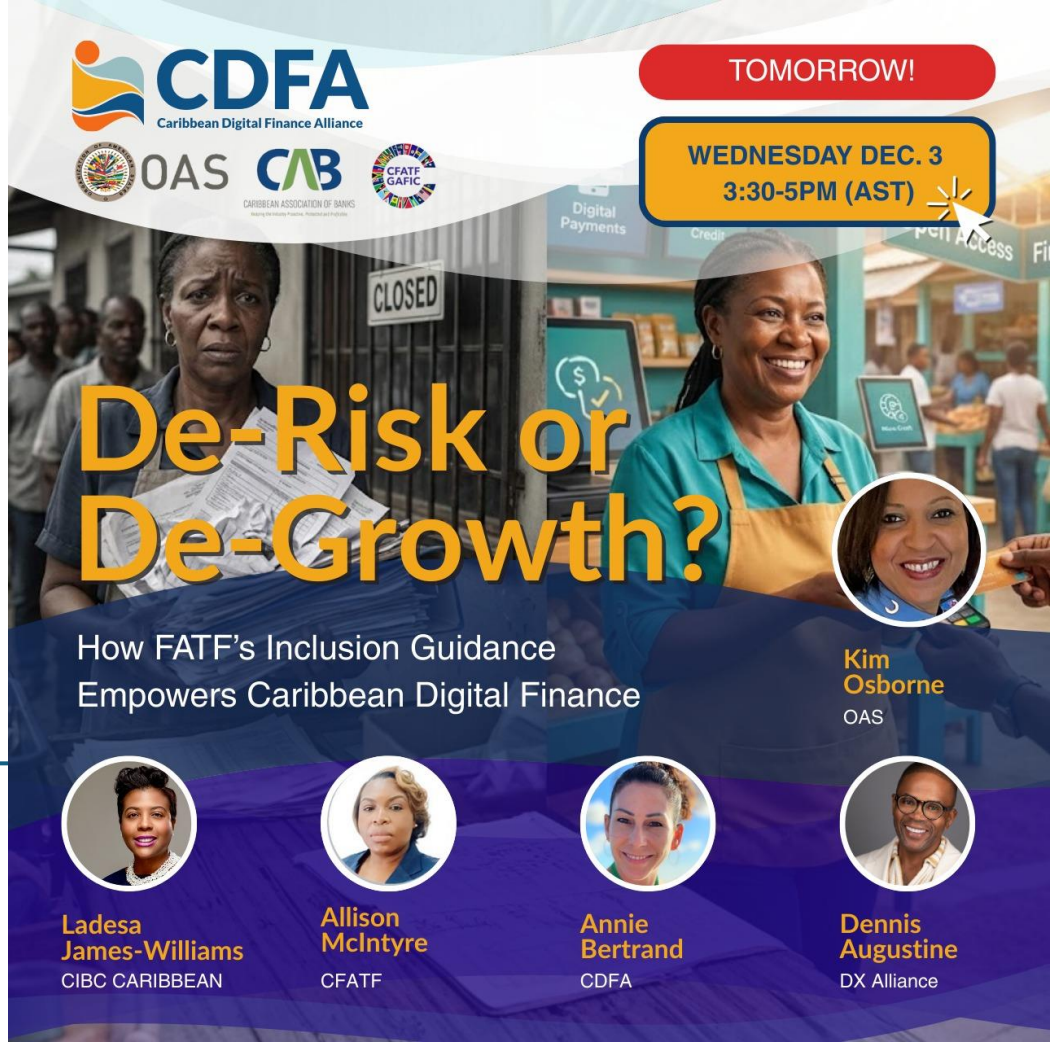
“The Imperative of Financial Inclusion for development and compliance”

Annie Bertrand, Financial Inclusion Expert, Consultant, and volunteer



OAS

CAB
CARIBBEAN ASSOCIATION OF BANKS
Keeping the Industry Proactive, Protected and Profitable

CFATF GAFIC

Caribbean Digital Finance Alliance

Agenda

1. Business case for financial inclusion
   - What is financial inclusion?

2. The problem of exclusion
   - Root causes
   - Solutions

3. FATF Financial Inclusion Guidance (FIG) – adopted June 2025

What is financial inclusion?

New FATF definition of financial inclusion

*"The **access to** and **usage of** an adequate suite of appropriate, safe, convenient and affordable financial services and products by **individuals** and **entities** that would benefit from such services."*

The concept of financial inclusion has evolved, from **access** to regulated financial services to also include **appropriate usage and quality** of those services and products, financial literacy, **financial resilience** and **financial well-being of end-users** (par.22)

5 drivers

1. Adequate: Available, accessible and sufficient

2. Appropriate: specific needs of customers

3. Convenient: proximity/online, adapted

4. Safe: cybersecurity, consumer protection

5. Affordable: low cost for customers

Why should we care?

