The Value of Digital, Mobile-First Identity Systems for Government

The Value of Digital, Mobile-First Identity Systems for Government

One of the challenges in moving identity into the digital, mobile-first age is the natural trust model that has evolved between human beings in face-to-face interactions over thousands of years. The most complex and sensitive transactions have always been undertaken face-to-face. This is why, in some industries and cultures, there is resistance to adopting new approaches to identity. American government is one such culture. Government, however, is among the most susceptible to identity-based fraud and among the most well equipped to successfully push a new identity paradigm forward.

Criminals are looking to exploit state filing systems and business registration websites for financial gain. Typically, they file bogus reports with Secretary of State offices or manipulate online business records to steal cash and property using fraudulently obtained lines of credit. These fraudsters attempt to change the registered business address, appoint new officers or change registered agent information on file with the state.

Fraudulent financing statements filed with Secretary of State offices under the Uniform Commercial Code (UCC) are one of the most pernicious problems. Often used as a retaliatory measure by government separatists, prison inmates, and others looking to harass or intimidate public officials and corporations/lending institutions, these filings can create serious financial difficulties for victims.[1]

Beyond intentional criminal activities, burdensome repetition in government interactions frustrates business productivity, costing organizations time and money. The waste spans a vast list of familiar control processes, such as renewing business licenses, paying taxes and updating corporate documentation. Moving to digital, mobile-first identity would mitigate most of this.

The Value of Identity
There are between 1 and 1.5 billion people in the world without an official identity, a state known in legal parlance as "legal invisibility." That's 21 percent of the global population. Another 3.5 billion people have ID, but those IDs cannot be used online.[2]

Digital ID would enable the billion-plus individuals currently excluded from the financial ecosystem to permanently participate, which will expand developing economies by up to 13 percent of GDP. These same forecasts suggest a 3 percent average GDP uplift for even the most developed economies. That would mean around a $600 billion GDP increase in the USA alone.[3]

The impact of identity authentication on business is similarly impressive. According to the Association of Certified Fraud Examiners, business-to-business fraud costs US companies an estimated $7 billion every year. The Financial Services and Lending industries, for example, now

---

[1] State Strategies to Subvert Fraudulent Uniform Commercial Code (UCC) Filings. Report by the National Association of Secretaries of State. Updated June 2019.
[2] 2019 Identity Fraud Study. Javelin Strategy. 2019.
[3] Ibid.

lose $2.92 and $3.05, respectively, for every $1 of fraud.[4] Business identity theft was up 46 percent year-over-year in 2017, the latest numbers available, according to Dun & Bradstreet.

Across all at-risk business segments, companies now report using at least 6 different fraud solutions.[5] But these efforts have been only marginally successful. In a recent Experian survey of business leaders, "84 percent said that if they were certain about a customer's identity, the need for fraud risk mitigation would be reduced."[6] Institutions could also benefit from improved customer registration, reducing onboarding costs by up to 90 percent and reducing payroll fraud, saving up to $1.6 trillion globally.[7]

Making Digital, Mobile-First Identity Work
Beyond uniform application and legal recognition, there are two essential tenets to all successful digital identities. First, they must create unfaltering confidence that a human being's actual, physical identity is represented correctly as a precise, tamper-proof, digital equivalent. Second, the ID must enable convenient, low-friction experiences for users to access critical services and exclusive content from a high-value ecosystem offline and online. The way to achieve this is to make digital identities a mobile-first solution.

Smartphone penetration is already more than 5 billion units dispersed to 67 percent of the global population. That number is projected to reach 95 percent penetration in the next few years. Today's smartphones, with incredibly powerful sensors, cameras and processors, when paired with powerful AI software, can deliver a comprehensive biometric verification beyond 99.99 percent that the user is the owner of the identity and all linked ID tokens. These identities can then be used across government departments to provide ongoing authorization checks wherever, and whenever the need arises. All a citizen needs is their smartphone.

Turning the previous paradigms on their heads, this axiom defines a pattern for a user to form an identity *once* and use it across different services, departments and, more powerfully, across organizations. This is the best possible user experience, delivering convenience, efficiency and reuse.
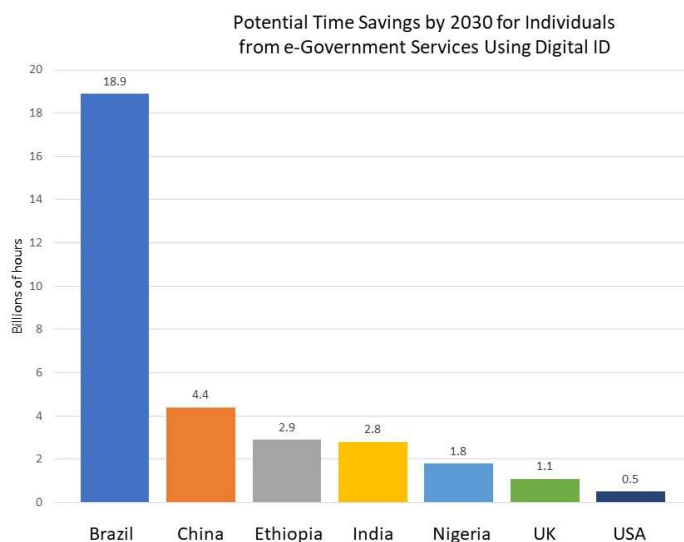
Government and business would benefit from improved process efficiency and reduced liability for storing (and potentially losing) millions of citizens' records. Organizations would no longer need to continually fund IT projects that deliver the same process for registration, issuance and authentication.

