

Fostering Financial Inclusion By Enhanced AML/KYC Regimes
Using **STAR** Model

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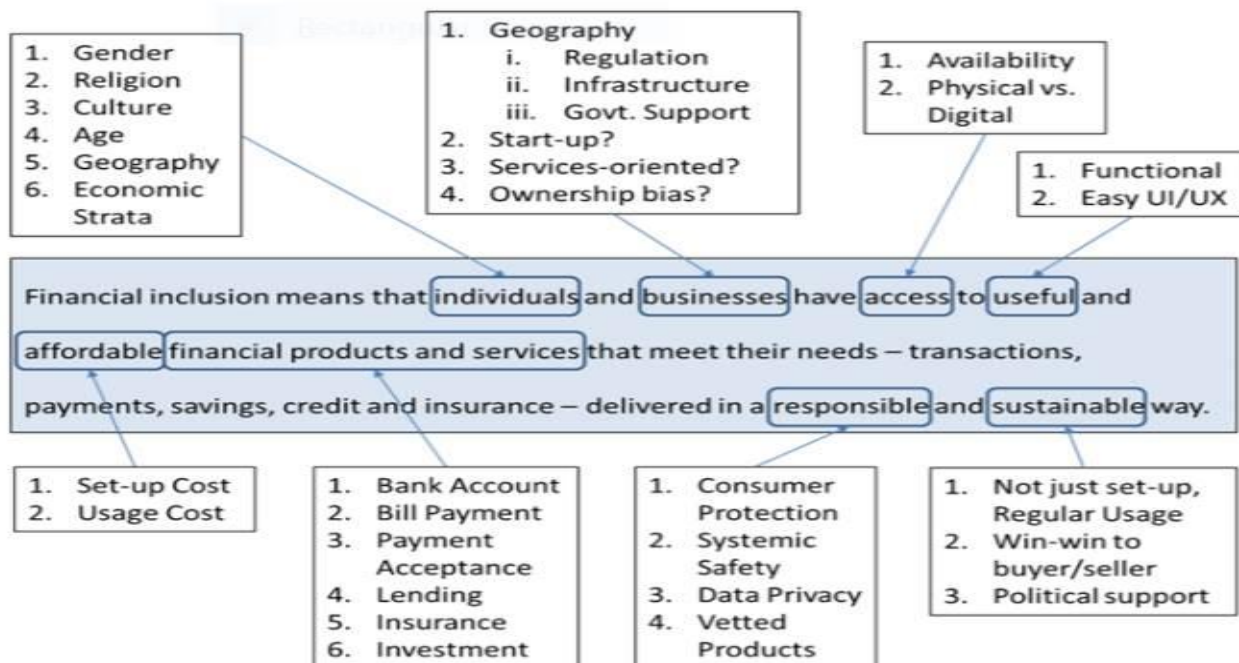
Executive Summary

Economic prosperity is an often discussed issue at a global level in the current context and it is measured by the Global GDP which has now reached c. USD 90 trillion. Since the 2008 financial crisis, the global GDP has grown by the fastest pace and the contribution of banking sector has a major role to play in this growth. As of October 2019, market capitalization of the global banking sector is c. USD 7.9 trillion. At the same time the income inequality has also increased and governments across the world are making efforts to reduce this gap in income inequality by ensuring that global economic growth becomes more inclusive. This is where the term Financial Inclusion comes into the picture. As per the various surveys and reports, top 1% of the richest own nearly half of the world's wealth and this global inequality will continue to increase as per the October 2015 report published by Credit Suisse. The purpose of this academic paper is to understand the definition of financial inclusion and how it is correlated with AML/KYC regime. It will further take a quick sojourn to the global initiative on financial inclusion via changes in the AML/KYC regulatory framework and what are the existing challenges in attaining the increased financial inclusion. Most notably, paper will explore various improvements required in the global AML/KYC framework and introduce the **"STAR" Model** (Achieving **SAFETY** and **TRUST** through improved **AML MONITORING** and **BEHAVING RESPONSIBLY OR Balancing SOCIALISM** and **CAPITALISM** by increased **ACCESSIBILITY** and improved **RESPONSIBILITY**) to address the issue of financial inclusion. This paper also aims to assist various governments, regulators and banking industry to adopt a futuristic approach in understanding and adopting the parameters of financial inclusion.

