



What is Financial Inclusion?

CFATF Secretariat Research Desk
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Financial Inclusion



- Involves providing access to an adequate range of safe, convenient and affordable financial services to disadvantaged and other vulnerable groups who have been underserved or excluded from the formal financial sector.
- Involves making a broader range of financial products and services available to individuals who currently only have access to basic financial products.
- Ensuring access to appropriate financial products and services at an affordable cost in a fair and transparent manner.





Financial Inclusion



- The application of measures that allow more individuals and businesses to access regulated financial products and services
- These products and services must “meet their needs, transactions, payments, savings, credit and insurance.”
- It also relates to persons who are seeking initial entry into the financial system, for example to open a deposit account.





Financial inclusion is experienced when individuals can:



Manage day-to-day financial transactions.



Meet predicted and unpredicted expenses.



Manage a loss of earned income.



Avoid or reduce the problem of debt.



Source: Select Committee on Financial Exclusion. Tackling financial exclusion: A country that works for everyone? Report of Session 2016-17 - published 25 March 2017 - HL Paper 132



Global State of Financial Inclusion



An estimated 1.7 billion persons globally do not have an account with a financial institution.



Nearly all of the unbanked persons live in developing economies, with 46% residing in just seven economies.

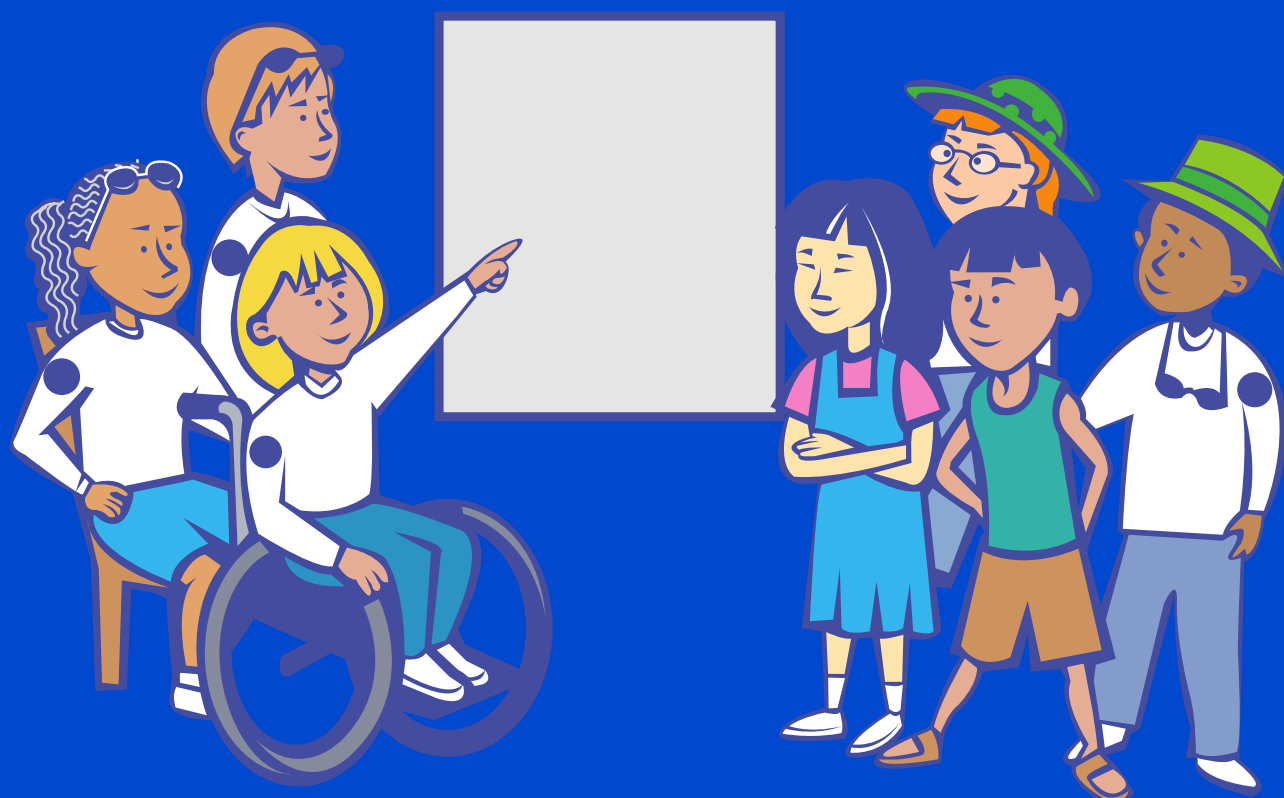


56% of the unbanked are women, 62% have primary school education or less and 47% of the unbanked are out of the labour force.





