

# FOREX & the 4<sup>th</sup> Directive

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Presented by

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# Welcome

- Introduction

- Company, iSignthis Ltd
- John Karantzis, CEO
- Maria Coul, Country Manager
  
- A bit about you
  - Industries
  - Knowledge of PSD2 and/or 4AMLD

iSignthis substitute for multiple vendors



Payment gateway



Card acquiring bank(s)



AML / CTF KYC data



AML / CTF KYC manual back office team



Anti fraud / payment authentication

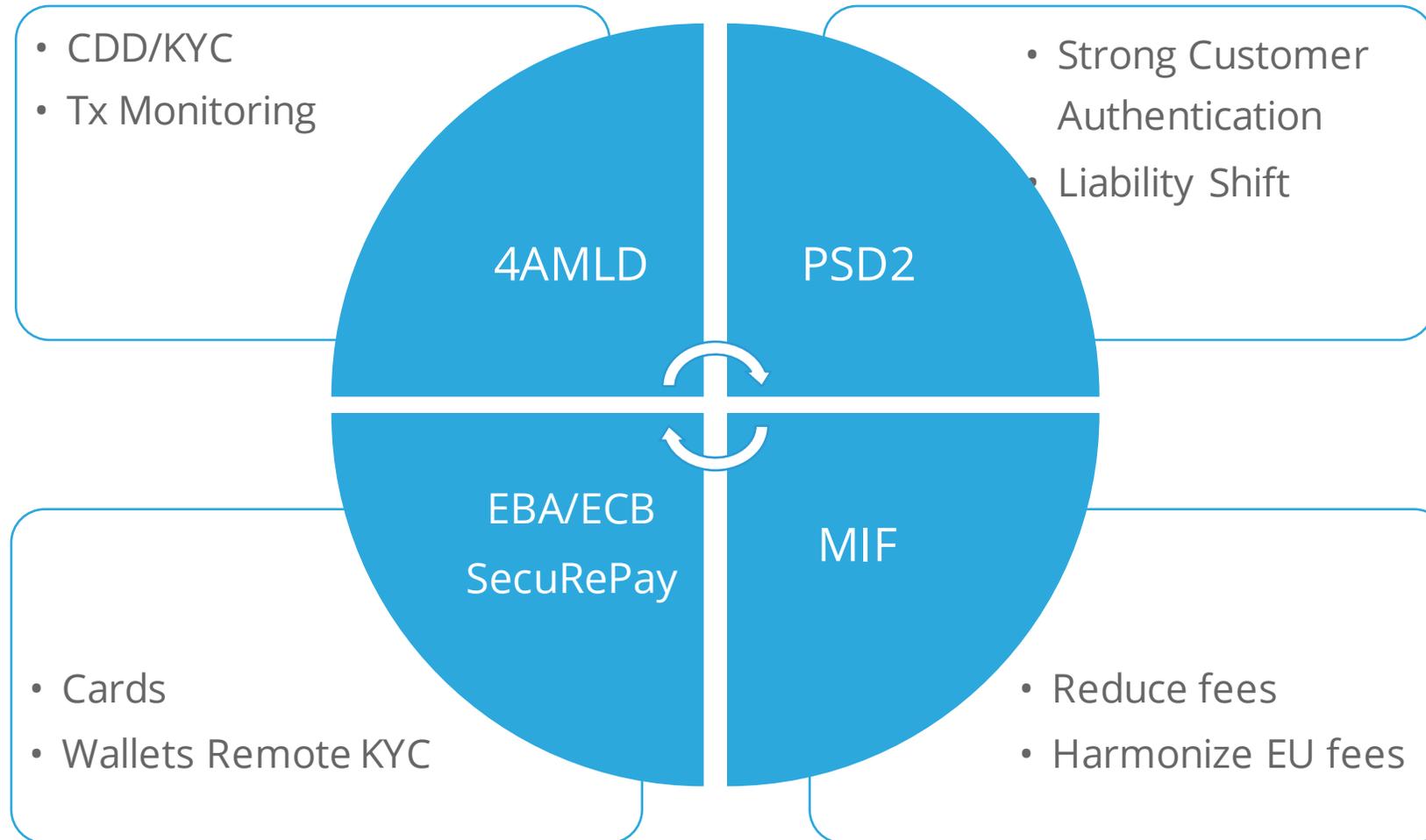


Transaction monitoring

# Agenda

- Payment Landscape
- 4AMLD
- PSD2
- Security of Internet Payments
- Convergence to minimise customer friction and abandonment