Financial Inclusion – Global Perspective

Financial system plays a key role in achieving the global development and reducing income inequalities. Considering the fact that it contributes c. 65% in the global GDP (**1 Investopedia Ask Answer, 2020**), the increased penetration of financial system can help in poverty eradication by empowering the poorest of the poor financially. However this penetration or in other words – Financial Inclusion is often defined in divergent ways. For some, the financial inclusion is defined as access to basic banking, however for a wider section of people; financial inclusion has to be more holistic and covers other sectors of financial system also like credit and Insurance. In the recent report by Citi bank (**2 Citi GPS: Global Perspectives & Solutions, 2020**) it is noted that over a long period of time, Financial Inclusion discussions have indicated that the topic is narrowly understood at best, by many parties. Common misperceptions suggest that financial inclusion is only relevant in frontier and emerging economies or that it is only a problem for individuals.

Thus, a good starting point is to disaggregate a commonly used definition (from the World Bank, in this case) and arrive at the many axes along which the problem may be considered. Figure below provides an illustration of the many angles to consider while talking about the Financial Inclusion –



To standardize and streamline the global efforts to achieve increased penetration and deeper financial inclusion, FATF has defined “Financial Inclusion” in its Guidance Report on Financial Inclusion in 2011. (3 FATF Guidance – Anti-Money Laundering and Terrorist Financing Measures and Financial Inclusion) The report aims to clear the air on various interpretations of the term “Financial Inclusion” and provides a standardized definition so as to provide a level playing field in the global context. It defines 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. As per World Bank; financial inclusion means that individuals and businesses have access to useful and affordable financial products and services that meet their needs – transactions, payments, savings, credit and insurance – delivered in a responsible and sustainable way. 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. Financial inclusion can also be defined as ensuring access to appropriate financial products and services at an affordable cost in a fair and transparent manner. Since most of the financial products and services are provided through financial institutions (FIs), it is imperative from AML/CFT purposes that these FIs are subject to adequate regulation in line with the FATF Recommendations.

As per the Global Findex Database report of 2017 (4 World Bank Group Report - 2017), the gap between rich and poor has not improved since 2014 and close to one-third of adults – 1.7 billion – are still unbanked. In addition about half of unbanked people include women poor households in rural areas or out of the workforce. Moreover the gender gap in account ownership remains stuck at 9 percentage points in developing countries, hindering women from being able to effectively control their financial lives. A quick snapshot of the financial inclusion can be referenced below which shows a large disparity between different countries worldwide.

BANKING THE UNBANKED

Financial inclusion is a key driver in tackling poverty and boosting economic growth. Yet a staggering two billion adults across the world still do not regularly use a bank account or have access to a financial institution via a mobile device. Here is the latest data on financial inclusion, which shows a large disparity between different countries worldwide

WHERE THE UNBANKED LIVE

PERCENTAGE OF PEOPLE AGED 15 AND OVER WITH AN ACCOUNT AT A FINANCIAL INSTITUTION



\$380BN OPPORTUNITY FOR BANKS IN EMERGING MARKETS

Estimated financial services consumption increase through full banking penetration and increased utilisation by adult population

PERSONAL BANKING

Income band of adults (per annum)

● \$3–\$8k ● \$1–\$3k ● <\$1k

○ Consumption increase (\$bn)



MICRO AND SMALL BUSINESS BANKING

● Formal small business lending ● Formal micro & informal small business lending ● Potential fee revenue



Accenture/World Bank/Global Findex

BANKED PERCENTAGE OF POPULATION

TOP AND BOTTOM TEN FROM MORE THAN 160 COUNTRIES WITH AVAILABLE DATA

TOP 10



BOTTOM 10

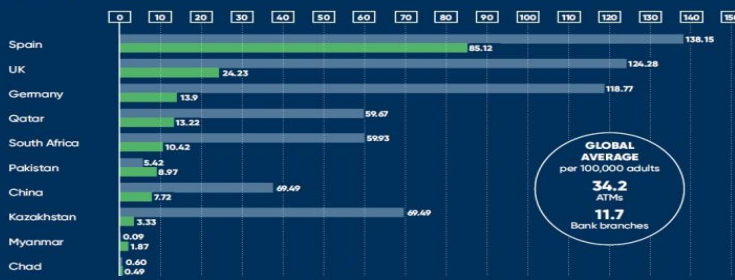


Global Findex, World Bank

COMMERCIAL BANK BRANCHES AND ATMs PER 100,000 ADULTS

MOST RECENT DATA AVAILABLE FOR SELECTED COUNTRIES

● ATMs ● Bank branches



RACONTEUR

(Source: Visualcapitalist)

