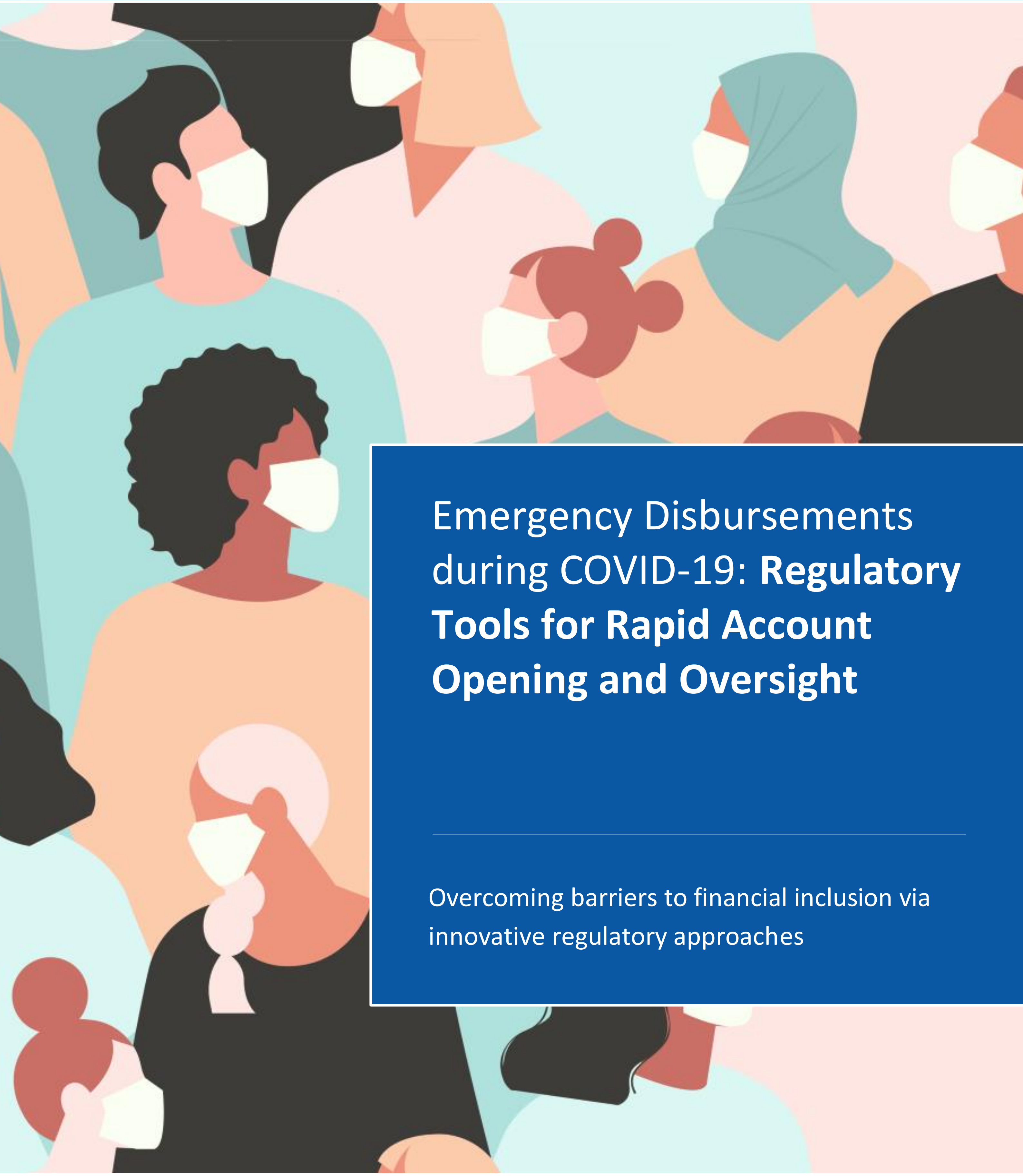
GLENBROOK

WHITE PAPER July 2020



Emergency Disbursements during COVID-19: **Regulatory Tools for Rapid Account Opening and Oversight**

Overcoming barriers to financial inclusion via innovative regulatory approaches

Acknowledgements:
Special thanks to Christopher Calabia (Bill & Melinda Gates Foundation) and to Elizabeth McQuerry, Ph.D. (Glenbrook Partner) for their contributions and guidance. Thank you to Ivo Jenik, Mehmet Kerse, and Louis de Koker (all from the Consultative Group to Assist the Poor); and Isabella Chase (Royal United Services Institute) for their reviews and recommendations. All the aforementioned names provided support in their personal capacities; this research is not representative of their organizations.

This publication is based on research funded by the Bill & Melinda Gates Foundation. The findings and conclusions contained within are those of the author and do not necessarily reflect positions or policies of the Bill & Melinda Gates Foundation.

Author: Zachary Kazzaz
Glenbrook Partners, Global Engagement Manager

Glenbrook Partners LLC
1825 South Grant Street
Suite #09-111
San Mateo, CA, 94402
USA
info@glenbrook.com

Table of Contents

I. Executive Summary

The COVID-19 pandemic is creating unprecedented challenges on a global scale. A potential cure and treatment are still out of reach. Rotating and repeating lockdowns of jurisdictions are leading to a global slowdown of economic activity, with disproportionate impact to lower-income populations. With limited or no income for residents, governments have been expending unprecedented sums to mitigate a humanitarian crisis on top of the health crisis. Social assistance disbursement programs had been launched in 133 countries within one month of the global pandemic, reaching more than one billion beneficiaries (Gentili 2020).

However, the disbursement programs can also face challenges. Governments seeking to digitally remit funds to limit face-to-face interactions and increase transparency must rapidly onboard the unbanked into accounts to receive emergency benefits. Broadly, about 37% of the adult population of developing countries (1.7 billion people) and 6% of those in high income countries (63 million people) lack transaction accounts (Findex 2017). Women have added difficulties accessing funds due to persistent gaps in account ownership, technology and formal documentation. In Mexico, where financial inclusion has long been a priority, account penetration remains below 40% (Findex 2017)—highlighting a key challenge in reaching consumers at the bottom of the economic pyramid.

This white paper explores challenges presented in account opening and provides real-world examples where many of these challenges are minimized. The paper begins with a discussion of international standards and segues to domestic regulatory enablement and practical applications from an array of middle-income and low-income countries, with examples both predating and from the pandemic period. The jurisdictions with an existing enabling environment and those that were able to quickly adapt regulations have cumulatively opened more than 60 million new accounts, among those reviewed in this analysis. The paper concludes with potential approaches for regulators to adapt the financial system to help deliver financial assistance to households to mitigate the economic impact of the pandemic and increase the resiliency of the financial system for future events.

