



eIDS in Europe

Not (yet) yielding profits for the cross-border financial services sector

September 7, 2010

- E-government and online shopping are on the increase, but the use of cross-border financial services still lags some way behind.
- At the European level a number of electronic identity cards (eIDs) and the qualified electronic signature (QES) do already exist. Together they possess the potential to form another of the foundations of the internal market for financial services – especially for opening accounts.
- The future of e-services hinges on two mutually reinforcing developments: harmonising the diverse regulatory regimes across Europe and boosting acceptance among the general public.

Can electronic IDs bring about an internal market for services?

From submitting tax returns online right through to buying groceries on the internet, a myriad of possibilities already exist. Between 2005 and 2009 the use of e-government by individuals in the EU-27 climbed from 23% to 30%¹ on average; the share of individuals shopping online rose from 24% to 37%. Cross-border purchases rose from 26% to 29% between 2006 and 2009 and the EU-27 average for those using online banking climbed from 19% in 2005 to 32% in 2009.

To date, it has been effectively impossible to “buy” financial products via the internet, as identifying oneself is compulsory for establishing a business relationship (in most cases: opening an account) and the prospective customer has to supply a signature. The development of machine-readable identification documents and digital signatures has the potential to overcome this hurdle and thereby bring the internal European market for financial services a step closer. One important foundation is further harmonisation and/or regulation at the European level as well as boosting public acceptance and confidence that e-government and e-commerce are safe and secure.² Several member states have already introduced “eIDs” (see table 1); but developments vary greatly from country to country. Whereas in Estonia eIDs have been issued since 2002 and are already in widespread use, the United Kingdom is now abandoning its eID scheme. The European Commission is attempting to improve the environment for cross-border e-government services via several projects (see text box, p. 3). While unveiling its “Digital Agenda for Europe” the Commission announced its targets of boosting the use of e-government and e-commerce to 50% of the population and 33% of the small and medium-sized enterprises by 2015.³

www.
dbresearch.com

Authors

Sophie Ahlswede
+49 69 910-31882
sophie.ahlswede@db.com

Julia Gaab

Editor

Bernhard Speyer

Technical Assistant

Sabine Kaiser

Deutsche Bank Research
Frankfurt am Main
Germany

Internet: www.dbresearch.com

E-mail: marketing.dbr@db.com

Fax: +49 69 910-31877

Managing Director

Thomas Mayer

¹ Eurostat (2010). Percentage of those in the 16-74 cohort who used the internet to interact with public authorities in the preceding three months (i.e. for one or more of the following activities: gathering information, obtaining forms, sending back filled-in forms).

² See also Stobbe, Antje. Sichere elektronische Kommunikation. Research Briefing. April 2010.

³ European Commission (2010a). COM (2010)245.

Who needs eIDs? eIDs can be used in every situation where unequivocal identification has to be provided using official ID documents and the respective service or corresponding products can be delivered or ordered online. This applies particularly to e-government, services, healthcare services and financial services. The services sector now generates 74% of gross value added and employs 70% of the workforce in the EU.⁴ That is why it makes sense to give serious consideration to how this potential can be tapped via the internet across national borders within the internal European market.

ID and eID cards in the European Economic Area (EEA)

