Building inclusive ecosystems aligned to FATF recommendations

An example from financial inclusion

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Formal ecosystem participation rests on identity

The case for a risk-based approach

Access to the formal ecosystem is based on the ability of a service provider to credibly verify the identity of an individual.

Too strict KYC regulation results in exclusion

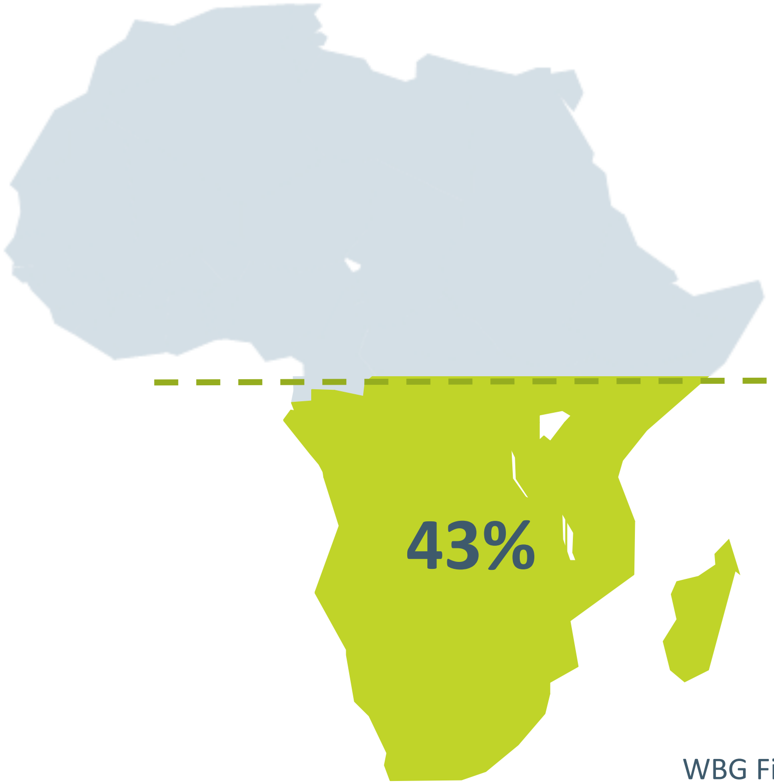
Too lenient KYC regulation results in the abuse of the system

A risk-based approach is necessary to ensure the appropriate level of KYC documentation is required

RBA an avenue for inclusion

An example from financial inclusion

Financial inclusion in Africa



WBG FinDex, 2017

In **2017**, **30%** of the financially excluded adult population in a number of SSA countries attributed their status to a lack of KYC documentation.

Financial Action Task Force (FATF): an inter-governmental body to set standards and promote effective implementation of measures for combating threats to the integrity of the international financial system

