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# Switzerland proposes revisions to Circular on video and online identification for onboarding

In February 2018, the Swiss Financial Market Supervisory Authority ('FINMA') published a draft of a partial revision of its Circular 2016/7, 'Video and online identification.' The Circular, which entered into force approximately two years ago, sets out the anti-money laundering due diligence requirements that Swiss financial intermediaries must follow when opening new business relationships via video chat or via the internet. The consultation period on this partial revision ran until 28 March 2018. In this article, Grégoire Tribolet and Caroline Clemetson of Schellenberg Wittmer Ltd provide a brief overview of both the current regulatory framework in Switzerland for opening business relationships via digital channels, how financial intermediaries are making use of the potential for technological innovation in the area of client onboarding and finally the key changes proposed by FINMA to its Circular 2016/7.

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### Current regulatory framework for digital client onboarding

FINMA Circular 2016/7 allows Swiss financial intermediaries (e.g. banks, securities dealers, asset managers) to open business relationships via digital channels without the need to have an in-person meeting or to correspond by postal mail with their future clients. The identification of the contracting party may be completed through a video chat (video identification) or through the verification of an electronic copy of an identity document submitted by the future client (online identification). Financial intermediaries are allowed to outsource the video or online identification to a third party service provider.

From a regulatory perspective, video identification is put on a par with an in-person meeting, provided that certain technical and organisational requirements are complied with. During the video chat, the financial intermediary must verify the future client's identification document by using a machine to read and decrypt the characters in the machine-readable zone ('MRZ') of the document and by examining one or more of its optically variable features (e.g. a kinegram).

Online identification is an alternative method for the digital onboarding of clients. FINMA Circular 2016/7 provides for three different online identification processes.

While two of these processes currently have limited practical value because of their specific requirements, the third one is relatively easy to implement as it only requires the future client to submit a simple electronic copy of an identity document (which must then be

verified by the financial intermediary using appropriate technology) and a photograph. Given that this process carries a higher risk of fraud, additional requirements must be complied with, including (a) verification of the contracting party's residential address by appropriate means and (b) the future client must arrange to make a payment transfer from an existing account held with a Swiss bank.

### Application in practice

A dozen Swiss banks<sup>1</sup> - most of them active in the retail sector - currently offer the possibility to open a business relationship through a video chat. Those banks generally outsource the video identification to a third party service provider. Most of them only offer this service to future clients who are domiciled in Switzerland, principally because of applicable cross-border rules. The online identification method is less favoured in practice - at least by Swiss banks - in particular because of the requirement that the client must have an account with another Swiss bank.

While digital onboarding remains at this stage marginal for Swiss banks compared to traditional account opening processes (only a maximum of 6% of new business relationships are opened through digital channels<sup>2</sup>), other players, in particular those active in the FinTech sector, are making more of the possibilities offered by FINMA Circular 2016/7, given that they generally do not meet their future clients in person.

### Key changes proposed by FINMA

Experience gained from the first two years of application prompted FINMA to recognise that some of

the rules contained in its Circular 2016/7 were not - or are not anymore - suited to financial markets and the needs of financial intermediaries. FINMA emphasises that video or online identification carries accrued risks from an anti-money laundering perspective. It therefore proposes to adopt certain stricter requirements, among which are the obligations to (a) verify no fewer than three - compared to one in the current regime - randomly selected optical features contained in the identity document and (b) compare form related features of the identity document, such as layout, spelling and font with data available in an identity document database. In addition, as regards online identification, FINMA would like financial intermediaries to ensure that the photograph provided by the future client has been taken in the course of the identification process (e.g. by using liveness detection or by asking the future client to make a specific gesture while taking the photograph).

Further, FINMA acknowledges that some of its current requirements are not necessary or may be softened. It therefore plans (a) to remove the obligation to conduct a verification of the contracting party by using a transaction number (TAN) - such verification must currently be completed in addition to the video or online identification - and (b) to allow the video chat to be continued even in the presence of higher risks of money laundering. Finally, concerning online identification, FINMA is ready to consider as sufficient under certain conditions a payment made by the client from a bank based in a Financial Action Task Force member country.