

**Document Submitted for Response to the Asia/Pacific Group on Money Laundering (APG)  
from the AFI Pacific Financial Inclusion Working Group (PIWG)**

Representatives of the PIWG

1. Reserve Bank of Fiji
2. Central Bank of Samoa
3. Reserve Bank of Vanuatu
4. Bank of Papua New Guinea
5. Banking and Payment Systems Authority, Timor Leste
6. Central Bank of Solomon Islands

What is the PIWG?

We, the Pacific Islands Central Banks Financial Inclusion Working Group (PIWG), were formally established and endorsed by the governors of the Central Banks during their annual SPCBG meeting in December 2009, and is coordinated through the Alliance for Financial Inclusion (AFI) a body to which we are all members<sup>1</sup>, and supported by UNCDF's Pacific Financial Inclusion Program (PFIP). The working group consists of central bankers at the Deputy Governor and Chief Manager level, most of whom are responsible for financial institution supervision. The group nominated the Reserve Bank of Fiji as its leader for 2010. We had our first working group meeting was hosted by the Reserve Bank of Vanuatu from February 23-24 2010, followed by a study tour to Bangko Sentral ng Pilipinas from June 20-24, 2010 and a third convening in Fiji for a three day workshop from August 3-5, 2010. This last workshop delved deeper into the technicalities of regulating mobile financial services and the key opportunities and challenges encountered by national policy makers of these countries in this topical area. The discussions of this last workshop form the basis of the main points we raise in the current document.

Based on our discussions in the Nadi workshop, greater guidance is sought from the APG on the following topical areas mentioned below. The key challenge faced by us policymakers in the area of AML/CFT for mobile financial services is balancing AML/CFT regulatory frameworks and their implementation with also our objectives for greater financial inclusion.

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<sup>1</sup> AFI is an independent network of policymakers in developing countries that provides its members with the tools and resources to share and implement their knowledge of policies that increase access to financial services for the poor. AFI does this by facilitating online and face-to-face exchanges, regionally and globally, supported by grants and research.

AFI's stimulation, support and facilitation of policy learning and exchange occurs through a variety of modes of delivery. One important mode is working groups. AFI convenes working groups upon the request of its members around key issues (example Data, Mobile Phone Financial Services) and geographic groups (examples Pacific Islands). Groups are designed to encourage collaboration around common goals or knowledge exchange. The Pacific Island Working Group is also supported by the Pacific Financial Inclusion Programme (PFIP), a UNCDF/UNDP/USAID/EU joint project that acts as secretariat to the group.

## CLARIFICATION ON KYC/CDD PROCESS

1. FATF could more clearly provide guidance to countries on how countries may adapt their KYC requirements. For example, greater guidance would be appreciated on how countries could exempt certain sectors under financial sector supervision or certain categories of clientele from the KYC process, either fully or partially. While FATF mentions a risk-based approach to evaluating the appropriate level of AML/CFT controls, greater guidance could be provided on how countries can measure exactly and clearly define a level of risk for a client or sector. The PFIWG would like to be as prepared as possible before the mutual evaluation process, addressing any potential discrepancies before the mutual evaluation process is even started. Therefore greater guidance in this area is urgently required.
2. Following from the above, certain countries in the Pacific have adapted their policies on KYC to suit their local circumstances and conditions. For example, having appropriate and suitable identification documents among low income clientele is perhaps the greatest challenge with accessing mobile money and other formal financial services in our countries. Yet, there remains lack of clarity on whether these adaptations would be acceptable when assessed by the mutual evaluation process. For example, under FATF eyes, is there a need to verify occupation? In what situations? What type of rationale or reasoning can we as national policymakers provide to determine if this is appropriate and is compliant with the standards? We believe that FATF could be clearer on the expectations. Are these initiatives on “relaxed KYC” for low value low risk accounts accommodative or acceptable to the standards?
3. During the evaluation process, it has been clear that national policy makers adapting their policies on the KYC process will need to formalize these changes into their legal and regulatory frameworks. Otherwise, they will likely be marked a lower grade during the mutual evaluation process. We believe it will be great to obtain FATF’s view and advice on how we can align these legislative changes with the FATF expectations based on its own standards.
4. What exactly is meant by FATF in regard to simplified and reduced CDD? More specifically, could FATF perhaps specify details on simplified/reduced KYC (S-KYC) with respect to:
  - types of institutions (to which S-KYC is applicable)
  - types of products
  - types of clientele (or a combination of all three mentioned above?)
  - types of services (clarification concerning m-money and non-face to face transactions?  
Clarification on remote or non face to face opening of m-wallet accounts for mobile money?  
Clarification of outsourcing KYC to banking agents?)

Could more specific details and guidance be provided other than that which is publicly available? Such information can greatly increase certainty on the regulators as well as the industry side in terms of doing business with low-income customers.

5. When making changes to a country’s KYC/CDD policies, should they be issued as a guideline by the central bank or issued as a regulation? Could FATF perhaps provide more detailed or customized guidance in terms of the types of directives that might be beneficial and/or recommended?

