

Online Age Verification: the issues surrounding age-restricted goods

Establishing the concerns and future plans of ecommerce professionals as they ramp up online sales



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1. Introduction: An age-old issue

Businesses with an ecommerce function have contended with the challenges of selling age-restricted goods for many years. Controls are in place for cigarettes, alcohol, knives and fireworks, as well as a variety of other goods, from solvents and medicines to age-restricted video games. However, limited guidance on industry best practice has added to the compliance challenge for retailers and online gaming businesses.

LexisNexis® Risk Solutions has published new research to establish the concerns and future plans of ecommerce businesses as they proactively prepare for a regulatory change on age verification requirements. Our survey polled 200 senior managers, managers and analysts working in the retail or online gaming sectors across the UK regarding their practices, priorities and concerns.

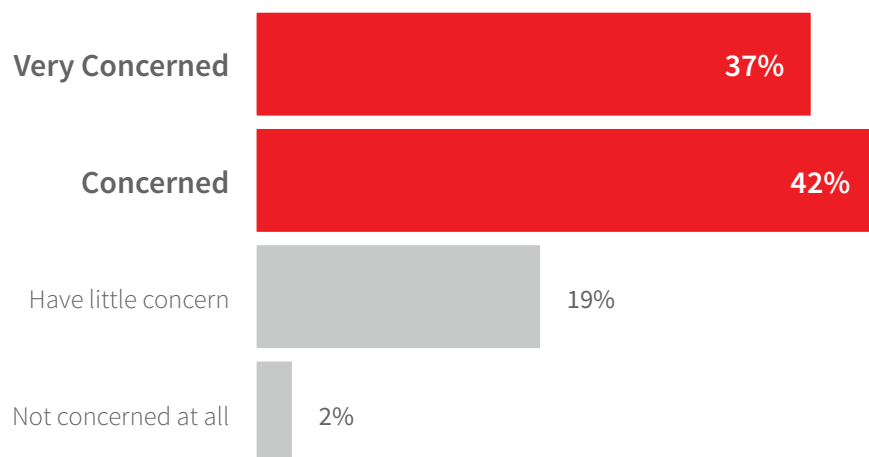
The findings suggest that both ecommerce retailers and gaming businesses are looking to explore workable solutions for online sales. In part, this is due to a lack of clarity as to the current and future regulatory requirements. However, inadequacies in the current solutions these businesses are using to determine the age of their consumers also plays a significant role.

We hope the findings will enlighten ecommerce professionals and find the best ways to protect their customers and their brand reputation, without adding friction to the online shopping experience.

2. Findings: Regulation and reputation

Figure 1.

Q: With your current age verification methods in place, how concerned are you about selling online age restricted goods or services to minors?

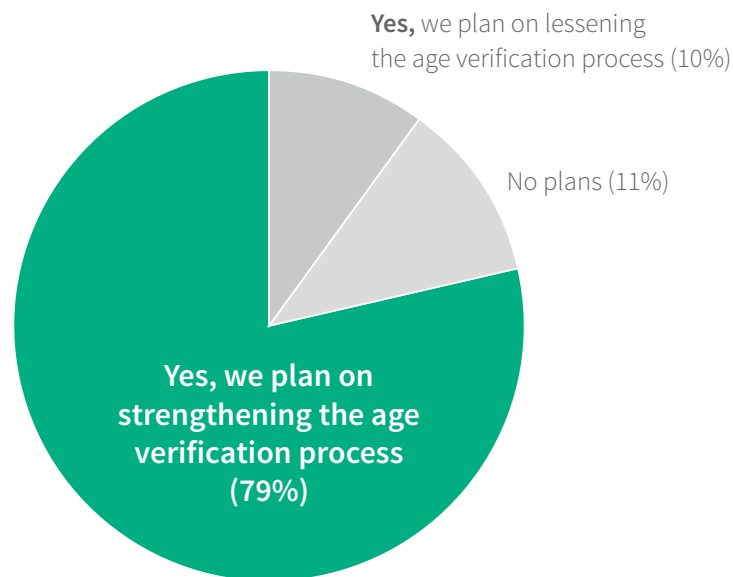


Eight of ten (79%) of those working in ecommerce say they're concerned (42%) or very concerned (37%) about selling age restricted goods or services to minors – even with their current age verification methods in place.