# The EU Payment Landscape



# State Requirements

## Cysec – Law (Currently 3AMLD)

- KYC
  - KYC – simplified and enhanced due diligence
  - Remote KYC s64
  - Deferred verification s62 (updated April 2016)
- Transaction Monitoring

# Transactions

- **4AMLD : Article 13 (1) – Customer due diligence measures shall comprise:**

(a) **identifying the customer and verifying the customer's** identity on the basis of documents, data or information obtained from a **reliable and independent source\***;

(d) **conducting ongoing monitoring** of the business relationship including scrutiny of transactions undertaken throughout the course of that relationship to ensure that the transactions being conducted are consistent with the obliged entity's knowledge of the customer, the business and risk profile, including where necessary the source of funds and **ensuring that the documents, data or information held are kept up-to-date.**

\*excludes 'self verification' per ESA 'Risk Factors' Guidance.

# KYC 4AML



Automated

**“Last Century”** Experian or ‘GBG’ style static, database search/match (UK, US, AU + a few more)

- No dynamic means to include customer on request if not already a historic customer of a credit reporting agency.
- Requires cross check of other databases.
- Typical coverage less than 60% of online applicants
- Failure of database check leads merchants to revert back to last century face to face checks or notarised documents
- **Pay on attempt – not linked to success**

Local

**“Early Last Century”** Face to face checks



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- We are the new player on the KYC scene
- The incumbents are using last century technology, which has serious limitations in terms of coverage, accuracy and conversion rates
- ISX has significant capability advantages in these and other areas, in addition to our regulatory convergent ‘payidentity’ service
- EU’s 4th AML Directive (enforced legislation) now specifically encompasses the gaming/wagering sector and comes in to force 26th June 2017
- **Pay on payment success – linked to our customers’ success**

Global

**Certified / Notarised: posted/uploaded documents\***



Manual

# Risk Factors

The following is a non-exhaustive list of factors and types of evidence of potentially higher risk referred to in Article 18 (3):

## 1. Customer risk factors:

- (a) the business relationship is conducted in unusual circumstances;**
- (b) customers that are resident in geographical areas of higher risk as set out in point (3);**
- (c) legal persons or arrangements that are personal asset-holding vehicles;
- (d) companies that have nominee shareholders or shares in bearer form;
- (e) businesses that are cash-intensive;
- (f) the ownership structure of the company appears unusual or excessively complex given the nature of the company's business;

# Risk Factors

## 2. Product, service, transaction or delivery channel risk factors:

- (a) private banking;
- (a) products or transactions that might favour anonymity;**
- (b) non-face-to-face business relationships or transactions, without certain safeguards, such as electronic signatures;**
- (c) payment received from unknown or unassociated third parties;
- (d) new products and new business practices, including new delivery mechanism, and the use of new or developing technologies for both new and pre-existing products;**

# Risk Factors

## 3. Geographical risk factors:

- (a) countries identified by credible sources, detailed assessment reports or published follow-up reports, as not having effective AML/CFT systems;
- (b) countries identified by credible sources as having significant levels of terrorist, corruption or other criminal activity;
- (c) countries subject to sanctions, embargos or similar measures issued by, for example, the Union or the United Nations;



