The Role of AML Regulators in Financial Inclusion

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Opening Remarks:

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Anatol Monid:

Greetings everyone. I'm Anatol Monid, Senior Director of Programs for Toronto Centre. Welcome to the Role of AML Regulators in Financial Inclusion webinar. Since our establishment in 1998, Toronto Centre has trained more than 20,000 financial supervisors and regulators from 190 jurisdictions to become change agents for building better and more stable inclusive financial systems. I thank our sponsors: Global Affairs Canada, the Swedish International Development Cooperation Agency, and the International Monetary Fund. Toronto Centre also appreciates the support of Finance Canada over the years. This webinar is being offered in cooperation with the Royal United Services Institute, our partner for the development of the online self-study program on financial inclusion for AML specialists. In 2010, we began incorporating microfinance supervision into our training programs because of the substantial implications for global financial inclusion. Since then, we have expanded our financial inclusion programs to include webinars, podcasts, research papers, and toolkits. We also assisted several jurisdictions to improve their supervisory practice in order to be better prepared for financial sector assessments relating to anti- money laundering.

Ensuring everyone has access to financial services is paramount to sustainable economic development so is protecting the financial system from money laundering, terrorism financing, and proliferation. It is important to understand the role of financial regulators and supervisors as facilitators of financial inclusion, access for disadvantaged people in financial services, and adopting a proportional risk-based approach to AML-CFT oversight. Today, our distinguished speakers will address these challenges and opportunities. They are Richa Goyal, Program Director, Toronto Centre, Mercy Buku, Program Leader, Toronto Centre, Robin Newnham, Head of Policy Analysts and Guidance, Alliance for Financial Inclusion, and our moderator is Maria Sofia Reiser, Research Analyst, Royal United Services Institute. We would also like to thank the Toronto Centre team for the behind-the-scenes work. You've received the panelist biographies; let's begin. Over to you, Maria Sofia.

Maria Sofia Reiser:
Thank you very much, Anatol and thank you everybody for joining us today. My name is Maria Sofia Reiser, I'm a research analyst with RUSI Centre for Financial Crime and Security and it's my pleasure to be chairing today's webinar. Before we begin, I want to go over some quick housekeeping matters. So, if you want to ask a question throughout the discussion, please use our Q&A box, not the chat so I can monitor all the questions and direct them to our speakers accordingly. I wanted to add a quick note of what we do at the Centre for Financial Crime and Security Studies at RUSI for those of you who are not aware of what we do. We are a specialist research program within RUSI on the intersections between finance and security. And this project is part of our financial inclusion work, which has been funded by the Bill and Melinda Gates Foundation.

We have been developing two e-learning modules on financial inclusion, one for national regulators, in collaboration with the Toronto Centre, and we have a separate one coming out for the private sector with ACAMs. Richa, who is joining us today, has been working with us closely in the development and coordination of this training, and Mercy, also joining today, has been supporting the content development of the program. Robin from AFI has also shared invaluable knowledge and insights for the development of the training through feedback, through conversations, and through his experience working on financial inclusion. And with that, I would like to begin the discussion by talking about, "what is financial inclusion and why is it important?" So, Robin, if you could please share your thoughts on what financial inclusion is and why it is important, especially for disadvantaged groups, and looking at why it is important that everybody can access regulated financial services.

Robin Newnham:
Thank you so much, Maria Sofia, and thank you very much indeed to the Toronto Centre and to RUSI as well for the invitation to the Alliance for Financial Inclusion to participate in this webinar today. And just by way of context before I answer the question, AFI is representing a membership of around 85 or so central banks and financial regulators from the global who do all share a common mission to advance financial inclusion in their jurisdictions through effective policy making. So, I'm really pleased to share some insights on behalf of the alliance today. So, when we're talking about financial inclusion, there is no one single universal definition because country context really matters here. But what we are essentially talking about is a state in which everyone, regardless of gender, age, ethnicity, or any other characteristics, has access to the financial tools and capabilities that they need to manage money day-to-day, to cushion against economic shocks and build resilience, but also to plan for the future and achieve their long-term financial goals and lead financially healthy lives.

And how do we get to that state where everyone is included and confident in using financial services in that way? Well, there are really three critical dimensions to the financial inclusion policy making process . One is to look at access and ensure that everyone as far as possible has an entry point into the financial system, which usually means access to a basic transaction account or a mobile money account as a gateway into the financial system. But then, we also need to look at the dimension of usage and how we can really ensure that those financial products are meeting the real needs that people have. So, digitizing government payments or increasing merchant acceptance of digital payments, these interventions can be very critical to ensure enhanced usage. And then the third dimension we describe as the quality dimension; so, ensuring that there is effective competition amongst providers, affordable cost to the consumer and also that there's clear recourse mechanisms and consumer protection if things do go wrong.

