

THE IDENTITY GATEKEEPER

A CUSTOMER IDENTITY DATA STRATEGY
FOR FINANCIAL INSTITUTIONS





THE IDENTITY GATEKEEPER: A CUSTOMER IDENTITY DATA STRATEGY FOR FINANCIAL INSTITUTIONS

Identity data can give financial institutions a competitive advantage in the digital banking era. Good data management is of the upmost importance to deliver on strategic goals, whilst also preventing the risk of a potential data breach that could damage or destroy a firms' reputation. Below, we set out some of the challenges around digital identity, and how financial institutions can adopt an identity data strategy that will accelerate their business, streamline customer onboarding processes and enhance customer trust.

WHY IS IDENTITY DATA IMPORTANT?

Identity data is a small subset of the customer data held by financial institutions that is required to uniquely identify business and retail customers. It is critical in providing efficient service delivery in financial services and to enable innovation in digital offerings, such as onboarding customers in near-real-time or providing instant credit checks. Current reliance on physical identity systems – for instance, the requirement to provide a passport or driver's licence - causes significant costs and delays to customer onboarding. It can also have implications for financial inclusion, where customers are unable to provide the required documents or gain access to physical channels.

A 2016 report by the World Economic Forum, *The Role of Financial Institutions in Building Digital Identity*, offered recommendations on the construction of identity systems and called on financial institutions to champion the development of such systems. Consequently, there has been enhanced focus on digital identity and the emergence of a new industry - which includes financial institutions as well as technology players, industry bodies and governments - around the management of identity.

PRIVACY LAWS AND TODAY'S FEDERATED SOLUTION

There are differences in how people view their identity data. Some are more willing to disclose their data to corporations in the pursuit of better services and more tailored products. Others have a greater scepticism around how corporations are using their personal data and are less willing to disclose their data.

In the EU, GDPR has been introduced to harmonize data privacy laws which has had a significant impact on how and when firms can hold identity data. GDPR was a fast, iterative response to a scenario where firms found themselves holding digitised identity data and consequently were forced to improve their data standards.

In today's digital age, we need to start looking from the first principles onwards when it comes to holding and managing identity data. As the scale of digitised identity data increases, the costs to firms associated with implementing the required data standards to manage identity data becomes a significant burden on their business models. This suggests the need for a more centralised solution to identity.

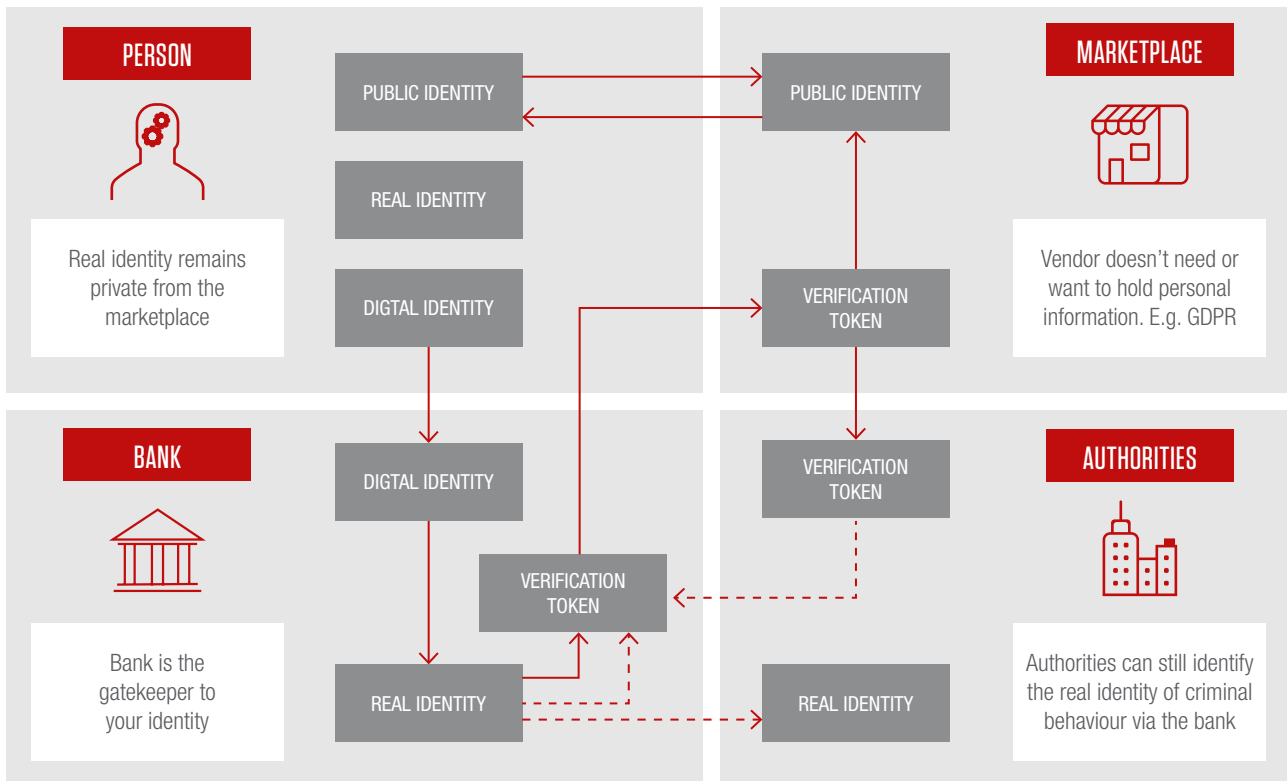
CAN FINANCIAL INSTITUTIONS BE THE GATEKEEPERS FOR IDENTITY?

