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Inclusive Financial Integrity

Insights and considerations on implementing a Risk-Based Approach (RBA) to Anti-Money Laundering (AML) and Combatting the Financing of Terrorism (CFT) that addresses both financial inclusion and integrity

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1 Introduction

Countries in the Sub-Saharan Africa (SSA) region have been on a development curve in setting up effective Anti-Money Laundering (AML) and Combatting the Financing of Terrorism (CFT) regulatory responses that meet the international Financial Action Task Force (FATF) standards. FATF is a global body mandated with setting standards on financial integrity and monitors and evaluates countries' progress in meeting these standards through FATF mutual evaluations, which are currently taking place[1]. If countries do not meet these international standards, they face the risk of sanctions, including cutting off their financial systems from important correspondent banking relationships.

Against this background, SSA countries have highlighted the key challenge of designing AML/CFT frameworks and processes that meet FATF integrity standards while at the same time promoting both financial inclusion and integrity. In fact, financial inclusion and integrity are perceived and pursued as competing objectives. However, key findings from a report commissioned by Financial Sector Deepening Africa (FSDA), entitled Risk-based approaches to the regulation of AML/CFT[2], highlights that promoting financial inclusion is central to effectively achieving AML/CFT objectives and that a risk-based approach (RBA) to implementing them can provide opportunities to reconcile regional realities (see **Box 1** for more information on the report).

This guidance note builds on the research commissioned by FSDA and shares learnings from workshops held in Zambia, Malawi, Nigeria and Uganda during the 2015/16 period regarding the implementation of an AML/CFT risk-based approach that advances financial inclusion. It draws out some of the key cross-cutting themes that underpin the development of a risk-based approach, notably in respect of national risk assessments that have the potential to advance financial inclusion and financial integrity opportunities, including:

- Getting the risk-based approach and national risk assessment structures and process right
- Addressing risk appetite considerations
- Using data and information to address the risk of exclusion in a national risk assessment
- Aligning AML/CFT objectives at national and institutional levels

1 Technical assessment of compliance with the FATF 40 – whether the necessary laws, regulations or other required measures are in force and effect, and a supporting AML/CFT institutional framework is in place. Effectiveness assessment – whether the AML/CFT systems are working, and the extent to which the country is achieving the defined set of outcomes.

2 The full project report is available upon request.

- Implementing the risk-based approach at the sectoral level
- Explicitly recognising that financial inclusion is part of financial integrity
- Encouraging innovations in identity and the process of identification that enhances financial inclusion
- Facilitating communication among AML/CFT stakeholders
- Applying AML/CFT controls that are proportionate to risks
- Clarifying AML/CFT requirements to avoid uncertainty

This note and its insights forms the basis of Cenfri's approach to AML/CFT implementation that prioritises financial inclusion (inclusive integrity). This is currently being rolled out in various countries across SSA.

Box 1: Risk-based approaches to the regulation of AML/CFT

The purpose of the research was to understand how best to incorporate financial inclusion as an integral component of conducting a national risk assessment and implementing a risk-based approach. The project entailed two main activity streams: (i) workshops involving key public and private-sector stakeholders from the four study countries (Malawi, Nigeria, Uganda and Zambia) and (ii) individual interviews and the completion of questionnaires by relevant stakeholders[3]. During the workshops, participants worked through the process of developing national risk assessments as well as relevant international guidance and examples of approaches to risk-based analysis in other jurisdictions, with a specific focus on the relevance for financial inclusion. High-level surveys of South Africa and Namibia were undertaken to draw on experiences of countries in the region that did not form part of the four study countries.

Findings were complemented with desktop research, including a review of FATF guidance, Making Access Possible (MAP) diagnostics[4], FinScope surveys[5], Enhancing Financial Innovation & Access (EFInA)[6] and independent research reports.

3 Stakeholders in attendance included banking, insurance and capital markets regulators, representatives from industry associations and individual financial institutions, as well as, in some instances, representatives from tax, customs and national prosecuting authorities, the police, anti-crime and anti-corruption agencies and the public protector.
4 http://cenfri.org/map
5 http://www.finmark.org.za
6 http://efina.org.ng/

2 Overview of relevant concepts

2.1.