As per the recent Citi bank report (5 Citi GPS: Global Perspectives & Solutions, 2020), Asia leads the world in-terms of unbanked adults followed by Africa in terms of absolute numbers. However in-terms of percentage, Africa and Latin America are the most unbanked regions in the world. Apart from the access to the formal banking accounts, financial inclusion to other forms of financial services like borrowing, savings products, or insurance is also a pain point in several sections of society and emerging countries like Mexico, Peru and Bangladesh. Additionally based on 2017 World Bank Findex Data, on average only 25% of borrowing in the 27 key markets was through financial institutions amongst the people who have access to credit. The remaining 75% came from family sources, informal money lenders, or other sources (e.g., borrowing clubs etc.). Markets that had the biggest percent of non-bank borrowing were Pakistan (94%), Nigeria (90%), Egypt, and Tanzania (both 87%). At the other end, in this sample, markets with the lowest percent of non-bank borrowing were Cambodia (55%), Myanmar (56%), and Peru (60%) — albeit still >50%.

Such gaps in financial inclusion result into economic growth which is non-inclusive and also impacts the savings and consumption cycle. Hence focus on financial inclusion is paramount as it helps people escape poverty by facilitating investments in their health, education, and businesses. It also makes it easier to manage financial emergencies — such as a job loss or crop failure — that can push families into destitution. The efforts for the financial inclusion culminated in when in 2015, the World Bank and its partner countries adopted new approach to development finance through the Addis Ababa Action Agenda, the 2030 Sustainable Development Agenda, and the UN Sustainable Development Goals (SDGs). (6 United Nations Official Website) The UN SDGs are aligned with the World Bank Group’s twin goals of ending extreme poverty and boosting shared prosperity. Financial inclusion is positioned prominently as an “enabler” in achieving the 17 SDGs by 2030, where it is featured as a target in eight of the seventeen goals. These include SDG1, on eradicating poverty; SDG2 on ending hunger and achieving food security; SDG3 on profiting health and well-being; SDG5 on achieving gender equality; SDG8 on promoting economic growth and jobs; SDG9 on supporting industry, innovation, and infrastructure; and SDG10 on reducing inequality.

Intricate Nexus - Financial Inclusion and AML/KYC Regime

In-line with UN Sustainable Development Goals and the various initiatives adopted by the countries across the globe, it is expected that there will be unprecedented growth in financial inclusion and that by 2022, an additional 700-800 million adults will be included in the formal financial system, leaving just 15% of the global population unbanked down from 49% in 2011. (7 Citi GPS: Global Perspectives & Solutions, 2020) The key elements of these unprecedented financial inclusion efforts are based on four pillars. These four pillars are - Access, Affordability, Utility and Legality. There are plenty of surveys and reports on the key challenges to attain the financial inclusion. The key obstacles identified are lack of insufficient funds, stringent documentary requirements for availing services, perceived cost of banking, distance and trust. On 29 December 2003, the United Nations Secretary General, Mr. Kofi Annan, observed that “the stark reality is that most poor people in the world still lack access to sustainable financial services, whether it is savings, credit or insurance. (8 Research-gate Publication) The great challenge before us is to address the constraints that exclude people from full participation in the financial sector. Together, we can and must build inclusive financial sectors that help people improve their lives”. Realizing the challenge, most of the countries, especially the least developed countries embraced the new mantra of financial inclusion to tackle the challenges of attaining the all inclusive financial sector. Initiatives for financial inclusion have come from the financial regulators, the

governments and the banking industry. These initiatives are further corroborated in the communiqué issued by the G20 Financial Inclusion Working when it affirmed as follows:

“We commit to improving access to financial services for the poor. We have agreed to support the safe and sound spread of new modes of financial service delivery capable of reaching the poor and, building on the example of micro finance. ...Working with the Consultative Group to Assist the Poor (CGAP) . . . and other international organizations, we will launch a G-20 Financial Inclusion Experts Group.”