So, that is how we would characterize financial inclusion. And of course, the flipside of that, financial exclusion means, to be outside of the system also often to be economically excluded, socially excluded as well. So, it's really a vicious cycle of exclusion and marginalization that we need to break through effective policy interventions. To tackle the next part of Maria Sofia's question on the benefits of financial inclusion, I think we can look at that both in terms of the micro and the macro benefits. So, for the individual or the household, of course there are benefits in terms of the economic opportunities that financial inclusion unlocks. We can see that from studies for example in Kenya where more than 1,000,000 households were brought out of extreme poverty by having access to M-Pesa, the mobile money system that has flourished there over the last decade. And we've also seen that in countries such as Indonesia, where micro-entrepreneurs have been connected to digital platforms, that has really created a lot of income generating opportunities as well as enhancing efficiency in the overall operations.

But beyond the benefits for individuals, there's also a lot of benefits for countries to seriously prioritize financial inclusion as a policy objective. Firstly, it actually reinforces other financial sector policy making goals such as financial stability and financial integrity. If we have a broader retail deposit base amongst financial institutions that can actually serve to strengthen financial stability, something that's coming very much back into the forefront of policy making with recent vulnerabilities that are rising. But also looking at financial integrity, you want to bring as many transactions as possible into the formal system where it can be monitored out of the shadows, whereas we know money laundering and terrorist financing can thrive. So, financial inclusion's part of an essential overall holistic approach to financial sector policy making. But there are also benefits in terms of broader sustainable development and that is why financial inclusion is positioned in the sustainable development goals as a key enabler to multiple of those goals.

And just to give a couple of examples there, if we look at the sustainable development goal for gender equality, there's very strong evidence that when digital payments are made directly into a woman's account, that that will actually empower her in terms of autonomy within the household. Also encourage her to seek work outside of the household. If we look at the sustainable development goal 13 on climate action, financial products can have a very important role in building resilience to climate events. We have seen the development of digital crop insurance products, for example, across sub-Saharan Africa that are allowing farmers to receive automatic and fast payouts when adverse climate events do strike. And that's something they wouldn't have been able to avail off without the development of mobile money and the digital financial services ecosystem.

Just to touch, finally, on disadvantaged groups and why this is really an important priority. If we look at financial inclusion as a whole, there's really been a tremendous amount of progress across the last 10 years. We have good data on this now by virtue of the World Bank's Findex as well as a lot of national data collection efforts that show that more than one and a half billion adults have been included in the formal system across the last decade. But what that means is we really need to look at who is at risk of being left behind and where do we need to target specific interventions. And that would include very much the gender dimension; many countries do still have a significant gender gap in financial access. Often there are a lot of socio and cultural factors, underlaying that. We also need to look at the youth population who tend to be disproportionately excluded, and that's really key for countries that want to take advantage of that demographic dividend of having a growing young population. Then also groups like persons with disabilities, forcibly displaced persons as well, whose numbers are also growing as a result of climate events and unfortunately conflict and persecution as well.

So all of those groups need targeted strategies to really ensure that we're leaving no one behind in the process of financial inclusion. And final point here, just to touch on why regulation matters. So, of course unregulated informal financial services can play a role in financial inclusion. I think we should not dismiss them out of hand thinking, for example, the Village Savings and Loans programs that you have in Africa, they are popular, they play an important role. But what regulated access to regulated service brings is the element of deposit insurance and just an overall greater level of trust as well as the ability to build up a transaction record that can be used for access to other financial products. So, I think informal services are not necessarily the enemy, but ultimately the end goal should be to progress as many as possible into safe regulated formal services. So, we'll leave it there for the intro and back to you Maria Sofia.

Maria Sofia Reiser:
Thank you so much for giving that very thorough overview of what it means when you consider financial inclusion, financial exclusion, and how can this be achieved. I want to highlight one point you made by directing a question to Richa, and you talked about financial inclusion being important for financial sector policy objectives, especially financial integrity. So, I wanted to ask Richa to develop a bit more on this idea; looking at the risk-based approach in the context of anti-money laundering efforts and how can this, the other way around, hinder financial inclusion or how can these facilitate financial inclusion?

Richa Goyal:
Thank you very much Maria Sofia and thank you Robin for setting the stage and emphasizing the direct impact or relationship between financial inclusion, financial stability, financial integrity, and most important, the sustainable development goals that can be achieved through a successful financial inclusion strategy. In terms of risk-based approach and context of AML, it's interesting; I've been into AML supervision and a compliance officer, anti-money laundering officer for over two decades, and risk-based approach comes quite naturally to different business operations that I have been involved in. But when I started working in financial inclusion and looked at AML from that perspective, I realized there's quite often a misunderstanding that the AML obligations prevent or hinder financial inclusion, but is it really the case? So, I'll just dwell a little bit upon what is the risk-based approach in context of AML, and I hope by the end of this brief, you will feel where the balance is.

