صندوق النقد العربي
ARAB MONETARY FUND

DIGITAL IDENTITY AND E-KYC GUIDELINES IN THE ARAB REGION
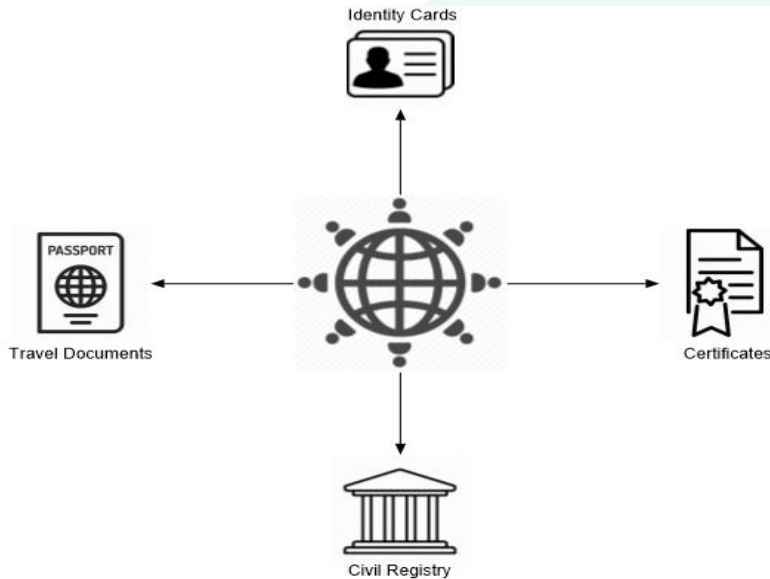
Arab Regional FinTech Working Group

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Abu Dhabi

Digital Identity? – Functional or Foundational?

▶ Defined by the Institute of International Finance (IIF)- *"compilation of electronically captured and stored __attributes__ of a uniquely identifiable persona that can be linked to a physical person"*.

▶ The World Bank categories: foundational and functional.

FOUNDATIONAL ID SYSTEM	FUNCTIONAL ID SYSTEM
Created for general public administration and identification. These are built in a top-down manner with an objective of bolstering national development by creating a general-purpose identification of persons.	Created in response to a demand for a service or transaction. Though it is created for a particular purpose, it may commonly be accepted for broader identification purposes but may not always bestow legal identity.
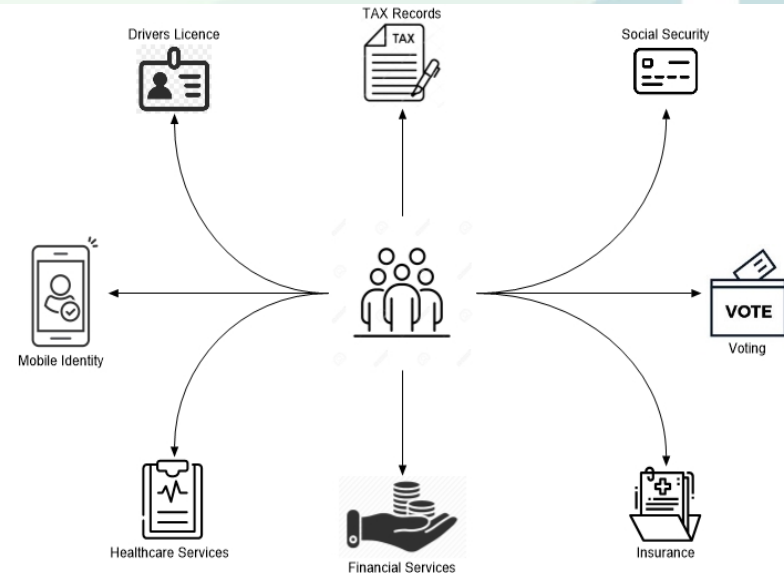
Legal

- An identity is considered legal if it is recognized as providing proof of legal identity in accordance with national legislation.
- UN's operational definition of 'Legal Identity' defines it as *"the basic characteristics of an individual's identity. e.g. name, sex, place and date of birth conferred through registration and the issuance of a certificate by an authorized civil registration authority following the occurrence of birth"*.
- In the absence of birth registration, legal identity may be conferred by a legally-recognized identification authority.

