



## DIACC Industry Insights: Digital ID in Financial Services



### **What is Digital ID and How Does It Impact Key Industries and Their Customers?**

This paper is the first in a series prepared by the Digital ID and Authentication Council of Canada (DIACC) highlighting the potential impact that digital ID could have on key sectors of the Canadian (and global) economy.

In this first paper, we focus on the financial services industry.

### **What is Digital ID?**

Identity is a type of information about an entity (for the sake of simplicity, a person) that uniquely describes the entity within a given context. In other words, identity is a collection of indicators (or attributes) about a person (entity) that make that person unique. Digital identity (ID) is a set of attributes that

links a personal entity with their online interactions by using trusted sources. Digital ID refers to one's online persona - an online footprint. It touches important aspects of one's everyday life, from financial services to health care and beyond.



## What This Means For Stakeholders

Digital ID has far-reaching impacts, for a variety of stakeholders and supports improving security, simplifying transactions and improved efficiency.

## What You Need To Know

- Digital ID has arrived and is currently being introduced in governments and by some financial institutions, as well as fintechs
  - Online banking is swiftly replacing visits to physical branches - 76 per cent of Canadians are using digital channels, both online and mobile, to conduct most of their banking transactions.
  - 88 per cent of Canadians trust their bank to offer secure digital banking services.
- A number of current digital financial services transactions are not secure, and could be made so through the use of digital ID.
- Trust is critical in strengthening and maintaining the relationship between consumers, who they do business with and financial institutions. Having confidence and trust at both ends of the interaction enables growth in the digital economy.
  - Verification is also important when users try to authenticate in untrustworthy situations, such as from an unrecognized device or a different country. A digital ID will increase that security, as user attributes are held in secure locations.
- Identity traditionally has been based on physical records (e.g. passports, identity cards) provided by trusted government sources. However, these physical documents can be falsified, altered, tampered with, lost or stolen and are difficult to validate with the source. A strong identity system prevents important user information from being overexposed, lost or stolen, as digital ID uses secure credentials such as biometrics, PINS and passwords, or smart cards which are validated real time with their trusted source.
- Digital ID has upfront costs and requires heavy lifting, but investing early and being proactive can maximize long-term client satisfaction and retention, while decreasing administrative costs and security risk.
- Digital ID can make financial transactions more convenient and drive adoption. The convenience offered by this new technology is welcomed - 91 per cent of Canadians believe that new technologies have made banking much more convenient.

### Financial Institutions (FIs)

Digital IDs help FIs streamline their business processes, from customer registration and transaction monitoring, to credit risk assessment.

- When accounts are opened, financial institutions are required to perform 'Know your Customer' (KYC) checks on customers. Such checks are costly and time-consuming, and digital ID would streamline this process, offering improved service delivery.
- As user information would be controlled by the customer, accessible in a consolidated and digital form, there would be improved efficiency and security.
- Customer onboarding and subsequent interactions can be accelerated. For example, by trusted institutions acquiring biometric identity attributes (such as face or voice recognition), the customer's identity can be easily and accurately verified when they need it to be used.

### Cost savings

- Fraudulent activity often accounts for significant annual loss for FIs by relying on authentication using information to confirm who they are. By increasing transparency and accuracy, digital ID can make it easier to verify and trust FI's customer bases.
- In Canada, the DIACC and participating banks have determined potential net savings per institution at or above CAD \$100 million per year, through operational efficiencies created by reducing manual processing costs and reducing fraud.

### Revenue

- A more streamlined authentication process can also result in increased sales of goods and services, helping with customer retention. For instance, in the United Kingdom (UK), nearly 25 per cent of financial applications are abandoned due to troubles in the registration process. Other barriers to completing transactions include forgotten login information and required account creation.