✔ Before the pandemic, the Caribbean experienced 7 years of consequence growth in tourism arrivals
- ➢ +50million visitors representing 10x the population

→
- Money left on the table: Visitors have willingness to spend a lot more on community experiences, but visitors don't like to carry cash
- Foreign-owned firms benefit most: Cruise ships capture as much as 70% of the price paid for land excursions (St. Lucia 2018)

✔ Global e-sales surged by 800% between 2010-2020 → Not in the Caribbean!

→ Only 18% of active URLs were transactional in 2022 across LAC

✘ Four decades of declining economic growth in the Caribbean

→ MSMEs are unable to participate in the global digital economy

Micro, Small and Medium Enterprises (MSMEs) represent 90% of all firms in the Caribbean and 70% of employment

Community-Based Entrepreneurs
Hiking, cooking with locals, sightseeing, karaoke rum shops, etc

Street vendors
Food, drinks, snow cones, jewelleries, souvenirs, beach chairs, coconut, etc.

Self-employed
Babysitting, cooking, cleaning, construction, hairdressing, hiking, surfing, etc.

Artists
Music writing, composing, performing, costume binding, design; youtubers, etc.

Farmers
Fruits, vegetables, tubers, spices, etc.

Firms & establishments
Agro-processors, cosmetics, boutique hotels, restaurants, catering, etc.

Gig economy and youth
Computer programmers, graphic designer, lawyers, etc.

Social Enterprises and Nonprofit organisations
Charities, associations, environmental group, etc.

To integrate the digital economy, MSMEs need access to digital payments tools – online and/or in person

✗ **~80% of MSMEs do not use digital payments to process transactions**

- In the ECCU, 80-90% of transactions were made in cash or checks in 2020

✗ **~75% of MSMEs do not have access to a business bank account**

- Personal bank account
- Credit Union account but limited integration to national financial infrastructure (ACH for EFTs, ATM, etc.)

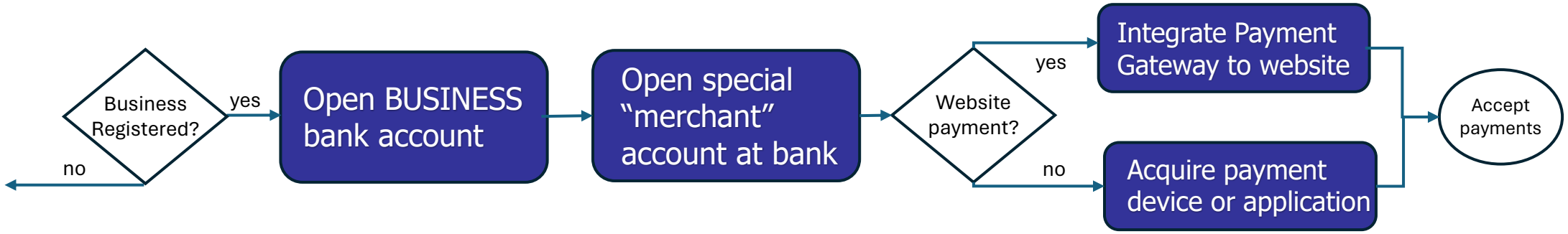
✗ **~14% of adults are excluded from the formal financial system**

- Among the 86% included, +/- half have account in a Credit Union

Note: Estimates extrapolated from desk research and financial inclusion surveys in 2022-2023. Wide variation by country

To accept digital payments, MSMEs need different financial accounts

For credit / debit cards payments (Visa/Master Card): business account + merchant account



- Point-of-Sale (POS) devices
- mPOS (mobile phone): tap-to-pay
- QR code
- E-Invoicing
- Text-to-pay (button on Whatsapp)
- Etc.

Account-to-Account

- ACH
- Mobile banking

Open individual bank account (or business but not required)

✓ Lower transaction fees than Visa/MC

✗ No access to tourism market

Mobile wallet

- Cash-In Cash-out (CICO) at agents

✓ Lower costs than credit cards

✓ Community agents build trust

✓ Cross-selling (credit profiling, parametric insurance, investments, etc.

Mobile wallets provide access to markets and to other financial services

Transactions
E-Money transfers B2B, B2C, P2B, P2P, etc.

