



# Revisions to Recommendation 1: Financial Inclusion – Risk-Based Supervision (Part 2)

**CFATF Research Desk**

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**Caribbean Financial Action Task Force**

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# Introduction

*"Bringing more people into the formal financial sector is crucial to our fight against financial crime, as it reduces the size of the black and informal markets where criminals and terrorists hide their operations. But it also addresses a clear injustice in our society. Financial exclusion largely affects people in disadvantaged and vulnerable communities. In the majority of cases, these people are not higher risk but are excluded from financial services due to cost or lack of formal documentation."*

**FATF President, Elisa de Anda Madrazo.**



# 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 meet their needs. The FATF has taken significant steps to support financial inclusion through targeted revisions to Recommendation 1 (R.1).
- This article, Part 2 of a three-part series, examines the role of risk-based supervision and simplified measures in supporting financial inclusion.



# Revisions to INR.1 - Supervision of FIs and DNFBPs

- The revised Interpretative Note to Recommendation 1 (INR.1), paragraph 9 mandates that supervisors must ensure that financial institutions (FIs) and Designated Non-Financial Business and Professionals (DNFBPs) practice effective and proportionate implementation of AML/CFT obligations.
- Supervisors are also required to review the risk mitigation measures in addition to risk profiles and risk assessments taken by regulated entities, in line with INRs. 26 and 28. The results of the review should also be taken into consideration. The text in red below illustrates the changes made in paragraph 9:

**Supervision and monitoring of risk** - Supervisors (or SRBs for relevant financial or DNFBP sectors) should ensure that financial institutions and DNFBPs are (1) effectively *and proportionately* implementing their obligations. When carrying out this function, supervisors and SRBs should (2) review the money laundering and terrorist financing risk profiles, risk assessments and *risk mitigation measures undertaken*.

# Revisions to INR.1 - Supervision of FIs and DNFBPs



- Consequently, supervisors should ensure that FIs and DNFBPs implement measures to mitigate ML/TF/PF risks that are proportionate to the risks assessed. This aims to avoid over-compliance with supervisory obligations that may result from a partial understanding of risks.



# What is Risk-Based Supervision?

## **Risk-based supervision comprises of different components including:**

1. Risk assessments to understand the ML/TF risks within the different sectors.
2. Development and implementation of strategies that effectively direct supervisory focus on higher and emerging risk whilst ensuring that risk-based strategies are in place to address lower risk issues without impeding access to and usage of financial sectors (financial exclusion).
3. Risk based allocation of resources.



# What is Risk-Based Supervision?

4. Assessment and guidance on risk-based application of preventive measures and feedback: supervisors evaluate whether entities apply proportionate and effective AML/CFT measures based on their risk profiles.
5. Remedial action and use of effective, proportionate and dissuasive sanctions to address compliance breaches.
6. Having the relevant resources, powers and expertise to effectively conduct supervisory functions.



# Risk-Based Supervision and Guidance as a Facilitator of Financial Inclusion

## Promote Understanding of the RBA

Supervisors play a critical role in shaping how regulated entities understand and apply a risk-based approach to AML/CFT compliance. They influence this process through:<sup>1</sup>

- Setting regulatory expectations and legal requirements.
- Providing clarifying guidance.
- Providing instructions and best practice guidelines.
- Sharing information on specific ML/TF/PF typologies, issuing alerts, other risk information such as findings of risk assessments conducted at the national or regional level.
- Conducting enforcement actions.

<sup>1</sup>FATF, 2025. "Guidance on Financial Inclusion and Anti-Money Laundering and Terrorist Financing Measures", p. 46.





# Risk-Based Supervision and Guidance as a Facilitator of Financial Inclusion

- In addition to compliance oversight, supervisors, along with policy makers and regulated entities, contribute to the development and implementation of legal and operational frameworks that support financial inclusion. These frameworks aim to remove barriers while ensuring effective risk management.<sup>2</sup>
- Supervisors are therefore urged to actively engage with FIs and DNFBPs to clarify expectations, encourage the development of tiered CDD frameworks, such as the use of SDD and non-face-to-face onboarding methods in low-risk scenarios (see Case Study 1).

<sup>2</sup> FATF, 2025. "Guidance on Financial Inclusion and Anti-Money Laundering and Terrorist Financing Measures", p. 46.