Country	ID card	Compulsory ID card	eID implemented	Compulsory eID	eID costs	eID planned	QES
Austria*	Yes	No	Yes (since 2004)	No	-	Already exists	Yes
Belgium	Yes	Yes	Yes (since 2004)	No, compulsory as of 2012	EUR 15.00	Already exists	Yes
Denmark	Yes	Yes	No	-	-	No	Yes
Estonia	Yes	Yes	Yes (since 2002)	Yes	EEK 250 (around EUR 16)	Already exists	Yes
Finland	Yes	No	Yes (since 2003)	No	Adults: EUR 51.47; children: EUR 25.73	Already exists	Yes
France	Yes	Yes	No	-	-	Yes	-
Germany	Yes	Yes	No	No, as of 2012	Aged over 24: EUR 28.80; aged up to 24: EUR 19.80; aged 16-18: Free	Yes (from November 2010)	Yes
Hungary	Yes	No	No	-	-	Yes	No
Italy	Yes	Yes	Yes (since 2000)	Yes	EUR 44.66	Already exists	Yes
Latvia	No	-	No	-	-	Yes (2010)	No
Lithuania	Yes	Yes	Yes	Yes	-	Already exists	Yes
Luxembourg*	Yes	Yes	Yes	No	EUR 15.00	Already exists	Yes
Malta	Yes	Yes	No	-	-	Yes	No
Netherlands*	Yes	Yes	Yes (since 2005)	Yes	EUR 42.85	Already exists	No
Poland	Yes	Yes	No	Yes, for over-18s	-	Yes (from start of 2011)	No
Portugal	Yes	Yes	Yes (since 2007)	Yes	EUR 12.00	Already exists	Yes
Romania	Yes	Yes	No	-	-	Yes	No
Slovakia	Yes	Yes	No	-	-	Yes	No
Slovenia	Yes	Yes	No	Yes	-	Yes	Yes
Spain	Yes	Yes	Yes (since 2006)	Yes	EUR 10.10	Already exists	Yes
Sweden*	Yes	No	Yes (since 2005)	No	SEK 400 (around EUR 42)	Already exists	Yes
United Kingdom	Yes, partly	No	Yes, partly (since 2006)	No, abolition planned	-	No	-
Switzerland	Yes	No	No	-	-	-	-
Iceland*	Yes	Yes	Yes	-	-	Already exists	Yes

* eID cards are issued by private Certificate Service Providers with a public mandate.

Sources: Enisa, IDABC, Ministries of Interior of the respective countries

1

⁴ Eurostat (2010).



European Commission projects

SPOCS (Simple Procedures Online for Cross-Border Services): SPOCS is a three-year (2009-2012) pilot project that is being co-funded by the Commission. Seven member states have joined together with the Commission to streamline and harmonise administrative processes so that companies can offer their services more easily across borders.

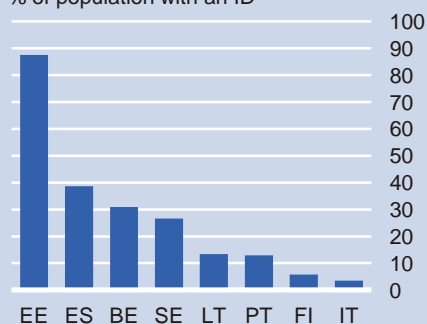
STORK (Secure Identity Across Borders Linked): under the umbrella of STORK the Commission is collaborating with 13 member states to improve the cross-border recognition of national identification systems. Since 2008 five pilot projects have been testing the most promising eID services and establishing joint guidelines to simplify Europe-wide access to public services. The findings are due to be made available to all member states from 2011.

IDABC (Interoperable Delivery of European eGovernment Services to public Administrations, Business and Citizens) sought to achieve its afore-mentioned objective by providing assistance and advice on the implementation of legal amendments. IDABC was the successor to the IDA (1994-1999) and IDA II (1999-2004) programmes and ran from 2005 until 2009.

ISA (Interoperability Solutions for European Public Administrations) is the follow-up programme to IDABC and will run from 2010 until 2015. ISA is focused on back-office solutions to improve interaction between administrative bodies in Europe.

eIDs penetration

% of population with an ID



Sources: Eurostat, DB Research

2

eIDs: Can they be a catalyst for the internal market?

Twelve out of 30 countries in the EEA have already introduced an eID and nine more are planning its introduction. The QES has been introduced by 13 of the 30 countries to date.

High eID penetration rates are to be found in Estonia, Spain, Belgium and Sweden. In Italy and Finland the share of eID holders among those people who carry ID is less than 10% (see chart 2).⁵ There are several reasons for this: firstly, the eID is not compulsory in most countries (e.g. AT, BE, FI, LU, SE and IT) and will therefore only slowly replace old ID documents, or in some countries there is no statutory obligation to carry an ID card. Secondly, the level of internet usage, which is a basic determinant of whether eID use makes sense, differs from country to country (for example, it is lower in Italy and Spain than elsewhere, see chart 3). A third reason could be that e-government or e-commerce services that require eID use are still under-developed and that therefore there is currently little incentive for people to use it.

Every version of the eID that has hitherto been introduced in any of the member states contains an electronic storage and processing medium that allows personal data to be stored so that the user can identify himself. The QES is in most cases an optional extra that can be installed on the eID card and is used to electronically submit a legally binding declaration of intent. On the basis of the signature laws in the respective member states⁶ the QES fulfils the requirement of a hand-written signature.

