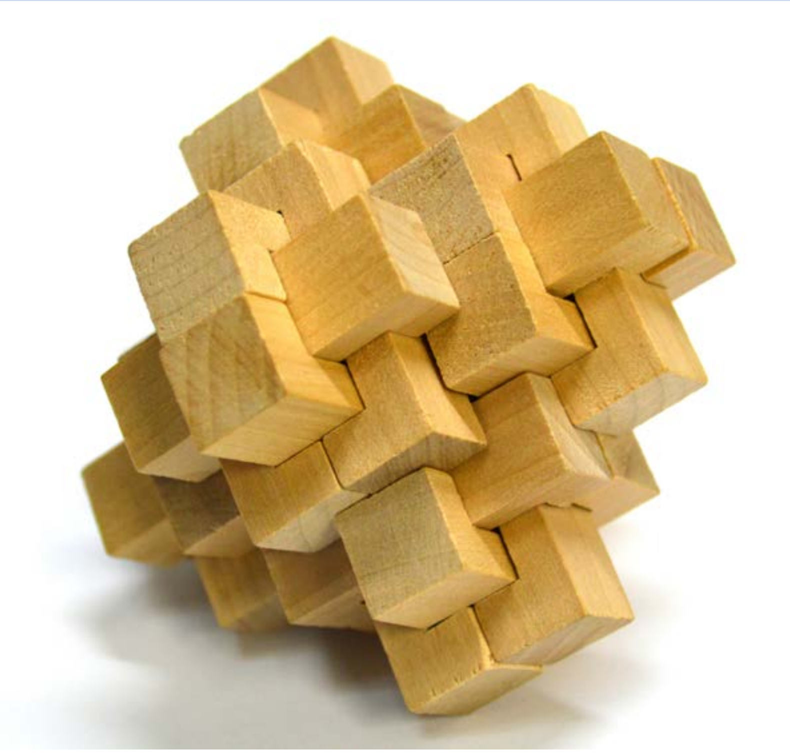
STRENGTHENING FINANCIAL INTEGRITY THROUGH FINANCIAL INCLUSION



THE SITUATION OF THE MONEYVAL JURISDICTIONS

MONEYVAL
Committee of Experts on the Evaluation of Anti-Money Laundering Measures and the Financing of Terrorism

COUNCIL OF EUROPE
CONSEIL DE L'EUROPE

COMMITTEE OF EXPERTS ON
THE EVALUATION OF ANTI-MONEY
LAUNDERING MEASURES AND
THE FINANCING OF TERRORISM
(MONEYVAL)

STRENGTHENING FINANCIAL INTEGRITY THROUGH FINANCIAL INCLUSION AND THE SITUATION OF THE MONEYVAL JURISDICTIONS

COUNCIL OF EUROPE
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The Committee of Experts on the Evaluation of Anti-Money Laundering Measures and the Financing of Terrorism (MONEYVAL) is a monitoring body of the Council of Europe entrusted with the task of assessing compliance with the principal international standards to counter money laundering and the financing of terrorism and the effectiveness of their implementation, as well as with the task of making recommendations to national authorities in respect of necessary improvements to their systems.

For more information on MONEYVAL, please visit our website:

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Table of acronyms

AML/CFT	Anti-Money Laundering / Countering the Financing of Terrorism (also used for *Combating the financing of terrorism*)
CDD	Customer Due Diligence
DNFBP	Designated Non-Financial Business or Profession
EBRD	European Bank for Reconstruction and Development
EU	European Union
FATF	Financial Action Task Force
FI	Financial institution
FIU	Financial Intelligence Unit
ML	Money Laundering
NGO	Non-Government Organisation
NRA	National Risk Assessment
RBA	Risk-Based Approach
STR	Suspicious Transaction Report
TF	Terrorist Financing
UN	United Nations
WB	World Bank

Executive Summary

1. This report aims to establish the extent to which financial inclusion is taken into account by MONEYVAL States and territories. 31 very diverse jurisdictions, ranging from international financial centres to countries with emerging economies, responded to a questionnaire prepared by the MONEYVAL Secretariat. It is therefore difficult to draw any one overall conclusion about the state of financial inclusion in MONEYVAL States and territories.

2. It is notable that there was a high level of financial inclusion in those financial centres which derive a significant portion of their gross domestic product (GDP) from financial services. Overall, European Union (EU) Member States demonstrated a reasonably high level of financial inclusion and the implementation of the *Directive on the Comparability of Fees Related to Payment Accounts, Payment Account Switching and Access to Payment Accounts with Basic Features* should help to further improve the level of financial inclusion. The analysis also shows that those jurisdictions which are not financial centres but have actively promoted financial inclusion policies have, in some cases, achieved a significantly higher level of financial inclusion than neighbouring States.

3. It would appear that a number of States and territories have found a balance between a robust anti-money laundering/countering the financing of terrorism (AML/CFT) regime and development of financial inclusion policies and procedures and are considering financial inclusion as an element in the development of their national risk assessments (NRA). Additionally, a number of jurisdictions have given priority to financial inclusion policies as part of an initiative to improve social equality. Some countries also stated that they were looking at the development of certain basic products for excluded persons as part of a broader initiative to reduce the amount of cash in the economy, as well as to improve consumer protection by bringing people into the regulated sector.

4. The report identified financial illiteracy, lack of experience of financial products, lack of confidence in financial institutions and credit ratings as potential barriers to improving the level of financial inclusion. To counter these barriers and improve financial inclusion, the report has identified a number of initiatives that are either being considered or have been successfully implemented including: education and awareness raising, development of basic financial products, private sector initiatives in developing basic financial products, use of the Post Office network in rural communities, relaxation of AML/CFT requirements for low-risk customers, consumer protection, and complaints procedures.

5. While their exact impact is not yet clear, financial inclusion policies and initiatives appear to constitute an important aspect of the fight against money laundering and terrorist financing. MONEYVAL States and territories are therefore encouraged to actively consider developing financial inclusion policies and initiatives and, in particular, to include a consideration of financial inclusion in their national risk assessments. It is proposed that similar surveys should be conducted by MONEYVAL on a biennial basis to try to monitor more accurately both the developing levels of financial inclusion in MONEYVAL States and territories over time, and to analyse the impact which this may be having on AML/CFT compliance in those MONEYVAL States and territories with hitherto lower levels of access to the financial system within their populations.

