The ambition of the European Commission’s Digital Single Market (DSM) strategy is to enable European citizens to make safe and secure transactions over the internet, preserving trust; and to ensure better access for business and consumers to digital goods and services across Europe, boosting, at the same time, economic growth.

The European regulatory framework should enable cross-border transactions and contractual agreements across EU borders through digital channels. Electronic identification (eID) and electronic signatures (eSignatures) are critical to this. The Electronic identification and trust services regulation, eIDAS, strives for mutual cross-border recognition of national electronic identity schemes for online services offered by public bodies.

**Why is this topic important for banks and insurance companies?**

In undertaking identification and verification and wider Know Your Customer (KYC) checks, banks and insurance companies incur costs. A digital on-boarding process that re-uses home state national digital ID schemes as well as other Member States’ digital ID schemes developed under the eIDAS Regulation1 may reduce costs, fraud and the time required to undertake KYC checks.

Equally new entrants may be able to come to market with reduced costs of developing on-boarding processes and could choose to offer services exclusively through digital channels. However, KYC and anti-money laundering (AML) rules should be applied consistently for all players in digital financial services. This allows for a level playing field between various market players and optimal protection for consumers.

For the customer the main benefit is having a digital identity, which is readily verified and can be used by them across borders and multiple parties, and which results in a more seamless, faster, more secure and successful application journey.

However, under the current legal framework, the provision of financial services to clients is subject to strict customer protection, AML and KYC rules. These are necessary for protecting the client and the society, but due to regulations from the pre-digital era translate at the same time into a burdensome, rigid and slow access of clients to such services in the absence of an interoperable eID system.

**Key regulatory issues**

- **Private sector access and cross-border acceptance of eID** – Even if the eIDAS Regulation creates an interoperability framework for the national eID systems, it remains up to Member States to define the terms of access to the online authentication of government eIDs by the private sector. National eID systems should be made rapidly interoperable and accessible for the private sector to verify the identity of customers at distance.

---

1 EU Regulation on electronic identification and trust services for electronic transaction in the internal market
• **Uptake of eID** – To promote an efficient cross-border use of e-identities for public and private services, a European framework should also provide harmonized rules for those who wish to become e-identity providers, whereas public usage should be promoted (e.g. tax declaration).

• **National identification requirements** – Differences in national identification requirements hinder the cross-border acceptance and use of digital identities. A consistent transposition of AML rules would allow for a common digital customer on-boarding process and development of a single market in retail financial services.

• **Non-alignment of AML and eIDAS rules (and other potentially relevant Digital Single Market regulation)** – Some national AML laws still require physical identification at the beginning of the on-boarding process. A revised AML Directive should be explicit that digital identities issued in alignment with the eIDAS regulation meet the minimum requirements on identity verification.

• **Alternative identification methods** – To date, some EU Member States allow the use of biometrical data for customer identification. Financial institutions in these Member States can therefore initiate banking relationships (including cross-border), whereas other financial institutions are prevented from doing so in their own jurisdictions because face-to-face identification is still required. To ensure a level playing field, alternative identification methods (e.g. biometric analysis, videocall or third party verification services) should be seen as equivalent to face-to-face due diligence checks undertaken by financial institutions.

• **Electronic KYC checks** – Information derived from eIDAS digital IDs will only provide a partial solution to overall KYC and risk-based on-boarding requirements. A wider digital passport type could be developed to combine eIDs with additional data points (e.g. place of birth, gender, current address) to further meet KYC obligations through information of funds and purpose of account would still be collected. Equally for a secure single market to develop; the market needs to allow for sharing fraud and suspicious activity data across borders.

• **PSD 2** – The use of e-identities should be taken into consideration for the purpose of secure authentication of payments as part of the European Banking Authority’s work on strong customer authentication and secure communication between a Third Party Provider and an account servicing payment service provider.

---

The European Financial Services Round Table (EFR) was formed in 2001. The Members of EFR are Chairmen and Chief Executive Officers of international banks or insurers with headquarters in Europe. EFR Members believe that a fully integrated EU financial market, a Single Market with consistent rules and requirements, combined with a strong, stable and competitive European financial services industry will lead to increased choice and better value for all users of financial services across the Member States of the European Union. An open and integrated market reflecting the diversity of banking and insurance business models will support investment and growth, expanding the overall soundness and competitiveness of the European economy.