Countries are required to establish a legislative framework and regulate and supervise the financial services providers in compliance with Financial Action Task Force, (FATF) recommendations. I'm sure all of you are familiar with the role of FATF. The underlying purpose of these standards is to ensure that these services are not being abused for money laundering, terrorist financing, proliferation financing, or any other criminal activity. Under FATF recommendation one, the first recommendation itself, countries including supervisors and other authorities are required to identify, assess, and understand the risks of money laundering, terrorist financing for different market segments. intermediaries and products on an ongoing basis, employ a risk-based approach to take action, and invest resources to mitigate these risks. At the same time, the financial institutions are also required to understand, identify, and assess money laundering risks relevant to their own activities. The risk-based approach was actually adopted as a mandatory measure in the FATF recommendations over a decade ago, in 2012.

Further in recommendation 10, FATF sets out customer due diligence measures that apply to all the financial institution's customer relationships following the risk assessment of the customer. FATF goes on to adopt a series of guidance notes to assist regulators and private sectors in applying a risk-based approach. This guidance calls on understanding risk and existing mitigation and prevention mechanisms at the national, sectoral, product, and customer level. FATF also allows exemptions or simplified measures in some situations, but it's worth noting that financially excluded persons, the ones that Robin alluded to, do not automatically qualify for these. It is up to the country to define these circumstances as well as the exemptions or simplified measures based on a sound national and sectoral risk assessment. For example, low-income users may be categorized as low risk to enable them to access just basic savings accounts, which could have restricted transactional limits; for example, that's the case for zero balance accounts in India. Where the barriers to entry are the lack of acceptable identification document, it may be possible to use simplified ID or biometrics or no physical identification for a certain threshold like was designed by Mexico. Refugees and displaced women and men might need recognition of their former national identification document or other international ID documents in their new country to access banking services. I hope this brief explanation gives you a glimpse into the purpose of FATF standards and the flexibility it offers to the countries, the supervisors, and regulators to adapt these standards to your particular jurisdiction and the landscape. Thank you, Maria Sofia.

Maria Sofia Reiser:
Thank you, Richa, and discussing the Financial Action Task Force, which is a big element of how the risk-based approach and financial sector supervision is implemented, do you think there are unintended consequences of these standards and how is the FATF actually dealing with this when it regards to financial inclusion?

Richa Goyal:
Certainly, and that's been a big takeaway because of the discussion that has been in the space of financial inclusion. So, in 2019 actually, FATF for the first time formally recognized its long-standing commitment to support and promote financial inclusion in its mandate. Just two years back, FATF established actually a project team to analyze and better understand the unintended consequences resulting from FATF standards and their implementation. The project in particular examined the areas of de-risking and financial exclusion. At that point, FATF indicated that actually the misapplication of FATF standards in particular, the failure to use proportionality, which is a central component of risk-based approach, can lead to financial exclusion.

In fact, it is the rules-based requirements which increase inclusion barriers as financial institutions are either not willing to take on or unable to mitigate the money laundering risks that they are exposed to. FATF all also identified two main factors which contribute to financial inclusion. The first one was actually the implementation issues, which are at the country or private sector level, where some of the customer due diligence measures were not being implemented as intended by the FATF standards. And second was actually for FATF itself where it was the FATF standards' mutual evaluation process and other activities do not actually encourage the authorities, the private sector, and assessors themselves to analyze and understand the impact of financial inclusion on money laundering risks in a country. So, depending on the type of customer and product, the cost and extent of customer due diligence, which is both initial as well as ongoing, can be quite significant. To avoid these costs, actually, the financial institutions often take the easy way out and that is to either close the account, discontinue products, or exit the relationship on a wholesale basis rather than spend the time and resources assessing individual customer risk and having the systems and controls in place to mitigate and manage that risk.

De-risking has in fact contributed to the reduction of corresponding banking relationships in some countries; I'm sure quite a few of you're familiar with that, as well as it made it more difficult, for example, for money services providers to access banking services and nonprofit organizations as well. So, the purpose of an effective customer due diligence is to deter criminal elements from attempting to use the financial sector for illicit purposes. It is not intended to prevent access to financial services to legitimate customers. FATF is actually planning to address financial inclusion going forward, so possibly including changes to standards to address de-banking and de-risking. Of course, this will require striking a balance between the customer due diligence measures, that take the needs of financially excluded, and the need to preserve risk-based measures that act as a detriment to bad actors.

