European FinTech Association Position Paper
Enabling interoperable digital identification in the EU

The EFA fully supports the European Commission's aim to enable interoperable digital identification across the EU, which will allow consumers to access digital financial services quickly and easily by 2024. Digital identification methods benefit the consumer, the service provider, but also the regulator. Eliminating this cross-border barrier will enable European FinTechs to scale-up more quickly and efficiently. In order to deliver this, the EU must consider together Anti-Money Laundering and Counter Terrorist Financing (AML/CTF) rules, the Regulation on electronic identification and trust services for electronic transactions (eIDAS) and the General Data Protection Regulation (GDPR). EFA believes there are a number of key actions the EU can take to better support interoperable digital identification in Europe. We also believe there are some key characteristics which should support a digital identification framework in the future. Below we have outlined this in more detail.

Action points to support digital identification in Europe

1. Ensure AML/CTF rules treat digital identification methods fairly

Harmonized AML/CTF rules across the EU are the basis on which digital identification can be enabled. Our AML paper outlines our in-depth recommendations, but in order for digital IDs to work cross-border:

- Digital identification methods must be considered equally safe in AML rules. Preference to face-to-face identification leads to discrimination of digital providers. Digital identification methods are fully auditable and objective, whereas a face-to-face identification is always only as safe as the person performing the identification.
- Ensure high-quality digital identification: utilization of digital ID and compilation of internal and external data points.

2. Establish standardisation for digital ID methods within the eIDAS Regulation.

One of eIDAS' goals was to allow individuals and businesses to use their own national electronic identification schemes (eIDs) to authenticate when accessing public online services in other EU Member States. But today, there is an absence of notified e-ID schemes across the EU. Here is a snapshot of the current landscape:

- Only 15 Member States have notified their e-ID scheme under eIDAS, and only 44% of the total EU population can access and use an electronic ID card.
- In EU countries where consumers have access to an eID, uptake is still low. For example, only around 20% of the Belgian working population uses itsme (an online/app-based e-ID service), around 11% of Germans use eID and around 9% of Dutch use eID[1]. Citizens should be further incentivised to use eIDs as their use cases expand to other services.
- In countries where eID is already available and successful, it is not being used cross-border.
- Some EU countries have developed their own domestic electronic identification with a strong reliance on the financial sector, i.e. Swedish Bank ID and Finnish Bank IDs. However, these methods are often inaccessible to FinTechs.
- Third party providers also offer methods of digital identification without the option of reusability or portability to help execute the digital customer due diligence.
- Currently, these three ways to digitally identify customers (eID, Bank ID and third-party providers) are not standardised under eIDAS, in comparison to electronic signatures (advanced and qualified).
- There are also important questions to solve around the interplay between electronic signatures and e-ID which are not yet solved. Assuming that any eID implementation must be capable of creating eIDAS Qualified Signatures, it is for instance instance unclear how a multi-purpose device (such as a smartphone) can be certified as a Qualified Signature Creation Device (QSCD).

[1] These numbers are indicative, as FinTechs have noted discrepancies in eID uptake percentages from various verification providers. We would welcome clarity on e-ID uptake across Member States at the EU level.

The current lack of standardisation has major cost implications for FinTechs scaling up across the EU. For example: 250,000 verifications a month with a Trust Service Provider at a cost of 0,026 euros per verification adds up to 78,000 euros in 12 months. A third party provider verification may have a rescreening cost of at least 1 euro per document for the same volume. In 12 months, that is 3 million euros. Any consumer facing FinTech company could save over 95% of its costs when onboarding customers in Europe if electronic identities, at different levels of assurance, would be harmonised across the EU.

Our recommendation is that **the EU should establish assurance levels characterising the degree of confidence in electronic identification (high, substantial and low) in the eIDAS review**. Each level should include a set of rules on how to meet it and should establish a common EU view on what level of assurance all Member States feel comfortable with for digital onboarding. This would help harmonise cross-border interoperability, as electronic identities and electronic identification could be easily adopted by fintechs and cross-border providers.

Key characteristics of a future digital identification framework

EFA fully supports the review of the eIDAS Regulation and other measures that could establish this framework. Below, we have outlined the key characteristics which we believe are important to consider in this regard

1. Interoperability and standardisation

Rather than creating a single European digital ID solution, the EU should first aim to achieve **interoperability and standardisation** for various digital identification methods. This would give certainty to firms operating cross-border, and allow consumers to use convenient, new solutions.

Interoperability of eIDs: Ensure Member States accept other Member States' eIDs. This will establish a true Single Market, where an EU citizen in one Member State can sign documents and access services in another.

Standardisation of different ID methods:
It is costly, slow and burdensome for a cross-border company to integrate with each separate Member State's eID system. These solutions should be harmonised as much as possible at the EU level and keeping future global interoperability in mind.

> ***Case study (Estonia and Lithuania):*** *Estonia and Lithuania are both countries with a notified eID scheme, a high level of assurance and a high level of adoption. Under eIDAS, an Estonian should be able to establish a company online, open a bank account and sign documents with their Estonian eID in Lithuania. In practice, this is not possible. The Lithuanian business register only accepts Lithuanian issued eIDs - for establishing companies, for opening a business bank account and signing documents. An Estonian needs to physically travel to Lithuania to complete the process. This demonstrates that even in a proven ecosystem of eIDs, interoperability and standardisation are still far from functioning.*

2. Portability with user consent

EFA fully agrees with the Commission's ambition to enable customer data to be reused subject to informed customer consent, based on full transparency about the consequences and implications of such reuse.

3. Technology-neutral

Any new framework created should as much as possible remain technology neutral. Innovation in digital ID is progressing rapidly, and the EU should aim to foster more competition in this area, not less.

4. Fair access to infrastructure

As uptake of digital financial services increases, fair access to identification solutions for all market players becomes more important. Several private sector or public-private eID initiatives have become the preferred ID in their Member State (e.g. Belgian itsme, Swedish BankID). But today FinTechs have limited access to these solutions. Some pan-European payment initiatives also plan to offer a digital ID solution as part of the offering, which would likely be inaccessible to non-members - a barrier for smaller players. The EU must establish a level playing field for all market players in the context of digital identification as digital finance becomes the norm.

> ***Case study (Swedish BankID):*** *In Sweden, many consumers prefer to use their bank ID for digital identification, with 98% of working age citizens using the Swedish BankID. However, Swedish banks do not open access to BankID without a Swedish incorporation number or a bank account with them. This is problematic for two reasons: (1) it goes against the principles of the Single Market by requiring local presence, and (2) it effectively excludes FinTechs since currently, due to blanket de-risking policies, it is very difficult for Payment Service Providers (PSPs) to access bank accounts. This raises serious questions about open access to infrastructure and competition, and the workings of the EU Single Market.*