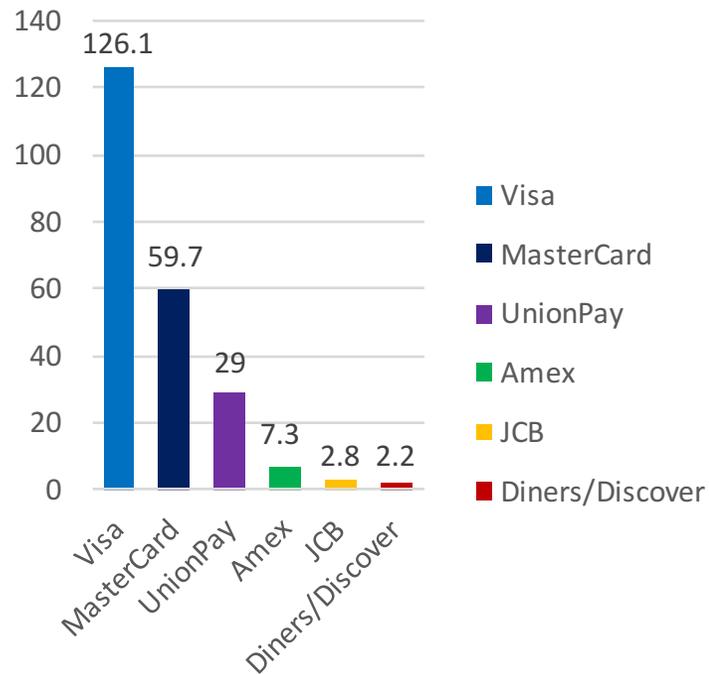
# Lets Talk About Spring 2017

- 4AMLD takes effect
- SecuRePAY SCA
- PSD2
  - All of these are technology neutral
  - Are business case neutral
  - Some overlapping requirements between SecuREPay, 4AMLD and PSD2
  - All introduce friction
  - Converged technology and user experience is optimal – but does it exist?

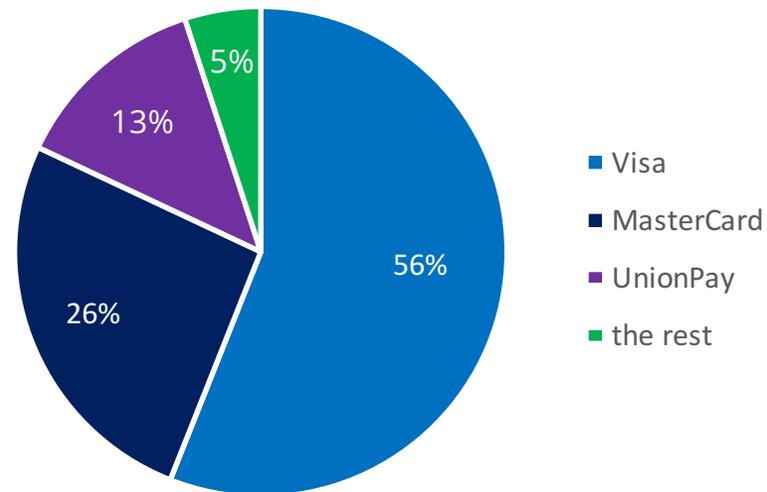
# Cards

The largest payment source (and also of KYC data)

Purchase Transactions on Global Cards in 2015 (Bil.)



Market Share



- 9.5Bn cards on issue, globally
- According to Nilson, 3.5Bn are unique
- McKinsey estimates that 51% of the world's population is "banked" - corresponding also to ~3.5Bn persons.

# Transactions

- **PSD2 : Article 97 (2) – Strong Customer Authentication:**

With regard to the initiation of electronic payment transactions as referred to in point (b) of paragraph 1, Member States shall ensure that, for electronic remote payment transactions, payment service providers apply strong customer authentication that includes elements which dynamically link the transaction to a specific amount and a **specific payee**.

Article 98 then refers to the EBA's "Security of Internet Payments" (SecuRE Pay) for cards and wallets.

**SecuRE Pay** requires:

- identification of the payee (KYC) per s6
- linking the payment instrument to the KYC per s6/7
- linking the KYC + payment instrument to two factor authentication (2FA) per s7
- 2FA comprising one dynamic element or biometrics.