Case study: Cross-border opening of a bank account

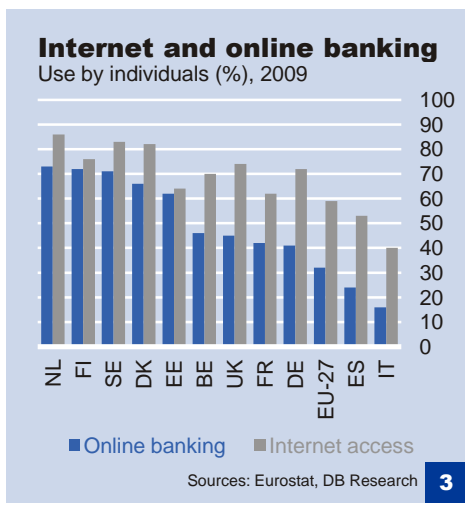
When establishing a business relationship, and particularly when opening a bank account, there are several legal requirements with which the banking institution is obliged to comply, including identification of the client using an official identification document.⁷ Furthermore, a signature must be supplied to conclude the contract. Up until now it has usually been necessary for the customer to physically present himself or to complete an alternative procedure (in Germany, for example, the so called PostIdent procedure). Identification could instead be provided by an eID. The QES, by contrast, can be used for qualified acknowledgement, for example, of information or for giving consent for a creditworthiness check. To open a deposit account the eID on its own would be sufficient. Opening an account with an overdraft facility online or taking out a loan online would require the eID and the QES. An account opened online would be usable "offline" but would be subject to some restrictions (for example, it would not be possible to execute a paper-based credit transfer, as the bank would not have a specimen signature from the client).

In order for eIDs to help in establishing a cross-border internal market for financial services, the legal stipulations and standard business practices when an account is opened would also have to be harmonised. Many banks require, for example, a check to be made by a credit register; in some countries proof of address (for example the submission of a heating bill) or the applicant's tax number is required.

⁵ Enisa (2009). Privacy Features of European eID Card Specifications. Position Paper, and the ministries of the interior of the respective countries.

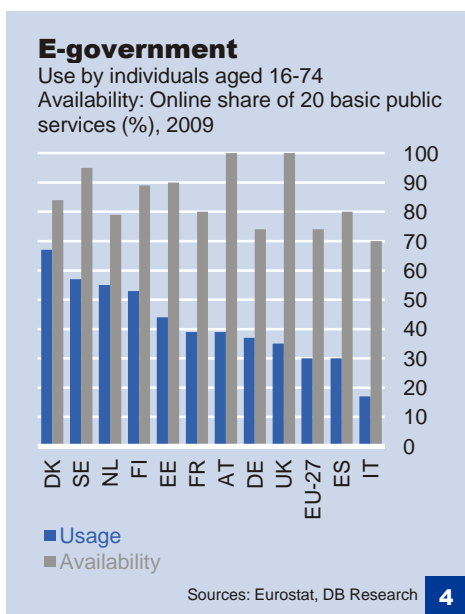
⁶ Largely based on the EU Directive 1999/93/EC of December 13, 1999 on a Community framework for electronic signatures.

⁷ Anti-Money Laundering Act and EU Directive 2005/60/EC.



Also, compatible technical standards would have to be established, so that the information contained in a Romanian eID that is read via a card reader on a computer in Finland is accepted by a bank in Portugal as proof of identity. In addition, differing legal systems and redress and enforcement mechanisms, diverse deposit insurance systems and language barriers have hitherto made it unattractive to open an account in a foreign country.

E-banking with an eID facility is already in use in a number of countries (for example, Austria, Estonia and Spain), but it is not yet possible to open an account using an eID in these countries either. An eID user test is currently being conducted in Germany with the participation of banks and insurance companies. A draft EU regulation on establishing an end-date for the parallel use of national direct debits and SEPA direct debits and SEPA credit transfers contains an article that would ban discrimination based on nationality and residence when an account is opened. Although this sends out a signal and is a step in the right direction, it will, however, have no fundamental impact on the ease of opening an account online in a foreign country because of the above-mentioned impediments.