Maria Sofia Reiser:
Thank you, Richa. I think it's an important conversation to have from one side, hoping to see more from standard sectors like the FATF to encourage regulators and the private sector to think about financial inclusion, but also a conversation to have with regulators and the private sector to be able to further these objectives. With that, I wanted to move to the other side of the equation and ask Mercy, so we're talking about inclusion and how achieving these objectives is really important for developing goals like Robin mentioned. But at the same time, supervisors need to ensure that financial services are offered in a responsible manner. So, what measures should financial service providers adopt to ensure the protection of customers that are using their services?

Mercy Buku:
Thank you very much, Maria Sofia, and thank you also to Toronto Centre and RUSI for including me on this panel. It is a privilege. So, straight to the question, I'll just highlight four examples of key measures that Financial Service Providers (FSPs) can adopt to ensure the protection of consumers using their services because after all, if consumers are not protected, if they're not using financial services, then our financial inclusion objectives really will not be met. So, one of these measures is fraud mitigation, and when we look at fraud mitigation, we're also looking at data privacy, consumer risk management measures. These, for example, would involve the implementation of systemic and procedural controls to curb digital financial services, frauds, for example, or cyber-crime, and also safeguard the customers data privacy. So, they would expect the FSPs to have these controls in place if it's automated transaction monitoring systems, ensuring that they're not using customer information without their consent, et cetera, and ensuring that they have controls in place, for example, sensitizing consumers on how to use their PIN, how to keep their information secure.

And then, another measure is fair market practices, and this involves providing financial services in a fair and transparent manner. For example, no hidden charges or unfair and lengthy contract terms, contracts and agreements in a language that the consumer can understand, accuracy in sales promotion materials and again, in a language that a consumer can understand, they don't promise the earth and deliver a little piece of nothing, and then a full disclosure of relevant information, for example, such as interest rates and fees to enable consumers make informed decisions and choices upfront so that when they're entering into an engagement, when they're opening that account, when they're seeking that credit facility, they're fully aware of what it'll cost them, how long it'll take them to repay, and what are the avenues if they want for example, to pre-pay or if they want to take an additional amount, et cetera.

And then another key measure is redress; a complaints recourse. Here, we are talking about mechanisms for consumers to voice their complaints to their FSP; Where do they do this? Are there reporting hotlines? Is there a complaint center? So, does the provider have a call center where complaints can be received? Here we are talking about a dedicated service desk, for example, with appropriate follow-up for resolution and even alternative dispute resolution option so that the customer does not feel that they have to run to court. So, all these mechanisms need to be in place. Then another key measure is digital financial literacy and education, generally, financial literacy and education. So, it's very important for customers to know exactly what the products are and what their features are. So how do FSPs do this? They should provide adequate information in their promotional materials; FSPs can even collaborate with their regulators to ensure that that consumers are getting this education and not only about the products, but what are the risks to them from using that product. So, for example, if it's mobile money, which is prone to fraud and even other products, they need to be aware of the fraud trends and how to protect themselves. And complaint mechanisms and dispute resolution also come in as far as financial literacy is concerned. So those are four key measures, Maria Sofia, that I would recommend that FSPs put in place.

Maria Sofia Reiser:
Thank you, Mercy, and discussing these measures as we're looking at the role of the supervisor, how can supervisors ensure that these measures are being implemented by financial service providers in a way that enables financial inclusion?

Mercy Buku:
Okay, thank you very much, Maria Sofia. So, since I've already highlighted the measures that FSPs need to put in place. So, supervisors here then come in to ensure that these measures are being implemented by FSPs, and these measures should also not be so stringent that they then hinder or impact upon financial inclusion initiatives. So, one of the measures, the key measures that they can put in place, of course is legislation. This legislation should also have appropriate consumer protection and data privacy provisions, which would make it mandatory for FSPs to implement the measures. They can also put in place policy measures and guidance to guide FSPs. So, normally the legislation will be put in place; it is important to have enabling regulations either enacted as legislation or the regulators themselves can come up with guidance to guide FSPs in the implementation of those measures.

And Richa has highlighted quite a bit of information about the risk-based approach, and these policy measures should also be based on a risk-based approach. So, they're not making it so stringent on FSPs that then they decide they're not offering those products or even make it so making it so stringent for customers that they decide they are not going to take up those products either. And then, industry collaboration is very, very key.

Here, we are talking about collaboration between consumer interest groups, FSPs, banking, digital finance, et cetera, and financial inclusion agencies who will come up with the data and do the research and come up with industry insights on how these consumer protection measures can be put in place, how they can be improved, and what the loopholes are. And this will provide appropriate support towards achieving the legislative reforms. And another key measure is market monitoring; this enables supervisors to gain insights into consumer experiences, and of course, this should focus on consumer outcomes and financial health. And industry collaboration and market monitoring actually go hand in hand because this is where then the supervisors get the necessary and relevant information about the market in order to enable them to understand what the risks to the consumer are and also what measures can be put in place to protect the consumer. Thank you very much Maria Sofia.

