are examined.

“Businesses are struggling with new know-your-customer requirements because customer relationship management and business intelligence tools cannot reliably deliver information....Many firms still aren't clear about how to respond to AML, but there's no dispute that they'll need better identification and knowledge of their customers.” (*Dearne. K, The Australian, 5 June 2007*)

Salmat VeCommerce have made a commitment to assisting organisations with their obligations around 'Know Your Customer (KYC), which is central to the Act, and the resulting technology and process improvements required.

4. Impacts on Customers and Employees

The AML/CTF Act requires specific customer identification and verification procedures to be carried out before providing a designated service to a customer. These rules specify the minimum 'Know Your Customer' information required of individuals, companies and sole traders. It is also expected that there will be requirements around the customer details which will need to be verified and the methods of verification throughout the relationship between the organisation and the customer. In addition to customers, there will also be identification procedures for agents with authority to act on behalf of customers and identification and screening of employees and third parties. This will impact customer contact across any channel including the phone, internet and branches.

As the regulations require authentication to be conducted on a risk-based approach, there is widespread concern that, in some cases, too much or too little information may be requested. The Australian Privacy Commission believes “this leaves unclear what, if any, identification and reporting procedures the Rules require for a "low-risk designated service". In particular, when and how an individual engaging in a low-risk transaction needs to identify themselves and what information is required to be collected from them”.

In addition to the KYC requirements, the Act imposes responsibilities on businesses to conduct 'employee due diligence' aimed at eliminating employee fraud and corruption and avoiding money laundering and terrorism financing. The 'employee due diligence' requirements of the Act raise a number of potential issues including:

- privacy of employee information collected when screening prospective employees or promoting and transferring existing employees
- training of employees in an organisation's anti-money laundering and counter-terrorism financing program and management of employees who fail to comply



- customer information retained by personnel after termination of employment and the AML/CTF implications.

5. Industry Regulation

The Australian Transactions Reports and Analysis Centre (AUSTRAC), in its role as Australia's Financial Intelligence Unit, will be responsible for regulating, monitoring and enforcing the AML/CTF Act as well as education and awareness of compliance issues for businesses with supervisory, monitoring and enforcement functions over a diverse range of business sectors. In consultation with the industry, the regulations will be introduced over the next 18 months but businesses must show they are taking steps to comply immediately. Penalties of up to \$11 million will exist for companies that do not comply with the Act through breaches such as failure to carry out appropriate customer identification.

As part of their responsibilities under the Act, businesses are required to submit an AML/CTF compliance report to the AUSTRAC chief executive officer on an ongoing basis with the first report required by 31 March 2008. Salmat VeCommerce can assist with reporting provisions through comprehensive data provided on customer interactions, security checks and transactions performed.

Copies of the rules are now available on AUSTRAC's website www.austrac.gov.au

The Investment and Financial Services Association Limited (IFSA), is a national not-for-profit organisation which represents the retail and wholesale funds management, superannuation and life insurance industries. IFSA has over 140 members who are responsible for investing over \$950 billion on behalf of more than nine million Australians. Members' compliance with IFSA Standards and Guidance Notes ensures the promotion of industry best practice.

IFSA has facilitated the development and review of the AML/CTF legislation in an advisory role in consultation with the Attorney-General's Department and AUSTRAC. On behalf of members they have sought to ensure that regulations are implemented on a risk-based approach and that there is adequate time to implement changes in a cost-effective manner and without undue burden on the industry and ultimately on consumers.

IFSA have noted that:

- "Businesses must develop their AML/CTF program so that it will 'identify, mitigate and manage' the money laundering and terrorism financing risks that arise in their business".
- "There is detailed guidance on customer identification procedures for different kinds of customers. Subject to certain minimum requirements each reporting entity must determine in its AML/CTF program what customer information it will collect, and how the information will be verified".








