

KEY POINTS

- The Legal Entity Identifier (LEI), a code that verifies legal entities, is transforming global trade.
- The LEI has been implemented globally, including among small companies in small developing countries.
- Using biometric identification to tie representatives of legal entities to their organization strengthens the identification process.
- Proof of concept shows that the LEI can be integrated into an existing financial transaction platform, which uses biometric identification.

Proof of Concept Uses Biometric Identification with Legal Entity Identifiers on Trade Platform

Steven Beck

Head

Trade and Supply Chain Finance

Private Sector Operations Department

Asian Development Bank

INTRODUCTION

The Trade and Supply Chain Finance Program (TSCFP) of the Asian Development Bank (ADB) has funded a successful proof of concept project to link, biometrically, principal officers to companies they represent to strengthen the Legal Entity Identifier (LEI). This brief details the project background and the results.

BACKGROUND

The Global Legal Entity Identifier Foundation (GLEIF) has created an identification system that is transforming the way people do business, evaluate risk, and lend money. Global and harmonized, the Global Legal Entity Identifier System was established in 2014 by the Group of Twenty in the wake of the financial crisis, with oversight provided by the Financial Stability Board.

Compliance issues, as well as cost, contribute to a persistent level of unmet demand for trade finance, leaving a gap of about \$1.5 trillion annually.¹ Contributing to this market gap is an inconsistent patchwork of national regulations for due diligence and know-your-customer (KYC) requirements, which are designed to ensure companies accessing the financial system are not laundering money and financing terrorism.

While it is critical to ensure criminals are not using the finance system to perpetrate crime, this tangle of regulations is becoming increasingly difficult for financial institutions to navigate. Also, trading partners can be in countries where certain fundamental tools critical to the conduct of due diligence—e.g., a trusted credit bureau, audited financial statements, or perhaps even internet connectivity—are inadequate, unreliable, or simply unavailable.

¹ K. Kim, S. Beck, M. C. Tayag, and M. C. Latoja. 2019. [2019 Trade Finance Gaps, Growth, and Jobs Survey](#). ADB Briefs. No. 113. Manila: ADB.

When confronted with these KYC and due diligence challenges, financial institutions may simply decide not to transact with companies, especially small and medium-sized enterprises (SMEs), rather than go through the onerous and uncertain processes required by the regulations. These factors all contribute to the sizeable trade finance gap.

The LEI is one key step in overcoming the factors driving that trade gap. It is a unique, electronic, 20-digit standard identifier for legal entities, including financial institutions, major corporations, governments, and SMEs. Like a passport or a car registration number, the LEI represents a common and recognizable code. Relevant reference data are readily accessible, making it easier to identify legal entities and verify their status.

The power of the information linked to the LEI could be transformational. The LEI verifies who is who and who owns whom. In the future, it can be used to verify who owns what. The LEI can likewise serve as an anchor to ensure that other identifiers containing additional information can be secured. For example, the LEI and the Business Identifier Code are already mapped onto each other and available in the GLEIF website.²

Use of the LEI would provide easier access to capital. First, the LEI would make it easier for nonlocal investors to access information regarding legal entities in which they may consider investing. Second, more mature businesses would find it easier to access capital markets.

Full adoption of the LEI system would increase the transparency of the global economy, thwarting money laundering and terrorist financing. Global adoption would help banks conduct KYC due diligence. In addition, (i) it would mitigate the risk of correspondent bank relationships being cut (de-risking); (ii) it would increase access to finance for SMEs in emerging markets by easing the flow of reliable information about small companies; and (iii) it could be leveraged to address organizational identity needs in the development of financial technology, blockchain, and related technologies, thereby reducing costs.

Without a unique and globally harmonized identifier, finding information about an SME in a sea of metadata is difficult, if not impossible. The LEI makes this process workable and helps realize the potential of financial technology to make finance more accessible.