Maria Sofia Reiser:

Thank you, Mercy, for giving us the perspective of what the private sector should be doing, but how the supervisors and regulators can ensure that this does not hinder financial inclusion but actually supports these objectives. And with that, I wanted to link back to Robin, from your experience working with regulators and central banks, what do you see as the role these institutions play when interacting with financial institutions and their strategies on financial inclusion?

Robin Newnham:

Yeah, thank you very much Maria Sofia for the question. So, thinking about that, there's at least four roles that I would characterize that central banks/financial regulators can play here. One is the role of rule setup. The second is the role of convener. Third is the role of innovation enabler, and then fourthly, the role of capability builder. And I'll just say a little bit more to go into each of those elements; when it comes to rule setting, especially when we're thinking about how do you expand access to digital financial inclusion, regulations are really key. It's essential, for example, to have any money regulatory framework that provides a level playing field including for non-banks to come into the game. We've seen again and again that that's a critical underpinning to enhance access rapidly. We also see the importance of having agent banking regulations because no country is going to go digital overnight; you need to have those cash in-cash out outlets and they need to be working in the rural areas if you're really going to encourage people to transact digitally and use digital payment products.

Then of course also what was mentioned by Richa, you need the tiered KYC to ensure that there are simplified due diligence possibilities for low risk assessed-low risk bank accounts or mobile money accounts that may have a lower standard of identification and verification required. And also, regulators play a key role in driving interoperability between service providers. It's no good having digital access if you're really trapped in a closed loop system that one provider is offering. You really need to have interoperability between different service providers and for that to be relatively seamless, and we've seen in countries like Tanzania and Peru that the regulators played a very key role in driving that ultimately towards voluntary agreements, but with the regulator really facilitating the process.

But in addition to that rule setting role, we have the convening role and there I'm thinking very much of the national financial inclusion strategies that the majority of countries that are seriously interested in pursuing financial inclusion have now adopted. And very often, you will see the central bank being either in the driving seat are at least designated as the sort-of implementer in chief of the national

financial inclusion strategy. So, we've seen countries like Nigeria, which I think was the first back in 2012, to have a national strategy.
There is a secretariat sitting in the bank that will oversee all elements of the national inclusion strategy work across other regulators and public sector bodies, but also be the interface with the private sector as well. So really holding the pen on the national strategy and seeing that through into implementation is a very key role.

Thirdly, the innovation enabler, and that may be a little bit surprising when we're talking about regulators and innovation, but we have seen I think a real mindset shift here. Many regulators have established innovation hubs that are really points of contact for Fintech innovators, other new players in digital financial services, to just engage with the regulator and the central bank before the point at which an enforcement action is needed so that they're aware of which regulations they need to comply with and that the central bank is aware of market developments. At the same time, we've also seen innovation in areas like regulatory sandboxes where specific products can be piloted with some lighter touch regulations, but they still have to comply with consumer protection and AML regulations.

And then fourthly, the role of capability builder. And this was mentioned a bit by Mercy, the importance of financial literacy and also, I would add in digital financial literacy there as well; very key to have good cyber hygiene as more and more financial transactions are going online. Many central banks are playing a very active role there; the Reserve Bank of Malawi has worked with its education ministry to ensure financial literacy has been embedded in the school curriculum. Bank Negara Malaysia is another very good example where they take a roadshow every year around the country to specifically capability build for digital financial literacy. So, the central bank here I think is playing many hats, not just its regulatory mandate, but actually a much broader role beyond that to really drive results when it comes to financial inclusion strategies.

Maria Sofia Reiser:
Thank you, Robin. It's an interesting point of how the regulator can also play a role in innovation enabling and also capacity building and not only supervising the financial or non-financial businesses sector. And this idea has come up a lot in our discussions, that of digital financial services, digital payment methods. So, I wanted to ask Mercy, who I know works a lot with this, how do you think these new products and services that hopefully are being supported with innovation from the central bank and from supervisors, how can they and have they contributed to financial inclusion measures, particularly in developing countries?

Mercy Buku:
Thank you very much once again, Maria Sofia. So, when we are talking about NPPPs, or new payment products and services (NPPPs), we are referring to if to the definition that's given under the FATF guidance note NPPPs in 2013, credit and debit cards, mobile money and other DFS (digital financial services), and more recently, virtual asset services have been added to that definition. And with particular regard to developing economies, we are really looking more at mobile financial services or digital financial services, and these have been at the center of financial inclusion initiatives, especially Sub-Saharan Africa and Southern Asia. There have been several reasons why this has been so, mainly the lack of access to traditional financial services. So, for example, most of the unbanked populations, they do not have access to traditional outlets; they can't get to a bank, they can't open the bank account, but mobile financial services make it easier for them to have access because everybody has a phone.