6. How Voice Biometrics Can Help

In response to the requirements of the AML/CTF Act, businesses are compelled to show they are immediately responding to their obligations through evaluation and expansion of existing internal procedures. Significant rules and regulations exist around types of identification required from customers and the methods required to gather that information as well as transaction patterns and the storage of records of customer information, identification procedures and transaction records. Response to these rules differs for every organisation depending on factors such as size, customers,



transaction types and channels. As this affects many areas of the business, specialist external advice and assistance is vital to ensure compliance and minimal disruption to business. The main areas of focus are as follows:

Table 1: How biometric voiceprint technologies address AML/CTF laws

| AML/CTF Compliance Area | Level of Assistance | Comments |
|--------------------------------------|---|---|
| Know Your Customer (KYC) |  | Speaker verification solutions ensure the customer is identified as the person they claim to be and that they are permitted to access requested information and transactions. Those permitted to act on behalf of customers such as a spouse or financial advisor can also be appropriately identified. |
| Employee Due Diligence |  | Authentication can also be utilised for employee login and password resets to ensure information access is restricted to authorised persons only |
| Employee Training |  | Removing human resources from authentication tasks, eliminates the inconsistencies of different skill levels. In addition, agents can be assisted through detailed on screen information. |
| Reporting Components |  | A range of profiling management information interfaces allow comprehensive and configurable reports to be viewed over a secure web interface. The associated raw data can also be incorporated into existing management reports. |
| Record Keeping |  | Reports can be archived and easily accessed historically to support record keeping requirements. |
| Reporting on Suspicious Transactions |  | Intelligent call steering applications, can support routing strategies allowing call requests to be monitored on a risk based approach so that unusual or suspicious calls are delivered to appropriately skilled agents |
| Privacy |  | Secure authentication solutions ensures a consistent approach so that only required personal information is requested. In addition, implementing a biometric solution ensures that personal information is not exposed at any time and human resource intervention is removed from the capture of personal details. |



7. Our Value Proposition

Salmat VeCommerce is committed to providing businesses with understanding and guidance on the implementation of technology solutions to assist them in meeting their obligations of the AML/CTF regulations. In consultation with regulatory authorities such as IFSA, Salmat VeCommerce aim to become a trusted solutions advisor to the financial services industry on AML/CTF compliance. In addition to this, Salmat VeCommerce are committed to ensuring consistency with the Privacy Act and protecting the public reputation of financial institutions in relation to privacy considerations. Our threefold objective is to assist with:

- compliance with AML objectives, which demand increased access to information
- privacy protection for individuals amid evolving processes, requirements and technology
- minimal regulatory burden on businesses and their customers

We do this by offering risk-based analysis of products and services offered to determine the business impacts of the legislation on people, processes and technology. In addition, we can assist with building awareness for the board and executive management and employees. Through our global experience in financial services, we can provide insight and practical advice on solutions compliance with Australian regulations in comparison to the UK and US.

With extensive experience in authentication processes and technologies and a thorough understanding of the best business practice requirements of legislation, Salmat VeCommerce continues to offer leadership and solutions to address the current fraud and security issues being encountered by many companies worldwide.

8. AML/CTF and Privacy Considerations

Considering the amount of information to be collected, used and disclosed under the AML/CTF Act, the Australian Privacy Commission is encouraging a greater emphasis on privacy considerations within AML/CTF training programs required by Chapter 8 of the Rules. Over and above the National Privacy Principles (NPP) obligations, most organisations are subject to under the Privacy Act, it remains good business practice for all businesses to show sensitivity and awareness when handling personal information for the purpose of AML/CTF regulation.

“The Privacy Commission believes further guidance on issues such as determining AML/CTF risk levels, suspicious matter status, and respecting privacy generally, would improve data quality, reduce unnecessary collection of personal information and promote regulatory certainty.”

The AML/CTF rules provide a broad scope in determining how much personal information may be required from individual customers. This will surely lead to uncertainty and a lack of consistency in the interpretation and application of the rules and may cause some organisations to collect additional and unnecessary personal information to ensure they prevent breaches of compliance. Of particular concern to the Privacy Commission is that some information listed under the rules may be considered sensitive such as a person’s place of birth which may lead to assumptions about ethnic origin or religion.



9. Salmat VeCommerce and Privacy

Salmat VeCommerce has undertaken to provide advice and assistance on privacy issues to ensure¹ businesses continue to comply with their obligations under both the Privacy Act and the AML/CTF Act. In addition, they wish to ensure consumer awareness of these organisations' commitment to the protection of privacy.

In particular, Salmat VeCommerce are promoting the distinct advantages of phone-based authentication using a stored biometric voiceprint. Deployed appropriately, voiceprint authentication eliminates the need for individuals to give personal information to identify themselves. Identification and verification can be done through a secure environment and the amount of personal information exposed to human resources can be controlled. The usual fraud implications of the loss or exposure of access information such as PINs, passwords and ID tokens is removed and the secure voiceprint storage environment cannot be compromised or 'reverse engineered' to reveal identity information.

