DEVELOPING & OPERATIONALIZING
NATIONAL FINANCIAL INCLUSION STRATEGIES
FOR THE DIGITAL ECONOMY
Washington DC • December 10–12, 2018

Session 13: NFIS Policy Area – Documentation Barriers

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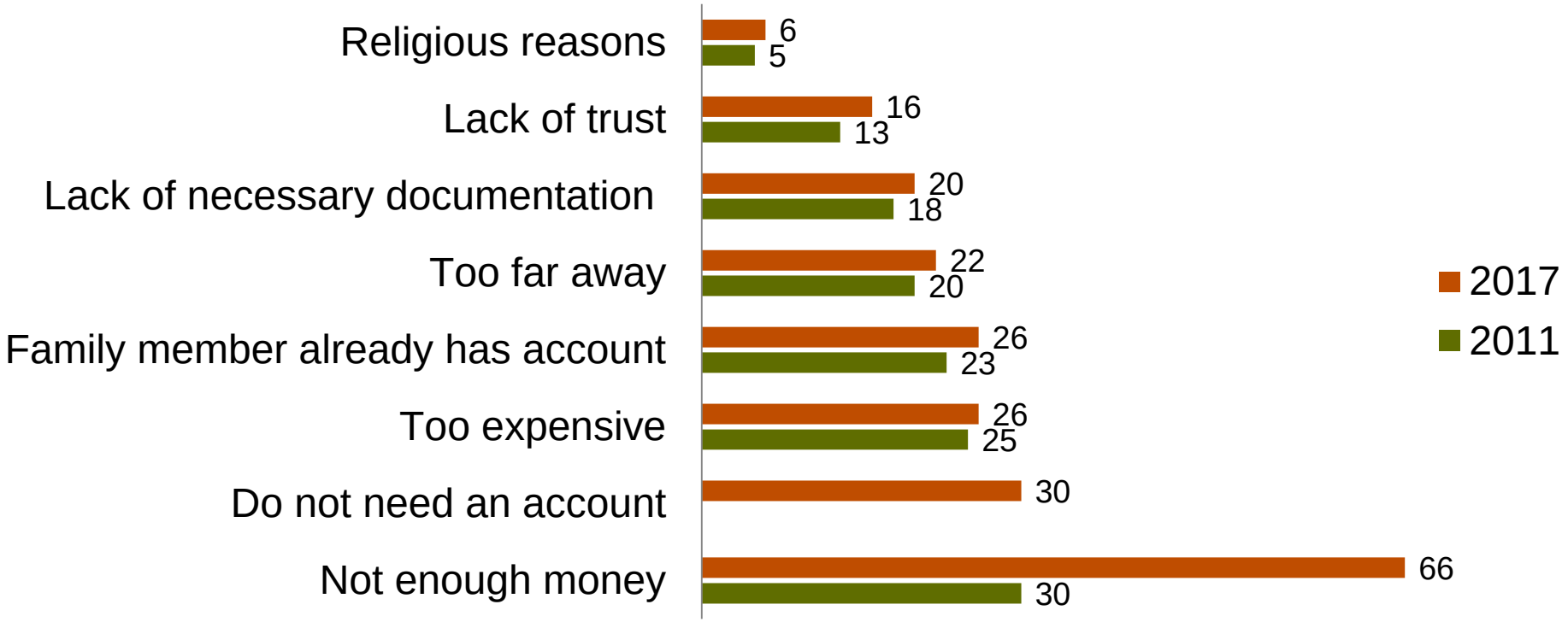
Agenda

- A quick review of barriers to financial inclusion
- What are the documentation barriers for financial inclusion?
- Addressing the challenges: risk-based approach for CDD
- Way forward
- Key technical resources

Barriers to financial inclusion

Barriers to Financial Inclusion

Non-account holders reporting barrier as a reason for not having an account (%)



Source: The World Bank Global Findex 2012 and 2018

What are the documentation barriers for financial inclusion?