II. Regulatory Aspects of Account Opening

A core principle of regulatory oversight is the requirement for a financial institution to understand its clients and the source(s) of their funds to prevent use of the account for fraudulent and illicit purposes. Over time, this concept of Know Your Customer (KYC) – an initial check on the account holder – has evolved into customer due diligence (CDD), a more comprehensive program that adds ongoing monitoring of accounts. CDD encompasses six primary activities:

1. Identification and verification: Gathering data on individuals from independent sources to confirm their identity
2. Beneficial ownership: Determining whether the individual opening the account is opening it on their own behalf. For a business, identifying who is the controlling entity.
3. Risk assessment and profiling: Evaluating the likelihood of the new accounts against a framework for anti-money laundering (AML) and combatting financing of terrorism (TF)
4. Transaction monitoring: Reviewing ongoing payments into and out of the accounts, including receipt and origination, to find any suspicious patterns
5. Periodic review: Regularly refreshing customer information for accounts, may occur every six months for high risk accounts and every two years for lower risk accounts.
6. Account exiting: Carrying out customer checks again out when an account is closed to identify any impacts to beneficial ownership and retaining information

Every country adopts its own regulatory structure to carry out these requirements, but the Financial Action Task Force (FATF) is the global standard setter for combating money laundering (ML) and the financing of terrorism and proliferation. While FATF recommendations are not legally binding, they are accepted by regulators as guidelines for national rules. FATF and FATF-Style Regional Bodies evaluate the adoption of FATF's recommendations in each jurisdiction that subscribes to its standards via Mutual Evaluation Reports (MERs). The public nature of these evaluations and the potential for FATF to "grey list" and "black list" countries with particularly weak frameworks may create pressure on national authorities to comply with FATF recommendations.

III. Barriers to Account Onboarding

The application of FATF standards is intended to deter the use of the financial system as a safe haven for illegally obtained funds. Nevertheless, high thresholds for customer information can unintentionally restrict access to financial services due to some surprisingly common identification challenges. Nationally issued identification documents are not commonplace in many developed and emerging market countries, especially for women and the poor. Countries may lack a unique identifier number, like a social security number in the US, or Aadhaar in India, making matching of individuals to a verified source difficult. Lack of fixed addresses, mobile numbers, or data access, further limit individual's ability to enter the digital financial ecosystem. A lack of access to mobile phones and IDs are the primary drivers of the gender gap in account ownership (CGDev 2020). An additional obstacle can be the need for face-to-face verification, and the costs providers bear for them, as many of the financially excluded live in remote settings. This obstacle is magnified in the COVID-19 period due to further limits on accessibility of financial institutions' locations and staff.

Access to identification
The first requirement of CDD requires verification against reliable, independent source documents or data. This is generally a national ID, rendered physically or digitally. However, 640 million adults worldwide lack an accepted form of ID (ID4D 2018). Certain regions, especially in the

Middle East, South Asia and Sub-Saharan Africa, have exceptionally low penetration of ID. Not only do poor populations have a disproportionate lack of access to ID, they often lack the documentation required to obtain a nationally recognized ID -- often referred to as a foundational ID.[1]

Country	% lacking official ID
Saudi Arabia	91%
Nigeria	73%
South Africa	33%
Pakistan	19%
Philippines	19%

(ID4D 2018)

In low-income countries men have formal IDs at a prevalence that is 50% higher than women (World Bank Voices 2018), in part driven by the systematically legal hurdles faced by women (e.g., permission required from a male guardian) (ID4D 2019). Even in India, viewed as an emerging-market leader in ID-rollout, about 12% of the population still lack an Aadhaar number, with significant variation across geographies (ID4D 2018).

Feature Phones

- Small screen with physical buttons
- Able to make phone calls, send SMS and send SIM-based apps
- Rely on USSD networks

Smart Phones

- Mostly a screen, with a small number of utility buttons (power/volume)
- Able to use applications, make calls, and SMS
- Can access wifi or a data network (GSMA, 2G, 3G, 4G, 5G)

Access to mobile data services:
The growing sophistication of mobile money solutions, the launch of digital banks, and the greater usage of digital IDs are increasing the importance of data access in the provision of financial services. However, ubiquitous data access, while rapidly growing, continues to be a barrier for full utilization of digital onboarding. Beyond that, core mobile money services rely on USSD channels for transactions.

Mobile phones, once expensive and out-of-reach, have exploded across low- and middle-income markets and are today often the primary access point for communication and technology. In certain regions (e.g., Latin America and South East Asia) most individuals have ready access to smartphones and the mobile data that accompanies it. In other regions (e.g., South Asia, Sub-Saharan Africa), most people rely on feature phones.[2] Women's access to mobile services remains unequal: in India, women own phones at approximately half of the rate of men (Harvard Kennedy School 2018). In total, 390 million women in lower and middle-income countries lack a personal phone (GSMA 2020).

Challenges from face-to-face interactions:
The intake process for a new account often requires a clerk to match the photo on an accepted ID card with the consumer, or verify the authenticity of documents and scan them in. COVID-19 has added a health risk to the in-person verifications. Safety recommendations from World Health Organization to keep physical distance and wear a face covering further hinder in-person verification of identity.

Beyond the health concerns, there is are further costs to in-person interactions between potential customers and staff of financial institutions. Branches and banking agents are a leading cost-driver for financial institutions. Since the advent of the internet, financial institutions have been guiding customers to use digital methods. While mobile money has leapfrogged traditional interactions with a teller, mobile money account opening still often relies on an in-person interaction with an agent. Each link increases the risk of transcription errors, misplaced, or damaged records, among other potential pitfalls.

[1] Here, we define a foundational ID as a form of identification that can be used for verification across multiple forums. This is to contrast with functional ID, which like a driver's license, is fit for purpose.
[2] Feature phones are often considered basic phones. They run on USSD channel and capable of phone calls, SMS and SIM based applications. Feature phones do not generally have access to any data service.

IV. Simplified Account Opening

A tension exists between access to financial services and stringent identification requirements imposed to monitor financial flows and limit illicit transactions. Recognizing these opposing forces, FATF has created alternative paths to lessen the burden on consumers and providers where risks of ML/TF have proven to be low. These are couched in a risk-based approach, the guidance for each institution and country to categorize and mitigate risks, with prioritized focus on higher risk entities and financial flows. FATF outlines three factors that contribute to a lower-risk profile and two methods for maintaining customer relationships on a more manageable and cost-effective basis.

Risk Factors[3]	Low-Risk CDD Requirements
• **Customer risk** (INR. 10, paragraph 17a)**:** "Financial institutions… have effectively implemented" FATF recommendations and "are effectively supervised" to ensure compliance • **Product, service, transaction or delivery channel risk** (INR. 10, paragraph 17b)**:** Products and services are "appropriately defined and limited" to certain types of customers to promote financial inclusion.[4] • **Country risk** (INR. 10, paragraph 17c): Countries may be "identified by credible sources" as having effective AML/CFT systems or a "low level of corruption or other criminal activity."	**Simplified due diligence (SDD) (INR. 10, paragraph 21)** Formalized by FATF in 2012, SDD allows onboarding of "unbanked individuals who lack acceptable identification documents" and present low risk of money laundering or terrorist financing.[5] The 2012 Recommendations as amended permit delayed identification, reduced frequency of identification updates, limited monitoring and data collection.[6] The offsetting reductions in account functionality proposed are limits on total value, use, and transaction sizes. **Regulatory exemptions (INR. 1, paragraphs 2, 6)** Where risks are "proven" to be low, FATF permits regulatory exemptions in "strictly limited and justified circumstances" and particular to specific institutions and/or products. FATF also permits exemptions where financial activities other than money or value transfers are done on an "occasional or very limited basis," with low risk of money laundering or terrorist financing.

