



Australian Government

AUSTRAC

Draft costings: electronic safe harbour procedures

CONSULTATION PAPER

“ A FINANCIAL SYSTEM **FREE**
FROM CRIMINAL ABUSE ”

Explanatory note for consultation on draft costings for the electronic safe harbour amendments for customers

The amendments to the Anti-Money Laundering and Counter-Terrorism Financing Rules (AML/CTF Rules) with regard to customer due diligence (CDD), inserted provisions relating to the identification of beneficial owners by reporting entities. These provisions (paragraphs 4.12.5 to 4.12.7 of Chapter 4) included 'safe harbour procedures' that may be applied to beneficial owners who are of medium or lower money laundering or terrorism financing risk.

Industry consultation on the 2014 CDD amendments resulted in submissions to AUSTRAC requesting that the electronic safe harbour procedures for customers should be consistent with the electronic safe harbour procedures for beneficial owners.

Draft amendments were subsequently published for public consultation from 29 May 2014 to 26 June 2014 (2014 version) and 10 June 2015 to 8 July 2015 (2015 version).

The submissions (and in particular whether the 2015 version will result in increased regulatory savings) have indicated that the 2014 version of the draft amendments is preferred by industry.

The 2014 version is therefore republished to allow consideration by industry of the draft costings which are based upon this version. It is anticipated that this version will be finalised once the costings related to the amendments are settled.

Calculation of reduction in regulatory costs

Based on feedback from industry to date, AUSTRAC estimates that these draft amendments will generate average deregulatory savings of \$7.2 million for affected businesses and \$5.8 million for individuals over the next ten years resulting in a total average annual saving of \$13 million.

AUSTRAC has used the [Commonwealth Regulatory Burden Measure](https://rbm.obpr.gov.au/) (RBM) <https://rbm.obpr.gov.au/> as a basis for the calculation, as the RBM has been mandated by the Australian Government for use by agencies.

AUSTRAC seeks close consideration from industry on the costing estimates outlined in the table below, including whether the assumptions described in the table are reasonable and whether the population estimates are smaller or greater.

It is noted that many of the assumptions in the draft costings are based upon those used by PriceWaterhouseCoopers (PwC) in calculating the regulatory savings in the 2014 CDD [Regulation Impact Statement](#).

Draft Rules amending Chapter 4 of the *Anti-Money Laundering and Counter-Terrorism Financing Rules Instrument 2007 (No. 1)*

1. These Anti-Money Laundering and Counter-Terrorism Financing Rules are made under section 229 of the *Anti-Money Laundering and Counter-Terrorism Financing Act 2006* (AML/CTF Act).
2. For paragraph 4.2.13 of Chapter 4: *substitute*:
 - 4.2.13 Part B of an AML/CTF program that requires the reporting entity to do the following will be taken to meet the requirements of paragraphs 4.2.3 to 4.2.8 and 4.10.1 of these Rules in respect of a customer, where a reporting entity determines that the relationship with the customer is of medium or lower risk:
 - (1) collect the KYC information described in paragraph 4.2.3 or 4.2.4 (as the case may be) from a customer;
 - (2) verify, having regard to the matters set out in subparagraph 4.10.2(1):
 - (a) the customer's name; and
 - (b) either:
 - (i) the customer's residential address; or
 - (ii) the customer's date of birth, or
 - (iii) both (i) and (ii), or
 - (c) that the customer has a transaction history for at least the past 3 years.
 - 4.2.14 For subparagraphs 4.2.13(2)(a) and (b), verification must be undertaken by the reporting entity through the use of reliable and independent electronic data from at least two separate data sources.

Reporting entities should note that in relation to activities they undertake to comply with the AML/CTF Act, they will have obligations under the *Privacy Act 1988*, including the requirement to comply with the Australian Privacy Principles, even if they would otherwise be exempt from the Privacy Act. For further information about these obligations, please go to the [Office of the Australian Information Commissioner's website](http://www.oaic.gov.au) <<http://www.oaic.gov.au>> or telephone 1300 363 992.

Costings estimates for electronic safe harbour provisions for customers

Savings to businesses

Item	Cost	Source and explanation
Current cost to financial institutions performing manual verifications	\$7,379,136	<p>Based on OBPR purchase costs formula for businesses (Source: OBPR Guidance Note – Regulatory Burden Measurement Framework, page 13).</p> <p>\$23 per Australia Post AML identity check as specified by industry. Assume same cost for manual verification for all businesses whether the customer attends a branch of the reporting entity or Australia Post.</p> <p>Assumes there are 4,010,400 new customers per year across affected financial institutions (Source: PwC). All new customers would be e-verified in the first instance. Industry has advised that 40% of new customers fail e-verification (1,604,160) and that 20% of customers who fail e-verification will go on to complete manual verification (320,832).</p>
New cost to financial institutions performing manual verifications	\$2,767,176	<p>Based on the information from industry that the proposed changes would reduce e-verification fail rates from 40% (1,604,160) to 15% (601,560).</p> <p>It is assumed that 20% of customers who fail e-verification will continue to be manually verified (120,312).</p>
Savings to financial institutions (business) performing manual verifications	\$4,611,960	Difference between current cost and new cost.
Current cost to financial institutions performing mismatches	\$4,200,306	<p>Based on OBPR labour costs formula for businesses (Source: OBPR Guidance Note – Regulatory Burden Measurement Framework, page 12).</p> <p>\$21.82 per mismatch. Figure based on default work-related labour cost of \$65.45 per hour and information from industry that it takes 0.3 hours to process a mismatch and there is an average of 6 staff in every institution that process mismatches.</p> <p>Based on the assumption that 10% of manual verifications (320832) will still result in a mismatch (32083).</p>
New cost to financial institutions performing mismatches	\$1,575,099	

Item	Cost	Source and explanation
Savings to financial institutions (business) performing mismatches	\$2,625,207	
Total savings to business	\$6,730,565	After one-off administrative cost of 7% (506602) has been deducted from the first year. This is the cost for business to understand the new changes and review and amend their procedures.
Average savings over 10 years	\$7,186,506	Average figure was calculated by dividing one-off cost over ten years.

Savings to individuals

Item	Cost	Source and explanation
Current cost to customers performing manual verifications	\$9,304,128	Based on OBPR labour costs formula for individuals (Source: OBPR Guidance Note – Regulatory Burden Measurement Framework, page 13). \$29 per manual verification. Figure based on default non-work related labour cost of \$29 per hour and information from industry that it takes a customer 2 hours to collect relevant documents and attend financial institution's branch/Australia Post. Assumes there are 4,010,400 new customers per year across affected financial institutions (Source: PwC). Industry has advised that 40% of new customers (1,604,160) fail e-verification and that 20% of customers who fail e-verification will go on to complete manual verification (320,832).
New cost to customers performing manual verifications	\$3,489,048	Based on the information provided by industry that the proposed changes would reduce e-verification fail rates from 40% (1,604,160) to 15% (601,560). It is estimated that 20% of customers who fail e-verification will continue to be manually verified (120,312).
Savings to customers (individuals)	\$5,815,080	Difference between current cost and new cost.
Average savings over 10 years	\$5,815,080	

Total offset savings

Total offset savings	\$13,001,586	Average savings over 10 years for business and customers
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