Introduction

6. This report aims to establish the extent to which financial inclusion is taken into account by MONEYVAL States and territories.[1]

7. In July 2014, MONEYVAL sent a questionnaire to its States and territories. The questionnaire was designed to gather information on the levels of consideration of financial inclusion in its jurisdictions, the policies and measures in place to address these issues and the results, if any, of such initiatives. It also sought to identify steps taken by its States and territories to improve access to the formal financial system as well as identifying barriers to financial inclusion.

8. The MONEYVAL Secretariat received 32 responses to the questionnaire.[2] The main findings drawn from these responses are set out in section III and IV of this report. In particular, the report gives an overview of financial inclusion in MONEYVAL States and territories including: an assessment of the level of financial inclusion; the prioritisation given to financial inclusion; a brief review of how financial inclusion has been included in national risk assessments; and a consideration of barriers to financial inclusion. The report then sets out some of the measures that have been applied in MONEYVAL States and territories in order to improve the level of financial inclusion.

9. The report then sets out a review of the relationship between financial inclusion and AML/CFT measures drawn from a wider consideration of financial inclusion policies and, particularly from guidance issued by the FATF.[3] Finally the report draws conclusions arising from the review.

10. The annexes to the report also contain additional reading material that was considered in the production of this report and the original questionnaire that was sent to MONEYVAL States and territories.

[1] 33 States and territories are evaluated by MONEYVAL: Albania; Andorra; Armenia; Austria; Azerbaijan; Bosnia and Herzegovina; Bulgaria; Croatia; Cyprus; Czech Republic; Estonia; France; Georgia; Guernsey; Holy See; Hungary; Isle of Man; Israel; Jersey; Latvia; Liechtenstein; Lithuania; “the former Yugoslav Republic of Macedonia”; Malta; Republic of Moldova; Monaco; Montenegro; Poland; Romania; Russian Federation; San Marino; Serbia; Slovak Republic; Slovenia and Ukraine. The President of the Financial Action Task Force (FATF) additionally appoints two FATF delegations to MONEYVAL for two year periods (France and Austria are currently appointed to MONEYVAL on this basis, although they are evaluated by the FATF).

[2] Albania, Andorra, Armenia, Austria, Azerbaijan, Bulgaria, Cyprus, Czech Republic, Estonia, France, Georgia, Guernsey, Holy See, Hungary, Isle of Man, Israel, Jersey, Latvia, Liechtenstein, Lithuania, “the former Yugoslav Republic of Macedonia”, Malta, Republic of Moldova, Montenegro, Poland, Romania, Russian Federation, San Marino, Serbia, Slovak Republic, Slovenia and Ukraine.

[3] FATF, *Guidance on Anti-Money Laundering and Terrorist Financing Measures and Financial Inclusion*, Paris, February 2013.

What is financial inclusion?

11. The FATF *Guidance on Anti-money laundering and terrorist financing measures and financial inclusion* describes financial inclusion as providing access to an adequate range of safe, convenient and affordable financial services to disadvantaged and other vulnerable groups, including low-income, rural and undocumented persons, who have been underserved or excluded from the formal financial sector. This allows them to effectively manage their money, regardless of their level of income or social status. Financial inclusion also involves making a broader range of financial products and services available to individuals who currently only have access to basic financial products. Finally, financial inclusion can help ensure access to appropriate financial products and services at an affordable cost in a fair and transparent manner.

12. For this purpose, financial products and services need to be provided responsibly and sustainably in a well regulated environment. People who hitherto have been excluded also may need support in obtaining some basic financial product knowledge and understanding. Therefore, in addition to mainstream providers, and in order to better support financial inclusion, ideally, there should be alternative options to the provision of financial services by providers that comply with rules and regulations and do not exploit and unnecessarily exclude disadvantaged and other vulnerable groups.

13. The United Nations defines the goals of financial inclusion as follows:[4]

    - Access at a reasonable cost for all households to a full range of financial services, including savings or deposit services, payment and transfer services, credit and insurance;
    - Sound and safe institutions governed by clear regulation and industry performance standards;
    - Financial and institutional sustainability, to ensure continuity and certainty of investment; and
    - Competition to ensure choice and affordability for clients.

14. There are financial and social consequences arising from financial exclusion, as well as consequences for the AML/CFT regime. People that are financially excluded might:

    - Not be able to access affordable credit;
    - Not want to obtain a bank account, or have difficulty obtaining a bank account;
    - Be financially at risk through not having home insurance;
    - Struggle to budget and manage money or plan for unexpected events;
    - Not know how to make the most of their money;
    - Extensively use informal and unregulated financial services, thus making it more difficult to identify money laundering.

15. Research conducted by the World Bank demonstrates globally why individuals or groups may not take full advantage of mainstream financial service providers.[5] The most frequently cited reasons for not having an account are: the lack of enough money to use one (30%); banks or accounts being too expensive (25%); and another family member already having access to an account (23%). Other reported reasons include banks being too far away (20%), lack of proper documentation (18%), lack of trust in banks (13%) and religious reasons (5%). Furthermore, international migrant workers send home about USD 450 billion every year through formal services involving fees as high as 20%; however, they also send an additional USD 150 billion through informal channels, even though these are known not to be safe for either the sender or the receiver.

[4] United Nations Capital Development Fund, *Building Inclusive Financial Sectors for Development*, United Nations, New York, 2006.

[5] World Bank Policy Research Working Paper 6025, *Measuring Financial Inclusion, The Global Findex Database*, Washington, April 2012.

16. Financial Inclusion aims at bringing the excluded population that is currently in the informal, undocumented, unmonitored and unregulated system into the formal, transparent, and protected financial system.

Financial inclusion within MONEYVAL States and territories

17. When considering the question of financial inclusion in the context of MONEYVAL, it should first be noted that MONEYVAL encompasses a very diverse range of States and territories. MONEYVAL membership includes, in geographical terms, the largest (Russian Federation) and smallest (Holy See) as well as the oldest republic (San Marino) and the second most recent country recognised by the United Nations (Montenegro). MONEYVAL States and territories include a number of international financial centres, which offer a range of sophisticated financial products and derive a significant portion of their gross domestic product from financial services. MONEYVAL also includes a number of emerging economies. Fourteen of the States and territories responding to the questionnaire are members of the European Union and have therefore aligned their policies and legislation with EU Directives.[6] Another four States are candidates to join the EU.[7] There is also a considerable range of experience of operating AML/CFT systems, with some jurisdictions having had regimes in place for over twenty years, whereas others have introduced them much more recently.

