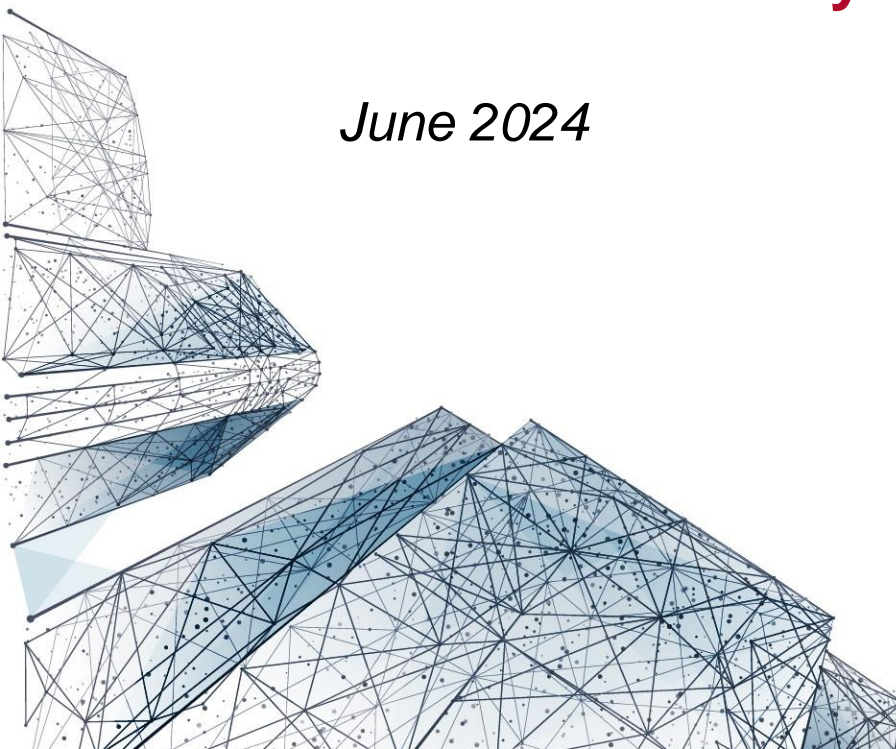*FSDC Industry Exchange Series*

Embracing digital ID: accelerating digital transformation in Hong Kong's financial services industry

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Digital ID in an expanding digital economy and the financial services industry

Economic benefits of digital ID adoption

- The global digital ID market is experiencing rapid growth, anticipated to double from US$16 billion in 2020 to US$33 billion by 2025, with a CAGR of 16%.

- Other potential economic benefits of digital ID are extensive, which include:

  o Adopting digital ID can reclaim 110 billion hours of work for public services and slash business onboarding costs by up to 90%

  o Contribute to significant savings in payroll fraud – potentially up to **$1.6 trillion annually**

The role and characteristics of digital ID in the financial services industry

Strengthening customer due diligence: enhancing the effectiveness of customer identification, verification, and authentication for account access

Minimising human control error: digital ID verification processes are equipped to identify falsified documents with higher accuracy, with less human officer involvement

Cost efficiency and transaction monitoring: streamlining digital verification saves costs and enables real-time identity checks for reporting suspicious activities

Enhancing customer experience: streamline the customer onboarding experience by eliminating the need for in-person branch visits and the associated wait times

Promoting financial inclusion: extending financial services to those without traditional identification, often in remote or underserved regions of developing countries

Core principles and technologies underpinning digital ID

Key principles of designing a digital ID system

| Inclusion | Trust | Utility |

Technologies for secure, user-centric digital IDs

Cryptography	Biometric authentication	Distributed ledger technology	Artificial intelligence and machine learning
Mobile ID wallets	Advanced encryption standards	Zero-knowledge proofs	Federated ID management

Different approaches to digital ID

(i) Government driven centralised approach

A comprehensive system where the government fully oversees and controls ID verification, management, and authentication processes

(ii) Semi-centralised, federated type

An interconnected system where users create digital IDs via accredited providers, with central oversight for interoperability

(iii) Decentralised, open ID market

A marketplace model where various entities manage ID verification, allowing users to maintain distinct identities, adaptable to DLT for better security and privacy

(iv) Self-asserted digital ID

A user-centric model where individuals assert their IDs, common in social networks and e-commerce prioritising ease of access