Financial inclusion and financial integrity

Financial inclusion refers to the access and usage of appropriate financial products and services to enhance household welfare and livelihoods. Financial integrity refers to the soundness of a financial system in dealing with key risks and threats. The Financial Action Task Force (FATF) recognises the link between financial inclusion and financial integrity by noting that, "one cannot ignore the fact that financial exclusion is an ML/TF [money laundering or terrorist-financing] risk[7]". Accordingly, mitigating the risk of exclusion can improve the effectiveness of AML/CFT controls. However, AML/CFT frameworks can directly and indirectly create barriers to the access and use of financial services, thereby undermining efforts to mitigate the risk of exclusion and accordingly limit the effectiveness of AML/CFT regimes.

2.2.

Risk and the risk-based approach (RBA)

In its basic form, risk is defined as uncertainty in future events that affects (positively or negatively) achievement of objectives (King III Report, 2009). Risk is a function of three factors: probability of an event (threat), vulnerability and consequence[8]. Risk management involves making judgements about threats, vulnerability and consequences; risk responses thereto will include avoiding, accepting or mitigating the risks in question. Where "higher" risks are identified, enhanced measures are taken (at institutional level) to manage and mitigate those risks. Where the risks are "low" or "lower", simplified measures or an exemption may be allowed[9]. Importantly, the application of a risk-based approach requires a robust understanding of risk and risk management. As a starting point, relevant risks should be described or defined, and effective identification of such risks should be undertaken.

"The application of a risk-based approach requires a robust understanding of risk and risk management. As a starting point, relevant risks should be described or defined, and effective identification of such risks should be undertaken."

7 FATF, 2013b.
8 King III King Report on Governance in South Africa. 2009. Definitions section.
9 FATF, 2013a

Table 1: AML/CFT-related risks

	Risk descriptions
Money laundering (ML) risk	The risk that a country, financial institution or business unit could be used for ML
Terrorism-financing (TF) risk	The risk that a country, financial institution or business unit could be used for TF. While in many respects this is similar to ML risk, TF risk has features that may be different.
Compliance risk	This is an institutional-level concern and revolves around non-adherence with AML/CFT regulatory requirements. Compliance risk is a key driver in implementing AML/CFT controls, and the risk management approach of institutions depends on several variables.
Risk of exclusion	Uncertainty associated with large, informal and primarily cash economies that are not typically subject to any AML/CFT measures and which obscure information about the informal financial sector and underlying transactions For example, a remittance sender is excluded from sending a remittance due to a lack of documentation and then utilises an informal cross-border remittance service linked to unknown intermediaries.
Other risks	**Illicit financial flows risk:** This is the risk of institutions and jurisdictions being used as conduit for funds that break laws in their origin, movement and use. Illicit financial flows broadly include money laundering, corruption, trade mis-pricing, transfer mispricing and tax evasion. **Tax evasion** occurs when tax-obligated institutions and individuals fail to remit taxes due to government and its related institutions. At times the funds are moved via illegal and legal channels to evade tax. **Transfer mispricing** occurs when (mostly related) entities do business and trade with one another at prices that are below market prices or prices that could have been obtained had the transaction taken place via the market (arm's-length principle) leading to reduced tax and other related levies due to government. **Corruption** is a major medium through which illicit financial flows are facilitated. Corrupt officials accept bribes from corporations and turn a blind eye to suspicious activity. The proceeds of corruption are often concealed and away from a country's laws. **Trade mispricing** occurs when companies over-invoice or under-invoice to hide the true value of exports and imports. Apart from creating a distortion in trade data, this also prejudices government of revenues due to them. The fact that these various forms of illicit financial flows use and misuse the financial system compromises financial integrity and is a key risk.

Source: Authors' own, based on FATF guidelines (2012)

Institutions need an effective AML/CFT risk assessment framework and process. During workshops held in the participating countries, various scenarios were used to develop a baseline from which to facilitate a regional conversation about the approach that institutions can take in developing their risk-based approaches. This approach emphasises inclusive integrity, i.e. implementing AML/CFT policies that advance financial inclusion. This requires going beyond viewing AML/CFT implementation as a tick-box exercise to realising that it can address additional national objectives, including financial inclusion and illicit financial flows, among others. ML/TF risk assessment thereof was facilitated using appropriate factors, which addressed product and delivery channel risk assessment perspectives. These were identified with a view to determining how institutions and countries can support the implementation of risk assessment methodologies that are suitable in light of their circumstances.