Back to the basics: Reason for Documentation Requirements

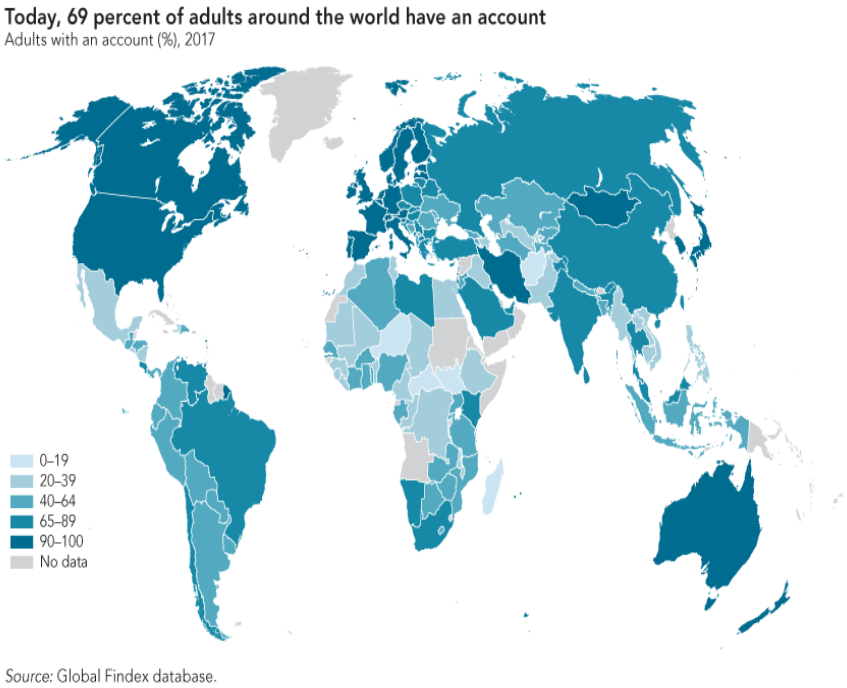
- Customer Due Diligence required for prudential reasons, credit appraisal, AML/CFT purposes, etc

- Focusing on AML/CFT:
  - Financial institutions need to identify, verify and monitor customers and their transactions.
  - CDD/KYC requirements set by FATF are minimum global standards and countries must implement them through laws and regulations.
  - Weak compliance with FATF requirements can lead to sanctions