(FATF 2012-2019)

FATF has not provided more prescriptive guidance to regulators on the topic. However, analysis of recent publicly available mutual evaluation reports (MERS) and follow-up reports of the relevant regulatory frameworks in Mexico, India and Peru, three countries with long-standing SDD implementations, found no remedial actions required by the jurisdiction regarding compliance of these lower tier accounts with FATF recommendations 5 and 10. These outcomes perhaps signal a growing acceptance of SDD's utility and role. Meanwhile that financial inclusion is not included as an evaluative lens for the MER indicates that it is unlikely to be a primary priority for FATF.

Since 2012, FATF has also recognized the potential benefits of digital identity—an electronic method to verify an official identity, initiated online or in-person. Digital identity is often

3 These risk factors are neither exclusive nor comprehensive for determining the overall risk of a financial transaction.
4 This recommendation further includes insurance and pension products, not in scope of this analysis.
5 FATF, "2013 FATF Guidance on Anti-Money Laundering and Terrorist Financing Measures and Financial Inclusion," November 2017, para 69.
6 FATF 2012 Recommendations, as amended, para. 21.

accompanied by supporting infrastructure that includes digital credentials, biometrics, identity databases and an interface layer. Through its recommendations detailed in FATF's publication on digital identity, FATF suggests that "reliable, independent ID systems could facilitate customer identification and verification..." (FATF 03/2020, paragraph 34). Usage of digital identity reduces paperwork and the need for in-person interactions. Within the recommendations, FATF encourages the use of progressive ID (i.e., minimal ID requirements) for financial inclusion, especially if that customer information is portable between different financial institutions (paragraph 168). Additionally, per FATF, remote account opening may be considered standard or low risk. The use of digital identity should augment, and not replace, ongoing due diligence and record keeping requirements.

FATF guides that lessened onboarding requirements should be balanced with increased monitoring of accounts to maintain the overall integrity of a CDD program.

> "**When SDD (simplified due diligence) measures are applied at the on-boarding stage, the intensity of the monitoring process can be adjusted to mitigate the inherent risks of the financial products and compensate for the relaxed initial due diligence checks"** (FATF 2013-2017).

FATF has reinforced the importance of these mechanisms during the course of the COVID-19 pandemic. The FATF president's statement in April and the risk and policy paper published in May further emphasize its own guidance on the use of SDD and the relevance of remote onboarding. Neither of the two latter documents are substantially different from FATF's prior papers on financial inclusion.

The usage of SDD does not come without additional risk. As such, providers will need to conduct ongoing monitoring of the accounts opened with simplified due diligence to ensure that the account holder and the transactions are indeed low risk, which may stress providers' capacity. If the risks of money laundering or terrorist financing turn out to be higher than expected using simplified due diligence, the provider may need to re-evaluate accounts opened using SDD with stricter standards to differentiate more clearly the low risk accounts from those that may present higher degrees of risk.

Finally, publicly available mutual evaluation reports have not recently cited the use of simplified due diligence as problematic. However, should the risks turn out to be higher than anticipated, it is conceivable that future evaluation reports would revisit those programs.

V. Innovative Approaches to CDD

To match the guidance of FATF, regulators in some countries have sought to reduce the potential money-laundering risk of certain accounts opened using SDD through the imposition of usage limits. Restrictions on these so called "basic accounts" often include limits and thresholds on the number or total value of transactions per week/month, the value of funds transferred per transaction, the overall monthly balance and/or the overall value of the account, or geographical scope of the transactions (e.g., domestic only). Further, accounts opened under SDD requirements are often restricted to transaction accounts, with no access to credit. Country implementations of SDD (e.g. Mexico, Peru) have restricted transactions to domestic only to mitigate risks of small-dollar terrorist financing.

Beyond the use of SDD, which is sometimes known as "tiered KYC," some countries have adopted eKYC, electronic KYC. In an eKYC program, national IDs are stored in a database, accessible by licensed financial institutions and other authorized entities. Banks and nonbank e-money providers digitally verify consumer-provided information against the database containing demographic information. eKYC may, but does not necessarily, enable remote account opening and onboarding. A national digital ID can greatly increase the efficacy of eKYC programs, as has been the case in India and is under consideration by Arab nations (Arab Monetary Fund, 2020). While nascent in most markets, both are expected to grow in the coming years due to technological advances.

Enabling Regulation for CDD
Beyond the use of tiered accounts opened with SDD, some regulators have undertaken a multi-year effort to develop products and programs for the underserved through a broader reform of the financial services sector. In part, this includes the authorization of e-money issuers within a licensing regime to further the reach to last-mile consumers, as discussed below. These innovative providers often operate on more modern, leaner infrastructure than legacy providers and can thus offer products at lower costs to a wider range of customers. In most cases, the central bank or financial regulatory authority prescribes the forms of ID and type or due diligence required. The scope of the risk-based approach varies by market, with some (i.e., Brazil) providing more latitude to commercial banks to assess the risks of products, and others (i.e., Pakistan) being much more prescriptive.

Countries are categorized below by their use of tiered KYC ( ), digital ID ( ), and innovation in delivery channels ( ). All of the regulations in this section were put in place prior to the pandemic.

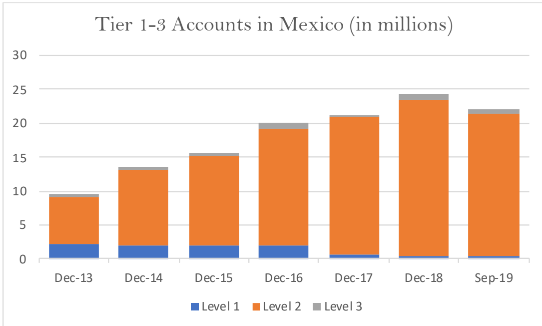
Colombia
Colombia created a new licensing type for entities that focus on deposits and payments (SEDPEs) in 2015 with Decreto No. 1491. This opened the door to new providers, that have limited capital costs, to maintain accounts on behalf of consumers. The basic account tier was launched in the same year. The formalization of the lowest tier to be used for social disbursements and to be opened without face-to-face interactions followed in February 2020, with Decreto No. 222. To open an account, users provide information from government-issued identification (i.e., type, number, and expiration date).

Brazil
The Central Bank of Brazil mandated that basic financial services must be free for end users, according to resolution 3.919 in 2010. Brazil has since opened the market to digital entrants following the adoption of guidelines from both the central bank and the monetary authority in 2013. Several non-bank payments institutions have entered into the market, creating new opportunities for financial inclusion. Subsequently, the central bank removed the requirement of a customer email address to open an account. The permission for remote account opening in 2019 (resolution 4.753) was the final step required for the foundation of low-tier accounts. Brazil does not have the same set of discrete, targeted regulations when compared to other emerging markets. Rather, regulation in this area is more descriptive than prescriptive, in line with FATF's risk-based approach.

Mexico
Mexico was an early implementor of tiered KYC, launching in 2009 with further expansion in 2011 (Consejo Nacional de Inclusión Financiera 2012). The country now has a robust four-tiered KYC system with requirements that increase progressively based on the account functionality.[7] Mexico established the level 1 account both as a limited use account, as well as an on-ramp to broader financial services.

[7] Mexico leverages a rules-based approach, as opposed to a risk-based approach, in FATF terminology.