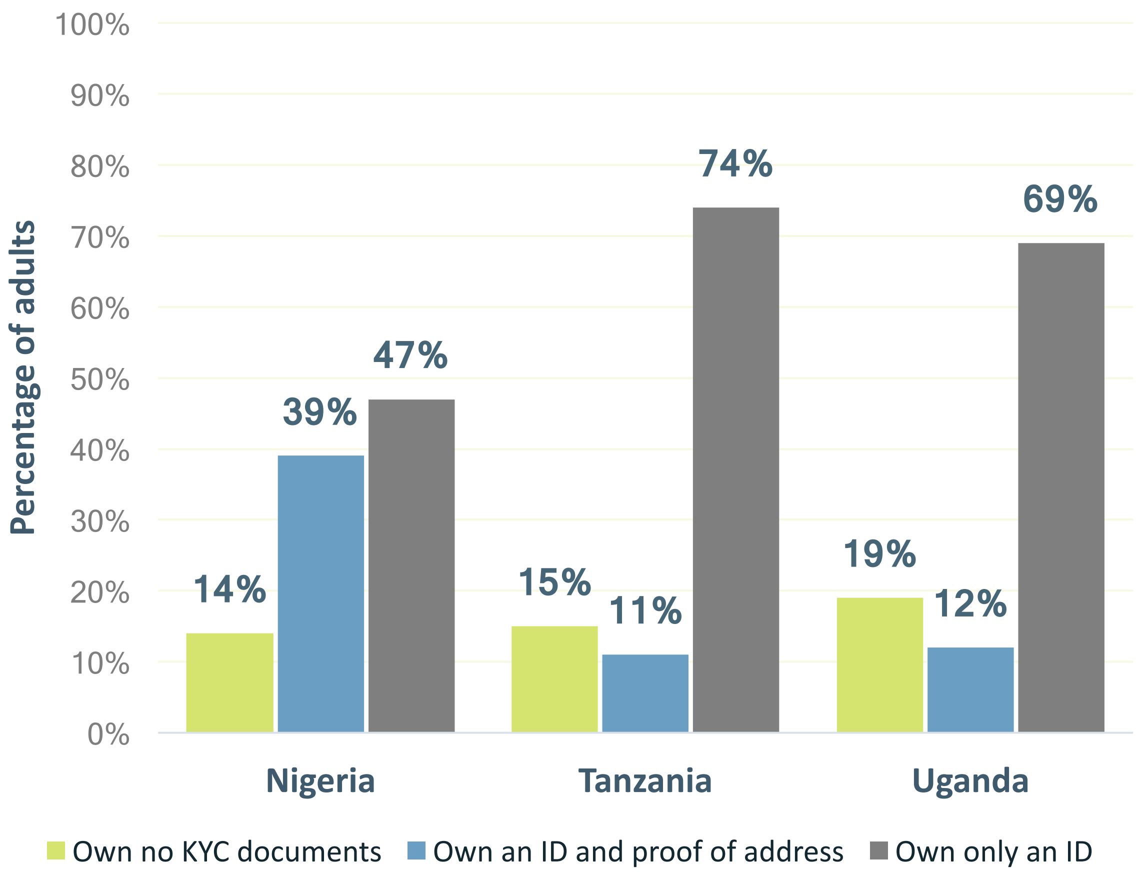
FATF promotes a risk-based approach (RBA) to ensure a balance be struck between the protection of the integrity of the financial ecosystem and financial inclusion.

RBA allows for KYC requirements to be calibrated according to the ML/TF risk that the consumer poses to the financial institution and financial sector.

Therefore, the RBA creates a space for innovation to lower KYC barriers.