Serious Global Problems

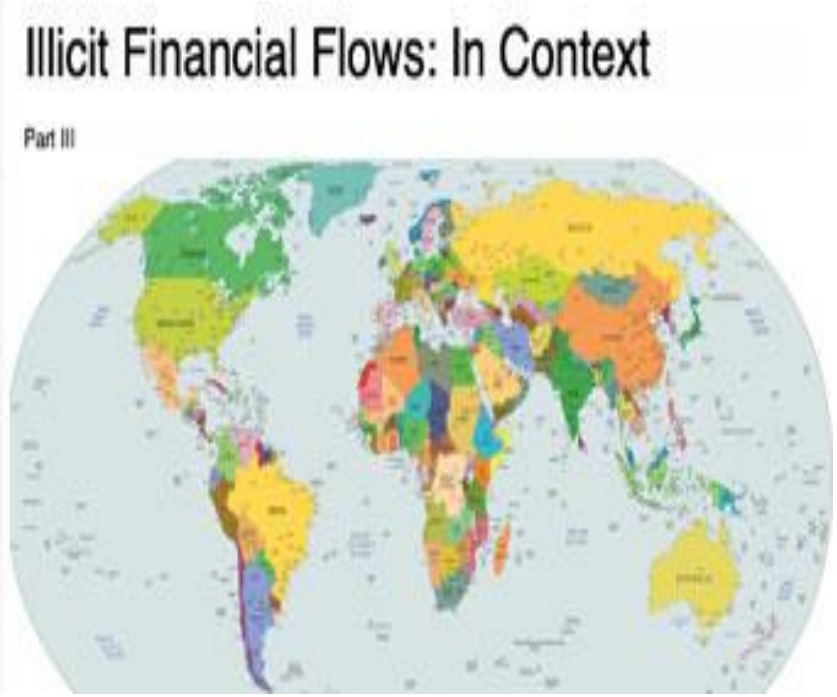
Financial Inclusion

1.7 billion people unbanked in 2017



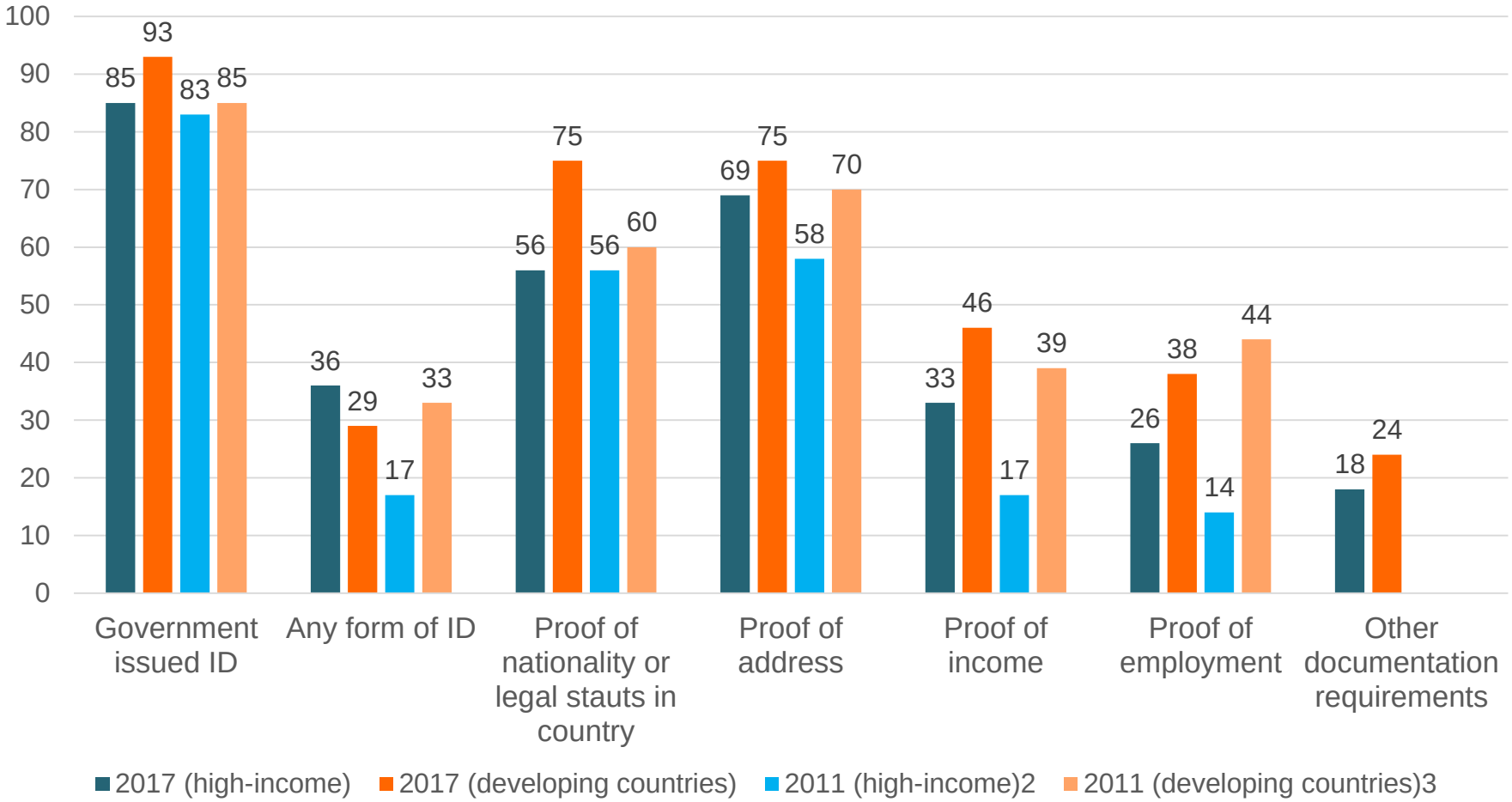
Financial Integrity

The cross-border flow of dirty money is estimated at $1 -$1.6 trillion per year



The Task Force on Financial Integrity and Economic Development

Documentation Requirements for Account Opening at Commercial Banks (%)



