

Digital Passport

Transforming SME banking
through customer-permissioned
data exchange

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The Digital Passport

Putting small and medium-sized enterprises (SMEs) in control of their data and simplifying the start of new business relationships

The challenges of SME banking

Banks across the world face significant challenges in serving SME customers. Broadly defined as companies employing 250 employees or less, SMEs account for around 99.5% of businesses across the G7 countries and over 50% of them are in need of external finance.¹ There are significant opportunities in the SME banking market that could be explored to benefit both banks and their SME customers, resulting in wider economic benefit.

A key challenge related to SME banking is the time-consuming and complex onboarding, driven largely by the rigorous know-your-customer (KYC) requirements intended to prevent financial crime. The fragmented patchwork of solutions currently supporting banks' KYC processes means that they have to integrate and verify a broad set of disparate information for every SME customer. Also, KYC data is only useful if it's up-to-date. So banks must spend yet more time refreshing and re-verifying their SME customer information, which is costly for them and inconvenient for their customers.

Customers in control

There is a better way. The Digital Passport puts the SME in control of its own digital identity. The SME acts as the data controller, providing its data once, keeping it up-to-date, and deciding whom to share it with and for what purpose. The Digital Passport also includes an interface that supports SME users to access all their information through a single portal, and link accounts and products from multiple service providers to obtain a single product view.

The effects on the costs and complexity of SME banking are transformational. By putting the SME in control of the provision of its data to third-party service providers – banks, utilities, insurers, government, tax authorities and more – the solution actively incentivizes the SME to keep information up-to-date. This customer-led activity significantly reduces the effort and cost banks face in refreshing and re-verifying KYC data, and provides a better experience for SMEs.

The Digital Passport keeps a broad audit trail of actions, which provides a transparent view of data-sharing relationships. Each service provider accessing an SME's Digital Passport can request to see which other organizations have sourced, provided and verified its data. This helps banks to shift the balance of their KYC processes away from costly face-to-face contact and toward digital automation and straight-through processing (STP). Additionally, the Digital Passport triggers a positive "network effect" because users' ongoing updates of their data incrementally improves customer data quality – thus, progressively enhancing confidence in the accuracy of the data.

An application with global reach

The Digital Passport has been developed by EY in collaboration with financial institutions (FIs) to address permissioned customer data-sharing opportunities, which have been enabled by Open Banking, the EU Second Payment Services Directive (PSD2) and General Data Protection Regulation (GDPR).

From a global perspective, many jurisdictions are focusing on how to improve the economic potential of the SME segment. The Digital Passport supports these objectives by providing SME digital identity, onboarding digitization, customer data privacy and permissioned data-sharing features. The Digital Passport provides an enhanced customer experience for SMEs while supporting KYC efficiency and effectiveness for FIs.

¹ Mobilizing sustainable finance for SMEs: reviewing experience and identifying options in the G7, *United Nations Environment Programme*, 2017.

How the Digital Passport works

The Digital Passport's suite of capabilities provides the platform and road map for the banking industry to collectively address significant challenges of SME banking, enhance the SME customer experience and realize benefits of the Open Banking agenda.

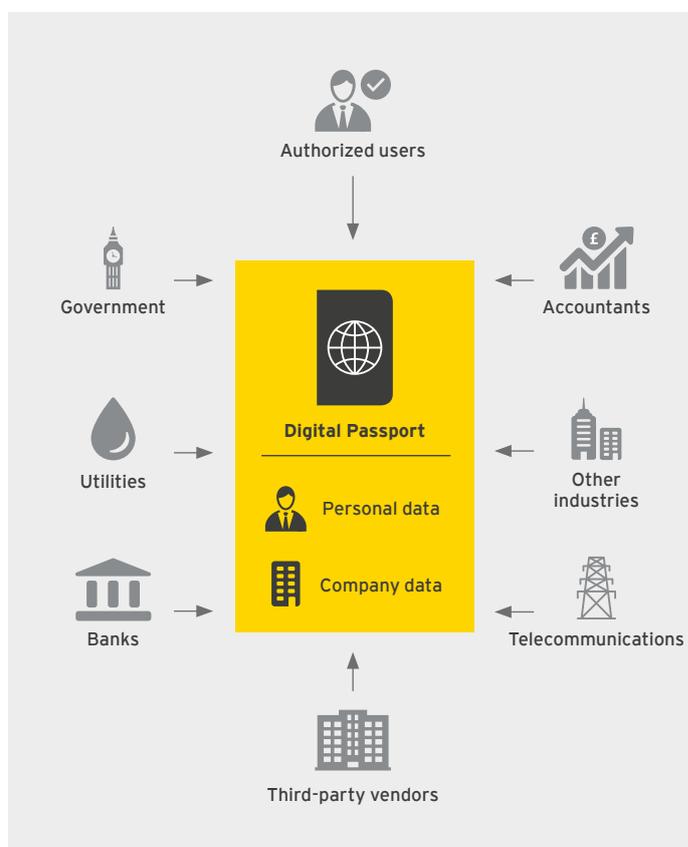
As illustrated in Figure 1, the Digital Passport acts as an ecosystem portal; it securely facilitates the exchange of up-to-date customer information between participants in the ecosystem with the permission of the SME. Acting as data controller, the SME inputs and integrates its information into the ecosystem once, updates it on an ongoing basis and permits the provision of the data to a variety of service providers for multiple purposes. Updates are made via ongoing interactions with service providers, which creates a convenient and simple experience for SMEs.

