



A Digital Identity Trust Framework for the Home Buying & Selling Process

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1 SUMMARY

The conveyancing transaction is based on a high level of trust between trusted third parties, conveyancers. The core of the transaction centres on proof of identity and ownership and currently organisations will not trust identity verification carried out by another organisation. This is causing a continuing increase in time to complete the transaction with poor consumer experience and ample opportunity for identity (ID) and subsequent property and financial fraud. This view is common to all parties in the home buying and selling process.

The common view is that the introduction of a standards based digital identity assurance process, backed by regulators, should be adopted by the industry and this would lead to significant reduction in the time to complete without adding cost to the process and a reduction in the risk of fraud. The reduction in time to complete is seen as the most pressing issue and the most important deliverable of the introduction of a digital identity trust framework.

1.1 Digital Identity Trust Framework (DITF)

A Digital Identity Trust Framework would be supported by all parties in the home buying and selling transaction. This would provide for a one-time identity verification process to be completed by sellers and buyers, from the outset of the sales process, that could be relied on by all parties.

The proposed Digital Identity Trust Framework for conveyancing would rely on a government backed identity standard, GPG45: Identity proofing and verification of an individual (GPG45) ¹, and accreditation against that standard for Identity Providers. This would allow all organisations in the conveyancing transaction to trust in the verified identity.

1.2 Benefit of a Digital Identity Trust Framework

All parties in the buying and selling process would see benefit from the adoption of the Digital Identity Trust Framework:

- Consumers would enjoy a simplified experience only requiring to prove their identity once, at the beginning of the transaction.
- Estate Agents would see improved cash flow by a shorter time to completion and reduced abandonment.
- Conveyancers would likewise see improved cash flow and reduced abandonment, but more importantly for them an improved trust in the identity and reduced risk of fraud, which would have a direct positive impact on their liabilities.
- Lenders and IFA's would be able to trust the identity and therefore make better and more informed decisions faster with a reduced risk of fraud.
- Professional Indemnity Insurance providers would see a reduced risk of fraud and therefore their liabilities.

The direct impact of this would be a reduction in the time to complete a transaction and also reduce potential abandonments through the process.

¹ <https://www.gov.uk/government/publications/identity-proofing-and-verification-of-an-individual>

2 PROBLEM DEFINITION

The conveyancing transaction has seen year on year increases in the length of time it takes to complete the process. A major contributor to the increase in time taken is attributed to Identity Verification requirement for vendors, purchasers and others providing funds. Combined with this is 'it takes around six months from a property being listed to completion of sale, and 8-12 months between offer and completion in England and Wales. Furthermore, in the first quarter of 2019 38.8% of sales fell through before completion - the highest rate in a decade. These factors combined can act as a deterrent to both buyers and sellers, and ultimately slow down sales.' (ALRA/NAEA Propertymark Feb 2020)

Currently each service provider in the buying and selling process, estate agents, conveyancers and mortgage lenders undertake separate identity verification of their clients. The primary purpose of identity verification is to ensure Anti Money Laundering (AML) requirements are met and ensure the sellers are the owners of the property. Anti Money Laundering requirements are derived from the EU's 5th Money Laundering Directive, and its predecessors. Each country has determined which governing bodies are responsible for ensuring appropriate requirements are placed on its members, which has resulted in multiple bodies interpreting 5MLD and providing guidance differently.

Consequently, in the conveyancing transaction four separate bodies provide guidance; HMRC to Estate Agents, SRA or CLC to solicitors and FCA through JMLSG to lenders and IFA's. The 5MLD is not prescriptive and provides a risk-based approach and therefore the guidance offered by different bodies is based on interpretation and varies. In addition, there is confusion over the ability to rely on other organisations completion of identity verification as guidance provided by each body is not clear. Even if there could be reliance, the different guidance means that another organisation's checks to meet the same requirements may not be deemed acceptable.