Legislative measures and financial sector reforms have been initiated in some countries. Few of such initiatives on financial inclusion by the countries across the world are as mentioned below –

- In the United States, the Community Reinvestment Act (1997) requires banks to offer credit throughout their entire area of operation and prohibits them from targeting only the rich neighborhoods. In France, the law on exclusion (1998) emphasizes an individual’s right to have a bank account. In the United Kingdom, a “Financial Inclusion Fund” of £120 million was set up to help bring about financial inclusion and a ‘Financial Inclusion Task Force’ was launched in February 2005 to monitor progress on financial inclusion and make recommendations for further improvement.
- In Malaysia, financial inclusion is a national agenda. The government commitment towards financial inclusion is reflected in the Central Bank Act 2009, where financial inclusion is legislated as an objective of Bank Negara Malaysia. The efforts to develop a more inclusive financial system have been fruitful. More than 80% of the Malaysian population currently has some form of savings account.
- In West Africa, several governments have initiated programs designed to promote financial inclusion. For instance, the microfinance policy framework launched in 2005 by the Federal Government of Nigeria is targeted at bringing banking services at affordable cost to the doorsteps of the low income group. The main objective is mainstream the informal financial sector into the formal financial system. Senegal, Ghana, The Gambia, Mali, Burkina Faso and even the post conflict economies of Liberia and Sierra Leone have undertaken financial sector reforms designed to promote the integration of the informal financial sector with the formal.
- The banking sector has also taken a lead role in promoting financial inclusion. In India, the Reserve Bank of India (RBI) has initiated several measures to achieve greater financial inclusion, such as facilitating ‘no-frills’ account and “General Credit Cards” for low deposit and credit.
- The German Bankers’ Association introduced a voluntary code in 1996 providing for an ‘everyman’ current banking account that facilitates basic banking transactions. In South Africa, a low cost bank account called ‘Mzansi’ was launched for financially excluded people in 2004 by the South African Banking Association.

The above initiatives, although are appreciated in-terms of improving the financial inclusion however it has also brought to the forefront another challenges to the regulators and governments across the globe. The increased cases of synthetic identity frauds, economic crimes, cyber crime etc. has demonstrated clearly that the vulnerability of the financial sector to the vagaries of financial crimes,

especially money laundering and terrorist financing, has accentuated the need to develop appropriate AML/CFT measures to reduce the impact of any financial quagmire on the financial system. Lack of financial inclusion, especially limited access to financial services, the use of informal channels, the prevalence of large informal service providers, among others, present difficulties in tracing and monitoring transactions, and thus leads to a weaker AML/CFT regime. Consequently, understanding the nexus between AML/CFT and financial inclusion will require an appreciation of the essence of an effective AML/CFT regime. It is very imperative to understand and accept the fact that AML/CFT standards promote financial sector integrity and soundness and support the fight against crime. However, inappropriate implementation of these standards especially in developing economies has been identified as one of the several factors for excluding almost half of the world population from formal financial services. Poorly designed AML/CFT controls have the tendency to deny the un-served majority access to the formal financial services, undermine social and economic advancements and reduce regulatory and law enforcement capacity - a key means of strengthening integrity. In one of the study to analyze the effects of AML/CFT regulation on access to finance in Indonesia, Kenya, Mexico, Pakistan and South Africa it is concluded that AML/CFT measures can negatively affect access to, and use of, financial services if the measures are not carefully designed and applied.

How Current AML/KYC Regime(s) Are Promoting Financial Inclusion

The current AML/CFT regime measures already have provisions in place to boost the financial inclusion and balance between the role of FIs as intermediaries, protecting the integrity and soundness of the system and ensure that only genuine economic activities are undertaken to promote economic growth and development. Most of the AML/CFT regulations across the globe aim to maintain this balance and hence it is important to establish a balance between mechanisms for money laundering prevention and the development of financial inclusion. For example, simplified know your customer (KYC) and Customer Due Diligence (CDD) requirements are tailored for specific transactions, products and financial services if applied appropriately, and considering represent a lower risk for money laundering. The current AML/CFT regime in most of the countries enable environment for the development and usage of financial services. It not only supports the flexibility in documentary requirements for client identification and verification, but also supports innovative products by promoting innovative solutions like e-KYC and video identification and verification of customers. Additionally the current AML/KYC regime also supports the new financial services model and the new products like Mobile Money (MM) and e-wallets.

The Central Bank of Mexico is one example which has rolled out a RTGS system and it allows banks to open accounts with only a smart-phone, so that customers do not have to visit a physical branch to submit documents. Mexico also recently launched a new digital payments system (CoDi) that went live in September 2019. CoDi is a way to make payments face-to-face through QR codes, or using an ecommerce platform. It is a simple functionality for digital payments, where people can send/receive payments using just a message to anyone in the financial system. In the case of big retailers, they can send a message to the customer, requesting payment. CoDi also helps simplify the new account opening processes as banks can now do KYC using various identity documents. Almost 1.2 million users have been on-boarded in just two months and it is estimated that nearly 1.8 million transactions will be completed on CoDi in 2019 since its October launch. It is also expect to on-board around 10 million users on CoDi by September 2020.