Financially Excluded Groups



Low-income households



Persons with disabilities.



Persons living in rural communities.



Undocumented migrants.



Underserved - those who have access to some limited financial services.



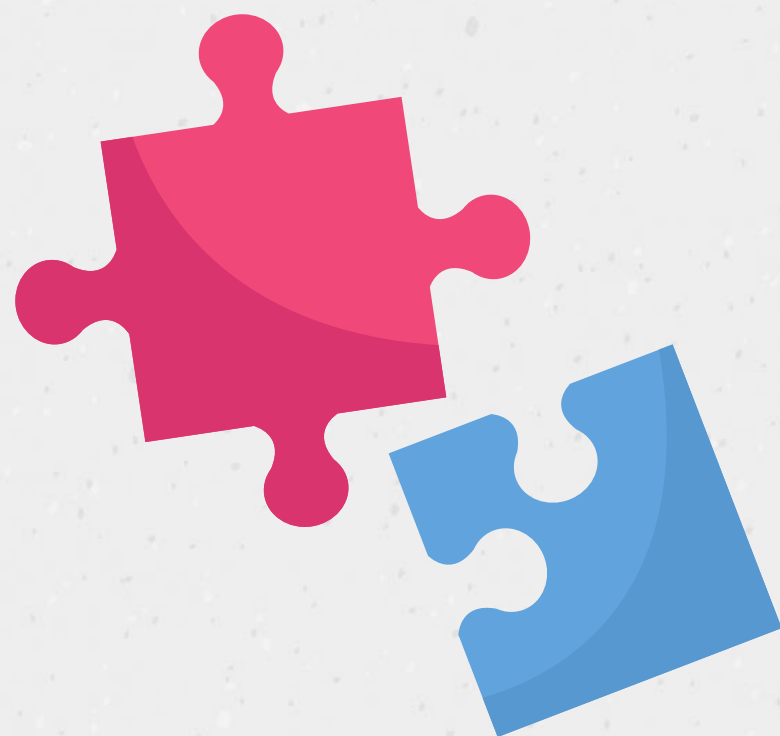
Underserved also refers to persons who technically have access to financial services but are not using them due to various barriers.



Source: FATF (2013-2017), Anti-money laundering and terrorist financing measures and financial inclusion - With a supplement on customer due diligence, FATF, Paris.