And this brings me to the next point, the unavailability of efficient and alternative remittance systems in these regions. So, for example, you'd have the Western Unions, the big names would be operating, but the big names would probably only be dealing with those who had bank accounts, et cetera. But mobile money is available to all, provided you have a phone, and so the prevalence of cheap mobile phones, the wide acceptance of mobile money, and even digital financial services as a suitable alternative to traditional banking services. And then again, favorable regulatory environments. Since M-Pesa was launched in Kenya, for example, and other countries, East Africa, West Africa, one of the reasons why mobile money and other digital financial services have spread and they're so widely prevalent in these countries is because the regulators have had an open mind, they've created favorable regulatory environments, and they've also instituted good supervisory practices which have fostered innovation, for example, through regulatory sandboxes, and Robin mentioned these. And then of course, during the COVID season we saw enhanced regulatory measures which actually had the objective of encouraging increased cashless payments. This was seen as a way to prevent the spread of COVID. So, these are some of the reasons or some of the ways in which NPPs have contributed to financial inclusion measures.

Maria Sofia Reiser:
Thank you so much, Mercy. I would like to take the opportunity after this discussion, I feel like we've covered the basics, introduction, the standard setters, to the private sector, to the role of supervisors. I want to invite all of you in the audience to pose your questions in the Q&A box so I can direct them to our panelists today and continue our discussion. And with that, we have one question in the Q&A for Robin on what is the role of supervisors in promoting inclusive insurance growth. Robin, if you could share your thoughts on that, please.

Robin Newnham:
Thank you very much for the question, excellent question. I think, yeah, I mentioned the sort of bigger picture that most countries are making good progress when it comes to transaction accounts, and I think it's natural now to look at the sort of next generation challenges and how to meet financial needs across the life cycle and also to deal with adverse events that may occur in terms of health events or climate events. And insurance plays a really key role there. A lot of developing countries, I think, are still at a relatively low level of insurance penetration, but I think that is starting to shift and we work quite closely with a parallel network, the Access to Insurance Initiative (A2i), which I know has done a lot of work with insurance regulators around proportionality and enhancing access. I think a good place to start is really embedding insurance within the national financial inclusion strategy because once you have a clear target there and it's seen as part of the financial inclusion vision, that will start to drive inter-regulator coordination and also private sector response at the national level.

We did develop some joint guidance with the A2i on how countries could look at integrating insurance in the NFIS process. We've looked at a couple of other dimensions as well when it comes to health insurance and increasing access to universal healthcare. I think there's a very good opportunity in terms of connecting digital wallets to health insurance products. You can really get down the distribution cost using the digital mechanisms, so there's a lot of possibilities there. Also, I think crop insurance is another very key one in terms of the connection to financial inclusion of small holder farmers, the disruptive impacts of climate change, adverse weather events that we are seeing again and again with more frequency. So, we don't necessarily have all the answers, but I think this is a really important area to focus on going forwards.

Maria Sofia Reiser:

Thank you, Robin, and thank you for everybody sending in your questions. I think the next one would be directed to Mercy: the question is how effective consumer complaint systems are for the low-income rural populations and others with limited access. Betty in the Q&A mentions that they have not seen them as effective in SSA regulators, so people are seeing even the digital aspect that's very risky to leave funds in over time. So, how would you respond to that? How effective are these systems where consumers can access the providers or of these digital systems and allow them to have more trust in the system?

Mercy Buku:

Thank you very much, Maria Sofia. I was actually just looking for the question in the Q&A, but I've seen that Richa has posted it in the chat. Yes, if you recall from my comments, I had mentioned that it is very important for financial service providers to actually go down to the grassroots and go down to the level of the consumer. The consumer needs to be able to trust them, and actually this is one of the main objectives of having a good consumer protection initiative. So, they should be able to approach the FSP, be able to speak to them in a language that they can understand, and it shouldn't matter whether they're low income or not; the call centers and the initiatives should target both the high income and the low-income people. So, one way of doing this, especially for those who probably will not even be able to call the bank, to actually have roadshow go around the rural areas, go around the trading centers, tell them who you are, and actually get the feedback on the ground on what are the challenges they're having and come up with solutions.

So really, it is a concentrated initiative which needs to be continuous just to find out what the needs are, what the risks are, what the risks they're facing, and how can they be addressed. So, thank you very much.

Maria Sofia Reiser:

Thank you, Mercy. And I see another question for Richa: does the FATF need to come up with new recommendations purposely to address financial inclusion or provide what we call the interpretive notes to the recommendations to avoid the misapplication of the current 40 recommendations?

Richa Goyal:

Thanks very much, Maria Sofia, and thanks for this question; I think that's kind of a million-dollar question perhaps, but we do believe there would be certainly more weightage, more emphasis that FATF would place on financial inclusion. There is already guidance from FATF for financial inclusion, but at the same time, as I mentioned about the work that has been undertaken as part of the unintended consequences project, there is clear recognition of the issues that FATF standards are having on financial inclusion. So, we do expect that there would be further modification, not changes, but modification to the existing standards, especially to reflect upon the outcome of the project that was undertaken two years back in particular laying out the work, the kind of impact of de-risking and de-banking. But at the same time, FATF already recognizes that the standards are not expected to lead to de-risking. So, they may provide more guidance to facilitate both the regulators and financial institutions not to apply de-risking and perhaps move more towards having a risk-based approach to ensure that they can provide inclusive financial services.

At the same time, I think I just wanted to cover one more point. I think it'll come back to me. So, the other point, yes, sorry, I was just thinking about it when I saw the question and it slipped my mind; the other area which would also get a lot of emphasis from FATF hopefully, is the mutual evaluation process. Remember I touched upon it as two of the important outcomes from that project. So, we believe that there would be much more guidance that would come out as part of the mutual evaluation process for the countries, for the financial institutions, and for the assessors themselves, so that there is a far more open dialogue on the role that FATF standards play on financial inclusion in the countries. So, this is perhaps an area which you should also look out for once we have the next round of mutual evaluations by FATF, and I think Robin would like to add as well to my point.

Robin Newnham:

Sorry, this topic is quite close to our hearts, so just wanted to chime in as well and build on Richa's point. I think one area that we've seen as a challenge for many of our members when it comes to applying the risk-based approach that Richa has described is the asymmetry that exists whereby enhanced due diligence measures are required for higher risk scenarios, but for lower risk scenarios, simplified due diligence is only an option for the country, so the onus is really on the countries to identify low risk and then put in place proportionate measures accordingly. But when it comes to incentives, of course, all the incentives are to focus on the high risk because that is what the assessors are likely to focus on, and so resources tend to be allocated there and not so many resources go into the identification of lower risk, low risk, when it comes to the national risk assessment process. And I think as a result of that, there's quite an underutilization of the flexibilities that do exist in the FATF standards, especially, ironically, amongst the countries that really need to use that flexibility the most. So, the ones that have the highest proportion of financially excluded. So, I think it's really important as part of the ongoing work in FATF, to look at the incentives and how the incentives can be better aligned, whether that is through amendments to the recommendations or through other methods they know are being explored as well. Thank you.

Maria Sofia Reiser:

I want to make a quick note of that: as Robin says, this is something that's really close to our hearts, but just something that Richa mentioned linked to what Robin just discussed is the new round of mutual evaluations. There's a new methodology and assessors are being trained on incorporating financial inclusion and how to consider it in this mutual evaluation and assessment. So, hopefully as the years go by and we start seeing the results of the new publications of these reports, we'll see much more of an emphasis being given by the FATF to financial inclusion. With that, I want to ask Mercy a question we have in the Q&A box. So, thinking of regulators, how do you strike a balance between ensuring financial stability and financial inclusion in terms of proportion regulation, taking into consideration innovations that are heavily reliant on technology that can be classified as high risk? And they mentioned, for instance, issues relating to fraud and ensuring cybersecurity measures are enforced, especially for lower tier financial institutions that are actually seeking to promote financial inclusion through digital financial services. So, I think the question is how do you ensure financial stability and financial inclusion being balanced? So, how do you achieve this financial integrity when looking at risks such as security?

Mercy Buku:
Thank you very much, Maria Sofia. Yes, I think that is always one of the challenges for supervisors in terms and even for FSPs on how to balance the two. Even just speaking from an FSP perspective, when I was in risk and compliance, that used to be one of our major headaches because we would be insisting to the business that they must put in place the necessary controls before they launched products. And it wasn't easy. So, we had to make some concessions along the way, ensure that in, for example, if the documents were there, if the product, for example, was at a particular level in terms of, for example, the transaction limits, the volumes, then this particular KYC would apply, et cetera. But where supervisors are concerned, I think first and foremost, it's very, very important to ensure that they are enabling regulatory frameworks and in the national financial inclusion strategies are responsive to customer needs.

So, both of these, the frameworks and the financial inclusion strategies must provide for financial inclusion and integrity. So, we are looking at if it's issues of customer due diligence, digital onboarding policies allow for risk-based approach to customer due diligence. Again, there's a need for the right mindset. It's very important to understand the financial needs of the consumers and also the objectives of the FSPs. Another issue is policy objectives. The policy objectives must be aligned to both provision for financial inclusion and integrity. So, what policies can you put in place to ensure that you are driving the financial inclusion agenda by ensuring that there's sufficient oversight on the FSPs to ensure that they're offering their services responsibly. And again, as we mentioned earlier, consumer protection, the KYC, all these need to be there and need to be addressed. Again, they cannot do this without having regular information on product trends, reliance on and on, data collection analysis of that data, and then of course promoting the development and approval of all new products, for example, through regulatory sandboxes.