For solicitors there is the constant additional challenge to getting all relevant information together in the one place. Every time a property comes back onto the market conveyancers have to go back through the whole process again in order to prepare a property for market and sell. This is especially true if it is a new client who a conveyancer does not have an existing relationship with.

The main problem solicitors face is getting all the information together from trusted sources, which leads to slow and expensive transactions. Today, their best option is to carry on as they do, but of course they need to reduce costs and time delays as conveyancing becomes more commoditised. With increased regulation the problem will only get worse over time.

If only there was a more efficient way to collate this information, then customers could reduce the time and associated costs to sell their home which would lead to quicker transactions and reduce stress. With 300,000 failed transactions a year, there is a clear opportunity to meaningfully impact a huge number of people. As a result government is consulting on the potential of developing a property log book (PLB) that can hold all this information. Obviously access to and use of the information within the PLB will require strong controls and so results in a further need for strong identification of the property and therefore PLB and all individuals who are given access to the PLB.

In addition, seller conveyancers have a requirement to ensure their client is the owner of the property for sale and therefore arguably require a higher level of proof in the identity of their client, than other participants, and the need to link the identified person to the property for sale. Lenders likewise need to have proof the seller is the legitimate owner of the property. Furthermore, lender and buyer solicitors have requirements to undertake checks on the source of all funds being used in the sale of the property that requires all providers of funds to have their identity verified as well as their source of funds.

The core problem is that sellers and buyers undergo multiple identity verification checks at different stages of the transaction process, as each organisation in the transaction will not rely on another's verification process. This results in additional cost to the vendors and purchasers and confusion on what they need to provide to prove their identity. The result is delays in completing the identity verification process leading to delays in completion of the transaction and greater friction in the process.

3 RESEARCH FINDINGS

This research was carried out through telephone interviews and face-to-face meetings of representatives from the following organisations involved in the home buying and selling process. A list of interviewees can be found in Appendix 1. The contributors have been grouped by organisation type below. Interviewees were provided with the information / questions detailed in Appendix 2. prior to interview:

- Conveyancers
- Conveyancing Compliance Consultants
- Council for Licensed Conveyancers (CLC)
- Estate Agents
- HM Land Registry
- Identity Providers
- Law Society (CLLC)
- Ministry for Housing, Communities and Local Government (MHCLG)
- Mortgage Lenders
- PII – Insurance Providers
- Solicitors Regulation Authority (SRA)

The above problem definition was agreed by all contributors.

3.1 MHCLG

The MHCLG is acutely aware of the ongoing problems with the home buying and selling process and is supporting moves within the industry to improve the process. Their specific focus is improving the consumer experience and reducing the time to complete and abandonment levels, without increasing the risk of fraud.

MHCLG are backing proposals to develop a Property Log Book (PLB) as a means to consolidate information about a property and use this to improve the sales process. The creation of a trusted digital identity is seen as a key component of the development of the PLB.

The use of a digital identity by Land Registry has been positive and expanding this approach to the transaction would start to see an improvement in the process. MHCLG would support the creation of a Digital Identity Trust Framework and believes that government has a key role in helping its development.

3.2 HM Land Registry

HM Land Registry (HMLR) is one of the 22 connected services that use GOV.UK Verify. Currently it is only used on the Digital Mortgage Service which is aimed at the Re-mortgage market. The Verify service is the governments Digital Identity Trust Framework for use by government services and uses Identity Providers who are accredited to the Verify service and GPG45². GPG45 has various Levels of Assurance. HMLR takes a risk based approach to awarding the appropriate level of assurance to the nature of the transaction. HM Land Registry is currently undergoing an ambitious transformation, ensuring it is making use of the latest technology to drive efficiencies and support economic growth.

² <https://gds.blog.gov.uk/2019/05/22/improving-the-governments-identity-standards/>

One of the key principles of the transformation is ensuring HMLR continues to secure integrity in the Land Register. It will do this through its highly-skilled people and also, particularly where automation is involved, through the use of technology to help qualify incoming data/information. Qualification may involve verifying the identity of an owner and/or their signature. Therefore, having a trusted verification service offering the right level of assurance, which the market and citizens can easily access at an affordable price and is provided by UK Government, which also underpin HMLR's transformation plans.

