Determining value limits for DFS subject to SDD

Step 1: Determine the transactional and saving needs for financially excluded persons

- What are the main payments made and the average value of payments (housing transport, food, education, etc)
- What is the value and frequency of remittances received and made?
- What are the average amounts available for saving?

Separate information about different segments of the market, e.g. individuals who are not conducting a business, e.g. students and individuals who conduct a business activity, e.g. smallholders, market stall owners, etc.

This information can inform the design of an appropriate product that provides for the majority of financially excluded persons. Where, for example, general payments needs amount to $80 per week and savings needs to $20 per week, a product that allows payments of up to $500 per month and a balance of $100 would meet their needs.

While products with low value limits may meet the needs of individuals, they may not meet the needs of individuals who conduct business activity. They may need higher limits throughout the year while smallholders may need an even higher limit one or twice per year when they sell their crops. Adjusting the general limit upwards to provide for these needs may allow too much AML/CFT risk in relation to individuals. In this case it might be best to differentiate the product offering to have a specific product for individuals and one (or more) for the different categories of individuals with business activities. Such differentiation may also assist FSPs who may struggle to offer a viable product profitably if the transaction limits are too low, especially as low income individuals may tend to transaction infrequently.

Step 2: Determine the CDD simplification that may be required, if any

What are the adjustments required to standard CDD measures to lower access barriers for financially excluded people? Where most of the financially excluded persons lack the documentation or data required to meet standard CDD identify verification measures, the obvious simplification measure will be to simplify identify verification, for example by allowing less upfront verification to be undertaken or to allow the use of non-official identity verification, for example letters of village elders confirming a person's identity.

Simplified identity verification measures may be counter-balanced by enhanced profiling of customers and monitoring of the account activity. Upon application to open an account information about the customer's source of income can be requested. If they engage in business activities they can be asked to provide more information. It is helpful to know that an applicant is conducting a small farming business, where the farm is and what the main farming activities are. That will enable the FSP to profile that customer and to consider their transactional patterns compared to those of other customers with farms in the same area and with similar farming activities. Such granularity makes it more difficult to criminals to avoid detection if they attempt to abuse the SDD features.

Product designers should also take a step back from individual product SDD design to consider the overall risk picture. Are users restricted to one such product or may they secure multiple such products from multiple FSPs? In that case the value limits also rise by multiples. That may undermine the impact of value restrictions and increase the risk of criminal abuse of the products. In each case the criminal abuse potential would be limited by accounting monitoring but a higher level of criminal exploitation may be expected compared to those where users may only access one such product.

Ideally users should be restricted to one such product. If such a restriction cannot be enforced, e.g. in the absence of a national registry of such products, users can be requested to declare that they do not hold a similar product with another provider. Such declarations will help to ring-fence those cases where users are found to hold more than one products and facilitate the reporting of those to the national financial intelligence unit.

Step 3: Determine the residual ML/FT/PF risk levels of those products with those value limitations and subject to those SDD measures

The national ML/FT/PF risk assessment may have considered the risk of criminal abuse of payment and savings products. Any information in that or related risk assessments will be helpful to inform this assessment of the specific inclusion products with the suggested value limits. Is the likelihood that criminal will elect to abuse these products to launder money or finance terrorists higher or lower compared to similar payment and savings products without the value limits? Generally criminals would focus on higher value transactions but in this case simplified identity verification may have them considering how to abuse these inclusion products.

To inform this assessment:

- Consider the average value of transactions reported to the national financial intelligence unit. Do these point to extensive criminal targeting of lower value transactions?
- Engage with criminal investigators: What is the percentage of criminals who would patiently launder money within the value limits while also faithfully keeping within the source of income profile declared on account opening?
- If users cannot effectively be prevented to open up multiple such accounts, what is the likelihood of abuse and of detection?

An objective assessment of the risk should ideally conclude that the risk of abuse of the products subject to SDD are lower than the abuse of the standard products. If that is not the conclusion, it is important to return to Step 2 to adjust the control measures and then to repeat Step 3 until the result is a lower risk level.