The factors used include, among others:

- Account balances
- Anonymity
- Cash
- Cross-border functionality
- Elusiveness
- Methods of funding
- Non-face-to-face business
- Oversight
- Rapidity
- Segmentation of services
- Transaction flows
- Transaction frequency
- Transaction size

These factors are linked to and should be viewed in combination with those factors listed in table 2 below.

The factors that are relevant to an assessment of risk will have inherent ML/TF risk levels associated with them and should be holistically viewed when assessing risk. The residual ML/TF risk (i.e. the level of risk after taking into account systems, processes and people controls that mitigate risk) will also be considered by institutions, and this will inform their due diligence and business approach. It is recognised that customer, jurisdiction (geography), transaction and other factors should also be factored in where appropriate, as identified in Table 2 below.

This framework can be used by institutions to determine the factors that should be taken into account in assessing ML/TF risk. However, based on the workshops held in participating countries, and interviews with stakeholders, it is apparent that there is still a long way to go before current risk frameworks and processes mature. This is a concern because the lack of maturity may lead to inappropriate compliance, which could have an adverse impact on AML/CFT as well as financial inclusion outcomes. The compliance responses of institutions (due diligence that must be carried out, suspicion and other reporting, training of staff and monitoring) should ideally be informed by a national risk assessment, which has the potential to support the achievement of financial inclusion outcomes.

Table 2: ML/TF risk factors

Risk factors	
Product and delivery channel	Risk factors at product and delivery channel levels are often the starting point in ML/TF risk assessment. These relate to the features of the product and delivery thereof. For example, lower transaction and balance limits would reduce ML risk.
Customer	Characteristics of the person or entity that establishes the business relationship or enters into a transaction provide indicators of risk. For example, a low-income worker may be lower risk than a politically exposed person (PEP).
Jurisdiction (geography)	Jurisdiction (geography)-related factors may be relevant. This could include cross-border business or indicators relating to countries. For example, the country of residence of a client or the country from which a client derives funds/income could make them more or less risky.
Transaction	The transaction profile of clients will provide an indication of ML/TF risk. This should be considered in light of the expected transactions profile. For example, a large number of high-value transactions through an account of a low-income client.
Other	These are factors that may be related to the above but that are identified separately. Institutions may categorise various factors under separate headings.

Source: Based on headings contained in the interpretive note to FATF Recommendation 10

2.3.

Conducting a national risk assessment (NRA)

A national risk assessment, as described in FATF guidance, is a process whereby ML/TF risks are assessed at the country level, taking into account relevant threats, vulnerabilities and consequences. It is often led by the Financial Intelligence Centre or Unit (FIC/FIU) of a jurisdiction. A national risk assessment facilitates a holistic view of the ML/TF profile of a country. The process involves identifying,assessing and understanding ML/TF risks at a national level and this serves as a basis for structuring an AML-CFT framework at country level. The approach that is adopted for each country will depend on the country's circumstances and its ML/TF environment, as well as the maturity and sophistication of the AML/CFT regime.

The determination of assessment objectives should be a point of departure in a national risk assessment, and an appropriate assessment methodology and process should be used. The considerations in Table 3, below, are relevant in this regard.

Contributors to the study recognised the need for AML/CFT guidance. This is crucial in providing support and direction to institutions in designing and implementing a risk-based approach.