3.3 Conveyancer Regulators – SRA and CLC

The approach of SRA and CLC to the level of guidance provided to their regulated organisations is significantly different. Both regulators set out the principles that govern behaviour and have specific principles on AML and CDD which are broadly similar. However, there is a marked difference in the level of detail provided in the guidelines on how to implement the principles.

3.4 SRA

The SRA require law firms and solicitors to identify who they are acting for in relation to any matter. The SRA to date have not issued specific guidance on the topic but their Professional Ethics advice line is there to provide guidance on a case by case basis. In our first meeting with technical policy experts from the SRA, we discussed the use of Digital Identity that is being proposed within this white paper and they agreed to continue to advise and engage on the topic to help make sure that law firms and solicitors understood their obligations.

3.5 CLC

CLC provide detailed guidelines on how their members should achieve compliance with AML and CDD requirements. If a digital identity standard was available that can be shown to meet the principles and guidance provided it is likely that CLC would add support for that digital identity standard.

3.6 Law Society

The SRA require law firms and solicitors to identify who they are acting for in relation to any matter. The SRA to date have not issued specific guidance on the topic but their Professional Ethics advice line is there to provide guidance on a case by case basis.

3.7 Estate Agents

Estate Agents are the first port of call in the home buying and selling process for both sellers and buyers and are required to undertake AML checks. Although these checks are undertaken at the start of the process, none of the other service providers involved will trust the identity verification undertaken by estate agents so there is little focus on this process. However, Estate Agents do feel that proof of identity is a major cause of delay and abandonment in the conveyancing process as other parties leave the identity verification to a late stage and any issues discovered inevitably causes unnecessary delay, often very late in the transaction which can lead to abandonment. This is the major cause of the increase in time to complete which is having a direct impact on cash flow for estate agents.

If a Digital Identity Trust Framework were in place, estate agents would be able to direct sellers and buyers to Identity Providers (IdPs) enabling the creation of a trusted identity earlier in the process and therefore removing this cause of delay.

Estate agents would back a process that had the backing of conveyancers as they have the highest level of proof requirement in the transaction. The cost of identity proofing is not seen as an issue for estate agents.

NAEA Propertymark has sent suggestions to HM Treasury for inclusion in the spring budget ³ that they:

Introduce a digital logbook for every property bought and sold.

To cut down the number of failed property transactions and speed up the process of property buying and selling, the Government should introduce a digital property logbook. This would allow for a more interactive, streamlined and transparent process for both home buyers and sellers.

A proven Digital Identity would be a prerequisite for such a development and the proof of identity could be stored within a digital property logbook.

3.8 Conveyancers

The single biggest issue was the ability of conveyancers to be able to rely on an identity that has been verified by a 3rd party. The concern was the inability of the organisation relying on a 3rd party to be able to have certainty in how the identity was verified and therefore be able to rely on the 3rd party to meet their regulatory requirement around CDD. As a result, all conveyancers believed a key change would be regulator / supervisor acceptance.

A key to acceptance by regulators and conveyancers was the use of an identity standard, preferably a government standard, alignment with Land Registry would be beneficial.

The next biggest issue, which is closely related to a digital identity standard, voiced by all conveyancers was “How would we be able to trust a third party has conducted the identity verification to the standard?” The proposal that 3rd party providers could be subject to audit and/or accreditation was accepted as a suitable method of providing evidence that the verified identity could be trusted. For conveyancer’s acceptance of audit or accreditation of 3rd parties by their regulator would be an important confirmatory step.

For conveyancers the role of their regulators is seen as key. As highlighted above, SRA and CLC take different approaches to the level of guidance provided. All interviewees agreed that if the solution outlined below was included in guidelines, they would adopt this approach. If the regulators did not adopt the approach it could still be worthwhile but would be much harder to get widespread support. As conveyancers are reliant on PII to provide commercial protection from fraud the view of PII providers would be an important consideration to their acceptance, particularly if their regulators do not provide direct supporting guidance.