The finding suggests serious deficiencies with existing protection. Underlining this, exactly the same proportion – 79% – say they have plans to strengthen their age verification process.

Figure 2.

Q: Do you have plans to change your age verification process?



Regulatory penalties for selling age-restricted goods to minors, which include fines, licensing reviews and even imprisonment, are one motivation for more stringent age verification processes. Almost half (48%) said that preparing for future regulatory compliance was the main priority when strengthening their age verification processes. In the absence of substantial, high profile enforcement actions to date, however, the main focus for businesses is safeguarding their brand: 81% said protecting their reputation was their priority.

The focus on brand rather than regulation is particularly pronounced in bigger business. For companies with more than 500 employees, 91% said reputation was a priority; just 18% named future regulatory compliance as their main driver.

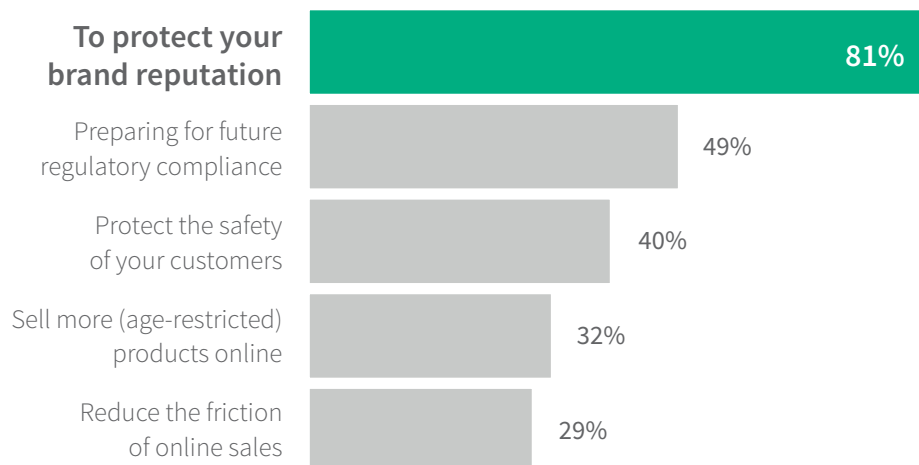
Businesses are also curiously unconcerned about customer convenience. Only 29% of those asked said that reducing the “friction” of online sales was their main priority when strengthening age verification processes. That’s despite the fact that research shows high levels of friction, such as demands for information and complex checkout processes, are a major cause of abandoned sales.¹

About a third (32%) say they hope improved age verification will enable them to sell more age-restricted products online.

1. <http://baymard.com/lists/cart-abandonment-rate>

Figure 3.

Q: What are your main priorities for strengthening your age verification processes for online sales?



3. The regulatory landscape

Existing regulations cover sales of a wide range of age-restricted goods.

In some cases, requirements for online sales are explicit. Revised Guidance issued under the Licensing Act 2003, for example, makes it clear that the requirements apply equally to remote sales, whether telephone, mail order or online.² Similar provisions are also made for “remote gambling” in the Gambling Act 2005.³

In other cases, the law simply relies on existing prohibitions on sales to those under 18, such as those in place for knives, under the Criminal Justice Act 1988;⁴ fireworks, under the Pyrotechnic Articles (Safety) Regulations 2010;⁵ cigarettes, under the Children and Young Persons (Sale of Tobacco etc.) Order 2007;⁶ and e-cigarettes, under the The Nicotine Inhaling Products Regulations 2015.⁷ (The Tobacco and Related Products Regulations 2016, however, does have an explicit requirement for cross-border sellers of e-cigarettes to have age verification systems in place.)⁸

Even where the requirement to verify consumers’ age online is explicit, however, there is little guidance on how this should be done. The guidance to the Licensing Act, for example, simply states: “Age verification measures (for example, online age verification) should be used to ensure that alcohol is not sold to any person under the age of 18.”⁹

Almost all respondents in our survey (93%) claimed to understand the regulatory requirements around ecommerce age verification. However, there is undoubtedly significant uncertainty. Guidance from the Trading Standards Institute, for example, states that online retailers must “take all reasonable precautions” and “exercise all due diligence” to avoid selling to under-age consumers. Nevertheless, it also states: “There is no definitive answer as to what constitutes taking all reasonable precautions or exercising all due diligence.”¹⁰

