

## Innovate Finance response to DCMS Digital identity and attributes consultation, September 2021

### Introduction

Innovate Finance is the independent not-for-profit industry body representing the UK's global FinTech community. Our mission is to accelerate the UK's leading role in the financial services sector by directly supporting the next generation of technology-led innovators to create a more transparent, inclusive and democratic financial services sector for all. Innovate Finance has over 250 members, spanning seed-stage startups, fast growing scaleups, established "unicorns", incumbent financial institutions, professional services firms and FinTech investors.

Innovate Finance is pleased to see the progress made by DCMS on Digital ID, and is delighted to submit its response to this consultation. Innovate Finance, together with its members, strongly believes that digital ID, together with the development of Open Finance and Smart Data, will play a critical role in underpinning the next wave of financial innovation in the UK. Innovate Finance sees these initiatives as critical pieces of infrastructure to help FinTech reach a new level of growth and to maintain the UK's position as a leading centre for innovation in financial services. Digital ID will be an important tool to meet societal needs, create value for citizens, and to raise the productivity and growth of our economy.

To quote the Kalifa Review of UK FinTech, for which Innovate Finance acted as co-secretariat: "The financial system will be a substantial user and beneficiary of a common ID system and fintechs and other technology providers have useful inputs that need to be taken into account in developing both the solutions for a digital ID, as well as to develop the products and journeys that best suit users."

For digital ID to be a success, the creation of an effective trust and governance framework will be essential to provide public confidence and a level playing field for providers. Our members see the need to start with a minimum viable approach, in other words, to start with only what is required to incentivise participation. The framework needs to be technology neutral, flexible, outcomes based, proportionate and harmonised across sectors so providers can scale, grow and innovate, increasing competition and consumer benefits. These conditions will be critical to pave the way for smooth rollout of digital ID and ultimately to realise the benefits that digital ID can bring to the UK.

Encouraging and incentivising the participation of smaller, more innovative players will see better outcomes for consumers as digital ID is introduced and developed. Newer, more nimble and creative companies have the ability to iterate, test and improve digital ID services, and create new and improved consumer products and services stemming from the use of digital ID. We have seen how FinTech has disrupted and transformed many financial services for the benefit of consumers in the last few years. If this approach is brought into the rollout of digital ID, it will be hugely positive for consumers.

Innovate Finance encourages HM Government to think internationally. If the UK creates a best-in-class approach to digital ID, it can be exported. If the UK commits to international standards and global interoperability, companies will be able to scale overseas. There is the opportunity for the Department for International Trade to integrate this into its approach to Free Trade Agreements.

**1. Do you agree an existing regulator is best placed to house digital identity governance, or should a new body be created?**

Innovate Finance does not have a strong opinion on whether an existing regulator or a new body houses digital identity governance. The most important aspect is what the actual mandate and expertise of the chosen body will be. From a FinTech point of view, the body must be pro-innovation and have the drive to help develop and sustain a new market for digital ID.

If an existing regulator were to be chosen, Innovate Finance thinks the most appropriate organisation for housing digital identity governance is the Information Commissioner's Office (ICO), since it has expertise in data governance and has responsibility for multiple sectors. However, the ICO's mission and goals do not currently have an explicit focus on encouraging innovation and creating new markets that the FinTech sector will want to see. The ICO - or any other organisation carrying out this function - would need clear objectives to promote innovation and the skills, capability and governance to deliver this. Furthermore, explicit regard will need to be given for proportionality and tech neutrality to prevent any disproportionate requirements on digital only, scaling firms.

To develop on this point, Innovate Finance supports an overarching approach that encourages and incentivises the participation of smaller, more innovative players. Innovate Finance thinks the UK will see better outcomes for consumers as digital ID is introduced and developed if more of these players are involved. Newer, more nimble and creative companies have the ability to iterate, test and improve digital ID services, and create new and improved consumer products and services stemming from the use of digital ID. We have seen how FinTech has disrupted and transformed many financial services for the benefit of consumers in the last few years. If this approach is brought into the rollout of digital ID, it will be hugely positive for consumers.