Country regulations not always aligned with global standards

The proof-of-address conundrum



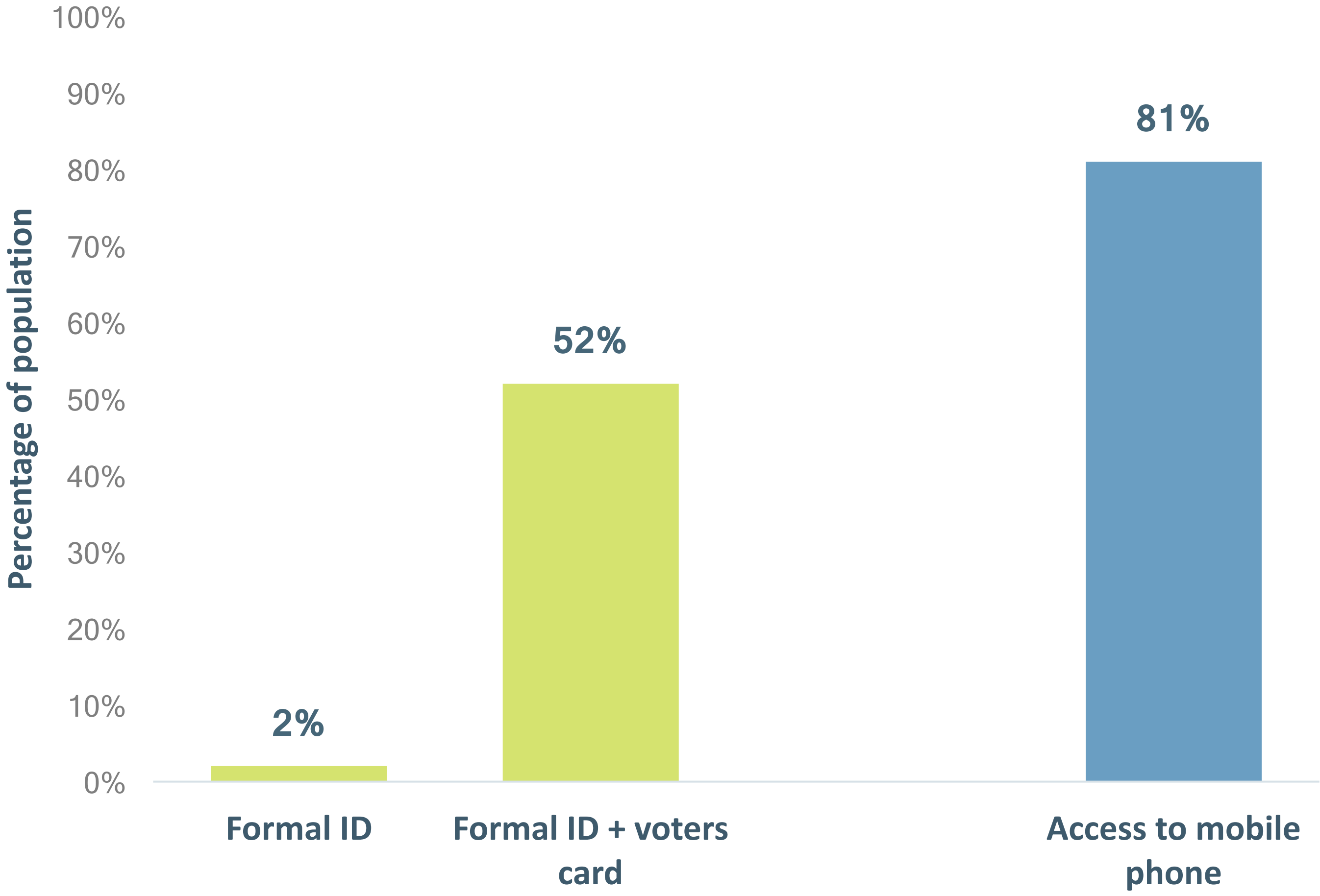
The FATF recommendations do not require information to be gathered on matters such as occupation, income or address, but some national AML/CFT regimes mandate it (FATF, 2017).

- Address can be used as an **identifier** but with very limited application or veracity.
  - Proof of address is easy to fake due to the many exceptions.
  - Many people do not possess proof of address.
  - People often move frequently.
  - Other robust and more easily accessible identifiers exist.
- As such, proof of address is not a **robust** identifier.

Source: FinScope Tanzania, 2017; Access to Finance Nigeria, 2016; FinScope Uganda, 2018

Financial exclusion undermines the financial services ecosystem

An illustrative example from the DRC



- Excluded and inconvenienced consumers are forced to access informal financial services.
- Informal systems have a competitive advantage – they're not hamstrung by regulation.
- Through technological innovations, informal financial services can offer high-quality and more efficient services to consumers.
- A financial inclusion diagnostic in the DRC (MAP) shows formal remittances account for approximately 0.1% of total remittances only.
- However, informalisation of financial sector increases cash dependence, decreases liquidity and turn-over, which adversely affects economic activity.

Source: FinScope DRC, 2015; WBG ID4D, 2018; Bank of England, 2016; India Ministry of Finance, 2016; Roland Berger, 2016

Towards an inclusive ecosystem through innovation in identity

Proof of address

Remove proof of address as a KYC requirement

Robust identifiers

Apply more robust identifiers, such as biometrics, to replace high-risk, traditional identifiers

Interoperability

Facilitate interoperable identity across jurisdictions to enhance ecosystem development and economic activity

Decentralised identity networks

Empower consumers to own identity data and facilitate the usage thereof and reduce risk to service providers

KYC utilities

Enhance efficiency, security and convenience of KYC processes for government and service providers

Thank you

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About Cenfri
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