---

[4] Risk Solutions 2018: True Cost of Fraud. Study by LexisNexis. August 2018.
[5] Ibid.
[6] The 2018 Global Fraud and Identity Report. Experian. 2018.
[7] Digital Identification: A Key to Inclusive Growth. McKinsey Global Institute. 2018.

Potential Time Savings by 2030 for Individuals
from e-Government Services Using Digital ID

Billions of hours

Brazil 18.9
China 4.4
Ethiopia 2.9
India 2.8
Nigeria 1.8
UK 1.1
USA 0.5

source: McKinsey Global Institute analysis

A number of studies have already put very real financial assessments to such use cases in government. According to a 2019 study by the McKinsey Global Institute, taxpayers and beneficiaries have the potential to generate more than $360 billion in additional tax revenue through reductions in tax evasion, errors during tax filing and tax fraud. This increased revenue represents 7.2 percent of projected 2030 tax revenue. Further, individuals stand to save 4.4 billion hours from the provision of e-government services at the federal, state and local levels.[8]

A report by the National Institute of Standards and Technology (NIST) argues that creating a secure ID credential for authentication could drastically reduce operating costs for the Internal Revenue Service (IRS) by enabling it to move more services online.

Although the IRS currently offers e-filing options, which are $3.41 cheaper per transaction than paper-based filing, the lack of a secure digital authentication mechanism has deterred users who worry about identity and data theft. NIST argues that a trusted digital credential would increase the adoption of online services, saving between $91 and $318 million annually, depending on user adoption and whether the credential was provided in-house or by a third party. Including the cost of implementation, NIST estimates the net benefit between $74 to $305 million per year.[9] Even scaled down to state-level revenue departments, the savings would be significant.

---

[8] Digital Identification: A key to inclusive growth. McKinsey Global Institute. April 2019.
[9] Public Sector Savings and Revenue from Identification Systems: Opportunities and Constraints. World Bank. Washington, DC. 2018.

Mechanisms for Public Sector Savings and Revenue from ID Systems

Mechanism	A. Decreasing Expenditures		B. Increasing Revenue	
	1. Reducing Fraud in G2P transfers	2. Reducing Administrative Costs	3. Increasing Tax Collection	4. Charging Fees
Description	reducing ghosts, duplicates, ineligible beneficiaries, and impersonation	eliminating redundant systems and reducing transaction costs	identifying tax evaders and widening the tax base	to individuals for ID services and to third parties for verification/authentication
Location	• Payroll • Pensions • Safety nets • Targeted subsidies • Education • Health insurance, etc.	• Identity providers • Agencies or programs that require identity proofing, verification, authentication, or credentials	• Tax administration	• Identity provider

Source: World Bank. 2018. Public Sector Savings and Revenue from Identification Systems: Opportunities and Constraints, Washington, DC.

Identification systems can help increase tax revenue to the extent that they help expand the tax base or increase knowledge of taxpayers' identities and other attributes used to establish their liability (e.g., their assets and income). For example, improving taxpayer identification might help address the following issues:

- **Registered taxpayers who underreport liabilities.** Digital IDs and interoperability frameworks can help ameliorate this issue by linking tax databases to other sources of information, such as property records, utility bills, vehicle registers, and more, which can be used to generate risk scores and better target audits.
- **Nonregistered individuals.** Beyond underreporting, there may be organizations that *should* be registered and paying taxes but are not. Developing a foundational system with high coverage and linking this to the tax database can help identify new taxpayers, widening the tax base.
- **The use of multiple tax ID numbers.** In some cases, individuals and companies may evade taxation using multiple taxpayer numbers or accounts. Integrating a unique ID into the tax register can help de-duplicate these records.[10]

Conclusion

Digital identity systems will eventually replace all legacy identity systems. Since governments have always been the primary authorities of identity, they should and will continue to be the pivotal trusted source for driving implementation. Why? To unlock the benefits of identity, it must be uniformly applied, and it must be recognized in a court of law. Thus, government

---

[10] Public Sector Savings and Revenue from Identification Systems: Opportunities and Constraints. World Bank. Washington, DC. 2018.

entities are positioned to be standard bearers for digital identity and facilitators for faster acceptance. In doing so, government entities can codify and simplify public acceptance of digital identity.

Enabling digital identity fully, is a responsible and ambitious way to connect society, transforming the relationship between citizens and governments.

# # #

About Smartmatic

Smartmatic is a world leader in secure, auditable election technologies, having processed nearly 5 billion votes in elections on five continents—all with zero security breaches. Our voting machines produce both an electronic record and a human-readable paper ballot to validate voter intent. Our line includes staffing and logistics, to simplify the entire election management process.

Smartmatic supports customers with more than 550 employees in offices and R&D centers around the world. Smartmatic technology has been audited and acclaimed by international organizations including, The Carter Center, the Organization of American States, the European Union and the United Nations (UNDP).

Smartmatic is a premium distributor of Folio products in North America.

About Folio, Ltd.

Folio provides digital identity management, including registration, digital issuance and verification. Citizens securely control their identity experience via a smartphone mobile app, deciding which credentials they share, when, and with whom. This allows organizations to deliver high-value digital services across populations.

Folio complies with international best practices and standards, such as: International Civil Aviation Organization, American National Standard for Information (ANSI), International Organization for Standardization (ISO) and the Advancing Open Standards for the Information Society (OASIS).

For More Information:
Denis Bechac, Business Development Director
Mobile phone: 985-264-5556
denis.bechac@smartmatic.com
www.smartmatic.com
www.folioltd.com