Innovations for Poverty Action

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Biometric Technology in Rural Credit Markets: The Case of Malawi

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Identity theft is a common crime the world over. In developing countries, the damage caused by identity theft and identity fraud goes far beyond the individual victim, however, and ultimately creates a direct impediment to progress, particularly in credit markets. Recent research reveals that biometric technology can help reduce these problems.

A biometric is a measurement of physical or behavioral characteristics used to verify or analyze identity. Common biometrics include a person's fingerprints; face, iris, or retina patterns; speech; or handwritten signature. These are effective personal identifiers because they are unique and intrinsic to each person, so, unlike conventional identification methods (such as passport numbers or government-issued identification cards), they cannot be forgotten, lost, or stolen.

Recent advances in recognition technology coupled with increases in both digital storage capacity and computer processing speeds have made biometric technology (for example, ocular or fingerprint scanners) feasible in many applications, from controlling restricted building access to allowing more effective delivery of targeted government programs with large-scale identification systems, such as, for example, those being used in India.

Biometric technology can also improve access to credit and insurance markets, especially in countries that do not have a unique identification system, identity fraud—or, the use of someone else's identity or a fictitious one—to gain access to services otherwise unavailable to an individual is rather common. For example, lenders in Malawi describe past borrowers who purposefully defaulted then tried to obtain a fresh loan from the same or another institution under a false identity. And, although less common in developing countries because markets are less developed, the potential for sick individuals without healthcare coverage to use the insurance policy of a friend or relative does exist. The response of lenders and insurance companies has been to restrict the supply of such services to the detriment of many

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