Digital

- An identity is digital if an individual's attributes can be captured and stored electronically and issued on digital credentials that can identify a person.
- However, it is pertinent to note that Digital ID systems use digital technology throughout the identity lifecycle, including for data capture, validation, storage, and transfer; credential management; and identity verification and authentication.

Unique

- An identity is considered unique if everyone only has one identity and no two people share the same identity.
- A lack of a unique identity essentially prevents the customer activity being reliable and thus impacts their access to the full range of financial services.
- To be a reliable system, it is pertinent that the identity system have identity proofing procedure and systems to prevent duplication.

- **UN Sustainable Development Goals -** Provide legal identity for all, including birth registration by 2030.

- **World Bank's ID4D program -** A key to the pursuit of development goals across a wide range of sectors such as healthcare, education and financial services.

- **FATF recommendation -** It elaborates on 4 pillars requiring:
  1. Identification and verification of customers;
  2. Identification and verification of beneficial owners;
  3. Understanding the nature and purpose of transactions; and
  4. Monitoring the clients and their transactions on an ongoing basis.

- **FATF Draft Guidance on digital identity -** Guidance notes to assist governments, regulated entities and other relevant stakeholders in applying a risk-based approach to the use of digital ID identity for CDD.

- **Basel Committee -** All banks are required to *"have adequate policies and process, including strict consumer due diligence rules to promote high ethical and professional standards in the banking sector and prevent the bank from being used, intentionally or unintentionally, for criminal activities."*

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- **World's single largest biometric-based digital identification system – Aadhaar.**

- **The program assigns each registrant a unique 12-digit identity number that is linked to minimal personal information and biometric information which can be used for authentication.**

- Some of the lessons learnt from the Aadhaar experience are:

1. *Identity First* – Aadhaar has been de-linked from a person's nationality and is available to all "residents".
2. *Minimalistic Data Collection* - Aadhaar uses a minimalistic data-collection approach for a person to be verified to create a foundational ID.
3. *Focus on Inclusion.*
4. *Make Privacy and User consent a priority* – This must be considered considering the key concern associated with data breaches.

- Connections of services to Aadhaar is completely changing sectors across India with over USD 12 Billion in financial transactions having taken place.

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Experience from the Arab Countries

As a part of the survey, a detailed questionnaire relating to the current status of Digital ID system as well as eKYC systems was prepared and circulated to the 18 member countries.

- Most countries (89% of the respondents) have a Government Issued Identity Systems. The two countries that do not have an ID system have both expressed their keen intention to implement such a system.

- ID system followed is mostly functional IDs.

- National ID systems are mostly for "Citizens" - 63% of countries with National ID System have ID system catering to Citizens only and not for all residents.

- Digital ID system is in its nascent stages.

- Most countries are still following physical KYC structure with face-to-face interactions (or equivalent) and physical documents being the basis for client on-boarding and verification models.

- *Bahrain's BENEFIT* is implementing a KYC Utility utilsiing blockchain. *UAE* has initiated the UAE PASS – nation's first national digital identity.

- Though many countries have no eKYC system, it is promising to note that some of them have confirmed that the government agencies have already recognized the need for such systems and specified that they are evaluating various studies to evaluate the mechanism to be utilized for implementation of such systems.

NAME OF THE RESPONDENT COUNTRIES
LEBANON
EGYPT
YEMEN
JORDAN
KUWAIT
LIBYA
MAURITANIA
SUDAN
BAHRAIN
OMAN
PALESTINE
UNITED ARAB EMIRATES
IRAQ
MOROCCO
SAUDI ARABIA
TUNISIA
QATAR
ALGERIA

Electronic KYC in the Arab Region

Bahrain	UAE
• BENEFIT - in the process of implementing a national Know Your Customer (KYC) utility incorporating blockchain technology • Financial institutions that subscribe to BENEFIT can instantly complete KYC and AML/CFT compliance procedures when onboarding new individual and corporate customers through the eKYC hub and rules engine • Bahrain Information and eGovernment Authority acts as the custodian of the collected information which is shared only with the permission of the owner thereof • The eKYC platform is linked to the Information and e-Government database to authenticate customers through national eKey (digital identity) or biometric fingerprint and retrieve KYC data. • Phase 2 to include API's for seamless digital on-boarding and integration with the financial institutions core systems and digital channels & Phase 3 to allow corporates clients to be on-boarded utilizing the same platform by integrating with Ministry of Industry, Commerce, and Tourism and other data providers.	• UAE Pass – Aims to serve as a single digital identity for local and federal entities • Available to citizens and residents with a valid Emirates ID card. • September 2019, the Central Bank of UAE declared its decision to adopt 'UAE PASS' initiative allowing financial institutions to use the app to check customers' identities for account opening or transactions monitoring. • Many banks have developed or are developing their own non-face-to-face on-boarding services to allow customers to open a simple bank account using biometrics. • UAE PASS is still in its initial stages and use of the UAE PASS is optional. • Government is planning to introduce a digital vault that stores all digitized and digitally signed documents by the issuer – foundation for a future eKYC platform.