Payments - bills, staff, supplier
Faster, accurate, traceable, au

Remittanc
Send / receive money fas
cheaper and safer across bord

Merchant Acceptanc
Agent Network for Ca
and Cash-Out (
Open new markets for M
QR codes, online pay

Governmen
Transparent, targeted, efficient and less expensive payments as well as social benefits

Safety and protection
Thefts, disasters, etc.

E-Commerce/Online bookings
Access to domestic and international markets

aster/Risk
urance
netric insurance disbursed
natically to digital wallet

nding & Catalytic
ancing
dit profiling

ngs
ergency, investment, etc.

s Management Apps
ship Management, HR payment,
Cash flow management / projections, etc.

The best example might be in Solomon islands, there are 750k people living across 300 islands.

- Our Telekom launched M-Selen mobile wallet in 2023 through 275+ agents across communities.
- 25,000+ mobile wallets activated in 9months
- Visitors can load wallets with credit/debit cards and spend across communities
- Partnership with UNCDF for access to micro-insurance, credit, etc.

Central Bank Digital Currency (CBDC)
Transparent, efficient and less expensive

Smart Contracts & Crypto
Automatic payment along value chain when events occur, Stablecoins, Non-Fungible Tokens (NFTs)

Why do MSMEs lack access to digital payments?

Four root causes of the problem:

1. Access to Business/Merchant accounts
2. Cost of digital payment systems/devices
3. Deployment of fintech innovation
4. Low domestic demand

1. In the Caribbean, the requirements to open bank accounts are overly stringent (especially for business bank account)

✗ **More stringent banking requirements for KYC and KYB.**

- 2 IDs
- Proof of address – utility bill?
- Business registration
- Business Plan
- 3 years of financial statements (sometimes audited)
- Financial projections
- Reference letter
- Minimum capital requirement
- Letter of employment

Enhanced measures applied to all customers regardless of ML/FT risks

Concerns?

- Knowledge
- Feeling demeaned
- Competition
- Confidentiality
- Safety
- Financial capacity
- Inconvenient

✗ **Create additional administrative burdens for financial institutions, supervisors and regulators**

- Documenting all documents requires multiple meetings, copying/recording, getting approvals, etc.
- 3-6 months to open a business account if persistent

2nd : MSMEs are unable to acquire or maintain digital payment solutions (not accessible or too expensive)

- ✗ International platforms (Etsy, Youtube) and payment processors (Paypal, Stripe) not readily available across bank and credit union accounts

- ✗ Merchant accounts for credit card processing : not accessible for MSMEs without a business account
  → Long **wait time**

- ✗ High costs/fees
  - upgrade website to integrate payment gateway
  - "rent" POS device
  - Process transactions

- ✓ **mPOS, QR codes, etc. = lower cost**

- ✓ **Caribbean Online marketplaces** can act as intermediary to collect payments on behalf of under-banked, and transfer payment into accounts or in cash

- ✓ **Mobile wallets** for payment between people, businesses and governments

NOTE: the situation varies by country

3rd : Mobile wallet providers called “E-Money Issuers (EMIs)” lack the legitimacy and opportunity to deploy their digital wallets

✗ Regulatory framework for EMIs

✓ Eg: Payment Systems and Services Act (PSSA) in the ECCU

✗ Limited economies of scale

✓
- One regulator in the ECCU: ECCB
- Instant Payment Systems (IPS)

✗ Fintechs struggle to **open account with financial institutions**

✓ In some countries, regulated Fintechs can open an account with the Central Bank directly

United Kingdom, Lithuania, Brazil, etc.

4th Low domestic demand for digital payments given limited value proposition for consumer adoption (cost, access, use cases)

✗ End-consumers will not change unless it makes sense for them!

✓ Investment in digital infrastructure to ensure interoperability and reduce costs

✓ Complementary financial products:

- loans, insurance, investments, etc.

✓ Increase use cases: Utilities and government payments for taxes, permits, licences and transfers of social benefits creates rapid economies of scale

- Mobile Payments
- Bill Payments
- Money Transfers (P2P, remittances, etc)
- Contactless Transactions (Near Field Communication) tech
- Online Shopping
- Digital Tickets and Boarding Passes
- Loyalty Cards and Rewards
- Peer-to-Peer (P2P) Lending
- Microfinance and Micropayments
- Public Transportation Payments
- Healthcare Payments
- Charitable Donations
- Splitting Bills
- Savings and Investment
- Digital Identity and Authentication
- Payment of Employees, Day Workers, Remote Workers
- Government Transfers of Social Benefits
- Emergency Relief
- Payment of Taxes, Permits and Licences
- Crowdfunding
- Vending Machines, Unattended Services and Self-service Kiosk
- Crypto and other investments