The policies bifurcate the level 2 account based on verification status of ID. Financial institutions have an 18-month window to verify customer identification, at which point the limits are in between level 1 and a full level 2 account.



(CNBV 2013-2019)

The two most basic tiers have been well received. While level 1 accounts had early growth, adding 5+ million accounts to the financial system, its usage was quickly overtaken by growth in level 2 accounts. In the first two years of tiered KYC, 6.6 million level 1 and level 2 accounts were opened, on top of a base of 65 million. As of December 2019, there were 21 million level 2 accounts. While traditional accounts grew by 6.7% (75.7 million to 80.1 million) during the last five years, the growth of level 2 accounts grew by an impressive 61% (from 13.1 million to 21.1 million).

Level 3, which are used by few individuals, require full customer information and a visit to either a bank brank or a bank agent. This higher level of CDD allows for higher account limits.

Peru

Peru created a holistic regulatory approach with an eye towards financial inclusion, given its early adoption of e-money (SEEP 2014). The regulation included simplified account opening provisions to promote financial inclusion for unbanked citizens in rural villages and remote areas, availed by both banks and e-money issuers. BiM launched a lower tier account the following year.

This low tier account has a maximum balance of approximately $600, with per transaction limits of $290 and $1160 as an accumulation per month. Accounts can be opened remotely with verification against the national ID number database. Within three years of the launch of low tier accounts, account ownership among adults increased to 43% from 29% (IMF 2018). The jump was driven largely by penetration of accounts among rural population, which nearly doubled from 23% to 41% in the same period (IMF 2018).

Pakistan

Pakistan[8] built its tiered account system around the National Database and Registration Authority of Pakistan (NADRA). It leveraged its successes in the roll-out of the associated ID cards to create a three-tiered account structure. The lowest tier has daily, monthly and yearly transaction limits along with a maximum balance. The limits of the second tier are twice as high as the first. The third tier has no minimums. The tiered KYC legislation did provide allowances for those without a NADRA, creating a de facto lower tier for those without the verification of ID (CGAP 10/2019).

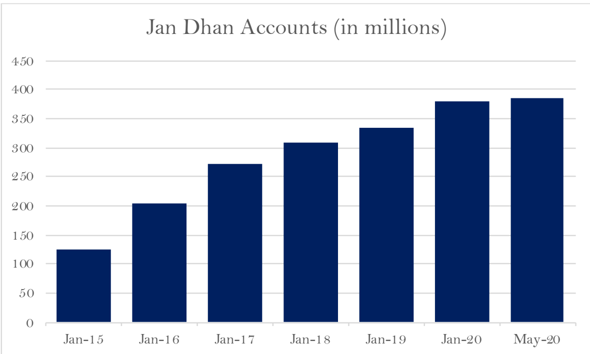
[8] Pakistan is currently on the FATF grey list due to deficiencies in tracking and controlling terrorist financing. The main remediation activities target the movement of high value funds and have not explicitly referenced level 0 accounts.

India

Today the Aadhar system underpins the financial system in India. Aadhar is the verification layer that sits above the national ID, Unique Identification (UID). To open a transaction account, a consumer's Aadhaar number is verified against the national database. The account openings are primarily done in person, with a fingerprint scanner for biometric matching.

While UID was being rolled out, India created Pradhan Mantri Jan Dhan (Jan Dhan) accounts to reach the underserved in 2014. Along with traditional Jan Dhan accounts, the Jan Dhan "small account" was also established. The accounts differ in the customer requirements and restrictions. Both Jan Dhan accounts have balance limits of $780 and monthly transaction limits of $160. Both types of accounts require in-person interaction, unless an Aadhaar number is provided.

The traditional Jan Dhan account requires a government-issued ID. The list includes Aadhar number, passport, driver's license, voter ID card, among others. For individuals who lack an official ID, the only requirement is a self-attested photograph, a thumbprint or a signature to be taken at a bank branch or agent point. The "small account" has a limited term (details in Deferred ID sub-section below). By 2017, account ownership among women rose from 44% to 72%, narrowing the gender gap to 14% (MicroSave 2019). As of May 2020, there are more than 380 million Jan Dhan accounts.



(PMJDY 2020)

In 2015, the Reserve Bank of India introduced licensing for payments banks in 2015, increasing the number of institutions eligible to issue Jan Dhan accounts. Multiple entities, including the largest mobile wallet at the time, Paytm, became payment banks able to hold deposits on behalf of consumers.

BCEAO – Expanding Enabling Regulation During COVID-19

The Central Bank of West African States (BCEAO) implemented SDD in 2006, creating a single-lower tier transaction account. Tier 1 accounts can be opened without an ID, with a maximum balance of US$200 and a per transaction limit of US$20. The maximum balance limit was increased in 2015 to US$400.

Within weeks of the first diagnoses of COVID-19 in the West Africa Monetary Union (WAEMU), the BCEAO created new guidelines to aid its member states to drive access to digital finance. By April 2020, the central bank had enabled remote onboarding for the first time. It permitted new providers to open tier 1 accounts for customers via USSD text messaging or by phone call. For a standard e-money account, tier 2, customers can open an account via voice or with a smartphone (e.g. sending photos, video chat). The BCEAO has enabled deferred requirement for tier 1 and 2 accounts, creating a three-month window for in-person verifications, both with and without an ID, after the end of the COVID-19 crisis.

While remote account opening was live, there was a three-fold increase in the monthly new accounts (5.8 million in April, compared to 1.8 million in March). Overall, eight million accounts were opened during the period of the crisis provisions. Senegal, Côte d'Ivoire and Mali were the largest contributors to the growth, accounting for 4.7 million new accounts. Most of the new accounts were opened remotely, as many agent locations have been shuttered.

Within WAEMU, Togo has taken particular leadership on digital accounts, launching a new social safety net scheme, Novissi. The mobile phone-based solution allows recipients to check eligibility with an SMS short code and open an account to receive funds. As of May 31, the program has disbursed funds to more than 550 thousand beneficiaries (Novissi 2020), with women accounting for 65% (Quartz Africa 2020).

The BCEAO aims to keep these new accounts active after the current crisis has lapsed. If customers are not able or are unwilling to provide an in-person identification, their tier 2 accounts will be downgraded to tier 1. As for the new tier 1 accounts, the BCEAO aims to maintain those as is, though providers may encourage customers to further formalize the accounts. The BCEAO is evaluating which of the crisis-based temporary provisions they will make permanent and are considering a permanent addition of an eKYC after the pandemic.

Information provided during interviews with BCEAO staff, conducted by the author May 2020

Multi-country comparison of tiered CDD

A tiered approach, or tiered CDD, determines the minimum onboarding requirements for access to an account with pre-defined limitations, with progressively more stringent requirements for approval for subsequent (and less restricted) account levels. Due diligence criteria are highly dependent on the national context (e.g., inherent ML/TF risks, financial needs of excluded groups, prevalence of national identification database, transaction monitoring capabilities).

There is little harmonization between markets in their respective tiered structure for CDD regulation. The table below shows the limits for the lowest tier account in four select countries. The maximum balance ranges from 1.3x to more than 12x of the average monthly income. The CDD requirements similarly have no correlation with the account limits, even when adjusting for a country's income level.

		Quantitative Limits for Low KYC			Minimum KYC Requirements
	Avg. monthly income per capita, for reference	**Maximum balance**	**Daily transaction limit**	**Monthly transaction limit**	**Documentation type**
Ghana	US$111	US$190	US$58	US$570	Any type of photo identification, no digital provisioning of accounts
Myanmar	US$98	US$130	US$32	US$640	National ID, driving permit, or passport checked, based on e-money issuer's discretion
Pakistan	US$122	US$1,400	US$175	US$280	Link to pre-registered SIM card through NADRA (biometric database) Account opening can be through physical or digital means

Tanzania	US$71	US$900	US$450	N/A	Alternative IDs: employment ID, social security ID, or a letter from the ward/village executive Account opening can be through physical or digital means

(CGAP 10/2019, World Bank 2018)

The tiered approach itself is also variable, as regulators may allow a single lower tier (e.g. Peru, Bangladesh), multiple tiers[9] (e.g. Mexico, Pakistan) or simply provide principles for institutions for follow (e.g. Brazil).[10] The cause for the significant diversity, even among regional peers, is not apparent. Policymakers seeking to promote tiered accounts using SDD may wish to consider how account functionality is defined in the context of a country's prevailing wage, average value of monthly transactions and other determinant factors.

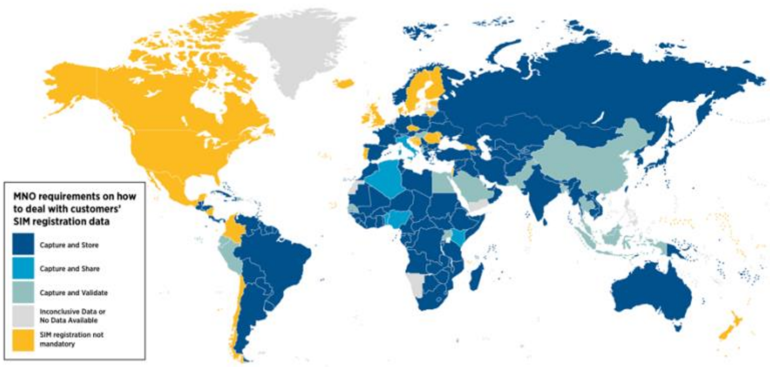
VI. Scaling Efforts to Reach the Financially Underserved

Some governments have undertaken additional initiatives to ensure that well-intended CDD regulations do not become road blocks to increasing financial inclusion -- itself an important policy goal. To mitigate these barriers, regulators have allowed the creation of basic accounts that do not require any ID to a digital identity layer for online verification to allowing video chatting to verify identity. Examples of these approaches, implemented before COVID-19, appear below.

SIM registration uses

The ready availability of affordable mobile phones in these regions have pushed mobile penetration rates to 70-80% for the Middle East and South Asia, with Sub-Saharan African nations lagging at approximately 50% of the population (GSMA 2018). Some level of KYC via biometric or ID verification is widely prevalent globally (in 140 countries) for the SIM activation.[11] Eleven percent of markets allow the mobile network operator to send data directly to a government authority to validate, 85% require the MNO to maintain the information in their records and 4% are required to offer it on-demand (CGDev, 2019). The process for SIM registration is based both on regulatory permissions, as well as the robustness of verification technology in market. The penetration of unique mobile subscribers is strongly correlated to ID availability in African nations (GSMA 03/2019), further supporting the use of KYC procedures for SIM activation.

SIM Registration Requirements



(GSMA 03/2019)

In lieu of using an additional ID verification for a mobile money account, some markets have permitted the re-use of the SIM registration from mobile network operators (e.g., Pakistan, Ghana, Sri Lanka) as the basis for account opening. In other cases, however, financial regulators or

9 Maxing out at four tiers, including a standard account
10 CGAP's 2019 on the Risk Based Approach provides additional background on these three policy choices
11 SIM registration is widely perceived to be done to increase national security and for surveillance, though there is debate about its efficacy regarding the former.

commercial banks require information above and beyond what is collected by MNOs, namely proof of income, employment or address (CGDev 2019).

Remote onboarding
Traditionally, CDD has required in-person verification of a customer against an ID. Distance from financial access points, a lack of financial knowledge, and restrictive banking hours create roadblocks to entry for financial services—barriers that an SDD program can aim to reduce.

In Peru, accounts through BiM, a digital wallet consortium, can be opened entirely via USSD messages. Peru, like many countries in Latin America, is aided by the established and prevalent use of national ID numbers. Potential customers access the USSD application, provide basic demographic information, along with their national ID number, and almost instantly are able to access a new account.

As the digital ecosystem advances, so too do the methods of account onboarding. In Mexico, level 2 accounts can be opened with select customer information provided via a bank app, along with an electronic signature. In Paraguay, customers of Itaú, a large regional bank, can open standard accounts by taking a picture of themselves and their ID (GSMA 01/2019). In Malaysia, remittance services can onboard new customers through video calls and selfies using facial recognition technology (GSMA 01/2019).

COVID-19 has exacerbated the need for remote onboarding given lockdowns and recommendations to maintain physical distance.

> "With people around the world facing confinement or strict social distancing measures, **in-person banking and access to other financial services is difficult, and unnecessarily exposes people to the risk of infection.** Use of digital/contactless payments and digital onboarding reduce the risk of spreading the virus. As such, the use of financial technology (Fintech) provides significant opportunities to manage some of the issues presented by COVID-19."
>
> -Xiangmin Liu, FATF President (FATF 04/2020, emphasis added).

Alternatives to Traditional ID requirements
While not officially labeled as such, some markets have implemented a deferred verification requirement, here considered deferred ID, creating a window of time for a new user to provide needed ID or for the financial service provider to verify official identification. Accounts are further limited, either by time (number of months) or by limits (transaction and balance) during the period before they are verified.

In India, the lowest tier account or "small account" requires no ID and has a maximum term of 12 months, with a possible 12-month extension if the customer provides evidence of an application for an official ID. If after 12 months, no evidence of an ID application is produced, or if the ID application is denied, the bank will freeze the account. While digital transactions for the account would be barred, a consumer with a frozen account would be able to withdraw the funds or to transfer the funds to a different account.

In Mexico, level 1 accounts can be opened without any identification. Level 2 accounts allow for an 18-month transitional period for a customer to provide valid identification to confirm their demographic information (e.g. name, address, gender). During this time, the account limits are 50% lower.

And in other cases, IDs issued by entities, aside from a central government can be leveraged. In Jordan, specific permissions were created to allow the use of refugee IDs issued by the United Nations High Commissioner for Refugees (UNHCR) to open mobile accounts through JomoPay.

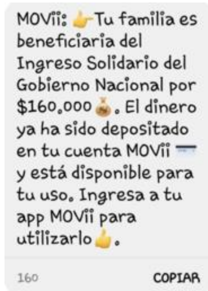
While bad actors may attempt to leverage these account, low transaction limits reduce the risk of money-laundering, and a domestic-only use reduces the risk of terrorist financing.

VII. Leveraging Digital Financial Services During COVID-19

While more than 100 countries have ramped up emergency programs such as cash transfers to mitigate the economic fall-out of COVID-19, some have been better prepared to utilize digital financial channels due to their established environments in digital finance. Among them, Colombia, Brazil and India were able to rapidly deploy funds to consumers. Other markets without comprehensive enabling regulations have also been able to encourage usage of digital finance; however, key details remain unresolved, and untested programs may not function as expected.