## Case Study 1: Mexico – Low risk bank accounts to serve the underserved groups<sup>3</sup>

In 2011, the Ministry of Finance amended the AML/CFT framework to include a simplified KYC and CDD requirements regime, for specific banking services, presenting low ML/TF risks. In application of the amended legislation, bank accounts are classified according to four ML/TF risk levels.

For example, level 1 are low ML/TF risk account that may allow non-face-to-face opening process, but subject to monitoring from financial entities and to enhanced supervision of the financial authorities. Its main characteristics are as follow:

### **Amount/threshold limitation**

- Limited to a maximum deposit amount of 750 UDIS165 per month (around USD 250) per month. Low-value transactions; Limited to a non-cumulative maximum balance of 1 000 UDIS (around USD 350).
- Customer identification and ID verification can be exempted – Banks can decide whether or not to apply the procedure, according to their policies, measures and internal processes.

### **Restricted use for payment of services and/or products**

- Maximum amount per transaction established by FIs.
- Only one account per person.
- Cannot be linked to a mobile phone account (for funds transfers).
- Valid only in Mexico.
- Contracted at banking branches, banking agents, by phone or at the banking institution website.
- No transfer funds to other accounts or products.
- Able to receive international funds transfers, but not from high-risk and non-cooperative jurisdictions and countries sanctioned by the UN.

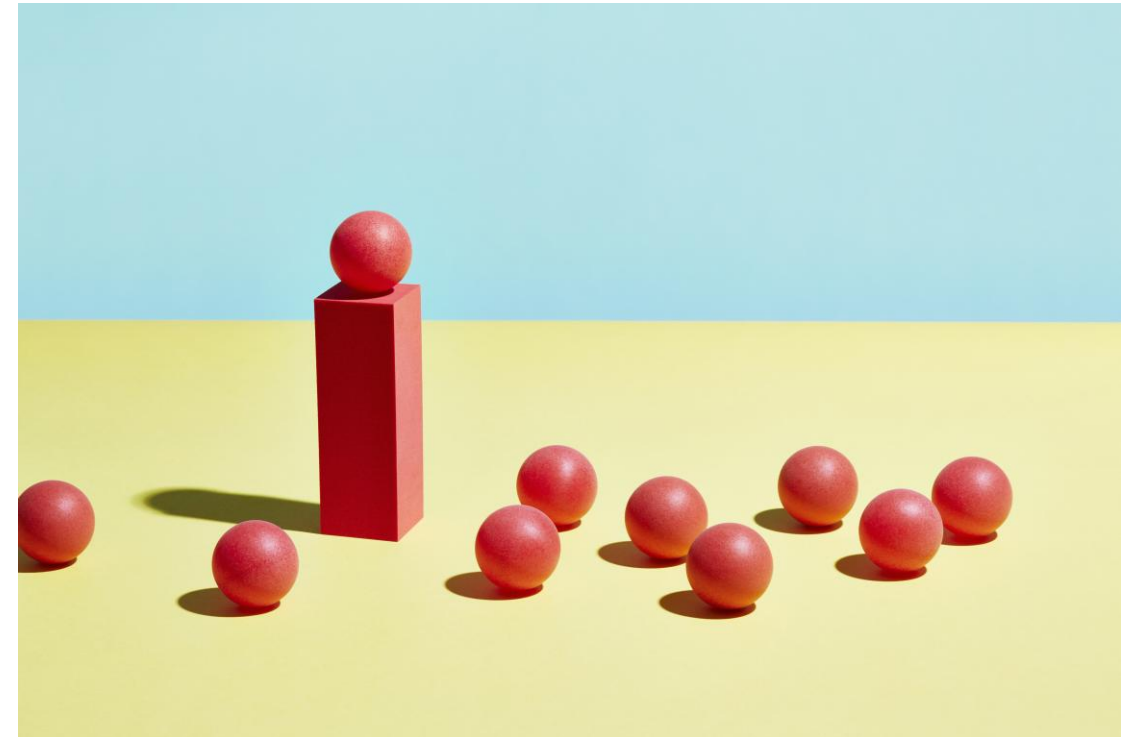
### **Strategic monitoring**

- If suspicious acts are detected (e.g., when there are several transactions in a short period of time, with the same ATM) FIs must send a report to the Financial Intelligence Unit. Also, FIs will be able to cancel accounts or block transactions resulting from suspicious acts.