FATF Updated Financial Inclusion Guidance

June 2025

The Financial Action Task Force (FATF) is the global financial watchdog (40 members but all countries expected to comply with the standards)

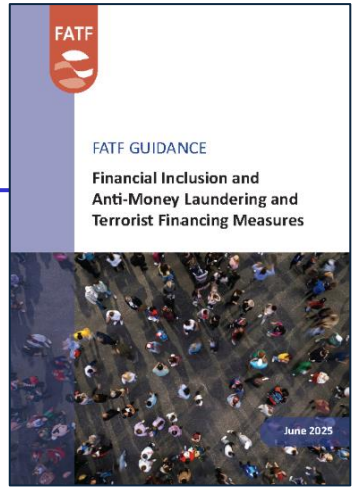
1. FATF standards: 40 Recommendations to prevent **serious crimes:**
    1. Money laundering (ML) → Drug and human trafficking, corruption, etc.
    2. Terrorist financing (TF) → Terrorist acts/organisations
    3. Proliferation Financing (PF) → Weapons of Mass Destruction

2. Conducts **Mutual Evaluation Reviews (MER)** and **rate countries** on
    - ➢Technical compliance (laws and regulations in place to comply with standards)
    - ➢Effectiveness (do they impose sanctions to enforce the regulations?)

3. If they fail, countries are **greylisted** or **blacklisted**
    - ➢Increase cost / reduce availability of capital
    - ➢Reduce investments
    - ➢Correspondent banking cut-offs

FATF has no legal authority on any countries

Over years, FATF noticed an over-compliance to its standards, especially in developing countries



- In June 2025, FATF published new Financial Inclusion Guidance and updated its recommendations:

*"Applying an **overly cautious approach** to AML/CFT safeguards can have the **unintended consequence of excluding legitimate businesses and consumers** from the regulated financial system."*

- In the past, financial inclusion was unfortunate but now, FATF emphasizes that:

"financial exclusion represents a real risk to achieving effective implementation of the FATF Standards."

Therefore, countries and institutions must address financial exclusion

- Financial exclusion not only harms individuals and businesses, but can also represent **a real risk to financial integrity** by driving financial activity into **unregulated channels**.
  - ➢ Limits transparency
  - ➢ Undermines the effectiveness of AML/CFT safeguards
  - ➢ Increases the risk of crime, ML, and TF (see examples in FIG)

- How to reduce financial exclusion?
  - ➢ Simplify customer due diligence through Risk-based Approach (RBA)
  - ➢ A risk cannot be eliminated – it can only be managed by applying proportionate controls

Proportional controls to what?

Nothing to do with other types of risks like credit, liquidity, etc.

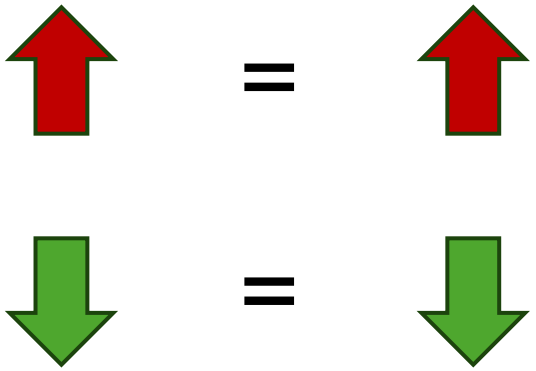
To the risks that clients engaged in…
(individuals, businesses or nonprofit organisations)

1. Anti-money laundering (AML) → Originating from criminal activity such as drug and human trafficking

2. Countering financing of terrorism (CFT) → Support terrorist act or organisation

3. Proliferation Financing (PF) → Support for weapons of mass destructions

Risks?

