Input from Conciliation Resources on FATF to public consultation on R.1

Conciliation Resources is an international peacebuilding non-government organisation (NPO) and a member of the UK Tri-Sector Group. It represents UK NPOs on the TSG Secretariat. This submission is based on the outcomes of surveys of the UK NPO sector and round table workshops held with government and financial institutions, most recently in May 2024.

Inputs to Chapter 1 - Statement of the problem

1. Challenges in balancing AML/CFT requirements and financial inclusion

Examples could cover (non-exhaustive list):

a. Cases of challenges, as a customer, in accessing and using financial services linked to the implementation of AML/CFT measures

Financial access issues– NPOs and financial institutions

The results of a survey of international charities in UK conducted by the Charity Finance Group, Bond, Conciliation Resources and Muslim Charities Forum in 2023 indicated five main challenges for NPOs with financial access:

- Opening a bank account
- Retaining a bank account
- Being removed from the formal banking system.
- Challenges meeting the 'know your customer' (KYC), money laundering and sanctions policy requirements taken by banks due to the complexity of the regulatory framework.
- Transferring funds to a partner or bank account in high-risk countries.

In our engagement with financial institutions, they cite the following challenges:

- The approach taken by bank regulatory authorities to assessing their due diligence and KYC procedures. Penalties can be incurred even if no breach has occurred, encouraging risk aversion;
- Obstacles to sharing good practice within the financial sector due to competition laws;
- Lack of guidance from HM Treasury on critical sanctions/CTF issues;
- Lack of consistency across jurisdictions so that engagement with correspondent banks is time consuming and costly.

Over-compliance and de-risking by financial institutions can constrain NPO access to the formal banking system, increasing CFT/AML risks.

Our observations from UK Tri-Sector Group (TSG) meetings and NGO round tables with government and banks are:

1. There is a need for joined up policy across different government departments;
2. There is policy dissonance between financial institutions and financial regulators;
3. There is a lack of support for NPOs/charities both to improve their understanding of how to engage with financial institutions as well as to complain about poor service;
4. There is no legal requirement for financial institutions to provide financial services to NPOs/charities;
5. Many regulations are 'strict liability' resulting in risk averse decision making for low value customers, which contradicts commitments to financial inclusion.

The UK's Independent Reviewer of Terrorism Legislation has noted the difficulty in reaching a coherent policy approach across government (See para 2.46 of his report on the Operation of the Counter-Terrorism (International Sanctions) (EU Exit) Regulations 2019). There is also

increasing divergence between the terms and scope of humanitarian exceptions, with the UN, US, EU and UK all taking different approaches. To help achieve these goals in the NPO/charity sector the FATF could recommend that States should: 1. Publish analysis as to which sectors/individuals are affected by a lack of financial inclusion; 2. Set targets for financial inclusion; 3. Encourage coherent and consistent policy goals across all relevant government departments; 4. Address any regulatory or policy issues that obstruct greater cooperation across government, regulatory bodies and financial institutions, e.g. competition laws; 5. Fund training and support to NPOs to help them engage with the financial sector; 6. Publicly consult on the benefits of a legal right to a bank account.
Inputs to Chapter 3 - Guidance on measures to support financial inclusion
2. Measures to ensure access to and usage of financial services by financial services customers Examples could cover (non-exhaustive list): a. Measures/guidance/regulatory requirements helping to facilitate customers' access to and usage of financial services b. Initiatives by customers or associations of customers to address ML/TF risks and financial institutions' concerns c. Engagement with authorities/financial sector to encourage appropriate implementation of a risk-based approach
Good practice examples: - Banks issuing guidance to potential clients as to how to obtain an account (e.g. sharing extended due diligence questionnaire and KYC requirements); - financial institutions committed to working with clients to facilitate transfers through correspondent banks to 'high-risk' jurisdictions; - active engagement of financial institutions and regulators in multi-stakeholder dialogues. **Bad practice:** - lack of engagement from financial regulators on policy issues that affect banks' ability to provide services to NPOs/charities; - lack of an independent ombudsperson to support clients whose application is rejected by one bank affecting their ability to engage with other banks; - move to online on-boarding without the ability to support potential client applications; - lack of coherence in the global financial system regarding the facilitation of NPO/charity transactions; - Lack of internationally agreed standards as to good practice when working in 'high-risk' contexts.

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