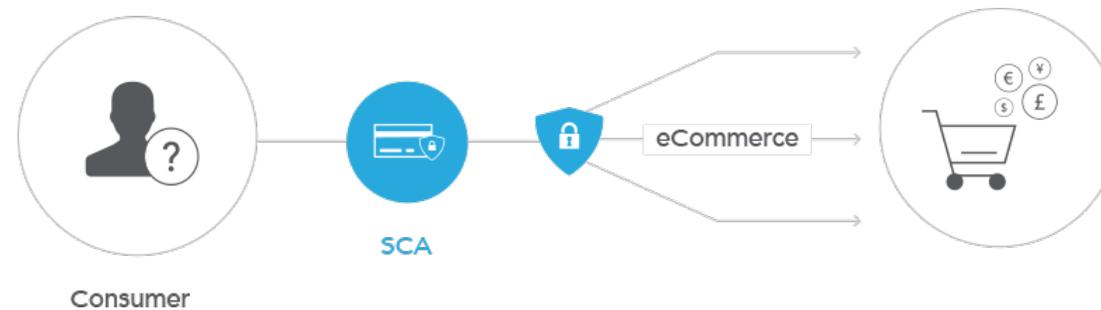
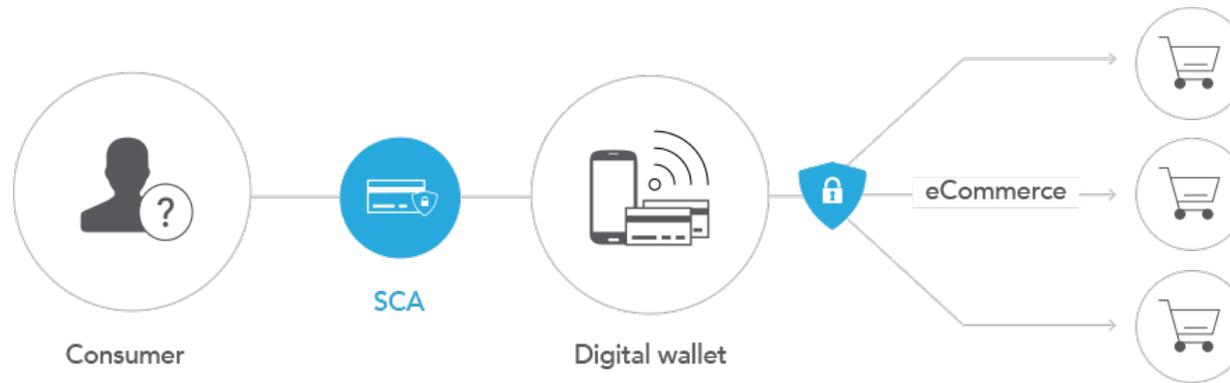
# The Card Challenge – Chargebacks and 3DS

The largest payment source (and KYC)

- Cards are susceptible to chargebacks, and are often not included in the business case for operators
- PSD2 provides a “liability shift” regime from merchant back to issuer when Strong Customer Authentication is used
- Latest Visa and MasterCard global operating rules also provide a means for chargeback reversal
- **NONE of the above relies upon 3DSecure (VbV/SecureCode/SafeKey etc), but industry incorrectly assumes they MUST use 3DSecure (as it is incumbent)**
- PSD2 allows for technological and business neutral solutions
- iSignthis provides such an alternative to 3DSecure... under PSD2 and the Visa/MC global operating rules, as well as satisfying KYC for 4AMLD.