18. As a consequence of this diversity of experience, MONEYVAL States and territories have developed a considerable range of policies and practices, set out in the replies to the questionnaires, and it is not always possible to identify common themes across the whole of the MONEYVAL membership.

Level of financial inclusion[8]

19. All the international financial centres reported a high level of financial inclusion with up to 99% of the adult population maintaining an account at a formal financial institution (FI). EU Member States generally reported a high level of access to formal financial institutions, ranging from 74% to 98%, with the exceptions of Bulgaria (55%) and Romania (53%).

20. It was observed that non-financial centres, which had promoted the development of basic low-cost financial products, as well as developing a programme of financial awareness through schools and other public initiatives, had also achieved a high degree of financial inclusion notably:

	Percentage of adult population maintaining an account at a formal FI
Austria	98%
Estonia	97%
France	99%
Hungary	76%
Israel	91%
"The former Yugoslav Republic of Macedonia"	74%
Poland	77%
Slovenia	97%

6 Austria, Bulgaria, Cyprus, Czech Republic, Estonia, France, Hungary, Latvia, Lithuania, Malta, Poland, Romania, Slovak Republic and Slovenia.

7 Albania, "the former Yugoslav Republic of Macedonia", Montenegro and Serbia.

8 Not all of the States and territories submitted comprehensive data on the level of financial inclusion and additional data was taken from The Little Data Book on Financial Inclusion 2012 published by the World Bank.

21. With regard to those jurisdictions that were neither international financial centres nor EU Member States, it has proved difficult to establish a definitive level of financial inclusion as, in some cases, there was a significant discrepancy between the countries' internal estimate and World Bank statistics. Estimates of the percentage of the adult population maintaining an account at a formal financial institution in this category of responding MONEYVAL jurisdictions ranged from as low as 15% to 75%.

Prioritisation of financial inclusion

22. A number of countries responded that they considered the issue of financial inclusion to be a strategic priority. There are, however, a number of differing motives that have driven this prioritisation, notably:

- In Bulgaria, the Constitution stipulates that all people must have equal rights, regardless of gender, race, religion, social status, educational level;
- In France, the 1984 Banking Law created the legal framework for a legal right to a bank account, which allows any person who does not hold an account to open a deposit account and benefit from basic banking services. In January 2013, a multi-annual plan against poverty and in favour of inclusion was adopted by the French government after consultation with all stakeholders. This plan includes a specific part dedicated to financial inclusion and the prevention of over-indebtedness. Subsequently, a banking law, adopted on 26 July 2013, includes new provisions regarding financial inclusion;
- Moldova is participating in a pilot project, launched by the EBRD to support financial inclusion for recipients of remittances. The project is part of a larger program that the EBRD previously applied in several MONEYVAL States[9] as well as other transition countries (Kirghizstan and Tajikistan). The project mainly relates to the support of public education and training;
- In the Russian Federation, a comprehensive financial inclusion strategy has been incorporated as an important part of the transition to a market economy. The strategy focuses primarily on microfinance institutions, credit cooperatives, innovative branchless solutions for financial services, and the development of consumer protection mechanisms;
- For EU Member States, the European Commission's proposal for a "Directive on the comparability of fees related to payment accounts, payment account switching and access to payment accounts with basic features" was approved by the European Parliament on 15 April 2014.[10] For this to take effect, the new rules must be officially approved by the Member States, which will then have 24 months to transpose them into their national laws;
- A number of jurisdictions initiated financial inclusion policies in an attempt to reduce the use of cash in the economy;[11] and
- Others are considering financial inclusion policies as part of an initiative to improve the overall financial awareness of the population.[12]

23. Conversely, those States and territories with mature financial systems, particularly international financial centres, consider that as their financial sector is well developed and there are no obstacles preventing access to financial services for residents, no specific attention needs to be paid to the topic of financial inclusion.

24. Overall, most States and territories that have developed financial inclusion policies consider that these have benefited the jurisdiction as a whole.

Financial inclusion and the national risk assessment

25. The questionnaire asked whether financial inclusion is being considered when conducting the required AML/CFT national risk assessment. As most States and territories responding were still in the process of designing and conducting their initial NRA, this was a matter that was still under consideration. Ten

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[10] For further details see under Section IV below.

[11] Georgia, Hungary, Poland, Israel, Isle of Man.

[12] Austria, Armenia, Bulgaria, Hungary, Poland, Slovenia.

jurisdictions confirmed that they would include financial inclusion as an issue in their NRA.[13] However, eight jurisdictions stated that they would not include financial inclusion in their NRA exercise, whether or not they have financial inclusion as part of social programmes.

Barriers to financial inclusion

26. Although the questionnaire did not specifically ask about barriers to financial inclusion, a number of barriers could be identified from the responses, including, but not limited to:

    - Financial illiteracy - In a number of States and territories there has been a rapid transition to a market economy over the last 20 years. Even if schools introduce financial literacy programmes, those past school age will not benefit from these;
    - Lack of experience - There are, in some cases, segments of the population with no historic experience of the formal financial system and who are reluctant to participate in it;
    - Complexity of financial products - The rapid development of sophisticated products (e.g. complex fund management and pension schemes), and, in some instances, aggressive marketing of these products, has created an additional barrier for people who are already unfamiliar with basic financial products (e.g. bank accounts and savings schemes);
    - Lack of confidence - The recent financial crisis has eroded confidence in financial institutions and, in a number of jurisdictions, this has resulted in significant withdrawals of funds from the banking system; and
    - Credit ratings - Lack of a financial "track record" can present problems where financial institutions rely on independent credit rating agencies to conduct initial credit checks.

27. The questionnaire did contain a specific question concerning availability of identity documents. All States and territories responding confirmed that they maintained a form of State registry of all members of the population. Furthermore, in almost all jurisdictions it was compulsory for all adults to maintain an official photo identification (e.g. identification card or passport). The main exception to this requirement was the United Kingdom Crown Dependencies where there is no requirement for residents to maintain any form of official photo identification.

[13] One country reported that they were currently conducting their AML/CFT national risk assessment with the World Bank methodology which does not consider financial inclusion issues; they would, nonetheless consider including it.

Measures taken to improve financial inclusion within MONEYVAL States and territories

28. The responses to the questionnaire identified a number of different measures that have been adopted by States and territories to improve financial inclusion.

Education and awareness raising

29. A number of jurisdictions responded that financial awareness was part of the school curriculum, in some cases commencing at primary level (under 11). In particular:

    - Financial discipline is an optional part of the school curriculum in the Republic of Moldova;
    - In Poland, the Financial Services Authority also conducts training for children on how to use banking services, and also takes part in an annual science fair to promote basic financial knowledge in children. The National Bank of Poland (NBP) has also created an Economics Education Programme in order to support and promote various economics education initiatives implemented by, for example, schools, universities, libraries, non-governmental organisations, the media and training institutions.[14] and
    - The National Bank of the Republic of Macedonia has started its own project of financial education, which is aimed at a closer acquaintance of the population of "the former Yugoslav Republic of Macedonia" with banking and finance. Initially, the activities are directed towards the youngest categories, i.e. children and young people. The project includes: organisation of events, exhibitions, organized visits, creative workshops, publishing brochures, manuals and other educational materials designed to inform the general public.

30. Some countries have set out this requirement in law. For example, in Austria, the School Organisation Act lays down several educational principles. The goals of the educational principle of *economic education and consumer education* are stated as:

    - Achievement of a level of education to obtain the ability to act sustainably as a politically conscious consumers and to frame one's own financial management;
    - Ability to take self-determined and sustainable consumer decisions taking into account one's economic means and act accordingly;
    - Ability to reflect on and proactively develop the general framework of one's own consumer behaviour in terms of a democratic participation in society and economy taking into account one's individual responsibility;
    - Ability to form and manage one's own household taking into account one's personal living conditions; and
    - Attainment of basic economic skills to obtain employment and preparedness for self-employment.

31. In a number of countries the central bank or financial services regulator has responsibility for raising general financial awareness. In Armenia, for instance, a National Strategy on Financial Education (NSFE) was developed. The main target groups of the NSFE are schoolchildren over 12 years of age, students, women, farmers and the general public.

32. In addition the strategy includes development of guidelines and proper training for teachers. In Poland, the target group of the NBP's education activities has involved those who disseminate knowledge themselves as part of their profession, teachers, journalists and NGO workers.

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[14] For further details see http://www.nbp.pl/homen.aspx?f=/en/onbp/informacje/dzialalnosc_edukacyjna.html

33. In Bulgaria, there are non-profit organisations whose main activity relates to financial education which are recognised as effective mechanisms for financial inclusion.

34. A number of States and territories have developed internet training in order to raise financial awareness. For instance, the website of the Hungarian National Bank offers a wide range of tools, publications, data, especially on consumer protection, including basic account features, account switching information, and information on types of accounts available and account services (features and costs of accounts, payment cards and other payment services linked to the account).[15] In Latvia, the Financial and Capital Market Commission (FCMC) launched an educational website "*Client School*" where clients can find detailed information and description of the main financial products including the State-funded pension and voluntary pensions. The next project of the FCMC will be to improve the *Client School* by adding "*Client ABC*", which will provide basic insight to various financial literacy topics. The website will also provide self–assessment tests.

Development of basic financial products

35. A number of States and territories have taken the initiative to develop and promote products that are designed for the excluded population, in particular:

- In Slovenia, basic bank accounts, with limited features, have already been made available, as well as basic consumer loans;
- In France, any individual or legal entity domiciled in France who/which does not hold a deposit account shall be entitled to open such an account with the credit institution of his/its choice. In the event of the chosen institution refusing, the person may refer to the Banque de France and request that it designates a credit institution located in the vicinity of his domicile, or at another place of his choosing. Credit institutions designated by the Banque de France are required to provide the account holder with basic banking services whose content and pricing conditions are specified by decree. Basic banking services available in France include:
  - all the operations required for the opening, operating and closing of the account
  - one address change per year
  - the issue of bank account ID at the request of the account holder
  - bank transfers
  - the sending of a bank statement per month
  - the realisation of cash transactions
  - the cashing of checks and bank transfers
  - deposits and cash withdrawals at the bank counter
  - debit payments, interbank payment order or bank transfer
  - means of remote viewing of account balance
  - a payment card whose use has to be authorised before each operation by the issuing bank, and
  - two bank checks per month or equivalent means of payment offering the same services;
- In "the former Yugoslav Republic of Macedonia", the Law on Payment Operations regulates micropayment operations and thus entitles mobile payment and introduces mobile micropayment intermediaries in the payment system. Two entities have been granted a license to provide mobile micropayment services, out of which one is the biggest mobile operator in the country; and
- In Poland, changes to the existing legislation are being considered along with actions in order to open and operate free or low-cost bank accounts with basic and essential services and to start using non-cash payment instruments for otherwise financially excluded persons including: people living on a low income; seniors (65+ years); residents of smaller towns and rural areas; persons with disabilities, unemployed people; as well as young people (over 13 years old) and students without a bank account.

36. There have also been a number of complementary initiatives that have sought to reduce the use of cash in the economy through the development of easy to use products and by requiring State benefits and

[15] http://felugyelet.mnb.hu/en/left_menu/consumer_protection

pensions to be paid through the formal financial system. This has had the added benefit of providing products that are accessible to excluded persons. In particular:

- In Georgia, pensioners receive their pensions through bank accounts free of charge and they can also use these bank accounts for other transactions and financial products;
- In Poland, the Coalition for Cashless Transactions and Micropayments was established in 2007 on the initiative of the Polish Bank Association. The primary purpose of the Coalition is to develop and disseminate electronic payment instruments and to accelerate their use in the economy. The Coalition acts as a platform for cooperation between banks and high-tech companies together with partners representing local unions;
- In Israel, amendments to the AML/CFT Order for Money Service Providers allowed, under certain conditions the conduct of non-face-to-face transactions, in order to enable e-wallets transactions; and
- In the Isle of Man, the Department of Social Care is working on a project whereby social benefits claimants who are unable to receive their benefits by cheque are able to access funds using an e-wallet or prepaid card.

