FIGI Security Clinic

Digital ID in the Financial Sector

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#financialinclusion

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Committee on Payments and Market Infrastructures
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Financial Action Task Force (FATF)

- Inter-government policy-making body:
  - **39 member countries** + 2 member organizations
  - 8 FATF-style regional bodies (FSRBs)
  - 22 Observers
- Sets the international standards for anti-money laundering and counter-terrorist financing (AML/CFT)
- Core activities:
  - Standard setting (FATF 40 + 9 Recommendations)
  - Assessing compliance
  - Identify and respond to threats: high risk jurisdictions
- Over 190 countries have endorsed the FATF Standards

Relevance to Digital ID & Authentication

12.7% - the average growth rate of digital payments

726 billion – the number of digital payment transactions by 2020*

60% of the World's GDP – Will be digitized by 2022**

This rise in digital financial transactions have necessitated the FATF to better understand how individuals are being identified and how digital ID systems can be used to conduct certain elements of CDD.

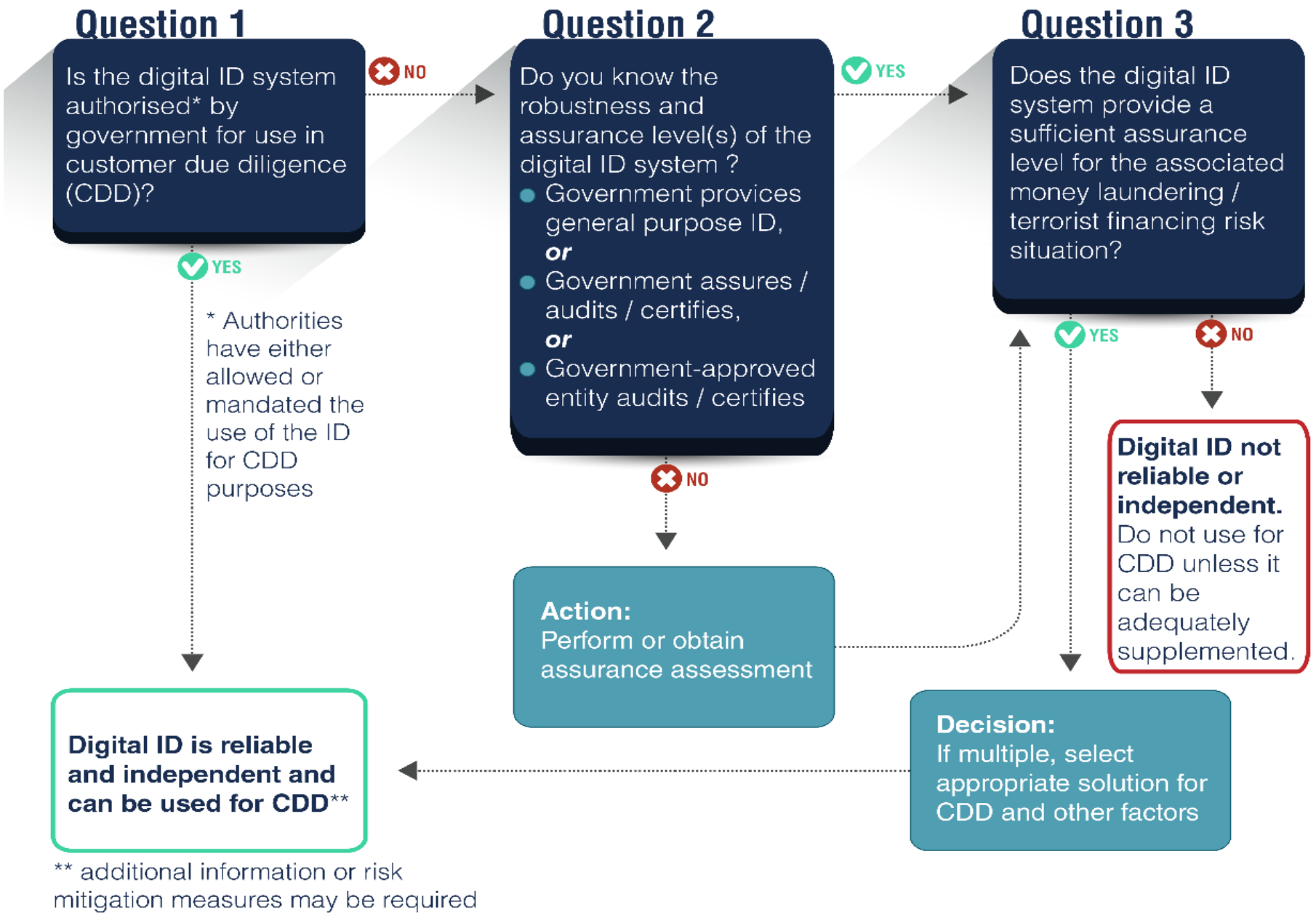
Specifically under FATF Recommendation 10.