### Clients and Consumers

With valuable and private citizen information involved, a lot is at stake in a society that uses digital ID for interactions. Ultimately, trust in the system will determine if there is mass digital ID adoption. Canadian consumers place high trust in their FIs - and as such a secure digital ID system adopted by FIs is the key to consumers moving forward with an FI digital ID system.

### Security and Consumer protection

- Digital ID gives customers more control of their data and identity, as data that is shared will be on a need-to-know basis. In contrast to physical documents, digital ID can be standardized and used between entities, with the ability to add new information.

### Accessibility to Services

- Worldwide, digital ID also helps more people gain access to financial services. Research from the World Bank highlighted that lack of documentation, distance to financial institutions, and cost of financial services were each listed by 20 to 30 per cent of respondents as reasons for not having access to a bank account.

### Consumer Costs

- There will be a decrease in transaction costs, with fewer or no service fees, as well as an elimination of the need for physical proof and exchange of paperwork in financial transactions.

Overall, the main benefits for consumers boils down to a streamlined and efficient process - as the speed of verification and authentication for access to services will be greatly improved.



## Real-Life Applications

Looking at a real-life situation, BankID is an example of digital ID in action within the financial services sector. It is a personal e-ID developed by a number of Sweden's large banks, to be used by members of the public, government and businesses. The e-ID is comparable to a passport or a drivers' license. Through the use of BankID, an individual can easily open a bank account, and the FI will have the reassurance that the customer's identity has indeed been verified. In addition to verification, citizens can also use BankID to sign transactions and documents.

The system is widely used across Sweden, counting 8 million active users, and stands as an effective example that other countries can look to. "Nowadays, BankID is an everyday feature of Swedish life...users do not need extra log-in data for e-commerce anymore; a user needing a new credit card authenticates himself and signs the contract online; no need to send any documents or visiting a branch or physically get authenticated: it is all done with BankID," pointed out a report that explores the Nordic approach to digital identity.

NatWest, a major UK bank, now allows customers to open an account with a selfie photo. Using artificial intelligence, real-time biometric checks are then performed to confirm that the selfie matches the image in the identity documents the customer has uploaded. So far, the service had been successfully piloted with more than 60,000 customers, and fraudulent applications dropped significantly during this period.



## Reinforcing Key Values

Providing Canadians with control, consent and convenience are the core components of a digital ID system - these same values are set out in the DIACC's Digital Identity Ecosystem Principles.

Ensuring that privacy is exchanged on a need-to-know basis will improve consumer security, and enhances trust in their provider of digital transactions. DIACC holds that digital ID is critical to the growth and efficiency of the digital economy, and there is the potential to generate more than CAD \$15 billion of value to the economy.

## Where do we go from here?

“For the financial services industry, digital ID presents a wealth of opportunity. We have to provide more proof of our real attributes to open a bank account or send our income tax declaration than to make friends on Facebook. That is why identity providers with a high level of assurance, like public authorities or financial institutions, will be the leaders of the future identity market,” stated BBVA Research. As new services are implemented (i.e. open banking, cryptocurrency), digital ID will continue to evolve with these.





So now the question becomes: how can you take action to progress digital ID?

- Explore current transactions that your business conducts online - how much assurance do you have that your customer is who they say they are?
- Examine the physical and paper-based transactions and consider what could be automated if that person could be digitally verified.
- Start interacting with digital ID partners to discover how their tools and services could help you incorporate the benefits of digital ID into your organization.
- Encourage regulators to allow digital ID to be part of financial services. Currently, some regulations are fairly restrictive as they are designed for paper environments by referring to documents, and do not permit the use of some types of digital ID. By adjusting language to accommodate the forms of trusted Digital ID platforms, this will help to facilitate more rapid adoption of digital ID.
- Collaboration is essential. Working together across the public and private sectors is key to creating a successful approach to the implementation of digital ID systems.

Finally, join DIACC to have a seat at the table where frameworks and strategies are being developed so that they work for your organization. With members from both the public and private sector, strong collaboration is intrinsic to the work that we do.

## Contact

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