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AUSTRALIAN BANKERS' ASSOCIATION

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Ms Beverley Forbes
Secretary
House of Representatives
Standing Committee on Economics
Finance and Public Administration
Parliament House
CANBERRA ACT 2600

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Dear Ms Forbes

Tax File Numbers Inquiry

The Australian Bankers' Association appreciates being given the opportunity to respond to issues raised in the Auditor-General's Report No 37 1998/99 on the management of tax file numbers. In particular we wish to comment upon the proof of identity issue raised in that report and note this is an important issue for the Inquiry.

Identity fraud is not only an issue for industry and government, but also for the whole community that is affected by the impact of criminal activity. In November 1998 a research paper was issued by The Institute of Chartered Accountants in Australia (ICA) titled Taking Fraud Seriously - Issues and Strategies for Reform. The authors of the paper, Russell G Smith and Paul N Grabosky are both from the Australian Institute of Criminology. They discussed the identity fraud issue and suggested steps that are needed to be taken to prevent the creation and use of false identity documents. In addition, to those steps there is also need to improve the current document verification processes.

The Auditor-General's report highlights that the ATO has weaknesses in the management of the risks associated with the verification of the identity of TFN applicants. In the Key Findings of the report, at point 17, it states: "The ANAO found that the ATO could better manage the risks associated with the verification of an applicant's claims as to their identity. The ATO might not have sufficient expertise in the verification of the large variety of Proof of Identity (POI) documents that it may need to examine in connection with TFN applications."

The ATO is not alone in facing these problems. Government authorities and industry need to examine and verify a whole range of documents in identifying their customers. There are at least two issues here. Firstly, there is the process of issuing documents and secondly, the ability of governments and businesses to verify those documents with the issuing source.

On the first point there is a greater role for government in addressing this problem. Most of the documents commonly used for identity purposes are documents issued by government authorities. There should be greater national consistency of generic documents. As an example, drivers' licences are issued by the states and territories but to date there has not been a consistent approach taken in the format, content and built-in security features of those documents. Greater consistency of these types of documents throughout Australia would

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make the document examination process easier and more reliable for the ATO, other government authorities and industry. The actions taken by the National Road Transport Commission for greater national consistency in licensing processes are some welcome steps in the right direction. It is understood that all states and territories will be adopting the NRTC policies. Similar processes for consistency would be useful in relation to the birth certificates issued by the various registrars.

There is also a need to improve the security features of documents issued for identification. Security enhancements such as micro printing, void pantographs and so on will increase the quality of the documents used for these purposes. Arguably, it is now time in Australia for standards to be set for the production and issue of identity documents. The United States has taken steps for uniform federal standards to apply to drivers licences, identification cards and birth certificates issued by the states. Similarly, also in the United States there is legislation, the *Identity Theft Protection Act*, which makes identity theft a federal crime and provides mandatory restitution for victims. The law authorises the US Federal Trade Commission to maintain a national database of identity theft reports, provides information to victims and refers complaints to consumer reporting agencies.

Another aspect of the identity fraud problem to be addressed relates to document application processes. Some documents can be easily obtained and existing data on records can be amended without too much difficulty, eg. change of name or address. More stringent administration procedures are required. Unfortunately, the possession of one false document often permits the criminal to obtain other identifying documents.

The ATO's Schools Education Program (SEP) may be an effective way of enhancing TFN integrity and goes some way in getting TFN applicants identified with some reliability. The comments in the ANAO report on the use overseas of government client identifiers by the private sector are noted.

At the stage where issuing procedures, document security, and record change procedures have been improved then there is the need to be able to verify those documents. This should be done at a reasonable cost and provide a timely response. In the current business environment it is not effective or efficient to physically verify documents with the issuing source. A possible approach for this could be for the data detailed on documents provided by customers, to be electronically verified, subject to the customers' consent, with the issuing document source. This approach could be via a national secure electronic gateway, government operated or supervised. Authorised users would enter the identification document details into the gateway which, would then be directed to the relevant document issuers. The issuers could respond on an exception basis. That is, if the details do not correspond then the issuer could confirm that the document with the details provided, was not issued by that authority. It would then be up to the inquirer to seek further clarification from their customer. This collective action by inquirers/issuers is also likely to enhance the reliability of the data held by the document issuers, which are mainly government authorities.

It is clear that any response to the identity fraud problem must be tempered by the need to comply with customer confidentiality requirements and in particular the Privacy legislation. The Australian Bankers' Association has had numerous discussions on the identity issue with, various police jurisdictions, AUSTRAC and other government agencies. Whilst the response stated above, will not eliminate the identity fraud problem, nevertheless it is anticipated that the prevalence of the problem will be reduced. It is clear from all parties that we have spoken to, that in the current business environment there is a need for an electronic system to verify identity documents. There is much to gain here, for industry, for government and government agencies including the ATO, and for the whole community.

Over the past year the Australian Bankers' Association , as participated on an identity fraud working group comprising AUSTRAC, Centrelink, ATO and other financial institution groups. The ABA surveyed its own membership to identify any changes that its members considered would assist improving the identification process. The survey response ranked the introduction of a national electronic gateway verification process for government issued documents as the most important component in reducing identity fraud.

According to the ICA report referred to above, the estimated cost of fraud for the community is AUD 3.5 billion annually. It is difficult to estimate the actual level of identity fraud. However, the ANAO report at page 46 states that one USA agency in 1997 had identity fraud of USD 0.75 billion increasing from USD 0.44 billion in a two-year period. The rapid proliferation and the concurrent decreasing cost of computer and related technology, has meant that criminals can produce false identity documents in increasing numbers. These are often difficult to distinguish from legitimate documents. This has resulted in the escalation of the generic identity fraud problem and there is now a need for all parties to work together to find solutions to reduce the number of fraudulent incidents.

The ANAO report suggests that the ATO should be working with other agencies to address the problem. The ATO needs to go further. We suggest that a possibly more effective approach would be for all parties, including industry and police representatives to work together on the identity fraud issue. This Association would be pleased to discuss these matters further with you.

Yours sincerely

Ian R Woods
Associate Director