<sup>3</sup>FATF, 2025. “Guidance on Financial Inclusion and Anti-Money Laundering and Terrorist Financing Measures”, p. 93.

## Risk-Based Supervision and Guidance as a Facilitator of Financial Inclusion

- Continued outreach and education to supervised sectors on financial inclusion are essential. By enhancing these sectors' understanding of risk-based, proportionate measures, supervisors enable them to identify and manage ML/TF risks more effectively.
- Case Study 2 illustrates how supervisors can provide guidance and support efforts to promote financial inclusion efforts.







## **Case Study 2: France, Lesotho and The Netherlands' supervisors' guidance and coordination efforts to support financial inclusion<sup>4</sup>**

In France, the Ministry of Europe and Foreign Affairs has set up a multi-stakeholder working group to discuss potential undue restrictions on NPOs and facilitate the mutual understanding of banks' regulatory constraints and compliance requirements set by NPOs' financial backers. The discussions led to the publication of a guide dedicated to the access to financial services of NPOs.

The Central Bank of Lesotho has developed a Risk Management Guidelines for FIs focusing on the RBA and customer due diligence. The Financial Inclusion Steering Committee is the authority responsible for promoting cooperation between different government agencies and the regulator to support financial inclusion. The national Financial Inclusion Forum convenes all financial sector players quarterly on AML/CFT and financial inclusion matters.

In The Netherlands, over the last years, a number of initiatives has been undertaken to engage with, provide guidance and encourage the industry to better implement the RBA in application of the Dutch AML Act. The activities resulted in the publication of an AML/CFT guidance by the Dutch Central Bank and the creation of risk-based industry baselines and sector baselines for sectors most impacted by de-risking (e.g. NPO) by the Dutch Banking Association. Together with other relevant parties, the Dutch Central Bank has also organised multi-stakeholders' forums, events and roundtables.

<sup>4</sup>FATF, 2025. "Guidance on Financial Inclusion and Anti-Money Laundering and Terrorist Financing Measures", p. 48



# Risk-Based Supervision and Guidance as a Facilitator of Financial Inclusion

## ***Shared Understanding of Risks<sup>5</sup>***

- Under the RBA, regulated entities are often reluctant to apply simplified measures based on their own institutional risk assessments due to concerns of inconsistency with the supervisor's risk understanding and possibility of enforcement action.
- In addition, supervisory emphasis often leans heavily toward EDD for high-risk situations, with insufficient attention given to promoting SDD in lower-risk contexts. This imbalance may discourage regulated entities from adopting SDD, undermining the objectives of risk-based implementation and financial inclusion.

<sup>5</sup>FATF, 2025. "Guidance on Financial Inclusion and Anti-Money Laundering and Terrorist Financing Measures", p. 48



# Risk-Based Supervision and Guidance as a Facilitator of Financial Inclusion

## ***Shared Understanding of Risks***

Therefore, a shared understanding of the ML/TF risks between regulated entities and supervisors can help to achieve two (2) goals:

1. Ensure that entities' institutional risk assessments are sufficiently robust to support confident and effective application of risk-based measures.
  2. Strengthen supervisors' understanding of the risks in the different sectors and types of institutions, and of individual institutions enabling more comprehensive and accurate evaluation of the adequacy of the regulated entities' compliance.
- As a result, financial inclusion can be encouraged through supervisory actions<sup>6</sup> that allows for the application of proportionate and/or simplified measures in lower risk scenarios in line with the assessed risk and the FI risk appetite.

<sup>6</sup>These can include publishing the results of the country's NRA or sectoral risk assessments, publishing of illicit finance typologies, issuing red flag alerts targeted at particular risks, providing trend analyses involving certain products, services, specific sectors, and/or types of ML/TF and fraud activities, outreach to regulated entities regarding country risk assessment findings and initiating public-private partnerships that enable relevant components of the private sector.



# Addressing Obstacles To Simplified Measures for Supervisors

In the context of financial inclusion, supervisors should be mindful of potential barriers that may discourage regulated entities from adopting an RBA to CDD that supports financial inclusion. The following outlines some of these challenges, however, it is not an exhaustive list.

