



# ADVANCING DIGITAL IDENTITY

Building Essential Infrastructure





## INTRODUCTION

AIR is conducting a two-year exploration of the potential that robust digital identity systems can advance critical goals in financial services, particularly in expanding financial inclusion, protecting privacy, and combating money laundering and other financial crimes. In March, 2024, we partnered with the [Aspen Institute](#) to convene two roundtables with a cross-section of digital identity experts. This briefly summarizes the dialogue and next steps, and extends an invitation to engage with this work.

## ENABLING DIGITAL ID AS A SOCIETAL IMPERATIVE

The ability to identify oneself to service providers such as governments, employers, health care providers, and financial institutions is critical to the well-being of individuals, families and communities, as well as a country's economic output. The United Nations' Sustainable Development Goals (SDGs) have stressed that identification is critical for accessing finance, achieving gender equality and empowerment, receiving basic health and education services, maintaining child protection, allowing for migration and labor market opportunities, improving access and quality of social protection, and governing broadly ([United Nations](#)). It is also critical to addressing the needs of refugees throughout the world. In fact, identity is a fundamental aspect of human existence and a cornerstone of human rights.



While identity issues affect nearly every realm of life, they are especially critical in financial services.

Perhaps most fundamentally, identity-related laws are a major global source of financial exclusion, because international standards require that people be able to prove who they are in order to open a bank account. Many low income people lack individual government-issued identity documents, including disproportionate numbers of women. Lack of identity papers also impedes migrants and refugees in their efforts to establish new lives.

In addition, financial services authorities increasingly worry that reliance on paper-based identity systems is engendering risks to data privacy and enabling risk of financial crime. Until recently, analog identity documents have worked well for many people, especially in developed economies where most people have them. Today, however, traditional identity systems are at risk from cyber threats. Basic data like name, address, date of birth, and



identification numbers from documents like passports and driver's licenses are widely compromised, with much of it easily purchased on the dark web. Meanwhile, technology change is driving the growth of increasingly sophisticated, highly lucrative forms of fraud and money laundering.

Rising use of artificial intelligence by cyber thieves and money launderers is expected to rapidly exacerbate these dangers.

As we transition to a digital world, therefore, it is increasingly essential that people be able to prove their identities in digital forms that are both widely accepted and secure. Digital identities have the potential to deliver substantial benefits. They can:

- **Improve financial inclusion**
  - Allow for remote access to formal financial institutions.
  - Increase ease of receiving and sending remittances.
  - Increase access to loans.
- **Enhance privacy and security**
  - Better protect personal data from theft and misuse.
  - Minimize identity theft risk.
  - Enable consumers to give service providers only the minimum information that is needed for a given purpose.
- **Combat fraud and money laundering**
  - Allow for remote and cross-border financial transactions while complying with anti-money laundering (AML) and know-your-customer (KYC) requirements
- **Unlock monetary value that could drive economic growth**
  - Potentially between 3-13 percent of GDP according to the [McKinsey Global Institute, 2019](#).



The transition to digital ID is already underway. One estimate suggests that 3.2 billion people have used some form of digital ID ([Raconteur](#)). The confluence of several factors is accelerating the willingness to establish and expand digital IDs:

- The global pandemic highlighted the need for digitized credentials. For example, some countries implemented digitized mobile phone-based vaccine verification systems that were effective in controlling the spread of COVID.
- The widespread adoption of mobile phones provides an ideal platform for a digital wallet on which a digital ID and other verified credentials can reside.
- National digital IDs have been associated with more efficient and transparent disbursement of government services, e.g. the widely adopted Aadhaar card in India.
- Numerous non-national public digital ID initiatives are emerging – e.g. certain U.S. states issue digital driver's licenses, and private sector solutions have developed, such as CLEAR enabling passengers to move faster through airport security lines.

There is tremendous momentum in the development of digital identity technology, but there is still an abundance of work to be done. Notably, the primary challenges are less about technology than about human systems — legal frameworks, economic arrangements, social attitudes, and the like. Focus is needed on security, privacy, standards, interoperability, regulation, usability and public confidence, before widespread adoption will occur.







## OPPORTUNITIES AND CHALLENGES FOR DIGITAL ID EXPANSION

On March 12-13, 2024, we partnered with the [Aspen Institute's Financial Security Program](#) to convene two roundtables (virtual and in-person) to discuss the benefits and challenges of the widespread adoption of digital IDs, with a specific focus on issues in financial services, and especially financial inclusion.

Roundtable participants included domestic and international representatives from the public sector, financial institutions, technology vendors, trade associations, consumer advocates and others.

We set out three goals for the roundtables:

1. **Gather input** from diverse stakeholders on digital ID in financial services.
2. Identify key **challenges, barriers, and opportunities** for use of digital ID in financial services.
3. Learn what dimensions of digital ID would be best suited for **further investigation**.





The dialogue produced several key takeaways.