³ <https://www.naea.co.uk/news/february-2020/propertymark-puts-forward-suggestions-for-spring-budget/>

3.9 Conveyancing Compliance Consultants

The interviewees agree that identity verification and validation is a key issue affecting the home buying and selling process and conveyancing process but do not believe that a Digital Identity Trust Framework would directly resolve the issue. There are several issues that would prevent conveyancers from accepting a digital identity verified by a 3rd party:

- The trusted position of conveyancers and their responsibility to prove the identity of their clients mean that they would not be able to rely on 3rd party proof of identity.
- Conveyancers would still require a wet signature as they must provide this as evidence to the lenders.
- Conveyancers would only be able to accept a digital identity if their PII providers were willing to accept this process.
- Conveyancers would not accept any process that increased their costs.

3.10 Lenders

Lenders are already accepting digital proof of identity in the re-mortgaging process and do not see a problem in extending this to the home buying and selling. In particular, lenders would be looking to the PII providers as their acceptance of this process would directly impact onto their acceptance.

The proposed process using a government backed standard, GPG45, and accreditation of 3rd party providers would be compliant with the revised JMLSG guidance being provided to meet 5MLD.

3.11 PPI Insurers

Providers agreed that undertaking identity verification to a known standard by accredited 3rd parties would provide a higher degree of certainty around the Identity Verification (IdV) process than can currently be provided and as such would reduce the risk of identity fraud. Undertaking a high level IdV process once and reusing that throughout the process is likely to be a less risky process than the current process and therefore would be likely to be accepted by PII providers.

3.12 Identity Providers (IdP's)

Most providers in the home buying and selling process use external 3rd parties for some of the identity verification process and there are a small number of specialist providers who not only provide identity verification and validation but also proof of ownership and funds analysis. Specialist providers could provide a service that met the GPG45 standard with some modification to their service. If there was wide acceptance of a Digital Identity Trust Framework, and a suitable commercial model, some providers would consider becoming an accredited provider of such a service. The delivery of a GPG45 standard accredited service would likely be at higher cost than the current identity verification service but would be less than the accumulated cost of the multiple IdVs undertaken through the sales transaction.

4 A DIGITAL IDENTITY TRUST FRAMEWORK SOLUTION

A Digital Identity Trust Framework for use within the home buying and selling process would enable buyers and sellers to prove who they say they are once and for that proof to be available and accepted by all parties in the process leading to a reduction in time to complete and abandoned transactions without increasing the fraud risk.

The diagram below shows a simplified view of how a Digital Identity Trust Framework could work:

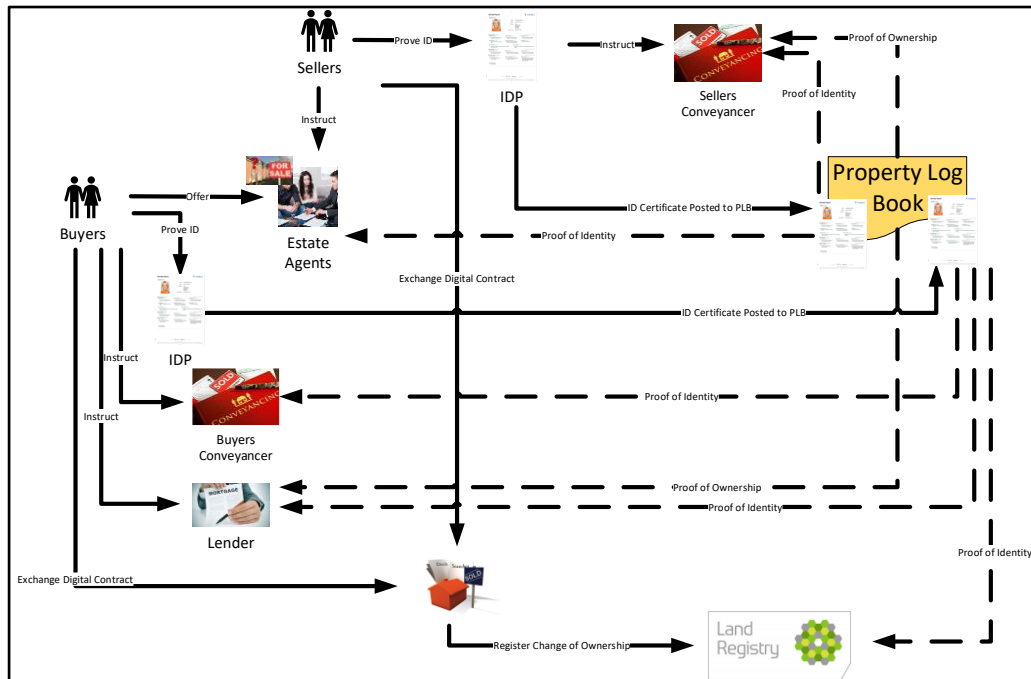


Diagram1: A Digital Identity Proofing Process for Conveyancing

A Digital Identity Trust Framework would enable an individual to prove their identity once. A Digital Identity Certificate would then be created that would be added to the Property Log Book and be available to all relying parties in the sales chain.

A full description of each stage in the process is given below.

What is a Digital Identity Trust Framework?

In the context of the home buying and selling process the following requirements must be met to create a Trust Framework to provide trust to all parties in the asserted identity:

4.1 Adopt an agreed Identity Standard or Good Practice Guideline

The first step in creating a Digital Identity Trust Framework is to create a common understanding of what constitutes a proven identity that can be relied upon by all parties involved.

In the UK there is no private sector identity standard, but the Government has created the Verify digital identity for use in government transactions, which is being used by

Land Registry, www.gov.uk/verify. The Verify solution uses GPG45⁴ which provides for different Levels of Assurance. Adoption of GPG45 with an agreed Level of Assurance would enable all parties to understand the standard to which proof of identity has been achieved. Land Registry are already using the GPG45 standard to enable digital signing of deeds which confers ownership, therefore, adoption of the same standard would create a single standard of proof of identity throughout the conveyancing process.

4.2 Accreditation of Identity Providers

An Identity Provider is any organisation that undertakes identity proofing and creates a strong link to the individual through strong customer authentication and provides the individual with a reusable digital identity. This would enable any third party to redirect the individual to the IdP to get an assertion that the individual is who they say they are. In an environment where digital identities were established, relying parties would redirect their client to the IdP and receive an assertion of identity along with agreed biographical information.

As mentioned, there is no private sector digital identity scheme operational in the UK yet and therefore the above model is not available for the conveyancing market. There is no need to develop a fully reusable digital identity scheme for the conveyancing process as the benefits of a single strong proof of identity for the home buying and selling process can deliver the full benefits identified in this paper.

If an identity standard is adopted then IdP's, who could be specialist 3rd party providers or conveyancing businesses, could be accredited to that standard. Specialist auditors are available who can accredit IdP's against a digital identity standard such as GPG45 (all Verify IdP's were required to undergo annual audit).

IdP's would then be able to evidence their compliance to the standard through their accreditation. If the CLC included support for GPG45 and use of accredited IdP's conveyancers would be able to rely on this process as evidence of the compliance. Adopting these measures as part of the guidance would not constrain conveyancers to this method as they could continue to follow other methods also supported in the guidance.

If the CLC adopted a digital identity trust framework within its guidelines and conveyancers adopted this process it is likely that Estate Agents and Lenders would follow suit. Estate Agents have indicated they would be in favour of this process and would direct sellers and buyers to accredited IdP's. This would be a much simpler process and meet their obligations. Lenders have indicated they would support this approach, although this is more complex as they have strong guidelines provided by JMLSG for AML compliance. However, the JMLSG guidance is based on the same legislation, 5MLD, and is therefore attempting to achieve the same end. The proposed solution would enable them to demonstrate their CDD and therefore mitigate risk.