## **Overcompliance<sup>7</sup>**

- Over-compliance with AML/CFT measures, termed ‘gold-plating’ often deters entities from onboarding marginalised groups due to concerns about low profitability, perceived reputational risks, and social costs. Supervisors can be instrumental in helping regulated entities navigate their concerns and encouraging adoption of simplified measures.
- By providing support such as entity and sectoral level guidance, best practices, CDD risk assessment and mitigation practices and methodologies,<sup>8</sup> supervisors can ensure that compliance measures are proportionate to the risk without discouraging the use of simplified measures.

<sup>7</sup>FATF, 2025. “Guidance on Financial Inclusion and Anti-Money Laundering and Terrorist Financing Measures”, p. 47.

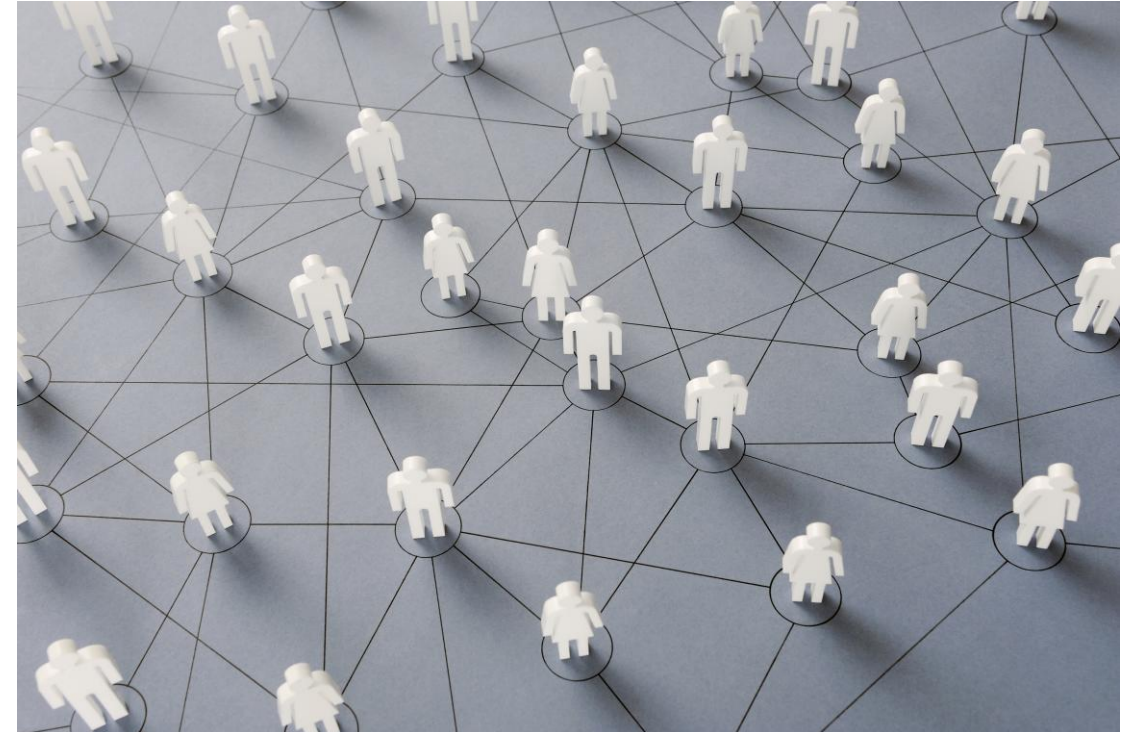
<sup>8</sup>FATF, 2025. “Guidance on Financial Inclusion and Anti-Money Laundering and Terrorist Financing Measures”, p. 48.





# Addressing Obstacles To Simplified Measures for Supervisors

While supervisors, in addition to regulators and policymakers, can authorise the use of simplified measures in lower-risk situations in some countries, these circumstances must be clearly defined to provide greater certainty, encourage their use by the private sector and reduce reliance on individual or entity judgement (see Case Study 3).







## Case Study 3: Egypt - Legal framework for Financial Inclusion<sup>9</sup>

<sup>9</sup>FATF, 2025. “Guidance on Financial Inclusion and Anti-Money Laundering and Terrorist Financing Measures”, p. 75

The Central Bank of Egypt actively supports financial inclusion efforts by regulated entities across the country through regular workshops and training programmes covering the national financial inclusion strategy, the implementation of a risk-based AML/CFT approach, and leverage technology for secure customer identification/verification and other CDD measures at on-boarding.