Table 3: NRA considerations

NRA considerations	Description
Policy	Provide for a national policy on risk assessment. It should also address both integrity and inclusion policy issues.
Regulatory requirements	Align the country's regulatory requirements with international standards; provide input into the formulation of AML/CFT requirements; review the regulations relating to the AML/CFT to facilitate financial inclusion; improve the AML/CFT regime.
Resources	Prioritise and allocate resources; optimal deployment of limited resources.
Risk mitigation	Determine mitigation strategies for the risks identified; mitigate the use of financial systems for ML/TF activities.
Threats and vulnerabilities	Determine how vulnerable the economy is to ML/TF and related threats such as illicit financial flows; understand and determine the weaknesses in the legal framework in relation to AML/CFT; identify the players involved in ML/TF activities; identify and examine the specific threats and vulnerabilities in the formal and informal sectors.
Financial exclusion risk	Assess the extent of financial exclusion in relation to the impact on ML/TF risks.
Communication	Sensitise stakeholders about ML/TF matters and facilitate communication relating to relevant risks.
Effectiveness	Review the effectiveness of institutions' compliance with AML/CFT regulations.

Source: FSDA RBA workshops held in participating countries

3 Key lessons from the four pilot countries

In view of input provided during country workshops, it was clear that institutions are willing to adopt simplified measures, and make use of exemptions where these are available, to promote financial inclusion and thereby reduce the risk of exclusion. However, various issues and challenges were identified in implementing a risk-based approach that promotes financial integrity and inclusion, as outlined here.

Risk assessment is not an exact science.

Although there is a general tendency in institutions towards adopting conservative approaches to compliance with AML/CFT requirements, stakeholders sometimes assess ML/TF risks differently, and there is not always consensus on risk ratings. Different people with the same information can arrive at different risk assessment outcomes for various reasons. Rating risks differently implies different mitigation strategies. The supervisor's main concern is to ensure alignment between the identified risk and mitigation strategies. Supervising within the risk-based approach (risk-based supervision) therefore requires the supervisor to have additional information about the institution, the market and sector they operate in to be able to make a sound overall judgement, including on alignment between the risk and the mitigation strategies. This may result from a number of variables, such as:

- Different levels of risk assessment knowledge, skills and experience
- Divergent views of what the objectives of the risk assessment are
- Different backgrounds and motivations of people that undertake the risk assessment
- Different understanding of how the risk assessment methodology should be applied
- Incomplete or inadequate information on which to base a risk assessment
- Assessments based on assumptions or perception rather than objective inputs
- Misinterpretation of the facts or circumstances
- Different risk appetites

A risk-based approach can create regulatory compliance uncertainty.

Although the international standards allow countries the opportunity to frame regulatory requirements according to their circumstances, the workshops showed that there are challenges in balancing the need for regulatory certainty with allowing room for flexible responses in line with changing local circumstances, as well as business and technological realities. High levels of flexibility can result in uncertainty as to how to comply with the law; for example, in respect of applying principles-based, simplified due diligence requirements in relation to a largely subjective client assessment.

The regulatory compliance uncertainty created by the risk-based approach requires significant technical assistance to help regulators navigate through this. Cenfri's current inclusive integrity technical assistance is working to fill this important gap.

Conservative AML/CFT approaches.

The primary focus of institutions and countries seems to be on mitigating AML/CFT risks associated with products and services, as well as on compliance with regulation, while financial inclusion seems to be a secondary consideration. Conservative compliance responses are encouraged in this environment, which can result in de-risking if institutions are not adequately geared to identifying and assessing ML/TF risks and taking appropriate action, or where the risk exposures in question are not within the risk appetite or tolerance of the institution. This may be, in part, caused by institutions not being willing to take on exposures that could make them liable for criminal charges or where there are vulnerabilities that exist outside their walls in the economy at large. In this regard, there should be adequate guidance or regulatory specification to avoid overly conservative compliance responses to such regulatory requirements.

Misalignment of AML/CFT objectives at national and institutional levels.

Regulators and policymakers are driven by national-level objectives, such as mitigating threats to the integrity of the financial system and financial inclusion. On the other hand, institutions are concerned with running viable businesses and addressing compliance risk. Risk is identified and assessed at the national level based on considerations and objectives that are relevant at this level, but such risks are mitigated at the institutional level (in an environment of threats and vulnerabilities that exist) where a business-level set of objectives are relevant. Consequently, AML/CFT objectives and risks identified at the national level may not be well aligned with risk mitigation actions at the institutional level.

Cash is not necessarily the enemy.