Actions in markets with enabling regulations

In April of this year, the Colombian government launched an emergency cash disbursement program, providing 160 thousands pesos (US$41) per eligible family. Enrollment for the benefit was kicked off by an SMS[12] to eligible individuals from one of a selection of basic account providers chosen by the government. Recipients then formalized their account and could either access the funds there or transfer them to another account. The only additional self-declaration required was to input the ID number and full name. More than three million notices were issued, providing access to funds while the nation was in a complete lockdown.



SMS to Colombian beneficiaries

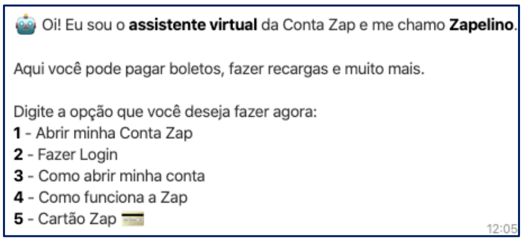
In Brazil, the policy stature of the central bank combined with the enabling regulatory foundation allowed several digital account-based programs to emerge quickly in response to COVID-19. A national initiative was launched for self-employed, unemployed and micro-enterprise workers, with disbursements of $115-$230 per household per month. The program is facilitated through Caixa Econômica, a state-owned bank. Individuals request access to an account via a smartphone app, and it is opened immediately. Within a week of launch, Caixa had issued 14 million accounts. The bank estimates that it will open 30 million during the course of the program (Reuters 2020).

Additionally, the State of Sao Paulo created its own program for food aid for school aged children by utilizing a payment service provider, PicPay, to remit money to the parents. Parents self-onboard with the PicPay app by providing their name, tax-payer ID (CPF). A new user's identity card is then validated against a real-time selfie. PicPay opened three million new accounts in April overall, 6x higher than their normal rate of onboarding (Mobile Time 2020).

Both solutions allow users to initiate peer-to-peer transfers, send bill payments, or to cash out among the shared national ATM network. Further, the openness to non-bank financial institutions and other enabling regulation in Brazil has empowered a privately funded assistance program via a digital wallet, Zap, in partnership with Oi, a telco network. Eligible individuals are identified by local governments or community leaders. Their mobile numbers and national IDs are cross-referenced with MNO data to filter for fraud or duplicates. The MNO cross-references geolocation

12 Translation of the SMS message: "Your family is a beneficiary of the National Government's Solidarity Income of $160,000 [pesos]. The money has been deposited in your MOVii account and is available for your use. Go to your MOVii app to access it."

date to ensure that recipients reside in the neighborhoods targeted for special assistance. Individuals are then sent SMS messages that direct them to open an account via WhatsApp or a Facebook chat message. The entire process from account opening to merchant payments can be completed through a chat bot operating on the messenger platforms. The chat bot, screenshot featured above,[13] operates in natural language. The program, launched in the city of Maceió, onboarded 25 thousand recipients into accounts within the first three weeks.



Screenshot of chatbot, courtesy of Zap

Actions in markets with limited enabling regulations

Jurisdictions lacking a comprehensive tied CDD structure, alternative delivery channels, and/or digital ID have resorted to other means to encourage digital account usage during the pandemic.

The Central Bank of Kenya temporarily increased or eliminated e-money transaction ceilings. E-money transactions under Ksh.1000 (~US$10) are now required to be free, and the daily transaction limit more than doubled to Ksh.300,000 (~US$2,800) from Ksh.140,000 (~US$1,300).[14] Total monthly transaction limits have also been eliminated, however no changes were made to CDD or onboarding regulations. This action supports digital transfers during this period but does not alter the scenario for the country's emergency subsidy program, which runs alongside the Cash Transfers for Orphans and Vulnerable Children Program.

The Bangladesh government announced disbursement programs for the poor and wage protection for garment workers in late-March and early April, with no clear way to send funds to individuals. Bangladesh Bank enabled government disbursement program information to be used to open permanent accounts on behalf of customers. The central bank has also permitted the creation of accounts for ready-made garment (RMG) workers based on their employment record, given the low rates of digital IDs or other means to confirm their identity among the predominantly female group. By using private data sources in combination with or in lieu of verification from government databases to verify an identity, Bangladesh has created an instance of collaborative CDD, albeit temporary.[15] The RMG accounts will still need verification at a later date; though this has yet to be formalized.

The Philippines Emergency Subsidy Program launched in March to distribute funds to 18 million low income households, with allocations of cash, food and other essential items. (Department of Finance 2020). The government has taken several subsequent steps to expedite the process for low income families. The Department of Social Welfare and Development amended the subsidy guidelines to enable cash distribution prior to the validation of beneficiaries in mid-April (Rappler 2020). In May the government and US Agency of International Development announced that they are jointly developing means to further digitize the flow of the disbursement (US Embassy of the

[13] Translation of the chatbot: Hello! I'm the virtual assistant for Conta Zap and my name is Zapelino. Here you can pay your bills, top up services and much more. Type the option that you want to do now: 1. Open my Zap account | 2. Create a login | 3. How to open my account | 4. How Zap works | 5. Zap card.

[14] If regulators reduce fees for providers to encourage usage of accounts during a crisis, the regulator should consider the impact of the loss of fees on providers' business models, especially if the loss of revenue is material. Likewise, a risk exists that third-party agents may rely on these fees and may lose incentives to offer cash-in/cash-out services if fees are reduced or eliminated, which might make it more difficult for customers to find access points during the crisis.

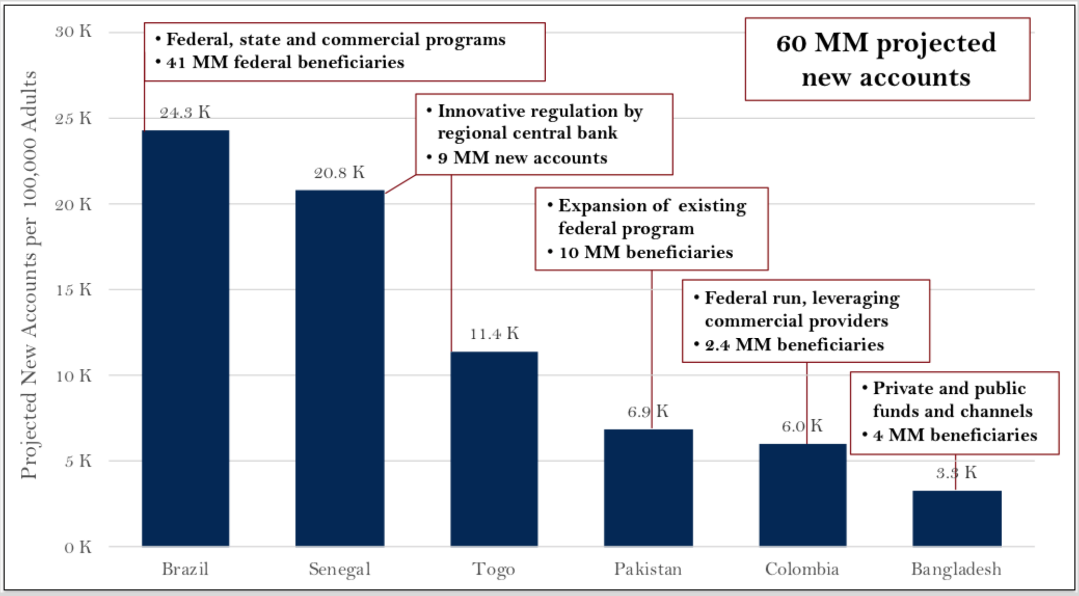
[15] A nascent concept detailed in CGAP's Beyond KYC Utilities. Collaborative CDD has been deployed for thin-file clients who have a standing record (employment, government benefits, mobile usage), yet lack traditional verification means.