The SME's view of the Digital Passport

From the SME's perspective, the Digital Passport provides a wide range of benefits – as illustrated by the experience of retailer Emily's Flowers in Figure 2 on page 5. The Digital Passport allows Emily to permit the reuse of her data across her different service providers and any updates she makes to that data with one provider can be shared immediately with others. Therefore, Emily is able to provide her business information once rather than multiple times through repetitive tasks, which saves her time and improves her experience. Additionally, the more Emily's data is used by her providers, the more it is verified and trusted within the ecosystem encouraging a "network effect."

Emily gains further advantages with her data and product details being accessible in one place – for example, easier filing of digital tax returns and the ability to check the credibility of her own suppliers. The benefits increase as her business and workforce grow. For example, the application allows her to nominate selected employees as authorized users who are then able to perform certain permissioned Digital Passport actions on behalf of her company. As Emily's business becomes more international, the cross-border reach that the Digital Passport can provide will help her interact and transact more smoothly and securely with customers and suppliers in other countries.

Figure 1: Schematic of the Digital Passport ecosystem



The benefits for SMEs – in summary

- ▶ A standardized and simplified means for SMEs to identify and verify themselves with third parties – thus reducing time and administrative burden
- ▶ An improved experience, with a safe and secure mechanism to share private information
- ▶ A single place to manage and control who can use their customer data attributes and for what purpose



Figure 2: The benefits of the Digital Passport for a typical SME



Corresponding benefits for FIs and regulators

The benefits that the Digital Passport brings to SMEs are reflected by equally compelling advantages for other stakeholders in the ecosystem – not least FIs and regulators.

FIs gain benefits including:

- ▶ A standardized and secure digital mechanism for sourcing, exchanging and maintaining customer KYC and onboarding information
- ▶ Visibility of the level of provenance and trust that is associated with customer data – with the customers themselves contributing to keeping their data up-to-date, and a “network effect” created through the participation of cross-industry organizations, such as FIs, utility providers and government agencies
- ▶ A focus on transitioning from cumbersome paper-based onboarding to a frictionless digital customer journey
- ▶ More efficient reuse of customer information for onboarding and KYC with mutualization of the related costs across the subscribing FIs
- ▶ Access to an Open Banking ecosystem with improved SME customer insight, and opening up improved opportunities to compete for market share through offering SMEs more tailored, attractive, and competitive products and services
- ▶ Facilitates intra-group sharing between business units and across borders
- ▶ Improved ability to comply with data regulations, e.g., GDPR

Meanwhile, governments and regulators gain:

- ▶ Improved and increased competition in the SME banking market
- ▶ A standardized and transparent industry-wide approach for account applications, and the capture and maintenance of customer information
- ▶ A standardized and transparent interaction mechanism between SMEs and their financial services providers, as well as with their wider ecosystem of providers, from utilities to government

In addition to these benefits, the improved access to banking services supported by the Digital Passport promises to help governments worldwide achieve their long-standing goal for the SME sector – which is to see SMEs deliver their full potential in driving economic growth through digital enablement.

Why EY?

EY combines global capabilities and scale with a deep understanding of the SME banking market. Drawing upon our experience advising global financial services providers, governments and regulators in KYC, anti-money laundering (AML), Open Banking, cybersecurity and digital transformation, we have developed the Digital Passport, a digital identity and permissioned data-sharing application to address the opportunities that are enabled by regulatory and technical advances.

In support of the Digital Passport, we also have a service network and knowledge spanning major industries and jurisdictions, enabling us to use cross-sector connectivity to help accelerate adoption across financial services providers, governments, SMEs, and other sectors and industries.

Contacts

To find out more about the Digital Passport, please contact:



Dai Bedford

Ernst & Young LLP
Global Banking & Capital Markets
Advisory Leader
dbedford@uk.ey.com
+44 20 7951 6189



Hamish Thomas

Ernst & Young LLP
Global Solution Partner
hthomas@uk.ey.com
+44 7967 176593



Martin Jones

Ernst & Young LLP
Global Product Director
mjones5@uk.ey.com
+44 20 7806 9448

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