ADB'S TRADE AND SUPPLY CHAIN FINANCE PROGRAM AND THE GLOBAL LEGAL ENTITY IDENTIFIER FOUNDATION

ADB's TSCFP has been an active driver of global adoption of the LEI system, both on the regulation side and with financial institutions as well as other companies interested in taking part.

In May 2019, the TSCFP conducted a survey that demonstrated both large and small companies in developing countries can acquire an LEI relatively easily and at reasonable cost.³ The survey—in the second half of 2018 and early 2019—covered companies, including SMEs, in a range of small and large developing countries in Asia. By leveraging the TSCFP's client base of commercial banks, with the assistance of the GLEIF, the survey covered 66 legal entities, including 16 SMEs, in 10 developing countries. The legal entities were composed of 31 banks and 35 companies. This survey focused exclusively on developing countries and targeted the participation of SMEs to determine the cost and ease of LEI adoption. It found that 87% rated the LEI registration process *very easy, easy, or average*.

BIOMETRIC IDENTIFICATION TO CONFIRM IDENTITIES OF REPRESENTATIVES OF LEGAL ENTITIES

One issue that has arisen with the increasing adoption of the LEI is the question of how those authorized to act on behalf of a legal entity, identified by its LEI, can be confirmed. While the LEI itself proves the identity of the organization concerned, parties in a transaction may also need assurance that their counterparts using the LEI are legitimately part of the entity it identifies. Proper verification of the identity of those using an LEI would ensure that the LEI is being used to represent the unique entity it is designed to identify.

The proof of concept tested the addition of the LEI to an existing financial transaction platform. This platform uses biometric identification of key representatives within a legal entity to bind these representatives to their legal entities. Facial recognition tied to official identification such as a driver's license or passport could be registered and used as an easy and automated method to make foolproof the use of an LEI in a transaction.

² GLEIF. [Legal Entity Identifier Services by GLEIF](#).

³ S. Beck, J. Hyde, and C. Laysa-See. 2019. [Legal Entity Identifier Accessibility: A Survey by the Trade Finance Program](#). ADB Briefs. No. 109. Manila: ADB.

To test this thesis, ADB supported the GLEIF in a proof of concept project involving companies already using a payment platform based on blockchain distributed ledger technology. Participants were able to use a mobile or web-based software application to confirm the identity of corporate officers. Three-dimensional facial scans were tied to official identification scanned into the software application to confirm the identities of these officers and link them to the LEI being used.

The proof of concept demonstrated that the GLEIF's system could be used to access reference data regarding the legal entity with which officers were biometrically identified during the onboarding process to the payment platform. It showed that a cascading series of identifications could be used to register all the players involved and link their biometric identifications to the LEIs. Regulators, platform operators, and transaction participants would have access to the system, ensuring the identities of both the legal entities involved and the officers acting on behalf of those entities. The system would also provide a record of the transactions and the participants involved, easing some of the burden of ongoing KYC requirements stipulated in regulation.

NEXT STEPS IN DIGITAL IDENTITY USING THE LEGAL ENTITY IDENTIFIER

The proof of concept project supported by ADB to test the incorporation of the LEI into the payment platform was one of five proofs of concept that the GLEIF conducted to test the effectiveness of the LEI in digital identification, commerce, and transactions. Each proof of concept utilized different underlying technology.

From these, the GLEIF has confirmed that the LEI indeed has a critical role to play in today's digital world through its ability to provide organizations with unique, permanent identification globally. This is especially important in the context of identifying legal entities involved in digital transactions.

The GLEIF plans to establish the LEI as a key component in building a trust layer for identification and verification of organization identity, including the identification and verification of persons able to act on behalf of their legal entities, for use by any and all ecosystems and communities.

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Asian Development Bank
6 ADB Avenue, Mandaluyong City
1550 Metro Manila, Philippines
Tel +63 2 8632 4444
Fax +63 2 8636 2444

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pubsmarketing@adb.org