Philippines, 2020).

Significant New Account Opening

Reviews of just six countries with active onboarding programs (alongside and independent of cash relief programs) highlights the prevalence of COVID-19 related digital payments, as illustrated by the figure below. Brazil's programs have reached nearly one in four adults. Given the prior account penetrations, plus the target of these programs, it is likely that many beneficiaries have access to digital accounts for the first time. Overall, the analysis finds the potential for 60 million new accounts opened since the outset of COVID-19, approximately four percent of the global unbanked population.

Penetration of New Accounts Opened during COVID-19[16]



Source: Glenbrook Analysis

16 Note that K and MM signify thousands and millions, respectively

VIII. Conclusion: Cementing the Progress to Financial Inclusion

For governments that ramped up social disbursement programs, we find that an enabling environment (i.e., tiered KYC, digital ID, innovation in delivery channels) drastically increased the tools available during the crisis. There is continued opportunity though for regulators to refine their approach to account opening, given FATF guidance and standing practices in peer markets, with an eventual objective of providing safe and convenient access to financial services for all.

Established practices for crisis-based responses:

- **Incentives for financial institutions** (i.e., Kenya)
- **Alternative IDs** (i.e. Bangladesh, Jordan)
- **G2P based account opening** (i.e. Colombia, Brazil)
- **Deferred ID** (i.e. India, Pakistan)
- **Remote onboarding** (i.e. Peru, BCEAO)
- **No-ID basic transaction accounts** (i.e. Kenya, Mexico)

Mid-term policy considerations:

- Re-evaluation and expansion of tiers
- Remote onboarding pathways
- Deferred ID formalization

Near-term opportunities to ease account opening during COVID-19 (or other crises)

Often, regulations do not mandate that every individual institution offer or promote the lowest tier account. Given the restrictions of basic accounts, some financial institutions decide against offering them in pursuit of higher margin customers. To mitigate this, regulators and/or legislators may consider incentive structures for financial institutions to drive them to take full advantage of existing SDD provisions. This can be done via offsets. The U.S. has a long-standing program that incents banks to lend to lower income borrowers by easing approval for transactions and mergers.[17] During COVID-19, the Kenyan Central Bank eliminating fees for low-value mobile money transactions, while more than doubling the daily transaction limits for individuals and merchants (The East African 2020).

Additionally, regulators may consider a host of temporary actions in response to a crisis. These actions may include allowing crisis-based exceptions to CDD for low-risk entities and activities, as permitted by FATF guidance.

An exemption could be akin to a temporary replacement of national IDs with other forms of identification. Among these are other government databases, which may be operating at a local or regional level. Social benefit programs can also be an easy entry point, given the state interest in understanding its most vulnerable population. In practice, the program administrator would have identified and be monitoring its recipients, a reasonable stand-in for traditional CDD that has been deployed in Bangladesh and Colombia. Hyper-local implementations can be done via geofencing,

17 This refers to the Community Reinvestment Act of 1977. Banks are encouraged to provide loans to low- and middle-income borrowers in their community. The Federal Reserve scores banks and using said scores when evaluating potential mergers or enhanced licensing. While there have been mixed views of the program's success, it does illustrate a pathway for a central bank to incent commercial banks to serve consumers at the bottom of the pyramid.

assessing eligibility based on location data from a mobile phone, with support from an MNO could be used, as with Zap do Bem in Brazil.

Other options may include deferred ID requirements to post-crisis, as seen in the BCEAO. Financial institutions could register users with a mobile number and gather SIM registration information ex-post to verify against a database. Additionally, regulators could temporarily permit remote onboarding, which is live today across several jurisdictions. Pakistan has enabled remote verification of eligibility for social disbursement, in addition to the established remote onboarding for basic accounts.

Onboarding processes for women merit further consideration, as women are more likely to use a shared device, especially a smart phone, and are reluctant to share personal information (e.g., identity information, photos, contact information) due to concerns about personal safety (Google 2019).

Mid-term policy considerations

Beyond the crisis, a wholesale evaluation of CDD structures for low-income consumers may be needed. Even in markets with tiered CDD structures, a number of challenges remain that could be addressed by new or revised regulation. Key challenges include, but are not limited to, the following:

- Account tiers: While tiered accounts have no doubt opened access to digital financial services for those previously excluded, major gaps remain. That there is a persistent 20% of the Indian population lacking Jan Dhan accounts illustrates the issue. Similarly, a decade after the creation of tiered accounts in Mexico, 59%[18] of adults still lack a transaction account, with uptake likely even lower for the poorest among the population.
- Deferred ID: Deferred ID requirements have the potential to provide entry through a starter account and aid the transition to formal accounts with higher functionality. However, at present, accounts in India (formalized) and Bangladesh (emergency provisioned) with deferred ID are closed if users fail to present an ID within the requested period (12-24 months for India and post-COVID crisis in Bangladesh). Beneficiaries may lose access to their funds as well as stunting their confidence in the financial system
- Remote onboarding: Many standing regulations in tiered CDD jurisdictions still require in-person interactions for verification. In addition to inaccessibility of financial institutions in rural areas, COVID-19 has significantly increased the risk of in-person interactions.

In thinking about the challenges above, regulators may want to ask the following questions about their own market, keeping in mind that each country has a unique overall risk profile. FATF also has a role here and an opportunity to further define best practices in a tiered approach.

- Are the account limits aligned to spending and earning patterns of the poorest in a market?
- What special considerations in transaction behavior need to be considered for the current or future crisis?
- Does a single-lower tier account provide sufficient functionality to low- and middle-income consumers?
- What are the implications of using SIM registration to open accounts? Do SIM registration requirements gather sufficient data to determine whether a customer presents a lower level of risk of money laundering or terrorist financing?

[18] Findex figures adjusted by growth in total accounts since 2017 (approximately 10%)

- What aspects of a monitoring program could be augmented to allow for account opening without an official ID? How long would an account be permitted to remain active without verifying an official ID?
- What additional controls would be required to transform live, deferred ID accounts, into permanent ones?
- What other sources of data are available (public or private) that can be used to buttress CDD, including RegTech and SupTech?
- What other enabling regulations can be developed or leveraged to onboard women and those with limited digital readiness?
- For accounts opened using SDD or tiered CDD, when should providers revisit those accounts and account holders to ensure that they were indeed low risk?
- How will the regulator verify that a provider's risk assessment processes are distinguishing higher risk and lower risk accounts and account holders adequately, even when using SDD?
- If regulatory relief is granted on a temporary basis to distribute COVID-19 related transfers, what risks may arise when those regulations are restored to their pre-pandemic state? What initiatives may be developed to ensure continued access to digital financial services?