2. See section 10.52 https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/418114/182-Guidance2015.pdf

3. See s.4 of the Gambling Act 2005 http://www.legislation.gov.uk/ukpga/2005/19/pdfs/ukpga_20050019_en.pdf

4. <http://www.legislation.gov.uk/ukpga/1988/33/section/141A>

5. www.legislation.gov.uk/uksi/2010/1554/pdfs/uksi_20101554_en.pdf

6. <http://www.legislation.gov.uk/ukdsi/2007/9780110757384/article/1#article-1-6>

7. <http://www.legislation.gov.uk/ukdsi/2015/9780111130568>

8. <http://www.legislation.gov.uk/uksi/2016/507/regulation/47/made>

9. *ibid* https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/418114/182-Guidance2015.pdf

10. <https://www.businesscompanion.info/en/quick-guides/distance-sales/online-sales-of-age-restricted-products>

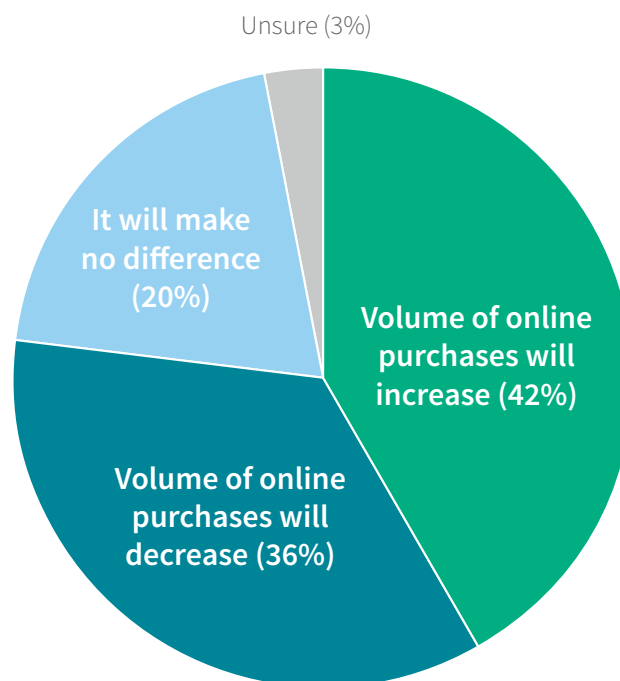
4. Support for greater regulation

As academics at the Oxford Internet Institute, University of Oxford, have noted, far from making online sales easier, this lack of clarity limits their growth: “Without a definitive answer as to what steps are considered appropriate, online retailers are often left in the dark and choose instead to limit the products sold online.”¹¹

That view is endorsed by those we surveyed: More respondents (42%) believe additional legislation would result in the volume of online purchases increasing than believe it would lead to a decrease (36%). Among big businesses with revenues between £100 million and £499.99 million, 62% said they thought the volume of online purchases would increase. This suggests that ecommerce businesses are restricting the amount of age restricted goods that they sell online, however with adequate guidelines from the government and a technological solution in place, they may be able to tap into an opportunity to increase sales by increasing and diversifying their online product ranges.

Figure 4.

Q: What impact do you think an increase in legislation around age verification will have on the volume of online purchases for age restricted products?

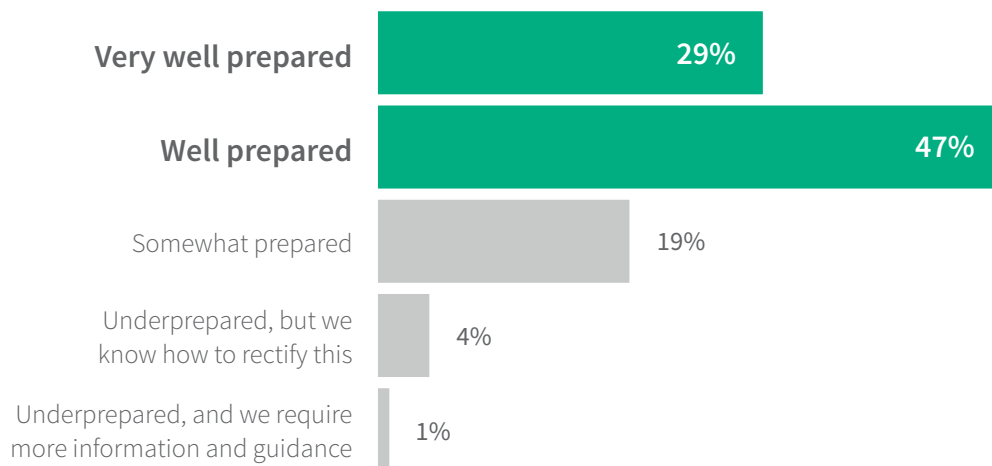


11. <https://www.oii.ox.ac.uk/archive/downloads/publications/Effective-Age-Verification-Techniques.pdf>

Businesses also feel well placed to meet any new regulatory demands. Three quarters (76%) say they are very well prepared (29%) or well prepared (47%) for future legislation.