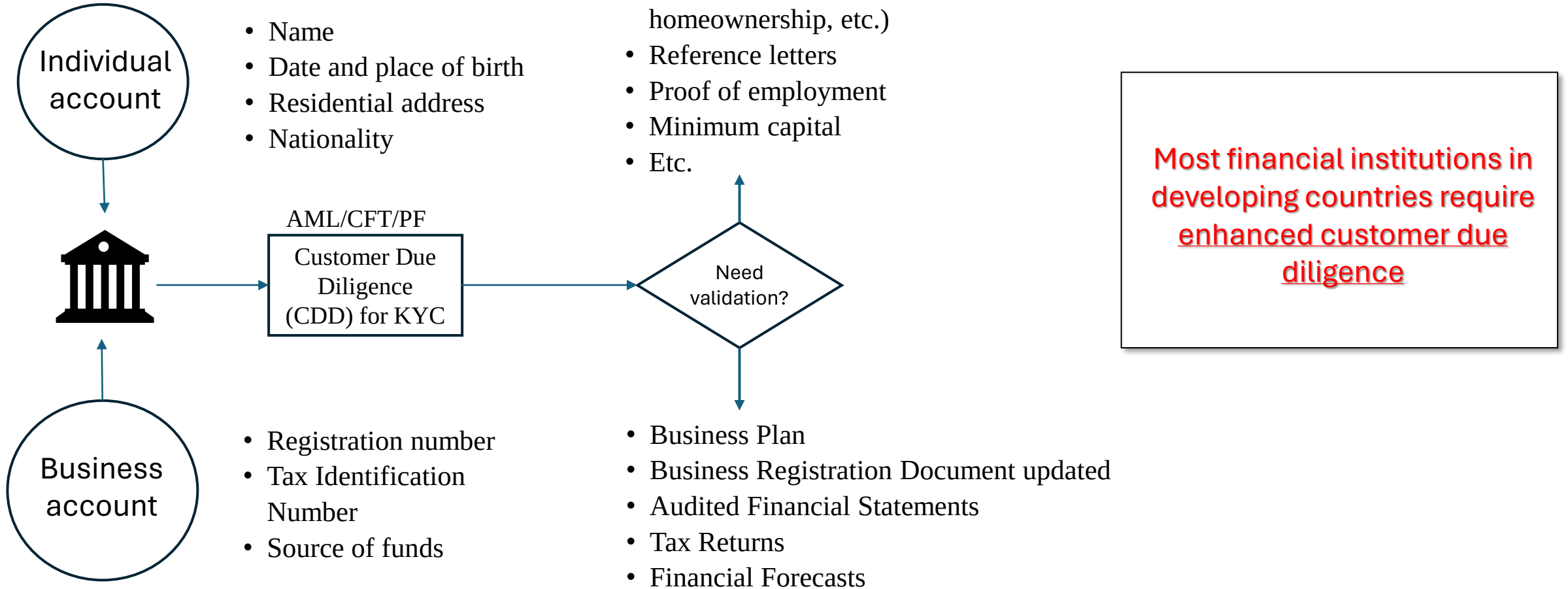


↑ = ↑ Enhanced controls

↓ = ↓ Simplified controls

Proportional controls to risks

Simplified VS Enhanced controls: what are we taking about?



KYC: identification VS validation

R.10 requires that regulated entities **identify their customers**

> *"It is essential to distinguish between **identifying** the customer and **verifying** identification"* - FATF2025

For the identification of individuals and entities which is mandatory

→ no identification documentation or data is collected

The verification process is not necessary in low-risk situation → it can be simplified

- FATF Standard has: **No specific requirements** regarding the identifiers to be collected, nor how identity should be verified.

- Many **countries** and **regulated entities** take a conservative view:
  - Define the identity elements (e.g. date of birth, address)
  - Require documentations

"these identifiers are not necessarily evidence-based and may result from historical practices."

Unless these are readily available to un-served / underserved persons and entities, these requirements may become access barriers

Simplified CDD

In a lower risk context, fulfilling the customer identification, verification and monitoring requirements of R.10 could entail:

1. **Not collecting** specific information or, if so, **not collecting** supporting document, and/or
2. A reliance on appropriate **assumptions** regarding the intended usage of basic products, or
3. Less detailed and frequent information.

INR.10 para. 21 provides a number of examples of possible simplified measures with respect to the **timing** and **verification** of customer identity and intensity of transaction monitoring.

The FATF guidance aims at enabling MSMEs to transact in the regulated financial system

*"When opening accounts to **legal entities** such as **small businesses** with low risk of ML/FT, the beneficial owners' requirements can also be simplified."*

- For such customers, simplified measures may involve:
  - Collecting only **minimal information** about the customer's relationship with any closely related individuals and their source of income
  - Relying on the **information already obtained** through the customer's profile
  - Relying on official identity documents, transaction histories, or readily available public databases **(3rd party)**

Therefore to open a business account, *no need for letters of employers nor to undertake more in-depth investigations if no red flags*