Current AML/CFT frameworks place a disproportionate focus on lower-value, cash-linked products. However, there is little evidence of such an approach reducing illicit flows through formal channels. Although excluded populations transact largely in cash, cash is not synonymous with "informal" or "illegitimate". Nonetheless, informal cash economies are not subject to AML/CFT oversight, which raises the risk of exclusion. Understanding opportunities and challenges presented by cash economies can reduce uncertainty about such economies and facilitate effective action from both the financial inclusion and AML/CFT perspectives. As a starting point, cash economies and risk of exclusion should be addressed in a national risk assessment.

Identification and verification of sources of income restrict access for those in informal employment.

Across the study countries, the informal cash economy is relatively large, making the requirement to adequately identify and verify sources of income untenable for the financially excluded population, who are often involved in the informal sector. For instance, in Uganda, stakeholders in the banking sector noted that, in practice, salaried earners and the formally employed may be considered low risk, while individuals in self-employment (with verifiable income) are considered high risk. In Zambia, some banks require a reference letter from the individual's employer as part of the know-your-customer (KYC) requirements.

The costs associated with the risk-based approach implementation may raise the costs of providing entry-level products and services from the supply-side, thus limiting the availability of products for low-income consumers. An increase in costs can have a significant impact on financial inclusion prospects in a country.

High costs (for countries and institutions) associated with adoption of a full risk-based approach may reduce financial product offerings for low-income consumers.

The workshops deepened the understanding that the risk-based approach will, in some respects, be time-consuming and resource-intensive. Notably, this will be due to resourcing required to identify, assess and understand ML/TF risks (which may require specialised skills), as well as investments in IT systems and ongoing monitoring challenges. The costs associated with the risk-based approach implementation may raise the costs of providing entry-level products and services from the supply-side, thus limiting the availability of products for low-income consumers, i.e. by raising the costs of the products and services. An increase in costs can have a significant impact on financial inclusion prospects in a country. It is important to recognise the implications of the aforementioned considerations in the development, implementation and supervision of AML/CFT regulatory requirements. This will be particularly the case where countries have low levels of financial inclusion and would like to avoid unintended negative consequences that AML/CFT requirements can have on financial inclusion.

Regulatory challenges.

The impact of AML/CFT regulatory requirements and the supervision thereof should be monitored at a national level, and there should be ongoing consideration of the gaps in existing regulatory requirements. The AML/CFT frameworks of countries in the region have, in the past, often been based on models that have been adopted by developed countries, i.e. where financial exclusion is much lower and presents far less of a threat. However, even in these countries, the proportionality principle is difficult to apply in assessing ML/TF risk and determining appropriate compliance responses. Implementation difficulties are exacerbated by the need to give an appropriate weight to the benefits of financial inclusion.

Transaction or balance limits that are applied in respect of products impede access for irregular income earners.

Transaction or balance limits are intended to lower ML/TF risk and, in turn, promote access by reducing the compliance measures that are applied. However, there is potential that such limits may restrict access by individuals and households earning bulky, irregular incomes. Consumers without adequate identity documentation, but with bulky incomes, could therefore be restricted from services with transaction or balance limits in place. In particular, those wanting to make bulk deposits at banks, or send larger sums of money via remittances, would be subject to normal or enhanced due diligence, as these sums could exceed the limits that apply in relation to simplified due diligence.

Strict customer due diligence requirements limit access in countries where access to identification cards/ books, birth certificates and other documents is a challenge.

Customer due diligence measures mitigate the risk of product, and delivery channel features (such as non-face-to-face functionality and segmentation of services) may further restrict access. For instance, mobile money products identified in the study countries (specifically Malawi, Uganda and Zambia) all require a valid identity document at account origination. While no other documentation may be required to establish the mobile money account, providing a valid identity document may prove difficult for the financially excluded populations in the study countries, all of which have limitations in the national identity infrastructure.

4 Building blocks that advance financial inclusion

Against the above background and bearing in mind that the structure and process that are used by a country in undertaking a sectoral and institutional risk assessment will depend on the country circumstances, its ML/TF environment, as well as the maturity and sophistication of the AML/CFT regime, the following could be considered when developing an NRA or implementing an RBA that addresses both financial integrity and financial inclusion imperatives.