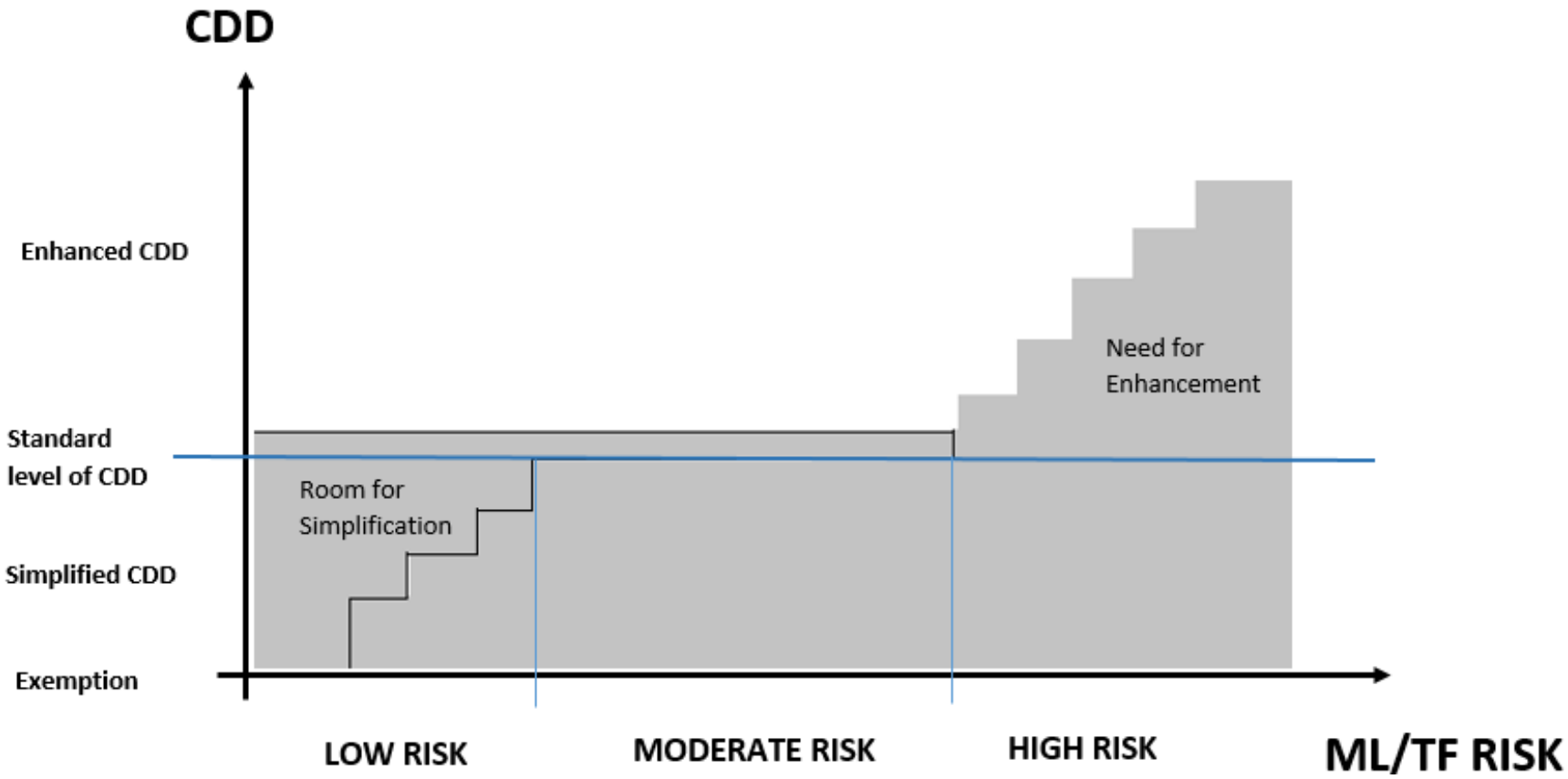
Source: The World Bank Financial Access Database 2011 and Global Financial Inclusion and Consumer Protection Survey 2017

What does the Data tell us?