Hybrid approach – this model merges centralised and decentralised systems, enhancing security and user autonomy. It combines robust security protocols with user-controlled encryption, backed by government and private sector collaboration, as seen in Australia, Canada, and Finland, to create efficient and secure digital identities

Advancing Digital ID: Hong Kong's Role and Readiness

Hong Kong has been actively advancing the development of digital ID across various sectors. Moving forward, it is essential to focus on strategies that further enhance and drive progress in these areas

Hong Kong's Landscape

- **iAM Smart**: Launched in 2020, iAM Smart provides a comprehensive digital ID platform for Hong Kong residents, enhancing access to over 340 online services from government, public, and private organisations. It prioritises security and privacy in accordance with ISO standards. As of May 2024, the platform has over 2.7 million registered users, with a goal to increase annual transactions from five million in 2021 to 17.5 million by 2025.

- Regulatory endorsement and financial integration: Supported by HKMA, SFC, IA, and MPFA, iAM Smart enhances fintech integration through robust ID verification and digital signing capabilities, facilitating remote onboarding and account authentication.

- **Commercial Data Interchange** (CDI): Spearheaded by HKMA, CDI fosters secure data exchanges between corporations and financial institutions, crucial for advancing credit scoring and KYC processes as part of the "Fintech 2025" strategy.

- Enterprise digital ID framework: Scheduled to roll out in 2026, this initiative will integrate 1.8 million local enterprises into iAM Smart, streamlining operations with digital signatures and electronic payments.

- **Interbank Account Data Sharing (IADS)**: Starting January 2024, this pilot project will allow secure sharing of banking data across institutions, aiming to enhance operations, risk management, and customer experiences.

Proposed policy recommendations

Recommendation 1: Explore full-fledged implementation of the iAM Smart initiative and enable development of private digital ID wallets

- **Full-fledged implementation of iAM Smart**
  - A centralised digital ID platform that issues credentials and verifies identities using government data to streamline service access, including authentication, form-filling, and digital signing. Despite synchronised data across departments, broader integration and regulatory adjustments, such as enabling tax information sharing, are necessary for wider adoption.
- **Enhancing digital ID ecosystem with private sector developments**
  - Building on iAM Smart, private digital ID wallets can coexist, enhancing the ecosystem and promoting user choice and innovation. Supported by a well-developed trust framework and linked to secure government "golden sources", private wallets may extend services beyond local jurisdictions.

Recommendation 2: Establish a trust framework for the digital ID ecosystem

- A comprehensive trust framework guiding a secure and cohesive digital ID ecosystem. It serves as **a primary and an all-encompassing reference for best practices**, ensuring robust identity verification and secure transactions. Drawing from international frameworks, it guides private and public sectors in safeguarding digital interactions.

- Building on the guidelines and best practices already set forth by the relevant government department, this trust framework further consolidates the information and establishes uniform standards and regulations across digital IDs. This approach strengthens trust and streamlines compliance for all stakeholders involved.
  - Certifying organisations under this framework, not only guarantees accuracy and reliability but also fosters innovation and interoperability within a secure, regulated environment.

Proposed policy recommendations

Recommendation 3: Enable interoperability through enhanced infrastructure and legal frameworks

- Develop **robust infrastructure/ systems** (i.e based on iAM Smart or a shared blockchain platform introduced by the government) and comprehensive legal frameworks to ensure digital ID interoperability, enabling seamless cross-sector and international exchanges.
- Expand the digital ID regulatory sandbox in financial services to enhance compliance, protect privacy, and foster controlled innovation.

Recommendation 4: Harmonise digital ID standards for seamless cross-boundary interactions

- Enable seamless cross-border interactions within the GBA and globally, building upon the recent initiative "Standard Contract for GBA Data Transfers", to ensure **standardised and secure sharing of personal data** across borders
- Enhance Hong Kong's cybersecurity framework to support digital IDs exchange across jurisdictions, **prioritising privacy and secure data** handling through public consultations and tech sector partnerships.

Recommendation 5: Promote trusted digital ID adoption and enhance educational engagement

- Incentivising the adoption of iAM Smart through clear communication of **benefits and privacy safeguards**, particularly in privacy-sensitive sectors like financial services
- Leverage **public-private partnerships** to create user-friendly and economically viable digital ID solutions, and public awareness campaigns and educational initiatives to enhance understanding and trust in digital IDs
- A financial services-focused **Digital ID Task Force** under the newly planned Digital Policy Office

Thank you