Private sector initiatives in developing basic financial products

37. In some jurisdictions, financial services providers have taken the initiative to produce products specifically for otherwise financially excluded persons.

    - In Austria, some banks offer specific products (payment accounts) targeted at financially marginalized people. One example is the "Die Zweite Wiener Vereins-Sparcasse", founded in 2006 with the aim of providing financial services to people otherwise excluded from basic financial services. Similar products, such as low-cost payment accounts, are also offered by other banks;
    - Although the Czech Republic has not adopted any specific incentives for introducing basic financial products, many banks in the Czech Republic have taken the initiative and now offer free accounts; and
    - In Jersey, one bank offers a basic transmission (current) account to those who lack a credit history or have a low credit risk assessment. This account does not provide debt or cheque facilities but does have debit card and mobile phone functionality. The same bank also supports and has in place processes to identify and take on migrant workers and those who are in "transition" from being helped by Community Savings. A second bank offers a basic bank account to customers above the age of 16 who are unable to provide the usual evidence of identity requested for other customers. The account is available and promoted to a number of Jersey employers for their seasonal workers. A student bank account (with similar limitations on use) is also available to any student aged 17 or over who is studying or about to start studying in a full-time undergraduate degree course.

Credit facilities and loans

38. In order to provide access to cheap and regulated credit facilities a number of jurisdictions are introducing measures to regulate the granting of credit and loans. Particularly:

    - In France, in 2001, a law on new economic regulations confirmed the economic and social role of microcredit through the authorisation given to non-profit organizations to grant loans for a maximum amount of €10,000 to unemployed persons or to recipients of minimum social welfare, in order to finance corporate creation or development. In 2005, a Social Cohesion Fund (FCS) was set up by law, with the aim of:
        - Developing microfinancing to foster the creation of very small businesses and to support the social economy sector; and
        - Promoting the private microcredit industry. To this end, it guarantees up to 50 % of the loans granted to people who tend to be excluded from traditional banking channels, so they can finance their personal social or professional inclusion projects. To encourage privately sponsored microcredit programs, the Deposits and Consignments Funds (CDC)

builds up partnerships with national networks of social and local players who support microcredit recipients;

- Montenegro has established a Credit Registry which maintains a registry of credit obligations towards banks and financial institutions;
- Israel is considering the establishment and regulation of credit bureaus and credit unions, enabling provident funds to provide loans to small businesses and expanding the authority of the Postal Bank to provide additional banking services; and
- In Jersey, a Code of Practice for Consumer Lending has been published. The Code sets standards of good lending practice so that individuals can enter into borrowing agreements aware of the facts, conscious of their responsibilities and aware of the true costs.

Post Offices

39. In a number of countries, the post office is more extensive than the banking network and branches are situated in remote rural communities where there are no other financial services providers. The post offices are thus used for the provision of basic remittance services as well as the payment of utility bills and receipts of social benefits and pensions. Post offices are generally regulated and supervised for AML/CFT purposes in MONEYVAL States and territories.

Relaxation of AML/CFT requirements for low-risk customers

40. A number of States and territories report that they have introduced simplified customer due diligence (CDD) measures for low-risk customers in order to make it easier for excluded persons to gain access to basic financial services, in particular:

    - Poland has granted an exemption from CDD measures for pre-paid cards;
    - Austria allows the application of simplified CDD with regard to electronic money, if the device cannot be recharged, and the amount stored on the device is no more than €150, or where the device can be recharged a limit of €2,500 is imposed on the total annual amount transacted in a calendar year, except where an amount of €1,000 or more is redeemed in the same calendar year by the bearer;
    - In France, e-money can be subject to lighter CDD measures, except in the case of remittances, provided that the prepaid instrument threshold does not exceed €250 if the instrument cannot be reloaded or a total of €2,500 in transactions over a calendar year if the instrument can be reloaded; and
    - In Israel, amendments are being considered to allow the “know your customer” (KYC) process to be carried out by way of video conference technology, which will be documented, instead of requiring face-to-face identification that makes it necessary for the customer to physically come to a bank branch. An account that is opened online shall be restricted so that cash transactions shall not exceed NIS 10,000 (€2,000), and the balance at the end of each business day shall not exceed NIS 300,000 (€60,000). These restrictions will be removed once the customer visits the branch and completes the face-to-face identification process. Furthermore, the use of prepaid cards under the amount of 1,000 NIS (€200 euro) is exempted from CDD measures (in Banking Corporations and in the Postal Bank).

Consumer protection

41. Consumer protection is seen by a number of States and territories as an important factor in promoting financial inclusion by increasing confidence in the integrity of the financial services sector.

42. The European Commission’s *Directive on the Comparability of Fees Related to Payment Accounts, Payment Account Switching and Access to Payment Accounts with Basic Features* tackles three principal areas:

    - *Access to payment accounts*: these provisions provide all EU consumers, without being residents of the country where the credit institution is located and irrespective of their financial situation, with a right to open a payment account that allows them to perform essential operations, such as receiving their salary, pensions and allowances or payment of utility bills etc.;

- *Comparability of payment account fees*: making it easier for consumers to compare the fees charged for payment accounts by payment service providers in the EU; and
- *Payment account switching*: establishing a simple and quick procedure for consumers who wish to switch their payment account to one with another payment service provider within the same Member State and to assist consumers who hold a payment account with a bank and want to open another account in a different country.

43. In France, an Observatory of Financial Inclusion has been created by law, to monitor banks' practices, in particular towards people in a fragile financial state. The Observatory, set up under the authority of the Banque de France, is, among other tasks, responsible for:

    - Collecting information on the access of natural persons to banking services, except for professional purposes; on the use of the banking services by these people; and on initiatives banks take to promote financial inclusion;
    - Defining, producing and analysing indicators on financial inclusion, with the aim of assessing the evolution of the banks' practices; and
    - Publishing an annual report, including an analysis of indicators of financial inclusion, their levels and their evolution; an assessment of banks' practices and, if possible, recommendations to improve the situation. The report may also describe and analyse the particularly good or bad individual practices of banks.

