Building inclusive ecosystems aligned to FATF recommendations

An example from financial inclusion
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

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

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.

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.

WBG FinDex, 2017
Country regulations not always aligned with global standards

The proof-of-address conundrum

- 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.

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).

![Bar chart showing percentage of adults with different levels of identification in Nigeria, Tanzania, and Uganda.](chart.png)

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.

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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