- First, even though there are many initiatives domestically and internationally, there is a **lack of leadership and mechanisms for connection** across use cases, geographies, and among public and private sector providers. This conclusion is echoed by the Organization for Economic Cooperation and Development (OECD), which encourages the development of a digital infrastructure by promoting “cross-sector coordination, international cooperation, and a healthy market for identity solutions” ([OECD, 2023](#)). The OECD goes on to elaborate that digital identity should also be “portable across locations, technologies and sectors,” suggesting that interoperability and common standards are desirable across multiple dimensions ([OECD, 2023](#)).
- Second, **consumers and service providers must have sufficient trust** in the digital ID system to enable widespread adoption, especially regarding privacy, security, and reliability. More broadly, our research suggests that individuals and businesses are concerned that private and public sector entities may monitor individuals’ actions without appropriate cause. Security should be sufficiently high to limit fraud to low levels, and specifically not to generate more fraud than occurs with analog ID. Without such confidence by all market participants, digital ID systems will not be widely adopted.
- Third, there must be a **strong value proposition for all market participants**. This will require:
  - Compelling use cases: Advocates must answer the question of what will motivate change regarding use cases for all sides of identity scenarios — issuers of identity credentials, individuals, and public and private entities that rely on identity systems.
  - Easy and seamless user experience. McKinsey reports that adoption rates for digital IDs, whether issued by governments or private companies, have ranged from single digits to above 90 percent in some cases ([McKinsey Global Institute, 2019](#)). The wide variance is directly related to the benefit conferred, ease of use, trust in the providers of digital IDs, and incentives provided.
- Fourth, a digital ID system should be **universally accessible to all participants** including those that may not have access to smartphones and the Internet. Currently, there is a digital divide in terms of access to smartphones and the Internet, especially for certain demographic groups globally, such people who are low income, rural, and elderly.



## WHERE DO WE GO FROM HERE?

Imagine a world where we have replaced the physical wallet with a digital one. Similar to the physical wallet, the digital version would house our identities and various verified credentials such as age, name, address, health history, education, employment history, and voter registration. These credentials would be protected from theft and tampering through highly effective means. They might be issued by different trusted parties, often with an expiry date and the ability of issuers to revoke credentials when appropriate. They would allow individuals to participate in financial markets, travel across borders, secure employment and housing, and obtain other services.

We pose these provocative questions for further exploration:

- How would we enable the use of a **digital wallet for all** of the world's residents?
- How could we ensure that the digital ID is **widely accepted** and that the credentials presented are trusted by service providers?
- How could we **maintain the privacy and security** of individuals' information from intrusion, whether by issuers, users, criminals, national adversaries, or thieves?
- Can we adopt **privacy tools** that enable people to share only the information actually needed by a given service provider?
- Can **distributed ledger technology and tokenization** help create reliable digital identity infrastructure?
- What are the keys to developing **interoperability** of identity systems within and between countries?
- What are the most promising **use cases** relating to financial services?
- How will **advancing use of AI** impact both risks and solutions?
- What entities can bring the needed **leadership** to this work?
- What are the potential **governance structures** for managing digital identity systems within and between countries?



To explore these and other questions, AIR is assembling a community reflecting diverse perspectives to address the issues at the cross section of policy, technology, and improving the well-being of disadvantaged communities. We have already begun connecting thought leaders and decision makers from the public sector, ID issuers, service providers, domain experts, behavior experts, and solution providers. In the coming months, we will take these steps:

## Workshops

AIR will host several interactive workshops using design thinking tools to assess the benefits and challenges of creating a universally accepted digital ID. These workshops will expand upon the learning from the March roundtable discussions and will focus on:

- What does a successful digital ID look like?
- How can we engender the trust of individuals and service providers?
- What conditions and/or incentives are required to achieve widespread adoption and usage?

## TechSprint

Our workshops will culminate in a design [TechSprint](#) with the goal of charting a course of action to enable the broad adoption of digital IDs. In our experience, the most creative and impactful ideas emerge by fostering collaboration amongst diverse stakeholders







## INVITATION TO ENGAGE



If you would like to be a part of this motivated and passionate community by participating in the upcoming workshops and design sprint, you can contact Tricia Pagano at [tricia@regulationinnovation.org](mailto:tricia@regulationinnovation.org). This important work will enable the digital identification infrastructure which is not merely a technological imperative but a societal and economic necessity, underpinning inclusive growth, efficient governance, and enhanced global connectivity. Please join us!

Learn more about AIR's Digital Identity Program at [bit.ly/AIR\\_DiD](https://bit.ly/AIR_DiD).



### About AIR

AIR is a nonprofit, non-membership organization working to make the financial system fully inclusive, fair and resilient through responsible use of new technology. By connecting regulation, finance, technology and society, AIR drives global innovation and collaboration to overcome the system's legacy shortcomings and prepare it for rapid technology change.

Learn more at [regulationinnovation.org](https://regulationinnovation.org).

Stay up to date by [opting in](#) to AIR's email communications.

Follow AIR on social media:

