



Revisions to Recommendation 1: Financial Inclusion – Part 1

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September 2nd, 2025
Caribbean Financial Action Task Force

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Introduction

- Financial inclusion has become a cornerstone in promoting the integrity and stability of the global financial system. It refers not only to access to regulated financial services, but also to the ability of individuals and entities to actively use appropriate, affordable, and safe financial products that suit their needs. The FATF has taken significant steps to support financial inclusion through targeted revisions to Recommendation 1 (R.1).
- This article, part 1 of a two-part series, examines the rationale and scope of the revisions, with a focus on proportionality, simplified measures, and low-risk exemptions.



What is financial inclusion?¹

- Financial inclusion refers to both access to and active use of an adequate suite of regulated, appropriate, safe, convenient and affordable² financial services by individuals (including households) and entities that would benefit from such services.
- The concept of financial inclusion has evolved, from access to regulated financial services to also include appropriate usage and quality of those services and products, financial literacy, financial resilience and financial well-being of end-users.
- Financial inclusion efforts seek to address the needs of individuals and entities that either have no access to regulated financial services (unserved) or have access, but only in a limited manner (underserved).

¹FATF (2025), “Guidance on Financial Inclusion and Anti-Money Laundering and Terrorist Financing Measures”, FATF, Paris. p. 10

²“Appropriate” means that the products and services are tailored to the customer needs and delivered transparently and fairly.



Why is financial inclusion important?³

Financial inclusion is a critical aspect of financial integrity for the following reasons:

Use of Formal Financial Sector

- Financial inclusion measures increase reliance on regulated, registered or licensed financial services, ultimately strengthening the integrity of the financial system.
 - This reduces the likelihood of using unregulated channels to conduct financial activities, which subverts effective implementation of the FATF Standards.
 - It helps combat underlying crime by providing safe, cost effective and reliable financial services to customers who would otherwise be forced to resort to cash or unregulated financial services.

³FATF (2025), "Guidance on Financial Inclusion and Anti-Money Laundering and Terrorist Financing Measures", FATF, Paris, p. 11



Why is financial inclusion important?

Increased Transparency of Financial Sector

- For supervisors, financial inclusion enhances visibility by bringing more transactions within the regulated sector, enabling better identification of suspicious activity. It also helps to reduce the size of the informal or “grey” economy, which often provides opportunities for the concealment of criminal funds.
- It enhances financial sector transparency and integrity by increasing the reach and effectiveness of AML/CFT measures that help keep criminals out of the financial system and facilitate law enforcement investigations.



Why is financial inclusion important?

Decreased Abuse of Vulnerable Persons by Criminals

- Accessing unregulated services significantly increases the risk that legitimate but unserved or underserved individuals and entities may become victims, unwitting facilitators, or even coerced perpetrators of fraud, theft or proceeds-generating crimes, as well as other forms of criminal exploitation.
- Criminals can also exploit persons with limited or no access to legitimate financial services by tricking or forcing them to conduct illicit financial transactions, such as serving as a money mule, on the criminals' behalf to evade AML/CFT controls and law enforcement scrutiny.
- Proportionate AML/CFT measures therefore enable more individuals, microentrepreneurs, small and medium enterprises to save money securely, access credit safely, and manage risks more effectively, helping to keep otherwise vulnerable persons out of the clutches of criminal organisations.



Addressing Financial Inclusion in the Context of the FATF Standards⁴

- The FATF 2025 Guidance on Financial Inclusion noted that financial exclusion is driven by multiple factors, including domestic laws, regulatory/supervisory policies and entities interpretation of these, cost of services, lack of necessary documentation and de-risking.
- These factors have contributed to the implementation of overly cautious and non-proportionate AML/CFT safeguards, which can result in the exclusion or underserving of legitimate consumers and entities by limiting their access to, or increasing the cost of, regulated financial services.

⁴FATF (2025), "Guidance on Financial Inclusion and Anti-Money Laundering and Terrorist Financing Measures", FATF, Paris, pgs. 16-18.



Addressing Financial Inclusion in the Context of the FATF Standards

- When individuals or entities lack access to regulated financial products and services that meet their needs, they often resort to utilising unregulated channels or cash, which can increase the risk of ML, TF and other types of illicit activities.
- Thus, financial exclusion has been recognised as an ML/TF risk factor and financial inclusion can significantly mitigate that risk by contributing to a more effective AML/CFT regime.



The Risk-Based Approach⁵

- The risk-based approach (RBA) is the central principle of the FATF Standards and provides the overarching framework for establishing an effective AML/CFT regime.
- Recommendation 1 requires countries to identify, assess, and understand ML/TF risks and apply a RBA to ensure that preventative or mitigating measures are proportionate to the identified risks. Financial institutions and DNFBPs are also required to identify, assess and take actions to mitigate ML, TF and PF risks.

⁵FATF (2025), "Guidance on Financial Inclusion and Anti-Money Laundering and Terrorist Financing Measures", FATF, Paris, pgs. 27-29



The Risk-Based Approach

- Consequently, the appropriate application of the risk-based approach (RBA) can allow and encourage the use of simplified measures where ML/TF risks are assessed as lower.
- Robust risk assessments by countries and regulated entities support financial inclusion. Financial inclusion products and services must be consistent with the RBA and mitigate identified ML/TF risks.



Revisions to Recommendation 1

The FATF adopted the changes to Recommendation 1 and its Interpretive Note (INR) in February 2025 to facilitate a stronger understanding of the RBA and promote financial inclusion, while ensuring that proportionate AML/CFT measures are implemented. Amendments were also made to other parts of the FATF Standards in line with the revisions to R. 1.⁶

Among the main changes were *proportionality, simplified measures* and *low risk circumstances and criteria for AML/CFT exemptions*, which are described in the following sections.

⁶Requirements for CDD (R.10), record-keeping (R.11), suspicious transactions reporting (R.20), reliance on third parties (R.17), use of agents of MVTS providers (R.14) and internal controls (R.18).



Proportionality

- The word “**commensurate**” that was used previously in R.1 and INR.1 was replaced with “**proportionate**” to better align with financial inclusion frameworks and reinforce the RBA’s core principle.
- In the context of the risk-based approach adopted by the FATF Recommendations, a proportionate or commensurate measure or action is one that appropriately corresponds to the level of risk and effectively mitigates the risks.
- Proportionality is essential to establishing strong AML/CFT regimes at the national, sectoral and institutional levels.



Proportionality

- In addition, proportionality avoids the “one size fits all” approach, that is inconsistent with the RBA. Measures that are not risk-based can be burdensome for legitimate individuals and activities and/or inadvertently discourage them.
- The application of simplified due diligence (SDD) measures for providing financial products and services in clearly defined low-risk situations can be viewed as proportionate.
- This change is reflected in paragraph 1 of R.1 and in paragraphs 1,3-5, 9,11-13 and 18 of INR.1



Simplified Measures in Lower Risk Situations

- Prior to the amendments, the Standards reflected flexibility regarding simplified measures by stating that countries “**may decide to allow**” their application. However, this phrase did not sufficiently advocate for adoption of these measures.
- However, this was changed to “**allow and encourage**” in paragraph 1 of R.1 to strengthen the Standards support for financial inclusion. Countries are now required to allow and actively promote the adoption of simplified measures in lower risk situations.



Simplified Measures in Lower Risk Situations

- The FATF noted⁷ that encouragement may take the form of:
 - Guidance or other communication issued by the government, supervisor or other competent authority to improve understanding of the circumstances when simplified measures may be appropriate and what form they may take, or
 - Outreach or other forms of engagement with regulated entities to promote the use of simplified measures in appropriate circumstances, etc.
- However, encouragement is not intended to be directly incorporated into legal or regulatory frameworks by the parties involved.
- Countries have sufficient flexibility to fulfil the requirement without the expectation that identical wording must be reflected in their laws or enforceable measures.

⁷FATF (2025), "Guidance on Financial Inclusion and Anti-Money Laundering and Terrorist Financing Measures", FATF, Paris. p. 35



Simplified Measures in Lower Risk Situations

- In the context of the RBA, simplified measures refers to AML/CFT measures that countries and regulated entities can take that are proportionate to assessed lower ML/TF/PF risks.⁸
- It should be noted that the scope of simplified measures is extended to involve practices other than Simplified Due Diligence (SDD)⁹, such as:
 - Risk-based simplification of AML/CFT measures, where appropriate.
 - Reduced supervisory oversight in lower-risk contexts.
 - Simplified registration and licensing for regulated entities performing lower risk activities.
- The amendment occurs in paragraph 1 of R.1 and paragraph 7 of its INR.

⁸FATF (2025), “Guidance on Financial Inclusion and Anti-Money Laundering and Terrorist Financing Measures”, FATF, Paris, p. 35

⁹SDD involves applying lighter CDD measures under R.10(a)-(d) in low-risk situations.



Low Risk Circumstances and Criteria for AML/CFT Exemptions

- Another revision made to INR.1 was the removal of the word “**strictly**” and changing “**proven**” (low risk) to “**assessed**” low risk. These were in regard to the limited circumstances where an entity or activity can be exempted from AML/CFT measures.
- To apply the low-risk exemption, countries are now required to clearly demonstrate that it is limited to well-justified circumstances related to a specific type of regulated entity or activity and must provide adequate justification of low ML/TF risks based on an appropriate risk assessment.
- Paragraphs 2 and 7 of INR.1 were amended to reflect the change in wording.



Low Risk Circumstances and Criteria for AML/CFT Exemptions

- Paragraph 2 of the INR now states that:

Countries should allow and encourage financial institutions and DNFBPs to take simplified measures. Countries should identify areas of lower risk, for example, through their national or sub-national risk assessments, to support financial institutions and DNFBPs to apply measures proportionate to those risks. Countries should provide guidance or information to financial institutions and DNFBPs on the possible approaches for the implementation of simplified measures where the risks are lower.



Low Risk Circumstances and Criteria for AML/CFT Exemptions

- Exemptions from some of the FATF Recommendations can be applied by countries where financial institutions or DNFBPs demonstrate an assessed low risk of ML/TF, as seen in INR, paragraph 8 (a).
- The criterion for an exemption—where an individual or entity is permitted to conduct financial activity on an occasional or limited basis—rests on the country's ability to demonstrate a clear cause-and-effect relationship between the limited and occasional nature of the activity and the assessed low level of ML/TF risk.



Conclusion

The revisions to FATF Recommendation 1 mark an important step in aligning AML/CFT compliance with inclusive financial practices. The changes FATF Standards have also reinforced the practical application of the RBA and help to mitigate financial exclusion, a known risk factor ML/TF, by promoting access to regulated financial services for the unserved and underserved. Part 2 of the series will focus on supervision of financial institutions and DNFBPs and changes to other Recommendations relevant to financial inclusion.



Thank you