**World Payments Report 2018*

*** IDC FutureScape: Worldwide IT Industry 2019 Predictions.*

FIGI FINANCIAL INCLUSION GLOBAL INITIATIVE

Decision process for regulated entities



Levels of Assurance

- **Assurance levels or levels of assurance:** refers to the level of trustworthiness, or confidence in the reliability of each of the three stages of the digital ID process.
- Commonly used include National Institute of Standards and Technology (NIST) digital ID assurance framework and EU's e-IDAS regulation.

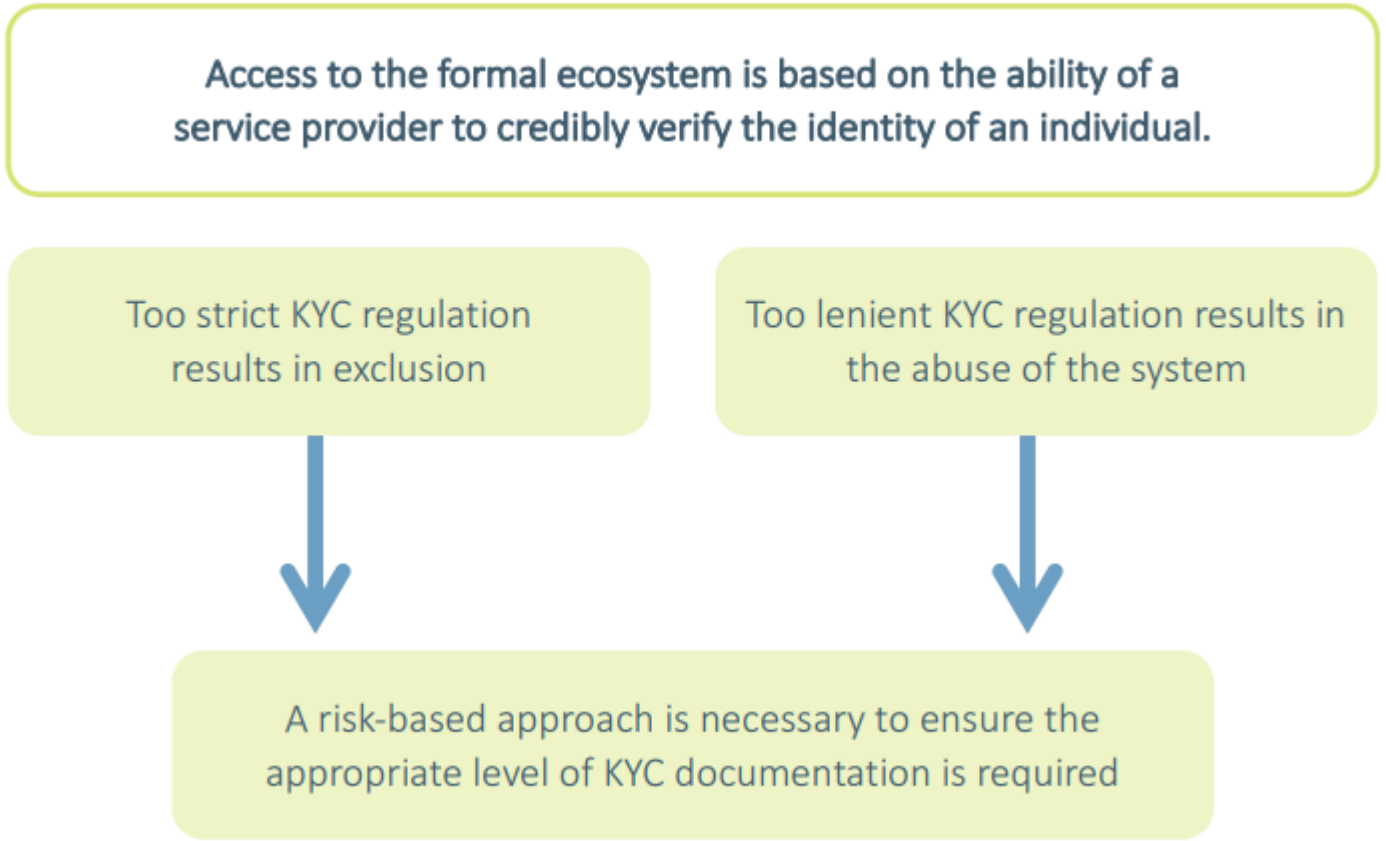
Case for a Risk-Based Approach (RBA)