So, they must walk hand in hand with the FSPs on this to ensure that yes, while the laws are in place, and they're being adhered to, then come up with guidelines which will allow the FSPs to provide the services. I happen to see one of the questions which I believe was also for me, and this was should regulators put in place KYC guidance? And yes, I think it is very important for regulators to have guidelines on risk, on the risk-based approach because the law would allow for tiered KYC, for example, and will provide for FSPs to incorporate risk assessment in their programs. The regulators have to come up with the guidance to enable the FSPs to do this. So yes, I would say it is, it's very important for regulators to come up not only with KYC guidance, but with guidance on all aspects of the anti-money laundering compliance program. Thanks.

Maria Sofia Reiser:
Thank you, Mercy. Richa, do you want to add to this question, or do you want to answer the next question that I just received in the Q&A?

Richa Goyal:
Yeah, thanks Maria Sofia, I just wanted to add to the final point from Mercy on the processes or setting the guidance for the KYC, I just wanted to add a word of caution here: remember, we are emphasizing the risk-based approach to AML, so I would just again, caution that we don't move towards rule-based requirements on AML just because the risk application of KYC should be based on risk assessment of your product, on customers and the sector. So, if the regulator goes down the route of being too prescriptive, it would not be so much risk based because then all financial institutions would start applying those rules to all businesses, all products, and all customers. So, just keep that in mind that the role of regulator is to issue regulations and guidance, as Mercy said, but not being too prescriptive in terms of how the KYC process should be undertaken by the financial institutions. Thank you.

Maria Sofia Reiser:
Thank you, Richa; I'm very mindful of time, so I see we have a final question in the box. I don't know if either of you three have thoughts on this. So how does the national financial inclusion strategy cater for persons with disabilities with regard to cybersecurity measures? I don't know if any of you have thoughts on this, but I would say this would be the last question we're taking because I'm very mindful of time.

Robin Newnham:
I'm happy to make a comment on that, Maria. So, Sophia,I think it's a great question. It's very encouraging. We're starting to see more and more focus on this population segment in terms of the national strategy. It's really early days in terms of seeing any country prioritize this group in the national strategy. But we're starting to see countries like Nigeria, Ghana, and Pakistan coming out with policies, coming out with circulars to their financial institutions. Of course, persons with disabilities is an enormous group, so it's really important to segment the different challenges and needs because that would include wheelchair users for whom the issue might be physical access to a bank branch. It would include blindness, deafness and so on, where there might be solutions around looking at artificial intelligence-based assistance that could support, but there would also be mental disabilities as well. So, I don't have the answers for certain, but it's really important that the regulator in the process of developing that national strategy reaches out to those groups and intermediaries that can really help them understand the different needs and that they respond accordingly. But definitely I think we are going to see more and more focus here going forwards.

Maria Sofia Reiser:
Thank you, Robin. And with that, we've made it all the way through to the hour. So, I would like to ask Richa if she could share with us some closing remarks and perhaps discuss the training that we have come that have already released actually a bit with the participants.

Richa Goyal:
Thank you very much, Maria Sofia, very interesting session. I think it's not a topic for an hour as we realize now. I just wanted to emphasize some of the key points and perhaps messages we should certainly take away from our discussion today. One of those is of course the one that was touched upon in the last question as well, and it's about stringent rule-based AML regulatory measures, which may unnecessarily exclude segments of the population from accessing financial services, and in fact encourage cash transactions, which are harder to track. This in turn can undermine efforts to combat financial crime and hinder consumer protection efforts as well. It's therefore very important that we realize the integration between AML and inclusion policy objectives to enable access to all of the financial services. This would, in turn, make the financial system more transparent and resilient, and also at the same time deter other unauthorized means of financial activities. It's a complex issue, but certainly can be resolved and simplified with an open mind and the right objectives at heart. I encourage you all to take the free online self-paced learning, and it's a three-hour learning course that we have developed to guide you in developing an AML framework which could facilitate financial inclusion. Thank you, Maria Sofia.

Maria Sofia Reiser:

Thank you very much, Richa, and thank you everybody for joining in today. Of course, thank you to our panelists for this very insightful discussion. I wanted to highlight something Richa said: all of these discussions, there are some answers to these questions in the training that Richa mentioned. And so, I would very much encourage you to take the opportunity; it's a free training, it's self-paced, you will receive a certificate on completion, and it's available on the Toronto Centre website, so do go ahead and take advantage of this great opportunity that we've put so much effort in developing to answer these types of questions. And with that, thank you again everybody for joining, thank you to our panelists, and I wish you a very good day.