Get the RBA and NRA structures and process right.

Appropriate structures are needed for an NRA. This may include an NRA committee and various sub-committees or working groups that address the country threat and vulnerability assessment components. Importantly, a sub-committee or working group that addresses financial inclusion products and services plays a valuable role in assessing AML/TF risks relating thereto.

This provides a platform from which each of the other sub-committees or working groups can inform the identification of products and services that facilitate financial inclusion and address financial inclusion opportunities. These structures should be fit for purpose, lean and efficient.
In addition, an NRA could be supported by a supranational, sectoral or thematic risk assessment. An effective NRA will provide input for potential improvements to the AML/CFT regime, including the formulation or calibration of national AML/CFT policies, as well as inform policy development relating to financial inclusion. Simplified due diligence or due diligence exemptions may be applied where there are low or lower ML/TF risks respectively. Importantly, where NRA outputs are available to institutions, this will assist them in their development of RBAs.

Address risk appetite considerations.

In determining the desired outcomes of an NRA and RBA, countries in Sub-Saharan Africa should consider their risk appetite, bearing in mind that risk cannot be eliminated completely. This is not specifically addressed in FATF recommendations or guidance that has been published; however, there would be value in developing a regional conversation in this regard. Institutions will determine their risk appetite as part of their risk management framework and process, i.e. relating to compliance, ML/TF and other risks. A robust understanding of the dynamics relating thereto will assist in avoiding so-called de-risking.

Use data and information to address the risk of exclusion in an NRA.

An NRA should take into account data or inputs that can best assist a country in identifying, assessing and understanding ML/TF risk. Analysis based on the adequate and reliable data is important. Clear specification of AML/CFT objectives and a clear understanding of what should be measured in order to assess whether those objectives are being achieved would support the effectiveness of financial integrity initiatives of countries. For example, while data on criminal activity, prosecutions and convictions informs AML/CFT priorities of countries, such data is generally not available to provide an understanding of the ML/TF risks in a manner that assists institutions in adopting an RBA. Data relating to criminal or terrorist activity will provide indicators of possible high risk; however, the sharing of such data represents a challenge. Data in respect of the financial behaviours and needs of excluded populations can provide insights into the transaction modalities of excluded populations, and potentially indicators of low or lower risk. Data can also provide insights into access and usage barriers to financial products and services, which can inform strategies to mitigate the risk of exclusion.

Align AML/CFT objectives at national and institutional levels.

Financial inclusion and financial integrity are both priorities in all jurisdictions that participated in this study. The objectives of both should be addressed at a country policy level, and potential unintended outcomes of AML/CFT requirements should be identified and understood (specifically in respect of overly conservative compliance). This is particularly important in optimising country responses towards preventing or combatting ML/TF and promoting financial inclusion, i.e. recognising that risks are identified and assessed at the national level through an NRA, while the effectiveness of risk mitigation should also be understood at the institutional level. There should be a specific focus on alignment at the country and institutional levels in NRAs, i.e. in respect of financial integrity and financial inclusion outcomes.

Implement the RBA at the sectoral level.

National level AML/CFT objectives can be supported by implementing an RBA at the sectoral level in a jurisdiction. For example, thresholds and customer due diligence requirements (in respect of transactions, balances and other variables) for products and services considered “low” or “lower” risk can be determined and set by regulators for an industry sector such as banking. This approach also assists in enabling regulators to provide the regulatory compliance certainty that institutions need, while establishing AML/CFT frameworks that address the ML/TF risks identified and assessed in the NRA.

Explicitly recognise that financial inclusion is part of financial integrity.

It is increasingly acknowledged that financial exclusion poses ML/TF risks. When the level of financial inclusion in a country is low and only part of the financial system is subject to AML/CFT measures, "the informal and unregistered components [are] vulnerable to abuse." (Bester et al, 2008: vi). Further, financial exclusion can undermine the effectiveness of AML/CFT efforts. Financial inclusion, then, is a key ML/TF mitigant of the risk of exclusion. Therefore, countries should identify, assess and understand the risk of exclusion.

Encourage innovations in identity and the process of identification that enhance financial inclusion.