Complaints procedures

44. The establishment of effective complaints handling procedures is another step to increase confidence in the financial services sector.

45. In the Russian Federation, consumers can apply to a number of organisations with their complaints depending on the nature of the complaint, service and provider:

    - to financial institutions themselves;
    - to supervisory authorities;
    - to the Federal Service for Supervision in the Area of the Protection of Consumer Rights and Human Wellbeing (Rospotrebnadzor); and
    - to other organizations (for example, the Administration of the President or the Prosecutor General's Office). Among the recommendations of the World Bank 2009 diagnostic review was the establishment of a dedicated financial ombudsman to whom financial consumers could submit their complaints.

46. In addition, a Financial Ombudsman's Office was founded in Russia, in October 2010, by the Association of Russian Banks as a dedicated financial ombudsman to whom financial consumers could submit their complaints. This did not, however, replace other authorities already involved in handling certain financial consumer complaints.

Financial inclusion within the AML/CFT context

Financial inclusion and AML/CFT policies

47. There is a misconception that financial inclusion policies and practices and AML/CFT measures are mutually exclusive. There exists, however, a balance between them and both of these issues should be seen as complementary.

48. According to the FATF, although the promotion of formal financial systems and services is central to any effective and comprehensive AML/CFT regime, applying an overly cautious approach to AML/CFT safeguards can have the unintended consequence of excluding legitimate businesses and consumers from the formal financial system. Therefore, the FATF has designed AML/CFT measures that meet the national goal of financial inclusion, without compromising the measures that exist for the purpose of combating money laundering and the financing of terrorism. Through developing a common understanding of the FATF Standards that are relevant when promoting financial inclusion, and explicitly the flexibility that the standards offer, in particular the risk-based approach (RBA), jurisdictions can craft effective and appropriate controls while allowing access to basic financial products. Consequently, access to formal services for financially excluded and underserved groups, including low-income, rural sectors and undocumented groups can be facilitated, especially in developing countries where the challenge is the greatest.

49. The FATF does draw attention to the fact that, even for financial inclusion purposes, in both developing and developed countries, financially excluded and underserved groups, including low-income, rural sector and undocumented groups should not be automatically classified as presenting a lower risk to ML/TF. Since the RBA is a central element of the revised 2012 Recommendations and 2013 Methodology, countries and financial institutions should understand, identify and assess risks and apply mitigation and management measures. Therefore, jurisdictions should take into consideration the risks of financial exclusion and the benefits of bringing people into the formal financial system and build a more inclusive financial system according to these risks. Thus, consideration of financial inclusion in NRAs is of considerable importance if jurisdictions are to achieve a balanced approach. After the risk assessment, if the country identifies lower-risk customers, products, services, transactions, or delivery channels, for financial inclusion purposes, they could consider applying simplified AML/CFT measures. Consequently, the FATF Recommendations allow for flexibility, enabling jurisdictions to craft effective and appropriate controls taking into account the relevance of expanding access to financial services and to the various levels and types of risks posed by different products and supply channels. The challenge for the countries is to determine the right level of protection for a particular financial environment.

50. As for an effective and comprehensive AML/CFT regime, both implementing preventive measures and promoting formal financial systems and services are crucial. Unless the jurisdictions establish the right balance, this approach might jeopardise the financial inclusion approach. For instance, AML/CFT obligations can increase the cost of doing business for new financial products and services, e.g. branchless and mobile financial services. This might give rise to a perception that such products are less attractive both for the private sector and customers, particularly if informal options are cheaper and equally reliable. Equally, should a customer lack a government-issued form of identification, or if a financial institution needs more costly methods to verify identification, especially for vulnerable and low-income groups, this can create an additional barrier to financial inclusion.

51. Conversely, an overly conservative AML/CFT regime may effectively exclude persons unable to provide proof of identification or who do not carry legitimate identification. As a consequence of this, excluded persons may seek alternative methods of payment, forcing citizens into the underground economy. This, in turn, can result in a cash-intensive economy and the development of unregulated banking and cross-border financial services. Moreover, a flourishing underground economy that is attractive for legitimate funds of excluded segments of the population is also available for illicit transactions; alternative or

underground providers can thus become a ready conduit for these illicit transactions with the volume of transaction disguising those transactions linked to crime and the financing of terrorism. The unregulated and unsupervised sector is indeed unlikely to implement AML/CFT controls including detection and reporting of suspicious transactions. Therefore, financial exclusion can lead to undesirable results by undermining AML/CFT efforts.

52. Thus, encouraging people to make use of the formal financial system can enhance the AML/CFT regime by shrinking the informal sector and the black economy. Bringing excluded persons into the regulated sector also reduces their vulnerability to crime and exploitation. This is true even if the products and services used to promote financial inclusion have relaxed safeguards relative to strict CDD measures. Therefore, financial inclusion and an effective AML/CFT regime can and should be complementary to national policy objectives with mutually supportive policy goals.

Financial Inclusion and the FATF Recommendations

53. Financial inclusion should be considered under the FATF requirements for a national risk assessment, customer due diligence or “know your customer”, record-keeping, suspicious transaction reports and statistics. A detailed consideration of these issues is set out in Chapter 2 of the FATF *Guidance on Anti-Money Laundering and Terrorist Financing Measures and Financial Inclusion* which was published in February 2013.

National Risk Assessment (NRA)

54. Recommendation 1 (Assessing risks and applying a risk-based approach) requires countries to identify, assess, and understand the money laundering and terrorist financing risks for the country. Although financial inclusion is not included as a specific element of the NRA, it is nonetheless regarded as an issue that should be considered in preparing the risk assessment. The FATF has emphasised that countries should be aware that financial exclusion - and measures to promote financial inclusion - can have a significant impact on the money laundering and terrorist financing risks and that the following factors should be taken into account in preparing a NRA:

- People who do not have access to the formal financial system use informal systems and turn to the black economy – where there are no controls at all – and it is easier for criminals and terrorists to conceal their activity if there is a large volume of “legitimate” business from financially excluded people which can mask the genuinely illicit finance moving through the same channels;
- Moving people into the formal financial system can reduce the ML/TF risks by shrinking the informal sector and the black economy (and by making those people themselves less vulnerable to crime). This is true even if the products and services used to promote financial inclusion have relaxed safeguards relative to strict CDD; and
- Badly implemented measures to promote financial inclusion, on the other hand, can increase the risks – for example, if relaxed CDD is permitted in too many situations or if there is inadequate monitoring of CDD measures. Countries need to understand the risks and the impact on them of financial inclusion measures.