The new danger of 'trojan' style attacks is not that they will go unnoticed but that the legitimate customer will become the victim of suspicion if their account is compromised. In addition to the negative customer experience and brand impact, the increasing cost of policing the new rules will be passed to consumers.

Although the introduction of AML/CTF rules may be interpreted as a relaxation of some of the responsibilities under the Privacy Act, the public awareness and risk of a backlash from consumers is increasing. It is up to organisations and their advisors to ensure best business practice by driving public education and demonstrating commitment to the best possible outcomes for their customers.

10. Conclusions

Obligations imposed on businesses regarding the development and maintenance of an AML/CTF Program are extensive. These require careful planning, ongoing review, training and resources dedicated to ensuring maintenance and compliance. Challenges exist for organisations of all sizes, regardless of whether they are currently subject to existing compliance obligations under FTRA and the Privacy Act. The date has passed for demonstration of commitment towards compliance and organisations need to be considering immediately how to prove they are taking the appropriate steps towards reform. By December 2007 all reporting entities must have in place appropriate systems and controls to comply with the new customer identification & verification requirements.

Due to wide interpretation of the rules and the tight timeframes imposed, many businesses are naturally struggling to meet their obligations. The use of external experts and specialists allows an effective implementation of an AML/CTF program without impacting business as usual.

Salmat VeCommerce have an in-depth knowledge of technical and procedural issues around customer identification and verification and can assist businesses in answering questions such as the following:

² Comments provided by the Office of the Privacy Commissioner on the Draft Consolidated Anti-Money Laundering & Counter-Terrorism Financing Rules, March 2007



- Do I need to change my existing systems and controls to meet the customer identification and verification requirements?
- Where should I implement changes to my existing systems and controls in front office processes, or in back office processes?
- How can I use technology to achieve minimal impact on customer experience whilst maintaining efficient and effective compliance?

Salmat VeCommerce are business leaders in providing solutions to address due diligence in identification and verification of customers and employees. We deliver improved business outcomes by providing advice and assistance on the implementation of technology solutions to meet AML/CTF obligations, protection of individual privacy and with the minimal regulatory burden on the organisation and their customers. Businesses cannot afford to be complacent as experience in the US shows large fines have been issued to several businesses for non-compliance with the introduction of AML/CTF regulations.

AML/CTF compliance requires expert and specialist advice to avoid civic penalties and minimise the total cost of compliance. According to independent advisor Peter Ager, “The biggest challenge for the industry now is the know-your-customer or identity verification side of things...This involves completely rewriting the rules”.



11. Appendix 1 - Key Dates for Implementation of Reforms

The AML/CTF Act will be implemented in stages to allow business time to develop necessary systems in the most cost efficient way. All obligations will be required to be met by 13 December 2008. For details visit:

http://www.ag.gov.au/www/agd/agd.nsf/Page/Anti-moneylaundering_Implementationofreforms

AML/CTF Act staged implementation timetable

| Part of Act | Obligation commences |
|---|----------------------|
| Introduction - Designated services and definitions | 12 Dec 2006 |
| Identification procedures etc. - Identification procedures for pre-commencement customers - Identification procedures for certain low-risk customers - Identification procedures etc. - Re-verification of identity etc - General provisions | 12 Dec 2007 |
| Identification procedures etc. - Ongoing customer due diligence | 12 Dec 2008 |
| Reporting obligations of reporting entities - Suspect Matters - Threshold Transactions - International Funds Transfer Instructions | 12 Dec 2008 |
| Reporting obligations of reporting entities - (AML/CTF) Compliance reports | 12 Jun 2007 |
| Reports about cross-border movements of currency | 13 Dec 2006 |
| Electronic funds transfer instructions | 13 Dec 2006 |
| Register of providers of designated remittance services | 13 Dec 2006 |
| Anti-money laundering and counter-terrorism financing programs | 12 Dec 2007 |
| Correspondent banking | 12 Jun 2007 |
| Countermeasures | 13 Dec 2006 |
| Record-keeping requirements - Records of transactions, funds transactions and exemptions | 13 Dec 2006 |
| Records of identification procedures | 12 Dec 2007 |
| Records about AML/CTF programs | 12 Dec 2007 |
| Secrecy and access, Offences, Audit, Information-gathering powers, Enforcement, Administration, Vicarious liability, Miscellaneous, Alternative constitutional basis | 13 Dec 2006 |



12. Appendix 2 - References

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