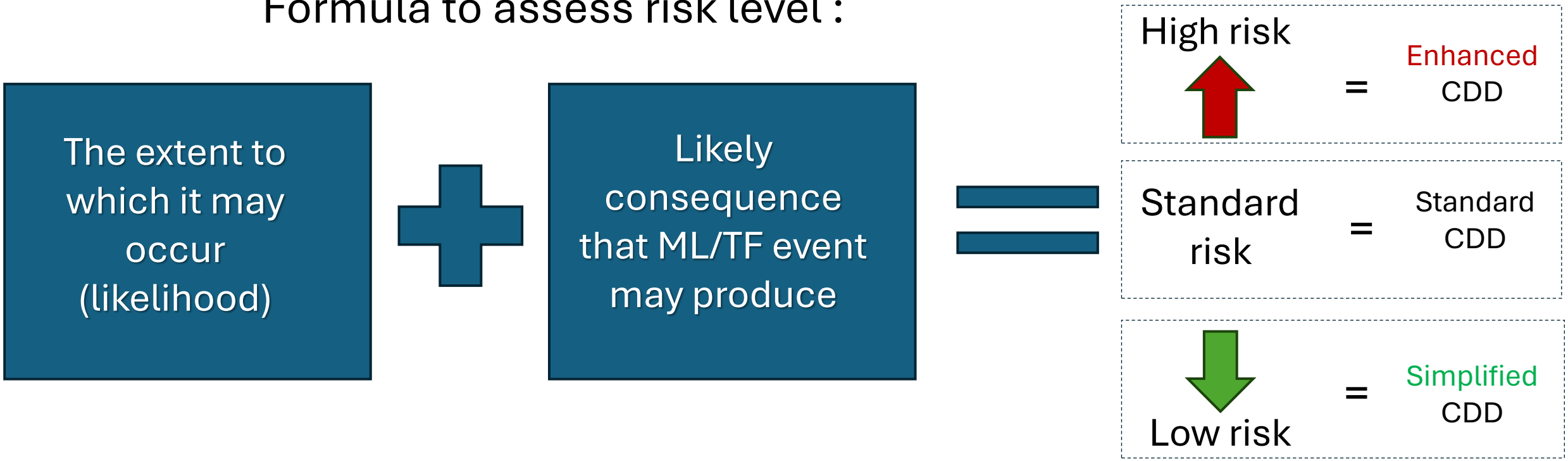
Ultimately in low-risk cases…

*"regulated entities may opt to **infer** beneficial ownership from the customer's declared information, without the need for extensive documentation or further verification **unless red flags** or discrepancies arise."*

To simplify requirements, customers must be assessed as low risk of AML/CFT/PF

Implementing the Risk-Based Approach (RBA) effectively is the key!

Formula to assess risk level :



Many factors should be taken into consideration during the risk assessment

- Types of predicate offences
- Channels
- Types of customers/entities
- Types of products and services
- Size of business, number of clients, and proportion of population
- Importance of business in the financial system
- Countries or geographic areas in which they operate
- Current level of crimes

AND the risk of financial exclusion !

FATF warns against de-risking

"*the phenomenon of Financial Institutions' refusing to provide, terminating or restricting business relationships with, and services for, customers or categories of customers to avoid risk rather than sufficiently understanding and managing the risk in line with the FATF's RBA.*"

High risk ⇧ = Enhanced CDD ≠ De-risking or banking

"De-risking undermines AML/CFT effectiveness by driving financial activity out of the regulated financial system, thereby reducing channels for formal oversight."

- FATF 2025

To increase financial inclusion, risk mitigation measures can be implemented

The extent to which it may occur (likelihood)

+

Likely consequence that such an ML/TF event may produce

=

High risk = Enhanced CDD

Standard risk = Standard CDD

Low risk = Simplified CDD

−

Risk mitigation measures:

- Limit on account balance
- Limit on transactions volume or value
- Limit on number of customers
- Limited services
- Limited channels
- Etc.

To reduce residual risk and ensure simplified CDD

To remove restrictions, progressive or "tiered" CDD measures are recommended

Basic bank account in the ECCU:

For individuals and businesses (formal and informal)

- Only one form of valid photo identification
- Free to open
- Does not attract charges for deposits or withdrawals
- Accrues interest.
- No minimum balance requirement

Risk mitigation measures:

- Maximum balance
- No international wire transfers

Restrictions are removed over time as trust is built, or additional verification documents provided

