

FATF COMMENTS ON THE CPMI CONSULTATIVE REPORT ON PAYMENT ASPECTS OF FINANCIAL INCLUSION

In par. 97, 5th bullet point, add a footnote with a reference to existing FATF Guidance which has clarified the responsibilities between principals and third-party agents in the AML/CFT field:

97. In the financial inclusion context, six key risks in transaction accounts are of special relevance. A failure to address/manage these risks effectively could result in a loss of confidence in electronic payments, and thus slow or reverse their adoption, which would directly impact the achievement of financial inclusion goals:

...

- Use of third-party agents as banking correspondents, and the outsourcing of back office and IT operations: These mechanisms can enhance the ability of PSPs to offer safe and secure services at a low cost.¹ However, shifting operations and/or customer contact/interaction to third parties can dilute responsibility for risk management and overall control functions – including for KYC and AML aspects² – and thus place both the PSP and its customers at risk and make it more difficult for payment system overseers to execute their duties effectively.

In par. 105 to 107, and box 8, adjust the text on financial integrity to better reflect the work conducted by FATF in the financial inclusion field:

3.1.2.5 *Financial integrity*

105. Financial integrity ~~objectives are fully supportive of concerns continue to pose challenges to enhancing financial inclusion, since more people and businesses using the formal financial system will expand the traceability and transparency of financial transactions. However, and despite the flexibility granted by the international framework.~~ National authorities struggle to achieve an appropriate balance in the regulatory regime to protect the financial system from money laundering and terrorist financing risks, on one hand; and, on the other hand, to build in sufficient flexibility to address customer identification issues in a ~~less cumbersome proportionate~~ way, enable the entry of non-bank PSPs, and allow the use of innovative payment instruments and services.

106. The Financial Action Task Force (FATF) ~~has long recognised the value to AML/CFT efforts of increasing the share of economic agents that use payment services that are adequately regulated and overseen, and therefore~~ supports a risk-based approach to implementing the FATF Recommendations.³ ~~Since the revision of the Recommendations in 2012, the risk-based approach is a general and underlying requirement on the basis of which all anti-money laundering/combating the financing of terrorism (AML/CFT) systems should be built. However, many jurisdictions have found it difficult to determine how to design a risk-based regime that would be seen to be in full compliance with the FATF Recommendations. Many country regulatory authorities have therefore opted to adopt rules-based, somewhat restrictive AML/CFT regimes, rather than risk being found non-compliant with the FATF Recommendations.~~

¹ These mechanisms can also enhance the overall efficiency of the retail payment system: the first, by tapping into potential network economies and advanced technologies, and the second by exploiting economies of scale and scope in back office and IT operations.

² FATF clarified the requirements applicable, see FATF (2013) para. 93 and para. 116 and s.

³ The FATF Recommendations are the global standards against money laundering and terrorist financing. See FATF (2012).

107. ~~To address the aforementioned difficulties~~[In order to assist jurisdictions in implementing the RBA in their national context](#), FATF has issued guidance on AML/CFT and financial inclusion, specifically designed to support the efforts of countries to design and implement a risk-based approach that protects the integrity of the financial system and at the same time supports efforts to deepen financial inclusion. ~~FATF, after revising some of the key aspects of its Recommendations in 2012, issued guidance in February 2013 on the application of these standards in the context of financial inclusion efforts~~ (see Box 8).⁴

Box 8

Risk-based approach to AML/CFT regimes and financial inclusion

In 2012, FATF revised the FATF 40 Recommendations to combat money laundering and the financing of terrorism. In the revision, FATF stated that countries should identify, assess, and understand the money laundering and terrorist financing risks for the country, and should take action to mitigate those risks effectively ([Recommendation 1](#)). Based on that assessment, FATF also requires countries to apply a risk-based approach commensurate with the risks identified. This requirement for risk assessment applies at the national level, as well as at the level of obligated financial institutions and designated non-financial businesses and persons (such as lawyers, notaries and real estate agents).

~~This shift toward~~[The reinforcement of the risk-based approach \(which previously was only an option for countries\)](#) allows for ~~a new level of greater~~ flexibility in the application of certain elements of a country's AML/CFT regime, which should ~~complement, rather than inhibit, support and deepen~~ national financial inclusion efforts. FATF further states in Recommendation 1 that "where countries identify lower risks, they may decide to allow simplified measures for some of the FATF Recommendations under certain conditions."

The area where this is most relevant is in the context of customer due diligence (CDD). In the past, it has been suggested that overly strict requirements regarding customers' identification and verification has ~~had unintended effects on~~[contributed to](#) financial ~~inex~~clusion. For example, in a country where many people may lack official documentation to prove identity, strict application of CDD requirements ~~(such as requiring a formal address which is not part of the FATF requirements)~~ may exclude them from the formal financial system. Or, strict CDD procedures that lead financial institutions to pass on costs to the customer could act as a disincentive for customers – especially the poor – to use those services. Under the revised FATF Recommendations, should a country be able to identify lower-risk scenarios or products (a prepaid low-value product, a basic account with strict deposit/withdrawal thresholds etc), the country may allow simplified CDD processes for those situations.

[In addition, and of particular relevance in a payment context, Recommendation 16 which addresses the requirements related to wire transfer activity, allows countries to simplify CDD in relation to cross-border wire transfers where transactional value is below USD/EUR 1 000.](#)

Source: FATF.

Commented [LA1]: ?

In par. 117, the way in which modern ID systems can help PSPs and other financial sector providers reduce their CDD costs could be more specific:

117. In this context, a modern and robust ID system (eg an electronic ID or e-ID system)⁵ can help PSPs and other financial sector providers reduce their customer due diligence costs, ~~and overcome some of the identification and verification of identity challenges met when complying with AML/CFT requirements (see section 3.1.2.5).~~ For example, e-ID systems can help open up new distribution

⁴ For the complete revised guidance see FATF (2013).

⁵ Identification systems that use electronic and biometric technology are often referred to as digital ID-systems or electronic ID-systems. In those systems, the identity can be securely and unambiguously asserted and verified through electronic means for delivery of services across sectors, including healthcare, safety nets, financial services, and transport.

channels, allowing agents to reliably validate customer identity. Box 9 illustrates two country cases where e-ID systems are being used successfully.

In Annex 3 on references, amend the references to FATF documents:

Financial Action Task Force (2012): *International standards on combating money laundering and the financing of terrorism & proliferation – the FATF Recommendations*, [Organisation for Economic Co-operation and Development](#), Paris.

——— (2013): *Guidance on anti-money laundering and terrorist financing measures and financial inclusion*, [Organisation for Economic Co-operation and Development](#), Paris.