Figure 5.

Q: How prepared is your business for future legislation relating to age verification?



5. Age verification options

Whether this confidence is well founded depends on the criteria that must be met under the new regulations. Currently, there are a variety of age verification methods available to ecommerce businesses:

- **Age affirmation pages (AAPs) or checkboxes** – effectively systems of self-certification that just require the user to either click to confirm they are over 18 or enter their date of birth.
- **Credit card verification**, requiring credit card holders to verify that they are in possession of the card using methods such as Card Verification Value (CVV), Address Verification System (AVS), and 3D Secure. This binds ownership to the identity being presented, with the knowledge that the customer has to be over 18 to apply for a credit card.
- **Identity document checks in person**, whether in-store or on delivery. For example, The Licensing Act guidance suggests those delivering alcohol should conduct age checks in person, in addition to those undertaken online.¹²
- **Identity document authentication**, authenticating hardcopy identity documents (such as a passport or driving licence) to authenticate the age of a subject. Also, the ability to accept international documents from foreign purchasers, extends the markets that ecommerce vendors can safely supply to.
- **Online identity check software**, which encompasses a wide range of solutions. It can offer a seamless integration by adding a date of birth field to the checkout process. Personal information is instantly cross-referenced with consumer data sets and credit bureau data to check the customer's age.

12. See 10.52 https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/418114/182-Guidance2015.pdf

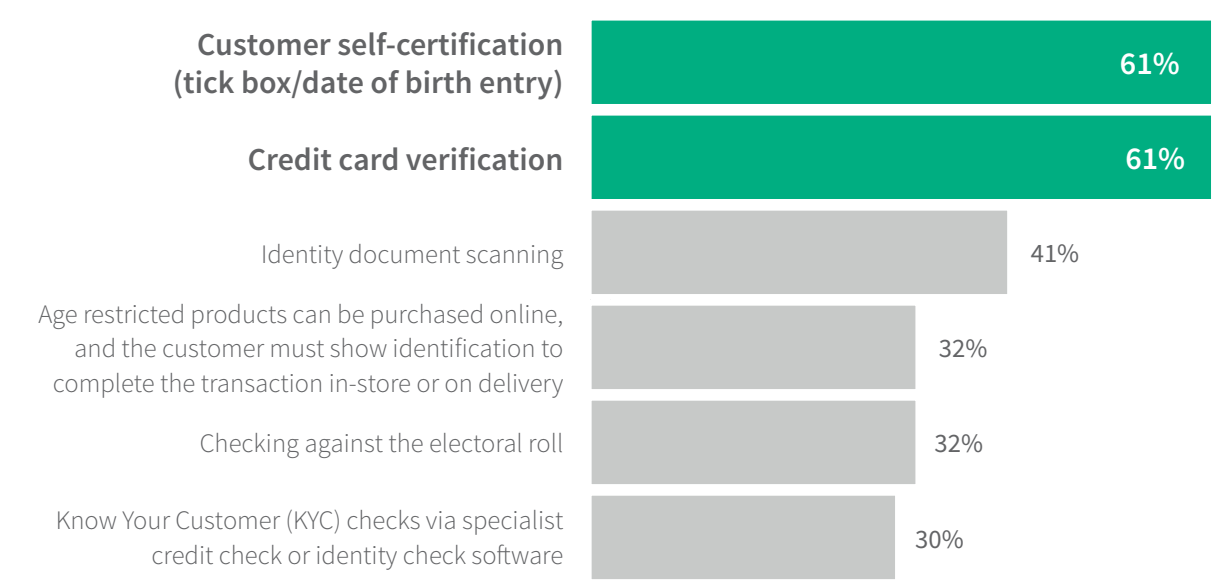
All these have strengths and weaknesses, but broadly there is a trade-off between the friction the age verification system adds to the sales process and its robustness. At one end, self-certification is quick and simple for consumers, but is wide-open to abuse. At the other, making online shoppers go in-store to verify their identity and complete an online transaction largely defeats the purpose and convenience of online shopping.