6. How much justification do we really need for KYC flexibility? We need to encourage and permit KYC flexibility given our local context and situation in the Pacific Island countries. Our people do not have identification documents and we are in need of economic growth – these sectors such as mobile financial services can contribute to the national economy and cannot be constrained, and thus we are not certain how much justification is truly required to present to assessors during the evaluation process?
7. There could be challenges unforeseen if we were to relax our KYC obligations to suite our local circumstances as mentioned above. For example, if there are a multitude of ID documents used for KYC, this can create problems in terms of multiple identities (one person with several different ID doc numbers). This is a technical problem, but plays a major role in many developing countries. In a report about India, FATF expresses concern about this problem, but makes no suggestions on how it can be rectified. Would you have some suggestions for measures on how to rectify such problems?
8. We have heard about and have been considering three methods through which KYC can be relaxed for low risk, low value accounts. The first is through full exemption of KYC for accounts under a certain threshold amount. The second is undertaking the identification stage but with no requirements for verification. And the third is tiered KYC - more services will accorded to customers and they can transact at larger amounts the more KYC documentation is provided. At the moment, would APG have any view on any and/or all of the three routes just mentioned?

#### CLARIFICATION ON OTHER AML/CFT ISSUES

1. At the moment, Papua New Guinea has implemented FATF recommendations into their AML/CFT regulations at face value and has not really adapted their regulations and policies to local circumstances and conditions. However, there are adaptable AML/CFT regulations (such as “relaxed” or “flexible” KYC) for the local microfinance sector and perhaps that could be applied to regulating mobile financial services? To what extent is this practice encouraged and acceptable – taking adaptive experiences from other sectors such as microfinance and applying it to new payment methods such as mobile financial services?
2. FATF has largely left the operation and conduct of the risk-based approach to supervision to the discretion of national authorities. Clearly as discussed in the aforementioned points, FATF needs to revisit recommendation 5 in the context of small island states and developing countries in general. In this regard, does FATF envision a separate or additional set of recommendations that are focused to the needs and situations of developing countries?
3. Outside of information that is publicly available, greater guidance is requested on FATF’s endorsement of the “risk-based approach” for financial institutions and activities. How exactly do we analyze the risk and how can we differentiate between AML and CFT risk? What kind of assessment should it be? How do we reach our conclusions and/or decisions? How do we evaluate it and through what type of methodology? What components or factors would qualify as a valid assessment of the risk? Can you provide more insight outside of that which is publicly available on the website?
4. Following from the above point, the risk-based approach guidance that is publicly available is quite technical in nature. We do not have any issues with the technicalities of course, but perhaps it could be adopted to be more user friendly for policymakers? CD format? Video format? etc.

5. We believe that for the mutual evaluation process, the assessors could be guided better, through training and better understanding the evaluative frameworks etc. Assessors and Assessment reports can vary based on the specific FSRB (GIABA, APG, FATF, GAFISUD, etc.), so the FATF could ensure it is more uniform and streamlined among the different FSRBs. In addition, assessors could be trained on issues of financial inclusion faced by developing countries and small island states such as those in the Pacific in particular.
6. We are under the impression that there are technical assistance resources available through APG for client countries (outside of written guidance available on FSRB websites for example). How can we more effectively tap into this resource and what kind of proactive assistance or additional services can you provide us to help us better think through our issues? How can we leverage your assistance to the fullest extent possible? Can you as a FSRB offer more workshops in our country? Training activities?
7. More specific guidelines in terms of the comparative advantages and disadvantages of licensing vs. registration of financial institutions (which has implications for mobile money providers) would be appreciated, especially from the lens of FATF and AML/CFT. In this regard, your clarification on FATFs/FSRBs approach to outsourcing of specific banking functions to agents would be appreciated. Should such agents be licensed or registered?
8. Is there a discrepancy in the KYC process? For example, in Timor Leste, every client that opens a bank account must have KYC undertaken. However, those individuals with large shareholdings in commercial banks have KYC done at the initial opening of their bank account, but not any additional due diligence and monitoring afterwards. Should there not be a more rigorous and ongoing due diligence process for these larger shareholders of companies given that they would have the resources and capabilities to more likely engage in money laundering activities? Could you provide further guidance in this area?

#### Guidance Requested and Next Steps

Based on our concerns, we would greatly appreciate guidance directly from the APG and/or other FSRBs and/or FATF on the challenges we raised above and initiatives which we could undertake to address those challenges. In particular, we are seeking guidance directed at:

- 1) What are your general impressions of the issues we raise and is there anything being done about it in FATF in terms of providing further guidance for us?
- 2) What alternative solutions could you posit on any on the challenges we face, while still ensuring we are in line with FATF criterion?
- 3) Are there additional documents, tools, or particular sources of information you could provide, to help address our challenges?
- 4) Is a guidance note or any other type of initiative planned by FATF on New Payment Methods and/or the broader topical areas of assisting Low Capacity Countries (LCC) and Financial Inclusion objectives among national policymakers?

We would expect a response by November 2010. The burden of the response is on APG. If there is any additional information we can provide prior to APG's response, it is up to APG to contact us for it.

In addition, we expect that some form of response is provided on each and every one of the challenges detailed above. The more guidance and information you can provide us in your response to this document, the more beneficial it will be for all of us.

Thank you very much for your assistance. We are looking forward to obtaining further guidance on how we might be able to comply with international standards on AML/CFT without constraining initiatives for financial inclusion and poverty reduction among our poor.

**-PACIFIC FINANCIAL INCLUSION WORKING GROUP**

Submitted by Bank of Papua New Guinea as the current Pacific Island representative member on the APG committee and on behalf of the entire FIWG, August 2010