**2. Which regulator do you think should house digital identity governance?**

Innovate Finance's response to this question is captured in its answer to Q1.

**3. What is your opinion on the governance functions we have identified as being required: is anything missed or not needed, in your view?**

Innovate Finance thinks the identified functions listed all ought to be included.

Regarding the function of "consumer protection by managed enforcement, complaints, and redress", from a FinTech sector point of view, this function will need to work within the principles of proportionality and global competitiveness. Innovate Finance would like to see enforcement and redress to be proportionate to startups and scaleups using or providing digital identity solutions. Consumer protection is paramount to build and maintain trust in the market, but it is crucial that enforcement and redress does not unduly impact organisations with less resources and / or act as a barrier to competition and market entry, and / or reduce innovation. Innovate Finance's view is that the UK will see better outcomes for consumers as digital ID is introduced and developed if smaller, innovative players are encouraged and incentivised to be involved. Newer, more nimble and creative companies have the ability to iterate, test and improve digital ID services, and create new and improved consumer products and services stemming from the use of digital ID.

Innovate Finance strongly supports a governance function to “promote and encourage inclusion”. Products and services provided by many FinTech companies focus on delivering digital solutions to those currently excluded from mainstream financial services and addressing the “poverty premium” which many people in more vulnerable financial circumstances are made to pay. It is therefore very much in keeping with the ethos of FinTech companies that digital ID services enable inclusion. Lack of verifiable ID is a frequent barrier to access to financial services. As well as enabling solutions to financial exclusion, the digital ID body should actively seek outcomes that improve financial inclusion.

Regarding the function of “maximise cybersecurity and minimise fraud”, Innovate Finance would comment that there is a role for RegTech companies to play. RegTech solutions have the capacity to process large volumes of disparate data to identify fraud and to provide early warnings through the use of predictive analytics. Innovate Finance would suggest that the governance body considers advocating the use of such technology solutions by participants to help reduce instances of fraud or financial crime. Furthermore, DCMS should carefully consider what the impact of introducing prescriptive cyber security rules could be on small businesses and startups, which may find such rules hard to manage and comply with. Innovate Finance thinks that the issue of cyber security needs to be developed further, as it could prove to be a barrier to entry.

**4. What is your opinion on the governing body owning the trust framework as outlined, and does the identity of the governing body affect your opinion?**

Innovate Finance thinks that it would be beneficial for the governing body to own the Trust Framework and have responsibility for the update process, provided the governing body is independent, transparent, accountable and upholds the seven Principles of Public Life.

**5. Is there any other guidance that you propose could be incorporated into the trust framework?**

Innovate Finance thinks that it is important to start with a minimum viable approach to encourage greatest possible participation. The more rules, guidance and complexity introduced, the greater the barriers to entry, especially for smaller firms, which will ultimately harm innovation and consumer outcomes.

Innovate Finance thinks that the UK will see better outcomes for consumers as digital ID is introduced and developed if smaller, innovative players are encouraged and incentivised to be involved. Newer, more nimble and creative companies have the ability to iterate, test and improve digital ID services, and create new and improved consumer products and services stemming from the use of digital ID. We have seen how FinTech has disrupted and transformed many financial services for the benefit of consumers in the last few years. If this approach is brought into the rollout of digital ID, it will be hugely positive for consumers.

Innovate Finance thinks a commitment to international standards and global interoperability should be incorporated into the trust framework. Innovate Finance would encourage HM Government to think internationally. If the UK creates a best-in-class approach to digital ID, it can be exported. If the UK commits to international standards and global interoperability, companies will be able to scale overseas. There is the opportunity for the Department for International Trade to integrate this into its approach to Free Trade Agreements.