One potential solution is for financial institutions to become the gatekeepers of identity for the marketplace. In this model, the financial institutions would be the only market players who know an individual's real identity, and that individual could choose which elements of that information are disclosed as the 'public' version of their identity.

Marketplace vendors would not need to absorb the costs of holding and managing personal information, if they were to rely on its authentication by the identity gatekeeper. An individual would provide authorization to their financial institution, who would then provide authentication to the marketplace vendor, which could take the form of a verification token.

For instance, this token could verify that bank A knows the identity of customer A and can confirm the customer is over 18 and has sufficient funds. In the case of criminal activity, the marketplace vendor can alert the authorities by sharing the identity gatekeeper's verification token, who can then work with the financial institution to resolve the customer's real identity. This model offers significantly greater identity data protection than the federated model, since an individual's identity is managed solely by the financial institution.

Financial institutions are well positioned to take on this gatekeeper role. They already hold accurate identity data with good coverage of individuals, are trusted in their capacity as heavily regulated entities, and have strong data protection capabilities.



Moreover, 'first mover' financial institutions who become identity gatekeepers, will be able to gain significant business benefits by creating new commercial channels, such as providing identity-as-a-service to the marketplace. For their part, market players can focus on developing their products, and subscribe to a fee-based service from a gatekeeper institution, to manage their customer identity data and know your customer (KYC) checks.

ARE YOU READY TO BECOME AN IDENTITY GATEKEEPER?

A significant challenge facing large financial institutions today is their ability to provide a single and consistent view of identity within the enterprise. Multiple business lines of different systems, teams and internal onboarding processes has resulted in identity siloes.

A common challenge for a director of a business customer, is being asked for their passport details and further verification, when they are already signed up with the same institution as a retail banking customer.

Having a single, consistent view of identity, allows the firm to recognize existing customers and perform KYC checks once when they first engage with the firm, like a digital passport that allows them to seamlessly enter other business lines. This improves the customer experience and provides significant cross-selling opportunities across both business and retail customers. As well as these business benefits, it also reduces costs due to the elimination of manual and duplicative financial crime

checks and will improve an organizations' risk management capabilities (since the same customer is now consistently recognized across business lines).

INTERNAL AND EXTERNAL BENEFITS

In conclusion, there is a strong business case for financial institutions to pursue a robust customer identity data strategy. Firstly, the financial institution needs to develop an internal data strategy to improve how identity data is managed, and to break down identity siloes in their own organization. This yields significant cost and operational efficiencies, through the prevention of unnecessary manual and duplicative efforts.

Subsequently, new commercial channels can be explored by developing an external identity data strategy, such as the identity gatekeeper role to manage identity-as-a-service as outlined above, whilst also bringing enhanced data protection and data privacy offerings to the marketplace.

The identity industry is evolving fast, with new fintechns exploring blockchain / distributed ledger technology solutions to help manage identity data externally. Now is the time for financial institutions to take the first step towards staking their claim within this space.

Capco has deep expertise in data strategy, data management and digital identity. Let us help you to transform your data management capability, to develop a customer identity data strategy that can accelerate your business, streamline the customer onboarding process, reduce operational costs and improve risk management capabilities.

CONTACT

Chris Probert

Partner

Chris.probert@capco.com

AUTHOR

Charles Evans, CFA

Principal Consultant

Charles.evans@capco.com

ABOUT CAPCO

Capco is a global technology and management consultancy dedicated to the financial services industry. Our professionals combine innovative thinking with unrivalled industry knowledge to offer our clients consulting expertise, complex technology and package integration, transformation delivery, and managed services, to move their organizations forward.

Through our collaborative and efficient approach, we help our clients successfully innovate, increase revenue, manage risk and regulatory change, reduce costs, and enhance controls. We specialize primarily in banking, capital markets, wealth and asset management and insurance. We also have an energy consulting practice in the US. We serve our clients from offices in leading financial centers across the Americas, Europe, and Asia Pacific.

To learn more, visit our web site at www.capco.com, or follow us on Twitter, Facebook, YouTube, LinkedIn and Instagram.

WORLDWIDE OFFICES

APAC

Bangalore
Bangkok
Hong Kong
Kuala Lumpur
Pune
Singapore

EUROPE

Bratislava
Brussels
Dusseldorf
Edinburgh
Frankfurt
Geneva
London
Paris
Vienna
Warsaw
Zurich

NORTH AMERICA

Charlotte
Chicago
Dallas
Houston
New York
Orlando
Toronto
Tysons Corner
Washington, DC

SOUTH AMERICA

São Paulo

[WWW.CAPCO.COM](http://www.capco.com)



CAPCO
THE FUTURE. NOW.