- Developing countries requirements more stringent than high-income countries.
  - Weaker understanding on RBA? More common to have rules based regulations than principle-based regulation?
- Have the documentation requirements become more onerous?
  - De-risking concerns?
- Do many countries still require documents beyond FATF requirements, despite the risk-based approach emphasized by FATF?
  - Lack of understanding on how to apply RBA? Difficult to prove low risk or lower risk?
- Are the situations different for non-bank financial service providers?
  - The WB FICP survey 2017 shows that 94% of respondent countries specify document requirements for account opening at a commercial bank, but only 72% for financial cooperatives.
  - FATF takes a activity based approach (products/services) v.s. institutional approach.
- Are the situations different for different types of financial products and services (remittances, payments, mobile wallet, etc)?
- Ultimately, what is “identification data” that is reliable, independent source documents, data or information?

Addressing the Challenges: Risk-based approach for CDD

Risk-based approach for CDD



Risk-based approach for CDD: low or lower risk

Enhanced CDD **Standard CDD** **Simplified CDD**

Exemption from CDD

Simplification – In **Lower Risk** situations: identification (and verification) is the bottom line; other CDD measures may be subject to simplification.

Exemption - Only in proven **Low Risk** situations, on a limited basis, for certain type of institutions and activities.

Exemptions from CDD requirements

- "De minimis rules": exemptions following non-application of FATF requirements
  - such as carrying out occasional transactions below the applicable designated threshold (USD/EUR 15,000)

- Otherwise requires "proven" low risk
  - How do you prove this? Easier on ML side, not so easy on TF side.
  - Nonetheless, a few countries examples…
  - ….but would it really necessary, provided enough flexibility embedded in simplified CDD?

- Not part of CDD concept, but important to be aware that there is no RBA to record keeping and suspicious activity reporting.

Simplified CDD requirements

- Only applies when it is a lower risk situation (risk assessment still necessary)

- Or in the case of wire transfers/remittances, “de-minimis” transfers below USD/EUR 1 000 (name and account number of originator and beneficiary required - but need not be verified unless suspicious transactions.)

- FATF recommendations provides flexibility that could be taken into account such as:
  - What information to collect for CDD
  - Separating identification and verification requirements
    - Verification of customers can be delayed, for example, until reached to the next level in Tiered CDD approach

Simplified CDD requirements – Reality….