**6. How do we fairly represent the interests of civil society and public and private sectors when refreshing trust framework requirements?**

Innovate Finance would encourage DCMS to maintain its open and transparent approach, and continue its consultation processes.

It is important that FinTech companies retain the ability to provide feedback on how the requirements are affecting them specifically and have the appropriate mechanism / forum to do so. It is important to recognise that FinTech companies may have different priorities and viewpoints to established / incumbent financial institutions on evolving the trust framework - financial services providers should not necessarily be treated as one homogenous group.

Innovate Finance recognises that organisations not operating within the trust framework, including charities, consumer groups and think tanks, should have their views represented too. The suggestion of setting up advisory groups seems a sensible way of enabling this.

**7. Are there any other advisory groups that should be set up in addition to those suggested?**

Innovate Finance does not have any specific recommendations for setting up extra advisory groups, but it would support work to explore further advisory group options, especially those focused on industry and standards expertise.

**8. How should the government ensure that any fees do not become a barrier to entry for organisations while maintaining value for money for the taxpayer?**

At this stage, it is difficult for Innovate Finance to comment in detail on this question without an understanding of what types of fee will be applied and to what organisations, and what the fee levels are likely to be. One obvious question would be how fees might differ for scheme owners compared to other trust framework participants.

It is important that fee structures are progressive and proportionate, such that smaller organisations can participate with ease. From the point of view of the FinTech sector, it is crucial that there is not a barrier to entry for startups or scaleups providing financial services to consumers. This might lead to consideration of smaller annual fees rather than a larger one-off "entry fee".

Innovate Finance thinks the scheme must be affordable for scaling participants to become attribute providers. Market incentives already encourage participation, and currently many smaller players are considering piloting a role that would become attribute provider under the scheme. Given the cost already associated with verifying identity, plus the competitive advantage of offering verifiable attributes for users to share, it is an attractive proposition. However without proportionality for the fees - as well as consideration to different fee structures dependent on the role of the participant - the new scheme risks becoming the preserve of large institutions. DCMS may want to consider a fee related to the number of individual attributes shared, for example.

Innovate Finance supports an overarching approach that encourages and incentivises the participation of smaller, more innovative players. Innovate Finance thinks the UK will see better outcomes for consumers as digital ID is introduced and developed if more of these players are involved. Newer, more nimble and creative companies have the ability to iterate, test and improve digital ID services, and create new and improved consumer products and services stemming from the use of digital ID. We have seen how FinTech has disrupted and transformed many financial services for the benefit of consumers in the last few years. If this approach is brought into the rollout of digital ID, it will be hugely positive for consumers.

Innovate Finance will appreciate further guidance from DCMS on these points, and the opportunity to discuss them further.

**9. Do you agree with this two-layered approach to oversight where oversight is provided by the governing body and scheme owners?**

This is an area that would merit further discussion. Further clarity is needed on why two layers of oversight are needed and how this might work in practice.

Certification under multiple schemes seems complex and could pose a barrier to entry. Innovate Finance welcomes further information on how this will work practically for businesses considering certification across multiple sectors.

To reiterate a point made above, it is important that the government takes the minimum viable approach to get the framework up and running. Oversight mechanisms should therefore be based on existing standards, frameworks and regulation, rather than creating new, additional standards.

On a related point, the government's recent proposal to liberalise the UK's data protection regime in support of increased innovation, research, and economic growth displays a welcome move towards simplification of the future UK's data protection regime. It is important that the trust framework follows suit and does not run counter to efforts to simplify this regime by other parts of government and regulatory bodies.

**10. Do you agree the governing body should be an escalation point for complaints which cannot be resolved at organisational or scheme level?**

Innovate Finance agrees that the governing body should be an escalation point for complaints which cannot be resolved at organisational or scheme level. The reason for this is that conflicts may emerge across sectors which require higher "independent" adjudication.