Challenges to Financial Inclusion

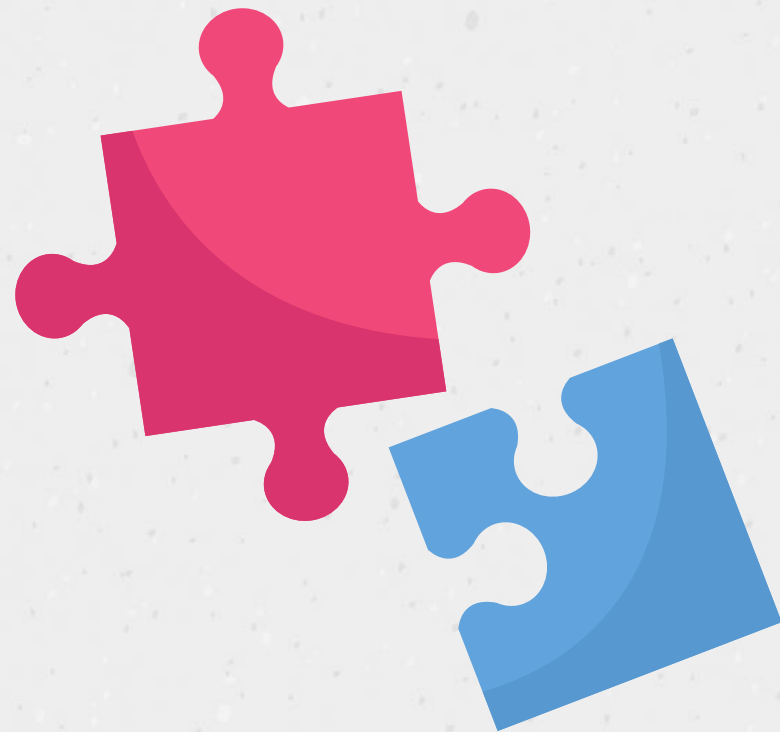


- Nearly 66% of adults without an account at a financial institution said that they have too little money to use one, and roughly one in five cited this as their sole reason.
- Cost was stated by 26 % of adults without an account. Twice as many persons from Latin America and the Caribbean cited this reason.
- Globally, 16% of adults without an account cited distrust in the financial system.
- Twice as many persons from Europe, Central Asia and in Latin America and the Caribbean also gave distrust as their primary reason for not having an account.
- Poverty is the main driving factor that prevents individuals from entering and actively participating in the financial system.





Challenges to Financial Inclusion



- AML/CFT obligations - may increase the cost of doing business and reduce the outreach to the unbanked by private sector.
- The costs may also be transferred to customers, potentially discouraging them from using formal systems.
- Lack of proper documentation to open an account
- Distance - the financial institution is too far away.
- Indirect usage - another family member has a bank account.
- Other reasons given were religious beliefs and the view that a bank account was unnecessary.





Financial Inclusion and the Risk-Based Approach (RBA)



- Formal financial systems and services are central to an effective and comprehensive AML/CFT regime.
- Financial inclusion and an effective AML/CFT regime can and should be complementary national policy objectives with mutually supportive policy goals.
- A RBA to AML/CFT safeguards may help build more inclusive financial system by allowing FIs to apply certain simplified AML/CFT measures to those who may present a lower ML/TF risk.
- It can avoid having disproportionate and unnecessary requirements, including those that may hinder access to appropriate services for under-served groups.



Source: FATF (2013-2017), Anti-money laundering and terrorist financing measures and financial inclusion - With a supplement on customer due diligence, FATF, Paris.



Financial Inclusion and the Risk-Based Approach(RBA)



- Although vulnerable groups may present a lower ML/TF risk due to the types of transactions they conduct, they are a very heterogeneous category with very different risk profiles in different jurisdictions.
- Countries will need be aware of what conditions, products and transactions low value clients can appropriately be subject to a simplified AML/CFT regime.
- They cannot be classified as lower risk clients solely on the basis that they are low-income individuals.



Source: FATF (2013-2017), Anti-money laundering and terrorist financing measures and financial inclusion - With a supplement on customer due diligence, FATF, Paris.



Financial Inclusion and Customer Due Diligence



- INR 10 provides indicators to identify potential lower risk factors (INR.10. par.16 to 18), and examples of simplified due diligence measures that the RBA allows (INR.10. par.21.).
- Regarding identification and verification requirements, FATF Recommendations do not require information to be gathered on matters such as occupation, income or address.
- FATF Recommendations allows countries to use other reliable, independent source documents, data or information not only government-issued IDs.
- This flexibility is important for unbanked groups to access the formal financial system.



Source: FATF (2013-2017), Anti-money laundering and terrorist financing measures and financial inclusion - With a supplement on customer due diligence, FATF, Paris.



Financial Inclusion and Customer Due Diligence



- Lower risk situations are diverse, but the FATF Recommendations have included “financial products or services that provide appropriately defined and limited services to certain types of customers, so as to increase access for financial inclusion purposes”.
- This may include specific measures for unbanked individuals to mitigate the risk or potential for misuse while still providing adequate functionality
- Targeted products may include several specific conditions such as the customer being a natural person, limited transactions in amount, limited account balance at any time and so on.



Source: FATF (2013-2017), Anti-money laundering and terrorist financing measures and financial inclusion - With a supplement on customer due diligence, FATF, Paris.



Financial Inclusion and Customer Due Diligence



- Simplified CDD measures such as where verification is postponed but not eliminated, enables unbanked individuals to get access to the basic formal services they need.
- It also reduces the costs of small value accounts and increases financial inclusion outreach for financial institutions.
- Other CDD measures that may apply to promoting financial inclusion are obtaining information on the purpose of the business relationship and wire transfer requirements.





Financial Inclusion and Other Requirements



- Recommendation 11 (Record-Keeping) allows different forms of document retention, including electronic storage.
- Recommendation 20 (Suspicious Transactions Reports) - transactions with vulnerable groups are usually not subject to separate or specific monitoring systems to identify suspicious transactions.
- Some businesses may have developed indicators, that would focus to specific criteria and systematic monitoring.



Thank you!

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