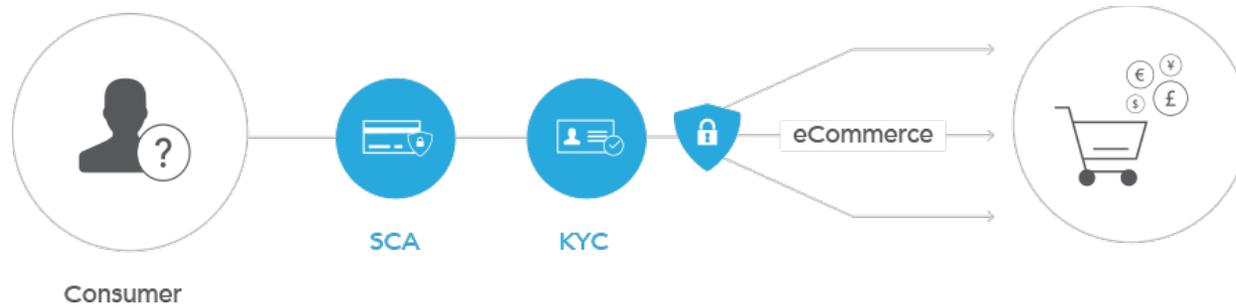
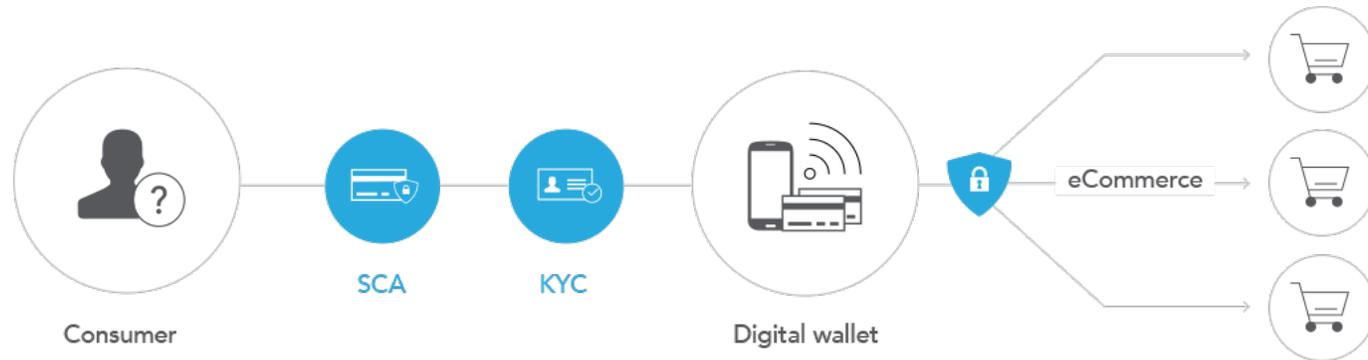
# PSD2