Example of clear guidelines for CDD of individuals in Trinidad & Tobago

1st Tier (lower risk)	2nd Tier	3rd tier (higher risk)
Micro Transactions **Maximum Wallet Size/ Monthly Transaction Limit** **$5,000 / $5,000**	**Mid value Transactions** **Maximum Wallet Size/ Monthly Transaction Limit** **$20,000 / $20,000**	**High Value Transactions** **Maximum Wallet Size / Monthly Transaction Limit** **$40,000 / $40,000**
Record customer's: • Full legal name; • Complete residential address; • Date and Place of Birth • Nationality Screen names of all individuals against lists of designated persons and high risk entities/countries.	**Record** customer's: • Full legal name; • Complete residential address; • Date and Place of Birth • Nationality **Obtain** a copy of one (1) form of valid national identification document to verify physical likeness, legal name, signature, date and place of birth. Screen names of all individuals against lists of designated persons and high risk entities/countries.	**Verify and Record** customer's: • Full legal name; • Complete residential address; • Date and Place of Birth • Nationality **Obtain** a copy of one (1) form of valid national identification document to verify physical likeness, legal name, signature, date and place of birth. **Verify** residential address by obtaining proof of address e.g. utility bill; hire purchase agreement; credit union or bank statement. Screen names of all individuals against lists of designated persons and high risk entities/countries.

Source: amlcft-requirements-for-emi-20220102_0.pdf (central-bank.org.tt)

Regulators across the region must do more to stimulate adoption of simplified measures among banks

- Countries should **identify areas of lower risk** and **communicate this information to regulated entities** to encourage them to apply simplified measures proportionate to those lower risks
- Countries should also **provide guidance** or information on the possible approaches for the implementation of simplified measures where the risks are lower.

But financial institutions can establish their own RBA

(few remaining rule-based regulations must be changed)

Conclusion: RBA must be implemented and collaboration makes the underlying transformation process cheaper and faster

1. Assess ML/TF risks
   - National Risk Assessment (NRA)
   - Institutional Risk Assessment (IRA)
   - Sectorial Risk Assessment (SRA)

→ Conduct joint risk assessments?

2. Implement controls to manage, monitor and mitigate the risks
   - ➢ allocate resources in line with risks (proportionality)

→ Invest in regtech? Suptech?

3. Simplify onboarding requirements for low-risk customers and promote usage with adequate products

→ Shared services?

Education campaign?

Questions?

Thank you!

Reflections

- Taking an RBA means recognising that **residual risks** will never be zero.
  - Risk tolerance refers to the accepted level of unmitigated or unmitigable risk taking into consideration the potential impact.

  - **Inherent risk** is the level of risk that exists before introducing any mitigating measures.
  - **Residual risk** is the level of risk that remains after risk mitigation measures have been introduced.
  - **Lower risk situations** can be identified either where risks are inherently lower or where the residual risks are lower due to appropriate mitigation by competent authorities and/or regulated entities.

- Supervisors must distinguish between **isolated breaches** of otherwise sound measures and compliance failures due to inadequate risk assessments or mitigation.

In summary

1. Countries should consider integrating **financial exclusion risks** into their AML/CFT risk assessments and consider opportunities to mitigate those risks.
   - support **non-face-to-face account opening** **and** **transactions**, reducing barriers related to physical distance from bank branches and point-of-sale terminals (44).

2. Allow progressive customer identity verification (a.k.a. tiered accounts) to access and use financial services.

3. In lower risk scenarios, countries should allow and **encourage** the implementation of **simplified measures** to promote financial inclusion.

Despite the low risk of ML/FT of MSMEs in the Caribbean, simplified measures and exceptions are not used

In February 2025, the FATF adopted the revisions to:

- R.1 : Assessing Risks and Applying a Risk-Based Approach (RBA)
- Interpretative Notes (INR.1)
- Other parts of the Standard.

1. Encourage proportional application of risk-based measure by FIs
2. Reduce de-risking and exclusion of vulnerable populations
3. Countries are required to not only enable, but also **advocate for the adoption of simplified measures in lower risk scenarios**.

