

Customer due diligence innovations for COVID-19 recovery

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Customer due diligence innovations for COVID-19 recovery



COVID-19 implications

- A new environment
 - The economic impact of COVID-19 has resulted in a number of payment channels being **disrupted** or **becoming volatile**.
 - Potential disruptions on the horizon with credit and financial institutions
 - Disruptions in cash and goods logistics
- Contactless onboarding to the digital world is a priority – a KYC bottleneck
 - New environment is resulting in the need to switch to **alternative channels** and open **digital options** to both new and old customers.
- The need for innovation and strengthening of CDD
 - Health risks and the need for social distancing are making onboarding a challenge.
 - Especially true where paper and physical contact/movement is required
 - **Digitalisation** has the potential to mitigate these challenges and break down barriers of **distrust** and **fear of digital modalities**.

Understanding CDD and identity proofing



Know Your Customer (KYC)

- Process by which businesses verify the identity of their customers
- Business term equivalent to elements of customer due diligence (CDD)



Customer due diligence (CDD)

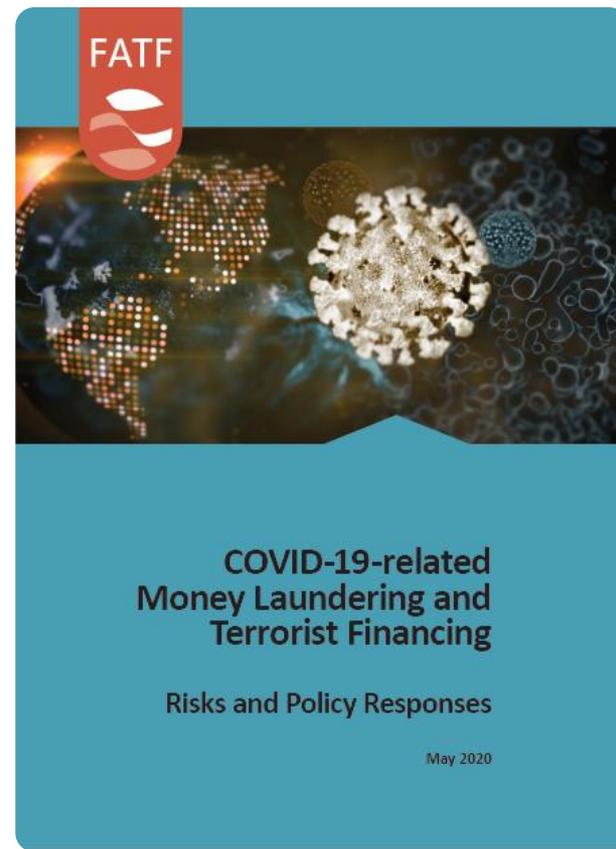
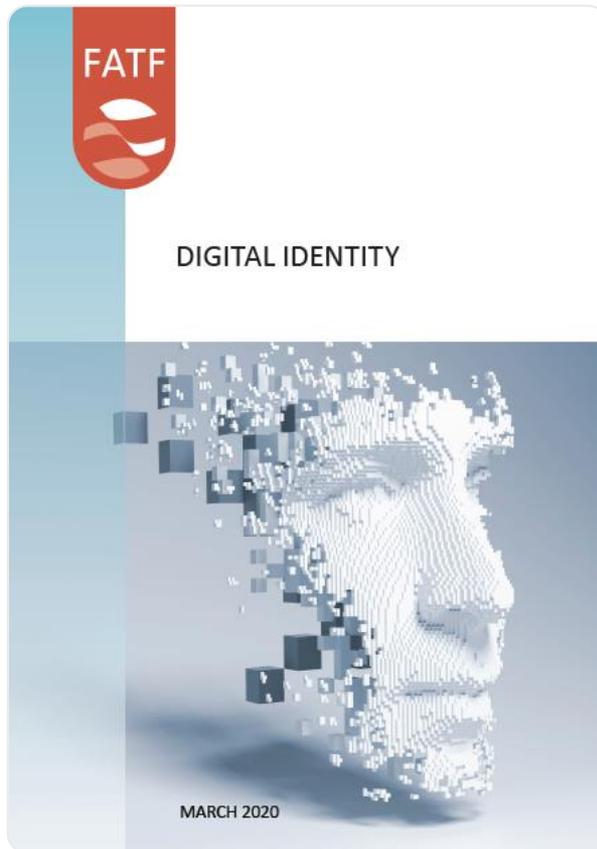
- Beneficial ownership
- Develop customer risk profile
- Ongoing monitoring
- Customer identification and verification



Identity proofing

- Function for verifying and authenticating the identity of individuals
- Elements can either be digital or physical (documentation) or a combination of both
- Particular problem for women – 35% of women and 26% of men in SSA lack formal ID

FATF guidance on KYC, CDD and identity amid COVID-19



“ “ *The FATF encourages the fullest use of responsible digital customer onboarding and delivery of digital financial services in light of social distancing measures.* ” ”

Addressing the issues



Regulatory innovations

- Regulatory frameworks that enable innovation
- Strengthen CDD by removing weak identifiers that limit access
- For example, proof of address no longer a regulatory requirement in South Africa and Hong Kong

Regtech and digital ID

- Regtech options that provide context-relevant additional levels of surety in identification and transactions monitoring
- Proxy IDs for seamless G2P, P2B and remittance payments

Remote onboarding

- Distance and non-face-to-face options can assist people in remote areas.
- **India:** Securities regulator endorsed the use of video-based ID verification and electronic signatures.
- **Ghana:** KYC transferable from SIM registrations to allow for remote mobile money account openings

Key questions to consider



How should African regulators engage with individuals that have no proof of identity?

How should African regulators respond to FATF's recent guidance on digital identity? Are they behind the curve?

What are the promising digital identity proofing options during and post-COVID-19 for payments and remittances?

How can identity proofing and digitalisation options be promoted, and what are the challenges?

How can AML-CFT frameworks be made more effective and responsive to identity proofing and digitalisation?

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About Cenfri

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 who seek to unlock development outcomes through inclusive financial services and the financial sector more broadly.

About FSD Africa

FSD Africa is a non-profit company that 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.

