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16 May 2008

Mr Daryl Melham MP  
Chairman – Joint Standing Committee on Electoral Matters  
Department of House of Representatives  
PO Box 6021  
Parliament House  
CANBERRA ACT 2600

By e-mail: [jscem@aph.gov.au](mailto:jscem@aph.gov.au)

Dear Mr Melham,

### ***Inquiry into the Federal Election 2007 – Issues for the Finance Industry***

As the national association representing financiers and others in the financial services sector, the Australian Finance Conference (AFC) appreciates the opportunity to make comment on this Inquiry. By way of background, AFC Members are involved in the provision of finance to both the consumer and commercial markets across Australia and provide the full range of financial services including deposit-taking, wealth creation and superannuation. Most of our members have a national business presence. A current membership list is attached. Issues of particular interest to AFC Members relevant to this Inquiry are:

- (1) the proof of identity scheme as a pre-cursor to enrolment;
- (2) the addition of date of birth to a copy of the electoral roll provided to financiers and others to assist verify identity as required under the Anti-Money Laundering and Counter Terrorist Financing reforms (AML); and
- (3) access to the electoral roll.

### **Proof of Identity Scheme**

Like government, the finance industry has been experiencing an increasing level of fraud perpetrated by customers assuming a false or fictitious identity. The growth has been triggered by a combination of:

- technological developments including the increased availability and quality of personal computer scanning and colour-copying equipment which provide a cheap and efficient means of generating apparently genuine proof of identity documents (eg driver's licenses, birth certificates); and
- limited avenues to verify information provided by customers against objective sources (eg drivers' licence registers, motor vehicle registration registers, birth / death / marriage registers) brought about because of perceived privacy concerns.

The cost to the industry has been significant and is often borne by our customers in the increased cost of finance products. The ease with which customers are able to produce a false proof of identity document (eg driver's licences, birth certificates) from which they are then able to obtain other supporting documents (eg medicare card) to create a complete false identity has been of particular concern. Moves by Government to enhance the integrity of proof of identity documents have been supported by the industry as a means of combating this.

Because the electoral roll may be used to verify identity for AML compliance purposes, we see value in the inclusion of a requirement to prove identity as a pre-cursor to enrolment for election purposes. To ensure integrity of the roll, however, that requirement must be supported by a means and an obligation to verify the proof of identity document. For example, unless a driver's licence number is required to be verified against an objective source like the registers maintained by transport authorities in the various states and territories, there is no way of ensuring that it is not false. Having a process which allows false proof of identity documents to be used to create a database of information which is, in turn, relied on as part of a proof of identity process (eg for AML purposes) potentially perpetuates and expands the fraud. We understand that the AEC has the authority to verify driver's license numbers against the relevant registers. We assume that the AEC exercises that authority as part of the enrolment process. However, we query whether there is a similar check in place for proof of identity through the "authorised person" process for any of the documents (eg driver's license, birth certificate) that may be produced by the applicant for enrolment. If not, we strongly recommend this process be reviewed.

### **Date of Birth Information for AML Identity Verification**

Our Members, like the rest of the financial services sector, are at various stages of implementing compliance programs to meet the statutory obligations imposed on them under the AML reforms and, in particular, procedures to verify customers' identities as a pre-cursor to providing designated services. Paramount is incorporating processes which meet the law's objectives and legal requirements in effective and efficient ways to minimise the attendant costs which may be borne by customers in the pricing of financial services products. As many of our Members' operations are remote from their customer, facilities that allow for the electronic verification of identity are not only essential to combat money laundering or terrorist financing but for the conduct of their business more generally.

As a consequence, in response to consultation with industry, provisions to enable verification of customers' identities through electronic means in addition to paper-based ones were included in the AML laws. A "safe harbour" procedure was also provided for customer identification using electronic means where the relationship with the customer is of "medium or lower money-laundering / terrorist financing risk" and the customer is an individual. Implementation of the safe harbour procedure effectively minimises risk of allegation of non-compliance by Austrac, the AML regulator. Based on feedback from our Members, the majority of designated services that they are offering (taking into account the character of the customers, operational jurisdiction, type of product and method of delivery) have been assessed as falling within these risk bands. Consequently, compliance with the safe harbour procedure is attractive from both a regulatory risk and cost effective perspective.

Under the AML Rules as finalised, compliance with the safe harbour procedure using an electronic verification process would generally require our Members to collect minimal customer identity information (eg full name, date of birth and residential address) and to verify it against reliable and independent data. In brief:

- (1) name and residential address information requires verification against two such electronic data sources; and
- (2) either,
  - a. date of birth which requires verification against one electronic data source; or
  - b. verification that the customer has a transaction history for at least the past 3 years (which presumably can be verified through either electronic or data-based means).

As you may be aware, as part of the package of enactment of the AML laws and in response to lobbying by industry to facilitate implementation of e-verification processes, consequential amendments were made to the Commonwealth Electoral Act. These enabled prescribed persons to apply for an electronic copy of the electoral roll for AML identity verification. The inclusion of these permissions has enabled two of our Members (being systems service providers to most other Members) to obtain a copy of the electoral roll and use it to develop e-tools that are able to validate name and address information as required in (1) above. However, the value of these tools for AML purposes is undermined by the lack of reliable and independent e-data sources to verify either date of birth or transaction history. As a consequence our Members are left with a requirement to either verify date of birth or transaction history using paper-based means. The inclusion of a manual process in the verification process devalues the e-component of the process.