**11. Do you think there needs to be additional redress routes for consumers using products under the trust framework?**

**If yes, which one or more of the following?:**

- a. an ombudsman service
- b. industry-led dispute resolution mechanism (encouraged or mandated)
- c. set contract terms between organisations and consumers
- d. something else

**If no, do you think the governing body should reserve the right to impose an additional route once the ecosystem is more fully developed?**

Innovate Finance thinks it is worth investigating and understanding the ways in which current sector-specific redress routes work at present before implementing additional routes. For FinTech / financial services, the Financial Ombudsman Service (FOS) and GDPR legislation might be able to offer sufficient redress for consumers.

If additional redress routes were to be considered and / or introduced, Innovate Finance would stress the need for them to work consistently with other schemes such as the FCA's Consumer Duty and the FOS. DCMS must be extremely careful not to add the risk of additional burdens onto smaller startups and scaleups, which could be deterred from innovating if they see a risk of receiving additional layers of penalties.

**12. Do you see any challenges to this approach of signposting to existing redress pathways?**

*No comment.*

**13. How should we enhance the 'right to rectification' for trust framework products and services?**

Innovate Finance thinks that given the breadth of GDPR, the existing 'right to rectification' is adequate for the trust framework.

**14. Should the governing body be granted any of the following additional enforcement powers where there is non-compliance to trust framework requirements?**

- a. Monetary fines
- b. Enforced compensation payments to affected consumers
- c. Restricting processing and/or provision of digital identity services
- d. Issue reprimand notices for minor offences with persistent reprimands requiring further investigation

As per Innovate Finance's answer to Q11, if these enforcement actions were granted, they need to work consistently with how other sector-specific enforcement powers operate - in the case of FinTech / financial services, this would chiefly be the FOS.

Caution is required to avoid the risk of creating additional burdens on smaller startups and scaleups, which could then be deterred from innovating if they see a risk of receiving additional layers of penalties.

A balance needs to be struck between having enforcement powers that are sufficient to prevent abuse by large organisations and keeping the powers proportionate for smaller startups and scaleups.

**15. Should the governing body publish all enforcement action undertaken for transparency and consumer awareness?**

Innovate Finance thinks that the government body must publish all enforcement actions undertaken as the overall system would benefit from the transparency and trust this would provide. Innovate Finance would add that it is vital that thorough investigations take place, and that a material breach must have occurred before enforcement action is decided upon, and before the publication of these actions. If actions are taken and made public without clear evidence or on immaterial breaches, the company would risk serious reputational damage at little or no fault of its own.

**16. What framework-level fraud and security management initiatives should be put in place?**

Innovate Finance thinks that the Open Identity Exchange (OIX) Fraud Guidelines should be considered as the basis of fraud and security management initiatives, as well as the Financial Action Task Force Guideline on Digital ID, which covers a broad range of issues spanning fraud prevention and system integrity.

**17. How else can we encourage more inclusive digital identities?**

Innovate Finance thinks there are a number of routes to encourage more inclusive digital identities.

Open up government data sources. One of the causes of exclusion is an individual having a “thin file” or lack of a digital footprint. If more public sector data sources / data assets are made available to help identity verification, there will then be fewer “thin file” individuals, which will help make digital identities more inclusive.

Sandbox-style testing of digital identities to include a focus on inclusion. In a joint letter of June 2021 from Innovate Finance and UK Finance to Matt Warman MP, Innovate Finance called for the development of the digital identity market through sandbox style testing of the different components (e.g. certification, the broader trust framework, attribute checking), both domestically and with international partners. This will be essential to understand the correct commercial model and to build trust between providers and consumers of identity, as well as with sector regulators. Early testing, we believe, will help ensure parties are ready as soon as the Trust Framework and reduce any risk of delaying solutions going live for consumers and businesses. This testing could also include a focus on how far the solutions are genuinely inclusive and what iterations may be required to improve inclusivity.

