26 August 2026
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BERMUDA MONETARY AUTHORITY

Dear Stakeholders,

Re: Consultation on the Regulation of Digital Identity Service Provider Business

The Bermuda Monetary Authority (Authority or BMA) extends its appreciation to all stakeholders who participated in the consultation on the proposed framework for regulating Digital Identity Service Provider Business (DISP). The Authority values the constructive feedback received and remains committed to fostering a regulatory environment that supports innovation, promotes trust in digital interactions, and remains aligned with international standards and best practices.

The Consultation Paper *Regulation of Digital Identity Service Provider Business - Part II*, published on 21 July 2025, sought stakeholder feedback on a proposed framework for licensing and supervising DISP in Bermuda. The proposed framework outlined a prudential regime for entities undertaking digital identity proofing, credentialling, authentication and lifecycle management activities, together with associated governance, prudential and supervisory requirements.

Stakeholder feedback was broadly supportive of the Authority's objective of facilitating greater use of digital identity solutions. Respondents recognised benefits including enhanced customer experience, operational efficiency, stronger security and support for cross-border digital business models.

At the same time, stakeholders raised important considerations relating to commercial viability, interoperability, technical standards, assurance frameworks, the scope of regulated activities and the need for greater regulatory clarity to support adoption. Several respondents also highlighted the importance of ensuring that any framework delivers practical value to market participants and supports the wider adoption and use of digital identity solutions.

Following careful consideration of the feedback received, together with further analysis of market needs, emerging international frameworks and Bermuda's policy objectives, the Authority concluded that the potential of digital identification solutions can be more effectively realised through targeted enhancements to Bermuda's existing Anti-Money Laundering, Anti-Terrorist Financing (AML/ATF) framework than through the establishment of a standalone prudential licensing regime for DISP. This letter summarises the key themes emerging from the consultation and outlines the Authority's proposed next steps.

1. Market Need and Commercial Viability

Feedback Received

Several respondents emphasised that the long-term success and commercial viability of any digital identity ecosystem will depend on the existence of sustainable business and adoption models. Comments focused on matters such as licensing costs, capital requirements, adoption incentives, consortium-based approaches, interoperability and the need for a clear value proposition for both providers and relying parties.

Respondents noted that digital identity infrastructure requires significant investment and observed that achieving sufficient scale, adoption and market participation may be particularly challenging in smaller jurisdictions where the costs of compliance, governance and ongoing operation are significant relative to the size of the market.

BMA Response

Having considered the feedback received and undertaken further policy analysis, the Authority concluded that introducing a standalone prudential framework for DISP may not, in itself, address the key factors influencing adoption and utilisation of digital identity solutions. Furthermore, the Authority noted stakeholder observations regarding implementation costs, interoperability, ecosystem development and the practical needs of relying parties.

The Authority also concluded that, given Bermuda's market size and the evolving nature of international digital identity ecosystems, there is currently limited evidence of a sustainable commercial basis for developing a domestic DISP market under a standalone prudential licensing regime.

Accordingly, the Authority determined that a more targeted approach focused on supporting the use of digital identification solutions within existing customer onboarding and customer due diligence processes would better meet market needs and facilitate the practical adoption and use of digital identity solutions while preserving flexibility for future market developments.

2. Use of Digital Identity Solutions and Digital Onboarding

Feedback Received

Stakeholders highlighted the benefits of digital identity technologies, including improved customer onboarding, operational efficiency, enhanced security and support for remote and cross-border business activities. Respondents also noted the potential of digital identity solutions to support scalable and interoperable digital ecosystems.

Several respondents emphasised the importance of greater regulatory clarity, technical standards and international alignment to support wider adoption of digital identity solutions. Stakeholders observed that clearer guidance regarding the regulatory treatment and use of digital identity technologies would encourage uptake and facilitate more efficient identification and verification processes.

BMA Response

The Authority agrees that greater regulatory clarity would support the use of digital identification solutions by Regulated Financial Institutions (RFIs). Accordingly, the Authority intends to focus on developing supervisory guidance that clarifies how digital identification solutions may be used as part of existing identification and verification requirements while preserving the risk-based approach and the accountability of RFIs for complying with applicable AML/ATF obligations.

3. Foreign Digital Identity Frameworks and Interoperability

Feedback Received

Stakeholders emphasised the importance of interoperability and cross-border acceptance of digital identities. Several respondents highlighted challenges associated with the recognition of digital identity credentials across jurisdictions and recommended greater alignment with emerging international standards, assurance frameworks and interoperability initiatives. Suggestions included consideration of mutual recognition arrangements, internationally recognised technical standards and broader engagement with global digital identity developments.

BMA Response

The Authority recognises that RFIs increasingly interact with digital identity systems operating under various foreign legal, supervisory and assurance frameworks.