Second example is the Unique Identity Systems - the Aadhaar card system in India that already covers 1.24 billion people (or ~99% India's population). The Aadhaar card system of India is one of the most successful biometric based KYC systems which have also set an example of a unique national identity system for other regimes. Similarly the creation of the Unified Payments Interface (UPI) platform in India allows for real-time payments. The system is actually powering many payments in tier 1 and 2 cities and is now expanding to tier 3 cities. Platforms like this help to power financial inclusion in countries like India.

A quick snapshot of the some key regulatory initiatives adopted by various countries to meeting the objective of financial inclusion is depicted as below –

- **Brazil** - No-fee checking account for lower income group since 2007, Brazilian central bank has allowed financial institutions/FinTechs to offer digital payment accounts, a simpler version of a checking account, with significantly lower regulatory demands. Banks have requirements to direct 65% of savings deposits to mortgage and agricultural lending, to foster activity on those sectors, and reduce housing deficit.
- **Columbia** - Ongoing discussions in Congress to adopt lower fees to bank for lower income population.
- **Egypt** - Lenders were ordered to increase lending to SMEs to 20% of their total loan portfolios by the end of 2020. Central bank subsidized rates for SME lending at ultra-low levels: ranging from 5% for small businesses to 12% for working capital loans for mid-sized firms.
- **India** - Jan Dhan Yojana — No-frill savings bank account. Central bank issued licenses for new small finance banks with priority sector lending target of 75% and requirement of opening at least 25% of its branches in unbanked rural Centers.
- **Indonesia** - KYC approval for new bank accounts without requiring face-to-face meeting (can be via mobile camera. Introduction of Branchless Banking (LAKU Pandai). Government supported loans for low-income borrowers that otherwise do not qualify for bank loans as Kredit Usaha Rakyat (KUR). In 2015, KUR was amended with government cutting lending rate to 12% (from 20%); Integrated Wallet/QR Code for State Owned Banks along with State Owned Telecom Companies.
- **Mexico** - Government and bank associations recently agreed to launch a no-fee checking account for the lower income population.
- **Pakistan** - Tax incentives were announced in the 2019 Budget for banks doing incremental lending to SMEs. 1LINK launched Pakistan's first domestic payment scheme — PayPak in April, 2016, with an aim to provide efficient, low cost and robust payment solution.
- **Philippines** - National ID system to open bank accounts as until recently ID proofs were varied and unreliable and often rejected by established banks. Branch-lite units allowed to service rural areas which are unbanked and underserved; Cash Agents authorized to onboard clients in low income areas. Risk-based KYC: Reduced KYC requirements for low-risk customers and allowing technology to be used instead of face-to-face requirements

- **Kingdom of Saudi Arabia** - Kafala program — to boost SME sector lending — Mortgage is subsidized in several ways by the regulators to boost mortgage penetration in the Kingdom. National payments switch, mada, promotes low-cost card-based payment
- **Thailand** - Thai government initiated a low fee payment system called PromptPay back in 2016. It gained some traction, but not much (around 30-40% signups). Groundbreaking development happened when one of the four largest banks (and the largest retail bank), Siam Commercial Bank, decided to double down by waiving all fees on digital channels in March 2018.

The above initiatives clearly demonstrate the intent by the government and countries across the world to enable environment for the development and usage of financial services. However despite the guidance and best practices to assist in the implementation of AML/CFT standards, countries (especially emerging countries) still face daunting challenges in attaining enhanced levels of financial inclusion. The specific challenges for countries in achieving the desired level of financial inclusion can be surmised as follows:

- **Still Not Enough Trust** – One of the primary obstacles of achieving the financial inclusion despite several innovative and regulatory and government initiatives is failure to attain the trust of the poor people to use the financial services. The increased number of synthetic identity and cyber frauds deters the poor man to avail the services of the financial sector.
- **Lack of Unique National Identification System infrastructure** – There are few countries like India who has shown the determination to create the national ID infrastructure. However many developing countries still don't have the national ID infrastructure in place to create a synergy in the AML/KYC processes and financial inclusion.
- **Lack of Identity (especially refugees and asylum seekers)** – As the world is transitioning into the 21st century, the problem of human displacement and immigrants is becoming a big challenge for many governments. European Union (EU) is a classic example which has taken steps and devised a framework to tackle the identification issue of asylum seekers from high risk countries. However the model is yet to be popularized in many other countries that are inflicted with the problem of asylum seekers and immigrants.
- **Stringent Regulatory framework** – To attain the desired level of financial inclusion it is very critical that the regulators consider a holistic approach and try to make the existing laws and regulations less stringent so as to accommodate the required level of due diligence. Several countries like India has already incorporated the concept of “Simplified Due Diligence” and came up with innovative products like “No Frills Accounts”, however there are still countries where the due diligence requirements are very stringent and hence act as a deterrence to include the last common man in the scope of financial services.
- **Competing Priorities Governments** – Financial Inclusion will require a strong intent from the respective governments to make it as a national agenda. However due to competing priorities, governments in many countries are not able to make the financial inclusion a national priority.
- **Lack of resources and skilled resources to implement AML/CFT Monitoring Programs** – The way the whole world is banking on the technology to attain the increased levels of financial inclusion by introducing innovative products and introducing enhanced AML systems for transaction monitoring, however the dearth of skilled resources for the purpose of having an effective AML regime is still a big challenge for all the countries across the world.

- **Strong Unorganized Sector and Cash Based Economy** – For the reasons mentioned above and also due to the less flexible approach adopted by the financial sector, there is a wide network of unorganized sector on whom the un-banked and poor people are relying. The reach of the service providers and their branches restricted only to urban areas also promotes the unorganized sector service providers to flourish. Additionally cash based economy is another reason which acts as an obstacle in achieving the financial inclusion.

STAR MODEL – Fostering Financial Inclusion with AML/KYC Improvements

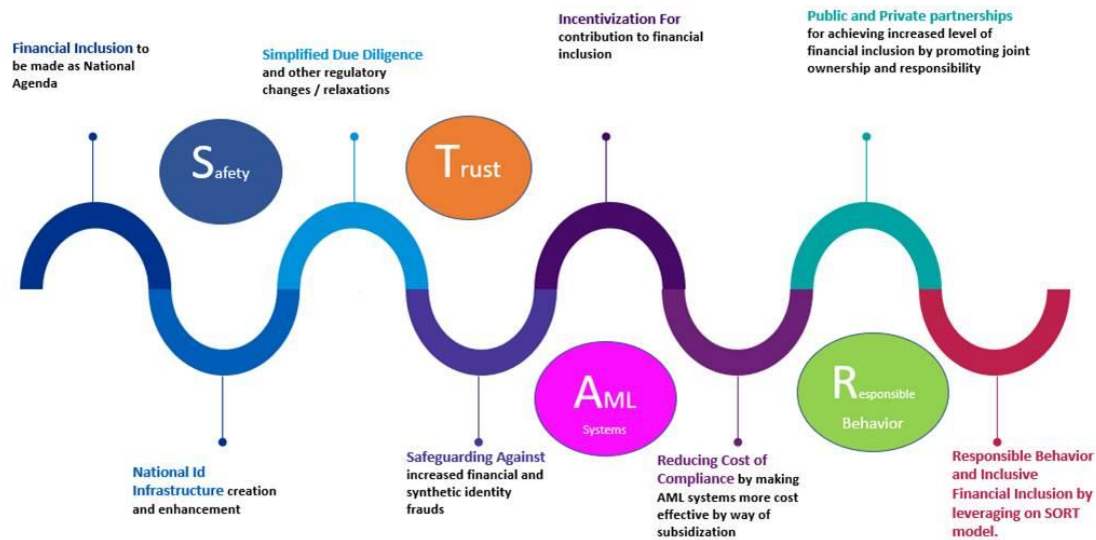
Countries across the globe are getting increasingly aware of the importance and advantages of financial inclusion. There is flood of public information on the initiatives taken by various governments and regulators and the product innovation and the new technology adopted to enhance the level of financial inclusion. Be it the case of Columbia which has relaxed the requirement of signature card and finger prints for small accounts or the case of “No Frills accounts” in India or efficient Government to Person payment in Pakistan through BISP or access to credit cards for under-served sections and lowering the cost of digital transfer through Aadhaar pay in India. The overall impact of these efforts is likely to reduce the percentage of world’s unbanked adults from 33% to 15%. This represents an increase of 700-800 million adults to be included in financial system by the early 2020s compared to 2017. However to ensure the sustainability of the efforts to increase the level of financial inclusion, there is more focus and efforts required for AML/KYC improvements.