- November 2019, FATF published on Draft Guidance on Digital Identity

- FATF Recommendation - using a "*reliable, independent source documents, data or information*" to identify customers and verify the customer identity

- Mandatory Components of Digital ID

Component One: Identity proofing and enrolment (with initial binding/credentialing)	Process involves collecting, validating and verifying the identity information of an individual, enrolling the individual with an identity account and connecting (or binding) the individual's unique identity to authenticators possessed and controlled by this person	Must be Digital
Component Two: Authentication	Establishes that the claimant is the same person who has been identity proofed, enrolled, and credentialed (e.g., is the on-boarded customer). Authentication itself could be undertaken utilizing attributes which the person either 'has', 'knows' or 'is'.	Must be Digital
Component Three: Portable Identity	Means that an individual's Digital ID credentials can be used to prove official identity for new customer relationships, without their having to obtain and verify personally identifiable information and conduct CIV each time	Optional

- Reiterates the 'Risk-Based' Approach – approach is based on a set of open source, consensus-driven assurance frameworks and technical standards for digital ID systems – '*Digital ID assurance frameworks and standards*'

- Identity assurance framework sets requirements for different '*levels of assurance*' – a measure of the level of confidence in the reliability of a digital ID system and its components

  – Understand the assurance levels of the Digital ID system's technology main components (including its architecture and governance) to determine its reliability/independence; and

  – Making a broader, risk-based determination of whether, given its assurance levels, the particular digital ID system provides an appropriate level of reliability and independence in light of the potential ML, TF, fraud, and other illicit financing risks at stake

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- **Establish of a unique, legal, interoperable, Digital ID with an 'identity first' focus that collects minimal information for creation of an identity.**
    - Available to Both Citizens & Residents
    - Level of Assurance & Interoperable
    - Countries to consider utilizing the services of private sector
    - Collection of 'Minimal' Information

- **Support the Digital ID Framework by adoption of policies, rules and regulations addressing the risks or concerns associated with the use of Digital ID.**
    - Regulations & Policies catering to Data Protection, Cyber security,
    - Laws for the use of the Digital ID itself
    - Laws governing use of Digital Signatures

- **Establish a 'risk-based' CDD regime which balances the AML/CFT objective and financial inclusion objectives.**
    - Tiered Customer Due Diligence Model – Basic Due Diligence, Simplified Due Diligence or Enhanced Due Diligence
    - High Degree of Digital ID Coverage should focus on building up the capability of their ID systems & utilizing KYC Utilities

- **Prioritize integrity of User data and Facilitate processes and procedures for minimalistic sharing of the information of KYC.**
    - 'Consent-based' information Sharing
    - Individual must be able to update the information themselves
    - For CDD, Financial Institutions are granted access to the extent necessary only

Range of Actions – Arab Countries

- **Create benchmarks and standards for use of any 'non-government' backed identity systems**

  - Technical Robustness & Levels of Assurance of the non-government ID

- **Ensure complete, accurate and better integrated databases that can be utilized for KYC purposes**

  - Harmonize & Integrate Databases and legacy systems

- **Implement a Strong Governance Model to Manage the Digital ID and KYC regime**

  - Regulatory Oversight & Complaints Redressal

- **Provide regulatory clarity, remove barriers and foster enabling regulatory environment for KYC innovation.**

  - Sandboxes in RegTech & Fintech sector
  - Accelerator, Incubator Programmes

- **Collaborate with regional and international bodies and regulators**

  - Exchange of Lessons Learnt , Best Practices

- **Formulate transnational frameworks for interoperability and levels of assurance being implemented across Arab countries.**

  - Standards formulated at a regional level for Assurance Levels and Technical Standards

Thank You

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