Online identity check software represents middle ground but ecommerce professionals fear an extra layer of friction, such as asking for a date of birth may result in lost sales. However these concerns may be unwarranted; research conducted by LexisNexis into the UK millennial customer, indicates that this digital native generation are more comfortable in providing a date of birth than other types of personal information¹³. Likewise, identity software that asks for scanned hardcopy documents may also appear cumbersome or inconvenient for buyers.

A user-friendly implementation of these software methods, in addition to educating the purchaser on the reasons behind the process is crucial to their adoption. Multi-factor and step-up authentication processes that utilise a blend of checks dependent on the risk presented, may provide the correct balance.

The survey shows that retailers currently use a variety (and often a combination) of age verification methods, but the most popular remains AAP or self-certification, used by 61%, which could be because this is the minimum requirement under current age verification regulation, and it is believed to offer minimal friction to the shopping experience. Worryingly, this method can be easily falsified and result in dangerous products being delivered to underage consumers.

Figure 6.
Q: What methods do you use to check your customers age online?

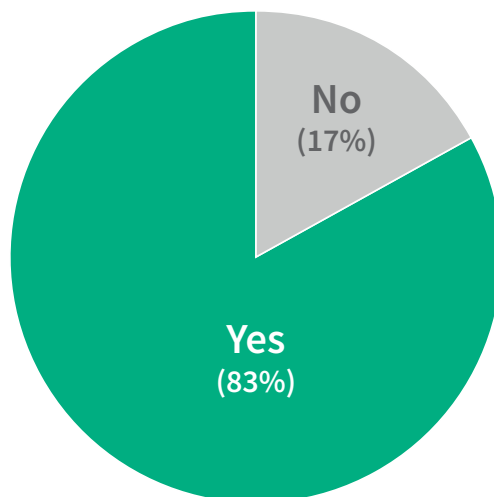


Despite the accuracy and real-time checks available through online identity check tools, Know Your Customer (KYC) checks via specialist credit check or identity check software is the least popular, used by just 30% – fewer even than those requiring online customers to show identification in-store or on delivery (32%).

13. <https://www.tracesmart.co.uk/insights/uk-millennials-financial-services-whitepaper-download>

Figure 7.

Q: Do you feel you need to conduct more comprehensive identity verification to mitigate identity fraud?



As well as protecting the brand, improved age verification brings businesses other benefits, not least of which is better defense against fraud. Card-not-present fraud cost businesses £398.2m¹⁴ in 2015, and 83% of ecommerce professionals in our survey said they felt they needed to conduct more comprehensive identity verification to mitigate identity fraud.

Online identity verification solutions could significantly help here. Where this can be seamlessly integrated in the purchase process, it could more than pay for itself from the businesses' point of view – as well as offering the increased protection for young people that society and governments increasingly demand.

6. A proactive approach to age verification measures

The preference for self-certification by ecommerce professionals may be at odds with the way in which regulation and expectations are moving.

Even in the absence of further regulation, businesses are already being encouraged or choosing to go beyond the bare minimum to protect their brand reputation. The Gambling Commission which obliges gambling websites to put in place self-certification for customers, also recommends credit checks for customers who don't pay by credit card, for example.

From the alcohol industry, the Portman Group of the major alcohol producers, encourages members to carry a hidden "Nanny Tag" on their AAPs. Parental control software can recognise this and automatically block sites from children.

Finally, and perhaps most notably, a number of major retailers have signed up to a voluntary agreement announced by the Home Office last year to improve checks for the sale of knives.¹⁵

These findings coupled with the voluntary measures that ecommerce professionals are taking clearly indicate a growing need for clearer guidelines around age verification checks. With this in place, online retailers and gaming businesses will be able to adopt the technology and processes that efficiently protect the consumer and their business reputation.

14. https://www.financialfraudaction.org.uk/wp-content/uploads/2016/07/Fraud-the-Facts-A5_24.11_LR.pdf

15. <https://www.gov.uk/government/publications/sale-of-knives-voluntary-agreement-by-retailers/sale-of-knives-voluntary-agreement-by-retailers>

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