

Using Identity Authentication to Expand Straight Through Processing



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INTRODUCTION

The Wikipedia defines Straight Through Processing (STP) as enabling the entire trade process for capital markets and payment transactions to be conducted electronically without the need for re-keying or manual intervention, subject to legal and regulatory restrictions. The concept has also been transferred into other asset classes including energy (oil, gas) trading. However, after many years of attempting to eliminate human intervention from the process, initiation through settlement remains a complex maze of manual processes taking several days.

While full automation has not been achieved, many processes are now at least same day or faster. Settlement risk has been minimized by this collapse in total time. But, full STP is still far from accomplished. Transaction data is still not available on an as needed basis, with many processes still occurring after hours or in delayed batch processing. The transition currently underway in the European Union countries will further move the market toward STP and make more information available faster. The hope is that in addition to expedited processing and lower operational costs, systematic and operational risk will be reduced and certainty of settlement will improve.

THE PROMISE OF STRAIGHT THROUGH PROCESSING

If STP is ever achieved, financial services companies will experience tremendous benefits including: greatly shortened processing cycles, reduced settlement risk and lower operating costs. The ongoing debate is whether the benefits offset the costs. The cost of total automation may never equate to the benefits, and thus many companies – both financial services and not, are taking a less dramatic approach with goals for improvement in specific areas, rather than end to end. Many believe that technology will continue to evolve and that at some point, true interoperability can be achieved at a much lower cost. Business Processing Operability (BPO) is the current evolution of the technology. While improving on Middleware by standardizing many things, it is still a rudimentary offering and thus has not attracted many supporters.

HOW IDENTITY STANDARDS CAN HELP

Identity authentication is a procedure that would benefit from standardization. Today, each institution sets its own rules and procedures for how an identity is verified after being granted. In the United States, the USA Patriot Act has mandated rules for authenticating someone before an “identity is granted” and an account is opened. These rules are referred to as “Know Your Customer” (KYC), and must be performed before a loan is approved, an account is opened, money sent between accounts, and other activities requiring identity authentication. Other countries have varying degrees of these same rules.

With no standardization across an individual institution, multiple financial institutions and country borders, corporations must utilize a multitude of approaches for authentication. In the most extreme cases, account holders must maintain a drawer full of one time password (OTP) devices, tokens, smart cards, and passwords, for accessing each of their accounts with each of their financial services providers. Once passing access authentication, these various credentials are required inconsistently to complete requests such as delegation of authority, change of signatories, deletion or addition of names on an account, and, account closure. Maintaining multiple accounts across multiple institutions is a management nightmare. It's the equivalent of the Tower of Babel where communication is impossible because there is no common language.

Thus, there is an acute need for a standard process and rules governing identities. These rules must be interoperable across borders, within and across an institution, and, across the various segments of financial services – banking, insurance and capital

STP has transformed into quiet, sequential initiatives solving immediate pain points. While financial services firms still have a very long way to go, the market is driving renewed efforts in STP.

— Adam Honoré
Aite Group

“Corporations are speaking up. They want improved and innovative transaction-related services, for example, straight-through processing rates above 95%, which require electronification of the payment process.”

— Alenka Grealish
Celent

markets. Additionally, the contracts supporting the granting of these identities must be enforceable across the world. Without this legal acceptance, identities are limited in their usability.

THE VALUE OF IDENTRUST

IdenTrust was created in 1999 through a collaboration of seven large global financial institutions. Collectively, they invested over \$170 million in its creation and architected the IdenTrust rule set. The IdenTrust PLOT – policies, legal and operational framework, and access technology, provide a trusted blueprint for globally interoperable identity authentication. The PLOT, recognized by major government and regulatory bodies and accepted in more than 175 countries, contains more than 3000 pages of comprehensive intellectual property regarding trusted identities. As a result, the PLOT has the input and insight gained from financial institutions around the globe, and is properly designed, compliant, and complete – it is a rule set that financial institutions can rely upon to create trust!

