SPACES FOR CHANGE INPUTS TO THE FATF RECOMMENDATION 1

Template for Inputs

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 in implementing simplified measures for AML/CFT (e.g. limits posed by regulations on the use of technological solutions) b. Cases of unintended financial exclusion or de-risking linked to the implementation of AML/CFT measures
Example 1. **Bureaucratic Onboarding Process**: In the Nigerian context, banks sometimes find it difficult to onboard new trustees or directors of NPOs due to bureaucratic procedures, such as requirement for new trustees or directors to be physically present in the bank before onboarding as signatories to the bank account. 2. **Application of blanket AML/CFT measures:** Financial institutions (FIs) implement general AML/CFT measures to all categories of non-profit organizations (NPOs) without taking into account the results of the NPO sector's terrorism financing risk assessment (TFRA) conducted in 2021-2022. In the Nigerian context, a TFRA for the NPO sector has been conducted, but banks still treat all NPOs as at risk of TF abuse, hence de-risking. Other processes include frequent requests for customer identification. 3. **Tedious onboarding process for beneficiaries:** Beneficiaries in conflict-ravaged regions are sometimes subjected to the same account-opening standards, without considering the peculiarity of their condition– forced displacement from ancestral home due to insurgency. 4. **Harsh application of AML/CFT policies:** NPOs operating in terrorist-ravaged regions face difficulties linked to Fis' harsh application of AML/CFT policies. In most cases, banks do not notify NPOs of any restrictions on their accounts until the NPO attempts to withdraw funds, including in times of emergency, thereby leading to loss of life. 5. **High bank charges:** NPOs rely mainly on donations and grants. A huge chunk of their income or inflows are spent on high bank charges, commissions, and high account maintenance debits. FIs are fixated on making profits and rarely give any special incentives to NPOs. 6. FIs requires foreign trustees to provide their national identity number (NIN) before they can maintain and operate bank accounts, meanwhile, Nigerian law prohibits foreign nationals from taking part in NIN registration.
Inputs to Chapter 2 - Implementing the risk-based approach in a financial inclusion context
2. Risk assessment tools and mechanisms to identify low ML/TF risk and justify simplifications, at an industry/individual entity level Examples could cover (non-exhaustive list):

a. Risk assessment methodologies developed by the industry/individual entity

b. Engagement with the domestic authorities on financial inclusion (e.g. to identify areas of lower ML/TF risks, promoting financial inclusion objectives, etc.)

c. Engagement with sectors/customers to identify lower ML/TF risks

Example:

1. In the Nigerian context, the Special Control Unit against Money Laundering (SCUML) has conducted the TFRA for the NPO sector; however, FIs do not consider the findings in their assessment and due diligence with NPO customers. Consequently, FIs regard all NPO customers as high-risk.

2. **Banks and NPOs Dialogue:** Spaces for Change in partnership with the Special Control Unit Against Money Laundering (SCUML), organized the banks and civil society in Nigeria conference, which brought together banks, NPOs, Bureau de Change, banks' regulators – the Central Bank of Nigeria (CBN), and NPO regulators such as SCUML, the Corporate Affairs Commission (CAC), and other stakeholders to discuss the financial service exclusion and AML/CFT challenges faced by NPOs. The outcome of the meeting birthed the Multi-Stakeholder Working Group on Charities (MSWGC). The report of the banks and civil society in Nigeria conference can be accessed here.

3. **Tri-Sector dialogues:** Spaces for Change established a tri-sector dialogue, the Multi-Stakeholder Working Group on Charities (MSWGC), consisting of stakeholders including FIs, NPOs, FI regulators, NPO regulators, and AML/CFT experts, to discuss and proffer solutions to the financial services and AML/CFT challenges faced by NPOs.

Inputs to Chapter 3 - Guidance on measures to support financial inclusion

3. AML/CFT (including CDD-related) measures to support financial inclusion

Examples could cover (non-exhaustive list):

a. Measures by banks, credit unions, micro-finance and other financial institutions in enhancing access to and use of financial services by the unserved or the underserved population

b. Governance initiatives (trainings, etc.) to foster understanding of financial inclusion objectives

c. Measures by stakeholders in facilitating AML/CFT including CDD-related actions to support financial inclusion (e.g. knowledge exchange, regional initiatives, etc.)