The Authority's subsequent analysis noted that, while digital identity frameworks continue to develop internationally, interoperability, mutual recognition and equivalence arrangements remain at an early stage. The current landscape is characterised by a growing number of national and regional digital identity and trust frameworks, each with differing legal, technical and supervisory requirements. As a result, the establishment of a standalone Bermuda DISP regime would not, in itself, ensure international acceptance or interoperability of Bermuda-based digital identity providers, which would likely still need to satisfy the requirements of foreign jurisdictions in which their digital identity was presented.

Rather than establishing a formal approval, certification or equivalence regime, the Authority proposes a principles-based approach under which RFIs remain responsible for determining whether a digital identification solution is sufficiently reliable, independent and appropriate given the relevant risks. The Authority intends to provide guidance to support consistent, risk-based assessments of such solutions, including those operating under recognised foreign legal, regulatory, digital identity or trust frameworks.

4. Reliability, Assurance and Governance

Feedback Received

Stakeholders commented on the importance of clear governance, assurance and oversight arrangements within the proposed framework. One respondent supported the proposed emphasis on governance, risk management and operational resilience, while recommending that governance requirements be applied proportionately, with regard to the size, complexity and risk profile of the provider.

Several respondents also requested greater clarity regarding assurance standards, technical expectations, and the criteria that should be used when assessing digital identity solutions. Suggestions included the publication of technical specifications, maturity models or conformance benchmarks aligned with recognised international standards, as well as consideration of certification and assurance frameworks to support confidence and adoption.

BMA Response

In response, the Authority intends to develop supervisory guidance to support regulated financial institutions in assessing the reliability and appropriateness of digital identification solutions within the existing AML/ATF framework. The guidance will seek to provide greater clarity regarding the use of digital identification solutions while preserving the risk-based approach and the accountability of regulated financial institutions for compliance with applicable AML/ATF requirements.

The Authority considers that a principles-based approach, supported by supervisory guidance, will provide flexibility to accommodate evolving technologies and assurance models while remaining consistent with Bermuda's risk-based and technology-neutral regulatory framework.

5. Scope of Regulated Activities and Treatment of Third-Party Service Providers

Feedback Received

The consultation generated differing views regarding the appropriate scope of regulated activities and the treatment of providers operating within the digital identity ecosystem.

Some respondents sought greater clarity regarding the distinction between DISP and providers offering supporting identification, verification and onboarding technologies, including whether providers of identification and verification tools that do not issue digital identities should fall within the licensing regime. Stakeholders noted that clearer regulatory boundaries would support legal certainty, market understanding and adoption.

Other respondents questioned whether the proposed licensing trigger was appropriately calibrated. Concerns were raised that limiting the framework to identity proofing, credentialing, authentication and lifecycle management activities could reduce its value proposition, particularly if vetting activities remained outside scope. It was also suggested that restricting regulation to entities performing both identity proofing and authentication could create incentives to separate activities across different entities.

BMA Response

Having considered the feedback received regarding the scope of regulated activities and the proposed regulatory perimeter, the Authority has determined to provide supervisory guidance regarding the use of digital identification solutions within the existing AML/ATF framework. As part of this approach, the Authority intends to provide greater clarity regarding what constitutes a digital identification solution and how such solutions differ from other providers and technologies that support customer onboarding, identification and verification processes.

Revised Policy Direction

Having considered the feedback received and undertaken further policy analysis, the Authority has concluded that the principal challenge is not the absence of a domestic licensing framework for identity providers, but uncertainty regarding how digital identity solutions, particularly those operating under foreign frameworks, may be used within Bermuda's existing AML/ATF framework.

The Authority recognises that RFIs are increasingly pursuing digital transformation initiatives, including the adoption of digital onboarding and digital identity solutions. Facilitating the responsible and compliant use of such solutions within Bermuda's regulatory framework is therefore a key area of focus for the Authority.

Accordingly, the Authority intends to conduct a targeted review of the existing AML/ATF framework and develop supervisory guidance addressing the use of digital identification solutions for customer due diligence purposes. This work will focus on:

- Digital onboarding and identification and verification requirements
- Reliability, independence and assurance assessments
- Assessments of foreign digital identity frameworks

- Record-keeping expectations
- Ongoing digital identity lifecycle considerations

The Authority believes that this approach provides a more practical and proportionate response to current market needs while preserving Bermuda's existing principles-based and risk-based regulatory framework.

Next Steps

The Authority intends to undertake further work in this area and, where appropriate, consult on proposed supervisory guidance.

The Authority will continue to monitor international developments relating to digital identity, assurance frameworks and interoperability initiatives and may revisit alternative policy options as the global landscape evolves.

The Authority appreciates stakeholders' contributions and remains committed to an inclusive and transparent policy development process.

Any stakeholder who requires further clarification or wishes to provide additional input should contact the Authority at **policy@bma.bm**.

Yours sincerely,

The Bermuda Monetary Authority