Implement a communications campaign. In the same letter of June 2021 mentioned above, Innovate Finance called for the implementation of a communications campaign to help citizens understand digital identity and reassure them about the safety of the approach. This will be particularly important to ensure that the UK is able to develop an inclusive approach, which will ultimately support broader financial inclusion. While Innovate Finance expects the private sector to play a key role in the communications efforts, the government is the only body that can provide the initial messaging to establish a baseline of citizen trust in this new approach to identity.

Create a corporate digital identity. Small businesses have the same need as individuals to verify their identity on a daily basis to do business. Making it easier for businesses to share information on their financial status, ownership, tax accounts, etc., would prevent businesses from having to consistently resubmit the same information, which is a clear drain on efficiency. It may also help SMEs access financial products and services far quicker, which will help with their growth and

expansion. The overall impact on economic growth and prosperity in the UK of helping small business owners conduct business more efficiently with the use of a corporate identity could be very considerable.

**18. What are the advantages and disadvantages with this exclusion report approach?**

Innovate Finance supports the principle of an approach that improves inclusion and reduces discrimination in the system. The detailed design of the mechanism needs to balance this with avoiding the creation of a requirement that deters participation by smaller firms. Exclusion reporting could become burdensome for smaller companies who lack the resources of large companies and it could also create a reputational risk which deters market entry.

To reiterate a point made above, Innovate Finance supports an overarching approach that encourages and incentivises the participation of smaller, more innovative players. Innovate Finance thinks the UK will see better outcomes for consumers as digital ID is introduced and developed if more of these players are involved. Newer, more nimble and creative companies have the ability to iterate, test and improve digital ID services, and create new and improved consumer products and services stemming from the use of digital ID. We have seen how FinTech has disrupted and transformed many financial services for the benefit of consumers in the last few years, with a focus on the issue of exclusion. If this approach is brought into the rollout of digital ID, it will be hugely positive for consumers.

Exclusion and inclusion are an important area and we would therefore encourage further consultation and testing of approaches, including reporting requirements that take a holistic approach to inclusion and a more flexible set of requirements or lighter touch regime for small businesses and new entrants.

**19. What would you expect the exclusion report to include?**

*No comment.*

**20. Should membership of the trust framework be a prerequisite for an organisation to make eligibility or identity checks against government-held data?**

Innovate Finance thinks that membership of the trust framework should be a prerequisite for an organisation to make eligibility or identity checks against government-held data in cases where the institution intends to use this data to create a digital identity; membership of the trust framework may not be necessary in cases where access to data is used to support other activities, such as assessing credit risk of a consumer.

**21. Should a requirement to allow an alternative pathway for those who fail a digital check be set out in legislation or by the governing body in standards?**

Innovate Finance thinks that such a legislative approach would not be helpful as it risks being overly prescriptive in the context of the nuances which are likely to exist across the range of scenarios. Consideration must be given to the extent to which such legislation might inadvertently legislate particular approaches to digital ID which may not reflect future innovation. Innovate Finance thinks that there should be a requirement in principle to provide an alternative pathway, but the details of such alternatives should not be prescribed in legislation.

**22. Should disclosure be restricted to a “yes/no” answer or should we allow more detailed responses if appropriate?**

Innovate Finance thinks more detailed responses should be allowed, as they will encourage higher quality services.

**23. Would a code of practice be helpful to ensure officials and organisations understand how to correctly check information?**

Innovate Finance thinks that at a technical level there should be clear documentation and Codes of Practice for accessing APIs, in line with the UK Government Technology Code of Practice. For wider handling and check of identity information Code of Practice would help drive alignment across industries which would be beneficial.

**24. What are the advantages or disadvantages of allowing the onward transfer of government-confirmed attributes, as set out?**

*No comment.*

**25. Would it be helpful to affirm in legislation that digital identities and digital attributes can be as valid as physical forms of identification, or traditional identity documents?**

Innovate Finance believes that it would be helpful to take this step. It would also be helpful to work with sector regulators to align their processes to such legislation and clearly communicate this alignment.