The accreditation process will add cost for IdP's which may result in an increase in the cost of the identity proofing process, but this should be offset by only needing to complete the process once rather than up to 4 times. PII's have indicated that a solution

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https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/852917/Identity_Proofing_and_Verification_of_an_Individual_v4.1.1.odt

incorporating a government identity standard and accreditation would be supported as it would reduce the risk of identity fraud.

Third party specialists, IdP's, undertaking an independent identity assurance process and creating a reusable assured identity could assist in the process, if they adopted an audit regime that would allow parties to trust the assured identity. The 3rd party would need to provide reusable and fully secured documentary evidence of the proof of identity that all parties could use within their own risk process.

4.3 A "Certificate of Identity" as proof and to store

The proposed solution does not create a reusable digital identity but rather provides evidence of a proven identity that can be reused in the context of a digital property transaction. The approach proposed works as it makes use of the developing concept of a Property Log Book that can be used to store all data relating to the property, and this could include the proof of identity.

The IdP undertaking the identity verification would create a report providing the full details of the proofing process undertaken and the results of all the checks. A variety of identity verification companies provide these reports, and these are being used by conveyancers and are accepted as compliant. The new process proposed here is that the report would be digitally sealed by the IdP to prevent tampering. The digitally sealed report would then be placed in the Property Log Book, all parties to the sales transaction would be given access to the Identity Certificate.

All vendors and purchasers involved in the transaction would be required to undertake identity verification and deposit their report in the PLB. The individual would then provide access to their identity certificate in the PLB to the other parties. The digitally signed and sealed certificate would only be available to 'view' or 'copied' as required. The digital sealing of the report would ensure the contents cannot be tampered with without revealing the report has been tampered with.

The identity certificate will be retained in the PLB and will provide strong evidence of ownership. All reports will contain an image of the individual which was used as part of the identity verification process which can then be used to provide comparison for identification of the seller in subsequent transactions. It is likely in a subsequent sale that the seller would only require a simplified identity proofing process as they are already linked to the PLB of the property.

If IdP's are providing additional services, such as source of funds, this information can be added to the identity certificate or held as a separate document, but again could be digitally signed.

4.4 A Question of Liability or Reliance

Under the new 5MLD legislation and the updated FATF Recommendations digital proof of identity is acceptable as is the use of a trusted 3rd party for the provision of that digital identity. The guidance does not remove the service providers liability as to the reliability of the information provided. The service provider, conveyancer, is still responsible for ensuring their Customer Due Diligence is at a level to meet the risk associated with the transaction. The recommendation to use a Government developed identity standard and accredit IdP's against this standard will enable service providers to evidence their compliance with their obligations. There is no change to the liability of service providers.

Conveyancers cover their liability with PII, input from insurance providers showed support for this approach as it provides an accredited and auditable process that will reduce the PII risk.

5 CONCLUSIONS

Implementation of a Digital Identity Trust Framework would address the key identity verification issues found in the home buying and selling process and conveyancing transaction.

5.1 The key issues affecting the process are:

- Increasing time to complete the transaction caused by difficulties in identifying parties involved and mismatches in different identity verification processes.
- Failed sales due to delays and problems identifying the parties involved.
- Poor user experience due to multiple requirements to prove identity following different processes.
- Lack of trust between parties involved in the transaction.

5.2 The main causes of these issues are:

- Each type of organisation that the seller and buyer deals with has their own governance body, or more than one. Conveyancers / solicitors are governed by the CLC or SRA, Estate Agents by HMRC, Lenders and IFA's by the FCA. Each governance body publishes their own guidelines on how to complete identity verification for AML and for sellers' proof of ownership.
- Each organisation in the chain will not trust the IdV completed by other organisations due to the different guidelines and lack of evidence of how IdV checks are completed. Guidelines are interpreted as prohibiting organisations from trusting other organisations IdV checks.
- Due to separate checks being completed it is possible for discrepancies in identity being found late in the process.