## Vaults & wallets – Conventional approach



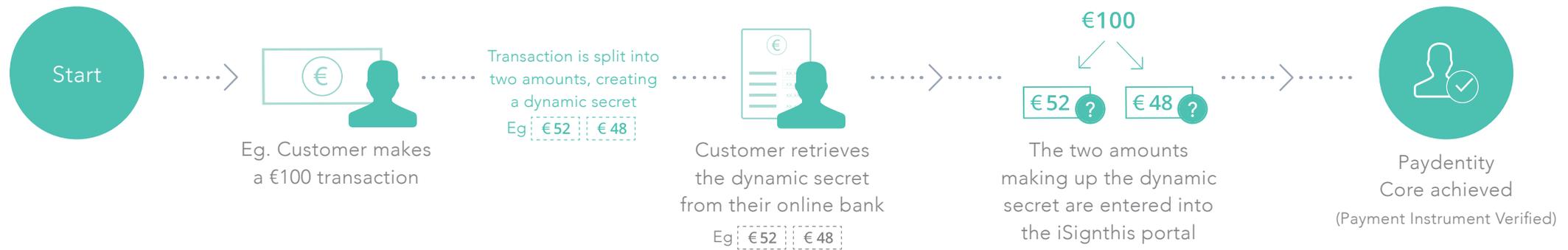
# PSD2 & 4AMLD

## KYC, SCA, vaults & wallets



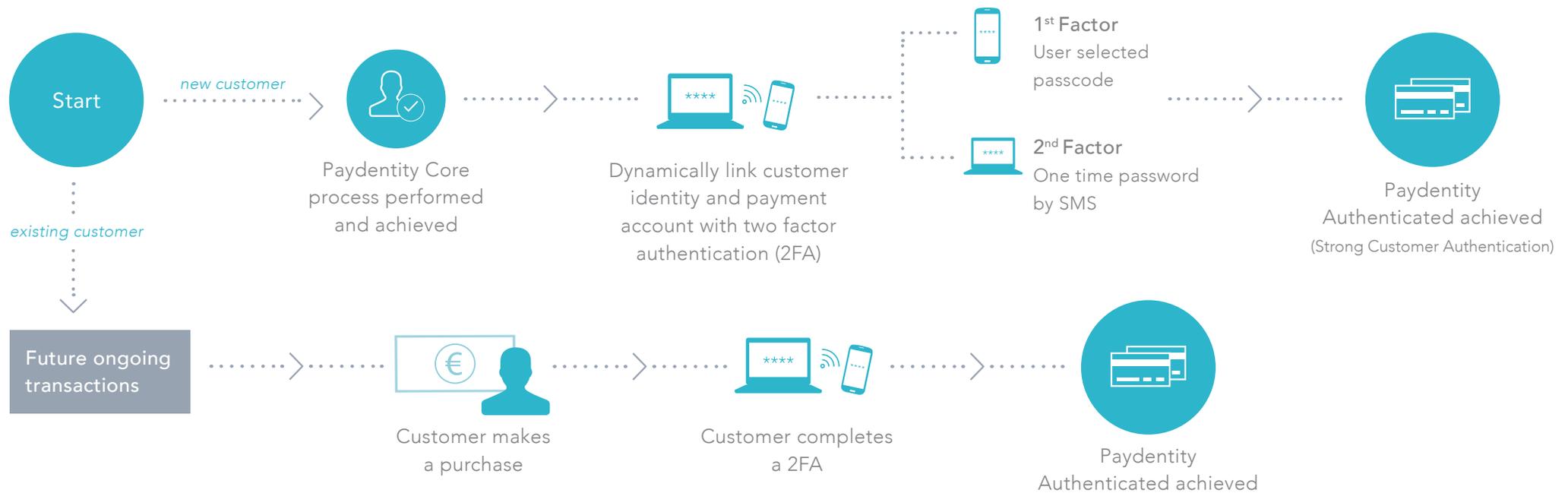
# Paydentity Core

A better way



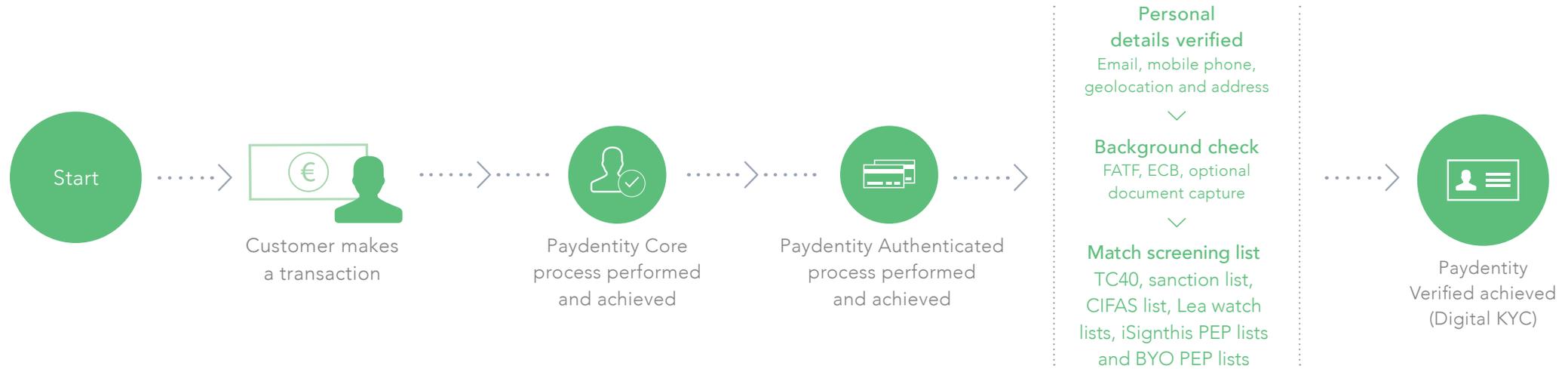
# Paydentity Authenticated

PSD2 made easy



# Paydentity Verified

## 4AMLD automated



# Paydentity Protect

## Reverse chargebacks