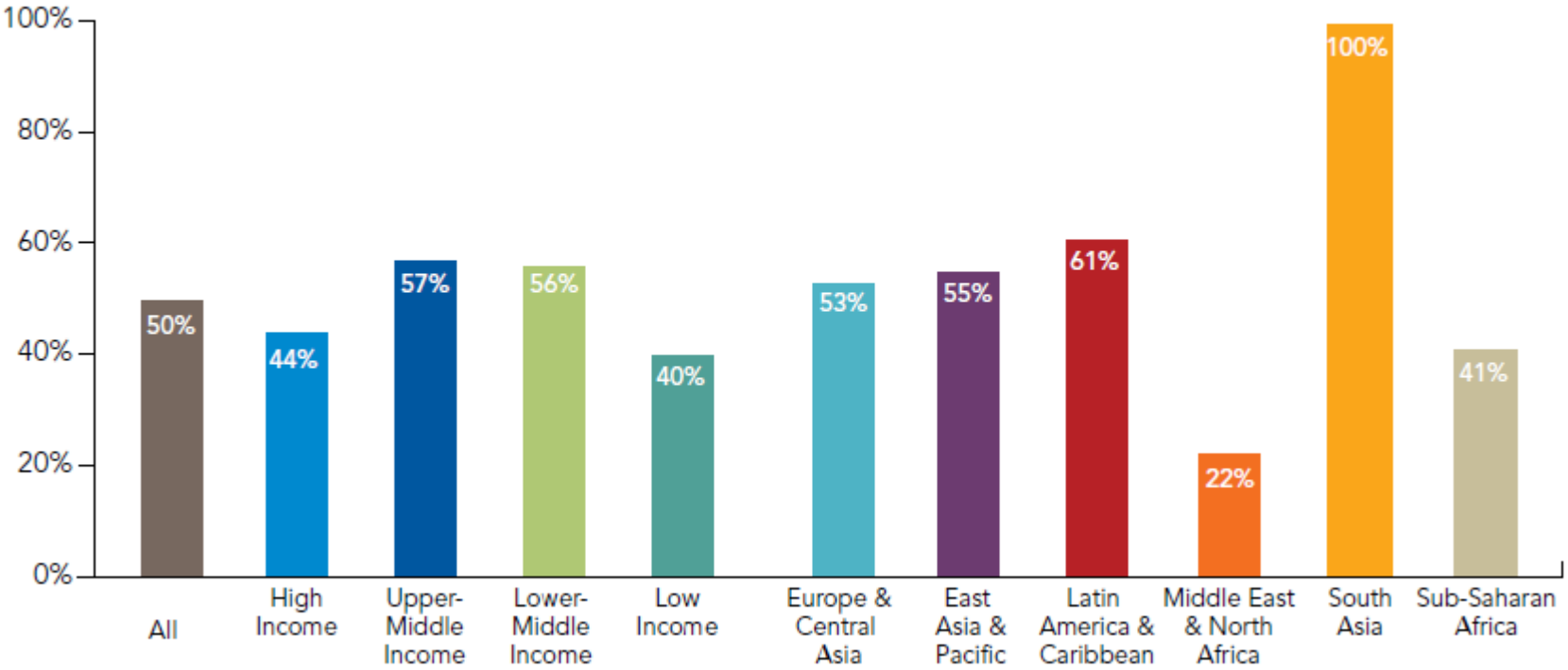
- The WB FICP survey 2017 indicates only 50% of respondent countries have established simplifications or exceptions to customer due diligence requirements for certain types of customers (e.g., low income) or account products (e.g., small-value, low-risk transactions), as relates to Commercial Banks.

- Such simplifications or exceptions are most commonly reported in upper-middle-income jurisdictions (57%) and in the Latin America and Caribbean region (61%).

Half of responding jurisdictions in 2017 have simplifications or exemptions to customer due diligence requirements

Simplifications or Exemptions to Customer Due Diligence Requirements

% of responding jurisdictions that have simplifications or exemptions to customer due diligence requirements, by income and regional group



A few case studies

See the handouts.

Promising future….?

Way forward….

- Leverage Technology!

- ID for Development Initiative
  - Many countries are introducing biometric national ID system
  - e-KYC! Meet the standard of “identification data” that is reliable, independent source documents, data or information?
  - Multiple benefits beyond the financial sector
  - Within the financial sector, more than resolving CDD/KYC issues, also critical in other areas such as payments, pension, credit bureaus, deposit protection, etc.

Benefits of Digital ID

Risks and Challenges in Implementing Digital ID

Exclusion Risks

An effective digital ID is inclusive, but there might be certain segments of the population from whom collecting biometric information is difficult, inaccurate or impossible including vulnerable populations as well as those with low digital literacy or lack of connectivity.

Privacy and Data Protection

The (most likely) centralized nature of sensitive data storage also exacerbates the cybersecurity concerns and privacy risks associated with digital IDs. Preservation of the confidentiality and integrity of the data should be the primary responsibility of the data collector; although the data processor and others involved in accessing, storing and using personal data also have a role to play.

Cost and sustainability

The infrastructure required to build a digital ID system and registration of the eligible population can be a costly and time-consuming process that is likely to require extensive investment in building or updating infrastructure and technology, buy-in from key stakeholders especially consumers, adequate knowledge and understanding of the system.

Resources

Resources

- FATF Guidance on AML/CFT and Financial Inclusion
  - Ground breaking guidance notes in 2011, updated in 2013, and a supplement in 2017 with more examples – WB played a critical role.
  - It support to design AML/CFT measures that meet the goal of financial inclusion, without compromising their effectiveness in combating crime.
  - Examples included but do not guarantee for compliance – each country needs to justify their approach.

- World Bank ML/TF National Risk Assessment Tool including a tool to assess financial inclusion products.

Thank you!

Questions?