5.3 Digital Identity Trust Framework Characteristics

All parties interviewed, with one exception, see below, agreed that a Digital Identity Trust Framework, with the following characteristics, would be supported and beneficial in reducing time to complete, failed transactions and reducing fraud risk:

- Support for a government backed Identity Standard by all governance bodies. GPG45 is an existing standard used by Land Registry and is appropriate for the Conveyancing Transaction.
- Create an accreditation scheme for Identity Providers, these can be independent 3rd parties or existing organisations such as large conveyancers. A body for accreditation of trust schemes already exists, t-Scheme⁵, which provides accreditation profiles for existing schemes using GPG45, such as Verify.
- Regulators to support the Digital Identity Trust Framework either explicitly by updating guidelines or through tacit support.
- Compliance Consultants provided a number of issues that would prevent a DITF from solving the identity verification problem. However, highlighted issues were not seen as problems by the interviewees in the areas they highlighted issues.

⁵ <https://www.tscheme.org/>

APPENDIX 1: INTERVIEWEES

Interviews conducted by Ian Imeson and Stuart Young.

Conveyancers

Geoff Hall, Gordon Brown Law
Tom Bridge, Ramsdens Conveyancing
Sarah Cookson, Switalskis
Angela Hesketh, Jackson Lees
Peter Pownall, Morecrofts Solicitors
Wyn Williams, Harding Evans
Susan Sowden, Ridley & Hall
Sarah Debney, Premier Property Lawyers

Conveyancing Compliance Consultants

Sally Holdway, Teal Legal
Amy Bell, Amy Bell Compliance

Council for Licensed Conveyancers (CLC)

Stephen Ward

Estate Agents

Glynis Frew, Hunters

HM Land Registry (HMLR)

Eddie Davies
Emma Vincent

Identity Providers

Olly Thornton-Berry, Thirdfort

Law Society (CLLC)

Diane Latter

Ministry for Housing, Communities & Local Government (MHCLG)

Matt Prior

PII – Insurance Providers

Edward Donne, Howdens

Solicitors Regulation Authority (SRA)

Jatinderpal Loyal
Mark Boyle
Richard Silver

APPENDIX 2: INFORMATION PROVIDED TO INTERVIEWEES

Emailed introduction to research

The Research:

A Digital Identity Trust Framework is required where Identity is being asserted over a digital channel. The Trust Framework will define how the assurance process and assertion of that assured identity will meet the Law Society's guidelines for achieving compliance with the Money Laundering Directive. The project will document how an assured identity can be created to meet the Law Society requirement for identifying individuals during the conveyancing process.

The project will draw on existing documents and government guidelines to develop a specific framework for Conveyancing.

This Trust framework will be used to inform the design and development of a property log book product within the home buying and selling sector. The product will be used to manage the workflow of data and identity verification processes through the transaction process.

The Output:

Ian will produce a white paper on this to be made available to you and the HBSG, CA, MHCLG, HMLR, Law Society, CLC etc and will feed into the wider work around the use of log books with an assured identity. This can then be one of the many pieces of work required to feed into the wider HBSG.

Email specifically setting up interviews

I would expect the interview to take up to 45 mins and would like to get your views on the following:

- How a reusable Digital Identity created as part of a Trust Framework would work within a property transaction - I have previously designed a solution for this transaction and it may be I explain how I think it can work as a starter and get your views on this.
- What are the challenges around Digital Identity and Trust in the transaction that need to be addressed to enable digital processing.
- What role do you think governance bodies should have in the establishment of a Trust Framework to ensure successful creation and use of a Digital Identity in property transactions.
- How do you think the role of an Identity Provider fits within the conveyancing process and which organisations do you think could fit this role.

These are just my initial thoughts on the areas I would like to cover with you, but more importantly I want to gain an insight from you as to how a reusable digital identity can improve the digital conveyancing process.

6 CONTACT DETAILS

For any further information about this work or to discuss further please contact:

Ian Imeson – ian@iiconsulting-ltd.co.uk