Proportionate risk-based customer due diligence (CDD)

FATF general overview

GSMA Mobile Money for the Unbanked Leadership Forum, 11 July 2013
Revised FATF 2012 Standards

- 40 Recommendations
- Address new and emerging threats, eg. proliferation
- Main changes technical in nature
  - clarification of concepts and address implementation problems (eg. beneficial ownership)
  - reflect changing practices in the financial sector (eg. financial groups)
- Focus on risks and reinforcement of the RBA
RBA in the 2012 FATF Standards

- An overarching requirement (R. 1) applicable to all relevant Recommendations
- AML/CFT systems tailored to the nature of the risks - enhanced measures *must* apply to higher risks and simplified measures *may* apply to lower risks
- Objectives of a RBA
  - Better targeted measures and more flexible framework, which can be adapted as risks evolve
  - More efficient allocation of resources and more effective implementation - Focus on higher risks
  - Facilitation of financial inclusion
RBA requirements

- Requirements for countries, financial institutions and all reporting institutions:
  - To identify, assess and understand the risks
  - To apply risk mitigation and management measures which are commensurate to the nature and level of risks
    - Possible exemptions for low-risk activities
    - Enhanced measures must be applied to higher risks
    - Simplified measures may be applied to lower risks – Financial inclusion dimension
Proportionate CDD and financial inclusion (R. 10)

- FATF Financial Inclusion Guidance, 2013
- Newly banked people cannot be classified as lower risks solely on the basis that they are low-income clients → risk assessment
- Lower risk scenario include “financial inclusion products” (INR. 10.17)
- Simplified CDD measures (INR. 10.21)
  - Never means a complete exemption of CDD measures
  - Basic and minimal requirements applicable to the CDD components (customer identity/verification, BO, nature of business, ongoing monitoring)
  - Example list non exhaustive, non mandatory
Proportionate CDD and financial inclusion (R. 10) - Examples

- Identification of customers: “identifiers” defined at national level
- Verification of identity: broad range of acceptable methods of verification; can be postponed until a defined transaction threshold is reached (INR 10.21)
- Identification/verification of beneficial owner: in most cases, BO will be the customer him/herself or family
- Nature of the business relationship: can be inferred from the type of account or transactions (INR 10.21)
- Monitoring: reduced degree of ongoing monitoring, based on a reasonable threshold (INR 10.21)
The FATF undertook typology studies into new payment products and services (NPPS) in 2006, 2008 and 2010 which determined that payment systems are vulnerable to misuse for ML/TF.

In June 2013, the FATF published guidance for the application of AML/CFT measures to NPPS using a risk-based approach.

*Guidance for a risk-based approach to prepaid cards, mobile payments and Internet-based payment services* – available at [www.fatf-gafi.org](http://www.fatf-gafi.org)
NPPS – Risk factors

- Anonymity and non-face-to-face relationships
- Geographical reach
- Methods of funding
- Access to cash
- Segmentation of services
NPPS – risk-based approach

- FATF Recommendations apply to NPPS providers as they are financial institutions
- NPPS guidance is in line with FATF guidance on financial inclusion.
- Risk assessment – fundamental for the risk-based approach to AML/CFT (R.1)
- Risks associated with new technologies (R.15)
NPPS – AML/CFT measures

- AML/CFT measures should be incorporated early in the development stage for new products.
- Intensity of AML/CFT measures depends on level and nature of risk – based on comprehensive risk assessment.
- ML/TF risk increases as functionality of the NPPS increases.
NPPS – AML/CFT measures

- Customer due diligence
  - Simplified CDD
  - Use of agents
- Loading, value and geographical limits
- Source of funding
- Record keeping, transaction monitoring and reporting
- Licensing / registration
- Wire transfers
- AML/CFT supervision and regulation