55. In the context of a NRA, this means that addressing financial inclusion can be a key part of a country’s strategy for mitigating AML/CFT risks.

Customer Due Diligence (CDD)

56. The greatest challenge of Recommendation 10 (Customer due diligence), from the financial inclusion perspective, concerns customers who are undocumented and do not have any legitimate identification. The standards do allow flexibility related to customer identification and reduced or simplified measures can be applied appropriately on AML/CFT measures to facilitate access of undocumented customers.[16] The country should undertake a risk assessment before relaxing CDD for specific low-risk products and

[16] Alliance For Financial Inclusion (AFI), *Assessment of AML/CFT in Particular Context of Financial Inclusion*, Lima, 2011.

services and this assessment and its conclusion should be documented. Also, KYC exemptions should be clearly defined, and any alternative CDD measures should be sufficiently robust.

Record Keeping

57. The most significant challenge arising from Recommendation 11 (Record keeping) impacting on financial inclusion relates to new institutions or entities. The provision of services or products for financial inclusion purposes may involve entities which have not previously been required to apply the AML/CFT regime (e.g. mobile phone operators, etc.). Countries should still require these new entities to observe record keeping obligations. Also, competent authorities that follow due legal process to seek records from traditional non-financial institutions and entities should be able to access relevant information and evidence on a timely fashion from new institutions or entities set up with the aim of financial inclusion.

Reporting of Suspicious Transactions (STRs)

58. Recommendation 20 (Reporting of suspicious transactions) stipulates that if a financial institution suspects – or has reasonable grounds to suspect – that funds are the proceeds of a criminal activity or are related to terrorist financing, it should be required to report the incident promptly to the country's Financial Intelligence Unit (FIU). This obligation applies to all financial institutions that are subject to AML/CFT obligations, including those that serve disadvantaged and low-income people. The implementation of such a requirement requires financial institutions to put in place appropriate internal monitoring systems to identify any unusual behaviour. Once a suspicion has been formed, a report must be made and, therefore, a risk-based assessment is not applicable for the reporting of suspicious activity. The RBA is, however, appropriate for the purpose of identifying potentially suspicious activity, for example, by directing additional resources to potentially those areas (customers, services, products, locations etc.) where a financial institution has identified as higher risk, which may include services for disadvantaged and low-income people.

Supervision and Enforcement

59. The difficulty arising from Recommendations 26-31 (Powers and responsibilities of competent authorities) is how to evaluate compliance with supervision/enforcement standards in the particular context of financial inclusion. New players mean new responsibilities for supervision. The challenge is to determine whether these new responsibilities are clearly established and implemented by all players. Supervisors should have adequate powers to monitor and ensure compliance by financial institutions with requirements to combat ML/TF, including the authority to conduct inspection. In this regard, the jurisdictions should consider if the supervisory regime adheres to the FATF's functional definition of financial institutions or whether some non-bank providers of financial services for disadvantaged and low-income people fall under different supervision for their financial services. If service providers (in particular those whose main business is non-financial entities) are subject to different oversight regimes, the delineation of duties between supervisory authorities should clearly be set in laws and understood by all parties. The supervisor should be able to supervise compliance by all parties who provide the service and conduct on-site visits to all parties. The supervisor should ascertain whether the necessary AML/CFT training is provided and that suspicious transactions are identified and reported correctly.

Statistics

60. Recommendation 33 also impacts financial products which aim to expand financial inclusion. This Recommendation requires countries to maintain comprehensive statistics on matters relevant to the effectiveness and efficiency of systems for combating ML/TF. As a result, in countries where mobile money services or other new financial products or services are used, it is necessary to ensure that statistics maintained (e.g. on STRs received, supervision, etc.) encompass and clearly identify providers of new services, particularly those which are not part of the mainstream financial services system.

Conclusions

61. As was previously noted above, the survey covers States and territories in diverse economic situations and also at different stages of economic development. It is therefore difficult to draw any one overall conclusion about the state of financial inclusion in MONEYVAL States and territories.

62. It is notable, however, that there was a high level of financial inclusion in those financial centres which derive a significant portion of their GDP from financial services. This is because a significant number of the working population will be involved in the financial services industry and thus there is a high degree of awareness of financial products. Overall, EU Member States demonstrated a reasonably high level of financial inclusion and the implementation of the *Directive on the Comparability of Fees Related to Payment Accounts, Payment Account Switching and Access to Payment Accounts with Basic Features* should help to further improve the level of financial inclusion. For other States, inconsistences in data made it difficult to form an opinion on the overall level of financial inclusion, although there were clear indications of a need to improve and develop policies and procedures.

63. As most States and territories responding were still in the process of designing and conducting their initial NRA, the impact of financial inclusion policies was still being considered. Nonetheless, it would appear that a number of States and territories have found a balance between a robust AML/CFT regime and development of financial inclusion policies and procedures and are considering financial inclusion as an element in the development of their NRA. Though a number of jurisdictions indicated that it would not be considered. It is recognised that financial inclusion issues can have an impact on AML/CFT risk.

64. Additionally, a number of jurisdictions have given priority to financial inclusion policies as part of an initiative to improve social equality. Some countries also stated that they were looking at the development of certain basic products for excluded person as part of a broader initiative to reduce the amount of cash in the economy, as well as to improve consumer protection by bringing people into the regulated sector.

65. The report identified financial illiteracy, lack of experience of financial products, lack of confidence in financial institutions and credit ratings as potential barriers to improving the level of financial inclusion, and States and territories need to consider whether these barriers exist in their jurisdictions and, if so, design strategies to counter them.

66. To counter these barriers and to improve financial inclusion, the report has identified a number of initiatives that are either being considered or have been successfully implemented including:

    - Education and awareness raising;
    - Development of basic financial products;
    - Private sector initiatives in developing basic financial products;
    - Use of the Post Office network in rural communities;
    - Relaxation of AML/CFT requirements for low-risk customers;
    - Consumer protection; and
    - Complaints procedures.