Example:

FIs apply enhanced due diligence (EDD) to NPOs without considering the level of risk posed based on the findings of the TFRA. FIs should consider outcomes of the TFRA to tiearize the NPO sector based on risk
4. Products and services that target the financially excluded and underserved groups (and how they utilise the flexibility in FATF Recommendation 10 on Customer Due Diligence Measures) Examples could cover (non-exhaustive list): a. Design and implementation of low-risk financial products or services with restricted functionality to limit the potential of the relevant products and services to criminal abuse (e.g. small/low-risk bank accounts, micro insurance, pre-paid payment products with limits, restrictions on number or total value of transactions, etc.) to enhance the levels of financial inclusion, including experience of any potential unintended consequences (e.g. limiting access to more sophisticated financial products over time) b. Use of digital financial products and services (e.g. payments, transfers, savings, credit, insurance, securities, financial planning and account statements) to advance financial inclusion (such as branchless banking approaches)
Example: Initiatives to help ensure 95 per cent of Nigerians have access to financial services to include the National Strategy for Leveraging Agent Networks for Women's Financial Inclusion; National Fintech Strategy; Nigeria Payments System Vision 2025 (PSV 2025); Nigerian Financial Services Maps (NFSMaps). Federal Ministry of Humanitarian Affairs, Disaster Management and Social Development oversee humanitarian affairs in Nigeria. It has developed Cash and Voucher Assistance (CVA) policy to guide humanitarian assistance efforts in Nigeria, which is particularly relevant for NPOs carrying out interventions in insurgency affected North East and North West. Banks enforce transfer limits and account balance thresholds for certain categories of bank accounts, particularly those where customer due diligence for account opening is low.
5. Tiered customer due diligence (CDD) regime Examples could cover (non-exhaustive list): a. "Progressive" CDD approach where clients have access to a range of different account functionalities depending on the risks associated with the functionalities/products/services offered b. Parameters for the thresholds applicable to the tiered CDD approach c. Ensuring capacity and mitigative measures in place for tiered CDD regime
Example:

The Central Bank of Nigeria (CBN) approves of the 3-tiered KYC requirements. Tier 1 requires basic customer information including their passport photograph, name, address, date of birth, gender, and phone number among simple identifiers. These accounts are subject to less scrutiny by bank examiners and can be opened at any branch of the financial institution or through banking agents. Additionally, no minimum amount is required for opening this type of account and the customer will be availed with conventional banking operations like ATM access and linking to mobile phone accounts. However, withdrawals are restricted to only the account holder, the accounts are strictly savings accounts and international funds transfers are prohibited. This is the main tier CBN intended for the majority of the unbanked populace. (See CBN's 3-Tiered KYC Requirements).

Tier 2 accounts need to be opened upon face-to-face interaction at any branch of the financial institution. Customer information such as passport photograph, name, date of birth, gender, address and more are required, and must be verified against similar information in government-backed databases.

Tier 3 refer to high-level accounts that require top-tier KYC procedures. When opening a high-value account, banks are required to obtain and verify the necessary KYC documents in line with the CBN AML/CFT regulation, 2009 (as amended) for opening accounts. Additionally, the account can be only opened in person at the branch of the financial institution and can be either savings or current. There is no minimum amount to open this type of account. Finally, there are no limits on cumulative balance.

6. Simplified due diligence regime (including addressing customer identification/identity verification challenges)

Examples could cover (non-exhaustive list):

a. Reduction of the extent of identification information required

b. Use of alternative identification means or documents

c. Use of innovative technological solutions (e.g. biometrics, voice prints, electronically certified copies, eKYC processes, etc.)

d. Specific means of identification for targeted groups of customers (e.g. asylum seekers and refugees)

e. Postponing the verification of the identification information

f. Identifying and verifying the beneficial owner based on information from the customer's profile

g. Inferring the nature and purpose from the product design or customer profile

h. Simplifications related to address verification

i. Procedures specifically applied in lower-risk scenarios (e.g. exemptions)

j. Other examples of SDD measures (e.g. reducing the frequency of customer identification updates)

k. Ongoing monitoring of the relationship

Example:

The Central Bank of Nigeria (CBN) regulates the activities of all financial institutions in Nigeria. To enhance financial inclusion, simplified due diligence regime applied to Simplified due diligence regimes applies to Tier 1 bank accounts or wallets. These accounts are low-level bank accounts or wallets with a maximum daily transaction limit of 30,000NGN. Because Nigeria is yet to achieve over 75% financial inclusion, CBN's 2013 3-Tier KYC Requirement allows financial institutions broad autonomy to develop internal policies aimed at including financially disadvantaged people in the financial system consistent with FATF Recommendations 1 and 10.

However, the recent revisions to CBN's 2013 3-Tier KYC Requirement, encapsulated in CBN's December 2023 Circular directing institutions under its regulatory oversight to include BVN and NIN in Tier 1 KYC , introduced critical changes to Tier 1 bank accounts or wallets. CBN now requires financial institutions and fintech companies to include NIN (National Identification Number) and BVN (Bank Verification Number) in Tier 1 KYC requirements in Nigeria. These changes roll back the gains that have been made with regards to simplifying due diligence procedures to low-risk and low-income customers in order to enhance their access to the financial system. Since March 2024, financial institutions have been directed to post-no-debit or credit restriction on all Tier 1 accounts or wallet holders without BVN or NIN until the new process is satisfied.

It is important to note that the simplified CDD regimes do not apply to the NPO sector.

7. **Exemptions from CDD and other AML/CFT requirements in limited circumstances to facilitate financial inclusion (if any)**

Example:

Generally, more often than not, FIs apply CDD to all spectrums of NPOs. As we have seen above, account opening requirements unintentionally subject certain beneficiaries (e.g beneficiaries in terrorist ravaged regions) to financial exclusion. To open a bank account, the account holder is required to submit valid means of identification (ID), BVN, NIN, electricity bills, physical address information, and referees, etc., for KYC purposes and to ease the tracking of suspicious transactions, including terrorist financing. Many beneficiaries, especially those staying in the internally displaced persons (IDP) camps, cannot satisfy these banking requirements due to forced displacement by terrorists from their ancestral homes or communities. CBN's CBN's December 2023 Circular directing institutions under its regulatory oversight to include BVN and NIN in Tier 1 KYC removes the exemptions hitherto applicable to the Tier 1 account holders.

8. **AML/CFT requirements and digital solutions to support financial inclusion**

Example:

Policy frameworks are in place to support financial inclusion through digital solutions. For instance, the Central Bank of Nigeria (CBN) launched the National Financial Inclusion Strategy in 2012 and issued a Revised Strategy in 2018 aimed at further reducing the exclusion rate of the unbanked to 20% by 2020. The fintech industry is popular, with the variety of products and services they offer helping to close the gap between the unbanked/underbanked, and the financially included segments of the population. Fintechs are leveraging technology to enhance inclusion through an array of strategies such as using smartphones, Bank Verification Numbers (BVN) and phone number verification to provide loans to customers and algorithms on the customer's mobile transactions to determine credit risk. Through these digital products, more Nigerians have easier access to several products and services including credit options, investment opportunities, insurance, savings, and retirement plans, amongst many others. These are rendered through a variety of channels including, mobile phones, point-of-sale devices and networks of agents, leading towards a cashless economy.

Any other issue relevant to addressing financial exclusion and de-risking:

Banks, policymakers, law enforcement agencies and non-profits in Nigeria have come together to kick off tri-sector dialogues to address bank derisking of non-profit organizations (NPOs) from a multi-sectoral perspective. The tri-sector dialogues commenced with the inauguration of the Multistakeholder Working Group on Charities (MSWGC) on April 30, 2024, facilitated by Spaces for Change [S4C] in Lagos. Setting up the MSWGC became imperative following the Banks and Civil Society Conference held on February 8, 2024, where stakeholders in the law enforcement, banking, and civil society sectors examined the impacts of anti-money laundering and countering the financing of terrorism policies and measures on NPOs in Nigeria.