RBA depends on Digital ID assurance levels and frameworks .

These levels of assurance as the they are called (LoA) outlines the requirements for different assurance levels.

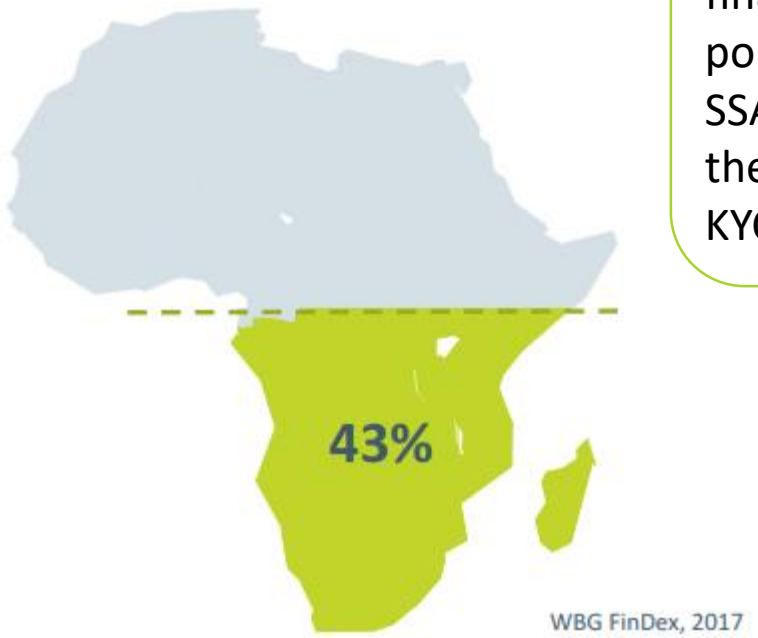
The best known of these assurance FM is the one by NIST and EU's EIDAS.

The project team is seeking comments on three specific aspects; (i) financial inclusion, (ii) authentication and (iii) record keeping.



RBA an avenue for inclusion

Formal ecosystem participation rests on identity



In 2017, 30% of the financially excluded adult population in a number of SSA countries attributed their status to a lack of KYC documentation.

Financial Action Task Force (FATF): an inter-governmental body to set standards and promote effective implementation of measures for combating threats to the integrity of the international financial system

ATF promotes a risk-based approach (RBA) to ensure a balance be struck between the protection of the integrity of the financial ecosystem and financial inclusion.

RBA allows for KYC requirements to be calibrated according to the ML/TF risk that the consumer poses to the financial institution and financial sector.

Therefore, the RBA creates a space for innovation to lower KYC barriers.

Adapted from FSD Africa

Recommendations

Authorities

- Understand the digital identity systems available
- Audit and certify ID systems against transparent digital ID assurance frameworks
- Follow a risk-based approach
- Adopt principles, performance, and/or outcomes-based criteria
- Develop an integrated multi-stakeholder approach

Regulated Entities

- Map identity proofing and authentication to required CDD elements
- Consider if ID systems with lower LoA may be appropriate for simplified CDD in cases of low ML/TF risk.
- Adopt anti-fraud and cyber-security processes
- Enable a process for authorities to obtain, the underlying identity information needed for identification and verification of individuals

ID Providers

- Understand the AML/CFT requirements for CDD
- Seek assurance testing and certification by the government or an approved expert body
- Provide transparent information to AML/CFT regulated entities