This paper proposes a “STAR” model which government and regulators across the globe can think off and leverage to increase the level of financial inclusion. The STAR is an acronym which represent and stands for – (i) Achieving **SAFETY** and **TRUST** through improved **AML MONITORING** and **BEHAVING RESPONSIBLY** and (ii) Balancing **SOCIALISM** and **CAPITALISM** by increased **ACCESSIBILITY** and improved **RESPONSIBILITY**.

The basic premise of this model is to strike a balance between improvement in existing AML/KYC processes and the financial inclusion to attain “**Trust**” of the poor and un-banked to use the financial services sector and ensuring “**Safety**” of the financial services ecosystem by having enhanced and improved “**AML Monitoring**” framework. And this can be attained only when the public-private partnership acts “**Responsibly**”. In other words, the model aims to strike a balance between “**Socialism**” and “**Capitalism**” structure of the society by improving and segregating the “**Responsibility**” of the stakeholders and increasing the “**Accessibility**” of the financial services sector.

The pictorial representation of the “STAR” model is depicted as below:

STAR MODEL



To elaborate the above model, let's now go to each of the improvement areas of the proposed model which will assist in increasing the financial inclusion footprints.

1. **Create and Enhance Public Trust in Financial Services Sector** – The first and the foremost areas of improvement is to enhance the trust of the lowest strata of the population into the financial system. Governments and Regulators have to think simple and act simple. The question which needs to be pondered is why people still choose to remain unbanked? The answer lies in may be several of factors and few and prominent of which are – Increased level of frauds and identity thefts, stringent regulations and id requirements and accessibility of the products. We must understand that a poor man still goes to a local money lender in case of emergency who gave the funds immediately and without asking or taking any credentials. Their business is flourishing on trust and comfort which probably a financial sector is yet to achieve. On top of it, consider the increasing number of cyber frauds and identity frauds which makes these poor people vulnerable to apprehensions and insecurity. As per the Consumer Sentinel Network, maintained by the Federal Trade Commission (FTC) there were 3 million identity and fraud reports received in 2018. And in 25% of the cases money was lost. In 2018, consumers reported losing about \$1.48 billion related to fraud complaints, an increase of \$406 million from 2017. If this is going to be the pitfall of increasing the ambit of financial services, it will be very difficult for a poor man to accept and trust the relation with financial services sector. It is thus required that government across the countries strike a balance between the financial inclusion and increased number of frauds and identity thefts. Such efforts will go a long way to instill and enhance the level of trust among the financial services sector among the poorest of the poor of the society.

2. **Develop and Improving National ID infrastructure** – The Aadhaar Card initiative by the Indian government showcase the benefits of creating and building-up the national id infrastructure. By this initiative India now has almost 99% of the population with valid and official national id. This has played a very important role in changing the landscape of banking industry and various other industries like payment industry and small finance banks. By developing such national id infrastructure, government and regulators can tackle lot of concerns in one single shot. For example, government can now credit the account of daily wage laborers directly and hence avoid the cuts taken by the middleman. Similarly government subsidy is now directly credited to the account holder and hence addressed the problem of corruption and bureaucracy.

3. **Regulatory Relaxations in the AML\KYC Process and framework** – Although the focus has clearly shifted on the financial inclusion in last decade or so across the globe, however supporting regulatory changes like “Simplified Due Diligence” (SDD) is still a challenge. We have very few countries like India, Mexico, and Guatemala who has adopted the concept of in one or the other form. FATF in its 2011 report has also acknowledged the concerns on SDD regimes. Colombia, Egypt, Honduras and India are some countries which have implemented the SDD regulations keeping in mind the unbanked and the poor section of the society. The Indian governments Jana-Dhana scheme demonstrates how strategic the process of SDD can be in achieving the financial inclusion. Governments across the world must take these initiatives and schemes as best practices and try to implement similar regime in their respective country.

4. **Incentivization to Contribute in Financial Inclusion** – Governments must realize that financial institutions are assisting the initiatives on financial inclusion in all the ways and also incurring huge cost to create and built the systems or products around it. At the same time due to this cost-benefit analysis lot of financial institutions are hesitant to stretch themselves and increase either their network or products to reach the poorest of the poor of the society. This impacts the government initiatives to attain the deeper financial inclusion. However its high time government incentivizes the FIs to promote the financial inclusion. One such way is to offer some kind of tax deferment incentives to the FIs so that the increase cost of operations or compliance can be absorbed and the profits can be ploughed back for a much higher period of time. Another way is to relax the regulatory requirements in-terms of providing relaxation to minimum balance to be maintained in the bank accounts and relaxing documentary requirements for opening the accounts. This will help the FIs to prioritize the resource allocation in meeting the financial inclusion targets. India’s Pradhan Mantri Jan-Dhan Yojana (PMJDY) is a classic example where government has incentivized the FIs by relaxing the required norms and has made this initiative a national mission to ensure access to financial services, namely, Banking/ Savings & Deposit Accounts, Remittance, Credit, Insurance, Pension in an affordable manner. Under this scheme accounts can be opened with zero balance. However, there are regulations to accommodate the customer requirements and if the account-holder wishes to get

