

INSIGHT

# A Global ID System That Could Revolutionize Finance



A global ID system could change the way companies and countries engage in trade. Photo credit: ADB.  
*Global harmonized digital identities for companies could have a profound impact on trade worldwide.*

## Introduction

It's difficult to keep up with all the noise, hype and hope that financial technology (fintech) will solve all the problems that impede trade. Even for the most plugged-in geeks, the pace of change and innovation taking place is dizzying.

So in the midst of all this, as someone who works for a development bank, I'm supposed to be looking for ways to encourage and support innovations that can help realize our mandate: filling market gaps that lead to growth, jobs and, ultimately, poverty reduction. After months of study, talking to experts, and some paralysis, I found an initiative that I'm very keen on, something so boring and simple, yet so fundamental to the future of fintech – global harmonized digital identities (IDs) for companies.

# Analysis

So what's the big deal with digital identities for companies? Try searching for something in your own database without some kind of identifier and it's really tough, if not impossible. Imagine the time and expense a bank or regulators incur in finding information on a company halfway across the world.

It's these time-consuming and costly challenges that impede a financial institution's ability to conduct anti-financial crimes due diligence on potential clients, and result in high cost and high risk so banks become reluctant to provide finance to small and medium-sized businesses (SMEs). They also contribute to 'derisking', a phenomenon we've seen over the past few years wherein banks terminate relationships with other banks - relationships that are critical to trade - especially in emerging markets, where information is scant and less reliable.

In some cases, banks have pulled out of countries entirely, which not only hampers trade, but risks plunging a country into isolation.

Imagine having one trusted global entity that could identify the company you're looking for, and provide information on 'who is who,' 'who owns whom,' and 'who owns what,' free of cost for users through the internet. Imagine how that would advance banks' ability to manage financial crimes risk, an important impediment to providing finance to many companies, especially SMEs. It would facilitate cross-border trade in a big way.

Now take this a step farther. The most exciting bits of fintech boil down to tracking vast amounts of data. Imagine being able to use an ID to identify one company in the vast web and being over 95% certain that the information you find is accurate.

No need to imagine, because this entity has existed since 2014. The Global Legal Entity Identifier Foundation (GLEIF), created by the Financial Stability Board, is a not-for-profit organization that supports the implementation and use of the Legal Entity Identifier (LEI). The Financial Stability Board was mandated by G20 to set up the system. GLEIF manages a network of partners, the LEI issuing organizations, to provide trusted services and open, reliable data for unique legal entity identification worldwide. GLEIF is overseen by the LEI Regulatory Oversight Committee, which is made up of regulatory authorities, central banks from around the globe.

The LEI is a 20-digit, alpha-numeric code based on the ISO 17442 standard developed by the International Organization for Standardization. The Global LEI Index is the only free online source that provides open, standardized and high quality legal entity reference data.

Companies pay a nominal fee (less than \$100, depending on the jurisdiction) for an LEI and a small annual fee to maintain it to the LEI issuing organization of its choice. Just under 500,000 companies now have these identifiers, ADB being one of them. Most of these entities are based in the US and Europe where regulations including Dodd-Frank and European Market Infrastructure Regulation require the use of LEIs to uniquely identify counterparties to transactions in regulatory reporting.

While GLEIF already is able to verify 'who is who'. next year GLEIF will start developing a capacity to verify 'who owns whom.' After that, the GLEIF system will develop the capacity to verify 'who own what'. GLEIF lays the foundation for innovations to solve a broad range of problems, particularly for trade and other cross border transactions.

## Insights

The key to much of fintech's promise is routed in accessing, sorting, registering and tracking huge amounts of data. This makes assessing risk easier and cheaper, and – as a result – business operations more secure. This could lead to a significant impact on access to finance for SMEs.

IDs will also provide a tool for governments to enhance its tax collection capability. Companies moving money between related entities and jurisdictions manage to avoid paying tax. Harmonized global IDs would make that more difficult.

Many countries already have an identification system established, but many don't. Those that don't needn't create one; they can just leapfrog and encourage, or require through legislation, their companies to acquire LEIs. Those countries that do currently have ID systems should consider mapping these to LEIs for global harmonization.

GLEIF makes available an essential piece of infrastructure for the future economy. It contributes to taking us to the next stage of globalization, one that could be more open and transparent, facilitating more access to finance and the global economy, especially for SMEs and developing countries. Global adoption of the LEI is key. So in all the noise, readers can be part of these exciting developments by coordinating to acquire a LEI. This will be a critically important contribution to help realize many of the current developments in fintech, and to spur more growth in cross-border trade.

## Resources

*Shaping Asia's fintech future*

*Trade finance gaps continue despite fintech breakthroughs*

*Trade finance: A catalyst for foreign currency, growth in PNG*

*Financing agriculture value chains in the digital age*

*How can digital finance better serve Asia's poor?*

*FinTech, RegTech, and the Reconceptualization of Financial Regulation*

## Related Links

Explainer: *How Blockchain Can Revolutionize Access to Finance*

Explainer: *How RegTech Is Helping Banks Manage Risks*

Insight: *Using Digital Technology to Reach the Unbanked in Southeast Asia*

Explainer: *Understanding How Asian Banks are Dealing with Digital Disruption*

Explainer: *Busting the 10 Myths on Financial Inclusion*



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Mr. Beck has managed the exponential growth of ADB's Trade Finance Program, and implemented its first supply chain finance business. Prior to joining ADB, he worked for the Canadian Imperial Bank of Commerce and was an advisor to the Canadian Minister of Finance. Mr. Beck played a key role in the start-up of the Black Sea Trade and Development Bank, and was a consultant for USAID in Southern Africa and for a start-up financial institution in Armenia. Mr. Beck is on the Advisory Board of the International Chamber of Commerce Banking Commission, and a member of the WTO Working Group for Trade Finance.

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Last updated: November 2017