In 2020, the Central Bank of Egypt, in cooperation with Egyptian Money Laundering Combating Unit, issued several regulations aimed to enhance financial inclusion while maintaining financial stability and protecting the rights of customers:

- SDD procedures for individuals and micro-enterprises, for accessing financial services.
- Allowing application of SDD, without obtaining approval of Central Bank of Egypt and with Egyptian Money Laundering Combating Unit to new customers when opening traditional bank accounts, whether current or saving, provided that banks neither provide new products nor such accounts imply use of new financial technology.
- Banks applying simplified customer identification and verification procedures may rely solely on the given information and documents in the simplified KYC application, without requesting additional documents (e.g. allowing the bank to infer the purpose and intended nature).
- Verifying the identity of the customer and the beneficial owner after the establishment of the business relationship.
- Allowing the reliance on service providers on behalf of the banks for identifying and verifying customers, to have access to financial inclusion products and service (i.e. mobile wallets and prepaid cards) subject to certain conditions.
- Allowing low ML/TF risk craftsmen, free lancers, companies and micro-enterprises that do not have official documents to prove their commercial activities, to open an account using simplified measures.
- Allowing youth from 15 years old to open bank accounts without the need for their guardians' approval.
- Opening branches of small banks, especially in urban and rural areas, with the aim of availing banking services to citizens.
- Working on developing the financial infrastructure.<sup>146</sup>

In compliance with the regulation, almost all banks in Egypt developed several products for different segments, such as women, youth, persons with disabilities.



# Addressing Obstacles To Simplified Measures for Supervisors

## ***“Zero Failure” Approach<sup>10</sup>***

- Supervisors should understand that even with strong risk assessments and mitigation strategies, some ML/TF activity may still occur. The RBA requires entities to assess and address systemic ML/TF risks and typologies proportionately and not take a “zero failure” approach.
- It is therefore crucial that supervisors distinguish between isolated breaches and failures stemming from poor risk assessment or mitigation. Also, clear communication of related supervisory policies and procedures is needed to facilitate the flexibility to adopt simplified measures and avoid a zero-failure regime.

<sup>10</sup>FATF, 2025. “Guidance on Financial Inclusion and Anti-Money Laundering and Terrorist Financing Measures”, p. 75



# Addressing Obstacles To Simplified Measures for Supervisors

## ***Need for Capacity Building<sup>11</sup>***

- Supervisors can provide or support targeted training programs that focus on the application of the RBA, including the effective implementation of simplified measures. Such training should be periodic and tailored to the specific challenges that regulated entities face based on identified country and/or entity risk assessments.
- Sensitisation efforts by supervisors for staff of regulated entities can be achieved through workshops, seminars, guidance notes, typology reports, and case studies that highlight best practices in applying RBA and simplified measure.

<sup>11</sup>FATF, 2025. "Guidance on Financial Inclusion and Anti-Money Laundering and Terrorist Financing Measures", p. 52



# Addressing Obstacles To Simplified Measures for Supervisors

## ***Need for Capacity Building***

- Furthermore, supervisors can promote capacity building by encouraging regulated entities to incorporate technological tools in AML/CFT systems, technology, offering advisory services and establishing public-private collaboration platforms that facilitate regular interaction between regulatory bodies and the entities they supervise.
- Through such comprehensive support, supervisors can ensure that regulated entities are not only compliant but are also empowered to take a proactive role in risk management and financial inclusion efforts.



# Conclusion

Supervisors play a critical role in ensuring that FIs and DNFBPs apply AML/CFT measures effectively and proportionately under the RBA. By reviewing institutional risk assessments and mitigation strategies, providing clear guidance, and distinguishing between isolated breaches and systemic failures, supervisors can build confidence in the use of simplified measures for lower-risk scenarios.

This clarity supports financial inclusion by removing unnecessary barriers and reducing over-compliance risks. Additionally, through targeted training, public-private collaboration, and ongoing engagement, supervisors can strengthen institutional capacity and promote a shared understanding of ML/TF risks, ensuring that entities are both compliant and empowered to support inclusive access to financial services.





# Thank you