Corporations using IdenTrust enabled products and services from their financial institutions are immediately able to conduct Internet-based business and communications around the world, without having to deal with individual governments or negotiate with intermediaries. Corporations can streamline the process of maintaining multiple accounts across multiple institutions by using a digital certificate and signature to open and maintain accounts across IdenTrust member banks. Furthermore, they can rely upon a single, proven Trust infrastructure, which supports and safeguards multi-party, cross-border transactions while satisfying the myriad of ever-changing regulations. By conducting global online business based on the blueprint of the PLOT, financial institution customers can effectively minimize the risks of online fraud and identity theft, without having to invest in creating and maintaining their own trusted identity frameworks and operating policies.

BENEFITS

1. IdenTrust leverages the legacy of public trust in financial institutions
 - People trust the traditional role of financial institutions as commercial intermediaries
 - Vouched for customers who are strangers to each other
 - Customer identity is a core feature of all their services
 - Secure digital identity can be a platform for multiple electronic services
 - Digital credentials can solve problems of Internet security and identity theft
 - IdenTrust uses the proven, scalable risk model of global credit card systems
 - Four corner model allows customers of different institutions to transact business
 - Hierarchical top-down architecture is globally scalable
 - Eliminates issuer specific PKI silos (like “store brand” credit cards)
 - Obviates the need for bridges between issuers
2. IdenTrust leverages robust procedures for corporate identification that institutions already perform today
 - Regulators require it. Financial institutions know how to do it
 - Agreements among regulators create global congruence of local KYC requirements
 - Financial institutions know who their customers are, because they transact business with their customers’ money
 - IdenTrust’s KYC is both local and global
 - All IdenTrust Certificates meet the same high standard of trustworthiness, regardless of where in the world they were issued

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Straight through processing is starting to offer technical and cost advantages for companies and will soon be a differentiator for customers as it improves the processes that impact them and better satisfies them. //

— Penny Gillespie
Forrester Research

3. IdenTrust is the only globally uniform system of digital identity
 - Other systems rely upon local law
 - Local law necessarily varies from country to country
 - Only a contractual framework can be globally uniform
 - IdenTrust provides a contractual framework for digital identity
 - IdenTrust permits customers to form binding contracts over the Internet using digital signatures that are legally enforceable in every country

CONCLUSION

Utilizing the IdenTrust standards for identities, corporations can reduce the number of identity authentication methodologies they must use with their financial institutions. Through creating this consistency, business and communication is expedited and operational costs are reduced. Both systemic and operational risks are reduced as a result of the streamlined processing. Reduced costs, time and risk encourages additional investment and thus expansion of businesses. Thus an interoperable, legally binding identity standard can dramatically improve Straight Processing.

ABOUT IDENTRUST

IdenTrust is the global leader in trusted identity solutions, recognized by global financial institutions, government agencies and departments, and commercial organizations around the world. IdenTrust enables organizations to effectively manage the risks associated with identity authentication; work interoperably with countries around the world; minimize investment in creating their own policies and legal frameworks; and deploy a spectrum of products insuring trust, smarter, faster, and more cost effectively.

The only bank-developed identity authentication system, IdenTrust provides a unique legally and technologically interoperable environment for authenticating and using identities worldwide. The IdenTrust Trust Infrastructure is predicated on a proprietary framework that combines policies, legal framework, trusted operations and technology (P.L.O.T.) to create a comprehensive environment for issuing trusted identities. IdenTrust is the only company to provide a solution incorporating all four of these elements. Customer agreements are valid, binding and enforceable in more than 175 countries. IdenTrust identities are globally interoperable under uniform private contracts recognized in countries around the world. Competing offerings, in contrast, rely on a dizzying maze of public laws that vary from jurisdiction to jurisdiction. Additionally, the IdenTrust Trust Infrastructure maintains the privacy of each and every transaction processed by reading only digital certificate information, not the message itself.

Additional information can be found at www.IdenTrust.com.

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