We submit that this could be easily overcome by amendment to the Electoral Act to enable the version of the roll provided to prescribed persons for AML identity verification purposes to include date of birth information. Given the protections for access and restrictions in use that govern the handling of a copy of the electoral roll for AML identity verification we submit appropriate privacy protections for the information already exist. We therefore urge your Committee to recommend amendments to the Electoral Act to enable date of birth information to be included in a copy of the electoral roll provided for the purpose of AML identity verification.

### **Access to the Electoral Roll**

A similar inquiry into the 2004 Election resulted in the denial of access to an electronic version of the electoral roll for debt collection purposes by the private sector. Unfortunately, this decision was made with little to no consultation with industry. As a consequence, this restriction has impeded the ability of the finance industry to efficiently and effectively track down customers who have fallen behind in payments and changed residence without notifying their financier (contrary to their contractual obligations).

We understand that the basis for this restriction included concerns with the privacy of individual's personal information, in particular unauthorised secondary use of that information. However, as noted in the objects clauses and explanatory material which has accompanied the enactment of privacy laws, the right of privacy is not absolute, but needs to

be balanced with other human rights and social interests that compete with privacy, including... *“the right of business to achieve its objectives efficiently”*<sup>1</sup>.

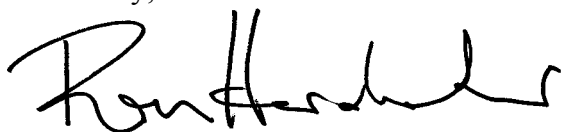
In the current economic climate which has seen customers of our Members increasingly facing financial stress, we see the potential for a correlated increase in default or non-payment in the near future. The ease with which a customer can walk away from their contractual obligations to repay by changing residence and impediments to easily locating them is of concern to the industry. Yet again, customers that do the right thing will bear the consequences with the attendant increase in the costs of products or services to offset the default losses. In our view, there is a strong economic and public interest argument to support the reinstatement of access by the finance industry to an electronic copy of the electoral roll to assist with debt recovery and receivables management.

We believe access can be provided in a way which restricts the secondary use to this purpose thereby minimising the potential for abuse of the privacy of the personal information contained in the roll. Access by the private sector for AML purposes has provided a good model in this regard. Further, the current access provisions within the Act recognise that at times the balance must shift from privacy in favour of other public interests, like protection of the public revenue. For example, a number of Government Departments and Agencies (eg Centrelink, Comsuper, Department of Human Services, Department of [Education], Employment and Workplace Relations) are able to use the electoral roll to locate persons for debt recovery purposes. There is equally a public interest in the private sector recovering what it is owed. For this reason we submit that the Committee support a recommendation for re-opening access to an electronic version of the electoral roll by our Members for debt collection purposes.

We appreciate the opportunity to raise these issues for consideration by the Committee and would be happy to provide additional information or clarification, if required.

Kind Regards.

Yours truly,



Ron Hardaker  
Executive Director

Attached:  
List of AFC Members

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<sup>1</sup> Privacy Amendment (Private Sector) Act 2000 Section 3 Objects



## AFC MEMBER COMPANIES

Adelaide Bank  
AllCommercial Finance  
Alleasing  
American Express  
Australian Finance Direct  
Australian Integrated Finance  
Australian Motor Finance  
Bank of Queensland  
BankWest  
Bidgee Finance  
BMW Australia Finance  
Capital Finance Australia  
Caterpillar Finance Australia  
CBFC  
Centrepoint Alliance  
CIT Group  
Citigroup  
CNH Capital  
Collection House  
Credit Corp Group  
De Lage Landen  
Dun & Bradstreet  
Elderslie Finance Corporation  
Enterprise Finance Solutions  
Esanda Finance Corporation  
FCA Holdings  
Flexirent Capital  
FundCorp  
GE Commercial  
GE Money  
Genworth Financial  
GMAC  
Hanover Group  
HP Financial Services  
HSBC Bank  
Indigenous Business Australia  
Integrated Asset Management  
International Acceptance  
John Deere Credit  
Key Equipment Finance  
Komatsu Corporate Finance  
Leasewise Australia  
Liberty Financial

Lombard Finance  
Mackay Permanent Building Society  
Macquarie Equipment Rentals  
Macquarie Leasing  
Max Recovery Australia  
Members Equity Bank  
Mercedes-Benz Financial Services  
MotorOne Group  
PACCAR Financial  
Profinance  
RABO Equipment Finance  
RAC Finance  
RACV Finance  
Retail Ease  
Ricoh Finance  
Service Finance Corporation  
Sharp Finance  
SME Commercial Finance  
St. George Bank  
Suncorp  
Suttons Motors Finance  
The Rock Building Society  
Toyota Financial Services  
UFS Group  
Veda Advantage  
Volkswagen Financial Services  
Volvo Finance  
Westlawn Finance  
Westpac  
Wide Bay Australia  
Yamaha Finance

### Professional Associate Members:

Allens Arthur Robinson  
Australian Business Research  
Bartier Perry  
CHP Consulting  
Clayton Utz  
Corrs Chambers Westgarth  
FCS Online  
Finzsoft Solutions  
Henry Davis York