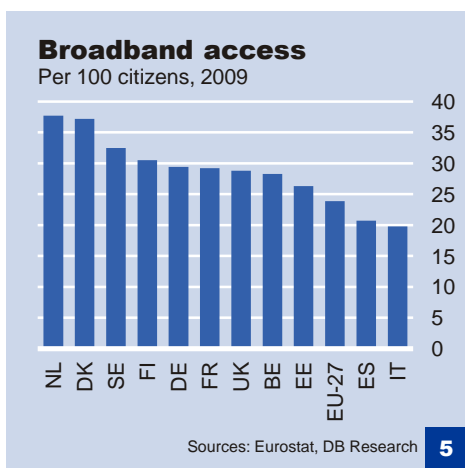


Other obstacles – but also opportunities

Although overall internet use has grown sharply in recent years there is a marked difference between active and passive use of the medium. The EU-27 average for passive online retrievals from public authorities (for information-seeking purposes) is 27%, whereas the figure for returning forms is just 13%.⁸ These figures clearly show that virtual administrative channels are hitherto evidently being used more as a source of information than as a platform for transactions. Among the reasons for this are safety concerns (which an eID could possibly allay). One BITKOM survey of 1,000 people aged 14 and over in Germany found that 52% of internet users welcomed the introduction of the eID, whereas 41% were against it. Among the non-internet users just 32% were in favour and 57% were against the introduction of the eID.⁹

The European Commission found that a lack of information about offerings outside local markets and the slow growth of electronic trading beyond national borders have been preventing the internal market from delivering its full benefits.¹⁰ A further expansion of broadband networks would be required to boost use of the internet for e-commerce and e-government. Leaving this aside, there is still a long way to go before all member states have an eID (planned). A further obstacle will be that the design of ID cards does not fall within the competence of the EU¹¹ and varies greatly from one member state to the other. To date, there are e.g. no harmonised European definitions for the topic of “identity” or “identification”.¹² This means that in the medium term the issue for the trailblazers in this segment is likely to be enhanced cooperation.

The approaches, projects and working groups that have dealt with the topic of eID at both the national and the European levels to date



⁸ People who use the internet for corresponding with public authorities. Eurostat (2009).
⁹ BITKOM (2010). Internet Sicherheit und elektronischer Personalausweis.
¹⁰ European Commission (2010b). Towards more efficient and fairer retail services in the internal market for 2020. COM(2010)355.
¹¹ Even though EU regulation of this is not impossible (Art. 21, Treaty on the Functioning of the European Union).
¹² This is, however, among other things the subject of a report for which the Commission recently invited submissions.

have focused mainly on its use in connection with e-government services.¹³ A logical next step would be a thorough assessment of the advantages and disadvantages of harmonisation and interoperability of eIDs and QES in the EU for commercial applications in the single market. In particular the EU retail banking markets could certainly benefit from a boost to further integration.

Sophie Ahlswede (+49 69 910-31832, sophie.ahlswede@db.com)

¹³ For example: European Commission (2008). Action Plan on e-signatures and e-identification to facilitate the provision of cross-border public services in the Single Market. COM(2008)798.

© Copyright 2010. Deutsche Bank AG, DB Research, D-60262 Frankfurt am Main, Germany. All rights reserved. When quoting please cite "Deutsche Bank Research".

The above information does not constitute the provision of investment, legal or tax advice. Any views expressed reflect the current views of the author, which do not necessarily correspond to the opinions of Deutsche Bank AG or its affiliates. Opinions expressed may change without notice. Opinions expressed may differ from views set out in other documents, including research, published by Deutsche Bank. The above information is provided for informational purposes only and without any obligation, whether contractual or otherwise. No warranty or representation is made as to the correctness, completeness and accuracy of the information given or the assessments made.

In Germany this information is approved and/or communicated by Deutsche Bank AG Frankfurt, authorised by Bundesanstalt für Finanzdienstleistungsaufsicht. In the United Kingdom this information is approved and/or communicated by Deutsche Bank AG London, a member of the London Stock Exchange regulated by the Financial Services Authority for the conduct of investment business in the UK. This information is distributed in Hong Kong by Deutsche Bank AG, Hong Kong Branch, in Korea by Deutsche Securities Korea Co. and in Singapore by Deutsche Bank AG, Singapore Branch. In Japan this information is approved and/or distributed by Deutsche Securities Limited, Tokyo Branch. In Australia, retail clients should obtain a copy of a Product Disclosure Statement (PDS) relating to any financial product referred to in this report and consider the PDS before making any decision about whether to acquire the product.