To further increase the impact, regulators and policymakers may consider further licensing of e-money issuers and/or digital banks, which have an established positive impact to account uptake, and promote the development of a digital ID, which reduce processing times and effort required for new account opening.

In the analyzed markets, the creation of an enabling environment has taken several years, and often multiple laws or regulations. Jurisdictions that have not yet started may be able to leverage the established processes in peer markets with a similar risk level of ML/TF to accelerate their citizens' enrollment in accounts so that they can receive COVID-19 related relief payments during this crisis. Moreover, addressing the policy questions arising during the pandemic may have the potential both to increase resiliency in face of a crisis as well as to accelerate the transition to a more inclusive and digital financial system over the long run. Each new account created (potentially more than 60 million between March and June), in crisis or otherwise, provides a foothold into the digital ecosystem. Governments will be better able to deliver financial assistance to families during the crisis today, and individuals and households will be better prepared to participate in the formal digital financial system tomorrow.

IX. Sources

Arab Monetary Fund (2020). Digital Identity and e-KYC Guidelines for the Arab Countries. Abu Dhabi: Arab Monetary Fund.

CGAP (08/2019). Beyond KYC Utilities: Collaborative Customer Due Diligence for Financial. Washington: CGAP.

CGAP (10/2019). Risk-Based Customer Due Diligence. Washington: CGAP.

CGDev (2019). Identifying and Verifying Customers: When are KYC Requirements Likely to Become Constraints to Financial Inclusion. Washington: Center for Global Development.

CGDev (2020). Citizens and States: How can Digital ID and Payments Improve State Capacity and Efficacy. Washington: Center for Global Development.

CNBV (2013-2019). Bases de Datos de Inclusión Financiera. Mexico City: Comisión Nacional Bancaria y de Valores. Accessed via https://www.gob.mx/cnbv/acciones-y-programas/bases-de-datos-de-inclusion-financiera

Consejo Nacional de Inclusión Financiera (2012). Reporte de Inclusión Financiera 4. Comisión Nacional Bancaria y de Valores. Accessed via https://www.cnbv.gob.mx/Inclusi%C3%B3n/Documents/Reportes%20de%20IF/Reporte%20de%20Inclusi%C3%B3n%20Financiera%204.pdf

Department of Finance (2020). DOF says COVID-19 emergency subsidy largest social protection program in PHL history. Accessed via https://www.dof.gov.ph/dof-says-covid-19-emergency-subsidy-largest-social-protection-program-in-phl-history/.

FATF (03/2020), Guidance on Digital Identity, FATF, Paris, https://www.fatf-gafi.org/publications/documents/digital-identity-guidance.html

FATF (04/2020). Statement by the FATF President: COVID-19 and measures to combat illicit financing. FATF, Paris https://www.fatf-gafi.org/publications/fatfgeneral/documents/statement-covid-19.html

FATF (05/2020), COVID-19-related Money Laundering and Terrorist Financing – Risks and Policy Responses, FATF, Paris, France, http://www.fatf-gafi.org/publications/methodandtrends/documents/covid-19-ML-TF.html

FATF (2012-2019), International Standards on Combating Money Laundering and the Financing of Terrorism & Proliferation, FATF, Paris, France https://www.fatf-gafi.org/recommendations.html

FATF (2013-2017), Anti-money laundering and terrorist financing measures and financial inclusion - With a supplement on customer due diligence, FATF, Paris https://www.fatf-gafi.org/publications/financialinclusion/documents/financial-inclusion-cdd-2017.html

Findex (2017). Global Findex Database. World Bank

Gentili, et. al. (2020). Social Protection and Jobs Responses to COVID-19: A Real-Time Review of Country Measures. Accessed via http://documents.worldbank.org/curated/en/448321588971503966/pdf/Social-Protection-and-Jobs-Responses-to-COVID-19-A-Real-Time-Review-of-Country-Measures-May-8-2020.pdf

Google (2019). Toward Gender Equity Online. Accessed via https://services.google.com/fh/files/misc/toward_gender_equity_online.pdf

GSMA (01/2019). Access to Mobile Services and Proof of Identity 2019: Overcoming the Know Your Customer hurdle: Innovative solutions for the mobile money sector. London: GSM Association.

GSMA (03/2019). Access to Mobile Services and Proof of Identity 2019: Assessing the impact on digital and financial inclusion. London: GSM Association.

GSMA (2018). GSMA Mobile Connectivity Index. Accessed via https://www.mobileconnectivityindex.com/#year=2018&dataSet=dimension

GSMA (2020). The Mobile Gender Gap Report 2020. London: GSM Association.
Harvard Kennedy School 2018. A Tough Call: Understanding barriers to and impacts of women's mobile phone adoption in India. John F. Kennedy School of Government: Cambridge.

ID4D (2018). 2018 Global Dataset. World Bank.

IMF (2018). Banking on Progress in Peru. Accessed via https://www.imf.org/external/np/blog/dialogo/120418.pdf

MicroSave (2019). The real story of women's financial inclusion in India. Accessed via https://www.microsave.net/wp-content/uploads/2020/01/191125_The-real-story-of-womens-financial-inclusion-in-India_Gender-research-report.pdf

Mobile Time (2020). PicPay chega a 20 milhões de usuários e projeta R$ 31 bi em transações para 2020. Accessed via https://www.mobiletime.com.br/noticias/19/05/2020/picpay-chega-a-20-milhoes-de-usuarios-e-projeta-r-31-bi-em-transacoes-para-2020/

Novissi (2020). Distribution of beneficiaries by gender. Accessed via https://novissi.gouv.tg/

PMJDY (2020). Progress-Report. Pradhan Mantri Jan Dhan Yojana (PMJDY). Accessed via https://pmjdy.gov.in/account

Quartz Africa (2020). One of Africa's smallest economies is plugging social welfare gaps with digital cash transfers. Accessed via https://qz.com/africa/1867044/togo-digitizes-social-welfare-with-mobile-cash-transfer-program/

Rappler (2020). DSWD to LGUs: Distribute emergency subsidy first, validation later. Manila: Accessed via https://www.rappler.com/nation/258117-dswd-says-distribute-emergency-cash-aid-first-validation-later

Reuters (2020). EXCLUSIVA-Brasil pide a Casa de Moneda que haga horas extras ante próxima escasez de efectivo. Sao Paolo: Accessed via https://lta.reuters.com/articulo/salud-coronavirus-brasil-moneda-idLTAKBN22K2J6.

SEEP (2014). Expanding E-Money Services in Peru: Reaching Unbanked Clients and Advancing Financial Inclusion. Washington: The SEEP Network.

The East Africa (2020) Safaricom waives M-Pesa fees in wake of Covid-19. Accessed via https://www.theeastafrican.co.ke/business/Safaricom-MPesa-fees-and-limits/2560-5493046-8u9n4r/index.html

World Bank (2018). Adjusted net national income per capita (current US$). World Bank Development Indicators. Washington: The World Bank.

World Bank Voices (2018): The global identification challenge: Who are the 1 billion people without proof of identity? Accessed via https://blogs.worldbank.org/voices/global-identification-challenge-who-are-1-billion-people-without-proof-identity