Simplified CDD

Evolution of the RBA in the FATF standards

2007: RBA as a Compliance Efficiency Tool	2014: RBA as a Regulatory Anchor but Still Compliance-Centric	2025: RBA as a Tool for Financial Inclusion + National Development
1. Introduced the RBA mainly to *reduce unnecessary burdens* on low-risk customers. 2. Objective was *efficiency* in AML/CFT compliance, not inclusion. 3. Treated RBA as a supervisory and operational principle for banks, DNFBPs, and regulators. 4. No acknowledgment of **financial exclusion** as a risk. 5. No guidance on simplified CDD or tiered KYC.	1. Much more detailed operational guidance for banks. 2. Clarified when **simplified due diligence** (SDD) may be permitted. 3. Recognized *some* barriers to access (e.g., de-risking) but did not explicitly frame **financial inclusion as a risk factor**. 4. Still designed primarily to improve AML/CFT effectiveness and proportionality. 5. No explicit acknowledgment that **over-compliance** harms inclusion.	**A. Inclusion is now "an integral part of an effective AML/CFT system."** FATF explicitly states that **financial exclusion itself creates ML/TF risk**. This is the **biggest conceptual shift**. **B. Countries and FIs are urged to mitigate the *risks of exclusion*, not only ML/TF risks** Over-compliance, fear of penalties, and excessive KYC → recognized as real threats. Regulators must actively **prevent RBA from becoming a barrier** to onboarding MSMEs and vulnerable populations. **C. Strong encouragement of** **Tiered / proportionate KYC** **Low-risk products** with **simplified CDD** **Digital ID** and **electronic onboarding** **Remote verification** **Gender-responsive approaches** (new) **Not penalizing informal MSMEs** for lack of documentation **D. New guidance on balancing two dimensions of risk:** **ML/TF risk of onboarding** **ML/TF risk created by exclusion** This dual-risk lens is entirely new. **E. Explicit recognition of MSME needs in developing economies** The 2025 version clearly addresses the barriers faced by: MSMEs, including informal ones Women entrepreneurs Persons in low-income / remote areas Cash-heavy sectors

FATF Risk-Based Approach Evolution (2007 → 2014 → 2025)

Dimension	**2007 – First RBA Principles** Optional	**2014 – RBA for Banking Sector** Expected, but compliance-centered	**2025 – RBA for Financial Inclusion** Required, inclusion-critical
Primary Objective	Improve AML/CFT efficiency by focusing on higher-risk areas.	Provide operational guidance for banks to apply proportionate controls.	Use RBA to advance **financial inclusion**, reduce barriers, and explicitly tackle exclusion-driven ML/TF risks.
View of Financial Inclusion	Not addressed.	Not central; inclusion barriers indirectly noted.	**Core objective**. Exclusion itself is recognized as an ML/TF vulnerability.
Regulatory Emphasis	Focus on efficiency and resource allocation.	Strengthen consistency of bank-level RBA implementation.	Balance ML/TF risk with exclusion risk; ensure RBA supports inclusion outcomes.
CDD / KYC Approach	Simplification permitted but minimally defined.	Clearer criteria for simplified due diligence (SDD).	Strong promotion of **tiered KYC**, simplified CDD, e-KYC, and remote onboarding.
Low-Risk Products	Not elaborated.	Simple products may qualify for reduced measures.	Actively encouraged as part of national financial inclusion policies.
Recognition of Over-Compliance	Not addressed.	Mentioned indirectly.	**Explicitly identified as a systemic problem** that fuels exclusion and drives financial transactions in the unregulated channels (ie. cash)
Guidance on MSMEs & Informal Sector	Not mentioned.	Minimal relevance.	**Direct focus on MSMEs**, informal traders, women entrepreneurs, and documentation constraints.
Technology (Digital ID, e-KYC)	Absent.	Limited.	**Strong endorsement** of digital ID, regtech, fintech onboarding tools.
Role of Supervisors	Provide high-level direction and allow flexibility.	Issue risk-based supervisory guidance and assess proportionality.	**Ensure RBA is implemented in ways that reduce exclusion**, mandate proportionality, and monitor outcomes.

Targeted accounts for unserved and underserved MSMEs

Access and usage of a range of products/services

Unlocking Public and Private Finance for the Poor

SAVINGS	DIGITAL PAYMENTS	CREDIT	INSURANCE	PENSION

1. ADEQUATE (available and accessible): The ability to conveniently access financial products and services within a reasonable distance from home or work, via digital channels or agent networks, especially if physical bank branches or ATMs are not available.

2. APPROPRIATE : The financial services providers (banks, non-banks, credit unions) meet the needs of consumers (including under-served), as well as un-served population effectively. Appropriate product design requires understanding the needs and capacity of market segments and aligning the offering and price accordingly over time.

3. AFFORDABLE: A consumer using a financial service with appropriate frequency. Although not all consumers will frequently use all products, ensuring that transactions are affordable is critical to avoid account dormancy and reach economies of scale.

4. RESPONSIBLE AND SAFE DELIVERY: Good market conduct, safeguards and regulations are critical to build and maintain trust in the financial ecosystem, and to protect businesses and consumers from fraud, cyber-attracts or abusive practices.

5. COMMERCIAL SUSTAINABILITY AND VIABILITY: Deployment of inclusive and safe digital financial services requires large investments but generates small margins. To reduce overall costs and reach scale, interoperability of systems, competition, collaboration and government support are needed.