67. It is notable, from the analysis, that those jurisdictions which are not financial centres and that have actively promoted financial inclusion policies, particularly education, awareness raising and the introduction of basic financial products, have achieved a significantly higher level of financial inclusion than neighbouring States, notably Austria, Estonia, Israel, “the former Yugoslav Republic of Macedonia” and Slovenia.

68. Therefore, financial inclusion policies and initiatives constitute an important aspect of the fight to counter money laundering and terrorist financing. MONEYVAL States and territories are therefore encouraged to actively consider developing financial inclusion policies and initiatives and, in particular, to include a consideration of financial inclusion in their national risk assessments.

69. It is considered that this should not be a one-off exercise in MONEYVAL. Financial inclusion potentially impacts on two areas which underpin work in the Council of Europe: the promotion of human rights (in this case, arguably, the right to financial services); and the protection of the rule of law by the prevention of greater use of informal or underground banking and money transfer networks. It is considered, therefore, that MONEYVAL, as an organ of the Council of Europe, should pay more attention to this issue. While the social and political importance of financial inclusion policies are clear, the real impact of wider financial inclusion policies on AML/CFT prevention and detection is presently less clear.

70. It is therefore proposed that similar surveys should be conducted by MONEYVAL on a biennial basis to try to monitor more accurately both the developing levels of financial inclusion in MONEYVAL States and territories over time, and to analyse the impact which this may be having on AML/CFT compliance in those MONEYVAL States and territories with hitherto lower levels of access to the financial system within their populations.

MONEYVAL Secretariat

September 2014

Annex 1 – Additional reading

Alliance For Financial Inclusion (AFI), *Bringing Smart Policies to Life, The Basics: AML/CFT for Financial Inclusion*, 2010.

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Annex 2 – MONEYVAL questionnaire on strengthening financial integrity through financial inclusion

Introduction

Full financial inclusion is a state in which all people who can use them have access to a suite of quality financial services, provided at affordable prices, in a convenient manner, and with dignity for the clients.

With a view to promoting development, economic growth and equal opportunities, financial inclusion therefore aims to bring the excluded population that is currently in the informal, undocumented, unmonitored and unregulated system into the formal, transparent and protective financial system.

While an ill-thought approach to financial inclusion can destabilise AML/CFT frameworks, financial inclusion and AML/CFT have complementary objectives. For example, a restrictive, one-size-fits-all approach to risk will result in the exclusion of vulnerable segments of the population from the financial system for the benefit of black market services; likewise, a lax approach to risk is likely to allow proceeds of crime to flow into the legal economy. On the other hand, a tailored and AML/CFT-smart approach to risk can screen out the riskiest transactions and clients while including an ever greater percentage of the population within the formal economy.

Ahead of the September Plenary, MONEYVAL wishes to survey the extent to which financial inclusion is taken into account by its member States and territories and how it coordinates with AML/CFT policies and financial products. The questionnaire is therefore intended to gather information designed to help MONEYVAL understand the level of financial inclusion in Member jurisdictions, the policies and measures in place to address the issue and the results, if any, of such policies and measures. The results of the questionnaire will form the basis of a MONEYVAL report on financial inclusion.

Instructions

In order to ensure that the questionnaire is completed in its entirety, please share with any other relevant agency or contact person that will facilitate the accurate completion. Please return the completed questionnaire to moneyval@coe.int.

Country:	
Institution:	
Name of official:	
Position of official:	
Email:	
Phone (with code):	

Questionnaire

1. Has your jurisdiction given consideration to the issue of financial inclusion? If yes, please describe at what levels such consideration has taken place i.e. national, public or private sectors. If so, please describe.

2. If you have conducted an AML/CFT risk assessment, is financial inclusion being considered?

3. What percentage of the population makes use of the formal financial system? What are these figures based on? Please provide relevant data (percentage of the adults with bank accounts, use of financial and insurance products, etc.).

4. Which institution(s) control(s) means of payment?

5. Identification: 5.1. What are the official identification documents in your jurisdiction?
5.2. Is there any information available on the number of people that do not have official identification in your jurisdiction? If so, please provide.
5.3. Does your jurisdiction have a national system which can verify the existence of a person? Please describe.

6. Financial inclusion policies: 6.1. Has your jurisdiction developed or is currently developing risk-based implementation of measures that facilitate financial inclusion policies (including regulation, supervision, client protection, etc.)? If so, please describe.
6.2. Which government agencies, if any, are responsible in your jurisdiction for developing and promoting financial inclusion policies?
6.3. Do the financial inclusion policies, products and services include cross-border operations or are they restricted to the domestic market?
6.4. Do you think that your financial inclusion policy has benefited your jurisdiction? Describe the benefits. If there are no policies in place or in development, do you think a financial inclusion policy and products would benefit your particular jurisdiction? Describe policies and products relevant to your jurisdiction.
6.5. Do your jurisdiction's legislative or regulatory measures specifically target financial inclusion products, services or customers (including low-risk classification, exceptions or simplified CDD obligations, etc.)? Please describe.
6.6. Do your financial inclusion policies appropriately take into account measures for the prevention of ML/FT? Please explain.

7. Financial inclusion products (if applicable):

7.1. Do your jurisdiction's legislative or regulatory measures allow the offering of financial services through agents or correspondents/outsourcing arrangements/mobile banking? Please describe.

7.2. Does your jurisdiction have a policy or measures that permit and promote the use of electronic or mobile payment mechanisms, prepaid cards or other products or services that facilitate financial inclusion? How are these products regulated? Please describe.

7.3. Are informal international transfer systems used in your jurisdiction (e.g. Hawala networks, etc.)?

7.4. Has your jurisdiction developed financial education programs as part of trainings or school curriculum? Please describe.

7.5. Has your jurisdiction developed other tools that favour financial inclusion (including, but not limited to, credit bureaus and mandates to provide no-frills bank accounts)? Please detail.

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The Council of Europe is the continent's leading human rights organisation. It comprises 47 member states, 28 of which are members of the European Union. All Council of Europe member states have signed up to the European Convention on Human Rights, a treaty designed to protect human rights, democracy and the rule of law. The European Court of Human Rights oversees the implementation of the Convention in the member states.

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