

# Video identification – the future of client onboarding?

Client onboarding by way of correspondence requires stringent identity checks. Since the client is physically absent, the copy of the passport needs to be certified by a public notary. In many cases, such notarisation needs to be legalised by an apostille under the Hague Convention. This results in complicated and expensive onboarding activities. Also, financial institutions still run quite high risks because the passport and certifications can still be falsified.



## Background and status quo

In Liechtenstein and Switzerland, video identification is recognised as a special identification process and a technology that effectively results in legal and regulatory fiction: an identification which is backed by video stream is recognised as the identification of a client who is physically meeting a representative of the financial institution.

Classic onboarding by exchanging documents, i.e. copies of the passport

and certifications thereof, rely on third parties (public notaries, courts or authorities) who, depending on the jurisdiction of the client's domicile, are appointed by law to carry out a formal certification or legislation in respect of the documents presented to them confirming authenticity. From a legal perspective, this procedure creates public trust and legal fungibility of identification documents. The apostille under the Hague Convention is an authentication of the certification sealed by a public

notary. Neither, the notarisation nor the apostillation can effectively exclude the possibility that the documents are substantially falsified.

Besides the risk of falsification, classic cross-border client onboarding is time-consuming and creates high operational costs since many internal divisions are involved. In addition, notarisation or legalisation procedures can require weeks or months until the correct documents are presented and the

account can be opened. In particular, different legal frameworks regarding notarisation create further work if the financial institution's jurisdiction is not a member state that permits the automatic recognition of notarised documents. In such cases, which are typical of cross-border business, the apostille under the Hague Convention is the only efficient way to receive a full legalisation of the copies handed in by the prospective client. The procedure of the apostille is clearly defined in the Hague Convention – nevertheless, it can take weeks or even months. In fact, the entire onboarding process is interrupted, the relationship manager, legal and compliance must deal with the same onboarding again and again.

### Identification by way of correspondence vs. video identification

Video identification tools and corresponding compliance procedures can solve both the efficiency and security issue. The process is based on a real-time, face-to-face onboarding video stream between the prospective client and an identification agent. The prospective client needs to show his passport document in such a way that, for instance, the hologram and further security features can be analysed. In addition, the machine readable zone of the original passport can be checked

automatically in the same context without any interruption. By contrast, client identification in regular onboarding relies on copies of documents, leading to interruptions in the entire process, thus enabling various possibilities of falsification.

Besides the first contact channel, e.g. by e-mail, video identification simply does not need all of this since the original passport must be shown. Identification agents are required to ask specific questions. Depending on the regulatory framework, the agent must carry out further security checks.

### Technical security checks

During the video stream, automated systems scan the documents to check the following:

- Authenticity of the machine readable zone (MRZ) of the passport
- The hologram and other security features
- Face recognition and matching between the passport photo and the prospective client during the video stream

### Checks performed by the agent

In addition, the agent approaches the prospective client with additional randomised and personalised security and validation questions, so that the video onboarding stream steps are

specifically designed for the individual prospective client. The combination of the technological and agent's checks results in a much stronger security level compared to regular cross-border identification processes.

### Documentation

The entire video stream results in a strong body of evidence and in contrast to existing documentation processes, the video identification stream allows full documentation of client discussions in the full context.

### Embedded client onboarding and contract management

Based on video identification, some identification tools support the direct generation of a digital signature. This can be achieved during the video stream, so that the client can even double-check contracts which are signed for with his digital signature. Onboarding can therefore be merged with initial or ongoing contract management, and the terms of business can be adopted in a completely different framework, also allowing direct participation, e.g. financial advisory sessions or insurance-related advice, during the video stream. This enables a complete redefinition of the current client relation management and even regulatory requirements, such as client classification under MiFID II, to be fully carried out in the same stream.



### Risk of avatar communication

The risk that an agent is talking to an avatar is triggering more and more technologies and procedures to identify artificial identities by iris, face muscle or indirect blood pressure screening. While avatar technology is creating nearly natural characters, many technologies can identify and directly block video identification streams. The most recent approaches and technologies are able to detect and identify artificial behaviour, reactions or movements, leading to early risk factor identification. Also, smart catalogues of random specific and individualised questions can currently identify avatars. Current regulatory frameworks in Liechtenstein, Switzerland and the EU do not require specific avatar detection technologies since the current video identification technology and processes generate a much higher level of security compared to classic client identification by way of correspondence.

### How Grant Thornton can help

Before implementing video identification technology, the existing compliance framework needs to be adjusted. Combined risk and compliance processes need to be redesigned and tailored to the individual needs of the financial institution by covering key dimensions such as clients, markets and products. Interfaces to existing risk management processes need to be adapted to the new video identification process. In addition, transparent client information must be established and data protection requirements need to be implemented into the complete stream.

Grant Thornton can support your organisation with operational preparations to adopt video identification. We help you to find the right technology for your organisation's needs and to build the right operational model and processes to reach full compliance under Swiss, Liechtenstein and EU law and regulation.

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## Contacts



### Dr. jur. Sebastian Neufang

Executive Director  
Head Advisory Financial Services  
Switzerland/Liechtenstein  
Grant Thornton Advisory AG

**T** +41 43 960 71 71  
**M** +41 79 482 13 30  
**E** [sebastian.neufang@ch.gt.com](mailto:sebastian.neufang@ch.gt.com)



### Dr. oec. Christoph Hasenkamp

Director  
Advisory Financial Services  
Grant Thornton Advisory AG

**T** +41 43 960 72 77  
**M** +41 76 579 59 92  
**E** [christoph.hasenkamp@ch.gt.com](mailto:christoph.hasenkamp@ch.gt.com)



### Pawel Raganowicz

Assistant Manager  
Advisory Financial Services  
Grant Thornton Advisory AG

**T** +41 43 960 72 48  
**E** [pawel.raganowicz@ch.gt.com](mailto:pawel.raganowicz@ch.gt.com)



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