The concept of "identity" in a rapidly changing world should be re-evaluated. The AML/CFT regime of a country is underpinned by regulatory requirements that require financial institutions to identify and verify the identity of customers. This is crucial to the achievement of AML/CFT objectives and brings identity and the process of identification onto centre stage. The identity of a customer can be viewed as constituting more than a limited number of elements used in a typical rules-based approach (e.g. name, national identity number, date of birth, residential address and contact details). It is reasoned that innovations, such as biometrics technology, can house elements of a person's identity in various ways. Confirming a person's identity can be achieved using data sources that can be appropriately correlated. These opportunities should be recognised in the AML/CFT regulatory requirements of a country to open new avenues to reach under-served or unserved markets.

Facilitate communication among AML/CFT stakeholders.

Good communication among regulatory authorities and institutions is crucial in implementing a risk-based approach at the sectoral level. This will improve the quality of inputs in an NRA and will clarify the relationship between risks identified and assessed in an NRA and mitigation strategies to address risks. Importantly, the information that is obtained in an NRA can be used to inform approaches that will support financial inclusion outcomes.

Apply AML/CFT controls that are proportionate to risks.

It should be noted that unnecessarily conservative AML/CFT controls or compliance responses of institutions could severely limit access to financial products and services. Institutions may commit resources to risk mitigation that are not warranted in view of the ML/TF risk in question. Where there is lower or low risk, AML/CFT measures (such as consumer due diligence) can be simplified or even exempted. Where there is higher risk, enhanced due diligence must be applied. In the context of financial inclusion, this means (in part) that AML/CFT controls should be implemented in a way that does not unnecessarily impede financial inclusion and thereby reinforce the risk of exclusion.

Clarify AML/CFT requirements to avoid uncertainty.

Clear guidance for institutions plays an important role in the adoption of an RBA. Notably, institutions should have the support needed to undertake customer due diligence (initial and ongoing) in respect of all customers to avoid misinterpretation of the regulatory requirements, which could mean that due diligence must be repeated. Reducing the level of uncertainty relating to how to comply with applicable regulatory requirements will assist in reducing overly conservative compliance responses by institutions.


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5 Conclusion

Although there are unique circumstances in each country that make it inappropriate to apply a one-size-fits-all approach to an NRA or institutional RBAs, there are common threads on which a financial inclusion and financial integrity optimising framework and process can be based. This note has identified considerations that are relevant in implementing an RBA that addresses both financial inclusion and financial integrity imperatives. These are based on insights obtained from workshops held in participating countries (Uganda, Nigeria, Malawi and Zambia).

The feedback from the workshops clearly indicate that there is ground to be covered before country or institutional RBA frameworks in the region can be considered mature. Much is still unknown about the AML/CFT journey and how this links to broader development and welfare of the region. This challenge should be recognised within the wider context of the need for governance at country and institutional levels that is required to support development opportunities in the region.

This note, together with the detailed study report will help inform the direction of travel in respect of various aspects of the RBA to the regulation of AML/CFT. It is recommended that the matters raised and the building blocks of an RBA identified in the report be considered with a view to improving the outlook for both financial integrity and financial inclusion.

“It is recommended that the matters raised and the building blocks of an RBA identified in the report be considered with a view to improving the outlook for both financial integrity and financial inclusion.”

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About Cenfri

The Centre for Financial Regulation & Inclusion (Cenfri) is a global think tank and non-profit enterprise that bridges the gap between insights and impact in the financial sector. Cenfri's people are driven by a vision of a world where all people live their financial lives optimally to enhance welfare and grow the economy. Its core focus is on generating insights that can inform policymakers, market players and donors seeking to unlock development outcomes through inclusive financial services and the financial sector more broadly.

About FSD Africa

FSD Africa is a non-profit company which aims to increase prosperity, create jobs and reduce poverty by bringing about a transformation in financial markets in Sub-Saharan Africa (SSA) and in the economies they serve. It provides know-how and capital to champions of change whose ideas, influence and actions will make finance more useful to African businesses and households. It is funded by the UK aid from the UK Government. FSD Africa also provides technical and operational support to a family of 10 financial market development agencies or "FSDs" across SSA called the FSD Network.