cheque book, he/she will have to fulfill minimum balance criteria. Such incentivization to the FIs will surely result into increased participation and will ultimately go a long way to attain the increased level of financial inclusion.

5. **Cost Effective AML Systems and Subsidization** – As mentioned in above section, financial inclusion will be effective only when we have appropriate level of AML monitoring by the FIs. The cross border transactions and the new product offering platforms like Mobile Money has increased the span of transactions and made it with-in the reach of many including the migrants who are dependent on remittances to their family members. At the same time compliance risks have increased making such transactions vulnerable to increased ML and Terrorist Financing (TF). To counter this problem; FIs are spending billions of dollars on the AML systems to track and monitor humongous volume of transactions. As per the information available in the public domain, the global Anti-Money Laundering solution market size is projected to grow from USD 1.5 billion in 2019 to USD 3.6 billion by 2024. However cost of these AML solutions is still a challenge for many FIs and not all of them have enough budgets to afford such AML solutions. This becomes a big deterrent in monitoring the suspicious transactions which to some extent impacts FIs business model and their resistance in contributing to financial inclusion. This can be either in the form of limited presence or offering limited product suits to the limited category of customers. Governments and regulators are hence required to promote the cost effective AML systems. There are lot of players in the market who are offering the AML solutions but if there is any scope of subsidizing these AML solution offerings, that will really benefit all the FIs to have effective AML systems which in a way will help in keeping the required checks and balances of enhanced financial inclusion levels. There will definitely be some criteria for providing these subsidy and the solutions can be worked out by having increased dialogue between government and related market players.

6. **Enhancing Framework for mitigating Cyber Frauds and Synthetic Identity Thefts** – As technology is embraced across the globe to achieve increased level of financial inclusion, so is the increased threat of frauds which includes cyber frauds and synthetic identity frauds. According to the 2019 Identity Fraud Study from Javelin Strategy & Research, the number of consumers who were victims of identity fraud was 14.4 million in 2018. Moreover, these victims' out-of-pocket fraud costs more than doubled from 2016 to 2018 to USD 1.7 billion. Additionally, criminals are becoming adept at foiling authentication processes, particularly mobile phone account takeovers. These takeovers nearly doubled to 680,000 victims in 2018, compared with 380,000 in 2017. Such statistics pose a serious threat to the regulators and governments in attaining the financial inclusion in an effective way. Thus it is the need of the hour that – National Fraud Mitigation Framework is created and adopted to deter and counter such fraud related threats. A wider national awareness mission on the precautions and the product knowledge can be thought-off as a tool to address this concern.

7. **Enhanced Level of Public-Private Partnership** – The objective of financial inclusion can be achieved by increased level of collective, coordinated, collaborative and cooperative approach by all stakeholders. Similar approach is required for the AML/CFT controls also at a national level. This will not only boost the public-private partnership but will also enhance the level of ownership and responsible behavior by all the stakeholders. If all the stakeholders synchronize their efforts and their energy in a coordinated and collaborative way; there will be an appropriate level of AML/CFT controls along with the increased level of financial inclusions.

Conclusion

The social welfare impact of financial inclusion is significant. We believe access to formal banking channels — and reaping benefits from banking system products (e.g., access to credit, opportunities for savings, G2P transfers etc.) — can play an important role in the eradication of poverty and the social mainstreaming of marginalized people. To bring in more unbanked and poor people into the formal financial system has its own advantages in-terms of balanced economic growth and less income inequality. Hence we can't take off the focus from financial inclusion as a global agenda. Additionally pursuing the enhanced levels of financial inclusion and the combating of ML/TF can and should be viewed as complementary national policy objectives. It is challenging to tailor-made the AML/CFT policies to the national context, but not difficult. Implementing them sensitively can bring significant benefits to clients and financial providers and will ultimately deliver an all inclusive financial inclusion by facilitating growth with equity, reduced income inequality, promoting safe savings along with access to reliable services and making financial transactions easier, and ultimately eradicating poverty.

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