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How digital identity can foster financial inclusion

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POSTED ON 10.21.19

Digital financial services enabled by digital identities have the potential to bring financial inclusion to people who have been locked out of the financial ecosystem, support access to economic growth and education, and contribute to the reduction of inequality.

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Today nearly 1.7 billion adults worldwide, mainly in Africa, Asia and Latin America, are still excluded from the formal financial system, without any account at a bank or through a mobile money provider. This affects most the marginalized segments of society such as women, poor rural farmers, the elderly, people with disabilities and forcibly displaced people.

Not having access to basic financial services, such as credit, savings, insurance and remittances prevents them from saving for the future, facing unforeseen life events such as job loss and crop failure and creating profitable businesses that can lift them and their families out of poverty. More generally, it hinders global sustainable economic growth. According to **McKinsey**, the widespread use of digital finance could boost annual GDP of all emerging economies by $3.7 trillion by 2025, a 6 percent increase versus a business-as-usual scenario.

Although the causes of financial exclusion are many and varied, digital identity has the potential to remove some of major barriers not only to the access but also to the usage of financial accounts. By enabling people to prove their identity conveniently, it has the capacity to build trust, ensure ease of use and lower costs which is essential to the wide adoption of financial services.

Facilitating onboarding with digital identity

According to a **World Bank** survey, around 18 per cent of financially excluded adults are unable to access financial services because they lack the documents required to prove their identity. Nearly one billion people globally lack an official identity.

Indeed, all financial institutions are required to verify the identity of their customers to comply with Know Your Customer (KYC) and Anti-Money Laundering (AML) regulations. However, this should not be a barrier for individuals to access financial services.

Using digital IDs to enable electronic KYC (e-KYC) and completely digitalize the onboarding process makes it easier for people to open an account and more affordable for financial service providers to reach out to underserved customers, especially in rural and remote areas where it is not economically viable to set up a brick and mortar branch. e-KYC processes have the potential to reduce onboarding costs by up to 90 percent, according to **McKinsey**.

Improving usage beyond access

Access is pointless if people don't actually use the service. Globally, **one-fifth** of bank or mobile money accounts are inactive, without a deposit or withdrawal over the past year. As a **World Economic Forum** paper puts it: "Prosperity is not directly derived from the standalone ownership of bank accounts, but from their appropriate and consistent use."

As confidence is the foundation of financial services, digital identity is essential to establish an online model of trust that helps validate transactions and user identities reliably.

Convenience brought by smooth and intuitive authentication, using biometrics and mobile for instance, is also key, especially for people who are sometimes not accustomed to use digital services.

Digital financial services and branchless banking services can be provided by many channels such as mobile phones, retail point of sales, other broadly available access points and field agent banking. Thus, users can choose which channel is best suited for their needs. The ubiquity of mobile, in particular, represents a great opportunity in that matter, given that globally about 1.1 billion, or **about two-thirds of all unbanked** adults have a mobile phone.

The convenience of enjoying financial services at their doorstep is massive for people who sometimes have to travel long hours and lose a day of wages to reach a bank branch.

Finally, by achieving a critical mass of users and lowering operating costs with digital processes, the financial services provider is able to offer services at affordable costs.

A success story of financial inclusion: Jharkhand State Cooperative Bank in India

Jharkhand State Cooperative Bank faced difficulties in reaching their customers, mainly farmers living in rural areas, like 70 % of the Indian population. Opening a brick and mortar branch in each village was neither feasible nor profitable for the bank.

To extend banking and financial services to the under- and un- banked, JSCB has teamed up with IDEMIA to completely digitalize banking and payment services provided by JSCB's bank agents right on the customer's doorstep.

IDEMIA is providing an end-to-end financial inclusion solution including a software gateway and fingerprint sensors embedded into micro-ATMs. It ensures biometric capture and identity verification and allows customers to access services such as cash withdrawal, cash deposit, balance enquiry, **Aadhaar to Aadhaar fund transfer**, mini statement, account opening and more.

So far 4,300 bank agents have been equipped with biometric-enabled micro ATMS, serving more than 120 million JSCB customers across 42,000 villages.

Key points of success:

Adapting to the context

Financial inclusion solutions have to be adapted to the local context, considering all the opportunities and constraints linked to the local environment: the regulations, the identity framework in place, the culture of the people, the appropriate financial and non-financial products needed, the distribution channel that is best suited and more.

Thanks to its global footprint, IDEMIA is able to design country-level financial inclusion solutions.

For instance, in France, a country culturally and socio-economically far apart from India, Société Générale has been offering an innovative remote onboarding journey to its prospects, relying on the use of biometrics and other identity-related services provided by IDEMIA. One of the major objectives of the service is to allow individuals to open an online account from the comfort of their home. A significant increase in new accounts opened online is forecasted by 2020.

Ensuring an enabling regulatory framework

The expansion of digital financial services requires an enabling legal and regulatory framework. It has to be predictable, encourage innovation and open up a greater role for new, non-bank players, which are submitted to less stringent rules than traditional banks. Allowing third-party agents, such as retail shops or itinerant agents to provide financial services, could expand the reach of services for the underserved. It has to adopt a risk-based approach and tailor the customer due diligence requirements to the sensitivity of products to not impose excessive burden on the applicant. Also, it has to set the rules protecting the consumer to ensure safety and confidence.

Ensuring security, control and privacy

A well-designed digital ID system has the capability to ensure better security and privacy than manual paper-based processes. It protects personal data from theft, unauthorized sharing and usage and only discloses the credentials that are required for each specific service. It also empowers the users to have control over their data, deciding what data they share, for which purpose, with whom and for how long.

Digital financial services enabled by digital identities have the potential to bring financial inclusion to people who have been locked out of the financial ecosystem, support access to economic growth and education, and contribute to the reduction of inequality.

This technology can be life changing for people and enable them to access and use essential financial services, right at their doorstep, even in the most remote geographical areas.